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Private sector involvement in social and affordable housing

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Acronyms and abbreviations used in this report

ACT	Australian Capital Territory
AHBA	Affordable Housing Bond Aggregator
AHC	Aboriginal Housing Company
AHO	Aboriginal Housing Office
AHURI	Australian Housing and Urban Research Institute Limited
APRA	Australian Prudential Regulation Authority
ARHSEPP	State Environmental Planning Policy Affordable Rental Housing
BTR	Build to Rent
CHIA	Community Housing Industry Association
CHO	Community Housing Organisation
CRA	Commonwealth Rent Assistance
ESG	Environmental, Social and Governance
LAHC	Land and Housing Corporation (NSW)
LIHTC	Low Income Housing Tax Credit scheme (US)
NHIF	National Housing Infrastructure Facility
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
NHHA	National Housing and Homelessness Agreement
NHFIC	National Housing Finance and Investment Corporation
NHIF	National Housing Infrastructure Fund
NRAS	National Rental Affordability Scheme
NRSCH	National Regulatory System for Community Housing
NSW	New South Wales
NT	Northern Territory
PPP	Public Private Partnership
PRS	Private Rental Sector
SA	South Australia
SAHT	South Australian Housing Trust
SDA	Specialist Disability Accommodation
SEPP	State Environmental Planning Policy (NSW)
UDIA	Urban Development Institute of Australia
UK	United Kingdom
US	United States
VHF	Victoria Homebuyer Fund
WA	Western Australia

Executive summary

Key points

- Increasingly, a combination of government, not-for-profit, and for-profit organisations are involved in financing, developing and managing specialist, social, and affordable housing. The private sector appetite for such partnerships has never been stronger, reflecting increased corporate governance and shareholder expectations for investments and projects that deliver social and environmental outcomes.
- Maximising these opportunities to increase new social and affordable housing supply through increased private involvement will require strong policy setting and regulation, efficient procurement processes, and adequate and ongoing 'gap' subsidy from government, particularly to serve those in highest need.
- Models should emphasise collaboration and partnership across the public, community, and private sectors, to build capacity throughout the housing industry. This collaboration should be guided by rigorous Australian Government, state and territory government and local government housing strategies. These strategies should identify long term demand for specialist, social, affordable and market housing and articulate clear delivery targets by market segment. These strategies must be underpinned by firm funding commitments and viable delivery mechanisms.
- Wider benefits associated with private sector participation in social and affordable housing include: the opportunity to support skills and capacity building across the housing industry; improved environmental outcomes in residential housing stock, including social and affordable housing; and local employment and training opportunities.

This project investigates the potential for wider private sector involvement to increase the supply of social and affordable housing in Australia. This research draws on the insights of industry leaders and sector experts through a series of Investigative Panels and case studies, as well as a review of the international evidence. This research asks whether and how increased private sector involvement could augment social and affordable housing delivery efforts, increasing housing industry capacity across private not-for-profit and for-profit sectors.

In this study we use the term private sector to refer to all non-government and non-public entities. This includes both for-profit and not-for-profit housing providers. For the purposes of the research, the community housing sector is deemed to be part of the private sector.

Key findings

Reflecting longer term social and economic policy reforms, social and affordable housing is increasingly financed, developed and managed by a combination of government, community-based and market providers. This reflects increasing 'hybridity' across the housing system, whereby community or not-for-profit housing providers have shifted towards more quasi commercial practices to increase and cross-subsidise their operations (Blessing 2012; Mullins, Milligan et al. 2018).

Similarly, some for-profit firms and social enterprises have sought to produce or deliver social or affordable housing, while investors are increasingly valuing Environmental, Social and Governance (ESG) goals and demonstrable corporate social responsibility in business (van Bortel and Gruis 2019).

The documented need for 36,000 new social and affordable homes per year to meet the forecast demand to 2036 (Lawson, Pawson et al. 2018) is so great that it is clear this 'hybridity' of the housing system and cross-sector partnerships are essential; no one sector can address the need alone.

In the United Kingdom (UK), private investment in social and affordable housing dwarfs government grant funding by a factor of three to one (Williams, Williamson et al. 2020). Savills UK estimates that the combination of debt finance, government grant, and planning contributions (under s106) is sufficient to fund delivery of around 190,000 new affordable rental dwellings and 60,000 shared ownership dwellings between 2021—26 (UK 2021). In the United States (US), over one million affordable rental units have been financed by private investors incentivised by the longstanding low-income housing tax credit scheme, including over 100,000 new dwellings in 2020 alone (US Housing and Urban Development 2021).

Existing initiatives in Australia

While more modest in scope, Australian governments have also sought to encourage private involvement in affordable rental supply and have entered into a variety of partnerships and joint ventures predominantly at the state level to renew or develop new social and mixed tenure housing. The establishment of the National Housing Finance and Investment Corporation (NHIFIC) Bond Aggregator in 2019 was a major Australian Government initiative to raise low-cost debt finance for community housing providers.

In the wake of COVID-19, state and territory governments have committed significant new funding and initiatives to construct additional social and affordable housing units. These include commitments to deliver over 75,000 new social and affordable housing dwellings.

Further, community and Aboriginal housing organisations are working with private partners to deliver mixed income projects which cross subsidise social and affordable homes, while also achieving wider benefits of employment, education and community engagement.

Despite these initiatives, Australia's well documented shortage of affordable housing will persist without enduring government equity co-investment programs (Lawson, Pawson et al. 2018). These programs are needed to provide the final gap funding so construction of affordable developments by either not-for-profit or for-profit private sectors is financially feasible.

