NATIONAL HOUSING AND HOMELESSNESS PLAN ISSUES PAPER

HESTA Submission – October 2023

HESTA welcomes the opportunity to make a submission to the consultation on the National Housing and Homelessness Plan ("the Plan") Issues Paper. There is a significant opportunity presented by the Plan for Federal Government to set out an ambitious long-term national vision for housing and homelessness policy.

Our submission focuses on HESTA's role as a large and diversified institutional investor, including in market, social and affordable housing. In our submission, we have concentrated on areas where we believe government could work with institutional investors to support more investment in housing supply, at scale.

HESTA and our members

HESTA invests more than $76 billion[1] of assets on behalf of more than 1 million members who work in caring industries, primarily in the health and community services sectors. Almost eighty per cent of our members are women and most are on low-to-middle incomes. Our members are key contribution workers who deliver critical, life-changing services, and whose work generally requires their physical presence. They are increasingly struggling to afford housing near where they work[2], and housing costs are a key factor determining their financial security in retirement.

Australia's housing crisis presents risks and opportunities for investors like HESTA. While housing shortages reduce productivity across the economy, they also provide the opportunity for investment innovation to deliver our members appropriate risk adjusted investment returns by improving housing supply. This innovation requires governments and investors to work together on policy settings and financing models that will allow institutional investors to scale their investment in social and affordable housing.

HESTA supports the Government's Housing Accord and Housing Australia Future Fund (HAFF) and related legislation to progress this important work.

As home ownership has become less attainable for low-to-middle income earners, rental affordability has dramatically decreased, and rental vacancies have dropped to long-term lows nationally. HESTA aims to increase the availability of social, affordable and market

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[1] As at 18 September, 2023.
[2] Anglicare Australia (2023) Rental Affordability Snapshot. Essential Workers Report. Special Release.

rate rental housing that meets the needs of low-to-middle income earners like our members.

The need to scale institutional investment

A significant allocation of private capital is required to address Australia's chronic undersupply of social and affordable housing. This undersupply has been driven by a lack of a strategic and coordinated policy response, alongside a range of barriers to institutional investment that has meant that institutional investment in new rental housing has tended toward the high rent end of the market.

For many years, super funds, including HESTA, have considered and delivered investments in affordable housing that work within specific parameters for certain developments, but there have been barriers to scaling these approaches to the extent needed to deliver sufficient housing supply. There is a need for innovative financing and land usage models that facilitate the allocation of capital to pipelines of projects at scale, and provide diverse ways for institutional investors to access investment in the sector.

HESTA supports the prudent use of public capital to catalyse new markets for investment and we welcome the Government's commitment to provide a funding stream through the HAFF that addresses the financing gap for investment in social and affordable housing, and to work with investors on financing approaches that will maximise the allocation of much-needed capital in this emerging sector.

Build-to-rent: HESTA and Super Housing Partnerships

Developing the build-to-rent sector into an institutional asset class will be key to meeting the housing needs of low-to-middle income earners. Compared to other jurisdictions like the US, where build-to-rent makes up a higher portion of institutional property portfolios, Australia's institutional build-to-rent sector is in a fledgling state, with a lack of institutional product. Build-to-rent developments are held by institutional investors over the long-term, delivering an overall increase to housing supply and providing stable housing choices to working Australians.

To start addressing this challenge, HESTA, as a founding investment partner, is proposing to commit $240 million of equity towards developing mixed-tenure, built-to-rent apartment projects alongside new specialist affordable housing investment manager, Super Housing Partnerships. Super Housing Partnerships has the capability to aggregate institutional capital for delivery of a pipeline of affordable housing developments in partnership with community housing providers and specialist developers. Providing institutional investors access to a platform for scalable investment in residential projects with a focus on social and affordable housing is a first in Australia.

HESTA's investment is earmarked for mixed-tenure developments that include social, affordable and disability accommodation alongside market rate dwellings. This mix has advantages for tenants and investors. Social outcomes are furthered where dwelling types are mixed on a tenure-blind basis. For investors, the tenure mix provides a smoother income profile with stable rental income, lower vacancy rates and high demand that is less exposed to economic downturns. Effective financing models would maximise the balance of affordable housing that can be provided in these developments.

