To: Retirement Income and Superannuation Division, The Treasury
Consultation: Strengthening the superannuation performance test
Date: 19 June 2026

1. About Australian Community Housing

Australian Community Housing (ACH) is the national peak body for Australia's not-for-profit community housing sector. Our members develop, own and manage social and affordable housing across Australia, working with governments, Housing Australia, private capital, philanthropy and local communities to deliver secure homes for people on low and moderate incomes.

Across Australia, the community housing sector manages 149,000 homes and more than $23 billion in assets.

Community housing providers are long-term stewards of essential social and economic infrastructure. They reinvest surpluses into homes, services and communities, and are central to national efforts to expand social and affordable housing supply through Housing Australia programs, state and territory investment, build-to-rent partnerships, land renewal projects and institutional capital structures.

ACH welcomes the opportunity to respond to Treasury's consultation on strengthening the superannuation performance test.

2. Executive summary

ACH supports the objective of the annual superannuation performance test and the primacy of trustees' duty to act in members' best financial interests. ACH is not seeking preferential treatment for social and affordable housing or arguing that superannuation capital should be directed into housing on concessional terms.

The issue addressed in this submission is benchmark misalignment.

Eligible social and affordable housing (eligible housing) is a long-duration, policy-supported, income-producing asset. It has different income drivers, risk settings, operating requirements and public benefit obligations from commercial property. It is more comparable to social infrastructure than to office, retail or industrial property. Yet it is commonly assessed against property benchmarks dominated by office, retail and industrial assets.

ACH's member, investor and corporate partner consultation indicates this mismatch is affecting investment conversations. We have heard examples where the performance test, benchmark treatment, asset classification or required return settings made otherwise promising investment discussions harder to progress.

The performance test is not the only barrier. Others include scale, deal flow, transaction complexity, inconsistent definitions, thin data, limited secondary market optionality, and the funding gap created by below-market rents. However, benchmark misalignment is an avoidable policy distortion and should be addressed.

ACH recommends that Treasury:

- introduce a tightly scoped emerging asset treatment for eligible housing, with ACH's preferred option being a dedicated covered asset class;
- tie eligibility to clear definitions, enduring affordability, measurable public benefit and CHP stewardship;
- introduce a benchmark framework for stabilised operating-stage assets based on a long-term risk-free rate plus an appropriate margin, calibrated using Housing Australia data and other observed market evidence;
- explicitly exclude construction and development-stage projects from any Bonds + X benchmark, with transitional treatment until assets are operational or stabilised;
- avoid impractical differentiated benchmarks for social housing, key worker housing, discounted rental housing and other subcategories, and instead rely on clear eligibility and public benefit criteria;
- ensure any near-term reform is accompanied by routine benchmark review and broader market-building measures focused on scale, standardisation, data, transferability and nationally consistent definitions.

The objective should be to remove avoidable benchmark distortion while preserving the integrity of the broader test.

3. Response to Treasury's reform options

Option 1: Adjust for emerging and alternative asset classes

ACH supports a dedicated covered asset class for eligible housing. This remains the preferred option because it would recognise the distinctive combination of long-duration income, policy support, regulated stewardship, below-market rental settings and measurable public benefit that characterises social and affordable housing.

ACH recognises, however, that a dedicated asset class is a high bar for Treasury and policymakers. It may also invite other emerging investments to argue for bespoke categories. If Treasury does not proceed with a dedicated covered asset class, the next best option would be to treat eligible housing as a clearly defined social infrastructure or infrastructure exposure, rather than as commercial property or a broad Alternatives exposure. Schools, hospitals, prisons and other social infrastructure projects have more comparable long-duration, policy-supported and income-producing characteristics.

The preferred benchmark for stabilised operating-stage assets is therefore a long-term risk-free rate, such as the Australian Government 10-year or 20-year bond yield (Bonds), plus an appropriate margin. As the consultation paper notes, this is a credible alternative to CPI + X and more closely reflects how institutional investors and subordinated debt providers assess required returns. The margin should be calibrated using observed market evidence, including Housing Australia data on closed HAFF transactions and relevant subordinated debt pricing.

CPI + X should not be the primary benchmark. It is a policy proxy rather than a market benchmark, does not reflect how investors price risk, and can produce distorted outcomes across inflation and interest-rate cycles. While CPI + X may be a fallback where no better evidence exists, that is not the case here: HAFF-supported transactions have already closed, and relevant market pricing and program data is becoming available.

Development-stage projects should be expressly excluded from any Bonds + X benchmark, or placed in a transitional treatment until practical completion, occupancy and operating cash flows are established. This is practically feasible. Housing Australia already collects project milestone, funding, construction, completion, occupancy and reporting data that could support phase-based treatment and routine benchmark calibration.

Treasury should not seek to create separate benchmarks for social housing, key worker housing, discounted rental housing and other affordability subcategories. In practice, the data set is likely to be too thin, and differentiated benchmarks could unintentionally steer investors toward only the subcategory that screens best against the test. A single eligible housing treatment, supported by clear eligibility criteria and enduring affordability requirements, would be more practical and consistent with the superannuation policy framework.

