PowerHousing Australia

2023

AUSTRALIAN AFFORDABLE HOUSING REPORT

STANDARD HOUSE ENVIRONMENTAL SCAN

CoreLogic

Simonds Homes- Highbridge

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EXECUTIVE SUMMARY

Prolonged structural undersupply in Australia's housing stock has culminated in a nation-wide housing affordability crisis. At the conclusion of the pandemic, dwelling values took a downward turn and rental market conditions seemed to cool. However, this trend was short-lived, and affordability started moving in the wrong direction once again. As we head toward the end of the calendar year, a report on the crisis has become a near-staple item in our evening news bulletin supplemented with footage of extended queues of applicants for rental properties.

The current rental crisis is shaping the future social and economic landscape of Australia. Renters are experiencing immense housing stress, particularly as home ownership moves further out of reach. The strong competition for housing has placed particular strain on those in the low end of the market. Governments of all levels must consider effective housing policy to address the needs of renters.

Home ownership rates have fallen for some time; moving from above 70% around the year 2000, to now being around 66%. CoreLogic data shows national median rents have increased by more than 20% over the past two years. National vacancy rates are also at multi-decade lows with cities like Adelaide, Melbourne and Perth having vacancy rates that are well below 1.0%. In September 2023, the national capitals recorded a vacancy rate of just 1.0%.

A protracted imbalance between housing demand and supply is how we got here, and building more homes, and the right type of homes, is the only solution. Land use planning, financing, taxation, and industry leadership must all be addressed in the push to alleviate the country's housing affordability crisis.

The Federal Government's housing legislative agenda and programs are certainly sizable and worthy of applause. The target of 1.2 million homes delivered in five years is noble, but the question remains, is the market framework adequate to support the fiscal stimulus? On an annual basis, target dwelling completions would need to be 240,000 dwellings. It must be stated that the nation's highest annual recorded output to date was 223,558 in the year to March 2017. As such, there would need to be a 27% increase in new dwelling volumes on 2022-23 volume, notwithstanding the need for favourable market conditions over five consecutive years in order to reach the target.

Against a backdrop of market conditions looking more and more unfavourable for building activity, it was hoped that Melbourne Cup day this year would be the usual theme of celebration. Stunningly, on November 7th, Australians were smacked with yet another interest rate hike- the 13th in an 18-month period. Australians are already under enormous pressure in their household budgets and this rate hike will tighten the screws even more. The Australian National University reports that even prior to Melbourne Cup day almost half of Australia's mortgage holders were in financial stress, paying at least 30% of their income to service their loans. Low to moderate income earners are falling further and further down the homeownership ladder and are tumbling into a historically pressurised rental market.

Just when one would hope that over the horizon net overseas migration (NOM) might slow significantly, ABS data due out in December is set to show a record NOM level for 2022-23- possibly in excess of 500,000 persons. To put it into perspective, in 2022-23, there were only 174,396 dwellings completed[1] in Australia. Over the recent period, unfortunately Treasury mis-forecasted NOM, failing to anticipate an approximate of 485,000-515,000 people arriving over the last financial year. The adage "you can't manage what you can't measure" is relevant to our present efforts in solving the national housing equation.

With present undersupply and low building approvals in the pipeline, the extent of transformation in housing policy and investment needed is beyond historical precedent. Looking toward the future and the need for transformative solutions, this Australian Affordable Housing Report 2023 asserts that reprieve is possible only with the following four essential reform agendas:

1. **Transformative reforms to planning and development approval systems**
2. **The establishment of social and affordable housing as a viable asset class**
3. **Taxation reform for social and affordable housing**
4. **Empowering the leadership of community housing providers in addressing the social and affordable housing crisis**

BACKGROUND TO THE AUSTRALIAN AFFORDABLE HOUSING REPORT

The 2022 Australian Affordable Housing Report highlighted the growing housing crisis, and governments around Australia heard the loud message and implemented stimulus measures to boost housing construction. From the Federal Government's HomeBuilder grants to various state stimuli such as Victoria's Big Housing Build, each of these measures helped boost the supply of affordable housing. Bolstered by housing stimulus and low interest rates, the earlier pessimistic predictions of 115,000 commencements for FY2021 gave way to 212,000 commencements, with a record June 2021 quarter just shy of 65,000 commencements.

The previous report identified that, whilst this extra supply beyond expectations came as a surprise, house prices resumed an alarmingly upward trajectory right across Australia. It also identified the lingering concerns about the future direction of the housing construction industry, and the need for immediate sizable reform. Even with international borders closed for so long over the pandemic period, housing affordability worsened in the immediate aftermath of the pandemic. There was widespread conviction over the very real danger that short-term residential construction could stall.

1 ABS 8752.0

New author of the Australian Affordable Housing Report, Matthew King (Director – Economics and Research, PowerHousing Australia), was residing in Norway over the last decade, leading extensive humanitarian work across eastern Europe in particular. Formerly employed as an economist at the Housing Industry Association and Consult Australia, he returned to Australia after 10 years abroad to pick up from where he left off and resume his analysis and reporting on the residential building landscape. What he returned to was desolation in the housing affordability landscape brought about by a worsening of the structural undersupply of housing. Despite an abundance of residential land, enviable stable national and state governance, and a plethora of credible data and research to support good policy, the affordability crisis had worsened and the dream of owning an Australian home was falling more out of the reach of many Australians.

This year's edition of the report accurately measures and identifies the extent and detail within the broader problem through reporting on key affordability measures – in partnership with CoreLogic and HDD Economics. It highlights that dwelling values have quickly returned to pre-Covid levels, it underscores the red-hot conditions in the rental market – prices and vacancy rates – and it shines light on the stress held by both those living in Australian dwellings and those building Australian dwellings.

The report outlines the Federal Government's ambitious housing agenda with unseen expenditure levels slated to begin in 2024. The landmark fiscal investment in housing – the Housing Australia Future Fund (HAFF) and the National Housing Accord – are major steps in the right direction for partnerships of Community Housing Providers (CHPs) and government. However, the report brings into question the feasibility of the 1.2 million homes target.

Finally, as per previous reports, there is a pragmatic approach with well-researched industry-supported solutions to alleviate the structural undersupply. The need for reform is identified with necessary specificity, as well as the urgency of the essential reform agendas. Substantive reform in land-use planning, attracting private sector capital investment, and removal of obstructive taxes are emphasised as fundamental elements of a holistic strategy to solve a long-term structural problem. It is also asserted that the rapidly changing landscape requires a metamorphosis in the recognition of key leaders, and CHP's will be absolutely essential to addressing this crisis and must be recognised and empowered accordingly.

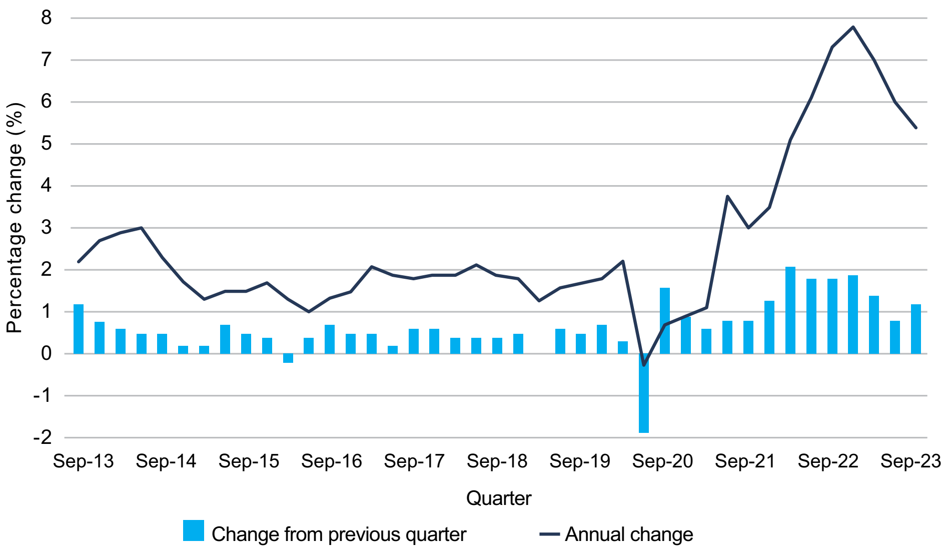
SECTION A – THE HOUSING AFFORDABILITY CRISIS

National Affordability Measures

Looking back over the period since the last Affordable Housing Report, there were sighs of relief and a sense of celebration as the pandemic seemed well and truly over. However, Australians found themselves facing an unprecedented cost of living crisis. Energy costs and broader inflation took a dramatic upward trajectory which supercharged the Reserve Bank to act vigorously as we entered into a historic tightening cycle. The cash rate target was only 0.1 per cent in early May last year, and it has been lifted 13 times in 18 months — the steepest increase in the RBA's history. This has further impacted national housing affordability. The housing market and historic lows in affordability is now in the spotlight of the media and the public.

The RBA has estimated that more than 800,000 fixed rate loans will switch to variable rates in 2023, or approximately $350 billion in loans. More fixed rate loans will roll off in 2024 with many to pay $1000-$1500 per month more, leaving household budgets out of pocket.

Graph: All groups CPI, Australia, quarterly and annual movement (%)



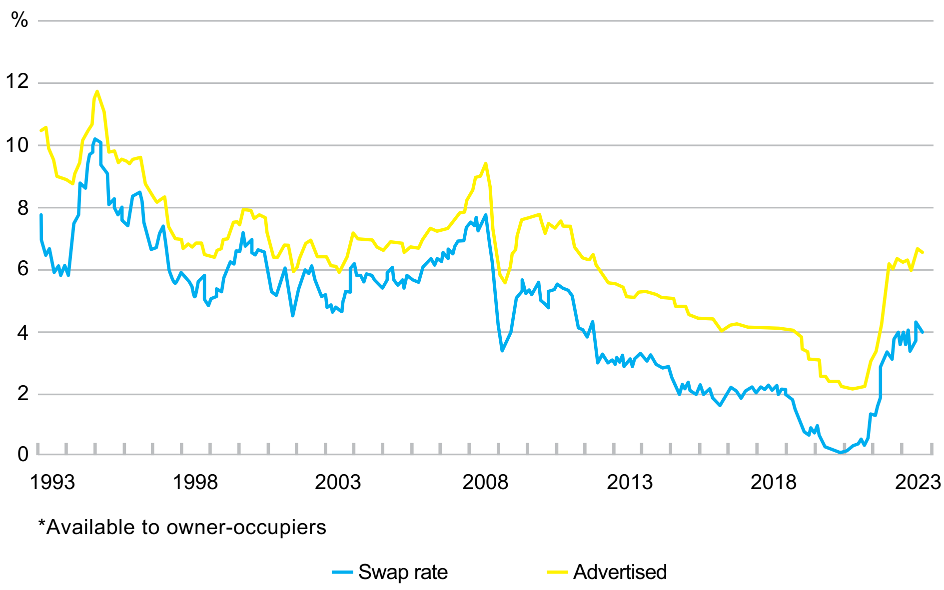
***Source:** Australian Bureau of Statistics (ABS)*

Furthermore, the housing component of the Consumer Price Index tells its own story. The housing component, which has the largest weighting within the CPI, recorded a 7.0% increase in the September quarter 2022 to September quarter 2023. It was only outflanked by insurance and financial services. In the recent quarter, the housing component of CPI jumped 2.2% (June quarter to September quarter).

Housing and housing affordability were significant concerns during the COVID-19 pandemic. Housing was an essential component of keeping Australians healthy and safe during the crisis. The impacts of the pandemic, along with expansionary monetary and fiscal policy, led to an extraordinary increase in housing values after the onset of the pandemic. From the beginning of the COVID pandemic to April 2022, national dwelling values rose by an astonishing 30.8%. Regional areas, which saw significant inflows of migration induced by COVID, saw a 48.1% increase in dwelling values to their peak in May 2022.

From that time, national home values have declined by 7.5%. Declining values have not relieved affordability pressures with prices still well above their pre-COVID levels. Meanwhile, mortgage rates have increased at an incredible pace and by a large amount. The Reserve Bank of Australia has increased the benchmark cash rate by 4 percentage points by June 2023.

Graph: Fixed interest rates, 3-year maturity



***Source:** Banks' websites, CANSTAR, RBA, Refinitiv*

Housing affordability challenges remain broad based, but diverse, across the Australian housing sector. While the ratio of housing values to household incomes has improved a little from the earlier record highs, affordability from a mortgage servicing and rental perspective have worsened amid high interest rates and record low vacancy rates.