Expert perspectives

A series of Investigative Panels and interviews with 45 experts across housing, finance, development and policy sectors revealed strong appetite for affordable housing partnerships, reflecting an increasing focus by boards and shareholders on projects that deliver social and environmental outcomes. Private for-profit participants demonstrated a high level of familiarity and investment of time in understanding the sector, forming partnerships with community housing organisations, and indeed tendering for and delivering social and affordable housing. Other key findings included:

- Participants emphasised that affordable housing for low-income earners will always require some government subsidy, capital contribution, access to government land and or an inclusionary planning mechanism. Dwellings that house the highest needs clients require the deepest subsidy.
- However, when considered across the continuum of housing need, some products (such as those targeting moderate-income earners) require lower levels of government subsidy because they are able to pay more for their housing. Consequently, participants identified significant potential for private investment in affordable housing for key workers.
- Institutional investors suggested that if the Australian Government and state and territory governments funded social housing in the same way as other infrastructure—by setting targets and providing ongoing subsidies or availability payments—it would unlock a significant capital market of investment to meet long term demand.
- Developers broadly recognised the need for mandatory inclusionary zoning (with mandatory requirements seen to create a 'level playing field' and to enable requirements to be factored into land costs), on the proviso that it is phased in over several years to not financially disadvantage projects on sites already owned, and ideally with incentives such as density bonuses.
- Developers and policy leaders see mixed tenure projects, including the redevelopment of public housing estates, as opportunities for increasing social and affordable housing supply through private involvement.
- Industry participants see the community housing sector as an essential partner in all mixed tenure projects, though community housing developers noted reluctance to take disproportionate risk on market-rate housing used to cross-subsidise affordable housing.
- All participants spoke of delays in government procurement processes and planning approval uncertainties, which increase costs in both risk premiums and holding costs for mixed tenure and affordable housing projects. Further, participants cautioned that ongoing government support to grow the community housing sector will be important if they are to partner effectively in mixed tenure developments at scale.
- Overall, participants reported that repeated changes in government policies and programs and a lack of continuity across political and bureaucratic leadership undermine opportunities to expand social and affordable housing through private sector involvement. The lack of a stable national program of 'gap' funding to complete feasibility on social and affordable housing projects holds supply back; finite state and territory programs cannot provide the scale required for large scale institutional investment. They emphasised that certainty is essential for investor confidence, across all regulatory and program settings. Program permanence rather than finite, closed-ended initiatives would encourage participation.
- Participants across all of the investigative panel meetings and interviews identified wider benefits that may arise from private sector participation in social and affordable housing. These benefits include: the opportunity to support skills and capacity building across the housing industry; improved environmental outcomes in residential housing stock, including social and affordable housing; and local employment and training opportunities.

However, policy leaders cautioned that private involvement in the social and affordable housing sector raises potential reputational, operational and financial risks to government which need to be adequately managed. They advised that reputational risks to government – for instance, poor social housing construction built under the Nation Building Economic Stimulus Plan from 2009 following the global financial crisis – can be mitigated by strong due diligence in tendering and project oversight. Financial risks to government can be partially mitigated through the use of long term ground leases in Public Private Partnership (PPP) rather than the transfer of assets to private partners.

Policy development options

This study highlighted that a range of established and emerging affordable housing product types across the continuum of housing need can be supported through collaboration with private not-for-profit and for-profit partners. These depend on different combinations of government subsidy, policy settings, and regulation, and are suitable for delivery across a variety of different development contexts.

Table 1: Typology of affordable housing product types and potential private sector involvement

Product	Government subsidy, policy or regulation	Development contexts	Potential private for-profit sector role	Potential private not-for-profit sector role
Specialist housing (including crisis, disability, youth, Indigenous, senior housing)	• Capital grant • Operating/service/rental subsidy • Land lease or transfer • National Regulatory System for Community Housing (NRSCH)	• Varied	• Institutional investment of equity • Construction or operating debt • Development management • Ownership	• Development • Ownership • Property and tenancy management
Social housing (managed by CHO)	• Capital grant • Operating/service/ rental subsidy • Government backed bonds • Land lease or transfer • Inclusionary planning requirement / incentive • NRSCH	• Urban (often estate) renewal; mix of inner, middle, outer and regional locations	• Institutional investment/ Finance • Development/ Construction • Sale of private market housing in mixed tenure projects	• Development • Ownership • Property and tenancy management
Affordable rental (income based rent) (managed by CHO or private landlord)	• Some capital funding/ operating/service/rental subsidy required; affordability may be time limited • Rental subsidy (eligible households) • Government backed bonds • Land lease or transfer • Inclusionary planning requirement / incentive • NRSCH	• Urban renewal/ infill (higher value metropolitan markets)	• Institutional investment/ Finance • Development/ Construction Ownership • Property and Tenancy Management • Sale of private market housing in mixed tenure projects	• Development • Ownership • Property and Tenancy Management
Below market rental (e.g. key worker 'build to rent', 'boarding houses', student accommodation)	• Tax subsidy/concession • Land lease • Planning concession/ incentive • Regulation may be required to manage access/ affordability for target groups	• Urban renewal/ infill	• Institutional investment/ Finance • Development/ Construction Ownership • Property and Tenancy Management	• Development • Ownership • Property and Tenancy Management
Low-cost home ownership (including shared equity, build to rent to buy)	• Home owner grants • Government loan and shared equity schemes • Planning requirements or incentives • Regulation may be required to manage access/ affordability for target groups	• Greenfield or redevelopment projects	• Finance • Development/ construction • Property and Tenancy Management • Market housing sales	• Tenancy Allocation/ Management

Source: Authors.

To realise these opportunities, strategic leadership from all levels of government is needed. A national housing strategy set by the Australian Government and implemented through state, territory and local government commitments is needed to address long term demand for housing across all market segments, including crisis, specialist, social, affordable rental, affordable purchase and private market housing.

