The Henry Halloran Trust

Potential private sector roles in affordable housing supply in Australia: working in collaboration across sectors

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Cover image: Affordable housing, San Francisco, Nicole Gurran

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The Henry Halloran Trust

Potential Roles for the Private Sector in Affordable Housing Supply in Australia: Working Collaboratively Across Sectors

Final Report

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Executive Summary

The study

This research addresses the overarching question 'What is the role of the private sector in affordable housing supply in Australia?' The study explores the opportunities, barriers and strategies to engage the private sector in affordable housing supply, working collaboratively with government and the community housing sector.

The review builds on scholarly and policy research on the private sector's role in affordable housing supply internationally. This includes research into private sector investment, delivery and management of affordable housing in the United States (Gilmour and Milligan 2009), United Kingdom (Gurran and Whitehead 2011; Berry et al. 2006), and other European countries (Lawson et al. 2014; Rowley et al. 2016; Martin, Hulse et al. 2018).

The review also builds on research into Australia's existing affordable housing market and demand (Hulse et al. 2015; Hulse, Parkinson et al. 2018) and opportunities for enhancing the private sector's investment in the market (Lawson et al. 2019; Milligan et al. 2013).

The study involved an evidence review of published research, policy and program materials and other secondary and primary sources to identify policy mechanisms, roles, benefits, and risks and to document case studies. A comparative assessment was undertaken using an evaluation framework of objectives for affordable housing initiatives developed by Milligan et al. (2007) and adapted for this study. The research, analysis and initial findings were presented at two workshops held in November 2019 at the University of Sydney with housing academics from Australia and the United Kingdom and practitioners from the public, private and not for profit sectors. This provided an opportunity to gain feedback to refine the analysis and findings presented in this Final Report.

What is affordable housing and why do we need it?

Affordable housing refers to housing that can be bought or rented by a low to moderate income household at a cost of not more than 30 per cent of their household income.

There is a significant shortage of affordable, available rental housing across Australia. A large portion of low to moderate income households are in housing stress, paying more than 30 per cent of income on housing: 78 per cent of low income households and 29 per cent of moderate income households exceed the affordability threshold (Hulse et al. 2015). Despite cyclical changes in the housing market, affordability for low income households is a structural problem in the Australian housing system and reflects long term barriers to home ownership and contraction in new funding for affordable housing supply relative to population growth and housing need (Yates 2011).

Recent research estimates that addressing the deficit and future need will call for the construction of at least 727,000 new social and affordable homes across Australia over the next 20 years, equivalent to 36,000 new homes a year, compared to recent supply of around 3,000 a year (Lawson et al. 2019).

Key Findings

Why the private sector's role in affordable housing is important in Australia

The private sector's role in affordable housing is a contested debate internationally both in academic literature and in practice. While increasing supply, some see shifts to engage commercial operators as government outsourcing its role at the expense of not for profit providers and residents (Beer 2016; Gurran and Whitehead 2011; Fields and Uffer 2016).

Notwithstanding the merits of this debate, the potential role for the private sector to play in affordable housing supply in Australia warrants deeper investigation.

As stated above, there is a significant shortage of affordable housing across Australia.

The current Federal and State bi-lateral funding agreement for housing assistance requires increased social and affordable housing construction to meet existing and projected need, but with no additional funding (Australian Government 2017).

The Federal Government has established the first bond aggregator to provide low cost debt to registered community housing providers for new housing development, but this will have limited impact at current funding levels (Australian Government 2019).

Community Housing Providers (CHPs) are experts at building and managing social and affordable housing (Milligan et al. 2017). They are growing, but can't address the need for more housing alone.

State governments are implementing planning policies and asset renewal programs to encourage private sector supply of affordable housing. This will help, but won't provide all of the new social and affordable housing needed.

There is a perception that, in the absence of sufficient Government funding and constraints on CHP sector capacity, the private sector will have to contribute to affordable housing supply if the unmet demand is to be met and the issue of widespread housing stress in low to moderate income households across Australia is to be addressed.

The private finance and construction sectors have indicated interest in this potential market in Australia, as a means of counteracting the slowing private housing market and sustaining levels of new housing construction.

Institutional investors report a real interest in affordable housing as a new investment product, subject to satisfactory risk and return profiles.

International experience – roles, benefits and risks

The private sector has played a significant role in affordable housing supply in a variety of housing systems across Western countries over the past decades, stimulated by government policies, subsidies and planning mechanisms. The sector has financed, delivered and managed affordable housing, in some cases in partnership with not for profit housing providers and in other cases in competition with this sector. These have achieved a range of positive outcomes, as well as some unintended negative consequences and trade-offs.

Finance
In the United Kingdom billions of pounds in institutional investment for affordable housing have been stimulated by government backed bonds, providing low cost finance (both equity and debt) to not for profit housing associations. Affordable housing has evolved into a mature investment market, supported by strong regulation of not for profit housing associations, transfer of assets to their balance sheets and long term rental revenue guarantees. In the UK and US, Government subsidies for millions of low- and moderate-income households have improved affordability in the private rental sector, and supported debt servicing for developers (private and not for profit) to build or refurbish affordable housing. The benefits of this institutional investment are balanced by concerns that this financialized funding is forcing housing associations away from their social housing mission to become private sector

developers whose main focus is on open market developments and increased rental income from affordable and market price homes.

Development
Tax subsidies and government backed loans have stimulated development of a pipeline of projects including millions of affordable rental homes. Private developers are providing 'build to rent' projects, a percentage of which often include affordable housing, in the United States and the United Kingdom. In other countries, individuals and smaller companies have also invested in tax subsidies to develop small affordable housing projects. While increasing supply, affordability is secured only for the duration of the tax subsidy, presenting challenges in retaining these assets for low- and moderate-income households.

Planning incentives have successfully incentivised private development of affordable housing in major residential projects, sometimes in exchange for increased density, planning concessions or accelerated assessment. These have been most effective where the requirement for affordable housing is considerable (30 to 50 per cent of the development) and has been a mandatory consideration for approval of any project, such as in the United Kingdom and San Francisco, California. This is countered by the concern that these planning incentives, while providing some affordable housing, facilitate gentrification which increases housing prices and displaces existing low- and moderate-income households from the surrounding community.

Ownership and management
The private sector's role in owning and managing affordable housing has had varied results. In the United States, there is a very established private affordable housing sector that has delivered more than 70,000 new affordable homes every year since 1995; over 2.1 million affordable homes in total (WNC 2017). These providers blend profit and mission, to develop housing with services for the community, sometimes partnering with not for profit organisations. In contrast, privatization of social housing to private equity and large scale corporate landlords has led to underinvestment in maintenance and substandard living conditions. Alternatively, properties have been upgraded, rents increased and existing tenants displaced. The contrasting experience of private sector involvement in affordable housing ownership and management in the United States demonstrates the importance of regulating affordable housing providers to ensure appropriate standards and security of tenure.

Lessons learned from international experience

The private sector is not a silver bullet to replace government's role in housing assistance. In fact, private participation always requires some form of government subsidy, contribution or other financial incentive to fund the gap between market and affordable housing. These subsidies and incentives work best in conjunction with each other where they can have a multiplying effect to optimise housing outcomes.

Scale and certainty of government backing is a critical success factor to leveraging private investment in affordable housing.

Planning instruments to incentivise private developer contributions for affordable housing appear to be most effective when they are mandatory with meaningful targets and complemented by planning incentives or concessions as well as administrative support for accelerated planning approval.

Procurement and planning approval processes for housing construction projects need to be aligned and streamlined to deliver optimal housing outcomes and value, and to minimise delays and transaction costs.

Regulation of the private sector's participation is essential to ensure that appropriate, accessible and affordable housing is delivered. Regulation helps mitigate the risk of the drive for profits being at the expense of investment in maintenance and operations.

Private sector roles in Australia

Australian governments have implemented a range of initiatives to stimulate private sector involvement in affordable housing supply. These initiatives demonstrate the sector's capabilities in financing and developing new affordable housing, and potential roles in the future.

Commonwealth Rental Assistance enables over 1.35 million households to rent more affordably in the private and community housing rental sectors. This rental revenue has also been used by CHPs to support debt service on private loans to build new housing (Hulse, Parkinson et al. 2018).

Federal tax subsidies attracted significant private investment in new affordable rental housing, generating over 38,000 new homes between 2008 and 2018 (Rowley et al. 2016).

Government bonds have recently been issued and have raised over $800m in private finance to enable CHPs to deliver 1000 new and 3600 existing homes. There is strong interest from the private industry for further investment in similar finance (Australian Government 2019).

Under the former Social Housing Initiative (SHI) program, in response to the Global Financial Crisis, the private construction and asset management industry delivered 38,000 new homes and refurbished 12,000 homes between 2009-2012, funded by the Federal government. This exceeded the program's targets, and delivered approximately 9,000 new jobs and $1.1billion per annum to the GDP (Housing Ministers' Advisory Committee 2012).

Private developers and financiers are partnering with CHPs and government in Public Private Partnerships (PPPs) to renew public housing estates and deliver social, affordable and private housing, with community facilities. There have only been a small number of these projects completed, but more are in the procurement pipeline in NSW, Victoria and Queensland.

Private developers have contributed affordable housing through the planning process in response to mandatory requirements and incentives such as up-zoning and density bonuses. These planning approaches appear to be more effective in terms of affordable housing delivery where the contributions are mandatory. Planning reforms to enable lower cost housing forms to be delivered by the market, such as boarding houses, have had stronger take up, but left to local market prices the affordability of these dwellings is not guaranteed (Gurran et al. 2018).

Together, these initiatives have attracted strong interest from the private sector and delivered over 75,000 new homes since 2005. However, for the most part these initiatives have been constrained by funding limitations and ad hoc policy changes, failing to achieve wider take up or scale.

Roles across sectors, working collaboratively

A collaborative response by the public, private and not for profit sectors is most likely to deliver the estimated 36,000 new homes required each year to 2036 to meet the demand for social and affordable housing. The private sector is uniquely positioned to provide access to significant finance, provided there is scale and certainty from government guarantees and subsidies. The private industry is expert at constructing new residential projects and providing asset management to existing social and affordable housing. This expertise and scale can reduce risks and provide efficiencies in delivery for both government and community housing clients, provided there is clear definition of requirements and quality assurance by all parties.

Government has a critical role to play in subsidising the funding gap between market and affordable housing that is always required to stimulate private sector participation in new supply, as discussed above. The Commonwealth's funding of CRA is the largest form of government housing subsidy. The Commonwealth Government has attracted billions of dollars in private finance for new affordable housing since 2008 through tax subsidies and bonds.

Commonwealth and State governments provide capital funding under the bi-lateral funding agreement and policy framework. However, there has been very little funding for new social and affordable housing since the SHI ran between 2008-11, as mentioned above. Commonwealth and State governments provide grants and assistance for affordable housing purchase and rental. They also provide access to public land for construction of projects that include social and affordable housing, often through public private partnerships that involve all three sectors. State and local government can use the planning system to incentivise or require affordable housing contributions in private developments, as described above.

State government regulation of the private rental housing sector is important to ensure appropriate housing, equitable access and tenure stability for tenants. State government's regulation of the community housing sector provides assurance to government and private investors of the viability and integrity of housing providers.

Community housing providers are experts at managing social and affordable housing. In addition to property and tenancy management, they coordinate support services for tenants, and actively engage with the residents to build strong communities. CHPs are increasingly partnering with the private sector to finance and develop new social and affordable housing. These projects are facilitated by the government, through land for redevelopment, subsidies to ensure viability and title transfer that improves leverage capacity.

Partnerships between the private sector, not for profit and government sectors to deliver social and affordable housing projects are inherently complex. Experience shows that the most successful cross sector partnerships have a shared vision and outcomes, clearly defined roles, appropriate risk allocation, good communication and trust, clear contractual arrangements, and structures that facility innovation and best practice (Pinnegar et al. 2011).

Policy implications

For decades, Australia's housing assistance policy has favoured private market solutions for affordable housing while funding for social housing has stagnated. This has led to the housing system being dominated by private ownership and rental while social housing has diminished to below 5 per cent. Although private rental housing supply has steadily increased, housing affordability has not kept pace leading to large portions of society living in housing stress, particularly those on low and moderate-incomes.

Despite the expansion of rental assistance to enable access in the private market, the outcomes for households in the bottom income quintile has been poor. Low income households face particular challenges in the private rental sector and in a market situation much of the lower cost rental accommodation is occupied by people on higher incomes (Hulse, Parkinson et al. 2018). Institutional investment in affordable housing in Australia has always been weak because of the low returns but as residential property has become more expensive it has been increasingly difficult to engage the institutional sector to invest in low cost rental supply.

It is widely acknowledged that the gap between market and affordable housing needs to be funded to cover the costs of construction and maintenance for the affordable component (Australian Government 2017). Government initiatives to meet this gap through tax subsidies, bonds and PPPs have successfully attracted private investment, demonstrating the private sector's appetite, but the duration and scale of these initiatives has limited their impact. The funding gap needed to adequately finance construction of new affordable housing will be smaller in the current environment of low interest rates. However, the dilemma in a low interest environment is that land acquisition costs may be more expensive due to higher overall real estate demand.

Drawing from the experience of initiatives in Australia and internationally reviewed in this study, there are a number of opportunities to stimulate further private sector participation in affordable housing, while mitigating risks. Experience shows that these initiatives are most effective when they are packaged together in projects where they can have a multiplying effect to increase the supply of new affordable rental housing.

Continued CRA funding, currently the largest Government housing assistance subsidy, is important to enable millions of low income households to rent in the private rental market. Indexing annual increases in the subsidy level to rent rises, rather than the Consumer Price Index, would further improve affordability and reduce housing stress for recipients. Community housing residents also receive and pay CRA to the CHP managing their home. This additional rental income enables CHPs to leverage private finance to deliver more housing.

Building on recently demonstrated strong industry interest, further Government bonds would attract additional institutional investment and provide low cost debt to community housing providers for new affordable housing.

Government capital investment, supplemented by efficient financing through Government bonds, is the most cost efficient approach for Government to subsidise the construction of new rental housing needed to address unmet demand for social and affordable housing over the next twenty years (Lawson et al. 2019). This approach is proven to create jobs in the private construction industry and stimulate the economy (Housing Minister' Advisory Committee 2012).

Federal tax subsidies to fund the gap between market and affordable rents attract private investment in new affordable rental housing. Extending the duration of these subsidies sustains affordability of this housing for low- and moderate-income households.

Planning requirements and incentives by State and local governments encourage affordable housing contributions by private developers in major residential projects. These planning instruments are most effective in generating additional affordable housing when the requirement for affordable housing is mandatory and properties are transferred outright to government or a CHP, thus ensuring affordability in perpetuity.

Public Private Partnerships can engage all sectors in delivering mixed-income housing, including additional social and affordable housing. However, these require robust feasibility studies to ensure viability before commencement; comprehensive community consultation; coordination of procurement and planning approval to avoid delays and increased transaction costs; and clear governance, roles and risk allocation amongst partners.

Potentially, affordable housing in private build to rent projects can be supported with tax concessions (land and income tax) and planning incentives (density bonuses, relaxed parking requirements). However, funding any tax concessions through a mechanism that is available to both the private sector and community housing sector, such as tax subsidies for affordable rental housing, is important to maintain the policy objective of growing the CHP sector. CHPs may also be engaged to manage this housing on behalf of the private developer.

Further Research

Building on my own and other authors' research, I have identified areas of further work that would help to address how the private sector can work with government and the not for profit sectors to increase the supply of affordable housing and close the gap on housing affordability. In particular these include further exploring the private sector's appetite for developing affordable housing and the pathways to participation.

Further, it is important to better understand community appetites for increased provision of affordable housing in their own localities and more widely in order to build a political mandate and commitment to lasting policy change that delivers more affordable housing.

1 Introduction

Introduction

Overview

Across Australia an increasing population of low to moderate income households are living in housing stress, paying more than 30 per cent of their income on housing costs. A step change in housing policy is needed to reverse this worsening situation, and to increase the supply of homes affordable to lower income households.

Government is providing bonds to attract private investment in affordable housing and redeveloping public housing estates through partnerships with private and not for profit organisations. These policies, instruments and projects provide pathways for private involvement in increasing affordable housing, but they will not close the gap entirely. Additional private engagement in affordable housing supply is needed if the issue of widespread housing stress is to be fully addressed.

Purpose of the research project

In this research project, I explore the opportunities, barriers and strategies to engage the private sector in affordable housing supply, drawing on my experience working within and across sectors in Australia and the United States. I am interested in how each sector can 'play to their strengths', balancing their roles and complementing one another to achieve their respective objectives and the collective aim of reducing housing stress.

The project builds on scholarly and policy research on the private sector's role in affordable housing supply internationally. This includes research into private sector investment, delivery and management of affordable housing in the United States (Gilmour and Milligan 2009), United Kingdom (Gurran and Whitehead 2011; Berry et al. 2006), and other European countries (Lawson et al. 2013; Rowley et al 2016; Martin, Hulse et al. 2018).

This project also builds on research into Australia's existing affordable housing market and demand (Hulse et al. 2015; Hulse, Parkinson et al. 2018;) and opportunities for enhancing the private sector's investment in the market (Lawson et al. 2019; Milligan et al. 2013).

What is affordable housing and why do we need it?

Affordable housing refers to housing that can be bought or rented by a low to moderate income household at a cost of not more than 30 per cent of their household income.

Across Australia, there is a significant shortage of affordable rental housing available to those on low incomes (Hulse, Parkinson et al. 2018). A large portion of low to moderate income households are in housing stress, paying more than 30 per cent of income on housing: 78 per cent of low income households, and 29 per cent of moderate income households exceed the affordability threshold (Hulse et al. 2015). Despite cyclical changes in the housing market, affordability pressures for low income households are a structural problem in the Australian housing system. They reflect long term barriers to home ownership and contraction in new funding for affordable housing supply relative to population growth and housing need (Yates 2011).

Recent research estimates that addressing the deficit and future need for social and affordable housing will call for the construction of at least 727,000 new homes across

Australia over the next 20 years, equivalent to 36,000 new homes a year, compared to current supply of around 3,000 a year (Lawson et al. 2019).

Research questions

The research addresses the overarching question 'What is the role of the private sector in affordable housing supply in Australia?'

To address this, a series of subsidiary research questions are explored:

Research Question 1: Why is a role for the private sector in affordable housing supply in Australia important?

