Final Report

Subsidised affordable rental housing: lessons from Australia and overseas

authored by

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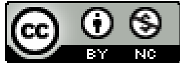


CONTENTS

LIST OF TABLES VII
LIST OF FIGURES IX
ACRONYMS X
EXECUTIVE SUMMARY 1
1 INTRODUCTION 7
1.1 Research questions and methodology 7
1.1.1 Research questions and conceptual framework 7
1.1.2 Conceptual framework 7
1.1.3 Methodology 9
1.2 Affordable rental housing in Australia 10
1.2.1 Federal and state housing assistance 11
1.2.2 The need to expand the affordable rental housing sector in Australia 12
1.2.3 Private investment in the supply of affordable rental housing 13
1.2.4 Current directions in federal and state affordable housing policy 13
1.3 Subsidising affordable housing: Australian and international research 14
1.3.1 Learning from international approaches 15
1.3.2 Overview of international experience 15
1.3.3 Subsidies for private investment in affordable rental housing 16
1.4 Summary and implications 21
2 NATIONAL RENTAL AFFORDABILITY SCHEME: POLICY MECHANISM 22
2.1 Mechanics of the scheme 22
2.1.1 Eligible tenants 23
2.1.2 Incentive distribution 24
2.1.3 Conditions of allocation 24
2.1.4 Application process 24
2.2 Discontinuation of NRAS 25
3 NRAS: SPATIAL OUTCOMES 28
3.1 What was delivered up to June 2015? 28
3.2 Understanding the distribution of NRAS incentives 29
3.2.1 Geographic distribution of incentives 30
3.2.2 Changes to the spatial distribution of total incentives 31
3.2.3 Analysing the spatial distribution: a composite measure 31
3.2.4 Characteristics of typical suburbs using the composite measures 35
3.3 Where are NRAS dwellings being produced? 36
3.3.1 Spatial distribution of dwellings across metropolitan regions 37
3.3.2 Socio-economic characteristics of metropolitan suburbs receiving NRAS dwellings 42
3.3.3 Investment potential characteristics of metropolitan suburbs receiving NRAS dwellings 43
3.3.4 Delivery of NRAS dwellings in regional suburbs 43

3.3.5 Has the distribution of NRAS dwellings achieved the scheme objectives? 45
4 NRAS: AFFORDABILITY OUTCOMES 46
4.1 Impact of the 20 per cent rent reduction on housing affordability 47
4.2 Impact of NRAS on housing affordability for eligible tenants 49
4.3 Were NRAS dwellings targeted effectively? 52
4.4 University-based accommodation 55
4.5 Summary of affordability outcomes 57
5 SUBSIDISED AFFORDABLE RENTAL PROGRAMS IN THE UNITED STATES AND ENGLAND: OUTCOMES AND LESSONS 59
5.1 Low Income Housing Tax Credits (United States) 59
5.1.1 Allocation of LIHTCs 59
5.1.2 Investment structure 60
5.1.3 Investment returns 61
5.1.4 LIHTC program affordability structure 62
5.1.5 LIHTC program outcomes 62
5.1.6 Summary 63
5.2 Affordable Rents regime (England, United Kingdom) 63
5.2.1 The mechanics of the Affordable Rents regime 65
5.2.2 Affordable Rents regime affordability structure 65
5.2.3 Affordable Rents regime outcomes 66
5.3 What can Australia learn from international approaches to subsidised rental housing supply? 70
5.3.1 Diversity of product delivery 70
5.3.2 Defining affordable rent and incorporating housing assistance 71
5.3.3 Spatial patterns of delivery and housing mix 71
6 THE FUTURE DELIVERY OF SUBSIDISED RENTAL HOUSING IN AUSTRALIA 73
6.1 Advantages and disadvantages of NRAS 73
6.2 Moving towards a new model of subsidised affordable rental dwellings 75
6.2.1 Clear, measurable and achievable objectives 75
6.2.2 Consistency and longevity 76
6.2.3 Build on the momentum of NRAS 77
6.2.4 Administration 77
6.2.5 Cross-subsidisation 77
6.2.6 Delivering a variety of products 77
6.2.7 Social infrastructure 78
6.2.8 Long-term affordability 78
6.3 Lessons from international schemes: a view from the US and UK 79
6.3.1 Understanding the key differences between countries 79
6.3.2 Key messages 80
7 POLICY IMPLICATIONS 83
7.1 Summary of NRAS outcomes 83

7.2 Key recommendations 83
7.2.1 Scheme design 84
7.2.2 Finance and funding 86
7.2.3 Capacity building 86
7.2.4 Summary 86
REFERENCES 88
APPENDIX 98

LIST OF TABLES

Table 1: Agreement types under the Rental Accommodation Scheme 21

Table 2: NRAS incentive amounts and contributors (2008–15) 23

Table 3: Summary of quarterly progress 28

Table 4: Incentive status by state/territory 29

Table 5: Dwelling type by incentive status (June 2015) 29

Table 6: Number of total incentives by state and geographic distribution 31

Table 7: Socio-economic indicators 33

Table 8: Investment potential indicators 33

Table 9: Examples of the composite measures in practice 34

Table 10: Characteristics of typical suburbs—socio-economic composite measure .. 35

Table 11: Characteristics of typical suburbs—investment potential composite measure 36

Table 12: Distribution of incentives 37

Table 13: Comparison of socio-economic measure across four capital cities 42

Table 14: Comparison of the investment potential measure across four capital cities 43

Table 15: Comparison of the socio-economic measure by state 44

Table 16: Comparison of the investment potential measure by state 44

Table 17: NRAS impact on existing suburbs 47

Table 18: The proportion of Sydney metropolitan region suburbs in which households with eligible NRAS incomes can rent an affordable house 48

Table 19: Proportion of suburbs in metropolitan regions which become accessible to eligible households under NRAS 48

Table 20: Impact of NRAS on mean housing cost burdens for NRAS eligible households (2011) 51

Table 21: Impact of NRAS on housing stress for NRAS eligible households (2011) .. 52

Table 22: Distribution of NRAS eligible households residing in and outside of NRAS areas by remoteness area (2011) 53

Table 23: Distribution of NRAS eligible households residing in and outside NRAS areas by SEIFA decile (2011) 54

Table 24: Housing expenditure profiles of NRAS eligible households residing in and outside NRAS areas (2011) 55

Table 25: Impact of NRAS on the housing affordability positions of NRAS eligible households residing in and outside NRAS areas (2011) 55

Table 26: Annual tax expenditure on the LIHTC program 59

Table 27: Affordable Housing Programme average gross rents as a proportion of market rent (including service charges) by HCA Operating Area (end of September 2014) 66

Table 28: Affordable Rent units by region (2014)[1] 68

Table A1: Details of French taxation policies to increase the supply of rental dwellings for the intermediary sector and middle-income families 98

Table A2: 2014–15 household income eligibility limits 99

Table A3: Incentive distribution 99

Table A4: NRAS selection criteria 100

Table A5: State and territory affordable housing priorities for NRAS 102

Table A6: Profile of dwelling types by state/territory (%) 103

Table A7: Profile of dwelling size by state/territory (%) 103

Table A8: Affordable Rent units by size 103

Table A9: Comparison of supply mechanisms 104

Table A10: Comparison of affordability measures 105

LIST OF FIGURES

Figure 1: Subsidised affordable rental housing: actors and outcomes 8
Figure 2: Spatial distribution of NRAS incentives in Sydney 38
Figure 3: Spatial distribution of NRAS incentives in Melbourne 39
Figure 4: Spatial distribution of NRAS incentives in Brisbane 40
Figure 5: Spatial distribution of NRAS incentives in Perth 41
Figure 6: Additional affordable homes* provided by type of scheme, England........... 66
Figure 7: Affordable Rents housing stock as a proportion of social rental housing stock (all sizes).. 69

ACRONYMS

ABS	Australian Bureau of Statistics
AHGP	Affordable Homes Guarantees Programme (UK)
AHP	Affordable Homes Programme (UK)
AHURI	Australian Housing and Urban Research Institute
AIHW	Australian Institute of Health and Welfare
AMI	Area Median Income (US)
ANAO	Australian National Audit Office
ANU	Australian National University
ARIA	Accessibility/Remoteness Index of Australia
CHP	Community housing provider
CRA	Commonwealth Rent Assistance (Australia)
CRinvA	Community Reinvestment Act (US)
DCLG	Department for Communities and Local Government (UK)
DECLG	Department of Environment Community and Local Government (Ireland)
DHS	Department of Human Services (Australia)
DSS	Department of Social Services (Australia)
ECU	Edith Cowan University
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
GFC	Global Financial Crisis
GLA	Greater London Authority
HCA	Homes and Communities Agency (UK)
HILDA	Household, Income and Labour Dynamics in Australia
HOME	HOME Investment Partnerships Program (US)
HUD	Department of Housing and Urban Development (US)
IAH	Investment in Affordable Housing (Canada)
IRR	Internal rates of return
IRS	Department of Treasury’s Internal Revenue Service (US)
IRSD	Index of Relative Socio-Economic Disadvantage
LIHTC	Low-Income Housing Tax Credit (US)
NAHP	National Affordable Housing Programme (UK)
NCSHA	National Council of State Housing Agencies (US)
NHSC	National Housing Supply Council (Australia)
NRAS	National Rental Affordability Scheme (Australia)

NSW	New South Wales
NT	Northern Territory
OCPD	OneCPD Resource Exchange (US)
QCT	Qualified Census Tract (US)
RAS	Rental Accommodation Scheme (Ireland)
SA	South Australia
S106	Section 106 of the Town and Country Planning Act 1990 (UK)
SEIFA	Socio-Economic Indexes for Areas (Australia)
SERC	Senate Economics References Committee (Australia)
SOMIH	State owned and managed Indigenous housing
UWA	University of Western Australia
WA	Western Australia

EXECUTIVE SUMMARY

A supply of affordable rental housing is essential to allow households to transition out of scarce public and social housing and into the private rental sector. Affordable rental options are essential for those households already in the private rental sector who are struggling to pay market rents. This report explores the lessons that can be learnt from the National Rental Affordability Scheme (NRAS) (discontinued in 2014), which sought to stimulate the supply of affordable rental housing for low- and moderate-income earners. Drawing on evidence from comparable international programs for subsidising rental housing supply, the report makes recommendations on how to design and fund a new scheme to deliver the supply of affordable rental housing required in Australia.

Key findings

- By June 2015, NRAS had delivered 27,603 dwellings with a further 9,980 to be delivered, 76 per cent of which were in major cities. Dwellings were delivered across a variety of housing types including apartments (39%), separate houses (22%), studios (17%) and town houses (22%). The variety of dwellings delivered was a very positive outcome.
- Dwellings were delivered in suburbs with a range of socio-economic characteristics and with generally good-quality transport infrastructure. The allocation decisions were a combination of financially feasible project applications and state government directed housing priorities, and the approach worked well in delivering quality spatial outcomes.
- Subsidising rents to 20 per cent below market levels, the model adopted by NRAS not only increases the number of suburbs accessible to income-eligible households but, if such a discount were available to all eligible households, would lift a third of them out of housing stress.
- NRAS was discontinued in May 2014 after almost six years. Although not without problems, this research identified NRAS as an effective supply stimulus, delivering tens of thousands of units in a relatively short timeframe. Concerns about complex administration, poor targeting and administrative delays resulted in the discontinuation of the scheme just when momentum and private-sector investor confidence was building.
- Strengths of the scheme included: the ability to combine subsidies from a variety of sources; the level of engagement from the community housing sector and from private investors, particularly in the later rounds; the variety of dwelling types and sizes delivered; and the level of innovation it generated within the industry. The weaknesses were its administration and lack of longevity.
- A new program to deliver a supply of subsidised affordable rental housing should be introduced as soon as possible to build on the investment momentum generated by NRAS, which saw the final three funding rounds (i.e. calls for applications) heavily oversubscribed and a secondary market for incentives starting to develop.
- A new program needs clear and measurable targets and objectives, and must demonstrate long-term commitment of government to secure the confidence of the investment sector. It should run alongside alternative affordable housing investment options, such as a financial intermediary designed to secure low-cost funding for the community housing sector.

- A subsidised affordable rental scheme, combined with planning mechanisms to deliver land for affordable housing and measures to build the capacity of the community housing sector, could deliver a significant supply of dwellings to help tenants transition from social housing into the private rental market.

Background

The introduction of the NRAS in 2008 represented a significant shift in the provision of housing assistance in Australia, for the first time leveraging private investment in the supply of affordable rental housing at a national scale. In the context of declining rental and home-purchase affordability in Australia, and sluggish rates of new housing construction, NRAS addressed important goals for boosting the supply of total dwellings, not just affordable dwellings. In contrast to traditional approaches to social housing, NRAS represented a mixed market approach, able to integrate affordable rental accommodation within wider market developments. This report explores lessons that can be learnt from the operation of NRAS. Supplemented by lessons from comparable international schemes, including detailed case studies of the United States (US) and England, this report generates a set of guidelines for the delivery of any future subsidised private rental housing scheme within a broader affordable housing investment framework.

Research method

This project addressed the following research questions.

1. How have other countries with similar housing systems delivered subsidised affordable rental housing and what lessons can be learnt from the outcomes?
2. To what extent has NRAS been effective in delivering a supply of housing across Australia to address affordability in areas with differing dwelling price/rent and demographic characteristics?
3. To what extent has NRAS affected the supply and affordability of dwellings at the lower end of the private rental market?
4. Is there potential for an alternative model to deliver subsidised affordable rental housing supply?

The methodology focused on the outcomes, actors and institutions engaged in housing delivery. Policy documents from Australia, the US, England, France, Canada and Ireland informed an assessment of policy mechanisms employed in those jurisdictions, with international experts providing detailed case studies on the US and England.

Affordability and spatial outcomes for NRAS were analysed with reference to suburb-level data from the Australian Bureau of Statistics (ABS), rent/price data from RPData, and NRAS output data derived from the NRAS Quarterly Performance Reports published by the Department of Social Services (DSS). These data were mapped using ArcGIS. Affordability outcomes were computed with reference to data from the survey of Household, Income and Labour Dynamics in Australia (HILDA), allowing an assessment of the extent to which subsidised rental housing impacts on housing affordability and on households' rental affordability stress.

An Investigative Panel, held in September 2015, considered the potential for a new scheme to deliver subsidised affordable rental housing. The Investigative Panel included: CEOs from community housing organisations in Queensland, South Australia (SA) and Victoria; a manager from a major financial institution; an affordable housing consultant; the CEOs of two affordable housing development companies; and a number of leading academics. Additional evidence for the project was gathered

through interviews with representatives from state government, community housing providers, the development industry and the valuation profession.

Findings

By June 2015, NRAS had delivered 27,603 dwellings with a further 9,980 to follow. Of these, 75.7 per cent were in major cities, with smaller proportions in inner regional (13.9%), outer regional (8.7%), remote (1.4%) and very remote areas (0.4%). A variety of dwelling types were delivered, including apartments (38.7%), separate houses (21.9%), studios (17.2%) and town houses (22%). The variety of dwellings produced was a very positive outcome, in contrast with patterns of delivery from some international schemes, such as the American Low-Income Housing Tax Credit (LIHTC) scheme, which provides volume but has delivered mainly apartments within inner city areas.

Queensland had the greatest proportion of NRAS dwellings at 27.7 per cent, followed by New South Wales (NSW) (18.2%), Victoria (16.3%) and Western Australia (WA) (13.9%). For this reason, the analysis of spatial and affordability outcomes from NRAS focused on these four states. The study developed a composite measure to identify patterns of outcomes related to socio-economic characteristics and investment potential. NRAS dwellings were delivered in suburbs with a range of socio-economic characteristics, although not at the very top and bottom of the scale. Most of the NRAS units were supplied in locations served by good-quality transport infrastructure.

The distribution of NRAS incentives across states/territories and regions was found to be a function of two drivers: firstly, the priorities of both the federal and state governments; and secondly, the financial viability of a project as determined by the approved participants (developers/investors). The dwellings delivered were clustered in suburbs with certain investment characteristics, which ensured the incentive delivered value to the investor, be that the community housing sector or a private investor. For example, for a weekly market rent of $300 per week, the 20 per cent reduction reduces rental income by $3,120 per year, meaning that the incentive of around $10,000 still delivers a considerable gain to the investor. With a rent of $600, the annual reduction is $6,240 and the gain is much smaller. Ignoring the after-tax position, the higher the market rent, the less beneficial the NRAS incentive. To maximise the impact of the incentive, private-sector investors sought areas with potential for capital growth combined with a rent that was low enough to benefit from the incentive itself.

Subsidising rents to 20 per cent below market levels increases the number of suburbs accessible to income-eligible households. For example, in Sydney, 62 suburbs were identified as having 15 or more total incentives (NRAS dwellings). A household of *two adults* or a *sole parent with one child* on an eligible income could afford to rent in only 10 per cent of these suburbs. Applying a 20 per cent discount to rents makes accessible over half of these suburbs, thereby significantly increasing housing options if a sufficient supply of NRAS dwellings were available. Of the 1.2 million NRAS eligible households represented in the HILDA survey, 460,000 were in housing stress, as defined by the 30 per cent rule. Of these, nearly 153,000 or one-third, would, in principle, be lifted out of housing stress by NRAS if the program had been made available to all those who qualify.

Given the affordability and accessibility impacts of subsidised affordable rental housing for eligible households, combined with opportunities to support transitions from social housing, a new program to build on the investment momentum generated by NRAS should be introduced as soon as possible. However, time for the scheme to build investor confidence is needed. In the US, the LIHTC scheme was made

permanent after seven years and has subsequently delivered around 2.6 million rental units (required to remain affordable for at least 30 years). In stark contrast, NRAS was discontinued after almost six years.

An Investigative Panel discussed the strengths and weaknesses of NRAS. Overall the panel expressed the view that the majority of scheme outcomes were very positive, although there were considerable weaknesses in the scheme administration. It was noted that in the last three funding rounds the scheme was oversubscribed, with four applications for each incentive, suggesting it was successful in attracting investment. The panel was generally of the view that a long-term commitment to NRAS would have generated large-scale institutional investment. Lack of certainty regarding government commitment to NRAS, however, undermined institutional confidence.

The panel discussed a number of priorities for any new subsidised affordable rental scheme. There was agreement that any such scheme should have clear and measurable targets and objectives, with consistent policy settings underpinned by long-term government commitment. If tax credits were again the basis for the subsidy—and the general view of the panel was that this would have to be the case, because no government would be prepared to deliver a capital subsidy that would sit on the balance sheet—then an alternative approach would be required which would enable the development of a secondary market for trading those incentives. Administrative reorganisation should see each state taking responsibility for a share of credits, to be distributed according to policy priorities, prevailing market conditions and the availability of other resources. This would also allow states to use their own assets, such as land, in the way they believe is most effective.

Outcomes and lessons from international subsidised affordable housing schemes

International approaches to subsidised affordable housing offer a number of important lessons for Australia.

Finance and funding—The delivery of financial incentives from national level government, with the involvement of state/local governments, is the most widespread means to encourage institutional investment in affordable rental housing.

→ A government created and guaranteed finance intermediary could deliver the low-cost funding required to expand the social housing sector. This could be supported by a subsidised affordable rental scheme specifically targeted to attract small-scale private investors funded through tax credits.

→ The case for a specialised intermediary, as in the United Kingdom (UK), which can aggregate demand for debt finance for affordable housing providers, appears strong. However, success would depend upon some form of government guarantee because of the lack of strong balance sheets at this stage.

→ While tax credits can attract large-scale institutional investment when the market matures and a secondary market develops, current policy settings governing tax credits do not favour institutional investors in Australia. Unless there is tax reform in this area, a different approach is required to attract investment specifically into subsidised affordable rental housing from this sector.

Diversity of product delivery—Internationally, there are examples of subsidised affordable rental schemes supporting new housing supply beyond new-build construction. For example, a number of international schemes have diversified the nature of affordable housing supply to include the use of existing buildings through conversion or renovation, or the development of dwellings for affordable home ownership. The success of such schemes might prompt Australian policy-makers to

consider the option of utilising existing dwellings within the housing market to benefit the supply of affordable rental housing.

Defining affordable rent and incorporating housing assistance—As in Australia, international schemes reviewed in this study defined the structure of affordable rental schemes including tenants' ability to access additional financial support from government (e.g. CRA). Affordable rents are defined either by their relationship to the local rental market or by the local area incomes (or both, as in the case of social rents in England). Rents under the LIHTC scheme in the US and under the Irish Rental Accommodation Scheme (RAS) cannot exceed 30 per cent of the Area Median Income (AMI) or county-wide incomes, respectively. Some international policy approaches also require utilities or service charges to be taken into consideration when determining affordable rent levels. The inclusion of utility payments into the affordable rent structure is likely to have a substantial impact on the overall affordability of the property.

Spatial patterns of delivery and housing mix—The spatial delivery of dwellings under any subsidised rental housing scheme is important in terms of access to education and employment opportunities, as well as services. While NRAS had the effect of concentrating the developments in areas with average socio-economic characteristics (and investment potential), affordable rental properties under the scheme in England have been distributed through a much greater range of socio-economic locations, offering tenants greater social and economic opportunities, largely because of the way land is made available through planning policy.

Policy implications

Government should introduce a replacement for NRAS as soon as possible, building on the momentum generated during the last three funding rounds. Such a scheme should work in parallel with other financing arrangements that could increase the availability of funds to the community housing sector. A consistent and robust definition of affordable rents and, indeed, affordable ownership, is needed to further develop the sector in Australia.

While large-scale institutional investment in affordable housing is essential to build scale, individual investors also have a significant role to play. Individual investors may be able to offer the variety of housing product and locations that can be unattractive to institutional-scale investors. The NRAS experience demonstrated that 'mum and dad' investors are attracted by tax credits, and that tying the incentive to new dwellings helped generate new supply rather than investment in the existing dwelling stock. With reform of negative gearing arrangements, tax credits for affordable housing delivery could be very attractive to private investors.

From a review of international programs, it is clear there is no single, correct way to deliver subsidised affordable rental housing, as it is dependent upon country-specific policy settings. With this in mind, below are some broad recommendations to support the design of a scheme to deliver subsidised affordable rental housing in Australia.

- *Scheme design*—No single investment option will deliver the supply and variety of affordable housing required in Australia to meet housing need. Rather, the scheme design needs to include a number of options working in parallel to target various elements of affordable housing provision accommodating tenants with different needs.
- *Finance and funding*—Ideally, a subsidised affordable rental housing scheme would be funded through a tax credit system attracting small-scale private investment, supported by a capital-based program that could attract investment

from institutions. Government could deliver the capital by rebalancing existing outlays for housing and real estate tax subsidies, and directing funds towards a subsidised affordable rental scheme.

- *Capacity building*—Capacity building measures must be put in place, in addition to the provision of long-term, large-scale and stable capital and land-use policy commitments. These include: building the capacity of the community housing sector; building the capacity for private institutional capital from banks and investors for affordable rental housing production; and building the capacity for public–private partnerships among for-profit and non-profit private development and within financing entities. Moreover, there is a need to recognise opportunities to provide service-enriched very-low-income rental housing for persons with disabilities and other service needs, in combination with support from the new National Disability Insurance Scheme (NDIS).

It is critical that government moves away from a reliance on demand-side subsidies that attempt to make housing more affordable for individual households, and instead sets in place supply-side alternatives. Although its administrative problems have been well documented, NRAS was successful in attracting interest from small-scale investors and was starting to generate interest from institutions. This report sets out recommendations for a future scheme. Robust consultation and engagement with all sectors of the housing industry could develop a successful program to deliver affordable rental homes on the type of scale required in Australia.

1 INTRODUCTION

The introduction of the National Rental Affordability Scheme (NRAS) in 2008 represented a significant shift in the provision of housing assistance in Australia, for the first time leveraging private investment in the supply of affordable rental housing at a national scale. In the context of declining rental and home purchase affordability in Australia, and sluggish rates of new housing construction, NRAS addressed important goals for boosting the supply of dwellings overall and of affordable homes in particular. Further, in contrast to traditional approaches to social housing, NRAS represented a mixed market approach, able to integrate affordable rental accommodation within wider market development. NRAS was discontinued in May 2014, largely due to political reasons. This report explores lessons that can be learnt from the operation of NRAS to inform the development of any future scheme to deliver subsidised private rental dwellings in Australia. Supplemented by lessons from comparable international schemes, including detailed case studies of the US and UK (with a focus on England), this report delivers guidelines for future delivery of subsidised private rental housing within a broader affordable housing investment framework.

1.1 Research questions and methodology

1.1.1 Research questions and conceptual framework

The project addresses the following research questions.

1. How have other countries with similar housing systems delivered subsidised affordable rental housing and what lessons can be learnt from the outcomes?
2. To what extent has NRAS been effective in delivering a supply of housing across Australia to address affordability in areas with differing dwelling price, rent and demographic characteristics?
3. To what extent has NRAS affected the supply and affordability of dwellings at the lower end of the private rental market?
4. Is there potential for an alternative model to deliver subsidised affordable rental housing supply?

The project reviews the spatial and affordability outcomes of NRAS but does not address in detail the administrative processes of the scheme, which were documented in the recent report by the Australian National Audit Office (ANAO 2015).

In examining international practice, this project concentrates on schemes specifically designed to deliver subsidised rental housing—that is, rental housing available at below-market rents for tenants on low to moderate incomes, either by private landlords or through private finance. As such, it does not discuss traditional grant-funding models for the delivery of social rental housing, but it does include the community housing sector, as the sector has been heavily involved within subsidised rental schemes in the UK and Australia in particular. The community housing sector, for the purposes of this report, includes community housing providers (CHPs) and all other not-for-profit corporations and organisations that deliver affordable rental housing for a variety of tenants.

1.1.2 Conceptual framework

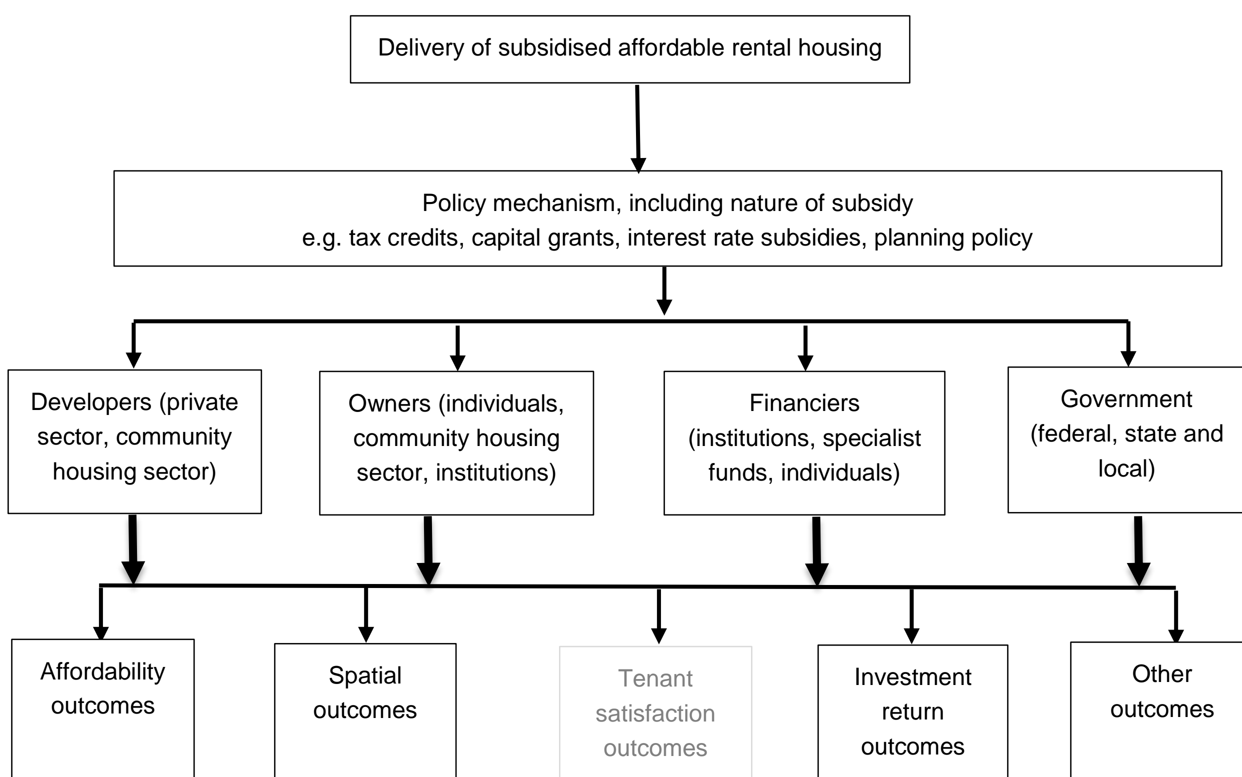
Figure 1, below, sets out the conceptual framework for the research. As illustrated, the focus is on the delivery of subsidised affordable rental housing available to let to eligible tenants, with a subsidy (reflected in the reduction in the rent charged) bringing

rents below the equivalent rent for a market dwelling. Each of the countries examined in this report (UK, US, Canada, France and Ireland) have adopted particular policy mechanisms to deliver such housing. These policies utilise a number of mechanisms, such as tax breaks, forgivable loans or land allocations, to enable the providers of the housing (developers and investors), to deliver housing at rents that are below market rates, while still generating acceptable investment returns or revenues. These policy mechanisms impact on various actors and institutions, from individual investors looking to purchase a single property as an investment, through to private financial institutions and bond providers. Developers and owners need to work within the policy framework to deliver dwellings, while various levels of government play a role in securing funding (e.g. state funding from federal government), approving units or delivering land through planning policy.

The conceptual framework focuses on the measureable outcomes of subsidised rental policies. These include affordability outcomes, spatial outcomes, tenant satisfaction outcomes and investment return outcomes.

Affordability outcomes relate to subsidised rents; how they compare with local market rents and the extent to which subsidised rents produce an affordable housing option for eligible tenants. Affordability outcomes also refer to the diversity of dwelling types delivering accommodation for a variety of households, from single-person to large families, to those with specialist needs.

Figure 1: Subsidised affordable rental housing: actors and outcomes



Note: Tenant satisfaction items not included in this research.

In terms of spatial outcomes, key considerations include: whether dwellings are concentrated in areas of social disadvantage; whether they have been integrated with market housing in areas with differing socio-economic characteristics; and whether they have been located so as to enable access to employment opportunities for households on low incomes (who may not be able to afford significant commuting

costs). In the Australian context, another consideration is whether subsidised rental housing has been supplied across regional areas as well as in metropolitan centres.

Investment return outcomes are also important. Without acceptable investment returns, the private sector will not engage in the delivery of this type of housing. The below-market rent charged for each dwelling means returns on such investments will be lower than their market equivalents, hence a subsidy is required in order to generate returns acceptable to the investor. An investor may be an individual purchasing a home under a particular scheme, a development company, a CHP or a financial institution. Different investors will have different return requirements that will make their potential investment returns acceptable for the perceived level of risk—this, in turn, will impact on the level of subsidy required to make the dwellings financially feasible.

