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COVER PAGE:

AFFORDABLE HOUSING SUBMISSION.

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OVERVIEW IN 50 WORDS

At no cost to government, using a simple and scalable model, deliver affordable housing quickly, efficiently and beautifully.

Locally designed, manufactured and fabricated affordable housing, built to a high standard using modular building techniques, in tranches of 1,000 dwellings, funded by a combination of bank funding and bonds.



P+P Modular housing developments proposed for Geelong that could be readily adapted to affordable housing.

INTRODUCTION

I spent my formative years in social housing. My sister and I lived with my mother in a modest brick veneer dwelling in the middle suburbs that was managed by a rental housing co-op. This had a profoundly positive effect. The house was comfortable, simple and not obviously identifiable as "commish". Most importantly the tenure was secure, allowing me to finish my schooling. Our little family grew up and moved on and my mother was able to get back on her feet and has had no need for supported housing since.

Pillar + Post, the business I founded, works all day every day in the infill development field. We are a planning, architecture and project management practice located in Melbourne. We have a lot of experience in delivering housing, profitably, for our clients. Pillar + Post also has a building operation and an emerging modular and prefab subsidiary.

Affordable housing is an interest of mine, perhaps a passion. Wherever I am, at home or travelling, I take an interest in the local responses to affordable housing. I have, over the better part of a decade, spent many hours and days, and a not insignificant amount of money, trying to do my part, but have mostly met with indifference or resistance. This is a shame because it will take the planners, architects, engineers, builders and developers to solve this problem just as much as the housing associations and government agencies.

It will take an act of political will to make a difference.

This is the last time for me. If nothing useful comes from this submission I will have to accept it and move on. There must be political will to make the courageous decisions needed. I want to take the opportunity to implore you to just do something, take some action, build something, try something. There's too much talk, too many committees and round tables. Too many reviews and papers and working groups too! Hopefully this submission, and others like it, will give you the model that will work.

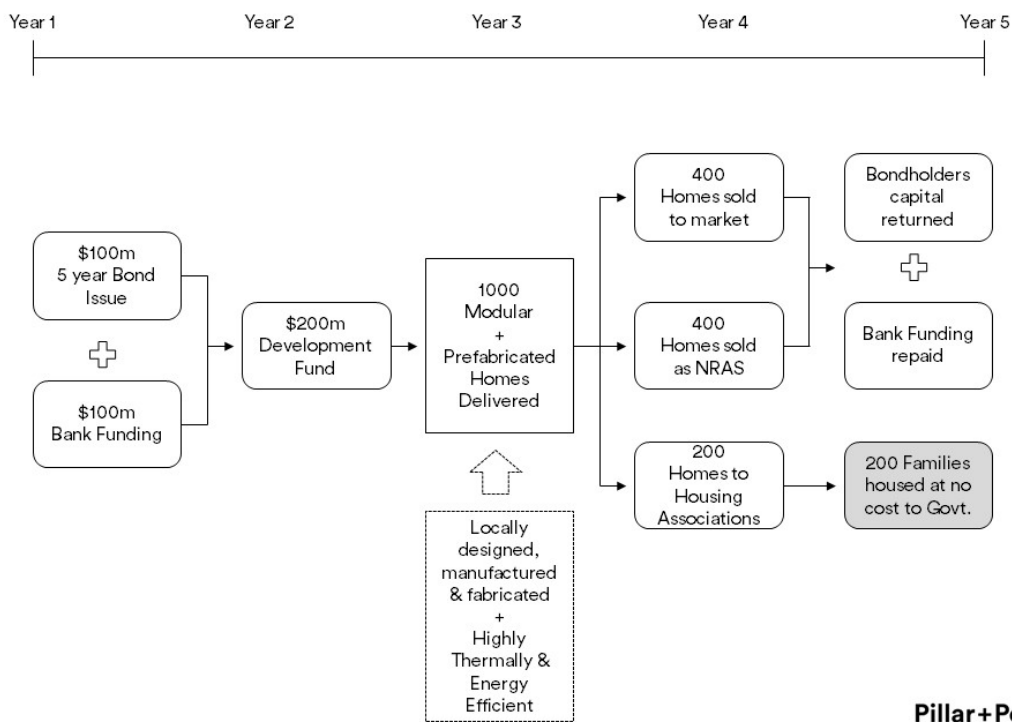
THE PROPOSED MODEL

The Issues Paper asks us to consider the financing models, and in particular the barriers to investment. In essence I believe there are already financial instruments available - mortgages, bonds and promissory notes among them - that can do the job. The response should be to make affordable housing attractive to investors rather than trying to reinvent the financial tools.