Research Question 2: What roles has the private sector played in affordable housing supply in countries comparable to Australia? What are the benefits and for whom? What are the risks and problems?

Research Question 3: What can be learned from international experience that could enhance the private sector's role in affordable housing supply in Australia?

Research Question 4: What is the potential role for the private sector in affordable housing supply in Australia?

Research Question 5: How can the private, government and not for profit sectors work together and complement each other's roles in affordable housing supply? What are the opportunities and how can they be leveraged? What are the barriers and strategies to overcome them tailored to Australia?

Research Methods

The research project was undertaken in a staged approach.

The first phase involved a review of comparative literature and national studies on the private sector's role in affordable housing in Australia and overseas. This looked at secondary sources (published research), policy and program materials, reports, news articles and other material published on the internet from reputable sources. I identified the policy mechanisms, roles, benefits and risks, and assessed the affordable housing initiatives using a multi-criteria evaluation framework.

The second phase involved documenting case studies on affordable housing supply in the United States, United Kingdom and Europe. I identified the outcomes, strengths, weaknesses and lessons learned.

In the third phase, the research, analysis and initial findings were presented at a workshop held at the University of Sydney with housing academics from Australia and the United Kingdom. This provided an opportunity to gain feedback to refine the analysis and findings.

The third phase culminated in preparation of this final report that consolidates the analysis and key findings in relation to the research questions. This also identifies opportunities and policy priorities for stimulating the private sector's involvement in future affordable housing supply, complemented by government and the not for profit sectors, tailored to Australia.

Report Structure

Chapter one has set out the purpose of the research project, the research questions, methodology and report structure.

Chapter two focuses on the first research question 'Why a role for the private sector in affordable housing supply is important?' The chapter frames the debate over the role of the private sector in affordable housing supply internationally. The historical context of the Australian housing system and planning system is set out. The current context is defined in relation to the unmet demand for social and affordable housing, government and the not for profit sectors' roles, and the need for a private sector role. Finally, the different types of private sector roles and the barriers and opportunities are identified based on research and experience.

Chapter three addresses the second and third research questions by focusing on international experience, the roles the private sector has played in other countries, the benefits and challenges, and the lessons learned. The United States, United Kingdom and countries in Europe are considered, with case studies exploring policy interventions in three cities. The international policy interventions are assessed utilising a framework for evaluation of affordable housing initiatives developed by Milligan et al. (2007).

Chapter Four addresses the fourth and fifth research questions to explore the potential private sector roles in affordable housing delivery in Australia. Policy interventions to date are assessed using the same evaluation framework as international interventions, for comparison. The chapter defines roles for private, government and not for profit sectors, and how the sectors can work collaboratively to increase affordable housing to help address unmet demand. Opportunities to stimulate private sector involvement are identified, along with potential barriers and strategies to overcome them drawn from international lessons learned.

Chapter Five identifies key findings, policy issues for consideration and research to further investigate how the private sector can effectively contribute to affordable housing supply, working in partnership with government and not for profit sectors.

2 Why a role for the private sector in affordable housing supply is important

Introduction

Chapter two focuses on the first research question 'Why a role for the private sector in affordable housing supply is important?' The chapter frames the debate over the role of the private sector in affordable housing supply internationally. The historical context of the Australian housing system and planning system is set out. The current context is defined in relation to the unmet demand for social and affordable housing, government and the not for profit sectors' role and the need for a private sector role. Finally, the different types of private sector roles and the barriers and opportunities are identified based on research and experience.

Debate over the role of private sector in affordable housing supply internationally

The role of the private sector in affordable housing has been the subject of policy deliberation and debate internationally for several decades. Since the 1980s, neoliberal principles in Australia and other English-speaking nations have led to housing policies that promote an increased dependence on the private rental market and growing involvement of private for profit firms in social and affordable housing provision and management (Martel, Whitzman 2019).

In Australia, neoliberalism was added to an already market-oriented housing system. Unlike many European nations, Australia has not had a substantial social housing sector since 1945, but instead has used a range of supply and demand policies to support private investment in both homeownership and private rental. Neoliberalism and welfare system reform resulted in a 'residualisation' of public social housing as a highly targeted sector; privatisation of assets through sale (often to sitting tenants); and government rental subsidies attempting to keep vulnerable households within private rental housing (Beer, Kearins at al. 2007).

The free market approach has been criticised in Australia, and other countries, as unlikely to solve the problems of diminishing housing affordability, shortage of affordable rental and other subsidised housing, increasing social housing waiting lists, and poor quality housing (Gurran and Whitehead 2011). An increasing dependence on market provision of affordable housing has led to a gradual shift in government policies supporting low-income residents to promoting housing for households around and above the median income (Marom and Carmon 2015).

In the United States and Europe, the increase of private financial players and practices in the affordable housing market challenges the ability of not for profit housing organisations to create, preserve and improve affordable housing (Fields 2015). For profit and not for profit affordable housing providers compete for the same government subsidies, although not on a level playing field, with the private sector being better resourced and more politically powerful. Some suggest (Mallard 2003) that government should regulate this competition to protect the participation and contributions of not for profit developers. The development of private for profit affordable housing providers may be desirable for greater scale and efficiencies in the management of tenancies and properties. However, it is argued that this should not come at the expense of the not for profit affordable housing industry that is focused on housing outcomes for its tenants, as opposed to profits for private shareholders (Martin, Hulse et al. 2018). Assets owned by private investors often have time limited affordability, linked to the duration of tax subsidies, whereas not for profit developers often own their assets in perpetuity, providing permanent affordability.

Governments have offered planning incentives for private sector provision of affordable rental housing in major residential developments, in exchange for increased density or re-zoning. This has provided some additional homes for lower income households. However, these developments have often led to gentrification which has pushed up local housing prices and driven out existing low-income households (Elmedni 2018).

The following chapter provides international examples of neoliberal policies and programs that have facilitated the private sector's role in affordable housing. These demonstrate how the private sector has contributed to affordable housing outcomes, as well as the trade-offs and unintended consequences that have arisen from some of these policies and programs. Chapter Four discusses how lessons learned from international experience could be applied towards enhancing the private sector's role in affordable housing in Australia, working collaboratively across sectors to 'play to strengths' while mitigating the 'down sides'.

Australian context

Housing system

Australia's housing system is characterised by high home ownership and private rental tenure. In 2014, around 70 per cent of the population owned their own home, 26 per cent rented from the private market and 4 per cent lived in public rental housing, similar to the United States. In comparison, the United Kingdom had a lower home ownership rate of 64 per cent, 18 per cent lived in public rental housing and 18 per cent in private rental (Martin et al. 2018).

Australia has a relatively high proportion of new housing to total housing compared to New Zealand, the United States, Canada, and European countries. Despite this relatively high level of supply, housing affordability has continued to decline. The portion of these new completions that are social housing is the lowest in Australia amongst these countries at around 2 per cent in 2012, compared to 20 per cent in Austria and the United Kingdom and over 50 per cent in the Netherlands (Gilbert and Gurran 2016).

Over the past two decades there has been falling home ownership and rising numbers of households in private rental (ABS 2016). More than a quarter of all Australian households—some 2.1 million households—now live in the private rental sector (PRS). Over the ten year period 2006–2016, the PRS grew by 38 per cent, twice the rate of all households. This growth looks set to continue, largely due to a long term decline in access to home ownership because of high house prices and contraction of the social rental sector (Hulse, Parkinson et al. 2018).

This change in tenure is particularly evident for people 20-35 years old, many of whom are in moderate income employment as 'key workers' (Gurran et al. 2018). The Australian aspiration of home ownership is being replaced by the expectation of long term, even lifetime, rental housing for this so called 'generation rent'. To address this emerging market, the construction industry is increasingly interested in pursuing a 'build to rent' model. This is discussed further in the following section.

Australia's social and affordable housing policy environment is somewhat complicated by the three-tiered system of government. The Commonwealth funds the States and Territories to provide housing assistance to low and middle-income households under the National Housing and Homelessness Agreement (NHHA). This replaced the National Affordable Housing Agreement (2008/09; 2013/14) and previous Commonwealth State Housing Agreement (CSHA). Federal taxation legislation has implications for housing affordability, for example through negative gearing and capital gains tax. The Commonwealth performs a regulation role, undertakes research and develops policies. The Council of Australian Governments (COAG) oversees policy development, monitoring and review.

State and Territories also provide funding under the National Housing and Homelessness Agreement. State housing agencies utilise funding to develop and manage public housing. Funding has not kept pace with demand and the housing market. Public housing has become a marginal and highly targeted form of housing tenure in Australia, shrinking from a peak of 7 per cent of total housing stock in 1990 to 4.2 per cent in 2016. At June 2018 there were 316,254 public housing dwellings managed by State agencies (AIHW 2018, AHURI 2017).

Local government has no direct role in housing assistance but can facilitate affordable housing through the planning system and local projects. Local governments can also perform an advocacy and supporting role including by encouraging and assisting social and affordable housing developers in their localities (Gurran 2019).

Table 2.1 below summarises different supply and demand approaches to government housing assistance. The outcomes, strengths and weaknesses of these approaches are discussed further in Chapter Four and Appendix A.

Table 2.1 Government approaches to housing assistance in Australia

Supply	Demand
Public rental housing: o Bi-lateral funding agreement (NHHA 2018/19-2021/22, \$4.6bn) o State land and housing corporations	Commonwealth rental assistance: o Rental subsidy for low and moderate income households living in private or community housing (\$4.4bn per annum)
Incentives for institutional investment: o Bond aggregator to provide low cost debt finance to CHPs (established 2018, \$800m to date) o former National Rental Assistance Scheme, (2008-2013) tax offset, payment and support for 10 years, 38,000 new affordable housing dwellings	Assistance with home ownership: o First home buyers grant o Stamp duty discounts o Shared equity schemes
Capital grants: o Nation Building Economic Stimulus Plan, Social Housing Initiative (2009-12) \$6.4bn for new social housing (19,700 new dwellings, plus refurbishment of 12,000 dwellings)	Taxation: o no capital gains tax for primary residence o negative gearing/capital gains tax discount for landlords

Sources: Productivity Commission 2018; Hulse, Parkinson et al. 2018; Rowley et al. 2016; NHFIC 2019; Gurran et al. 2018; Housing Ministers' Advisory Committee 2012

In the not for profit sector, community housing providers (CHPs) develop, own and manage social and affordable housing. They are funded by a combination of rental income, paid by tenants as a proportion of their household income (statutory or private), federal rental subsidy, philanthropic donations and private finance. The community housing industry is regulated with 40 commercially-oriented entities across Australia who raise private finance, procure housing and offer diversified housing services. Community housing more than doubled between 2008-09 and 2016-17 from 39,800 to 82,900 dwellings (Milligan, Martin et al. 2016). The growth of this sector has been supported by the transfer of public housing via lease or title on a competitive tendering basis. This has led to the concentration of the majority of community housing in a small number of CHPs. This facilitates sustainability and further growth of these

CHPs through greater rental revenue and balance sheets. However, arguably, it has reduced the opportunities for growth of smaller CHPs.

Private developers and house builders dominate Australia's housing production. This is a highly concentrated industry of around 1,000 developers, with the top 10 developers being responsible for more than half of plot sales in metropolitan cities across Australia in 2011 (NHS, 2011). The house building industry is larger (around 13,000 companies in 2011) but consists mostly of small and medium sized firms doing infill and redevelopment projects, focused on contract building rather than speculative developments. Their small size means they have less capacity for design and construction innovation.

Planning system

Australia's record of planning mechanisms for affordable housing is a series of pilot schemes, small-scale bespoke projects and some false starts, falling into four main categories. The first is mechanisms to retain and offset the loss of existing low-cost housing (used in NSW since the 1990s). The second is mechanisms to overcome local planning barriers to diverse housing (also used in NSW since the 1990s). The third is planning bonuses or incentives for voluntary affordable housing contributions (in some jurisdictions of NSW since the mid-1990s, and in South Australia since 2006). The fourth is mandatory inclusionary requirements for affordable housing (in isolated inner-city jurisdictions of NSW and in new residential areas in South Australia) (Gurran and Whitehead 2011).

Inclusionary planning for affordable housing remains limited in Australia. However, South Australia (SA) delivered 5,485 affordable rental and low cost home ownership dwellings between 2005–2015 through an inclusionary planning target applying to new residential areas, amounting to around 17 per cent of SA's total housing supply. An inclusionary zoning scheme applies to parts of inner Sydney and may now be extended to other local councils in NSW.

In New South Wales (NSW), a planning incentive scheme introduced in 2009 had yielded around 2,000 affordable rental dwellings in Sydney by 2018, equivalent to less than 1 per cent of the city's total supply over the period. Planning concessions to enable more diverse and lower cost housing development, such as boarding houses (comprised of small rental units with a minimum size of 12 square metres) have produced a greater supply response (Gurran, Rowley et al. 2018). However, left to local housing market prices, the affordability of these dwellings is not guaranteed.

Current context and need for private sector role

As stated in Chapter 1, across Australia there is a significant shortage of affordable rental housing available to those on low incomes (Hulse, Parkinson et al. 2018). A large portion of low to moderate income households are in housing stress, paying more than 30 per cent of income on housing (Hulse et al. 2015). Recent research estimates that at least 727,000 new homes are needed over the next 20 years to address the deficit and future need for social and affordable housing (Lawson et al. 2019).

Current Federal government policy and the bi-lateral funding agreement requires States to increase social and affordable housing with no additional federal funding (Australian Government 2017).

State Housing Agencies are running at large losses, with ageing portfolios, increasing maintenance backlogs in the billions, and limited funding to increase supply and properly maintain existing public housing (IPART 2017).

To try to meet these obligations, States are implementing a range of strategies, policies and programs to increase the supply of social and affordable housing through grants, subsidies and asset renewal programs. Current programs to redevelop public housing with private and CHP organisations will add social and affordable housing, but will not be sufficient to meet the demand.

Community Housing Providers (CHPs) are managing and building social and affordable housing and scaling up their activities. Future growth however is limited by Government funding policy changes, access to private funding, their balance sheets, and the capacity of CHPs and support institutions (Pawson et al. 2019).

Australian governments have implemented a range of initiatives to stimulate private sector involvement in affordable housing supply. They demonstrate the sector's roles and activities to date in financing, developing and managing new affordable housing. Together these initiatives have attracted strong interest from the private sector and delivered over 75,000 new homes since 2005. However, for the most part these initiatives have been constrained by funding limitations and ad hoc policy changes, failing to achieve wider take up or scale. These initiatives are discussed further in Chapter Four.

There is a perception that in the absence of sufficient Government funding and limited CHP sector capacity, the private sector will have to contribute to affordable housing supply if the unmet demand is to be met, and the issue of widespread housing stress in low to moderate incomes across Australia is to be addressed.

Encouragingly, the private finance and construction sectors have indicated interest in this potential market in Australia, as a means of counteracting the slowing private housing market and sustaining levels of supply and returns. This is in recognition of the construction sector's significance to the economy and the benefits of increasing private sector affordable housing supply to stabilise the housing market (Gurran et al. 2015).

Institutional investors report a real and growing appetite for a secure form of low-risk investment, with return based on cashflow. There is interest in affordable housing as a new investment product, subject to satisfactory risk and return profiles.

The following section outlines the barriers associated with different private sector roles, based on research and industry consultation, along with the potential opportunities and benefits.

Private sector roles, barriers and opportunities

Institutional Investment

Significant volumes of public and private finance will be required to meet the projected need for additional rental housing in Australia. This cannot be met from existing suppliers alone. The largest potential source of funding at the required scale is the huge pool of institutional resources controlled by superannuation and other managed funds which, crucially, operate with long-term investment horizons.

In 2013, a panel of industry experts provided advice on how to facilitate institutional investment in affordable rental housing as part of research commissioned by the Housing, Homelessness Ministers' Advisory Committee (HMAC) through AHURI (Milligan et al. 2013). The barriers included the fact that institutional investors expect higher rental yields than those typically applying in the rental investment market. There is no track record of institutional investment in residential property assets in Australia. In particular, there is limited data on the aggregate performance of rental residential assets and uneven knowledge of the operational cash flows of affordable rental housing among funds managers and institutional investors.

Participants advised that institutional investor requirements on scale and liquidity have not been met.

Despite these perceived barriers, there is a real and growing appetite among institutional investors both locally and abroad for new forms of investment opportunities (beyond share markets and commercial property) that offer a secure form of low-risk investment, with return based primarily on cash flow. With appropriate structuring and stimulation by government, there is good potential for rental housing provision to be matched to this large investor interest. Mixed income developments can improve the scalability of investment, help to offset perceived risks with investment in affordable rentals, and contribute to investors' required rates of return. Expanded new rental supply may also encourage some higher income tenants to switch to better quality dwellings, vacating some of the existing lower rent housing that they occupy (Milligan et al. 2013).

Government efforts to stimulate private investment in medium density affordable rental housing can be justified as contributing towards a range of economic and social benefits. Economic productivity would be improved by reducing the distance between affordable housing and employment opportunities, generating sustainable employment in the construction sector, supporting local economies and lifting regional and national GDPs. Economic competitiveness and a more flexible and productive workforce would be achieved through improved access to the rental market by low income households. Limited public resources could be used more efficiently by leveraging government credit to full effect by investing in approved developments. National cohesion and social inclusion can be enhanced, sharing the benefits of secure affordable housing more fairly across the community, assisting those not served by existing markets and government processes, and addressing a clear and unmet need for rental housing which is accessible and available for low income households. (Lawson et al. 2014).

These economic and social benefits are important considerations in substantiating the business case for large scale investment in affordable housing as social infrastructure, on a similar basis to investment in transport infrastructure (Lawson et al. 2019).

Development

Australia's housing system predominantly relies on private market provision. However, land prices and construction costs require revenues from developments that more often than not preclude the delivery of affordable housing.

As part of an AHURI study in 2012 (Rowley and Phibbs 2012), a panel of around 50 experts from the public and private development sectors in two cities, Sydney and Perth, identified barriers and suggestions to overcome them to deliver diverse and affordable housing on infill development sites. Many of these are also relevant to supporting affordable housing in large scale residential projects by the private sector, either alone or in partnership with not for profit providers. These are summarised in Table 2.2 on the following page.