Rental market vacancy rates

Despite worsening rental affordability supporting an easing in the pace of rental growth in Australia, rental availability tightened in September 2023, with vacancy rates falling to new record lows across the country.

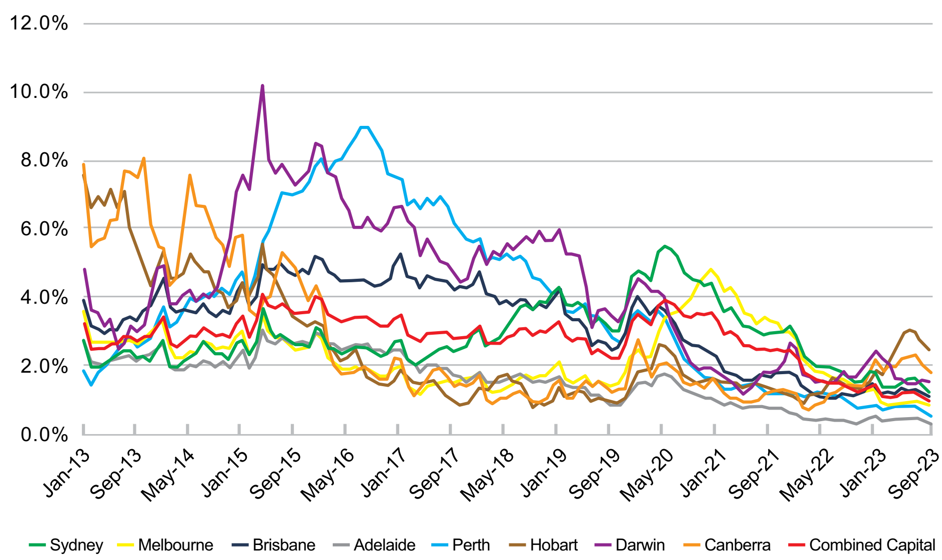
CoreLogic's Quarterly Rental Review for Q3 2023 revealed that rental values rose 1.6% over the quarter, down from the 2.2% rise seen in the June quarter and a full percentage point below the recent peak rate recorded over the three months to April (2.6%). This took the annual pace of growth down from a revised peak of 9.6% in the previous 12 months to 8.4% in the year to September.

However, a continued shortfall in rental listings saw the national vacancy rate reduce to a new record low of 1.1% in September 2023 as the total count of national rental listings fell to its lowest level since early November 2012. There are a number of factors at play driving the slowdown in rental growth amid such limited rental availability. Worsening affordability continues to be a significant factor placing downward pressure on the pace of rental growth in recent months.

After recording a small dip over the first few months of COVID, national rents have risen for 38 consecutive months, taking rental values 30.4% higher since July 2020 and adding the equivalent of $137 to the median weekly rent. With the rising cost of living adding additional pressure on renter's balance sheets, it is likely tenants have hit an affordability ceiling, seeking to grow their households in number of tenants to share the growing rental burden.

The situation of low rental vacancy rates and insufficient housing supply is a broad issue impacting regions around the country to different extents. Record high net overseas migration, fuelled by a combination of an increased flow of new arrivals and weaker departure numbers, coupled with a continued shortfall in rental listings, saw the vacancy rate falling to new record lows across the combined capitals (1.0%).

Graph: Rental market vacancy rates, by capital city



Source: *CoreLogic, PowerHousing Economics*

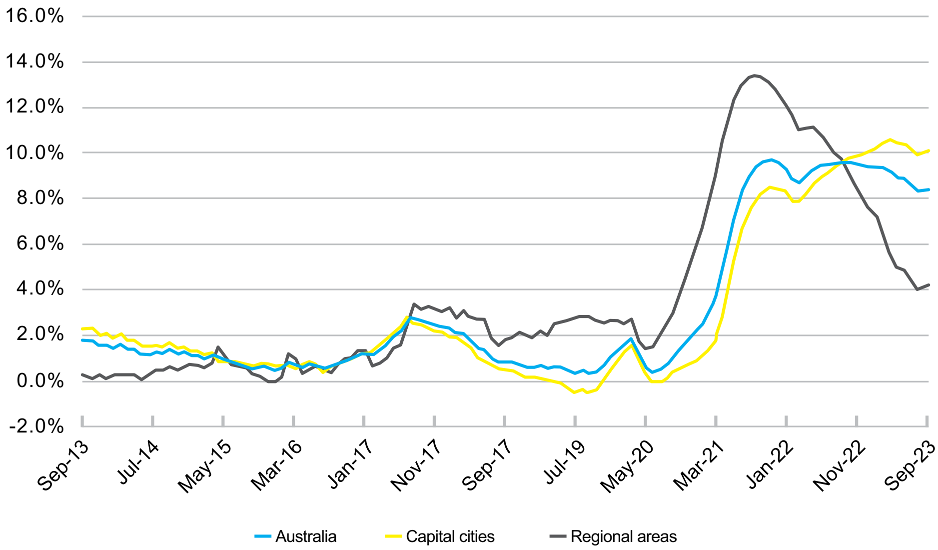
Median rents

Exceptionally low vacancy rates and an extremely tight rental market is the prevailing experience across capital cities across the country. Rental prices for the September quarter rose 2.2 per cent following a 2.5 per cent increase in the June quarter.

The portion of household income required to pay rent has risen from 29.5% in June last year to a record high of 31.4% in June this year. The rise in the income required to pay rent can be explained by a 12.0% rise in the median rental rate over the year against only a 5.2% rise in household incomes.

With the national rental vacancy rate falling to 1.4% in June 2023, and trending to new record lows since then, it is likely rents will continue to rise at a faster pace than household incomes. However, with rental affordability pressures becoming more significant, we are already seeing the pace of rental growth easing across some jurisdictions, possibly reflecting a trend towards group households becoming more common and average rental households becoming larger as tenants seek to maximise the number of tenants in order to minimise rental repayments on a per tenant basis.

Graph: Annual change in rents, decade to September 2023



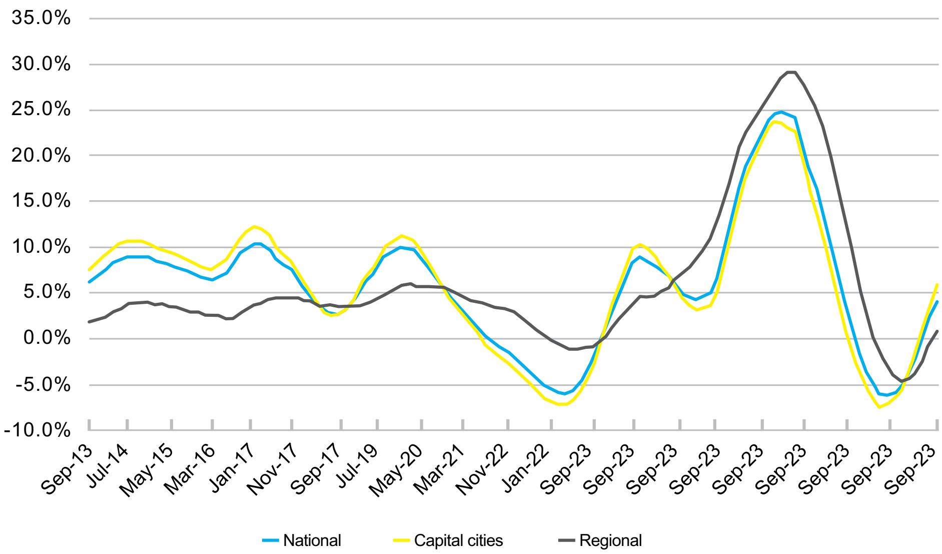
Source: *CoreLogic, PowerHousing Economics*

Dwelling values

Housing prices rose 0.8% month on month (m/m) in September and 3.9% year on year (y/y) according to CoreLogic data. The rise in housing prices despite restrictive interest rates has been fuelled by the housing shortage, with very low vacancies in the rental market and reduced building activity.

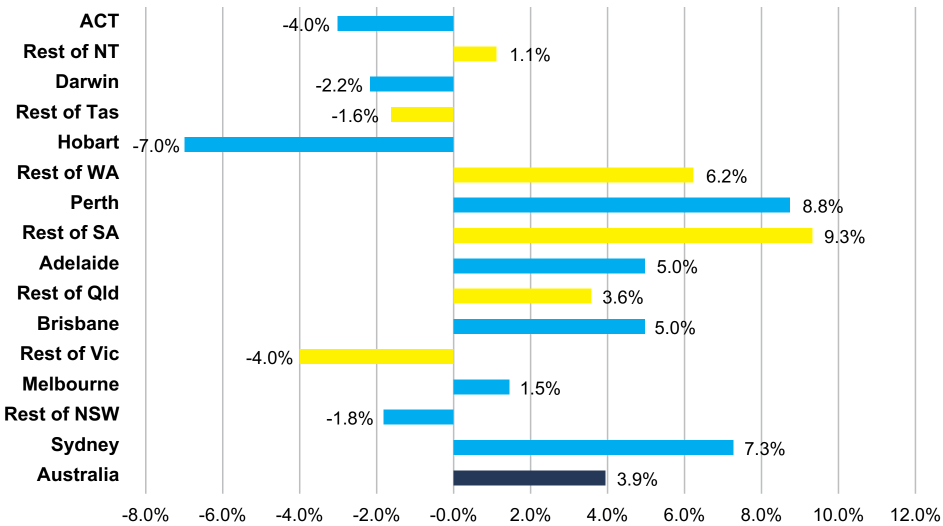
In the near term, this will only increase metrics around the time needed to save a deposit, and portion of income required to service a mortgage. Remarkably, the rebound has coincided with three further increases to the RBA cash rate in March, May and June of this year, adding to what has already been the steepest rate-hiking phase on record. Average new owner occupier mortgage rates across all lenders were reported at 5.9% in June. Historically, increases in interest rates have put downward pressure on housing prices, but strong net overseas migration, constraints on housing supply, and the recent fall in the average number of people per dwelling, have all pushed prices higher.

Graph: Annual change in dwelling values, decade to September 2023



Source: *CoreLogic, PowerHousing Economics*

Graph: Change in dwelling values, year to September 2023



Source: *CoreLogic, PowerHousing Economics*

Dwelling values forecast

Looking ahead, while August 2023 building approvals jumped (+7.0% m/m), we do not expect this to be a turnaround for building approvals, as developer incentives continue to be undermined by higher building costs and funding rates. Building approvals are still near-decade lows despite population growth of around 2% per year and a shortage in available housing stock for both prospective renters and buyers. Moreover, the outlook for housing values remains uncertain as the economy weakens, and more borrowers are exposed to higher debt repayments as their fixed mortgages expire.

Housing prices have been rising since February according to the CoreLogic Home Value Index despite increases in the cash rate this year to 4.1%. The impact of housing shortages and tight rental vacancies are currently outweighing the impacts of cash rate increases.

ANZ Research forecasts housing prices to rise 5-6% through 2023, 3% through 2024 and 4-5% through 2025. Strong refinancing activity and competition has limited the pass-through to average new mortgage rates, which have risen by less than the cash rate (4ppts). The share of income going to mortgage repayments is expected to reach a record high of around 10% as a result of interest rate increases and is having a clear impact on confidence and spending.

ANZ Research assesses that developer incentives to add to supply have been undermined by higher funding costs, elongated building times and the higher risk involved in the construction sector amid elevated recent insolvencies. While it is not expected that residential construction activity will face a “cliff”, sufficient building activity to resolve the housing shortage is unlikely, which is expected to drive housing prices higher for some time.

