Provide your feedback on the Tasmanian Housing Strategy Exposure Draft

JUNE 2023

We encourage you to read the Tasmanian Housing Strategy Exposure Draft (draft Strategy) prior to responding to the following questions. You may choose to respond to some or all questions. Completed documents can be uploaded using the submissions drop-box on the website: https://tashousingstrategy.homestasmania.com.au/consultation.

Question 1: 'Our way forward' identifies several levers for achieving a more equitable housing system for all Tasmanians. Are there additional or alternative more important levers that you believe should be addressed?

Housing All Australians (HAA) supports the draft Tasmanian Housing Strategy and the Tasmanian Government's commitment to address the state's growing housing crisis. However, we believe the target of 10,000 homes by 2032 should be supplemented with the bold public ambition to end homelessness in Tasmania. With its current waiting list at approximately 4,500, Tasmania is the only Australian state with a housing target more than its waiting list.

By working together with the Federal Government and establishing "ending homelessness in Tasmania" as a national project, Tasmania could become a pilot for Australia. Tasmania could substantiate the strong underlying economic benefits, and underlying business case, of investing in housing as a preventive measure which, if implemented nationally, would save future federal, state and territory governments significant budgetary costs and set an example for others to follow. Solving our housing crisis in Tasmania could help every state and territory avoid long-term expenses, ensure societal stability, and foster sustainable growth.

Our 2022 economic study, *Give Me Shelter*, found that over a span of 30 years, Tasmania could generate $700 million in cost savings through greater investment in more affordable housing options, including more public and social housing. Reducing homelessness is an economically rational endeavour because it reduces unintended costs including health care and social welfare costs.

Housing All Australians is pleased to see all aspects of the housing market considered, from temporary to long-term housing, with a comprehensive range of priority outcomes identified to help address Tasmania's housing needs. We are also pleased to see the strategy deliberately recognises the importance of the housing continuum and that part of the long-term solution is additional private sector supply, as well as social and affordable housing. These two activities done concurrently and in sufficient numbers will put downward pressure on house prices.

Question 2: Theme one identifies the need for 'more homes, built faster'. Are there additional or alternative objectives you recommend for consideration?

Australia must build more homes, and we know this will take time. This is why Housing All Australians has created short, medium and long-term housing solutions, including our innovative Pop-Up Shelters: re-purposed vacant buildings used to provide transitional accommodation.

The housing crisis creates a need for new and innovative affordable housing models (both rental and shared equity) to facilitate the funding, development, management and ownership of affordable housing by the private sector.

To produce more housing, Australia needs a shift in thinking to create new models to address the unaffordability that is present throughout the housing continuum.

Pop Up Shelters or 'meanwhile use' accommodation is one innovation that could be considered in addition to upgrading Tasmania's social housing portfolio.

<u>POP UP HOUSING</u>

Thousands of buildings across Australian cities stand vacant. Often these buildings are fully serviced yet lay idle awaiting redevelopment. Leaving them empty while thousands of Australians experience homelessness is a wasted resource.

One of Housing All Australians' short-term housing solutions is to use these buildings as "Pop Up Shelters". The first building we refurbished that had been sitting vacant for two years was a 52 room aged care facility in Melbourne: Lakehouse. With the goodwill that exists in the private sector, we refurbished 32 rooms with Metricon and their subcontractors. Over the next four years, the YWCA - we always give the building to a not-for-profit service provider that provides the support services - has helped 125 women stabilise their lives, at no capital cost to the government. Hansen Yuncken (1st tier builder) is currently undertaking the remaining 20 rooms pro bono (see attached case study).

We are activating goodwill that exists in the private sector, to do this in every state and territory. We have another four projects in Melbourne underway, and two in Perth, with many more in planning. Whilst "Pop Up Shelters" are not a long-term solution, they do provide an immediate response to providing shelter to the not-for-profits that are in desperate need for immediate homes, while we build the additional homes our country needs.

With the collaboration of an appropriate social services support agency, HAA knows many of these buildings can be re-purposed for short-term shelter and used as crisis or transitional accommodation.

Question 3: Theme two centres on 'affordability in the private market'. Are there additional or alternative objectives you recommend for consideration?

