Submission to the Senate Economics References Committee

Inquiry into the Role of Social Housing in Australia

From Housing Need to Housing Production Capability

The case for converting long term social housing need into bankable industrial demand

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1. Purpose of this submission

This submission proposes that Australia should consider its social housing shortage not only as a housing and social policy problem, but also as an opportunity to create a permanent, modern and high productivity housing production capability.

The central proposition is that Australia has a substantial and persistent need for housing, and particularly social housing, yet modern and industrialised housing production has struggled to achieve the required scale. My accompanying paper proposes that one important reason may be the absence of "bankable industrial demand": centralised, high volume and repeat procurement capable of supporting continuous investment in industrial production systems.

This submission therefore asks the Committee to consider a different policy question:

Could government (federal and state) deliberately organise Australia's long term social housing requirement into the bankable industrial demand required to establish and sustain modern housing production capability?

The proposition is not that government should necessarily own housing factories or select a single construction technology.

Rather, government may be uniquely capable of coordinating the conditions that sit upstream of a bankable industrial order book, including:

- Long term housing need;
- land;
- planning;
- infrastructure;
- financing;
- procurement; and
- demand certainty.

The accompanying paper identifies these upstream constraints and proposes an upstream integrated, anchor demand enterprise capable of converting aggregate housing need into bankable industrial demand.

2. Terms of Reference addressed

This submission principally addresses the following Terms of Reference.

Terms of Reference (e)

The role of modern methods of design and construction in building more social homes and creating communities with a high quality of life.

This submission directly addresses this Term of Reference by arguing that modern methods of construction should not be considered solely as a technology question. Their ability to scale may depend upon whether the housing market can generate sufficiently continuous and predictable demand to justify investment in factories, product development, DfMA, automation and industrial production systems.

Terms of Reference (f)

The benefits of a steady pipeline of social housing investment for the development of Australia's modern construction industry.

This is the principal Term of Reference addressed by this submission.

The central argument is that a sufficiently large, long term and reliable social housing pipeline could do more than fund individual dwellings. It could potentially provide the demand certainty required to create enduring productive capacity.

The inquiry itself therefore asks a question directly aligned with this submission's central proposition: whether a steady pipeline can contribute to the development of Australia's modern construction industry.

Terms of Reference (g)

Opportunities for further investment in public and community housing, including consideration of direct public spending along with different delivery and investment models in Australia and internationally.

This submission addresses this Term of Reference by proposing consideration of a different delivery model: an anchor demand model in which government coordinates a long term social housing production programme capable of supporting investment in modern productive capacity.

Terms of Reference (h)

Appropriate governance and administrative arrangements to deliver social housing at a scale to meet current and future need.

This submission directly addresses this Term of Reference by proposing that the scale of Australia's social housing need may require an enterprise or governance structure capable of coordinating the entire delivery system rather than funding individual projects or technology in isolation.

The NBN is included as a relevant Australian precedent for the creation of a dedicated, nationally coordinated government enterprise to deliver strategic infrastructure at scale.

Terms of Reference (a), (c), (d) and (j)

The submission also addresses:

- *(a) the economic and social benefits of investment in social housing;*
- *(c) the case for a target for social housing as a proportion of Australia's housing stock;*
- *(d) the impact of current federal, state and territory investment; and*
- *(j) any other related matters.*

In particular, this submission proposes that a long term social housing target should be connected to a long term production strategy. A target identifies how much housing Australia requires; a production strategy identifies how the country develops the capacity to deliver it.

3. Executive summary

Australia faces a substantial and persistent shortage of social housing.

At the same time, governments and industry have invested considerable effort and funding into modern methods of construction, off-site manufacturing, prefabrication, modular systems, DfMA and other industrial approaches to housing production.

Yet industrialised housing production has repeatedly struggled to achieve even modest scale, let alone sustained industrial scale.

This submission proposes that these two problems should be examined together.

The conventional policy question is:

How can Australia fund and build more social housing?

This submission asks:

Could Australia's continuing social housing requirement itself become the foundation for a permanent industrial housing production capability?

The distinction rests on the difference between aggregate demand and industrial demand.

Australia may have hundreds of thousands of households requiring social or affordable housing. That represents substantial aggregate demand.

However, aggregate demand does not automatically translate into a factory order book.

Industrial demand requires:

- centralised procurement;
- sufficient and ongoing volume;
- repetition;
- continuity;
- financial reliability; and

- commitments of sufficient duration to justify investment in productive capacity.

