



Inquiry into social impact investment for housing and homelessness outcomes

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Related reports and documents

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Heaney, R., Flatau, P., Muir, K., North, G., Ward-Christie, L., Webb, E. and Zaretzky, K. (2017) *Supporting vulnerable households to achieve their housing goals: the role of impact investment*, AHURI Final Report No. 290, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/290>, doi:10.18408/ahuri-821031.

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Acronyms and abbreviations used in this report

AHURI	Australian Housing and Urban Research Institute Limited
AHWG	Affordable Housing Working Group
A-REITs	Australian real estate investment trusts
CFFR	Council on Federal Financial Relations
CHP	Community Housing Provider
CRA	Community Reinvestment Plan
HFF	Housing Finance Corporation
HSB	Housing supply bond
IPART	Independent Pricing and Regulatory Tribunal
IRIS	Impact Reporting and Investment Standards
LIHTC	Low income housing tax credits (US)
NFP	Not-for-profit
NHFIC	National Housing Finance and Investment Corporation
NRAS	National Rental Affordability Scheme
PRI	Program-related investments
SEDIF	Social Enterprise Development and Investment Funds
SEFA	Social Enterprise Finance Australia
SERIF	Social Enterprise Development and Investment Funds
SIB	Social impact bond
SII	Social impact investment
SIIT	Social Impact Investment Taskforce
SMSF	Self-managed superannuation funds
SPE	Special purpose entity
SPV	Special purpose vehicle
THFC	The Housing Finance Corporation Ltd. (UK)

Glossary

A list of definitions for terms commonly used by AHURI is available on the AHURI website www.ahuri.edu.au/research/glossary.

Executive summary

Key points

This is the final report for the AHURI *Inquiry into social impact investment for housing and homelessness outcomes*. Social impact investment (SII) is investment intending to generate social and financial returns, while actively measuring both (SIIT 2014; GIIN 2016).

Key findings include:

- Australia faces complex challenges across a spectrum of issues from housing unaffordability to social housing and homelessness. SII provides additional policy tools and a promising framework to design and fund more effective solutions. SII is however relatively new, not well understood, and there is a need for further evidence on how it might be applied to these issues in Australia.
 - Effective SII requires a system of actors to work together—including suppliers of goods and services, intermediaries, suppliers of capital, government and beneficiaries. Government has a key role as a market builder, steward and participant in the SII market. Beneficiaries are experts in their own lives who can assist in co-designing SII, and should be kept at the centre of SII initiatives.
 - There are several promising SII instruments and models—including housing supply bonds, property funds, funding social enterprises, social impact bonds and social impact loans. Almost all effective models to date have used blended capital. SII cannot supplant government funding, but it can enhance the return on it by attracting other sources of capital.
 - The success of SII depends on the role of government, stable policy conditions, effective infrastructure, better outcomes measurement, and understanding between different stakeholders of each other's roles.
 - Challenges and barriers in using SII include the extent of housing and homelessness issues to be addressed, the extent of risk that suppliers of capital may need to take on, difficulties in scaling, the financing gap in social and affordable housing, and the disconnect between investors, projects and legal forms.
 - Risks include high transaction costs, potential for poor design and implementation of SII initiatives, diverting capital away from other effective policy solutions, moral hazards in how to most effectively link social and financial outcomes, and the potential for negative impact on vulnerable beneficiaries if the SII market fails.
 - Where it is implemented in the right conditions, SII has the potential to address some housing and homelessness issues in Australia. However, SII is not a panacea and will not be the most appropriate nor effective solution in all cases.
-

Project context

Australia faces numerous and complex housing and homelessness challenges. The waiting lists for social housing are long and a significant proportion of the social housing stock is no longer fit-for-purpose (194,600 households are on social housing waiting lists (AIHW 2017a)), large proportions of the population are in housing stress because of the unaffordability of housing (between 2001 and 2016, median annual rent increased by 130% and median mortgage repayments by 102%, compared to an 82% increase in median household income (Centre for Social Impact, forthcoming)) and too many people are experiencing homelessness (approximately 1 in 200 people are homeless each night (Centre for Social Impact, forthcoming) and homelessness increased by approximately 14% between 2011 and 2016 (ABS, 2018)).

New and scalable solutions are needed, but governments are increasingly fiscally constrained. Long-term trends such as an ageing population will likely exacerbate these fiscal challenges in the future (The Treasury 2015). Further, despite significant investment by governments (and philanthropists), some social policy areas' social outcomes are not markedly improving (Reeve, Marjolin et al. 2016). New solutions and scaled existing effective solutions with the right financial resources are required. Social impact investment (SII) may offer part of the solution.

SII is investment intending to generate social and financial returns, while actively measuring both (SIIT 2014; GIIN 2016), and it is a growing mechanism for using capital from investors to finance solutions to complex social problems. There is significant interest in using SII to address problems in social and affordable housing and homelessness in Australia. It potentially provides government with additional policy tools and a promising framework to design and fund more effective solutions to complex social problems, including housing and homelessness, and attract other forms of capital to co-invest alongside it. However, further evidence is required on whether, how, and under what conditions, SII might work in addressing housing and homelessness issues, especially in the Australian fiscal and policy context. This Inquiry aimed to begin to further develop this evidence base.

The study

This is the final report for the AHURI *Inquiry into social impact investment for housing and homelessness outcomes*. This report provides an analysis of the overall insights from across the Inquiry's three projects.¹ These insights were gathered from a critical analysis of 158 publications, a workshop with 32 expert diverse stakeholders, in-depth interviews with 70 key stakeholders, an online survey with 72 people across the financial, housing and SII sectors, and 3 case studies. Guided by the Inquiry's focus and research questions, this report has been written for a reasonably informed audience of current and potential SII actors, but with the aim of making the information accessible to a broader audience than the underlying project reports.

¹ Project A: *The opportunities, risks and possibilities of social impact investment for housing and homelessness* (Muir, Moran et al. 2017); Project B: *Understanding opportunities for social impact investment in the development of affordable housing* (Sharam, Moran et al. 2018); Project C: *Supporting vulnerable households to achieve their housing goals: the role of impact investment* (Heaney, Flatau et al. 2017).

Key Inquiry findings

- SII is an investment that targets a social (or environmental) objective. SII can be defined as having four components:

- 1 **Intentionality**—it intends to achieve social objectives
- 2 **Return expectations**—it expects a financial and a social return
- 3 **Measurement**—the social impact can be and is measured
- 4 **Additionality**—the outcome from the investment is beyond what would have been achieved without the investment.

SII is relatively new, not well understood, and there is not a shared understanding of its definition or when and how it occurs and might be applied. This finding underscores the need to develop and use shared and clear explanations for the core definitional elements of SII when developing policy and/or designing and implementing SII solutions to promote the best possible outcomes.

- **Different groups play different roles in SII.** Key players in the SII market include:
 - **Suppliers of goods and services** provide access to property and tenancy support services (e.g. community, social and affordable housing providers; specialist housing support services)
 - **Intermediaries** connect the investors to the suppliers of goods and services (e.g. community development finance institutions, specialist social investment and enterprise funds, consultancies, legal firms, brokers and venture funds)
 - **Suppliers of capital** provide financial instruments and capital for the investment (e.g. banks, other financial institutions, super funds, foundations, venture capitalists, government, individuals)
 - **Government** has a key enabling role in developing the SII market for housing and homelessness in Australia, controlling many of the levers that could remove barriers for other actors in the system, as well as many of the levers in the broader housing market that influence both the size and shape of the housing affordability challenge, and providing housing for vulnerable households. This role includes closing the significant financing gap that exists for social and affordable housing providers that would assist with increased investment into the sector from both SII and non-SII. This could occur through increased or redirected and better targeted government subsidies and concessions towards social and affordable housing.
 - **Beneficiaries—people who use the goods and services:** Many participants in the Inquiry did not identify an active (or in some cases, any) role for beneficiaries in housing and homelessness SII—yet beneficiaries (tenants and/or purchasers in social or affordable housing, homeless people or people at risk of homelessness) are key to the operation of SII. They are the experts in their own lives and may therefore have roles in co-creating and co-designing solutions to best meet their needs. Their involvement in SII decision-making, governance and in informing the SII planning, implementation and measurement processes is also critical to ensure that processes and policies are well targeted, equitable and inclusive. Finally, they have key roles in contributing to SII's success as contributing members in the buildings, residences and communities in which SII housing is established. This has implications for policy-makers as they consider the most appropriate mechanisms to ensure a more central role for beneficiaries in SII solution design, implementation and review.

- Under certain conditions, SII has the opportunity to increase capital for the supply of affordable housing and fit-for-purpose social housing. It also has the potential to help drive behavioural and cultural shifts (e.g. focus on outcomes, cross-sector collaboration, and act as an incubator to trial new ways of providing services).
- **Several promising SII instruments and models** emerged as viable options for consideration in contributing to Australian housing and homelessness outcomes. Some of these models could be achieved without SII, however, incorporating SII principles may improve the likelihood of achieving the desired outcomes. These are:
 - **Housing supply bonds (HSBs)** to provide low-cost and longer-tenured capital to registered CHPs (and possibly other specialist affordable housing providers). As heralded in its National Housing Finance and Investment Corporation Consultation Paper, *Social Impact Investing Discussion Paper*, released in September 2017, the Commonwealth Treasury intends to issue HSBs through a newly created bond aggregator.
 - **Property funds** (e.g. mutual funds, Australian real estate investment trusts; listed or unlisted and private capital impact investment firms) to finance, develop and manage build/buy-to-rent long-term affordable private rental housing. Housing stock is held in perpetuity. Property funds place private rental housing under professional management.
 - **Funding social enterprises (housing supply and/or employment/skills acquisition)** including direct debt and/or equity investments in i) disruptive 'deliberative development' (self-organised consumer-led property development) that creates a new residential home ownership segment at cost that can also lock in affordability gains in perpetuity (in effect, a new market segment based solely on the utility value rather than the investment value of housing); ii) sub-market housing providers to build capacity, scale and track-record to enable future access to mainstream financing; iii) social enterprise subsidiaries that provide revenue streams back into social and affordable housing providers that increase their financial sustainability and ability to achieve their core purpose; and iv) employment/skills acquisition or other support services providers that support housing and homelessness outcomes.
 - **Social impact bonds (SIBs)** as an incubator for government to trial new ways of providing social services that deliver desired outcomes most effectively, and importing what works back into the day-to-day commissioning of social services. SIBs can be used as part of larger housing property transactions, for instance, to deliver tenancy support services that improve tenants' ability to maintain successful stable tenancies or to better align stakeholder interests in the desired outcomes.
 - **Social impact loans** to provide credit on reasonable terms to lower income residents or disadvantaged populations (e.g. Indigenous home ownership on native title land) currently excluded from mainstream finance, but able to service a loan. These could be used to finance participation in shared equity schemes or purchase a home, and through developing track-record and an evidence-base, build a bridge to accessing future mainstream credit.
- Different SII instruments and models have been used to try and address different housing and homelessness challenges. From the evidence, some models and finance instruments appear better suited or more relevant to addressing certain challenges than others (see Table).

Table 1: Types of SII instruments and models that have been used to address housing and homelessness challenges

SII instrument/model	Homelessness	Social housing	Affordable private market rental	Affordable housing for purchase	Access to affordable housing finance for excluded populations
<i>Housing supply bonds</i>	X	✓ The Housing Finance Corp. Ltd (UK)	✓ The Housing Finance Corp. Ltd (UK)	X	X
<i>Property funds</i>	X	✓ The Healthy Futures Fund (US)	✓/? Build-to-Rent Fund (UK)	? Finite life private equity funds	X
<i>Social enterprises</i>	✓/? The Foyer model (UK, France etc.); STREAT (Aust.); The Big Issue (Aust.)	? HomeGround Real Estate (Aust.); Horizon Housing/HESTA (Aust.); Property Initiatives Real Estate (Aust.)	? Horizon Housing/HESTA (Aust.)	✓ Nightingale Housing (Aust.); Habitat for Humanity (Aust.); Project4Change (Aust.)	✓ Habitat for Humanity (Aust.)
<i>Social impact bonds</i>	✓/? London Homelessness SIBs (England); Fusion Fair Chance SIB (UK) Aspire SIB (Aust)	X	X	X	X
<i>Social impact loans</i>	X	✓ Debt facilities and construction finance to CHPs—e.g. Westpac, Bank Australia	✓ Debt facilities and construction finance to CHPs—e.g. Westpac, Bank Australia	✓ Habitat for Humanity (Aust.)	✓ WA Keystart (Aust.); Indigenous Business Australia (Aust.)

Note: ✓ = Evidence of effectiveness under certain conditions; X = No examples of SII identified or no evidence of effectiveness observed; ? = Evidence of effectiveness is inconclusive, mixed or too early to determine.

Source: compiled by authors.

- A number of **key conditions for the success of SII** emerged through the Inquiry:
 - The **role of government** as market builder, steward and participant (commissioner of services and funder) in the SII market, and in its various roles in housing and homelessness.
 - The critical role for **effective infrastructure**:
 - **shared language and accessible knowledge about SII**
 - **specialist affordable SII intermediaries** who can lead collaborations effectively and who can assist in the development of shared language and knowledge across stakeholder groups, and in the acceleration of SII market opportunities
 - the need for **effective and robust impact measurement and management** systems and frameworks to achieve better social and financial outcomes through SII and to underpin the credibility of SII as a field of practice.
 - **Understanding between stakeholders** of each other's needs, priorities, constraints and risks.
- There are some significant challenges and barriers that will need to be overcome if SII is going to be successful in helping to address housing affordability and homelessness:
 - **The problem is complex and significant in scale**:
 - Housing and homelessness problems can be more structural than cyclical in nature, requiring long-term, sustainable solutions.
 - The scale of the housing problem has implications for SII and dictates the available pools of capital of sufficient size to make a commensurate impact.
 - The housing and homelessness system is complex.
 - A broad range of people with diverse and sometimes complex needs are impacted by Australia's housing and homelessness challenges. This underscores the need for solutions designed to start with a thorough understanding of the specific needs of individuals and households and the problem(s) being solved. SII has the potential to be treated as a 'shiny new toy', with financing solutions seeking out a problem to attach itself to—rather than matching the right finance solution with the right problem.
 - **Blended capital models** have been used for all of the most promising examples of SII in housing and homelessness in Australia to date. However, these have been small, begging the question: Are these models scalable and how do we enable and accelerate scaling up what works while also maintaining benefits for individuals, families and communities?
 - **A significant financing gap exists for both social and affordable housing.** Relative to the USA, Australia has a small philanthropic sector and a very limited pool of capital prepared to earn concessionary rates of return. The finance gap is exacerbated by current housing market conditions in Australia. Government has a critical role in filling the financing gap if it wishes to engage the investment community in collaborating and contributing to solutions and optimising the true potential of SII.
 - There can be a **disconnect between investors, projects and legal forms.** Significant barriers to SII being successful emerge when there is a disconnection between investor expectations and commitments and the needs of a particular program and/or where legal form does not match capital requirements.

- **There are further risks and challenges in using SII**, which some argue imply a case against using it. Key risks and challenges include:
 - Complexity of SII means that it may not always be implemented well or with the right model.
 - Poor design and implementation of SII risks harm to beneficiaries who are likely already vulnerable.
 - De-risking investments too far to attract investors and severing the nexus between social and financial outcomes may create moral hazard risks and reduce the alignment of interests among stakeholders.
 - Risk that SII displaces other non-SII initiatives that are providing better outcomes than SII and/or at lower cost.
 - Risk that investors' performance expectations are not met, which reduces confidence and stalls SII.
 - Risk of insufficient targeting of SII, leading to unintended consequences for beneficiaries and/or capital not being directed where it is most needed.
 - High transaction costs of SII, which are often borne by service providers who already have limited capacity.
 - Evidence base for SII is yet to be developed conclusively and, so far, suggests that SII may be better suited to only less complex social issues.
 - The appetite for concessionary rate returns may not be strong enough in Australia to support a sustainable SII ecosystem.
 - Achieving fair sharing of risk and return is complex and, if not apportioned correctly, can have severe consequences for a range of stakeholders.
 - SII may divert capital away from grants to repayable finance that puts service providers at increased financial risk.
 - Outcomes measurement systems necessary for SII are not yet developed.
 - SII may not generate positive outcomes if stakeholders take a form-over-substance approach, or if there is unbalanced power in the stakeholder relationships.
- **SII is not a panacea.** SII is new and the evidence base is still evolving. SIIs can be complex, time consuming and expensive to establish and manage. SII will not be the most appropriate nor the most effective solution in all cases or for all organisations. SII participants cannot control the broader policy environment in which SII operates, which can impact on the performance of some SIIs. Some of the purported benefits of SII could be achieved through other means and, in some cases, other funding sources will be more suitable, have lower overheads, and/or be better matched to achieve the desired outcomes than SII. Further, where SII does have a role to play, in many cases it will need to be implemented alongside other funding solutions and policy interventions. Not all social problems can be solved, and where this is the case, other measures must be in place to ensure that in these instances they are managed effectively, and that this shift does not leave the most vulnerable members of the community behind—but serves to increase the resources available to best meet their needs into the future.

Key policy implications

- Government has a key enabling role in developing the SII market for housing and homelessness in Australia as market builder, steward and participant (commissioner and funder of services). Government also controls many of the levers that could remove barriers for other actors in the system, as well as many of the levers in the broader housing market that influence both the size and shape of the housing and homelessness challenge—including the size of the financing gap.
- Government will need to continue to provide and fund social and affordable housing and homelessness services. SII cannot supplant government funding and investment—‘No innovative financing model will close this gap and a sustained increase in the investment by governments is required to stimulate affordable housing production and attract private and institutional investment’ (Council on Federal Financial Relations 2016b: 2). What SII may be able to do—alongside other government funding—is enhance the return on government’s (increased and/or redirected) investment in housing and homelessness by attracting other sources of capital (including mainstream capital) with different capabilities and risk return objectives.
- Throughout the Inquiry, and as demonstrated by international examples (including in the US and UK), where government has been able to provide policy stability and increase its investment in social and affordable housing to close the financing gap for housing providers, this has unlocked significant access to mainstream capital at scale to fund social and affordable housing solutions—significantly leveraging government’s additional investment. Given the financially constrained environment that governments are currently operating in, this may necessitate all levels of government working cooperatively and redirecting and better targeting some of the \$25 billion that Australian governments already spend annually on housing-related subsidies and concessions (Wood, Cigdem et al. 2017). It is important, however, to ensure that SII offers ‘additionality’—that is, it adds value beyond what is already funded, that other positive outcomes are not sacrificed for SII and that funding remains to ensure gaps are filled when the market fails and/or is not an appropriate response.
- Supporting capacity building in the CHP sector and the development of new housing supply models may require governments to take on more risk, for example working with CHPs as developers on new developments and public housing renewal projects. Further, SII is a collaboration between stakeholders, including governments. In particular, this may require different approaches that exert less control and micro-management of terms and activities than government may have exerted in the past.
- Policy-makers should keep beneficiaries at the centre by:
 - considering the most appropriate mechanisms to ensure a more central role for beneficiaries in SII solution design, implementation and review
 - ensuring that the most appropriate funding model is applied to the right beneficiary group
 - taking care that unintended consequences do not occur
 - ensuring that risks for vulnerable people are minimised and mitigated and safety nets are in place if an SII model fails.
- The finding that the role of measurement in SII is not well understood among all SII stakeholders, coupled with evidence that some providers are more focused on tapping into new funding than shifting their thinking and business models to evidence-based outcomes supported by rigorous measurement, has implications for policy-makers—especially if they are concerned with identifying the most effective solutions and allocating investment

accordingly. Consideration should be given to appropriate mechanisms for how and by whom accountability for outcomes will occur (including who will pay), to selection of appropriate indicators and to how rigorous measurement will be established within SII. This finding also underscores the need to return to the core definitional elements of SII when developing policy and designing SII solutions to promote the best outcomes. There may also be circumstances where outcomes-based payments are more appropriate than a social impact finance instrument.

