Social housing is critical infrastructure

by Robert Pradolin

Australia is in the midst of a housing crisis - in general affordability, in the availability for homes for key workers (affordable housing), and in the provision of accommodation for the socially disadvantaged (social housing).

Governments and the private sector must work together to provide affordable and social housing, because, just like roads and rail, accommodation for all is critical infrastructure for the economy.

It makes good economic sense to locate these people in housing that maximises the value to the community and therefore minimises our long term costs as tax payers.

If we do not acknowledge and address this issue now, it will only get worse and the longer term cost to our community will only exacerbate the financial pressure to future federal and state budgets.

The economic impact and productivity of this country is inextricably linked to the fundamental need of a stable form of shelter to all its residents; rich or poor, so they can properly contribute to the economic prosperity of Australia.

The Australian Urban Housing Research Institute has done numerous studies quantifying this issue and, from a Government perspective - both federal and state - it
is in everyone's long-term economic interest to provide shelter for people that cannot afford market housing. It will cost us, as tax payers, too much in the long term if we don't.

The economic and social consequences of the lack of affordable shelter permeate our society but are not recognised in our general consciousness and not front page news. If we don't recognise and address the issue, it will eventually become front page news and the cost will be a lot more significant.

In many US cities including New York, Chicago and San Francisco, both sides of politics understand this dynamic and believe that investing in social and affordable housing makes good business sense.

It is seen as good for the economy. And its just good business.

In the US, they also recognise to get the private sector involved with "below-market" housing, the government needs to subsidise the uneconomic portion to enable them to participate. In the US they developed the low income housing tax credit model to create the additional funds needed to stimulate private sector delivery.

It is no different in Australia. Well-placed, affordable housing for key workers, located in areas where society needs their services, and public housing, where tenants have ready access to existing infrastructure, services and jobs, also makes good and rational business sense.

In Australia, crime, suicide, domestic violence and depression are huge problems. I believe that one of the major factors causing these issues relates to the simple and fundamental human desire to have a place to call home and the connection and belonging we experience as a result.

There is a body of evidence that suggests people living in poorly located housing or more particularly, those that have no stable housing, are at a greater risk. Analysis by SGS Economics indicates a cost benefit ratio of 4:1 in respect to the economic benefit to the community of providing public, social and affordable housing in the right locations.

The scale in the shortfall of affordable/social/public housing problem is significant and it needs a quantum shift in thinking both about the issue itself and its social and economic consequences.

The political reality is that if we are going to make any impact on this increasingly burdensome issue, we need a new way of thinking about the problem along with new and innovative funding mechanisms that minimise any short term impact to federal and state budgets.

Governments on their own cannot fund the entire quantum needed to produce this type of housing and therefore must encourage the use of private capital. Governments need to recognise and accept that private capital will need to achieve market returns, relative to the risks, in order to mobilise itself.

Some form of subsidy will be required for investment in below-market housing. However the subsidy will be offset by the savings to the economy over time, even excluding the productivity benefits.
We have to start to see affordable, public and social housing as key public infrastructure, just like privately funded roads, tunnels, hospitals and schools, all of which receive some form of government subsidy.

Such recognition will mobilise private capital and change the dynamics so it will become economically viable to invest in this essential type of housing.

It is estimated the current affordable/social housing shortfall nationally is about 200,000 new dwellings. At an average total cost, including land, of $500,000 per dwelling, the potential size of the size of this market is in the order of $100 billion.

In America, a whole new property sector has developed around the delivery of affordable/social and public housing by the large pension funds. They develop, own and then manage a significant proportion of this type of housing stock - about 80 per cent with the not-for-profit sector managing another 20 per cent.

The sector does not exist in this country, yet. We need to create the economic environment where over the longer term, it is economically viable for the large super funds to own and manage a large number of apartment buildings and rent them to qualified tenants at below market rates.

In simple terms, once the right level of subsidy/incentive is provided to make the risk/return commensurable to other investment classes, the market will compete and deliver the desired outcome in an effective and efficient manner.

The subsidy/incentive required would be determined on the rental income profile that the state/local government wishes to be serviced and would reflect the local need for the social/affordable/public housing. This income profile can then be locked into the site for the economic life of the building.

If the building is sold, the obligation could be transferred to the new owner to ensure that the tenants continue to fit the income criteria upon which the subsidy was determined.

With a national housing strategy which includes a bipartisan implementation regime, a long term pipeline of future work can be foreseen by the private sector and they will consequently mobilise to take advantage of this new opportunity.

The vision of Infrastructure Victoria is that: “By 2046, we see a Victoria where everyone can access good jobs, education and services regardless of where they live, where communities are held together by strong bonds, where industries and businesses thrive, and where the environment is valued and protected.”

If that is the case the starting point must be a clear and sustainable housing strategy for all.

This strategic issue should be at the forefront of Infrastructure Victoria’s Agenda, and for Infrastructure Australia, and for all governments around the country. Because it is fundamental to long term economic prosperity and full workforce participation.

As Einstein said: “The definition of insanity is doing the same thing over and over again and expecting different results.”

We need to change the way we think.

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Frasers Property Australia, in 1998 and rose to become the general manager for Victoria and the general manager for business development. He stepped down last year and is now an active member of the property industry.