Investment outcomes include: whether the policy mechanism attracted investment from a variety of sources by delivering an acceptable return on that initial investment; and whether government has met its objectives in terms of leveraging additional private finance on the back of project subsidies.

This report provides an overview of the policy mechanisms used by government internationally to secure subsidised affordable rental housing. For Australia, the US and England it compares the affordability and spatial outcomes, and to a lesser extent, due to the difficulties of collecting data and the different taxation regimes in place internationally, examines investment returns.

The report does not address final outcomes that relate to tenant satisfaction, including satisfaction with dwelling quality, location and property management, due to the resources required for an appropriate assessment of these outcomes.

As such, this report is structured around three mains themes:

1. policy mechanisms
2. affordability outcomes for eligible tenants
3. spatial outcomes.

Investment return outcomes are incorporated within the latter two themes. The report begins by examining NRAS in Australia (Chapter 2), including spatial outcomes (Chapter 3) and affordability outcomes (Chapter 4). Based on the three themes, Chapter 5 examines international practice in the delivery of subsidised rental housing. It also includes detailed case studies on the US and UK, again organised around these three themes.

1.1.3 Methodology

The methodology focuses on outcomes, and the actors and institutions engaged in housing delivery. Policy documents from Australia, the US, the UK, France, Canada and Ireland were used to assess the policy mechanisms employed in those jurisdictions, with international experts providing detailed case studies on the US and UK (mainly focusing on England), respectively. The affordability outcomes for Australia have been assessed through the collection of suburb-level data from the ABS and rent/price data from RPData. The international jurisdiction outcomes have been assessed through published documents and academic papers, with the international experts providing details on their particular countries.

Investment outcomes were calculated at the suburb level using rental data, vacancy rates and house prices to assess the potential for returns to NRAS investors, which in turn informed the affordability and spatial outcomes analysis.

The spatial outcomes for Australia were based on suburb-level NRAS data derived from the NRAS Quarterly Performance Reports published by the DSS. These data were mapped using ArcGIS. The four states with the greatest number of NRAS allocations (NSW, WA, Victoria and Queensland) were chosen for more detailed analysis. The spatial outcomes for the international jurisdictions, again were assessed through published documents and academic papers, with the international experts providing details on their own countries.

The analysis of secondary data for Australia, highlighted above, was used to address research questions 1 and 2. To address research question 3, HILDA data (detailed in Chapter 4) was used to examine the extent to which subsidised rental housing has had an impact on housing affordability and on households' rental affordability stress. This analysis is incorporated into the affordability outcomes chapter (Chapter 4).

An Investigative Panel, held in September 2015, provided additional data to inform each of the research questions, but primarily it addressed the fourth research question, which considered the potential for a new scheme to deliver subsidised affordable rental housing. The Investigative Panel included: CEOs from community housing organisations in Queensland, SA and Victoria; a manager from a major financial institution; one affordable housing consultant; the CEOs of two affordable housing development companies; and a number of leading academics. Additional evidence for the project was gathered through interviews with representatives from state government, CHPs, the development industry and the valuation profession.

1.2 Affordable rental housing in Australia

The issue of housing affordability in Australia is argued to be a long-term structural problem, rather than a more recent occurrence (Yates 2008; Milligan and Pinnegar 2010). Cutbacks to the post-war housing policies which had once supported home ownership marked the beginning of affordability constraints (Yates 2008). Financial deregulation in 1986 saw the end of schemes such as regulated mortgage interest rates, government-supported ownership schemes and deposit assistance for first home buyers—all of which had assisted home ownership (Milligan and Pinnegar 2010). By the 1990s, community perceptions of housing were changing. Once viewed as a place of shelter to be consumed by a household, the increasing availability of housing finance, introduced in the late 1990s, and the opportunity to benefit from a generous 'negative gearing' taxation policy and a reduction in capital gains tax, which emerged in 1999, redefined housing as a potential investment asset (Hulse et al. 2015; Yates 2008).

Parallel to these changes, the public housing sector shifted from supporting low-income worker families to those most vulnerable in society (AIHW 2014), a move which also ended the supply-based subsidises given for construction and saw household consumption being funded in its place through schemes such as Commonwealth Rent Assistance (CRA) (Yates 2013). The move towards market-based rents is considered to have weakened the structure of the public housing system. As aggregate rents across the system were no longer sufficient to maintain or replace ageing properties, stock was sold to cover operating costs, resulting in an overall contraction of public housing stock (Stone et al. 2013; Yates 2008). Subsequently, the social housing system was unable to expand at the same rate as the population (Yates 2013; Milligan et al. 2015), forcing low-income households into the private rental sector.

Social housing has been seen as the third—if wobbly—pillar of the welfare state in much of Europe and this has formed the basis for large-scale investment, particularly during the post-war period when there were widespread housing shortages (Malpass,

cited in Scanlon et al. 2014). Within the economic context there are a range of market failures and distributional issues which suggest that social housing can achieve objectives that cannot be generated through the market (Whitehead, cited in O'Sullivan and Gibb 2003). For example, supply in many countries is simply not elastic enough to ensure that demand-side subsidies generate the additional housing required, while rents are likely to increase when such demand-side subsidies become available (Whitehead et al. 2016). Arguably, supply-side subsidies are the only way of addressing this issue (Galster 1997; Whitehead and Yates 1998).

Private landlords, especially those housing lower income households and in pressured areas, tend to provide lower standard accommodation and tenants may not have the capacity to complain, let alone achieve value for money (Shelter 2014). Social landlords, on the other hand, have very different, more community-minded, objectives in terms of place-making, regeneration, supporting tenants to enter the jobs market and many other services (particularly in countries with a strong commitment to social housing, e.g. the Netherlands) (Elsinga and Wassenberg, cited in Scanlon et al. 2014).

1.2.1 Federal and state housing assistance

The federal and state governments provide a range of housing assistance in Australia. It could be categorised as direct assistance, mainly in the form of large housing programs, as well as a range of indirect assistance, such as subsidies provided through the taxation system. A good summary of the range of national and state government activities is provided by the Productity Commission (2016).

The activities of federal government include: providing CRA to Centrelink clients; home purchase assistance; NRAS; the 2009 Social Housing Initiative; and the programs embedded in the National Affordable Housing Agreement. Federal government also plays a major but less direct role through financial sector regulations and taxation policies.

State and territory governments administer and deliver housing services such as public housing, community housing, state owned and managed Indigenous housing (SOMIH), and other Indigenous housing. They also provide financial support to renters through various forms of private rental assistance and to buyers through home purchase assistance. Some jurisdictions provide home finance lending programs, for example Keystart in WA.

State and territory governments also play an important role through land use and land supply policy, planning policy, a range of housing-related taxes and charges (e.g. land taxes and stamp duties), and residential tenancy legislation and regulation. More recently, some state governments have also provided some debt and equity financing to the community housing sector.

The largest direct assistance program is based on the National Affordable Housing Agreement (NAHA). The Australian Government provided $1.9 billion in 2014–15 to state and territory governments for housing assistance through the National Affordable Housing Special Purpose Payments (NAH SPPs) and related National Partnership agreements. State and territory government capital expenditure for social housing was more than $1 billion in 2014–15, which was partly funded by the Australian Government through the NAH SPP. The Australian Government also provided $4.2 billion for CRA (Productivity Commission 2016: 17.4).

State governments manage a range of social housing programs, the largest being public housing. Public housing has been declining in both absolute terms and as a proportion of total housing stock for a number of years. At the same time, the role of

CHPs in the housing sector is expanding, driven primarily by changes in government policy that encourage the sector to play a larger role in the provision of affordable housing (Productivity Commission 2010). While the number of public housing and SOMIH households has decreased over the last decade (346,354 in 2006 to 324,695 in 2015), there has been an increase in the number of households in community housing (from 28,684 to 69,171) (Productivity Commission 2016: 17.5). Financing the expansion of the community housing sector is therefore critical to social housing supply.

1.2.2 The need to expand the affordable rental housing sector in Australia

While the media focuses much attention on affordability issues for home owners, the cohort most affected by declines in affordability are those households in the private rental market, particularly those on moderate to low incomes (Stone et al. 2013; Yates 2008; NHSC 2012). Rental costs increased twice as much as incomes between 2006 and 2011 (AIHW 2014). In a study comparing affordability outcomes between 2006 and 2011, it was found that housing affordability deteriorated for very-low and low-income households in that time period, with almost four in five very-low-income households and just under a third of low-income households found to be paying unaffordable rents (Hulse et al. 2015). It is argued that the inability of the private rental sector to provide for affordable housing for these cohorts arises from two aspects of the housing market. First, the inability of the social housing system to expand at a rate which meets the needs of the population, and second, the failure of the private rental sector to expand in response to increased demand (Yates 2013).

In 2011–12, 44 per cent of the 1.2 million low-income households in Australia were experiencing housing stress, which represents an increase since 2009–10 (42%) and 2007–08 (37%) (AIHW 2014: 3). The primary mechanism used by government to assist low-income households residing outside the public housing sector is the CRA scheme. During the 2013–14 financial year, the Commonwealth DSS assisted 1,315,385 individuals and families with rental costs through rent assistance at a cost of $3.95 billion (DSS 2014a). As Hulse et al. (2014: 5) note, 'the effectiveness of this expenditure depends on recipients being able to access an adequate supply of affordable rental dwellings in the private market.'

Despite the long-term growth in the private rental sector since the 1990s, there is currently insufficient affordable housing stock in the private sector for moderate- to low-income households (AIHW 2014). This is largely because of the disproportionate increase in higher rent stock and a decrease in lower rent stock. By 2011, this had resulted in a national shortage of 187,000 affordable dwellings for very-low-income households (up from 138,000 in 2006) (Hulse et al. 2015). As Wulff et al. (2011: 5) argue, 'one of the key issues around the supply of lower rent housing stems from the fact that there is virtually no purpose built private rental sector housing.'

For low-income households in 2011, the primary issue was a shortage of available affordable housing in the private rental sector (Hulse et al. 2015)—that is housing available for rent at a rent considered affordable using traditional benchmarks, such as 30 per cent of gross income. As Wulff et al. (2011) note, not all of the affordable stock in the private rental sector is leased to those who need it the most. In 2011, Hulse et al. (2015) found that much of the stock that would have been affordable to low-income households was being occupied by those on higher incomes, resulting in a national shortage of 122,000 affordable *and available* dwellings nationwide for low-income households in 2011 (up from 87,000 in 2006). Those households that would have traditionally moved out of the private rental sector into home ownership were postponing their transitions to home ownership in response to the unaffordable

ownership market. Consequently, low- to moderate-income households were competing against those on higher incomes for similar properties (Hulse et al. 2015).

Demand for housing in Australia is expected to increase at a rate faster than housing can be supplied and it is in the private rental market, particularly at the lower end, that the shortage is likely to have the most impact (NHSC 2012). This is particularly the case for those households ineligible for, or transitioning from, social housing (Cassells et al. 2014). Spatially, this distribution of social housing is uneven across, and within, states and territories (Stone et al. 2013). However, trends of declining affordability and shortage of social housing stock are consistent (Milligan and Pinnegar 2010). As Yates (2013: 119) notes, 'the impact of the shortfall on affordability outcomes for lower-income households is reinforced by the failure to maintain investment in social housing', prompting a greater need to encourage private investment in the broader affordable housing sector.

These trends are not unique to the Australian housing market. As a result, many governments are shifting away from traditional public grant/loan funded models and placing greater focus on private investment, often at the affordable housing end of the spectrum (Gibb et al. 2013; Lawson et al. 2010). It was in this climate that the NRAS—the first supply-side affordable housing policy in over 30 years—was designed, implemented and, following a change in government, discontinued.

1.2.3 Private investment in the supply of affordable rental housing

By 2007, the issue of housing affordability, and associated social and economic concerns, had gained sufficient public awareness to warrant political attention (Milligan and Pinnegar 2010). The NRAS emerged as part of a larger suite of housing and national building initiatives in the wake of the Global Financial Crisis (GFC). Introduced by the Rudd–Gillard Government in the 2008–09 Budget as part of the GFC stimulus package, the NRAS was designed and implemented as a response to housing affordability concerns (Plibersek 2008; Thomas 2014) and to stimulate the economy in the years following the GFC (Gibb et al. 2013). The scheme was a shift towards institutional investment into affordable rental housing and was described by commentators as 'a significant change to Australian housing policy' (Yates 2013: 117).

Private investment in the affordable rental housing market was encouraged through a taxation subsidy from federal and state governments. It was anticipated that 50,000 new affordable rental dwellings could be produced by 2012. The Hon Tanya Plibersek, in her role as Housing Minister, described the affordable rental dwellings that would result from the scheme as a new 'asset class' for institutional investors (Plibersek 2008). With the capacity to reduce rental costs for low- to moderate-income earners for up to 10 years and potentially house CRA recipients, the scheme represented a long-term commitment by government to address housing affordability issues for low- to moderate-income earners (Plibersek 2008).

1.2.4 Current directions in federal and state affordable housing policy

The key policy direction in Australia over a number of years has been a reduction in social housing financial assistance from the Commonwealth in real terms and an increase in subsidies through the tax system in the form of negative gearing and capital gains discounts. This trend is putting increasing pressure on state government budgets. There has been an increasing focus on doing more with less and state governments have been looking at a range of strategies to modernise ageing elements of their stock without putting too much pressure on their budgets. In the case of NSW, this has meant selling dwellings in high value areas (e.g. Millers Point in central Sydney) and redeveloping large housing estates in joint ventures with the private sector (NSW Government 2016).

In looking more closely at the indirect subsidies provided through the tax system, more than 1.2 million Australian taxpayers own a negatively geared property, and they claimed $14 billion in net losses in 2011–12. The number of negatively geared individuals doubled in the 10 years after the capital gains tax discount was introduced in 1999, and they now cost the federal budget at least $4 billion a year (Grattan Institute 2015) Whilst clearly the tax subsidy creates some housing benefits, there are concerns that the current arrangements are very inefficient, since only about 7 per cent of property lending is directed at new supply.

A national trend has been to transfer public housing stock to the community housing sector. For example, the Queensland Government has awarded a contract to a consortium of NSW CHPs to manage 4,900 properties in the Logan region of Brisbane. This 20-year scheme will also increase the supply of social housing in the area by 800 dwellings, but will generate a better mix of private and social stock.

One of the aims of this policy shift has been to provide leverage to community housing to expand the stock of affordable housing. However, the leverage provided by this transfer is limited by the income levels of community housing tenants. The current lending arrangements of most CHPs are with the major banks and are expensive and short term. In limited cases, states and territories have provided some debt and equity funding to assist CHPs. For example, in the ACT, the government has provided a rolling loan fund to CHPs at the government bond rate. Victoria provided substantial capital funds to the community housing sector through one electoral cycle (Milligan et al. 2009). Most recently, NSW has provided CHPs with access to a Social and Affordable Housing Fund, although the scale of the funds available for CHPs are modest compared to the demand for housing.

The increasing size of the community housing sector has seen an increasing number of large CHPs, and they are becoming more sophisticated. Most of the larger CHPs are participating in property development but still at a small scale. A large constraint has been the stop-start nature of this development. NRAS was yet another example of the lack of a sustained policy direction which would enable CHPs to develop a long-term pipeline of property development projects.

In the affordable housing space there are similarly patchy outcomes. Some states, most notably SA, have tried to use their planning system to help assist with the development of affordable housing by inclusionary planning provisions for larger developments. WA has been able to deliver 20,000 new affordable dwellings five years ahead of its planned target date of 2020 and has now added another 10,000 dwellings to its 2020 target. The affordable housing strategy, which includes social housing dwellings, adopts a range of mechanisms to provide affordable dwellings, incorporating a strategy of providing shared equity and low-deposit loans to Western Australian households.

1.3 Subsidising affordable housing: Australian and international research

Growing policy interest in the areas of affordable rental housing delivery in Australia has been mirrored by ongoing research effort. This work has emphasised the need for new funding sources to address failure at the bottom end of the private rental market (Berry 2002; Berry et al. 2006; Hall et al. 2003; Lawson et al. 2014; Lawson et al. 2010; Milligan et al. 2014). Early studies highlighted the need to address barriers to investment by large investors, for whom the expected rate of return from affordable rental housing would be too low relative to the myriad risks and relative to more attractive investment options (Berry et al. 2002). A range of policy packages constructed to deliver an ‘adequate stream of subsidies’ could attract capital and

deliver 'social dividends' for those interested in socially responsible investment, but only if 'appropriate financial products are created as part of the policy packages implemented by government' (Berry 2002). Drawing on international practice, subsequent work has gone on to develop, test (through consultation with industry) and operationalise potential instruments and policy options for expanding affordable rental housing in Australia, particularly through institutional investment (Lawson et al. 2010; Lawson et al. 2012, Lawson et al. 2014, Milligan et al. 2014, Milligan et al. 2015 (Newell et al. 2015; Lawson et al. 2014; Lawson et al. 2010). A handful of studies have also examined early implementation experiences of NRAS (e.g. Gilmore and Milligan 2012; Milligan and Pinnegar 2010). This study is informed by, and builds on, this work.

1.3.1 Learning from international approaches

When seeking to draw lessons from comparative research, it is important to be clear about the purpose and basis for comparison, recognising contextual differences and avoiding naive or shallow forms of 'copying' (Dolowitz and Marsh 2000). Oxley et al. (2014) describe a number of approaches for ensuring robustness in comparative policy research and development. These include: updating and extending knowledge of relevant policy approaches as documented in secondary literature; engaging with 'country experts'; sharing lessons through deliberation with stakeholders; and developing findings or models relevant to the local context. For this project, we undertook an initial review of the most recent research and policy literature on international approaches to subsidising affordable rental housing, as outlined in this chapter of the report. We were then able to draw on our 'country experts' from the US (Dr David Rosen) and England (Professor Christine Whitehead) to provide detailed information on the design, operation and outcomes associated with one longstanding program (the LIHTC scheme) in the US, and the more recent Affordable Rent regime (England), both of which offer potential lessons for Australia (as outlined in Chapter 5).

1.3.2 Overview of international experience

In contrast to Australia, private investment in affordable housing provision is prevalent in the UK (Whitehead 2014), the US (Berry et al. 2006) and in many parts of Europe (Oxley et al. 2014; Scanlon et al. 2014). A range of models are used, often in combination, to deliver affordable accommodation within the private and social housing sector. These include: subsidies to encourage private investment in affordable rental housing development and management; government based guarantees of housing debt (for the affordable sector); planning mechanisms; and direct grants for social housing development or renewal (Berry et al. 2006; Lawson et al. 2010; Oxley et al. 2014). Oxley et al. (2014) define a fourfold typology of competing policy approaches for boosting affordable rental housing supply. This includes: 'unconditional' income related assistance (not directly related to housing payments); 'conditional' income related assistance (e.g. Australia's CRA program); 'unconditional' supplier subsidies (assistance to suppliers—e.g. tax reductions, grants, discounted loans or equity finance for housing developers/builders and landlords, without specific requirements to deliver a particular housing or affordable housing outcomes); and 'conditional' subsidies or incentives (which might include all of the above forms of supply subsidy but with the requirement that affordable housing delivery requirements are met) (Oxley et al. 2014: 4–5). In addition to the range of financial incentives outlined, access to land at low cost is also described as a form of 'conditional' incentive for affordable housing development. The range of international mechanisms reviewed here all fall into the latter category of conditional subsidies, as did NRAS itself (in contrast to wider, unconditional forms of housing-investment-related incentives in Australia, e.g. negative gearing and capital gains tax discounts).

1.3.3 Subsidies for private investment in affordable rental housing

A number of different approaches to increase private investment in affordable rental housing have been used in North America and Europe.

Taxation credits

Australia's former NRAS was modelled largely on the Low Income Housing Tax Credits (LIHTC) program in the US. Also found in France, tax incentive schemes incentivise the development of affordable housing by offering annual taxation subsidies for a given period of time on the condition that the dwelling meets the affordable requirements of the scheme.

Established as part of the Tax Reform Act of 1986, to encourage the private or corporate construction of new affordable housing units for low-income households, the LIHTC program is an indirect subsidy from the federal government, jointly administered through the US Department of Treasury's Internal Review Service (IRS) and local and state housing finance agencies (Dawkins 2011; Gibb et al. 2013). In brief, tax credits are awarded to developers of eligible projects and may be claimed annually over a ten-year period. These credits are usually sold to investors to raise capital (or equity) for the projects, thereby reducing the funds which need to be borrowed to complete the project. The reduced debt on the project enables the developer to offer lower, more affordable rents. Tax credits are calculated as a percentage of costs involved in developing the affordable rental dwelling. Investors benefit by receiving a dollar-for-dollar credit against their federal tax liability each year over a 10-year period (Office of the Comptroller of the Currency 2014). More detailed information about the operation of the LIHTC scheme is contained in Chapter 5.

Since the 1990s, private landlords in France have been able to access tax incentives for affordable rental housing. Although various tax incentives for private landlords were available as early as 1986, it was not until the 1990s that the objective of such policies began to be directed at the intermediary rent sector, which includes middle-income households not eligible to access the social housing sector (Hoekstra 2013). A variety of particular schemes have been introduced and adjusted over time (see Table A1). For example, in 1990 the *Besson-neuf* tax incentive was developed with the objective of enhancing the supply of new rental dwellings in the intermediary sector, a policy which ended in 2002. This was followed by the *Quiles-Mehaignerie* incentive, with a similar objective, which operated between 1992 and 1997. What has emerged over the last 25 years is an overlapping phasing in and out of various taxation incentive for private landlords—a portion of which benefit those enhancing or contributing to the new supply of affordable rental housing for middle-income households.

Incentives generally entail a yearly deduction of a percentage of the investment costs as well as possibly a yearly deduction of a fixed percentage of the rental income. The maximum negative rental income allowed under those taxation policies directed at increasing the supply for the intermediary sector is €10,700—with the exception being Quiles-Mehaignerie, available during the 1990s, which allowed an annual maximum deduction of €15,300. The terms of these incentives range from 3–15 years, although in some cases it is possible to extend the term of the agreement.

Planning mechanisms

In many countries the planning system plays an important role in contributing towards the supply of subsidised rental housing.

In both the UK and Ireland, legislation exists through which local planning authorities can negotiate a binding agreement with developers to achieve outcomes that benefit

the community, including the provision of affordable housing (McAllister et al. 2014; Crook et al. 2010). The community benefits that arise from the planning agreements are known as 'planning obligations' (Crook et al. 2010; Burgess et al. 2013; Crook et al. 2015). In England, this is achieved through Section 106 of the Town and Country Planning Act 1990 (S106), where developers are typically required to provide contributions towards local infrastructure (usually calculated via the 'community infrastructure levy') and affordable housing (usually negotiated subject to the viability of the site and to affordable housing need as outlined in local housing strategies). A similar mechanism provides for affordable housing as part of new residential development in Scotland.

Additionally, the 'rural exceptions' mechanism in the UK enables land to be developed beyond the parameters of a local plan, provided that the land is used for affordable housing (Gallent 2009). Over time, a considerable proportion of new affordable housing supply has been generated by these planning system approaches, even during the post-recession period (Morrison and Burgess 2014; Burgess et al. 2013). The S106 mechanism in particular has been instrumental in ensuring that new housing development includes provision for affordable housing, although until now a high proportion of projects delivered through S106 have also drawn on other resources for the construction of affordable homes (particularly capital grants to social housing providers). Increasingly, the mechanism has been used to fund affordable home purchase rather than traditional forms of social or affordable rental housing. Thus, the underlying function of S106 is to deliver well located land for affordable housing as part of mixed income and tenure developments and neighbourhoods (Whitehead 2007). Similarly, the rural exceptions mechanism is a strategy for ensuring land for affordable housing development, but additional subsidy or resources are sometimes needed for the capital component.

In Ireland, a mechanism for delivering affordable housing through the planning system was introduced in the year 2000 via an amendment to Part V of the Planning and Development Act. However, unlike the English approach, the model primarily delivered discounted affordable home ownership options (or opportunities for social housing providers to purchase dwellings at a discounted price) (Norris and Shiels 2007). Under this planning obligation, developers are required to set aside part of their development site to respond to local requirements (Norris and Redmond 2005; Norris and Shiels 2007). Under this legislation, local planning authorities can also reserve up to 20 per cent of land zoned for residential development to meet the social and affordable housing needs, and this portion of land can be made available to the local authority at the cost of existing use, rather than development potential value (DECLG 2000). Like the English system, however, local authorities negotiate an agreement with developers to attain the affordable and social housing outcomes as required by the housing strategy. The affordable housing obligations can be discharged via transfer of ownership; construction of social and affordable housing for transfer; payment of a specified amount; or a combination of these options—although the developer is compensated to the amount of the unimproved value of the land, or the land plus building costs (in the case of a completed dwelling). The mechanism has weathered considerable scrutiny as part of the general slump in housing development in Ireland following the GFC, but has so far been preserved.

In the US, the term 'inclusionary' zoning or housing is used to refer to a spectrum of local planning approaches to supporting the provision of low-cost home ownership and rental units. However, approaches differ significantly across the country and indeed between local municipalities. In general, they can be categorised as: 'barrier removal' approaches, which overcome local zoning or other impediments to affordable housing development; bonus or incentive schemes, which offer additional

development entitlement such as floor space, and/or valuable concessions on planning requirements, in return for an affordable housing contribution; and mandatory inclusionary zoning schemes, which require an affordable housing 'set aside' (usually around 15% of the total development) for residential projects above a set threshold (e.g. 10+ units) (Calavita et al. 2010; Gurran and Phibbs 2008).

One of the most significant 'barrier removal' approaches, introduced in the early 1970s, is the 'anti snob' laws applying in Massachusetts (Karki 2015). Under this policy, developers can access sites beyond the local planning scheme for affordable rental housing development, if the current supply of affordable housing units is inadequate relative to demand (defined as less than 10% of the housing stock being affordable for low-income groups). While the mechanism (known as chapter 40B) is not directly associated with the LIHTC scheme, there is no doubt that a stream of funding and a dedicated affordable housing sector has been able to make effective use of the opportunities delivered through the planning system. In many cases, the planning bonus approach is combined with mandatory recommendations for affordable housing provision, to offset the costs to developers of complying with the affordable housing requirement (Calavita et al. 2010).

Overall, the use of the planning system to secure affordable housing in residential projects is somewhat controversial. There are debates in both England and the US about whether the affordable housing contribution impacts negatively on project viability and thus has an overall negative impact on new housing supply (Morrison and Burgess 2014; Schuetz et al. 2011). However, a recent study of inclusionary housing programs in the US concluded that the drawbacks of inclusionary housing schemes are often overstated, but so too are the benefits (Schuetz et al. 2011). The main benefits arising from inclusionary schemes relate to the provision of land for affordable housing development in well located (high demand) areas, and the capacity to support other affordable housing supply subsidies provided by government by delivering access to development sites (Bratt and Vladeck 2014; Crook and Whitehead 2002).

Direct funding for affordable housing provision/redevelopment

Capital grant funding streams continue to feature as integral to the delivery and renewal of affordable housing supply. Two significant programs in North America are the HOME Investment Partnerships Program (HOME) in the US and the Investment in Affordable Housing (IAH) framework in Canada. Both the schemes commenced in the 1990s and have been designed to fund the delivery of affordable housing by the states or provinces. Funds are allocated through formula grants for the provision of new build, purchase or renovation for rent to low-income households (NCSHA 2015). In Canada, the scheme extends to transition housing, supportive housing, subsidised housing, affordable market rental and home ownership (CMHC 2013). The allocation formula takes into account the housing supply, poverty incidence and financial capacity of each state or local authority (NCSHA 2015; CMHC 2013).

In both countries, the funds available through the schemes can be combined with other federal or province based housing programs. During 2014, a total of $US1 billion was awarded across all states (HUD 2014b), an amount which is boosted by a 25 per cent contribution by all participating jurisdictions (Jones 2014). From April 2011 to 30 June 2015, federal funding delivered under the IAH produced 235,872 housing units (CMHC 2015). At the same time, the provinces and territories contributed further funds towards affordable housing, including contributions from the private and not-for-profit sector.

Affordable housing provision became the responsibility of the Canadian provinces and territories during the mid-1990s through bilateral affordable housing agreements

(Hulse 2000). In response to these agreements, provinces have designed a suite of strategies to distribute the funds and generate institutional investment into the affordable housing sector. For example: Manitoba has a Rental Housing Construction Tax Credit Program which provides a financial incentive of $12,000 per unit for the construction of affordable rental housing; the Affordable Housing Program in New Brunswick offers a forgivable loan to a maximum of $40,000 per unit to dwellings which meet affordability requirements; and in Nova Scotia, the Affordable Housing Program offers up to $25,000 per unit in capital funding in addition to a $25,000 rent supplement per unit over ten years. While the IAH allocates funding for the purpose of providing transition housing, supportive housing, subsidised housing, market rental housing or market home ownership, participating jurisdictions rarely generate programs for all areas.

In the UK and much of Europe, social housing provided by independent landlords was initially funded by revenue or interest-rate subsidies, and later by capital grants, often for specific schemes, notably involving regeneration. Particularly because these schemes were prevalent in periods of inflation and house price and rent rise over the decades, providers built up significant equity and strong balance sheets. This in turn supported borrowing from the private finance sector—in some cases, notably the Netherlands, to the point where no additional supply-side subsidy was required, although income related subsidies remain. (Lunde and Whitehead 2016; Scanlon et al. 2014).

Government based guarantees of housing debt

One of the emerging mechanisms for encouraging supply of affordable rental housing is through government and sector based guarantees (Lawson 2013), which typically have minimal impact on government budgets. These are built on the experience of a number of European countries, notably the Netherlands, where they were a core element in building up the housing association sector from the beginning. Their strength lies in providing professionalised guarantees that are carefully structured to offer revenue support and regulation, while good business management practices produce a zero default rate among housing providers.

An example of one such scheme is the English Affordable Homes Guarantees Programme (AHGP). In September 2012, the government announced two proposals to ‘guarantee up to £10 billion of housing providers’ debt’, with at least £3.5 billion allocated to the construction of new private rental dwellings at market rates and the rest to registered providers to produce affordable housing (HCA and DCLG 2013). The scheme aimed to contribute to the expansion of affordable housing stock owned by independent landlords and to funding institutional investment debt for purpose-built market-rented properties in England, by relying on the government’s fiscal credibility to reduce the cost of borrowing for housing providers (HCA 2012). Lower borrowing costs give registered providers the opportunity to offer reduced rents to low- and moderate-income households (Lawson et al. 2014). It is also intended to ‘attract investment from fixed income investors, rather than risky development finance’ (HCA and DCLG 2013; Lawson 2013). The approach, in the affordable rent submarket, is justified as a way to provide additional housing for lower-income households by providing ‘cheaper money’ and reducing the funding allocated towards affordable housing grants (Lawson et al. 2014). Registered housing providers must apply to the Central Government for Guarantee through a competitive funding round. The guarantee programme only covered 80 per cent of the project borrowings (HCA and DCLG 2013; Lawson, 2013). Eligible projects in the program include new-build dwellings or the conversion of existing stock, and they produce housing for affordable rent or affordable purchase. The minimum total debt requirement for registered

providers producing affordable housing may not be less than £5 million, which may be distributed across projects (DCLG 2015a). Projects may either provide affordable housing for rent or purchase, and can be across more than one development site. The minimum debt requirement is designed to encourage larger projects, without excluding the participation of smaller housing providers (Lawson 2013). Importantly, the AHGP is now being phased out on the grounds that the debt finance market is working well. The private-sector guarantee has yet to become operational. One reason for this difference is that in the affordable housing sector, The Housing Finance Corporation (an aggregator set up by government in 1987 but run entirely in the private sector, with a strong capital base), was available to act as administrator for the program, subject to risk assessment by the Department of Communities and Local Government. No equivalent organisation was available to implement the private-sector guarantee.