Option 2: Introduce an assessment of risk-adjusted returns

ACH sees merit in the logic of a risk-adjusted return framework, particularly because it may reduce benchmark-specific distortions.

However, a simple reference portfolio should be treated cautiously. Volatility is not a complete measure of risk for social and affordable housing, particularly where development, operating, policy, liquidity and valuation risks differ materially from listed market exposures. Infrequent valuation of unlisted assets can also smooth volatility and distort comparison.

Treasury should undertake further modelling and shadow testing before implementation.

Option 3: Introduce a routine benchmark review

ACH strongly supports routine benchmark review. This is the most durable reform in the consultation paper and should accompany any near-term changes. A standing review mechanism would allow Treasury to recalibrate benchmark settings as markets mature, data improves and investable structures become more standardised, while preserving the overall integrity of the performance test.

4. Response to selected consultation questions

Question 1: To what extent does the test constrain decisions to invest in certain asset types?

The test can constrain investment where benchmarks do not reflect the economics of the underlying asset.

For social and affordable housing, existing property benchmarks are dominated by commercial property exposures with different income, valuation and operating characteristics. The closer comparison is social infrastructure: long-duration assets with policy settings, service or public benefit obligations, and relatively stable income streams. Treating eligible housing as ordinary commercial property can create tracking error unrelated to asset quality, complicate internal approvals and make otherwise credible investments harder to progress.

ACH's consultation identified examples where the performance test, benchmark treatment or asset classification affected investor conversations. The constraint appears most acute for development-stage exposure, where construction and ramp-up risk sit alongside limited operating history and limited comparable data.

Question 2: Would a new covered asset class with a CPI + X benchmark address investment constraints?

A new covered asset class could materially improve the position if it is tightly scoped and calibrated properly. It would reduce inappropriate comparison with commercial property benchmarks and provide a more credible near-term treatment where no established market index exists. If a dedicated covered asset class is not adopted, an explicit social infrastructure or infrastructure treatment would be a more practical fallback than continuing to classify eligible housing as commercial property or as a broad Alternatives exposure.

However, CPI + X may be suitable for some structures, but it may not reflect how institutional investors price risk in many cases.

Instead of CPI + X, the preferred benchmark for stabilised operating-stage assets should be a long-term risk-free rate plus an appropriate margin. Its effectiveness will depend on clear eligibility rules, disciplined calibration using Housing Australia data and observed market evidence, explicit exclusion or transitional treatment of development-stage projects, and careful handling of timing differences between investment date and prevailing benchmark settings.

Questions 3 and 4: How should a new covered asset class be designed?

Eligibility should be principle-based and limited to assets delivering enduring affordability and measurable public benefit.

Relevant criteria should include:

- target cohort;
- rent-setting mechanism;
- depth and duration of affordability;
- regulatory or contractual protections;
- CHP stewardship or equivalent regulated operation;
- transparent public benefit reporting.

Treasury should explicitly distinguish between development-stage and stabilised assets. Development-stage exposure should be excluded from any Bonds + X benchmark, or receive transitional treatment, until assets are operational and sufficient completion, occupancy and cash-flow data exists. For stabilised assets, the margin above the risk-free rate should reflect actual risk-adjusted return expectations once subsidy, concessional finance, operating cash flow and stewardship capability are in place.

There is already an emerging base of subordinated debt investors participating in HAFF-funded projects. Treasury should draw on Housing Australia data it already collects, including closed transaction pricing, subsidy settings, loan terms, delivery milestones and operating evidence, to inform calibration of the benchmark. Implementation design should also address timing differences between the investment vintage and the prevailing risk-free rate environment so that subsequent movements in government bond yields do not create artificial benchmark underperformance for assets priced appropriately at inception.

Benchmark design should avoid unnecessary barriers to market entry or capital competition and should not privilege a small number of incumbents.

Questions 5 to 7: Would improving the Alternatives category address constraints?

Not as a long-term solution.

Improving Alternatives may be administratively simpler, but it would continue to group social and affordable housing with strategies that have materially different risk, return and liquidity characteristics. If Treasury does not create a dedicated covered asset class, the better fallback is explicit treatment as a defined social infrastructure or infrastructure exposure. Changes to Alternatives should remain transitional and should not displace more tailored treatment for eligible housing assets.

Questions 8 to 10: Would a simple reference portfolio address constraints?

Potentially, but only with further modelling and shadow testing.

A risk-adjusted framework may reduce benchmark-specific distortions, but volatility alone is not a sufficient proxy for risk in social and affordable housing. Relevant risks include development, operating, policy, liquidity, valuation and counterparty risk. Any future design should distinguish between development-stage and stabilised assets.

Questions 11 to 15: Would routine benchmark review improve the test?

Yes. Routine review is the most durable reform in the consultation paper and should accompany any near-term emerging asset treatment.

