

# WA Housing Future Fund



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## *Delivering Social and Affordable Housing*

Now is the time to think beyond the current government investment in social housing and create a long-term mechanism to ensure supply of social and affordable housing for the benefit of the Western Australian community well into the future.

The commitment from the Commonwealth Government to a Housing Australia Future Fund and the health of the WA State Government's budget provide an ideal opportunity to invest in the long-term growth and sustainability of our communities, leaving a legacy of social infrastructure in the form of safe, affordable homes for thousands of Western Australians.

Having access to safe, stable accommodation contributes to the health and vitality of society, allowing people to experience safety and security, engage in school and work, and be active members of society. Ensuring people have access to affordable housing also diminishes demand for crisis driven services.

This current point in the policy and economic cycles provides a singular opportunity for the WA Government to address the compounding housing affordability crisis in our state and to prevent WA from falling further behind in the provision of social and affordable housing.

## **The Problem**

The need for social and affordable housing in WA is immense:

- There is a current unmet need of 39,200 social and 19,300 affordable homes across Western Australia. If we continue on the same trajectory, it is estimated in the next 15 years, WA will have a shortage of 86,400 social homes and 32,000 affordable rental homes for those not qualifying for social housing but still under documented housing stress.<sup>1</sup>
- There were over 19,195 households on the social housing waitlist including 4,671 priority applicants in May 2023. These numbers have been steadily increasing since 2019. The average wait time for a social home is currently 113.5 weeks.<sup>2</sup>
- Over 9,000 Western Australians are currently experiencing homelessness on any given night; and over 4,100 people access specialist homelessness services every day.<sup>3</sup>
- Over half (54%) of low-income households in the private rental market are paying more than 30% of income on housing costs and are considered to be

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<sup>1</sup> UNSW City Futures Research Centre (2019). [Estimating the need and costs of social and affordable housing delivery.](#)

<sup>2</sup> Shelter WA 2023

<sup>3</sup> ABS 2021; AIHW 2020

in housing stress.<sup>4</sup> Less than 1% of listed rentals are affordable for a person on income support.<sup>5</sup>

- The rental market is experiencing a critical shortage of supply. Rental vacancy rates have been sitting below one per cent in Perth and across many of the regions for years.<sup>6</sup> REIWA describes a balanced market as between 2.5 and 3.5 per cent.
- There has been a 32% increase in rental prices for houses in the Perth metro area between 2021 and 2023.<sup>7</sup>
- In many regions, local services and businesses are having difficulty attracting and retaining staff due to the lack of rental accommodation.

We recognise the record WA State Government investment in social housing of at least \$2.5 billion over the last three budgets which will deliver more than 3,300 social homes over four years. There remains, however, a compounding shortfall and lack of consistent, long-term funding and financing mechanisms for social and affordable housing. This creates uncertainty for housing providers wanting to develop new social and affordable supply for the benefit of Western Australians.

This proposal is designed for the long term. By creating solutions now, we will be putting in place steps to ease the housing shortage in the future and work towards a more sustainable housing system.

## A Housing Fund to Benefit Western Australians into the Future

The Commonwealth Government has committed to a \$10bn Housing Australia Future Fund (HAFF) to build and maintain social and affordable housing. It is not yet clear how those funds will be distributed and the criteria which will be used to access them. However, it is likely that any dispersal of funds will involve principles of 'competitive federalism', with allocation depending on each state demonstrating the readiness and feasibility of social and affordable housing developments, as well as a level of co-contribution to demonstrate value-for-money for federal funds.

WA is not alone in its affordable housing challenges, but it is unique in its fiscal position, reporting a \$3.3 billion operating surplus forecasted for 2023-2024 and \$4.2 billion budget surplus in 2022-23<sup>8</sup> following \$5.8 billion in the preceding year. This provides a once in a lifetime opportunity to build a legacy for the state and to provide safe, affordable accommodation for Western Australians into the future.

The establishment of a WA Housing Future Fund, distinct from the Commonwealth initiative, could unlock a minimum of **6,170 social and affordable dwellings over 10 years**. This could be achieved by the WA Government committing \$1 billion to a WA affordable housing Future Fund. The share market returns on the invested Future Fund would then be directed to fund the feasibility gap on social and affordable rental construction, which would in turn competitively harness more funds from the

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<sup>4</sup>ABS (2022) Housing occupancy and costs. Table 8.1. <https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2019-20#data-download>

<sup>5</sup> Anglicare WA Rental Affordability Snapshot, April 2023

<sup>6</sup> Perth & Regional WA Rental Vacancy Rates | REIWA; SQM Research (2022)

<sup>7</sup> REIWA (2023) Rental insights.