Tenancy agreements with landlords

Introduced in Ireland in 2005, the Rental Accommodation Scheme (RAS) is a central government initiative administered by local government, with an operating budget in 2014 of €140 million (DKM Economic Consultants et al. 2014). Under this scheme, local government authorities and approved housing bodies (AHBs) enter into an agreement with landlords in the private rental sector for the provision of either newly constructed or quality accommodation (Haffner 2013). Under the agreement, the local authority or the AHB pays the rent in full on behalf of the tenant, while the tenant makes a contribution to the local authority for the length of their tenancy. Landowners and local authorities or AHBs may enter into one of two types of agreements, which, as shown in Table 1, differ largely in terms of the length of lease and the management of the tenancy. As Haffner (2013: 14) explains, 'the RAS provides a bridge between the social and private rental sectors and effectively means that the private rented sector is being used for a social purpose and is directly contributing to meeting the needs of households who cannot afford market rents.' The scheme emerged in response to the high proportion of tenants in the private rental and voluntary housing sector who were receiving housing supplements (DECLG 2007; DKM Economic Consultants and Brady Shipman Martin 2012). Eligible tenants must, therefore, have been receiving a rent supplement for more than 18 months and be found to have a long-term social housing need. The scheme aims to provide security of tenure, good-quality accommodation and a long-term solution to affordable housing. In addition, it seeks to increase the number of long-term tenancies in the private sector available to low-income households that are unable to access social housing (Haffner 2013).

Table 1: Agreement types under the Rental Accommodation Scheme

Type of arrangement	Length of lease	Landlord	Building maintenance
Long-term lease	10–20 years	The local authority or approved housing body will manage and support its tenants, and maintain the internal property for the term of the lease	The property owner is responsible for structural insurance, maintenance and repair, and any property management fees
Availability	1–10 years	Property owners act as landlords to the tenants	The property owner is responsible for structural insurance, maintenance and building repair

Source: Housing Agency 2015.

1.4 Summary and implications

In short, there has been much international policy experimentation to support an increased supply of affordable rental housing development. Flowing from this selective review, a number of potential lessons emerge. First, it is important to note that over time a range of countries have gradually developed large affordable housing sectors, in some cases ultimately becoming self-sustaining. Here analogies might be made between Australia's experience with the implementation, then suspension, of NRAS.

Secondly, it is important to emphasise that across all cases reviewed here, not one country is able to increase the supply of affordable housing solely through income support to households alone. In most cases, a dedicated subsidy or incentive stream in addition to other resources, including public land or land delivered through the planning system, has been necessary.

2 NATIONAL RENTAL AFFORDABILITY SCHEME: POLICY MECHANISM

The National Rental Affordability Scheme (NRAS) was introduced in 2008 by the then Labor Government in response to long-held concerns about housing affordability and housing stress, particularly for medium- to low-incomes families (Hulse et al. 2014; Tually et al. 2010; FaHCSIA 2011). Although other housing supply actions (e.g. the National Housing Supply Council, the Housing Affordability Fund and NAHA) were administered by the Government, NRAS was the only initiative that focused on the delivery of subsidised private rental accommodation. It did so by offering a financial incentive for developers to invest in affordable housing projects that would be leased to low-income households at below-market rents (DSS 2008). The NRAS was expected to deliver up to 50,000 new rental dwellings by mid-2012, at a total cost of $622.6 million over the four years. Prime Minister Kevin Rudd announced in March 2008 that, provided renter and investor demand was still strong, the scheme would be expanded to include an addition 50,000 new incentives from 2012 onwards (DSS 2014b). However, this was downgraded to 35,000 new dwellings as part of cuts to government funding to divert spending toward the rebuilding of infrastructure in Queensland following the January 2011 floods (Thomas 2014).

The objective of the scheme, established in Section 3 of the *National Rental Affordability Scheme Act 2008*, was to:

> encourage large-scale investment in housing by offering an incentive to participants in the National Rental Affordability Scheme so as to:
>
> 1. increase the supply of affordable rental dwellings
> 2. reduce rental costs for low and moderate income households. (Australian Government 2008a: 2)

2.1 Mechanics of the scheme

The primary mechanism used by the scheme to encourage investment in affordable rental housing was a financial incentive. The incentive, payable for a period of 10 years, was subject to an approved rental dwelling meeting mandatory requirements, in particular, being leased at 20 per cent below market rate to an eligible tenant. The incentive was comprised of the following.

- An Australian Government contribution per dwelling per year, for up to 10 years, as either a tax offset or cash (the latter for endorsed charitable organisations who have not elected to receive a tax offset).
- Additional state and territory government contributions, which could be offered to approved participants per dwelling per year, as a direct payment or as payment in kind (DSS 2014f).

These two components are shown in Table 2. For the 2014–15 NRAS year (which commenced on 1 May), the federal government contributed $7,996.00, while the state and territory governments provided $2,665.00, creating a total incentive of $10,661.00 per dwelling produced. The incentive is indexed annually (December quarter to December quarter), as at 1 March of the immediately preceding year, based on the rents component of the Housing Group of the Consumer Price Index for the year, using the weighted average rate of the eight capital cities (which for 2014–15 was 3.0%) (DSS 2014i).

As noted by Tually et al. (2010), contributions from the NSW Government in early rounds were offered in two forms: as an upfront capital contribution for not-for-profit

registered CHPs or as the regular state government contribution for eligible organisations. In later rounds, the NSW Government added additional forms that provided the state contribution as an upfront capital contribution and land (as was the case, e.g., in Rouse Hill).

Table 2: NRAS incentive amounts and contributors (2008–15)

NRAS year	Federal government ($)	State/territory government ($)	Total ($)
2008–09	6,000	2,000	8,000
2009–10	6,504	2,168	8,672
2010–11	6,855	2,285	9,140
2011–12	7,143	2,381	9,542
2012–13	7,486	2,495	9,981
2013–14	7,763	2,587	10,350
2014–15	7,996	2,665	10,661
2015–16	8,188	2,729	10,917

Source: Adapted from DSS 2014i.

The federal government principally adopted an administrative role and was responsible for the parameters of the scheme, maintaining guidelines, developing links between the scheme and other affordable housing initiatives, and making decisions on the allocation of incentives. The state and territory governments were required to work with the Australian government to ensure that the scheme was delivered effectively, identify land that could be earmarked for affordable housing developments, provide cash or in-kind contributions, act as brokers between other scheme participants, and support not-for-profit organisations involved in the scheme (FaHCSIA 2011: 12).

2.1.1 Eligible tenants

Tenants must meet eligibility criteria based on gross income by household composition for the preceding 12 months. The household income of new tenants cannot exceed the *initial household income limits*, which are indexed each year on 1 May. For the 2014–15 NRAS year, this was $47,289 for a single adult and $81,063 for a couple with one child. (For the complete list of income limits by household composition, see Table A2). Should the household income of a tenant exceed these limits by 25 per cent for two consecutive years, they will no longer be deemed eligible. For instance, a single person household can earn up to $59,111 for two years before they will no long be eligible tenants (Table A2).

Prospective tenants apply for a lease by approaching an approved NRAS tenancy manager. The application form is similar to that for any residential tenancy; however, it gathers more information on income and financial assets held by the applicant(s). Provided that prospective tenants meet the NRAS eligibility requirements, the decision to grant a lease is the same as with residential tenancies in general. In Queensland, tenants must be registered with the Department of Housing and Public Works' One Social Housing Register before they can apply to rent an NRAS dwelling, which requires the applicant to be an Australia citizen and demonstrate that they already live in the state. Approved participants then use this register to find potential tenants. Similar requirements do not exist in other states or territories.

2.1.2 Incentive distribution

NRAS funding was distributed in two phases. The first was the Establishment Phase, which ran from 1 July 2008 to 30 June 2010, and, as shown in Table A3, included Rounds 1 and 2. This was followed by the Expansion Phase, which ran from 1 July 2010 to 30 June 2012, and comprised Rounds 3 and 4. An NRAS 'round' is a call by the government for applications from approved participants who meet a set of assessment criteria. In March 2013, the Gillard Government opened a once-off call for what was known as the 'Shovel Ready Round', which was specifically for applications pertaining to projects that could be substantially completed by June 2014 and ready to rent by December 2014. Initially, 1000 incentives were available; however, in June 2013 the government increased the number to 2000 (DSS 2013a). By the end of the Shovel Ready Round, 2367 incentives had been distributed. The government announced in the 2014–15 Budget that it would not be proceeding with Round 5 of the scheme, and as a result no incentives were allocated (DSS 2014f). The discontinuation of the scheme is discussed further below.

2.1.3 Conditions of allocation

To receive the incentive, approved participants were required to meet the conditions set out in the *National Rental Affordability Scheme Regulations 2008*. The mandatory conditions of allocation included that approved rental dwellings:

- Should not have been lived in as a residence, or
- Having been made fit for living in, should not have been lived in as a residence between that day and the first day of the incentive period.

And also that:

- Dwellings comply with the landlord, tenancy, building, and health and safety laws of the relevant state or territory and local government area.
- The rent charged is, at all times during the year, at least 20 per cent less than the market value rent for the dwelling.
- Dwellings be rented to eligible tenants.

Dwellings are initially valued when the dwelling is either first allocated or available to rent, whichever is later. The property must be assessed on the market value on the basis of the condition in which the dwelling is to be rented, including if it will be rented fully or partially furnished. Approved participants must also arrange for market rent valuations at the end of the fourth and seventh years of the incentive period for the dwelling. *Regulation 18* sets out that the market value rent must be determined by a valuer who is registered in the state or territory in which the dwelling is located, and with a professional organisation which upholds the professional practice standards of the Australian Property Institute. The valuer must not have a commercial relationship with or interest in the dwelling or the registered owner or manager.

Once an allocation has been made to an approved participant, allocations may, with approval, be transferred to a different rental dwelling that meets the same criteria or to another approved participant.

2.1.4 Application process

While the scheme was administered by the former Australian Government Department of Families, Housing, Community Services and Indigenous Affairs, now known as the Department for Social Services (DSS), applications were assessed jointly by the Australian Government and the state or territory government in which the developments were located. Approved participants were required to submit three

forms: the Application Form, the Dwelling Schedule, and the Financial Viability Form. The call-out for each round detailed the set of assessment criteria to which Approved participants were required to respond. Overall, seven sets of assessment criteria were used during the course of the scheme (Table A4). These sets responded to changing housing needs within each state or territory (FaHCSIA 2011), as well as to the different aims for each round. For instance, in Round 1, approved participants referred to Set 1, while applicants for Round 2 referred to Set 2. However, there were three parts to Round 3, which was reflected in the use of Sets 3, 4 and 5, each of which related to a different purpose, such as dwellings on state or territory lands, applications for more than 1000 dwellings, and applications promoting social housing linkages (NRAS Helpdesk 2015).

In addition to the assessment criteria detailed in the regulations, each state and territory provided specific criteria against which they would assess the application (DSS 2015c). The most comprehensive list of these priorities was for the Establishment rounds beginning in 2008 (Table A5). Common priorities included: that developments must be located in areas of need, particularly areas with high population growth, areas where house prices had increased rapidly or locations associated with urban renewal; that developments be located in good proximity to activity centres and transport nodes; and that developments respond to state housing and/or economic development strategies (FaHCSIA 2008).

2.2 Discontinuation of NRAS

In May 2014, The Abbot Government announced that Round 5 of the NRAS would not proceed (DSS 2014h). Thereby, the scheme was discontinued after a term of only five years and 11 months. The government assured investors that incentives which had already been allocated would continue to be paid for up to 10 years, provided the eligibility criteria were met (Andrews 2014). The Hon Kevin Andrews MP, Minster for Social Services, released a statement indicating the reasons for the scheme being discontinued, citing that it was ‘poorly designed, with multiple flaws, ambiguous legal requirements and red tape … plagued by the late delivery of dwellings, trading of incentives, multiple changes to agreed locations and leasing to international students’ (Andrews 2014). In its Budget Review 2014–15 Index, the Abbot Government noted that the large super funds and institutional investors ‘upon whom the scheme relied for long-term viability’, were slow to sign up to the scheme. Rather, the main proponents were consortia involving community housing organisations and developers. The government acknowledged challenges faced by the scheme associated with: the timing of the scheme in relation to the GFC and the flow-on impacts this had on lending; labour shortages in the construction industry; and the uncertainty for investors caused by proposed cuts to the scheme to fund the Queensland Flood Relief (Thomas 2014).

This relatively short-lived policy response to the issue of affordable housing in Australia was the nation’s first supply-side mechanism since the 1970s. At the time the scheme was discontinued in May 2014, it had, in almost six years, allocated or reserved 38,041 incentives—including 19,802 incentives for properties that had been rented or were available for rent (DSS 2014c). It was on track to deliver a total of 38,000 dwellings by June 2016 (SERC 2015).

On 12 December 2013, prior to the scheme being discontinued, the senate referred an inquiry into affordable housing to the Senate Economics References Committee (SERC 2015). The terms of reference of this inquiry included, ‘the role of all levels of government in facilitating affordable home ownership and affordable private rental’ (SERC 2015: 1). The inquiry involved a review of commonwealth assistance and

partnership agreements with the states and territories to improve access to affordable housing–which, at the time, included the NRAS.

Overall, the inquiry found that there was wide-ranging support for NRAS from a number of diverse individuals and organisations, including CHPs, researchers, academics, state representatives and groups advocating for cohorts with specific housing needs (e.g. older Australians, those with disabilities or those experiencing domestic violence). The support for the continuation of the scheme was so strong that, despite recognition of the faults of the scheme, none of those who provided witness statements or submissions to the inquiry advocated its abolition (SERC 2015). One of the strengths of the scheme that was cited was its ability to *support* the production of affordable housing to address a wide range of needs. Mixed models of housing—for example, that comprise dwellings for key workers, dwellings for sale and dwellings retained for affordable housing—already generate private investment. The addition of the NRAS incentive created the ability to provide a diverse range of housing for very-low-income households in these developments (SERC 2015), as well as complementing the community housing sector by relieving other market pressures (Gibb et al. 2013). Moreover, it both encouraged private-sector investment into the affordable housing sector, and highlighted to financial institutions the ability of the community housing sector to manage such developments. In short, the scheme provided an opportunity for community housing organisations, the private sector and local government to collaborate, with the outcome being the production of affordable housing. Commentators also remarked on the impact the scheme had on tenants, in providing a secure form of housing in which they could increase their income without the concern of exceeding the lower-income limits in the social housing sector. Overall, those who provided submissions for the inquiry noted that the scheme incentivised the development of new properties for the affordable housing market that would not otherwise have been constructed.

Notwithstanding these strengths, the inquiry also reported on the perceived weaknesses of the scheme. There was concern that the timing of the introduction of the scheme might have had a negative effect on the number of incentives sought. Prior to the scheme's commencement, it was anticipated that it would take around six years to generate enough momentum to achieve the target numbers. It was thought that the introduction of the scheme in the middle of the GFC, at a time when banks were hesitant to lend, could push this back even further. However, as the inquiry found, despite the untimely introduction, the number of dwellings produced up to December 2014 exceeded the estimates set by those involved in the early discussions and the design of the scheme (SERC 2015). Outcomes were very dependent on the state/territory in which the scheme was administered, with Queensland demonstrating the greatest level of control, with additional measures introduced to improve the integrity and efficiency of the scheme.

The Scheme was criticised for its poor accountability on funds spent and limited monitoring of cost effectiveness and outcomes achieved. Commentators complained about the bureaucracy involved in the overly complex, costly and time-consuming application process and significant delays during processing. A number of submissions questioned the effectiveness of the housing markets and dwelling types being targeted by the scheme. The Property Council (2014), in particular, suggests that the scheme has adopted a 'one-size-fits-all' approach and does not take into account the differences between housing markets, including the costs of housing delivery and the smaller returns generated in less affordable areas. Others noted the need for the scheme to geographically target areas in need of affordable housing, including in regional and rural Australia.

The Inquiry report was critical of the decision to abolish the scheme, noting that investor confidence in the scheme and affordable housing outcomes were only beginning to be realised at the time of discontinuation. As noted in the inquiry report, the scheme was abolished:

> … just as it was gaining the trust and support of the private sector and beginning to make a material contribution to the supply of affordable housing. Not only has it undermined investor confidence in this scheme, it has also fed into the general uncertainty that has engulfed the national policy on affordable housing. (SERC 2015: 375)

Accordingly, the committee recommended, among other items, that:

> … in the absence of any credible alternative scheme designed to increase the supply of new affordable housing and considering steps have already been taken to improve the administration and implementation of NRAS that the Australian Government continue with NRAS round 5. (SERC 2015: 375)

3 NRAS: SPATIAL OUTCOMES

The purpose of NRAS was to encourage large-scale investment into affordable rental housing. It is not only the number of dwellings but also their spatial distribution which is fundamentally important to understanding the effectiveness of NRAS in delivering opportunities for low-to moderate-income families to access affordable dwellings in a range of suburbs.

To evaluate the nature of this new rental housing supply, this chapter analyses the prices, rents and demographic characteristics of suburbs receiving NRAS dwellings and compares them across four states. Two composite measures were devised to enable comparisons to be made across the selected states: a socio-economic measure and an investment potential measure.

3.1 What was delivered up to June 2015?

At the end of June 2015, the DSS reported that a total of 37,583 incentives had been allocated (i.e. an NRAS dwelling had been completed and was available for rent) or reserved (i.e. allocated for dwellings not yet completed) (DSS, 2015b) (Table 3). More than two-thirds (73.4%) of these were either already tenanted or available for rent (Table 3). The decrease in the total number of incentives (allocated or reserved) from 40,151 dwellings in September 2012 to the current figure of 37,583 total incentives reflects dwellings that did not proceed to development and where the incentives were not transferred elsewhere.

Table 3: Summary of quarterly progress

Incentive status	Performance report quarter							
	Sep 2012	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015
Total incentives	40,151	38,115	38,041	38,163	37,858	37,523	37,563	37,583
Allocated (available for rent)	10,112	17,645	19,802	21,911	23,664	24,766	25,666	27,603
Reserved (not yet delivered)	30,039	20,470	18,239	16,252	14,194	12,757	11,897	9,980

Source: Adapted from DSS 2014d; 2013b; 2015a; 2015b.

Incentives have been allocated to 144 approved participants, two-thirds of which have not-for-profit status and are primarily endorsed charities—a greater proportion than initially anticipated (Gibb et al. 2013)—and a tenth of which have incentives in multiple jurisdictions (DSS 2015b). The majority of incentives (when delivered) will be for dwellings located in major cities (75.7%), with smaller proportions in inner regional (13.9%), outer regional (8.7%), remote (1.4%) and very remote (0.4%) areas, as defined by the DSS (2015b). Incentives have been delivered in all states and territories, with the largest proportion located in Queensland (27.7%) (Table 4).

Table 4: Incentive status by state/territory

State	Incentives allocated	Incentives reserved	Total incentives (n)	Total incentives (%)
ACT	1,960	452	2,412	6.4
NSW	3,221	3,609	6,830	18.2
NT	595	651	1,246	3.3
QLD	9,682	740	10,422	27.7
SA	3,103	553	3,656	9.7
TAS	841	794	1,635	4.4
VIC	5,346	796	6,142	16.3
WA	2,855	2,385	5,240	13.9
Total	*27,603*	*9,980*	*37,583*	*100*

Source: Adapted from DSS 2015b.

As shown in Table 5 below, apartments have been the most common dwelling type produced under the scheme, followed by town houses, houses, and studios. Some variation in the mix of dwelling types is observed between states and territories. As shown in Table A6, the majority of incentives have been reserved or allocated for apartments in NSW (55.7%), NT (60.1%) and Victoria (54.3%), and for studios in ACT (56%) and Tasmania (47.1%). A significantly higher proportion of incentives have been reserved or allocated for detached dwellings in SA (47.7%) and Queensland (36.9%). WA appears to have the most even distribution of incentives across dwelling types, with a slightly higher proportion of incentives going to town houses. Analysis of number of bedrooms (Table A7) shows that the majority of NRAS dwellings will be small to medium in size, with 16.7 per cent of allocated or reserved incentives going to studio apartments, 19.9 per cent to one-bedroom dwellings, 30.7 per cent to two-bedroom dwellings, and 25.7 per cent to three-bedroom dwellings. At the end of June 2015, less than 7 per cent of all the dwellings attached to the scheme had, or were proposed to have, four or five bedrooms.

Table 5: Dwelling type by incentive status (June 2015)

Type of home	Incentives allocated	Incentives reserved	Total incentives (n)	Total incentives (%)
Apartment	10,277	4,268	14,545	38.7
House	6,918	1,326	8,244	21.9
Studio	4,362	2,101	6,463	17.2
Town house	6,041	2,285	8,326	22.2
Subsidiary dwelling	5	0	5	0.0
Total	*27,603*	*9,980*	*37,583*	*100*

Source: DSS 2015b.

3.2 Understanding the distribution of NRAS incentives

The distribution of NRAS incentives across states/territories and regions is a function of two drivers: firstly, the priorities held by both the federal and state governments; and secondly, the financial viability of a project as determined by the approved participants. The Application Form submitted by approved participants required

developments to comply with both federal and state criteria and priorities. In the first instance, applications responded to the Scheme Assessment Criteria, or federal government priorities (Table A4). These included: demonstrating a need for affordable rental housing in the location; delivery of accessible and sustainable dwellings with good proximity to schools, transport, shops, health services and employment options; and evidence that the proposal was financially viable.

Applications must also have received the support of the relevant state or territory, each of which had identified specific areas of priority (Table A5). For example, in NSW, priority was given to those proposals located in areas considered to have a high need for affordable housing. In Queensland and WA, applications in areas of higher growth and rapidly rising housing costs, low affordability and limited existing provision of affordable housing were most likely to be supported. While the priorities from both tiers of government shaped the distribution of the incentives, the initial feasibility studies by approved providers arguably also shaped the location of NRAS dwellings.

In interviews with not-for-profit housing providers it was suggested that the characteristics of a location were less important than ensuring that the development would be profitable: 'if a site comes up and we do the feasibility and the numbers stack up then that's fine and the location is possibly of lower importance than the yield on the site' (Wilkerson 2014). In other cases, developments which had already been ear-marked became financially possible with the inclusion of the incentive (Green and Smith 2015). Outside the not-for-profit sector, investors were seeking to achieve a balance between the costs to build and maintain a dwelling, and the rental return and tax-offset. In these cases, the cost of available sites would initially be of greater consideration to developers, unless the state government had listed specific suburbs.

3.2.1 Geographic distribution of incentives

NRAS incentives were delivered to both metropolitan and non-metropolitan housing markets. While urban and regional housing markets share many of the same demand and supply drivers, they were considered independently in this analysis in recognition of the particular way drivers operate in regional housing markets (Rowley 2012). For example, compared to metropolitan areas, regional areas can be tremendously diverse in terms of local economies and housing market structures and local affordability (Rowley and Haslam McKenzie 2009; Beer et al. 2011). The availability of data for non-metropolitan areas is also patchy, particularly housing market data, making a comprehensive analysis of regional areas problematic.

To fully understand the distribution of incentives, suburbs receiving NRAS dwellings were identified as either metropolitan or non-metropolitan. The distinction was made using the ABS Greater Capital City Statistical Areas, a boundary designed to reflect the functional extent of the capital city (ABS 2012). Similar to Wulff et al. (2007), major satellite cities, including Geelong, Newcastle and Wollongong, were included in the regional areas. Using these spatial categories, the analysis showed that in NSW, Victoria and WA three-quarters or more of incentives have been allocated or reserved in the capital city metropolitan regions (Table 6). An exception to this trend is Queensland, where just over half the suburbs and total incentives are being developed within the Brisbane metropolitan region.

Table 6: Number of total incentives by state and geographic distribution

Location	Total number of incentives	Total incentives		Total incentives (per 1000 households)	
		Metropolitan (%)	Regional (%)	Metropolitan	Regional
NSW	5,846	4,677 (80)	1,169 (20)	3.1	1.2
QLD	9,573	5,265 (55)	4,308 (45)	7.2	5.3
VIC	5,539	4,210 (76)	1,329 (24)	2.9	2.6
WA	4,640	3,434 (74)	1,206 (26)	5.5	7.2

Number of metro household = households in Greater Capital City Statistical Area.

Number of regional households = households in NSW, less those in Greater Capital City Statistical Area.

Source: DSS 2015b. Households derived from the 2011 Census.

3.2.2 Changes to the spatial distribution of total incentives

It is worth noting that the spatial distribution of total incentives has changed considerably over the life of the scheme. That is, the location of dwellings has altered between the approved participant's application successfully reserving an allocation and the point at which the incentive was allocated or became available to rent. Approved participants could alter the location, style, size, special attributes or the agreed rental availability date for a dwelling by submitting an Application to Vary the Condition of Reservation. The Australian National Audit Office (ANAO) undertook an audit on the administration of the scheme and found that 'by mid-April 2015 over 145,000 changes [had] been made to the size, style, location and agreed available for rent date of dwellings' (ANAO 2015: 13).

From the commencement of the scheme, the DSS published performance reports, first monthly and then quarterly after June 2013. It was noted by the ANAO (2015) that the quality of these records made it difficult to determine the full extent of changes, including location, to approved applications for incentives. The audit estimated that between 2008 and 2015, on average nearly 2.2 changes per dwelling were made regarding the location (ANAO 2015). A brief comparison of the incentive allocation by suburb, as recorded in the performance reports, found that suburbs which previously had multiple dwellings allocated to them in December 2013 were, by June 2015, no longer receiving any allocations. For example, in WA in the December 2013 Performance Report, Wanneroo was receiving 15 dwellings, Subiaco 20 dwellings and Bayswater 20 dwellings. By June 2015, these suburbs were no longer found to be receiving any dwellings. Conversely, more than 10 suburbs in WA not previously listed in December were receiving dwellings by June 2015. In addition to location, changes were also made to dwelling type and size. A similar pattern occurred in the other states, with some suburbs previously identified as receiving around 100 dwellings no longer receiving any in a later report. Changes to location, as well as other dwelling conditions, were restricted by Amendments to the Regulations in late 2014, with the view of 'encouraging approved participants to deliver dwellings as previously agreed' (ANAO 2015: 13). The following analysis is based upon the suburb listings in the June 2015 Performance Report.

3.2.3 Analysing the spatial distribution: a composite measure

Two composite measures, socio-economic and investment potential, were used to understand where subsidised rental housing has been supplied. These measures were applied to the four Australian states with the greatest number of NRAS

incentives: NSW, Queensland, Victoria and WA. The composite analysis aimed to determine the extent to which NRAS properties were being developed in areas in need of affordable rental housing, or whether dwellings were in fact being delivered in patterns that could contribute to an oversupply of rental accommodation. Such analysis helped to determine whether the model of government-determined, rather than market-driven, allocations (e.g. in the UK) is effective and has produced outcomes that have an impact on affordability.

In creating the composite measures, key variables were identified to understand the socio-economic and investment potential characteristics of the suburbs receiving NRAS dwellings (Tables 7 and 8). These variables included characteristics such as: median dwelling prices for both units and houses; median weekly incomes; measures of disadvantage; and investment potential indicators, such as median rents for both units and houses, vacancy rates, and rental return rates. However, as shown in the tables, these variables are measured by different units. For example, median weekly incomes were based on income ranges as determined by the ABS, while the suburb median rent, as a proportion of the metropolitan (or regional) median, was expressed as a percentage. Disadvantage was measured using the Index of Relative Socio-economic Disadvantage (IRSD). The purpose of the composite was to show in broad terms the socio-economic and investment characteristics of the suburbs in which NRAS dwellings are being delivered. To do so, the key variables had to be comparable.

In the first instance, ranges were allocated to each variable according to how they are measured. Each of these ranges was then assigned a value, where a lower number indicated a lesser socio-economic value or reduced investment potential. For example, as shown in (Tables 7 and 8), the IRSD scores were grouped into quintiles. Suburbs in the lowest quintile were assigned the number one, while suburbs in the highest quintile were assigned a five. Similarly, in the case of vacancy rates, those suburbs with very high vacancy rates were assigned a lower score compared to those with low vacancy rates. This was because, from the perspective of an investor, a lower vacancy rate would offer better investment potential. These values were used to create the composite measure values for each of the suburbs in the analysis.

Table 7: Socio-economic indicators

	Assigned value for each range					
Key variables	**1**	**2**	**3**	**4**	**5**	**6**
Suburb median rent as a proportion of metropolitan median (unit and house)	0–60.0	60.1–80.0	80.1–100.0	100.1–120.0	120.1–140.0	140.1+
Median price (unit and house)	Below metro median	+/-10% metro median price	Above metro median			
Median weekly incomes	$600–$799	$800–$999	$1,000–$1,249	$1,250–$1,499	$1,500–$1,999	$2,000+
IRSD score rank in state	Lowest quintile		Middle quintile		Highest quintile	

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

Table 8: Investment potential indicators

	Assigned value for each range					
Key variables	**1**	**2**	**3**	**4**	**5**	**6**
Subsidised median rent as a proportion of metropolitan median rent (unit and house)	0–40.0	40.1–60.0	60.1–80.0	80.1–100.0	100.1–120.0	120.1+
Vacancy rates	6.0+	4.0–5.9	2.0–3.9	0–1.9		
Gross rental yield based on subsidised rent (unit and house)	0–1.9	2.0–3.9	4.0–5.9	6.0+		

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

A total of 362 suburbs were analysed to understand the distribution patterns of NRAS incentives, the selection of which will be described in the next section. Data for each variable was collected for every suburb and tabulated as seen in Table 9. The raw data was then assigned a value based on the corresponding range from the tables above. In a few instances, suburb data for a particular variable was not available and a proxy value was assigned, based on the existing suburb, house or unit data. Finally, the assigned values were combined to produce a single socio-economic score and investment potential score for every suburb in the study (Table 9). The highest score a suburb could potentially achieve was 29 for the socio-economic measure and 24 for the investment potential measure.