Underpinned by robust analysis comparing future housing demand to current supply by market segment and typology, location and timeframe, these strategies should inform funding and specific commitments to be delivered by each level of government.

Table 2: Stages and activities for each level of government to expand social and affordable housing supply through increased private sector engagement

Stage	Level of government	Activity
Housing strategy	Australian, state and territory, and local	Understand future demand across housing market segments, current supply and gap analysis of housing need, which type, where
Housing targets	Australian, state and territory, and local	Quantify and set targets of new homes by market segment, including crisis, social and affordable housing, to meet forecast demand, by housing type, location and timeframe
Gap subsidy program	Australian, state and territory	Quantify finance required and design efficient allocation of ongoing gap subsidy program to leverage private participation by market segment e.g. crisis, social and affordable housing. Gap finance could be formulated as capital grant, tax concession, or recurrent subsidy
Outcomes	Australian, state and territory	Define social, economical, environmental, and other benefits sought, define measures, targets and reporting frameworks e.g. local employment, climate resilient design
Budgets	Australian, state and territory, and local	Commit funding to ongoing gap subsidy supplemented by annual targeted budgets to engage private sector in contributing to delivery of housing targets across market segments
Policies and programs	Australian, state and territory, and local	Implement clear, consistent policies and programs to engage private sector in contributing to delivery of housing targets across market segments
Procurement	Australian, state and territory	Implement clear, consistent procurement to competitively and efficiently award resources to the private and CHO sectors
Regulatory systems	Australian, state and territory	Implement principles-based regulatory system to monitor and control quality of providers and housing
Risk and performance	Australian, state and territory, and local	Gather and analyse data through regular reporting to manage risks, inform continual improvement and evidence based models

Source: Authors.

Clear, consistent procurement processes should be implemented by each level of government for their respective programs to competitively and efficiently award resources to the private sector and Community Housing Organisation (CHO) sectors to deliver this housing, working in partnership.

Finally, regulatory systems should be refined or established to measure, monitor and control achievement of these targets and the quality of providers and housing. Ideally this should be on a national basis for consistency. However, all levels of government should collect and report data at the appropriate scale to monitor progress against targets, manage risks and inform continual improvement.

Risks and benefits of private involvement in the social and affordable sector

In sum, the research findings suggest that involving the private sector does not necessarily lead to increased social or affordable housing supply and in some cases may lead to poorer outcomes for residents and communities. However, when programs are carefully designed and risks mitigated through stringent regulation and oversight, private involvement can:

- extend public subsidy and resources, by leveraging access to additional sources of capital and land
- assist in cross-subsidising the provision of housing for those on very low and low-incomes
- support innovation in the design and delivery of new housing products and the mix of market segments served
- contribute to capacity building within the not-for-profit social and affordable housing sector and the housing industry more widely
- help stabilise rates of new housing production, enabling construction to respond better to shifts in demographic demand (such as population growth and change, unmet housing need), rather than peaks and troughs in the market cycle.

The study

This project investigated existing and potential approaches for increasing social and affordable housing supply through greater private sector involvement in financing, developing and delivering new supply. Using a mixed methods approach to address these issues, the project aimed to:

- Learn from established and emerging models for engaging private sector investors and developers in financing or delivering social and affordable housing, across different market segments and tenures in Australia and internationally
- Assess the appetite for new and deeper private sector participation in Australia's affordable housing industry, particularly in the light of COVID-19
- Identify key existing and potential players, and financial, regulatory, or development barriers to wider participation
- Define which strategies for private sector participation maximise social and affordable housing supply, build industry capacity, and foster emerging markets, having regard to the range of different industry participants, housing products and market contexts in Australia.

The research was carried out in four phases. We first reviewed the national and international research evidence on private sector involvement in social and affordable housing provision. This analysis was used to develop a typology of affordable housing products relevant to private sector participation in Australia.

In the second phase of the research, private sector appetite to engage in social and affordable housing, models for engagement, and challenges for scaling up involvement were examined. This included Investigative Panels and interviews with 45 experts from the finance, development, community housing and policy sectors.

Drawing on the panel deliberations and the typology of affordable housing products identified in phase one, we next undertook five case studies to explore different models of private sector engagement in Australia in greater depth.

The final phase of the study developed a set of strategies for increasing social and affordable housing through increased private sector involvement in financing and developing new supply across a variety of market segments and contexts.

The research builds directly on a series of previous AHURI studies on financing and increasing affordable housing supply (Milligan, Yates et al. 2013; Milligan, Pawson et al. 2017; Gurran, Rowley et al. 2018; Lawson, Denham et al. 2019), including recent work on the private sector's capacity to support economic recovery in the wake of COVID-19 (Leishman, Aminpour et al. 2022). It updates and extends this work by drawing on the in depth and varied perspectives and knowledge of eminent experts across housing finance, development, management and policy from both the private and public sector. In doing so, this research contributes important and policy relevant insights into the opportunities, challenges, risks and mitigation strategies associated with expanding Australia's social and affordable housing supply through increased private sector involvement.

Grounded in, and informed by, the wider international research and policy literature on evolving hybridity in housing systems, this study also offers fresh empirical data on the changing roles and interdependencies between government, private not-for-profit, and private for-profit actors in the contemporary Australian housing context.