The accompanying paper defines industrial demand as:

Centralised, high volume, repeat procurement committed by an enterprise with the scale and capital capacity to absorb continuous industrial scale output.

The problem identified is that contemporary housing development remains organised as a series of separate projects. Projects have different sites, designs, consultants, approval conditions, financing structures and procurement arrangements.

A factory attempting to serve this fragmented market must continually replace its order book, and with different product requirements and dimensions.

The result is insufficient and inefficient utilisation of high fixed cost productive assets.

The submission's central proposition is therefore:

Modern housing factories require more than housing need. They require bankable industrial demand.

However, the submission also recognises that industrial demand does not arise independently.

A housing factory's order book sits downstream of:

land control + planning certainty + viable development economics + infrastructure + aligned finance + repeatable product demand

The accompanying paper identifies land, planning and regulatory certainty, site variability and capital volatility as upstream constraints that can prevent a development pipeline from becoming an unconditional, bankable order book.

This leads to the principal recommendation:

Australia should investigate whether governments can act as an anchor customer, or establish an appropriately governed anchor enterprise, capable of coordinating these upstream conditions and converting long term social housing need into bankable industrial demand.

There are Australian precedents for government intervening in this way.

The Continuous Naval Shipbuilding and Sustainment Enterprise demonstrates government deliberately establishing a long term demand pipeline to end boom and bust cycles and give industry confidence to invest in R&D, workforce, infrastructure and technical capability. The Australian Government's programme includes a 30 year shipbuilding and sustainment pipeline.

The National Broadband Network demonstrates another model: the Australian Government established NBN Co as a wholly owned Government Business Enterprise to design, build, operate and continue upgrading a national wholesale broadband network.

Neither precedent is identical to housing, and arguably not as critical. The United Nations Universal Declaration of Human Rights frames adequate housing as essential to life, rather than a basic market commodity.

However, together they demonstrate that Australia already uses different forms of government intervention when it considers a productive capability or national infrastructure system too important, complex or long term to rely solely upon fragmented and profit incentivised market activity.

4. The central problem: housing need is not the same as industrial demand

Directly addresses Terms of Reference (e) and (f)

Australia does not lack demand for housing.

The accompanying paper identifies a paradox: substantial aggregate housing need exists alongside manufacturing technologies capable of producing housing at much greater levels of repetition and industrial control, yet industrialised housing has struggled to achieve sustained scale.

The explanation proposed in the paper is not that technology is irrelevant.

It is that technology may be downstream of the enterprise capable of using it continuously.

A factory requires customers willing and capable of procuring from it at sufficient scale.

The existing project model commonly operates as follows:

1. A site is identified.
2. A project specific development is designed at a macro level.
3. Finance, planning and approvals are secured.
4. A project specific consultant and contractor team is assembled.
5. The project is delivered.
6. The enterprise moves to another project.

From the factory's perspective, this can mean that each project represents a new competition for an uncertain order.

The paper describes this as a fundamental distinction between the craft/project enterprise and the evolving production enterprise. A production enterprise standardises the production system itself, while a platform enterprise progressively standardises configurable rules, interfaces and digital systems.

The policy implication is significant:

Australia may not be able to industrialise housing merely by subsidising or encouraging the construction of factories.

Factories also require industrial scale customers to survive.

“Build it (MMC factories) and they will come” hasn’t worked before, and won’t work in Australia, unless the bankable industrial demand requirement is solved. See Katerra – founded in 2015, MMC factories in California, US$2 Billion invested and went bankrupt in 2021.

5. A steady social housing pipeline could create more than social housing

Directly addresses Terms of Reference (f)

A one off housing programme can build dwellings.

A sufficiently large and long term programme may potentially do something more:

It can create enduring productive capacity nationally.

This distinction should be central to the Committee's consideration of the benefits of a steady pipeline of social housing investment.

A predictable multi year programme could potentially support private investment in:

- R&D;
- manufacturing facilities;
- automation;
- DfMA;
- configurable product platforms;
- digital engineering;
- component standardisation;
- supply chain development and stability;
- workforce training;
- intellectual property; and
- continuous improvement.

The potential industrial relationship is:

Anchor Demand → Higher Capacity Utilisation → Repetition and Learning → Greater Productivity → Potentially Lower Unit Costs → Greater Capacity

This is the industrial flywheel proposed in the accompanying paper.

The policy objective should therefore not be limited to:

How many social homes can government fund this year?

It should also be:

What long term production commitment would enable Australia to develop the greatest possible productive capacity to meet this continuing need?