1 Introduction

This report is the final report for the Australian Housing and Urban Research Institute (AHURI) evidence-based policy *Inquiry into social impact investment for housing and homelessness outcomes*.

Social impact investment (SII) is commonly defined as investments ‘that intentionally target specific social (and/or environmental) objectives along with financial return and measure the achievement of both’ (SIIT 2014: 1). Nationally and internationally, it is a growing mechanism for using capital from investors to finance solutions to complex social problems. As outlined in this report, there is significant interest in using SII to address problems in social and affordable housing and homelessness in Australia, however there is a need to determine further evidence on whether, how, and under what conditions, this might work, especially in the Australian fiscal and policy context. This AHURI Inquiry aimed to further the evidence base in this area.

The report synthesises the overall findings from the Inquiry. It has been written for a reasonably informed audience of current and potential SII actors, but with the aim of also making the information accessible to a broader audience.

1.1 Inquiry focus and research questions

The Inquiry focused on the role of SII in improving housing and homelessness outcomes in Australia. Overall, the Inquiry focused on answering the following research questions:

- 1 What is SII and how can it be applied to housing and homelessness policy in Australia?
 - How has SII been applied (in its infancy) to social policy issues overseas and in Australia, and what opportunities does it create for housing policy?
 - Who are the actors in SII in Australia and what are their actual/ potential roles for housing and homelessness policy?
 - What are the different financial models, types of capital and different types of investors available to address housing and other social issues (e.g. scale, risk, market, supply, regulation etc.)?
 - To what extent might SII provide new sources of capital for the housing sector?
 - What are the risks and returns for investors and over what timeframes? Is there a pool of concessionary and double-bottom line investors?
 - What enterprises/interventions/models might be invested in? How will they be delivered and what characteristics will help/hinder competitiveness for receiving funding and effectively delivering services?
- 2 What are the actual, potential and perceived opportunities, risks and/or barriers of SII for housing and homelessness policy in Australia?
 - Under what circumstances might SII improve housing (e.g. affordability, tenancy sustainability etc.) and social and economic outcomes for households, institutional actors and investors?
 - Who might benefit most and who is in danger of being left behind?
- 3 How can SII be applied to housing policy in the Australian context?
 - What role can/should different actors, including government, play in facilitating the SII market and providing incentives for engagement in housing services?

- What frameworks, resources and principles need to be considered in measuring social and financial outcomes of SII (indicators, resources, ethics, rigour etc.)?

As this report focuses on the overall Inquiry findings, it mainly addresses the three major research questions, while also highlighting some detail based on the sub-questions. Reflecting these questions, the report is structured to define SII, examine its actors and financial instruments and the perceived opportunities, risks and barriers for each, and to examine SII applications in Australia, based on national and international context and experience.

1.2 Conceptual approach

The conceptual approach of the Inquiry is complex systems thinking. Complex systems thinking identifies how complex problems—such as housing affordability and homelessness—occur within systems. These systems consist of different actors, different roles they play and interactions they have, as well as the influence of the economic and social environment in which they are acting (Bronfenbrenner 1979). As all of these different influences interact, systems emerge made up of interconnected and interdependent levers (influences) that work together in a non-linear manner and produce feedback loops of change (Simon 1996; Anderson 1999; Boal and Schultz 2007; Van Beurden, Kia et al. 2011). Changing one lever or influence within the system will therefore mean that other parts of the system can and will change as a result.

In undertaking the Inquiry, the complex systems thinking approach was applied to understand what parts of the SII system act as levers to enable (or disable) SII to create social change on housing and homelessness issues, and under what conditions. This thinking underpins the analysis in the report about actors, opportunities, risks and barriers, and policy implications.

1.3 Inquiry Panel

The Inquiry was supported by a Panel, formed of members with knowledge, skills and experience in SII, housing and homelessness. The purpose of the Panel was to help inform the Inquiry's scope, focus, implementation and policy application of its findings.

The Panel met twice throughout the Inquiry. It met early in the Inquiry to ensure the scope and implementation matched key stakeholder needs. The second meeting reviewed the preliminary research findings and brainstormed implications for future policy and practice before the release of this Final Report.

The authors acknowledge the value the panel members offered to this research and report, however, the views within this report are the views of the authors and do not necessarily reflect the views of the panel members or AHURI.

1.4 Projects

Three separate but inter-related projects made up the Inquiry. Across the three projects, the Inquiry examined 158 publications and comprised a workshop with 32 expert diverse stakeholders, in-depth interviews with 70 key stakeholders, an online survey with 72 respondents across the financial, housing and SII sectors, and 3 case studies. Each project has published its own report, which accounts in detail for its focus, methodology, sample and research findings (Muir, Moran et al. 2017; Sharam, Moran et al. 2018; Heaney, Flatau et al. 2017). In brief, the projects are:

The opportunities, risks and possibilities of social impact investment for housing and homelessness (*'Opportunities, risks and possibilities of SII'* report ; Muir, Moran et al. 2017)

This project established the use of systems thinking for the Inquiry. It investigated how SII has been applied to social policy issues overseas and in Australia; its opportunities and risks for housing and homelessness policy; the actors, financial and enterprise models and relationships in the SII system; and SII's potential future implications for housing policy and services.

This project was a foundational project for the Inquiry. The other Inquiry projects leveraged from its background work and added more evidence and depth on particular issues.

Understanding opportunities for social impact investment in the development of affordable housing (*'SII and affordable housing'* report; Sharam, Moran et al. 2018)

This project focused on current affordable housing projects that have used or contemplated using SII and not proceeded with it, and outlined the opportunities and barriers for SII in the development of affordable housing. It examined the motivations across the sector and circumstances required for investment and innovation to harness opportunities and overcome barriers.

Supporting vulnerable households to achieve their housing goals: The role of impact investment (*'SII and supporting vulnerable households'* report; Heaney, Flatau et al. 2017)

This project undertook detailed financial modelling of the returns to investment in affordable housing and provides evidence on the role of SII in generating improved housing and employment outcomes for vulnerable people, such as seniors, people with a disability and homeless people. It identified how, where and under what circumstances SII could support vulnerable households and individuals.

1.5 Purpose of this report

The purpose of this report is to provide a discussion of the key insights and policy implications from the overall Inquiry. The report is not intended to be an account of all findings across the three Inquiry projects, but rather a synthesis of the overall insights when the findings from the projects are combined. As such, this report is supplemented by and should be read in conjunction with the individual project reports (Muir, Moran et al. 2017; Sharam, Moran et al. 2018; Heaney, Flatau et al. 2017).

2 Background to the housing and homelessness problems in Australia and SII's potential role

This chapter outlines the nature, scale and impact of housing and homelessness problems in Australia, as well as SII's potential role in addressing these issues via a discussion of the policy context of SII in Australia and internationally. The purpose is to provide an understanding of the housing and homelessness issues that SII might address and its context for doing so.

2.1 What are the housing and homelessness problems that SII might address?

2.1.1 The nature and scale of Australia's housing and homelessness challenges

Australia faces numerous and complex housing policy challenges, including:

Supply problems:

- Insufficient supply of affordable housing for purchase by low to middle-income households. Growth in median mortgage and rental payments have outpaced increases in median income, making housing less affordable. Between 2001–2016, median annual rent increased by 130 per cent and median mortgage repayments by 102 per cent, compared to an 82 per cent increase in median household income (Centre for Social Impact, forthcoming). Home ownership rates in Australia are falling for all age groups other than those aged 65 years and over, and more quickly for households in the three lowest income quintiles (Yates 2015).
- Insufficient supply of affordable private market rental housing. In Australia, 393,000 households in the lowest two income quintiles are paying more than 30 per cent of gross income on rent, and 90,000 of those are paying more than 50 per cent of their gross income on rent (Hulse, Reynolds et al. 2015).

Stability problems:

- Inadequate tenancy terms for the increasing population of long-term renters. The private rental sector, once dominated by singles and younger people before transitioning to home ownership, is increasingly comprising families and older people. This growing proportion of long-term renting households means there is a need for longer and more secure tenure and more rights/ability for tenants to make a home (Stone, Burke et al. 2015).
- The need for effective integration and coordination of support services with housing solutions for people with complex needs. People with complex needs are commonly missed in the gaps between siloed services and there is a need for greater integration and coordination between their housing and other support services (Bleasdale 2006; Queensland Mental Health Commission 2015).
- Lack of progression and mobility within and through the social housing system. Lack of supply of social housing and long waiting lists, coupled with sometimes-significant step-up in rents and reduced security and rights in the private rental market contribute to reduced transition out of social housing and along the housing continuum (Stone, Parkinson et al. 2016).

Acceptability/appropriateness challenges:

- Insufficient supply of fit-for-purpose social housing for vulnerable households. There are 194,600 households on social housing waiting lists (AIHW 2017a). The stock of social housing units is failing to keep pace with the growth in the number of Australian households, comprising 5.1 per cent of Australian households in 2007–08, but only 4.7 per cent in 2016 (AIHW 2017a). The number of households in Australia is projected to increase further—from 8.42 million to between 12.73 million and 12.57 million by 2036 (ABS 2015).
- Insufficient supply of fit-for-purpose affordable private market rental housing. Most of the growth in housing supply has been in mid-to-high price segments, rather than low price segments, suggesting structural impediments to generating new affordable housing supply (Ong, Dalton et al. 2017).
- Challenges in maintaining, refurbishing and replacing social housing stock over time. A significant proportion of social housing stock is currently at the end of its economic life, poorly maintained, lacking in location or amenity, or underutilised as household compositions have shifted to smaller sizes (Kraatz, Mitchell et al. 2015).

Emergency/crisis issues:

- High numbers of people experiencing homelessness in Australia. Around 1 in 200 people are homeless each night in Australia and rates of homelessness are especially high for particular groups, such as young people and Indigenous Australians (Centre for Social Impact, forthcoming). Homelessness increased by approximately 14 per cent between 2011 and 2016 (ABS, 2018).
- Lack of availability of appropriate transitional/crisis accommodation when needed. This is exacerbated by delays in moving people into more suitable longer-term housing due to social housing supply shortages and lengthy waiting lists. In 2016, 147,900 people were waiting for public rental housing, 8,200 for Indigenous social housing and 38,500 for mainstream community housing. Of this group, 58,800 were classified ‘in greatest need’ (AIHW 2017a).

Sustainability challenges:

- Lack of system sustainability—sustainability of the CHP and public housing sectors, maintaining the affordability of housing over time (Council on Federal Financial Relations 2016a; IPART 2017).

The scale of many of these challenges has implications for SII, particularly given the very small pool of investment capital identified in Australia that is prepared to accept concessional rates of return, and the much smaller pool of philanthropic capital available in Australia compared to markets such as the US.

2.1.2 Housing and homelessness—an interdependent system

Further to the aforementioned policy challenges, the housing and homelessness system is a complex ecosystem, with failings and stress in one part of the system having consequences for other parts of the system (*‘Opportunities, risks and possibilities of SII’ report*; Muir, Moran et al. 2017). For instance:

- Insufficient affordable housing for purchase by low- to moderate-income households reduces availability of affordable rental accommodation for low-income households.
- The effectiveness of delivering homelessness services is greatly reduced to the extent that secure and stable housing is not available at that same time.

- Lengthy social housing waiting lists can reduce the confidence of tenants to move out of social housing if they are concerned about the possibility of needing to re-enter social housing in the future.
- A significant proportion of current social housing stock is no longer fit-for-purpose (being at the end of its life, poorly maintained or lacking in location and amenities), which has implications for the quality of tenant outcomes and for the owners/managers of those properties.
- The gap between tenant rights and tenancy terms between social housing and private rental market segments can act as a disincentive to leave social housing.
- Lengthy social housing waiting lists put pressure on the availability of transitional and crisis accommodation. This situation is particularly important given evidence that reducing the duration and instances of homelessness are key to preventing pathways towards chronic long-term homelessness and dependence on social security.

2.1.3 The people most impacted by these challenges

A range of people are impacted by Australia's housing and homelessness challenges (*'SII and supporting vulnerable households' report*; Heaney, Flatau et al. 2017).

There is a large group of people experiencing financial stress and/or housing stress but who are otherwise capable of maintaining accommodation in a more affordable setting. There are also groups of people, however, who require affordable housing and additional supports to mitigate the risks of homelessness, maintain successful tenancies, and achieve life goals. This includes:

- **Indigenous people**, who are 9.1 times more likely to use Specialist Homelessness Services than non-Indigenous people (AIHW 2017b)
- **people experiencing domestic and family violence**, who account for 38 per cent of people using Specialist Homelessness Services, with many women (63%) and children (29%) included (AIHW 2017b)
- **young people**, including those leaving home due to family and domestic violence (15%) and housing crises (29%) (AIHW 2017b), and young Indigenous Australians who account for one in four young people presenting (AIHW 2017b)
- **people with complex needs**, such as mental health issues and/or alcohol and drug issues, who are the fastest growing group using Specialist Homelessness Services, growing at an average rate of 13 per cent since 2011–12 (AIHW 2017b)
- **people with a disability**, who experience constraints in both public housing and the private rental market (Productivity Commission 2011) and of whom about 10,000 sought assistance from Specialist Homelessness Services in 2015–16 (AIHW 2017b)
- **older people** on low incomes and/or who are living in insecure housing or who are homeless—older people (people aged over 55) comprised about 8 per cent of people using Specialist Homelessness Services in 2015–16, with their use of these services growing at over twice the rate of the general SHS population and 9.5 per cent per year since 2011–12. The growth for older Indigenous people has been even higher at 16.8 per cent per year (AIHW 2017b).

The growing number of single person households is particularly problematic for housing affordability and poses longer term policy implications as the population ages and a growing proportion of single person renting households retire on the pension (Sharam, Ralston et al. 2016).

The breadth of individuals impacted by Australia's housing and homelessness challenges, as well as the diversity and complexity of their needs, makes designing appropriate, cost effective and scalable solutions even more challenging. It also underscores the need for any solution design to start with a thorough understanding of the specific needs of the individuals and households, from which the most appropriate financing options can then follow.

2.1.4 Role of SII

SII is one innovative and growing mechanism for financing solutions to complex social problems, such as these issues in housing and homelessness outlined above, among other social issues.

SII will not replace the role of government funding and grants or of traditional philanthropic grants and giving. However, in some cases and for certain actors, it may complement these more traditional forms of capital by:

- offering the opportunity to better leverage the scarce forms of capital (grants) by blending these forms of capital with repayable finance from other investors, or providing the opportunity to recycle capital where repayable finance (that may not be available through mainstream finance providers) may achieve the desired social outcomes and be more appropriate than provision of grant capital
- providing a framework to help support innovation and cross-sector collaboration to solve entrenched problems in new and more effective ways
- driving cultural and behavioural change by focusing attention on outcomes rather than activities and outputs, forcing market discipline on the measurement of outcomes, and investing in prevention and early intervention that may help break the cycle of disadvantage
- creating new models that help to realign incentives that have the potential to increase social mobility, provide pathways out of dependence on social security, and/or facilitate the shift to service delivery models with beneficiaries at the centre of designing and implementing solutions that they need and want.

While the SII market is still emerging and the evidence-base still developing, there are examples where SII has been used to finance development and provision of social and affordable housing, provide tenancy support services for vulnerable households, and to finance social enterprises with a focus on employment opportunities for vulnerable populations—including numerous examples in Australia, which are set out in Appendix 2.

What stands out in the examples highlighted in Appendix 2 are that transactions to date have been small, and most have used blended capital models to achieve financial viability—but also that there is an increasing level of activity and innovation being achieved through adopting these early SII models. As such, SII presents opportunities to contribute to Australian housing and homelessness outcomes. However, key questions remain about whether SII models will generate longer term outcomes and are sufficiently scalable to make a significant impact on what are very large housing and homelessness problems.

Particularly in Australia compared to the international market, further research and evidence is required to understand SII's opportunities, risks and possibilities in housing and homelessness outcomes. SII is not a panacea and will not be the most appropriate or effective solution in all cases. Further, where SII does have a role to play, in many cases it will need to be implemented alongside other funding solutions and policy interventions. Understanding where and under what circumstances and conditions SII can best be used is important. It is these questions that this Inquiry has sought to address.

2.2 What is the policy context for SII's use to address housing affordability and homelessness?

2.2.1 The policy context in Australia

High and rising property prices and rents are exacerbating housing affordability issues in Australia, with consequences for households and government policy. While several policy settings strongly encourage residential property as an investment class for individual investors (e.g. the combination of negative gearing and the 50% capital gains tax exemption), they have been less successful in targeting investment in new supply of housing units at the affordable end of the housing spectrum (Australia currently spends \$25 billion a year in housing related subsidies which are projected to rise to \$33 billion by 2031 (Wood, Cigdem et al. 2017). These subsidies favour owner occupiers and residential property investors over renters and aspirational purchasers). Arguably, some of these policy settings have exerted further upward pressure on housing prices (Kelly, Hunter et al. 2013). Further, settings and dynamics in the property development sector lean towards incentivising maximising value-to-land ratios and developer/investor short-term profits over long-term affordability and liveability of properties for residents. This means that incentivising development of additional supply does not always lead to the development of additional affordable housing in the locations and with attributes preferred by residents.

Between 2001–16, median annual rent increased by 130 per cent and median mortgage repayments by 102 per cent, compared to an 82 per cent increase in median household income (Centre for Social Impact, forthcoming)—and disproportionately so for households on lower incomes. This is contributing to a growing problem of highly indebted households and to an increasing proportion of households that are experiencing mortgage stress (notwithstanding historically low interest rates) or rental stress.

Australian governments are currently operating in a fiscally constrained environment. Long-term structural shifts such as an ageing population are likely to adversely impact government revenues over time, while society's expectations, social needs and the costs of delivering social outcomes likely will continue to rise (The Treasury 2015).

