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# Private sector involvement in social and affordable housing

## Speaker

Richard Benedict, University of Sydney

## Respondent

Peter Johnston, Lighthouse Infrastructure

Amy Maynard, BHC



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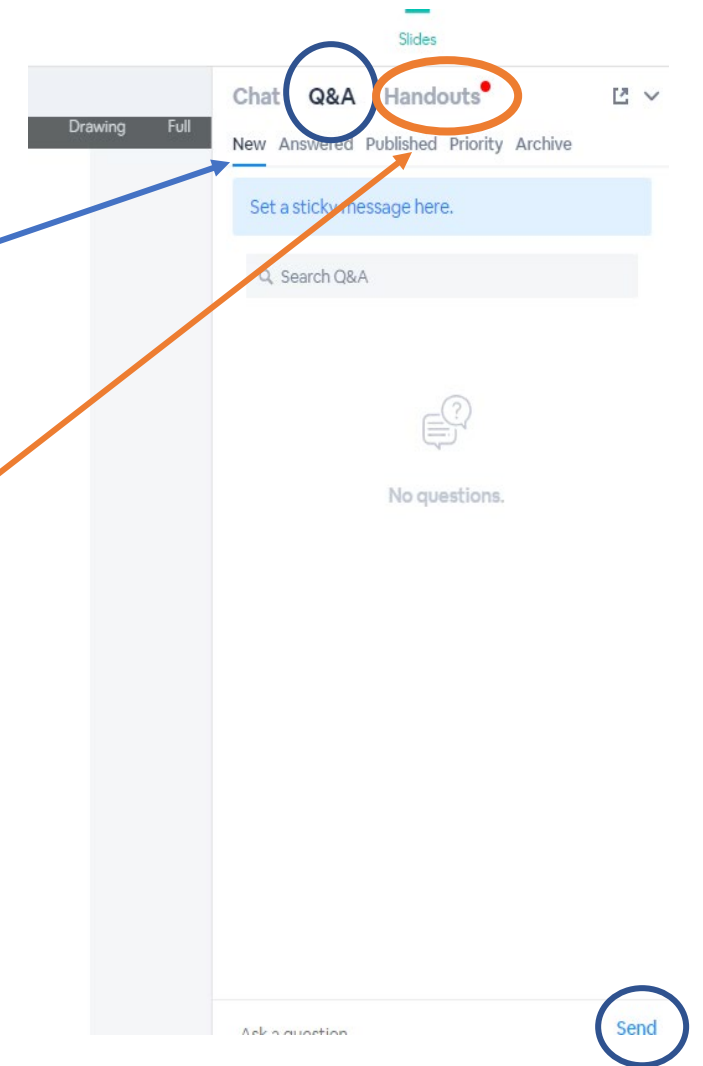
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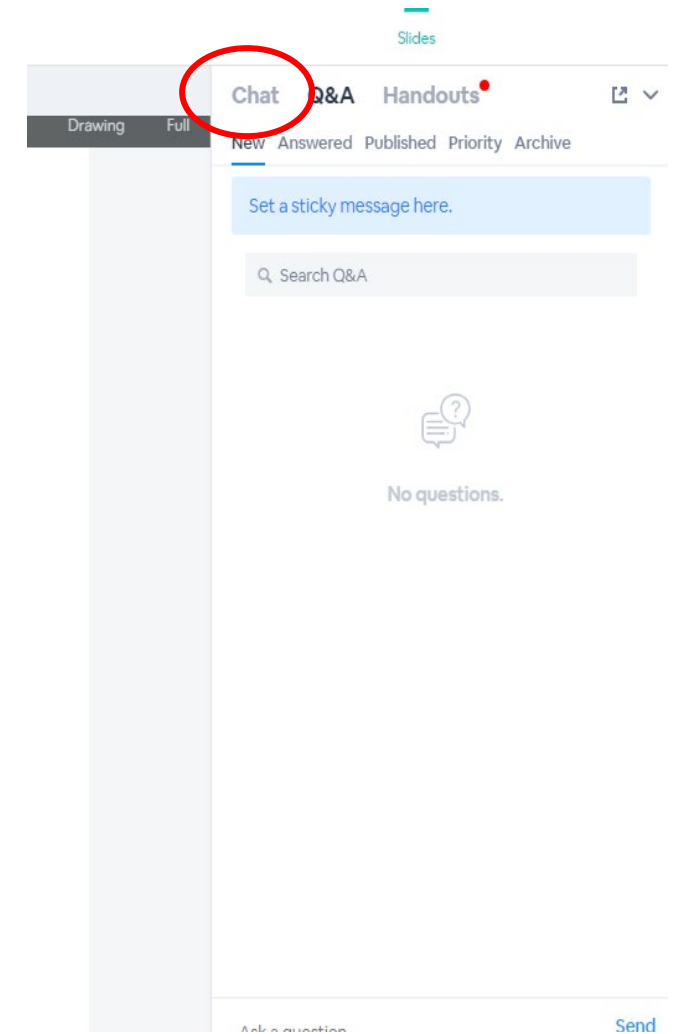
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# Presentation