As shown in Table 2.2, Government making under-utilised sites available for mixed income residential projects would assist in delivering social and affordable housing through public private partnerships. Planning controls that incentivise affordable housing, such as allowing increased height and density, would improve the financial viability of these projects by cross subsidising the costs of affordable housing. Streamlined approval processes with early community engagement and coordination with relevant infrastructure agencies would mitigate risks, expedite developments and reduce holding costs. Government bonds or tax subsidies would fund the gap between market and affordable housing and increase availability of private finance. High construction costs and the need to absorb affordable housing costs could be addressed by standardised building types and modular, pre-fabricated construction. Alternative tenures, such as shared equity and land trusts can reduce costs to developers and consumers and improve affordability. The application of these opportunities to stimulate future supply of affordable housing by the private sector is discussed further in Chapter Four.

Table 2.2 Private development of affordable housing - barriers and opportunities

Element	Barrier	Opportunities
Site Identification	Lack of suitable sites Public land availability	State under-utilised sites made available for mixed income residential projects through public private partnerships
Feasibility Appraisal	Higher feasibility threshold to cross subsidise affordable housing	Increased height and density incentives to developers in exchange for affordable housing contribution
Development Approval	Duration and complexity Community opposition Uncertainty with infrastructure partners	Streamline DA system, deemed to comply Community consultation early, pre-DA Greater coordination of infrastructure agencies
Development Finance	Securing finance to fund the gap between market and affordable housing	Increase institutional investment in affordable housing through Government bonds and/or tax subsidies
Construction	High construction costs and need to absorb affordable housing costs	Standardised building types Modular, pre-fabricated construction
Completion	Affordability impeded by residential market prices	Alternative tenure, shared equity, land trusts

(Adapted from Rowley and Phibbs 2012)

Ownership and management

Despite the variety of potential models and vehicles for private sector involvement in affordable housing, Australia's private development industry are currently focused on the 'build to rent' model, in which they own and manage their developments. Many of the big private developers are investing billions of dollars into build to rent projects (Kirk 2019) (discussed further in Chapter Four). This is perceived to be a counter cyclical strategy to mitigate soft property sales markets across Australia.

Current barriers to a viable affordable BTR market as identified by market players include costs related to taxation and planning requirements. Land tax, withholding tax and GST are absorbed by the developer, equivalent to 25 per cent lower return compared to build to sell development (CBRE 2018). Costs associated with planning approval time frames, land holding costs and design requirements must all be factored into the project costs and are not absorbed in sale prices as the properties are retained.

It remains to be seen whether a private build to rent product can or will deliver any affordable rental housing. Research into similar models overseas shows that the approach can be viable with the right government policy frameworks, but that under the current Australian system there is little if any scope to fund any significant affordable housing from cross-subsidy unless through rezoning uplift (for example, a developer obtains a low cost site and achieves rezoning or a variation to planning controls allowing for a higher density project) (Pawson et al. 2019).

Summary and key points

The potential benefits arising from an increased role for the private sector in affordable housing are contested internationally both in academic literature and in practice. While private sector involvement may increase supply of affordable housing, some are wary of government outsourcing responsibilities and resources for housing assistance in ways that do not necessarily benefit target groups, and divert resources from not for profit developers (Beer 2016, Gurran and Whitehead 2011, Fields and Uffer 2016).

Notwithstanding these potential issues, there are also benefits to the private sector playing an important role in affordable housing supply in Australia that should be further explored.

The following Chapter of the report examines the roles the private sector has played delivering affordable housing in other countries; the benefits, challenges and the lessons learned. Chapter Four looks further into Australian affordable housing initiatives involving the private sector to date, and opportunities to stimulate private sector involvement in future affordable housing supply, with strategies to overcome barriers and mitigate risks.

3 International Experience

Introduction

Internationally, the private sector has played a rich and varied role in affordable housing delivery. In this chapter, the international experience is reviewed examining the roles, outcomes, benefits, challenges, and the lessons learned. The United States, United Kingdom and countries in Europe are considered, with case studies exploring policy interventions in three cities. The international policy interventions are assessed utilising a framework developed by Milligan et al. (2007) to evaluate affordable housing initiatives.

Private sector roles in delivering affordable housing in the United States

Policy context

Housing system

Similar to Australia, the United States housing system is primarily characterized by home ownership and private tenure. In 2014, around 65 per cent of all households owned their home and 35 per cent of all households (around 42 million) rented their homes from private, for profit landlords. About 5 per cent rent from public or not for profit owners (Martin, Hulse et al. 2018).

In 2015, there were about 2.5 million renters living in public housing or in other housing with project-based rental assistance. In addition, 2.1 million renters resided in affordable housing that was financed with federal Low Income Housing Tax Credits (LIHTCs) and 2.4 million renters received portable 'Housing Choice Vouchers' that enable them to lease housing in the private market (Martin, Hulse et al. 2018). Both of these subsidies are described further below.

Government supply subsidies

The US LIHTC program was established in 1987 to channel private investment into rental provision at sub-market prices. It facilitated the development of 2.1 million new affordable homes in the period 1986–2012. The annual cost (or, more accurately, loss of tax income) totals roughly US$5 billion for the Federal Government (ABT Associates 2012).

The LIHTC program has benefitted from bi-partisan political support and has been backed by a broad coalition of for profit and not-profit developers, banks, investors and consultants (Dreier 2006). It has led to the creation of a 'third sector' of housing industry focused on affordable housing.

Developers apply to the Government for tax credits after having demonstrated financial viability to deliver affordable housing on a site. They raise capital for these projects by selling the tax credits to private investors.

Developers are required to achieve specified affordability targets for a minimum of 30 years, with either:

- at least 20 per cent units being affordable for households earning up to 50 per cent area median family income, or
- at least 40 per cent of units being affordable for households earning up to 60 per cent area median family income (equivalent to key workers—teachers, nurses, police officers).

Investors become partners in the project for 15 years. Investor scrutiny of the financial structure and asset viability typically leads to only viable projects being funded. Investors and developers face penalties if the project does not comply with affordability requirements and other standards.

State and local governments also provide loans at reduced or zero rates of interest, land donations, retained earnings, and debt funding through bonds. Typical affordable housing projects are funded by a mix of LIHTC and these other income sources (Gilmour and Milligan 2009).

Government demand subsidies

The US government provides rental subsidies to low and moderate income households, similar to the Australian Commonwealth Rental Assistance Scheme. In 2015, 2.4 million renters received portable 'Housing Choice Vouchers' that enable them to lease housing in the private market (Martin, Hulse et al, 2018). This rental income can also be used by developers of new affordable housing to leverage loans from private banks and debt finance through bonds, provided the new homes are guaranteed to be occupied by low to moderate income households. As well as ensuring affordable housing outcomes, this commitment provides assurance to the lender that the development will receive sufficient income to repay the loan and operate the property (Gurran and Bramley 2017).

Planning system

The planning system in the United States has historically been characterised by rigid land use zoning that favours single family homes with prescribed lot sizes and, in some cases, building materials. The probable purpose of these zoning and building requirements is social exclusion of lower income households. However, over the past 50 years state and city governments around the country have led a number of initiatives to counteract exclusionary zoning and the impacts of gentrification by fostering affordable housing. With limited economic resources to subsidise housing development directly, these governments have used their local planning process to incentivise private developers to provide affordable housing in exchange for increased value through rezoning land for residential development and/or greater density. 'Inclusionary zoning' is the term coined for these planning mechanisms that link affordable housing to private market housing (Gurran and Bramley 2017).

There is no national listing of the number of affordable housing dwellings that have been delivered through these inclusionary zoning schemes. Following the global financial crisis and housing market downturn concern was expressed about their impact on development viability (Hickey 2013). Yet cities with major investment in transit projects and widespread up-zoning for higher density have sought to maintain affordable housing through inclusionary policies (Centre for Transit Oriented Development 2009).

Private sector roles, benefits and challenges

Finance and institutional investment

In the United States, affordable housing production is more marketised, with the Treasury's LIHTC programme indirectly subsidising construction costs and households receiving Housing Choice Vouchers for use in the private rental market.

LIHTC have been proven to provide investors a low-yield, low-risk investment, which also meets statutory obligations on banks to invest in under-served markets under the 'Community Reinvestment Act'. Since 1987 around $100billion has been invested in the program. LIHTC have one third the foreclosure rate of other real estate projects (WNC 2017).

LIHTC creates other economic benefits. According to the National Association of Home Builders (2011), every 1,000 unit LIHTC apartment developed creates 1,130 jobs, many of which are in the construction sector. Nationwide in the United States, the LIHTC program creates 95,700 jobs, $3.5 billion in federal, state, and local taxes, and $9.1 billion in economic income (wages and business income).

While the LIHTC program has generated significant private investment in millions of new affordable homes, the funding extends for a finite period of time after which the housing can be converted to market-rate occupancy. A key challenge for this housing concerns preserving the assets for low-income households (Schwartz 2014).

Although affordable rental housing presents several risks (capital risk on property value, rental yield risks, and political risk associated with changing policies) (Berry and Hall, 2005), financial liberalisation and changes in state housing policies in the US have created market conditions favourable to risk-oriented investors. Financialization has heightened inequality and often worsened housing conditions, especially as investors attempted to cope with the fallout of the 2008 global financial crisis (Fields and Uffer 2016).

For example, there was a wave of aggressive private equity investment in New York City's affordable rental sector during the mid-2000s real estate boom. Discrepancies between expectations for double-digit profits in a single-digit growth sector, and between projected and actual tenant turnover rates resulted in significant shortfalls. One portfolio of 10,000 rental units purchased by private equity firms and securitised in commercial mortgage-backed securities lost $71million in a year. Overleveraged buildings led investors to raise rents, cut maintenance and other services and in some cases to foreclose (Fields 2015).

In response, the New York City Council created the Predatory Equity Task Force, describing the problem as community organizations did: "At the height of the housing boom, a large number of equity investor groups purchased multifamily rental properties using unrealistic revenue expectations and taking out loans that could not be supported by existing rent rolls" (New York City Council, 2009). New York State Senator Charles Schumer also got on board, highlighting the role of banks and parallels to subprime lending in the homeownership market: "Speculators have been unjustifiably raising their estimates for how much rent they will take in after they buy the property and low-ball how much maintenance costs will be in order to get a larger mortgage from the bank. The larger the loan, the larger the fees the bank can take in, and then, similar to a subprime loan, the bank securitizes the mortgage on the secondary market" (Schumer, 2008).

Government subsidies have attracted significant private investment in affordable housing. However, left unregulated, aggressive private equity investment has led to the loss of and degraded condition of existing affordable rental housing.

Development. ownership and management

For profit affordable housing developers

There is a very established private for profit affordable housing sector in the US. For profit developers have produced about 78 per cent of the LIHTC projects between 1987 and 2014 (Bratt and Lew 2016). Some mission-oriented developers have been blending design and affordability to create great places, even for low-income residents. Many of these health-promoting, affordable developments are being built by for profit developers, often in partnership with not for profit entities.

McCormack Baron Salazar operates a different model. Rather than partner with non-profits, the firm in the 1970s created its own not for profit arm, Urban Strategies. The two entities work to establish housing developments that include services such as daycare centers and community centers. Community input is part of their equation (Brennan 2015).

A literature review of for profit affordable rental housing development in the United States found that for profit developers seem more likely than not for profit developers to have a smaller financing gap to fill between mortgage proceeds and equity generated from the sale of tax credits and may be more adept than not for profit developers in raising equity for their LIHTC projects. They build in lower-cost rural and suburban areas rather than in more expensive urban areas. They charge higher developers' margin on construction costs, cite financial benefit as their primary goal and have stronger per-unit cash flow and debt cover ratio (DCR) levels. On the downside, for profit developers build smaller units and limit the affordability of their properties to the minimum-use restriction periods (Bratt and Lew 2016).

The comparison suggests that for profit developers are more adept at finance and creation than not for profit developers, but the benefits can be short term with tenancy displacement when the tax subsidy is exhausted.

The construction and management of low-income rental housing presents a vivid example of functions once filled by the government, now largely privatized. An analysis of the LIHTC undertaken by Mallard (2003) identified four interrelated themes. For profit and not for profit housing developers vie for limited tax credits to build or rehabilitate and manage affordable housing. The playing field is not level, with for profit providers of social services tending to be more politically powerful than traditional not for profit social service providers. This slanted competition can limit growth of not for profit services, which can be detrimental to the beneficiaries of privatized social programs. Mallard suggests that policy makers ought to regulate this competition to protect the participation of not for profit developers' (Mallard 2003).

Multi-family housing

In the US, BTR (or 'multifamily) is one of the most well-established residential assets available to institutional investors. Over the past 10 years its popularity has soared to 25 per cent of total property investment. The low-risk, stable returns offered by BTR are known for garnering the interest of investors from across the globe.

This overall success is largely made possible by the financial system in the US – particularly their banking and debt systems. The competitive nature of the US financial system allows banks to carve out their own niches and focus on one primary area – with financial institutions like Freddie Mac having a dedicated 'multifamily' arm that financed $73.2 billion in loan purchase and guarantee volume in 2017 alone (Development Finance Partners 2018).

In the US market, approximately 350,000 new multifamily homes have been constructed a year over the past five years, on average 35 per cent of all new housing in the United States (National Association of Realtors 2019). Affordable housing financed via LIHTC accounted for roughly one third of all multifamily housing between 1986 and 2011, 2.1 million affordable homes, with a consistent occupancy level of 96 per cent (WNC 2017).

Case Study: New York City

New York Mayor de Blasio's Five Borough Ten-Year Plan focused on using the private sector to provide adequate affordable housing to low-income residents. This was largely out of necessity as the New York City Housing Authority was operating with significant losses and a maintenance backlog estimated at $1bn.

An analysis of the plan by Elmedni (2018) found that the results indicate using cross-subsidies as the vehicle for generating supply have had limited impacts on housing affordability. Rezoning as a tool for land acquisition inadvertently become a driver for gentrification, leaving low-income households underserved or displaced. The use of the tax incentives programs (LIHTC and Local Tax Abatements Programs in the form of 80/20), as a way to incentivize private developers to build more units, can result in overproduction in generally attractive areas while leaving behind struggling neighbourhoods. Tax Incentives can also result in controversies like separate entrances for market-rate tenants and low-income tenants.

A major concern is that through tax incentives programs and rezoning efforts to encourage private-sector development, the Plan may wind up benefiting housing developers and gentrifiers more than actually ameliorating the housing crisis in NYC (Elmedni 2018).

A recent example of these impacts is the Hudson Yard development, the largest real estate development in United States history, which was completed in 2019. In 2009, then Mayor Bloomberg announced rezoning and access to air rights over the Western Rail Yard in Manhattan for a 5.7 million square foot mixed-use development built on a platform over the rail lines. An industrial site in a historically working class neighbourhood known as 'Hell's Kitchen', the zoning approval required 20 per cent of the new housing to be affordable housing units – to which the City contributed $40 million.

Related Companies was awarded the development contract and commenced construction in 2012. Hudson Yards includes office space, a shopping mall, restaurants, green space, and upscale residences and condominiums. However, these buildings represent only part of Related's strategy to benefit from the Hudson Yard. In order to capture high rents and soaring condominium sales prices, both buoyed by the increased property values from the Hudson Yard development, Related has purchased and developed multiple nearby parcels, including Abington House, Hudson Residences, and One Hudson Yards. (Rediq 2019).

Hudson Yard is expected to provide up to 20,000 new apartments—which is just under the total amount of new housing built in *all five boroughs* in 2018 (New York City, 2019). About 5,000 of these will be affordable housing obtainable for low- and medium-income New Yorkers via a housing lottery. The vast majority of apartments in Hudson Yards will be for the ultra-rich, with one bedroom apartments starting at $5000 per month (Rosalsky 2018).

This wave of development and gentrification in the area surrounding Hudson Yards will significantly increase the supply of new housing. However, the focus on luxury housing will push up rental prices and likely lead to the displacement of the traditional low- and moderate-income residents from this community, apart from those lucky enough to obtain a designated affordable unit.

Private sector roles in affordable housing delivery in the United Kingdom

Policy context

Housing system

Similar to Australia, the UK housing system is dominated by private ownership but, unlike Australia, has a legacy of public rental housing which peaked in the late 1970s with one-third of households. In the 1980s, not for profit housing associations emerged as the principal provider of social housing through the large scale transfer of local authority housing to not for profit housing associations. This was complemented by the "Right to Buy" scheme which provided discounts to enable public housing tenants to purchase their home. The combination resulted in a reduction in public rental housing (Martin, Hulse et al. 2018).

UK's pattern of housing subsidy has changed radically. In the mid-1970s, 80 per cent of government subsidy (including tax subsidies) was broadly 'supply' side aimed at facilitating new development. In 2017, 90 per cent was 'demand side', largely because of the 'Housing Benefit' rental subsidy for private and social tenants. The austerity programs adopted by governments since 2010 have led to significant tightening of the Housing Benefit, however it remains the largest single 'cash' housing subsidy. A series of schemes to support access to home ownership have also been implemented, including equity shares, loans, guarantees and other support, and amount to almost £43 billion over the period 2015/16— 2020/21 (Wilcox, Perry et al. 2017).

Recently, the English government has strengthened 'supply' side measures. They have committed to 10 per cent of affordable home ownership of different kinds on housing sites of 10 units or more. The Autumn Budget 2017, which was trailed as a 'housing budget,' set out the Government's plan to make more affordable housing over the long term by building more homes in the right places. The Budget announced a comprehensive package aimed at raising housing supply to its highest level since 1970s, a target of 300,000 new homes per year (Wilson 2019).

There is an expectation that most new building will be carried out by the private sector. Government is aiming to stimulate house building by focusing on planning measures. Developers with planning permission are expected to use it and local authorities are expected to have an up-to-date plan in place based on an objective assessment of housing need within the area. The Government is also seeking to diversify the housing market by encouraging development by smaller builders and those interested in embracing innovative and efficient methods of construction (Wilson 2019). The Federal policy is being mirrored in the Mayor of London's Housing Strategy, discussed further in the case study below.

Planning system

In the UK, the history of social rental housing has persisted through the provision and regulation of housing entwined with central government policy and local delivery. Every development in the UK must obtain planning permission, and it is possible for local authorities to accept or deny applications taking into account the commitment to affordable housing provision. This means that value uplift occurs when permission is issued. This contrasts with countries with different planning systems, such as the US, where development entitlement is implied by zoning or other regulatory mandates, thus shifting value uplift to the time of land designation, and weakening the case for securing an affordable housing (or other) contribution (Gurran and Whitehead 2011).