2.2.2 Broader shifts in the policy context for social services delivery in Australia

Governments' interest in SII also reflects a trend towards marketisation of public and social services in Australia; the National Disability Insurance Scheme is a key example. The Australian Priority Investment Approach to Welfare (the Investment Approach) was outlined in the McClure Report (Department of Social Services 2015) and the concept of marketisation was further explored in the Productivity Commission's draft report, *Introducing competition and informed user choice into human services*, released in July 2017. As part of the Australian Government's implementation of the Investment Approach, a \$96 million *Try, Test and Learn Fund* was announced in the 2016–17 Budget, with a particular focus on trialling programs that could reduce the risk of long-term welfare dependency. In addition, growing innovative investment models (including SII) and promoting collaborative cross-sector partnerships has been a focus of the Prime Minister's *Community Business Partnership* set up in 2014 (The Treasury 2017a).

More recently, the Commonwealth Treasury put forward a Consultation Paper in relation to the establishment of the National Housing Finance and Investment Corporation (NHFIC) (2017b). The Consultation Paper recommends the establishment of the affordable housing bond aggregator to act as an intermediary between CHPs and wholesale bond markets.

2.2.3 SII and public policy in Australia

Following examples in other countries such as the US, UK, Canada and Italy, Australian federal, state and territory governments have shown new and renewed interest in SII. Since the early 2010s, SII has been considered in a range of Australian Government policy inquiries. These include: financing the not-for-profit (NFP) sector (Productivity Commission 2010), the Australian financial system (The Treasury 2014), the Australian social security system (Department of Social Services 2015), and housing affordability (Council on Federal Financial Relations 2016a). In January 2017, the Australian Government also released its *Social impact investing discussion paper* (The Treasury 2017a).²

The focuses of this interest are explained below.

Social impact bonds (SIBs)

Consistent with comparable countries, particularly the UK, Australian policy-makers have largely focused on SIBs when exploring how SII can be integrated into public policy (Dear, Helbitz et al. 2016). SIBs are indicative of a wider trend in public policy to shift public funding of service provision from funding activities and outputs to outcomes-based financing (Tyler and Stephens 2016).

Other SII policy initiatives

Other major policy initiatives that align with definitions of SII have not so far been framed as interventions to incentivise SII in Australia. This is consistent with other countries, for example the US, where few policies have 'addressed impact investing by name' but a 'number of policies have promoted targeted investment' (Wood, Thornley et al. 2013: 82).

In Australia, other supporting mechanisms have been implemented to facilitate the development of an SII ecosystem via social enterprises with some implications for housing. The most high-profile policy initiative in this respect was the Australian Government's Social Enterprise Development and Investment Funds (SEDIF). An additional and recent area of focus has been improving the enabling environment for private and public ancillary funds to provide them with greater certainty when considering investments in SII.

The Australian Government's *Social Impact Investing Discussion Paper* (The Treasury 2017a) explores its potential role in the development of the SII market more broadly (i.e. beyond the application of SIBs). It includes proposed objectives the government has for its role in SII, proposed principles that would guide Australian Government involvement in the SII market (including creating an enabling environment that delivers better outcomes, avoids future costs or generates savings, and does not displace private sector financing), and possible regulatory barriers it may be able to address to support the market. The paper recognises the different roles governments can play (e.g. as both regulators and funders of SII) and the distinct roles at different levels of government (recognising the important role that state and territory governments have been playing in leading on SII) and specifically asks for views on areas of Australian Government direct policy responsibility.

Housing and homelessness

Generally, while issues relating to social and community housing and affordable ownership and rent are increasingly on the Australian policy agenda, SII has not been referenced as explicitly in recent policy initiatives targeting these problems. Key policy initiatives targeted at scaling up private investment in affordable housing—for example, the Australian Government's National Rental Affordability Scheme (NRAS)—did not reference SII.

² Section 1.2.3 provides a more comprehensive overview of recent policy initiatives in the field of SII in Australia.

In 2016, the Council on Federal Financial Relations Affordable Housing Working Group (AHWG) canvassed SII as part of an Issues Paper in its consultation phase (Council on Federal Financial Relations 2016a). Their inquiry sought ‘innovative solutions’ to affordable rental issues, but framed SII largely as SIBs (Council on Federal Financial Relations 2016a:13). Its recommendations report centred on a housing bond aggregator based on the UK’s Housing Finance Corporation (Council on Federal Financial Relations 2016b). The objective of the bond aggregator would be to attract private and institutional investment through the creation of a financial intermediary that issues bonds on behalf of CHPs to increase supply of affordable rental housing.

Related policy developments have included increased recognition of the potential of leveraging public private partnerships to attain the capital needed to address the complex social, economic and housing issues involved. The NSW Government’s \$1.1 billion Social and Affordable Housing Fund and the Victorian Government’s \$1 billion Social Housing Growth Fund include the aim of fostering the creation of public private partnerships to supply social and/or affordable housing. The recognition of the role of public private partnerships lays a key foundation for the further development of SII as a tool to address housing and homelessness in Australia.

Four Australian states are currently trialling or contemplating homelessness-related SIIs—South Australia issued the ASPIRE SIB in 2017, Queensland is currently preparing to issue a youth homelessness SIB (YouthCONNECT), NSW is developing an SII based on the Foyer model, and Victoria is exploring a homelessness-related SIB.

2.2.4 Policy learnings from international experience

The experience of SII in social and affordable housing in the US and UK reveals a key lesson: the success of SII in social and affordable housing is influenced by government support for social and affordable housing. First, SII in social and affordable housing relies on the extent to which governments financially support social and affordable tenants and NFP housing and support providers. Second, long-standing housing and social security policies provide confidence to private investors, while changes to public policy threaten future investment and create uncertainty about existing investment.

In Australia, governments are viewed as a key source of risk affecting SII as policy changes to tenant income support, rental assistance and tenant selection processes directly affect the cash flow of rental housing providers and thus their ability to service debt.

Further, in Australia, rental income is not sufficient to cover operating costs and provide for housing stock renewal and development of new social housing (Council on Federal Financial Relations 2016a), creating significant financing gaps and limiting the potential for SII. For example, the recently released IPART report (IPART 2017) estimated that additional subsidies of \$950 million per year are needed to make the current social housing system in NSW financially sustainable—which would likely equate to a figure in the vicinity of an additional \$2 billion per year to achieve financial sustainability for the current social housing system across Australia. Using WA as an example, the Affordable Housing Working Group in its September 2017 report estimated the indicative funding gap for affordable rental and social rental housing at both the development phase (asset creation/supply stage) and operating phase (asset holding stage). They estimated the funding gap at the operating phase to be in the vicinity of \$3,100 and \$8,850 per affordable and social housing dwelling in WA respectively, or \$3.1 million or \$8.9 million per thousand affordable and social housing dwellings in WA respectively (CFFR 2017). Inadequate funding also impacts viability of SII to fund the delivery of support services.

For instance, when comparing the success of the Foyer model³ in the UK compared to Australia, early Australian pilots were financially unsustainable reflecting in part that the income generated from current benefits and subsidies to young people are insufficient to cover the cost of support for Youth Foyers; this is the case as the Youth Allowance and youth unemployment benefits are particularly low in Australia (Steen and Mackenzie 2013).

³ Youth Foyers provide an opportunity for young people to gain safe and secure accommodation as well as develop independent living skills while they are engaged in employment, education and training.

3 Background to SII

This chapter provides background to SII, by detailing its definition and the actors involved in it and their differing priorities, as well as the financial instruments and legal structures through which SII can operate. The purpose of the chapter is to provide a foundational understanding of SII, what it means and how it operates.

3.1 What is SII?

3.1.1 Definition of SII

Social impact investment is commonly defined as investments ‘that intentionally target specific social (and/or environmental) objectives along with financial return and measure the achievement of both’ (SIIT 2014: 1). Within this definition are three key features:

- 1 Intentionality:** SIIs intend to obtain a social or environmental objective (Brest and Born 2013) for clearly defined groups.
- 2 Dual return expectations:** SIIs expect both a social and financial return, although in some SIIs one of these types of return may be more highly prioritised over the other (Freireich and Fulton 2009; Rangan, Appleby et al. 2011; Charlton, Donald et al. 2014; Correlation Consulting 2012).
- 3 Measurement:** SIIs involve clear and robust measurement of social/environmental impact and financial indicators (Best and Harji 2013).

A further defining feature often discussed in the literature is ‘additionality’:

- 4 Additionality:** SII results in an outcome that would not otherwise have occurred if the SII deal were not in place or if the investment was made through another structure, not SII (JP Morgan 2015; Impact Investing Australia 2017). In this respect, additionality may be considered part of intentionality: there is an intention to create a social or environmental impact not otherwise available.

SII is differentiated from other related types of finance by the combination of its three defining features and particularly by its active focus on intentionality, as shown in Table 2 below.

Table 2: Distinction between social finance, social investment, socially responsible investment and social impact investment

Conditions	Investment type			
	Social finance	Social investment	Socially responsible investment	Social impact investment
Intentionally targets social outcomes	✓	✓	✓	✓
Requires a return on capital	✗	✓	✓ (requires market return)	✓
Requires measurement	✗	✗	✓	✓
Additionality	✗	✗	✗	✓

Source: authors.

3.1.2 Stakeholder understandings of SII

Across the Inquiry, stakeholders expressed their understandings of SII. Dual social and financial return was the feature most commonly well understood, to the extent that it was almost synonymous with SII. Intentionality was also well understood, with the clear view that the intent of SII is to improve social outcomes through the use of financial mechanisms; some people included additionality, but not all. There was also limited understanding among some participants about different types of SII finance instruments (beyond SIBs).

The understanding of measurement among stakeholders was significantly less clear. While participants identified measurement as a feature of SII when asked, and some participants spoke about measurement as evidencing social returns and as a signifier of intentionality, few participants were able to clearly explain what role measurement plays in SII, and for many, it did not figure in their understanding of this type of investment. These were often demand-side participants, who focused on SII as a source of funds.

This is an important finding of the Inquiry and has implications for policy-makers—especially if policy-makers are concerned with identifying the most effective and efficient solutions and allocating investment accordingly. This finding suggests that on the demand side, some service providers (outside of regulatory requirements) may be more focused on tapping into new capital sources than shifting their thinking and business models to focus on evidence-based outcomes supported by rigorous measurement. While this was not common, there is potential for it to become problematic if intermediary and supply-side participants that are less focused on social outcomes enter the market. Policy-makers should consider appropriate mechanisms for how and by whom accountability for outcomes will occur (including who will pay), for the selection of appropriate indicators and for how rigorous measurement will be established within SII—particularly given that beneficiaries of SII are likely to be some of the most vulnerable and disadvantaged citizens in society. This finding also underscores the need to return to the core definitional elements of SII when developing policy and/or designing SII solutions to promote the best possible outcomes.

3.2 Who is involved in SII?

3.2.1 The SII market

Involvement in SII has a similar structure to all markets: actors involved are from the supply side (providers of capital and finance), demand side (users of capital and finance) or are intermediaries (conduits between the supply and demand sides). These three groups overlap to form sub-systems characterising the SII market. This SII market is mapped in Table 3 below, with examples of Australian applications. Importantly, and possibly somewhat dependent on policy settings, other actors may enter the SII market in the future, for instance, mutual funds and private SII firms as well as wholesale SII funds.

Table 3: SII market

Market component	Application in Australia and examples of publicly-known participants	
	Types of Australian actors	Examples of Australian actors
<p><i>Supply side</i></p> <p>The supply side of the SII market is formed by actors who are providers of capital and finance, i.e. investors. The supply side may include sophisticated individual investors, such as high net worth individuals, some philanthropists who are interested in recycling capital and self-managed superannuation funds, and a range of institutional investors, such as foundations, trusts, private ancillary funds, diversified financial institutions, social banks, credit unions and superannuation funds.</p>	<ul style="list-style-type: none"> • Individuals • Self-managed superannuation funds (SMSF) • Social Enterprise Development and Investment Funds (SEDIFs) • Foundations and trusts • Institutions (banks, superannuation funds) • Government 	<ul style="list-style-type: none"> • Governments (as grant funders of SEDIFs) • Triodos Bank • Community Sector Bank • NSW Aboriginal Land Council • RE Ross Trust • Lord Mayors Charitable Foundation • Superannuation funds (e.g. Christian Super, HESTA) • Bank Australia • High net worth individuals
<p><i>Demand side</i></p> <p>The demand side of the SII market is formed by the users of capital and finance. Actors on the demand side are the investment targets—where capital and finance are aimed towards—and are usually service provider organisations servicing a social or environmental need. In the case of SII for housing and homelessness, the demand side is made up of CHPs and other types of housing organisations.</p>	<ul style="list-style-type: none"> • Not-for-profit housing and related support providers • Limited profit housing developers • Social enterprises 	<ul style="list-style-type: none"> • Housing for Humanity • Nightingale Housing • Home Ground Real Estate • Compass Housing • Hutt St Centre (with Housing Choices SA and Unity Housing) • Women's Property Initiatives • Churches of Christ (QLD) • STREAT
<p><i>Intermediation</i></p> <p>Intermediation acts as a conduit between the supply and demand sides, ensuring movement of investment and human capital. Intermediaries broker transactions, products and investment opportunities; support capacity and investment readiness; support impact measurement and investment performance monitoring; and undertake network building. In Australia, intermediaries are mainly drawn from specialist organisations in the social purpose sector or from legal firms.</p>	<ul style="list-style-type: none"> • SEDIFs • Specialist advisory services • Legal firms • Banks 	<ul style="list-style-type: none"> • Social Traders • Foresters Community Finance • Social Ventures Australia (SVA) • Social Enterprise Finance Australia (SEFA) • Brightlight

Source: authors.

Where SII serves a social need (as opposed to an environmental need), it typically also has an identified direct beneficiary group. Beneficiaries are key to the operation of SII. They are the experts in their own lives and may therefore have roles in co-creating and co-designing solutions to best meet their needs. Their involvement in SII decision-making, governance and in informing the SII planning, implementation and measurement processes is also critical to ensure these processes are well targeted, equitable and inclusive. Particularly in the measurement component of SII, beneficiaries provide data and insights that enhance interpretation and/or contribute to understanding what ‘success’ is for SII goals.

In SII for housing affordability and homelessness, the beneficiaries are tenants and/or purchasers in social or affordable housing, homeless people or people at risk of homelessness. They also then have key roles in contributing to SII’s success through being contributing members in the buildings, residences and communities in which SII housing is established. Further, the risk levels, mitigation strategies and safety-nets for beneficiaries need to be considered by investors, service providers and governments. Yet, surprisingly, many participants in the Inquiry did not identify an active (or in some cases, any) role for beneficiaries. This has implications for policy-makers as they consider the most appropriate mechanisms to ensure a more central role for beneficiaries in SII solution design, implementation and review.

3.2.2 SII actors in housing and homelessness in Australia

A network of actors influences and plays a role in SII in Australia, including in its application to housing and homelessness issues. In SII in housing affordability and homelessness in Australia, the set of actors is drawn from considerations such as who acts in housing and homelessness policy, regulation and services; the motivations and considerations of different investors; and the level of development of the SII market in Australia. These issues were a key area of focus in *The opportunities, risks and possibilities of SII for housing and homelessness* report (Muir, Moran et al. 2017) and are outlined below.

- **Government:** Government’s role in SII in housing and homelessness is extensive compared to SII in addressing other social issues, because of its key policy responsibility to facilitate affordable and social housing. Government is thus a critical actor, by controlling the regulatory, policy and service environment in which both social and affordable housing and SII occurs; having the scale to be an anchor investor; having the capacity to put mechanisms in place to de-risk SII opportunities to attract other investors; and being positioned to offer a pipeline of SII projects.
- **Investors:** Investors have an important role in providing capital for SII. Potential investors include foundations and philanthropy; mainstream institutional investors such as superannuation funds, banks, and insurance companies; private equity and specialist impact funds; high net worth individuals and government. Different investors have a range of different needs, priorities, accountabilities, extents of capital to invest and return expectations—and importantly, business models—that place them at different points on the risk, return, and impact spectrums. (This is discussed in more detail in section 3.2.3.)
- **Service providers:** In SII in social housing and homelessness in Australia, CHPs are often the core providers of housing and associated tenancy management services. CHPs also coordinate with other service providers (typically NFP organisations) to deliver a range of support services to their residents to help them maintain successful tenancies and achieve other life goals. For homelessness services, the main SII service providers are likely to be larger social enterprise and/or NFP organisations that have the financial and human capacity to manage the transaction setup and ongoing reporting requirements of SII. This may have implications for smaller or niche providers, who may need to find ways to partner with larger service providers or risk being squeezed out of the system. The investment or market readiness of service providers is considered a key challenge for SII in Australia, as

many lack the scale and capacity (financial and skills expertise) to enter into SII. In the case of CHPs, there was general agreement among Inquiry participants that there would need to be both consolidation in terms of counterparties achieving the requisite scale, and investment in governance, financial and property development expertise, to fully realise the potential of SII for this segment.

- **Intermediaries:** Intermediaries have an important role as a conduit between the supply and demand sides of SII; in encouraging a consideration of making impact while ensuring financially viable deals; and in enabling CHPs and other service providers to become market ready. In Australia, where the SII market is still in development, intermediaries have a significant role in promoting SII, but also in ‘translating’ and creating a common language and knowledge sharing among the various stakeholders—including developing an appreciation of other stakeholders’ perspectives and needs. As actors on the supply and demand sides gain more experience and expertise in SII, the role of intermediaries may change.
- **Beneficiaries:** In SII in housing and homelessness in Australia, the primary beneficiaries are social and affordable housing residents (both tenants and purchasers), homeless people or people at risk of homelessness. Particular groups are over-represented, as noted in Section 2.1.3. As also noted earlier, there is scope for Australian SII to encourage a more active role for beneficiaries and to consider and develop tools and responses to identify and manage actual or potential risks for them.

The system influencing behaviour and actions of actors in SII in housing and homelessness is complex. Actions by actors in the system reflect a range of factors, including their perceptions of the various opportunities and risks, the levers and barriers that may enable and/or prevent them from acting (which in turn may affect the ability of the system of influences to progress as a whole), as well as the actions and behaviours of other actors in the system. Understanding these drivers, relationships and interdependencies is therefore important in maximising the potential of SII in housing and homelessness in Australia. This was explored in detail in the Inquiry and summarised in section 5.3 of *The opportunities, risks and possibilities of SII for housing and homelessness* report (Muir, Moran et al. 2017) and underpins the findings and analysis in this Final Inquiry Report.

