

Housing Boost Aggregator

Concurrent Session 12: Large-scale housing investment in Australia

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A NATIONAL PROBLEM: HOUSING NEEDS BY 2036

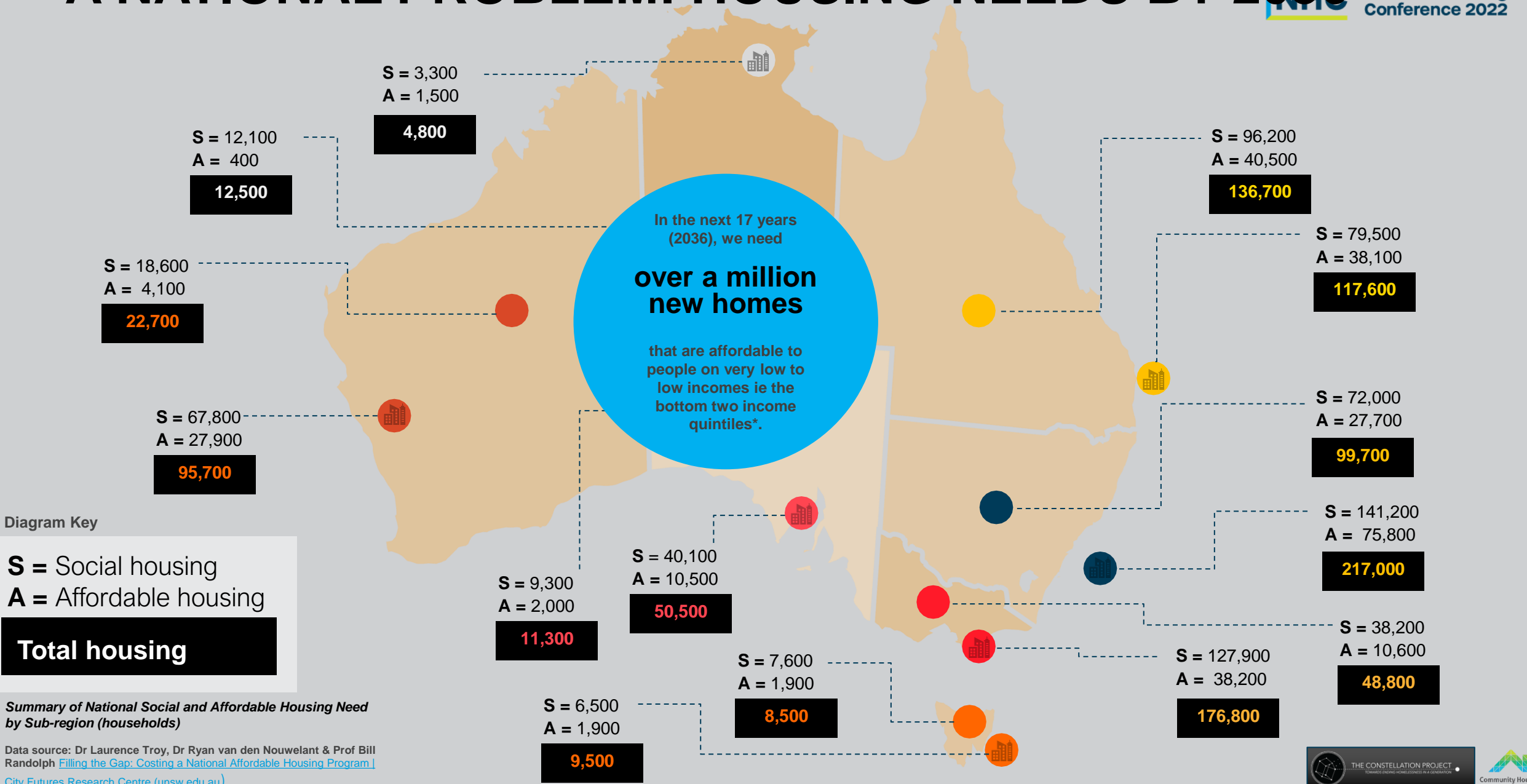


Diagram Key

S = Social housing
A = Affordable housing

Total housing

Summary of National Social and Affordable Housing Need by Sub-region (households)