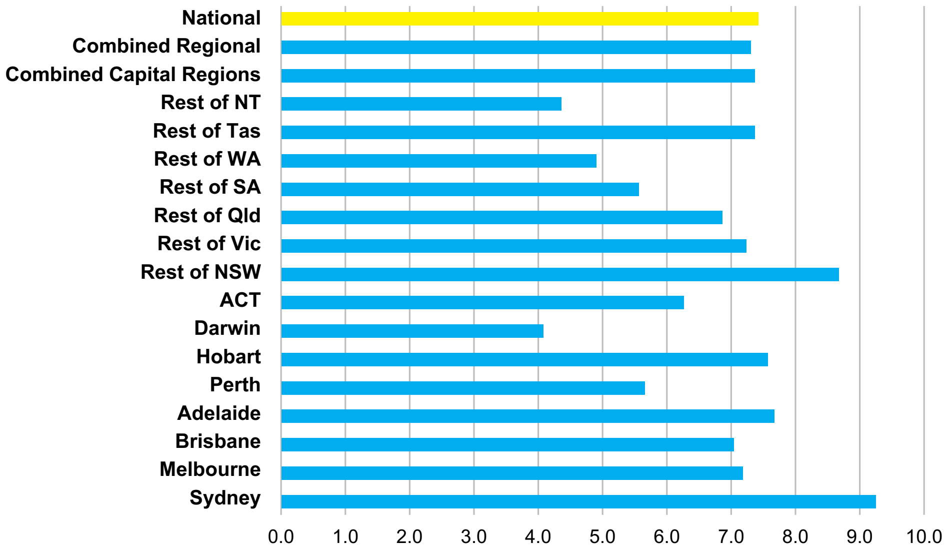
Dwelling value to household income ratio

According to CoreLogic, the national dwelling value to household income ratio peaked at a record high of 8.1 in the June quarter of 2022, but has since reduced to 7.3 in the March quarter of 2023 before rising to 7.4 in the June quarter. The lower ratio since June last year can be attributed to both lower housing values and higher household incomes. Over the year ending June 2023 the national median dwelling value was 3.9% lower while estimates of household income were 5.2% higher.

Although the ratio is no longer at record highs, it remains elevated from a historical context, with a decade average of 6.8. Housing affordability on this measure is most stretched in Sydney with a ratio of 9.2 in June 2023, while at the other end of the spectrum is Darwin with a much healthier ratio of 4.0.

Considering housing values are rising at a faster pace than household incomes, the ratio of dwelling values to household incomes is once again pushing higher.

Graph: Dwelling value to household income ratio, June quarter 2023

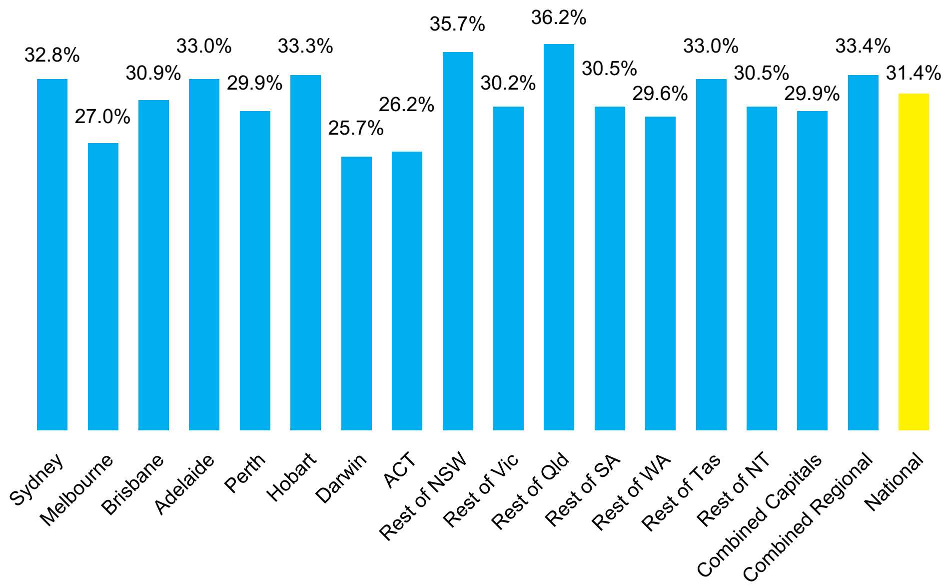


Source: *CoreLogic, PowerHousing Economics*

Rent to household income

The portion of income to service rent at the median level pushed to record highs in the June quarter, at 31.4%. Combined with other increases in the cost of living and limited wage growth, prospective buyers are likely to see a slowdown in how quickly they can build their deposit. This is also reflected in the household saving ratio derived from ABS data, which fell to 3.5% in the June quarter.

Graph: Percentage of income for rent, June quarter 2023



Source: *CoreLogic, PowerHousing Economics*

Years to save for a 20% deposit

According to CoreLogic, prior to housing values moving through a short but sharp downturn, it was taking the median household 10.8 years to save a 20% deposit on the median valued dwelling, assuming the household can save 15% of their gross annual income. Since June 2022, the number of years to save a 20% deposit has reduced, falling to 9.8 years in March 2023 before rising in June to 9.9 years.

Over the past ten years the average number of years to save a deposit has equated to 9.1 years, highlighting that although the time it takes to save a deposit has reduced, it is still above average. Time to save for a deposit is longest in Sydney, recorded at 12.3 years in June 2023 and shortest in Darwin at 5.4 years. A longer period of savings implies a longer period of renting or extended timeframes in the family household for younger cohorts of the community.

Volume of sales under $500,000

Graph: Percentage of sales sold for under $500,000, year to September 2023

	Houses			Units		
	2012	2017	2023	2012	2017	2023
Sydney	40.8%	7.1%	2.1%	51.3%	12.7%	13.4%
Melbourne	53.8%	23.4%	3.4%	64.7%	45.7%	31.7%
Brisbane	65.1%	47.3%	12.3%	80.1%	72.7%	51.5%
Adelaide	74.0%	58.9%	18.0%	90.6%	84.9%	60.3%
Perth	57.7%	51.6%	35.1%	67.8%	67.2%	69.6%
Hobart	82.5%	70.2%	14.7%	90.1%	80.5%	36.8%
Darwin	47.9%	47.3%	30.2%	77.2%	73.0%	77.7%
Canberra	54.4%	25.6%	2.8%	76.0%	71.2%	31.3%
Combined Cap.	54.9%	31.7%	12.4%	62.6%	38.2%	34.0%
National	65.6%	45.8%	23.4%	68.0%	46.6%	37.0%

Source: *CoreLogic, PowerHousing Economics*

The share of sales for properties priced below $500,000 has reduced year-on-year. Houses in particular have undergone a steep decline in affordability, and now only 12.4% of dwelling volumes in the capital cities combined are under the $500,000 threshold. Not surprisingly, Sydney comes in at the lowest volume of house sales under $500,000 with a miniscule 2.1% of houses selling under the mark. Of the capitals, Perth has the most stock to offer at this lower end with 35.1% of houses selling under half a million dollars in the year to September 2023. As for units, overall volume of sales at this lower end are trending downwards. Again, Sydney has the lowest volume of sales – 13.4%, while Darwin has the largest volume – 77.7%.

Servicing mortgages and the mortgage cliff

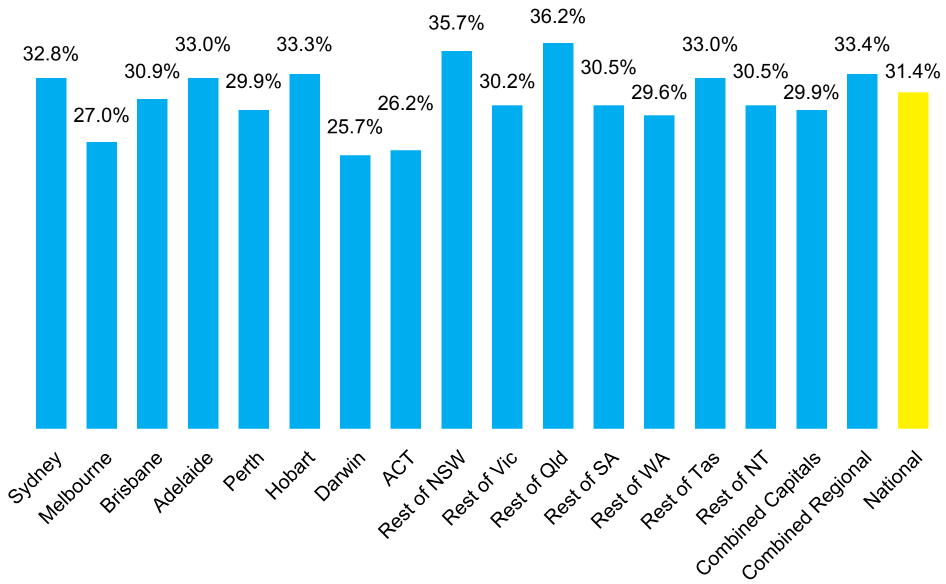
Recently, the International Monetary Fund (IMF) reported that Australians devote a greater share of their income to mortgage repayments than any other advanced economy, as it downgraded its forecasts for the local economy and warned inflation will be higher than previously thought.

According to CoreLogic with the average variable mortgage rate on a new owner occupier loan rising from around 2.4% in April 2022 to 5.9% in June 2023, the cost to service a mortgage has risen substantially. Using a $500,000 mortgage as a guide, a new borrower is paying approximately $1,026 more a month in June 2023 than in in April 2022 (assuming principal & interest payments on a 30 year loan term).

Nationally, a new borrower purchasing a home at the median dwelling price with a 20% deposit would need to dedicate 45.5% of their gross income on their annual principal & interest mortgage repayments. This proportion isn't quite at a record high; in March 2008 (when mortgage rates were substantially higher) the same metric was at a record high of 47.6%.

Across the capital cities, Sydney households would need to dedicate the largest portion of household income to purchase the median priced dwelling at 56.7%, followed by Adelaide (47.0%) and Hobart (46.3%), while at the other end of the spectrum, households in Darwin (24.8%), Perth (34.7%) and ACT (38.3%) would need to dedicate less than 40% of their annual gross income to mortgage repayments.

Graph: Percentage of income for mortgage, year to June 2023



Source: *CoreLogic, PowerHousing Economics*

Net overseas migration

Year	Net Overseas Migration
2017-18	238,200
2018-19	241,300
2019-20	192,703
2020-21	-84,930
2021-22	202,2520
2022-23	485-515,000*

**Range estimate based on trend over previous 3 quarters and anecdotal evidence*

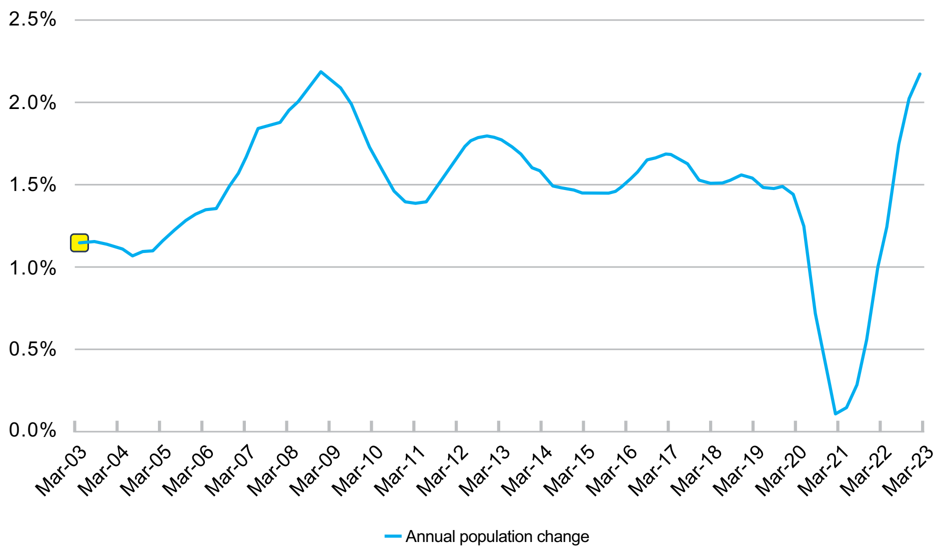
Source: *ABS 3101.0*

Australia has been experiencing a large increase in net overseas migration as the world emerges out of the COVID-19 pandemic. Much of this migration comprises the return of international students along with working holiday makers and skilled workers.

Net overseas migration forecasts for 2022-23 were revised up from May 2022 (180,000) and October 2022 (235,000), to the Federal Budgets' projections of 400,000 in May 2023. These sizable upward revisions indicate an exacerbation of the existing problem of wide-scale structural undersupply in housing. Coupled with a downgrading of the FY2023 and FY2024 dwelling investment there will be an insufficient amount of housing coming through which will be particularly problematic for the short to medium term.

As of today, ABS preliminary estimates of net overseas migration in the first three quarters of the 2022-23 fiscal year totalled around 379,000 persons. Population growth in Australia has accelerated markedly to 2.2% y/y to the March quarter 2023. With this being the case, the likely projected result will be between 485-515,000 in total net overseas migration for 2022-23.

Graph: Annual population growth rate, year to March 2023, national



a. Annual growth calculated at the end of each quarter.
b. All data after 30 June 2021 is subject to revision.

Source: *ABS 3101.0*

At a state-level, in the year to March 2023, Western Australia, Victoria and Queensland had above-average annual rates of growth with 2.8%, 2.4% and 2.3% respectively. Net overseas migration has mostly boosted the populations of NSW and Victoria, while interstate migration has strongly contributed to Queensland and Western Australian population growth.