3.2.3 Differing investor priorities

Investor priorities differ on multiple dimensions, including their:

- expectations about financial return (concessional versus non-concessional)
- approach to risk (orthodox versus reformed credit access), and if reformed credit access, whether the modification is weak or strong
- risk appetite—often reflected in the investment types and terms preferred (e.g. debt/equity, tenure, security etc.), including where some investors may have specific liquidity requirements
- focus on and commitment to social impact: the type of social impact pursued and degree of impact and additionality sought (e.g. from an individual impact, such as immediate new housing supply to scalable and systemic change).

SII investors are usually described in the literature as being either ‘finance-first’ or ‘impact-first’, with the inference being that finance-first investors require non-concessional financial returns and impact-first investors put the desired social outcome first and hence are willing to accept concessional financial returns. However, SII in Australia does not fit the simple impact-first versus finance-first investment typology found in the literature. Sharam, Moran et al (2018)

found that adopting a new typology (Figure 1 below), which includes investor re-conceptualisation of risk and associated modification of orthodox lending practices in addition to return requirements, provided a better fit for observed activity in Australia.

Figure 1: An Australian social impact investment typology

Full Impact-first Concessionary returns Reformed credit access	Full Finance-first Non-concessionary returns Orthodox credit access
Partial Impact-first Concessionary returns Orthodox credit access	Partial Finance-first Non-concessionary returns Reformed credit access

Source: 'SII and affordable housing' report; Sharam, Moran et al. 2018.

Further, the Inquiry found that most SII investment in housing and homelessness in Australia to date can be described as 'partial finance-first' reflecting a combination of non-concessionary returns and modified investment parameters (estimated to be in the vicinity of \$1.5 billion). A far smaller proportion of SII (estimated to be in the vicinity of \$10 million) is 'full impact-first' in that concessionary returns were acceptable and investment parameters were modified. No fully-finance-first or partial impact-first investment was found in Australia ('SII and affordable housing' report; Sharam, Moran et al. 2018).

Foundations and philanthropy

Philanthropic capital has the potential to play a range of roles within SII. For instance:

- providing philanthropic grants that can be used in 'layered' or 'blended' SII capital models to enable the creation of other SII tranches on terms that attract other (larger) pools of repayable capital
- providing concessional-rate repayable capital via program-related investments (PRIs). Other work has shown that PRIs, for example, can enable organisations to recycle capital either as additional PRIs or grants if the SII is successful, to leverage the impact of their investment using private capital on commercial terms, and/or to support initiatives that would not attract commercial investors or a traditional grant (Seibert 2015)
- investing in market-rate SII as part of their corpus investments in a way that better aligns their investment activity with their core mission/purpose.

The first two roles may present philosophical and practical challenges for foundations and philanthropists. First, overcoming concerns that grants are subsidising market-rate returns of other investors, or otherwise facilitating profit making from vulnerable populations. Second, the way PRIs are currently accounted for in Australia within a foundation's corpus investments and annual grant distribution may act as a disincentive. This is because the current approach requires foundations to undertake the PRI as part of their corpus investment activities, with the differential between the actual (concessional) rate of return and the market (non-concessional) rate of return able to be allocated towards the foundation's annual grant distribution. However, through this Inquiry, most Australian foundations were found to be highly conservative when it comes to managing their corpus investments, and are still unfamiliar with SII. A modest increase in interest to use PRIs for SII may be possible if ancillary funds were able to count the entire loan as part of their minimum annual distribution (although this would limit investment opportunity to the annual distribution amount which is a small fraction of the total corpus

assets), and such measures, if implemented, should be accompanied by clear guidelines and limits to minimise the potential for misuse or inappropriate redirection of funds away from grants towards repayable capital.

The philanthropic sector in Australia is relatively small and consequently philanthropy in general is not a large source of possible SII in Australia (for instance, when compared to the US—a market often looked to in terms of SII possibilities). While philanthropic grants for social housing are quite common, there has been very little use of PRI for SII in Australia. The most notable PRI is the Lord Mayors Charitable Foundation \$3 million investment in SEFA for social and affordable housing.

Superannuation funds

Superannuation funds were singled out during the Inquiry as the class of investors that operate at a scale commensurate with the scale of Australia's housing affordability and homelessness funding challenges, and as generally being well aligned in terms of having a long-term investment horizon and an interest in contributing to the general social and economic environment their members will retire into. There is growing interest in SII from institutional investors, including superannuation funds, in Australia, as evidenced by their participation in SII in housing in overseas jurisdictions where their investment requirements can be satisfied, and by the heightened level of engagement in consultation forums such as the Affordable Housing Working Group. This growing interest likely reflects emerging trends across a number of investment, customer and reputational drivers and a growing perception that positive correlation between social outcomes and financial performance may be increasing. This is especially relevant in Australia where the pools of capital managed by superannuation funds and other fiduciaries exceed Australia's annual GDP, and larger superannuation funds increasingly recognise their role as 'universal owners' and the collective impact their decisions may have on the economy and society more generally.

Through the Inquiry, however, it also became clear that the superannuation funds perspective is not necessarily well understood or appreciated by other SII stakeholders, creating unrealistic expectations of the potential role for Australian superannuation funds in SII.

Superannuation funds typically prefer investments that offer scale and a credible investment pipeline, liquidity (particularly for lower-margin investments), and that offer attributes and a return profile consistent with their portfolio composition approach. Further, superannuation funds are unable to access favourable tax treatments such as negative gearing and capital gains tax discounts, available to individual investors in private rental housing. They also have concerns about increasing their members' exposure to residential property risk as funds are indirectly exposed to the housing market through many of their other investments and for many members their own home is their largest investment. For these reasons, the most efficient options emerging from this Inquiry with the best chance of attracting 'full finance-first' capital from superannuation funds at scale at the lowest possible return expectations (that also minimises the residual funding gap needing to be closed by government subsidies) incorporates the following characteristics:

- straight-forward debt instruments offering competitive market-based risk-adjusted returns and that are largely based on a long-term, predictable, utility-like rental cash flow stream
- issuances of HSBs through a bond aggregator (likely including both social and affordable housing to achieve the required scale) that provides an efficient investment mechanism, sound governance, supports tradability and liquidity
- a regular and ongoing pipeline of issuances (and therefore pipeline of property developments)

- government guarantees of timely payment of principal and interest (at least on a transitional basis) to mitigate investors' perceived risks as the market stands today (e.g. non-investment ready CHP counterparties and absence of robust national regulation and oversight of CHP sector, lack of track record, lack of government policy stability, inadequate government support for social/affordable housing providers) and to promote liquidity of the bonds until the sector reaches a size and establishes the track-record to support the requisite liquidity on a stand-alone basis.

While Australian superannuation funds' investment in Australian social and affordable housing has been limited to date, some funds have made investments into social and/or affordable housing overseas, including into the US, where the social and affordable housing sector is mature, and government subsidies and implicit guarantees enable competitive market-based risk-adjusted returns on the associated investments.

3.3 What are the different financial instruments used in SII?

3.3.1 Financial instruments and asset types used in SII

SIIs can generally be made into three broad asset types:

- 1 *Real assets*—physical assets, such as property or infrastructure used to facilitate service provision.
- 2 *Social enterprises*—organisations that 'are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit, trade to fulfil their mission, derive a substantial portion of their income from trade, and reinvest the majority of their profit/surplus in the fulfilment of their mission' (Barraket, Muir et al. 2016: 3)
- 3 *Social impact bonds*—a form of pay-for-performance instrument.

SII into real assets and social enterprise can be through equity and/or debt (investments and/or provision of credit, i.e. loans). SIBs are a hybrid security type with both debt and equity characteristics.

3.3.2 Financial instruments and asset types in housing and homelessness SII

The primary SII models and/or financial instruments that have been used globally to address housing and homelessness are the following, as detailed further in Heaney, Flatau et al. (2017):

- 1 **Housing supply bonds** as put forward by the Australian Government Treasury in its Consultation Paper in relation to the establishment of the NHFIC. The Consultation Paper recommends the establishment of the affordable housing bond aggregator to act as an intermediary between CHPs on the one hand and wholesale bond markets on the other to provide CHPs with access to cheaper and longer tenure debt than currently available.
- 2 **Property funds** (and private capital investment firms) financed **by equity or debt** that finance property or infrastructure used to facilitate service provision. Property funds provide the opportunity to invest in real assets (property) of social or affordable housing, often facilitating the construction of additional dwellings. Examples of property fund models that are or have been contemplated in Australia are:
 - an institutional build/buy-to-rent model comprising property funds financed by equity and/or debt backed by affordable housing that is offered to tenants at a discount to market rents (e.g. US Low Income Housing Tax Credit (LIHTC) program, which benefits corporate investors, rather than high net worth individual investors; English Build-to-Rent Fund)

- finite life private equity funds that would build new housing units and offer them for rent at affordable rates for a period of 7–10 years, at which time the housing units would be sold. This option, however, provides for less sustainability in building lasting solutions.
- 3 Private equity and/or debt to fund social enterprises** or businesses owned by CHPs to help generate revenue for them to reinvest in their housing purpose. This may be to help social enterprises scale up their activities (e.g. STREAT), or to be used for a specific purpose, for instance, development finance (e.g. Nightingale Housing).
 - 4 SIBs**, hybrid securities backed by pay-for-performance (outcomes) contracts to deliver homelessness or other services to residents, supporting successful tenancies and life goals, including education, training and employment (e.g. Aspire SIB in South Australia, YouthCONNECT SBB in Queensland, Fusion Fair Chance SIB in the UK).

Additionally, **social impact loans** to underserved or financially excluded borrowers that enable them to fund participation in shared equity schemes, or access mortgage loans to purchase affordable housing, can play an important role in providing access to credit to previously excluded populations. These loans can also build a bridge for borrowers to future access to the mainstream finance market (by establishing a credit history), and provide finance at affordable rates on more flexible terms to help borrowers manage the usual financial ups and downs of lower income households, reducing default risk (e.g. Habitat for Humanity).

Based on existing evidence and case studies from our research, Table 4 below summarises the types of SII instruments and models that have been used to address some of the key challenges in housing and homelessness.⁴ In many cases, where SII has been more successful, models have accessed and blended capital from different providers, government has played an important role in facilitating private capital participation through closing the financing gap and creating a conducive environment through planning and other regulations, and/or legal structures have enabled access to beneficial treatment, for example tax treatment for not-for-profit entities. In some instances, insufficient time has passed to determine whether the models successfully achieve their outcomes targets, and whether the models are able to achieve sustainability over time.

Appendix 1 provides case studies of select international SII in housing and homelessness, exploring what worked and what did not, and identifying Australian contextual differences that should be taken into account when considering options locally. Key learnings are the importance of government support for social and affordable housing, for adequate funding for support services and for policy stability in related sectors, as well as the importance of data and outcomes measurement to underpin development of SII in housing and homelessness and to manage stakeholder expectations. Another key learning from the case studies is the additional challenges around achieving positive outcomes within transaction time frames for the most complex problems and people with the most complex needs.

Appendix 2 provides examples of Australian SII models that have been used in affordable housing and in addressing homelessness. Key insights from these local examples are that transaction sizes to date have been small, and most transactions have used blended capital models to achieve financial viability, but at the same time, there is an increasing level of activity and innovation being enabled through adoption of some of these early SII models.

⁴ Table 4 includes key examples of current SIIs only, and the evidence-base continues to develop over time. Further Australian SIIs have recently been announced or begun (e.g. SIBs Journey to Social Inclusion (J2SI) and YouthCONNECT), which could be considered further examples to those in Table 4 as the evidence-base progresses over time.

Table 4: Types of SII instruments and models that have been used to address housing and homelessness challenges

SII instrument/model	Housing and homelessness challenges				
	Homelessness	Social housing	Affordable private market rental	Affordable housing for purchase	Access to affordable housing finance for excluded populations
Housing supply bonds	X	✓ The Housing Finance Corp. Ltd (UK)	✓ The Housing Finance Corp. Ltd (UK)	X	X
Property funds	X	✓ The Healthy Futures Fund (US)	✓/? Build-to-Rent Fund (UK)	? Finite life private equity funds	X
Social enterprises	✓/? The Foyer model (UK, France etc.); STREAT (Aust.); The Big Issue (Aust.)	? HomeGround Real Estate (Aust.); Horizon Housing/HESTA (Aust.); Property Initiatives Real Estate (Aust.)	? Horizon Housing/HESTA (Aust.)	✓ Nightingale Housing (Aust.); Habitat for Humanity (Aust.); Project4Change (Aust.)	✓ Habitat for Humanity (Aust.)
Social impact bonds	✓/? London Homelessness SIBs (England); Fusion Fair Chance SIB (UK) Aspire SIB (Aust)	X	X	X	X
Social impact loans	X	✓ Debt facilities and construction finance to CHPs—e.g. Westpac, Bank Australia	✓ Debt facilities and construction finance to CHPs—e.g. Westpac, Bank Australia	✓ Habitat for Humanity (Aust.)	✓ WA Keystart (Aust.); Indigenous Business Australia (Aust.)

Notes: ✓ = Evidence of effectiveness under certain conditions; X = No examples of SII identified or no evidence of effectiveness observed; ? = Evidence of effectiveness is inconclusive, mixed or too early to determine.

Source: compiled by authors.

3.3.3 Legal structures for SII

It is the core elements of SII rather than the issuer's own corporate structure that defines SII. Consequently, a variety of organisation types and legal structures can issue SII, including not-for-profit organisations and for-profit organisations—including social enterprises.

Considerations about corporate structures for 'profit-for-purpose' enterprises

In Australia, there is no specific legal structures for entities set up for dual purpose—that is those entities set up to generate both profit and social outcomes. Increasingly, NFPs are establishing social enterprises as they try to diversify their funding sources and reduce their reliance on government and/or philanthropic capital. To manage risk and given limitations on NFP activities (e.g. issuing equity), this often results in the NFP setting up a corporate subsidiary to operate and fund the activities of the social enterprise.

One of the tensions and considerations for social enterprises in Australia is the issue around maintaining the social purpose of the organisation through time—for instance, when a social enterprise funds itself using private equity, the ability to maintain social purpose when the initial social impact private equity investors are 'taken-out'—often by larger non-social impact equity investors. Further, company directors in Australia are subject to a duty that requires them to act in the best interests of the corporation,⁵ and this generally requires them to make decisions on a commercial, for-profit basis. While it is possible for directors to consider the social impacts of their activities, this can usually only occur when these matters are incidental or they benefit the corporation over the long term or for other purposes, such as assisting in reputational gain, which would in turn help generate more profit.⁶

Debates around optimal legal structure for social enterprise are long-standing, and reflect the complexities and tensions when entities have dual commercial and social purposes. In the UK, social enterprises can register as a 'community interest company'.⁷ In the US, they can register as a benefit corporation or as a low-profit limited liability company. Reflecting the absence of these options in Australia, many of the projects referred to in the Inquiry project reports use multilayered and relatively complex legal structures that encompass one or more proprietary and public companies, charitable trusts, incorporated associations, and/or cooperatives.⁸

Consequently, some groups in Australia are calling for the introduction of a specialist legal structure designed for entities that wish to operate on a 'profit for purpose' basis to both reduce complexity for those organisations and provide more comfort that social purpose can be preserved.

Special purpose entities

Some SII issuers elect to use a corporate structure known as a special purpose vehicle or entity (SPV or SPE) to issue their SII transaction(s) (MaRS Centre for Impact Investing 2013). A SPV is a limited purpose legal entity that is established to achieve the specific objectives of a specific financial transaction (e.g. a SIB). Some of the reasons that an issuer may elect to use an SPV include:

- Where there are multiple investors, an SPV removes the necessity for every party to contract with every other party. The SPV becomes the conduit through which parties to the

⁵ *Corporations Act 2001*, (Cth) s. 181.

⁶ *Parke v Daily News*, [1962] Ch. 927.

⁷ *Companies (Audit, Investigations and Community Enterprise) Act 2004* (UK).

⁸ See for example, *Justice Connect, Social Enterprise Guide* (July 2017).

transaction are contracted, performance of providers is monitored, and payments are received and investors paid.

- SPVs provide protections for investors, as issuance proceeds are deposited and managed by the SPV, rather than with the service provider, who may not be of the minimum credit quality (or have the minimum credit rating) the investors might require. This means that if the service provider were to become insolvent, or failed to perform its obligations as per the terms of its agreement, the SPV trustee or manager would be able to remove and replace the service provider, and remaining issuance proceeds not yet distributed to the service provider could be used to attract a replacement service provider for the remainder of the transaction's term. This feature may also be attractive to the services commissioner (usually the government), as it inserts an independent governance and decision-making process, which may make it easier for government to discontinue funding programs not achieving the desired outcomes.
- SPVs may provide protections for the service provider (usually an NFP entity or social enterprise), as any risks associated with the transaction (other than its delivery obligations under the terms of its service provision contract) are quarantined from its core operations—for instance, the NFP will not be liable to repay the debt of the SPV if it defaults in its payment obligations to investors.

The main drawbacks of utilising SPVs are the additional complexity which the service provider may not have the internal capabilities to fully understand or manage effectively, as well as the additional transaction costs associated with setting up the SPV in the first instance and the ongoing costs of managing the SPV during the course of the transaction.

4 Does SII have a role to play in Australia?

This chapter considers the question of whether SII has a role to play in Australia both in general and in housing and homelessness more specifically. It includes the case for and against using SII in housing and homelessness, the conditions necessary to enable it to play a role and the risks and challenges involved. The purpose of the chapter is to provide a considered account of SII's opportunities, risks and challenges as applied to the complex social issues raised in this report.

4.1 The case for SII in Australian social and public policy

This section outlines the general case and conditions for SII in Australia, before turning to specific considerations for SII as applied to housing affordability and homelessness in Australia in section 4.2.

4.1.1 Using SII to address social and policy problems in Australia

The market for SII in Australia is still in its infancy and consequently the evidence base is limited. However, research has outlined and demonstrated numerous examples in Australia and internationally where SII has been used successfully to bring together cross-sector actors to collaborate on exploring, implementing and financing programs and initiatives that are making a positive impact on the outcomes for, and the lived experience of, some of society's most disadvantaged citizens. This includes examples that have successfully increased the supply of fit-for-purpose social and affordable housing and delivery of innovative homelessness services.

SII may potentially provide the Australian federal, state and territory governments with additional policy tools that can be used strategically to drive better social outcomes and achieve higher returns on investment of public money. As outlined in *The opportunities, risks and possibilities of SII for housing and homelessness* report (Muir, Moran et al. 2017), SII may also provide a useful framework to help support innovation through cross-sector collaborations and partnerships and help drive cultural and behavioural change by:

- focusing on paying for outcomes rather than funding activities and outputs
- increasing accountability for outcomes through measurement and increased transparency
- focusing on prevention and early intervention before problems become chronic or entrenched
- incentivising greater coordination and integration of service delivery and infrastructure solutions by designing SII to include elements of both infrastructure provision and support services.