This does not mean every social housing dwelling should be identical.

The paper specifically recognises that land and sites create legitimate variation. The more appropriate objective may be the standardisation of configurable platforms, components, interfaces and production rules, rather than identical complete buildings.

6. The important qualification: the factory is downstream of the housing system

Directly addresses Terms of Reference (d), (g) and (h)

This submission does not argue that government can simply announce a target number of homes and expect industrial production to emerge.

That would start the model too late.

A factory order book is downstream of the housing planning, design and development system.

The accompanying paper identifies the principal upstream constraints as including:

Land control and assembly

A continuous programme requires continuing access to suitable, serviced and economically viable sites.

Planning and regulatory certainty

Fragmented approval processes and unnecessary variation can undermine repetition and make continuous production difficult.

Development feasibility

Housing must still be economically capable of being delivered.

Capital and volatility

Private projects are dependent upon valuations, interest rates, presales, debt availability, equity and market timing.

For this reason:

An aggregated development pipeline is not necessarily the same as an unconditional industrial order book.

This is where the role of government becomes relevant.

Government collectively possesses policy, financial and administrative tools extending beyond those available to a single project developer.

Depending upon the level of government and relevant jurisdiction, these include influence over:

- public land;
- planning;
- infrastructure;
- housing funding;
- long term financing; and
- procurement.

The Federal Government cannot independently control every one of these variables.

Accordingly, the model proposed should not be understood as a Federal Government only solution.

It would require a coordinated framework involving federal, state and territory governments and, where necessary, local government, housing providers and private industry.

The proposed role is not necessarily for government to manufacture housing.

It is to consider whether government can become the enterprise that the fragmented market is presently unable to be: an enterprise capable of integrating upstream conditions and making long term industrial procurement decisions.

7. Australian precedent 1: Continuous Naval Shipbuilding

Directly relevant to Terms of Reference (f), (g) and (h)

The Continuous Naval Shipbuilding and Sustainment Enterprise is, in my view, the strongest Australian precedent for the central proposition of this submission.

The Australian Government has explicitly recognised the economic and industrial problem created by irregular demand.

Its Continuous Naval Shipbuilding and Sustainment Enterprise is designed around a long term production pipeline. The Government states that its 30 year programme is intended to support the development and uplift of Australia's maritime industrial base.

Most importantly for this submission, the Government states:

"Ensuring sufficient and balanced demand will end the boom and bust cycles of the past and provide confidence to industry partners to invest in their technical capabilities, workforce, infrastructure and security."

That statement closely reflects the proposition being advanced for social housing.

The Government is not merely purchasing individual ships when required.

It is deliberately organising a continuous demand pipeline because it recognises that an industrial capability cannot be efficiently developed and retained through repeated boom and bust cycles.

The Strategic Shipbuilding Agreement at Henderson, Western Australia provides an even more direct example. Defence states that the agreement is intended to secure a continuous pipeline of work, provide a long-term demand signal and incentivise investment in workforce, supply chains and infrastructure.

The relevant sequence is:

Long-term national requirement

↓

Government aggregates procurement

↓

Government provides a visible long-term demand pipeline

↓

Industry gains confidence to invest

↓

Productive capacity, workforce and supply chains develop

↓

A more capable and resilient industrial base emerges

The submission does not suggest that housing and naval shipbuilding are economically identical.

The precedent is the policy mechanism.

Australia has already recognised in another strategically important sector that industrial capability requires continuous demand.

The Committee should consider whether the same principle has relevance to a permanent social housing requirement.

8. Australian precedent 2: The National Broadband Network

Directly relevant to Terms of Reference (g) and (h)

The NBN provides a different, but equally important, precedent.

Where continuous naval shipbuilding demonstrates the anchor customer and long-term demand pipeline model, the NBN demonstrates a possible anchor enterprise model.

NBN Co was established by the Commonwealth in 2009 as a Government Business Enterprise. It is wholly owned by the Commonwealth and was established to design, build and operate Australia's national wholesale broadband network.

Today, NBN Co operates within a framework in which its objectives are set by its Shareholder Ministers, while its Board exercises the corporate powers of the company. It is also subject to the legislative and regulatory framework applying to a Commonwealth Government Business Enterprise.

The relevance to this submission is not that government should simply replicate NBN Co in housing.

The relevance is more fundamental.

