

CHIA ACT Region

- Submission to inform ACT Government
FY19/20 budget



focusACT

Community Housing Industry Association

Who we are

- The Community Housing Industry Association is Australia's peak body for community housing providers.
- Community housing is on a steady growth path and aims to become the housing provider of choice for low and moderate-income households within the next decade.
- CHIA's primary objective is to help our members improve housing options for lower income Australians.
- To do this CHIA aims to:
 - Be the voice of the industry through effective policy development and advocacy
 - Provide effective national representation to government, other national peaks and stakeholders
 - Deliver valued services to members across a national market, in partnership with State peak bodies
 - Develop the capacity and professionalism of the community housing industry
 - Foster effective Regional Committees to deal with State/Territory issues in jurisdictions without a State community housing peak body
 - Create a more resilient and independent national organisation by diversifying income sources, and
 - Promote the benefits and value of community housing to the wider public.

How we are structured

- CHIA was established as a member-driven industry peak body in mid-2015 with the aim of developing a strong national voice for the sector, independent of government.
- CHIA has a national Board of 12 Directors, supported by Regional Committees in the ACT, South Australia, Tasmania and Western Australia, and by State community housing peak bodies in New South Wales, Queensland and Victoria.

Background and context

- CHIA ACT Region members provide close to 1000 social and affordable rental properties to individuals and families in need within the ACT – properties are either owned by the members (makes up the majority by number), or under head lease
- Members provide housing options for lower income households that are unable to obtain public housing, and for whom the private rental market is unobtainable or unaffordable
- Members contribute a meaningful proportion (approx. 8%) of the total volume of public, social and affordable rentals within the ACT, which is close to 13,000. At 8% however this is the lowest out of any jurisdiction within Australia
- A recent Anglicare rental affordability study shows that Canberra is the second least affordable city within Australia in which to rent, and over 50% of lower income households in the private rental market are in housing stress (spending >30% of income on housing)
- With market rents rising by 10% and 7% respectively for houses and units over the past year (Domain's State of the Market Rental Report, June 2018) the rental affordability challenge is only growing

Background and context

- The ability of CHIA ACT Region members to continue to grow impact through contributing to closing the significant gap between affordable rental supply and demand within the ACT is impacted heavily by financial sustainability constraints
- The Parliamentary Agreement 9th Legislative Assembly entered into in April 2017: *“Grow and diversify the not for profit community housing sector, through a combination of capital investment, land transfer and other means”*
- Whilst the ACT Government is taking some tangible steps in accordance with the Parliamentary Agreement, more needs to be done to support growth of the community housing sector, which requires addressing the yield gap (gap between revenue and cost to supply accommodation) and thus a closing of the supply and demand gap for affordable rental accommodation in the ACT
- CHIA ACT Region members look forward to the release of the ACT Housing Strategy later this year, and are very happy to contribute to any final planning that the ACT Government may be undertaking with respect to this strategy

Priority actions for ACT Gov't consideration

1. Large growth in ACT Government's annual "community housing" targets (minimum of 100), with access to community housing sites by CHPs at a price that enables CHPs to be financially sustainable
2. Rates exemption for CHP-owned social and affordable rental properties
3. Inclusionary zoning and other planning incentives for CHPs, or developers in partnership with CHPs e.g. height limits, plot ratio, streamlined approvals, parking
4. Land tax exemptions for private landlords as well as potential rates concessions conditional upon the management of the properties being outsourced to CHPs for social or affordable rental provision

Action 1: >100 new Community housing sites per year

- Large growth in ACT Government’s annual “community housing” targets (minimum of 100), with access to community housing sites by CHPs at a price that ensures financial sustainability
- Support material (>10%) year-on-year growth in social and affordable housing provided by CHPs
- **Cost to ACT Government:**
 - If 100 house sites provided at zero cost with average unimproved value of \$280,000, potential foregone revenue of \$28m p.a. (assuming that a market existed for this volume of properties to be purchased at this price)
 - If 100 house sites provided at 75% discount with average unimproved value of \$280,000, potential foregone revenue of \$21m p.a. (assuming that a market existed for this volume of properties to be purchased at this price)
- **Benefit to ACT Government:**
 - Material growth in community impact, through materially greater volume of community housing
 - Reduced capital burden to ACT Government if they were to otherwise develop and manage the properties
 - Reduced reliance on Housing ACT and other ACT government services
 - Use of CHPs to generate this outcome attracts Commonwealth money into the ACT via CRA
 - More financially sustainable and lower risk community housing sector