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## Private sector involvement in social and affordable housing

**Richard Benedict- Sydney University**



# Research Aims

- 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



# Research Methods

- Researchers from University of Sydney and Curtin University, with industry specialists
- Review of international body of practice and research evidence
- Investigative panels and interviews with 45 leaders of private finance, private developers, community housing and policy
- Case studies of exemplar policies, programs and projects
- Developing a strategic 'road map' for scaling up private sector involvement

# Key Findings

- 'Hybridity' of the housing systems is essential to meet demand
- Private finance and development sector revealed strong appetite for investing in affordable and social housing projects
- Evidence demonstrates proven, successful models that can be replicated to scale up private sector participation in social and affordable housing supply,
- Maximising opportunities for private sector participation requires:
  - Some form of 'gap' subsidy from Government, particularly for highest need
  - Strong policy setting, effective regulation and efficient procurement processes
- There are risks in partnerships for government, private partners, community housing and residents, which require careful mitigation
- A national housing strategy set by the Australian Government and implemented through all levels of government commitments is needed to address demand

# Hybridity of the housing system is essential

- Increasingly, a combination of government, not-for-profit, and for-profit organisations are involved in financing, developing and managing specialist, social, and affordable housing
- This reflects increasing ‘hybridity’ across the housing system, and longer term social and economic policy reforms (Blessing 2012; Mullins, Milligan et al. 2018)
- 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.

# Australian governments are implementing a range of initiatives to stimulate private involvement in social and affordable housing

- In the wake of COVID, state and territories and, more recently, the Australian government have committed new funding and initiatives to construct around 105,000 additional social and affordable housing units
- National Housing Finance and Investment Corporation (NHFIC) Bond Aggregator established in 2019 to raise low-cost debt finance for community housing providers
- A variety of partnerships and joint ventures to renew or develop new social and mixed tenure housing
- Community and Aboriginal housing organisations are working with private partners to deliver mixed income projects which cross subsidise social and affordable housing
- Despite these initiatives, Australia's well documented shortage of affordable housing will persist without enduring government equity co-investment programs (Lawson, Denham et al 2019)

# Private sector appetite to invest in affordable housing partnerships is strong

- Overall, participants revealed strong appetite to invest in affordable housing partnerships, despite lower yields compared to private residential investment

**“I’d say the appetite has probably never been higher from institutional money, so that’s from the big end of town. I think there’s more money than there are places to invest it and also there’s a much lower yield, kind of acceptable yield for the investment of that money.”**  
[Finance panel participant]
- Lower yields from affordable housing were seen to be offset by lower risk, which participants advised holds value for longer than market rental