National planning policies on sustainability, housing density and achieving mixed communities specify guidance to local planning authorities which provides legal backing to support on-site affordable housing agreements. (Gurran and Whitehead 2011). Targets for affordable housing inclusion in new housing have ranged from between 15 per cent and 20 per cent of new supply (typically in the North and West of England) to up to 50 per cent in high growth areas of the South East, including London (Gurran and Whitehead 2011). In England 43 per cent of affordable housing built in 2015–16 (12,866 units) was delivered due to inclusionary planning requirements (Gurran, Rowley et al. 2018).

The requirement to consider affordable housing provision in every development as a condition of planning approval has contributed to nearly half of all new affordable housing supply in England in 2015–16. The proportion of affordable housing delivered by planning incentives grew only because capital funding for new social and affordable housing declined during the same period. The planning incentives were targeted at new affordable housing for moderate income households, which some argued was at the expense of subsidising homes for people on the lowest incomes.

Nevertheless, this demonstrates the potential scale of affordable housing that can be achieved through mandatory inclusionary zoning through a centralised planning system. This is in contrast to the limited new affordable housing that has been achieved through Australia's piecemeal implementation of inclusionary zoning in two States.

Private sector roles, benefits and challenges

Finance and institutional investment

Private finance has successfully been introduced into the provision of social and affordable housing in the UK by a complex mix of arrangements for the construction of new affordable housing and the transfer of existing stock from local government to the housing association (HA) sector and to owner-occupation. The intervention of private finance has been a means of increasing private contributions through equity, rent and mortgage payments with the help of subsidy and 'stretching' the supply-side subsidies available so that they can meet a larger proportion of unmet need through the social housing sector.

Since 1988 it is clear that the private finance regime has evolved from an infant industry which had to be nurtured by government to one which is very much in the mainstream with credit rated housing associations and intermediaries raising bond and debt finance at historically low rates of interest for a wide range of activities that support the provision of social and affordable housing.

The development of the social housing finance market remains the biggest example of public sector privatisation in the UK with total funding now in the region of £80 billion in England alone. Bond market issuance via the capital markets is now the resurgent source of funding. In 2013–14, bonds to the value of £2.9 billion were issued by associations in the debt capital markets, exceeding the £2.5 billion raised via bank debt (Williams and Whitehead 2015).

To encourage more institutional investment in social housing, the UK government in September 2012 launched the Affordable Housing Guarantee scheme that provides a guarantee to support debt raised by borrowers (HAs and other private registered social landlords) to develop additional new affordable homes. In June 2013, The Housing Finance Corporation (THFC) was appointed to administer the guarantee scheme (£3.5 billion initially) (Haffner, Hoekstra et al. 2015). In 2019, the Government committed an additional £3.5 billion to fund the building of 30,000 affordable homes.

The government guarantee scheme has proven to be effective for both the social housing and private finance sectors. In research undertaken by Haffner and Hoekstra (2015), eight of the nine HAs interviewed had used institutional investment to fund their new developments in the last five years (2009–2014). Within this group, bond issuance was the main form of institutional investment.

Institutional investor respondents listed a number of motivations for investing; (1) cash flow and return prospects; (2) ethical and moral preferences of HAs; and (3) regulatory environment (the role of the government regulator) and macroeconomic conditions. Social housing and infrastructure were seen as growth opportunities, driven by underlying demographics and the need for housing, and provided diversification to other commercial real estate sectors, given the stability of its cash flow from the rental incomes. The low interest rate environment has also driven down expectations, making social housing more palatable during the current market cycle (Haffner, Hoekstra et al. 2015).

The benefits of institutional investment in social housing are balanced by concerns that financialized funding is forcing HAs away from the social housing mission to become private sector developers whose focus is shifting to open market developments. Bringing increased debt levels into the sector also brings increased risk, the potential for instability and pressure for increased rental income from affordable and market price homes (Smyth 2019).

Development, ownership and management

The UK has experienced major change in tenures over the past two decades. Reduced expenditure in social housing and an increasingly expensive housing market have led to reduced social rental and home ownership. More people are privately renting due to affordability at the early stages of life and by choice at the latter stages. Government policy focus has also increased demand for affordable rental housing. This is driving growth in the private rented sector or 'build to rent' sector (Kirk, 2019).

According to the British Property Federation (2019), 25,655 BTR units have been built, and 106,190 more units are either in planning or under construction. The Government Housing White Paper released in February 2017 allowed for changing planning rules so councils could proactively plan for more BTR homes where there is a need, making it easier for BTR developers to offer affordable private rent in place of other types of affordable home. The Mayor of London's Housing Plan sets out a different approach to assessing the viability of BTR developments opening up a Fast Track Route through the planning system for proposals that meet minimum requirements for affordable housing (Trident 2018).

The UK Government adjusted their tax laws and legislation to facilitate BTR development. Currently taxation legislation is beginning to rebase land values which will further shape the market and prepare BTR for further growth and maturity as an asset class. The UK BTR sector is valued at over £1 trillion by Barclays research (Kollewe 2017).

Lessons learned from the UK BTR market may provide insight to future growth of BTR sector in Australia-including housing policies, funding scenarios and planning frameworks.

- **Housing policies pave the way**: government policy reform encouraged authorities to make it easier for developers to offer BTR
- **Menu of funding options**: several financing sources have been needed to fund development, from bank and non-bank lenders
- **Flexibility for planning**: consideration of lower planning specification on the basis that they are designed and constructed to provide affordable housing
- **Right scale**: consideration of design standards and density requirements to achieve efficiencies that support BTR
- **Tenant rights:** longer term leases that provide security for tenants, as well as for financiers (Allens Linklaters 2018).

Case Study: London

Following a year of extensive consultation, in 2018 Sadiq Kahn, the Mayor of London, announced the London Housing Strategy which aims that half of new homes built are affordable. To achieve this, the Mayor is ensuring that high targets for affordable housing can still be delivered through the planning and development process, despite the reduced availability of Government capital funding. New residential developments that deliver at least 35 per cent or 50 per cent affordable housing - depending on the nature of the land - benefit from a Fast Track assessment route. The Mayor is also investing £4.82bn funding to support 116,000 affordable home starts by 2022.

Private developers will continue to build most of London's new homes. The Mayor has said he will support the sector's important contribution by making more land available and investing in infrastructure to unlock new sites. He will also help a wider range of developers and builders to play a part. In return, he expects private developers to build more homes, and to build their fair share of the genuinely affordable homes Londoners need.

In addition to the planning system, the Mayor is also promoting fiscal policy to support the Build to Rent sector. The Mayor supports calls to exempt Build to Rent from the three per cent stamp duty land tax surcharge, to bring Build to Rent onto a level playing field with mainstream construction for market sale (Mayor of London, 2018).

An example of how the Mayor's policies are playing out on the ground is Quintain's 7,600-home Wembley Park development that will include 5,000 purpose build rental homes. It is the biggest build to rent project in the UK, worth £3bn and when it is finished in 2025, 15,000 people are expected to be living and working on the 85 acre site. About 16 per cent of the tenants already living at Wembley Park are key workers such as nurses, teachers, soldiers and police officers.

Quintain admits that many tenants will be "paying a premium for the lifestyle" but it says that 32 per cent of the planned homes will be affordable. This is a higher proportion than seen at many other London developments, and just below the 35 per cent target set by the city's Mayor, down from his election promise of 50 per cent (Kollewe 2017).

More broadly, housing supply results have not yet met the Mayor's goals. In the year 2017-18, only 48 per cent of the target 66,000 new homes were achieved. In 2018-19, the number of affordable home starts made, supported by Mayoral funding, (14,544) just surpassed the lower end of the Mayor's expected range which was 14,000 to 19,000 homes. However, London needs 43,000 affordable homes annually, including affordable homes not funded by the Mayor. The unmet need for affordable homes (the gap between new supply and assessed need) widened in 2017-18, reversing the upward trend of the last five years (London Assembly 2019).

Over 7,500 affordable homes supported by the Mayor were completed in 2018-19, a 41 per cent increase on the previous year. However, this is still well behind the average of 10,000 new affordable homes per year in the preceding decade, when there was more National government funding for new social and affordable housing (London Assembly 2019).

Completions of social homes rose from just 348 in 2017-18 to 1,051 in 2018-19. While demonstrating an increase, this is well below the high of 10,880 new social homes in 2011-12. This illustrates the concern expressed by some that the Mayor's and Government's policies promote housing for moderate income 'key workers' but are inadequately addressing the needs of low income households (Elmer 2019). To address this, the Mayor has increased Greater London Authority funding for social housing to start 3,991 new homes in 2018-19 (London Assembly 2019).

Private sector roles in affordable housing delivery in Europe

Policy context

Housing systems

European countries' housing systems are different to those in Australia, Canada, Unites States and the United Kingdom in that they have much higher levels of rental housing, both public and private (Martin, Hulse et al. 2018). This is the result of both supply side and demand side policies over the past several decades, many of which have increased the private sector's roles in provision of low income housing.

LeBlanc et al. (2009) provides a range of examples where securitization has been used successfully to leverage institutional investment for social housing in a number of European countries. In Sweden, through the Framtiden issues made between 1995 and 2001, the city of Gothenburg raised funds in the asset-backed capital market to provide loans to multifamily housing companies that provide low-cost rental houses. Similarly, in Finland through the Fennica issues, funds have been raised in the asset-backed capital markets by the sale of loans to social housing borrowers for the purchase or construction of multifamily rental housing. In Belgium, this is also the case with the Atrium and Eve issues, where loans made to social housing companies for the provision of low-cost single-family housing were securitized. In the Netherlands, the Colonnade and Dutch Housing Association Finance issues going back to 1997 have financed the securitization of loans to Dutch housing associations (LeBlanc et al. 2009).

Lawson (2013) undertook an extensive review of European governments' use of securitization to support long-term investment in social and affordable housing. Importantly, the review found that these financial guarantees had minimal impact on the respective government's budgets. This provides evidence to support the future expansion of Australian government guarantees such as the Debt Bond Aggregator that was established in 2018.

Similar to the United Kingdom, other European countries have had a trend towards more 'hybridic' forms of affordable housing supply by both the not for profit and private sectors. While successfully leveraging private finance into affordable housing, these schemes had unintended consequences in relation to the housing market and housing outcomes for tenants. Examples from France and Germany are described in more detail below.

Private sector roles, benefits and challenges

Finance and institutional investment

The substantial finance currently available to institutional investors has increased interest among private investors to gear more of their investments towards affordable housing in Europe. Low interest in Government bonds and the search for yield has led institutional investors to look for alternative attractive investments. Tax incentives in France have increased investments in affordable housing not only by private institutional investors but also by a new sector of small scale, 'family' developers. Bonds constitute another form of private-sector investment in affordable housing. Especially in the UK, as described in the previous section, bond finance has enabled a growing number of housing associations to invest in affordable housing and balance the opportunities and risks in combining social and economic goals (Haffner, Hoekstra et al. 2015).

Combining public and institutional finance improves financial leverage and investment capabilities. It can also increase business efficiency through closer scrutiny by lenders of business models, financial viability, management capabilities and transparency.

Potential risks could relate to investors' long term commitment to the affordable rental market, as well as how quality and sustainability of housing will be safeguarded against financial return-driven behaviour (van Bortel and Gruis, 2012). France and Berlin provide useful examples of the trade- offs between benefits and risks, and unintended consequences.

In France, affordable rental dwellings are financed by different arrangements. First, there are low-interest loans that can be taken up by both social rental landlords and private rental landlords. Second, there are tax concessions and refurbishment subsidies for individual private rental landlords that agree to let their dwelling against a relatively moderate rent. In exchange for the financial support of the government, landlords then have to meet certain criteria with regard to the rent level and the income of the tenants.

The financial arrangements between government and landlords apply to a rather long (typically more than seven years) but nevertheless fixed period of time. When this time period has passed the dwellings are again part of the free market.

The creation of the tax incentives has led to the emergence of specific types of developers that do not sell houses but rather sell financial packages that not only include the production of housing (construction, monitoring, legal procedures) but also its management (seeking a tenant, maintenance, administration). They may offer various types of insurances and guarantees that reduce the risks for landlords, such as a guarantee on the rental income or an insurance against non-paying tenants (Hoekstra 2013).

In theory, the increased supply of private rental dwellings as a result of the tax incentives is supposed to improve affordability in the private rental market. A study by Bosvieux (2008) revealed that in very tight housing markets the effects of the tax incentives are relatively small. The production of new private rental dwellings that are financed with the tax incentives is limited because the investment involved is too high for most individual investors. Alternatively, in smaller cities the tax incentives have really disrupted the housing market by an oversupply of rental dwellings, resulting in decreasing rental prices and an increasing vacancy rate, especially for smaller apartments (Bosvieux, 2008).

Development, ownership and management

In international comparisons, the German housing system stands out for a Private Rental Sector (PRS) that is remarkably large (housing 53 per cent of households in 2014). While always the largest sector, the private rental sector has grown since the mid-1990s through the sale of public housing and housing owned by private industrial conglomerates to large corporate landlords.

There has been relatively little investment by the large corporate landlords in new construction, but they have engaged in active portfolio management (acquisitions and sales). Some large corporates have invested in modernisation works, in order to increase rents while others have sought to minimise their maintenance costs (Martin, Hulse et al. 2018).

Tenants' representatives have identified a range of issues in these portfolios including inadequate operating costs settlements, insufficient stock maintenance, rent increases, socially incompatible modernisations and poor accessibility of the landlords (BBSR 2017).

The trade-offs and unintended consequences from the German government's policy to shift social housing to private ownership and management is particularly evident in Berlin.

Case Study: Berlin

Berlin suffered a mid-1990s economic decline and population loss, creating a fiscal crisis. This fiscal instability motivated the city to privatise some of its publicly-owned housing stock and abandon social housing subsidies. In 1995, the city government instructed its housing companies to sell 15 per cent of their housing units, preferably to tenants (Investitionsbank Berlin, 2002). According to interviews with government officials, the aim of privatisation was to improve Berlin's budgetary situation and to stimulate private investment in housing rehabilitation (high debts prevented state-owned housing companies from executing rehabilitation) (Fields and Uffer 2016).

This triggered a surge in private equity investment via en-bloc privatisation, which favoured investors able to access the financing needed for such large-scale investment, and shut out potential purchasers with lower capital access, like housing co-operatives. Interviews with investors undertaken as part of a study by Fields and Uffer (2016) showed two motivations for funds purchasing in Berlin. First, they were speculating on a rising market in which comparatively low rent levels and relatively high turnover rate of 9.4 per cent in 2003 represented an opportunity to increase rents through modernisation and luxurious upgrading. Second, a capital leveraging strategy would allow funds to achieve capital gain independently from increased housing demand. Large masses of available housing provided the volume needed to speculate and trade by pooling properties together to sell on to investors (Fields and Uffer 2016).

Fields and Uffer found that large-scale privatisation of public housing led to heightened inequality and often worsened housing conditions for low income households, especially in the aftermath of the 2008 global financial crisis. "In Berlin turnover in desirable developments happened subtly, through transferring modernisation costs onto tenants unable to bear them. Meanwhile higher-risk capital leveraging strategies predicated on using credit capital (rather than the value of the properties themselves) to increase returns on equity were associated with reduced maintenance, physical and social deterioration, and the increasing isolation of low-income households unable to move to better housing (Fields and Uffer 2016, p1498)."

The privatization of more than 200,000 housing units in Berlin since 1990 has transformed the city's rental housing market significantly. Private companies actually provide housing for socially disadvantaged to a greater extent than Berlin's own housing companies. However, the investors' motives to accommodate low-income households were far from altruistic, and rather caused by the infeasibility of their initial business models due to the financial crisis. It was appealing for investors to attract low-income households as government rent payments were guaranteed. This has provided security of tenure and enabled tenants to stay in apartments which would not have been affordable for them. However, since government regulations will expire, it was questionable whether private investors would elect to stick to a low-income business model in the long term (Kitzmann 2017).

In early 2020, the city of Berlin implemented legislation to cap most rents in the city at 2019 levels for the next five years with limits on the amount that can be charged based on the apartment's condition and amenities. This aims to prevent existing tenants from being displaced by rent increases arising from gentrification, and to sustain existing affordable rental housing. The development industry argues that this will impede growth in the property market, including private investment in affordable housing. However, the city plans to construct 60,000 apartments in the coming years, many of them lower-priced properties (Eddy 2020).

The government's privatisation initiative starting in the mid 1990s aimed to improve Berlin's housing stock through private investment and management. While the significant private investment in the sector was achieved in the early years of the initiative, the long term result was low-income households being stranded in sub-standard housing while investors cut costs to sustain target returns or, alternatively, being displaced through gentrification. Recently, Berlin increased funding for new affordable housing and introduced regulations to freeze rents at 2019 levels for the next five years. This marks a significant reversal in policy from government raising revenue by selling social housing to private landlords to government investing in new social housing and regulating the private rental market to protect affordability. It is too early to understand the outcomes from this change in policy, but it provides an interesting example that will do doubt be observed by other countries.

Assessment Framework

In reviewing international models, it is helpful to apply a framework for comparative assessment. For this study, the evaluation framework for affordable housing initiatives developed by Milligan et al. (2007) was adapted. This framework asserts the importance of comparing initiatives in relation to a set of overarching objectives, while recognising contextual differences may mediate the ways in which these objectives are interpreted and addressed on the ground. A shown in Table 3.1 below, these objectives include affordable and appropriate housing; choice and equity in accessing this housing; efficient operation of the housing market; longer term benefits increasing capacity of the private sector to provide affordable housing; and avoiding unintended consequences.

Table 3.1 Affordable Housing Initiative Objectives

Objective	Definition
Affordable housing	To preserve and add to the supply of affordable housing where it is needed for target groups
Appropriate housing	To provide well designed housing and neighbourhoods
Choice	To diversify the housing and tenure options available in local housing markets for target group
Equity	To give priority of assistance to those most in need
Efficiency	To support and contribute to the efficient operation of the housing market
Longer term benefits	To progressively improve the capacity of the private sector to provide affordable housing
Unintended consequences avoided	To avoid as far as possible any unintended impacts (displacement, substandard housing)

(Adapted from Milligan et al. 2007)

Assessment of private sector roles in affordable housing delivery internationally

Drawing on this evaluation framework, the international evidence review outlined above formed the basis for comparing the affordable housing initiatives in relation to the key objectives. This qualitative assessment was undertaken based on available secondary sources, supplemented with relevant primary sources. As such, it is acknowledged this represents a partial or selective view of very different approaches across a range of jurisdictions that limit the conclusions that can be drawn. The approaches will evolve over time in response to social and economic circumstances that limits application to other jurisdictions. The indicative results of the assessment are summarised in Tables 3.1and 3.2 below, with an explanation of the assessment following each table.

