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Private sector involvement in social and affordable housing

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The logo for AHURi features a red curved line above the text 'AHURi'. The 'i' is lowercase and has a red dot. The text is in a bold, sans-serif font.

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—Executive Summary

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Executive summary

Key points

- Increasingly, a combination of government, not-for-profit, and for-profit organisations are involved in financing, developing and managing specialist, social, and affordable housing. The private sector appetite for such partnerships has never been stronger, reflecting increased corporate governance and shareholder expectations for investments and projects that deliver social and environmental outcomes.
- Maximising these opportunities to increase new social and affordable housing supply through increased private involvement will require strong policy setting and regulation, efficient procurement processes, and adequate and ongoing ‘gap’ subsidy from government, particularly to serve those in highest need.
- Models should emphasise collaboration and partnership across the public, community, and private sectors, to build capacity throughout the housing industry. This collaboration should be guided by rigorous Australian Government, state and territory government and local government housing strategies. These strategies should identify long term demand for specialist, social, affordable and market housing and articulate clear delivery targets by market segment. These strategies must be underpinned by firm funding commitments and viable delivery mechanisms.
- Wider benefits associated with private sector participation in social and affordable housing include: the opportunity to support skills and capacity building across the housing industry; improved environmental outcomes in residential housing stock, including social and affordable housing; and local employment and training opportunities.

This project investigates the potential for wider private sector involvement to increase the supply of social and affordable housing in Australia. This research draws on the insights of industry leaders and sector experts through a series of Investigative Panels and case studies, as well as a review of the international evidence. This research asks whether and how increased private sector involvement could augment social and affordable housing delivery efforts, increasing housing industry capacity across private not-for-profit and for-profit sectors.

In this study we use the term private sector to refer to all non-government and non-public entities. This includes both for-profit and not-for-profit housing providers. For the purposes of the research, the community housing sector is deemed to be part of the private sector.

Key findings

Reflecting longer term social and economic policy reforms, social and affordable housing is increasingly financed, developed and managed by a combination of government, community-based and market providers. This reflects increasing 'hybridity' across the housing system, whereby community or not-for-profit housing providers have shifted towards more quasi commercial practices to increase and cross-subsidise their operations (Blessing 2012; Mullins, Milligan et al. 2018).

Similarly, some for-profit firms and social enterprises have sought to produce or deliver social or affordable housing, while investors are increasingly valuing Environmental, Social and Governance (ESG) goals and demonstrable corporate social responsibility in business (van Bortel and Gruis 2019).

The documented need for 36,000 new social and affordable homes per year to meet the forecast demand to 2036 (Lawson, Pawson et al. 2018) is so great that it is clear this 'hybridity' of the housing system and cross-sector partnerships are essential; no one sector can address the need alone.

In the United Kingdom (UK), private investment in social and affordable housing dwarfs government grant funding by a factor of three to one (Williams, Williamson et al. 2020). Savills UK estimates that the combination of debt finance, government grant, and planning contributions (under s106) is sufficient to fund delivery of around 190,000 new affordable rental dwellings and 60,000 shared ownership dwellings between 2021–26 (UK 2021). In the United States (US), over one million affordable rental units have been financed by private investors incentivised by the longstanding low-income housing tax credit scheme, including over 100,000 new dwellings in 2020 alone (US Housing and Urban Development 2021).

Existing initiatives in Australia

While more modest in scope, Australian governments have also sought to encourage private involvement in affordable rental supply and have entered into a variety of partnerships and joint ventures predominantly at the state level to renew or develop new social and mixed tenure housing. The establishment of the National Housing Finance and Investment Corporation (NHIFIC) Bond Aggregator in 2019 was a major Australian Government initiative to raise low-cost debt finance for community housing providers.

In the wake of COVID-19, state and territory governments have committed significant new funding and initiatives to construct additional social and affordable housing units. These include commitments to deliver over 75,000 new social and affordable housing dwellings.

Further, community and Aboriginal housing organisations are working with private partners to deliver mixed income projects which cross subsidise social and affordable homes, while also achieving wider benefits of employment, education and community engagement.