**“HESTA, Aussie, CBUS, they like the resilience... of low income housing compared to premium housing”.** [Finance panel participant]



# Private sector appetite is driven by investor motivation in social, environmental outcomes

- Reflecting an increasing focus by boards and shareholders for projects that deliver environmental and social outcomes
  - I think there's been a significant shift, in terms of the mandates for investors in superfunds looking for demonstrable ESG returns. [Interview participant]**
- Participants reported that investors may accept lower rates of return on projects that demonstrate clear social benefit
  - We're certainly able to apply different type return expectations around certain types of activities that the Bank's involved in, and this obviously plays into that space very strongly. [Finance Panel participant]**
- Developer participants advised they are working with not-for-profits on initiatives that deliver social outcomes, such as transitional housing
  - Thinking of some our own projects, we've been able to house people where there's specific targets - you know, government targets but also targets that relate to the institutional investors that they care about around for instance domestic and family violence. [Development Panel participant]**

# Range of housing types can be supported by combination of government subsidy & policy

Table 8: Government policies and subsidies to leverage private investment in social and affordable housing

Government policies and subsidies	Private for-profit sector role	Specialist and crisis housing	Social housing	Affordable rental housing	Below market rate housing	Affordable purchase
<b>Impact Bonds</b>	Investor					
<b>SDA subsidy</b>	Investor Developer					
<b>Tax subsidy</b>	Investor Developer					
<b>Bonds and loans</b>	Investor					
<b>Rental assistance</b>	Financier Landlord					
<b>Home purchase grants / shared equity</b>	Financier Developer					
<b>Planning policies</b>	Developer					
<b>Government land</b>	Developer					

Source: Authors.

# Public Private Partnerships

- Developers and policy leaders see redevelopment of public housing estates through PPPs as opportunity to increase social and affordable housing supply, and achieve better social outcomes
- Participants reported that such projects involve long, complex government procurement and planning approval processes, which add costs and risks

**Every jurisdiction we deal with has a different approach, and quite often it could be quite a costly, time-consuming process. [Finance Panel participant]**
- Participants advised that risks should be allocated to the party best positioned to manage them effectively and efficiently

**What we're pondering now is whether actually...there would be a lower number of social housing derived from the yield from a rezoning but that the time and the risk for planning actually sits with the private developer rather than with government. [Policy participant]**
- Participants explained that effective partnerships depend on clear roles and responsibilities, with all parties taking accountability for outcomes

**What really works in the PPP ... is each party being really clear on what their objectives are within that program ... [and] what's expected from each other. [Specialist Housing Panel participant]**

# Ivanhoe, NSW

- Frasers Property Australia and Mission Australia Housing are redeveloping Ivanhoe estate for:
  - 950 social and 130 affordable rental
  - 2,000 market homes for sale
  - Construction commenced 2021, complete 2031
- Employment, training, education, health and community engagement outcomes
  - With those large urban renewal projects, you can gain not just initiatives and innovation in built form and delivery, but also in the social outcomes**
  - Private sector interview participant**
- Tendering, planning and delivery risks add time and costs
- Prejudice against social housing was a challenge, but market sales have been strong