Table 3.1 Assessment of International Finance and Institutional Investment Initiatives

FINANCE AND INSTITUTIONAL INVESTMENT INITIATIVES INTERNATIONALLY	Affordable	Appropriate	Choice	Equity	Efficiency	Longer term benefits	Unintended consequences avoided
Low Income Housing Tax Credits (US)	Partially Achieved	Achieved	Achieved	Achieved	Achieved	Achieved	Partially Achieved
Housing Choice Vouchers (US)	Significantly Achieved	Partially Achieved	Partially Achieved	Achieved	Achieved	Achieved	Partially Achieved
Government bonds (UK)	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved	Partially Achieved
Private Equity Investment (New York City)	Not Achieved	Not Achieved	Not Achieved	Not Achieved	Achieved	Not Achieved	Not Achieved
Private Equity Investment (Berlin)	Not Achieved	Not Achieved	Not Achieved	Not Achieved	Achieved	Not Achieved	Not Achieved
Tax Concession and low interest loans (France)	Achieved	Achieved	Achieved	Achieved	Partially Achieved	Achieved	Partially Achieved

Significantly Achieved	Achieved	Partially Achieved	Not Achieved

(Source: Author)

As shown in Table 3.1, in the United States, low income housing tax credits have been instrumental in the delivery of 2.1 million new affordable rental homes, financed by private equity and debt, providing increased choice and equity for both low- and moderate-income households. However, affordability is secured only for the duration of the tax subsidy, raising challenges in preserving this asset for low income households. With bi-partisan support and billions of dollars equivalent tax subsidy per annum since it was established in 1987, this program has consistently improved the private sector's capacity to supply affordable housing, with flow-on contributions to economic productivity and housing market stability. The majority of LIHTC have gone to private affordable housing developers, arguably squeezing out not for profit developers on an uneven playing field, as an unintended consequence.

Similarly, Housing Choice (Section 8) Vouchers enable millions of people to lease housing in the private rental market at an affordable rate. Further, this rental subsidy improves the capacity for developers to leverage private debt for construction or refurbishment of affordable housing. However, while improving affordability, where recipients use this subsidy to rent existing housing units, the quality, accessibility and appropriateness is dependent on the market. Historically, this rental subsidy has been taken advantage of by 'slum lords' providing sub-standard housing in high market locations, for example Single Room Occupancy (SRO) hotels in New York City and San Francisco. Thus, as shown in Table 3.1, there are questions as to the appropriateness of housing outcomes delivered via this subsidy.

In the United Kingdom, government backed bonds have led to the growth of institutional investment in the supply of new affordable housing. Regulated housing associations (HAs) utilise financing to develop and provide appropriate, equitable and efficient housing, mitigating risks for both investors and residents. The benefits of institutional investment in social housing are balanced by concerns that financialized funding is forcing HAs away from the social housing mission to become private sector developers whose main focus is on open market developments and increased rental income from affordable and market price homes.

Private equity investment in under-market rental property and social housing has led to many existing low-income households being displaced through regentrification or being stranded in sub-standard housing while investors cut costs to sustain target returns. The financialisation of affordable housing into investment assets in New York City and Berlin has proven to result in a myriad of unintended consequences for the affordable housing target group.

Tax concessions and low interest loans from the French government have increased the capacity of smaller scale private developers to invest in affordable rental housing. This has increased the supply of affordable, appropriate housing for low- and moderate-income households, improving choice and equity. However, the efficiency and effectiveness of the concessions and loans are relative to the housing market, with limited impact in high cost areas and unintended oversupply in smaller cities, as highlighted in Table 3.1.

Table 3.2 Assessment of International Development, Ownership and Management Initiatives

DEVELOPMENT, OWNERSHIP AND MANAGEMENT INITIATIVES INTERNATIONALLY	Affordable	Appropriate	Choice	Equity	Efficiency	Longer term benefits	Unintended consequences avoided
Mandatory Inclusionary Zoning (New York City)							
Mandatory Inclusionary Zoning (UK)							
Multi-Family Housing (US)							
Private Rental Sector Housing (UK)							
Large Corporate Landlords (Germany)							
For Profit Affordable Housing Developers (US)							
Significantly Achieved	Achieved		Partially Achieved		Not Achieved		

(Source: Author)

As shown in Table 3.2, mandatory inclusionary zoning in New York City has had limited impact on the supply of new affordable housing, except for those lucky enough to access a new affordable housing unit contributed as part of a development. This planning policy has inadvertently become a driver for gentrification and, consequently, displacement of existing low- and moderate-income households from high cost neighbourhoods, reducing affordability, choice and equity for existing tenants, and creating unintended consequences. The few private developers who have achieved inclusionary zoning approval have benefited from improved efficiency and increased capacity to deliver affordable housing arising from the incentive.

By contrast, the UK Government has applied mandatory inclusionary zoning nationally through its centralised planning system, leading to better outcomes across all objectives, as shown in Table 3.2. This consistent approach has resulted in more affordable, appropriate housing across the country, improving accessibility, choice and equity. The private sector's capacity to provide affordable housing is progressively increasing through the consideration of affordable housing provision with each development application.

In the United States, government backed lending has contributed to the build to rent 'multi-family housing' sector growing to 25 per cent of the total property investment market, increasing the private sector's capacity to deliver affordable housing. Approximately one third of this housing (over 70,000 homes a year since 1995) is targeted as affordable rental housing, increasing access, choice and equity to low- and moderate-income households. However, much of this housing is funded through LIHTC, with affordability ensured only for a fixed duration.

Similarly, while more emergent, the UK build to rent 'private rental sector' is increasing supply of affordable housing, in tandem with mandatory inclusionary zoning. The UK government has facilitated the efficiency of PRS through adjustments to tax laws and planning legislation.

In Germany, private large corporate landlords have increased in scale through the sale of public housing and private industrial-related housing. There has been relatively little investment in new supply and refurbishments have often led to increased rents and displacement of existing tenants, reducing choice and equity. Appropriateness of housing has reportedly suffered from a lack of maintenance. While government achieved its goal of increasing its revenue and reducing its costs through the sale of public housing to large corporate landlords, it was not without these unintended consequences, as reflected in Table 3.2.

By contrast, in the United States there is a large for profit developer sector that builds, owns and manages affordable housing. Many blend profit and mission goals to provide quality, appropriate housing within safe, supported communities. This sector has grown over the past three decades by leveraging private debt and equity through LIHTC and Housing Choice Vouchers, increasing capacity to deliver affordable housing. It is argued that this has been at the expense of the growth of the not for profit developer sector with whom they compete. Furthermore, affordability requirements are tied to the duration of these subsidies.

Lessons learned from international experience

Across all of the international examples reviewed it is clear that the private sector is not a silver bullet to replace government's role. In fact, as shown in relation to each of the models assessed, private participation always requires some form of government subsidy, contribution or relief to fund the gap between market and affordable housing. These policies work best in conjunction with each other where they can have a multiplying effect to optimise housing outcomes. As apparent in the experiences of the United States and the United Kingdom, a combination of demand subsidies, such as rental assistance, and supply subsidies, such as tax subsidies for affordable rental housing, can create a pipeline of projects delivered by the private sector.

Tax subsidies for affordable rental housing have been an effective catalyst for private investment in the United States and France. However, when the requirement for affordability is tied to the duration of the subsidy it creates challenges in preserving the asset for low and moderate income households. Experience in France has shown that the tax subsidies can have limited impact in tight markets where the effect of the subsidy is relatively small, and has resulted in over supply in smaller cities, resulting in increased vacancy rates and decreased rental prices. This suggests the importance of tax subsidy levels being based on the local housing market, for longer durations and targeted to areas that need affordable housing.

Care needs to be taken that policies that stimulate private investment, development and management of affordable rental housing are not at the expense of the growth of not for profit providers. In the United Kingdom and other European countries this has been done effectively through the transfer of public housing assets to not for profit developers, enabling them to leverage private equity and debt, often secured by Government, to build new housing. In the United States, some for profit developers are partnering with not for profit providers to deliver safe, affordable housing with community facilities and support services.

Scale and certainty of government backing is a critical success factor to leveraging private investment in affordable housing. Government securitization in the form of bonds, loans and guarantees has leveraged billions of dollars in long term private finance in several European countries and the United Kingdom, with minimal impact on the respective Government's budgets.

Planning instruments to incentivise private developer contributions are most effective when they are mandatory with meaningful targets and complemented with accelerated planning approval, as is the case in the United Kingdom. Conversely, when offered on a project basis as in New York City and other parts of the United States, they create limited new affordable housing and can drive up local housing prices through gentrification, displacing existing low-income tenants.

Regulation of the private rental sector's affordable housing ownership and management is essential to ensure appropriate, accessible and affordable housing. The experience in Berlin demonstrates that this regulation is necessary to mitigate the risks of the drive for profits being at the expense of investment in appropriate maintenance and operations; and rising rents from gentrification reducing the availability of existing affordable rental housing for existing low income households.

Summary and key points

The private sector has played a significant role in affordable housing supply in a variety of housing systems across Western countries over the past decades, stimulated by government policies, subsidies and planning mechanisms. The sector has financed, delivered and managed affordable housing, in some cases in partnership with not for profit housing providers and in other cases in competition with this sector. These have achieved a range of positive outcomes, as well as some unintended negative consequences and trade-offs. The experience from these initiatives provides valuable lessons that can inform strategies to stimulate appropriate private sector involvement in affordable housing delivery in Australia, while overcoming barriers and mitigating risks - explored further in Chapter Four.

4 Potential private sector roles in Australian affordable housing delivery

Introduction

This Chapter assesses current and recent Australian affordable housing initiatives involving the private sector drawing on existing evidence from research literature, policy and program material, reports, evaluations and complementary primary documentation. These policy interventions are assessed using the same evaluation framework as international interventions for comparison against the same objectives, and to identify strengths, weaknesses and lessons learned for consideration in future. The chapter defines roles for private, government and not for profit sectors, and how the sectors can work collaboratively to increase affordable housing to help address unmet demand. Opportunities to stimulate private sector involvement are identified, along with potential barriers and strategies to overcome them drawn from international experience.

Assessment of Australian affordable housing initiatives involving the private sector

Commonwealth Rental Assistance

The Australian Government spends billions of dollars each year on the private rental market through Commonwealth Rent Assistance (CRA) direct payments ($4.4 billion) to 1.35million low-income households needing help with rent. Benefits from Commonwealth funding of CRA, the largest support program for eligible private renters receiving a pension or government benefit, include reduced pressure on social housing and the reduction of some housing stress.

However, in 2016-2017, 42.6 per cent of all CRA recipients were in housing affordability stress, despite receiving the benefit. Even so, if those eligible recipients had not received CRA, the proportion in housing affordability stress would increase by 27 percentage points to 68.5 per cent (Productivity Commission 2018). These figures are consistent over the previous three years.

CRA's effectiveness in reducing housing stress is dependent on the local private housing market conditions. The twice-yearly increases to Commonwealth Rent Assistance (CRA) are linked to CPI increases. However, house rents have been increasing at a faster rate than CPI. This means that CRA is less able to help low-income households afford a private rental property in areas that increasingly are becoming more expensive.

In addition, CRA is paid at a uniform rate across the country, which means recipients in high rent areas receive the same assistance as those in low rent areas. As a result, recipients living in higher rent areas, such as inner-city suburbs, can be disadvantaged by the setting of national rules. This increases the likelihood of low-income households locating to areas where rent is lower and where there are potentially lower prospects for employment, which in turn exacerbates the risk of these householders not finding or being able to maintain employment in areas close to where they live.

Although CRA is not directed towards increasing private affordable housing supply, the rental income assists many CHPs to leverage debt through private loans to construct new social and affordable housing. Without the additional CRA income the CHP sector's capacity to increase social and affordable housing supply and indeed its financial sustainability would be considerably reduced.

In recent research Hulse, Parkinson et al. (2018) identified that low income and vulnerable households face particular challenges in the private rental sector. Policy options to provide benefits for these households and strengthen the private sector include; boosting affordability by indexing CRA to rent rises rather than consumer price index increases; stabilising tenure with tax incentives to encourage long term investment in the low-income market; and improving access to the private rental market by low-income tenants through private brokerage programs and philanthropic real estate entities (Hulse, Parkinson et al. 2018).

National Rental Affordability Subsidy

The introduction of the National Rental Affordability Scheme (NRAS) in 2008 represented a significant shift in the provision of housing assistance in Australia, for the first time leveraging private investment in the supply of affordable rental housing at a national scale. In the context of declining rental and home-purchase affordability in Australia, and sluggish rates of new housing construction, NRAS addressed important goals for boosting the supply of total dwellings, not just affordable dwellings. In contrast to traditional approaches to social housing, NRAS represented a mixed market approach, able to integrate affordable rental accommodation within wider market developments.

A review undertaken by Rowley et al. (2016) found that by June 2015, NRAS had delivered 27,603 dwellings with a further 9,980 to be delivered, 76 per cent of which were in major cities. Dwellings were delivered across a variety of housing types including apartments (39 per cent), separate houses (22 per cent), studios (17 per cent) and town houses (22 per cent). The variety of dwellings delivered was a very positive outcome because it accommodated a broad range of household sizes and preferences for housing type.

Further, dwellings supported by NRAS were found to be delivered in suburbs with a range of socio-economic characteristics and with generally good-quality transport infrastructure. The allocation decisions (made by the NRAS funding body) reflected a combination of financially feasible project applications and state government directed housing priorities, and the approach worked well in delivering quality spatial outcomes.

The distribution of NRAS incentives across states/territories and regions was a function of two drivers: firstly, the priorities of both the federal and state governments; and secondly, the financial viability of a project as determined by the approved participants (developers/investors). The dwellings delivered were clustered in suburbs with certain investment characteristics, which ensured the incentive delivered value to the investor, be that the community housing sector or a private investor[1]. To maximise the impact of the incentive, private-sector investors sought areas with potential for capital growth combined with a rent that was low enough to benefit from the incentive itself.

NRAS was discontinued in May 2014 after just six years, when there was a change of government at the federal level. An Investigative Panel convened by Rowley et al. (2016) discussed the strengths and weaknesses of NRAS. Overall the panel expressed the view that the majority of scheme outcomes were very positive, although the joint administration by federal and state governments was complex and burdensome. It was noted that in the last three funding rounds the scheme was oversubscribed, with four applications for each incentive, suggesting it was successful in attracting investment. The panel was generally of the view that a long-term commitment to NRAS would have generated large-scale institutional investment.

[1] For example, for a weekly market rent of $300 per week, the 20 per cent reduction, reduces rental income by $3,120 per year, meaning that the incentive of around $10,000 still delivers a considerable gain to the investor. With a rent of $600, the annual reduction is $6,240 and the gain to the investor is much smaller. Ignoring the after-tax position, the higher the market rent, the less beneficial the NRAS incentive (Rowley et al. 2016).

Lack of certainty regarding government commitment to NRAS, however, undermined institutional confidence.

The National Housing Finance and Investment Corporation Bond Aggregator

In June 2018, the Commonwealth Government established the National Housing Finance and Investment Corporation (NHFIC) to "improve housing outcomes for Australians by:

a) strengthening efforts to increase the supply of housing; and
b) encouraging investment in housing (particularly in the social or affordable housing sector); and
c) providing finance, grants or investments that complement, leverage or support Commonwealth, State or Territory activities relating to housing; and
d) contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia" (Australian Government 2018, pg 2).

By the end of 2019, eighteen months after its establishment, the National Housing Finance and Investment Corporation (NHFIC) had provided over $800million in finance to CHPs to support delivery of more than 1000 new and 3600 existing social and affordable homes. This is a meaningful additional supply, compared to the 3,000 new social homes per annum that have been funded by Commonwealth and State governments nationally over recent years. In March 2019, NHFIC issued its first bond to raise private low-cost debt finance for CHPs providing social and affordable housing in Australia. The $315 million bond was made available through a competitive tendering process as 10-year, interest-only loans at a fixed rate of under 3 per cent for a number of CHPs.

NHFIC reported in a media release (2019) that "demand for the bond was very strong from both local and international investors, with bids totalling more than $1.3 billion. The issuance of the bond marks a significant milestone for the sector and an important step towards increasing affordable housing supply in Australia" (NHFIC 2019, pg 1).

In late 2019, NHFIC issued a second bond of $315m and awarded loans to CHPs that can be used to refinance existing debt facilities and as working capital.

NHFIC also funds a $1.5million Capacity Building Program, administered by the Community Housing Industry Association (CHIA) to help CHPs with the upfront work required to support a NHFIC loan application.

While strong interest from investors in the initial bonds is encouraging, additional government financial commitment is necessary to achieve the scale that large institutional investors are seeking and that is needed to address the unmet demand for social and affordable housing across Australia.

Public Private Partnerships

Public Private Partnerships (PPPs). typically involve capital investment in infrastructure raised by a private partner, with the investment repaid over a concession period by government and revenue from user fees. Social infrastructure projects, such as residential developments including social and affordable housing, are typically smaller in scale but are likely to involve a wider range of partners. Such arrangements are often considered complex as they involve high levels of public scrutiny, with potentially high exposure to political interference and policy changes. Defining and measuring social outcomes are more complex than, for example, monitoring usage of toll-roads (Almqvist & Hogberg 2005). There can be tension between expected social outcomes and financial returns. Conflicts may arise where private and not for profit organisations undertake roles previously performed by the public sector. This may give rise to fears of privatisation. There may also be difficulties changing established working procedures. Bidding costs are expensive due to complexity, while expected returns for successful bidders are smaller (Jeffries & McGeorge 2009). Ideally each partner assumes those risks they are best placed to manage and those responsibilities from which they can make most benefit. This can present difficulties given often quite different capacities between parties to carry that risk (Pinnegar 2011).

Social housing PPPs typically involve renewing existing public housing estates and/or reconfiguring government land, requiring master planning and community consultation. Responsibility is often shared between the government and the private developer. Planning approval may involve both local and State authorities, but involves risks for the private sector partner if lengthy delays increase transaction costs and impact financial viability (Pinnegar 2011).