Ostensibly, SII is not needed, nor the only way to achieve these cultural and behavioural change. But it may provide a useful framework to hone attention and apply market disciplines that may accelerate development and improve accountability through increased transparency. Further, as the SII market is still emerging, the ability of SII to contribute to these outcomes in practice will need to be tested as the evidence base emerges overseas and in Australia.

Combining financial models and using blended capital models is likely to increase the viability and success of SII transactions in delivering social outcomes and offer stakeholders different benefits. It is important to recognise that this may increase complexity and due care needs to be given to ensure SII products are simple, clear and easy to understand. This is important so as not to deter potential investors, service providers or other key actors, and so the benefits of combining financial models are more likely to be achieved. At the same time, it is also important

to ensure that SII offers ‘additionality’—that is, it adds value beyond what is already funded and that other positive (and possibly more efficient and/or effective) outcomes are not sacrificed for SII.

4.1.2 Necessary general conditions to realise SII’s potential

The Inquiry projects found a number of conditions which, if satisfied, improve the likelihood of SII success in Australia, including:

- development of market infrastructure to support SII and ongoing capacity building in the SII market
- growth in the market size to assist in meeting its potential
- growth in the investor base for SII and, in particular, growth in those prepared to earn concessionary-rate financial returns (although overseas experiences suggests the success of using grant capital (both government and philanthropic) to deliver more blended capital funding)
- clarity of purpose with respect to both financial and social goals, and shared purpose alignment of interest among stakeholders (including beneficiaries)
- effective and affordable intermediaries to bridge the language and knowledge divide between stakeholders, and to bring the right people and skills together to facilitate effective cross-sector collaborations
- demonstrated value for money, return on investment and appropriate sharing of risk and return
- selecting the most appropriate legal structure to operate the SII and ensuring capital requirements match the legal form
- the use of a range of policy, program, initiative, infrastructure and other intervention types matched to need and the right mix of capital
- taking a robust approach to outcomes-based measurement
- development of an effective ecosystem that supports supply, demand and intermediation.

Government’s role in enabling the SII market

The Inquiry projects also highlighted that government in particular has an important enabling role in developing the SII market—including by:

- building the market (e.g. data linking and availability, developing market infrastructure, supporting intermediaries)
- providing market stewardship (e.g. removing regulatory and legislative barriers, ensuring appropriate regulation to protect beneficiaries and promote the desired outcomes, creating incentives to promote participation)
- actively participating in the market (e.g. being a services commissioner, co-investor, funding/co-funding with other parts of government—i.e. federal/state/local government).

4.1.3 Measurement—a critical component for better outcomes and SII credibility

Measurement is a defining feature of SII (Best and Harji 2013; SIIT 2014) and one that differentiates it from other related types of investment. Notwithstanding the importance of measurement, there has also been recognition of the need for further development of SII indicators or measures and that lack of data, and the cost of developing such data, are key

issues affecting measurement in SII (CFFR 2016b; Mudaliar, Schiff et al. 2017). As a result, there are key issues that need to be addressed:

- How to ensure that financial measures are best used together with social outcomes measures to measure the social and financial returns of SII. For mechanisms (such as property funds and other financing mechanisms) that do not typically have intentionality to improve social outcomes when used outside SII, linking transactional and social outcomes measures may require new processes, which are not always yet developed.
- How to link short-term social indicators that are practical for the purposes of SII with medium and longer-term social outcomes indicators and to ensure that an evidence base exists of pathways, relationships and interconnections—this is important as many social outcomes will only be observable in the long term and/ or long-term positive outcomes will only be achieved for some beneficiaries if a pathways model is followed.
- How to ensure that the beneficiary target group(s) are clearly understood and unintended consequences do not occur regarding who and what is not part of a service/program, has access to particular resources and/or the outcomes achieved.
- How to further deepen the evidence-base for SII interventions compared to other funded interventions. The evidence-base for SIBs, for example, is still emerging and inconclusive, with a need to further prove their efficacy compared to other related interventions (Fox and Albertson 2011). The evidence-base for SII needs to be further established, particularly for interventions such as SIBs that depend on a pay-for-performance model.

4.1.4 Risks and challenges in using SII to address social issues

SII poses particular risks to government, service providers, investors, intermediaries and, most importantly, to beneficiaries, if it is ill-conceived, poorly executed or used in inappropriate settings. These risks need careful consideration in determining whether SII is the most appropriate model in a given context, and in the design of SII solutions. The most significant risks include:

- Beneficiaries could be harmed if poor design of SII solutions has unintended consequences, if services are disrupted or cease when SII mature or are otherwise terminated, and/or if the most vulnerable people with the most complex needs are left out or left behind due to the need to perform against outcomes in some SII models (e.g. SIBs).
- Moral hazard risks are inadvertently created by government de-risking investments to the point where the nexus between positive social outcomes and financial returns is severed, and investors' alignment of interests with achieving positive social outcomes is weakened.
- If SII displaces funding of other non-SII initiatives that are providing better outcomes than SII and/or at lower cost.
- Investors' performance expectations are not met, reducing confidence and stalling development of SII, or if investors do not understand the social risks.
- Policy measures put in place to support SII are insufficiently targeted, leading to capital not being directed to where it is most needed or lead to other unintended consequences for beneficiaries.

SII is not a panacea to social problems and it will not be the most appropriate or effective solution in all cases. In some cases, the cumulative savings to government may be modest, or the needs of beneficiaries so complex that there is insufficient certainty of achieving improved outcomes to attract SII investors, or the costs of support outweighs the economic (but not the social) return. In these instances, SII will likely not be appropriate. It is important to ensure that sound mechanisms are in place to make these determinations, and where SII is not an

appropriate option, that people who are at-risk continue to be adequately supported through other funding and service models. Further, where SII does have a role to play, in many cases it will need to be implemented alongside other funding solutions and policy interventions.

4.1.5 The case against using SII in Australian social and public policy

There are many reasons to give pause and temper unchecked enthusiasm for SII:

- SII is complex. Many service providers may not have the internal capacity or capabilities to understand whether SII is the right funding model to meet their purpose, or to negotiate and manage complex transactions.
- The transaction costs (both in terms of financial cost and resource time) associated with SII are high. The additional burden and costs of outcomes measurement is often borne by service providers with limited capacity.
- The evidence base for SII is yet to evolve and conclusively demonstrate that SII delivers superior outcomes (social and financial).
- The appetite of Australian social impact investors for concessionary rate returns may not be strong enough to support a sustainable SII ecosystem.
- Achieving fair sharing of risk and return between social impact investors and government in SII can be challenging, and failing to strike the right balance may have consequences for government, investors, and most importantly for beneficiaries.
- Early evidence suggests that SII may be better suited to less complex social issues and cases.
- SII may divert capital away from grants to repayable finance that puts service providers at increased financial risk.
- Outcomes measurement systems are not developed and selecting appropriate performance measures is complex and has the risk of creating perverse incentives or unintended consequences.
- SII will not generate positive outcomes if stakeholders take a form-over-substance approach, or if there is unbalanced power in the stakeholder relationships.

These factors should be weighed up when considering SII to determine whether it is the most appropriate solution in a given scenario—including whether the expected benefits outweigh the risks—and to inform solution design to reduce the potential for unintended consequences or poor outcomes.

4.2 Can SII improve housing and homelessness outcomes in Australia?

4.2.1 SII's potential to improve housing and homelessness outcomes in Australia

SII presents significant opportunities to contribute to housing and homelessness outcomes in Australia. Under certain conditions, there are possible opportunities to:

- increase the supply of fit-for-purpose social housing for people with complex needs, while also strengthening the sustainability and resilience of Australia's social housing system (both CHPs and public housing)

- increase the supply of affordable private market rental housing with attractive attributes, through the creation of a new institutional build/buy-to-rent market segment that preserves affordability, and provides more attractive terms to the growing population of long-term renters (with regard to security of tenure and ability to make a home), which also needs to reduce the current gap between social housing and the private rental market
- increase the supply of affordable homes for purchase by low- to moderate-income households, including using social impact loans to improve access to affordable credit and terms for financially excluded populations (e.g. Indigenous people, social housing tenants)
- increase the availability of programs to improve the employment and social opportunities for people experiencing disadvantage, which in turn supports successful tenancies and broader housing outcomes
- support innovation in tenancy support services delivery, by identifying and testing new models that deliver positive outcomes.

How SII might contribute to these housing and homelessness challenges is explored in more detail in Appendix 3.

Given the recent shift towards marketisation of social services in Australia, SII principles, if used well and if held to account by careful selection of outcomes indicators and strong outcomes measurement, may be able to be used (alongside sound regulation) to better align stakeholder interests and promote the desired social outcomes.

4.2.2 Examples of SII finance instruments and models that could support housing and homelessness outcomes

Muir, Moran et al. (2017) and Heaney, Flatau et al. (2017) explored in detail the SII finance instruments and models that may have application in Australian housing and homelessness. Examples of SII finance instruments and models that could support improved outcomes in housing and homelessness in Australia include:

- **Housing supply bonds (HSBs)** to provide low-cost and longer-tenured capital to registered CHPs (and possibly other specialist affordable housing providers).
- **Property funds** (e.g. mutual funds, A-REITs; listed or unlisted and private capital impact investment firms) to finance, develop and manage build/buy-to-rent long-term affordable private rental housing. Housing stock is held in perpetuity. Property funds place private rental housing under professional management.
- Direct debt and/or equity investments in **social enterprises** (including NFPs) to build capacity and scale up successful business models—including i) disruptive ‘deliberative development’ (self-organised consumer-led property development) that create a new residential home ownership segment provided at cost that could also lock in the affordability gains in perpetuity (in effect, a new market segment based solely on the utility value rather than the investment value of housing); ii) sub-market housing providers to build capacity, scale and track-record to enable future access to mainstream financing; iii) social enterprise subsidiaries that provide revenue streams back into social and affordable housing providers that increase their financial sustainability and ability to achieve their core purpose; and iv) employment/skills acquisition or other support services providers that support housing and homelessness outcomes.
- **Social impact bonds** as an incubator for government to trial new ways of providing social services that deliver desired outcomes most effectively, and importing what works back into the day-to-day commissioning of social services, or as part of larger housing property transactions as a risk minimisation strategy, for instance, delivering tenancy support

services that improve tenants' ability to maintain successful tenancies or to better align stakeholder interests in the desired outcomes.

- **Social impact loans** to provide credit on reasonable terms to lower income residents or disadvantaged populations (e.g. Indigenous home ownership on native title land) currently excluded from mainstream finance but who are able to service a loan to finance participation in shared equity schemes or purchase a home, and through developing track-record and an evidence-base, build a bridge to future mainstream affordable credit access.

In many cases, these models can be implemented without using SII principles or without meeting all of the necessary preconditions identified in Chapter 3. The question then is in what circumstances might incorporating SII principles into the solution design improve the likelihood of achieving the desired outcomes? These SII models are explored in more detail in Appendix 4, highlighting the most natural investor groups for each and likely return expectations, benefits and drawbacks, as well as the conditions needed to improve SII success and key risks and challenges associated with each model.

4.2.3 Necessary conditions to realise SII's potential in contributing to housing and homelessness outcomes

Necessary conditions that relate specifically to realising SII's potential to contribute to housing and homelessness outcomes in Australia include:

- Government addressing related public policies that are putting upward pressure on housing prices and better targeting/redirecting a range of taxation and other concessions towards affordable housing and towards targeted supply-side interventions.
- Government increasing direct subsidies to housing providers to close the financing gap, and ensuring adequate funding to properly deliver associated social services.
- Government using its policy levers to support the development of the SII ecosystem more generally and SII in housing and homelessness more specifically. Specific policy recommendations for government are discussed in Chapter 5.
- Matching the housing challenges with the most appropriate forms of capital (large scale, longer tenures, fixed rate etc.).
- Clarification and acceptance among investors of the risks and purpose of social impact investment.
- Using SII in complementary support services, in addition to capital investment, to ensure tenancy sustainability among vulnerable segments of the affordable housing market.
- Increasing the supply and flow of transactions to enable SII in housing and homelessness.

4.2.4 Risks and challenges in applying SII to housing issues

Using SII to increase the supply of affordable housing and/or to fund support services carries a range of risks to different stakeholder groups. Some of the key risks are summarised in Table 5 below.

Table 5: Some key risks of using SII for housing support and housing support services by group

Using SII to increase affordable and social housing supply	Using SII to provide support services
<p><i>Tenants</i></p> <ul style="list-style-type: none"> • Housing is pushed further out of inner-urban centres (where land is less expensive), creating pockets of disadvantage away from employment/services and increasing indirect housing costs (e.g. commute, energy). • Housing is built that does not meet tenants' needs (e.g. location, size, amenity). • Falling into a 'one-size fits all' housing model, without considering needs of different groups. • Investment directed towards less disadvantaged households who are able to pay higher rents at the expense of the most vulnerable households. • Pathways towards increased independence and reduced dependence on social security are further frustrated, for instance if government deducts social rents directly from payments. 	<ul style="list-style-type: none"> • Creating perverse incentives/outcomes—'cherry picking' the easiest support service cases and the associated risk that people with complex needs or those unable to transition through the housing system will be left behind. • Risk of over-promising, under-delivering or poor outcomes measures being developed, and not achieving the necessary outcomes for tenants. • Perception among tenants that investors could back out of providing support services leaving tenants without a safety net if adequate regulations are not in place. • Risks that services to tenants cease or are interrupted when an SII (e.g. SIB) matures or is terminated early, for instance, if it is not achieving its milestones.
<p><i>Service providers</i></p> <ul style="list-style-type: none"> • An increase in business risk profile. • Smaller providers get pushed out of the market because they lack scale to access and transact SII. • CHPs experience adverse selection if other providers enter market and provide SII solutions for people with higher incomes and/or less complex needs—further weakening their sustainability. 	<ul style="list-style-type: none"> • Service providers not having enough input into designing the support service outcomes measures and investors having too much control. • Reputational risk for service providers if they do not deliver agreed support service outcomes. • Passive resistance to the outcomes-based approach from providers who are used to working to activity/outputs model of delivery.
<p><i>Investors</i></p> <ul style="list-style-type: none"> • Housing market correction impacts investor returns (however, only to the extent transactions are exposed to property price risks rather than the utility-like rental cash-flow stream from long-term, stable tenancies). • Concentration of risk to residential property (e.g. superannuation fund members with own home and direct/indirect exposures to the property market through their superannuation fund)—if investments are linked to property price risks rather than the utility-like cash-flow stream from long-term, stable tenancies. 	<ul style="list-style-type: none"> • Subjectivity and complexity of understanding success in support services and of designing achievable targets to measure success by. • Unpredictability of achieving service outcomes, particularly for some target groups, leading to risks of low or no returns.

Using SII to increase affordable and social housing supply	Using SII to provide support services
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- Social security transfers, including rental assistance, reduces.

Government

- | | |
|--|--|
| <ul style="list-style-type: none"> • Funding is diverted from other more effective housing and homelessness initiatives. • Insufficient pipeline of housing construction projects to add to housing supply. • Risks associated with transferring responsibility to SII market before it is able to deliver and challenges in sharing responsibility, accountability and transparency in delivering on social outcomes in social services. | <ul style="list-style-type: none"> • Difficult to measure the return on support service savings (or gain buy-in) particularly when costs and savings are spread across siloed government portfolios, departments and layers of government and over extensive time periods. • Sharing of responsibility for delivering on social outcomes in human services, and associated accountability and transparency issues. • Insufficient pipeline of appropriate support service projects. |
|--|--|

Contextual and outcomes risks

- | | |
|--|---|
| <ul style="list-style-type: none"> • Lack of long-term policy commitment to SII and housing policies and risk of policy changes. • Investment directed towards less disadvantaged households who are able to pay higher rents at the expense of the most vulnerable households. • Using SII as a 'shiny new toy' or a form-over-substance tool for actors to get what they want to continue doing what they have always done. • Excluding key actors from the process, or creating unbalanced relationships where some actors are allowed to exert too much power. | <ul style="list-style-type: none"> • Lack of long-term policy commitment to SII and risk that policy changes before support service outcomes can be achieved. • Insufficient support for the outcomes measurement process, particularly for complex social outcomes in support services. • Using SII as a 'shiny new toy' or a form-over-substance tool for actors to get what they want to continue doing what they've always done. • Excluding key actors from the process, or creating unbalanced relationships where some actors are allowed to exert too much power. |
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Source: authors.

4.2.5 Lessons learned from SII applied to housing issues internationally

The experience of SII in social and affordable housing in the US and UK reveals that SII in social and affordable housing is a function of the extent to which governments financially support social and affordable tenants and NFP housing providers. Investment in social and affordable housing reflects long-standing housing and other social policies, which provide confidence to private investors. However, investment confidence can be damaged, as occurred in the UK when welfare benefits were changed deterring new investment. Program cuts proposed in the US could have similar outcomes. Further, all of the SII observed in international markets used some form of direct government assistance (e.g. tax credits, grants, co-investment, and guarantees) and indirect government assistance (e.g. statutory payments, housing assistance). SII in housing issues is therefore reliant on and enabled by government support (Thornley, Wood et al. 2011).

5 Policy implications

There are many policy implications for SII in its application to the supply of social and affordable housing and homelessness services that arise from the findings of this Inquiry. This chapter discusses some of the key policy development considerations that emerged through the Inquiry. These were derived by applying a complex systems thinking frame with particular emphasis on the drivers (levers, barriers, risks and opportunities), relationships and interdependencies in the Australian housing and homelessness SII system (as summarised in section 5.3 of Muir, Moran et al. (2017), and drawing on Appendices 3 and 4 of this report) to address specific housing and homelessness challenges and to consider how SII models might be applied in the Australian context.

The purpose of this chapter is to consider how SII might be applied to housing and homelessness in Australia. As some considerations may be more or less relevant in different scenarios and contexts, they are presented around key themes rather than prioritised.