In addition to Pop Up Shelters, we have developed longer-term solutions like our Progressive Residential Affordability Development Solution (PRADS) affordable housing model to increase home ownership and available rental stock. Along with our PRADS model, we've detailed the Progress Payments for High Rise construction – the Singapore Model and Land Lease models below for consideration.

<u>PRADS MODEL</u>

While the genesis of the PRADS (Progressive Residential Affordability Development Solution) model was to create affordable rental housing driven by local government and the private sector, the principles have now been applied to also create a shared equity alternative.

At the Federal Government inquiry into Homelessness (July 2021), HAA presented several of its initiatives, including the PRADS model. In its final report tabled under Recommendation 30, point 4.252, the Committee recognised the opportunity presented by HAA and stated:

> *"The Committee heard about innovative proposals such as the PRADS model, which seeks to attract private-sector investment in the construction of social and affordable housing. While the PRADS model involves local governments negotiating with developers, the Committee considers there is a role for the Australian Government to assist in the facilitation of its viability at a national scale"*

Nightingale Housing's North Coburg development project is a recent example where the PRADS model was utilised to increase density without the need for any government subsidy (see attached case study).

<u>PRADS model (rental)</u>

The PRADS model (rental) targets a proportion of households experiencing rental stress that are not currently housed through state provided housing and registered housing agencies – *i.e. affordable housing <u>not</u> social housing*.

PRADS model (rental) creates privately-owned rental housing, rented at below-market rents to tenants or households that fall within prescribed low-moderate income brackets. The obligation is secured by a legal instrument registered against the title for the property.

The process is summarised as:

1. The developer and local government agree to work collaboratively to maximise the allowable planning outcome on the site. Based on the additional value created, they negotiate, in good faith, the number of affordable dwellings that can be financially supported by the development and the percentage below market rent for which those dwellings can be rented in exchange for that planning outcome.
2. The obligation to rent the dwelling at the percentage below the market rent for its economic life is secured by way of a legal encumbrance registered against the title.
3. The developer is then able to sell the dwelling to investors (at a lower price due to the lifetime encumbrance) in the private market with an obligation for the investor to comply with a robust governance process.
4. Through an approved property manager, the investor then rents the dwelling to eligible tenants.

The PRADS model (rental) is scalable with the potential to create a significant supply of long-term affordable private rental housing without the need for any ongoing government subsidy.

This model can work and is applicable for apartment projects and land subdivisions. It works on the commercial principle of value sharing some of the uplift created through the planning process. While still in its infancy, the model has already gained support from sectors of the property industry, the banking sector, superfunds and public tenant groups.

<u>PRADS model (shared equity)</u>

The PRADS model (shared equity) can also be used to help qualified participants into home ownership. It is based on the same “value sharing” principles as the PRADS model (rental).

By working with Local Government, the developer creates additional value which becomes the shared equity component for the affordable housing. Rather than being rented at a below market rent, the dwelling becomes a shared equity opportunity where HAA (as a DGR1 and PBI) holds the patient equity for a set period time, say 10 years, after which time the owner is required to refinance and purchase the remainder of the home.

At this point, HAA receives its portion of the property value (including the capital gain), which <u>must</u> be reinvested into affordable housing within the same Local Government Area (LGA).

In simple terms, HAA is the shared equity participant with the homeowner for the 10-year period.

The potential role of NHFIC, HAA and the PRADS models (both shared equity and rental)

An independent review of NHFIC was completed by Chris Leptos AM and made publicly available in October 2021. The review tabled a set of recommendations to the Federal Government including Recommendation 5 which stated that:

> *"The Review recommends that NHFIC's Investment Mandate be amended to extend NHFIC the ability to lend to other not-for-profit providers of social and affordable housing that are not registered community housing providers, where it is satisfied that the risks of doing so are manageable."*

If Recommendation 5 is eventually accepted by the Federal Government, this would see NHFIC's remit extend to NFP organisations like HAA that are focused on providing affordable housing.

Should this recommendation be adopted, this would be a game-changer in terms of activating private sector capital to the provision of social and affordable housing. HAA would fully endorse NHFIC's remit, along with a robust governance framework, should this recommendation be extended to NFP providers like HAA in the delivery of both a shared equity and rental model.

The Affordable Housing Register.