The rapid recovery in migration and record volumes of overseas migrants is adding to pressure in the housing market. There is a stark incongruency between the escalating demand for housing versus the supply, and this is proving detrimental to housing affordability, especially for low to moderate income earners. Coupled with a downgrading of the FY2023 and FY2024 dwelling investment forecasts there will likely be further immediate pressure on housing affordability. We are clearly a very long way off adequate planning and delivery for the future housing needs of the population.

Construction Material Costs

According to PowerHousing Australia community partner, CBRE Research, construction costs for residential properties increased by 37% over June 2020-June 2023, far greater than growth in inflation. Construction cost growth now appears to be easing on better availability and pricing for raw materials. However, tight labour markets, particularly in Brisbane, may keep upward pressure on the cost to build new supply. The stricter energy requirements and liveable housing standards will also impact the cost of new builds over the year to come.

PowerHousing affiliate member, Altus Group, provides insight into the materials and commodities that are common across most projects and sectors, and that therefore have the greatest influence on costs. These include:

Plasterboard

This material remains one to watch, following strong growth over the quarter and the year. Covid-induced supply constraints have been resolved, and high demand has eased as housing stimulus projects conclude. Nevertheless, projects with substantial plasterboard may consider upward budget adjustments.

Concrete

Notoriously volatile due to its dependence on energy/transport costs and raw material supply chains, the price of concrete has continued to rise. While the cost of aggregate materials, such as sand and gravel, has eased off, the quest for low-carbon products, combined with the high cost of fuel in transportation, has driven price hikes.

Copper

With steady price increases over both the quarter and the year, projects with significant copper components in electrical and plumbing works – notably large rail projects – can expect budget implications.

Graph: Construction Material Price Trends, Q2 2023 - Australia

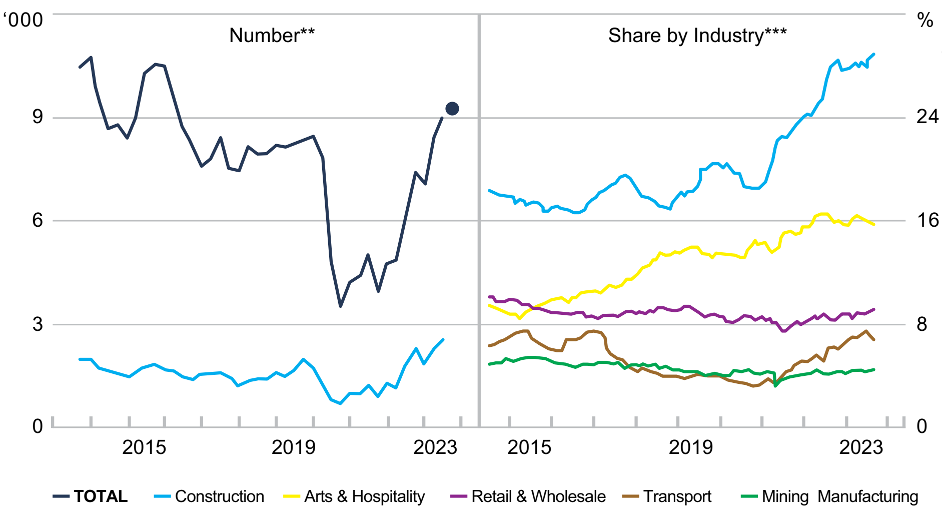
MATERIAL	Q2 2023	YTD 2023	TREND
Steel	-7.5%	-12.3%	▼
Rebar	0.5%	1.2%	▲
Concrete	2.1%	12.7%	▲
Timber	-1.5%	-5.4%	▼
Plasterboard	4.7%	15.1%	▲
Bricks	0.3%	6.5%	▲
Copper Pipes	2.5%	8.5%	▲
Diesel	-10.1%	-6.9%	▼

Source: *Altus Group*

Residential builder financial stress

A sharp rise in construction input costs, compounded by costly delays arising from labour and building materials shortages as well as adverse weather, has eroded profit margins on existing fixed-price contracts for many residential builders. Some builders are still working through these contracts, which are now loss-making for many. As such, the share of large residential builders with negative cash flows has increased sharply over the past couple of years. Higher interest rates have also raised debt-servicing costs for many organisations.

Graph: Company insolvencies, annualised, seasonally adjusted



Source: *ASIC, RBA*

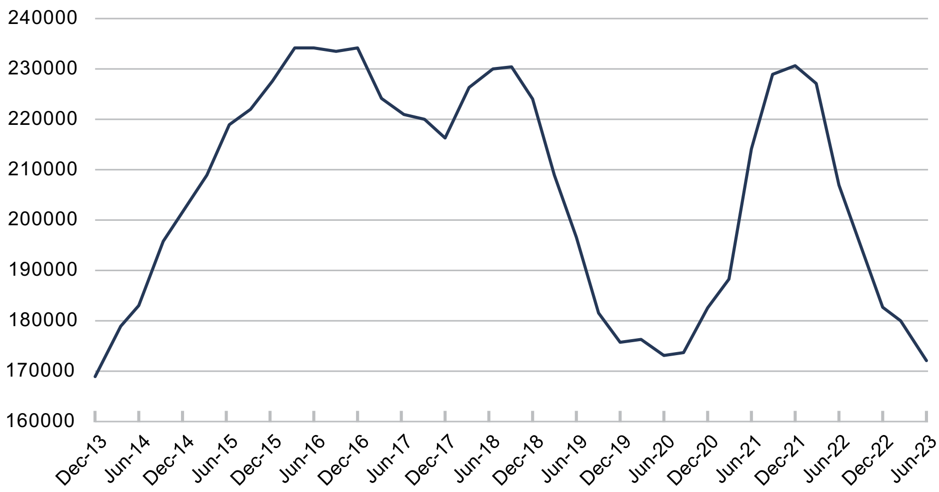
* New external administrations and controller appointments.
** The dot is a September quarter estimate based on monthly observations for July and August 2023.
*** 12-month rolling bases; selected industries.

SECTION B – DROP IN BUILDING ACTIVITY

Background to new housing indicators

After an unprecedented tightening of monetary policy over the last 18 months, the consensus forecast is for one further interest rate hike by the RBA this cycle. The starting point for residential construction is a weak one. Dwelling approvals are a leading indicator, which can help us predict or forecast future economic trends. The most recent data from the Australian Bureau of Statistics suggests a downward trend in the number of dwellings approved in recent months, both when compared to the previous quarter and the same period in the previous year. This could indicate that a slowdown in the housing construction sector lies ahead. However, the pattern of growth following the Global Financial Crisis is instructive; government stimulus delivered an immediate spike in approvals, followed by an easing in activity and then a quick recovery and period of steady and consistent growth. This trend suggests there is a moderate volume of work in the pipeline for the short-medium term.

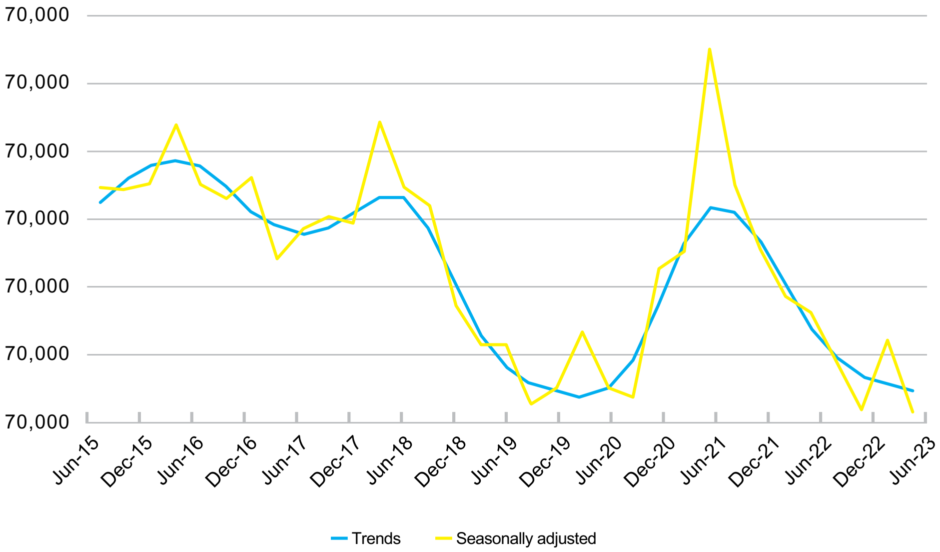
Graph: Dwelling commencements, national, moving annual total (MAT)



***Source:** ABS, HDD Economics*

With or without another rate rise, the damage is already done, especially for detached housing. Any easing in monetary policy in mid-2024 or through 2024/25 will not help new residential construction in the short term. Interest rate projections and macro-economic considerations including the outlook for a weak 2023/24 for economic activity will ensure new start forecasts look relatively weak. There is the prospect of a renewed mining boom, however the case for this is not overwhelming. Eventually, though, resources incomes flow through to the broader economy and household incomes. That would be a marginal to moderate positive for 2024/25. As previously identified by the 2020 and 2022 E-Scan report every new home equates to 43 trades and subtrades receiving between 3 hours and 3 months of work. This drop from 230,000 dwelling starts in 2021 to 173,000 starts today sees 2.6 million periods of work disappear or move away from building housing, which is devastating for livelihoods and for the homes not built.

Graph: Dwelling commencements, national



Source: *ABS, HDD Economics*

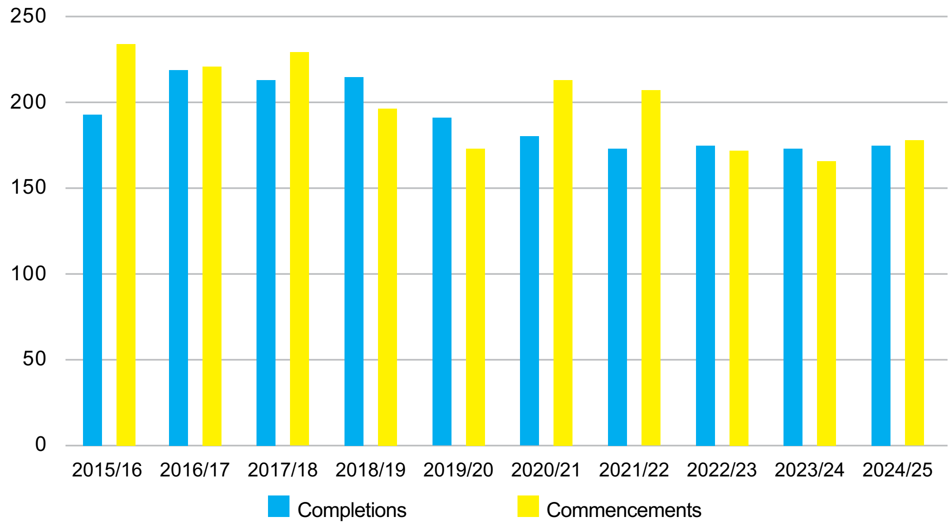
'The building industry is one of the largest activators of employment across a wide range of office and site based vocations. Activating the building industry to address Australia's housing crisis by delivering social and affordable housing provides compelling outcomes for trades and suppliers and Australians facing the risk of homelessness. Economically, there is detailed research that demonstrates the savings in health, education and social welfare pay for the cost of building new homes twice over, whilst the tenants enjoy significant cost of living benefits through the energy efficiency of modern housing design.'

- Sam Gribble, General Manager, EveryOne, a division of Metricon

New housing indicators

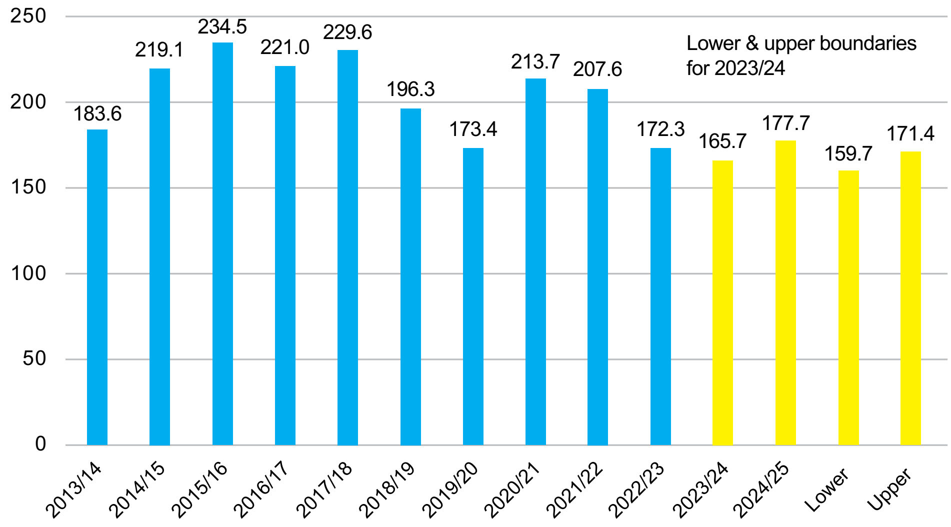
In review of the trend in starts by HDD Economics, there is a bias for dwelling commencements to drop further to around 165,000 in 2023/24. A low projection is for 159,723. That would be a 7.6 per cent decline for commencements which translates to an 8.7 per cent fall for completions. The upper boundary for 2023/24 is 171,394.

