A private retail investment vehicle for the community housing sector

Positioning Paper

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EXECUTIVE SUMMARY

For almost 55 years there have been two cornerstones of social housing provision in Australia: public housing, and the Commonwealth-State Housing Agreement, the latter being the funding mechanism for the former. More recently, the small community housing sector is seeking to grow more rapidly and the Commonwealth Government is encouraging private investment in social housing.

Over the past two decades the State Housing Authorities have investigated the possibilities of private sector institutional investment in housing. However, very little work has been done to encourage small scale retail investment in social housing. Yet this category of investors is the mainstay of the private rental sector.

This project seeks to:
- Identify barriers to retail investors investing in low income housing and strategies to overcome those barriers;
- Establish the potential of the private retail investment market and identify its investment requirements;
- Identify policy levers available to state and Commonwealth governments which might increase the level of retail private investment in community housing; and
- Analyse the fiscal, administrative and economic implications of the models developed to raise retail private investment in community housing.

This Positioning Paper sets the scene by examining the current policy context in which the Project has come to the fore as a policy issue and the current state of play in regard to private sector investment in social housing.

The review of the policy context notes:
- continuing market failure within the private rental sector and the continuing need for a vibrant and viable social housing sector;
- the decline in CSHA funding resulting in a very slow increase in social housing stock in the face of substantial unmet need;
- substantial increases in rent assistance over the past decade reflecting the Commonwealth’s faith in the private rental sector as a provider of adequate and affordable housing for low income households and a preference for rent assistance as the main form of housing assistance;
- the slow expansion of community housing and the considerable time and energy being invested in national and state infrastructure to support its ongoing development, in part to attract private sector investment;
- the three classes of investors (institutional, retail and social) and the size and scope of their investments;
This first part of the paper concludes with a conceptual framework for the project to guide the formation of an appropriate financial product. This framework recognises five major players:

- community housing providers who operate within particular parameters determined by their social housing and financial objectives;
- retail investors who operate within parameters set by their financial objectives;
- investment professionals who seek to bring community housing providers and retail investors together through appropriate financial products and vehicles;
- the Commonwealth Government that provides the broad regulatory framework and subsidy framework for the above players; and
- the State Governments, who also provide the regulatory and subsidy framework for the above players.

The second part of the Paper explores the limited literature on private sector investment in social housing and a range of models of social housing finance which are currently operating. This review concludes that:

- The current literature on financing social housing through private sector investment has focused predominantly on institutional investors rather than retail investors. Further work on the characteristics and expectations retail investors may open up the potential of this group to invest in community housing.
- From the early 1980s, extensive work has been undertaken on different forms of debt finance - in particular housing bonds - as a source of funds for social housing. These provide an initial starting point for considering financial products and investment vehicles appropriate for retail investment in community housing.
- Private investment has particular implications for the financial viability and management of community housing providers. Private investment will not only mean higher ongoing costs but will require management to give greater emphasis to prudential standards, financial controls, risk management and formal accountability.
- Taxation arrangements are critical to the success of financial products through which private sector investment can be raised for social housing. More broadly, however, the project will need to take into account the different contexts for financial products, the impacts of current taxation arrangements and the possible role of both Commonwealth and State Governments supporting the products in various ways.

This Positioning Paper is the first of three papers that will be produced in this Project. The second paper will explore more fully the parameters under which community housing providers operate. The third paper will explore the characteristics and expectations of retail investors and explore financial products and vehicles which will bring together the parameters under which community housing providers operate and those under which retail investors operate.
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# Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>CEHL</td>
<td>Common Equity Housing Ltd</td>
</tr>
<tr>
<td>CERC</td>
<td>Common Equity Rental Co-operative (Victoria)</td>
</tr>
<tr>
<td>CGT</td>
<td>Capital Gains Tax</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>CSHA</td>
<td>Commonwealth-State Housing Agreement</td>
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<tr>
<td>DHA</td>
<td>Defence Housing Authority</td>
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<tr>
<td>DSS</td>
<td>Department of Social Security (now incorporated into the Department of Family and Community Services)</td>
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<td>HOLS</td>
<td>Home Opportunity Loans Scheme</td>
</tr>
<tr>
<td>HPI</td>
<td>Housing Price Index</td>
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<td>NCHF</td>
<td>National Community Housing Forum</td>
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<td>NHS</td>
<td>National Housing Strategy</td>
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<td>SHA</td>
<td>State Housing Authority</td>
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**Abbreviations used in formulas**

<table>
<thead>
<tr>
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<th>Description</th>
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<tr>
<td>A</td>
<td>Administration</td>
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<td>Cp</td>
<td>Capital</td>
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<td>Depreciation</td>
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<td>EP</td>
<td>Equity (private)</td>
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<tr>
<td>ES</td>
<td>Equity (social)</td>
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<tr>
<td>FC</td>
<td>Finance costs</td>
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<td>I</td>
<td>Household income</td>
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<td>L</td>
<td>Loans</td>
</tr>
<tr>
<td>M</td>
<td>Maintenance</td>
</tr>
<tr>
<td>OC</td>
<td>Ongoing costs = operating costs + finance costs + depreciation</td>
</tr>
<tr>
<td>OpC</td>
<td>Operating costs = administration + rates + maintenance</td>
</tr>
<tr>
<td>R</td>
<td>Rates</td>
</tr>
<tr>
<td>RA</td>
<td>Rent assistance</td>
</tr>
<tr>
<td>RR</td>
<td>Rental revenue</td>
</tr>
<tr>
<td>RM</td>
<td>Market rent</td>
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</table>
GLOSSARY OF TERMS

Approved Deposit Fund (ADF) is a fund which can receive eligible termination payments from a superannuation fund or similar source and is subject to concessional rate of taxation (15%).

Assets overseas include physical assets located overseas and financial claims (such as securities, equities and units in trusts) on non-residents.

Australian Loan Council consists of the Prime Minister and the Premiers of each State and Territory. Under an agreement in 1927 between the States and the Commonwealth Governments, the Loan Council was established to bring some order into the borrowing programs of the States and the Commonwealth so that they were not competing against one another.

Bullet bond is a bond on which full repayment of principal occurs at maturity only.

Capital indexed bond (CIB) is a security where the interest rate (or coupon rate) is applied to the principal amount which is indexed to the CPI.

Capital indexed bonds with housing index is a security where the interest rate (or coupon rate) is applied to the principal amount which is indexed to a housing index (i.e. the increasing value of houses) rather the CPI. (See Capital Indexed Bond)

Capital indexed loan is a loan where the interest rate applied to the principal is adjusted for inflation. The outstanding principal is also increased annually by the rate of inflation.

Capital yield is the rate of return received on a security or property in the form of capital gains or losses.

Capitalised: usually refers to the practice of adding shortfalls in repayments to the outstanding principal loans. These amount would then attract interest at the same rate as the outstanding principal.

Cash and deposits: Cash covers notes and coins on hand. Deposits are funds placed in accounts with financial institutions such as banks, credit unions and building societies.

Cash Management trust: is a unit trust which is governed by a trust deed, is open to the general public and which generally confines its investments (as authorised by the trust deed) to financial securities available through the short term money market. Cash management trusts issue units in the trust that are redeemable by the unit holder on demand. For example, Macquarie Cash Management Trust or Commonwealth Cash Management Trust.

Cash-flow: is loosely defined as an amount of money received by an individual or business over a set period.

Central borrowing authority: is a statutory body often called a Treasury Corporation established by the State or Territory government to borrow on its behalf and on behalf of its trading enterprises, and to on-lend the funds raised to those bodies. Most borrowing authorities also manage liquid assets on behalf of Government bodies.

Common funds: an investment fund established by a trustee company to accept monies it holds in trust and other monies invested by the public. Cash common funds are similar to cash management trusts except that they do not issue units nor do they necessarily issue prospectuses.
Concessional loans: are loans at lower than market rates. In the early years of the CSHA, the Commonwealth provided the States with concessional loans for housing purposes.

Credit foncier loan: is a common type of housing loan where debt and interest are repaid in equal instalments over the term of the loan (provided that the interest is not varied).

Dividends: are a form of property income to which shareholders become entitled as a result of taking an equity share in a business.

Equities and units in trusts: comprise shares traded on an organised stock exchange, shares in unlisted companies, convertible notes after conversion, preference shares and units issued by both listed and unlisted unit trusts. Trust units are included in this classification because they have important characteristics of equities, such as entitlement to a share of the profits and of (on liquidation) the residual assets of the trust.

Equity finance: is a type of capital finance where funds are raised from a private sector investor by issuing equity shares in an underlying asset. Returns to the investor such as dividends and capital growth are based on the performance of the underlying assets and are therefore uncertain.

Equity has two meanings. The first is often the basis of public policy and is concerned with social justice. Of concern is the relative cost of housing between households: households in similar circumstances should pay similar costs (horizontal equity), and households with higher incomes should pay higher costs (vertical equity). The second relates to a stake in an investment and involves residual claims on income, with the returns taking the form of dividends or capital gains.

Ethical investors: seek to secure market rates of return on investments. They avoid investments which they regard as detrimental to the environment and to society or choose investments which they regard as environmentally or socially beneficial.

Financial asset: is an asset which has a counterpart liability in the books of another accounting entity.

