

15 November 2018

Social housing needs to treble over the next 20 years through direct investment

- Current shortfall of 433,000 social housing units in Australia with 36,000 a year required for the next 20 years to meet future need.
- A capital grant funding model is the most cost effective funding model in the medium and long term.
- Compared with subsidising the operating income of a commercially financed program, the lifetime cost of the first year of house building is A\$1.6 billion less, a 24% saving to the public purse.
- Mission driven public investment in social housing is occurring internationally – in Canada, New Zealand and many parts of Western Europe.

Estimating a need for 727,300 additional social housing dwellings over the next 20 years, new AHURI research quantifies the scale of the problem, and points towards the most effective way that government can assist in addressing it.

The report, '**Social housing as infrastructure: an investment pathway**', by researchers from RMIT and UNSW Sydney, calculates the current social housing shortfall as 433,000. Also factored into the 20-year supply target – equating to 36,000 new homes per year – is the newly arising need that will result from expected population growth to 2036.

Building on these estimates and also drawing on a detailed analysis of actual housing procurement costs across Australia, the report estimates the cost of a program to deliver the required additional provision. Finally, it estimates the cost to government that would arise from program delivery under several 'investment pathway' scenarios.

Financial modelling shows the capital grant scenario to be the most cost-effective option. "This strategy also makes effective use of the government backed National Housing Finance Investment Corporation (NHFIC) which provides the longest term lowest cost finance available. It minimises financing costs and reduces the requirement for deep ongoing operating subsidies." said lead author Associate Professor Julie Lawson from RMIT University.

"Direct public investment cost less in both the medium and long term. It also builds the value of assets held by government or regulated non-government providers, creating a basis for leveraging more efficient NHFIC finance into social and affordable housing over the longer term."

Report co-author Dr Laurence Troy from UNSW Sydney said "The lifetime cost is \$1.6 billion less, or a 24% direct saving to the public purse, compared with a commercially-financed program supported through revenue subsidy."

“The mission-driven capital grant model, coupled with efficient financing, builds on international experience.” said Dr Lawson from RMIT University.

An international review found that alternative private financing ‘innovations’ can be costly and divert resources from the core public purpose social housing. While private equity funds and commercial debt have been increasingly relied on to fund infrastructure in many countries including Australia, they are not appropriate for Australian public housing.

Dr Lawson said “Commercial yields add a cost to provision that is ultimately paid for by government, either through an operating subsidy, Commonwealth Rent Assistance (CRA) or other social security payments to housing tenants.”

Reacting to critical reports by the UK National Audit Office, the UK Government recently announced an end to its Private Finance Initiative program and lifted caps on public investment in social housing.

“Mission driven public investment has also returned to social housing in Canada and New Zealand and remains integral to more stable and productive social housing systems in Western Europe. Housing providers with a social purpose today account for more than a fifth of all housebuilding in many countries including the UK, Finland, France and Austria.”

Forty years ago Australian governments invested to produce 8,000 to 14,000 new public housing units per year. Construction rates are now minimal.

Report co-author Dr Laurence Troy said "In a context where Australian governments have been recently funding only around 3,000 new social housing units per year, we estimate that output of about 15,000 is needed just to stop the existing shortfall from getting even bigger. To fix the current problem as well, over a 20 year period, calls for a ten-fold increase”.

“Lack of affordable and accessible housing is a serious problem for many Australian families. A renewed social housing program should boost output to a level similar to that seen in the early post-war period when state governments were building about one in seven new homes in Australia.” said Dr Troy.

The report can be downloaded from the AHURI website at <https://www.ahuri.edu.au/research/final-reports/306>

For media enquiries, please contact:

Anthony Smeaton
Marketing and Communications Director
Australian Housing and Urban Research Institute
Direct +61 3 9660 2312
Mobile +61 404 544 101
Email anthony.smeaton@ahuri.edu.au