1 Secure an investment class underpinned by ongoing government support

As demonstrated by international experience, and highlighted throughout the Inquiry, success of SII in housing and homelessness requires government support for affordable and social housing. To be achievable, this will require:

- Addressing related public policies that are putting upward pressure on housing prices and adversely affecting housing affordability, thereby increasing the size of the problem and of the financing gap as well as the systemic risk of a property price correction, which may heighten risks to investors who attempt to address the issues.
- Better targeting/redirecting of a range of taxation and other concessions towards affordable housing and towards supply-side interventions. This would need to be done carefully and gradually over time to avoid market shocks that could have broader economic and social consequences. This action could help reduce the size of Australia's housing affordability problem, reduce the number of households needing to access affordable housing and reduce the financing gap on delivering social and affordable housing outcomes, as well as offset additional costs of government investment in SII solutions and improve the quality of outcomes for tenants.
- Creating a stable policy environment—including non-partisan long-term policy commitment to housing policy, SII and other social policies that the success of SII relies on. Policy change and regulatory uncertainty hinders investment.
- Securing the foundations of Australia's social housing system by providing direct subsidies to housing providers that close the ongoing operational financing gap (the gap between the social/affordable rents received and the full cost of provision—including costs of deferred maintenance and unfunded depreciation), enabling CHPs to increase their core debt and gearing ratios against a higher and more stable income base (increasing capacity to invest in more social housing supply and increasing the demand for HSBs), which in turn would underpin investor confidence in the sector.
- Providing access to surplus government land to develop social and affordable housing and ensuring the retention of as much of that land for public (or community) good/use in perpetuity. One of the ways that social and affordable housing outcomes are currently being developed is by creating 'mixed use' developments where a portion of the newly developed or redeveloped housing stock on government land is sold to pay for the development/redevelopment costs. In this model, to some extent, the government is substituting its 'land' assets, which—particularly for well-located land—will generally be an appreciating asset due to its scarcity value, for 'dwelling' assets, which are generally

depreciating assets, which in the long run is not sustainable. Consideration should be given to social infrastructure models. These models finance the (re)development of social and affordable housing on government land by selling the rights to manage the assets and receive rents for a finite period of time, at the end of which the assets are returned to the government or community sector (rather than selling a portion of the assets to finance the development/redevelopment costs).

- Supporting capacity building in the CHP sector and the development of new housing supply models that may require governments to take on more risk (e.g. working with CHPs as developers on new developments and public housing renewal projects) may have additional benefits of reducing costs (via reduced developer margins and use of not-for-profit GST status), of retaining more government 'land' value as a public (or community) good/use in perpetuity, and of creating better outcomes for residents and communities with housing designed for long-term liveability and affordability, rather than short-term developer/investor profits.
- Ensuring government payments do not create perverse incentives (e.g. insufficiency of youth allowances may act as a disincentive to house vulnerable young people), and are sufficient to cover the costs of service delivery for critical social services—which often serve people who are most vulnerable and many of who often have complex cases (e.g. differences in the operation of the Foyer model in the UK versus Australia exposes the risks of underfunding critical services).

2 Secure housing supply bonds (HSBs) in Australia

- Introduce nationally consistent CHP regulations and further support capacity building, consolidation and scale within the CHP sector to encourage development of institutional grade counterparties and resilient organisations that can manage increased financial management and property development complexities.
- Establish the National Housing Finance and Investment Corporation (NHIFC) with a sound governance structure, including an independent skills-based board.
- Select the most appropriate vehicle through which to offer the HSBs. For instance, one that provides an efficient investment mechanism to interface with large institutional investors, and offers flexibility to meet the current and future needs and preferences of multiple stakeholders, including government (e.g. the ability to issue both guaranteed and unguaranteed tranches).
- Provide guarantees on HSBs. At least in the short to medium term, government guarantees are an efficient mechanism to ensure investment in the early stages of a new market, addressing many of the concerns raised by institutional investors, and supporting the express goal of lowering the cost of funds to CHPs.
- Take all reasonable measures to enhance the liquidity of the HSBs—an attractive attribute for institutional investors that should positively influence pricing, for example providing government guarantees on HSBs, making HSBs eligible for inclusion on the Reserve Bank of Australia's list of repo eligible securities, and aligning maturities of the HSBs with treasury bond maturities to provide an appropriate and immediate benchmark (as the Local Government Funding Vehicle did).
- Provide a credible development pipeline to underpin the pipeline of HSBs. For example, accelerate new social housing supply by augmenting direct rent subsidies to housing providers with additional capital and/or access to discounted or free land to help finance developments/redevelopments of public housing estates into mixed tenure estates (e.g. the NSW Government's \$1.1 billion Social and Affordable Housing Fund and the Victorian Government's \$1 billion Social Housing Growth Fund) and introduce

complementary reforms—for example zoning and planning regulations (including mandating or encouraging mixed developments, inclusionary zoning, reducing planning delays), access to discounted or free land, concessions and taxation subsidies.

3 Support the creation of a new institutional build/buy-to-rent market segment (property funds)

- Better targeting/redirecting of a range of taxation and other concessions towards affordable housing and supply-side interventions to incentivise investment (e.g. low-income housing tax credits (LIHTCs) in the US) and level the playing field with concessions currently available to individual property investors through negative gearing and the capital gains tax discount.
- Strong regulation to promote desired tenant outcomes (e.g. secure tenure, longer tenancies, more ability to make a home, energy efficiency and proximity to work, amenities and services, thereby ensuring stock that meets individual tenants' needs and preferences and supports the development of thriving and resilient communities).
- Provide a supportive environment through planning and inclusionary zoning mandates, reducing planning delays, and including definitional clarity on what constitutes 'affordable'.
- Give consideration to the sustainability of affordability models. For example, after the cessation of tax subsidies, many NRAS properties have a high likelihood of ceasing to be affordable or reducing the financial viability of CHPs who maintain tenant affordability against a reduced income stream, thus perpetuating an unsustainable cycle.

4 Support the development of the social enterprise ecosystem

- Further develop the enabling policy framework for social enterprises in Australia, for example leveraging the work already done in this area internationally, including the six components identified by the European Commission (i.e. unique legal recognition, financing through preferential tax treatment/fiscal incentives, infrastructure and specialised support, facilitating demand and market access, supported finance, standardised impact measurement and reporting (Wilkinson, Medhurst et al. 2014)).
- Give consideration to merits of introducing a specialist legal structure designed for entities that wish to operate on a 'profit with purpose' basis, with special consideration of tax status and treatment to support business models. For instance, in the UK, social enterprises can register as a 'community interest company', while in the US, they can register as a benefit corporation or as a low-profit limited liability company.
- Give consideration to tax subsidies (e.g. the HomeGround Real Estate tax ruling in Australia applies the notion of charitable donations to individual investors willing to participate as micro-impact investors in social/affordable housing and could be expanded to be a general ruling. This may not be as effective as the NRAS in terms of aligning landlord and tenant needs, but could be more attractive to higher income earners).
- Support home ownership projects that make home ownership obtainable at cost rather than at market price to eligible cohorts, with necessary protections to ensure suitability. Home ownership or shared ownership schemes could provide some low-to-intermediate income households with an alternative to public housing and insecure private rental. Creating increased opportunities for home ownership in intermediate income cohorts would also reduce their occupancy of cheaper private rental housing that is affordable to the lowest two quintile households (Hulse, Reynolds et al. 2015).

- A revolving fund could be established by government and/or SII investors to provide equity to NFP, cooperative or deliberative developer home-ownership projects. The equity would then enable debt financing. The rate of return could then be the same as competitively priced debt, but much lower if linked to provision of housing for lower income households.
- Deliberative developers are able to access lower cost housing by supplanting the role of the speculative developer. However, they still require the same professional services used by developers. These services and assistance with group decision-making processes could be provided by CHPs on a fee-for-service basis. In this way, deliberative development is an opportunity for revenue diversification for CHPs while also providing improved housing affordability outcomes.

5 Support the development of the SIB ecosystem and apply where appropriate

- Ensure required outcome data is collected, data management methods are robust and efficient, and data linkage protocols are established and that the process can become less costly, as well as provide infrastructure to support interrogation and analysis of data. Investing in analysis of linked government administrative data is particularly important to develop evidence around the longevity of positive outcomes for program participants across sectors.
- Australian Government involvement in the SIB market is important, with the potential to increase the size of the SIB market through the government issue of SIBs, further development of market infrastructure and through improved data availability.
- Reduce transaction costs and development timelines by paying for pilot trials and supporting development of best practice standards, standardisation of transaction structures, documentation, outcomes measures, reporting requirements across state, territory, and federal governments, and enabling open sourcing of data and information.
- Sponsor further targeted research into whether SII aimed at specific groups of vulnerable people is appropriate, the most efficient and effective source of funding and whether sufficient social and financial return on investment would flow, for example aged care is currently funded by the Australian Government while most cost savings from a SIB are likely to come from the health portfolio at a state government level; further monitoring is also required for people with a disability as the NDIS is implemented.
- Providing a steady and reliable pipeline of deals for appropriate projects.

6 Policy considerations to support the development of the SII market more generally, and within which SII for housing and homelessness will operate, include:

- Considering taking a whole-of-government approach to SII, as was done at a national level in the UK, and at a state level in NSW. One of the benefits of SII is that it may provide innovative and more effective solutions that span different layers of government and cross departmental boundaries.
- Considering the roles of specialist intermediaries in facilitating and accelerating the development of the SII market in Australia. Collaboration, sharing of information and working across organisational boundaries are important SII enablers. Successful SIIs require working across silos, requiring each of the actors to understand and respond to each other's needs. More effective communication and education about what SII is and how it works is still required. This should include using accessible language and resources that a range of stakeholders can understand, including those working in service provider organisations.
- Investing in market infrastructure—for example cost data, outcomes measures, benchmarks and investment frameworks to accelerate development of measurement

tools and to enable wealth management advisors to advise their clients appropriately on SII, and allow other investors to participate in the SII market with more confidence.

- Facilitating data and information sharing across all three government levels by creating a publicly available bank of relevant cost and outcome indicators to enable innovation in program delivery and assist outcomes measurement and reporting across housing and homelessness issues.
- Removing real and perceived regulatory and legislative barriers—for instance clarifying real and perceived barriers through additional guidance and relevant examples and/or by refining regulatory and legislative rules to remove inconsistencies in treatment across different vehicles and entity types—thus reducing or removing real and perceived barriers to SII investment.
- Regularly engaging with other market participants to develop and refine policy frameworks to encourage their participation—for example foundations and charitable trusts, asset owners, superannuation funds as investors, and NFPs as service providers.
- Ensuring appropriate mechanisms are in place to protect beneficiaries, including an orderly transition and continuation of service delivery when SIIs mature or are otherwise terminated.
- Ensuring appropriate mechanisms are in place so that people who are the focus of the investments are at the forefront of matching SII to initiatives and of SII planning, development and monitoring and that alternatives and safety nets are in place for people or cohorts that may not be best suited to SII opportunities or where SII fails.

6 Conclusion

The purpose of this Inquiry was to explore and determine whether and how SII might be used to improve housing and homelessness outcomes in Australia. The Inquiry comprised three sub-projects with their own reports as well as this final Inquiry report, and examined 158 publications, conducted a workshop with 32 expert diverse stakeholders, in-depth interviews with 70 key stakeholders, an online survey with 72 respondents across the financial, housing and SII sectors, and 3 case studies to gain insights and critically assess the opportunities, critical success factors, risks and challenges in using SII to contribute to addressing Australia's housing and homelessness challenges.

The Inquiry found that under certain conditions SII has the opportunity to increase capital for the supply of affordable housing and fit-for-purpose social housing. It also has the potential to help drive behavioural and cultural shifts (e.g. focus on outcomes, cross-sector collaboration and act as an incubator to trial new ways of providing services).

Several promising SII instruments and models emerged as viable options for consideration in contributing to Australian housing and homelessness outcomes, including housing supply bonds, property funds, funding social enterprises (housing supply and/or employment/skills acquisition), social impact bonds and social impact loans. However, a number of key conditions for the success of SII were also evident, including the role of government as market builder, steward and participant (commissioner of services and funder) in the SII market, and in its various roles in housing and homelessness; the critical role of effective infrastructure, including shared language and accessible knowledge, specialist and affordable intermediaries, and the need for effective and robust impact measurement and management; and understanding between stakeholders of each other's needs, priorities, constraints and risks.

The Inquiry also identified some significant challenges and barriers that will need to be overcome if SII is to be successful in helping to address housing and homelessness outcomes. Australia's housing affordability and homelessness challenges are complex and significant in scale—exacerbated by current market conditions. A significant financing gap exists for both social and affordable housing, and in markets where SII has been used successfully, government has played a key role in both closing the financing gap and providing policy stability. Further, blended capital models have been used for all of the most promising examples of SII in housing and homelessness to date, but not at a scale commensurate with the size of the challenges. Finally, there can be a disconnect between investors, projects and legal forms which can impede the success of SII.

SII is not a panacea. It is new and the evidence base is still evolving. SIIs can be complex, time consuming and expensive to establish and manage and will not be the most appropriate nor the most effective solution in all cases or for all organisations. SII participants cannot control the broader policy environment in which SII operates, which can impact on the performance of some SIIs. Some of the purported benefits of SII could be achieved through other means and, in some cases, other funding sources will be more suitable, have lower overheads, and/or be better matched to achieve the desired outcomes than SII. Further, where SII does have a role to play, in many cases it will need to be implemented alongside other funding solutions and policy interventions. Not all social problems can be solved, and where this is the case, other measures must be in place to ensure that in these instances they are managed effectively, and that this shift does not leave the most vulnerable members of the community behind—but serves to increase the resources available to best meet their needs into the future.

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Appendix 1: International case studies of SII applied to housing and homelessness

Table A 1: International case studies of SII applied to housing and homelessness

Example	Country	Lessons learned	Australian contextual differences
<p><i>Housing Supply Bonds (HSBs)</i></p> <p>The Housing Finance Corporation Ltd. (THFC) was established in 1987 to aggregate funding requirements for the UK's small-to-medium sized housing associations (equivalent to Australia's mid-to-large scale CHPs). It supported sector-wide growth and scaling up of individual housing associations. It now on-lends predominantly long-term debt (approximately GBP 5 billion through THFC and GBP 1.4 billion through Affordable Housing Finance (AHF), a subsidiary of THFC that issues guaranteed debt) to over 170 housing associations who in turn contribute to developing and managing the affordable rental housing sector.</p>	UK	<p><i>What worked</i></p> <ul style="list-style-type: none"> • Robust national regulation of UK housing associations. • Housing benefit paid to tenants to supplement rent. • Consistent government co-investment to stimulate construction. • Ability to secure bond finance against the underlying property assets. <p><i>What did not work</i></p> <ul style="list-style-type: none"> • Required government guarantee to address lack of liquidity in market as a result of the GFC. • Cuts to Housing Association grants reduced the opportunities for investment. 	<p>Australian CHP sector is much smaller than the UK Housing Associations sector; representing a smaller scale target for investment.</p> <p>Financing gap—UK model was supported by greater sustainability of underlying social/affordable housing providers and consistent government co-investment to stimulate new supply.</p> <p>Lack of policy stability.</p> <p>Absence of national CHP regulation.</p> <p>Lack of track-record.</p>
<p><i>The Healthy Futures Fund</i></p> <p>Partnership between Local Initiatives Support Corp. (LISC), Morgan Stanley, and the Kresge Foundation, launched in 2013 to address the association between poverty and disease by fostering</p>	US	<p><i>What worked</i></p> <ul style="list-style-type: none"> • Government support through Low Income Housing Tax Credits (LIHTCs) that since 1986 have created access to more than 2 million housing units in the US, and New Markets Tax Credits (NMTCs) – designed to promote commercial redevelopment in disinvested areas. • Blended capital model. 	<p>Tax incentives such as negative gearing/CGT discounts are only available to individuals.</p> <p>Lack of continuous support for the approach in the Australian context—beginning in 2008, NRAS was modelled on a simpler version of the LIHTC model</p>

Example	Country	Lessons learned	Australian contextual differences
collaboration between affordable housing developers and healthcare providers. Impact targets are to support 100,000 in patient capacity at Federally Qualified Health Centres and 450 units of affordable housing.		<ul style="list-style-type: none"> • Co-location model connecting housing to health care, healthy food outlets and grocery stores, education and training, fitness and wellness services to promote primary care access and improve community health. • The Community Reinvestment Plan (CRA) mandates federally regulated lenders to serve the needs of the communities they serve—including low-to-moderate income households. • As at March 2016, had delivered new supply of 400 housing units provided to low-income tenants at rent capped at 30 per cent of income (akin to predominant CHP rent model in Australia) and had extended health services to 40,000 people. <p><i>What did not work</i></p> <ul style="list-style-type: none"> • LIHTCs are administratively burdensome—creating value leakage. • LIHTCs trade on their value to investors, rather than their social value, meaning that social value created by LIHTCs can change based on location. 	<p>in Australia, but it is no longer accepting new properties as of 2016.</p> <p>Limited pool of concessionary rate and grant capital in Australia compared to US.</p>
<i>Build-to-Rent Fund (2012–16)</i> The Build-to-Rent Fund was launched in 2012 as part of a series of UK Government initiatives to increase the supply of high quality homes available for (affordable) market rent in the private sector. It was available to cover up to 50 per cent of development costs for projects comprising at least 100 private rented units. The fund closed in 2016, and was superseded by the	England—with early work to inform a replication explored in Australia	<p><i>What worked</i></p> <ul style="list-style-type: none"> • By March 2016, construction of 4,500 new rental homes funded by Build-to-Rent had commenced representing approximately GBP 455 million of investment from the Build-to-Rent Fund. • The Build-to-Rent Fund scheme was complemented by access to post-construction affordable long-term financing through The Housing Finance Corporation Ltd. and the Private Rented Sector Housing Guarantee scheme that improved access/reduced the costs of borrowing for housing providers to hold the properties post-construction (particularly post Global Financial Crisis). 	<p>The underlying sustainability of the CHP sector is stronger in the UK than Australia, where there is an implicit government guarantee provided by Housing Benefit, which meets the gap between tenant's income capacity and the cost of rent.</p> <p>Requirements for complementary reforms in regulation, zoning and taxation are as yet unfulfilled; generation of new supply requires grant or in-kind capital (e.g.</p>

Example	Country	Lessons learned	Australian contextual differences
<p>Home Building Fund which has a broader mandate but which also includes build-to-rent.</p> <p>Initial fund size was GBP 200 million, with an intention to build an additional 5,000 homes for rent. In 2013, the size of the fund was increased to GBP 1 billion with an intention to build 10,000 new homes for rent.</p>		<p><i>What did not work</i></p> <ul style="list-style-type: none"> • While initial rounds were oversubscribed, a large number of developers withdrew from the bidding process as the home ownership market recovered and developers returned to their core business. • The release of another government initiative in 2013, Help to Buy, affected the Build-to-Rent market. 	<p>access to free or discounted land) to be viable.</p>
<p><i>Foyer model</i></p> <p>Youth foyers provide an opportunity for young people to gain safe and secure accommodation as well as develop independent living skills while they are engaged in employment, education and training.</p>	<p>UK— trialled in SII in Australia</p>	<p><i>What worked</i></p> <ul style="list-style-type: none"> • Designed as an integrated package of supports to support housing, education and employment simultaneously. • UK evidence of improved outcomes in housing, education and employment. • UK foyers have been supported by social enterprises to cross-subsidise their operations. <p><i>What did not work</i></p> <ul style="list-style-type: none"> • Difficulty maintaining long-term funding. • Young people with complex needs less likely to benefit. • Metropolitan foyers more successful than regional/rural foyers. • Transitional issues in finding stable housing after the foyer. 	<p>In Australia, the income generated from current benefits and subsidies is not sufficient to cover the cost of support of youth foyers, which threatens the financial sustainability of the model. The Youth Allowance and youth unemployment benefits in Australia are especially low.</p> <ul style="list-style-type: none"> • Australian pilots have not been financially sustainable, with a shortfall of \$18,000 per resident per year, although estimates suggest that for larger scale projects, this shortfall could be reduced to approximately \$5,000–\$6,000 per resident per year. • Australian foyers have been heavily reliant on state and federal governments to fund the construction of new facilities.
<p><i>London Homelessness SIBs</i></p> <p>Two organisations (St Mungo's Broadway17 and Thames Reach) were contracted to deliver the SIB intervention to a matched half of a</p>	<p>England</p>	<p><i>What worked</i></p> <ul style="list-style-type: none"> • Payment-by results model appears to be incentivising delivery—as was intended. 	<p>UK has a whole-of-government approach to SII—in Australia, multiple layers of government and costs/savings are not necessarily in the same department or layer of government.</p>