The NBN demonstrates that where Australia identified a national infrastructure requirement requiring:

- very substantial capital;
- long term investment;
- national scale coordination;
- complex procurement;

- private sector supply chains; and
- delivery over many years,

government created a dedicated enterprise to assemble and coordinate those functions.

That enterprise then became a single, industrial scale procurer and operator.

The NBN therefore provides a potential governance analogy for the housing proposition.

A future housing model might involve a dedicated enterprise that:

- identifies and coordinates a long term social housing production requirement;
- works with states and territories on land and planning;
- aggregates demand;
- has a dedicated R&D function for both product and production systems;
- is a centralised target for innovation that includes the ability for appropriate prototyping and evaluation.
- designs product and production systems;
- develops long term procurement programmes;
- procures competitively from multiple private enterprises;
- coordinates infrastructure and delivery; and
- creates sufficient order book visibility for industry to invest.

Critically, such an enterprise would not necessarily manufacture housing itself.

The NBN precedent instead demonstrates that government can establish an enterprise to coordinate and procure a complex national production and infrastructure programme while relying substantially on private sector suppliers.

This distinction gives the Committee a potentially important choice of models:

Model 1: Government as anchor customer

Government aggregates and commits to long term procurement while private enterprises compete to supply.

Model 2: Government establishes an anchor enterprise

A dedicated, commercially governed enterprise designs and coordinates the production system, procurement and upstream requirements while procuring competitively from private industry.

The appropriate model may ultimately be a hybrid.

The key point is that Australia already has experience with both long term demand creation and dedicated national scale government enterprises.

9. Social housing as an industrial foundation, not merely a construction programme

Directly addresses Terms of Reference (a), (e), (f) and (g)

The potential public benefit of this approach is that government expenditure could potentially create two forms of value.

First: the direct social outcome - more Australians receive secure and appropriate housing.

Second: the productive capability outcome - Australia develops greater capacity to produce housing.

If a modern housing production system achieved sufficient scale, the resulting capability could include:

- factories, repurposed existing and new;
- skilled workforces;
- standardised supply chains;
- configurable product platforms;
- accumulated intellectual property;
- improved production systems; and
- lower production costs arising from learning, scale and repetition.

That capability need not remain confined to social housing.

Once sufficient scale and maturity are achieved, private developers, community housing providers and other institutional purchasers could potentially utilise the established production system.

The longer term policy sequence could therefore be:

Public social housing requirement

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Long term anchor demand

↓

Investment in industrial productive capacity

↓

Higher utilisation and accelerated learning

↓

More capable and productive housing supply chain

↓

Potential expansion into broader housing markets

This is not a guarantee that industrialisation will automatically reduce housing prices.

The submission recognises that land values, finance, infrastructure costs, planning, development margins and market conditions also influence housing prices.

The more defensible proposition is that a successful industrial production system could increase Australia's capacity to produce housing and potentially reduce the cost of production over time.

Whether those benefits flow into lower prices, higher supply or some combination depends upon the broader housing market.

10. A social housing target should be linked to a production strategy

Directly addresses Terms of Reference (c), (d) and (f)

The Committee is considering whether Australia should establish a target for social housing as a proportion of national housing stock.

This submission does not recommend a particular percentage.

It recommends that, if a target is established, it should answer two separate questions.

Question 1: What is the social housing objective?

How much social housing does Australia require to meet current and projected need?

Question 2: What productive capacity is required to deliver and maintain it?

What annual production rate will be required, over what period, and through what production system?

This distinction matters.

A target without a delivery and production strategy identifies the destination but not necessarily the means of getting there.

A long term production strategy, however, could potentially convert the target into:

- annual procurement volumes;
- long term demand forecasts;
- factory investment decisions;
- workforce requirements;
- supply chain planning; and
- productive capacity.

Australia's previous parliamentary inquiries have already recorded substantial estimates of unmet social and affordable housing need and proposals for long term annual building pipelines.

The new inquiry provides an opportunity to examine not only how much social housing should be delivered, but how the requirement should be organised to create maximum long term production capability.

11. Recommendations

Recommendation 1 - Establish a long term social housing production target and pipeline

That the Federal Government, in cooperation with states and territories, consider translating any long term social housing target into a rolling 10 year or longer indicative production pipeline.

The purpose should be to provide greater certainty to:

- social and community housing providers;
- land and infrastructure planners;
- private capital;
- construction enterprises;
- modern construction manufacturers; and
- workforce and training providers.

The pipeline should be reviewed and updated regularly but designed to provide sufficient long term visibility to support investment.

Terms of Reference addressed: (c), (d), (f) and (g).