It is proposed that the funding is a 50/50 split of bonds with a five-year maturity, and bank debt from a philosophically aligned lender, also repayable at five years. It is further proposed that some of the capital is “recycled” within the five-year period. Of the 1,000 dwellings delivered, 400 will be sold to the market (to generate further capital and encourage a balanced tenancy mix), 400 will sold pre-allocated to NRAS or a similar rental scheme, and 200 will be gifted to housing associations.

Each development fund will be financed with \$100m in bonds issued, and \$100m in bank debt, with a five-year maturity for both elements, and will deliver 1,000 houses. This model keeps the funding reasonably compact but easily scalable.

The forecasting has allowed a \$10m budget for marketing, administration and fund management for each \$200m development fund. Of this I assume perhaps half would go to the fund manager.



The model requires no direct funding from government but would benefit from some tax breaks, concessions and exemptions. Each development fund will deliver 400 retail low-cost dwellings, 400 NRAS properties and 200 properties gifted to housing associations.

ADDRESSING THE BARRIERS TO LARGE-SCALE INVESTMENT

In looking at scale, the model proposed works in tranches, each requiring \$200m funding. The tranches can be replicated as long as demand remains for the bonds and there is ready access to the debt. The proposed return for the bondholders is around 6%, however this return could be improved by tax concessions or exemptions improving the return to an effective yield of 7% - 8%. Bonds can be traded and therefore allow some liquidity for the investor.

The issue of investor awareness is critical. The investment needs to be the sort of thing the investors want to tell their friends about. We propose raising awareness through social media, traditional investment channels, and apps that allow the investors to spread the word.

Establishing concessions and exemptions for investors and linking the supply of dwellings to an established rental scheme like NRAS requires long-term consistent policy settings to give the proponents and investors confidence. It is also important to the model proposed that there is alignment with the housing associations.

By proposing a model that will deliver dwellings through a series of smaller residential infill projects, rather than larger green-field projects, the project pipelines are readily expandable. The expertise required – planning, architecture and building – is also readily available and easy to deploy on these smaller scale projects. There are thousands of left-over and overlooked spaces perfect for infill development, many of them owned by government.

Assuming adequate funding is available capacity is linked to scale. Each tranche will deliver 1,000 dwellings for the benefit those seeking affordable housing. The industry is able to absorb this activity through the established networks, however the commitment must come before manufacturers and fabricators will come onboard to boost capacity.

The issue of governance can and should be dealt with in the structure for the landholding and development entities. Most importantly the take-out partners (NRAS and housing associations) need to be contractually committed. Each development fund should be secured by its own property assets, managed by a reputable fund manager, and audited monthly by a recognized accounting firm.

IT HAS TO BE COMMERCIAL

There is a link between the provision of affordable housing and the Innovation Strategy. To deliver just 1,000 dwellings would be enough to encourage the local manufacture and fabrication of modular and prefabricated housing. Scale brings various knock-on opportunities for local industries.

An investment in affordable housing is an investment in local manufacture, fabrication and professional services: an investment in employment. We are no longer making cars and we don't really want to be importing houses too. I have delivered a number of modular dwellings, and it's a great way to build – efficient and predictable – but most of the best materials and technologies, like Structural Insulated Panels (SIPs) and Cross Laminated Timber (CLT), must be imported. Other regions, most notably North America and Europe, but also more recently South East Asia, are using these materials and technologies to great advantage. Even the Kiwis are having a go!