<sup>8</sup> <https://www.ourstatebudget.wa.gov.au/>

Commonwealth HAFF and other forms of layered investment, resulting in much needed social and affordable housing in both metro and regional areas.

## **Context: Federal Government's Housing Australia Future Fund**

The Albanese Government has proposed the establishment of a HAFF with an investment of \$10 billion. The investment returns will be spent on new social and affordable housing across the country, with a guarantee of \$500 million per year, indexed.

The proposed Future Fund is targeted to deliver:

- 20,000 social housing properties (i.e. income-based rent for low income Australians); and
- 10,000 affordable housing properties (i.e. discount to market rent).

In addition, investment returns from the Fund will be used for:

- \$200 million for repairs and maintenance of housing in remote Indigenous communities;
- \$100 million for crisis and transitional housing options for women fleeing domestic and family violence and older women at risk of homelessness; and
- \$30 million for housing and support for veterans experiencing or at risk of homelessness.

The housing itself would be delivered over five years. This housing would be built by community housing organisations (CHOs) registered under the National Regulatory System of Community Housing (NRSCH), who will receive annual service payments over a set term. The Commonwealth Government model is effectively term-limited outsourced borrowing, funded off-balance sheet by returns on investment. This is because the \$10 billion is sovereign debt borrowed for this purpose on the capital markets, invested in the share market, and then ultimately repaid, rather than allocated in budget and remaining directed toward housing in perpetuity, due to current federal deficit concerns. The fund would be managed as part of the Future Fund, which manages a variety of other funds, such as the Medical Research Future Fund.

To summarise, it is anticipated that the HAFF would be:

- Allocated competitively based on how much other funding is 'crowded in' for the housing development projects (i.e. on a value-for-money basis).
- Prioritised for projects that are ready to go with these other commitments in place, already having been negotiated and committed, and
- Structured as recurrent payments, paid to providers over time in equal amounts every year for 10 years.<sup>9</sup>

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<sup>9</sup> When subsidy funding is paid over-time rather than up front, there needs to be a mechanism for converting this recurrent funding into up-front equity to fund a portion of construction costs. Here, this would mean a subordinate loan, perhaps from Super Funds, where the repayments are the annual Future Fund subsidy payments from the Commonwealth.

In addition to the HAFF, the Federal Government confirmed an additional \$1 billion will be invested in Housing Australia's (formerly the NHFIC) National Housing Infrastructure Facility to support new homes.

## A WA Housing Future Fund

The establishment of a \$1 billion WA Future Housing Fund could unlock significant construction activity of a minimum of **617 social and affordable dwellings per year**. Importantly, this Fund would position the state's housing projects competitively in tendering for the new Commonwealth Future Fund money.

The proposed WA model would set aside \$1 billion of the state's surplus in perpetuity, with annual returns on the fund forming a long-term funding pipeline for new social and affordable housing supply. It is important to note the proposed \$1 billion capital would remain a government asset and would have no impact on net state debt.

It is recommended that the annual returns on a \$1 billion WA fund be allocated as an up-front equity co-investment to housing providers, rather than being paid recurrently over time (as per the Labor Federal Government model). Modelling by AHURI researchers found that it is cheaper for governments to fund projects upfront than to provide subsidies or payments over time.<sup>10</sup>

By structuring a WA Future Fund in this way, the State Government would play a vital role in addressing the current upfront funding gap that exists for developers of social and affordable housing and unlock blocked economic activity. It would also create a meaningful and ongoing pathway for the WA Government to partner with the community housing sector to co-deliver new supply. A WA Future Housing Fund could therefore underpin the expansion and professionalisation of a nation-leading not for profit affordable housing industry in Western Australia.

A future fund would also generate several external benefits. It would give the government an instrument and ability to dial up or down activity through the fund, remaining responsive to market conditions, sustaining industry employment, and providing a smoothing effect in the construction and development markets.

Additionally, the creation of this fund would enable the government to house a new skilled workforce with new job opportunities and would increase the capacity of the government to effectively partner with the community and private sector to deliver on its social and affordable housing objectives.