Data source: Dr Laurence Troy, Dr Ryan van den Nouwelant & Prof Bill Randolph [Filling the Gap: Costing a National Affordable Housing Program](#) | [City Futures Research Centre \(unsw.edu.au\)](#)

A funding challenge

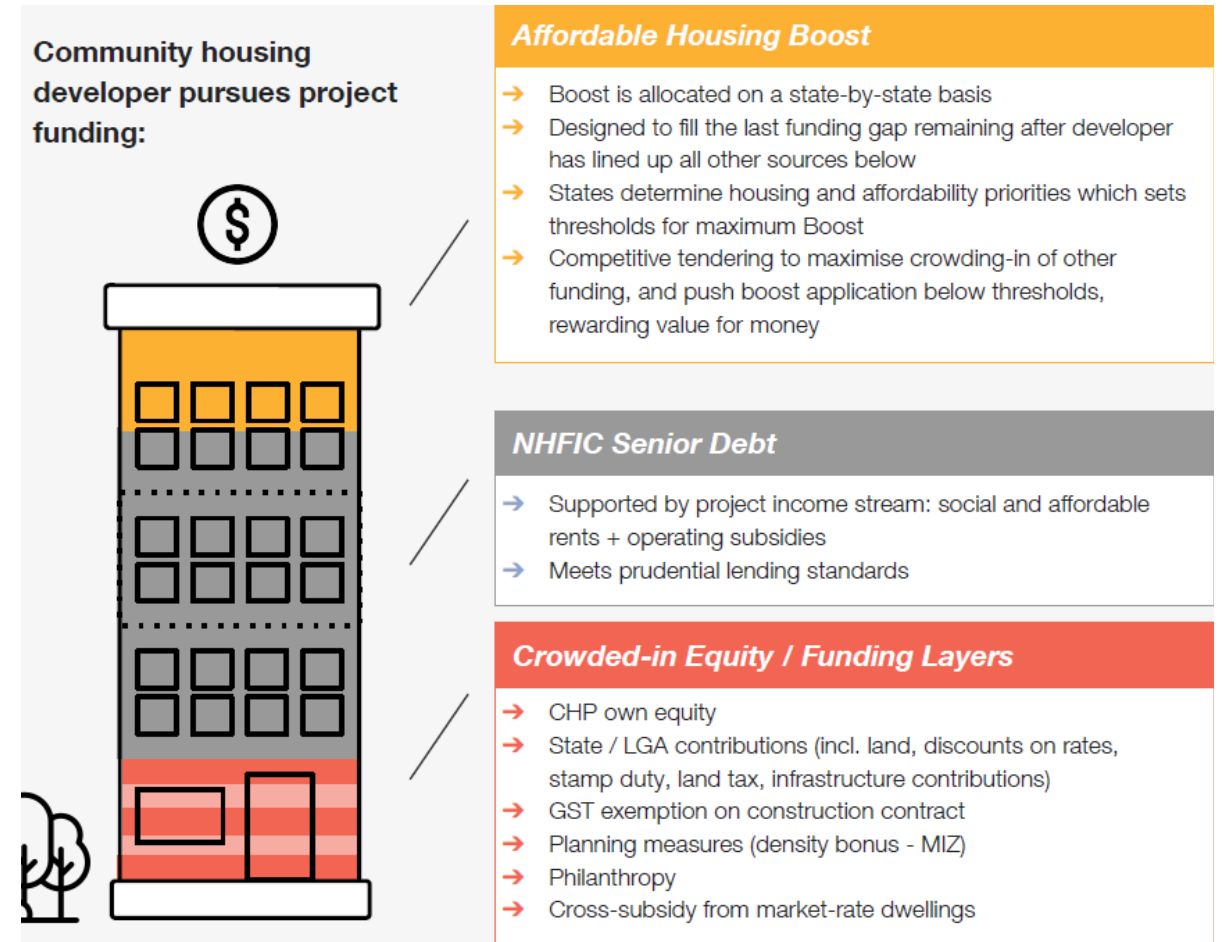
- Insufficient income and savings is a well known financing issue for many First Time Buyers.
- Similarly, Community Housing Organisations (CHOs) **struggle to raise the finance required to build and operate** new affordable housing developments.
- **The problem:** existing funds/revenue/ sources of finance don't completely stack. There is a **funding gap**.
- **Housing Boost Aggregator** is a solution that in approaching new developments separates out:
 - A. the **costs that CHOs can finance** based on rental income and other available funding:
from
 - B. the **costs they cannot borrow** to fund: 'the gap'.
- **A solution in two parts:**
 1. tax credit/**boost** subsidy (**Refundable Tax Offset**) targeting 'the gap' part.
 2. an aggregation mechanism to provide investment scale and support a diversity of **housing needs**.

