How to reduce homelessness and boost incomes and jobs:
Social housing as infrastructure

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About ACOSS

The Australian Council of Social Service (ACOSS) is a national advocate for action to reduce poverty and inequality and the peak body for the community services sector in Australia. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

Summary

With the economy already slowing, the recent decline in housing construction is bad news for jobs, household incomes, and for people with low incomes searching for a home they can afford to live in. Construction of new apartments in major cities is expected to fall by half next year.

The federal government is open to bringing forward public infrastructure investment, if needed to spur growth. A neglected area of public investment - *social (public and community) housing* - could help bridge the looming gap in housing investment, job creation and income growth and at the same time reduce homelessness.

The rise in homelessness is unacceptable in a nation as wealthy as Australia. At least 116,000 people are homeless, priority should go to people who are already homeless or at high risk of this - those on the lowest incomes whose rents are unaffordable. Research indicates there is a national shortage of just over 400,000 homes for these two groups.

Social housing investment is the most effective way to reduce homelessness, due to its affordable rents, security of tenure, and other supports that are not available to people in the private rental market. Financially vulnerable people in social housing are less than *half as likely to become homeless* as a similar group renting privately. Over one third of new tenants in social housing were previously homeless.

The deleterious effects of the decline in social housing investment were recently brought home by Senator Lambie's push for more social housing dwellings in Tasmania (where people are living in tents in the Hobart showground in winter). Yet the problem is nationwide.

Direct public investment in social housing is also a cost effective way to boost growth in jobs and incomes. For every dollar invested, it is estimated to boost GDP by $1.30. Importantly, housing construction can be undertaken more quickly than major road or rail projects.

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Well-designed Commonwealth investment in social housing is cost-effective. It can leverage additional resources from State and local governments (for example, public land), from Community Housing Providers (CHPs) whose borrowing capacity would be enhanced by a larger asset base, from the community sector itself, and from partnerships with private developers through 'mixed' developments that include social housing.

We propose that the federal government work with states and territories, local government and CHPs to develop a *social housing investment package*, for announcement in the Mid-Year Economic and Fiscal Outlook (MYEFO) statement towards the end of 2019.

The package should:

- increase the overall supply of social housing over the next three years, yielding a net increase of 20,000 dwellings available for people who are homeless or at risk of homelessness;
- build a majority of the new homes in the first two years, to bolster growth in household incomes and jobs;
- allocate approximately $7 billion of Commonwealth funds for this purpose across states and territories on the basis of need and the cost of new housing in each location;
- seek in-kind contributions (especially land) from state and local governments;
- encourage mixed housing developments that include social housing.

Two problems, one solution

Growth in incomes, spending and jobs are slowing, yet people with low incomes are still suffering from the excesses of the housing boom that recently ended. At least 116,000 people are homeless (lacking secure accommodation) on any given night, and 57% of all private tenants with low incomes are paying more than 30% of their income in rent, putting them at increased risk of homelessness.

The recent decline in housing construction is bad news for jobs, incomes, *and* for people searching for an affordable home. Dwelling commencements have declined by 8-9% in each of the last two quarters to March 2019. There is a large pipeline of already-approved projects in Sydney and Melbourne, but construction of new apartments in Sydney and Brisbane is expected to fall by half early next year.

We need to strengthen investment in new homes, in a way that moderates the boom-bust cycle in housing. We need to build more *affordable* housing, especially social housing for people at risk of homelessness, not trigger another round of speculative investment in existing properties, and the consequent increases in home prices and rents. Research indicates there is a national shortage of just over 400,000 homes that are affordable for people who are homeless or living on the lowest incomes (the lowest 20% by household income).

The RBA Governor has called for more investment in public infrastructure to strengthen growth now and lay foundations for better economic and social outcomes in future years. The federal government has flagged it may bring forward investment in large transport projects, but these generally take years to get under way.

A much neglected area of public infrastructure investment - *social housing* - could help bridge the looming gap in housing investment, job creation and income growth and at the same time reduce homelessness and housing stress. To reduce the investment gap, governments would need to start planning now.