With governments at all levels funnelling affordable housing through the Community Housing Providers (CHPs), another unintended consequence results. Due to negative perceptions and potential impact on sales and rental yields, most developers do not want their project associated with "affordable or social housing" due to the current negative community sentiment. To move towards an "at scale" solution that includes the critical participation of the whole development industry, Housing All Australians developed its own affordable housing model as described above.

This model uses the governance structure established by the National Rental Affordability Scheme (NRAS) which was introduced by the Rudd Government during the GFC to stimulate private sector construction activity. Whilst several aspects around NRAS have been highly criticised, it did demonstrate an interest from the market of investing in affordable housing. NRAS offered the market a mixture of tax incentives and cash payments that enabled investors to commit to offer the property at 80% of market rent to qualifying key workers for a 10-year period.

In formulating the PRADS model as an "at scale" solution encouraging private sector capital into affordable housing, a fundamental requirement was to establish a credible and robust alternative to the Housing Registrar in terms of ensuring appropriate oversight over the affordable housing to ensure it remained affordable. This led to the development of a digital Affordable Housing Register (AHR).

The AHR will provide a centralised platform that records all affordable housing obligations and will enable local government to monitor the compliance of all stakeholders over the life of the commitment. It will ensure that developers, investors, owners, and tenants are undertaking their compliance obligations in accordance with agreed parameters.

In developing the AHR, it is acknowledged that for an “at scale” solution, local government does not have the resources to oversee all these commitments. Therefore, the AHR will be kept “management light” via the use of AI, with local government only being notified when non-compliance is detected. To ensure the AHR is functioning as intended in line with the approved governance process, the AHR will also be subject to an annual audit.

As a continued sign that the private sector sees the enormity of the problem and that it will require the involvement of the entire society, including business, not just government, the ASX-listed PEXA have agreed to build the AHR for HAA to implement nationally.

Development workshops have been underway for several months with the involvement of the Victorian Valuer General, local government and the development industry to ensure the brief has input from all stakeholders. The AHR will be completed by the end of 2023 and HAA would be pleased to discuss this further with Homes Tasmania. Again, using the principles discussed above, Tasmania would be well placed to pilot the PRADS model and the AHR and create additional affordable housing without the need for any government funds (see attached paper).

PROGRESS PAYMENTS FOR HIGH RISE CONSTRUCTION - THE SINGAPORE MODEL

The objective of this initiative is to explore a new way to fund apartment developments in Australia that will ultimately lower the finance cost to consumers. This is particularly relevant at present and will become even more so as interest rates move higher.

This initiative works by utilising the funding principles behind the traditional House and Land Package and applying them to vertical apartment buildings. This will ultimately involve banks becoming comfortable in securing their interest via a charge over the pre-sale contract and a caveat on the title of the development site. Australian banks have already become accustomed to lending on a similar basis in Singapore, and it’s time to bring this approach to Australia.

Outline of a microeconomic reform

In Singapore, a statutory provision exists for progress payments to be made to a builder by banks funding an individual purchaser during construction of a high-rise building. This lowers the cost of finance as the purchaser borrows as a mortgagor of residential property (at an interest rate much lower than the rate for development finance) and on a full recourse basis. Access to this funding in the early phases of a project reduces or can remove entirely, the need for the developer to obtain project finance.

This differs from what currently happens in Australia where the developer secures a development loan from a bank (at a higher cost due to the risks involved including possible settlement defaults), engages and pays the builder, and only receives payment when the project is complete and titles to the apartments are issued. To the extent that the equity needed by the developer for a project can be reduced, the requirement to generate a return on that equity is also reduced.

By receiving progress payments during construction, development risk is minimised, finance risk is reduced, and interest costs are lowered. Ultimately, this should lead to cost savings for an end purchaser. It also protects the purchaser from a negative change in market conditions (and the need to contribute further equity) as their individual loan is locked in when construction commences. This avoids the current dilemma facing purchasers where, in a declining market, the banks are requesting additional funds (more equity) to be contributed by the purchaser to make up the shortfall between the current market value of their purchase and the face price of the original contract of sale which was executed (with bank approval) years earlier.