It is important to note that the proposed WA Future Housing Fund is not a 'silver bullet' that solves the housing crisis on its own; it would not replace the need for ongoing and significant investment in social and affordable housing by all levels of government. What it is, however, is an important ongoing layer of funding for not-for-profit housing developers to fill the feasibility gap on key projects that provide deep affordability, leveraging additional funds to unlock new affordable housing supply. In

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<sup>10</sup> Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) *Social housing as infrastructure: an investment pathway*, AHURI Final Report 306, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/306>, doi:10.18408/ahuri-5314301

this way, the Fund would play a vital role in addressing the current upfront funding gap for new social and affordable housing development.

### *Summary of benefits*

#### **A WA Future Housing Fund would:**

1. **Reduce demand for social housing** by providing much needed safe, affordable accommodation for people with disabilities, seniors, women escaping domestic violence, and others in need of social and affordable rental housing.
2. **Provide much-needed affordable rental accommodation for essential workers** including nurses and front-line health care workers, police, and people working in community services, including in the regions.
3. **Develop a counter-cyclical activity base in the residential construction industry**, smoothing out construction cycles in that sector through stable provision of social and affordable housing.
4. **Provide certainty** for the construction industry, CHOs, and institutional investors regarding the amount of funding available over the long term.
5. **Facilitate innovation** in the sector. Innovation follows when there is certainty and consistency of funding. The allocation of funds could be directed towards innovation including a range of construction materials and methods (such as modular construction), apprenticeship programs, and/ or environmental sustainability in building systems that future-proof dwellings and reduces energy costs for residents.
6. **Provide new opportunities for attracting or 'crowding in' private investment** to deliver new social and affordable housing supply.
7. **Create a new skilled workforce** within government and increase government capacity to deliver on its housing objectives.

## **Modelling**

### *Potential housing yield*

The projection of **617 dwellings per year** is based on investing a WA Future Housing Fund and using its investment proceeds to support projects with an equity cushion to leverage additional funds from the Commonwealth and other public and private financing.<sup>11</sup> The figure is based on an average cost per dwelling across four scenarios representing different types of social and affordable development projects in both metro and regional WA. These scenarios are examples of how State Government can unlock other fundings source, providing the final piece of the funding mix to ensure the project is feasible. The scenarios include:

1. Metro 50% social, 50% affordable
2. Regional 50% social, 50% affordable
3. Metro 80% social, 20% affordable
4. Regional 80% social, 20% affordable

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<sup>11</sup> Costings based on calculations done by Carrie Hamilton, affordable housing finance consultant.

Social housing rents are income-based assuming 30% rental contribution of statutory benefits plus Commonwealth Rental Assistance; Affordable assumes 25% discount to market rent levels for key workers.

For each scenario, funding from the WA Future Housing Fund would be the final component to unlock other funding sources and construction starts.

The WA portion of the projects highlighted in Scenarios 1-4 would be \$59,450-to-\$97,360 per dwelling and is based on a rate of return of 5% per year for the invested \$1 billion. The 5% figure used in our modelling is based on estimated returns of the Commonwealth HAFF and is used only as an indicative figure to provide a housing yield estimate. It is acknowledged that there are several different investment instruments the WA Government could use to generate returns, each with their own levels of risk and expected returns. It is likely that a WA based fund could generate a higher return since the fund would be established with surplus funds, and not borrowed for this purpose.

### Number of dwellings delivered with WA Future Housing Fund

Average WA Future Housing Fund per dwelling	Annual earnings from Future Fund	Number of social and affordable dwellings
\$81,000	\$50m	minimum 617 per year

### Fund sustainability

The perpetual nature of the State Government funding is designed to underpin a stable, consistent pipeline of activity in social and affordable rental housing initially boosted by, but extending beyond, the proposed Commonwealth policy. To guarantee this pipeline of funds, the WA and Commonwealth Future Funds will need to be designed with a back-stop funding 'top up' in years when the investment return falls short, since commitments for projects will be made ahead of time.

### Construction market

It is also worth noting that modelled yield estimates are based on conditions in the construction market which is experiencing inflated and volatile labour and material costs. The intention was to capture higher than normal costs, with input from WA housing industry partners, but also consider that any construction from the Fund would not commence for a few years, at which time construction costs may moderate from current elevated levels.

### Payment of rent

The term 'social housing' is used here to include state- and community housing-managed dwellings for those Australians who largely depend on statutory incomes, paying a percentage (30%) of income in rent. The benefits of social housing that is managed by community housing providers are the access to National Housing Finance Investment Corporation (NHFIC) debt, Commonwealth Rent Assistance, and the ability to mix incomes within a development (also renting to households at

affordable rents calculated as a percentage discount to market). It is also expected that social dwellings will be eligible for higher HAFF payments from the Commonwealth than standard affordable dwellings, reflecting their lower rental income.