Despite these initiatives, Australia's well documented shortage of affordable housing will persist without enduring government equity co-investment programs (Lawson, Pawson et al. 2018). These programs are needed to provide the final gap funding so construction of affordable developments by either not-for-profit or for-profit private sectors is financially feasible.

Expert perspectives

A series of Investigative Panels and interviews with 45 experts across housing, finance, development and policy sectors revealed strong appetite for affordable housing partnerships, reflecting an increasing focus by boards and shareholders on projects that deliver social and environmental outcomes. Private for-profit participants demonstrated a high level of familiarity and investment of time in understanding the sector, forming partnerships with community housing organisations, and indeed tendering for and delivering social and affordable housing. Other key findings included:

- Participants emphasised that affordable housing for low-income earners will always require some government subsidy, capital contribution, access to government land and or an inclusionary planning mechanism. Dwellings that house the highest needs clients require the deepest subsidy.
- However, when considered across the continuum of housing need, some products (such as those targeting moderate-income earners) require lower levels of government subsidy because they are able to pay more for their housing. Consequently, participants identified significant potential for private investment in affordable housing for key workers.
- Institutional investors suggested that if the Australian Government and state and territory governments funded social housing in the same way as other infrastructure—by setting targets and providing ongoing subsidies or availability payments—it would unlock a significant capital market of investment to meet long term demand.
- Developers broadly recognised the need for mandatory inclusionary zoning (with mandatory requirements seen to create a ‘level playing field’ and to enable requirements to be factored into land costs), on the proviso that it is phased in over several years to not financially disadvantage projects on sites already owned, and ideally with incentives such as density bonuses.
- Developers and policy leaders see mixed tenure projects, including the redevelopment of public housing estates, as opportunities for increasing social and affordable housing supply through private involvement.
- Industry participants see the community housing sector as an essential partner in all mixed tenure projects, though community housing developers noted reluctance to take disproportionate risk on market-rate housing used to cross-subsidise affordable housing.
- All participants spoke of delays in government procurement processes and planning approval uncertainties, which increase costs in both risk premiums and holding costs for mixed tenure and affordable housing projects. Further, participants cautioned that ongoing government support to grow the community housing sector will be important if they are to partner effectively in mixed tenure developments at scale.
- Overall, participants reported that repeated changes in government policies and programs and a lack of continuity across political and bureaucratic leadership undermine opportunities to expand social and affordable housing through private sector involvement. The lack of a stable national program of ‘gap’ funding to complete feasibility on social and affordable housing projects holds supply back; finite state and territory programs cannot provide the scale required for large scale institutional investment. They emphasised that certainty is essential for investor confidence, across all regulatory and program settings. Program permanence rather than finite, closed-ended initiatives would encourage participation.
- Participants across all of the investigative panel meetings and interviews identified wider benefits that may arise from private sector participation in social and affordable housing. These benefits include: the opportunity to support skills and capacity building across the housing industry; improved environmental outcomes in residential housing stock, including social and affordable housing; and local employment and training opportunities.

However, policy leaders cautioned that private involvement in the social and affordable housing sector raises potential reputational, operational and financial risks to government which need to be adequately managed. They advised that reputational risks to government – for instance, poor social housing construction built under the Nation Building Economic Stimulus Plan from 2009 following the global financial crisis – can be mitigated by strong due diligence in tendering and project oversight. Financial risks to government can be partially mitigated through the use of long term ground leases in Public Private Partnership (PPP) rather than the transfer of assets to private partners.

Policy development options

This study highlighted that a range of established and emerging affordable housing product types across the continuum of housing need can be supported through collaboration with private not-for-profit and for-profit partners. These depend on different combinations of government subsidy, policy settings, and regulation, and are suitable for delivery across a variety of different development contexts.