Graph: Dwelling commencements & completions, '000s, national, seasonally adjusted



***Source:** ABS, HDD Economics*

Graph: Dwelling commencements, '000s, national, seasonally adjusted



***Source:** ABS, HDD Economics*

The Federal Government's target of 1.2 million homes over five years from July 2024 and the attached $10 billion investment presents as the canary in the coal mine in the housing outlook. The target is ambitious and will require record-breaking housing starts for the nation five consecutive years running. However, some potential correction to the imbalance in supply and demand will be offset by enormous net overseas migration over the 2022-23 period. That being said, a timely and successful rollout of the fiscal investment and delivery presents significant upside potential to the residential building outlook through to 2029.

SECTION C – FEASBILITY OF A FEDERAL GOVERNMENT -SPARKED U-TURN IN HOUSING SUPPLY

The Federal Government's housing program

The Federal Government has embarked on an ambitious housing investment plan to make inroads on the nation's affordability crisis. The Government is set to invest at record levels in an effort to rapidly bolster housing supply. Following on from commitments made at the last election, housing has become a core pillar in the Government's reform agenda and Canberra is now trumpeting bold targets in dollars invested and dwelling units built over the next five years. The Albanese Labor Government's landmark legislation is set to deliver the single biggest investment in affordable and social housing in more than a decade. The primary components in the Federal Government's housing program are:

- the $10 billion Housing Australia Future Fund with a commitment of 30,000 new social and affordable rental homes in the fund's first five years;
- a new national target to build 1.2 million well-located homes;
- a $3 billion New Homes Bonus, and $500 million Housing Support Program;
- a $2 billion Social Housing Accelerator to deliver thousands of new social homes across Australia;
- a National Housing Accord which includes federal funding to deliver 10,000 affordable homes over five years from 2024 (to be matched by up to another 10,000 by the states and territories);
- an investment of an additional $1 billion in the National Housing Infrastructure Facility to support more homes;
- up to $575 million in funding already unlocked from the National Housing Infrastructure Facility, with homes under construction across the country;
- increasing the maximum rate of Commonwealth Rent Assistance by 15 per cent; and
- an additional $2 billion in financing for more social and affordable rental housing through the National Housing Finance and Investment Corporation.

Creation of Housing Australia

The National Housing and Finance Investment Corporation (NHFIC) operating with bi-partisan support since 2018 has now become Housing Australia, cementing the strong record and relationship with the CHP sector, Government and institutional financiers. NHFIC has successfully delivered $3b in low cost long term government backed lending $600m plus in interest payments to CHPs to date.

> *"NHFIC has helped us deliver our mission to provide affordable housing for Western Australians on low to moderate incomes. In a market where vacancy rates are below 1% and with rents rising by as much as 50%, our projects mean over 150 tenants can benefit from our properties and avoid entering housing and financial hardship."*
>
> *"Without this NHFIC facility, Foundation Housing would have been anchored in bank debt with no capacity to grow or leverage new initiatives, but the savings and equity made possible by this facility means we can invest in new social and affordable housing projects. We would highly recommend NHFIC to other community housing providers."*
>
> Chris Smith, Foundation Housing, CEO

This serves as long-term and low-cost finance, and capability building assistance, to registered CHPs to support the provision of more social and affordable housing. Housing Australia has the primary responsibility for delivering the 30,000 social and affordable homes under the Housing Australia Future Fund.

The announcement by the Federal Government in September 2023 of an additional $1 billion to be invested in the National Housing Infrastructure Facility (NHIF) is welcomed. Housing Australia will continue to deliver its existing programs: the Home Guarantee Scheme, Affordable Housing Bond Aggregator and National Housing Infrastructure Facility.

The $10 billion Housing Australia Future Fund

The $10 billion Housing Australia Future Fund (HAFF) legislation has now passed Parliament and aims to create a secure, ongoing pipeline of funding for social and affordable rental housing. The HAFF will help deliver the Government's commitment of 30,000 new social and affordable rental homes in the fund's first five years. This includes 4,000 homes for women and children impacted by family and domestic violence and older women at risk of homelessness.

The Fund will also deliver the Government's commitments to help address acute housing needs, including $200 million for the repair, maintenance and improvement of housing in remote Indigenous communities, and $100 million for crisis and transitional housing for women and children impacted by family and domestic violence and older women at risk of homelessness.

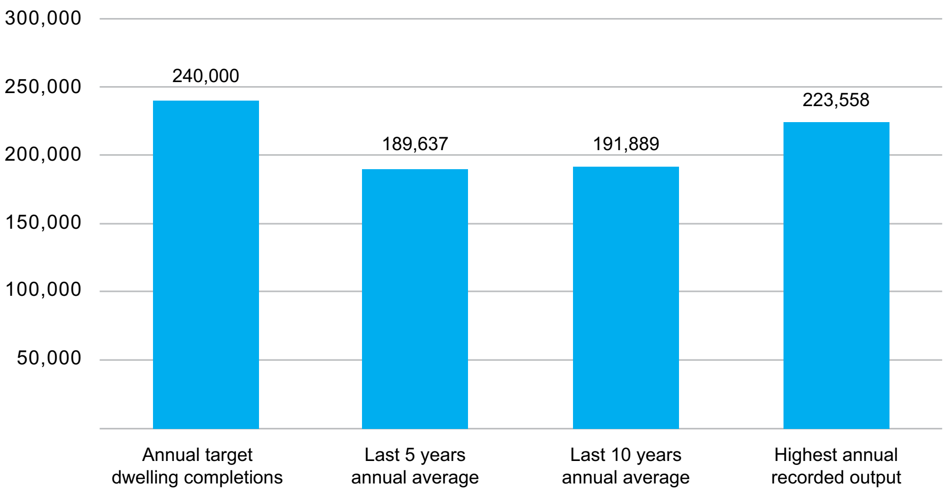
Comparing the 1.2 million home target with recent trends

In August 2023, the National Cabinet announced that it had set a new target to build 1.2 million new homes over five years from 1 July 2024. The new target is an additional 200,000 homes above the National Housing Accord target agreed by states and territories last year. The Commonwealth has committed to $3 billion for performance-based funding, the New Home Bonus, for states and territories that achieve more than their share of the one million well-located homes target under the National Housing Accord. This is aimed at incentivising states and territories to undertake the reforms necessary to boost housing supply and increase housing affordability.

In recent months, PowerHousing Australia Economics undertook economic modelling regarding the feasibility of building the Federal Government's 5-year target of 1.2 million homes beginning in July 2024. PowerHousing Economics took the target national volume and apportioned it by state and territory based on ABS population data as at 31 March 2023. This offered a prospective annual and 5-year target for state dwelling completions. PowerHousing Economics then compared the targets with historic dwelling completions from the ABS, most recent year to the March quarter 2023, as well as five and ten-year averages by state.

This modelling indicated the feasibility of the states and broader country to achieve prospective targets under the Commonwealth investment and rollout. The findings also indicate the apparent likelihood of a state to achieve these targets. This was bolstered by an extraction of the state's highest volume one-year period since the ABS commenced tracking dwelling completions. All in all, the modelling indicates that there is strong probability of certain states achieving state-based targets, while others would be deemed 'highly unlikely' in reaching their projected targets.

Graph: Dwelling completions – national target vs. historic averages, national

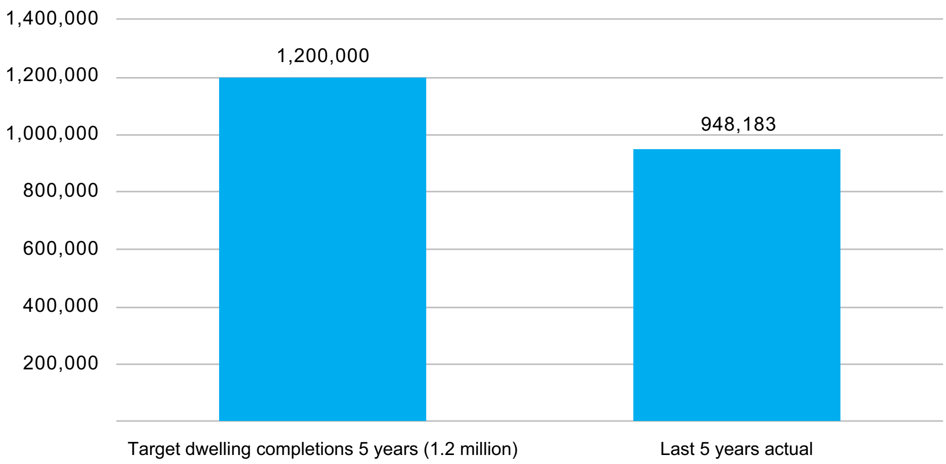


Source: *ABS, PowerHousing Economics*

The Federal Government's announcements have indicated a building of 1.2 million homes, which would infer dwelling completions as opposed to approvals or commencements. It is therefore prudent to make historic comparisons with recent dwelling completion outcomes. Under the five-year target, on an annual basis, target dwelling completions would be 240,000 dwellings. It is noteworthy that the nation's highest annual recorded output is 223,558, which was recorded in the year to March 2017.

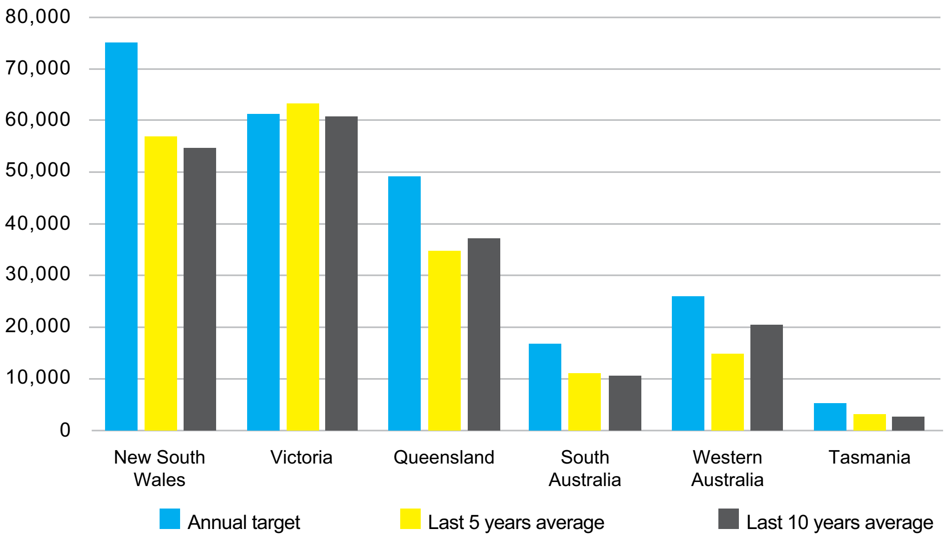
Furthermore, the nation's highest recorded five-year output of dwellings is 1,045,786, which was recorded in the year to December 2019. An additional consideration is that the five-year average to March 2023 was 189,637 new dwellings completed. Therefore, nationally there would need to be a 27% increase in new dwelling volumes and favourable market conditions (building boom) over five consecutive years in order to reach the five-year target. In short, there is not only the necessity of a large market upswing, but a holding of the new annual output volume over five years.