### *Who are the tenants?*

In general, social housing shortfalls in Australia over the past 30 years have led to predominantly older cohorts and those with complex needs able to access this housing, and as a result extensive dependence on statutory incomes.

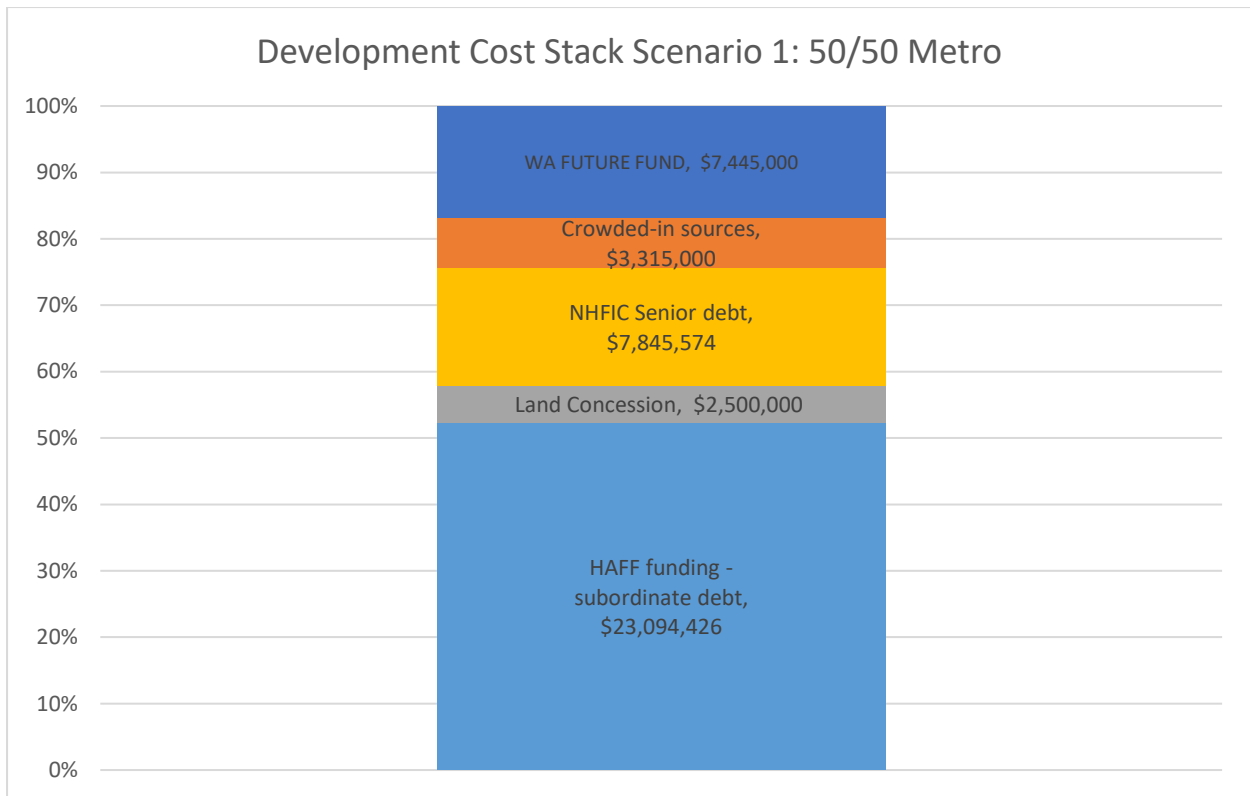
'Affordable housing' is a broadly used term that refers only to *rental* housing for lower-income Australians, key workers, etc. that is rented at a discount to prevailing market rents in hopes of alleviating housing stress (generally defined as spending more than 30% of household income on housing costs). Tenants in affordable housing are usually income-qualified to win allocation of an affordable dwelling, but the rents are pegged at a discount to market, rather than calculated as a percentage of income.

This is intended as a stepping-stone to the private rental market. It is proposed that a WA Future Housing Fund use this narrower definition of affordable housing, that is, housing provided to income-eligible households at below market rates (generally below 75 percent of market rent). This would address a critical gap that currently exists in the housing continuum between social housing and private market rental or affordable ownership products.