# Mixed tenure development

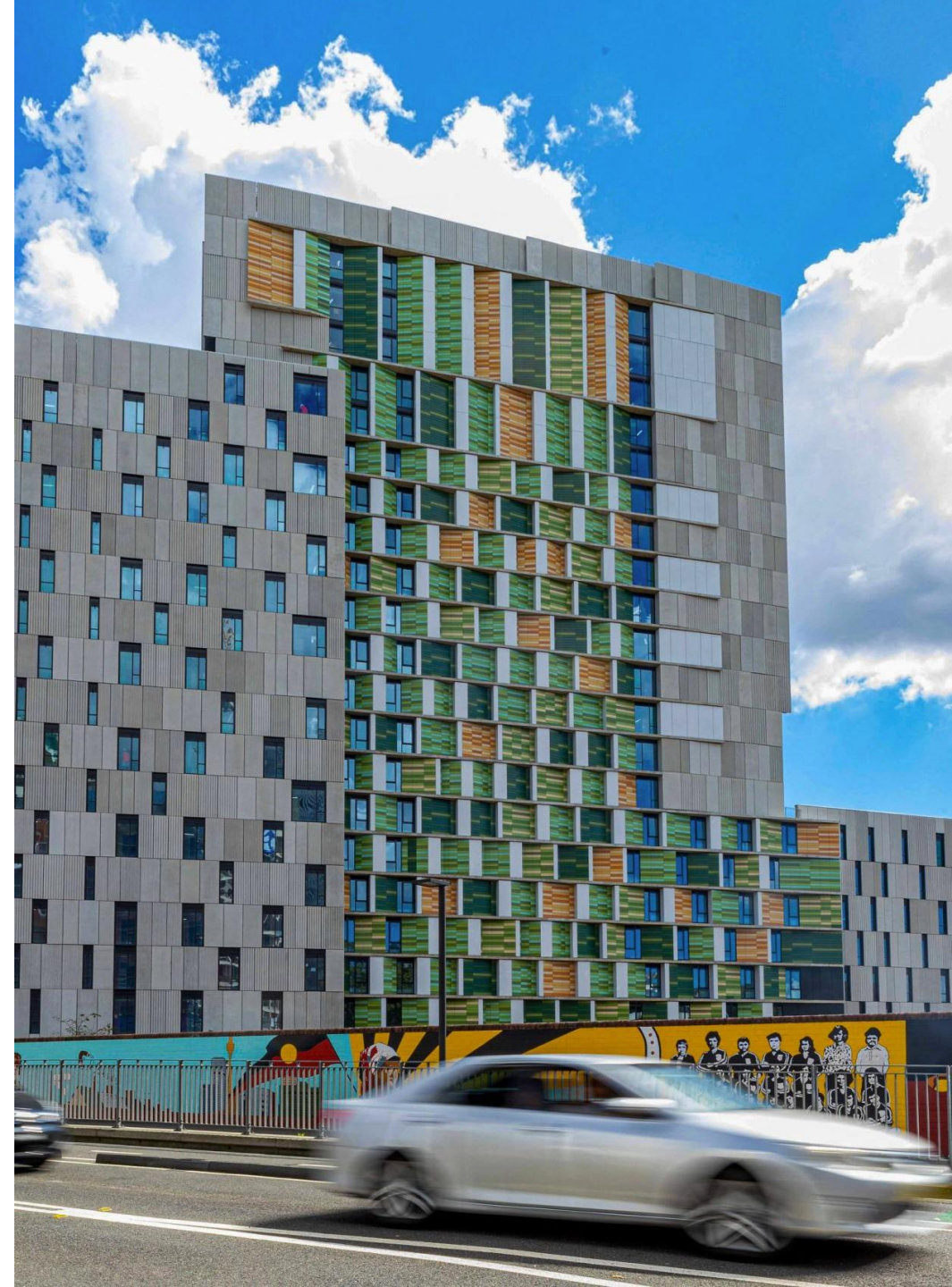
- Mixed tenure seen as attractive model for cross-subsidising social and affordable and achieving acceptable level of return and risk
  - Certainly from a return's perspective, we get to an acceptable level of return, because we're blending an IRR from a develop and sell [to market], with a long term hold [affordable rental housing], and it's also producing an asset that our investor wants to hold for the long term, and to continue to own. [Finance Panel participant]**
- Some community housing participants have begun to use mixed tenure to cross subsidise high need housing, and achieve community outcomes.
  - So we believe very much in the importance of mixed tenure developments and also that they can cross subsidise the affordable and social. Those buildings just work so beautifully, I would do that mix regardless in projects moving forward because the community outcome in those buildings is so important. [Development panel participant]**
- However, this transfers risks to CHOs that may not be adequately capitalised or compensated to take the market risk of selling or renting market homes