The current market

Under the Singapore model, the additional risks faced by each individual bank providing a mortgage to individual purchasers is mitigated by:

- the developer needing to be registered and carry developer insurance;
- a requirement for the developer to maintain a specified surplus of assets over liabilities;
- requiring an obligation to be secured under section 7.4 of the Environmental Planning and Assessment Act 1979 (NSW), which requires that the land be used only for the project;
- setting up a regulatory authority to protect the interest of the purchasers in the event of failure of the developer;
- requiring the sales prices of the apartments to be backed by a professional valuation expressed in favour of the purchaser and the mortgagee;
- increasing the deposit paid by the purchaser and allow the mortgagee to require that the deposit be used first before the mortgagee advances any funds;
- requiring the project account to be maintained with a minimum balance and withdrawals closely supervised, or managed through a Trust similar to the QBCC's "Project Trust Account Framework" which is already in operation;
- requiring the presale contracts to contain a condition requiring the developer to enforce the building contract when it comes to defect rectification for a period of 12 months; and
- requiring the project account to remain open until all defects are rectified.

The above indicates a highly regulated environment with a focus on consumer protection. It does involve a level of governance to oversee the process, but it also initiates a requirement for the registration of suitably qualified developers, helping to ensure unqualified developers can't access what may be considered a highly lucrative funding model. This should result in a professional and consumer-focused approach by the qualifying developers.

<u>A LAND LEASE MODEL</u>

Build-to-Rent is an obvious solution to our housing crisis. However with high land costs the current Built-to-Rent market is skewed towards the very high rental range. However, if the government moved towards a land lease model and provided government land on a 40-year lease with a peppercorn rent, the financial metrics significantly change, and the introduction of affordable housing becomes possible without using government funds. The investor only needs to get a return from the capital invested and if this does not include funding the land, then these costs can go towards subsidising the rents for key workers. After 40 years, if the land is needed for other strategic purposes, the government gets the land and improvements back in public ownership.

This land lease model can also occur on federal government land (i.e. the Maribyrnong defence land in Victoria) with the added benefit that, being Crown land, it does not need approval through the traditional planning process. This concept could also apply to land owned by church groups that are asset rich, but cash poor.

Question 4: Theme three places 'people at the centre' of the draft Strategy. Are there additional or alternative objectives you recommend for consideration?

Unlocking empty private sector buildings should be considered as another way to support people in need, along with securing idle properties via the existing national real estate network.

HAA believe there are potentially hundreds of empty buildings that sit idle across Tasmania while the owners wait until the appropriate time to redevelop. Although these empty buildings do not provide a long-term solution, they do provide a relatively immediate response to provide shelter for vulnerable people who might otherwise sleep rough, in cars, or couch-surf.

To encourage the private sector to provide these buildings for short term use, we need to understand the drivers. In Victoria, PwC have prepared a paper for the State Government: *Introduction of land tax and rates incentives for vacant commercial properties utilised for social and emergency housing*.

This paper has been warmly received. Discussions are continuing with the objective to move the initiative forward (see attached press clipping).

Whilst the paper is specifically based on Victorian Legislation, the principles can apply nationally. If a private sector owner provides one of their (suitable) empty buildings for short term use as transitional shelter, the State Government will forgo the land tax and local government rates for that building during the term of its lease for community purposes.

While the legislation in Victoria already allows NFP to recoup the land tax and rates if they have a lease in place, the proposal brings forward the exemption to the date a lease is signed rather than the NFP having to claim it back after occupation. Whilst it might seem a small change, this change will provide the private sector with certainty and savings to result in existing buildings being made available to provide badly needed short term accommodation.

<u>SECURING IDLE REAL ESTATE</u>

The existing national real estate agency network is another way of activating the private sector to help relieve our housing system via an existing distribution channel.

Vacant properties around Australia could be used to provide accommodation for people on low incomes. HAA is committed to working with our real estate partners to find suitable ways to unlock this underutilised housing stock with the support of property owners. We have also fielded requests from homeowners willing to lease their properties at below market rents to qualified people as a philanthropic gesture.

HAA is currently exploring ways this can be facilitated nationally. We have engaged our pro bono legal partners, Norton Rose Fulbright and PwC, to explore the Federal Tax Ruling issued to Launch Housing that enables an investor to legally rent their homes, at below market rents, to suitably qualified people and still qualify for the normal tax deductions applicable to an investment property. The objective is to use HAA's charity status to scale a national approach that can utilise existing real estate networks.

Question 5: Theme four highlights 'local prosperity' as a priority. Are there additional or alternative objectives you recommend for consideration?