Net surplus/deficit and cashflow position – assuming 10yr bond aggregator debt at 3.5% P&I

	0% land cost		25% land cost	
Income				
Rent	\$ 21,450	52 weeks @ 75% of market rent of \$550/wk	\$ 21,450	52 weeks @ 75% of market rent of \$550/wk
CRA	\$ -		\$ -	
NRAS incentive	\$ -		\$ -	
Expenses				
Rates	\$ 2,500	As per indicative affordable rental home	\$ 2,500	As per indicative affordable rental home
Property insurance	\$ 450	As per indicative affordable rental home	\$ 450	As per indicative affordable rental home
Utilities	\$ 714	As per indicative affordable rental home	\$ 714	As per indicative affordable rental home
Body corporate	\$ 1,119	As per indicative affordable rental home	\$ 1,119	As per indicative affordable rental home
Repairs and maintenance	\$ 2,000	As per indicative affordable rental home	\$ 2,000	As per indicative affordable rental home
Tenancy and property management staff and overheads	\$ -	Assume nil allocation	\$ -	Assume nil allocation
Corporate staff and overheads	\$ -	Assume nil allocation	\$ -	Assume nil allocation
Depreciation	\$ 6,993	As per indicative affordable rental home	\$ 6,993	As per indicative affordable rental home
Net interest	\$ 8,664	Assuming borrow 100% of construction cost at anticipated NHFIC bond aggregator rate of 3.5% P&I for 10years	\$ 11,112	Assuming borrow 100% of construction cost of \$244,000 and land contribution of \$70,000 at anticipated NHFIC bond aggregator rate of 3.5% P&I for 10years
Net surplus / deficit	\$ (990)		\$ (3,438)	
Net cash flow (approximation)				
Net surplus / deficit	\$ (990)		\$ (3,438)	
Plus depreciation	\$ 6,993		\$ 6,993	
Less loan principal repayments	\$ (20,412)		\$ (26,688)	
Net cashflow	\$ (14,409)		\$ (23,133)	

Net deficit

Negative net cashflow

With P&I financing, CHPs are not able to achieve a positive net surplus and net cash flow, even with land provided for zero cost

Net surplus/deficit and cashflow position – assuming 10yr bond aggregator debt at 3.5% IO

	0% land cost		25% land cost	
Income				
Rent	\$ 21,450	52 weeks @ 75% of market rent of \$550/wk	\$ 21,450	52 weeks @ 75% of market rent of \$550/wk
CRA	\$ -		\$ -	
NRAS incentive	\$ -		\$ -	
Expenses				
Rates	\$ 2,500	As per indicative affordable rental home	\$ 2,500	As per indicative affordable rental home
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Utilities	\$ 714	As per indicative affordable rental home	\$ 714	As per indicative affordable rental home
Body corporate	\$ 1,119	As per indicative affordable rental home	\$ 1,119	As per indicative affordable rental home
Repairs and maintenance	\$ 2,000	As per indicative affordable rental home	\$ 2,000	As per indicative affordable rental home
Tenancy and property management staff and overheads	\$ -	Assume nil allocation	\$ -	Assume nil allocation
Corporate staff and overheads	\$ -	Assume nil allocation	\$ -	Assume nil allocation
Depreciation	\$ 6,993	As per indicative affordable rental home	\$ 6,993	As per indicative affordable rental home
Net interest	\$ 8,664	Assuming borrow 100% of construction cost at anticipated NHFIC bond aggregator rate of 3.5% Interest only for 10years	\$ 11,112	Assuming borrow 100% of construction cost of \$244,000 and land contribution of \$70,000 at anticipated NHFIC bond aggregator rate of 3.5% Interest only for 10years
Net surplus / deficit	\$ (990)		\$ (3,438)	
Net cash flow (approximation)				
Net surplus / deficit	\$ (990)		\$ (3,438)	
Plus depreciation	\$ 6,993		\$ 6,993	
Less loan principal repayments	\$ -	CHP takes on refinance risk come Year 10	\$ -	CHP takes on refinance risk come Year 10
Net cashflow	\$ 6,003		\$ 3,555	