# Pemulwuy, NSW

- Aboriginal Housing Company partnered with Deicorp, private developer, and Scape, private student accommodation provider, mixed tenure and mixed use:
  - 62 units of affordable rental for Aboriginal people
  - 596 bed student accommodation, of which 110 units retained for Aboriginal students
  - Commercial and retail spaces, AHC office space, child care centre, art gallery and boxing gym
- Scape paid upfront for 99 year lease for student accommodation portion
- This gave AHC the capital to build Aboriginal housing unencumbered by additional debt
- AHC also receive revenue from commercial and retail spaces to cross-subsides their operating costs

**What we could actually get from having this lease in place was ... not just the affordable housing, and the health and fitness centre and the art gallery, but also we were able to deliver ... the childcare and the commercial and retail [unencumbered], so Aboriginal people can live on that site forever and a day. [Interview participant]**



# Tax subsidies

- Participants advised that tax subsidies, such as the NRAS initiative, can successfully leverage private investment in new affordable housing supply
- Participants expressed concern over the relatively short NRAS 10-year affordability requirement, and the potential loss of affordable housing.  
**What happens when those incentives expire and as a lot of the participants decide what to do with that stock? ... I expect it'll turn into private rental stock rather than affordable rental stock. [Policy Panel participant]**
- Participants advised that longer term affordability is likely to require longer term subsidy, which was also seen as enabling the community housing sector to leverage private finance  
**If we knew that every year the Commonwealth was coming, even with a reasonably small amount of tax credits, it could unlock all the stuff that you could bring as well. So we could work with you then, put together deals, borrow our senior debt from NHFIC and use that funding stream that ideally would come from the Commonwealth to plug that gap. [Policy Panel participant]**

# Build to rent

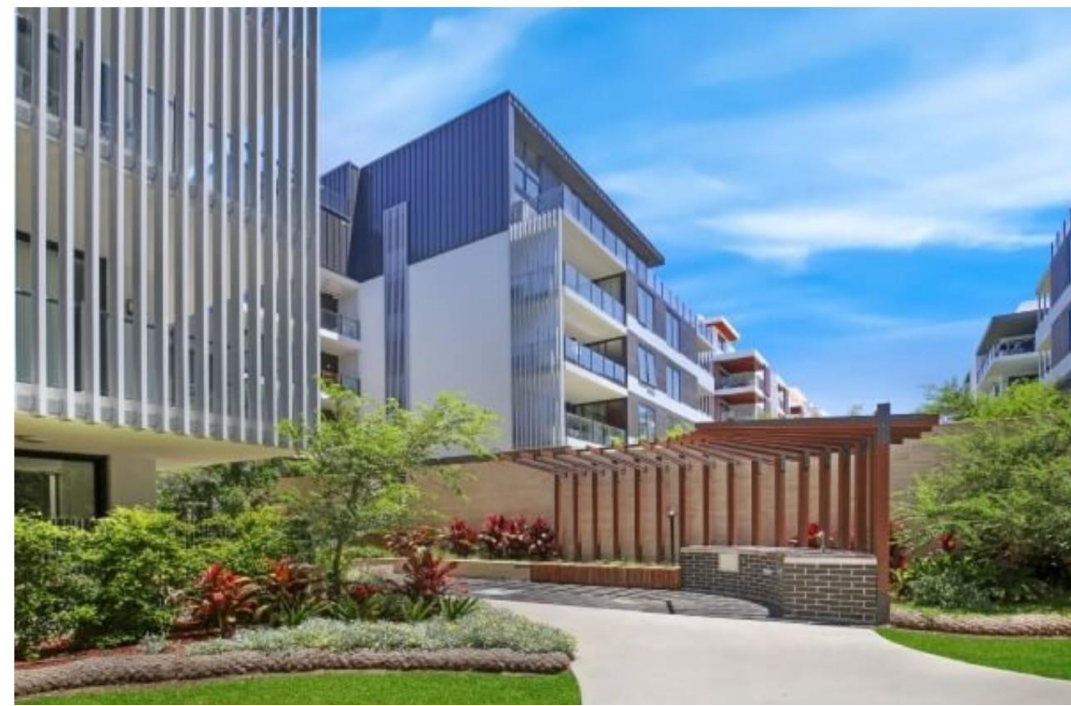
- There was growing interest in the potential for build to rent developments
- Participants generally agreed that build to rent projects by the for-profit private sector cannot provide affordable housing without additional subsidy
  - If you are required to deliver affordable housing within that space, then the returns - which are already challenged - would be even worse. So you do need concessions at a state and a federal level to make - to be able to introduce that whole affordable housing component. [Development Panel participant]**
- Some land tax concessions are coming into play in some jurisdictions, but not sufficient to subsidise affordable housing
- Build to rent to buy model targeted at middle income households has been more successful, albeit on limited number of projects
  - That model is scalable for middle income Australians or upper lower middle income Australians. [Development Panel participant]**