Friendly society is a mutual or non-profit organisation that is formed by a group of people with similar interest who join together so as to give economic support to each other. Members originally came from specific crafts or religions and they aim to provide their members with a wide range of cradle to grave services. Examples of these are: life, health disability, funeral and general insurances; investment services; financial services similar to those provided by credit unions; and retirement and travel services. For example, IOOF Funds Management

Gearing: is the extent to which an entities assets have been acquired using debt. The gearing ratio is the proportion of assets funded through debt. It usually expressed as a percentage of assets.

Global Borrowing Limit is an arrangement by which borrowing at all levels of Government are monitored and subject to a limit determined by the Australian Loans Council.

Headlease is simply a lease between an owner of a property and an agency which intends to sub-let to an individual tenant.

Housing bonds are different types of securities which are issued to raise funds for housing purposes. These funds are on-lent to owner-occupiers and social housing providers.
Indexed annuities bond is a modification of an Inflation Indexed Bond which provides an investor with cashflows calculated in the same way but with an element of tax deferral.

Inflation adjusted mortgage is a loan secured by mortgage where repayments of debt and interest over the term of the loan are increased by the rate of inflation.

Inflation indexed bonds are bonds where the return consists of interest and capital payments and is indexed to the rate of inflation (CPI). Initial return is based on a real rate of interest, the rate of inflation and the term of the loan. Subsequent payments are indexed by movements in the rate of inflation over the term of the bond.

Institutional investors are large organisations who have large sums of money to invest. They specialise in raising funds from the public and investing these funds. For example, superannuation funds, life funds, insurance companies, banks and unit trusts.

Interest only loan is a loan that requires only interest payments over its agreed term with no repayment of capital until the end of the loan. At the end of the term, the loan capital is required to be repaid in full, or the loan renegotiated for another fixed term.

Joint venture involves two or more parties in an enterprise. Each parties to joint venture may make different contributions such funds, management, expertise. The joint venture

Land and buildings is real estate or physical assets which are immovable.

Loans and placements: A loan is the transfer of an asset (usually money) from its owner (the lender) to a user (the borrower) in return for a fee (usually interest). Placement is the process of selling new issues of securities through a stockbroker or intermediary to shareholders and the public.

Mortgage is a document which conveys or assigns an interest in an asset (such as a dwelling) to a lender (such as bank) as security against a loan. The borrower has use of the asset and can discharge the mortgage upon fulfilment of the mortgage contract. In the case of default (on repayments), the asset is sold and the lender has first call on the proceeds of the sale.

Nominal borrowings are loans where the agreed interest rate takes account of the rate of inflation.

Off-budget finance refers to funds which raised by Government or semi-government authorities but are not recorded a Government's annual budget.

Pass-through facility is a facility which allows early payments of principal at the discretion of the issuer of a bond. In return for granting this right, investors usually seek a higher return.

Pooled Superannuation Trust is a trust in which only Complying Superannuation Funds, Approved Deposit Funds and life insurance companies in respect of their complying superannuation business are permitted to invest.

Public unit trusts is a trust which issues units to the general public within Australia for the purpose of investing the pooled monies. A public unit trust must have registered a prospectus with the Australian Securities and Investments Commission and be governed by a trust deed between its management company and a trustee company. The units may or may not be listed on the Australian Stock Exchange.

Rate of return is the ratio of income to capital investment, usually expressed as a percentage.
**Real interest rate** is the difference between nominal interest and an amount equal to the loss of purchasing power on the monetary value of the principal during the accounting period. It is calculated by subtracting the rate of inflation from the nominal interest rate.

**Real rate securities** are securities where the coupon rate is the real rate of interest. Interest payments are based on this real rate of interest plus the rate of inflation.

**Real-rate tax exempt bond** is a bond where the real interest rate is determined but the nominal interest rate (real rate of interest plus the rate of inflation) is adjusted quarterly or annually according the rate of inflation. It is also a bond which is exempt from tax.

**Rental Property Trust** is a unit trust which invests in real estate. Generally they invest in retail and commercial properties. A residential rental property trust is a trust which invests in rental dwellings.

**Retail investors** are individuals or small organisations seeking market rates of return of their investments.

**Short-term securities:** Short-term securities are different kinds of short-term investments issued by public companies, borrowing authorities and governments. For example, bonds, debentures and shares.

**Social investors** accept below market rates of return while investing in projects which provide for the common good or achieve a particular social outcome.

**Subordinated equity** is equity that, in the event the entity is wound up, is not repayable until other equity holders have been repaid.

**Unit trust** is an organisation that collects cash investments from subscribers, the unit-holders, and invests in securities for their benefit. Each unit-holder is an owner of a fraction of the securities held by the trust.

**Zero coupon** is a type of bond on which all payments of principal and interest are deferred to maturity.

**Note:** This glossary has been compiled largely from glossaries in the following publications:

INTRODUCTION

For almost 55 years there have been two cornerstones of social housing provision in Australia: public housing, and the Commonwealth-State Housing Agreement (CSHA), the latter being the funding mechanism for the former. The motivation for the establishment of both institutions was one of extensive and prolonged market failure, particularly during the first four decades of the twentieth century (Hayward 1996; Williams 1984). Over the last 15 years, however, both public housing and the CSHA have come under increasing scrutiny. During the 1980s the CSHA was the subject of several reviews, leading to its restructure in 1989, 1992 and 1996. For the last 15 years real funding levels have declined substantially. At the same time, Commonwealth and State governments of both political persuasions have also begun to favour community housing as an alternative to public housing. From the early 1990s the stock of community housing grew relatively rapidly from a small base, while public housing grew minimally from a large base.

Despite a series of rumours to the contrary, and following a period of instability and disagreement between the Commonwealth and the states, a new CSHA was signed for the period 1999-2003, based on previous funding arrangements but with a clear intent to review them during the course of life of that agreement. Part of the background to the debate has been the desire of the Commonwealth government to encourage private investment into social housing, much as has occurred elsewhere, particularly in Europe (Harloe 1995; Larkin and Lawson 1998; Papa 1992; CECODHAS 1999). When the Commonwealth and the states begin negotiations about the future of the CSHA in August 2001, a key issue will be alternative sources of capital funds for social housing.

Implicit and sometimes explicit in much of the discussion about the relative advantages of community housing over public housing has been the suggestion that community housing providers will be able to raise private sector finance in ways that State Housing Authorities (SHAs) could not. The future of community housing in Australia and its capacity to respond to the needs of low income households may depend upon its ability to identify and develop an appropriate financial product and vehicle through which private investment can be attracted either at a national or state level.

In recognition of the increased interest they have enjoyed from politicians and policy-makers alike in recent years, community housing organisations have been actively exploring ways in which they might attract capital funds from the private sector. Where might the funds be sourced? How much funding might be available? Can funding be secured in ways that do not compromise their security of tenure and affordability objectives? These questions form the subject matter of this project, which focuses on one segment of the private investment market – a segment which has so far largely escaped the attention of researchers. To date most attention has been centred on the institutional investors such as superannuation funds because State Housing Authorities have sought access to a high volume of funds (see, for example, National Working Party on Private and Community Rental Housing 1986; Caversham Partners Ltd et al. 1991; Coopers and Lybrand 1996b; Berry 2000). Our interest is with the retail sector which is basically composed of individuals looking for outlets for their personal savings. This is another source of private sector investment which collectively is very large (but where individual investments are relatively small) but whose potential for investment in social housing has not been explored in any detail.
The aim of the project is to identify an appropriate financial product and vehicle for raising retail private finance for investment in community housing either at a national or state level in Australia. More specifically, the project seeks to:

- Identify barriers to retail investors investing in low income housing and strategies to overcome those barriers;
- Establish the potential of the private retail investment market and identify its investment requirements;
- Identify policy levers available to state and Commonwealth governments which might increase the level of retail private investment in community housing; and
- Analyse the fiscal, administrative and economic implications of the models developed to raise retail private investment in community housing.

This paper is the first of three, which form part of the broader project examining new ways of funding community housing. It consists of two parts. Part 1 explains the context in which this has come to the fore as a policy issue. Part 2 examines the state of play of private sector investment in community housing and includes an overview of the key elements of a social housing financing system and reviews of recent literature and current practices. The Appendix gives a revised timeline for the project.
1. THE POLICY CONTEXT

1.1 Market context

SHAs had their origins as a response to persistent and worsening failure of the private rental sector during the first half of the twentieth century. The Depression of the early 1930s and the housing shortages arising from the cessation of house building during World War II placed great pressure on government to become more directly involved in housing provision.

A range of reports throughout the past 25 years have continued to highlight the failure of the private rental market (for example, Commission of Inquiry into Poverty 1975; Priorities Review Staff 1975; National Housing Strategy; AIHW 1997, 1999). Despite major increases in rent assistance for households renting in the private sector, a large proportion of recipients continue to pay more than 30% of their income in rent.

A general shortage of housing is no longer a central issue. However, as Wulff, Yates and Burke (2001 forthcoming) indicate, the supply of low cost private rental housing is still inadequate. Their analysis of the private rental market from 1986 to 1996 shows a national shortage of 150,000 low cost dwellings (p. 9). Two forces in particular contributed to this outcome: a dramatic reduction in the absolute and relative size of the low cost rental stock, which fell from 26% to 14% of the total stock; and a significant proportion of low cost rental dwellings being occupied by higher income households.

The reasons might be slightly different, but the available research shows that the need for a vibrant and viable social rented housing sector is as compelling today as it has been at any point over the last 100 years.