Graph: Dwelling completions – national target vs. last five-years actual, national



***Source:** ABS, PowerHousing Economics*

Graph: Dwelling completions – HAFF target vs historic averages, by state

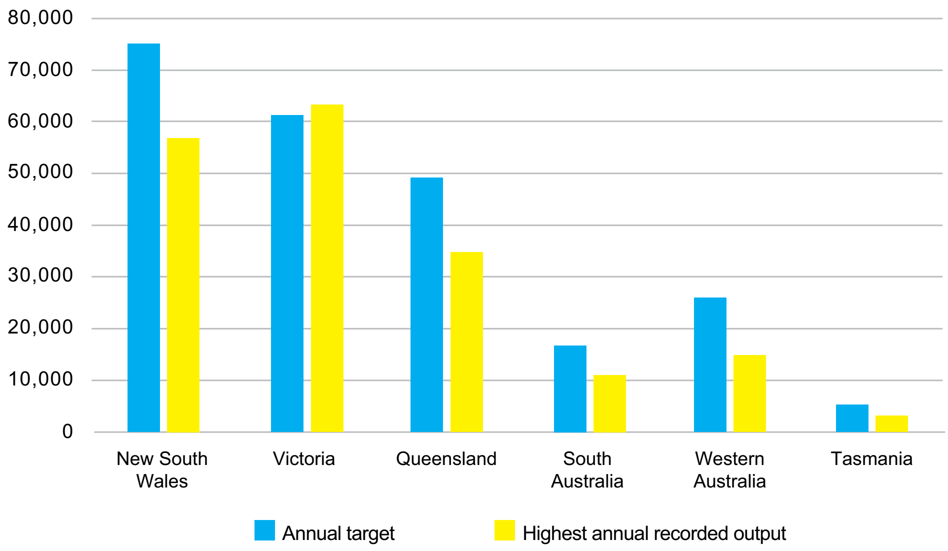


***Source:** ABS, PowerHousing Economics*

A view of the state disaggregation reveals a unique picture of possibilities and improbabilities. It is unclear how the Commonwealth will apportion the funding across state and territory boundaries and jurisdictions. However, if it were to be apportioned according to most recent population data from the ABS, with conditional dwelling volume targets, we can estimate and hypothesise likelihoods of state-based targets being met. Firstly, it is worth noting that for every state the annual target exceeds the annual average over the past decade. Furthermore, with the exception of Victoria, the annual target also exceeds the annual average of the previous five years.

In the case of Western Australia, South Australia, Queensland and New South Wales, the necessary upswing in building activity is strikingly large. Western Australia will need to increase annual dwelling completions on the five-year average by a striking 74%. South Australia and Queensland will need to increase by a sizable 52% and 41% respectively, and New South Wales by 32%.

Graph: Dwelling completions – national target vs. highest annual recorded output, by state



***Source:** ABS, PowerHousing Economics*

It's worth noting that only Victoria and Western Australia have achieved the state-based projected targets according to their recorded history. New South Wales and Queensland have come close, yet they have never done it before. Moreover, dwelling commencements have been trending down in both states over recent years. This analysis suggests that four states would have to set record annual outputs of dwellings and sustain this output over an extended five-year period.

We need consistency in the supply

The need to boost the supply of housing in Australia cannot be overstated. The Government's HAFF program will be a vital stimulus to a sluggish supply side in the market. At the state level, the NSW Government has announced new measures in which housing developments with a capital investment value of more than $75 million which allocate a minimum of 15% of the total gross floor area to affordable housing, will gain access to the State Significant Development planning approval pathway, as well as floor space ratio and height bonuses. This compliments the NSW Government's existing Housing Acceleration Fund which provides grants for critical infrastructure projects, like upgrades to roads, water, sewerage and power.

The Queensland Government has slashed land tax for build-to-rent developments that include affordable housing. The South Australian Government's HomeSeeker SA program aims to help 1,000 low-income households break into the market with a suite of strategies from land tax concessions to shared equity schemes.

While public sector investment is vital and to be applauded, sporadic temporary boosts to supply are not a comprehensive answer to long-term structural undersupply. What is needed is sustained supply that is exceeding demand in the medium-term. Short-term stimulus can be disruptive and detrimental to supply chain stability. Consistency in supply with both sustained private and public sector investment as drivers is the only answer to alleviating the vast undersupply that has accumulated over an extended period of time.

CASE STUDY: BHC QIF (BHC)

In June 2022 the Queensland Government announced that the Housing Investment Fund will deliver a pipeline of up to 1,200 new social and homes through a partnership between BHC and the Queensland Investment Corporation. The commercial model – noted as the first of its kind and scale in Australia – will secure institutional investment to deliver a capital works program that will drive new and much needed housing supply for those who need it most.

"The Consortium would deliver lasting, positive change. This innovative partnership and new delivery model is sustainable, scalable and most importantly, will provide real housing options for Queenslanders struggling to find a stable, long term home. We are incredibly proud to be delivering this first stage of seven projects under the Queensland Government's Housing Investment Fund, which will provide almost 600 new social and affordable homes. We look forward to working collaboratively with the State and QIC to progress this important part of the solution for Queenslanders in housing need."

BHC Chief Executive Officer, Rebecca Oelkers

CASE STUDY: Social and Affordable Housing Fund

Hall & Wilcox acts for a number of major CHPs, including Home in Place who recently delivered nearly 500 properties, across 19 Hunter and Central Coast sites, as part of the NSW Government's Social and Affordable Housing Fund (SAHF).

These projects were delivered in collaboration with partners, the NSW Department of Communities and Justice, local councils, Tetris Capital, Centuria Capital, developers and local builders.

Hall & Wilcox provided specialist knowledge of the social housing sector and PPP style projects, including knowledge about common KPI requirements and service levels in this sector and the regulatory environment.

The SAHF provides much needed additional social and affordable housing along with coordinated access to tailored support services, as well as access to employment and training opportunities. Home In Place's SAHF developments provide homes to people on the social housing waiting list as well as local key workers, creating integrated, inclusive and viable communities.

Among the projects delivered by Home in Place under the SAHF, was a 16-unit $7 million complex in the Newcastle suburb of Wickham. The award-winning, seven storey apartment has an impressive 7.5-star energy rating that provides comfortable living for tenants and substantial savings on power bills. This is an example of Home in Place's commitment to excellence in delivering affordable housing that is sustainable and accessible.

Hayball - Nightingale Village

SECTION D – THE RIGHT POLICY SETTINGS FOR A FUTURE SOLUTION

Bolstering housing supply will necessitate the removal of supply-side constraints on the housing market. Large-scale reform targeting the removal of obstructive forces that dampen the supply of housing, especially affordable housing, is sorely needed. Fundamentally, a large and sustained increase to housing supply will eventually help alleviate price escalation and improve both accessibility to housing and its affordability. It is essential that policy-makers are looking at the full range of policy reform to ensure Australia's housing challenges are holistically addressed.

The Department of the Treasury echoed this sentiment in its statement to the Economics Legislative Committee in October 2023: "...the recent announcements as part of the Government's housing reform agenda are a welcome development, in particular those that will encourage supply-side development and reforms such as planning and zoning changes."

The former Reserve Bank Governor Dr Philip Lowe has said Australia's failure to build enough homes is largely to blame for escalating housing and rental costs and has argued that regulation "is affecting the flexibility of the supply side of the housing market". Strong evidence, including analysis by former Reserve Bank of Australia Head of Payments Policy, Dr Tony Richards, suggests that 'red tape' and restrictive planning regimes have delivered a significant shortfall in housing. Richards indicated the figure is 1.3 million over the last two decades.

The 2023 Australian Affordable Housing Report responds to the national affordability crisis by proposing four essential reform agendas:

1. **Transformative reforms to planning and development approval systems**
2. **The establishment of social and affordable housing as a viable asset class**
3. **Taxation reform for social and affordable housing**
4. **Empowering the leadership of community housing providers in addressing the social and affordable housing crisis**

REFORM AGENDA 1: Transformative reforms to planning and development approval systems

The planning systems of states and territories directly impact the affordability of homes for Australian families. Integrated planning systems are advantageous to downward pressure on housing costs, which dictate house prices. When planning systems are efficient, streamlined and user-friendly, it reduces the time taken to build new dwellings and minimises the cost of doing so. By contrast, poor planning systems obstruct development, which raises the cost of new builds and worsens housing supply. Australian cities are suffering from overwhelming under-supply of new homes and rising housing costs, denying many the opportunity to live affordably close to services and job opportunities.

The NSW Productivity Commission's pointedly titled paper, *Building more homes where people want to live*, finds that existing regulatory and urban planning schemes are restrictive in the development of new housing, especially apartments and townhouses, in existing suburbs. Fewer than 20% of new dwellings are being built within 10 kilometres of the CBD, despite those being the areas where most Sydneysiders want to live. Data from the State Government shows that NSW councils are taking an average of 111 days to determine Development Approvals (DA's) since July 2023, compared to 107 days in 2022-23 and 83 days in 2021-22.

The historical shortage of housing in Australia is largely a failure of housing policy, rather than housing markets. Australia's land-use planning rules are highly prescriptive and complex. Current rules and community opposition make it very difficult to create extra residences in the inner city and middle-ring suburbs of our capital cities. And so new housing construction in Australian cities is relatively unresponsive to demand, 30 and the density of Australian cities has barely changed in the past few decades.

Against a backdrop of drastic inefficiencies, unnecessary system complexities and cost blow-outs, the National Cabinet met in August 2023 to work towards enhancing the security and affordability of housing. Later, the Prime Minister unveiled a comprehensive plan to bolster housing supply across the country. A key feature of these efforts is the National Planning Reform Blueprint which includes:

- updating state, regional and local strategic plans to reflect their share of housing supply targets
- undertaking planning, zoning, land release and other reforms, such as increasing density, to meet their share of housing supply targets
- streamlining approval pathways, including strengthened 'call in powers', and prioritising planning amendments to support diverse housing across a range of areas (e.g. by addressing barriers to subdivision for appropriate medium density housing)
- promoting medium and high-density housing in well located areas close to existing public transport connections, amenities and employment

- reforms to support the rapid delivery of social and affordable housing
- reforms to address barriers to the timely issuing of development approvals
- consideration of the phased introduction of inclusionary zoning and planning to support permanent affordable, social and specialist housing in ways that do not add to construction costs
- rectifying gaps in housing design guidance and building certification to ensure the quality of new builds, particularly apartments
- improving community consultation processes, and
- adequately resourcing built environmental professionals, including planners, in local government.

This Blueprint is noble in its ambition and ought to be applauded and supported. Suffice it to say, the success of the broad objectives of the Blueprint will be contingent on the resoluteness to uproot long-standing inefficiencies, the timing of the agenda and the scope of reform embarked on.

The National Housing Supply and Affordability Council presents as an ideal vehicle to enable the improvement of housing supply through the setting and monitoring of national targets, while also providing advice on land use and planning. The Council could encourage the reassessment of how Treasury values government land and the removal of the restrictions seen in some states on the commerciality of transactions, to make it more viable for affordable housing providers to secure.

Collaboration is key to realising outcomes

To deliver and realise tangible outcomes in our cities and places, collaborative, strategic planning that modernises the traditional approach built on jurisdictional and stakeholder lines of accountability, must become the norm. This requires coordination between all levels of government and the private sector, particularly to supply well-located land, and the strategic sequencing and co-location of services and infrastructure. Thus, stakeholders across sectors collaborating to create communities that are connected, inclusive, liveable, productive and sustainable.

For land use planning to be effective, stakeholders with competing interests need to operate in an environment that advocates for strategic collaboration and co-ordination with an intention of attaining a sustainable and orderly spatial development especially in urban areas.

PowerHousing has noted recent efforts to tie Commonwealth payments to specific planning reform objectives and outcomes, are positive initiatives. Written agreement between the Commonwealth and the states and territories, whereby the Federal Government agrees to provide incentive payments on the achievement of planning reform outcomes is recommended.

CASE STUDY: BlueCHP collaborating with For Purpose Investment Partners (FPIP) – Guide You Home

BlueCHP spent over 2 years looking for the right partner to finance the development of its Specialist Disability Accommodation (SDA) business. BlueCHP sought a financier that would align its business with the objectives of BlueCHP to provide long term housing for SDA participants.

Most financiers focus was all about achieving double digit yields that, prior to the SDA price review 2023, were not achievable due to land and construction costs. The financiers also had to align with BlueCHP's Guide You Home initiative to put the participant first.

FPIP had only recently been set up to provide a unique Funds Manager role in investing funds that earn return with a focus on social impact. This organisation was led by founder Michael Traill, formally CEO of Social Ventures Australia and experienced director, who led the rescue of the ABC Learning Centres that became Goodstart, the largest childcare business in Australia.

The partnership was cemented with an initial facility of $20m matched by NHFIC with a further $20m. The partnership is more than just funding.

FPIP have enhanced our 7 Step Guide You Home process with integrating the financing decision making stage gates into the process. The financial feasibility model was a combined effort that enables our SDA Housing Specialist to determine the viability of projects within minutes to any post code location in Australia.

