

Assessing how to best fund affordable housing



Australian Housing
and Urban Research Institute

Summary of AHURI Final Report No. 293: Paying for affordable housing in different market contexts

What this research is about

In this study six recently completed affordable housing developments across Australia were analysed to ascertain how affordable housing project costs, revenues and subsidies interact to produce affordable housing.

The project data was used to develop an interactive modelling tool, the 'Affordable Housing Assessment Tool' (AHAT), which was designed to calculate the impact of different cost and subsidy parameters on the feasibility of affordable housing projects.

The context of this research

With a long-term decline in the direct supply of social housing and other housing assistance, Australian, state and territory and some local governments have been looking to new strategies and models for providing affordable housing, such as private financing, procurement, planning, design and/or construction elements, and occupation of the housing with varied tenure and management initiatives.

The key findings

The research reveals the diverse and bespoke funding arrangements adopted by housing providers in the study. These arrangements have resulted in affordable housing project outcomes being driven by funding opportunities rather than by defined housing needs. This works against achieving a scalable and replicable set of standard approaches for financing affordable housing projects, and adds complexity, cost and risk to delivering affordable housing.

Six key lessons about financing affordable housing are drawn from the research.

- 1** The importance of government support for access to land

Land costs pose major barriers to developers building well-located social and affordable housing. Making public land available at below-market cost offers an alternative for governments to effectively support affordable housing development. Having privileged access to public land, even when purchased at a 'market' equivalent price, is also beneficial.
- 2** Value of government-retained equity

When government retains ownership of its land and treats this as an equity stake in a development, it can both support the achievement of affordable housing and enhance the value of its investment through the improved land value that the development creates.
- 3** Need for a fit-for-purpose subsidy ('gap funding') to reduce operational losses under private financing

The gap between the revenues recouped from low-income tenants paying sub-market rents and the recurrent costs of providing housing, including debt servicing, is an issue for social or affordable housing providers that carry a component of private finance. As a result, a 'revenue gap' subsidy will support the ongoing provision of affordable housing.
- 4** Benefit of mixed tenure and development at scale

Mixed tenure and mixed use developments allow cross-subsidies that enhance project feasibility and improve the financial position of community housing providers (CHPs) providing additional affordable housing. This tenant mix also provides flexibility for CHPs to better manage development risk across different market contexts and cycles.

5 Retaining affordable housing and social benefit

The not-for-profit model for providing affordable housing allows CHPs to retain the social benefit created by public investment over the long term. Providing time-limited subsidies to the private sector to produce affordable housing that is sold in the future to realise capital gains is less efficient over the longer term than directing such subsidies to not-for-profit CHPs.

6 The importance of a needs-based modelling approach to investment decisions

Where affordable housing projects have been driven more by disparate funding rules and opportunities than meeting priority housing needs, the rents of many 'affordable dwellings' may not be affordable to those on the lowest incomes or those in need of larger (higher rent) housing. The AHAT can model the financial mix required for a project to meet a set of defined housing needs.

The Affordable Housing Assessment Tool (AHAT)

This project level, general feasibility tool models the financial impacts of a range of policy mechanisms and levers so as to meet the costs of providing housing for a given mix of housing needs groups.

The AHAT has value for practitioners as:

- a pre-feasibility modelling tool to allow providers to judge the best mix of funding and available subsidies that will deliver a designated set of needs for any project
- an educational tool for stakeholders involved in delivering affordable housing to show the way scheme costs, revenues and gap funding can be best managed to make projects viable while keeping a focus on providing homes to target groups
- informing discussions about trade-offs to be made in setting up projects, and thereby helping affordable housing developers to determine which of the available funding and subsidy mixes will optimise their social goals
- to demonstrate the way policy can impact on the viability of affordable housing delivery and thereby

contribute to advocacy for policy development and improved practice in the delivery of affordable housing projects.

What this research means for policy makers

A key policy implication is that the bespoke nature of affordable housing delivery needs to be addressed at a strategic level if larger scale, cost effective responses to housing need are to be achieved.

Some policy considerations are:

- Treat sales of government land for affordable housing public land as a transparent subsidy input, with the sale price reflecting the housing needs that the development seeks to address—that is, its residual value as an affordable housing development for tenants with specific needs.
- The costs and benefits of supporting affordable housing developments need to be assessed over the long-term. Given that affordable housing is a 30-year plus investment, it is appropriate that its benefits and costs are assessed over a comparable time period.
- Public subsidies for affordable housing are best directed to not-for-profit developers to ensure that a long-term social benefit is retained.
- It is important CHPs develop sufficient scale to support the delivery of a diversity of housing outcomes without sacrificing their ability to house and serve high needs groups. Large-scale development can generate valuable cross-subsidy opportunities, both within individual projects as well as across portfolios.
- A well-designed and funded national shared ownership program would help to make the housing needs continuum work more effectively with concomitant social and financial benefits over the long term.

Six key lessons about financing affordable housing



Make public land available



Government can retain land as equity



Provide revenue gap subsidy



Encourage mixed tenure at scale



Keep affordable housing not-for-profit



Use needs based modelling

The Affordable Housing Assessment Tool—summary of key components

4. Revenue assessment

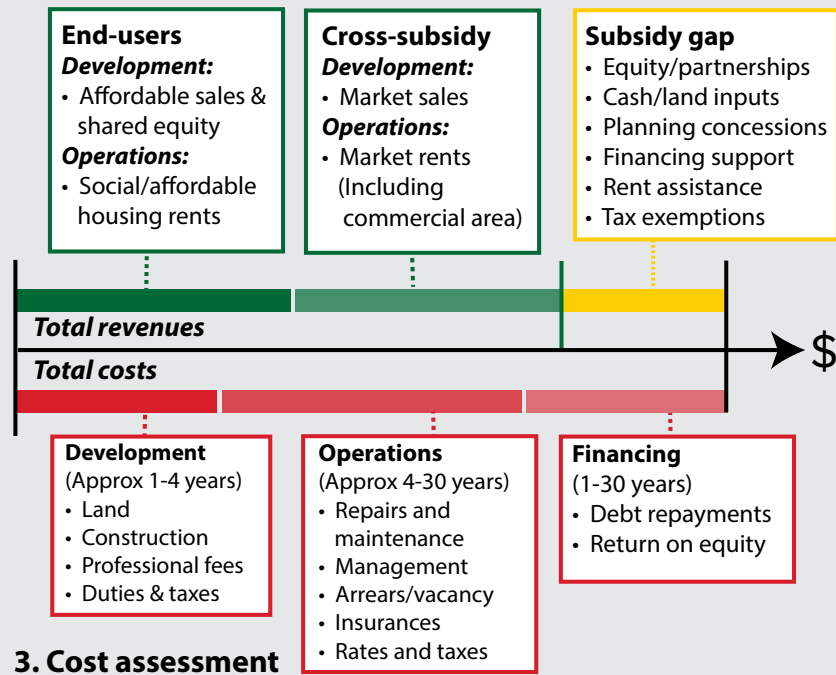
1. Needs Assessment

(across the housing continuum)

- Who do you need to house?
- What costs can they cover?
- What housing type/size do they need?

2. Site Assessment

- What's the development potential?
- What are the planning requirements?
- What would the market pay?



Methodology

This research used documentary evidence, interviews and site visits for six case study projects. This provided real data to assist building and calibrating the AHAT model. The model was run with three hypothetical project scenarios representing three housing markets (high, medium and low-cost) with a corresponding development type (high, medium and low density) to consider financing affordable housing in different market contexts.

Further information

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