Table 9: Examples of the composite measures in practice

Socio-economic measure

Incentive suburb	Median price (unit)	Median price (house)	Median weekly income	IRSD score rank in state	Suburb median rent as a proportion of Brisbane median (unit)	Suburb median rent as a proportion of Brisbane median (house)	Suburb socio-economic score
Suburb A data	Below median	Below median	$789	42	67%	79%	-
Assigned value	*1*	*1*	*1*	*1*	*2*	*2*	*8*
Suburb B data	Above median	Above median	$1620	1564	167%	108%	-
Assigned value	*3*	*3*	*5*	*5*	*6*	*4*	*26*

Investment potential measure

Incentive suburb	Subsidised median rent as a proportion of metropolitan median rent (unit)	Subsidised median rent as a proportion of metropolitan median rent (house)	Vacancy rates	Gross rental yield (unit)	Gross rental yield (house)	Suburb investment potential score
Suburb C data	113.5%	51.7%	4.6%	2.5	1.2	-
Assigned value	*5*	*2*	*2*	*2*	*1*	*13*
Suburb D data	80.3%	78.8%	1.6%	4.1	3.0	-
Assigned value	*4*	*3*	*4*	*3*	*2*	*21*

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

After each suburb was allocated a socio-economic score and an investment potential score, five equal quintiles were established for each composite measure so that useful intra- and interstate comparisons could be made. These quintiles were based on the maximum possible scores for each composite measure. Section 3.3 uses these quintiles to examine

the distribution of NRAS incentives in metropolitan and non-metropolitan regions in four Australian states.

3.2.4 Characteristics of typical suburbs using the composite measures

While the quintiles provide a mechanism to make useful comparisons within and between states, they are less effective at describing the characteristics shared by the suburbs within that quintile. The typical suburbs, described below, give a sense of the socio-economic and investment potential characteristics of suburbs in each quintile. As composite scores are the accumulation of a number of variables, there is a degree of variation within each quintile. The typical suburbs described in (Tables 10 and 11) can be used as a guide to further understand the chapter outcomes.

Table 10: Characteristics of typical suburbs—socio-economic composite measure

Quintile	Socio-economic characteristics	Examples of metropolitan suburbs in the study
1	Suburbs in this quintile exhibit among the lowest socio-economic characteristic in the study. Suburb rents are consistently below 80% of the metropolitan median and dwelling prices are well below the metropolitan medians for both units and houses. Household incomes are less than $1,000 a week and the IRSD ranks the suburbs as having among the greatest levels of disadvantage in their respective states.	NSW: Campbelltown, Fairfield, Liverpool, Penrith
2	Characterised by slightly lower than average socio-economic characteristics, these suburbs are more likely to have rents and dwelling prices below the metropolitan median. Household incomes range from between $1,000 and $1,499 a week and the suburbs are ranked as having greater than average levels of disadvantage in their respective states.	NSW: Blacktown, Leumeah, Parramatta, Wyoming QLD: Beenleigh, Caboolture, North Booval VIC: Braybrook, Glenroy, Melton, Sunshine West WA: Armadale, Gosnells, Midland, Rockingham
3	These suburbs have mid-range socio-economic characteristics. They have rents between 80% and 100% of the metropolitan medians and dwelling prices within 10% of the metropolitan medians. The median weekly incomes range from $1,249 to $1,999 a week and the suburbs have IRSD scores which place them in the middle quintile for their state.	NSW: Ashfield, Camperdown, Glebe, Redfern QLD: Burpengary, Chermside, Holmview, Zillmere VIC: Altona, Bundoora, Croydon, Pascoe Vale WA: Ashby, Kelmscott, Maddington, Rivervale
4	These suburbs are characterised by having slightly higher than average socio-economic characteristics. Median rents are close to 100% of the metropolitan median and may be as high as 120%. House and unit prices vary between being 10% lower than and 10% greater than the metropolitan median. The median income of households in these suburbs generally ranges from $1,250–2,000 per week The suburbs are ranked as having lower than average levels of disadvantage in their respective states.	NSW: Elanora Heights, Rouse Hill QLD: Calamvale, Newstead, Thornlands, Warner VIC: Essendon, Highett, Melbourne, St Kilda WA: Aubin Grove, Joondalup, Northbridge, Success
5	The suburbs in this quintile have the highest socio-economic characteristics in the study. Rents are predominantly more than 120% of the metropolitan median and prices of both units and houses are greater than 10% of the metropolitan median. Household incomes in these suburbs are consistently greater than $1,500 a week, with a number exceeding $2,000 a week. The suburbs are ranked as having among the lowest levels of disadvantage in their respective states.	QLD: New Farm, South Brisbane, Wellington Point VIC: Port Melbourne, Southbank, South Yarra WA: Leederville, Nedlands, Perth

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

Table 11: Characteristics of typical suburbs—investment potential composite measure

Quintile	Investment potential characteristics	Examples of metropolitan suburbs in the study
1	Suburbs in this quintile have the least investment potential. Subsidised median rents are only up to 40% of the metropolitan median, vacancy rates are high (greater than 6%) and gross rental yields for houses and units are low (0–19%).	
2	Suburbs in this quintile have investment potential characteristics which are less than average. The subsidised median rents range between 40% and 80% of the metropolitan median rents. Vacancy rates are in the range of 4.0–5.9% and expected rental returns are between 2.0% and 3.9%.	NSW: Wentworthville VIC: Doreen
3	These mid-range investment potential suburbs are characterised by subsidised median rents which are between 80% and 100% of the metropolitan median rent. The vacancy rates for houses and units is between 2.0% and 3.9% and investors could potentially achieve a rental return between 4.0% and 5.9% on their properties.	NSW: Wentworth Point, Fairfield, Liverpool, Mount Druitt, Parramatta, Springwood QLD: Acacia Ridge, Bowan Hills, Zillmere VIC: Altona, Croydon, Essendon, Sunshine West WA: Coolbellup, Butler, Mount Lawley, Pearsall
4	Suburbs in this quintile have a higher than average investment potential. With subsidised median rents between 100% and 120% of metropolitan median rent and vacancy rates less than 1.9%, investors can expect to yield returns of between 4.0% and 6.0% on their investments.	NSW: Chippendale, Eveleigh, Zetland QLD: Beenleigh, Capalaba, Karalee, Newstead VIC: Carlton, Noble Park, West Melbourne WA: Ashby, Crawley, Nedlands, Joondalup
5	These suburbs have very high investment potential. The subsidised median rent of the suburbs is more than 120% of metropolitan median rent and vacancy rates are less than 1.9%. The estimated gross rental yield for units and houses based on subsidised rent is greater than 6%.	NSW: Elanora Heights WA: East Perth

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

3.3 Where are NRAS dwellings being produced?

The nature of the suburbs in which NRAS dwellings are being developed provides a measure of the success of NRAS. For example, were NRAS dwellings clustered in areas where rents are already affordable to eligible tenants or in areas with poor transport networks which could impose high commuting costs on households? The findings of the suburb-level analysis are discussed here, including the location of incentives and the socio-economic characteristics and investment potential of the receiving suburbs (using the measures described above). Findings for metropolitan and regional areas are discussed separately.

While some suburbs received a very small number of incentives (i.e. one or two), only those suburbs with 15 or more total incentives at June 2015 were considered in the analysis.

A number of suburbs were also eliminated due to a lack of available housing data. The final data set included 388 suburbs, in which 25,598 total incentives (reserved and allocated) were located. Table 12, below, shows the distribution of these suburbs and incentives across the four states included in the analysis, and between metropolitan and regional areas.

Table 12: Distribution of incentives

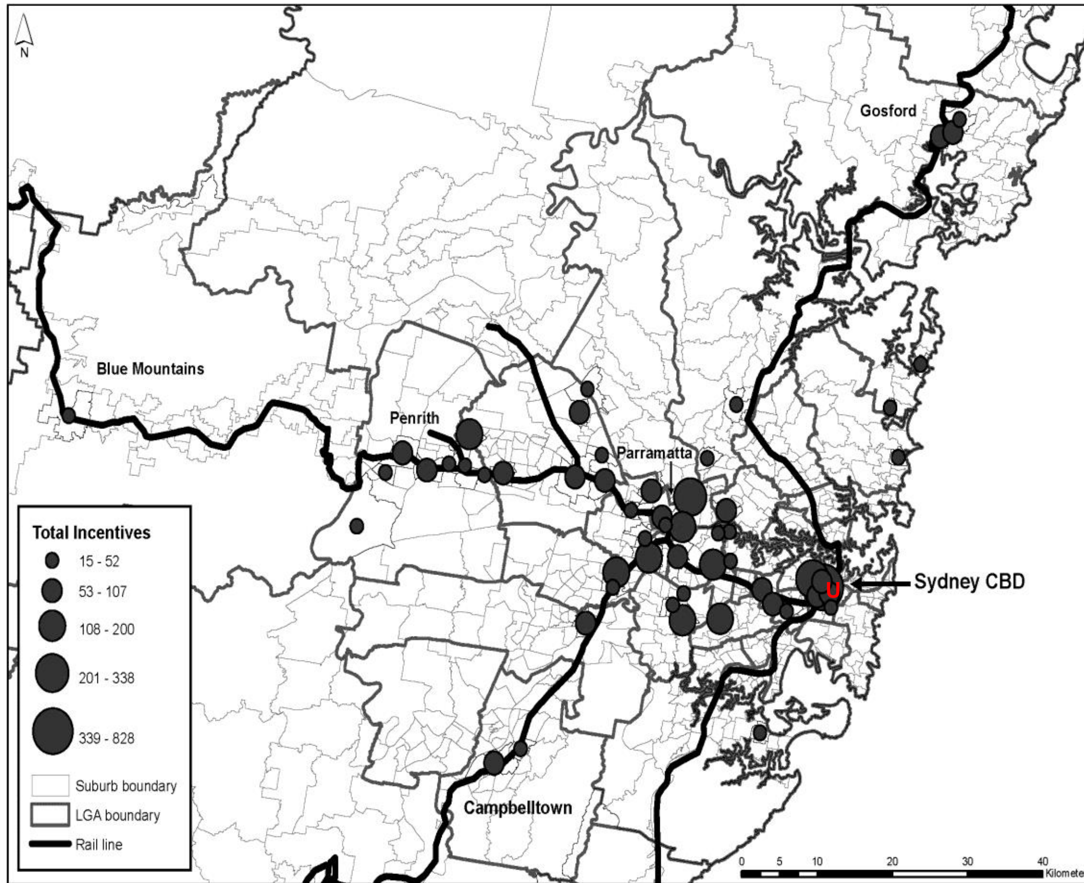
State	Suburbs in sample		Incentives in sample	
	Metropolitan	Regional	Metropolitan	Regional
NSW	62 (67%)	31 (33%)	4,663 (80%)	1,183 (20%)
QLD	81 (54%	70 (46%)	5,299 (55%)	4,274 (45%)
VIC	56 (71%)	23 (29%)	4,191 (76%)	1,348 (24%)
WA	43 (66%)	22 (34%)	3,421 (74%)	1,219 (26%)
Total	*242 (62%)*	*146 (38%)*	*17,574 (69%)*	*8,024 (31%)*

Source: DSS 2015b.

3.3.1 Spatial distribution of dwellings across metropolitan regions

Across the four metropolitan regions in the sample, NRAS incentives have been delivered in inner metropolitan areas and in locations with good public transport accessibility. As shown in Figure 2, NRAS incentives for metropolitan Sydney are clustered close to the Sydney CBD and around the major sub-regional centres of Parramatta and Penrith. There are also small clusters in outer suburban areas with commuter rail connections, including Gosford to the north, and the university suburb of Campbelltown and the adjacent suburb of Leumeah, in the south west.

Figure 2: Spatial distribution of NRAS incentives in Sydney



U = University accommodation.

Source: Authors from DSS 2015b.

A similar pattern in seen across the Melbourne metropolitan region. As shown in Figure 3, the majority of incentives are clustered around the Melbourne CBD, with another significant cluster in the suburbs surrounding Monash University in Melbourne's east. Incentives in middle- and outer-ring suburbs generally follow major transport routes. For example, 49 incentives have been delivered in Melton and Melton South, which are easily accessible on the Melton train line, and 142 incentives are located in the suburbs of Highett and Frankston, along the Frankston train line.

Figure 3: Spatial distribution of NRAS incentives in Melbourne

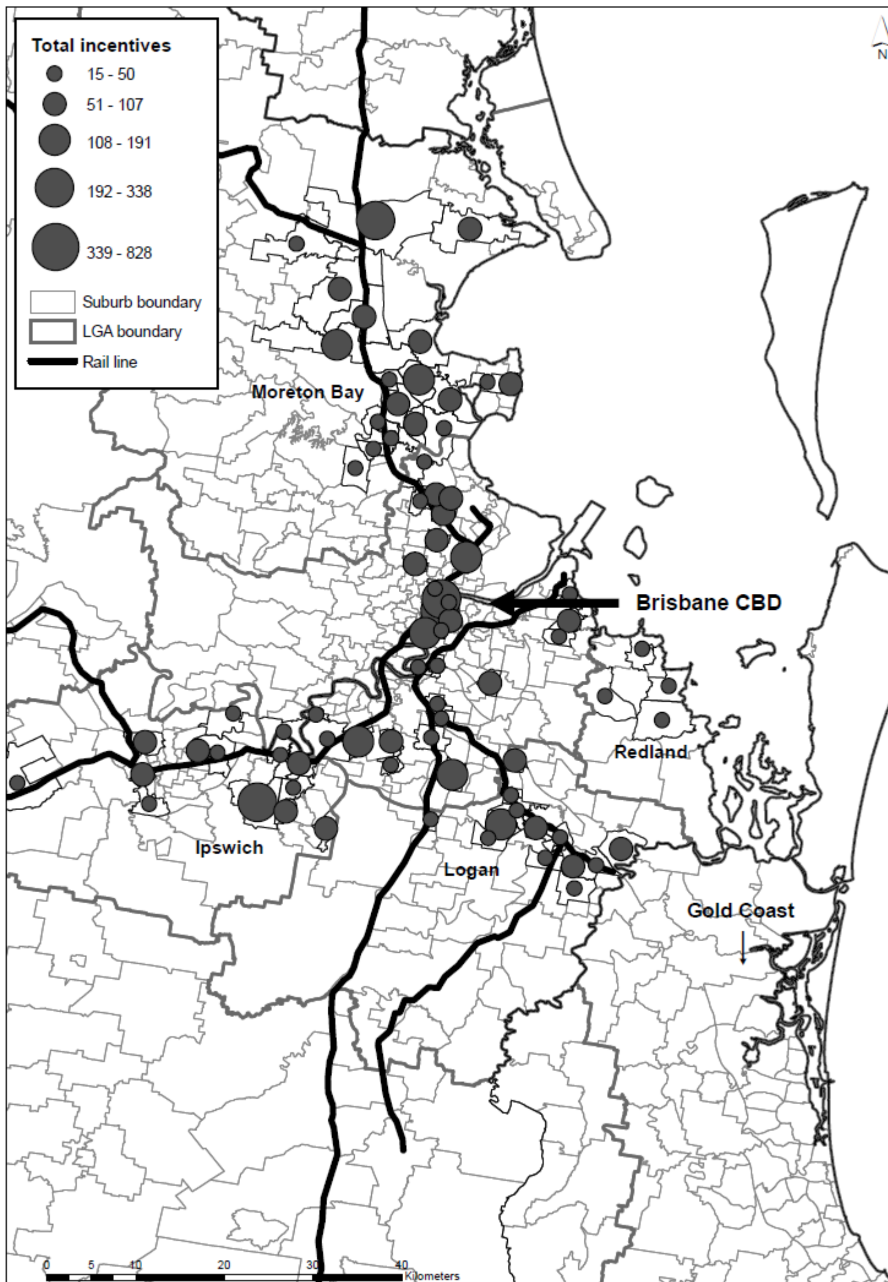
U = University accommodation.

Source: Authors from DSS 2015b.

Patterns are similar across the Brisbane and Perth metropolitan regions, although there is greater dispersal of incentives across inner and suburban areas. NRAS dwellings in the Brisbane metropolitan region have generally been developed close to the rail network and major busways (Figure 4). East of the city towards Ipswich, suburbs such as Leichardt, North Booval and Rosewood are located within close proximity to the Ipswich train line, the primary exception in the region being Redbank Plains, which has 231 incentives and is around 6 kilometres, or a 30-minute bus ride, from the nearest train station. Many of the suburbs selected for the development of NRAS dwellings to the south-west are located within close proximity to a train station along the Beenleigh line (including Salisbury, Loganlea and Kingston) or along the South East Busway (e.g. Mount Gravatt East). NRAS tenants in suburbs located between these two service lines (e.g. Durack, Acacia Ridge and Calamvale), where 255 dwellings have been developed, may be more reliant on buses for public transport to make the 45-minute trip to the Brisbane CBD. The Cleveland train line extends west from the CBD towards the coast, servicing those NRAS tenants in Manly West, Wellington Point, and Cleveland. Inner-city suburbs such as Bowen Hills, Fortitude Valley, Newstead, Kangaroo Point, New Farm and South Brisbane are located close to multiple transport options including train lines, busways, ferries and/or city cats, giving tenants of the 800 dwellings produced under the scheme good access to the metropolitan region. To the immediate north of the CBD, suburbs such as Chermside and Carseldine are serviced by buses only. The suburbs north-west of the city in Moreton Bay are well serviced by train lines, giving coastal suburbs such as Kippa-Ring and Redcliffe good access to the city and other metropolitan areas. To the north of the Moreton Bay region, suburbs serviced by trains and busways include Caboolture, Morayfield, Narangba and Petri.

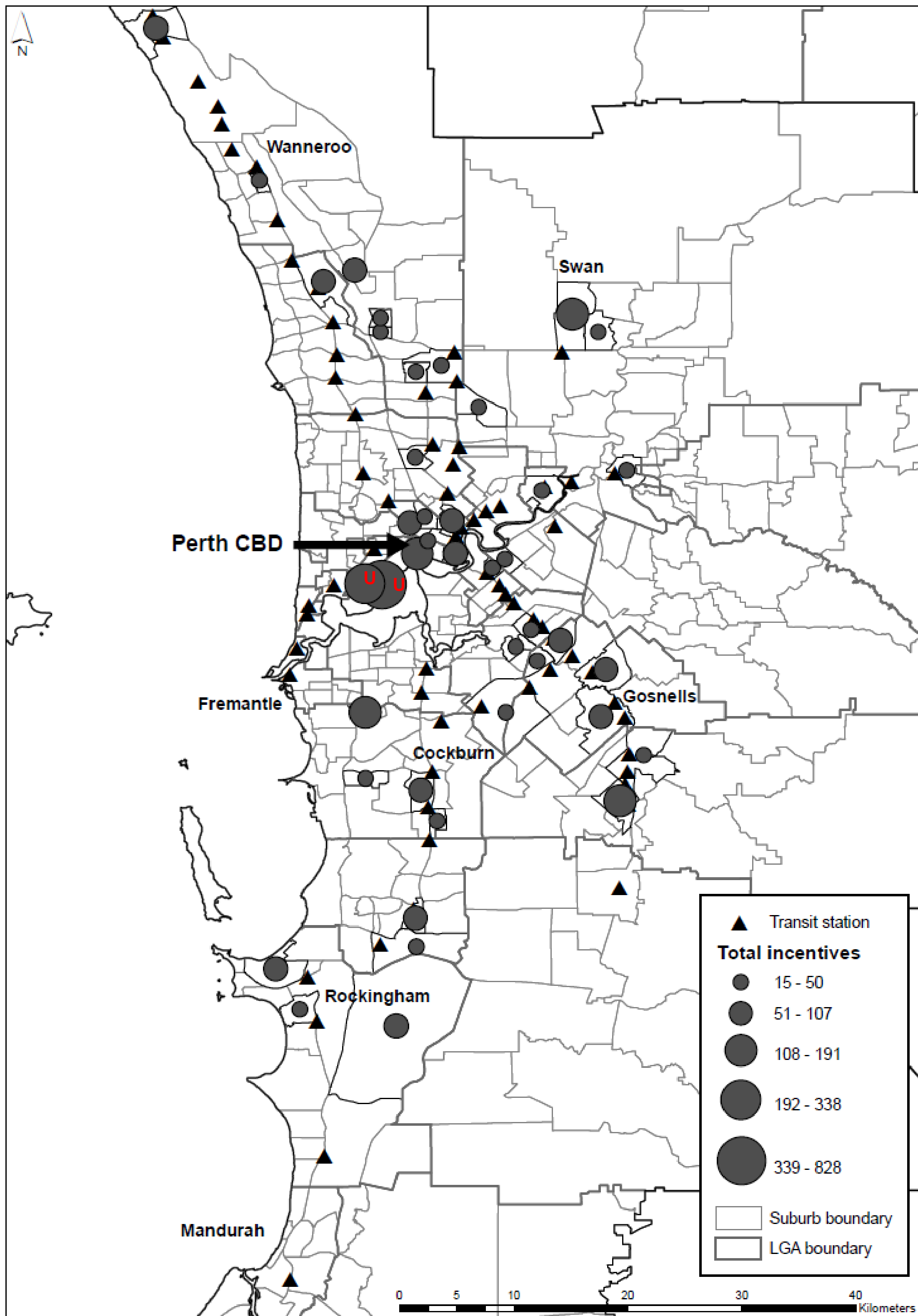
In metropolitan Perth, NRAS dwellings are largely being developed along the rail network, which radiates from the CBD to the north, east, south and south east (Figure 5). For example, along the Armadale/Thornlie line, which runs south-east from the CBD, a total of 386 incentives have been developed, in the suburbs of Cannington, Maddington, Gosnells, Kelmscott and Armadale. Closer to the CBD, 331 dwellings in the suburbs of Northbridge, East Perth, Perth and Leederville are located within good proximity to a number of train lines and bus services. Those NRAS dwellings produced in the north east of the metropolitan area do not have access to a train network and are limited to bus services, including nearly 300 dwellings in the suburbs of Ashby, Hocking, Darch, Landsdale, Nollamara and Ellenbrook.

Figure 4: Spatial distribution of NRAS incentives in Brisbane



Source: Authors from DSS 2015b.

Figure 5: Spatial distribution of NRAS incentives in Perth



U= University accommodation.

Source: Authors from DSS 2015b.

3.3.2 Socio-economic characteristics of metropolitan suburbs receiving NRAS dwellings

Analysis of the four states found that incentives are distributed across suburbs with a wide range of socio-economic characteristics, although the distribution differs somewhat between states (Table 13). The majority of dwellings are being delivered in suburbs with mid-range socio-economic characteristics, typified by median rents between 80 and 100 per cent of the metropolitan rent for both houses and units, and median dwelling prices within 10 per cent of the metropolitan median purchase price. The median weekly incomes of households in these suburbs are generally between $1,250 and $1,499, and on the IRSD they are neither the most nor the least disadvantaged in the state. In Sydney and Melbourne, these suburbs account for 44 and 48 per cent of incentives, respectively. In Brisbane and Perth, they are slightly less significant, accounting for 25.7 and 22.7 per cent of incentives, respectively.

In all of the cities, dwellings were delivered to suburbs with socio-economic characteristics below the mid-range, although the extent of incentives located in such suburbs differed significantly between regions. While only 3.8 per cent of incentives in Melbourne and 14.2 per cent of incentives in Perth were located in suburbs with lower socio-economic characteristics, over a quarter of incentives in Brisbane and over half of the incentives delivered in Sydney were located in such suburbs. In the Sydney metropolitan region, this finding reflects the high volume of incentives delivered in the suburbs of Penrith and St Marys, where the median household income is less than $1,000 per week, the IRSD scores are among the lowest in the state, and house and unit prices are much lower when compared to the metropolitan median, as are median rents.

Across all metropolitan regions, incentives were also distributed to suburbs with higher than mid-range socio-economic characteristics, although these suburbs account for a very low proportion of incentives in Sydney. While these suburbs account for 49 per cent of incentives in both Brisbane and Melbourne, and 63 per cent in Perth, they account for only 0.8 per cent of incentives in Sydney. In Perth, the high proportion of incentives in these suburbs is largely due to the development of a large number of dwellings in a small number of locations with high socio-economic characteristics. These suburbs included Nedlands, Crawley, Joondalup and, to a lesser extent, Mount Lawley, where dwellings are predominantly targeted towards tertiary education students who would benefit from the proximity to universities. If those incentives developed for university accommodation are extracted from the data, the socio-economic distribution of NRAS dwellings shifts and those in the mid-range quintile become more dominant, although all quintiles are still represented.

Table 13: Comparison of socio-economic measure across four capital cities

Composite quintile	Sydney	Brisbane	Melbourne	Perth
1	16.2	0.0	0.0	0.0
2	38.8	26.2	3.8	14.2
3	44.3	25.7	47.8	22.7
4	0.8	36.5	35.7	41.3
5	0.0	11.6	12.7	21.9
Total	100.0	100.0	100.0	100.0

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

3.3.3 Investment potential characteristics of metropolitan suburbs receiving NRAS dwellings

The analysis found a great deal of similarity in the investment potential characteristics of suburbs in which NRAS products are being delivered (Table 14). In all capital cities, approved providers are predominantly developing NRAS stock in suburbs with mid-range and slightly higher than mid-range investment potential. Suburbs with mid-range characteristics receiving NRAS dwellings were generally in Melbourne (49.5%) and Sydney (60.4%). These suburbs have subsidised rents that are around 60.1 to 80 per cent of the metropolitan median, vacancy rates are tight and rental yields based on the subsidised rent are between 2.0 and 5.9 per cent. By contrast, in both Brisbane and Perth, over 75 per cent of all incentives were located in suburbs with a slightly higher than average investment potential, characterised by subsidised median rents between 100 and 120 per cent of metropolitan median rent, vacancy rates of less than 1.9 per cent, and rental yields of between 4 and 6 per cent. Incentives in Sydney (24%) and Perth (34%) were more likely than the other cities to be developed in suburbs with higher than mid-range investment potential (Table 14). In metropolitan Sydney, these included suburbs such as Wadalba, Hamlyn Terrace and Mulgoa, where vacancy rates are very low (less than 1%) and expected returns are around 4 per cent. In Perth, these included suburbs such as Nedlands and Crawley. The comparatively high proportion of incentives in these Perth suburbs reflects developments by University of Western Australia Accommodation Services aimed at university students, comprising studio and one-bedroom apartments (University of Western Australia 2015; Department of Housing 2015). To understand the impact of university developments on the distribution of NRAS dwellings, those suburbs providing for the university sector were removed, including Crawley, Nedlands, Mount Lawley and Joondalup. The result was an increase in the proportion of total incentives delivered to suburbs with mid-range investment potential (92.6%). In metropolitan Perth, once university developments are removed, the majority of NRAS dwellings are being delivered to suburbs with higher than mid-range investment potential characteristics, a finding which mirrors the outcomes in the other capital cities.

On the whole, NRAS investors generally did not develop dwellings in locations with the potential to produce very high rental returns or in areas with low levels of rental stock. By the same token, however, few suburbs with low yields, high relative rents or vacancy rates were selected for development.

Table 14: Comparison of the investment potential measure across four capital cities

Composite quintile	Sydney	Brisbane	Melbourne	Perth
1	0.0	0.0	0.0	0.0
2	0.9	0.0	1.1	0.0
3	60.4	24.3	49.5	19.4
4	38.4	75.7	49.4	78.7
5	0.3	0.0	0.0	1.9
Total	100.0	100.0	100.0	100.0

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

3.3.4 Delivery of NRAS dwellings in regional suburbs

NRAS incentives were delivered in a variety of regional areas, including: satellite cities of the metropolitan regions (Geelong, Newcastle, Wollongong and Shellharbour); major regional towns (e.g. Toowoomba, Ballarat, Bendigo and Broome); rural resource

communities; and coastal towns. In regional NSW, QLD and Victoria, the majority of NRAS incentives have been delivered to suburbs with mid-range socio-economic characteristics, although all states are also represented in the higher quintiles (Table 15). The delivery of NRAS dwellings in WA differed from the other states, with incentives concentrated in the upper two quintiles (73.4%) and only a fifth of all incentives in suburbs with mid-range characteristics.

Table 15: Comparison of the socio-economic measure by state

Composite quintile	NSW	QLD	Victoria	WA
1	0.0	0.0	0.0	0.0
2	3.2	8.6	16.7	5.6
3	61.3	36.3	44.8	21.0
4	32.3	43.1	16.9	52.0
5	3.2	11.9	21.6	21.4
Total	100.0	100.0	100.0	100.0

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

Similarly, the majority of regional suburbs in NSW (92.2%), QLD (80.2%) and Victoria (67.0%) had slightly higher than mid-range investment potential, characterised by subsidised median rents between 100 and 120 per cent of the local area median rent; vacancy rates for houses and units of less than 1.9 per cent, and investor rental returns of between 4.0 and 5.9 per cent (Table 16). In all three states, the remaining total incentives were largely delivered to regional suburbs with higher investment potential. This finding differs from the metropolitan regions, where NRAS dwellings were delivered to suburbs with a much greater diversity of investment potential.

As noted above, the findings for regional WA differed from the other states (Table 16). In WA, regional suburbs selected for the delivery of NRAS products were more likely to have investment potential characteristics in the highest investment potential category. In total, 24.4 per cent of all suburbs in regional WA were in this category, compared to only 1.6 per cent in NSW and 4.4 per cent in QLD. There were no suburbs in regional Victoria which were categorised has having a very high investment potential. The dominance of incentives delivered to suburbs in the higher quintile in WA is largely due to the substantial number of NRAS developments taking place in a small number of suburbs, for example Mandurah (150 dwellings) and Broome (91 dwellings) (DSS 2015b).

Table 16: Comparison of the investment potential measure by state

Composite quintile	NSW	QLD	Victoria	WA
1	0.0	0.0	0.0	0.0
2	0.0	0.0	0.0	0.0
3	6.1	15.4	33.0	12.1
4	92.3	80.2	67.0	63.5
5	1.6	4.4	0.0	24.4
Total	100.0	100.0	100.0	100.0

Source: Authors' calculations from RPData price, rent and vacancy rate data; ABS Socio-Economic Indexes for Areas (SEIFA) data (ABS 2011).

3.3.5 Has the distribution of NRAS dwellings achieved the scheme objectives?

A primary aim of the scheme was to *increase the supply of affordable rental dwellings* (Australian Government 2008a). The scheme will eventually deliver around 38,000 dwellings, well short of the original target of 50,000 but a supply of subsidised rental housing which was not previously available. However, these dwellings will be absorbed into the market once incentives expire. The extent to which the community housing sector will be able to keep their NRAS dwellings at current rent levels remains to be seen. Further, the selection criteria through the application process required that these dwellings be developed in areas with a demonstrated need for affordable rental options, as identified by the state government, although not through any objective measurement process such as housing need assessment. State government priorities for allocation included proximity to transport, schools, shops, health services and employment opportunities (FaHCSIA 2011).

The analysis found that NRAS dwellings are largely being delivered to locations with mid-range socio-economic characteristics and investment potential. That is, they are characterised by house and unit rents that range from 80–100 per cent of the metropolitan or local area medians, dwelling prices that are within 10 per cent of the house and unit sale medians, median weekly incomes ranging between $1249 and $1999 a week, and IRSD scores which place them in the middle quintile for the state. From an investment perspective, the suburbs have subsidised median rents between 80 and 100 per cent of the metropolitan or local area median, vacancy rates for houses and units are between 2.0 and 3.9 per cent, investors could potentially achieve a rental return between 4.0 and 5.9 per cent on their properties, and the total incentives in these suburbs consist of between 40 and 60 per cent of suburb rental stock.