# Aware Super Key Worker Affordable Rental Housing

- Investing to provide attractive returns for members, while also ‘making a difference in the communities where our members live, work and retire’
- Rented at 80% of market rate to essential key workers
- Private rental and purchase cross subsidises affordable rental housing in mixed tenure projects
- No government subsidy or planning incentives
- 15 Sites in Sydney, Melbourne, Canberra and Perth to provide 1,650 affordable units
- Affordable rental portfolio has outperformed private rental portfolio

**We’ve certainly ... seen that actually offering your stock as essential worker affordable [lowered] the risk of the portfolio and [supported] returns. So, we had very high levels of lease-up... So, actually our essential worker affordable housing program outperformed our private rental market, at 80 per cent of the market rent. [Super fund interview participant]**



Epping, NSW

Waterloo, NSW



# Inclusionary zoning

- By international comparison, inclusionary planning mechanisms in Australia remain limited both in prevalence and scale
- Overall, developers broadly recognised the need for mandatory inclusionary zoning
  - I think it's just got to be mandatory and it's just got to happen. [Development panel participant]**
- Certainty of policy is essential for developers, to assess project feasibility
  - I think the big lessons learned from us is developers need certainty. They want to know what it is they have to deliver. If you price it into the land, then you know that you'll get an outcome. [Development panel participant]**
- Developer and policy participants advised phasing in over several years to not financially disadvantage projects on sites already owned, and ideally with incentives such as density bonuses
  - I think if it's to be done properly, it should have incentives as well. So it could be less parking, above ground parking, bonus height, bonus FSR, smaller units, things of that nature. [Development panel participant]**