Net deficit

The only scenario to achieve positive net cash flow is with land at zero cost, and interest only financing

Action 2: Rates exemption for all CHP-owned social and affordable properties

- Seek a change in Part 2 Section 9 (2) of the Rates Act 2004:
 - Delete: “charitable purposes does not include community housing purposes”
 - Replace with: “charitable purposes does include community housing purposes.”
- **Cost to ACT Government:**
 - Reduced revenue from current ACT rates payable by CHIA ACT Region members c\$1m p.a.
- **Benefit to ACT Government:**
 - Growth in community impact, through greater volume of community housing
 - Reduced capital burden to ACT Government if they were to otherwise develop and manage the properties
 - Reduced reliance on Housing ACT and other ACT government services
 - Use of CHPs to generate this outcome attracts Commonwealth money into the ACT via CRA
 - More financially sustainable and lower risk community housing sector

8	<p>Meaning of rateable land</p> <p>(1) In this Act:</p> <p><i>rateable land</i>—</p> <p>(a) means all land in the ACT, including Commonwealth land; but</p> <p>(b) does not include—</p> <p style="margin-left: 20px;">(i) commons, public parks and public reserves not held under lease or licence; and</p> <p style="margin-left: 20px;">(ii) sites of cemeteries and public hospitals; and</p> <p style="margin-left: 20px;">(iii) land leased to charitable organisations and used exclusively for religious, educational, benevolent or charitable purposes; and</p> <p style="margin-left: 20px;">(iv) sites of churches and other buildings used exclusively for public worship; and</p> <p style="margin-left: 20px;">(v) sites of buildings used for free public libraries; and</p> <p style="margin-left: 20px;">(vi) land leased from the Commonwealth that is occupied by, or used in connection with, a school; and</p> <p style="margin-left: 20px;">(vii) Commonwealth land that is not leased and is unoccupied (other than land that, immediately before becoming unoccupied, was occupied by a lessee of the Territory or Commonwealth on a weekly or fortnightly tenancy).</p> <p>(2) In this section:</p> <p><i>charitable organisation</i>, for a tax law—see the <i>Taxation Administration Act 1999</i>, section 18B.</p> <p><i>charitable purposes</i> does not include community housing purposes.</p> <p><i>community housing</i>—see the <i>Duties Act 1999</i>, section 73A (4).</p> <p><i>school</i> means a non-government school under the <i>Education Act 2004</i>, and includes a playground belonging to, or used in relation to, the school.</p>	5
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Action 3: Inclusionary zoning and planning concessions for CHPs / CHP partnerships

- Inclusionary zoning to focus on achieving not only affordable purchase opportunities per current Government policy, but also affordable rental opportunities
- Planning concessions for CHPs, or developers in partnership with CHPs e.g. height limits, plot ratio, streamlined approvals, parking
- E.g. allow change in use

- **Cost to ACT Government:**
 - Nil direct financial cost
 - Potential reputational impact from allowing higher density development

- **Benefit to ACT Government:**
 - Additional rate and land tax income from higher density development
 - Potential for material growth in community impact, through materially greater volume of community housing
 - Reduced capital burden to ACT Government if they were to otherwise develop and manage the properties
 - Reduced reliance on Housing ACT and other ACT government services
 - Use of CHPs to generate this outcome attracts Commonwealth money into the ACT via CRA
 - More financially sustainable and lower risk community housing sector

Action 4: Land tax exemption for private landlords for social or affordable housing