As an example of this model, HESTA recently announced that, via its investment with Super Housing Partnerships, works are set to start on an innovative build-to-rent apartment development in Melbourne's inner west. HESTA has committed more than $100 million of equity to the 402 Macaulay Road, Kensington apartment project.

Once completed, the Kensington project is set to deliver 362 mixed-tenure dwellings encompassing affordable, social, market-rate, and specialist disability housing on the doorstep of critical public transport links and near Melbourne's major hospitals.

Creating conditions for scaling investment

Consistency through outcomes-based definitions

To support innovation in how social and affordable housing is delivered, while ensuring Government support is well targeted, there is a need for an agreed, consistent approach to defining both "affordability", and the parameters that should apply to qualifying social/affordable housing projects. Defining qualifying developments at project level supports achieving scale. Outcome-based definitions guide targeted provision of public support and are a critical element in leveraging private capital to deliver social outcomes.

Qualifying projects should include a minimum quota of social and affordable housing (40% would provide a meaningful contribution), based on an agreed definition of affordable housing, to determine the level of government support. HESTA proposes a definition of affordability based on real incomes for workers like our members. This would set rents to deliver housing at no more than 30% of household income.

Policy solutions should deliver certainty and transparency and remove roadblocks to allow institutional capital to flow

To ensure that financing models raise sufficient capital for the delivery of social and affordable housing projects at scale, they must provide investors with the certainty, stability and transparency they need to ensure that risk is accurately priced. Superannuation funds favour long investment timeframes, particularly with regards to unlisted assets such as residential property. Unlisted assets are well suited to patient super fund capital, delivering value for members over the long-term through investment returns.

Stability can be provided by reducing the possibility of policy or regulatory change and intervention to enhance certainty of any public funding provided (such as availability payments or capital grants for qualifying projects). This is supported by long-term decisions by policy-makers that increase certainty for investors, and ensuring funding available to meet obligations to investors is as predictable as possible.

In addition, the development of debt financing models should ensure investors and financiers have access to transparent data to allow them to assess and price risk accurately. Reducing uncertainties and provision of relevant data to investors will facilitate investors' robust evaluation of underlying project risks and exposures for any future debt financing opportunities.

There is a significant opportunity for governments (at all levels) to utilise various additional policy levers to incentivise institutional investment, at scale, in social and affordable housing, including:

- Planning and zoning reforms to allow improved certainty of timeframes for applications for social and affordable housing projects. Timing certainty assists investors in planning and pricing deployment of capital into affordable and social housing projects;
- Consideration of increased site yields (floor area ratios and height) for qualifying social and affordable housing projects;
- Availability, and cost of, land, including consideration of long-term lease arrangements for qualifying projects;
- Increased access to low-cost finance opportunities for qualifying projects (both social and affordable); and
- Consideration of approaches to taxation (such as stamp duty and land tax) that encourage investment into qualifying social and affordable housing projects.

Financing models should facilitate both debt and equity investment

For a number of years, National Housing Finance and Investment Corporation (NHFIC) has provided the capability for institutional investors to provide debt financing to community housing providers through their bond aggregator. HESTA holds NHFIC bonds, and we have found these securities attractive for inclusion in our broader fixed income portfolio. However, this approach is not sufficient to support the scale of investment needed to deliver the required housing supply.

There is an opportunity to develop financing models that facilitate the scaling of institutional equity towards the development and ownership of affordable residential property assets. Equity investment will accelerate the development of build-to-rent into an institutional property sector, and maximising the level of social and affordable housing that can be provided in these assets is an efficient way to increase the provision of social and affordable housing. The focus should be on 'crowding in' institutional capital to achieve scale, and using innovative Government policy and financing solutions to support project feasibility.

Financing models should support innovation, allowing for new approaches, including the development of investment vehicles that give institutional investors equity exposure. To allow this innovation while ensuring housing needs are met, it is crucial that government support is both targeted and outcomes based.