1.2 Declining funding

Despite the evidence demonstrating continuing and persistent private rental market failures, the level of funds provided by Commonwealth and state governments for the acquisition of new social housing assets has decreased rapidly in real terms over the past 15 years. Figure 1 illustrates the relative real decline in CSHA funds since 1990-91 compared with the substantial increase in Commonwealth Rent Assistance over the same period.

Overall, the stock of social housing is growing far too slowly relative to unmet demand and there is simply no way that it can grow sufficiently rapidly without a major increase in funds. Given that the Commonwealth government has been reducing its expenditure on social housing, the prospect of social housing growing to meet unmet needs is unlikely. It should be noted that there has been persistent speculation that the Commonwealth is intending to cease funding the CSHA once GST revenues to the states begin to exceed the estimated value of what Commonwealth Financial Assistance grants would have been in around 2007.
The possibility that the CSHA could be abolished has prompted SHAs to initiate a number of strategies to ensure their financial situation is secure in a post-CSHA environment. Amongst the considerations is the condition of their current stock and the need to increase expenditure on upgrading and redevelopment while funds are still available. They have also brought forward repayments of principal in order to reduce future liabilities and have increased rental revenue through increased rebated rentals in order to better meet the ongoing costs of providing social housing (Housing Assistance Act Annual Report 1998).

1.3 The rise of rent assistance

The real falls in CSHA funding must be placed in the context of rapid growth in another form of Commonwealth housing expenditures focused on low income households. In 1958 the Commonwealth introduced a supplementary payment to pensioners in the private rental market, which has come to be known as rent assistance. During the 1980s and 1990s this was expanded dramatically in terms of both eligibility and the level of payments (Prosser and Leeper 1994; Hulse 2001 forthcoming). This growth reflected the Commonwealth’s desire to turn increasingly to the private sector as the provider of low cost housing, for rent assistance would enable private tenants to pay affordable rents. The Commonwealth has made known on a number of occasions its preference for rent assistance to be its key housing assistance program and considerable faith has been placed in the private rental sector as a provider of adequate and affordable housing for low income people. As the Department of Social Security (now part of the Department of Family and Community Services) expressed it in 1997:

*Over a period where such a sector [private rental market] has diminished in many countries, in Australia it has proven to be a robust and diverse sector which caters for a range of community needs* (DSS 1997a: 52).

*There is no persuasive evidence of a general failure of supply of private rental housing, with the exception of people with special housing needs* (DSS 1997b: 72).
1.4 The rise of community housing

The history of community housing can be traced back to shelters for the homeless, the elderly and those in need of short-term crisis accommodation provided by charitable organisations during the first half of the last century. It was not until the late 1970s and early 1980s, however, that the sector became sufficiently large and organised to be considered as a significant part of Australia’s social housing system (Bisset, Dalton and Lawson 1994: 3 ff.; see also Randolph 1993).

Over the last 20 years, community housing has expanded in two forms: housing co-operatives and housing associations. Its expansion has been in response to criticisms of the bureaucratic model of public housing and as an alternative form of social housing built around the notion of community and communities of interest (Bisset, Dalton and Lawson 1994: 9 ff.). Despite support from both Commonwealth and state governments, this expansion has been slow, and has been heavily dependent on transfers of stock in some states from the public housing sector. However, the sector has been highly innovative in securing capital for projects, mostly on a once-off basis. Currently the sector has approximately 32,000 dwellings Australia-wide (NCHF 2000d), compared with 363,000 public housing dwellings (SCRCSSP 2001: Table 16A.1).

During the 1990s the community housing sector invested considerable time and energy in developing a national and state infrastructure to support its ongoing development. This included peak organisations, strategic planning, research, education and training, tenancy and property standards and accreditation. The National Community Housing Forum, comprised of the key stakeholders from the sector, has also initiated a number of investigations into the potential for institutional investment in community housing, for example:

- A review of the literature (Elton and Associates 1998);
- A review of financing arrangements in four European jurisdictions (Larkin and Lawson 1998);
- Research into operational arrangements for non-government housing associations in Europe (Larkin 1998); and
- A roundtable of non-government, government and private sector representatives on private investment in community housing (NCHF 1998).

Just recently, the NCHF reviewed the literature since 1998 and conducted a workshop to identify key issues and future strategies (Elton and Associates 2000).

1.5 Who are the investors?

The investment market provides a complex array of opportunities. There are different classes of investment – shares, property, securities, cash etc.- with different types and levels of risk. It is from this investment market that community housing providers are seeking funds. Elton and Associates (1998) identify two classes of investors: institutional and retail. McNeileis (1999) identifies a third class: social investors.
Institutional investors: These are composed of large fund managers such as pension or superannuation funds, life insurance funds and public unit trusts. Table 1 outlines the assets held by various types of managed funds at 30 June 2000, while Table 2 outlines the types of assets held by these institutions. As indicated in the tables, these institutions hold investments of approximately $590b.

Table 1: Types of managed funds by assets (as at 30 June 2000)

<table>
<thead>
<tr>
<th>Type of institution</th>
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<tr>
<td>Life insurance corporations</td>
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<tr>
<td>Pension (superannuation) funds</td>
<td>271</td>
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<tr>
<td>Public unit trusts</td>
<td>111</td>
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<tr>
<td>Friendly societies</td>
<td>6</td>
</tr>
<tr>
<td>Common funds</td>
<td>8</td>
</tr>
<tr>
<td>Cash management trusts</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>590</strong></td>
</tr>
</tbody>
</table>

Source: ABS (2000:56), using material from Managed Funds, Australia (ABS Cat. no. 5655.0).

Table 2: Type of assets held by managed funds (as at 30 June 2000)

<table>
<thead>
<tr>
<th>Type of assets</th>
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<tbody>
<tr>
<td>Cash and deposits</td>
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<tr>
<td>Loans and placements</td>
<td>30</td>
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<tr>
<td>Short-term securities</td>
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<tr>
<td>Long-term securities</td>
<td>75</td>
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<tr>
<td>Equities and units in trusts</td>
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<tr>
<td>Land and buildings</td>
<td>65</td>
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<tr>
<td>Assets overseas</td>
<td>112</td>
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<tr>
<td>Other assets</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>590</strong></td>
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</tbody>
</table>

Source: ABS (2000:56), using material from Managed Funds, Australia (ABS Cat. no. 5655.0)

Retail investors: These consist of individual or household investors who are looking for market rates of return but might be attracted to a social housing product because it matches their investment objectives or because of the inherent social objectives (i.e. ethical investors). The size of this market is more difficult to estimate. It consists of a number of asset types which include both real assets and financial assets such as equity invested in the private rental market, deposits in banks and other financial institutions, and investment in shares and unit trusts. Table 3 is a preliminary and indicative estimate of the size of this market.
### Table 3: Types of assets held by retail investors 

<table>
<thead>
<tr>
<th>Type of asset</th>
<th>$b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental dwellings</td>
<td>30</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>216</td>
</tr>
<tr>
<td>Securities (other than shares)</td>
<td>24</td>
</tr>
<tr>
<td>Loans</td>
<td>9</td>
</tr>
<tr>
<td>Shares and other equity</td>
<td>115</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>394</strong></td>
</tr>
</tbody>
</table>

**Notes:**

1. The table is an estimate of those funds which households have available for investment purposes – it excludes assets such as owner-occupied housing, superannuation and life office contributions. These assets are excluded because they are already committed to one particular housing tenure (owner-occupied housing) or they are funds directed to and used by institutional investors.

2. Estimated on the basis of 689,400 rental properties with a median estimated value of $125,000 and with an average loan of $81,000 (*Household Investors in Rental Dwellings, Australia*, ABS Cat. no. 8711.0).


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**Social investors:** At the other end of the scale to institutional investors are social investors – organisations and individuals who not only seek to invest in a socially worthwhile project but are also prepared to accept a lower than market rate of return. For example, churches are social investors where they contribute land or other assets to joint ventures with state governments without seeking a return. They are also seen as an appropriate sector through which to attract individual social investors. At this time, it is too difficult to estimate the size of the social investment market.

Most research has focused on the potential role of institutional investors and the conditions under which they will invest in social housing (*Caversham Partners Ltd et al. 1991; National Housing Strategy 1991b; Coopers and Lybrand 1996b; Elton and Associates 1998*). Ecumenical Housing has recently published the results of research into products which might be attractive to social investors, identifying two investment models, the Equity Investment/Headleasing Model and the Partial Debt Finance Model\(^1\) (*McNelis 1999*). Little if any work has been undertaken on the potential of retail investors.

**1.6 Conceptual framework for the project**

Diagram 1 illustrates the relationships that form the focus of this research project. The two major parties involved are community housing providers and retail investors. The relationship between them is mediated by investment professionals who develop financial products and vehicles which bring the parties together.

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\(^1\) The Equity/Headleasing Model “involves a church community housing manager undertaking a small unit development and subsequently negotiating a ‘sale and leaseback’ arrangement with a social investor (church members of adherents)” (*McNelis 1999* p.viii). A Partial Debt Finance model “involves a church organisation contributing some assets (land/cash) to a community housing project (without seeking a dividend for their investment) and borrowing the balance of the capital requirements for the project from a private investor.” (*McNelis 1999* p.vii)
The other components include the Commonwealth and state governments, each of which can play a specific role in support of private sector investment in community housing. Jointly, both levels of government determine the regulatory framework for community housing providers.