Only a handful of social housing PPPs have been completed to date in Australia. The Bonnyrigg project, one of the first, was expected to deliver 2330 new public and private homes over a 14-year period from 2007. The project hoped to replace 933 dwellings, comprising 833 public dwellings of which many were in a state of disrepair, with a 70/30 mix of private dwellings and homes for public housing tenants. In early 2013, the Becton Property Group, the private development and construction partner of the PPP, went into receivership and demolition and construction was put on hold. At this time, Stages 1-3 were completed and occupied, with residents in Stages 4-6 relocated, and dwellings in Stages 4-5 demolished. Despite extended efforts, a new development partner could not be found and NSW Family and Community Services announced in mid-2015 that the PPP was discontinued. In 2015, UrbanGrowth NSW, the NSW development agency, took over construction for the project, renamed "Newleaf". Spotless, the private facilities management company initially contracted to provide maintenance services to the social housing, exited the project at this time as well. The role of SGCH, the CHP contracted to deliver tenancy management services to social housing residents, broadened to encompass maintenance services for social housing properties (Newleaf 2020).

Despite these issues, some of which no doubt reflect market conditions but also the risks associated with social infrastructure PPPs described above, the project has continued. Stages 4 and 5 were completed in the end of 2019 and stages 6 and 7 are expected to be completed by 2021. In interviews undertaken by Pinnegar and Liu in November 2019, local residents reported getting on with their lives, despite delays to the renewal process. Residents reported benefits from the 'tenure-blind' redesign into a mixed tenure community, replacing the stigma that was formerly associated with the estate. Residents also valued the community building undertaken by SGCH, with its strong relationship with tenants. There have also been improved learning outcomes and employment opportunities (Pinnegar and Liu 2019).

A number of additional PPPs are in the pipeline which include a component of social and affordable housing, either to purchase or to rent, through partnerships between Government, private developers and community housing providers. The NSW Communities Plus program aims to deliver 500 affordable dwellings, 23,000 new and replacement social housing dwellings and 40,000 private housing dwellings over the next ten years through renewal of public housing estates by private developers and community housing providers. NSW government awarded its first major project, Ivanhoe, to a consortium involving Frasers Property Australia and Citta Property, large private developers, and Mission Australia, a Tier 1 registered community housing provider[2]. The $2.2bn redevelopment of the Ivanhoe estate (currently 259 public housing dwellings) will provide 3,000 new homes, including 950 new social and 128 new affordable dwellings (NSW Family and Community Services, 2018). Similarly, the Victorian Government has committed $185 million towards a Public Housing Renewal Program to develop up to 2,500 social and affordable housing dwellings through cross-sector partnerships over the next ten years (Victorian Department of Health and Human Services, 2019). While these programs provide good opportunities for mixed income housing, the tender process and development timeline for these large projects mean that it will likely be two to three years before any new affordable housing is built.

2 The National Regulatory System for Community Housing (NRSCH) specifies three categories of registration, with Tier 1 providing the highest level of performance and regulatory engagement.

While some governments find PPPs an attractive procurement method for stimulating private investment in infrastructure, long procurement and planning approval processes drive up transaction costs, negatively impact value for money and delay delivery of housing, compared to more straightforward construction procurement. The complex nature of social housing PPPs increase risks and challenge the achievement of social outcomes.

Inclusionary Zoning and Planning Incentives for Affordable Housing

There is growing interest in the potential for inclusionary planning approaches to help deliver affordable housing supply in Australian cities and regions. Within wider government strategies for affordable housing supply, inclusionary planning approaches can play a role in requiring or incentivising dwelling units, land, or financial contributions from the private sector towards affordable housing projects.

A study by Gurran et al. (2018) examined two of the longest standing approaches in the Australian context: South Australia's 15 per cent inclusionary target (introduced in 2005); and the voluntary incentives that apply in NSW, the most notable of which is a density bonus for infill affordable rental housing (introduced in 2009). It found that around 17 per cent of total dwelling approvals within major new residential development areas of SA (2005–15) have been dedicated affordable homes. Different housing types across the continuum of housing needs and options have been delivered, including social and affordable rental housing and low-cost home ownership. Around 3,685 or 63 per cent of the total 5,485 affordable homes delivered to date have been on government land, and/or supported by other government incentive or subsidy (the former NRAS scheme). For example, inclusionary zoning combined with NRAS in mixed income residential developments achieved affordable housing yields of up to 63 per cent of some developments.

In NSW voluntary planning incentives have delivered a much smaller proportion of affordable homes (an estimated 0.5–1 per cent of Sydney's housing supply 2009–17). In relation to the continuum of housing needs, only affordable rental accommodation is able to be delivered under this mechanism, and the dwellings are only required to remain 'affordable' (offered at up to 80 per cent of market rent) for 10 years.

The new boarding house developments enabled under NSW's Affordable Rental Housing (ARH) SEPP 2009 can be viewed more widely as an explicit attempt by the NSW Government to encourage private sector engagement in affordable housing provision through planning system levers. The policy overrides local restrictions to enable developers to produce what is in essence a build to rent product, comprising of very small studio units for singles or couples. The policy appears to have gained some traction. However, as there is no requirement that the accommodation be offered at an affordable rent private developments tend to be priced out of the reach of low income households. The policy has supported a number of community housing developments though (Gurran et al. 2018).

When compared to international practice, both the South Australian and NSW schemes seem modest. In England and Scotland, the general expectation is for 20–40 per cent of new housing developments to be affordable housing across the continuum of needs and options (with volume and mix determined in relation to housing need and market context) (Gurran et al. 2018). These affordable housing requirements have been supported by funding or financial incentives for affordable housing development. For instance, as discussed in Chapter Three, 12,866 affordable housing units (43 per cent of total affordable housing output) were delivered through inclusionary planning requirements in England between 2015–16. In the United States, more than 500 cities have inclusionary planning schemes in place, and additional incentives and financial subsidies are available for affordable housing development. As an example, about 12 per cent of annual housing completions in San Francisco are affordable dwellings produced through inclusionary zoning or impact fee requirements (Gurran et al. 2018).

Social Housing Initiative, Nation Building Economic Stimulus Plan

There was a boost to national social housing supply through the Nation Building and Jobs Plan Social Housing Initiative (SHI) in response to the global economic crisis (COAG 2009a). Budgeted as one-off funding, the SHI injected a total of $6.388 billion into the social housing sector between February 2009 and December 2012. The initiative aimed to deliver 20,000 new social housing dwellings and refurbish 2,500 existing dwellings nationally, largely through public private partnerships rather than the traditional public housing delivery models (Pinnegar et al. 2011). This included the transfer of public housing stock to the community housing sector, a process that was intended to grow the capacity of the non-government sector, largely not for profit community housing organisations (Milligan et al. 2016).

The SHI's objective was to stimulate economic activity by increasing the quantity and quality of social housing. This was to be achieved through funding for both new dwellings and an extensive program of repairs and maintenance. The SHI aimed to:

- increase the supply of social housing, via construction of new social housing and the repair and maintenance of existing dwellings
- provide increased opportunities for people who are homeless or at risk of homelessness to gain secure long term accommodation
- stimulate the building and construction industry (COAG 2009).

Based on a review undertaken by KPMG on behalf of the Housing Minister's Advisory Committee (2012), the SHI exceeded its primary objectives of stimulating the construction industry, increasing the supply of social housing, providing long-term accommodation opportunities for homeless people (and people at risk of homelessness) and delivering wider benefits to the Australian community.

The SHI had a positive impact on the economy, supporting employment with the addition of approximately 9,000 FTE in the construction industry and increasing overall GDP by approximately $1.1 billion in average annual value-added over the four-year period, or 0.1 per cent (10 basis points) (Housing Minister's Advisory Committee 2012).

In addition to the economic benefits from the SHI, the number of dwellings to be delivered exceeded targets by approximately 13 per cent. Approximately 19,700 new dwellings were constructed. Additionally, an extra 12,000 dwellings that were uninhabitable, or likely to be uninhabitable within two years, have remained tenanted through the repairs and maintenance program. Homeless people, people with a disability and elderly persons were most typically the beneficiaries of the new dwellings (Housing Minister's Advisory Committee 2012).

Additional non-financial benefits of the SHI to the construction sector (and the Government) included in introduction of some new industry participants into social infrastructure developments, and increased competition across the construction industry (Housing Minister's Advisory Committee 2012).

However, there were a range of issues associated with the program. The SHI did not measurably reduce wait times or wait lists, most likely due to the effect of wider social and economic conditions on the demand for social housing over the same period.

CHPs expressed concern that the requirement to use the shared housing wait list for properties financed under the SHI, and to take high priority clients from that wait list, reduced CHPs' ability to mix and match tenants to types of housing and locations, potentially constraining rental cash flows (as these tenants typically pay lower rents). The other issue highlighted was that a diverse social mix makes for a more liveable and enjoyable community. The mix of tenants is critical for ensuring robust cash flows. It also works against concentrations of disadvantage, which in turn may help to break the cycle of disadvantage in certain locations. The provision of housing for the target client cohorts requires greater support to maintain tenancies and facilitate access to a broader range of services (which may impose costs on CHPs).

The review recommended that future initiatives could include a mix of leverage approaches at the State and Territory level, including build and sell methods, construct and transfer and co-contribution packages. Having a variety of leverage approaches available would allow for maximum flexibility based on State and Territory policies of the day, risk appetite and CHP sector maturity. Approaches that allow for the potential for mixed use dwellings (such as private sale, rentals, affordable housing and social housing) and mixed tenancies generate stronger cash flows for housing providers. Approaches that include sales and reinvestment of the proceeds into future projects additionally lead to a 'secondary stimulus' effect and great leverage opportunities.

It is unclear whether the accelerated nature of the procurement and delivery timelines under the SHI provided an overall net benefit to the participants, in terms of quality, value or relationship building or whether extending the timeframes could provide increased value for money and quality (both from a design perspective and a finished dwelling perspective).

Maintenance for the dwellings needs to be factored into future costs of any capital investment scheme for social housing. The review found that CHPs need to plan accordingly and establish sinking funds for upgrades and replacements of major building components approximately 10 years after construction (Housing Minister's Advisory Committee 2012).

Incidents of sub-standard work, materials and equipment have led to significant maintenance costs for some CHPs, above what can be covered by rental revenue, straining operating budgets and requiring additional funding. Attempts to recoup these costs from builders were impeded by the expiry of the warranty period or the winding up and/or bankruptcy of these companies following completion of the SHI program.

Build to rent

As discussed in Chapter Two, build to rent (BTR) is a relatively new building typology in Australia but one that is getting increased attention from major private developers during the recent housing market downturn.

For example, Mirvac, one of Australia's largest residential developers, has committed $1 billion towards a build to rent "club", with the cornerstone project being the Indigo at Olympic Park. This $180 million development will provide 258 units of housing that will be owned by Mirvac and rented to residents. Mirvac will act as the developing, investment and property manager, potentially setting up its own in-house management entity that will provide tenancy and asset management services, similar to a community housing provider but on a for profit basis. The Clean Energy Finance Corporation has committed $50million to this project, a 30 per cent interest as a cornerstone investor, which will include state of the art sustainability features (Mirvac 2018, Cummins 2018).

Make Ventures has completed a small but innovative build-to-rent-to-own project of 66 dwellings in Melbourne. Prospective purchasers sign a five-year lease with the option to purchase their home for an agreed fixed price at the end of the term (Make Ventures 2019).

The private development industry has completed approximately 2,000 build to rent units in Australia, with another 1,000 in construction and 1,500 approved and pending commencement (Kirk 2019). However, it remains to be seen whether a private build to rent product can or will deliver any affordable rental housing.

The NSW, Victoria and Queensland Governments have all introduced build to rent pilot projects to deliver a mix of private, social and affordable housing. These governments are providing land under a leasehold arrangement with the improved land and buildings to be returned at the end of an agreed term. NSW is rezoning the land to increase density and yield. Victoria and Queensland are providing a targeted subsidy to support the social and affordable housing component. Consortia of private developers and community housing providers are currently competitively tendering to deliver these projects (NSW FACS 2019; Victorian DHHS 2019; Queensland Treasury 2019). Feasibility and outcomes remain to be seen.

As discussed in the previous chapter, evidence from international systems of capital-market financed affordable housing and investment industry analysis show that affordable housing can be made to work in a BTR market with favourable tax and planning concessions and a favourable policy approach. However, such conditions are not sufficiently established in Australia presently.

Pawson et al. (2019) found that industry stakeholders generally do not see BTR as a specifically affordable housing product. Modelling undertaken by Pawson et al. indicates that most types of market-rent BTR would not offer competitive returns with build to sell (BTS) development, let alone an internally generated cross-subsidy for affordable rental. Any affordable rental component, therefore, could be achieved only through provision of substantial assistance by government, in the form of land contributions and subsidies (Pawson et al. 2019).

Pawson et al. (2019) challenge the case for subsidising for profit BTR provider developments to achieve ministerial affordable housing policy goals. They argue for encouraging CHPs as affordable housing developers – including enabling them to operate a cross subsidy, mixed tenure model. Even with this support, based on the current size and capacity of the CHP sector, it is unlikely that the CHP sector alone would be able to scale up capacity to deliver the volume of new housing that is required to address unmet need (36,000 new homes a year).

Assessment of private sector roles in Australia

Table 4.1 on the following page summarises the Australian initiatives involving the private sector against the affordable housing objectives identified in Chapter Three.

As shown in Table 4.1, Commonwealth Rental Assistance, the most significant program, which issues over 1.35 million household rental subsidies a year fails to fully deliver on the affordability objective. While improving affordability, some 42 per cent of recipients are still in housing stress even after the subsidy. Appropriateness and choice of housing is dependent on the existing local rental market. CRA is also available to residents of community housing. The additional rental revenue improves the financial viability of the CHP and supports debt service on loans for new housing.

The National Rental Affordability Subsidy (NRAS) successfully generated private investment and development of 38,000 new homes. It stimulated affordable, appropriate housing across a range of building types and locations, improving choice and equitable access for low income households. However, affordability of these homes is limited to the duration of the tax subsidy – ten years. Furthermore, longer term benefits were limited when the Federal government cut short the program after six years. Evaluations have shown that while the program was mostly successful in achieving its intended objectives, it was administratively complex and burdensome, which reduced its efficiency.

Since July 2018, the Federal Government has raised over $800m in private finance through bonds and loans to CHPs to deliver permanently affordable housing. This has improved equitable access to appropriate housing for low and moderate income households, through efficient low cost debt. There has been very strong interest from local and international investors for the initial bonds. However, the longer term benefits from further private investment have not been fully achieved (as shown in Table 4.1), and are dependent on the scale and longevity of Government's commitment to future financing.

Table 4.1 Assessment of Australian Affordable Housing Initiatives

FINANCE, INSTITUTIONAL INVESTMENT, DEVELOPMENT, OWNERSHIP AND MANAGEMENT AUSTRALIA	Affordable	Appropriate	Choice	Equity	Efficiency	Longer term benefits	Unintended consequences avoided
Commonwealth Rental Assistance							
National Rental Affordability Subsidy							
Government Bonds							
Social Housing Initiative							
Public Private Partnerships							
Mandatory Inclusionary Zoning (South Australia)							
Voluntary Inclusionary Zoning (NSW)							
Build to Rent							

Significantly Achieved	Achieved	Partially Achieved	Not Achieved

Source: Author

A small number of social housing public private partnerships are being implemented in Australia, with only a few having been completed to date. As such, they have only partially contributed to new affordable, accessible, appropriate housing, as shown in Table 4.1. The lengthy procurement and planning approval process drive up transaction costs and decrease value for money, and are thus less efficient compared to more straightforward construction procurement. The complex nature of social housing PPPs increase risks, challenges achievement of social outcomes and has led to unintended consequences for partners and residents.

By contrast, the government funded, private sector delivered capital construction Social Housing Initiative exceeded the initial targets for new and refurbished homes between 2009-2012. It increased the supply of affordable, appropriate housing in urban and regional areas, thus improving choice and equitable access for low income households. The SHI also created new jobs and stimulated the private construction industry, supporting efficiency of the market and creating longer term benefits by helping to counter the economic impacts from the global financial crisis. Notwithstanding these benefits, very tight procurement and delivery timeframes created pressure on quality and value for money, creating the unintended consequences of increased costs to Government and the CHPs who are managing the new housing, as shown in Table 4.1.

South Australia's mandatory inclusionary zoning requirement of 15 per cent of all new major residential development has delivered over 6,000 new permanently affordable homes since 2005, as shown in the data above. These are a mix of different housing types across social and affordable rental, and low cost home ownership, providing appropriate housing and choice for low and moderate income households. Income based allocation ensures equity for tenants. This planning incentive has provided long term benefits by increasing the private sector's capacity to deliver affordable housing, without unintended consequences for the industry, government, CHPs or residents. As shown in Table 4.1, this approach has successfully achieved all of the affordable housing objectives.

By contrast, NSW's voluntary inclusionary planning incentive has had very low take up by private developers, as outlined in the evidence above, with limited contribution to the supply of affordable, appropriate housing for low income households. Only affordable rental housing is able to be delivered under the mechanism, restricting choice of tenure. Dwellings are only required to be affordable for 10 years, limiting affordability and longer term benefits. In comparison to the assessment of South Australia's mandatory inclusionary zoning policy in Table 4.1, this demonstrates the limited effectiveness of a voluntary inclusionary zoning policy of this nature to deliver affordable housing objectives.

As outlined above, Build to Rent projects are not going to provide affordable housing without government subsidies, contributions, tax concessions and/or planning relief. While there is strong industry interest in Build to Rent, particularly as a counter cyclical strategy to combat the softened sales market, the evidence reviewed here raises questions as to whether build to rent projects delivered by the private sector will achieve any affordable housing outcomes without considerable government subsidy. Whether this subsidy should be targeted to the private sector or to the community housing sector is a subject of debate, as discussed above.

Appendix A provides more detailed analysis of the government inputs, private sector roles, outcomes, strengths and weaknesses of Australian affordable housing initiatives involving the private sector to date.

Roles and interdependencies across sectors

It will take the efforts of all sectors to 'close the gap' on affordable housing supply. Each sector has roles that 'play to their strengths', and can also provide 'checks and balances' to mitigate against down sides. Experience shows that these strengths can be amplified by working together collaboratively. However, there is complexity in the nature of cross sector partnerships that benefits from clear definition of roles and risk management.

