2018

THE LEGISLATIVE ASSEMBLY FOR THE

AUSTRALIAN CAPITAL TERRITORY

RESPONSE TO ACT LEGISLATIVE ASSEMBLY RESOLUTION OF 1 AUGUST 2018 - SOCIAL HOUSING – PROVISION OF INCENTIVES

Presented by
Yvette Berry MLA
Minister for Housing and
Suburban Development
October 2018

In August 2018, the Legislative Assembly called on the ACT Government to:

a) *announce the outcomes of the recent expression of interest process which sought a provider/s for the affordable rental real estate initiative as soon as possible once the process is complete; and*

b) *investigate incentives to build on this initiative and further support affordable rental housing supply, including:*

   i. *land tax concessions for residential property investors who rent their property to low and moderate income households at a discount to market rent through a not-for-profit community housing provider which is regulated under the National Regulatory System for Community Housing;*

   ii. *rent guarantees for property investors who rent their dwellings through a not-for-profit community housing provider which is regulated under the National Regulatory System for Community Housing; and*

   iii. *rates rebates for community housing providers for properties where the tenants would be eligible for such rebates if they were home owners; and*

c) *report to the Assembly with an implementation plan that includes information about cost impacts and viability of these measures, as well as detail on feedback from the community sector, community housing providers, and the real estate and property sector by the end of the October 2018 sitting period.*

Affordable Rental Real Estate Initiative

On 21 August 2018, I announced the first three projects to be funded under the $1 million Affordable Housing Innovation Fund. The fund provides a valuable opportunity to seed housing models focused on increasing affordable housing options in the ACT.

In a highly competitive round, Community Housing Canberra Incorporated was awarded a grant of $230,000 to establish a new affordable rental real estate management model within the ACT.

Through this model, based on the approach of HomeGround in Victoria, private landlords can rent their investment properties to households on lower incomes at below market rates, under the management of a registered community housing provider.

To help maximise the impact of this initiative, the ACT Government has been investigating a range of potential complementary measures and initiatives, and consulted widely with the community as part of developing a new ACT Housing Strategy.

The new ACT Housing Strategy will be released in 2018 and will outline the goals, objectives and actions to help deliver an equitable, diverse and sustainable supply of housing for all Canberrans. Addressing affordable and social housing needs will be a core platform of the new Strategy.

The following identifies some of the implementation parameters that may be involved with their delivery, including cost impacts and viability, and feedback received during consultation with the community sector, community housing providers, and the real estate and property sector.

Land tax concession

A land tax concession for residential property investors who rent their property to low and moderate income households at a discount to market rent through a not-for-profit community housing provider which is regulated under the National Regulatory System for Community Housing could assist in attracting more landlords to rent their properties at affordable rates.

While a land tax incentive is unlikely to cover the entire gap between full market rent and affordable rates, it could provide a financial concession to acknowledge a positive contribution by landlords to assisting low income households. If this is added to potential support offered by the Commonwealth (such as the possibility of a charitable tax deduction, or a capital gains tax discount for rental through a community housing provider), it may make the prospect of charging lower rents more viable for landlords who act on a commercial or semi-commercial basis.

Lower land tax rates to boost affordable rental rates was suggested during the consultations on the 2017 Discussion Paper – *Towards a new Housing Strategy*. Specific calls for tax remits, rates rebates or other taxation concessions linked to affordable rental provision by private landlords were raised by the following stakeholders during consultation:

- ACT Council of Social Services (ACTCOSS) and ACT Shelter
- Australian Institute of Architects, ACT Chapter
- Children, Youth and Family Services Program practice leaders
- Housing Industry Association
- Migrant and refugee community
- Real Estate Institute of the ACT
- Riverview
- Social Justice Group of the Canberra Region Presbytery of the Uniting Church
- Tenants' Union ACT, and
- YWCA.

As well as support for land tax, rates rebates or other financial incentives for private landlords, stakeholders raised some concerns that these incentives should perhaps be tied to other criteria as well as rental price. For example, it was suggested the incentives could be quarantined for properties that meet certain minimum standards with regards to:

- energy efficiency to reduce excessive heating and cooling costs;
- fixtures, fittings, repairs and maintenance to ensure properties remain safe and habitable; and
- limits on rental increases to ensure properties stay affordable.

Community housing providers called for such land tax or rates incentives to be specifically linked to the affordable rental real estate management scheme under the Affordable Housing Innovation Fund, in consultation and feedback received during Round 1 of the Innovation Fund. Linking and limiting the financial incentives to properties managed under this scheme, would help ensure the properties are being rented to eligible low income households and the maximum impact is achieved.

Financial incentives such as land tax concessions could also support a number of properties to enable a dedicated affordable rental real estate initiative to be viable.

If such a scheme was to be implemented in the ACT, it may be advisable to cap the scheme at 100 properties per year, to strike a balance to boost the supply of affordable rental homes and to assess the impact of the concessions on the budget. A cap on the number of properties allowed into the scheme may also provide an encouragement to landlords to sign up early, so they do not miss out on the incentive.

Analysis of the cost impact indicates that each property owner would receive on average a land tax concession of up to $3,000 by 2021-22.

The cost for 2019-20 onwards is calculated based on 100 properties being eligible for the scheme, of which 40 are median cost houses and 60 are median cost units. This is the current ratio of houses to units for investment properties in the Territory.

A higher ratio of houses would increase the cost, while a higher ratio of units would decrease the cost. The cost depends on the Average Unimproved Values of the properties, if these are below the median the scheme would cost less.