The tool enables BlueCHP to share on a transparent basis with clients so they can understand the costs of providing accommodation and in different locations.

FPIP works closely with the SDA team to understand and assist in the way we can measure social impact with our participants. This feedback is then passed back directly to the investors.

CASE STUDY: Housing First's Marlborough Street, Balaclava Project

The Marlborough Street project took an unremarkable, open-air ground-level public carpark beside Balaclava Station and transformed it into 46 architect-designed, high-quality 8.2-Green Star environmentally-friendly, energy-efficient and ultra-affordable community housing apartments for 129 people from the Victorian Housing Register, including those living with a disability.

The project received $19m through the Victorian Government's Building Works package – designed to boost the pandemic-affected economy. And in March 2021, HousingFirst secured infrastructure grants and loans from NHFIC for Marlborough Street totalling $2m (which, in addition to HousingFirst's own $4m financial commitment and CoPP donated land, represented a total budget of $29m).

The key sustainable design initiatives achieved in the project are:

- 17.6 kW rooftop solar photovoltaic system;
- Rainwater harvesting system for toilet flushing and irrigation;
- High-performance glazing and energy-efficient building services, appliances and fixtures;
- Environmentally sensitive internal finishes.

In short, Housing First moved the existing parking into the basement and built life-saving social housing on top – an innovative air space development.

Balaclava is only 6km from the Melbourne CBD and a 15-minute ride on the train. According to realestate.com.au, the median private rent in Balaclava is $795 a week, impossible for the marginalised in our society: the elderly surviving on the pension, the infirm, and families and women escaping partner violence.

129 people will call 48 Marlborough St, Balaclava home. At most, residents will pay just 30% of their income – often around $200-to-$250 a week for one-adult households – in rent. There is no bond and residents have indefinite security of tenure.

Simplification and efficiency in planning systems

Nation-wide planning systems are plagued by excessive complexity which translates to unnecessary costs in designing projects. Moreover, CHPs are requested to comply with rules which deliver little value, while working through rezoning processes in outdated planning controls. Approval processes which are slow, complex, politicised or span multiple levels of government also add considerably to the cost of producing housing. Therefore, planning reform is required to make planning frameworks and approval processes simpler.

The precise nature of the problems of planning systems at state and local government level vary across the country, however broadly some immediate reform initiatives that would assist in expediting affordable housing in the short-medium term include:

Recommendations:

- **The integration of local government land use planning and community planning.**
- **Introduction of assessment panels where they do not yet exist to depoliticise the application outcome process.**
- **Initiate community engagement in earlier stages of planning approvals processes to minimise costly, late-stage public resistance to development.**
- **Review third party appeal rights where they exist.**
- **Introduction of an independent State Planning Commission where one does not yet exist to oversee the implementation of planning reform.**
- **Mandating timed reporting by local governments on performance against land use planning objectives and new housing targets.**
- **Assigning the majority of applications to a self-assessable or code-assessable process.**

Simplified and efficient planning systems can enable increased supply of affordable rental housing via planning incentives and mandatory provisions. Planning measures must be aimed at the delivery of social and affordable housing at scale – and support the Federal Government's holistic national housing strategy. Subsequently, there will need to be an increasing role for all levels of government in making land available for social and affordable housing.

Zoning more land for affordable housing

With a growing population, Australia needs land use planning which supports this growth. This means zoning more land for new housing that delivers inner city density, middle ring urban renewal and new greenfield land developments. Policy and regulatory settings must be adjusted to ensure the quantity and speed of land release is congruent with housing requirements connected with population increases. Reforms ought to ensure defined citywide and local planning targets are in place, reported on and met. Furthermore, the reforms must support planning strategies to place homes nearer to the opportunities and services within the community. The targeted improvement in community consultation processes, as spelled out by the Government's objectives in the Blueprint, should also be shaped and guided by these urgent requirements.

A large cohort of stakeholders continue to justifiably advocate for further action on inclusionary zoning. Inclusionary zoning is defined as, "a land use planning intervention by government that either mandates or creates incentives so that a proportion of a residential development includes a number of affordable housing dwellings" (Australian Housing and Urban Research Institute, 2017). It is used across the United Kingdom and in some parts of the United States to augment affordable housing supply and, to a much more limited extent, in a small number of Australian jurisdictions (SA, ACT and the City of Sydney).

The majority of community housing providers support the development of inclusionary zoning in planning legislation. We see planning mechanisms recognising affordable and social housing as essential infrastructure as necessary to ensure productivity in the workforce and economic, cultural and social participation by lower income households. Some immediate actions for further effective inclusionary zoning include the setting of inclusionary planning frameworks and targets, and broad-based contribution schemes.

Delivering greater density

The NSW Productivity Commission has broadly stated that the solution to urban planning problems is to deliver greater density. According to the Commission, between June 2017 and March 2022, around 1,500 new apartment buildings were completed in Greater Sydney. On average, these buildings were seven stories tall and contained 70 units. If governments had permitted slightly higher densities, of up to an average 10 stories and 100 units per building, the Commission estimates that an additional 45,000 dwellings could be supplied without extra land. This represents around a typical year's worth of new housing construction in New South Wales, the Commission says.

In June 2023, the NSW State Government announced that housing developments with a capital investment value over $75 million, which allocate a minimum of 15% of the total gross floor area to affordable housing, can access the State Significant Development (SSD) planning approval pathway. Notably, these developments will also gain access to a 30% floor space ratio boost, and a height bonus of 30% above local environment plans.

These kinds of initiatives are advantageous for ideal land use planning outcomes and the availability of affordable housing. It allows for increased density, enabling developers to construct taller buildings that can accommodate more units. By optimising land usage, developers can provide a greater number of affordable housing units while maintaining sustainable development practices. By offering increased floor space ratios and height bonuses, the Government empowers developers to create larger, more sustainable, and socially inclusive developments. These initiatives not only benefit low-income tenants by providing access to affordable housing but also offer tangible advantages to developers. There is also evidence that the policy may be supporting new business models and niches amongst some small-scale developers, as well as contributing to the layers of subsidy required by not-for-profit housing providers to deliver long-term affordable housing.

REFORM AGENDA 2: The establishment of social and affordable housing as a viable asset class

An affordable housing[2] asset class which encourages long-term investment, is crucial to delivering a large scale social and affordable housing pipeline. Greater investment from not just the Federal Government, but the domestic and international private sector is required to maximise impact and to meet the current gap in housing experienced by so many Australians. Leveraging domestic and international capital into Australian social and affordable housing offers an opportunity to create a perpetual pipeline of investment, as exists in other countries. The conduit of private investment will bolster the supply of social and affordable housing, ensure long-term sustainable housing solutions, which in turn will positively influence the broader social and economic fabric of our nation.

Numerous CHPs have internal development capabilities and have demonstrated effective partnering with institutional investors (providing funding) to develop affordable housing for key workers. Although challenging, if these developments can be placed in good locations where there is need, and provided the mix of upfront development and construction costs that are appropriate with the rental projections, then these can be appealing to institutional investors. We have seen recent examples of this such as SGCH with Lighthouse Infrastructure and Bridge Housing with Conscious Investment Management.

The Housing Australia Future Fund (HAFF) and the National Housing Accord will help accelerate the opportunity to establish social and affordable housing as an appealing asset class. Both the Fund and the Accord will provide a solid foundation for the future growth and stability of social and affordable housing that is needed in Australia at this time.

PowerHousing Australia's recent investment roadshow with 11 of our CHP Members and two finance Affiliates in London in September 2023, as well as Australian Super, The Housing Finance Corporation, IFM Investors, Moodys, Legal & General, Rothesay Group and others, once again reinforced that there is a wave of capital available for investment in CHP/government-subsidised social and affordable housing. The September 2022 New York Roadshow with Morgan Stanley, Pension Real Estate Association and others came to similar conclusions. Long term government-backed subsidies provide confidence to invest in a low-risk asset that still offers a reasonable return.

2 *Affordable housing means rental housing that is appropriate for the needs of a range of very low to moderate income households.*

The development of Specialist Disability Accommodation, which PowerHousing Members manage a significant proportion of nationally, has been a place of growing institutional investment. PowerHousing financial Affiliates see the steady, long-term subsidisation and Government commitment as being well structured for investment, and forms part of a housing asset class that global investors are seeking to engage with.

Ultimately an affordable housing asset class will be a functional market providing returns to investors who support rental housing for people on low to moderate incomes. This spans people receiving a statutory income and those in lower paid work.

Like in the US, which has operated a Low Income Housing Tax Credit system for more than 35 years, the Australian affordable housing asset class will see a normalisation of global investors in social and affordable housing that allows Environmental Social and Governance (ESG) investment objectives to be met. A global move towards ethical investment with social impact is only growing.

Over the past 5 years, PowerHousing and its Members have been exploring how international best practice in ESG investment has been expanding overseas. We have led US engagements with Morgan Stanley in 2018 and 2019 and domestically at our 2019 Conference. Though there is not broad consensus on the dollar value that ESG credentials give a property, studies suggest they are a positive for value. For example, in their Active Capital report (2021), Knight Frank estimates an 8-18% sales price premium for green-rated buildings. “A combination of top-level investor pressure, risk mitigation, regulatory changes, and the search for outperformance by investors is driving forward the demand for sustainable real estate around the world,” the study also says.

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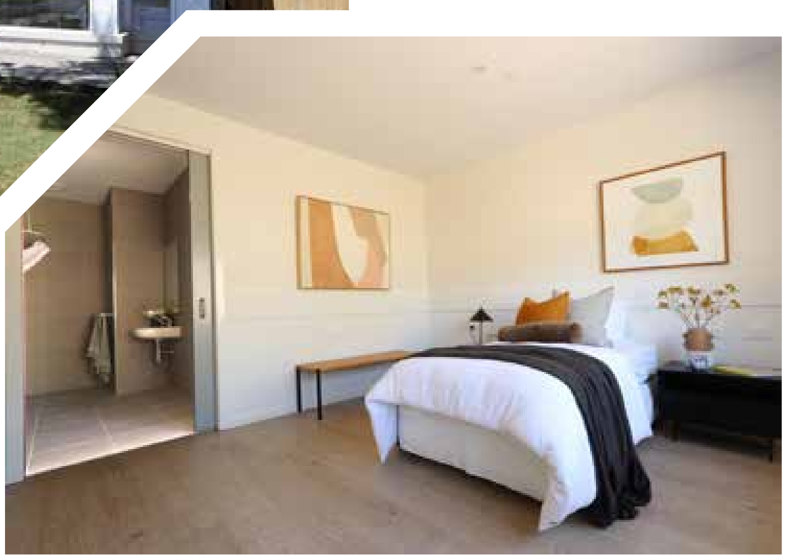


Affordable Housing Bond Aggregator

In 2016/2017 PowerHousing commissioned PwC to examine the issue of aggregated financing for CHPs. The product of that work was a report released in 2017. The report highlighted a strong investor appetite to participate in the social and affordable housing space through CHPs. The report identified the creation of an aggregated funding vehicle as a possible model.

This idea would synchronise with the Affordable Housing Bond Aggregator (AHBA) which is now operated by Housing Australia. Housing Australia funds AHBA loans by issuing its own bonds into the wholesale capital market. The AHBA then provides low cost and longer-term loans to registered CHPs to support the provision of more social and affordable housing. AHBA loans can be used to:

- **acquire or construct new housing stock;**
- **maintain existing housing stock;**
- **assist with working capital requirements and/or general corporate requirements; and**
- **refinance existing debts.**

The AHBA uses a 'pass-through' model to provide greater funding certainty and lower finance costs to assist affordable housing providers to expand their operations and the supply of low-cost housing.

REFORM AGENDA 3: Taxation reform for social and affordable housing

Private sector residential building providers, including CHPs, play a vital role in the delivery of social and affordable housing across all states and territories of Australia. They are faced with significant costs that could be alleviated to increase their ability to deliver social and affordable housing projects that meet growing demand. One opportunity to help alleviate unnecessary costs associated with social and affordable housing delivery is to look at review and reformation in current taxation policies.


Hayball - Ascot Vale

GST reform

As it currently stands in the GST legislation[3], "new residential premises" are subject to GST on sale. However, GST is not applicable if the premises have been leased five years prior to sale. Due to a drafting anomaly, this "5 year rule" does not apply to homes constructed on land owned by an affordable housing provider that is leased to social or affordable housing tenants. This means GST becomes erroneously applicable on the first sale of a home constructed on land owned, despite the home having been leased for 20 years, for example. This issue is not isolated to social and affordable housing but is also seen with certain NDIS funded housing and retirement villages that are operated by charity entities.