Building is notoriously inefficient and unpredictable. One way to make the process more predictable is to “manufacture” more and “build” less, using modular and prefab elements. A real affordable housing initiative, with some scale, and a solid and ongoing commitment from the various stakeholders, will do a lot more than deliver desperately needed housing, it will drive innovation and bring employment.

Although my experience with affordable housing has been frustrating, I have spoken to a lot of clever and dedicated people and the one big thing I learned from this experience was that the response to affordable housing "must be commercial". An advisor to the government and housing associations gave this advice to me. The key measure of success for a housing association is the number of people successfully housed. The key measure of success for a property developer is profit. I believe that for affordable housing to be successful it must be profitable: it should fund itself.

It is a big problem, and a big opportunity. Depending on the data used, and the interpretation of that data, there is a shortage of somewhere between 150,000 and 300,000 affordable houses in Australia. It is a large-scale problem and requires a scalable solution. This submission does not look at the biggest possible response, but rather the smallest scalable response. If the proposed scheme is successful it must be capable of replication across territories and at different scales.

In very simple terms, the model works by taking the developer's margin (generally 20% - 30%) and converting this into housing stock.

GET CONNECTED

The Impact Investing Australia 2016 Investor Report identified at least \$18b of pent-up demand among local investors. We need to make affordable housing beautiful to these investors. To do this we need to get connected.

Give investors access to their investment. Let the investors see their investment through existing social media platforms and customized apps pertinent to their particular fund. It will build momentum if the investors can share their story readily and feel good about it.

Connect planners, architects, builders, manufacturers, fabricators and suppliers. Build a supply chain that is visible and can be tapped into by the industry we will rely on to deliver the housing.

Build communities to teach advantage. By using a combined model, where some dwellings are sold to the market, some used for NRAS housing, and some for housing association stock, we can avoid the social issues associated with old-fashioned public housing.

PROPOSING A TRIAL

To build 100 house is a drop in the ocean, but it would be very meaningful for 100 families and could help point the way towards a sustainable delivery model. Using the 5 year bond model outlined above the total bond issue would be \$10m, matched to \$10m of bank issued debt.

Alternatively government, as proof of concept, could wholly fund the trial. In any case this is money a loan, it is not a grant.

Beyond housing 100 families, a trial would help tell the story and get investors, industry, building professionals and government agencies interested in affordable housing, and thinking about how to do it better.

To give some shape to the idea of a trial, it might look like this:

- 10 infill projects located close to amenities
- Each project with an average yield of 10 dwellings
- Locally designed, manufactured and fabricated
- 40 low-cost dwellings sold to the public (perhaps with a FHB discount)
- 40 NRAS dwellings for tenants needing rental assistance
- 20 dwellings, fit for purpose, gifted to local housing associations

Modest, robust, efficient and beautiful dwellings for those who need them most and can afford them least.

ADDITIONAL THOUGHTS

In order not to confuse or complicate things I have added a few additional notes here that I felt were worth sharing.

- The model works even better if the government, or philanthropic sources gift the land. This would allow more margin to be converted to housing as the cost base is diminished.
- Housing associations should be encouraged to trade assets. Taking older housing stock situated on underutilized land and trading it for new stock of similar value. This land can then be redeveloped to create more new housing.
- There may be landowners who wish to contribute land as capital, perhaps in return for bonds. This is more complicated, but landowners may see the bonds as safer than developing their land, or may be philosophically aligned with the idea of providing affordable housing for a social benefit.
- Alternative capital raising model could be a levy of say 1% on every property transaction in a 12 month period, with FHBs exempt. This would also serve to potentially take some heat out of the property market and give the FHBs a small advantage. This would be a once only levy to allow the catch up to occur.
- The financial benefits of Net Zero housing. For those who need it most and can afford it least. This too is a question of scale. It does not cost a great deal more, in the scheme of things, to provide housing that generates at least as much energy as it uses. This would, of course, provide a profound financial benefit for the tenant.
- The ideal situation for government is for affordable housing to be created at little or no cost to the government. We can go one step further than that if the government and its many agencies are able to sell land for the benefit of affordable housing. The government can therefore generate revenues as well as providing housing.