Keywords - Scale, ongoing, vanilla, low risk, housing diversity.

Housing Boost Aggregator (Part 1)

The Boost Component

- Revenue from renting out social and affordable rental properties is not enough to fund the construction new affordable housing (grey layer).
 - Gap (30-60%); can be reduced through additional layers (pink), but not eliminated
- ➔ The Boost part of the solution targets only the layer that cannot otherwise be funded (orange).
- Process:
 1. CHOs identify funding gap, after crowding in existing other layers:
Don't substitute ➔ elevate!
 2. CHOs tender for Boost (Refundable Tax Offsets) to fill the funding gap:
Reverse auction, crowd-in, housing needs priorities, value for money.
 3. Successful CHOs receive a **flow** of 10 annual Boosts payments (RTOs) equal to 1/10th of the funding gap:
Annual payments include an additional return (≈4.5-6.5%, Treasury determined).



Housing Boost Aggregator (Part 2)

The Aggregation Component

- Tax credits of limited value to CHOs.
- The Aggregator component facilitates converting flows of Boost payments (Refundable Tax Offsets) from individual housing projects into upfront construction capital.
- Aggregator pools the total value of multiple individual project Boost flows into annual funds – some will be large, some small → total annual pool a policy setting.
- Super funds can purchase share of the total pooled value (=upfront equity), in return for receiving a proportional share of Boost flows (RTO) over 10 years.
- Example:
 1. In a given year: total pooled funding gap equal to \$500 million. (e.g. \$25 million+ \$100 million + \$375 million).
 2. Super fund A purchase 50% of total pool for \$250million.
 3. Super fund A receives annual allocation of Refundable Tax Offsets equal to \$25million (1/10th) p.a. **plus** an annual return, for 10 years.
 4. RTOs applied *after* annual tax position is established. In case of negative tax liability, RTOs provide for cash payment from ATO.



Housing Boost Aggregator outcomes

- › In order to qualify for Boost payments properties have to be let out at affordable to low-income households levels for at least 20 years.
 - › Investors receive payments over a 10 year period, but this can also be made more flexible.
 - › Some 70-90% of stock is debt free after 20 years and can be retained as ongoing affordable housing.
 - › Modelling based on crowding of additional sources. Some stock sold after 20 years to settle any outstanding debt.
 - › Monitoring of compliance based on a project basis – not individual dwellings.
 - › Enable flexibility in managing tenancies/tenant profile over 20-year period; provides additional tenure security for tenants.
 - › Mechanism ensures that housing needs determines the desired housing outcomes and locations determine the financial boost that is provided, rather than the financial boost conditioning the type of housing and locations that can be provided.
 - › Investor risk is separated from the operational risk (fluctuations in rental incomes/operational expenditure) – counter party is the Australian government.
 - › In calculating funding gap prudential lending standards / interest-coverage ratios etc are applied.
 - › Based on existing and long-time running mechanisms internationally. Tried and tested!
 - › Policy-wise: foregone revenue over providing direct subsidy.
 - › Draws on creditworthiness of the ATO (for potential institutional investors) rather than a social services line agency.
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3 key takeaways

1. **Housing Boost Aggregator** splits out the obstacle to financing new affordable housing construction, then targets this obstacle through a refundable tax offset/Boost subsidy that can be sold to investors to enable upfront construction capital.
 2. Housing Boost Aggregator ensures that housing need determines the desired housing outcomes and locations determine the financial boost that is provided, rather than the financial boost conditioning the type of housing and locations that can be provided.
 3. Low-risk investment (a lot of people need affordable housing!), separate from operational risk.
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Thank you



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