The findings indicate that the scheme has been effective in delivering a supply of housing across these states to address housing affordability in suburbs with a range of socio-economic characteristics. Approved participants across the states are making similar decisions in terms of investment potential. This is due to the nature of investment returns. To maximise the value of the incentive, rents need to be as low as possible, while dwellings need to be located in areas that have the potential for capital growth over time. Therefore, the ideal suburb from an investment perspective is one with below median rents, low vacancy rates, and located on a quality transport network which will enhance prospects for price growth over time.

Overall, it is difficult to assess whether NRAS met it objectives because they were not clearly defined in the first place. The scheme certainly did increase affordable rental supply through the delivery of 38,000 dwellings. However, it is not possible to determine the proportion of this rental stock that is truly additional, as some of the ‘mum and dad’ investors that participated in the scheme may have made a decision to purchase an investment property in any case. Given such investors traditionally purchase established dwellings, it can be argued that NRAS would have altered their investment decision and resulted in a switch to new rather than established. Discussions with the community housing sector certainly identified NRAS as a factor in helping to make projects financially viable which may not have otherwise proceeded to development.

4 NRAS: AFFORDABILITY OUTCOMES

NRAS dwellings are required to be let at a maximum of 80 per cent of the local median rent when in the ownership of private investors. This chapter explores the extent to which the 20 per cent discount affects housing affordability for eligible households within suburbs where NRAS incentives have been allocated. The purpose of the chapter is to understand the extent to which subsidised affordable rental dwellings have a positive impact on rental affordability.

The extent to which NRAS would have a broad impact on local market affordability depends upon the characteristics of that local market and the scale of the incentives supplied. In a very tight rental market (i.e. one with very little supply and very strong demand), a strong supply of NRAS dwellings would have little impact on the existing rental market. It would, however, deliver a supply of rental dwellings to eligible tenants seeking to rent within that market that would otherwise not have existed. In a weak market (characterised by strong supply and weak demand), the provision of NRAS units would increase supply and have the effect of reducing rents within the local market. It is therefore difficult to generalise about the impact of NRAS on the private rental market because of the significant variation in market characteristics and the supply/demand balance within these areas.

Table 17 indicates the capacity of NRAS supply to affect the broader private rental market. It is not possible to isolate the actual impact of NRAS supply, as not all incentives had been delivered at the time of writing and there is insufficient data to model impacts at the suburb level. The table shows the proportion of suburbs in the four metropolitan regions where NRAS contributed to a significant (10% and 25%) increase in the supply of rental stock and where incentives were allocated to tight (low-vacancy rate) rental markets. NRAS will have its greatest impact on the broad affordability of a suburb where it increases the supply of rental accommodation substantially and adds stock to an already oversupplied market. Incentives were generally allocated to suburbs with vacancy rates below the metropolitan average and well below the 3 per cent figure traditionally regarded as a market in equilibrium. Incentives have been directed to tight rental markets, so the capacity to impact on established rents is limited, as new supply is quickly absorbed. In Perth, NRAS incentives will increase the stock of existing rental dwellings by 10 per cent or more in 44 per cent of NRAS suburbs. The equivalent figure is just 11 per cent in Melbourne. The bigger the impact of NRAS on existing supply, the more likely it is to have a broader impact on rental affordability. Generally, NRAS has, or will be, delivered in tight rental markets, increasing the options available for eligible tenants while having limited impact on existing rental dwellings. In a minority of suburbs receiving significant supply or with high vacancy rates, NRAS would have a wider impact on affordability. It is unsurprising that NRAS is concentrated in areas with strong existing rental markets, as these are more likely to deliver acceptable rental returns for private investors and also to be in areas with established rental markets, which are usually characterised by a high level of amenity.

Table 17: NRAS impact on existing suburbs

	Perth	Sydney	Brisbane	Melbourne
	Proportion of NRAS suburbs[1] (%)			
Vacancy rate above the metro average	40	22	35	50
Vacancy rate above 3%	26	3	14	29
NRAS increases existing supply by more than 10%	44	20	27	11
NRAS increases existing supply by more than 25%	7	11	6	2

Note: [1] Applies to suburbs with 15 or more incentives.

Source: Authors' calculations from RPData price, rent and vacancy rate data, ABS suburb profiles and DSS 2015b.

Certainly in a market with very little available rental stock, NRAS will make a difference to dwelling availability, which is a positive for tenants. In an area with an oversupply of rental dwellings, a strong supply of NRAS dwellings will reduce rents, again a positive for tenants but a negative for investors.

4.1 Impact of the 20 per cent rent reduction on housing affordability

Access to NRAS rental housing is dependent on initial household income and household type. To understand what a 20 per cent reduction on market rents means in terms of housing affordability, the affordable weekly rent was determined for each household type based on a capacity to pay 30 per cent of gross household income on rent (the traditional, although flawed, benchmark used to define affordability (Rowley and Ong 2012). The affordable weekly rents were then compared to both the median rent and subsidised rents of suburbs with 15 or more total incentives at June 2015 in NSW, Queensland, Victoria and WA.

Based on the income eligibility limits and the median rents of those suburbs selected for NRAS developments, *one-adult households* were the most disadvantaged when seeking to rent an affordable dwelling in Sydney, Brisbane, Melbourne and Perth. *Two adults* living together were the next most disadvantaged household type, followed by *sole parents with one child*. For example, in Sydney 62 suburbs were identified as having 15 or more total incentives and, from these, a *single person* with an initial annual income of $47,289 could only afford to rent a house in Wentworth (see Table 18). A household of *two adults* or a *sole parent with one child* would fair only slightly better, with the option of six suburbs in which they could affordably rent a house in the metropolitan region.

There were no options for *one-adult households* to affordably rent a *unit* in the Sydney suburbs based on the median rents, while *two adults* or a *sole parent with one child* had more choice, with 18 suburbs recording median rents that were affordable for these households based on the NRAS initial household income limits. This analysis was continued for each household type in the four metropolitan regions, considering houses and units separately. The same analysis was completed after applying the 20 per cent reduction on median rents as per NRAS. The impact of the reduction was determined by comparing the proportion of suburbs with affordable median rents against those which were found to be affordable after the 20 per cent subsidy was applied.

Table 18: The proportion of Sydney metropolitan region suburbs in which households with eligible NRAS incomes can rent an affordable house

Household type (affordable rent)	Initial household income limit	Metropolitan Sydney suburbs with affordable median rent (%) n=62	Metropolitan Sydney suburbs with affordable subsidised rent (%) n=56
One adult ($272.8)	47,289	1.6	3.2
Two adults ($377.2)	65,378	9.7	56.5
Sole parent with one child ($377.4)	65,423	9.7	56.5
Sole parent with two children ($467.9)	81,108	53.2	72.6
Couple with one child ($467.7)	81,063	53.2	56.5
Couple with two children ($558.2)	96,748	69.4	85.5

Source: Authors' calculations from RPData price, rent and vacancy rate data and DSS 2015b.

Under the scheme, *one-* and *two-adult* households and *sole parents with one child* (as they have very similar income limits), were the most likely to benefit from the subsidised rent (Table 19). For instance, in Melbourne, for a *two-adult household*, 85.5 per cent of the suburbs involved in the scheme would be affordable after a 20 per cent reduction in median rents—provided, of course, that dwellings were actually available. Similarly, 55.8 per cent of Perth metropolitan suburbs in the scheme became affordable for *sole parents with one child* as a result of the subsidy. *Couples with two or three children, sole parents with three children or four adults* had the highest proportion of options when renting either a house or unit under the scheme—particularly in Melbourne, where median rents were largely (using the initial income limits) already affordable for these cohorts.

Table 19: Proportion of suburbs in metropolitan regions which become accessible to eligible households under NRAS

Location	Household type			
	One adult (%)	Two adults (%)	Sole parent with one child (%)	Couple with one child (%)
Sydney (house)	1.6	46.8	46.8	3.2
Sydney (unit)	14.3	42.9	42.9	1.8
Brisbane (house)	29.1	44.3	44.3	11.4
Brisbane (unit)	36.5	33.3	33.3	4.8
Melbourne (house)	17.9	25.0	25.0	19.6
Melbourne (unit)	38.2	85.5	25.5	7.3
Perth (house)	0.0	55.8	55.8	20.9
Perth (unit)	12.0	44.0	44.0	24.0

Source: Authors' calculations from RPData price, rent and vacancy rate data and DSS 2015b.

The 20 per cent reduction in rent made the largest impact on the affordability of houses in Perth and Sydney, proportionally making the most suburbs affordable to NRAS tenants. The 20 per cent reduction had less impact in Brisbane, because for many cohorts the suburbs selected for NRAS development had median rents which were largely affordable within the scheme's initial income limits even before the discount. For example, the median rent of more than 98 per cent of the suburbs chosen for the scheme were affordable for a *couple*

with two or more children, *a sole parent with three children and four adults* using 30 per cent of their initial income limit. Of the suburbs chosen in Brisbane, 47 per cent offer affordable median house rents for *sole parents with one child* and *two-adult households*, while 62 per cent offer affordable median unit rents for these household types. It can be concluded that NRAS will have the greatest impact where the discounts bring rents down to a level considered affordable for specific household types, because it then allows households to access previously unaffordable suburbs that may offer the amenities they require. Where rents are already affordable, NRAS will reduce the rental burden but not necessarily offer households alternative location options.

4.2 Impact of NRAS on housing affordability for eligible tenants

A further exercise was undertaken to establish the potential impact of NRAS on eligible tenants. In previous AHURI research, Wood et al. (2009) modelled the impact of NRAS on the lower end of the private rental sector using AHURI-3M, a housing market microsimulation model operationalised using the Household, Income and Labour Dynamics in Australia (HILDA) survey. Using 2006 data, they found that out of 11,512 NRAS eligible households that were in housing stress, 4,614 or 40 per cent would be lifted out of housing stress via NRAS—that is, they would be removed from above to below the 30 per cent affordability benchmark. This section updates the analysis using 2011 data, asking the question: if NRAS were available to all eligible participants, what would be the in-principle impacts on housing affordability, and how would this differ across socio-demographic groups? We begin by describing the features of the HILDA data and AHURI-3M model, and explaining the methodological procedure applied to this simulation analysis. After that, we report the key findings drawn from this policy simulation on the impacts of applying a 20 per cent reduction in market rent to NRAS eligible tenants. In particular, we focus on the effects of the rent reduction on the housing affordability position of eligible tenants.

The HILDA survey is a nationally representative longitudinal survey, which began in 2001 by interviewing 7,682 households comprising almost 14,000 adult responding household members. The survey contains a comprehensive range of variables on the housing, income, socio-demographic and labour market characteristics of a nationally representative panel of Australians. Of particular importance to this study is the vector of variables that allow us to observe housing costs and income, and hence the housing affordability position of Australian households. This simulation analysis is applied to the 2011 HILDA survey, which was the latest wave of data available from the survey at the time the project began.

The NRAS household income eligibility limits, deflated to 2011 price levels, are applied to all private rental households in the 2011 HILDA survey to identify NRAS eligible households[1]. The resulting sample comprises 1,380 eligible households available for analysis, or 56 per cent of the total sample of responding private rental households. Household weights are applied to produce nationally representative estimates, so the 1,380 households in the sample are equivalent to around 1.2 million households in the population.

The housing affordability positions of these households are then compared under scenarios with and without NRAS. Under the 'without NRAS' scenario, housing affordability measures are calculated based on reported rents paid. Using 2011 data ensures that very few, if any, of these households would already be in NRAS dwellings. Under the 'with NRAS' scenario, the measures are recalculated after reducing reported rents by 20 per cent.

Three housing affordability related measures are estimated. Firstly, net housing costs are measured as gross rents less CRA. CRA is a supplementary government payment to private renters in receipt of pensions and allowances who pay rent below a minimum

[1] This is a more nuanced approach than Wood et al. (2009), who assumed that CRA eligibility acts as a passport to NRAS eligibility.

threshold. The amount of CRA received by private renter households is not reported directly in the HILDA survey. Hence, it is calculated using AHURI-3M, a comprehensive housing microsimulation model that can compute CRA entitlements for each private renter household using a detailed set of socio-demographic characteristics, including household type, number of dependent children, rent payment, private income and type of income support payment received (Wood and Ong 2008)[2]. Secondly, housing cost burdens are calculated as the proportion of gross financial year income paid out in net housing costs. Finally, the incidence of housing stress is computed using the 30 per cent rule, which states that a household is in housing stress if its net housing cost exceeds 30 per cent of household income. Typically, studies on housing affordability tend to further restrict the housing stress definition to those in the bottom 40 per cent of the income distribution, to ensure that a housing cost burden in excess of 30 per cent of income is an indication of constraint rather than choice (see, e.g. Wood et al. 2014; Rowley et al. 2015). However, in the present context, the 40 per cent restriction is not applied, as the sample already comprises households whose income falls below certain limits to qualify for NRAS eligibility.

Table 20 documents the impact of NRAS on housing cost burdens across NRAS eligible socio-demographic groups. The average NRAS eligible household had an income level of $1,630 per fortnight, which was significantly lower than the $2,462 fortnightly limit that applies to a couple household to qualify for pension eligibility and approximately equivalent to the limit applicable to a couple household to qualify for NewStart Allowance in 2011 (Australian Government 2011). Without NRAS, net housing cost burdens are on average $458 or 28 per cent of household income. When a 20 per cent rent reduction is applied, housing cost burdens fall to 22 per cent on average. Thus, the table indicates that if NRAS dwellings were available for all eligible households, average net housing cost burdens for NRAS tenants would fall by 6 percentage points or almost $100 per fortnight.

However, there are some distinct differences in impacts across socio-demographic groups. Table 20 shows that the greatest improvements in housing cost burden would accrue to couple and lone-person households without children. The 7.4 percentage point reduction in housing cost burden resulting from a 20 per cent rent reduction would shift the average couple or lone-person household out of housing stress (from an average cost burden of 35% to 28%). In terms of geographical differences, NRAS eligible households that would reap the greatest benefit from a 20 per cent rent reduction are those residing in major cities, in particular Sydney (7.4 percentage point reduction in housing cost burden), and Perth and Brisbane (6.8 percentage point reduction). It is notable that these are the three cities in which residents bear the highest net housing cost burdens, which average out to nearly $590 in Sydney, $523 in Perth and $488 in Brisbane. On the other hand, households with dependent children and those residing in regional Australia are less likely to benefit from a 20 per cent reduction in rent. In regional Australia, net housing cost burdens stand at an average of around $360 or 70 per cent of the net housing cost burdens in major cities.

[2] The AHURI-3M model, which is implemented using the HILDA survey, has been co-designed by Gavin Wood and Rachel Ong from the RMIT and Curtin AHURI research centres respectively. The 2011 tax-benefit parameters in AHURI-3M were coded by Melek Cigdem from the RMIT AHURI research centre.

Table 20: Impact of NRAS on mean housing cost burdens for NRAS eligible households (2011)

Household characteristics	Gross household income ($/fortnight)	Net housing cost ($/fortnight)		Housing cost burden (%)		Change in housing cost burden (% point)
		Without NRAS	With NRAS	Without NRAS	With NRAS	
All	*1,629.5*	*458.0*	*360.0*	*28.1*	*22.1*	*6.0*
Household type						
Couple with dependent children	2,445.5	539.2	417.5	22.0	17.1	5.0
Couple only	1,525.3	544.9	432.1	35.7	28.3	7.4
Sole parent with dependent children	1,566.2	424.6	323.3	27.1	20.6	6.5
Lone person	962.0	338.8	267.7	35.2	27.8	7.4
Other family household	2,326.3	507.1	413.2	21.8	17.8	4.0
State/capital city[1]						
Sydney	1,673.5	586.9	462.9	35.1	27.7	7.4
Balance of NSW	1,572.4	343.9	270.5	21.9	17.2	4.7
Melbourne	1,728.9	444.8	349.3	25.7	20.2	5.5
Balance of Victoria	1,516.6	314.2	252.4	20.7	16.6	4.1
Brisbane	1,631.1	488.7	378.4	30.0	23.2	6.8
Balance of QLD	1,561.5	443.1	346.1	28.4	22.2	6.2
Adelaide	1,621.3	377.6	295.3	23.3	18.2	5.1
Balance of SA	1,432.3	281.8	218.0	19.7	15.2	4.5
Perth	1,663.1	522.9	410.2	31.4	24.7	6.8
Balance of WA	2,076.4	381.9	302.0	18.4	14.5	3.8
Tasmania	1,260.8	269.4	220.4	21.4	17.5	3.9
Remoteness area						
Major city	1,671.6	507.4	397.9	30.4	23.8	6.5
Regional	1,545.3	359.4	284.3	23.3	18.4	4.9

Note: [1] There are too few sample numbers from NT (8 households) and ACT (nine households) to produce statistically reliable results.

Source: Authors' own calculations from the 2011 confidentialised HILDA survey.

Table 21 focuses on NRAS eligible households in housing stress. Of the 1.2 million NRAS eligible households represented in the 2011 HILDA survey, 460,000 were in housing stress as defined by the 30 per cent rule. Of these, nearly 153,000 or one-third would in principle be lifted out of housing stress by NRAS if the program had been made available to all those who qualify. Interestingly, while the averages in Table 20 suggest that households with dependents and regional residents are less likely to benefit from NRAS, when the analysis is restricted to households already in housing stress in Table 21, we find that stressed households within these groups are more likely to be lifted out of housing stress than other groups. Notably, over 50 per cent of couples with dependent children and residents in less

buoyant housing markets, such as Tasmania, SA and regional Victoria, are most likely to be lifted out of housing stress by NRAS. On the other hand, only one-fifth to one-quarter of residents experiencing housing stress in Sydney, Brisbane and Perth would be lifted out of housing stress by the scheme. It is clear that while residents in more expensive housing markets would benefit most from NRAS on average, their relatively high housing cost burdens make it less likely for them to be shifted below the 30 per cent housing stress benchmark by the program.

Table 21: Impact of NRAS on housing stress for NRAS eligible households (2011)

Household characteristic	Number in housing stress without NRAS	Number lifted out of housing stress by NRAS	% lifted out of housing stress by NRAS
All	*460,189*	*152,871*	*33.2*
Household type			
Couple with dependent children	53,345	26,819	50.3
Couple only	79,374	33,626	42.4
Sole parent with dependent children	69,380	25,980	37.4
Lone person	194,635	59,114	30.4
Other family household	24,316	4,255	17.5
State/capital city[1]			
Sydney	160,777	37,377	23.2
Balance of NSW	31,846	15,390	48.3
Melbourne	72,223	29,052	40.2
Balance of Victoria	14,047	7,436	52.9
Brisbane	46,325	12,242	26.4
Balance of QLD	61,300	15,873	25.9
Adelaide	22,529	12,371	54.9
Balance of SA	3,430	1,865	54.4
Perth	33,582	15,810	47.1
Balance of WA	1,903	411	21.6
Tasmania	6,820	3,751	55.0
Remoteness area			
Major city	363,865	121,230	33.3
Regional	96,323	31,642	32.8

Note: [1] There are too few sample numbers from NT (nine households) and ACT (16 households) to produce statistically reliable results.

Source: Authors' own calculations from the 2011 confidentialised HILDA survey.

4.3 Were NRAS dwellings targeted effectively?

In this section, we attempt to ascertain whether the spatial distribution of NRAS dwellings was likely to have optimised housing affordability outcomes for private renters. The sample of 1,380 eligible households is divided into those living in actual NRAS areas and non-NRAS areas. We are able to distinguish between NRAS areas and non-NRAS areas using the confidentialised HILDA data for 2011, in which the residential locations of households

are reported on a postcode basis. NRAS areas are defined as postcodes containing suburbs where there are at least 15 NRAS properties in the suburb. There are six areas which have large numbers of student housing (Crawley, Nedlands, Mount Lawley and Joondalup in WA, Clayton in Victoria, and Camperdown in NSW), and these are classified as non-NRAS areas despite having more than 15 NRAS properties. In total, 608 households in our sample (44.1%) are found to be living in NRAS areas. We hypothesise that the impacts of a 20 per cent rent reduction should be greater in NRAS areas than non-NRAS areas if the program had been targeted specifically to improve housing affordability in areas with the greatest concentrations of eligible tenants.

Table 22 presents the distribution of households by remoteness area, a measure derived from the Accessibility/Remoteness Index of Australia (ARIA) scores from the 2001 census. ARIA is a continuous index derived from measures of road distances between populated localities and service centres. It ranges from 0 (indicating high accessibility to services) to 15 (indicating high remoteness from services) (APMRC 2015). Each remoteness area represents an aggregation of non-contiguous geographical areas which share common characteristics of remoteness based on the ARIA score. Major cities are collection districts with an ARIA index of 0–0.2 and inner regions are collection districts with an average ARIA index greater than 0.2 but less than or equal to 2.4 (ABS 2001b). These measures allow us to determine whether NRAS allocations are more targeted on areas with greater access to services, including transport links. Table 22 indicates that NRAS allocations are most likely to benefit eligible households in major cities with high accessibility, followed by inner regional areas.

Table 22: Distribution of NRAS eligible households residing in and outside of NRAS areas by remoteness area (2011)

Remoteness area	Non-NRAS areas (%)	NRAS areas (%)	All (%)
Major city	62.8	71.0	66.6
Inner regional	20.1	22.7	21.3
Outer regional, remote or very remote	17.1	6.2	12.0
Total	*100.0*	*100.0*	*100.0*

Source: Authors' own calculations from the 2011 confidentialised HILDA survey.

In Table 23, we examine whether the allocation of NRAS dwellings is concentrated in disadvantaged areas. The table shows the distribution of households by the 2001 Socio-Economic Indexes for Areas (SEIFA), an ABS measure that ranks areas in Australia according to socio-economic advantage and disadvantage (ABS 2001a). The higher the SEIFA rank, the more advantaged the area. There are four key variants of the measure, but in the table they collectively show that NRAS areas are more likely to be in the bottom half of the SEIFA distribution (regardless of the SEIFA measure used) and that eligible households are also more likely to be living in areas of lower advantage.

For instance, one-quarter of eligible households are living within the lowest decile of the distribution of the index of education and occupation within NRAS areas, compared to just 8 per cent of eligible households in non-NRAS areas. Similarly, 16 per cent of eligible households are living within the lowest decile of the distribution of the index of relative socio-economic disadvantage, compared to just 7 per cent of eligible households in non-NRAS areas. These patterns imply that the NRAS incentives which have been allocated are more likely to assist households in the less advantaged areas where such households already reside, thereby providing more affordable housing options.

Table 23: Distribution of NRAS eligible households residing in and outside NRAS areas by SEIFA decile (2011)

SEIFA decile	Index of relative socio-economic advantage/ disadvantage (%)		Index of relative socio-economic disadvantage (%)		Index of education and occupation (%)		Index of economic resources (%)	
	Non-NRAS	NRAS	Non-NRAS	NRAS	Non-NRAS	NRAS	Non-NRAS	NRAS
Lowest decile	10.4	17.0	7.2	16.4	8.4	25.6	12.6	13.0
2nd decile	12.3	12.2	12.5	12.4	8.9	15.5	11.3	12.3
3rd decile	8.4	20.4	12.4	18.2	11.4	16.9	9.9	17.3
4th decile	10.2	10.6	6.8	12.2	15.5	11.5	6.8	16.1
5th decile	7.5	12.5	9.7	10.1	13.8	8.4	12.1	18.2
6th decile	10.5	5.5	6.7	7.3	8.5	6.0	13.6	5.9
7th decile	11.1	6.7	9.8	4.5	7.7	5.7	7.8	5.4
8th decile	9.7	9.4	11.6	6.5	9.0	4.5	8.9	6.4
9th decile	9.1	2.8	9.3	8.8	7.7	3.5	8.0	3.3
Highest decile	10.8	2.9	13.8	3.6	9.0	2.4	9.0	2.1
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Source: Authors' own calculations from the 2011 confidentialised HILDA survey.

However, despite the fact that eligible households living in NRAS areas are more likely to be concentrated in lower SEIFA deciles, those living in NRAS areas do not appear to bear very different levels of net housing costs to those living outside NRAS areas (see Table 24). Furthermore, those living in NRAS areas appear to have slightly higher incomes and, as a result, are better positioned to absorb housing costs within their household budgets than those residing outside NRAS areas. This is reflected in the mean housing cost burden estimate of 27 per cent for eligible households living in NRAS areas compared to 29 per cent for eligible households living outside NRAS areas. Accordingly, the incidence of housing stress is slightly lower amongst eligible households living in NRAS areas (40%) than non-NRAS areas (42%). The housing expenditure profiles reported in the table indicate that current NRAS allocations may not be targeted enough on areas where housing stress is likely to be most severe.

Indeed this tentative conclusion is confirmed when we compare the outcomes of the NRAS simulation for those residing within and outside NRAS areas in Table 25. Overall the table indicates that the impact of NRAS on housing affordability outcomes does not differ much at all between areas where NRAS incentives have currently been allocated and non-NRAS areas. In both NRAS and non-NRAS areas, the 20 per cent rent reduction would ease housing cost burdens by some $100 per fortnight, which amounts to a reduction of around 6 percentage points in both areas. The proportion of tenants in housing stress who would be shifted below the 30 per cent stress benchmark by NRAS is around 34 per cent in non-NRAS areas, compared to 32 per cent in NRAS areas. Typically, NRAS investments have been made outside areas with moderate housing prices in order to maximise the impact of the incentive. It is therefore not surprising that average housing cost burdens outside NRAS areas are higher than non-NRAS areas.

Table 24: Housing expenditure profiles of NRAS eligible households residing in and outside NRAS areas (2011)

Housing expenditure profile	Non-NRAS areas	NRAS areas
Gross household income ($/fortnight)	1,574.6	1,692.9
Net housing costs ($/fortnight)	460.0	455.6
Housing cost burden (%)	29.2	26.9
Incidence of housing stress (%)	41.9	39.9

Source: Authors' own calculations from the 2011 confidentialised HILDA survey.

Table 25: Impact of NRAS on the housing affordability positions of NRAS eligible households residing in and outside NRAS areas (2011)

Housing cost burdens	Non-NRAS areas	NRAS areas
Net housing costs ($/fortnight)		
Mean net housing cost, without NRAS	460.0	455.6
Mean net housing cost, with NRAS	362.3	357.4
Housing cost burden (%)		
Mean housing cost burden, without NRAS	29.2	26.9
Mean housing cost burden, with NRAS	23.0	21.1
Change in mean housing cost burden (% point)	6.2	5.8
Housing stress status		
Number in housing stress without NRAS	252,430	207,757
Number lifted out of housing stress by NRAS	85,810	67,061
% lifted out of housing stress by NRAS	34.0	32.3

Source: Authors' own calculations from the 2011 confidentialised HILDA survey.

4.4 University-based accommodation

One of the criticisms of NRAS was its use in the development of accommodation for university students—in particular overseas students (SERC 2015). It was argued 'that the scheme had been exploited by universities and developers to secure lucrative subsidies for student housing' (Wallace 2014). In its submission to the Inquiry into International Student Accommodation, the University of New South Wales explained that it was general practice for a university to provide land to a third party for free for the development of affordable student accommodation. The recipients are generally faith-based housing providers or, in the case of companies such as Campus Living Villages and UniLodge, private operators (Hilmer 2011). A number of universities received, either solely or in partnership with private investors, funding through the NRAS, including the Australian National University (ANU), the University of Western Australia (UWA) and Monash University. The success of applications was dependent on state/territory government support for the proposed developments. As Hilmer (2011) explains, it was the absence of NSW Government support which meant that no universities in the state were allocated incentives through the scheme.

In WA, 550 studio and one-bedroom apartments were built at UWA's University Hall under the scheme. In Victoria, NRAS funding was allocated to the development of 600 studio apartments in the Briggs and Jackomos student residences at the Monash University Clayton Campus. The ANU partnered with the ACT government to produce self-catering studio apartments, with private bathroom and kitchen facilities, in three separate

developments, which are either owned and operated by ANU or are affiliated with the university and operated by UniLodge (ANU 2015a). Private investment into student accommodation is also evident in WA at the Campus Living Village, Edith Cowan University (ECU) where 175 dwellings, ranging from studio to two-bedroom apartments, were constructed in close proximity to ECU's Mount Lawley and Joondalup campuses.

Has the scheme produced a more affordable product for students? At UWA, there was little difference in price between NRAS and non-NRAS affiliated accommodation; however, the former included a private bathroom and kitchen compared to the shared facilities available in established on-campus options. NRAS studio apartments in Mount Lawley, managed under Campus Living Villages at ECU, cost a little more than non-NRAS associated accommodation, largely because they were new. The new student residences at Monash, Clayton have higher rents than the established housing options. For example, accommodation rates are $266.00 per week for a single occupancy self-contained studio apartment, which includes all the same services and facilities as non-NRAS accommodation, such as utilities, telephone and internet, and laundry facilities (Monash Univeristy 2015b), compared to $247.10 per week for a standard room with an ensuite or $231.35 per week for a two-bedroom apartment on campus (Monash Univeristy 2015a). However, when compared to a similar dwelling type off-campus, the NRAS dwellings are more affordable.

At ANU's Ursula Hall, tenants in NRAS apartments receive the same benefits as those in non-NRAS apartments, including internet, phone, laundry, utilities and insurance (ANU 2015b). NRAS apartments include private kitchen and bathroom facilities and, as a result, are approximately $50 per week more expensive to rent than those with shared options. By contrast, students renting in Lena Karmel Lodge or Warrumbul Lodge—affiliated with ANU but operated by UniLodge—paid lower rent than those in comparative student accommodation, despite being required to pay approximately $30 a week to cover expenses such as internet, phone connection, laundry facilities and utilities. All students renting NRAS accommodation were required to enter into a 12-month lease to comply with scheme requirements. As student accommodation generally follows the academic year, this in itself increases the annual housing cost.

These findings are important, as accommodation costs are one of the major expenses associated with living away from home while completing tertiary education. Moreover, there is a strong link between the availability of appropriate and affordable residential accommodation on campus and the academic success and retention of students, particularly for those from low socio-economic backgrounds (Sheppard and Linke 2013). A recent study of seven Australian universities found that many accommodation options available to students living out of home are not generally affordable and require additional financial support, highlighting a demand for the supply of affordable and appropriately located student accommodation (Constable and Rowley 2014).

Students living away from home and unable to access residential student accommodation on campus were likely to enter the private rental sector. These students are at risk of being exploited, have potentially high transport costs, have low security of tenure and face increasingly unaffordable rents that force them to work longer hours to meet these costs (Constable and Rowley 2014). Similarly, research into the housing experiences of overseas students in the private rental sector found that they too pay exorbitant rents and are at risk of leasing poor-quality dwellings that are overcrowded and poorly maintained, in a submarket which is in need of greater regulation (Goodman et al. 2013). Only a small proportion of international student housing needs have been met by educational institutions through on-site student accommodation services since the dramatic increase in international student numbers in the 1990s. Therefore, the majority of these students enter the private rental market (Hulse et al. 2012). One of the challenges with this trend is that students are

willing to share accommodation, therefore making them well positioned to out-bid low-income households seeking similar dwellings (Hulse et al. 2012; Goodman et al. 2013).