The Commonwealth government determines the framework within which a financial product and vehicle will be developed. It determines the taxation provisions and concessions in relation to income tax and capital gains tax which will or may apply. It determines the level, scope and structure of rent assistance for tenants and other subsidies that may directly relate to social housing investment. It may provide capital funds to support the acquisition of community housing. State governments determine the extent to which community housing organisations are subject to land tax and any financial product is subject to stamp duty and other taxes. It can also provide operational subsidies and/or capital funds.

In developing this financial product and vehicle it is important to recognise that two primary parties are involved – community housing providers and retail investors. Each has their requirements and parameters for participating in a financial product and associated vehicle. An appropriate financial product and vehicle for investment in community housing is one which meets or largely meets these requirements and parameters.

In general terms, the parameters for a community housing provider largely relate to their capacity to sustain private sector investment, given their revenue flows from low income tenants. The project will therefore need to explore the relationships between the level of capital investment, the impact of different sources and types of capital investment, operating costs, revenue from tenants and the availability and limitations of subsidies. A community housing provider can only borrow capital funds when they can repay these loans. Repayments on these loans will vary according to the type of loan, the interest rate, how often repayments are made and over what period they will repay the loan. Their capacity of repay these loans will depend upon their rental revenue and their other costs. If revenue is lower than their operating costs, they will have no capacity to repay loans. If revenue is greater than their operating costs, then they have a capacity to repay loans.
Diagram 1: Conceptual framework for developing an appropriate product and mechanism for private sector investment in community housing

COMMUNITY HOUSING PROVIDERS

- Primary parameters set by social housing objectives
- Secondary parameters set by financial objectives
  - revenue stream
  - long-term capital strategy
  - availability and access to subsidies
  - risk assessment – revenue stream and capital gains

INVESTMENT PROFESSIONALS

- financial product options
- investment vehicle options

RETAIL INVESTORS

- Parameters set by financial objectives
  - rate of return
  - liquidity
  - quality of investment
  - risk assessment
  - taxation impact
  - term of investment
  - extent of investment, i.e. $ or % portfolio

COMMONWEALTH GOVERNMENT

- regulatory framework
- taxation provisions (income tax, capital gains tax etc.)
- taxation concessions
- operational subsidies
- rent assistance

STATE GOVERNMENT

- regulatory framework
- taxation provisions (land tax, stamp duty etc.)
- taxation concessions
- operational subsidies
- capital funds
In general terms, the parameters for a retail investor largely relate to their expectations of after-tax returns. After-tax returns are their primary concern because this is the benefit they will derive from the investment. These returns must be commensurate with their assessment of risks and the type of risks related to investment in community housing and their preferences in relation to financial and investment products. Different investments have different risks and investors will expect greater returns where they believe that the risks are greater. The risks may relate to the skills of the manager or to a perception that low-income tenants tend to default more on rent or that the government may change its policies and thus the capacity of tenants to pay rent. Some investors prefer to invest in “bricks and mortar” rather than in financial products. Some prefer the safety of bank deposits to investment in the property market.

The project will therefore need to explore more specifically expectations of return, perceived risks of investment and retail investors’ preferences in relation to financial and investment products.
2. THE STATE OF PLAY

Financing social housing is a relatively obscure and often technical field within housing studies. The few contributors to the literature tend to come from applied policy backgrounds or from within the financial sector. Their work tends to be highly instrumental, being commissioned with a view to addressing a specific policy problem such as a desire by an organisation or government to encourage the growth of a particular community housing group. The most important Australian contributions over the last decade or so have been consultancy projects undertaken as part of an attempt by governments and non-government housing providers to seek off-budget finance, for example, Yates on National Housing Bonds (National Housing Strategy 1991b) and Caversham Partners Ltd et al. (1991).

Rather than provide a standard review of the literature, the focus in this section is on the range of financing models used by both public housing providers and community housing providers to fund the acquisition of stock. Relevant literature is included where appropriate.

The discussion is divided into five sections and follows the structure of the conceptual model outlined in the previous section:

- Retail investors and rental housing;
- Parameters for community housing providers;
- Social housing investment products and vehicles;
- Commonwealth taxation arrangements; and
- Key findings.

1.7 Retail investors and rental housing

Within the context of housing finance, very little literature focuses on retail investors. Most reports explore a range of structures/instruments for raising funds aimed solely or predominantly at institutional investors (Caversham Partners Ltd et al. 1991; NCHF 2000b, 2000c; Berry 2000). These reports, however, do have passing references to retail investors.

The NCHF (2000c) notes that the retail investment market has hardly been explored and raises the possibility of rental property trusts as a vehicle (pp. 8 ff.). Caversham Partners et al. recommend ‘further analysis of all aspects of Retail Investor requirements’ (p. 35). In relation to potential retail support for social rented housing, they note the following:

   Our research suggests that there could be substantial support for a Housing Price Index Linked (HPI) security from the retail sector, in contrast to little interest currently shown in CPI based securities.
   
   Most interest would be from investors wishing to participate in price movements in residential real estate but reluctant after recent events to commit to unlisted property trusts or commercial properties.
CGT Indexation will be a very important attraction to this class of investor, effectively providing the same tax treatment as the investor can derive from direct investment in rental housing.

Further research needs to be done but our preliminary comments would be:

(1) It is likely that only Sydney and Melbourne Housing Price Indices would be feasible and acceptable to investors.

(2) Rental return to the investor would need credit support in terms of yield levels required. Indications are that a fully negotiable security whose interest payments are government guaranteed and the principal is repayable on a HPI basis (with CGT-indexation) would be strongly supported.

The potential volume from the retail sector is dependent on the availability of CGT-indexation. If this becomes available and the issues are properly marketed, volumes at current yields could perhaps increase to $500 million per annum within 5 years (p. 13).

Further, in relation to directly invested public moneys, TPF&C (in the Caversham report) conclude:

There is no doubt that a properly constructed and marketed investment vehicle in Australia can capture the attention of the investing public and raise significant moneys, redirecting moneys from banks and other non-superannuation sources (p. 43).

One major area in which retail investors have been discussed is in relation to the private rental market. Retail investors dominate this market. Berry (2000) presents an overview of investment in the private rental market in Australia. While this paper focuses predominantly on private rental housing and the absence of institutional investors, it is still relevant because it provides us with some insights in private investment in rental housing.

Berry builds on Yates’ analysis of the 1993 Australian Bureau of Statistics survey of rental investors, supplementing it with data from the 1997 survey. Both these surveys reveal the extent to which the private rental market is dominated by retail investors:

76% of investors in the private rental market own a single rental dwelling with a further 16% owning two dwellings (p. 534);

Almost two-thirds were reliant on wages and salaries as their principal source of income (p. 534);

‘Bricks and mortar’ continues to be a major attraction to two-thirds of these investors; and

Rates of return vary considerably, with 42% of investors with gross rates of return of 6% or less and 36% recording a loss on their investment (p. 537) – this compares with institutional investor expectations of 14-15% before tax and 10% after tax (p. 545).

Berry (p. 538) concludes his analysis of small-scale landlordism as follows:

As Australian financial markets develop and become more integrated internationally, small investors face a much wider range of potential investment opportunities. Risk can be minimised by investing across asset classes and diversification can also be achieved within the property sector (albeit, commercial) through investment in property trusts.
Thus, the future prospects for retail investors in the private rental sector are not bright. One critical factor, as we have noted, is their attachment to ‘bricks and mortar’ investment. The challenge posed for this project is whether we can develop a vehicle which is attractive to these investors.

Little work has been done in researching the potential of this market, the characteristics of retail investors, or the types of products and vehicles that would be best suited to attracting investment. This sub-market is particularly relevant to the community housing sector, where the scale of private investment is better suited to the potential of the sub-market and where the benefits of investment can be identified readily at a community level.

Retail investors are a major investor in the private rental market where a large proportion of dwellings are owned by landlords with only one or two dwellings. To participate in this form of investment, retail investors require access to substantial capital. This project will explore the potential of this retail sub-market for investment in community housing, and develop a vehicle and mechanism which is appropriate for this sub-market and is attractive to retail investors with a smaller pool of funds than required for the private rental sector. This will require further investigation into the objectives, expectations, preferences, rates of return etc. sought by these investors.

1.8 Parameters for community housing providers

This section begins by examining both the financial and infrastructure parameters within which community housing providers operate. It does so through a brief overview of social housing finance and an exploration of the implications of private investment on community housing.

(1) Overview of social housing finance

Capital funds for social housing projects must be seen within a broader context of social housing finance. It is not just a matter of getting access to capital funds but weighing up the cost of those funds in the context of rental revenue receivable from a particular target group and the operating costs of social housing. Issues of capital finance are often explored in isolation from this broader context, a characteristic which mars for example the discussion of equity bonds by the National Housing Strategy (1991b). This context is also important because the community housing sector has a number of financial advantages over other housing tenures. This section provides a brief summary in order to locate this project within this social housing financing context.

Key elements of social housing finance

The key elements of social housing finance are:

- Finance for capital (for the acquisition of housing stock);
- Rental revenue;
- Ongoing costs of financing and managing housing stock; and
- Subsidies.
**Sources of capital funds for acquisition of housing stock**

Capital funds for the acquisition of (building or buying) housing stock can come from one or more of the following sources:

- **Free equity** provided by government, church or some other organisation or individual (in the form of grant funds, interest free loans or land) who does not require a rate of return;
- **Private equity** provided by a private investor (institutional or retail) who requires a market rate of return;
- **Social equity** provided by a social investor who, for the benefit provided by community housing, will provide funds at less than the market rate of return; and
- **Loan funds** provided by an institutional or retail investor or by government.