Recommendation 2 - Examine an Australian social housing anchor demand model

That the Committee recommend examination of whether governments can aggregate sufficient social housing demand to create bankable industrial demand for modern housing production.

The model should not select a single technology.

Rather, it should establish procurement arrangements capable of supporting:

- competition;
- innovation;
- configurable DfMA platforms;
- repeatable production systems; and
- investment in productive capacity.

Terms of Reference addressed: (e), (f) and (g).

Recommendation 3 - Establish a coordinated upstream delivery framework

That any industrial housing programme integrate procurement with the conditions required to create a bankable order book, including:

- land;

- planning;
- infrastructure;
- feasibility;
- financing; and
- demand certainty.

The Committee should recognise that a factory order book is downstream of these conditions.

Procurement reform without upstream coordination may therefore be insufficient.

Terms of Reference addressed: (d), (g), (h) and (j).

Recommendation 4 - Examine governance models based on Australian precedents

That the Committee examine at least two governance models:

A. Anchor customer model

Comparable in principle to continuous naval shipbuilding, in which government provides a sufficiently visible and continuous demand programme to enable industry to invest in productive capability.

B. Anchor enterprise model

Comparable in governance principle to the NBN, in which a dedicated enterprise coordinates a national scale requirement, long term capital and procurement while engaging competitively with private suppliers.

The purpose would not necessarily be to create a government housing manufacturer.

The purpose would be to determine whether a dedicated enterprise could better coordinate the fragmented upstream and procurement conditions required to deliver housing at scale.

Terms of Reference addressed: (f), (g) and (h).

Recommendation 5 - Measure social housing investment by both dwellings delivered and productive capacity created

That governments consider whether major social housing programmes should assess not only:

How many dwellings were delivered?

but also:

What enduring productive capability was created?

Measures could include:

- capacity utilisation;
- production lead times;

- workforce development;
- supply chain capability and sustainability;
- repeatability;
- productivity;
- quality;
- cost trends; and
- the ability of the resulting production system to serve future social and broader housing demand.

Terms of Reference addressed: (a), (e), (f), (g) and (j).

12. Conclusion

Australia's social housing shortage requires more homes to be produced.

But it may also provide an opportunity to address a second structural problem: Australia's capacity to produce housing at the scale and productivity required by current and future demand.

This submission does not claim that industrialised construction is a standalone solution to Australia's housing crisis.

It is not.

Land, planning, finance, infrastructure, feasibility and market conditions remain critical.

Nor does the submission argue that every building should be identical, or that one construction technology should be selected by government.

The proposition is more fundamental.

Australia has a large, persistent and relatively predictable social housing requirement.

Modern housing production systems require long term, repeat and reliable demand to justify investment in productive capacity.

Government may be uniquely capable of converting the first into the second.

Australia's experience in continuous naval shipbuilding demonstrates a deliberate policy to create sufficient and continuous demand so that industry can invest in workforce, infrastructure and capability rather than being trapped in boom and bust cycles.

Australia's experience with the NBN demonstrates that government can establish a dedicated enterprise to coordinate a complex, capital intensive, national scale requirement and act as a single large scale procurer and operator while working through private supply chains and markets.

Together, these precedents suggest a proposition worthy of examination:

Could Australia organise its continuing social housing requirement in the same deliberate way that it has organised other strategically important national requirements, by creating the long term demand certainty and enterprise capability necessary for productive capacity to develop?

The answer may not be one new factory.

It may not be one new technology.

It may not even be one new government institution.

But the inquiry should consider whether the existing project by project model is capable, on its own, of creating the industrial scale demand and coordinated production system required to meet Australia's social housing needs.

The accompanying paper's central model remains:

Upstream Integration → Anchor Industrial Demand → Configurable Product Platforms → Industrial Production Scale

The potential result is a reinforcing industrial cycle:

Long-Term Demand → Investment → Capacity Utilisation → Repetition → Learning → Productivity → Greater Housing Production Capacity

If Australia can establish that cycle, investment in social housing could potentially achieve two enduring outcomes:

1. more secure homes for Australians who need them; and
2. a stronger, more productive and more permanent national capability to produce housing.

That, in my view, is the opportunity the Committee should investigate.

Thank you for taking the time to read and consider my submission.

Please don't hesitate to contact me to discuss further or if you have questions.

Accompanying paper

The Anchor Customer: How government could turn housing need into bankable industrial demand evolving the built form enterprise to solve the social housing supply crisis 260826