The scheme was criticised for its use in the university sector and for providing accommodation for wealthy international students. However, this is less about NRAS and more about the nature of student accommodation, where rents can top $450 per week and are affordable only to those with considerable financial support (Constable and Rowley 2014). NRAS accommodation was not necessarily targeted at international students. It was just that such students were often the only ones able to afford the rents. More broadly, investment in the student housing markets generated new supply, which arguably eases the pressure in the surrounding private renal market of each university campus, assuming the number of students remains constant—thereby having a flow-on effect in the affordable housing market for students and non-students residing in these local areas.

4.5 Summary of affordability outcomes

This chapter shows how a 20 per cent discount on local market rents can have a significant impact on housing affordability for eligible tenants. Not only can such a subsidy lift households out of housing stress, it can make accessible a large proportion of suburbs previously unaffordable. Of course, the impact is limited by the availability of subsidised dwellings, but for those fortunate enough to obtain an NRAS tenancy it has the effect of allowing access to a higher quality location and/or reduced housing costs. With the discount even deeper for NRAS dwellings owned by the community housing sector, NRAS undoubtedly provided an effective affordable housing product for those in the private rental market. With competition for incentives growing, providers had to make their applications attractive to the state government making the allocation decisions. This best way to make an application more attractive is to offer greater discounts on the market rent, which delivers better affordability outcomes.

NRAS dwellings have not been targeted at those areas most in need of affordable housing, based on the distribution of eligible households. This is largely due to the structure of the NRAS incentive favouring those areas with low to moderate house prices, with rents at a level where a 20 per cent reduction erodes as little of the incentive as possible. For example, for a weekly market rent of $300 per week, the 20 per cent reduction reduces rental income by $3,120 per year, meaning the incentive still delivers a considerable gain to the investor. With a rent of $500 the annual reduction is $5,200, rising to $6,240 for $600 per week. Ignoring the after-tax position, the higher the rent the less beneficial the NRAS incentive. To maximise the impact of the incentive, investors will seek areas with potential for capital growth, with a rent that is low enough to benefit from the incentive itself. However, the analysis shows that NRAS dwellings have been targeted at areas of socio-economic disadvantage, largely within metropolitan areas.

The analysis in this chapter assumes that NRAS dwellings have been provided at a minimum of 80 per cent of the local area median rent, and evaluation of available NRAS tenancies shows rents generally around $300 per week. A recent search of NRAS dwellings available for rent identified 491 properties to let across Australia, of which 205 were in WA and 103 in Queensland (Mitula 2016). Of these 491 dwellings, 260 had rents below $300 per week.

Rents for NRAS dwellings are set by a licensed valuer, who will use comparable rental transactions to establish the market rent on the property before the discount is applied. The valuation process relies on the use of comparable evidence, meaning recent transactions of similar properties in the local area, to establish the rent. In the absence of comparable nearby properties, valuers will use their judgement to make adjustments to any evidence available to them. This can be a problem if there is a newly constructed dwelling available for rent in an area with limited rental transactions or characterised by an ageing rental stock.

Valuers need to determine how the rent for a new property will compare to the established rental market. In such a case, the perceived quality of the new-build dwelling will often mean the rent is higher than for older, established rental dwellings.

The extent to which the rent is higher due to the new-build premium will erode the 20 per cent discount relative to the surrounding local median. For example, if the premium established for new-build quality is 10 per cent, then the NRAS dwelling, after the 20 per cent discount, will only be around 10 per cent lower than the local median. The extent to which NRAS dwellings are more affordable that the existing rental stock is therefore dependent on the characteristics of the rental stock in the local area (i.e. new versus established) and the rent set by the valuer. It is therefore too simplistic to state in every case that new NRAS dwellings are let at a minimum of 80 per cent of the local area median rent, calculated through all rental transactions within a defined area, because of the necessary adjustment for quality made by valuers. However, NRAS tenants still get a 20 per cent discount on a new-build rental product that may otherwise have been unaffordable to that household.

NRAS has provided new rental opportunities in suburbs with largely mid-range socio-economic characteristics, many of which will have been previously out of reach of low- to moderate-income households. In this sense, the scheme has delivered subsidised rental accommodation to areas with a demonstrated need. Moreover, the spatial distribution of dwellings in the capital cities demonstrates that, by and large, new supply has been developed in close proximity to rail networks and bus routes, offering tenants access to services and employment opportunities outside their immediate neighbourhood.

5 SUBSIDISED AFFORDABLE RENTAL PROGRAMS IN THE UNITED STATES AND ENGLAND: OUTCOMES AND LESSONS

This section of the report provides more detailed operational detail on the experience of the US and England in implementing the Low Income Housing Tax Credit program and Affordable Rent regime, respectively.

5.1 Low Income Housing Tax Credits (United States)

The US Low Income Housing Tax Credit (LIHTC) program, initiated in 1986, has produced 2.6 million units of very-low-income rental housing—the largest affordable housing supply program in the nation's history. The housing asset is privately developed, owned and operated, privately financed through lenders and equity investors, and privately managed by developers from both the non-profit and for-profit sectors. The program aims firstly to create and preserve affordable rental housing, and secondly, to direct affordable housing investment to support community revitalisation. These aims are achieved principally by providing private developers with a tax incentive to invest in eligible projects. State Allocating Agencies award taxation credits to a developer who, in turn, raises equity capital from an investor.

Eligible projects include the new construction, acquisition and/or rehabilitation of affordable rental housing. Eligible applicants and/or recipients include for-profit and non-profit developers. To qualify for LIHTCs, a project partnership must assure that:

- At least 40 per cent of units are rent-restricted and leased to households with incomes no greater than 60 per cent of Area Median Income (AMI); or
- At least 20 per cent of units are rent-restricted and leased to households with incomes no greater than 50 per cent of AMI; and
- Rents are restricted to low-income units for the Affordability or Compliance period.

Based on eligibility criteria, a project in which all of the dwellings are rented at or below 60 per cent AMI will qualify for more credits than an identical mixed-income project that consists of a combination of affordable and market units.

The Department of Treasury's Internal Revenue Service (IRS) administers LIHTC, with policy guidance provided by the US Department of Housing and Urban Development (HUD). In 2015, states received LIHTC allocations equal to $2.28 per capita, with small states offered a minimum allocation of $2.7 million. LIHTCs are awarded for 10 years, therefore this totalled a minimum allocation of $27 million in 2015. The 2015 nationwide total of LIHTCs amounted to a $7.6 billion tax expenditure for the US Treasury with funding expected to increase going forward (Table 26).

Table 26: Annual tax expenditure on the LIHTC program

Year	2015	2016	2017	2018	2019
Tax expenditure ($US billions)	7.6	8.1	8.7	9.0	9.6

Source: US Congress Joint Committee on Taxation 2015.

5.1.1 Allocation of LIHTCs

The LIHTC program is jointly administered through the IRS and local and state housing finance agencies (Dawkins 2011; Gibb et al. 2013). The IRS distribute tax credits to state allocating agencies. Developers then submit eligible project proposals to the allocating agencies though a competitive bidding process for the tax credits. The allocation of tax

credits is determined by criteria set out by the states in the Qualified Allocation Plans (QAPs), as well as by the Internal Review Code (IRC). The IRC selection criteria include factors such as: project location; housing needs characteristics; whether the project includes the use of existing housing as part of a community revitalisation plan; energy efficiency outcomes; target tenant populations with special housing needs or on public housing waiting lists; whether the project is intended for eventual tenant ownership; and the historic nature of the project. Allocating Agencies may establish their own selection criteria that reflect local strategic and political priorities. Most states also require a proportion of tax credits to be set-aside for rural projects as part of the state QAPs. For example, in California, 20 per cent of LIHTC awards must go to rural projects.

While Allocating Agencies have considerable flexibility in how they choose to interpret and prioritise these criteria, they must give preference to those projects which serve the lowest income tenants; will remain affordable for low-income households for the most time; contribute to a concerted community revitalisation plan; and are located in Qualified Census Tracts (QCTs). QCTs are those very-low-income neighbourhoods where at least 50 per cent of households have incomes below 60 per cent of the AMI. Most LIHTC applications use point systems, assigning maximum points that can be earned under each criterion. This transparent application and scoring system strongly influences development proposal characteristics, and ultimately what is built under the LIHTC program. It also helps ensure project applicants are awarded allocations on merit, not political influence.

5.1.2 Investment structure

Once an allocation of LIHTCs is awarded to a project, a developer may sell the tax credits either through direct investment in the project or syndication. Investors in LIHTCs have very different motivations. Banks for example, receive consideration under the US Community Reinvestment Act (CRinvA), designed to encourage them to meet the credit needs of low- and moderate-income neighbourhoods within the communities in which they operate. Other investors invest directly for the returns generated, while others invest for tax sheltering purposes.

A *direct investment model* is one where investors partner with developers in the funding and ownership of the development. Developers, either non-profit and for-profit, form limited partnerships, or limited liability corporations, as single-asset entities to develop, own and operate the low-income rental housing project. The partnership then sells a 99.99 per cent ownership share to the limited partner investor, retaining a 0.01 per cent ownership share for a managing general partner affiliate of the developer's parent corporation.

A *syndication model* connects private or commercial investors with LIHTC projects. LIHTC syndication proceeds pay 30–70 per cent of total development costs, dependent upon the value of the credit, the level of affordability, and the market price of the tax credits. There are two LIHTC programs depending on the rental housing being constructed, known as the '9 percent' credit and the '4 percent' credit.

The *'9 percent' program* is generally reserved for new construction. It pays for a higher proportion of rental project total development costs, approximately 70 per cent, provides a higher percentage payment for tax credit eligible basis items in the project's development budget, and delivers lower rents. For these reasons '9 percent' LIHTC allocations are highly competitive in the allocation process and virtually every state is oversubscribed.

By contrast, the *'4 percent' program* is ministerially awarded and is generally reserved for rehabilitated housing and new construction financed with tax-exempt bonds. It is much less competitive, because it is much less valuable as the '4 percent' credit pays for approximately 30 per cent of total development costs. The '4 percent' LIHTC program can be combined with other subsidy sources such as the HOME block grant program, state and

local housing trust fund subsidies and other sources. The rents of ‘4 percent’ projects, however, may be as high as 60 per cent AMI.

The LIHTC program has been structured to benefit corporate investors, rather than high net-worth individual investors. The originating statute placed sharp restrictions on passive income of high income/net-worth individuals, while no such restrictions were placed on corporate investors. Most, but not all, LIHTC investors in the US are banks. The investor receives tax credits and depreciation benefits, as well as some share of cash flow.

Some corporate tax payers, notably banks operating under CRinvA, have developed their own in-house capacity for direct placement of LIHTC investments without the use of intermediaries or syndicators. So-called ‘direct investors’ invariably provide more efficient pricing to developers. In high-demand geographies and markets, developers today are able to secure net syndication proceeds of greater than $1.10 for every $1.00 of LIHTCs. In addition to selling or syndicating tax credits, developers also sell depreciation benefits and project losses associated with the project’s financial performance. In today’s LIHTC market, investors are earning internal rates of return (IRR) of between 4 and 6 per cent. IRR is calculated by comparing the total stream of benefits received by the investor (tax credits, tax depreciation and losses, cash flow participation, investor management fees) to the amount of equity invested in the project, adjusted to present value over time.

The importance of the CRinvA in the US should not be understated in promoting bank corporate equity investment in qualified very-low income rental housing, as well as construction and permanent lending for such housing developments. Federally regulated depository financial institutions are required to ‘reinvest’—at risk-adjusted market rates of return—in lending and equity investment activities benefitting low-income individuals and communities. The CRinvA asserts that since banks ‘take’ deposits from such persons and communities, they have an affirmative obligation to reinvest in those communities with safe, sound and profitable financial products and consumer banking services. Federal banking regulators (the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation) closely administer CRinvA requirements, and ‘grade’ banks on their performance. If a bank does not have an ‘outstanding’ or ‘satisfactory’ grade, federal regulators will likely not approve bank mergers and acquisitions without quantifiable, verifiable community investment commitments. The CRinvA exerts enormous influence on the LIHTC program and low-income rental housing debt market.

5.1.3 Investment returns

Investor competition for LIHTC project investments is high (spurred in no small measure by the CRinvA), making it one of the most efficient subsidy programs in US history. With such low rates of return, projects routinely enjoy credit efficiency factors well above 90 per cent—that is, more than 90 cents in each dollar in the tax benefit stream (credits, depreciation, losses) is invested in the housing project.

For equity investment in low-income rental housing, this is a highly efficient delivery of private capital for a long-term (15-year) investment. In the early years of the LIHTC program, from the late 1980s to mid-1990s, IRRs were extremely high, around 35 per cent, and often delivered less than 50 cents on the tax-credit dollar. These high rates of return made the early program years costly and inefficient. The stability, transparency, competitiveness and limited supply of LIHTC investments have combined to make the program highly efficient today.

The price paid for the tax credits by investors is driven by the value of the credit, not the market value of the housing. Market risk is limited, if not eliminated, as long as restricted rents are sufficiently below (typically by at least 10%) surrounding area market rents for comparable rental projects.

To receive taxation credits, developers enter into an agreement with the Allocating Agency known as a Regulatory Agreement. This agreement stipulates, among other things, the affordability requirements for a project. The Federal LIHTC program requires projects built after 1990 to remain affordable for 30 years (Affordability Period). Allocating Agencies can apply their own affordability restrictions, with some states requiring extended-use agreements, which lengthen affordability requirements to 55 years and even longer.

In all cases, Investors are required to ensure the developments remain affordability during the first 15 years (Compliance Period) after which time they are not held responsible by the IRS for non-compliance of affordability requirements. Most limited partner investors will exit their LIHTC development partnerships by Year 15 through a relief process. While the Compliance Period for investment is 15 years, investors can claim all their taxation credits within 10 years. For example, a well-structured partnership agreement affords the managing general partner (i.e. the developer's affiliate) an option to purchase the limited partner's interest at the end of the 15-year Compliance Period, at a price that assures continued affordability of the rental project. In the case that conditions in the Regulatory Agreement are breached, previously awarded tax credits are recaptured with penalties.

5.1.4 LIHTC program affordability structure

LIHTC rents are fixed at or below a level affordable to households earning 50 per cent (very low income) or 60 per cent (low income) of AMI and must also include the cost of utilities. Utility costs take into account the number of bedrooms in the dwelling and are determined annually by a local housing authority. Rents are based on the attributes of the unit, rather than the income of the occupying household. Therefore, unlike rental subsidy or voucher programs, unit rent does not change with resident income.

Despite the restricted rents, the cost of leasing a LIHTC property may still not be affordable for extremely low-income households. Many state allocating agencies therefore require that a portion of LIHTC projects set aside units with rents affordable to households earning as little as 35 per cent of AMI. Households in LIHTC properties may also be eligible to receive rent subsidy assistance, such as Section 8 and Rent Vouchers. Vouchers are set at a percentage of families' actual income. Many LIHTC projects are combined with project-based rent subsidies from the Rent Voucher program, bringing rents down to affordable levels for households at 30 per cent AMI.

LIHTC leases may not be less than six months and are typically signed for 12 months at a time. Annual rent increases are based on an increase in published AMI for the appropriate metropolitan region. Allowable rent increases are not tied to market rents. However, initial project rents, during the year the unit is first 'placed in service', must be at least 10 per cent below local market rents for comparable developments.

Tenant eligibility is based on household income. Once qualified for occupancy, household incomes may increase above initial eligibility thresholds without being forced to vacate the unit. This is intended to provide resident and neighbourhood stability. Lower income residents are eligible to receive rent assistance to help them afford the LIHTC rent.

5.1.5 LIHTC program outcomes

The LIHTC program produces approximately 110,000 units of newly constructed, acquired, and/or rehabilitated low-income rental housing per annum. The program funds approximately 1,450 projects per year. From its inception in 1987 to the end of 2013, LIHTC produced around 2.6 million units of low income rental housing. LIHTC projects range from small infill developments of 20 units to large scale developments of 250 units or more. However, transaction costs typically dictate a minimally feasible project size of greater than 50 units in urban markets. By comparison, rural projects are invariably small. While some projects are located in mixed-income developments, where a portion of the units are market

rate and not rent restricted, the vast majority of projects receiving LIHTC financing consist entirely of eligible units. 27 per cent of all projects are developed by non-profit developers and operators.

Some observers have expressed concern that LIHTC developments have the effect of concentrating poverty in existing low-income neighbourhoods. For example, in a 2008 US Supreme Court case, Texas Department of Housing and Community Affairs vs. Inclusive Communities Project, Inc., examined the claim that the Texas Department of Housing and Community Affairs developed a disproportionate share of LIHTC units in largely minority neighbourhoods with high poverty rates, thereby further concentrating poverty and racial segregation. The court ruled in favour of the Inclusive Communities Project. Conversely, Ellen et al. (2009) examined the location of LIHTC developments during 2003 and found little evidence that the program exacerbated poverty concentration. Somewhat to the contrary, their analysis suggested that the LIHTC program was associated with slightly lower levels of poverty concentration. The findings by Ellen et al. (2009) were largely duplicated by Diamond and McQuade (2015) who found that LIHTC developments were associated with an increase in property values in low-income neighbourhoods. Similarly, Freedman and McGavock (2015) found minimal evidence that LIHTC projects concentrate poverty at the neighbourhood level. Reviewing the prior research and testing the LIHTC project allocation data from 12 states, Ellen et al. (2015: 29) again found 'little evidence that the LIHTC program is increasing the concentration of poverty—and we find some evidence that it is reducing poverty rates in high-poverty neighbourhoods'. To alleviate concerns surrounding the concentration of poverty within specific neighbourhoods, Ellen et al. (2009) suggest that the criteria used by the state Allocating Agency to determine the location of a development should be adjusted to encourage development of LIHTC financed projects in more affluent neighbourhoods.

5.1.6 Summary

The LIHTC program has proven to be an efficient, productive and broadly accepted financing tool for the development, construction, rehabilitation and preservation of privately owned and operated low-income rental housing. It has successfully applied market discipline to the public–private partnership structure of the enterprise. It enforces compliance through the threat of tax penalty in the form of recapture on investors. Corporate investors in turn assure professional, qualified, third-party oversight of property and asset management through the 15-year federal Compliance Period. This oversight is performed under contract to the project partnership by certified accountants performing annual audits; investment managers overseeing project quality; state Allocating Agency audits of compliance with affordable rent and eligible income occupancy requirements; and property management firms responsible for project operations, tenant relations, physical condition, and compliance with rent and income restriction. Moreover, this structure assures annual compliance and audit practices are applied to monitoring the projects' financial and regulatory performance and compliance.

5.2 Affordable Rents regime (England, United Kingdom)

The Affordable Rents (AR) regime was the central element of the Affordable Homes Programme (AHP) introduced by the UK coalition government in order to maintain the output of affordable rented homes in England in the face of the broader austerity programme. The programme has been continued by the Conservative government which was elected in May 2015, meaning that the programme will remain in place until 2018. However, no further funding was announced in the 2015 Spending Review.

The introduction of the AR model was a core element in the coalition government's policy to reduce supply subsidies and replace them with much more targeted income-related housing benefits. The October 2010 Spending Review announced a reduction in the capital funding

available up to 2014–15 for the development of new social housing to £4.5 billion (down from £8.4 billion for the period of the previous Spending Review, which had included a transfer of funds from later years to kick-start 'shovel-ready' social housing development). At the same time, the review announced the government's intention to introduce a new type of 'intermediate rent' regime, under the title Affordable Rent (as distinct from intermediate rental, which already existed). This enabled housing associations to offer tenancies at rents of up to 80 per cent of market rent levels within the local area on contracts with time-limited security. Local authorities were also enabled to build using this scheme, after the introduction of self-financing in April 2012. Social landlords could thus offer new intermediate rental contracts that are more flexible, at rent levels between current market and social rents, to a growing proportion of new social tenants. The terms of existing social tenancies and their rent levels remained unchanged.

The objective of the new regime was to provide a mechanism by which affordable housing output could be maintained, without large-scale capital grant. The existing use values of both new affordable homes and those transferred from the social rented stock under the scheme (based on the rental stream from tenanted property) would be higher than for the existing stock because of higher rents, so would support higher borrowing levels. Thus, the additional finance raised from the higher rents is available for reinvestment, not only for the AR program but for the development of additional new affordable housing of other types (including, e.g., social housing with lower rents and shared ownership), as well as the improvement of existing units.

Importantly, the AR regime depended for its potential success upon housing associations already having in place strong balance sheets. These had been built up since 1989 through large-scale new-build and redevelopment programs, based on competition for capital grant to enable submarket rents to be charged for the properties. In addition, after 1990 there was implicit subsidy through lower land values based on S106 negotiations. Over the years, increasing rents for existing properties have meant that tenanted values have increased more rapidly than general inflation, allowing higher levels of borrowing against these values. Even so, rents remained well below market levels (around two-thirds of market levels overall and under 50% of market value in London). There was therefore ample capacity to introduce a lower subsidy framework based on up to 80 per cent of market rents. Moreover, in 2013 the government introduced a guarantee scheme that allowed the housing associations that put forward eligible projects to raise funds through The Housing Finance Corporation to benefit from interest rates about 1 per cent lower than they could achieve on the finance market for themselves. Thus, lower subsidies were able to support higher levels of output.

One reason why this approach was politically feasible was that for low-income households the higher rents would be paid for by the Housing Benefit program (a rental subsidy for eligible households in the private rental sector paying all or part of market rent). There was obviously a break-even point at which the costs for the government of the Housing Benefit scheme would outweigh the benefits from charging higher rents to those who could afford them and at the same time increasing the total supply of social housing. As far as can be tested, this policy was effective—Housing Benefit payments indeed increased, but so did output levels (above those achieved under the earlier, much more generous, supply subsidy), while rent revenues rose.

However, the Conservative government that was elected in 2015 decided that the policy was costing the Exchequer too much and adversely affecting incentives. They therefore required housing associations to reduce the rents on every property by 1 per cent per annum for four years (at a cost comparable to projected rent increases of some 14% of revenue income) (Adams et al. 2015). Meanwhile, they still expected the associations to

maintain or increase their output levels by improving efficiencies and changing the mix of provision more towards shallow subsidy outputs, such as shared ownership.

5.2.1 The mechanics of the Affordable Rents regime

From 2011 to 2015, the government, through the Homes and Communities Agency (HCA) and the Greater London Authority (GLA), invested £4.5 billion in affordable housing through the AHP and existing commitments from the previous National Affordable Housing Programme (NAHP). The majority of the program was made available as affordable rent, with some dwellings for affordable home ownership, supported housing and in some circumstances, social rent.

Housing associations and other registered providers were required to bid for the funds based on numbers and types of units, their location and proposed rents. The program was oversubscribed and produced more dwellings than originally proposed.

In June 2013, the government identified £2.9 billion in capital grant funding has been made available nationally to fund affordable housing over the three-year program period (2015–18). Of that, £1.7 billion was to be allocated by the HCA outside London and a further £1.2 billion by the GLA within London. This was intended to support the delivery of 165,000 additional affordable homes from April 2015 to April 2018. No additional funding was made available in the 2015 Spending Review.

It should be noted that many of the dwellings provided have been located on land made available by S106 agreements, by which local authorities and developers negotiate a proportion of affordable units on almost all new residential developments. This process also normally includes a cross-subsidy from developers (strictly land owners).

5.2.2 Affordable Rents regime affordability structure

Within the AR regime, rents can be set at up to 80 per cent of the gross market rent, including service charges within this limit. However, housing associations may determine their own rent structures and levels. The decision on average rent levels forms part of the bid for funding on which the HCA and the GLA base their program allocation. As shown in Table 27, the HCA's data suggest that the vast majority of new-build properties, whether within the AR subsector or social housing, were projected in the accepted bids to be let at near 80 per cent market levels (HCA 2014).

In practice, housing associations have made their own decisions about both rent structures and levels. Some have decided to hold rents on larger properties at social (target) rent levels (e.g. London and Quadrant 2015). Others, such as Affinity Sutton, have argued that they can best help by reducing rents for smaller households, because of the way in which the Housing Benefit system operates (Ellis and Whitehead 2015).

What is less clear is who was meant to be accommodated in affordable rented homes. The initial government position was that this was a sector that would concentrate on accommodating those who could not afford market rents but who could afford rents above those charged for social rented housing. The message from government to housing associations was, however, that there should be no change in allocations. Whatever the intention, housing association priorities, and local authority housing registers and allocation rules tended to mean that the tenants accommodated in these properties were very similar to those housed in the social rented sector (Ellis and Whitehead 2015). This tendency was reinforced by the requirement that affordable rents be held below the Local Housing Allowance (where the maximum allowance in the private rented sector is set to cover the bottom third of local private rents).

In understanding the policy, it must be remembered that all lower-income tenants, whether employed, unemployed or non-participants in the labour force, are eligible for Housing

Benefit based on household circumstances and the rent they are paying. In the social rented sector, including the affordable rent subsector, Housing Benefit at the limit covers that rent in full, although since 2011 some constraints have been introduced. A large and growing proportion of those on Housing Benefit are in work but remain eligible for support because the income taper is such that these earnings are seen as inadequate.

Table 27: Affordable Housing Programme average gross rents as a proportion of market rent (including service charges) by HCA Operating Area (end of September 2014)

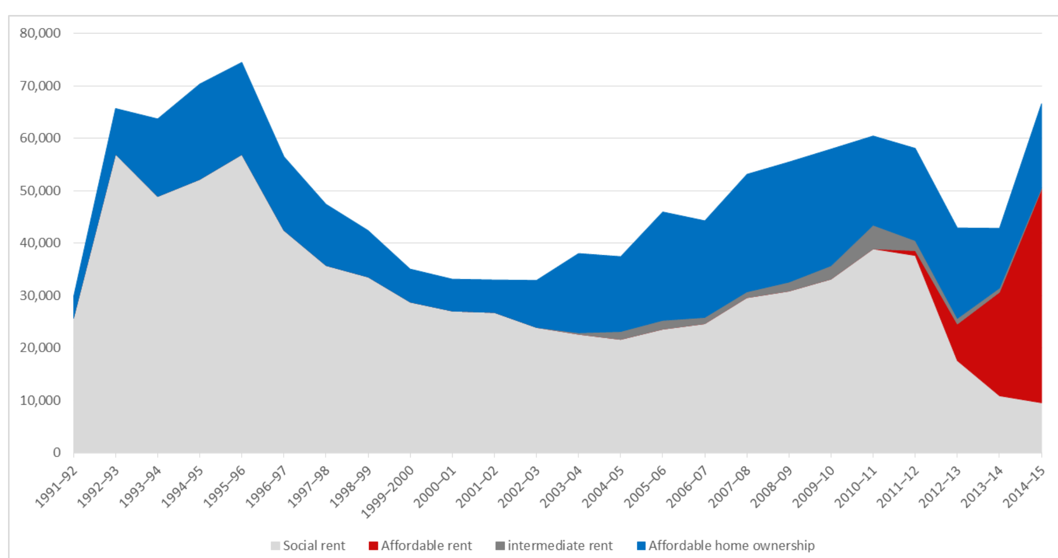
HCA operating area	Average rent (£/week)	Average rent as a % of market rent
East and South East	134	77
Midlands	107	79
North East, Yorkshire and the Humber	97	79
North West	102	80
South and South West	123	78
Total	*114*	*79*

Source: HCA 2014.

5.2.3 Affordable Rents regime outcomes

The scheme was expected to contribute to the delivery of 150,000 new affordable homes over the period 2011–15. After a successful initial bidding process, the government increased this estimate to 170,000 new homes (of which it was expected that 80,000 would be affordable rent and affordable home ownership properties) utilising almost £1.8 billion in grant funding. In the end, the program exceeded planned output by around 8,000 homes. As can be seen from Figure 6, the increase in the supply of new homes at affordable rents was accompanied by a significant reduction in the output of social rented housing. However, it should be noted that the figures from 2011/12 to 2013/14 reflect the fact that the overall program from 2011 was heavily back-loaded—with a complete stop in new starts while the contracting process was being put in place and more than 50 per cent of the program expected to be completed in 2015.

Figure 6: Additional affordable homes* provided by type of scheme, England



Note: * Affordable housing is the sum of social rent, affordable rent, intermediate rent and low cost home ownership.

Source: DCLG 2015b.

The emphasis on building at affordable rents remains central to the 2015–18 AHP announced in July 2013 (subsequently extended to 2020 as part of the 2014 *Autumn Statement*). The initial bidding process for the program did not result in the allocation of the expected level of funding, so a continuous bidding process is now in place. It is expected that the numbers built will again exceed the original prediction.

The AHP is funded and regulated through the HCA and in London through the GLA. According to the HCA's Statistical Data Return, which is the only major source of information on the AR subsector and other affordable housing programs, up to the end of the year 2013/2014 some 76,650 units had been designated as within the AR regime.

Table 28 clarifies the spatial distribution of Affordable Rent properties by region. Rather more than 36 per cent of Affordable Rent homes are in the three northern regions as compared to 35 per cent of all social rented homes. At the other extreme, the proportion of AR homes in London is around 13.5 per cent as compared to more than 16.5 per cent of all social housing. However, other southern regions have relatively high proportions—especially in the South East—while there are relatively few in the Midlands. The most obvious implication of this spatial pattern is that it differs little from established programs. This is to some extent in contrast to the evidence on overall completions by the housing association sector, which shows almost three in four housing association completions being in the south.

Table 28: Affordable Rent units by region (2014)[1]

Region	Number of Affordable Rent units	Percentage of all Affordable Rent units in England (%)	Number of social rent units	Percentage of all social rent units in England (%)
East Midlands	1,567	2.04	78,540	4.30
East of England	8,686	11.33	202,907	11.11
London	10,330	13.48	295,077	16.16
North East	6,008	7.84	123,780	6.78
North West	16,557	21.60	381,902	20.92
South East	12,849	16.76	247,254	13.54
South West	7,718	10.07	159,960	8.76
West Midlands	7,257	9.47	189,364	10.37
Yorkshire and the Humber	5,671	7.40	146,942	8.05
England	76,643	100.00	1,825,726	100.00

Note: [1] General needs units only.