Table 1: Typology of affordable housing product types and potential private sector involvement

Product	Government subsidy, policy or regulation	Development contexts	Potential private for-profit sector role	Potential private not-for-profit sector role
Specialist housing (including crisis, disability, youth, Indigenous, senior housing)	<ul style="list-style-type: none"> • Capital grant • Operating/service/rental subsidy • Land lease or transfer • National Regulatory System for Community Housing (NRSCH) 	<ul style="list-style-type: none"> • Varied 	<ul style="list-style-type: none"> • Institutional investment of equity • Construction or operating debt • Development management • Ownership 	<ul style="list-style-type: none"> • Development • Ownership • Property and tenancy management
Social housing (managed by CHO)	<ul style="list-style-type: none"> • Capital grant • Operating/service/ rental subsidy • Government backed bonds • Land lease or transfer • Inclusionary planning requirement / incentive • NRSCH 	<ul style="list-style-type: none"> • Urban (often estate) renewal; mix of inner, middle, outer and regional locations 	<ul style="list-style-type: none"> • Institutional investment/ Finance • Development/ Construction • Sale of private market housing in mixed tenure projects 	<ul style="list-style-type: none"> • Development • Ownership • Property and tenancy management
Affordable rental (income based rent) (managed by CHO or private landlord)	<ul style="list-style-type: none"> • Some capital funding/ operating/service/rental subsidy required; affordability may be time limited • Rental subsidy (eligible households) • Government backed bonds • Land lease or transfer • Inclusionary planning requirement / incentive • NRSCH 	<ul style="list-style-type: none"> • Urban renewal/ infill (higher value metropolitan markets) 	<ul style="list-style-type: none"> • Institutional investment/ Finance • Development/ Construction Ownership • Property and Tenancy Management • Sale of private market housing in mixed tenure projects 	<ul style="list-style-type: none"> • Development • Ownership • Property and Tenancy Management
Below market rental (e.g. key worker 'build to rent', 'boarding houses', student accommodation)	<ul style="list-style-type: none"> • Tax subsidy/concession • Land lease • Planning concession/ incentive • Regulation may be required to manage access/ affordability for target groups 	<ul style="list-style-type: none"> • Urban renewal/ infill 	<ul style="list-style-type: none"> • Institutional investment/ Finance • Development/ Construction Ownership • Property and Tenancy Management 	<ul style="list-style-type: none"> • Development • Ownership • Property and Tenancy Management
Low-cost home ownership (including shared equity, build to rent to buy)	<ul style="list-style-type: none"> • Home owner grants • Government loan and shared equity schemes • Planning requirements or incentives • Regulation may be required to manage access/ affordability for target groups 	<ul style="list-style-type: none"> • Greenfield or redevelopment projects 	<ul style="list-style-type: none"> • Finance • Development/ construction • Property and Tenancy Management • Market housing sales 	<ul style="list-style-type: none"> • Tenancy Allocation/ Management

Source: Authors.

To realise these opportunities, strategic leadership from all levels of government is needed. A national housing strategy set by the Australian Government and implemented through state, territory and local government commitments is needed to address long term demand for housing across all market segments, including crisis, specialist, social, affordable rental, affordable purchase and private market housing.

Underpinned by robust analysis comparing future housing demand to current supply by market segment and typology, location and timeframe, these strategies should inform funding and specific commitments to be delivered by each level of government.

Table 2: Stages and activities for each level of government to expand social and affordable housing supply through increased private sector engagement

Stage	Level of government	Activity
Housing strategy	Australian, state and territory, and local	Understand future demand across housing market segments, current supply and gap analysis of housing need, which type, where
Housing targets	Australian, state and territory, and local	Quantify and set targets of new homes by market segment, including crisis, social and affordable housing, to meet forecast demand, by housing type, location and timeframe
Gap subsidy program	Australian, state and territory	Quantify finance required and design efficient allocation of ongoing gap subsidy program to leverage private participation by market segment e.g. crisis, social and affordable housing. Gap finance could be formulated as capital grant, tax concession, or recurrent subsidy
Outcomes	Australian, state and territory	Define social, economical, environmental, and other benefits sought, define measures, targets and reporting frameworks e.g. local employment, climate resilient design
Budgets	Australian, state and territory, and local	Commit funding to ongoing gap subsidy supplemented by annual targeted budgets to engage private sector in contributing to delivery of housing targets across market segments
Policies and programs	Australian, state and territory, and local	Implement clear, consistent policies and programs to engage private sector in contributing to delivery of housing targets across market segments
Procurement	Australian, state and territory	Implement clear, consistent procurement to competitively and efficiently award resources to the private and CHO sectors
Regulatory systems	Australian, state and territory	Implement principles-based regulatory system to monitor and control quality of providers and housing
Risk and performance	Australian, state and territory, and local	Gather and analyse data through regular reporting to manage risks, inform continual improvement and evidence based models

Source: Authors.