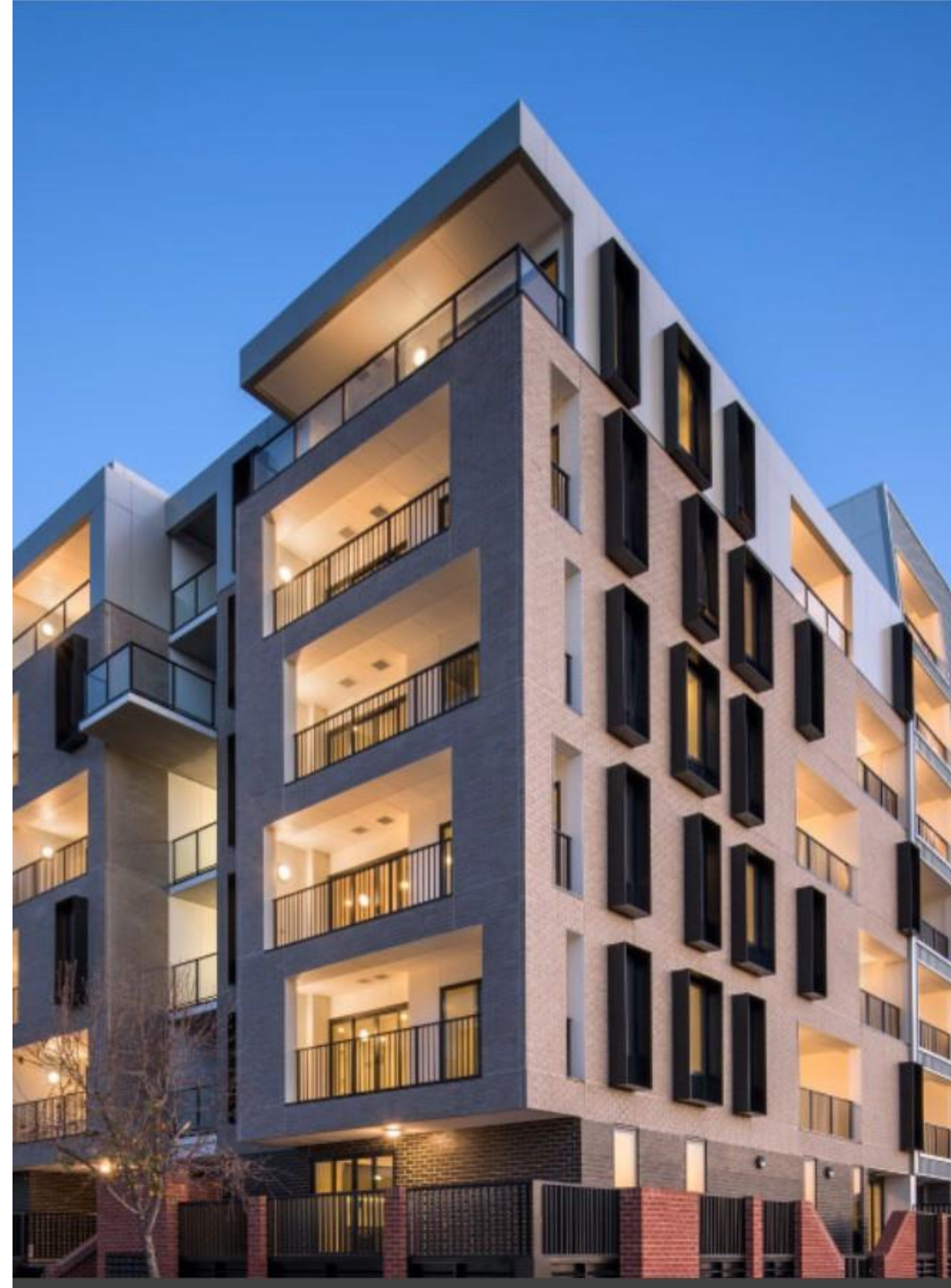


# Affordable Home Ownership

- Policy representatives reported that low-deposit home loans and shared equity schemes in SA and WA were assisting even low-income households to ownership  
**So we have through HomeStart Finance...we can get people into homes that might be on incomes as low as \$40,000 and it's the case of finding the right product that will suit them and then educating them that that opportunity is available to them. [Policy Panel participant]**
- Strong take up of home purchase grants offered as economic stimulus was seen to have contributed to inflationary pressures in the market and exacerbated labour market and supply chain constraints  
**So there's severe shortages in labour for us and that's causing issues with how we deliver going forward. So there's lessons learned around some of that stuff in terms of the over-stimulation. [Policy Panel participant]**
- Panellists noted that homeownership initiatives appear to capture policy enthusiasm, despite the large and growing proportion of Australian households who rent and need an affordable rental product