Reviewing this anomaly will further enhance the feasibility of social and affordable housing delivery (including the HAFF), support additional housing outcomes and enable growth of the affordable housing asset class.

For CHPs, a further issue is that to qualify for GST-free concessions, social and affordable housing rents must be set below 75% of market value. This is inconsistent with the 80% threshold typically required by states and local councils. As such, for consistency and greater application to CHP managed homes, it is recommended that the GST threshold should increase to 80%, allowing for more sustainable returns and to enhance the investment and delivery of programs such as the HAFF.

There is extensive duplication for CHPs to apply for tax and GST concessions. Not only does a CHP need to register with the Australian Charities and Not-for-profits Commission (ACNC) as a charity and then apply for Australian Taxation Office (ATO) endorsement, but to qualify for duty, land tax and payroll tax concessions, the CHP also needs to make separate applications to the relevant state revenue office.

Replacing stamp duty with a broad-based land tax

Recent discussion in the media has advocated for the end of stamp duty, to be replaced with an ongoing annual land tax, and this move has gained widespread support from business groups, social service advocates and the development industry. A broad based land tax is advantageous as it would spread the income base across all land owners rather than only focussing on the sale of homes.

The NSW State Government has announced that, as part of the upcoming 2022 State Budget, they will give first home buyers the choice of either paying stamp duty on their newly purchased property or paying an ongoing 'annual property tax payment of $400 plus 0.3 per cent of the land value of the property. It will be available on homes valued at less than $1.5 million.' The intention is to reduce upfront costs and thereby make housing more affordable for first home buyers.

This policy change follows a wealth of inquiries and reports including The Productivity Commission's 5-year productivity review, 'Shifting the dial', that recommended state and

3 *A New Tax System (Goods and Services Tax) Act 1999*

territory Governments should ‘move from stamp duties on residential and commercial properties to a broad-based land tax on the unimproved value of land’.

Increasingly, low to moderate income earners are finding it untenable to purchase a home, and stamp duty is a monumental upfront cost at the time of purchasing a home. A land tax ensures that a larger pool of people contribute a small amount of tax, rather than hitting home buyers with huge financial burden.

Housing Australia has found that mobility in the housing market will increase if stamp duty is reduced or removed. Australian jurisdictions are 40% more sensitive to duty than many European OECD countries and would gain substantial benefits from the increase in mobility removal of duty would provide, including more efficient use of housing stock and improved labour productivity. Removing transfer duty in favour of a broad-based land tax will likely lift dwelling prices in the short-term as the removal of transfer duty is capitalised into prices. However, if lenders fully capitalise the cost of the replacement land tax into loan serviceability criteria, the price impact from removing duty may be negligible.

Broad based land taxes are simple to administer and encourage urban consolidation as the tax paid is based upon the size of the land. This tax encourages a more environmentally sustainable urban form. The proposal is an excellent tax reform and will provide huge benefits for home buyers and a steady income stream for the government to fund infrastructure.

REFORM AGENDA 4: Empowering the leadership of community housing providers in addressing the social and affordable housing crisis

Access to safe and stable housing is a basic human right. It enhances the social, economic and civic participation of all Australians. Community housing providers are dedicated organisations whose mission is to provide social and affordable housing. CHP housing has doubled over the past decade, to make up 1% of Australia’s housing stock. CHPs are today delivering new social and affordable housing supply, demonstrating undeniable expertise over the past two decades. The sector has grown from the funding unlocked by the Housing Australia (formerly NHFIC), with $3.5 billion in loans being facilitated, largely to PowerHousing members, to drive new housing development since 2018.

PowerHousing CHPs are recognised by developers and key industry leaders as having the capacity and maturity to deliver and manage large projects. They are also recognised by federal, state and territory governments as a key factor in the successful and sustainable delivery of affordable housing.

Together PowerHousing and our Members have influenced the development of legislation and elevated the viability of affordable housing as a stable emerging asset class for investment. Members continue to engage in creative processes to develop their capacity to provide housing through innovative projects and joint ventures, giving more Australians better futures.

PowerHousing Member CHPs are critical to the housing sector as they are scale not-for-profits, focused on providing social and affordable housing for large numbers of moderate to very-low income earners. CHPs compliment government policies to increase homeownership and reduce rental stress for all Australians.

Another important feature of the CHP model is that we do not distribute returns to shareholders, with revenues from these financially sustainable businesses ploughed into additional housing outcomes. CHPs are regulated entities with boards of the highest acumen and governance with ASIC-like structures and frameworks making them rock solid organisations.

Our CHP Members are executing plans to achieve financial outcomes while at the same time adapting to and working with a rapidly changing political and economic environment.

The Australian Institute of Health and Welfare National Social Housing Survey (2021) reports that community housing tenants have higher levels of satisfaction than those living in other forms of social housing, have better satisfaction with maintenance services and are better able to meet tenant amenities such as thermal comfort and ease of access.

The ability of CHPs to deliver best practice outcomes for tenants and provide affordable housing services through a sustainable business model of reinvestment for social purpose has helped the community housing sector to grow rapidly in the last decade. The number of community housing dwellings has almost doubled between 2011 and 2021 from 57,500 to 108,500 dwellings, while public housing has decreased by 31,000 in the same period. As CHPs continue to work in partnership with different levels of government and the wider private sector, the community housing sector is destined to see greater growth, providing more housing to more Australians.

PowerHousing's tier one and scale growth CHP members are best placed to deliver new social and affordable housing stock as a result of our not-for-profit status, registration under the Australian Charities and Not-for-Profits Commission (ACNC) and National Regulatory Scheme for Community Housing (NRSCH) or jurisdictional equivalent, and GST exemption. The oversight of the ACNC and NRSCH schemes ensures that there is a clear line of sight to housing outcomes and value for money. That is, CHPs are effectively using their resources, including government subsidies, to meet their purpose and maximise housing outcomes for the community.

Moving forward, there should be provisions to safeguard the social and affordable housing sector with explicit requirements for non-government providers to be not-for-profit entities, preferably registered charities under the ACNC and for a nationally consistent regulatory regime covering both public and community housing to ensure consistency.

CHPs deliver invaluable support to thousands of everyday Australians, with assistance going far beyond the provision of shelter, as many provide wrap-around supports to a diverse cross-section of Australians. This includes people with disabilities, older Australians, indigenous Australians, new migrants and refugees, people who've experienced family and domestic violence and those who have experienced or are at risk of homelessness. Many CHPs deliver wrap-around social and community services and supports, which can assist with the transition to long-term accommodation while supporting tenants holistically and through a person-centred approach.

CONCLUSION

Housing affordability measures are painting a concerning picture around the country, and it's been the trend for some time. Affordable housing is moving out of the reach of low to moderate income earners. The national rental market is absorbing most of the record levels of overseas migrants and unsurprisingly is where some of the most alarming trends in stock availability and price rises are most evident. Affordable housing providers are constrained by inefficiencies in planning systems around the country, the untapped potential of private sector institutional investment, obstructive taxation, amongst other things. There is a great deal of work to be done to not only remove these inhibiting factors but incentivise innovative land use planning, regulatory reform and capital investment from domestic and international markets.

Social and affordable housing is now high-priority on the Federal Government's policy agenda, with the introduction of the Housing Australia Future Fund, the National Housing Accord and other related legislation. The ambitious agenda to sizably invest in affordable housing will be a much-welcomed stimulant, however it will only be successful in addressing the long-term structural undersupply if it operates in conjunction with weighty and largely uninhibited private sector supply from the likes of community housing providers.

At the heart is more social and affordable housing, delivered by the adoption of a unified approach comprising all levels of government, CHPs, investors and the private sector with the newly minted Housing Australia. There is significant work required in the current and future landscape to ensure that social and affordable housing is possible, and this will be possible through alleviating barriers to planning, incentivisation directed toward private institutional investors, taxation reform for social and affordable housing, and empowering the leadership of community housing providers in solving the housing affordability crisis.

PowerHousing Australia in collaboration with the Community Housing Industry Association (CHIA) have commenced a joint project to envisage what the community housing sector, and housing more broadly, could look like in the year 2040. The project is a collaborative process to define the desired National Future of Australian Housing and the strategic vision for the community housing sector as an essential long-term partner and contributor to the Australian housing system. Through consultations and forums held, an action plan will be developed to provide an ideal roadmap to help drive more social and affordable homes that are so desperately needed. Further information on the approach, actions and timeline will be announced in 2024.

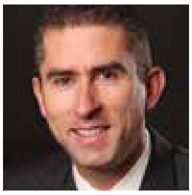
ABOUT THE AUTHORS

Tim Lawless

Tim is Executive Research Director of CoreLogic's Asia–Pacific research division, managing a team of economic and data specialists across Australia and New Zealand. He brings more than 20 years' experience to the role, providing deep insights and analysis on national housing trends. Recognised as a leading authority on residential property, Tim regularly provides expert commentary on real estate market conditions and the interplay between housing markets, demographic trends and economic factors.

About CoreLogic - CoreLogic Asia Pacific (CoreLogic) is a leading, independent provider of property data and analytics. Our extensive breadth and depth of knowledge gathered over the last 40 years gives us one of the most comprehensive property databases and visibility on more than 10 million properties in Australia. We provide property research and data services across a wide range of industries, including Banking & Finance, Real Estate, Government, Insurance and Construction and operate two consumer-facing portals - onthehouse.com.au and propertyvalue.com.au - providing important insights for people looking to buy or sell their home or investment property. Our team is comprised of industry-leading minds, creating a diverse ecosystem of talented and passionate data scientists, technologists, researchers, solution designers, client champions and marketers who strive daily to set new industry benchmarks and to not only solve but anticipate our clients' problems. Our diverse, innovative solutions help our clients identify and manage growth opportunities, improve performance and mitigate risk. We're a proudly independent business with an unrivalled reputation for delivering the very latest property insights and analytics. We're also a wholly owned subsidiary of CoreLogic, Inc – one of the largest data and analytics companies in the world with offices in Australia, New Zealand, the United States and United Kingdom. Together, we help people build better lives by enabling them to find, buy and protect the homes they love.

Nicholas Proud



Nicholas Proud is the CEO of PowerHousing Australia. He joined the organisation in 2016 and has supported the Federal Budget establishment of a bond aggregator and the National Housing Finance and Investment Corporation. Nicholas previously has worked in senior Executive Director capacity with the Property Council of Australia, Housing Industry Association and the Construction & Property Services

Industry Skills Council, to undertake housing outlooks and environmental scans over the last decade.

About PowerHousing Australia – PowerHousing Australia is a unique forum for peer-to-peer exchange and collaboration amongst housing professionals who are dedicated to improving lives through the provision of social and affordable housing.

The organisation was established in 2005 by a group of CEOs who recognised the scale of emerging housing affordability issues and the enhanced capacity of organisations to make a difference if they collaborated to share knowledge and resources. Today the organisation has 37 Tier-1 community housing providers members that are developing and managing an increasing number of homes. Currently, these CHP's have over 90,000 properties under management worth in excess of $30 billion, and are housing over 150,000 residents.

Matthew King

Matthew King is the Director of Economics and Research at PowerHousing Australia. Matt joined the organization in 2023 and comes with extensive and invaluable economics, research and policy experience from reputable peak bodies in the broader construction sector. His economic and policy-related work at the Housing Industry Association and the Association of Consulting Engineers (now Consult Australia) has been instrumental in informing industry stakeholders, government and the broader community and the achievement of advantageous building outcomes. His analysis and reporting has featured in a plethora of industry-recognised state and national housing outlook reports, residential land reports, as well as national media, industry research notes and government submissions.

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Harley Dale is currently Principal at HDD Consulting providing independent economics which follows on from 14 years at HIA Economics (with the last ten years as Chief Economist) and roles outside this time in skills, immigration and workforce development. Across Harley's time as Chief Economist, HIA Economics firmly positioned itself as a leading forecaster of housing activity in Australia. He has also worked previously as Senior Economist CSFB, and Economist at Westpac.

Samantha Moore

Samantha Moore is the Director of Strategy and Policy at PowerHousing Australia. She joined the organisation in August 2021. Prior to commencement at PowerHousing, Samantha held strategic management and national policy positions in the community sector, while also having held experience in real estate. She has helped drive policy changes in migration and settlement services while overseeing a national network of 112 settlement organisations, encompassing 220 members. Samantha has extensive experience developing submissions, issues papers, reports and strategic documents.

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