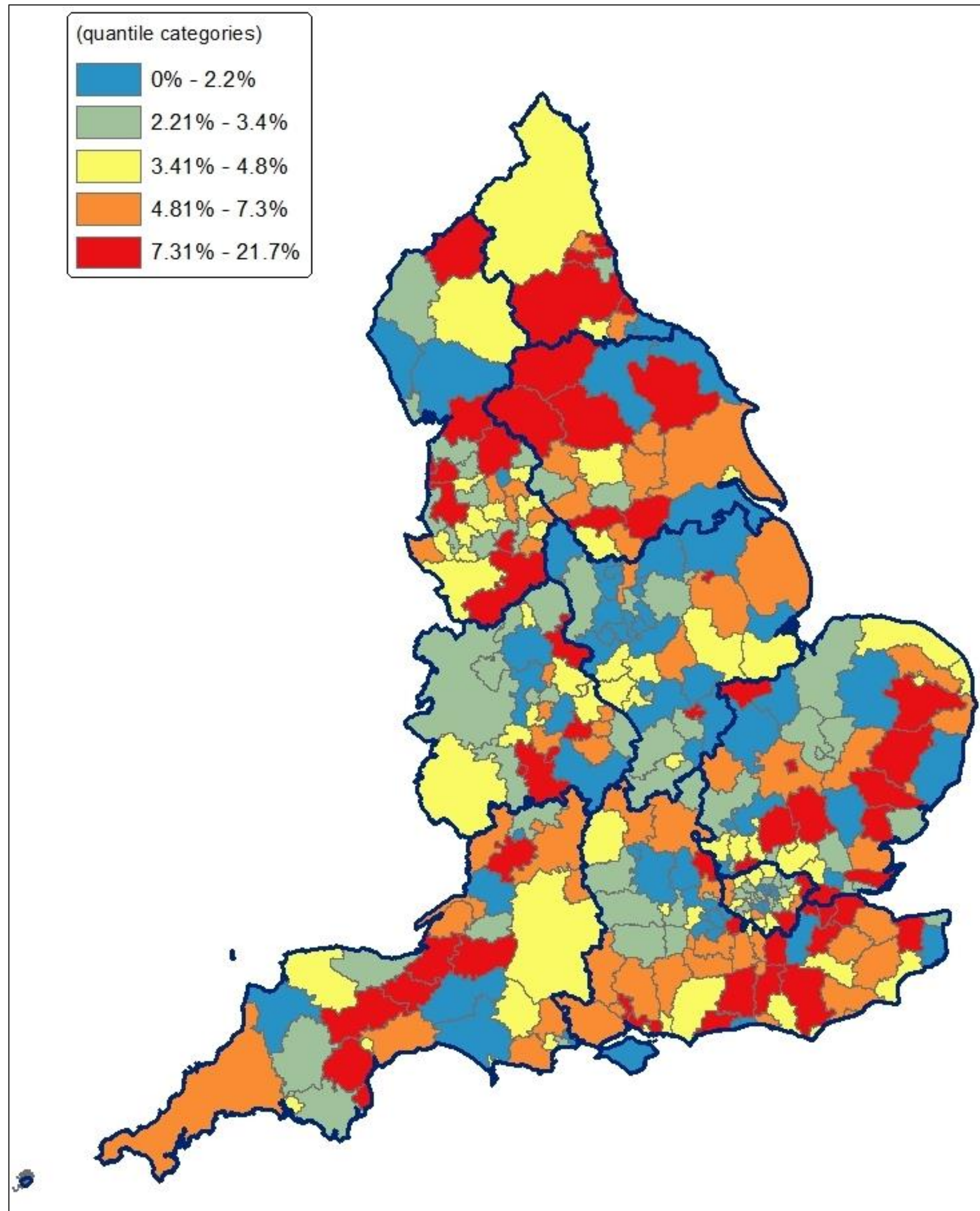
Source: Authors' calculations based on HCA SDR 2014.

Figure 7 shows the relative importance of AR housing as compared to social rented housing across the country, by quintiles. AR housing is clearly still relatively unimportant in the vast majority of local authorities. However, the proportions are creeping up quite rapidly, mainly in lower demand areas.

The AR stock in these authorities is likely to be dominated by properties transferred from social rented housing. At one level this may be a logical policy for associations, as the higher rents will give more freedom while the Department of Work and Pensions, through the Housing Benefit, will help those on low incomes.

There are no readily accessible data about where within local authority areas the AR homes are located. However, the program is basically the continuation of earlier policies and locations will be significantly determined by where market housing is being built. Earlier research for the HCA (Crook et al. 2011) showed significant proportions of both market and affordable homes were being built on 'new' housing areas—brownfield sites which have either no or little established residential building in the immediate vicinity. Other affordable homes were being built in regeneration areas and the rest in suburban locations. Further analysis (Crook et al. 2015) suggested that in the main, new building reduced deprivation, at least in the first instance, because of the tenure mix on both new and regenerative developments.

Figure 7: Affordable Rents housing stock as a proportion of social rental housing stock (all sizes)



Source: Author based on HCA SDR 2014.

At the national level, well over 90 per cent of all units are in the one-bedroom to three-bedroom range, with almost half being two-bedroom units (Table A8). However, the proportions of these three main property sizes vary greatly between regions. London has by far the highest proportion of one-bedroom units and the lowest of three-bedroom units, even though overcrowding in the housing association sector, as for all other tenures, is concentrated in London. The next highest proportions are in the South East and East. The highest proportions of three-bedroom units are in the North. In all regions, the highest proportion of affordable rented homes are two-bedroom units—but in Yorkshire and Humberside, three-bedroom units are almost as numerous and in the North West there is only a couple of percentage points difference. At the other extreme, in London 42 per cent are two-bedroom units and 40 per cent are one-bedroom units.

In addition to focusing the AHP on the development of new properties at affordable rent levels, there is also an expectation that a proportion of relets of existing dwellings will be let at higher rents in order to underpin AHP output. The authors of the *UK Housing Review 2015* comment on the extent to which this is happening. They state that HCA estimates suggest that (excluding London) existing homes being relet on AR terms will total around 72,000 over the four years to April 2015. Based on current re-let volumes, this would amount to around one-sixth of homes re-let during the period. In 2013/14 there were 27,331 conversions, so two-thirds of the growth in AR came from converting re-let stock. As a result of conversions and new build, the number of general needs units being let on an AR basis has doubled over the year (to 76,643). As a consequence, the number of new AR lettings rose to 36,000, or 21 per cent of total housing association new general needs lettings in 2013/14, up from 18 per cent the year before (Wilson and Bate 2015).

5.3 What can Australia learn from international approaches to subsidised rental housing supply?

There are a number of similarities between international approaches to subsidised rental housing supply (Table A9). The delivery of financial incentives from the federal government with the involvement of state/local governments is the most widespread means to encourage institutional investment in the sector. Examples of this can be seen in the US and France with taxation credits, the Affordable Homes Guarantees Programme (AHGP), which supported debt financing in the UK and the use of existing dwellings in Ireland, and block grant funding in the US and Canada. Under NRAS, state governments were involved in the assessment of applications enabling local needs to be taken into account, a theme which was also evident through many international approaches. Despite the similarities, a number of differences between NRAS and international schemes provide scope for improving a future subsidised affordable rental housing program in Australia.

5.3.1 Diversity of product delivery

The NRAS policy guidelines prescribed the number of dwellings that had to be developed in a project—although they were not necessarily required to be in the same location—and required that tax credits would *only* be applied to new-build construction. By contrast, a number of international schemes have diversified the nature of the affordable housing supply to include both the use of existing buildings through conversion or renovation and the development of new dwellings for affordable home ownership.

In addition to expanding the supply of affordable rental housing, HOME (US) and the Investment in Affordable Housing (IAH) framework (Canada) use the same policy to supply affordable home ownership. For example, in May 2014, 1,405 affordable rental projects were in the process of being developed under the HOME program. Simultaneously, under the same scheme, 12,647 home buyer projects were also funded (OCPD 2014). Similarly, by September 2014, the AHGP had produced a total of 14,552 dwellings since 2011 at a debt of £240,900,836 to the UK Government. The majority of these dwellings (86.5% or 12,112 homes) were produced for affordable rent while the remainder were for affordable home ownership (HCA 2014). In responding to the demand for affordable rental properties, the inclusion of affordable home ownership options might move some middle-income households ineligible for housing assistance out of the rental market, effectively making space for lower income households.

Australia might also consider the option of utilising existing dwellings within the housing market to benefit the supply of affordable rental housing. For example, in Ireland, tenancy agreements with landlords under the Rental Accommodation Scheme (RAS) allow for existing dwellings that meet minimum standards to be used for affordable rental accommodation. From its inception in 2005 to July 2014, a total of 50,119 households have been transferred from Rent Supplements onto the scheme. Almost 45 per cent of these

households are residing in the private sector (DKM Economic Consultants et al. 2014). Haffner (2013) concluded that it was not possible to determine if RAS had stimulated the production of new dwellings in the private rented sector and surmised that the scheme was predominantly making use of dwellings that were already built. Despite this perhaps unintended outcome, the objective of reducing the number of long-term recipients of housing assistance has been achieved.

5.3.2 Defining affordable rent and incorporating housing assistance

As in Australia, international schemes define how affordable rents will be structured and whether or not these tenants may access additional financial support from the government (Table A10). Affordable rents are defined either by their relationship to the local rental market or by the local area incomes, or both as in the case of social rents in England. In the UK, for example, affordable rents under the AHGP and the AR regime do not exceed 80 per cent of median market rents. Rents under the US LIHTC scheme, however, cannot exceed 30 per cent of the AMI. This is similar to the Irish RAS, where affordable rents are based on county-wide incomes (Haffner 2013). While a comparable rent structure was used in NRAS, some international policy approaches also require utilities or service charges to be taken into consideration when determining affordable rent. For example, under the LIHTC scheme, rents are fixed at 30 per cent of AMI and are required to include utility costs. This is the same in many of the affordable housing programs in Canada, which receive funding through the IAH, and projects developed under HOME in the US. The inclusion of utility payments into the affordable rent structure is likely to have a substantial impact on the affordable nature of the property.

Tenants applying to live in subsidised rental housing under most of these international schemes can also apply for housing assistance payments—known as Section 8 vouchers in the US, Housing Benefits in the UK, and CRA in Australia. For example, over two-thirds of all British social tenants, whether in social rentals or Affordable Rent dwellings, receive Housing Benefit. At least half of HOME beneficiaries in the US receive rental assistance through Section 8, HOME Tenant-Based Rental Assistance or other federal, state or local housing assistance (HUD and OCPD 2014). Irish tenants in affordable housing developed through the planning system are also more likely than not to be receiving rental assistance (Galligan 2005). Hulse (2000) explained that in both Australia and Canada, housing income supplements are used largely to house low-income families in the private sector, rather than in social housing, a trend also evident in the US. The success of rental support schemes relies on the supply of affordable rental dwellings (Hulse et al. 2014) and perhaps vice versa. While the ability for households to utilise these payments to rent dwellings produced under subsidised affordable housing supply schemes is not surprising, it is a notable important element of the affordability structure. In Australia, those renting NRAS dwellings are not excluded from receiving CRA, although it has been estimated that few households would be eligible to do so (Ong and Wood 2009). Further, Ong and Wood (2009: 3) argued that a targeted approach to housing lower income households on CRA in NRAS properties would have had a big impact on the scheme's capacity to 'alleviate the housing affordability circumstances of a larger number of households' and at the same time reduce total expenditure of CRA.

5.3.3 Spatial patterns of delivery and housing mix

The spatial delivery of dwellings under any subsidised rental housing scheme is important in terms of offering tenants' education and employment opportunities as well as access to services. Chapter 4 demonstrated that NRAS had the effect of concentrating the developments in areas with both average socio-economic characteristics and investment potential. By contrast, AR properties under the UK scheme have been distributed through a

much greater range of socio-economic locations (Figure 7), offering tenants greater social and economic opportunities.

It is worth noting that there is a risk that subsidised rental housing programs may have the effect of concentrating low-income households. In the US, the spatial delivery of affordable rental housing under the LIHTC program has come under scrutiny for concentrating areas of high poverty. There have been concerns that the use of QCTs (state government identified very-low-income areas), might have the effect of concentrating LIHTC properties in specific locations, as developments proposed for these places will be given priority during the allocation of tax credits (Dawkins 2011). Recent evidence suggests that while the LIHTC scheme is not further spatially concentrating high levels of poverty, there is scope to reform the program to create greater opportunities for very-low-income household to live in neighbourhoods with low poverty levels (Ellen et al. 2015).

Providing a mix of dwellings in a range of locations to cater for the needs of a variety of households is central to all subsidised rental housing programs. It could be argued that the diversity of housing delivery was one of the strengths of NRAS. As described in Chapter 3, dwellings ranged from studio apartments to detached houses, a quarter of all dwellings had three bedrooms, 30 per cent had two bedrooms, 20 per cent had one bedroom and 17 per cent were studio apartments. In the UK, almost half of the AR dwellings are two-bedroom units (the housing type where the greatest shortages are observed); a further third are three-bedroom units catering for family households (Table A8). These outcomes are in contrast to the diversity of dwellings built under the LIHTC scheme, which has predominantly been used to produce multi-block apartments (Blessing and Gilmore 2011) containing, on average, 76.6 dwellings and dominated by one- and two-bedrooms units (HUD 2014a).

International approaches to subsidised affordable housing highlight potential opportunities for future Australian policy. There are opportunities to broaden the type of product delivered under the scheme—expanding to include affordable home ownership or utilising existing dwellings. From some experiences overseas, future schemes might benefit from the inclusion of utilities in the cost of the rent, and structuring of the rent so that it enables more households who are already receiving CRA to access the subsidised affordable rental properties. The alternative is income-related benefits to supplement supply-side subsidies. Finally, while there is scope for a future scheme to deliver dwellings to a larger proportion of high socio-economic locations, the Australian scheme did succeed in providing a valuable mix of dwelling types.

6 THE FUTURE DELIVERY OF SUBSIDISED RENTAL HOUSING IN AUSTRALIA

This chapter reports the outcomes of an Investigative Panel (IP) that explored the future of subsidised affordable rental housing in Australia, exploring new approaches to attracting investment into the sector. The panel was held in Sydney on the 16 September 2015, with the aim of discussing how to successfully deliver a sustained supply of subsidised affordable rental dwellings in Australia. The IP was conducted as a round-table discussion, facilitated by an academic from The University of Sydney. There were 13 participants, comprised of six academics and seven industry members. Industry members included CEOs from community housing organisations in Queensland, SA and Victoria; a manager from a major financial institution; one affordable housing consultant; and the CEOs of two affordable housing development companies. The discussion was guided by a number of questions outlined in the panel's Terms of Reference.

- What were the major strengths and weaknesses of NRAS?
- Where and how should subsidised affordable rental supply be targeted?
- What key components of a scheme are necessary to attract broad-scale investment in subsidised affordable rental supply?
- How should government subsidies be used to maximise supply outcomes?
- What progress has been made in developing alternatives to NRAS?

6.1 Advantages and disadvantages of NRAS

Overall, it was evident from the panel discussion that NRAS had support from a number of different sectors within the housing market. Although not without problems, the scheme was identified as an effective supply stimulus, delivering tens of thousands of units in a relatively short timeframe. Moreover, it was effective in steering investment towards meeting overarching affordable housing policy objectives. As one participant explained:

> … the investment certainly came in, so [NRAS] was successful in showing that investment can happen … it steered investment towards policy objectives … those investors would not have invested in new dwellings in the main, they would have invested in the existing market … they would not have invested in the places that the government said they wanted the products and those investors would not have invested in the type of dwelling that the scheme designed.

Participants observed that institutional interest developed steadily during the life of the scheme. It was noted that in the last three rounds, the scheme was oversubscribed, with four applications for each incentive, suggesting that it was successful in attracting investment. Views were expressed that a long-term commitment to NRAS would have generated large-scale institutional investment. The lack of certainty in terms of government support, however, prevented institutional commitments.

One of the strengths of the scheme was its ability to combine subsidies with other programs. As one participant noted, 'it could be bolted onto programs, [which allowed it to] extend the leverage or [be added to] a mix' of other funding opportunities. For example, when demonstrating the financial viability of a project during the application process, other incentives could be incorporated. This improved both the viability of the project and generated a variety of projects that may not otherwise have been developed. While this leveraging potential was acknowledged, the panel also commented that, 'had [the scheme] been allowed to evolve, it could have done so into something far more sophisticated'. Panellists also perceived that the scheme had produced a degree of innovation, resulting in

more flexible housing options that had not previously existed in the Australian market. The emergence of dual-key apartments was cited as one example.

The panellists were asked whether or not the properties developed under NRAS would have been developed in the absence the scheme. Throughout the discussion, it became clear that the scheme genuinely produced dwellings that would not have otherwise been developed. 'We had projects that, without NRAS, we wouldn't have done and we weren't alone', was the comment from one community housing representative. Representatives from the community housing sector also noted the program did incentivise investment in new build, and in alternative types of dwellings and locations that may not otherwise have been of interest to investors.

One participant noted that, 'the economic timing [was] fundamental' to their company's participation in the scheme. It was acknowledged that the emergence of the scheme coincided with a downturn in the economic climate, when developers and contractors were actively seeking work, resulting in certain cost savings.

Panellists observed that as a supply stimulus, the scheme worked extremely well. One commentator explained that, 'on pure numbers, the revenue which was raised by the federal and state governments as a result of that stimulus equated to more than the actual cost'. As well as supplying additional affordable housing to the national market, it also built capacity in the not-for-profit sector. It was noted, however, that the 10-year requirement for dwellings to remain affordable is too short and that a longer timeframe, consistent with the US for example, would be preferable.

The panel identified the lack of longevity and consistency as a major weakness of the scheme, particularly when compared to longer running schemes in the UK and the US. One commentator noted parallels between the initial years of the LIHTC program and NRAS, wherein both schemes were dominated by 'mum and dad' investors. In the US, this changed once the scheme was made permanent. Institutional investors stepped in (Ernst and Young 2009) and as one panellist noted, 'it really picked up speed, the mechanisms crystallised and the market pricing standardised'. Panellists pointed out that both the US and Australian schemes were faced with a change in the early years of implementation. While a decision was made to make the LIHTC program a permanent fixture through an act of congress, NRAS was discontinued, despite growing institutional interest.

Members of the panel observed that the scheme had been hindered by unrealistic expectations over the speed and immediacy of outcomes. Some argued that this was the result of tension between political ambition and the need to establish a sustainable program. It was suggested that the number of dwellings expected from the scheme arguably arose 'from political ambition, it didn't come from thinking about what would be a scalable, catalytic scheme that would make a difference in the long term'.

The joint administration of the program by federal and state government was described as being extremely difficult, complex and costly. As noted above, states were allowed to 'tack on' additional guidelines and criteria. NSW, for example, sought to guide investors towards postcodes of high or moderate housing need. By contrast, in the US, additional specific requirements from the states, such as sustainability guidelines, only began appearing in the US once when the program became oversubscribed and highly competitive. Panellists noted that maladministration of NRAS over the past 20 months had created vulnerability in the not-for-profit sector. For a scheme similar to LIHTC to be successful in Australia, one panellist argued that:

> … [the] administration has to be devolved and the Commonwealth [Government] has to stay at a very high level, facilitating whatever the instrument is through the tax system.

Another participant agreed, saying that the administration of the scheme was a 'design flaw' and that several investors walked away from schemes because it was far too complex and the guidelines kept on changing. One solution presented would be to either 'assign 'the financial instrument to the commonwealth level and the delivery to the state level or [to] do it all nationally'.

Overall, it was observed that administration inefficiencies hindered institutional investment in the scheme. For example:

> Its fundamental weakness goes back to the mixture between design and implementation, where it was being implemented by the wrong people … and the design features [that were] supposed to be the foremost design, were lost. Once that failed, the chances of engaging the institutional market in that development faded away and what you ended up with was … community housing based supply models.

Some members of the panel were of the opinion that tax credits place additional burden on the tax system, are difficult to understand, and are more difficult to control and document than financial payments. Financial institutions were slow to work out how to finance NRAS—for example, what action should be taken when clients breach covenants such as the affordability requirements? As shown in the case of LIHTC, however, such challenges in the early stages of a scheme are normal and can be overcome with time and the maturation of the program.

Overall, the Investigative Panel recognised that NRAS was the beginning of a 'national leadership in housing policy'. The panel suggested that for a future scheme to be successful in attracting institutional investors, it would require greater permanency and consistency. As shown in the US and in the UK, the longevity of the scheme is key to the development of a mature secondary market, with professions, such as accountants, specialising in the area. There is also a need for consistency amongst staff administering the scheme, such as in the UK, where there are long-serving bureaucrats involved in administering the programs. This was seen to contrast with the frequent turnover of staff at the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). Overall, it was suggested that the success of any future affordable rental housing scheme would be dependent on the stage in the economic cycle at which it was introduced and the administrative structure.

6.2 Moving towards a new model of subsidised affordable rental dwellings

The Investigative Panel discussed a number of barriers and opportunities relevant to the development of any new model of subsidised affordable rental housing.

6.2.1 Clear, measurable and achievable objectives

A clear message from the Investigative Panel related to the objectives of any scheme designed to deliver affordable housing. Panellists argued that a new scheme should be developed around clear, measurable and achievable objectives. Where a subsidy is to be used, it should be clearly defined as to what exactly that subsidy is designed to achieve. For example: Is the subsidy targeted at those most in need of housing with a social welfare design, or is it intended to increase the housing options available to those on low to moderate incomes? Is it designed to deliver housing to allow public housing tenants to transition out of the tenure, freeing up dwellings for those with greater needs? Is it targeted at moderate-income social housing tenants that could afford a product outside the social housing system, again releasing housing for those on lower incomes? Dwelling targets would also need to be attached to a given level of subsidy to aid measurement.

Without a defined aim, it is difficult to measure whether a scheme has been successful or not. If the primary aim of NRAS was to secure institutional investment in subsidised rental

housing then it clearly failed, although it may have succeeded given time. If the primary aim was to develop a product that allowed a combination of subsidies (CRA, tax incentives, government land, etc.) to deliver a supply of rental housing in good locations to households on low to moderate incomes, then it could be regarded as a success. If an aim was to provide a stimulus to the housing industry at a time when it was desperately needed, then it could also be deemed a success. What should have been determined at the outset was a clear set of measureable objectives in order to clearly quantify just how effectively the subsidy was used. This would permit an objective evaluation of outcomes and value for money. For any future scheme, such objectives need to be based around housing and non-housing outcomes, such as delivering affordable housing in areas well serviced by public transport, making employment opportunities more accessible.

6.2.2 Consistency and longevity

Blessing and Gilmore (2011) contend that in the very first years of the LIHTC program, before it was made permanent in 1993, investment was dominated by individual investors. In 1987, institutions accounted for 14 per cent of investment capital in the scheme. However, the originating statute's sharp restrictions on passive income by individual investors always restricted the program's use by high income/net-worth individuals. Nevertheless, even in the early years investor recruitment for the program focused on corporations—especially banking institutions, which were motivated by the CRinvA requirement. By 2007, the LIHTC program was 100 per cent corporate investment with no individual investors involved in the scheme (Ernst and Young 2009).

The decision to make the scheme permanent was a key driver in encouraging institutional investment (Ernst and Young 2009). In the 2015 financial year, 96 per cent of LIHTC investments were made by corporations. Ensuring stability and continuity within policy is essential for institutions seeking low-risk, long-term investments. If investment parameters are constantly changing, this increases uncertainty, making the investment unattractive. Before it was discontinued, NRAS was starting to gain some traction within institutional circles, and products were starting to become available that were of interest to larger scale investors. The decision to cancel NRAS obviously stopped such interest immediately. Had NRAS been allowed to develop, with an overhaul of the schemes administration, it is likely that investment would have followed a similar pattern to the US, as attractive investment products were developed over time. Any new scheme would need a long-term commitment from federal and state government, and bipartisan support, ensuring it would survive a change of government, to provide the certainty that institutional investors demand. Blessing and Gilmore (2011) argue that one of the strengths of the LIHTC scheme has been the longevity of the program combined with bipartisan support and the advantages of using federal funding. Evidence of government support in the form of taxation credits, guarantees, grants or tenancy agreements aimed at increasing the supply of affordable rental accommodation offers security for developers, which may act as an incentive to participate.

NRAS has intersected in some jurisdictions with other policy levers, such as the planning system. For instance, in SA, NRAS allocations have been paired with planning requirements for affordable housing in new developments, while in NSW, state planning policy to encourage affordable rental housing development was drafted to support development incorporating NRAS funding (Davison et al. 2012). NRAS dwellings have also been incorporated into mixed tenure developments delivered by the Housing Authority in WA. However, the extent to which these cost-neutral levers might 'stretch' the cost effectiveness of the scheme is limited in comparison to international schemes. Moreover, the discontinuation of NRAS after only a relatively short period of time does not indicate long-term government support for the supply of subsidised affordable rental housing. As noted by Milligan et al. (2015: 22), large-scale investment into NRAS was hindered by a lack of policy consistency, which was further highlighted by the 'abandonment, rather than continuation

and refinement, of NRAS'. It is apparent from the evidence provided in other nations that the solution to increasing the supply of subsidised affordable rental housing is unlikely to be derived from one program, rather through a suite of programs that complement and support one another.

6.2.3 Build on the momentum of NRAS

The Investigative Panel highlighted the momentum generated by NRAS and how the incentives were heavily oversubscribed in the final funding rounds. The growing interest of the institutional investment sector and private individuals with an appetite for property demonstrated the scheme's potential to attract private-sector funds going forward. In order to build on this momentum, the panel agreed that the government should act quickly to develop new opportunities to secure private-sector investment. The recent announcement by the federal government's Affordable Housing Working Group of a consultation to 'identify potential financing and structural reform models that increase the provision of affordable housing (social housing and housing in the private rental market) for those on low incomes' is an encouraging initiative.

6.2.4 Administration

Any new scheme designed to deliver subsidised affordable rental housing would have to be called something different and look sufficiently different from NRAS in order to attract political support. If tax credits were again the basis for the subsidy—and the general view of the panel was that this would have to be the case because, in the current budget climate, no government would be prepared to deliver a capital subsidy that would sit on the balance sheet—then an alternative approach would be required that enabled the development of a secondary market where those incentives could be traded. The administration would also need to be reorganised with each state taking responsibility for an allocated share of tax credits, allowing each state to set its own objectives and use prevailing market conditions to deliver the most effective outcomes. This would also allow states to use their own assets, such as land, in the way they believe is most effective. Providing administrative stability is vital in attracting institutional investors. A long-term commitment coupled with a less bureaucratic approach to administration is vital.

6.2.5 Cross-subsidisation

Cross-subsidisation is very important for affordable housing delivery in the UK, mainly because there is a strong equity base upon which this cross-subsidy can build. Some element of cross-subsidisation has been delivered via S106 agreements, under which affordable housing contributions are negotiated as part of the development of larger sites (Crook et al 2016). Cross-subsidisation has also been generated by profitable investment in shared ownership and now market rent and sales, as well as rents on existing properties. In terms of supporting affordable rental housing development in Australia, panellists emphasised the importance of allowing a sales component to help cross-subsidise social housing product within a scheme.

> States provide land and they provide NRAS. [Of] 93 apartments, we needed to sell half to individual investors. Dual keys with two NRAS individual entitlements …offers very strong yield for the investors. The super profits generated go back into the houses which are maintained by the Housing Authority, so they get an uplift in value and they have a combination of disability, some affordable under shared equity and 25 per cent social [housing]. Composite model works, but you need retail to get the profit to put back in, so that is where a tax incentive is necessary to drive that retail.

6.2.6 Delivering a variety of products

Much of the discussion in the Investigative Panel focused on attracting institutional-scale private investors. However, NRAS was effective in attracting small-scale private investors,

individual private investors and significant direct investment from the CHP sector. The panel discussed how 'mum and dad' investors ended up investing in areas and in housing products they would not normally have considered. It was suggested that the majority would have purchased in the established market, with no new supply outcomes. Instead, NRAS delivered a large supply of smaller apartments, where investment returns were maximised, in areas with strong transport links. Any consideration of a new subsidised affordable rental scheme should consider how to attract further, targeted investment from the 'mum and dad' investment sector. Tax credits proved an effective way of doing this and there might be alternative ways of structuring such relief, such as through stamp duty exemptions/reductions or restructuring negative gearing if a property is rented at below market rents for a minimum defined period. Tax credits could also be tied to other conditions, such as long-term leases at discounted rents offering greater certainty to eligible tenants.

Direct institutional investment in residential development is traditionally tied to high-density products because they offer an appropriate scale and minimise management costs per unit. The outcomes from the LIHTC scheme demonstrate the type of product delivered through institutional investment. A subsidised rental scheme dominated by institutions may not offer the diversity of product required by households on low to moderate incomes. Panellists noted that there is also a need for a supply of family dwellings and that 'mum and dad' investors are more likely to invest in this type of product than a scheme aimed at institutions, which may fund residential supply directly or indirectly through funds to the community housing sector. Therefore, any new scheme should take into account the diversity of product required in this tenure.

6.2.7 Social infrastructure

In order to generate a significant and consistent supply of affordable housing, there needs to be involvement of the private sector in all facets of delivery: finance, construction and even management. In the current fiscal climate, government is unlikely to fund large-scale capital programs, however effective these may be in delivering affordable housing. Nevertheless, where there is funding available, its outcome needs to be maximised. It was suggested by the panel that an effective use of a subsidy could be for funding public–private partnerships. Rather than defining the funding as being for social housing, it was proposed that the purpose of the scheme be reframed as delivering essential public or social infrastructure necessary for the efficient operation of our cities. This definition aligns with much of the work currently being undertaken, examining the link between housing and economic productivity (Maclennan et al. 2015). It is also more likely to have traction with departments of treasury than a definition based around social outcomes and wellbeing. There is growth in the areas of social-impact investment and the use of social-impact bonds, and this may be another area where investment may be attracted into social infrastructure such as affordable housing.

6.2.8 Long-term affordability

The length of the affordability provision in other countries is far longer than the 10-year requirement of NRAS. The only comparable approaches in Europe have been in Germany, and to some extent France, where the periods have normally been a little longer. In both countries, the affordability outcome thereafter depends on lifetime leases and the ownership of the property—with charitable owners inclined to maintain affordability and institutional financiers leaning towards market provision (Whitehead 2014). In Australia, after 10 years, when the incentives disappear, the private-sector portion of the NRAS stock will almost certainly revert to market rents and a supply of subsidised housing will be lost. How the tenants of these NRAS properties will cope with this transition remains to be seen. However, it is likely that many will not be able to afford this increase in rent and will be forced to seek

alternative options, placing pressure on the social housing system. Any new scheme needs to take into account duration of affordability, which has implications for the depth of any subsidy. There are strong arguments that a scheme based on any substantial capital subsidy program, such as the LIHTC program, be conditioned on permanent affordability and be rigorously monitored for sound asset and property management to assure long-term compliance, financial health, sound fiscal condition of the housing, and positive contributions to the fabric of neighbourhood health and stability. A scheme must provide for reinvestment, refinance, and regular financial and regulatory compliance audits to ensure that properties are maintained in sound physical condition. Ongoing monitoring of stock can identify assets that may no longer provide significant benefits within the scheme. In such a case, there can be real benefits from recycling rather than simply maintaining the existing stock—for example, enabling the provision of more suitable accommodation through refinancing or sales can be a fruitful approach in a mature system.

6.3 Lessons from international schemes: a view from the US and UK

6.3.1 Understanding the key differences between countries

It is always difficult to draw lessons from the housing markets of other countries, particularly when discussing private-sector investment, because of different tax regimes, different rent regimes and different housing support subsidies. Before outlining some of the lessons that can be learnt from the UK (concentrating on England) and the US, it is worth highlighting some of the differences that make the US and UK schemes problematic in an Australian context.