Thus the capital required for a housing project takes the following form:

\[
\text{Capital} = \text{equity (free)} + \text{equity (private)} + \text{equity (social)} + \text{loans}
\]

\[
\text{Cp} = E^F + E^P + E^S + L \quad (\text{It could be any one or a combination of these.})
\]

**Rental revenue**

Social housing seeks to provide housing which is relatively affordable for tenants\(^2\). For the most part, then, community housing tenants pay a rental which is related to their income. In addition, community housing tenants are eligible for rent assistance. The formula for calculating rents varies from state to state and often from community housing manager to community housing manager. For the purposes of this project we have calculated rents as follows:

\[
\text{Rent} = 25\% \text{ income} + \text{entitlement to rent assistance or market rent (whichever is the lower)}
\]

\[
\text{RR} = 25\%I + RA \text{ or } RM \quad (\text{whichever is the lower})
\]

By including all entitlement to rent assistance, this formula provides equity between public tenants and community housing tenants after housing costs, i.e. after paying their rent, public tenants and community housing tenants receiving the same type of Centrelink payment will have the same level of income for other expenses.

**Ongoing costs**

Rental revenue is used to meet the ongoing costs of managing and financing community housing. These costs vary according to the way in which capital is financed. The core components are:

- Administration;
- Maintenance; and
- Rates.

---

\(^2\) The term ‘affordable housing’ conveys the notion of reasonable housing costs in relation to income. Households can be said to afford their housing costs if those costs do not extract an unreasonable share of the household budget, leaving the household with sufficient income to meet other needs such as food, clothing, transport, medical care, education etc. (National Housing Strategy 1991a p.3)
In addition, under some conditions, a community housing manager may have to meet the costs of:

Depreciation of housing assets\(^3\) (the cost of replacing the dwelling in the long term); and

Finance costs such as loan repayments (when borrowings are used to purchase land/buildings or, construct or upgrade buildings) and/or pay rent on headleased dwellings which provide a return on equity to the investor in the property.

Whether the community housing provider will have to meet these costs will depend upon the capital funding arrangements. For example, if a community housing provider wants to maintain the value of their housing assets and capital funding is provided as free equity or as organisational equity\(^4\), they will need to make provision for depreciation so that their asset base does not diminish and they have the funds to replace the dwelling at the end of its life. However, where dwellings are leased or are being acquired through loans, then a community housing manager may not have to make provision for depreciation: where dwellings are leased it is the owner who needs to make provision for depreciation; where dwellings are acquired through loans the asset base of the organisation increases as these loans are repaid. These issues will need further exploration.

In summary, a community housing manager may need to meet three types of ongoing costs:

Operating costs;
Depreciation; and
Finance costs,

where

Operating costs = administration + maintenance + rates;

and

Finance costs = loan repayment + return on equity.

Thus,

Ongoing costs = operating costs + finance costs + depreciation.

\[ OC = OpC + FC + Dp \]

Subsidies

Subsidies may be paid:

To tenants so that they can pay higher rents

To financiers in order to lower the cost of capital funds to community housing providers – some of the cost is met through the subsidy;

To housing providers so that only part of the cost of borrowings or other recurrent costs is met through rental revenue; or

To any combination of these.

\(^3\) Other provisions for depreciation (e.g. cars, equipment and furniture) would be incorporated into administration costs.

\(^4\) “Organisational equity” refers to the use of an organisation’s surplus funds for capital purposes.
The major source of subsidies is Commonwealth and State Governments. They directly supplement the income of the tenant, the financier or the community housing provider and, for the tenant and community housing provider, reduce the extent to which they have to meet their costs from their usual sources of revenue.

**Key task**

The key task in developing a financially sound and viable community housing project is to structure capital funds in such a way that rental revenue and subsidies are sufficient to meet ongoing costs:

\[ RR + S = OC \]

To put it another way, it is only possible for a community housing provider to borrow funds and/or provide returns on private and social equity where rental revenue and subsidies are greater than operating costs (administration, maintenance and rates) and depreciation. The extent of this difference will largely determine the extent to which the provider can utilise loan funds, private equity and social equity. The difference between rental revenue and operating costs is used to meet finance costs such as loan repayments and rents on headleased dwellings.

**Factors affecting the elements of social housing finance**

Various factors will impact on the level of each of these four key elements and thus the way in which a social housing provider can establish and maintain their financial viability:

- The cost of finance will depend upon house prices (which determine the level of funds that need to borrowed), the rate of capital gains, interest rates, the type of loan etc.;
- The level of rent revenue will depend upon the income of the tenant and their eligibility for rent assistance with maximum revenue determined by the market rent on a dwelling;
- The level of ongoing costs will depend upon house values, the age, type and materials of housing, the target group housed etc.; and
- The level of subsidies will depend upon whether and/or to what extent tenants, financiers and housing providers meet specified conditions. For example, the level of subsidy which a tenant receives will depend upon whether they are in receipt of a Centrelink payment, the type of household, the extent to which they pay rent above the threshold and the maximum rent assistance. The eligibility, amount and structure of Commonwealth rent assistance will, in turn, determine the rents that a community housing provider can charge whilst continuing to provide affordable housing.

In addition, a review of the literature in relation to the taxation arrangements applicable to financial products and vehicles highlights the importance of taxation considerations for private investors (National Working Party on Housing Finance 1990: 21; National Housing Strategy 1991b: 64 ff.; Caversham, 1992: Section 3.3). The tax status and the taxation provisions applicable to particular financial instruments are often critical to successfully raising private sector funds for housing purposes. For example, the after-tax return depend upon whether a particular instrument is deemed to be an equity investment or a debt. A particular instrument may incorporate capital growth – the value of equity grows as the underlying value of the asset grows or the debt instrument may be
indexed. However, capital growth in an equity is subject to a capital gains tax and thus only half of capital growth is taxed at the marginal rate whereas the capital growth in a debt is regarded as income and fully subject to income tax.

Inter-relationship between the elements

Bray (1998) and McNelis (1999) have explored the inter-relationship between the four elements of social housing finance. Both conclude that the extent to which a community housing provider can gear the acquisition of stock is limited by cash flow. On the basis of this modelling work, Bray (p. 13) suggests that 35% to 50% equity is required (depending upon whether interest-only loans are used) for providers to break even.

In a slightly different context, modelling work by McNelis (1999) indicates that the level of borrowings required depends upon the income of the tenant. At the lower end where tenants are only in receipt of a Centrelink payment, their rents can sustain zero borrowings. At the upper end of tenant incomes, maximum borrowings are achieved when the community housing provider is able to charge market rents. When dwellings are acquired using approximately 65% loans (and 35% free equity), then market rents will have to be charged. This is an upper parameter for community housing providers (pp. 21 ff.).

Predominant financing options

Currently the major source of capital funds for social housing is the CSHA, and SHAs have developed financial models which are viable for their given target group. One model is predominant within public housing, while community housing utilises a number of different models with CSHA funds at their core. Understanding the assumptions and conditions under which these models operate is an important base for shifting the parameters for financing community housing while utilising private investment.

Public housing model

In the predominant public housing model, capital funds are provided through the CSHA as free equity. These funds do not require a return on equity or investment. Public tenants are not eligible for Commonwealth rent assistance and thus rental revenue is based solely on a tenant’s income. The core ongoing costs are administration, maintenance and rates. It is anticipated that the cost of depreciation is met through future capital grants from the CSHA. With limited rental revenues, SHAs are unable to make provision for the replacement of a dwelling at the end of its life, rather they use new CSHA funds for this purpose. In this model, rental revenue is sufficient to meet ongoing costs, even where the only source of income for tenants is Centrelink pensions and allowances (Flood 1989: 2 ff.). Thus this model can be targeted at those on the lowest incomes.
This model can be summarised as follows:

\[ C_p = E^f \] (public equity)

and

\[ RR = OpC (A + M + R) \]

where

Rental revenue is limited to a proportion (approximately 25%) of tenants’ incomes (I) based on full Centrelink pensions or allowances;

\[ RA = 0 \] since public housing tenants are not eligible for rent assistance;

\[ C_p \] results in no finance costs to be met; and

\[ D_p \] is met through future capital grants from the CSHA.

Due to past arrangements (up until 1989) where funds were provided as loans at concessional interest rates from the Commonwealth through the CSHA, SHAs have debt repayments. If there are surpluses in this public housing model, they are used to meet these historic liabilities. Where the surpluses are not sufficient to meet debt repayment, the CSHA arrangements allow SHAs to use current CSHA funds to repay these debts. Thus the capital funds available through the CSHA are net of debt repayments. These funds are used for acquiring new housing stock, and for redevelopment and upgrading of current stock.

Any shift by SHAs to raise private sector funds will incur finance costs, because unlike the public sector the private sector requires a return on their investment. These new costs are largely not sustainable in the current model because rental revenue based on affordable rents is insufficient to meet these costs. The use of private sector funds will result in a shift of CSHA funds away from capital purposes to operational subsidies as SHAs use CSHA funds to meet the costs of finance. Flood (1989) explored these two options – using CSHA funds for capital purposes or as recurrent subsidies. These two options have different long-term implications, the former allowing public housing to grow indefinitely, the latter reaching a ceiling in 12 to 37 years depending on the level of borrowing (p. 23). Flood (1989: ii) concluded as follows:

> Essentially, the government needs to make a decision as to whether public housing should seek a situation of permanent growth of the stock using grant funds with minimal recurrent subsidy; or whether grant funds should be directed entirely to recurrent subsidies, with borrowed funds used to accelerate the current rate of acquisition, but at the expense of reduced long-term stock levels.