Along with the current labour shortage, the lack of affordable housing for workers, particularly in our regions, is a growing concern for business.

We believe that engaging business to help solve local housing supply is key to ensuring Tasmania's economic growth aspirations are met.

We know that businesses – especially rural ones – are increasingly feeling the impacts of the housing crisis. Employees are struggling to find affordable accommodation close to work. *Give Me Shelter* outlined that employers in particularly vulnerable industries – like hospitality and retail – anecdotally recognised the impact of housing affordability on recruitment, reliability and retention.

In Sorrento, on Victoria's Mornington Peninsula, one business consortium is tackling the crisis by building their own accommodation for workers at the vacant Sorrento Lodge. The redevelopment is an important initiative addressing the severe undersupply of quality accommodation for local job seekers.

Providing quality affordable housing for up to 77 people and a live-in onsite manager, Sorrento Lodge will offer both short-term and long-term and stays of up to one year. Guests will pay $35-$40 a night, with rooms offering two single beds, and with private ensuites and BIRs.

The consortium, which includes the Trenerry Property Group, Victor Smorgon Group and Kanat Group, are passionate about supporting the local economy and boosting employment across key local industries, including tourism, hospitality, health care, construction and manufacturing.

We support the draft strategy's objective to collaborate with local governments to work with private industry to deliver suitable housing options for key workers.

Question 6: Are there other ways the government could make its actions and progress to meet the proposed objectives more transparent and accessible?

At HAA, we believe it's time we stop looking to government alone to fix this escalating problem. It's everyone's problem now, including business.

We are confident that Tasmania is in an excellent position to undertake the business-led pilot with the bold vision of ending homelessness . Business already uses Tasmania as a testing ground for products, why not test housing policy?

The Federal Government's Housing Affordability Future Fund aims to allocate investment earnings to support affordable and social housing initiatives. While commendable, we urge for a distinct commitment to address homelessness in Tasmania within a realistic timeframe, serving as a pilot for transformative policy changes.

We need to start the journey today, with business, and bring people along on the journey.

Question 7: Do you have any comment on what this draft Strategy does well?

The draft Tasmanian Housing Strategy not only shows the Tasmanian Government's understanding of the severity of the crisis and willingness to act, but proves Tasmania is leading the way in housing solutions.

Our *Give Me Shelter* report clearly demonstrates the underlying business case for greater investment in social and affordable housing. The provision of social and affordable housing infrastructure is necessary to protect vulnerable households from poverty, to build productive economies with good access to essential workers, and to create better neighbourhoods characterised by diversity and inclusion.

In Robert Harley's recent opinion piece for the Financial Review, *Tasmania shows the way for housing*, our Founder and Director Robert Pradolin asked, "Why can't we end homelessness in Tasmania?". We support the strategy's Housing First approach and view the draft as a positive step towards solving our growing housing crisis.

Question 8: Is there anything you think the draft Strategy does not cover but should, or that it mentions but could be highlighted more?

HAA believe Tasmania's draft Housing Strategy would be the ideal pilot for the rest of Australia – a fact we feel should be highlighted in the strategy.

The strategy gives Tasmania the opportunity to prove the economic sense of investing in housing as a preventive measure, saving future federal and state costs and setting an example for others to follow.

The size of the housing problem confronting Australia was stated in Chris Leptos' review of the National Housing Finance and Investment Corporation (NHFIC) Act in 2021. The Review estimated that an investment of around $290 billion will be required over the next two decades to meet the shortfall in social and affordable housing dwellings.

So now that we know the investment required, why don't we use this number as a target and create a long-term strategy? Because the magnitude of the figure intimidates politicians from all sides, making it appear daunting and challenging to attain. So, the can is kicked further down the road for another generation to fix. And so it goes. We are on a lose-lose trajectory that we must reverse for future generations.

If $290 billion is too scary, why don't we break it down to a smaller number? How about we take a significant baby step and undertake a pilot in Tasmania to see what we can learn? If successful, we apply those lessons to the rest of the country. And if not, we have still learned a lot anyway, and Tasmania is a lot further along the road to solving its housing crisis (one of the worst in the country with homelessness in Tasmania increasing 44.8% in five years).

We need to start the journey today, with business, and bring people along on the journey.

Thank you for your feedback.