Drawing on the experiences and evidence reviewed above, Table 4.3 on the following page summarises the roles each sector can adopt in relation to affordable housing. These are described in more detail following.

Table 4.2 Roles in affordable housing

Private Sector	Government	Not for Profit
- Access to finance - Capacity to leverage - Development expertise - Asset management - Property management - Place making	Commonwealth: - Rental subsidies - Tax subsidies - Bonds and loans - Grants - Land - Capital funding State Governments: - Planning incentives - Grants - Land - Capital funding - Regulation Local Government: - Planning incentives - Land	CHPs: - Tenancy management - Property management - Community engagement - Coordinating access to support services, training, education and employment opportunities Service Providers: - Case management - Support services - Training, education and employment opportunities

Source: Author

Private sector roles

As shown in Table 4.2, the private sector has the capacity to provide significant financial investment into affordable housing, given the right risk and return profile. As outlined above, this requires scale and certainty from the government in bond, subsidies or guarantees. In turn, government has an important role to play in regulating the investors to ensure that the drive for return on investment does not compromise the quality and affordability of housing outcomes. This is discussed further below.

The private sector has the greatest experience in housing development of the three sectors, which can help to reduce the risks of project delivery. The private development industry has the capacity to deliver large scale residential projects across Australia on behalf of government or CHP clients. Timely delivery is dependent on the nature of the procurement process and planning approval by government. The private sector also has extensive experience in asset management of social and community housing, with an annual turnover of around $1billion currently. Assurance of quality and value for money for construction and asset management ideally is a shared responsibility, with requirements clearly defined upfront by the client and verification undertaken by all parties.

The private rental sector provides property and tenancy management services on behalf of private owners, some of whom provide affordable housing (subsidised by CRA or head leased by CHPs). Community housing providers' core business is property and tenancy management for social and affordable housing. There is the potential that these sectors will be competing against each other for access to government funding, either through tax subsidies or rental assistance to tenants. Consistent regulation of both for profit and not for profit affordable rental housing providers would help to mitigate this risk. This is discussed further below.

Government roles

As discussed above, there is always a role for government to play in any initiative that involves private sector in affordable housing. It is widely acknowledged (AHAG 2014) that some form of government subsidy is required to cover the 'funding gap' between market and affordable housing in order to stimulate private sector participation. As experience has shown, this subsidy can be in the form of funding, tax subsidy, or planning incentive.

As shown in Table 4.2, The Commonwealth Government has an important role in providing tax subsidies and bonds to attract private investment in social and affordable housing. This finance has enabled both private and not for profit organisations to build, own and manage affordable housing. As discussed above, the Commonwealth's funding of CRA is the largest form of government subsidy, assisting over 1 million people a year to rent more affordably. This rental revenue also facilitates leveraging of loans by community housing providers to build new housing and service debt from private banks and institutional investment.

Both the Federal and State Governments provide capital funding under the bi-lateral funding agreement and policy framework. There has been very little capital funding for new housing since the end of the Social Housing Initiative between 2008 and 2011. Given the current downturn in the economy, an opportunity exists for a similar capital investment program to deliver new social and affordable housing while also creating jobs and stimulating the economy (discussed further below).

As shown in Table 4.2, Commonwealth and State Government have had in the past and currently in some jurisdictions have a role in providing grants and assistance for affordable home purchase, including first home owners grant, stamp duty discounts, bond assistance, and relocation grants.

Commonwealth and State governments have a role in providing land, either through public housing estates or other under-utilised sites that are suitable for renewal through public private partnerships. They have a role in undertaking feasibility studies to assess options for mixed income/mixed tenure/mixed use projects, and to optimise affordable housing by leveraging institutional investment, subsidies and planning incentives.

State and Local governments can use the planning system to incentivise or require affordable housing within private residential developments. As discussed above, ideally this is most effective when done on a mandatory basis to transparently and consistently facilitate a range of rental and purchase affordable building types.

State governments' regulation of the community housing sector is a critical success factor to ensure intended affordable housing outcomes are delivered without compromising the interests of the public or tenants. The existing National Community Housing Regulatory Framework (NCHRF) provides an excellent vehicle for this as it is already established and eligibility is open (although not mandatory) for private affordable housing providers (this opportunity is discussed further below). Tier 1 accreditation with NCHRF (or comparable systems in Victoria and Western Australia) provides assurance to government and private investors of the viability and integrity of the housing provider.

Government regulation of the private rental housing sector is equally important to ensure appropriate housing, equitable access and tenure stability for tenants. The States regulate rental tenancies by legislation that is administered through Civil Administration Tribunals.

Not for profit sector roles

The not for profit community housing sector are experts in providing property and tenancy management services to social and affordable housing tenants. CHPs are increasingly partnering with the private sector to finance and develop new social and affordable housing. These projects are facilitated by the government, through land for redevelopment, subsidies to ensure viability and title transfer that improves leverage capacity.

As shown in Table 4.2, CHPs provide a range of roles and services in delivering and managing affordable housing, sometimes in partnership with the private sector. Tenancy management includes wait list management, eligibility and allocation, rent setting and collection, arrears management, termination, complaints, appeals, case management, access to support services. CHPs also provide property management, which includes property condition inspections, maintenance requests, tenant damage identification and cost recovery. CHPs have very strong relationships with their tenants, where necessary coordinating access to support services, education and employment opportunities. CHPs also focus on community engagement, seeking residents' inputs to community developments and services.

Other not for profit organisations provide case management and support services, including counselling, training, education and employment placement.

Working Collaboratively

Addressing the unmet demand for affordable housing will require the government, not for profit and private sectors to work collaboratively at both the housing system and individual project levels. Experience in this cross-sector collaboration both in Australia and overseas demonstrates innovative approaches and lessons learned for the future.

Partnerships between the private sector, not for profit and government sectors to deliver social and affordable housing projects are inherently complex. Research into these type of cross sector projects in the United States identified a range of factors. Private affordable housing deals involve competing interests so a key issue is strong governance regarding who controls the project and who protects the public and tenants' interests. Private deals also raise questions about the duration of the partnership and its commitment to affordable housing. These concerns can be alleviated through an alternative commitment mechanism such as a community land trust. There are often questions about whether the deal could have yielded greater revenues and more affordable housing. Both non-profits and private developers prioritize two partnership terms: development fee profits, and degree of involvement and oversight. Different drivers shape the decision to partner and subsequent partnership conditions, but there are two key determinants: development experience and knowledge, and financial factors (Chung 2004).

Pinnegar et al. (2011) undertook a review of cross-sector social housing projects in Australia, including interviewing 40 stakeholders. They identified the following factors for successful collaboration between the private, not for profit and government sectors. An effective brief and tendering process should allow innovation to be fostered and collaborative thinking from the outset to be maximised. A comprehensive evidence base should underpin a shared vision and shared outcomes. Establishing this shared understanding is important across parties who are likely to have different skills sets, motivations and expectations for collaboration. Risk and reward should be allocated to the party best able to manage it, and shared where necessary. Communication and trust among parties is critical. Structures should facilitate innovation within the context of partnership activities, but also enable best practice and new ideas to feed back through to respective organisations and sectors (Pinnegar et al. 2011).

Opportunities and strategies

It is widely acknowledged that the "funding gap" between affordable and private market housing must be met in order to attract private investment in additional affordable housing (Australian Government 2017).

Australian and global economies are experiencing record low interest levels, making private financing more accessible than ever. This is a response to indicators pointing to a major economic recession in many Western countries across the world, including Australia.

The last time that such a recession occurred was the Global Financial Crisis in 2008. Lessons can be learned from effective strategies to stimulate the economy, such as the Nation Building program, which created jobs and improved the GDP by building social and affordable housing.

The recent Royal Commission into banks creates a catalyst for legislating corporate social responsibility through equitable investment in under-served markets, similar to the Community Investment Act in the United States that led to the creation of the Low Income Housing Tax Credit.

To help address unmet demand and the "funding gap", a combination of initiatives is required to incentivise private sector involvement in new affordable housing supply within the current economic conditions, while applying lessons learned to mitigate potential unintended consequences. The evidence reviewed here shows that these initiatives complement each other and have a multiplying effect when packaged together.

Table 4.3 on the following page summarises opportunities to stimulate private sector involvement in new affordable housing. It is based on what has worked in Australia and overseas, and outlines potential strategies to overcome commonly cited barriers to private sector participation in affordable housing sector. Further details are included in Appendix B.

Table 4.3. Opportunities to stimulate private sector involvement in affordable housing

Opportunity	Barriers/Challenges	Strategies
Commonwealth Rental Assistance	• Pricing not aligned to rental market	• Indexing CRA to rent rises
Government capital funding	• Very limited funding for new housing • Tight procurement and delivery timeframes i • Cashflow constrained without cross subsidy	• Additional capital funding • Robust procurement process to ensure value and due diligence • Reasonable delivery time (5 years) with quality assurance • Mixed income/mixed tenure projects
Institutional investment in Bonds	• Scale and liquidity • Emerging asset class • Risk of poor maintenance or management	• NHFIC future commitment to bonds • Collect performance data • Regulation of providers
Tax subsidies	• Lack of certainty • Flat subsidy rate • Limited affordability	• Govt renew NRAS with targets • Set rate relative to market • Extend duration of subsidy
Planning incentives (inclusionary zoning)	• Limited take up • Local residents displaced by gentrification	• Mandatory targets for AH • Fast track planning approval • Mixed income/mixed tenure
Public housing renewal (PPPs)	• Lack of sites • Long, costly procurement • Delayed planning consent • Complexity and risk	• Feasibility studies • Streamline procurement • Align to planning approval • Strong governance, clear roles and risk allocation
Build to rent	• Returns not competitive to BTS due to tax & planning • Affordable housing not financially feasible	• Govt contribute or lease land • Tax relief (land tax, stamp duty) • Density and design requirements

Source: Author

As discussed above, Commonwealth Rental Assistance is the Government's largest housing subsidy, assisting over 1 million low-income households to access private rental housing. Indexing CRA pricing to housing market rent rises, rather than CPI would further improve affordability and reduce housing stress in these households.

As shown in Table 4.3, there has been very little capital funding from either Commonwealth or State governments for new social and affordable housing since the SHI program ended in 2011. Recent research undertaken by Lawson et al. (2019) demonstrated that capital investment, supplemented by efficient finance through government bonds, is the most cost effective approach to government funding the quantum of social and affordable housing needed to address current and forecast need over the next twenty years. In times of potential economic recession, there is an opportunity for the government to invest in new social and affordable housing, while also creating jobs and improving the GDP. Cross subsidising from private rent and sales improves the yield, cashflow and financial sustainability of funded projects. There is a need for a robust but reasonable procurement process to ensure due diligence, quality and value.

As shown in Table 4.3, there is an opportunity for further institutional investment in bonds issued by the Commonwealth Government through NHFIC, based on strong interest in bonds issued to date and record low interest rates, to provide low-cost finance (debt and equity) for new affordable housing. As discussed above, regulation of affordable housing providers and a requirement for Tier 1 accreditation ensures proper governance, mitigates the risk of poor maintenance or management, and provides assurance to government and investors. A framework for measuring outcomes would assist to gather data, measure performance and build confidence in this asset class.

Experience reviewed above demonstrates the potential opportunity for a national tax subsidy to fund the gap between affordable and market rental housing and increase supply. This in turn creates a pipeline of projects that can provide the scale that is needed to attract institutional investment, as shown in Table 4.3. In order to improve affordability, the level of subsidy could be based on the local housing market, with rent capped at an affordable level for an extended duration - 20 to 30 years.

As discussed above and shown in Table 4.3, there is an opportunity for State and local governments to incentivise or require affordable housing through the planning system. The evidence reviewed demonstrated that mandatory inclusionary zoning targets for social and affordable housing for all major residential developments are most effective in increasing supply. Fast tracked planning approval can provide an additional incentive for projects to meet or exceed affordable housing targets. Incentivising a range of housing types, including social and affordable rental housing and low-cost home ownership improves choice and equitable access for low income households, and mitigates the risk of local residents being displaced.

PPPs present an opportunity for State governments to attract private investment in renewing public housing estates to refurbish and increase social and affordable housing, along with private housing. Feasibility studies are important to confirm financial viability and the optimal new social and affordable housing in exchange for government land, through title transfer, concessional lease or contribution. Streamlined procurement aligned to planning approval processes is important to reduce delays and transaction costs. Given the inherently complex nature of these projects, as discussed above, PPPs benefit from strong governance, clear roles and risk allocation.

As demonstrated by the evidence reviewed above, private build to rent projects can deliver a component of affordable housing. However, this requires a combination of favourable tax concessions and planning concessions (such as density bonuses, relaxed parking requirements) and potentially access to government land to cross subsidise the cost of this affordable housing, as shown in Table 4.3 above.

Summary and key points

Australian governments have implemented a range of initiatives to stimulate private sector involvement in affordable housing supply. These initiatives as reviewed here demonstrate the private sector's roles in financing, developing and managing new affordable housing, as well as the government and not for profit sectors' roles.

Together these initiatives have attracted strong interest from the private sector and delivered over 75,000 new homes since 2005. However, for the most part these initiatives have been constrained by funding limitations and ad hoc policy changes, failing to achieve wider take up or scale.

Drawing from experience in Australia and internationally, this chapter identified opportunities to stimulate further private sector participation in affordable housing supply, along with strategies to mitigate risks and overcome barriers.

The following chapter summarises the key findings in relation to the research questions and identifies policy implications and areas for further research.

5 Conclusions: Towards stimulating private affordable housing supply through collaboration across three sectors

This section identifies key findings, policy issues for consideration and research to further investigate how the private sector can effectively contribute to affordable housing supply, working in partnership with government and not for profit sectors.

Key findings

This study set out to address research questions in relation to the overarching question "What is the role of the private sector in affordable housing supply in Australia?". The findings in relation to the five subsidiary questions are summarised below.

Why is a role for the private sector in affordable housing supply in Australia important?

As discussed in Chapter Two, involving the private sector in affordable housing provision is not uncontentious. However, in Australia, a shortage of available, affordable rental housing combined with increased demand has led to more households in housing stress. Recent research estimates that at least 727,000 new social and affordable homes are needed across Australia over the next 20 years, equivalent to 36,000 homes a year (compared to the recent average of 3,000 new social homes a year (Lawson et al. 2019).

Existing government funding is not sufficient to address this need; nor are the range of other initiatives underway by state and local governments, such as planning requirements or the dedication of land. Without significant increase in direct funding for affordable housing provision, an increased role for the private sector has merit.

There is a perception that, in the absence of sufficient Government funding and constraints on CHP sector capacity, the private sector will have to contribute to affordable housing supply if the unmet demand is to be met and the issue of widespread housing stress in low to moderate income households across Australia is to be addressed.

What roles has the private sector played in affordable housing supply in countries comparable to Australia? What are the benefits and for whom? What are the risks and problems?

As reviewed in Chapter Three, the private sector has played a significant role in affordable housing supply in a variety of housing systems across Western countries over the past decades, stimulated by government policies, subsidies and planning mechanisms. The sector has financed, delivered and managed affordable housing, in some cases in partnership with not for profit housing providers and in other cases in competition with this sector. These have achieved a range of positive outcomes, as well as some unintended negative consequences and trade-offs.

Finance
In the United Kingdom billions of pounds in institutional investment for affordable housing have been stimulated by government backed bonds, providing low cost finance (both equity and debt) to not for profit housing associations. Affordable housing has evolved into a mature investment market, supported by strong regulation of providers, transfer of assets to their balance sheets and long term rental revenue guarantees. In the UK and US, Government

subsidies for low- and moderate-income households have improved affordability in the private rental sector, and supported debt servicing for developers (private and not for profit) to build or refurbish affordable housing. The benefits of this institutional investment are balanced by concerns that this financialized funding is forcing housing associations away from their social housing mission to become private sector developers whose main focus is on open market developments and increased rental income from affordable and market price homes.

Development
Tax subsidies and government backed loans have stimulated development of a pipeline of projects including affordable rental housing. Private developers are providing 'build to rent' projects, a percentage of which often include affordable housing, in the United States and the United Kingdom. In other countries, individuals and smaller companies have also invested in tax subsidies to develop small affordable housing projects. While increasing supply, affordability is secured only for the duration of the tax subsidy, presenting challenges in retaining these assets for low- and moderate-income households.

Planning incentives have successfully incentivised private development of affordable housing in major residential projects, sometimes in exchange for increased density, planning concessions or accelerated assessment. These have been most effective where the requirement for affordable housing is considerable (30 to 50 per cent of the development) and has been a mandatory consideration for approval of any project, such as in the United Kingdom and San Francisco. This is countered by the concern that these planning incentives, while providing some affordable housing, facilitate gentrification which increases housing prices and displaces existing low- and moderate-income households from the surrounding community.

Ownership and management
The private sector's role in owning and managing affordable housing has had varied results. In the United States, there is a very established private affordable housing sector that has delivered over 70,000 new homes a year since 1995, over 2.1million new affordable homes in total. These developers blend profit and mission to develop housing with services for the community, sometimes partnering with not for profit organisations. In contrast, privatization of social housing to private equity and large scale corporate landlords has led to underinvestment in maintenance and substandard living conditions. Alternatively, properties have been upgraded, rents increased and existing tenants displaced. This demonstrates the importance of regulating private affordable housing providers to ensure appropriate standards and security of tenure.

What can be learned from international experience that could enhance the private sector's role in affordable housing supply in Australia?

The comparative analysis of international approaches against affordable housing objectives in Chapter Three found that the private sector is not a silver bullet to replace government's role. In fact, as shown in relation to each of the models assessed, private participation always requires some form of government subsidy, contribution or relief to fund the gap between market and affordable housing. As apparent in the experiences of the United States and the United Kingdom, a combination of demand subsidies, such as rental assistance, and supply subsidies, such as tax subsidies for affordable rental housing, can create millions of new affordable homes delivered by the private sector.

Tax subsidies for affordable rental housing have been an effective catalyst for private investment. The experience of the United States and France suggests the importance of tax subsidy levels being based on the local housing market, for longer durations and targeted to areas that need affordable housing.

Care needs to be taken that policies that stimulate private investment, development and management of affordable rental housing are not at the expense of the growth of not for profit providers. In the United Kingdom and other European countries this has been done effectively through the transfer of public housing assets to not for profit developers, enabling them to leverage private equity and debt, often secured by Government, to build new housing.