His conclusion is based on the income profile of public tenants. It reflects a worst case profile where tenants receive the lowest incomes, with the only source being government pensions and allowances.

Community housing models

Over the past two decades, the community housing sector has developed a broad range of models for financing the acquisition of dwellings. Many involve a partnership between two or more of the following: the SHA, a community organisation, local government, or a church agency or parish (Coopers and Lybrand 1996a: 29 ff.; McNelis 1997: 15 ff.).
There are four main financial advantages that community housing has the potential to offer:

Unlike public housing tenants, community housing tenants are eligible for rent assistance. This allows community housing organisations to charge higher rents without compromising the principle of after-housing equity between public tenants and community housing tenants;

Unlike both public housing and private rental housing, community housing organisations which are charities providing housing at less than 75% of the Australian Tax Office market rent benchmark\(^5\) can provide housing as a GST free supply rather than as an input taxed supply. Thus they can claim input tax credits on their purchases and reduce their ongoing costs;

Unlike both public housing and private rental housing, community housing organisations providing housing as a GST free supply can claim any input tax credits on the costs of construction and the costs of purchases. Thus they can reduce the capital costs of providing housing; and

Unlike private rental housing, community housing organisations are not subject to income tax, including capital gains tax.

In summary, community housing organisations may have the following advantages:

<table>
<thead>
<tr>
<th>Rental revenue</th>
<th>Access to rent assistance payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing costs</td>
<td>Can claim input tax credits on GST free supply</td>
</tr>
<tr>
<td>Acquisition costs</td>
<td>Can claim input tax credits on acquisitions of housing stock (construction or purchased) used for the purpose of GST free supply</td>
</tr>
<tr>
<td>Sale costs</td>
<td>Can claim input tax credits on costs associated with sale of properties and are not required to pay capital gains tax</td>
</tr>
</tbody>
</table>

**Concluding remarks**

This overview of the key elements of social housing finance and review of the financial advantages of community housing highlights the inter-relationship between the different elements. Raising private sector funds will have an impact on the ongoing costs of a community housing provider. Given their limited revenue based on affordable rents, it is important for the viability of community housing providers that they remain financially viable while raising private sector funds. This highlights the need for further work on the parameters within which community housing providers can raise capital funds from the private sector and remain financially viable. This will be explored more fully in Stage 2 of the project. It will involve a further examination of the target groups for community

\(^5\) Under the GST legislation, rental housing is an input tax supply (no GST is charged on rent and no input tax credits can be claimed on expenses). However, where rental housing is provided by charities at less than 75% of market rent, it is a GST free supply (no GST is charged on rent and the charity can claim input tax credits on their expenses). For administrative simplicity, rather than a charity assessing the rent charged against the market rent for each and every dwelling, the ATO has adopted a rent benchmark which varies by capital city and by region. Where a charity provides rental housing under the ATO benchmark rent, it is regarded as a GST free supply.
housing, rental revenue based on the income profile of different types of households, specification of
the operating costs of community housing and an examination of the conditions under which and the
extent to which a community housing provider can support different types of private sector capital
finance.

(2) Implications of private sector investment for community housing

The search for private sector sources of capital funds poses major challenges for community
housing providers and the community housing sector as a whole. The National Community Housing
Forum (NCHF, 2000a, 2000b) and McNelis (1999) have highlighted areas which will need to be
addressed. We can look at these under two headings:

Implications for community housing providers; and

Implications for community housing infrastructure.

Implications for community housing providers

The development of new funding models brings with it a higher level of risk. These risks are higher
because on the nature of private sector finance, the higher ongoing costs of providing housing and
the uncertainties of rental revenue based on affordable rents. The NCHF (2000c) and McNelis
(1999) note that community housing providers will need to ensure that they have the capacity to
manage these risks if they are to attract private investors. They will require higher levels of skills and
will need to demonstrate:

Experienced governance;
Management expertise;
Healthy balance sheet;
Effective business planning and financial control; and
Good property and tenancy management systems.

Implications for community housing infrastructure

Community housing infrastructure are those structures and organisations (with specific roles) which
support and sustain the various functions of a community housing providers.

The NCHF (2000c: 13) outlines a number of structures which will need to be put in place in order to
support the expanded use of private finance in community housing. These include:

Commonwealth policy framework for the use of private finance in community housing;
State government regulatory frameworks that determine the standards of service and
standards of management required for accreditation as a community housing provider;
State government policies on asset management and title – where title is held by a community
housing provider it may be used to secure loans from the private sector investors;
State government programs that support private finance;
Vehicles to hold and manage assets;
Vehicles to raise funds;
Industry data and information systems that will provide business data; and
Good practice units and resources.

While the development of community housing infrastructure is not a particular focus of this project, the financial product and vehicle proposed for retail investors will have some implications for this infrastructure and these will be outlined in the final report.

1.9 Social housing investment products and vehicles

Private sector investment in social housing is not new. However, it has been limited and irregular. Until 1989 the Commonwealth provided concessional loans to the states. These were supported by Commonwealth bond-raising in the private sector. In the 1980s and 1990s SHAs and community housing organisations sought private sector investment primarily through debt finance. A limited number of one-off equity finance arrangements were also piloted.

In their review of existing research on financing community housing, Elton and Associates (1998: 15 ff.) categorise investment finance into two categories – debt and equity. Under these two categories, they outline six different types of financing options:

Debt options
1. Housing bonds; and
2. Mortgages.

Equity options
3. Housing company;
4. Property trust;
5. Headleasing; and
6. Equity partnerships.

We will examine each of these in turn. The literature has focused primarily on one particular form of housing bonds – real rate securities – and headleasing, and these form the main subject of our discussion.

(1) Debt options

Elton and Associates (1998) distinguish between two debt options: housing bonds and mortgages. Housing bonds are securities (providing income/capital growth over the term of the security) issued for the purpose of raising funds for investment in community housing. Mortgages, on the other hand, refer to arrangements where a community housing provider has borrowed funds and the lender secures these funds through a mortgage over the properties acquired with the funds. The Australian literature on housing bonds is extensive, with most SHAs issuing housing bonds as a way of
financing their owner-occupied housing schemes. Mortgages — where loans are secured by a mortgage over a specific dwelling — have been used by many community housing organisations as a way of funding new acquisitions.

**Housing bonds**

There is a long history of discussion about the appropriateness of real rate securities as a way of raising capital funds for rental housing.

Until the 1989 CSHA, the Commonwealth government (and some state governments) provided loan funds (usually at concessional rates over long periods, either directly through the CSHA or through the Loan Council) to SHAs. In the mid-1980s the SHAs began to explore the potential of raising off-budget funds for both owner-occupied housing and for rental housing purposes. In 1986 both the CSHA Task Force on Off-Budget Borrowing and the National Working Party on Private and Community Rental Housing recommended that states raise ‘capital indexed securities for on-lending to non-profit and community rental housing projects and for use in joint ventures in rental accommodation’ (National Working Party on Private and Community Rental Housing 1986: 11). The critical issues identified by these reports were:

- Whether capital funds could be raised off-budget, i.e. outside the restrictions of the global borrowing limits set by Loan Council;
- Whether the securities would be raised by the Commonwealth, the states, the private sector or community groups;
- The taxation arrangements that would apply, in particular, whether the indexed component of a capital indexed security would be taxable and whether it would be taxable annually; and
- Subsidy arrangements that would need to be put in place where the target group for the housing was low income households.

Importantly, the Task Force noted the states’ conclusion that ‘loans at 4.5 per cent per annum (the current rate under the nomination arrangements [through the CSHA]) is the most costly money that they can reasonably afford to apply directly for public rental’ (p. 2). It also explored other options including headleasing, nominal borrowings and joint ventures). Both reports noted that the strength of capital indexed securities was the way in which repayments could be linked with the flow and increases in rental payments, compared with credit foncier loans On this basis, the National Working Party (1986: 58) concluded that alternative solutions such as headleasing, nominal borrowings and joint ventures were more expensive options.

At the same time, in response to the de-regulation of the financial system in the early 1980s, Carter (1987) argued that the public sector had a key role in the development and marketing of capital indexed loans for owner-occupiers. Carter examined the major barriers to the introduction of this form of housing finance — possible cashflow problems for lending institutions, doubts about consumer acceptance and perceptions of high risk (p. 34) — and noted the potential use of inflation-adjusted mortgages for promoting non-profit rental housing. Subsequently, through FANMAC and the National Mortgage Market Corporation, both New South Wales and Victoria raised off-budget
funds for house purchases purposes. In Victoria these funds were also used by Common Equity Housing to acquire houses for Common Equity Rental Co-operatives.

In 1990 Housing Ministers established a national working party on housing finance. This explored housing finance for owner-purchasers and rental housing. Their report further developed the discussions of the mid-1990s, particularly identifying the taxation impediments to raising off-budget housing finance. It characterised the ideal funding instrument as follows:

The ideal funding instrument is one where:

- any possibility of a mismatch between dwelling appreciation and capital yield is eliminated, i.e. the capital debt owed exactly matches house price appreciation or capital insurance on mismatch risk) is available. In this structure housing authorities would only need to be considered with rental yield risk;

- above all, the instrument is a tradeable security, i.e. a 'bond' or a unit in a trust which could be bought and sold, i.e. it is liquid;

- the security is not redeemable (in order to eliminate refinancing risk);

- the instrument has a long notional term, i.e. 20 to 25 years;

- the instrument provides a 'pass through' facility, at least after a maximum of 5 years, i.e. when dwellings are sold the capital can be repaid from sale proceeds of the dwellings so no reinvestment risk is present (similar to current FANMAC bonds);

- the structure can access at least CGT indexation (worth between 1.5% and 2.7% of yield price according to the tax rate of investors);

- a range of wholesale finance institutions can invest (not limited only to Superannuation Funds);

- State Housing Authorities can manage the stock without prejudicing the tax position (National Working Party on Housing Finance 1990: 19 ff.).