### *Scenarios*

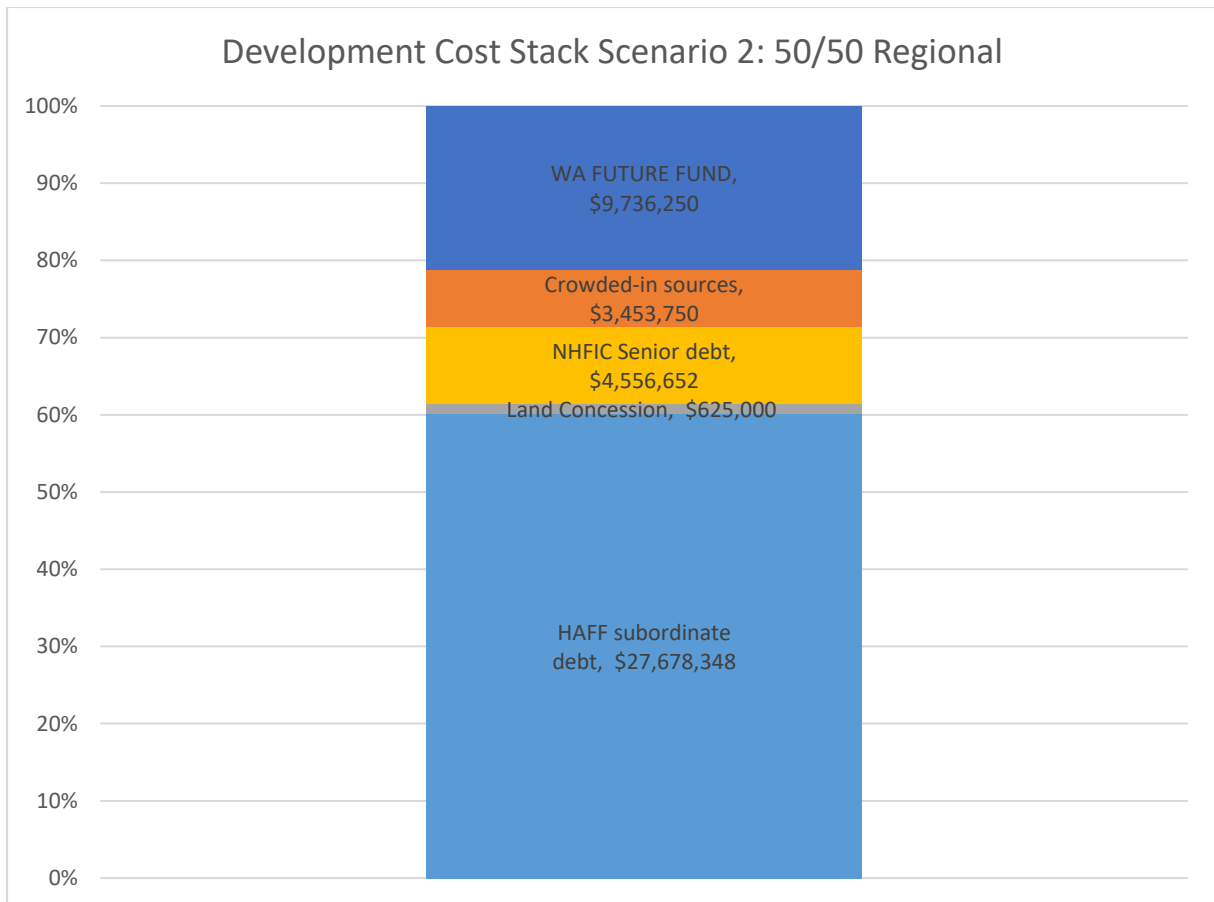
**Scenario 1** is based on a development of 100 units in the Perth metro area comprised of 50% social housing and 50% affordable rentals. In this scenario, \$7,445,000 (\$74,000 per dwelling) from a WA Housing Future Fund is the final piece required to make the project feasible.