Example	Country	Lessons learned	Australian contextual differences
<p>fixed cohort of 831 entrenched rough sleepers.</p> <p>Uses a personalised, flexible approach delivered by keyworkers (Navigators) to help access existing housing and achieve sustained, long-term positive outcomes. This includes reconnection for non-UK nationals to their home country where this is the most appropriate outcome for them (assisted voluntary repatriation, administrative removal or deportation). The SIB is measured against five outcomes: i) reduced rough sleeping; ii) stable accommodation; iii) reconnection; iv) employment; and v) health.</p>		<ul style="list-style-type: none"> • Mixed performance across outcomes, but payment against target increasing consistently from 73 per cent of budget in Q1 to 106 per cent in Q2, Year 2. • Reflecting the ethos of both organisations, there is no evidence of perverse incentives (e.g. placing people in inappropriate accommodation for 'quick wins', or not supporting those who remain on the streets). • Providing alternatives to traditional housing routes has been identified as a key innovation of the SIB. • The SIB is providing learnings on appropriate metrics for outcomes for this beneficiary group, as well as learnings about provider and investor appetite for risk in payment-by-results. • Effective governance arrangements that have worked across multiple parties. • Effective information sharing, learning and knowledge exchange. • Capacity to manage and deliver on complicated risk contracts. <p><i>What did not work</i></p> <ul style="list-style-type: none"> • Lack of baseline data or evaluations to assess risk in new investments. • No data available about health outcomes due to data protection concerns that emerged after agreement that it would be provided. • 162 people, or 19 per cent of the original cohort have 'disappeared' in the first six quarters of the SIB program. • Slow progress in some outcome areas, with people with the most complex needs least likely to see an improvement in outcomes. • Difficulties in maintaining the social security payments of some beneficiaries. 	<p>Availability of linked administrative data.</p> <p>Sufficiency of government funding to fully cover costs of essential services, for example mental health.</p>

Example	Country	Lessons learned	Australian contextual differences
		<ul style="list-style-type: none"> Concerns that mental health services providers do not have sufficient capacity to provide required support. Need to develop exit plans post-SIB to provide continuity of support to beneficiaries; Navigators are employed to work on the SIB and as the end date approaches, they may start to pursue other employment opportunities, which could negatively impact providers' ability to deliver outcomes towards the end of the contract. 	

Sources: NSW Federation of Housing Associations (2016); Gilmour et al. 2012; Standard and Poor's (2016); Housing Finance Corporation (2018); Zigas, (n.d.); IIA (2016); Healthy Futures Fund (2018); Living Cities (2018); Bate, A. (2017); RICS (2018); Steen and Mackenzie (2013); Department for Communities and Local Government (2015); Ratcliff (2015).

Appendix 2: Australian SII examples in housing and homelessness

Table A 2: Affordable rental housing projects

Borrower	Purpose/ rational	Investor	Where	Grants	Funding arrangement	Why SII rather than mainstream finance
Connect Housing	4 homes for people on a low- income/people who are disadvantaged	Foresters Community Finance	Queensland	Council land grant	\$675,000 loan 15 years NRAS rebates	Unable to secure mainstream finance
Lifestyle Solutions	Construction of 1 home for 4 young people with autism	Social Enterprise Finance Australia	New South Wales	Unknown	\$1.2 million loan	Better values match than mainstream financer
Myrtle Park	Construction of 4 retirement units	Social Enterprise Finance Australia	Tasmania	Tasmanian Government	Loan ca \$500,000	Unable to secure mainstream finance
Sustain Housing	Construction of homes for people with a physical disability	Social Enterprise Finance Australia, Social Ventures Australia	New South Wales	Unknown	\$2 million loan 1 year	Less difficulty in securing funds

Source: Sharam, Moran et al. (2018); Alembakis (2013); Foresters (2016a, 2016c); SEFA (2016a, 2016b, 2016d); IIA (n.d.).

Table A 3: Homeownership projects

Borrower	Purpose/ Rationale	Investor	Where	Grants	Funding arrangement
Habitat for Humanity South Australia	Construction of six homes for people on a low income/ people who are disadvantaged	Foresters Social Enterprise Finance Australia	South Australia	Various donations and in-kind contributions	Foresters Community Finance \$250,000 loan—5 years Social Enterprise Finance Australia loan facility
Habitat for Humanity Victoria	Construction of 13 homes for people on a low income	Social Enterprise Finance Australia (Australian Housing Loan Fund) ^a	Victoria	Various donations and in-kind contributions	\$2 million loan
Habitat for Humanity NSW	Construction of homes for people on a low income	Social Enterprise Finance Australia	New South Wales	Various donations and in-kind contributions	
Project4change	Construction of homes for households eligible for public housing in Queensland	Equity	Queensland	None	Equity investors (concessionary returns) with non-concessionary debt
Nightingale 1	Construction of 20 apartments	Debt syndicate including Social Enterprise Finance Australia Equity investors	Victoria	None	Construction finance 30 per cent equity, 70 per cent debt

Notes: ^aLord Mayors Charitable Foundation investment in the Australian Housing Loan Fund is a Program Related Investment (PRI).

Sources: Sharam, Moran et al. (2018); Foresters (2016b, 2016c); Nightingale (2016); (2016c, d, f); Spelitis (2017).

Additional insights on reformed credit processes and 'additionality' of SII models

Habitat-for Humanity

- SII in Habitat for Humanity has enabled growth and improved economies of scale by lending against the cash flow (capacity), viewing the deep community support for Habitat for Humanity (character) as providing 'security' for loans.
- In the Habitat for Humanity model, mortgage repayments are pegged to the household's own cash flow needs and can be reduced in times of financial stress. This sensitivity to the needs of the households provides a form of insurance (or risk mitigation) as outlined by Stone, Sharam et. al. (2015) and Sharam, Ralston et al. (2016).

Nightingale Housing Ltd.

- Nightingale Housing Ltd. have been able to attract equity investors willing to receive concessionary returns but they also argue that on the basis of Sharam, Bryant et. al. (2015a; 2015b) that some of the risks of residential apartment development are mitigated through their model. For instance, they argue that consumer engagement and inclusion of their preferences mitigates settlement risk, while the Nightingale waiting list ensures a replacement buyer should settlement failure occur. The waiting list also reduces marketing costs further increasing the affordability and attractiveness of purchasing a Nightingale property by ensuring demand would remain high. The gap between high market value (created through the high design quality and sustainability measures) and the reduced purchase cost provides for a mortgage loan-to-valuation ratio (LVR) of less than 80 per cent. This means buyers avoid paying mortgage insurance and reduces the likelihood of buyers experiencing difficulty in obtaining mortgage finance.

Table A 4: Housing supply social enterprises

Social Enterprise	Investor	Purpose/ rationale	Where	Grants	Funding arrangement	Why SII rather than market?
Property Initiatives Real Estate	RE Ross Trust Social Traders	Full service real estate agency to provide revenue stream to support future property development.	Victoria	Yes	RE Ross Trust loan Social Traders (patient capital)	
Horizon Housing	HESTA (Social Ventures Australia) SVA (equity) in Australian Affordable Housing Securities	i) Management rights of 995 existing NRAS properties, ii) stake in Australian Affordable Housing Securities (NRAS accreditor). Income derived from these businesses to support development of 60 new homes.	Queensland		\$6.7 million loan	Innovative partnerships leveraging different sectors' skills and experience
HomeGround Real Estate (operated by Launch Housing)	Landlords receive below market rent and thus act as micro-impact investors	A NFP real estate company, which acts as an intermediary for micro-impact investors to provide affordable rental accommodation.	Victoria	Seed funding from philanthropic sources and local government grants		

Notes: HomeGround Real Estate has contributed to the development of the SII market infrastructure in Australia. In particular, HomeGround received a private taxation ruling from the Australian Tax Office that allows impact investor landlords to claim the difference between the market and affordable rent as a charitable donation for their personal taxation purposes.

Sources: Sharam, Moran et al. (2018); Cranston (2016), HESTA (2016), SEFA (2016d), Social Ventures Australia (2015); SEA (2016); Homeground adapted from Heaney, Flatau et al. (2017).

Table A 5: Employment/skills attainment social enterprises

Social Enterprise	Investor	Purpose/ rationale	Where	Grants	Funding arrangement	Why SII rather than market?
STREAT 1 (2012)	4 SII investors	STREAT provides homeless and marginalised young people (aged 16–25) with vocational training, welfare and housing support, that is aimed at helping them develop a ‘stable self, stable home and stable job’ in the hospitality industry. Equity sought to acquire the Social Roasting Company, which included two cafes and a wholesale coffee roasting business, doubling the size of its operations.	Victoria		Created a for-profit social enterprise to raise \$300,000 in equity for 50 per cent stake in the social enterprise company.	Concessional returns and tolerance for low liquidity/limited opportunity for exit Alignment in purpose / values
STREAT 2 (2015)		To raise \$3.5 million to develop new home site in Collingwood, and expand operations to include a new café, bakery and function space.	Victoria	Philanthropic gift of Cromwell Manor in Collingwood, to be STREAT’s home and gifted for 50 years at a ‘peppercorn’ rent of 5\$ p.a. \$1.34 million in philanthropic grants/donations from 8 partners.	Just over \$2 million in debt finance. Social Ventures Australia and NAB took over a year to actively source debt finance (which also required owner of Cromwell Manor to provide security over property)	

Source: adapted from Heaney, Flatau et al. (2017).

Table A 6: Homelessness Social Impact Bonds

Borrower	Investor	Purpose/ rationale	Where	Grants	Funding arrangement	Why SII rather than market?
ASPIRE	60 investors	‘Housing First’ intensive support program for people who are chronically homeless. Delivered by Hutt St. Centre and Housing Choices South Australia, Social Ventures Australia, and relevant South Australian Government departments	South Australia		\$9 million in private capital from wholesale and professional investors 7.75 year bond term	
YouthCONNECT	Contemplated, not yet issued.	Youth homelessness	Queensland			

Source: adapted from Heaney, Flatau et al. (2017).

Appendix 3: What SII models applied to Australian housing and homelessness challenges might look like

Table A 7: Potential SII models applied to Australian housing and homelessness challenges

Challenge	How SII could contribute to solutions
Insufficient supply of affordable homes for purchase by low-to-moderate income households. (This is having a follow-on effect of putting pressure on availability of affordable private market rental for lower income households—particularly the bottom two household quintiles)	<p>Provide funding support for the scaling up of new and ‘disruptive’ ‘deliberative development’ (self-organised consumer-led property development) that creates a new affordable residential home ownership segment in Australia provided at cost (rather than at market rates). Conditions of sale, including restrictions on capital gain at exit, could lock in the affordability gains in perpetuity (in effect, a new market segment based more on the utility value than the investment value of housing).</p> <p>There is an emerging sector of do-it-yourself (DIY) or ‘deliberative developers’ (Sharam, Bryant et al. 2015a) undertaking multi-unit housing close to city centres in order to obtain quality multi-unit products at below market price. Examples include Nightingale Housing Ltd and Property Collectives.</p> <p>Considerations of this application of SII include:</p> <ul style="list-style-type: none"> • While it does not require a subsidy, the high equity-to-debt ratios demanded by development financiers are a barrier excluding households who are unable to raise this level of equity. Mainstream lending for development reflects assumptions about settlement risk, however, deliberative development mitigates settlement risk and reduces costs (e.g. it avoids marketing costs). Reflecting this new understanding of risk, SII could provide a greater proportion of debt. • Funds are recycled quickly. The largest tranche of funds is for construction, which may only constitute a period of a year. • It contributes to highly sustainable, higher density housing close to employment and services. • It contributes to social cohesion and sense of community. • Consumer-led multi-unit housing is reshaping public opinion about higher density housing. <p>Likely beneficiary cohort(s): Households that fall into the upper range of quintile 2 and quintile 3 households who are priced out of current market.</p>
Insufficient supply of affordable private market rental housing with attractive attributes.	<p>With a larger proportion of Australian households becoming long-term renters, an institutional build-to-rent residential housing segment is an option to deliver well-designed, quality apartments that would afford tenants security of tenure (by virtue of the property being held as a passive investment in perpetuity) and highly professional property management. Re-directed tax concessions could provide a subsidy stream to the owner/operator in exchange for housing a set proportion of lower income households at affordable rents.</p> <p>Considerations of this application of SII include:</p>

Challenge	How SII could contribute to solutions
	<ul style="list-style-type: none"> • The provision of well located, quality housing that is affordable for Q3 income quintile households is required to attract Q3 income quintile households out of the private rental housing that is affordable to lower income households (Q1 and Q2 income quintile households). • A subsidised component could provide housing for Q1 income quintile households for whom there is a deficit of affordable private rental housing, and for Q2 income quintile households in housing stress (Hulse, Reynolds et al. 2015). • This potential solution could be influential in redefining and shaping public opinion about what 'good' and 'enough' looks like in relation to housing qualities—e.g. affordable, sustainable, resilient communities, sharing economy (e.g. care share, communal spaces/facilities, social enterprises such as ground floor social enterprise cafés). • Potential role for SIBs to fund services that promote and maintain successful tenancies. <p>Likely beneficiary cohort(s): Q1, 2 and 3 households.</p>
<p>Insufficient supply of fit-for-purpose social housing for people with complex needs.</p>	<p>Provide low-cost and longer tenure debt at scale and on terms that fit CHP business models—the caveat being that the underlying social housing system needs to be financially sustainable and properly funded first (IPART report 2017; CFFR 2017). If fully funded, CHPs would be able to leverage their balance sheets to optimal debt levels to fund new supply (beyond current cash-flow constrained levels), and would also generate modest surpluses on an ongoing basis that could also be reinvested into renewal and new supply. Further additional supply could be facilitated to redress the current significant under supply of stock by providing additional capital grants, access to government surplus land, and redevelopment of existing public housing sites for mixed use (with further consideration required on how best to retain the most value for public good purpose, and generating the best community outcomes).</p> <p>Considerations of this application of SII include:</p> <ul style="list-style-type: none"> • Working with CHPs as developers on new developments and public housing renewal projects may have benefits of reducing costs (via reduced developer margins and use of not-for-profit GST status), and retaining more of the government's 'land' value as a public (or community) good/use in perpetuity, and better outcomes for residents and communities with housing designed for long-term liveability and affordability, rather than short-term developer/investor profits. • It supports the government's trend towards transfer of management of social housing stock to CHP sector, and capitalises on available rent subsidies (CRA). • CHPs have demonstrated capabilities to integrate and coordinate support services with housing solutions to provide the support needed to sustain successful tenancies and life goals. • For vulnerable populations, NFP/community nature of CHPs may be perceived as less threatening to deal

Challenge	How SII could contribute to solutions
	<p>with than government/authority figures, which can obstruct service delivery and tenant satisfaction.</p> <p>Likely beneficiary cohort(s): Low-income households with additional tenancy support needs over and above provision of more affordable housing; typically more vulnerable and disadvantaged cohorts are over represented.</p>
<p>Limited mobility across and around the housing system and lack of pathways for progression through the housing system.</p>	<p>Finance solutions that reduce the gaps and smooth the transitions between different segments of the housing system to improve mobility across and around the housing system and strengthen pathways and progression through the housing system.</p> <p>Possible solutions might include:</p> <ul style="list-style-type: none"> • providing rent-to-buy and shared equity schemes designed to meet the life needs of low-income households (e.g. flexibility to reduce payments if unanticipated events or expenses occur)—one example of this type of solution is the Habitat for Humanity model • enabling residents to remain 'in place' as their status changes (e.g. CHPs as providers of both social and affordable housing solutions) • enabling residents to re-enter or transition back along housing continuum if needs change—without having to move or go to the back of the waiting list (e.g. CHPs as broader providers of social and affordable housing solutions) • reducing stigma and increasing informed decision-making about the credit quality of social tenants, e.g. Big Issue Invest UK project incorporates social rent payment history into mainstream credit referencing platforms <ul style="list-style-type: none"> — Recent moves by the Australian Government that pave the way for states to deduct social rents directly from tenants' social security payments would likely be a regressive step in this regard—diminishing the ability of social housing renters to establish a favourable credit history, increasing dependence, and also removing a key data point for housing providers that can indicate an opportunity for building financial management skills or if payment behaviour changes, providing an early warning sign that tenants may need additional support services • redirecting existing subsidies that are inefficient and not targeted in order to fund new subsidies that contribute to reducing the financing gap and increase the attractiveness of moving from social housing to affordable housing. <p>Likely beneficiary cohort(s): Current social housing tenants; people waiting for social housing (including those in crisis/transitional accommodation) as waiting lists may be shorter, homeless people and people at risk of homelessness, as crisis/transitional accommodation and social housing waiting lists may be shorter.</p>
<p>Inadequate employment and social opportunities that supplement housing for vulnerable seniors,</p>	<p>Provide financing and capacity-building solutions for social enterprises to scale up 'proven' programs and interventions that support employment and social opportunities for</p>