In the early 1990s, the issue of real rate securities and off-budget borrowing by SHAs was raised again when the National Housing Strategy (1991b: 65 ff., 71 ff.) argued for the development of new instruments for financing social housing. Equity bonds would be issued as real rate fully tax-exempt bonds. As real rate bonds, their value would be linked with changes in house values. With no tax being paid on the real return or on any capital gain, equity bonds could provide low income renters with access to housing on the same terms and conditions as high income renters and owner-occupiers. They would provide the same tax characteristics as those available through more complex arrangements such as property trusts and partnership arrangements, but without the high administrative costs of setting up such arrangements. Equity bonds are a simple, transparent and flexible mechanism whereby both institutional and retail investors could invest in social housing. They are extensively used in Denmark and various states in the United States (See references in National Housing Strategy 1991b; 55f).

6 See Section 2.4 below for a discussion of these taxation impediments.
Following the NHS proposal for equity bonds, the Commonwealth and the state governments of New South Wales, Victoria and South Australia appointed a group of consultants comprising Caversham Partners Ltd, Mallesons Stephen Jaques and TPF&C to ‘Develop an appropriate, efficient, viable and practical structure and instruments to finance social rental housing’. They were requested to recommend a vehicle that would be off-budget and cost effective, yet enable SHAs to retain control of the dwellings (Caversham Partners Ltd et al. 1991: 7). The Caversham report analysed eight different structures/instruments as follows:

- Direct investment – partnership;
- Direct investment – pooled superannuation trust;
- Direct investment – company;
- Issue of capital and income units from a trust;
- Issue of capital indexed bonds;
- Issue of capital indexed bonds with housing index;
- Issue of inflation indexed bonds/indexed annuities; and
- Nominal instruments – bullet bonds, low coupon nominal bonds, escalating annuity bonds.

The first three involve equity investment by institutional investors in different types of structures - a joint venture partnership (with a SHA), a pooled superannuation trust or a company. The remaining five do not involve a direct relationship or stake but rather financial investments in different types of instruments.

The critical issues examined in the report included:

- Risk associated with various structures/instruments;
- Associated income tax issues;
- Pricing, cost and subsidy of various structures/instruments;
- Potential alternative issuers of bonds in particular the development of single national issuer;
- Investor requirements; and
- The market for real rate securities.

Reinforcing previous work, including the NHS proposal, the Caversham report (p. 3) recommended that the ‘cheapest, most efficient way of funding SRH social rental housing would be to have a single issuer issuing real rate securities that provide investors with CGT Indexation’. A single issuer could operate on a larger scale and thus achieve some economies.

This report provides a good overview of the views of institutional investors and of some ongoing taxation issues. Its weakness, however, is the inter-relationships between capital finance, ongoing costs, rental revenue and subsidies. Explanations of how these relate in the different structures/instruments and their different subsidy impacts is not documented.
Throughout this period (1980s and early 1990s), in the face of continuing resistance and even opposition from the Commonwealth, SHAs were looking to expand their rental housing acquisitions by accessing new sources of funds. Real rate securities were proposed, because of high and fluctuating inflation and interest rates. This was further accentuated by the boom in house prices of the late 1980s followed by the bust of the early 1990s. This contrasts with the current context of low inflation, low interest rates and relatively high house price inflation, particularly in the major capital cities.

The economic and financial landscape has changed considerably since the Caversham report was completed. The importance of real rate securities has diminished in this current climate of low inflation.

In September 1999 the Commonwealth introduced new capital gains tax provisions which alter considerably the relative benefits accruing to equity investment rather than debt. In July 2000 the New Taxation System was introduced, with a Goods and Services Tax and reduced personal income tax rates. The implications for retail investors will need to be explored in this project.

**Mortgages**

Many community housing organisations have borrowed a proportion of capital funds from private or public sector investors and combine these borrowings with grant or interest-free CSHA funds from state government. These borrowings have been secured by a mortgage on dwellings. Different community housing organisations have used different sources and forms of debt finance.

For example, Common Equity Housing Ltd (CEHL) in Victoria borrowed 35-40% of capital funds to acquire dwellings for lease to Common Equity Rental Co-operatives (CERCs). Rent paid by CERCs to CEHL is used primarily for debt repayment and is subsidised by the Victorian Office of Housing. CEHL has used various forms of debt finance, including credit foncier nominal interest loans from banks, inflation indexed loans and fixed interest loans from the Home Opportunity Loans Scheme (HOLS). The Victorian government raised funds for HOLS by issuing various types of housing bonds through the National Mortgage Market Corporation. These funds were then on-lent to CEHL on a dwelling by dwelling basis and secured through a mortgage on each dwelling. Another example of community housing providers using mortgages is the Perth Inner City Housing Association (Elton and Associates 1998: 17).

(2) **Headleasing**

‘A headlease is simply a lease between an owner of a property and an agency which intends to sublet to an individual tenant’ (Ecumenical Housing 1995: 45). Generally, a headlease makes the agency responsible for all aspects of managing both tenancies and properties. In Australia, the community housing sector has made extensive use of headleasing arrangements with private investors (usually retail investors). In addition, there is extensive literature on the subject (see references discussed below). Headleasing can take various forms. It can involve leasing new or existing stock from the private sector. It can involve complex leaseback arrangements whereby a
SHA may provide the land on which dwellings are constructed, provide loan funds to the private developer, agree to purchase at the end of the lease period or take an option to purchase.

The CSHA Task Force on Off-Budget Borrowing (1986) examined headleasing but, on the basis of the experience of some states, noted that the short-term gains were offset by longer-term costs. It also noted two drawbacks. Depending upon the arrangements, some schemes were deemed to be within the Global Borrowing Limit of the Loan Council. In addition, the provisions of the Income Tax Assessment Act disallowed depreciation allowances on dwellings leased to an SHA.

In 1996 the Australian Housing Research Fund and the NSW Department of Urban Affairs and Planning appointed Coopers and Lybrand to ‘scope the sources, costs and implications to government of increasing the supply of public housing through headleasing’ (Coopers and Lybrand 1996b: 12). The report developed a conceptual model which compared the costs and risks of headleasing with the alternative option of debt financing. Its major focus was on institutional investors.

The Victorian Women’s Housing Association (1998) has also undertaken an investigation of an ethical headleasing investment scheme, outlining both the opportunities and the obstacles. Their investigations considered a range of private sector investors but their preferred investment option was a large financial institution to underwrite the establishment and operation of the scheme (p. 51).

Both of these reports sought to interest investors in a scheme of leasing dwellings to a social housing provider. However, the need for schemes which require a lower level of investment has also been recognised (NCHF 2000c: 9; McNelis 1999: 36). Both these sources have pointed to the potential of rental property trusts as vehicles for raising funds from small investors.

Ecumenical Housing (1995) and the Victorian Women’s Housing Association (1998) both reviewed a range of current headleasing practices, focusing on the following models.

**Community headleasing model (private sector)**

A community housing organisation leases dwellings from the private sector and sub-leases them to low income tenants at affordable rents. An example of this is the Community Tenancy Scheme in New south Wales. The organisation receives an operating subsidy from the NSW Office of Community Housing to cover the difference between the rent paid to the landlord and the rent paid by the tenant, to manage the scheme and to cover other costs such as bad debts, vacancies and tenant-caused damage.

**Community headleasing model (public sector)**

A community housing organisation leases dwellings from the SHA. The organisation manages the dwellings and sub-leases them to low income tenants. Most of these type of models operate in Victoria. An example of this is the Rooming House Program and the Rental Housing Co-operative Program which lease dwellings from the Victorian Office of Housing.
**Defence Housing Authority headleasing scheme**

In the 1990s the Defence Housing Authority (DHA) initiated a headleasing scheme targeted at small landlords. Under the scheme, the DHA leased dwellings from private landlords for 10 years, providing them with a guaranteed income stream (linked to CPI). The DHA managed the dwelling, including maintenance and sub-leased dwellings to defence personnel. In a later adaptation of the scheme, the DHA sought investors to purchase specific dwellings for lease to DHA. Again this scheme was particularly targeted at retail investors interested in or already investing in the private rental sector.

**(3) Joint ventures**

**Public equity partnerships**

In the early 1990s, the NSW Department of Housing entered into two public equity partnership arrangements with the AMP Society. AMP agreed to purchase dwellings to the value of $200m (approximately 1,500 dwellings) and lease them to the Department for up to 20 years. The Department managed these dwellings and sub-leased them to public housing tenants. When dwellings become vacant after 7 years, AMP has the option to sell or to re-let to private tenants. The arrangement ensured that the value of AMP investment is maintained in real terms, along with a guaranteed 4% real rate of return. In addition, any real capital gains on disposal are split between the AMP and the Department.