1. Introduction

- **Australia's housing system needs transformational change. Prior to the COVID-19 pandemic, around 3,000 social and affordable dwellings were produced per year, against an estimated need of around 36,000 homes per year to 2036 (Lawson, Pawson et al. 2018).**
- **The scale of this need means that no one sector alone can address it.**
- **In this context, this project investigates the potential role the private sector could play in contributing to Australia's social and affordable housing supply.**
- **The research utilised an investigative panel and interview process including experts from the development industry, finance, community and specialist housing providers and policy makers.**
- **The outcomes from the Investigative Panels and interviews combined with a series of Australian case studies demonstrate considerable appetite and capacity. They also inform a roadmap of strategic options for increasing private sector involvement in affordable housing provision while managing potential risks.**

Australia's housing system needs transformational change. Prior to the COVID-19 pandemic, around 3,000 social and affordable dwellings were being produced per year, against an estimated need of around 36,000 homes (727,000 by 2036) (Lawson, Pawson et al. 2018). This scale of need requires a multi-sectoral response. But despite a more than doubling of the not-for-profit community housing sector between 2008—09 and 2016—17 from 39,800 to 82,900 dwellings under management (Milligan, Pawson et al. 2017), the fundamental cost of constructing and managing rental housing is not supported by the income it generates. As a result, CHOs cannot meet Australia's affordable housing requirements unassisted.

In this context, this project investigates the potential role the broader private sector could play in scaling up Australia's social and affordable housing supply.

Defining the 'private sector'

In this study we use the term private sector to refer to all non-government and non-public entities. This includes both for-profit and not-for-profit housing providers. For-profit private housing providers include both listed and non-listed companies of all sizes who may develop or provide financing to developers of housing. Not-for-profit private housing providers also develop or finance housing but with a corporate charter that prevents them from taking distributions (profit), so any surplus from operations is directed back into housing.

CHOs comprise the vast majority of private not-for-profit housing entities. What makes a not-for-profit a CHO is being registered by the National Regulatory System for Community Housing (NRSCH), which was established in 2008. In addition, the broader Australian Charities and Non-Profits Commission (ACNC) regulates non-profits.

The NRSCH's state Registrars regulate CHO's housing management, development, and financing activities. This may include managing state-owned social housing on behalf of a state or developing and managing their own affordable rental housing for tenants who are not within the social or public housing system. CHOs must be registered with the NRSCH to tender for competitively-allocated programs or borrow debt through the Australian Government's National Housing Finance and Investment Corporation (NHFIC) bond aggregator.

In contrast to international jurisdictions such as the UK and the US, and despite notable efforts (Rowley, James et al. 2016; Rowley, James et al. 2016; Lawson, Denham et al. 2019), private sector involvement in financing and delivering new affordable housing supply remains limited in Australia.

Consequently, this research asks whether and how increased private sector involvement could augment affordable housing delivery efforts, alongside wider strategies for increasing housing industry capacity across not-for-profit and for-profit sectors. In doing so, we draw on Australian and international research and evidence as well as the insights of industry leaders and sector experts.

The research builds directly on a series of previous AHURI studies on financing and increasing affordable housing supply (Milligan, Yates et al. 2013; Milligan, Pawson et al. 2017; Gurran, Rowley et al. 2018; Lawson, Denham et al. 2019), including recent work on the private sector's capacity to support economic recovery in the wake of COVID-19 (Rowley, Crowe et al. 2020; Maclennan, Long et al. 2021).

1.1 Hybridity in social and affordable housing provision

Shifts away from traditional models of public housing provision reflect both long term political shifts towards neoliberal economic reform and more recent fiscal constraint, whereby private not-for-profit and for-profit involvement across a range of social services and infrastructure is increasingly encouraged (van Bortel, Gruis et al. 2019).

This has resulted in a variety of different models of private involvement in social and affordable housing provision. These include models for financing social and affordable housing through private investment; models for encouraging or requiring additional social and affordable units through the development process; and models for involving private landlords or firms in the delivery of rental and special needs accommodation. In practice, many of these models intersect at the project level.

The notion of 'hybridity' is often used to describe the organisational changes that have arisen as traditional public or community (not-for-profit) housing providers have shifted towards more quasi commercial practices to secure additional funding and expand or cross subsidise their operations (Blessing 2012; Mullins, Milligan et al. 2018). There is a large and growing literature on the implications of this 'state directed' hybridity in the formerly not-for-profit housing sector (Mullins, Milligan et al. 2018; van Bortel and Gruis 2019; Rolfe, Garnham et al. 2020).

Hybridity is increasingly observed even within organisations where a not-for-profit can have a for-profit subsidiary, or vice-versa (Crook and Kemp 2019). These distinctions between for-profit and not-for-profit private players are also frequently blurred as CHOs grow in commercial experience and sophistication in pursuing their housing missions, and for-profit companies increasingly value social impact and corporate social responsibility in their business practices.

These ‘hybrid’ organisations may be able to access new opportunities for growth by leveraging private capital or land, or by reaching new market segments beyond those traditionally within the social housing sector. Hybridity is especially helpful where the public sector has limitations. For example, state and territory government housing departments cannot borrow money from commercial banks or NHFIC, and their tenants cannot receive Commonwealth Rental Assistance (CRA). However, there are also concerns that in pursuing ‘market returns’, community and not-for-profit housing organisations may lose sight of their core mission and target groups (Morrison 2016). A related, system level concern is that market oriented ‘hybrid’ housing organisations and mechanisms tend to mirror rather than counterbalance market dynamics (Byrne and Norris 2018).

It is not only not-for-profit housing organisations that are showing signs of ‘hybridity’. The rise of social and environmental objectives and missions within the corporate sector means that for-profit firms may seek to invest in projects that prioritise social returns rather than financial profit (van Bortel and Gruis 2019). While still relatively small in scale, the emergence of for-profit firms and social enterprises seeking to produce or deliver social or affordable housing challenges traditional binaries between ‘private’, and ‘community’ or ‘not-for-profit’ organisations.

However, as the weight of international evidence and Australian experience has demonstrated, private involvement in provision of assets or service delivery does not necessarily deliver lower costs to government or improve public outcomes. With specific reference to housing assistance, there are ongoing concerns that an emphasis on private involvement may shift priority away from the groups in highest need or result in the privatisation of social housing, jeopardising public assets and increasing tenant insecurity.