Scale and certainty of government backing is a critical success factor to leveraging private investment in affordable housing. Government securitization in the form of bonds, loans and guarantees has leveraged billions in long term private finance in several European countries, with minimal impact on the respective Government's budgets (Lawson 2013).

The case of the United Kingdom showed that planning instruments to incentivise private developer contributions are most effective when they are mandatory with meaningful targets and complemented with accelerated planning approval. Conversely, when offered on a project basis as in New York City and other parts of the United States, they create limited new affordable housing and can drive up local housing prices through gentrification, displacing existing low-income tenants.

Government regulation of the private rental sector was found in the case of Berlin to be essential to ensure appropriate, accessible and affordable housing. It helps to mitigate the risk of underinvestment in maintenance by private landlords, and lower income households being priced out by gentrification.

What is the potential role for the private sector in affordable housing supply in Australia?

As outlined in Chapter Four, Australian governments have implemented a range of initiatives to stimulate private sector involvement in affordable housing supply. They demonstrate the sector's roles in financing, developing and managing new affordable housing, and potential roles in the future.

Rental assistance enables over 1.35 million households to rent more affordably in the private and community housing rental sectors. This rental revenue has been used to support debt service on private loans to build new affordable housing.

Tax subsidies attracted significant private investment in new affordable housing, generating over 38,000 new homes between 2008 and 2018.

Government bonds issued since July 2018 have raised over $800m in private finance to enable CHPS to deliver 1000 new homes and 3600 existing homes. There is strong demand from the private investment industry for more similar finance.

Under the Social Housing Initiative program, the private construction and asset management industry delivered 38,000 new homes and refurbished 12,000 homes between 2009 and 2012. This exceeded the program's targets, and delivered approximately 9,000 new jobs and $1.1billion per annum to the GDP.

Private developers and financiers are partnering with CHPs and government to renew public housing estates and deliver social, affordable and private housing, with community facilities. There have only been a small number of these projects completed, but more are in the procurement pipeline in NSW, Victoria and Queensland.

Private developers have contributed affordable housing in exchange for planning incentives, such as up-zoning and density bonuses. These have delivered more housing where the contributions are mandatory, as in the case of South Australia.

Together, these initiatives have attracted strong interest from the private sector and delivered over 75,000 new homes since 2005. However, for the most part these initiatives have been constrained by funding limitations and ad hoc policy changes, failing to achieve wider take up or scale.

How can the private, government and not for profit sectors work together and complement each other's roles in affordable housing supply?

The findings of this study suggest that participation of all sectors is most likely necessary to deliver the estimated 36,000 new homes required each year to 2036 to meet the demand for social and affordable housing. As discussed in Chapter Four, the private sector is uniquely positioned to provide access to significant finance, provided there is scale and certainty from government guarantees and subsidies. Private industry is expert at constructing new residential projects and providing asset management to social and affordable housing. This expertise and scale can reduce risks and provide efficiencies in delivery for both government and community housing clients, provided there is clear definition of requirements and quality assurance by all parties.

As discussed in Chapter Four, Federal and State governments have a key role in providing capital funding, grants, subsidies and bonds to close the funding gap between affordable and market housing. State and local government can use the planning system to incentivise or require affordable housing contributions in private residential developments. State governments are uniquely positioned to regulate the affordable housing sector, providing assurance to government and private investors of the viability and integrity of the housing provider.

Community housing providers are experts at managing social and affordable housing. In addition to property and tenancy management, they coordinate support services for tenants, actively engage with the community, and implement place making improvements. CHPs are increasingly partnering with the private sector to finance and develop new social and affordable housing.

The review of international evidence shows that partnerships between the private sector, not for profit and government sectors to deliver social and affordable housing projects are inherently complex. Experience shows that the most successful cross sector partnerships have a shared vision and outcomes, clearly defined roles, appropriate risk allocation, good communication and trust, clear contractual arrangements, and structures that facilitate innovation and best practice.

Policy implications and opportunities to stimulate private sector involvement in affordable housing supply

For decades, the Australian government's policy agenda has favoured private market solutions for affordable housing while funding for social housing has stagnated. This has led to the housing system being dominated by private ownership and rental while social housing has diminished to below 5 per cent. Although private housing supply has steadily increased, housing affordability has not kept pace leading to large portions of society living in housing stress, particularly those on low- and moderate-incomes.

Despite the expansion of rental assistance to enable access in the private market, the outcomes for households in the bottom income quintile has been poor. Low income households face particular challenges in the private rental sector and in a market situation many of the lower cost rental accommodation is occupied by people on higher incomes (Hulse, Parkinson et al. 2018). Institutional investment in affordable housing in Australia has always been weak because of the low returns but as residential property has become more expensive it has been increasingly difficult to engage the institutional sector to invest in low cost rental supply.

It is widely acknowledged that the gap between market and affordable housing needs to be funded to cover the costs of construction and maintenance for the affordable component (Australian government 2017). Government initiatives to meet this gap through tax subsidies, bonds and PPPs have successfully attracted private investment, demonstrating the private sector's appetite, but the duration and scale of these initiatives has limited their impact. The funding gap needed to adequately finance construction of new affordable housing will be smaller in the current environment of low interest rates. However, the dilemma in a low interest environment is that land acquisition costs may be more expensive due to higher overall real estate demand.

Experience from other Western countries with similar housing systems and policy agendas shows that a long-term Government commitment to a combination of supply and demand policies can lead to significant new affordable housing through the private sector, often working in partnership with the not for profit sector. Government regulation is essential to control the affordability, accessibility and quality of this new housing, while mitigating the risks of it being at the expense of the public or tenants' interests.

Drawing from the experience of initiatives in Australia and internationally reviewed in Chapters Three and Four, there are a number of opportunities to stimulate further private sector participation in affordable housing, while mitigating risks. Experience shows that these initiatives are most effective when they are packaged together in projects where they can have a multiplying effect to increase the supply of new affordable rental housing.

Continued CRA funding, currently the largest Government housing assistance subsidy, is important to enable millions of low income households to rent in the private rental market. Indexing annual increases in the subsidy level to rent rises, rather than the Consumer Price Index, would further improve affordability and reduce housing stress for recipients. Community housing residents also receive and pay CRA to the CHP managing their home. This additional rental income enables CHPs to leverage private finance to deliver more housing.

Building on recently demonstrated strong industry interest, further Government bonds would attract additional institutional investment and provide low cost debt to community housing providers for new affordable housing.

Government capital investment, supplemented by efficient financing through Government bonds, is the most cost efficient approach for Government to subsidise the construction of new rental housing needed to address unmet demand for social and affordable housing over the next twenty years (Lawson et al. 2019). This approach is proven to create jobs in the private construction industry and stimulate the economy (Housing Minister' Advisory Committee 2012).

Federal tax subsidies to fund the gap between market and affordable rents attract private investment in new affordable rental housing. Extending the duration of these subsidies sustains affordability of this housing for low and moderate income households.

Planning requirements and incentives by State and local governments encourage affordable housing contributions by private developers in major residential projects. These planning instruments are most effective in generating additional affordable housing when the requirement for affordable housing is mandatory and properties are transferred outright to government or a CHP, thus ensuring affordability in perpetuity.

Public Private Partnerships can engage all sectors to deliver mixed-income housing on public land, including additional social and affordable housing. However, these require robust feasibility studies to ensure viability before commencement; comprehensive community consultation; coordination of procurement and planning approval to avoid delays and increased transaction costs; and clear governance, roles and risk allocation amongst partners.

Potentially, affordable housing in private build to rent projects can be supported with tax concessions (land and income tax) and planning incentives (density bonuses, relaxed parking requirements). Funding any tax concessions through a mechanism that is available to both the private sector and community housing sector, such as tax subsidies for affordable rental housing, is important to maintain the policy objective of growing the CHP sector. CHPs may also be engaged to manage this housing on behalf of the private developer.

Further Research

Arising from this study, there are a number of areas for more detailed research to further develop and test the broad findings identified here. Building on my own and other authors' research, I have identified these areas of further work that would help to address how the private sector can work with government and the not for profit sectors to increase the supply of affordable housing and close the gap on housing affordability.

Deepening understanding of the private sector's appetite for developing affordable housing, and the pathways to participation

This study has drawn on secondary sources and a review of policy and program materials to explore the potential role of the private sector in affordable housing supply. A future research priority is to extend and ground this work through interviews and surveys of private developers around Australia.

Further, this research would entail an investigation into the typology of housing products that can address unmet demand and optimise private sector involvement. This would consider need groups, tenure, appropriateness, quality, market orientation, funding/cost to Government and finance.

Private investors and developers have partnered with community housing providers to bid as consortia to deliver mixed income, mixed use projects on Government land. Building on the research of Pinnegar (2011), it is important to understand through interviews and potentially focus groups with private partners and CHPs what has worked well, what could have been done better and how in relation to governance, roles, risk management, delivery.

Understanding and building community support for affordable housing development

A key issue not explicitly considered in this study is the extent to which local communities support increased affordable housing provision and, indeed, the wider public appetite for greater housing assistance. Further research should explore these themes, potentially through interviews with community groups, housing providers, and local planners, to understand the dynamics of local opposition to affordable housing development, and strategies to build support. Further, a wider community survey could consider attitudes to affordable housing more broadly.

It is important to better understand community appetites for increased provision of affordable housing in their own localities and more widely in order to build a political mandate and commitment to lasting policy change that delivers more affordable housing.

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Appendices

Appendix 1: Private sector roles, outcomes, strengths and weaknesses in Australian affordable housing initiatives

Table A.1 below summarises the government inputs, private sector roles, outcomes, strengths and weaknesses of Australian affordable housing initiatives involving the private sector to date. Build to rent is not included as it remains to be seen whether it will yield any affordable rental housing.

Table A.1 Private sector roles, outcomes, strengths and weaknesses of Australian affordable housing initiatives

Government input	Private Role/s	Outcomes	Strengths	Weaknesses
Commonwealth Rental Assistance ~$4.4 billion per annum	Existing private rental housing at market rate Private loans to CHPs for new housing	1.35 million households assisted per annum	- Improves housing affordability in the private rental sector - Provides flexibility to recipient - CHP tenants can access CRA, increased rental revenue improves CHP sustainability and capacity to leverage private loans for growth	- Over a third of CRA recipients are still in housing stress - No increase to supply and choice in private rental market - CRA increased by CPI, not keeping pace with rent rises - Dependent on local housing market; cost, availability, appropriateness - Lower cost areas potentially have lower employment options and services
National Rental Affordability Subsidy Approx. $3.8 billion between 2008 and 2024	New private rental housing, discount to market rate for 10 years Private loans to CHPs for new housing	38,000 new homes 2008-2024	- Increased supply and accessibility of affordable housing in a variety of housing types, sizes and locations - Allocation based on financial feasibility and state priorities, delivering quality spatial outcomes - Strong engagement by private sector and CHPs, oversubscribed - Ability for CHPs to combine subsidy to leverage private loans for growth	- Affordability only required for ten years, then reverts to market rent - NRAS program cancelled by change of government - Lack of certainty regarding government commitment undermined institutional confidence for future - Burdensome administration - Subsidy not indexed to market, less beneficial in higher market areas

Government input	Private Role/s	Outcomes	Strengths	Weaknesses
National Housing Finance and Investment Corporation $515m in finance through bonds and loans	Private investment in bonds Construction of new housing	560 new dwellings estimated 2019-2025	- Low cost debt to CHPs improves financial sustainability, cashflow and growth - Eligibility tied to Tier 1 regulatory accreditation provides investors assurance - Strong demand from international and local investors, $1.3bn in bids	- Additional government commitment needed to achieve the scale institutional investors are seeking - For profit providers of affordable housing (NRAS) can achieve Tier 1 accreditation, but cannot access NHFIC funding.
Social Housing Initiative, Nation Building Economic Stimulus Plan $6.4billion between 2009-2012	Development of new social and affordable housing Refurbishment of existing social housing	19,700 new homes 12,000 refurbished homes 2009-2012	- Increased housing in urban and regional (46 per cent) areas and exceeded targets for refurbishments - Approximately 9,000 additional FTE in construction industry and increased annual GDP by $1.1 bn per annum - Fostered innovation and new ways of working together across government, private and CHP sectors - Increased participants & competition in private construction industry - Title transfer to CHPs aims to leverage additional 1,800 homes	- No material changes in housing wait lists, due to social & economic factors - Very tight procurement timeframes put pressure on quality & value for money - Rectification of defects and/or recouping costs sometimes impeded by winding up/bankruptcy of builders - Focus on social and affordable housing without private rental or sales prevented cross subsidy and constrained rental cashflows for CHPs - Upgrades and sinking funds will impact future costs and potentially require additional funding above rent
South Australia Mandatory Inclusionary Zoning 15 per cent target since 2005	Development of new social, affordable and private housing	17 per cent of total dwellings approvals in major developments (2005-2015) 5,485 in 2015	- Mix of new different housing types across social & affordable rental, and low-cost home ownership - Income based allocation ensures affordability for target group - Mixed income promote social cohesion - Zoning uplift combined with other government subsidies, land, and NRAS to increase net yield (63 per cent of homes)	- Majority of housing has been for purchase in suburban areas, where there is minimal difference between market and affordable prices - Potential oversupply of homes in fringe lower cost locations - Weak market for apartments has been a challenge for delivering affordable housing on in-fill sites

Government input	Private Role/s	Outcomes	Strengths	Weaknesses
New South Wales Voluntary Inclusionary Zoning (IZ) & Low-cost market (LCM) housing	Development of new affordable housing and low-cost market housing	IZ: 0.5-1 per cent of total (2009-2017) LCM: 5 per cent of total; 13,000 2009-2017	- Increased supply of affordable rental housing albeit very limited - Significant supply of low cost market housing (granny flats and next generation boarding houses)	- Limited to affordable rental housing - IZ Affordability only required for ten years, then reverts to market rent - Low-cost market housing not subject to access and affordability requirements, no analysis of appropriateness

Sources: Productivity Commission 2018; Hulse, Parkinson et al. 2018; Rowley et al. 2016; NHFIC 2019; Gurran et al. 2018; Housing Ministers' Advisory Committee 2012

Appendix 2: Opportunities to stimulate private sector involvement in affordable housing

Table B.1 below summarises opportunities to stimulate private sector involvement in new affordable housing. It is based on what has worked in Australia and overseas, with strategies to overcome barriers.

Table B.1 Opportunities to stimulate private sector involvement in affordable housing

Initiative/opportunity	Barriers/Challenge	Strategies to overcome
Government rental subsidies: Commonwealth Rental Assistance	- Lack of certainty of government commitment - One third of recipients are still in housing stress	- Government long term commitment - Index CRA based on rent rises rather than CPI - Government loans and grants (bond assistance, rent payment, relocation grant etc) - Tax incentives for landlords who provide long term leases
Institutional investment: NHFIC Bond Aggregator	- Scale and liquidity - Secure rental revenue stream - Higher rental yields - Emerging asset class - Risk of poor maintenance - Risk of tenant displacement	- Government commitment to future bonds, with security, scale and duration - Promote mixed income developments to cross subsidise rental income - Require management by Tier 1 accredited housing provider - Extend eligibility to Tier 1 accredited for profit developers providing affordable housing, to increase capacity for delivery and leverage - Develop framework and gather data on outcomes and performance of funded programs
Tax subsidies: NRAS	- Lack of certainty of government commitment - Flat rate subsidy provides lower gain in high cost markets, creating disincentives in areas of need - Limited duration on affordability	- Renew government tax subsidy with long term commitment, to facilitate pipeline of projects, in conjunction with institutional investment - Set measurable targets & objectives - Extend duration of affordability cap - Set subsidy levels relative to local market to ensure affordability - Streamline administration, with States distributing a share of credits according to policy priorities, planning system, market conditions and in combination with their own assets and subsidies - Legislation requiring banks to invest in subsidies as part of corporate social responsibility

Initiative/opportunity	Barriers/Challenge	Strategies to overcome
Capital investment: Economic Stimulus Package	- Tight delivery timeframes impacting quality and value for money - Builders winding up before defect rectification - Cashflow constrained without cross subsidy from private rental/ sales - Cost pressures from sinking funds and additional support services for target cohorts	- Government invest in economic stimulus package for new and upgraded social and affordable housing, to be delivered over the next 3 to 5 years - Promote mixed income/mixed tenure developments to cross subsidise from private rental/sales, and increase yield and rental revenue for improved financial sustainability - Extend eligibility to Tier 1 accredited for profit developers providing affordable housing, to increase capacity for delivery and leverage, in conjunction with tax subsidies and institutional investment - Robust, reasonable procurement timeline and process to ensure due diligence, quality and value - States to administer program according to policy priorities, planning system, market condition and in combination with their own assets and subsidies to optimise yield
Public Private Partnerships: Public Housing Renewal	- Robust, reasonable procurement timelines - Loss of government asset - Loss of housing during redevelopment	- Assess government's assets to identify sites suitable for mixed use/mixed income/mixed tenure development - Public housing estates assessed to determine financial feasibility and planning incentives to optimise social and affordable housing - Long term concessional leasehold of land as alternative to title transfer - Infill redevelopment and/or staged development to provide housing continuity for existing residents
Planning incentives: Mandatory inclusionary Zoning	- Lack of suitable sites - Duration and complexity of planning approval - Availability of workforce - Accessing development finance - Regentrification displacing local residents - Community opposition	- Assess government's assets to identify sites suitable for mixed use/mixed income/mixed tenure development - Set mandatory targets for social and affordable housing for all major residential developments, particularly on government sites and/or upzoned - Financial feasibility to determine optimal affordable housing relative to value capture - Fast track planning approval and access to institutional development finance for projects that meet/ exceed affordable housing targets - Industry training to increase workforce, in conjunction with economic stimulus program - Require affordable housing within the community (City West Housing)

Initiative/opportunity	Barriers/Challenge	Strategies to overcome
Build to rent	- Returns not competitive with build to sell due to tax and planning system - Government subsidies required for affordable housing - Community opposition	- Government contribute, discount or lease land for mixed income projects - Fast track planning approval and access to institutional development finance for projects that meet/ exceed affordable housing targets - Consider density requirements and design standards to support affordable housing - Partner with CHPs to leverage charitable tax free status and to manage social and affordable housing component - Design cohesively so that affordable and private is indistinguishable

Source: Author