- Land tax exemptions for private landlords as well as potential rates concessions conditional upon the management of the properties being outsourced to CHPs for affordable rental provision
- No net financial benefit to private landlords, but lessens their net loss as a consequence of renting their property out as an affordable rental i.e. there is no net financial gain for private investors to enter such an arrangement
- **Cost to ACT Government:**
 - Reduced revenue from current land tax payable by residential property investors e.g. if management of 100 properties with average unimproved value of \$280,000 is outsourced to CHPs, revenue foregone = \$270,000 p.a.
 - Reduced revenue from current rates payable by residential property investors e.g. if 50% rates discount for 100 properties with average unimproved value of \$280,000 is outsourced to CHPs, revenue foregone = \$103,222 p.a.
- **Benefit to ACT Government:**
 - Attract private capital into generating affordable rental outcomes for the community, reducing demand for Government to provide affordable rentals
 - Growth in community impact, through greater volume of community housing
 - Reduced capital burden to ACT Government if they were to otherwise develop and manage the properties
 - Reduced reliance on Housing ACT and other ACT government services
 - Use of CHPs to generate this outcome attracts Commonwealth money into the ACT via CRA
 - More financially sustainable and lower risk community housing sector

CHIA ACT region scale of investment sought in context

CHIA ACT Region members are seeking ACT Government new investment of:







- Action 1 \$28m p.a.
- Action 2 \$1m p.a.
- Action 3 nil cost
- Action 4 \$270k p.a.
- TOTAL = \$29.3m p.a.

This represents:

- 0.5% of total \$5.5B budget
- 5% of “Disability, community services and housing” \$539M allocation

In return, ACT Government benefits from:

- Material growth in community impact, through greater volume of community housing
- Reduced capital burden to ACT Government if they were to otherwise develop and manage the properties
- Reduced reliance on Housing ACT and other ACT government services
- Use of CHPs to generate this outcome attracts Commonwealth money into the ACT via CRA
- More financially sustainable and lower risk community housing sector

Better healthcare for our growing community		\$ 1.7 billion
Health		\$1.7 b
More schools, better schools		\$ 1.3 billion
Education		\$1.3 b
More support for families & inclusion		\$ 1.1 billion
Justice and safety		\$583 m
Disability, community services and housing		\$539 m
More services for our suburbs		\$ 710 million
City services		\$381 m
Planning and regulation		\$157 m
Environment, sustainability and land management		\$172 m
Keeping our growing city moving		\$ 438 million
Public transport		\$259 m
Delivering government services		\$179 m
More jobs for our growing city		\$ 310 million
Events, tourism and investment		\$141 m
Economic and financial stewardship		\$169 m

Appendix: Indicative underlying financial performance for CHP debt-financed properties

	Indicative social rental home in ACT	Indicative affordable rental home in ACT	Indicative affordable rental home (with NRAS)
Income			
Rent	\$ 3,335	\$ 14,622	\$ 14,622
CRA	\$ 2,002	\$ -	\$ -
NRAS incentive	\$ -	\$ -	\$ 8,340
Expenses			
Rates	\$ 2,500	\$ 2,500	\$ 2,500
Property insurance	\$ 450	\$ 450	\$ 450
Utilities	\$ 714	\$ 714	\$ 714
Body corporate	\$ 1,119	\$ 1,119	\$ 1,119
Repairs and maintenance	\$ 2,000	\$ 2,000	\$ 2,000
Tenancy and property management staff and overheads	\$ 3,018	\$ 3,018	\$ 3,018
Corporate staff and overheads	\$ 5,045	\$ 5,045	\$ 5,045
Depreciation	\$ 6,196	\$ 6,993	\$ 5,555
Net interest	\$ 5,787	\$ 4,139	\$ 2,822
Net surplus / deficit	\$ (21,492)	\$ (11,356)	\$ (261)
Net cash flow (approximation)			
Net surplus / deficit	\$ (21,492)	\$ (11,356)	\$ (261)
Add back: depreciation	\$ 6,196	\$ 6,993	\$ 5,555
Less: Loan principal repayments	\$ (7,539)	\$ (8,036)	\$ (5,588)
Net cashflow	\$ (22,835)	\$ (12,399)	\$ (294)