There is, therefore, a need to better understand emerging ‘hybrid’ funding and delivery models for social and affordable housing, emerging internationally and with relevance to the Australian context, including potential opportunities and limitations. The ‘continuum of housing need’ offers a basis for thinking through intersections between subsidy requirements and the appropriateness and affordability of housing for different needs groups. It provides a conceptual basis for considering and assessing the potential opportunities presented by ‘hybrid’ models across a range of housing typologies.

1.1.1 Social and affordable housing, within the continuum of need

The ‘continuum of housing need’ refers to the spectrum of different requirements for housing that are not adequately met within the private market. At one end of the continuum is crisis accommodation and specialist housing for people with high support needs, or at risk of homelessness. The continuum extends through to social rental housing for those on very low and low incomes, to affordable rental and forms of lower cost home ownership targeting moderate income earners. A variety of different terms are used to describe these forms of housing. In this project we use the terms social and affordable housing to refer broadly to housing that is subject to eligibility criteria and affordability requirements set by government. Key terms and definitions used in this project are summarised in Appendix 1.

Social housing is rental housing that is subsidised and subject to access and affordability requirements set by government. It encapsulates housing for rent by eligible very low and low-income households, managed by government or by not-for-profit community housing organisations.

Affordable housing more generally can be defined as:

- rental housing priced at below market rents and earmarked for eligible low to moderate-income households
- owner-occupied housing for eligible households that is provided under a subsidised loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement (Milligan, Pawson et al. 2017).

The states and territories have adopted different definitions of affordable housing within their policies, legislation and programs. For instance, under New South Wales (NSW) planning legislation affordable housing has been confined to rental products rather than extending to owner-occupied homes. Notably, this is not the case internationally, nor in South Australia, as outlined further below. We discuss the range of subsidised and access restricted housing products and target groups further throughout this report.

1.2 Research aims and approach

This project investigated existing and potential approaches for increasing social and affordable housing supply through greater private sector involvement in financing, developing and delivering new supply. Using a mixed methods approach to address these issues, the project aimed to:

- Learn from established and emerging models for engaging private sector investors and developers in financing or delivering social and affordable housing, across different market segments and tenures in Australia and internationally
- Assess the appetite for new and deeper private sector participation in Australia's affordable housing industry, particularly in the light of COVID-19
- Identify key existing and potential players, and financial, regulatory, or development barriers to wider participation
- Define which strategies for private sector participation maximise social and affordable housing supply, build industry capacity, and foster emerging markets, having regard to the range of different industry participants, housing products and market contexts in Australia.

Table 3 summarises the research questions and our research approach.

The research was carried out in four phases. We first reviewed the national and international research evidence on private sector involvement in social and affordable housing provision. This analysis, combined with phase two of the research, was used to develop a preliminary typology of affordable housing products. This was further refined for the Australian context through the empirical components of the research. In the second phase of the research, private sector appetite to engage in social and affordable housing, models for engagement, and challenges for scaling up involvement were examined. This included Investigative Panels and interviews with experts from the finance, development housing and policy sectors. Drawing on the panel deliberations and the typology of affordable housing products, we undertook five case studies to explore different models of private sector engagement in Australia in greater depth. Further details of these three phases are discussed below. The final phase of the study developed a set of strategies for increasing social and affordable housing through increased private sector involvement in financing and development of new supply across a variety of market segments and contexts.

Table 3: Summary of Research questions, method and data

Research question	Approach	Key data and analysis
RQ1: What can be learned from established and emerging models for engaging private sector investors and developers in social and affordable housing?	Review of international evidence; identification of Australian case studies; Investigative Panels with industry and policy experts.	• International evidence review • National review of Australian policies and programs to incentivise/enable private sector involvement in social and affordable housing • Investigative panel and interview transcripts • Case study analysis using typology of affordable housing products
RQ2: What is the appetite for new and deeper private sector participation in Australia's affordable housing industry, and has this changed in the light of COVID-19?	Investigative Panels (IP) and interviews	• Thematic analysis of IP and interview transcripts • Detailed analysis of key players; financial, regulatory, or development barriers; and implications of COVID-19
RQ3: Which strategies for private sector participation would maximise social and affordable housing supply, build industry capacity, and foster emerging markets?	Investigative Panels and interviews	• Thematic analysis of Investigative Panels and interview transcripts • Identification of models that might be replicated or scaled for particular industry participants, housing products and market contexts

Source: Authors, building on AHWG 2016; Benedict 2020; Gilbert et al. 2021.

1.2.1 Evidence review

There is an existing body of international practice and research evidence on these themes. This study drew on and extended a recent review of international practice by team member Richard Benedict (Benedict 2020), as well as prior industry consultations and research on barriers to large scale private investment in affordable housing provision in Australia (Milligan, Yates et al. 2013). The findings are presented in Appendix 2.

In reviewing more recent Australian practice, we first undertook a national overview of existing initiatives involving the private sector in social and affordable housing supply, across the states and territories. This overview is presented in Chapter 2.

As outlined above, the evidence review informed the development of a preliminary typology of affordable housing product types and potential private sector involvement relevant to Australia. The typology considered particular market segments across the continuum of housing need, as well as the range of development contexts in urban and regional locations. The typology provided a reference point for the research team across the investigative panel deliberations and interviews, and was a focus in developing strategies for implementation.

1.2.2 Investigative Panels and interviews

Four Investigative Panels engaged participants with expertise across:

- finance (institutional investors, private financers, the banking sector)
- residential development (large, medium and small development and construction firms, state land developers, community housing organisations and Indigenous housing providers)
- diverse/specialist housing products (crisis, Specialist Disability Accommodation, youth and older persons)
- public policy.