The need for more public investment in social housing has recently been highlighted by increases in visible homelessness in many cities, as well as a call from Senator Lambie for the Commonwealth to write off $157 million in public housing debt owed to the Commonwealth by the Tasmanian Government.[1]

[1] States and territories owe a total of $2 billion in historical social housing-related debt to the Commonwealth.

Social housing investment has far-reaching economic and social benefits

The federal government has announced a number of welcome initiatives since 2017 to strengthen investment in community and affordable housing as well as homeless services, including:

- continuation of the National Affordable Housing Agreement and the National Partnership Agreement on Homelessness with states and territories via the new National Housing and Homelessness Agreement;
- establishment of the National Housing Finance and Investment Corporation (NHFIC) to finance community housing at discounted interest rates;
- last year's domestic violence package; and
- the recent announcement of a new Minister for Housing, and Assistant Minister for Community Housing and Homelessness.

The main barriers to the necessary expansion of social housing are: inadequate capital investment by the Commonwealth and states and territories; the very low incomes of most social housing tenants (especially Newstart Allowance, and also Rent Assistance for community tenants); and the related 'funding gap' that remains between the cost of providing subsidised housing for people with low incomes and the rates of return required by private investors and financial institutions under a private financing model.

Direct public investment is the most cost-effective way to scale up the number of social housing dwellings, since providers must otherwise be subsidised to cover interest on borrowings as well as subsidies to close the funding gap. Rents cannot cover these costs if they are to remain affordable. To the extent that governments invest in community housing, and title is held by CHPs, this also improves their capacity to source debt financing and partner with private developers to scale-up social and affordable housing.

There are *three good reasons* to boost direct public investment in social housing.

1. The *economic benefits* of timely social housing investment are well established:

- It provides a greater boost to growth in GDP per dollar spent by government than tax cuts or other transfers to households because the money is spent and not saved, and relatively little of it is spent on imports. The 'multiplier' (boost to incomes per dollar spent) from the last major boost to social housing investment in 2009-12 (the Social Housing Initiative or SHI) was 1.3 (1.3 dollars in additional income for every dollar spent);
- It can be implemented more quickly than major road or rail projects. The SHI achieved its targets to build 20,000 homes within three years, with 75% built within the first two years;
- It brings longer-term economic benefits through improvements in workforce participation and productivity, as more people with below-average wages can live closer to suitable jobs

(especially in cities), and lower-skilled jobs in those areas can be filled with suitable applicants.

2. The *social benefits* are far reaching:

- Over one third of new tenants in social housing were previously homeless;
- The affordable rents, security of tenure, and other supports available to financially vulnerable people in social housing reduces their risk of homelessness by more than half. Further increases in homelessness will exacerbate what is already a serious bottleneck in crisis accommodation as homeless services are unable to find permanent homes for clients who cannot afford private rental (including young and older people, and family and domestic violence survivors and their children);
- Many people with low incomes have special needs such as disabilities, or face other challenges (such as discrimination) in the private rental market;
- When families with low incomes cannot find affordable housing, this generates financial stress and insecurity that undermines children's health and wellbeing and capacity to engage in education;
- Secure, affordable housing greatly improves people's capacity to find employment, recover from family and domestic violence, and improve their health in the face of chronic illness. This in turn reduces the cost of health and community services;
- Social housing (with rent held at or below 30% of income) improves housing affordability for people with the lowest incomes (the lowest 20% of households by income);
- Without substantial new investment in social housing, our ability to meet their housing needs and stem the rise in homelessness is diminished. The share of all homes that are public or community housing fell from 7.1% in 1991 to 4.2% in 2016. Currently, 190,000 households are on waiting lists for social housing;
- Investment in social housing can be pursued as part of a wider strategy to make housing more affordable for people with low incomes (the lowest 40% of households by income), including improvements to Rent Assistance and encouragement of private investment in affordable rental properties (with rent held at 80% of market rates or less for at least 10 years after construction).

3. There is scope to *leverage public investment* in social housing to attract private investment and third sector resources, and give the emerging community housing sector room to innovate and grow, provided the funding gap is closed:

- State and local governments could be asked to contribute in kind, especially land;

- CHPs with title to additional social housing have more borrowing capacity, and can redevelop sites under their control at increased densities;
- The newly-established NHFIC (which lends to CHPs at discounted interest rates) could play a role in managing the allocation of funding;
- Some of the additional dwellings could be part of mixed developments by CHPs (that include social and affordable rental properties), or developments in which CHPs partner with private developers and inclusionary zoning applies.