Challenge	How SII could contribute to solutions
<p>people with a disability, and people who are homeless.</p>	<p>vulnerable seniors, people with a disability or mental health issue, and people who are homeless (e.g. STREAT, The Big Issue), which in turn, support housing outp.</p> <p>Considerations of this application of SII include:</p> <ul style="list-style-type: none"> • there is some evidence that there is a limited pool of SII (equity) investors in this space prepared to take lower returns and accept illiquidity to achieve social impact aligned with their goals • these social enterprises are often responding to market failure, and as such, becoming commercially viable and sustainable is challenging. <p>Likely beneficiary cohort(s): Disadvantaged and vulnerable people who are unemployed, particularly young people.</p>
<p>Current models of government's social service provision and delivery mechanisms are not achieving the desired outcomes. There is a need to support innovation to identify new models that deliver the desired outcomes more effectively (e.g. higher quality outcomes, reduced cost).</p>	<p>Use SIBs as an incubator for government to trial new ways of providing homelessness and tenancy support services that promote housing stability and/or social outcomes for residents. The goal is to identify models and programs that deliver desired outcomes most effectively, and import what works back into the government's day-to-day commissioning of social services to maximise its return on its initial investment in SII. Additional savings could accrue by ceasing to fund programs/interventions that were found to be inefficient or ineffective. Seen in this light, government bearing more of the transaction costs of pilot SIB programs and potentially sharing risk with SII investors (e.g. limiting loss potential for SII investors) would seem reasonable given that the quantum of benefits will ultimately flow back to government through improved commissioning processes, lower costs, and better social outcomes.</p> <p>Considerations of this application of SII include:</p> <ul style="list-style-type: none"> • supporting the wider trend in public policy to shift public funding of service provision from funding activities and outputs to outcome-based financing (Tyler and Stephens 2016) • focusing on prevention and early intervention—breaking the cycle of dependence before the problems become chronic and entrenched—thus providing potential for long-term cost savings • increasing accountability for achieving outcomes through transparent measurement and contributing to a growing body of evidence about what works and what does not work • increasing cross-sector collaboration to find new and better ways to solve old problems <p>However, it is important that SIBs are not used as a financing or payment-by-outcomes method if a simpler, more efficient or effective finance mechanism can be used or if financial savings are unlikely.</p> <p>Likely beneficiary cohort(s): Vulnerable and disadvantaged people with complex problems who may benefit from access to evidence-based outcomes focused programs; young people who may benefit from intensive early intervention and prevention programs designed to avoid path to long-term dependence on social security</p>

Challenge	How SII could contribute to solutions
<p>Indigenous housing and homelessness challenges represent a significant magnification of Australia's broader housing challenges, with higher needs related to homelessness and social housing and overcrowding. Indigenous housing challenges also present specific cultural, land tenure and geographic considerations.</p> <p>Further, the Indigenous CHP sector is more fragmented than the non-Indigenous CHP sector, which presents additional challenges and potential for further disadvantage as the sector consolidates and larger CHPs gain access to more attractive funding models (e.g. the bond aggregator model).</p>	<p>payments; people who are homeless as they may benefit from being supported into sustainable tenancies. Note, SIBs will not be appropriate for all groups of people or for all interventions.</p> <hr/> <p>Ensure that broader changes underway (e.g. the bond aggregator model) do not further entrench disadvantage for Indigenous communities by identifying relative weaknesses in the Indigenous CHP sector and create solutions to solve those weaknesses (e.g. consideration of a national model for Indigenous CHPs to be able to access the bond aggregator model through a single channel).</p> <p>WA Keystart and more recently Indigenous Business Australia do offer Aboriginal home loan and shared equity loan schemes to improve home ownership outcomes for Indigenous Australians. However, while WA Keystart and more recently Indigenous Business Australia do offer Aboriginal home loan and shared equity loan schemes to improve home ownership outcomes for Indigenous Australians, social impact loans and in particular, partial finance first SII investors prepared to reform their credit processes, could be used to create home ownership schemes for Indigenous Australians on Indigenous land in ways that are culturally appropriate. New Zealand's Kainga Whenua loan scheme for home ownership on multiple-owned Maori land may provide a useful precedent.</p> <p>There is a need to develop the evidence base to bridge more mainstream credit access over time, including creating credit reference data for people previously financially excluded due to absence of credit history.</p> <p>Use SII to support Indigenous housing supply social enterprises with innovative, disruptive and culturally appropriate solutions for Indigenous communities.</p> <p>Likely beneficiary cohort(s): Indigenous Australians.</p>

Source: authors.

Appendix 4: Illustration of how potential SII models might be applied to housing and homelessness in the Australian context

Table A 8: Potential SII models applied to housing and homelessness in the Australian context

SII Opportunity	Returns, benefits, drawbacks	Circumstances/conditions required for improving SII success	Key risks and challenges
Housing supply bonds (HSBs) raised by a specialised intermediary to fund loans to registered CHPs (and possibly other specialist affordable housing providers).	<p>Returns</p> <p>Debt (investment)</p> <p>Non-concessionary returns</p> <p>Benefits</p> <ul style="list-style-type: none"> • International precedents and case studies for this model exist—reducing risk and implementation time. • Can be tailored to meet needs and preferences of large-scale investors (e.g. superannuation funds) resulting in lower risk-adjusted returns and cost savings relative to alternative funding sources. • If structured well, can provide a scalable platform and efficient investment mechanism to engage large-scale investors in financing social/affordable housing. • Has received substantial support in submissions to the Council on Federal Financial 	<ul style="list-style-type: none"> • Needs to be backed by a social housing system that is financially sustainable and properly funded. There would be added benefit of providing a secure cash flow stream underpinned by government subsidies that would offset shortcomings in security arrangements over CHP properties, provide investors with a sufficiently differentiated risk profile, and might ultimately negate need for ongoing government guarantees on HSBs. • Requires policy commitment and stability with bi-partisan support and cooperation across all layers of government to operate multiple policy levers in concert. • Depends on no retrospective policy changes (e.g. changes to CHP allocations against government public housing 	<ul style="list-style-type: none"> • CHPs' borrowing capacity are currently limited by cash flow constraints. Without further income or capital subsidies, new supply generated by this solution is limited to the vicinity of 2,200 units. • There are risks in the sustainability of current CHP business models—with pressures mounting over time on both revenues and costs. • Lack of stability in policy and regulatory settings (including uncertainty around existing rent subsidies, further constraints on revenue base through mandating tenant mix, etc.) reduces investor confidence in sector, and reduces capacity of CHPs to take on additional debt. • Credible pipeline of financially viable (i.e. government supported) projects behind the refinancing of existing CHP debt to support large-scale finance-

SII Opportunity	Returns, benefits, drawbacks	Circumstances/conditions required for improving SII success	Key risks and challenges
	<p>Relations Affordable Housing Working Group (2016b).</p> <ul style="list-style-type: none"> • Potential to deliver CHPs the most flexible and cost-effective solution (apart from direct government funding); savings can be redirected to (modest) new supply. • Supports government's shift towards CHPs managing a greater proportion of social housing stock. <p>Drawbacks</p> <ul style="list-style-type: none"> • Will likely not be available to smaller CHPs, meaning grants and other SII investors will be needed to continue to support smaller CHPs that may be serving niche needs or leading innovation. • May be more expensive than governments fully funding CHPs directly. 	<p>priority lists) as these affect existing investment and reduce investor confidence in the sector.</p> <ul style="list-style-type: none"> • Requires a strong regulatory framework and oversight (including robust national regulation of CHP sector and strong, independent governance/skills based Board for bond aggregator). • Needs increased scale and consolidation within CHP sector to drive economies of scale, capacity building and development of institutional grade counterparties (that can support unguaranteed HSB issues in future). • Requires a pipeline of projects • Government credit enhancement of HSBs would support the goal of providing CHPs access to lowest cost debt on most favourable terms (at least on transitional basis until sector achieves stability and sustainability). • Guarantees need to meet standard market (and credit rating agency) terms and requirements. 	<p>first investors' need for scale and flow to warrant due diligence processes and associated costs does not currently exist.</p> <ul style="list-style-type: none"> • Ability of CHP sector to grow in size and have the capabilities to manage large-scale property developments, complex treasury functions, manage increasing tenancy and property management portfolios, and build the associated financial and risk management skills.

SII Opportunity	Returns, benefits, drawbacks	Circumstances/conditions required for improving SII success	Key risks and challenges
		<ul style="list-style-type: none"> The legal entity form of the bond issuer should allow for flexibility in issuance terms, for instance, ability to issue differentially rated, guaranteed or unguaranteed HSBs. Terms need to provide adequate flexibility for CHPs to optimise social outcomes. Depends on redirecting some of the existing \$25 billion in annual housing assistance expenditure to target social and affordable housing and supply-side interventions and help offset costs to government. 	
<p>Build/buy-to-rent property funds (mutual Funds, A-REITs; listed or unlisted)</p> <ul style="list-style-type: none"> Finance the creation of a build-to-rent affordable housing sector that significantly increases the total stock of affordable housing options that appropriately meet individual tenants' needs and preferences, and supports the development of thriving and resilient communities. 	<p>Returns</p> <p>Equity and/or debt (credit and/or investment; likely institutional—banks, super funds).</p> <p>Non-concessionary returns.</p> <p>Benefits</p> <ul style="list-style-type: none"> Provides investors with ability to gain exposure to pooled residential property market—less lumpy, increased diversification benefits, lower entry price, more liquid than purchasing investment property directly. 	<ul style="list-style-type: none"> Requires better targeting and/or redirecting of a range of taxation and other concessions towards affordable housing and supply-side interventions to incentivise institutional investors and level the playing field with concessions available to individual property investors through negative gearing and the CGT discount. Likewise, the NRAS type of tax credit scheme is not as well suited in this setting. Means ensuring social outcomes are defined and, where appropriate, supported 	<ul style="list-style-type: none"> Risks to equity investors of possible property market correction given current Australian housing market conditions (i.e. elevated housing prices, high levels of household debt). Inadequate regulations that do not promote the creation of stronger tenancy rights and/or fail to avoid the accumulation of stock that does not meet individual needs and preferences or otherwise support the development of thriving and resilient communities.

SII Opportunity	Returns, benefits, drawbacks	Circumstances/conditions required for improving SII success	Key risks and challenges
	<p>Drawbacks</p> <ul style="list-style-type: none"> • Equity generally demands a higher rate of return than debt—thereby exacerbating financing gap. • Returns must be on the basis of rental revenue rather than on capital gains, as realising capital gains involves the sale of property and disruption to tenants. • Current policy does not provide a level playing field—it is difficult for institutional owners to compete with individual investors (who price negative gearing and capital gains tax benefits into their investment decisions). 	<p>through sound regulation—e.g. secure tenure, more ability to make a home, broader elements of affordability (e.g. energy efficiency, proximity to work, services), stock that meets individual needs and preferences and supports the development of thriving and resilient communities.</p> <ul style="list-style-type: none"> • Requires government to provide a supportive environment through planning and inclusionary zoning mandates (including reducing planning delays). 	<ul style="list-style-type: none"> • CHP with cross-subsidised business models could be undermined if higher income/lower needs tenancies transition to for-profit sector housing solutions and therefore the social housing system is not adequately funded. • There are complexities and tensions when entities have dual commercial and social purposes, and there is a lack of specialised 'profit for purpose' legal structures available in Australia to provide clarity.
<p>Housing supply social enterprises</p> <ul style="list-style-type: none"> • To fund affordable housing developments—including 'disruptive' models that create a new residential home ownership segment that could be based on the utility value of housing, which preserves the affordability and utility value in perpetuity (similarities with Nightingale Housing Model). • To establish funds (not dissimilar to that created by Project4Change) that could 	<p>Returns</p> <p>Private equity (investment) or debt (credit or investment).</p> <p>Concessionary and non-concessionary returns.</p> <p>Benefits</p> <ul style="list-style-type: none"> • Affordable home purchase schemes would generate affordable housing supply for lower-middle-income cohorts who often occupy rental housing affordable to Q1 and 2 in particular. 	<ul style="list-style-type: none"> • Requires alignment of interests and purpose between the social enterprise or NFP and investors. • Depends on the willingness of investors to reconceptualise credit risk and/or accept concessional returns. • The ability to take advantage of the preferential tax status of CHPs/NFPs to reduce development costs (and financing gap) would enhance affordability outcomes. • Depends on the availability of personal credit data for social 	<ul style="list-style-type: none"> • Lack of investment readiness of social enterprises. • Higher rates of return generally demanded by private equity further exacerbate existing financing gaps. • Private equity generally has a defined time horizon for exit. • Lower income home purchase schemes need to be packaged with other solutions (e.g. social impact loans) for greatest impact. However, potential borrowers may have limited equity, which either excludes

SII Opportunity	Returns, benefits, drawbacks	Circumstances/conditions required for improving SII success	Key risks and challenges
provide equity to home-ownership projects that are provided by NFP, cooperative or deliberative developers.	<p>Drawbacks</p> <ul style="list-style-type: none"> Returns are too low to attract non-concessionary investors and the pool of non-concessionary capital is small (although Nightingale Housing has demonstrated it is possible in part through reforming the credit process). Schemes that aim to attract private equity to develop pooled affordable housing stock typically require an exit strategy, at which stage properties are likely to cease being affordable as private equity will want to unlock capital gains value at that point. 	<p>tenants—e.g. possibility to explore initiatives such as the UK Big Issue Invest—The impact of Social Housing Rent Payment Data on Credit Scoring (to support loans to low-income home purchasers)</p> <ul style="list-style-type: none"> Requires capacity building and support for social enterprises, NFPs, CHPs to strengthen investment readiness and development capacity. 	<p>them from mainstream finance, or increases their costs (e.g. interest rates, mortgage insurance etc.)</p>
<p>Social Impact Bonds</p> <ul style="list-style-type: none"> SIBs act as an incubator for government to trial new ways of providing social services (e.g. tenancy support, homelessness, employment/skills acquisition) that deliver desired outcomes most effectively, and then import what works back into the government's day-to-day commissioning of social services to generate improved social and financial outcomes for government and allocation of 	<p>Returns</p> <p>Hybrid (investment). Concessionary and non-concessionary returns.</p> <p>Benefits</p> <ul style="list-style-type: none"> Recent issuances indicate investor interest in SIBs. Enforces greater accountability on service outcomes. Provides a framework that can be used to shift mindsets/change the culture around service delivery models, 	<ul style="list-style-type: none"> Requires the right capital, in the right form, at the right time. For instance, undertaking a SIB to pilot a new and innovative service delivery with a high degree of uncertainty around outcomes may be better suited to grants or philanthropy than SII. Implies the importance of blended capital with a focus on financial viability and optimal social impact. 	<ul style="list-style-type: none"> Scale, capacity and investment-readiness of social enterprises/NFP service providers. Scalability and replicability of service models High transaction costs, that often need to be funded out of seed or core capital outside the SII. This creates barriers to entry for smaller service providers to compete in the market for SII funding.

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<p>resources to where they will have the most impact. This would act:</p> <ul style="list-style-type: none"> — as a framework to enable and facilitate cross-sector collaboration to bring different types of capital and broader perspectives to bear in finding better ways to solve intractable social issues — to test and scale-up or broaden the reach/scope of programs that have been effective on a smaller scale — to align and incentivise providers to better coordinate and integrate service delivery with housing provision that contributes to increasing the social mobility, independent living skills, employment, community connections and wellbeing of residents — to increase the focus on evidence-based outcomes, early intervention and prevention, and where possible, solving rather than managing social problems — as part of larger housing property transactions as a risk minimisation strategy, for 	<p>including a shift to a focus on prevention and early intervention, a focus on outcomes rather than activities/outputs and a focus on rigorous measurement to inform future investment towards the most efficient and effective programs.</p> <ul style="list-style-type: none"> • Provides opportunities for cross-sector collaboration to identify better ways to deliver services. • Promotes evidence-based action leading to better understanding of the problem. • Has promoted investment in data collection and analytics, including linked data across departments and layers of government—helps to build a clearer picture of the problems as well as the effectiveness of solutions. <p>Drawbacks</p> <ul style="list-style-type: none"> • Nascent market and many assumptions and expectations of its potential remain untested. • Costly and time-consuming—very few service providers are able to absorb these costs without additional grant funding. 	<ul style="list-style-type: none"> • Needs a whole-of-government approach to manage lack of alignment between the focus of SIB (i.e. cost centre) and where savings would flow. • Requires increased Australian Government market involvement and SIB issuance to increase market size, further develop market infrastructure, and improve data availability. • More suited to applications that have opportunity to generate long-term government savings (e.g. early intervention targeting young people), and where attribution of costs and savings can be calculated and distributed to departments accordingly. • Requires government to provide high quality costs and outcomes data, to ensure data management methods are robust and efficient, to establish data linkage protocols, and to provide infrastructure to support data analysis and interrogation to increase efficiency and reduce costs that facilitate transactions. • Need for capital requirements to drive legal form (e.g. STREAT 	<ul style="list-style-type: none"> • Navigating complexity and diverse stakeholder groups requires specialised intermediaries. • Setting unrealistic or unclear expectations, and not engaging the most appropriate forms of capital given the particular risks and opportunities. • Avoiding bias and the risk of the creation of perverse incentives in the measures of performance that are relied upon to identify impact. • Avoiding unintended consequences, such as crowding out already successful and less costly alternatives. • Aligning the interests of all SIB stakeholders. • Lack of alignment between focus of SIB and where cost-savings will flow. • Lack of rigorous and publicly-available government service use and cost data required to define the economic models that can be used to inform outcome payments in SIB transactions. • Nascent market—too early to tell if SIBs will generate the outcomes and returns expected.

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instance, delivering tenancy support services that improve tenants' ability to maintain successful tenancies, or to better align stakeholder interests in delivering the desired outcomes.	<ul style="list-style-type: none"> • Administratively burdensome on service providers, who do not necessarily have the resources or capacity to service SIBs. • Do not necessarily need a formal SIB structure to realise some of the benefits—although it does impose market disciplines. • Limited pool of concessional capital in Australia—risk that existing capital sources (e.g. grants) are redirected rather than new sources identified. • As government is often the services commissioner, scaling up ultimately requires increased commitment from government to fund programs. • Intensity of procurement process limits applicability to larger scale programs. 	<ul style="list-style-type: none"> • leveraged both its charitable status and issued equity through a for-profit social enterprise subsidiary). • Implies strong alignment across stakeholder groups. 	<ul style="list-style-type: none"> • Leaving behind the most vulnerable members of the community with the most complex needs, who are often the most expensive to service (and thus may require additional government block funding to sustain support requirements to adequately mitigate risks for landlords).
Social Impact Loans To provide credit on reasonable terms to lower income residents and households to finance: <ul style="list-style-type: none"> • shared equity schemes • mortgage loans to purchasers of affordable housing. 	Returns Debt (credit). Concessionary and non-concessionary returns. Orthodox and reformed credit terms. Benefits	<ul style="list-style-type: none"> • Requires access to appropriate personal credit data to enable lenders to make informed credit decisions (e.g. possibility to explore initiatives such as the UK Big Issue Invest—The impact of Social Housing Rent Payment Data on Credit Scoring) 	<ul style="list-style-type: none"> • Risk that credit is extended to people who do not have the ability or capacity to manage the loan or obligations of home ownership, causing stress and leading to poor outcomes for residents. • Inability for lenders to make timely and efficient informed credit decisions if relevant credit

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	<ul style="list-style-type: none"> Creates pathways for progression along housing continuum. Can be tailored to borrowers' needs to reduce risk of default. Increases financial inclusion and mitigates discrimination. Provides opportunity to create a credit history. <p>Drawbacks</p> <ul style="list-style-type: none"> Small pool of investors willing to accept reformed credit process and/or concessionary rates of return. 	<ul style="list-style-type: none"> Implies the availability and supply of affordable housing options and programs to which the social impact loans can be applied. 	information on borrowers is not readily accessible/available.

Source: authors.

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