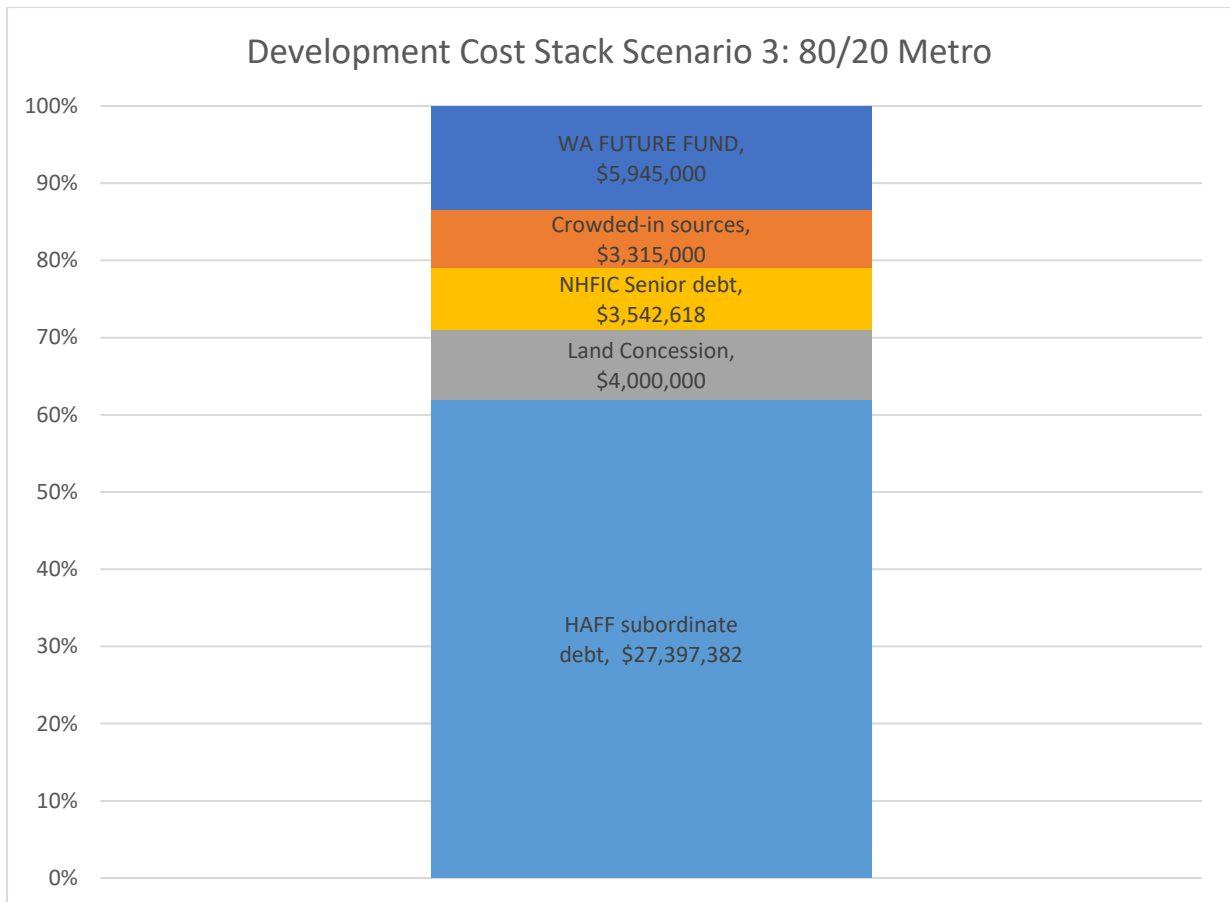


'Crowded in' refers to equity raised from philanthropic or local government partners, as well as own equity from the CHO's pre-development spending on early project costs. This plus the proposed WA Future Fund support provides the crucial 'equity cushion' that is required to underpin the senior and subordinate debt from NHFIC and super funds (repaid by the Commonwealth recurrent HAFF payments.)

