

# What role can social impact investment play in housing and homelessness in Australia?

## Based on AHURI Final Report No. 299:

Inquiry into social impact investment for housing and homelessness outcomes



Australian Housing  
and Urban Research Institute

## What this research is about

**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. It is a growing mechanism for using capital from investors to finance solutions to complex social problems.**

## The context of this research

There is significant interest in using SII to address problems in social and affordable housing and homelessness in Australia. SII provides additional policy tools and a promising framework to design and fund more effective solutions to these complex issues. SII is however relatively new, not well understood, and there is a need for further evidence on how it might be applied.

## The key findings

SII have four components:

- 1 **Intentionality:** SII intend to obtain a social or environmental objective for clearly defined groups.
- 2 **Dual return expectations:** SII expect both a social and financial return, although in some SII one of these types of return may be more highly prioritised over the other.
- 3 **Measurement:** SII involve clear and robust measurement of social/environmental impact and financial indicators.

- 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. In this respect, additionality may be considered part of intentionality: there is an intention to create a social or environmental impact not otherwise available.

### Past SII funding

In the recent past, SII has been used in Australia to fund 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'
- 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.

### Key players

Different key players have different roles in the SII market:

- **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 role enabling, controlling many of the

levers that could remove barriers for SII to develop and expand, including increased or redirected and better targeted government subsidies and concessions for social and affordable housing providers so as to increase investment into the sector

- *Beneficiaries*: people who use the goods and services are key to the operation of SII as they are the experts in their own lives and therefore may have roles in co-creating and co-designing solutions to best meet their needs. Their involvement in SII decision-making, governance and informing implementation and measurement processes is also critical to ensure that processes and policies are well targeted, equitable and inclusive.

### Role of SII

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 scarce forms of capital (grants) by blending them with finance borrowed from other investors or with philanthropy.
- providing the opportunity to recycle capital (grants) where finance borrowed from investors may achieve the desired social outcomes and be more appropriate than using 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.

### SII options for Australia

Several promising SII instruments and models emerged as viable options to contribute to Australian housing and homelessness outcomes. While some of these models could be achieved without SII, incorporating SII principles may improve the likelihood of achieving the desired outcomes. These models are:

- *Housing supply bonds* (HSBs) to provide low-cost and longer-tenured capital to registered CHPs (and possibly other specialist affordable housing providers). 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) subsidiaries that provide revenue streams back into social and affordable housing

providers that increase their financial sustainability and ability to achieve their core purpose.

- *Social impact bonds* (SIBs) to provide social services that deliver desired outcomes most effectively or to demonstrate efficacy and to incorporate lessons back into 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.

### International experience

The experience of SII in social and affordable housing in the US and UK reveals 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.

### Key conditions for SII success

A number of key conditions for SII success emerged through the Inquiry:

- The role of government as market builder, steward and participant (commissioner of services and

**Figure 1: Key players of the SII market in Australia**



funder) in the SII market, and in its various roles in housing and homelessness.

- The critical role for effective infrastructure to build and support SII:
  - 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.

### Challenges and barriers

There are some significant challenges and barriers 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.
- 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 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.

### Risks to implementing SII

- 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 much 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.
- SII may displace other non-SII initiatives that are providing better outcomes and/or at lower cost.
- Investors' performance expectations are not met, which reduces confidence and stalls SII.

- Insufficient targeting of SII, leading to unintended consequences for beneficiaries and/or capital not being directed where it is most needed.
- There can be high transaction costs of SII, which are often borne by service providers who already have limited capacity.
- The evidence base for SII is yet to be developed conclusively and, so far, suggests that SII may be better suited to 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, putting 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.
- 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.

### What this research means for policy makers

- 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. 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.
- 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.
- 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.

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

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.

## Methodology

As the final report of 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. 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 three case studies.

## Further information

### TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

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