Reviews should occur every three to five years and consider benchmark suitability, calibration, fee and tax assumptions, data availability, transferability and whether assets in development phase require distinct treatment. Treasury should lead the review process with input from APRA, Housing Australia, superannuation funds, CHPs and relevant investment stakeholders, and should test benchmark settings against Housing Australia data collected through HAFF and other Commonwealth-supported housing transactions.

Housing Australia should have a clear role in supporting the data architecture for future calibration, including transaction pricing, subsidy settings, concessional finance terms, delivery milestones, occupancy, operating performance and transferability evidence. This would allow benchmark settings to be updated as the market matures, rather than frozen around early market assumptions.

5. Clear definitions and enduring affordability

Clear definitions are essential to investor confidence, superannuation member confidence and public value.

Social housing is generally better understood: it is targeted to people on very low incomes or in greatest housing need, with rent set by reference to household income.

Affordable housing is less consistently defined. Across government programs, it can mean discounted market rent, income-linked rent, key worker housing, planning-generated affordable housing, time-limited affordable rental, or mixed-tenure housing with some affordable dwellings.

The Commonwealth should play a leading role, through National Cabinet, Commonwealth funding agreements and Housing Australia program design, in moving states and territories toward a more uniform definition of affordable housing. Greater consistency would materially improve investment certainty, reduce transaction costs and, over time, lower the cost of capital.

This inconsistency should be addressed. Investors need to understand what they are investing in, what public benefit is being delivered, and how the asset should be assessed over time. Superannuation funds also need to explain why an investment in eligible housing meets members' best financial interests and is not simply government-directed expenditure.

Governments need confidence that public contributions – whether land, subsidy, concessional finance, tax settings or planning benefit – are matched to clear and measurable public value.

Tailored benchmark treatment should therefore be linked to enduring affordability, not short-term discounted rental products where homes can revert to market rent or sale.

6. Market-building beyond the performance test

The performance test is a real barrier, but it is not the only barrier.

The deeper structural constraint is the funding gap: the difference between the cost of delivering and operating community housing and the rental returns generated by those homes. Social and affordable housing rents are deliberately set below market. Construction, land, finance, maintenance and operating costs are not.

Performance test reform will not make unviable projects viable. But it can remove a distortion that makes otherwise viable investments harder to progress.

Investor feedback reinforces that social and affordable housing must demonstrate compelling risk-adjusted returns. The sector should not assume capital will come because the social need is clear. Capital will move to the best risk-adjusted opportunity available.

A mature eligible housing market, whether recognised through a dedicated asset class or as part of social infrastructure, will require scale, aggregation, standardised contracts, clearer risk allocation, construction-to-operation financing pathways, better data, transferability, strong CHP operating partners and pipeline certainty.

This is where the continuation of HAFF or a HAFF-like program matters. HAFF has created major momentum and HAFF Round 3 shows significant improvement, particularly through a stronger focus on the full funding stack. But the clearest way to crowd in capital is for government funding to be directed to the part of the market that private capital cannot efficiently price: the long-term funding gap created by below-market rents.

In practical terms, that means long-term availability concessions or equivalent subsidy streams, ideally for 25 years, that support eligible homes while leaving CHPs and their partners to source competitive senior debt from the market and, where cash flows allow, competitive mezzanine debt. Government cannot be the source of all capital, but it does need to provide the patient public contribution that makes risk-adjusted private capital viable.

A mature asset class will also require a secondary market. Many projects produce no operating income during construction, and investors price development-stage exposure very differently from stabilised operating assets. Once assets are completed, stabilised and packaged into portfolios, they may become more attractive to superannuation funds and other long-term investors.

Housing Australia funding and loan documentation should avoid unnecessary barriers to transferability, refinancing or on-sale of institutional positions, while maintaining protections for enduring affordability, tenant outcomes and public value.

7. Conclusion

Treasury is right to examine whether the performance test unintentionally disadvantages assets that are not well represented by current benchmarks.

Social and affordable housing is a clear case. It is long-duration, income-producing and policy-supported, but its operating characteristics, public-purpose obligations and risk profile are not well captured by commercial property benchmarks dominated by office, retail and industrial exposures.

ACH urges Treasury to introduce targeted emerging asset treatment for eligible housing, preferably through a dedicated covered asset class and, if that is not adopted, through explicit treatment as a defined social infrastructure or infrastructure exposure. Treasury should consult further on a Bonds + X benchmark for stabilised operating assets, explicitly exclude or transition development-stage exposure, avoid impractical subcategory benchmarks, establish routine benchmark reviews using Housing Australia data, and align performance test reform with a broader strategy to build social and affordable housing as an investable market.

That broader strategy must recognise that social and affordable housing requires matched public investment. Institutional capital can help scale delivery, but it cannot replace government subsidy where rents are deliberately set below market.

Above all, reform should create a framework where eligible housing can compete fairly for capital by demonstrating disciplined risk-adjusted returns, clear public value, enduring affordability, CHP stewardship, and a credible pathway from project delivery to stable, investable, long-term social infrastructure.