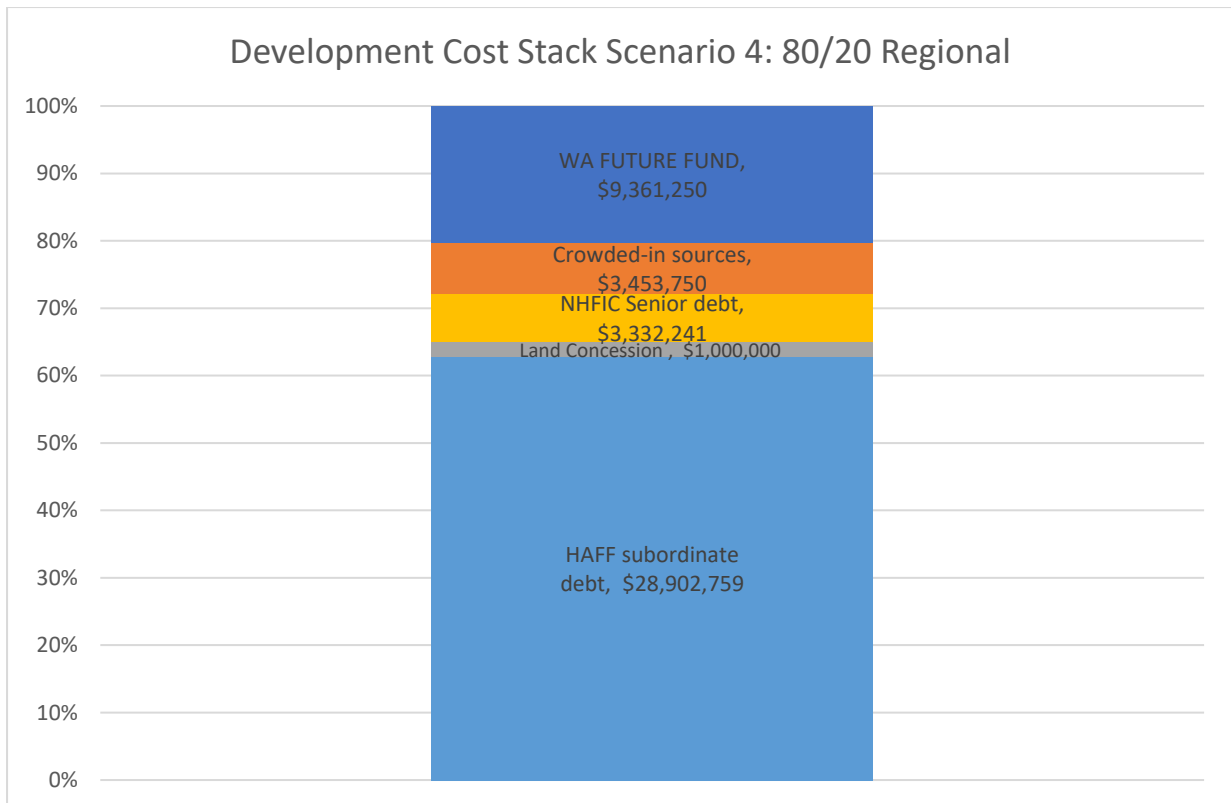
**Scenario 2** is based on a 100-unit project in regional WA with 50% social housing and 50% affordable housing. In this scenario, the WA Future Fund needed would be \$9,736,250 (\$97,000 per dwelling). The higher cost in this scenario is primarily driven by higher construction costs in regional WA.



**Scenario 3** is based on a 100-unit project in the Perth metro area, with 80% social housing and 20% affordable housing. The WA Future Fund component would be \$5,945,000 (\$59,000 per dwelling). The higher percentage of social dwellings in this scenario would generate a higher contribution from the Commonwealth Future Fund.



**Scenario 4** is based on a 100-unit project in regional WA, with 80% social housing and 20% affordable housing. In this scenario, the WA Housing Future Fund component would be \$9,361,250 (\$94,000 per dwelling). In this scenario, the Commonwealth portion increases to accommodate the higher percentage of social dwellings and subsequent decrease in rental payments. The WA Future Fund component remains the same as Scenario 2, with 50% social and 50% affordable housing.



In each scenario, the WA funded component fills the last gap of funding, and leverages other funding sources, to bring the project to fruition.

A summary of the costings and assumptions used in each scenario are included in Appendix 1.

## Appendix 1: Costings for Four Scenarios

### Scenarios for a 100-unit development containing social and affordable housing

	Location	Mix of social and affordable	NFHIC senior debt (\$)	Commonwealth Future fund sub ordinate debt (\$)	Social housing component of land*	Crowded in** (\$)	WA Future Fund (\$)	Per dwelling (\$)
1	Metro	50% social; 50% affordable	7,845,574	23,094,426	2,500,000	3,315,000	7,445,000	74,450
2	Regional	50% social; 50% affordable	4,556,652	27,678,348	625,000	3,453,750	9,736,250	97,363
3	Metro	80% social; 20% affordable	3,542,618	27,397,382	4,000,000	3,315,000	5,945,000	59,450
4	Regional	80% social; 20% affordable	3,332,241	28,902,759	1,000,000	3,453,750	9,361,250	93,613

\* Assumes State Government contribution for land for the social housing proportion of projects from Housing Accelerator funds.

\*\*Crowded in sources include CHP equity, philanthropic and any other funding. Mainly directed to pre-development costs.

### Assumptions

1. Household income for social housing cohort based on Aged Pension, Disability Pension, JobSeeker, etc for various groups and household sizes.
2. Market rents for the affordable rental dwellings based on SQM data, discounted to 74.9% of market rents, which is the maximum that allows Community Housing Providers to access the important GST concession on construction.