**Joint venture developments**

In a number of states, SHAs or local governments have entered into joint venture developments with the private sector. These have only been concerned with the development or redevelopment of housing stock. A broad range of arrangements are possible. Typically, the private sector provides the capital funds for project development. Some such as Garden Grove (South Australia) involve the sale of public housing to a developer and an agreement to purchase back a similar number of units at the completion of the project, while others involve the division of dwellings and/or land among the partners.

One local government example is where the City of Port Phillip (Victoria) entered into a partnership with a private sector firm to develop a former council depot site. At the conclusion of the development phase, the City will own a number of dwellings. In addition, other social housing providers will have an opportunity to acquire dwellings.

In these arrangement, the social housing provider is responsible for finding capital funds for their own dwellings.
Community housing joint ventures

In the model, capital funds are provided by the state government (utilising CSHA funds) and by the joint venture partner (usually in the form of land but also in cash). Neither partner requires a rate of return. State governments have entered into joint ventures with different types of social investor partners: local government, churches, service clubs, welfare agencies and community groups.

This model can be targeted at tenants whose sole source of income is a Centrelink pension or allowance. Where the joint venture partner is the owner/manager of the dwelling(s), then community housing tenants are eligible for rent assistance. However, ownership of the dwellings also brings with it a responsibility for meeting ongoing costs. An additional cost in this model is that of depreciation. Generally, by increasing rents to reflect a tenant’s eligibility for rent assistance, rental revenue is sufficient to cover the additional cost of depreciation.

This model can be summarised as follows:
\[
C_p = E^F \text{ (public equity)} + E^F \text{ (social investor equity)}
\]
and
\[
RR \ (%I + RA) = OpC (A + M + R) + Dp
\]
where
I is based on full Centrelink pensions or allowances; and
RA is sufficient to meet the cost of depreciation.

(4) Rental property trusts

Despite considerable interest in rental property trusts as a vehicle for private investment in social housing, there has been very little analysis. In the social housing sector only one scheme appears to have got off the ground, but then foundered due to decisions by the Australian Taxation Office.

In 1988 the NSW Department of Housing developed a unit trust vehicle which they marketed to the public. This sold units to the public with a government guaranteed rate of return, and unit funds were used to purchase housing for lease to the Department. The NSW Rental Property Trust foundered on a decision by the Australian Taxation Office which considered a unit trust with a government guarantee akin to debt rather than equity. Thus, any capital gains were taxed at their nominal rate annually, rather than subject taxed as real realised capital gains.

(5) Housing companies

A number of organisations have used a company model to facilitate contributions towards the acquisition of dwellings. These contributions can come from residents, their families and sponsors in two main ways: through the company issuing shares to the value of the contribution, or through the company issuing debentures (a form of borrowings backed by the value of dwellings). One example is Singleton Equity Housing which was established in 1989 as a public company to provide housing to people with intellectual disabilities. It buys and manages properties using funds from people with disabilities, their families and sponsors. These contributions are in two forms: shares in the company, and redeemable preference shares (or debentures) linked to the value of a particular dwelling.
1.10 Taxation arrangements

Taxation arrangements are a constant theme running through much of the literature relating to private sector investment in social housing. Unfavourable rulings by the Taxation Commissioner have frustrated many attempts by SHAs to establish cost-effective schemes to finance social housing. The alternative has been to resort to complex and expensive structures.

In attempting to develop a financial product and organisational structure for raising private sector funds for community housing, the literature refers to a range of taxation issues. Both the National Working Party on Housing Finance (1990: Appendix E) and the Caversham report (1991: Section 2.8 and Appendix 3.3) extensively canvas these issues:

- Different types of investors are subject to different tax treatments, e.g. superannuation funds are taxed at 15% while other financial institutions are taxed at a higher rate; some investors are not permitted to negatively gear while others can;

- Different types of instruments can be variously classified as debt or equity – with debt instruments, no significant taxation deductions are available. For example, under Income Tax Ruling 2512, the Taxation Commissioner has suggested that if an equity investment is structured to produce a fixed rate of return it will be taxed as debt. Subsequently, this instrument could access neither CGT indexation nor depreciation;

- If an instrument such as an indexed housing bond is classified as a debt instrument, it is assessed for taxation purposes according to the nominal interest rate rather than the real interest rate. Thus, even though part of the return is capitalised, an investor will be taxed on the basis of both the cash received and the amount capitalised;

- Where SHAs provide credit support to ensure minimum returns to investors, these instruments are treated as debt; and

- SHAs have been unable to directly manage equity investments of private parties without taxation penalties applying under Section 16D of the 1936 Income Tax Assessment Act.

Taxation is a major issue for the development of a suitable financial product and an organisational structure. Private investors are unwilling to take the risk unless the taxation status and tax benefits of a particular product are clear from the outset. Further, the current interpretation by the Taxation Commissioner of some instruments to raise finance for housing is unnecessarily complicating their nature and adding to their cost (National Working Party on Housing Finance 1990: 21; National Housing Strategy 1991b: 64 ff.).

1.11 Key findings and future directions

This review of the current state of play highlights both the extent of previous experience in private sector investment in community housing and the issues that this project will need to explore and address if it is to develop an effective financial product and investment vehicle for retail investment in community housing.
The key findings of the state of play and the subsequent future directions this project will need to take can be summarised under the four headings of the conceptual framework outlined in Diagram 1 of Section 1.6:

Retail investors;
Financial products and investment vehicles;
Parameters for community housing providers; and
Government support.

Retail investors

The current experience and literature on financing social housing through private sector investment has focused predominately on one class of investor, viz. institutional investors. The characteristics and expectations of this group have been extensively explored. In addition, some work has been undertaken on a financial product for social investors. However, little work has been undertaken on the specific characteristics and expectations of retail investors and the potential for this group to invest in community housing. Furthermore, it has predominantly involved one particular financial product – headleasing of dwellings – an option which requires a high initial level of investment. Thus this project will need to explore the characteristics and expectations of retail investors as distinct from institutional investors.

Financial products and investment vehicles

The review has highlighted a range of financial products and investment vehicles through which funds have been raised or proposed to be raised. These have been developed primarily for institutional investors. They provide an initial starting point for considering those which may be appropriate for retail investors.

On the basis of this experience, the most promising vehicles appear to be some form of housing bond or a rental property trust. Whether these are the most appropriate products for retail investors requires further investigation.

Initially, this project will need to explore the appropriateness of housing bonds and a rental property trust as vehicles for retail investors. Then it will need to extend beyond this to explore other possible financial products which are appropriate for retail investors and meet the parameters of community housing providers for private investment.

Parameters for community housing providers

The review highlights the implications of private investment for community housing providers, particularly in regard to financial viability and management.
SHAs and community housing providers have relied primarily on the CSHA as a source of capital funds for housing acquisition. Their financial models utilise free equity through the CSHA, thus minimising the long-term ongoing costs of providing housing, ensuring the financial viability of housing providers.

Newer social housing finance models differ from this model by utilising different sources of capital funds, in particular, equity from social investors, equity from private investors and loans. This has implications for ongoing costs which will increase due to the requirements to repay loans or provide a rate of return to investors.

Higher ongoing costs will require a higher rental revenue stream which can be achieved by increasing the proportion of tenants’ income spent on rent (and compromising the affordability goal and the principle of after-housing equity with public tenants) or by targeting those on higher incomes. However, rents could not be increased above market rents. These issues need further exploration to provide a background for the development of an appropriate financial product and investment vehicle.

Private sector investment will have implications for the way that community housing is managed. Providers will be required to give much greater emphasis to prudential standards, financial controls and risk management, as well as provide formal accountability in regard to service quality. The project will need to pay attention to the standards expected by retail investors and investment professionals, and the methods of performance monitoring which provide assurance of these standards.

Private sector investment will also have implications for community housing infrastructure. The Australian sources of capital funds and the role of CSHA funds differ considerably from overseas where the role of the private sector, particularly debt finance, is well entrenched and supported by a sophisticated infrastructure. The literature points to the key role that government must play in the successful development of infrastructure to support the raising of capital funds from the private sector.

The project will examine what community housing infrastructure needs to be put in place to support a financial product and an investment vehicle in the Australian context, and which level of government should take the initiative.

**Government support**

This review has revealed that taxation arrangements are critical to the success of financial products through which private sector investment can be raised for social housing. The development of many innovative products has foundered upon the provisions of Commonwealth Taxation Acts and decisions about their tax status.
SHAs and community housing providers have piloted a broad range of approaches to private sector investment in social housing. Few of these pilots have moved beyond this stage to become mainstream funding arrangements. They have largely relied upon CSHA funds to provide operating subsidies to ensure adequate returns to private investors.

It should also be noted that the context within which much of the previous work on financial products for investment in social housing has been undertaken is quite different from the current context. Any assessment today will have to take into account low inflation, low nominal interest rates, low levels of state and Commonwealth government debt, and state and Commonwealth government budget surpluses.

This project will also need to take into account the different contexts for financial products, the impacts of current taxation arrangements, and the possible role of both Commonwealth and state governments in supporting these products through subsidies such as rent assistance, operating subsidies and taxation concessions.
APPENDIX REVISED TIMELINE

This report forms part of what was initially conceived as a four part project consisting of a literature review, the development of a framework, the development of a product and a final report. This paper represents the literature review as well as part of the framework development. The tasks that remain are to flesh out the framework by exploring housing market data on prices and rents, and identifying potentially new sources of government support. When this is complete, we will produce a progress report to be used as the basis of discussions with interested parties and to inform a seminar to be held during July. The final report will be completed during August.

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