Clear, consistent procurement processes should be implemented by each level of government for their respective programs to competitively and efficiently award resources to the private sector and Community Housing Organisation (CHO) sectors to deliver this housing, working in partnership.

Finally, regulatory systems should be refined or established to measure, monitor and control achievement of these targets and the quality of providers and housing. Ideally this should be on a national basis for consistency. However, all levels of government should collect and report data at the appropriate scale to monitor progress against targets, manage risks and inform continual improvement.

Risks and benefits of private involvement in the social and affordable sector

In sum, the research findings suggest that involving the private sector does not necessarily lead to increased social or affordable housing supply and in some cases may lead to poorer outcomes for residents and communities. However, when programs are carefully designed and risks mitigated through stringent regulation and oversight, private involvement can:

- extend public subsidy and resources, by leveraging access to additional sources of capital and land
- assist in cross-subsidising the provision of housing for those on very low and low-incomes
- support innovation in the design and delivery of new housing products and the mix of market segments served
- contribute to capacity building within the not-for-profit social and affordable housing sector and the housing industry more widely
- help stabilise rates of new housing production, enabling construction to respond better to shifts in demographic demand (such as population growth and change, unmet housing need), rather than peaks and troughs in the market cycle.

The study

This project investigated existing and potential approaches for increasing social and affordable housing supply through greater private sector involvement in financing, developing and delivering new supply. Using a mixed methods approach to address these issues, the project aimed to:

- Learn from established and emerging models for engaging private sector investors and developers in financing or delivering social and affordable housing, across different market segments and tenures in Australia and internationally
- Assess the appetite for new and deeper private sector participation in Australia's affordable housing industry, particularly in the light of COVID-19
- Identify key existing and potential players, and financial, regulatory, or development barriers to wider participation
- Define which strategies for private sector participation maximise social and affordable housing supply, build industry capacity, and foster emerging markets, having regard to the range of different industry participants, housing products and market contexts in Australia.

The research was carried out in four phases. We first reviewed the national and international research evidence on private sector involvement in social and affordable housing provision. This analysis was used to develop a typology of affordable housing products relevant to private sector participation in Australia.

In the second phase of the research, private sector appetite to engage in social and affordable housing, models for engagement, and challenges for scaling up involvement were examined. This included Investigative Panels and interviews with 45 experts from the finance, development, community housing and policy sectors.

Drawing on the panel deliberations and the typology of affordable housing products identified in phase one, we next undertook five case studies to explore different models of private sector engagement in Australia in greater depth.

The final phase of the study developed a set of strategies for increasing social and affordable housing through increased private sector involvement in financing and developing new supply across a variety of market segments and contexts.

The research builds directly on a series of previous AHURI studies on financing and increasing affordable housing supply (Milligan, Yates et al. 2013; Milligan, Pawson et al. 2017; Gurran, Rowley et al. 2018; Lawson, Denham et al. 2019), including recent work on the private sector's capacity to support economic recovery in the wake of COVID-19 (Leishman, Aminpour et al. 2022). It updates and extends this work by drawing on the in depth and varied perspectives and knowledge of eminent experts across housing finance, development, management and policy from both the private and public sector. In doing so, this research contributes important and policy relevant insights into the opportunities, challenges, risks and mitigation strategies associated with expanding Australia's social and affordable housing supply through increased private sector involvement.

Grounded in, and informed by, the wider international research and policy literature on evolving hybridity in housing systems, this study also offers fresh empirical data on the changing roles and interdependencies between government, private not-for-profit, and private for-profit actors in the contemporary Australian housing context.



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