A total of 36 individuals participated in the Investigative Panel deliberations. The findings from the IPs are presented in Chapter 3, with the case studies in Chapter 4 highlighting some of the key elements to successful private sector involvement in affordable housing delivery discussed during the panels.

Panellists were selected to include a mix of perspectives and experience from different parts of Australia, and in relation to different types of private firms, including housing finance and development contexts. Some panellists' expertise spanned across finance and development, as both elements are required to deliver housing projects. Panels also included representatives from private not-for-profit housing organisations (community housing organisations and specialist housing providers) and government agencies with experience working with the private sector in delivering social and affordable housing. Notably, there was considerable interest in the project from potential participants, almost all of whom accepted the invitation to attend a focus group or interview. Most Investigative Panel and interview participants were CEOs, Managing Directors or Senior Executives, and reported the high level of interest from their organisations in the research topic.

The panels were conducted on 30 August, 2 September, 6 September and 9 September 2021. They were held by remote video-conferencing, enabling participants with shared expertise from across the country to participate. Each panel ran for three hours, facilitated by industry specialists Richard Benedict or Carrie Hamilton, and was attended by all research team members. Some panellists provided additional comments and information through phone calls and emails following the panel.

The findings of the first three panels were presented to policy makers from the Australian Government and all state governments including housing, planning, and land development departments in the final policy panel.

An additional nine interviews were conducted with individuals unable to attend the IPs or proponents of exemplar case study projects. Each interview ran for approximately one hour. These interviews were similarly facilitated and followed the same prompt questions as the IPs.

A discussion paper was circulated to each Investigative Panel and interview participant prior to the session, providing context for the research and the discussion prompts. Video and audio recordings were made of all IPs and interviews. Interviews and recordings were transcribed for thematic analysis against the research questions, as well as to collect insights on the operation and outcomes of specific models for private sector engagement and to deliver specific housing typologies. The list of Investigative Panel and interview participants is included in Appendix 3.

The seniority of Investigative Panel and interview participants, the range of organisations and the time committed demonstrate a high degree of engagement from the private sector to the issue of housing affordability and the role the private sector is interested in playing in working across sectors to increase supply of social and affordable housing. The importance of the private sector's role in social and affordable housing supply was also confirmed by participation of senior policy leaders from the Australian Government and all state governments, as well as specialist housing providers and community housing organisations. This is discussed in greater detail in Chapter 3.

1.2.3 Case studies

We identified five exemplar case studies, selected to examine the range of approaches for fostering private involvement in financing, developing, constructing and delivering affordable housing across different market segments and Australian jurisdictions. As shown in Table 4 the cases include a number of different housing products involving different forms of government subsidy, policy and regulation.

Table 4: Australian case study selection

Product	Subsidy/ policy / regulation	Case study project
Indigenous affordable rental housing and student housing	• Aboriginal Land Council owned land	Pemulwuy Project, Sydney NSW
Social and affordable rental housing with private housing	• Public Private Partnership on state owned land • Government backed bonds • Commonwealth Rental Assistance • NRSCH	Ivanhoe Project, Sydney NSW
Affordable rental housing and below market rate housing (e.g. boarding houses)	• Planning mechanism (incentive)	NSW AH State Environmental Planning Policy
Affordable build to rent to buy housing with private market housing	• Planning mechanism (inclusionary zoning)	Bowden, Adelaide SA
Affordable rental housing for key workers with private housing	• No government subsidy	Aware Super Key Worker Housing, Sydney NSW, Melbourne VIC, Perth WA and Canberra ACT

Source: Authors.

The case studies ranged in scale from specific sites (such as the Pemulwuy Project for Indigenous affordable rental housing and student housing, and the Ivanhoe PPP in Sydney), to particular project models (such as the provision of affordable key worker housing by Aware Super in Sydney, Melbourne, Canberra and Perth), and state-wide policies (such as the affordable rental housing planning incentive in NSW). Data sources for the case studies included project documentation, analysis of development application documents, interviews with project proponents, and analysis of available secondary research. The case studies are discussed in detail in Chapter 4.

There are some limitations in the selection of case studies, reflecting the extent of practice in Australia. For instance, we include only a single case study of affordable home ownership (the South Australian 'rent to buy' scheme). However, the wider research findings are relevant to a broad range of existing and potential social and affordable housing types.

1.2.4 Criteria for assessing forms of private sector participation

Across all phases of the research, we drew on a framework initially developed by Milligan, Phibbs et al. (2007) to critically assess different housing initiatives and programs used internationally and in Australia. The framework identifies criteria for evaluating initiatives and programs relative to broader housing objectives. This approach recognises that different models for private sector involvement in affordable housing supply are likely to deliver different benefits or risks. It avoids the danger of assuming that all forms of increased private sector involvement in social and affordable housing will bring equal benefits for target groups or the housing system as a whole.

As shown in Table 5 below, these criteria assert that initiatives should preserve and increase the supply of social or affordable housing, in relation to the needs of target groups. They also assert that housing provided or preserved should be appropriate and well designed, recognising the needs of households and enhancing residential neighbourhoods. Initiatives and programs should contribute to wider housing system and market efficiency supporting overall objectives for new housing supply to be delivered in response to population growth and change. To this end, initiatives should deliver longer term benefits, such as increasing the capacity of Australia's affordable, and overall, housing industry in ways that support environmental sustainability and climate resilience. Unintended consequences (such as the disruption or displacement of established communities) should be identified, mitigated or avoided.

Table 5: Affordable housing initiatives and criteria for review

Criteria	Explanation
Affordable housing	Initiative preserves and adds to the supply of affordable housing where it is needed for target groups
Appropriate housing	Initiative provides well designed housing and neighbourhoods
Efficiency	Initiative supports and contributes to the efficient operation of the housing market
Longer term benefits	Initiative progressively improves industry capacity and supports environmental, social, and economic objectives
Risks / unintended consequences managed / avoided	Initiative avoids as far as possible any unintended impacts (displacement, substandard housing)

Source: Authors, adapted from Milligan, Phibbs et al. (2007) and Rachel and Irene (2016).