3. Construction cost estimated at \$392,000 per dwelling for metro and \$448,000 per dwelling regional (assuming labour costs are lower, construction is townhouse rather than multi-unit, and parking is carport rather than structured).
4. Land cost for 100-unit project \$5.0m for metro and \$1.25m for regional. Maintenance and management costs for the rental dwellings based on estimates from community housing providers.
5. Land contribution for the social housing proportion of projects from Housing Accelerator funds.
6. The above inputs were used to calculate how much senior debt can be supported by the net operating income using NHFIC's relatively low interest rates (assumed 6.25% fixed) and longer rental terms.
7. Depending on scenario, the rents can support NHFIC debt of approximately  $\frac{1}{3}$  to  $\frac{1}{2}$  of construction/land costs, repaid by the net affordable rents and CRA. Assumption of a NHFIC Loan-to-value ratio of max 70%. While the affordable rents could never support a loan of 70% of costs, this important metric is used to calculate the crucial equity cushion needed for development feasibility. The senior (NHFIC loan supported by the net rents) and the subordinate (the super fund lending up-front construction money supported by the annual Commonwealth HAFF payments) cannot exceed 70% of project costs. Therefore 30% must come from 'equity' - this is where the state WA HAFF can importantly be invested to enable or leverage the rest of that debt (along with the two other proposed sources of equity - CHP pre-development cost investment and this new state land contribution for the social housing proportion of land cost). So the WA HAFF is calculated to solve for the gap in this 30% equity, and the Commonwealth HAFF subsidy is calculated to solve for the remaining feasibility gap in funding project costs.
8. Includes assumption that CHO sponsor would be able to raise 1/4 of required equity through philanthropic/own equity sources, local government, or other partnerships. The remainder to get to the 70% LVR/30% equity would be the important WA state contribution.
9. Under these assumptions, the modelling resulted in a WA Future Fund contribution requirement of between \$59,450 and \$97,363 per dwelling. Based on these figures, the proposed \$1 billion fund's investment proceeds could support up to 617 social and affordable homes per year.
10. After the NHFIC debt and this equity contribution from the WA government and other sources is calculated, the resulting gap is back-solved and assumed to be funded recurrently by the Commonwealth's legislated HAFF. Across the four scenarios, the gap ranges from between \$10,600 per unit per year for 10 years to \$30,000-needed per unit for 10 years to break even with construction/land costs and make the project feasible.

**Scenario 1: Metro 50/50**

	<b>Assumption</b>
Dwelling mix	30% 1 bed 50% 2 bed 20% 3 bed
Cost/revenue indexation p/a	2%
NHFIC Loan Rate	6.25%
NHFIC Debt Cover Ratio	1.2
NHFIC Loan to Value Ratio	70%
Development timeframe	2 years
Location/Market context	Metro Perth
Development type	Multi-unit (with lift)
Build quality	Low to medium
Car parking (1 per unit)	Basement
Construction costs	from Rawlinsons plus assumed 2023 multiplier
CRA maximisation	on social dwellings

**Scenario 2: Regional 50/50**

	<b>Assumption</b>
Dwelling mix	30% 1 bed 50% 2 bed 20% 3 bed
Cost/revenue indexation p/a	2%
NHFIC Loan Rate	6%
NHFIC Debt Cover Ratio	120%
NHFIC Loan to Value Ratio	70%
Development timeframe	2 years
Location/Market context	Regional WA
Development type	Townhouse
Build quality	Low to medium
Car parking (1 per unit)	carport
Construction costs	from Rawlinsons
CRA maximisation	on social dwellings

**Scenario 3: Metro 80/20**

	Assumption
Dwelling mix	30% 1 bed 50% 2 bed 20% 3 bed
Cost/revenue indexation p/a	2%
NHFIC Loan Rate	6%
NHFIC Debt Cover Ratio	120%
NHFIC Loan to Value Ratio	70%
Development timeframe	2 years
Location/Market context	Metro Perth
Development type	Multi-unit (with lift)
Build quality	Low to medium
Car parking (1 per unit)	Basement
Construction costs	from Rawlinsons
CRA maximisation	on social dwellings

**Scenario 4: Regional 80/20**

	Assumption
Dwelling mix	30% 1 bed 50% 2 bed 20% 3 bed
Cost/revenue indexation p/a	2%
NHFIC Loan Rate	6.25%
NHFIC Debt Cover Ratio	120%
NHFIC Loan to Value Ratio	70%
Development timeframe	2 years
Location/Market context	Regional WA
Development type	Townhouse
Build quality	Low to medium
Car parking (1 per unit)	carport
Construction costs	from Rawlinsons
CRA maximisation	on social dwellings