# Bowden, South Australia

- Institutional investment fund (Investec) provided debt and developed project with private builder (Hindmarsh)
- Government land purchased with mandatory inclusionary zoning of 15% affordable housing
- Delivered 37% (32 units) as affordable build to rent to buy, along with 54 units sold to the market
  - Providing an integrated product to market to the different cohorts is a really nice risk mitigating factor for an investment product. There's plenty of capital out there for well-structured projects like this. Interview participant**
- Discounted rent for up to three years
- Affordable purchase price set no greater than 30% household income
- Government underwrote risk with 'buy option' for affordable housing, did not have to exercise
- CHL provided tenancy allocation and management of affordable housing while it was being rented



# Private participants see community housing sector as an essential partner

- Participants stated regulated CHO's keep vacancy rates and rental arrears low, reducing risks, and maintain properties so that they retain their value better
- Participants emphasised that building capacity in the CHO sector will be key to attracting further institutional investment, and that this requires on-going Government subsidy

**Building capacity within the [community housing] sector ... [is] one of the critical paths we need to focus on, in order to build further interest for institutional investment. [Finance Panel participant]**

- Developers identified CHO tax concessions help reduce development costs and improve affordability

**My view is that incorporating the community housing sector legitimately into the commerce of a project brings a bunch of tax concessions, so we can automatically lower the cost of us delivering a multi-family asset by 10 per cent compared to someone that's charging higher rents. [Development Panel participant]**

# Private sector participation builds industry capacity and achieves wider outcomes

- CHOs building skills, capacity and experience in complex transactions  
**We see the CHOs develop and become more sophisticated, and learn a lot from working with institutional investors, in structuring and participating in these procurement processes. [Finance Panel participant]**
- Institutional investment, including through Clean Energy Finance Corporation, can drive innovative and higher environmental standards  
**So that results in more efficient building, but there's savings to tenants as well ... we could afford to do that, because of the involvement of CEFC. [Interview participant]**
- Developers can build skills and capacity within local communities through programs that offer training and employment opportunities, with the right contract timeframes and resources
- Advised government to set outcome targets, with flexibility to design innovative solutions that can best achieve these outcomes and report on progress

# Government 'gap' subsidy is essential, particularly for households in highest need

- International evidence shows private involvement should extend, rather than replace public subsidy
- Participants emphasised that housing for low-income earners will always require some 'gap' subsidy from government – there is no 'silver bullet'  
**Subsidised housing needs a subsidy and the easiest one to bank is a government subsidy. [Finance Panel Participant]**
- A partial alternative to direct subsidy is to reduce costs, such as by providing land or using inclusionary planning mechanisms
- If Government funded social housing in the same way as other infrastructure it would unlock significant institutional investment  
**Social infrastructure projects with a low yield but longevity, low volatility, very high demand, all of those characteristics that are exactly what institutional investors are looking for in social infrastructure and infrastructure projects. [Developer Panel Participant]**



# Barriers and risks that must be addressed for increased private sector participation

- Changes in government, changed and discontinued 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
- Certainty is essential for investor confidence, across all regulatory and program settings
- In addition, development challenges included:
  - lack of access to suitable sites
  - labour shortages, and
  - long, complex government tendering and planning approval processes

# Risks to government, community or specialist housing organisations and residents

- ‘leaking’ of public assets and subsidies;
- inefficient and poor delivery of projects;
- tenant disruption
- the diversion of resources and opportunities from the community housing sector, and
- reputational, operational and financial risks to government.
- Mitigation of these risks requires carefully designed programs, strong due diligence and effective regulation and oversight by government

# National housing strategy implemented across levels of government is needed

- National housing strategy to address long term demand across all market segments, including crisis, specialist, social, affordable rental and affordable purchase and private market housing
- Funding and policy commitments with targets committed by each level of government to leverage private sector involvement
- Clear, consistent procurement processes by each level of government to efficiently and competitively allocate resources to private and CHO sectors, working in partnership
- Regulatory systems, on a national basis for consistency, to measure, monitor and control achievement of targets and quality of housing

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