A three-year social housing investment package

The federal government would work with states and territories, local government and CHPs to develop a *social housing investment package*, for announcement in the MYEFO statement towards the end of 2019. The following are indicative goals, strategies and governance arrangements for this package.

1. Goals:

- Make a start to reduce homelessness by increasing the overall supply of social housing across the country by 20,000 dwellings within the next three years, all of which (either the new dwellings and/or a greater share of existing ones) would be allocated to people experiencing or at risk of homelessness;
- Speed transitions from homelessness (including rough sleeping and shelters) to more secure housing, including for family and domestic violence survivors, families with children and older people;
- Boost growth in *overall household incomes* over the next two years by a greater amount than the initial public investment (a multiplier of more than one), and increase employment commensurately;
- Build new social housing dwellings that are well located, energy efficient and suitable for older people and people with a disability;
- Leverage this capital investment by strengthening the financial and management capacity of the CHP sector, contributions in kind from state and local governments, and mixed social and affordable housing developments.

2. Strategies and governance:

- Rather than writing off state debts relating to social housing, the Commonwealth would seek bids to finance construction of 20,000 new social housing dwellings over the next three years from state governments and/or registered community or Indigenous housing providers, with priority given to projects that can be completed within two years and meet key indicators that include location, size and quality;[2]

- Seek contributions in kind (especially land) from Commonwealth, state and local governments;
- Seek commitments from state and territory governments that the new dwellings will be additional to existing and planned levels of social housing dwellings over the next three years, and result in a net increase of 20,000 dwellings available for people who are homeless or at risk of homelessness (due to acute rental stress in the private rental sector). An audit of social housing dwellings, and the number of people transitioning from homelessness to social housing, would be conducted at the outset to establish a baseline so that progress can be tracked;
- Allocate the required Commonwealth funds (up to approximately $7 billion over three years, depending on contributions in kind) across states and territories on the basis of need, considering, for example, the share of all households in the lowest 20% by income, in housing stress (at risk of homelessness) or homeless;[3]
- Provide tiered capital funding according to expected variations in costs (mainly land values) in different regions, so that the new dwellings are well located according to need;
- The Commonwealth to enter into agreements with states and territories and/or CHPs specifying clear outcomes and timelines, negotiated through COAG or bilaterally. These capital grants and compliance with the agreements could be managed by NHFIC (which may in that event require additional resources and expertise for this purpose).

3. Supporting policies:

The following supportive policies would help leverage the maximum economic benefits from the strategy:

- At the Commonwealth level, improvements in Rent Assistance and Newstart Allowance and financial incentives for investment in housing with 'affordable' rents (set at 80% of median or less for a period of least 10 years);[4]

[2] Write-offs of state housing-related debt would not necessarily lead to construction of new social housing dwellings. It would disproportionately benefit states with the greatest debt. For example, Victoria has no debt to the Commonwealth for social housing. Further, levels of state debt to the Commonwealth for social housing may bear no relationship to the relative needs for new dwellings in each state or territory. Ideally, any capital injection from the Commonwealth would be needs and outcomes based.
[3] This is broadly equivalent to the $157 million sought by Senator Lambie for social housing in Tasmania, scaled up nationally based on average land and construction costs in different states and the Tasmanian share of all people who are homeless or in the lowest household income quintile and in rental stress, derived from Troy et al (2018).
[4] Note that while increases in transfer payments would improve affordability immediately, financial incentives for private investment would generally take longer than direct public investment in social housing to deliver additional affordable dwellings (based one experience with the SHI and the NRAS scheme).

- At the state, territory and local government levels, grants of suitably-located public land or financial co-contributions for the additional social housing dwellings; inclusionary zoning for mixed developments with social, affordable and mainstream housing; accelerated approvals for construction of the additional social housing dwellings proposed here; and easing of Stamp Duty and Land Tax for affordable housing developments.

For more detail of policies to make housing affordable for people with low and modest incomes, see our joint statement with National Shelter.