

**Submission
No 107**

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NEW SOUTH WALES

Organisation: Lighthouse Infrastructure

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Mr Alex Greenwich
Committee Chair
Legislative Assembly Select Committee on Essential Worker Housing
Parliament House
Sydney NSW 2000

Subject: Public Submission to the NSW Legislative Assembly Select Committee on Essential Worker Housing

Background and Introduction

In September 2024, Lighthouse Infrastructure was requested to brief the NSW Legislative Assembly Select Committee (“the Committee”) on Essential Worker Housing, to help provide background information related to the terms of reference set out below.

Terms of Reference

(1) That the Committee inquire into and report on options for essential worker housing in New South Wales, specifically:

- (a) Establishing an appropriate definition for essential worker housing for the NSW Government to adopt including criteria for prioritising worker cohorts and geographical areas.*
- (b) Identify options to increase housing supply for essential workers, including but not limited to:
 - (i) planning tools and reforms*
 - (ii) incentives for developments on privately owned land*
 - (iii) opportunities within developments on government owned land*
 - (iv) investigate reforms that promote fiscal sustainability, innovation and essential worker housing in-perpetuity*
 - (v) other related matters.**

Following the briefing provided by Lighthouse to the Committee on 4 October 2024, Lighthouse Infrastructure was asked to prepare a public submission containing its recommendations provided to the Committee.

Lighthouse Infrastructure's experience investing in Affordable Housing

Lighthouse Infrastructure (Lighthouse) is a private sector boutique investment manager that invests institutional capital into Key Worker Affordable Housing, Specialist Disability Accommodation (SDA) and Renewable Energy. As it relates to affordable housing investment, Lighthouse:

- commenced investing in SDA in 2018 when we had gained confidence in the regulatory framework and funding provided by the NDIS. We have invested approximately \$300 million in SDA in partnership with the community sector in homes for over 400 NDIS eligible participants. We have committed capital to the sector of another ~\$300 million in investment capacity. In 2023 we secured \$132 million in debt from NAB and CBA as Australia's first Social Loan dedicated to SDA; and
- commenced investing in Key Worker Affordable Housing in 2021 after we gained the confidence in both the capability and capacity of the community housing sector and the ability to invest in a model that was not reliant on government interventions to succeed. We have invested \$120 million with SGCH to provide 161 homes to eligible key workers and their families at a minimum of 25.1% discount to market rent. We are looking to expand this investment program to cover more than 1,000 homes and replicate the private sector Social Loan funding we have in place with our SDA investments.

Essential Worker Affordable Housing – Recommendations for the State of NSW to attract institutional private capital investment in essential worker housing.

These recommendations are presented on the basis that the NSW Government is seeking to have private sector investment which takes market risks in the delivery of affordable housing.

- **Define Affordable Housing in your state** – create a legislative definition of affordable housing and essential worker affordable housing. Cross reference this definition in all applicable planning and tax legislation for clarity and certainty. Ensure that it is defined as housing that has a discount to market rent and NOT which is constrained by a % cap of the tenant's income. Capping to tenant's income will result in adverse impacts for tenant selection or greater cost to government. Household income-based eligibility to qualify for access to affordable housing is appropriate and consistent with ACNC charitable objectives. The GST Act definition for rent setting is a useful guide and GST exemption is critical to making affordable housing economically viable. Decide, with no ambiguity, which state taxes will apply to affordable and essential worker housing.
- **Utilise private sector planning initiatives for the creation of affordable housing** – planning incentives will be the path of least resistance from the property development sector ("density bonus" schemes). Over time and with significant notice, introduce greater development requirements so that they can be priced into the project's land when acquired by the developer. Planning regimes will allow the creation of affordable housing in harmony with market housing, rather than making these segments compete for access to the best sites.

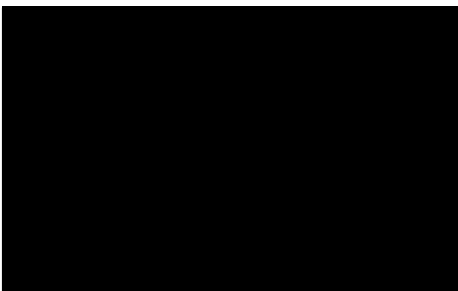
Planning pathways for affordable and essential worker housing need to be streamlined to ensure an efficient approval process. Time delays in the planning process add to the cost of development and impact on the ability of the private sector to deliver affordable and essential worker housing.

- **Urgently remove ambiguity from the transfer tax system** – provide clarity to the Commissioner and the investment market around the stamp duty exemption for housing for charitable purposes, where an investor partners with CHPs via charitable trusts. There is confusion in the investment market today which is creating doubt for investors in the social, affordable and disability housing sectors, and may make NSW a less than attractive state in which to invest. Most state jurisdictions have provided clarity on the exemption which gives confidence to investors. We ask that the Government decide whether or not they wish to levy stamp duty on private investors in these structures and provide clarity in the legislation. When resolved, we encourage the Government to promote this clarity for foreign and domestic capital sources.
- **“Crowd in”** – the affordable housing investment sector is in its infancy and may need some market interventions to catalyse a sustainable capital market. Well curated, this market could be as effective as the transport infrastructure finance sector as a valuable public policy opportunity. Consider the activities and the initiatives like those used by the CEFC in seeding investment funds, assisting investors in aggregating assets and avoid initiatives like the Housing Australia bond aggregator (which has crowded out private sector debt investment).
- **YFYS** – with the Your Future Your Super (YFYS) regulations imposed on superannuation funds remaining as they are currently, there is a strong disincentive for superannuation funds to invest in many emerging asset classes, like affordable and essential worker housing. NSW and other states should be applying pressure to the Federal Government to enable super funds to invest in affordable housing without any regulatory constraints.
- **Light-handed regulation** (but well organised regulation) is required. The Community Housing Sector operates within a regulatory framework. If there is a desire to expand this sector to more direct investment by private individuals, controls will be required. Any regulation brought in should not create more red tape and bureaucratic delays.
- **Register for Affordable and Essential Housing** - no single source of information available on the number, type and location of affordable and essential worker housing and no way to monitor the compliance i.e. that the affordable housing commitments are maintained for the agreed period, and that only suitably qualified tenants are the occupants of the housing. There is a need for a nation-wide digital platform for recording and monitoring affordable and essential worker housing commitments of all stakeholders – Federal Government, State Government, Local Councils, developers, community housing providers and tenants. NSW Government should take the lead and support the proposed PEXA/Housing All Australians register which seems an economically viable and sensible approach.
- **Avoid another Government program** – often a short-term distraction and counterproductive to the creation of a long-term capital market. There is little confidence from private sector capital that any “program” will provide a scaled investment solution of relevance to them long term.
- **Avoid looking to combine Affordable Housing Development with Social Housing Development as the “solution”** – investors will more readily participate in affordable housing developments within

private market developments. Use planning incentives to achieve this outcome, and reserve direct capital funding for social developments. Social Housing is nothing like Affordable and Essential Worker Housing from an operational, reputational or financial risk perspective.

- **Avoid development taxes to fund affordable and essential worker housing** – further cost imposes slow development. Administering these funds loses value. When these funds are sought to be applied they then compete with private development for access to key sites. The end result is higher housing costs. Share sites rather than compete for sites.

Yours sincerely,



Peter Johnston
Managing Director