In the UK, social housing accounted for nearly one-third of all homes in 1979 (when the Thatcher government came to power), so there was, and remains, a very strong capital base, which can support the development of additional social rental dwellings. During the 1950s and 1960s, central government provided revenue subsidy, and local authorities often built housing on land they owned. When housing associations became the main providers of subsidised rental housing, they were given a capital grant, which together with a stable rental stream, allowed them to borrow at low rates of interest for development. As rents continued to rise and house price inflation increased capital values, it became easier to maintain and expand the stock with less direct subsidy. In the UK, low-income households, whether non-participants in the labour force, unemployed or employed, are eligible for income-related Housing Benefit, which can pay up to 100 per cent of the rent. Even with the constraints that are now being introduced, the rental stream is very secure, helping to support borrowing to build additional homes. Finally, social rents in the UK are related to the property rather than the individual's income. This makes the rental stream more secure (except for policy risk) and helps to ensure low-risk interest rates. This is also true with the US LIHTC program, which regulates the rent on the unit, irrespective of the residents' income. However, income-eligible households must occupy the rent-restricted unit.

Since 1990, housing associations in the UK have benefitted from land and housing made available through S106 agreements. This has helped to deliver a subsidy for affordable housing development where market housing is being developed often in high value areas. There is a clear difference between the UK and Australia, where the community housing sector does not benefit from such a land supply model. Additionally, publicly owned land in the UK has helped to make housing affordable—nowadays the public sector owner often maintains an equity involvement and takes part in joint ventures to provide into the longer term. This model is starting to gain some traction in Australia, particularly in WA.

In Australia, there are major challenges in adopting a US-style LIHTC program. First, unlike in the US, there is no common definition of affordable housing or affordable housing expense for either renters or owners in Australia, making it impossible to establish clear and

consistent policies and the public private partnerships necessary to finance and develop affordable housing. This is a barrier to any potential affordable housing scheme. There is also no permanent source of subsidy capital at the federal, state or local level to fill the affordable housing financing gap for renters and owners. The private market will not and cannot fill this housing affordability finance gap without a stable, long-term, large-scale source of public subsidy capital. Compared to the US, Australian local governments have a weak system of inclusionary zoning to support affordable housing supply, leaving cities with few of the tools they require to produce and preserve affordable housing at the required scale.

Another major barrier is the Australian real estate tax system being skewed against affordable housing finance and fiscal mechanisms. Negative gearing, capital gains exclusions and stamp duty policies combine to limit the existence of financing strategies in direct support of affordable housing for renters and owners, at significant expense to the Australian federal treasury. Local government in Australia cannot tap growth in real estate tax revenues for reinvestment in the production of affordable housing.

In Australia, little to no government authority exists to raise revenue or bond existing revenue streams for affordable housing, infrastructure, and other key community facilities. There is no tradition of capital market presence for delivering capital for affordable rental housing development and community infrastructure. Finally, unlike in the UK and US, there has been very little use of land value capture mechanisms to support affordable housing, and related community benefits from rezoning and redevelopment.

6.3.2 Key messages

The key messages from the international case studies are as follows.

1. Limited institutional capacity exists in Australia to develop, asset manage and property manage affordable rental housing as an investment class asset in comparison to other countries.
2. Australia lacks a supply chain for the development of affordable rental housing. This requires:
   - Committed, long-term participation by federal, state and local government agencies.
   - Local government land use policy and controls.
   - Provision of capital for debt and equity by the private sector.
   - Development, entitlement and construction of rental housing as an investment asset class.
   - Property and asset management of such rental housing to the very highest standards.
3. No market mechanisms exist for developing affordable rental housing as an asset class or for preserving that affordability in perpetuity. These mechanisms must meet private market standards for creditworthiness, profitability and the long-term maintenance of high-quality affordable rental housing.
4. The core need for institutional investment is to identify a direct or indirect means of enabling private owners to take on the equity for products that may have a strong market value if they can be sold with vacant possession, but that does not produce a competitive revenue stream without some form of subsidy. Private investment capital from for-profit entities (equity funds, superannuation funds, banks, other institutional investors), in the form of debt or equity, will only come into affordable rental housing under the following conditions.

- → As equity where return on investment is achieved through a tax incentive program, such as the LIHTC scheme, or mezzanine debt with a risk-adjusted market rate of return.
- → Issuance, or purchase in the form of bonds, of senior debt repayable from net operating income, derived from tenant rents, net of operating costs.
- → Construction loans repaid from permanent financing sources after completion of construction and leasing.
- → Aggregated cash-flow payments from multiple affordable rental housing projects in a bond- or mortgage backed security, ideally guaranteed by a government entity.

5. The alternative is to provide a debt financing mechanism, which would need to depend on guarantees and/or subsidies (on the supply side in the form of direct grant or via land allocations or planning gain, and on the demand side through income-related benefits) such that there is a secure revenue stream against which borrowing can be achieved and equity built up within specialised providers. This has been the norm in Europe, where in some countries such providers have built equity strength to operate directly in the market.
6. Success of any affordable rental scheme based on debt finance depends on the private finance market being prepared to fund the investment—which in turn depends on both a secure rental stream and adequate capital ratios. In Australia, the gap between costs and rent revenues is a key blockage to institutional investment. In the US, income-based rents have worked because there are sufficient capital subsidies and/or rent subsidies to fill the gap (i.e. the difference between what affordable, restricted rents can finance and the total development and operating costs of the housing).
7. In the UK, the contractual process between housing associations and central government (which under Australia's federal system could easily be state based) has worked very effectively as a means of tightening up the system and ensuring timely delivery, as has the regulatory regime which provides comfort to lenders.
8. Even so, the UK system depends on implicit and explicit guarantee schemes—either formal or in the form of Housing Benefit. Without this, even with a large capital base it would not be possible to make housing affordable across the full income range.
9. Landlord/tenant legal protections are required to assure institutional investment in rental housing, and to protect both owners and tenants for long-term occupancy of safe, stable and secure affordable rental housing.
10. For the community housing sector, the benefits of scale in terms of the contracting process, access to the private finance market and providing a range of services (and indeed tenures) are very considerable. Developing the capacity of the community housing sector will prove critical for the long-term success of building, operating, managing and maintaining affordable rental housing at scale in Australia. This will require improving upon the balance-sheet strength and liquid net worth of CHPs. It will require increasing their sophistication in project entitlement, site assembly, predevelopment, project financing, oversight of construction, and long-term property and asset management of the physical and financial condition of rental housing projects. Important stakeholders in this process include developers, property managers, asset managers, managers of construction risk, financial underwriters and legal counsel and accountants—all working in concert with their private-sector financial, construction and joint-development partners.
11. Providing a range of tenures, not just social renting but intermediate and market rental housing, as well as building for sale and partial ownership, can be an effective means of building a capital base and cross-subsidising affordable homes. A significant number of larger housing associations are now involved in all parts of the market in the UK and are

being supported by government to extend this role. In the Australian context, it may be that the best opportunities are to purchase market rent properties and improve their net cash flow.

12. In the UK, housing associations play an important role in place-making and regeneration, in addition to simply providing accommodation. They can support higher standards both in terms of sustainability and management of projects, help build communities, and provide other residence-based services effectively. But again, they do need a strong capital base from which to build these additional services.

7 POLICY IMPLICATIONS

7.1 Summary of NRAS outcomes

In its short life, NRAS was successful in delivering, to June 2015, 27,603 subsidised affordable rental units with another 9,980 to follow. This has increased the availability of affordable rental housing to thousands of households and lifted many of them out of housing stress. A wide range of dwelling types, including apartments, detached dwellings and town houses have been delivered, with dwelling sizes ranging from studio apartments to four-bedroom houses. This diversity of product has been a major success of NRAS and contrasts with the outcomes of the LIHTC scheme in the US. Spatially NRAS delivered dwellings in areas classified as towards the middle of the socio-economic distribution and the middle of the value spectrum. These areas were targeted because they met the policy objectives of the various state governments, while also delivering financially feasible developments offering returns considered acceptable to private investors. Analysis of the outcomes showed that the majority of dwellings were well located on good transport networks.

The administration processes of the scheme are outside the scope of this report, but it became obvious during the research that it was seriously flawed and incredibly complex, and that NRAS suffered from a lack of clear, measurable objectives. The lack of institutional interest was partly a result of this confused administration, along with the limited value of direct tax credits. However, interest from institutional investors was starting to grow on the back of the development of a secondary market in incentives. In stark contrast to the LIHTC scheme, which was made permanent after seven years, with institutional investment growing strongly as a result, NRAS was discontinued largely due to political reasons, and the innovation and momentum that was starting to build within the private sector lost. Given the pressures at the bottom end of the private rental sector (Stone et al. 2015), a supply of subsidised rental housing is essential to help those on low incomes sustain their tenancies.

7.2 Key recommendations

Government should introduce a replacement for NRAS as soon as possible, building on the momentum generated by the scheme before it was discontinued. There is widespread support for the scheme, from the community housing sector in particular, and this research has shown the impact subsidised rents can have on affordability. Such a scheme should work in parallel with other financing arrangements that could increase the availability of funds to the community housing sector.

As a priority, government should adopt a consistent and robust definition of affordable rents, and indeed for affordable ownership. For example: 30 per cent of gross household income, adjusted for household size, to cover rent and also utility expenses; or 35 per cent of gross household income, adjusted for household size and for home ownership expenses (principal and interest payments, property taxes, property insurance premiums, strata fees etc.). The actual figures should vary by income decile, as the capacity of different income groups to meet housing costs will vary significantly across these deciles, with no single definition able to cover low- and moderate-income earners. Without a common, clear and enforceable definition of affordability and affordable housing, no affordable housing policy of any scale can be successfully adopted and enforced in Australia.

While large-scale institutional investment in affordable housing is essential in delivering the supply of housing needed in this country, individual 'mum and dad' type investors also have a significant role to play in delivering subsidised rental housing, as they can offer the variety of housing product needed in locations that may be unattractive to institutional-scale

investors. NRAS showed how 'mum and dad' investors were attracted by the tax credits, and many invested in the scheme who may otherwise have bought an established dwelling.

There are a number of different and effective ways to fund subsidised affordable rental housing; there is no one, simple solution. The US and UK have adopted very different approaches—with the US system based on a single stable program, and the UK experiencing a range of initiatives and significant policy change—but both have delivered affordable housing at a scale far exceeding Australia. The US has secured $100 billion in private equity capital from the corporate sector, with a similar amount of private lender construction finance on top. In England, the approach has been debt financing of the housing association sector from retail banks and bond issues, which have raised over £70 billion, along with subsidy from the development sector through S106 agreements and capital grants. At its height, some 60 per cent of all affordable housing completions were on land provided through S106 agreements, contributing to around 30,000 units in 2008/09. In 2014/15, some 16 per cent of the 50,000 affordable units provided involved only S106 support with no further subsidy. In the same year, the AHGP supported some 2,600 affordable units.

The US has targeted the private sector, while the UK has focused on independent landlords. The point is that there is no single, correct way to deliver affordable housing, as it depends upon the many variables that are country specific. With this in mind, below are some broad recommendations to support the design of a scheme to deliver subsidised affordable rental housing in Australia.

7.2.1 Scheme design

- There is no one investment option that will deliver the supply and variety of affordable housing required in Australia to meet housing need. There should be a number of options working in parallel that can target various elements of affordable housing provision, accommodating tenants with different needs. Recent AHURI research (Lawson et al. 2014; Milligan et al. 2015; Milligan et al. 2014; Newell et al. 2015) has presented a framework for broad institutional investment.
- Any new policy seeking to attract investment must have the long-term commitment of government and be able to survive a change of government if it hopes to secure the confidence of the investment sector.
- A subsidised affordable rental housing scheme should have clear, realistic dwelling targets, taking into account the capacity of the sector to deliver housing and how that capacity fluctuates with market conditions. These targets should specify the number of subsidised affordable rental units to be produced each year, with the distribution across the country dependent on need. The targets will depend on the depth and purpose of the subsidy available, which needs to be clearly defined at the outset. With specific targets in place, it becomes possible to evaluate outcomes.
- A subsidised affordable rental housing scheme should have clear and measurable objectives, setting out exactly who the scheme is designed to accommodate and how it will address blockages along the housing continuum. For example, is the subsidy designed to enable public and social housing tenants to transition into the private rental sector, or to help those already in the sector meet their housing costs, or indeed both? The targets described above should relate directly to these objectives.
- The nature of subsidy should be carefully addressed—it can in particular involve subsidy in-kind rather than cash, as is the case with the transfer of public land. For example, government owned land can be used to deliver a subsidy enabling CHPs to deliver an affordable rental product. This is often in conflict with government disposal rules, so regulation changes are necessary to allow land to be used specifically for the purpose of affordable housing delivery/subsidy.

- The ability to combine subsidies, as was the case with NRAS and the use of CRA, is essential if a subsidised affordable rental scheme is to be effective.
- A subsidised affordable rental housing scheme needs to be administratively consistent and efficient, avoiding the problems of NRAS identified by the ANAO (2015). Administration and responsibility for delivery should rest with the states, which should have the flexibility to target the scheme towards their particular affordability objectives. Stability within the teams administering the scheme is also important. The cost of administration should be monitored with, for example, a 10 per cent test applied—that is, no more than 10 per cent of public dollars, either in the form of cash outlays or tax expenditures, should be used for administration; thus 90 per cent of every public dollar should find its way into the production and operation of housing.
- In the US, LIHTC units remain affordable for 30 years. In England, until now, subsidised rental units have remained in the affordable sector in perpetuity. For NRAS, the affordability period was only 10 years. For any new scheme, a minimum affordability duration should be established, ideally as long as the subsidy model will permit. However, it is important to take into account how housing markets and needs change over time—there may be cases where it is no longer appropriate to retain the dwelling subsidy, as affordability improves in the local market or where housing could be sold to cross-subsidise the development of more appropriate stock. There should therefore be careful monitoring of affordable rental dwellings, so that such subsidy can be redirected as housing markets and local housing needs change over time.
- Subsidised affordable rental housing should be directed to areas of identified housing need, with the level of discount reflecting local market rents in order to make housing affordable to clearly defined target income groups.
- A subsidised affordable rental housing scheme must deliver a variety of different housing types for the wide range of households seeking rental housing, from single person households to large families. NRAS was successful in delivering this variety because of the involvement of the community housing sector and individual investors with different investment motivations. The involvement of state government in allocating incentives also helped ensure a mix of dwelling types, and such a model should be adopted in any affordable rental housing scheme.
- Planning policy can be used to deliver land for affordable housing. Such policy can, in principle, supply discounted land for affordable housing delivery, adding to the overall subsidy package. So far this has proved difficult to achieve, in part because developers require some offset compensation for loss of property rights (usually in the form of a density bonus). However, such an approach has proved successful in both England and parts of the US, such as California. The most successful examples are where clear affordable housing requirements are set out in planning policy, providing some certainty for developers and landowners. At the very least, federal and state policy endorsing inclusionary zoning on all government land should be a priority. Inclusionary zoning on market sites, especially in high-cost markets, would add critically important value capture policy tools for local and state government. Incorporating clear and evidence-based affordable housing targets within planning documents in Australia could deliver both land to the community housing sector and dwellings of a variety of tenures including affordable rental.
- Cross-subsidisation is one approach where some of the profits from market housing are used to deliver a subsidised rental product elsewhere in the development, and there are a number of successful examples already delivered in parts of Australia. Joint ventures between the private sector and CHPs, who would take ownership and management of these units, could deliver significant quantities of affordable housing, as is beginning to be the case in England. This would be particularly effective were affordable housing

targets introduced for market sites identified to deliver affordable housing contributions in areas of housing need.

7.2.2 Finance and funding

- A government created and guaranteed finance intermediary, as recommend by Lawson et al. (2014), could deliver the low-cost funding required to expand the social housing sector. This sector would then be able to deliver rental housing targeted at low- to moderate-income earners on a much greater scale. This could be supported by a subsidised affordable rental scheme specifically targeted to attract small-scale private investors, funded through tax credits.
- The tax credit approach used by NRAS succeeded in attracting small-scale private-sector investment in its short lifespan. The US LIHTC approach has shown that tax credits, once the market has matured, can attract large-scale institutional investment and has delivered 2.6 million units of low-income rental housing since 1986. However, current policy settings mean tax credits do not favour institutional investors in Australia, so unless there is tax reform in this area a different approach is required to attract investment, specifically into subsidised affordable rental housing from this sector.
- Ideally, a subsidised affordable rental housing scheme would be funded through a tax credit system attracting small-scale private investment to deliver units, supported by a capital-based program that could attract investment from institutions and deliver units in areas where the tax credits are not sufficient to deliver acceptable returns for individual investors. In the US, state and local housing trust funds in hundreds of jurisdictions fund more than $1 billion annually for the production of affordable housing.
- Australian government could deliver the capital by rebalancing existing outlays for housing and real estate tax subsidies, and directing the funds towards a subsidised affordable rental scheme. For example, 10 per cent of CRA could be set aside for project-based subsidies for affordable rental housing development, and/or 10 per cent of negative gearing tax expenditures could be redirected away from the most affluent small investors to a low-income rental housing production program. Stamp duty revenues exceeding defined targets in book years could also be used as capital to support a project-based subsidy.

7.2.3 Capacity building

Capacity building measures must be put in place, in addition to the provision of long-term, large-scale, stable-capital and land-use policy commitments. These include the following:

- Building the capacity of the community housing sector.
- Building the capacity for private institutional capital from banks and investors for affordable rental housing production.
- Building capacity and sophistication for public–private partnerships among for-profit and non-profit private development and financing entities, state, federal and local government and service providers.
- Recognising opportunities to provide service-enriched very-low income rental housing for persons with disabilities and other service needs, in combination with support from the new National Disability Insurance Scheme (NDIS).

7.2.4 Summary

It is critical for government to move away from wholly demand-side subsidies and set in place some supply-side alternatives. Although the problems of NRAS have been well documented, the scheme did demonstrate that supply-side subsidies can work to deliver affordable rental housing. The growing interest from investors in the final three NRAS rounds provides justification for developing a new supply-side intervention. There are

international examples based around different policy mechanism successfully delivering affordable rental housing in very different ways, and no one approach is correct for Australia. This report has set out recommendations to help shape a future scheme. Robust consultation and engagement within all sectors of the housing industry could deliver a successful program to provide a supply of subsidised affordable rental dwellings desperately needed in Australia.

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APPENDIX

Table A1: Details of French taxation policies to increase the supply of rental dwellings for the intermediary sector and middle-income families

	Period	Objective	Tenant income limits/ Max. rent level	Yearly tax deduction as % of investment cost	Fixed yearly tax deduction (as % of rental income)	Term of arrangement	Maximum negative rental income allowed
Quiles-Mehaignerie	March 1992 to December 1997	Enhance supply of new rental dwellings in the intermediary sector	Yes/ Yes, regional dependent	Tax reduction for a value that equals 10% of the investment costs, spread over a four-year period	None	6 years	€15,300
Besson-neuf	January 1990 to December 2002	Enhance supply of new rental dwellings in the intermediary sector	Yes/ Yes, regional dependent	8% in the first five years, 2.5% in the next four years, 2.5% in two periods of three years (optional)	6% (0% after 2006)	9, 12 or 15 years	€10,700
Lienemann	January 2002 to December 2004	Enhance supply of new rental dwellings with a social rent	Yes/ Yes, regional dependent—both very strict	No	46%	3 years—extension possible	€10,700
Borloo-neuf	January 2006 to December 2009	Stimulate supply in the intermediate sector	Income limits of the PLI/ Yes depending on the region	6% of the investment can be deducted in the first 7 years, 4% in years 8 and 9, and 2.5% for the two periods of three years (optional)	30%	9 years—with the possibility of an extension of two times 3 years	€10,700
Scellier intermediaire	January 2009 to December 2012	Stimulate supply of private rental dwelling for middle income groups	Income limits of the PLI/ Yes depending on the region	Variable over the time period from 6% to 25% depending on purchase date and energy efficiency ratings	30%	9, 12 or 15 years	€10,700
Duflot	January 2013 to December 2016	Enhancing the supply of private rental housing in the intermediate sector	Yes/ Yes around 80% of market rate	2% in the first 9 years (may be deducted from total income tax paid)	None	9 years	€10,700

Source: Adapted from Hoekstra 2013, Tables 2–6 and 8.

Table A2: 2014–15 household income eligibility limits

Household composition	Initial household income limit ($)	Existing tenant income limit ($)
One adult	47,289	59,111
Two adults	65,378	81,722
Three adults	83,466	104,333
Four adults	101,555	126,944
Sole parent with one child	65,423	81,779
Sole parent with two children	81,108	101,385
Sole parent with three children	96,793	120,991
Couple with one child	81,063	101,329
Couple with two children	96,748	120,934
Couple with three children	112,433	140,541

Source: DSS 2014g.

Table A3: Incentive distribution

	Calls opened	Calls closed	Total incentives distributed	Assessment criteria set
Establishment Phase: 1 July 2008–30 June 2010				
Round 1	24 July 2008	4 Sept 2008	3,019	Set 1
Round 2	17 Dec 2008	27 March 2009	4,873	Set 2
Expansion Phase: 1 July 2010–30 June 2013				
Round 3	1 Sept 2009	31 Aug 2010	9,221	Sets 3, 4, 5
Round 4	14 June 2010	14 Dec 2010	18,043	Set 6
Shovel-ready Round	18 April 2013	22 May 2013	2,367	Set 7–subsets 1 and 2
Round 5	7 May 2013	6 Aug 2013	Cancelled	Set 6–subsets 1 and 2 Set 7–subsets 1 and 2
Total			37,523	

Source: Adapted from DSS 2014e; DSS 2015a.

Table A4: NRAS selection criteria

Assessment criteria	Set 1	Set 2	Set 3	Set 4	Set 5	Set 6 subset 1	Set 6 subset 2	Set 7 subset 1	Set 7 subset 2
There is a demonstrated need	●	●		●	●	●		●	
The proposal delivers accessibility and sustainability outcomes, including the following: Proximity of dwellings to transport, schools, shops, health services and employment opportunities. Types of dwellings and proposed household compositions that facilitate a balanced social mix. Use of universal design principles or other measures that make properties more accessible to people who are ageing or live with disabilities.	●	●		●	●		●		●
The Applicant has demonstrated capacity and experience	●	●		●	●				
The proposal is financially viable	●	●	●	●	●				
The applicant has demonstrated capacity and experience to comply with the scheme requirements, or capacity to comply with the scheme requirements into the future						●		●	
The applicant's proposal demonstrates compliance or prospective compliance with the scheme requirements and appears reasonable and viable						●		●	
The proposal details or forecasts, for each dwelling: the energy rating of the dwelling; and the extent to which the dwelling incorporates efficient lighting, environmentally friendly hot water systems, ventilation and water tanks.	●	●	●	●	●		●		●
The Commonwealth has agreed with the state or territory in which the land is located, that the land on which the dwellings are being built or will be built is suitable for mixed residential development, and either: was previously owned by the state or territory and released on or after 1 July 2008 for mixed residential development by the private sector is currently owned by the state or territory and is in the process of being released for mixed residential development by the private sector.			●						
Priority areas of interest									
Proposals for which an application for funding under the Social Housing Initiative has been made by the 30 June 2009					●				
The relevant state or territory supports the proposal						●		●	
Proposals involving 100 or more rental dwellings	●	●	●	●	●		●	●	
Smaller proposals of not less than 20 rental dwellings, where those proposals deliver dwellings in areas of especially high rental stress or deliver innovative and affordable rental housing solutions	●	●	●		●	●			

Assessment criteria	Set 1	Set 2	Set 3	Set 4	Set 5	Set 6 subset 1	Set 6 subset 2	Set 7 subset 1	Set 7 subset 2
Proposals consisting of dwellings that comply with the soundproofing requirements of the state, territory or local government area in which the dwelling is located	●	●	●	●	●		●		●
Proposals that are consistent with state, territory or local government affordable housing priorities	●	●		●	●				
Proposals that include rental dwellings for tenants with special needs (including people with mental and physical disabilities, older Australians and Indigenous Australians)	●	●	●	●	●		●		●
Proposals which maximize affordable housing outcomes for tenants, including building and design features that reduce the overall costs for tenants	●	●	●	●	●		●		●

Source: Adapted from Australian Government 2008b.

Table A5: State and territory affordable housing priorities for NRAS

State/territory	Priority areas during the establishment phase
New South Wales	→ Proposals that are located in high-need areas of NSW. → Proposals that deliver property and tenancy management through registered CHPs. Proposals that do not involve management by a registered CHP will be considered where they can demonstrate quality tenancy and management services and outcomes for tenants. → Proposals that commit to managing properties and tenancies in accordance with relevant sections of the NSW Affordable Housing Guidelines. → Proposals that rent dwellings to a range of households within the eligibility criteria of the scheme. → Proposals that support the objectives of the state government's adopted development and growth strategies. → Proposals that demonstrate dwelling stock meets an identified local need with appropriate size, configuration and dwelling type. → Proposals that deliver long-term housing outcomes. Preference will be for proposals that deliver housing outcomes beyond the 10-year period of the scheme. → Proposals that demonstrate value for money and maximise leverage of government resources.
Victoria	→ Proposals that support local, regional and state development and economic development strategies and priorities. → Proposals which respond to the Victorian Government's 'Principles to guide the prioritisation of NRAS funding in Victoria'.
Queensland	→ Proposals that target regions of high growth, rapidly rising housing costs, low affordability and limited existing provision of affordable housing (including social rental housing).
Western Australia	→ Proposals which target areas of high projected population growth. → Proposals which target areas that have experienced rapidly increasing property prices in the last five years. → Proposals which target areas with limited provision of affordable housing. → Proposals which target areas in the Perth metropolitan area within close proximity to an activity centre or a transport node. → Proposals which target areas undergoing significant urban renewal.
South Australia	→ Proposals which target developments in the metropolitan area within close proximity of an activity centre or transport node in areas undergoing a significant community renewal. → Proposals which target developments in regional centres experiencing rapid growth. → Proposals which target developments that are subject to the government's target for 15 per cent affordable housing.
Northern Territory	→ Proposals that provide for property and tenancy management to be delivered through CHPs with growth prospects. → Proposals that provide sustainability and affordability of dwellings to be ensured over an extended period. → Proposals that provide dwellings to be rented to low- and moderate-income households.

State/territory	Priority areas during the establishment phase
	→ Proposals that provide dwellings in areas of high need (limited affordable housing options, high population growth, labour shortages, etc.). → Proposals that provide dwellings located in close proximity to required amenities including public transport and shopping centres. → Proposals that provide dwellings which support urban renewal.
Australian Capital Territory	→ No priorities have been identified at this stage.

Source: FaHCSIA 2008: 34–36.

Table A6: Profile of dwelling types by state/territory (%)

State	Apartment	House	Studio	Town house	Subsidiary dwelling	Total by state/territory
ACT	36.5	4.6	56.0	2.7	0.2	100
NSW	55.7	6.7	22.1	15.5	0.0	100
NT	60.1	10.7	12.9	16.3	0.0	100
QLD	29.9	36.9	2.4	30.8	0.0	100
SA	28.3	47.7	2.7	21.3	0.0	100
TAS	12.7	19.9	47.1	20.4	0.0	100
VIC	54.3	7.8	20.2	17.7	0.0	100
WA	26.9	21.9	20.7	30.4	0.0	100

Source: DSS, 2015b.

Table A7: Profile of dwelling size by state/territory (%)

	Studio	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 or more bedrooms	Missing
n	6,292	7,490	11,543	9,645	2,499	109	5
%	16.7	19.9	30.7	25.7	6.6	0.3	0.0

Source: Adapted from DSS 2015b.

Table A8: Affordable Rent units by size

Unit Size	Number	Percentage
Bed spaces	45	0.1
Bedsits	512	0.7
1-beds	13,969	18.2
2-beds	35,378	46.2
3-beds	23,895	31.2
4-beds	2,667	3.5
5-beds	152	0.2
6+ beds	25	0.0
Total units	76,643	100.0

Note: [1] General needs units only.

Source: Authors' calculations based on HCA SDR 2014.

Table A9: Comparison of supply mechanisms

		Supply mechanism	Year commenced	Budget	Eligible developers	Eligible developments
United States	*LIHTC*	Taxation credits	1986	$US8 billion/year	Not-for-profit and for-profit developers	New residential properties
	Home Investments Partnerships Program	Block grant program	1992	$US1 billion in 2014	Every state is eligible	New build, purchase or renovation
United Kingdom	*S106, Town Planning and Development ACT, 1990*	Planning gain	1990	-	All developers	All developments above a minimum size
	Affordable Homes Guarantees Programme	Guarantee of housing debt organised through the THFC	2013	up to £6.5 billion of debt over the course of the scheme	Registered housing providers	New build or conversion
	Affordable Rent regime	Supply mechanism uplift in tenanted capital values to enable further borrowing	2012	£1.8 billion initially	Registered housing providers	New build and conversion from social rented properties
Ireland	*Part V, Planning and Development ACT*	Planning gain	2000/2002	-	All developers	All developments
	Rental Accommodation Scheme	Existing dwellings	2005	Budget of €140 million	All residential landowners	The dwelling must be new or newly refurbished
Canada	*Investment in Affordable Housing*	Block grant program	2011–2014	$1 billion between 2011 and 2014	Every state with a bilateral agreement is eligible	Transition, supportive, subsidised housing, for market rental or home ownership
Australia	*National Affordability Rental Scheme*	Taxation credits and cash/in-kind payments	2008	$4.5 billion over 5 years	Private and not-for-profit sectors	New build 20+ housing units/project

Table A10: Comparison of affordability measures

		Rents structure	Eligible tenants	Additional tenant support permitted	Length of lease	Length of time dwellings must remain affordable
United States	*LIHTC*	Rents are fixed at 30% of AMI, and may include utility costs	Low or very-low income tenants based on the area median gross income—it therefore varies by location	Yes		30 years
	Home Investments Partnerships Program	Below-market rates, and may include utilities	Leased to tenants within income limits as defined by local area income	Yes	Lease may not exceed two years	20 years for new-build developments
United Kingdom	*Affordable Homes Guarantees Programme*	Rents are no more than 80% of gross market rents, including service charges	Tenants are selected and allocated through the same process as social housing	Yes	Minimum of two years, no lifetime tenancies	No automatic constraint
	Affordable Rents	Rents are no more than 80% of gross market rents	Tenants are selected and allocated through the same process as social housing	Yes	Flexible	Agreement can be modified five years after the agreement
Ireland	*Rental Accommodation Scheme*	Differential rates which are county based	Tenants are considered eligible if they have been receiving rent supplement for 18 months or more and cannot get social housing	Tenants cannot access additional payments while on this scheme.	The scheme promotes long-term leases— potentially up to 20 years.	The dwellings must remain affordable for the length of the agreement up to 20 years
Canada	*Investment in Affordable Housing*	Differential including utilities or below 80% of average market rent for the community	Varies by program and province, generally includes low to moderate income households	Variable	Variable	Varies by program and ranges from 5–20 years
Australia	*National Affordability Rental Scheme*	80% of median market rents	Low to moderate income as prescribed by federal government	Yes	Variable	10 years

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