1.2.5 Developing a strategic 'roadmap' for scaling up private sector involvement

In the fourth phase of the project we developed an implementation strategy for scaling up private sector involvement in social and affordable housing supply, drawing from the Australian and international evidence review, case studies, IP deliberations and interviews. We assessed approaches to leverage private sector involvement using the assessment framework applied in the evidence review. This considers the effectiveness of each approach in achieving affordability, appropriateness, efficiency and longer term benefits. Following this, we summarise the private sector's appetite to engage in social and affordable housing along with the key challenges, risks and mitigation strategies. We define the optimal roles for the private sector, community housing sector and government as an effective base for partnership and collaboration. Finally, we set out a strategic approach for each level of government to optimise resources towards expanding supply of social and affordable housing through increased private sector participation.

1.2.6 Limitations

There are inevitable limitations in our research approach. In reviewing international evidence in engaging private sector participants in social and affordable housing we are largely reliant on secondary sources and experience drawn from different policy settings and market contexts. Our selection of case studies is necessarily limited by our time and resources, and does not constitute a representative sample of the full range of approaches to private involvement in social and affordable housing in Australia, modest as current practice may be. We were able to manage these issues in part by drawing on the extensive experience of our Investigative Panel participants.

Further, we recognise the potential issues associated with qualitative research involving focus group style Investigative Panels and interviews, which again provide selected insights rather than representative and statistically generalisable data. The industry and policy making participants involved in this study drew on their own perspectives and experiences, rather than representing those of their organisations. Nevertheless, with research of this kind there is always a risk that individuals will be guarded in their remarks or may present views or positions that are influenced by subjective or organisational considerations. In collecting and analysing our data we managed these risks by offering participants the opportunity to have a separate interview instead of, or in addition to, the Investigative Panels. We also anonymised all comments in our reporting. We took care in recruiting a critical mass of participants to each Investigative Panel who were able to reinforce, and sometimes challenge, the views expressed by other Investigative Panel members.

Overall, the range of research methods and data sources used in this study help triangulate and validate our key findings.

2. Private sector participation in Australia's social and affordable housing supply: National overview

- **A number of new initiatives engage the private sector in Australia's social and affordable housing supply in the wake of the COVID-19 pandemic. These include commitments to deliver over 75,000 new social and affordable housing dwellings.**
- **Community and Aboriginal housing organisations are working with private partners to deliver mixed-income projects that cross-subsidise social and affordable homes, while also achieving wider benefits of employment, education and community engagement.**
- **Institutional investors are investing in affordable housing, both to rent and to buy, for moderate-income earners, many of whom are essential workers.**
- **Despite these initiatives, the chronic shortage of affordable housing will persist without enduring government equity programs. These programs are needed to provide the final gap funding so development of affordable housing by either not-for-profit or for-profit private sectors is financially feasible.**

Over the past two decades Australian governments have implemented a range of initiatives to stimulate private sector involvement in affordable housing supply. These include funding to stimulate private investment in affordable rental supply, a variety of partnerships and joint ventures to renew or develop new social and mixed tenure housing, and the establishment of the National Housing Finance and Investment Corporation (NHIFIC) Bond Aggregator, to raise low cost debt finance for community housing providers. In the wake of COVID-19, state and territory governments have committed significant new funding and initiatives to construct around 75,000 additional social and affordable housing units. This Chapter reviews these initiatives and the wider state of practice in engaging the private sector in social and affordable housing supply in Australia. Further details are provided in Appendix 4. It provides a background for the rest of the empirical work contained in this report.

2.1 National context: funding and initiatives for housing assistance and new supply

Australia's National Housing and Homelessness Agreement (NHHA) remains an important source of capital funding for social housing supply and a range of other programs for housing assistance including homelessness and first home ownership. Under the NHHA, around $1.6 billion is provided each year to states and territories via bilateral agreements. However, funding for new social housing supply from both NHHA and additional state and territorial commitments remains inadequate to meet existing and projected need. Since its commencement in 2018, there has been a net increase to Australia's social housing stock of just 120 dwellings (Australian Institute of Health and Welfare 2021; Productivity Commission 2021), against projected future requirements of 727,300 dwellings by 2036 (Lawson, Denham et al. 2019). The inadequate funding of social housing, particularly by the Australian Government, has resulted in attention shifting as to how the private sector can help fund affordable housing delivery.

2.1.1 State and territorial funding commitments

In the wake of the COVID-19 pandemic, the majority of the Australian states and territories have made new funding commitments to increase the supply of social and affordable housing. As shown in Table 6 around $11.3 billion has been committed by state and territory governments to deliver nearly 34,000 new homes, through a variety of initiatives. Appendix 4 provides further details on these capital funding programs and other current Australian, state and territory government initiatives to stimulate private sector participation in social and affordable housing supply, as at October 2021.

Table 6: State and territory capital funding for new social and affordable housing 2021—2025

State or territory	Capital funding	Target new homes	Programs
Australian Capital Territory	$0.020bn	60	• ACT Government COVID funding
New South Wales	$0.995bn	2,200	• COVID-19 Social Housing Stimulus Package
Northern Territory	-	-	
Queensland	$1.813bn	6,365	• Queensland Housing Investment Growth Initiative (QHIGI)
South Australia	$0.680bn	7,000	• Affordable Housing Initiative • Neighbourhood Renewal Program • Affordable Housing Fund
Tasmania	$0.380bn	3,000	• Community Housing Growth Fund • Extended Social Housing Build
Victoria	$5.3bn	12,000	• Big Housing Build
Western Australia	$2.1bn	3,300	• Social Housing Investment Fund • Social Housing Economic Recovery Package
Total	**$11.288bn**	**33,925**	

Sources: Australian Commonwealth Territory Government (2020); New South Wales Government (2020); Northern Territory (2019); Queensland Government (2021); Government of South Australia (2020); Tasmanian Government (2015, 2019); Victorian Government (2021); Western Australian Government (2021).

