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

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Title

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Key Points

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 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.

This study considers opportunities, barriers and strategies to stimulate private sector affordable housing supply, working in collaboration with government and the community housing sectors.

Context

There is a significant shortage of affordable rental housing across Australia. Recent research estimates that 727,000 new affordable rental homes are required over the next 20 years to address the need.

The current Federal and State governments' funding agreement requires increased social and affordable housing, but with no additional funding.

The Federal Government has recently issued the first bonds to provide low cost debt through institutional investment for new affordable housing, but this will have limited impact at current funding levels.

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Richard Benedict is a research-practitioner with 25 years of experience working in the private, public and not-for-profit sectors in Australia and the United States. Richard has advised Governments in NSW, Victoria, Tasmania and the Northern Territory on funding and asset strategies, policies and programs. He has worked with major banks, investment funds, private companies, government and not for profit providers to develop and evaluate joint venture affordable housing projects.

FURTHER INFORMATION

This paper is based on The Henry Halloran Trust Practitioner in Residence Project

The full paper from this project can be found on the Henry Halloran Trust Website:
<http://sydney.edu.au/halloran/programs/index.shtml>

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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 housing needed.

Community housing providers (CHPs) are experts at building and managing social and affordable housing. They are growing, but they can't address the need for more housing alone.

In the absence of sufficient Government funding and constraints on the CHP sector capacity, there is a perception that 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 is to be addressed.

Sources

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 (Martin, Hulse et al. 2018; Lawson et al. 2014; Rowley et al. 2016).

The review also builds on research into Australia's existing affordable housing market and demand (Hulse, Parkinson et al. 2018; Hulse et al. 2015) 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.

Key Findings

International experience

In the United States (US), low income housing tax credits (LIHTC) have delivered over 2.1 million new affordable rental homes since the 1980s, financed by private investment. However, affordability is secured only for the duration of the tax

subsidy. The majority of LIHTC have gone to private affordable housing developers, arguably squeezing out not for profit developers on an uneven playing field.

Rental subsidies from the US and United Kingdom (UK) governments help millions of low income households gain more affordably access to private rental housing. However, availability, appropriateness and affordability is dependent on the housing market.

In the UK, government bonds have led to significant private investment in new affordable housing, delivered by registered not for profit Housing Associations (HAs). The benefits of this investment are balanced with the concern that this funding is forcing HAs away from their social mission to focus on open market developments and increased rental income from affordable and market priced homes.

In Berlin and New York City, private equity investment in under-market rental property and social housing has led to many existing low-income households being displaced through gentrification or being stranded in sub-standard housing while investors cut costs to sustain investment targets.

By contrast, in the United States there is a large for profit affordable housing development sector that blends profit and mission goals to provide quality housing within vibrant communities. Supported by government backed lending and LIHTC, the 'build to rent' private development sector has delivered an average of 70,000 new affordable rental homes a year since the late 1980s.

The UK government has used the centralised planning system to nationally require mandatory affordable housing contributions in major residential developments.

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.

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

Planning instruments to incentivise private developer contributions for affordable housing work best when mandatory with meaningful targets and complemented by planning incentives or concessions.

Regulation of the private rental sector is essential to ensure appropriate, accessible and affordable housing.

Private sector roles in Australia, working collaboratively across sectors

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.

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.

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 can provide access to significant finance, provided there is scale and certainty from government guarantees and subsidies. The private industry expertise in construction and asset management can reduce risks and provide efficiencies for both government and community housing clients.

Government has a critical role to play in subsidising the funding gap through tax concessions, bonds and rental subsidies to stimulate private investment in new supply. Commonwealth and State governments provide capital (although very little in recent decades), grants and assistance for affordable purchase and rental. They also provide land for mixed income residential projects, often delivered through public-private partnerships.

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

CHPs are increasingly partnering with the private sector to finance and develop new housing.

Implications for Practice

It is widely acknowledged that the gap between market and affordable housing needs to be funded (Australian government 2018). Government initiatives to meet this gap through tax subsidies, bonds and PPPs have successfully attracted private investment, but the duration and scale of these initiatives has limited their impact.

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. Experience shows these initiatives are most effective when packaged together and delivered through cross sector collaboration, while mitigating risks..