This incentive proposal may require amendments to the *Land Tax Act 2004* and associated regulations. Other stages of the implementation plan would involve communicating and marketing the incentive to potential landlord participants, and establishing reporting lines between the Community housing providers, or directly between participating landlords, and the ACT Revenue Office.

Rent guarantees

The proposal to introduce rent guarantees for property investors who rent their dwellings through a not-for-profit community housing provider regulated under the National Regulatory System for Community Housing may be unlikely to generate the best return on Government investment in affordable housing.

At present there is an insufficient body of evidence to point to a need to implement a rental guarantee for property investors who rent their dwellings through community housing providers. Every landlord assumes a degree of risk in making their property available for rent that they may experience periods where they are unable to tenant their property for one reason or another. This is part of the normal risk profile of investing in real estate.

There is no evidence to suggest that properties managed by community housing providers are likely to experience longer or more frequent periods of rental vacancy. In fact, the experience that community housing providers bring to managing affordable rental properties and lower income tenants, as well as the fact they frequently maintain waiting lists of eligible tenants for upcoming property vacancies, means that community housing providers more likely than conventional property managers to achieve continuous tenancy and stable rental returns.

It is therefore likely that Government investment would be better directed elsewhere for a greater impact. In addition, the uncertainty of the likely Budget impact from year to year makes it hard for Government to plan for and maximise the outcomes from the initiative.

During consultations on developing a new ACT Housing Strategy, rent guarantees were specifically mentioned by a number of stakeholders, including:

- Children, Youth and Family Services Program practice leaders.
- Disability Services Consultation.
- Aboriginal and Torres Strait Islander community members.
- Mental health service providers.

However, the focus of these initiatives was to help combat landlord discrimination against vulnerable groups of tenants. There may be more effective measures for achieving this aim, such as reforms to residential tenancy regulation, better information and education targeting landlords, and greater support and advocacy services for vulnerable tenants.

Other stakeholders, such as the Real Estate Institute of the ACT, were as much focused on property condition guarantees as rental ones. Again this may be more effectively dealt with through residential tenancy regulations or through information and education campaigns to target discrimination against vulnerable tenants, and better wrap around support for people struggling to maintain their tenancy.

If a rent guarantee for property investors who rent their dwellings through community housing providers was implemented, it would be important to restrict eligibility for the scheme to properties that are affordable for households in the lowest 40% of household incomes. Analysis by the Environment, Planning and Sustainable Development Directorate has shown that $321 per week would be the maximum affordable rent for a household in the lowest income quintile, and $579 per week would be the maximum affordable rent for a household in the second lowest income quintile. Any rental guarantee would also need to be limited to a reasonable maximum period between tenancies (such as 3 weeks), and could be restricted to no more than one application by a landlord per year.

The landlord receiving the compensation for lost rent would also need to demonstrate they had not placed any unreasonable barriers on the community housing provider attempting to let the property, such as discrimination against tenants in certain cohorts. Similarly, they would need to demonstrate the property was in reasonable condition and adequately maintained, and not unreasonably refuse minor modifications to help make the property accessible for people with disability or mobility restrictions.

To ensure these minimum conditions were maintained, would require a more intensive degree of oversight and monitoring which may make the scheme more costly to administer, but would be important to prevent misuse of the scheme.

Rates rebates

The proposal to introduce a rates rebates for community housing providers for properties where the tenants would be eligible for such rebates if they were home owners may marginally assist the community housing sector to reduce its operating costs in providing affordable rental properties.

Community housing providers face an ongoing challenge in meeting the yield gap between the lower levels of income they receive from affordable rental properties and the management and maintenance costs they bear in delivering social and affordable housing. Bridging this gap is often seen by those in the sector as key to attracting institutional investment to develop larger numbers of community housing-owned and managed dwellings.

Rates concessions are limited to owners to help alleviate housing stress in relation to ongoing payments. General rates help pay for the ACT's schools, hospitals, public transport and many other government services that all Canberrans can access. Public housing properties are not currently subject to any rates concessions.

The general rates rebate is capped at $700 per property per year, whereas previous initiatives to target the community housing yield gap, such as the National Rental Affordability Scheme, have provided incentives of up to $8,286 per year for ten years from the Commonwealth Department of Social Services, in addition to in-kind or annual cash contributions from the ACT Government. Investment on this scale would require a renewed Commonwealth commitment.

Stakeholders listing rates rebates as a potential financial incentive to encourage affordable rental housing supply were similar to those mentioned under the land tax heading above. However, the calls for rates rebates were not generally tied specifically to community housing providers, but were put forward as a means of increasing affordable rental properties more generally.

The cost of providing a general rates rebate ($700) to all the current dwellings owned and managed by community housing providers registered under the National Regulatory System for Community Housing (680 dwellings) would be $476,000 each year. Growth in the cost of the proposed rates rebate over future years would depend on the number of dwellings added to community housing providers' stock.

If a rates rebate were to be introduced, this would require amendment of the *Rates Act 2004*. Under the Act, the current rebate (targeted at pensioners) requires the property to be the owner's principle place of residence. A new style of rebate would therefore need to be set up under the legislation to implement this proposal.

While the proposed rates rebate may assist community housing providers to decrease their operating costs per property, the amount of the incentive is likely to be insufficient on its own to generate a material increase in their capacity to purchase and manage a larger stock of rental properties.

Measuring the success of the proposal would be difficult, as it would be hard to distinguish the impact from other, larger initiatives operating at the same time, such as the commencement of the Commonwealth's community housing bond aggregator. It would be possible to measure the take-up of the rebate by community housing providers and measure any increases in the number of affordable rental properties owned and managed by community housing providers.