This state and territory commitment will represent the largest increase in new social and affordable housing, dwarfing the spending resulting from the Global Financial Crisis where $5.638 billion was allocated by the Australian Government to the Social Housing Initiative (SHI), delivering around 20,000 dwellings (Pawson, Milligan et al. 2019). In stark contrast to the SHI, at the end of 2021 there had been no new direct allocation of capital funding for social housing by the Australian Government in response to the pandemic.

2.1.2 Overview of initiatives and approaches to increasing affordable housing supply

The following section describes the various initiatives used by government to secure affordable housing.

Low-cost finance for community housing organisations - the National Housing Finance and Investment Corporation

The NHFIC was established in 2018, in part to raise private low-cost debt finance for CHOs providing social and affordable housing in Australia, via its Affordable Housing Bond Aggregator (AHBA). In March 2019, NHFIC issued its first bond to raise $315 million in private finance from institutional investors. Importantly, NHFIC enjoys an Australian Government guarantee on its bond issues, to establish confidence in this new institutional investment offering backed by operating rental housing yields. Access to bond finance was made available to community housing organisations through a competitive tendering process as 10-year, interest-only loans at a fixed rate of under 3 per cent.

By August 2021, the NHFIC had provided over $2.5 billion in finance to CHOs, largely to refinance commercial debt held on 8,300 existing social and affordable dwellings. Total savings in interest for participating CHOs from NHIFC bonds are projected to exceed $420 million, which they can use to potentially "support delivery of 4,600 new social and affordable homes" and provide wrap around services and more social and affordable housing (Australian Government 2021).

NHFIC was intended to support the community housing sector by helping its growing debt finance capacity match more closely the profile of the underlying assets. Before NHFIC, CHOs could only borrow at five-year terms from commercial banks, with traditional property-investment security terms based more on crystalising asset value uplift rather than on stable operating cashflow from continuous tenancies. The NHFIC, based on the UK's Housing Finance Corporation, is designed to lengthen these lending tenures to provide certainty to CHO borrowers and establish an asset class with a low-risk profile that matches the stability of the underlying affordable rental cash flows.

NHFIC's AHBA does not directly provide equity or subsidised funding to generate affordable housing supply beyond its margin of interest rate savings on borrowings. Rather, NHFIC was intended to be paired with a program of capital subsidy to generate a construction pipeline of affordable rental housing for the AHBA to lend to, once the existing bank refinancings are completed. Without this program of "explicit ongoing subsidies" to fill the feasibility gap, the NHFIC's bond issuance volume will be limited to the various time-limited state programs (Australian Government 2017).

Concessional loans and grant funding for infrastructure

Although not primarily a source of capital funding for new social housing construction NHFIC does, however, provide $1 billion through the National Housing Infrastructure Facility (NHIF) to offer concessional loans and grant funding for new and updated infrastructure needed for new housing development, such as roads, water, sewerage, electrical, communications and remediation. As at August 2021, NHFIC's Board has approved over $300 million in loans and grants via the NHIF, supporting the delivery of over 5,700 new social, affordable and market dwellings (Australian Government 2021).

NHFIC also funds a $1.5 million capacity building program, administered by the Community Housing Industry Association (CHIA) to help CHOs with the upfront work required to support a NHFIC loan application.

Specialist Disability Accommodation

Funding for Specialist Disability Accommodation (SDA) is available under Australia's National Disability Insurance Scheme (NDIS) to incentivise private supply of purpose-built housing for the estimated 6 per cent of NDIS participants who require highly tailored accommodation to exit congregate or aged care living situations. Under the SDA scheme, support services have been decoupled from accommodation, so scheme participants have control over their chosen support providers and accommodation logistics. Rather than directly build or fund construction of SDA dwellings, the National Disability Insurance Agency (NDIA) has set a Benchmark Price that it will pay, monthly, to private participants who respond to NDIS scheme participants' demand for specialist accommodation. This recurrent payment represents the capital cost of SDA dwelling provision spread over time, incorporating an above-market rental stream to institutional investors in return for providing the up-front capital for these high-quality, well-located dwellings for scheme participants who have complex needs (Wiesel and Habibis 2015).

Public private partnerships

In Australia, PPPs for social and affordable housing development have primarily involved the redevelopment of existing public housing estates and/or reconfiguring government land. Responsibility is often shared between the government, private developers and community housing organisations. Planning approval may involve both local and state and territory authorities, and involves risks for the private sector partner if lengthy delays increase transaction costs and impact financial viability (Gilmour, Wiesel et al. 2010).

Public housing estate renewal PPPs typically involve a higher proportion of new 'market' housing than social or affordable stock. In exchange for the construction or renewal of the social and affordable component at no additional cost to government (beyond the input of land), up to 70 per cent of new construction may be private market units. This 70:30 configuration may also be justified on the basis of 'social mix'; or perceptions that marketability and potential developer returns would be reduced by a higher proportion of social housing. However, a review of the international evidence on public housing renewal projects questions these arguments and highlights the risk of seriously undervaluing large public housing assets (Darcy and Rogers 2019). Similarly, a recent evaluation of the Victorian Public Housing Renewal Program showed the presence of social housing had little effect on sales of private apartments in renewed inner-city public housing estates (Kelly and Porter 2019). The Bowen, Ivanhoe and Aware Super case studies in this report similarly demonstrate strong private market demand for mixed tenure projects that include social and affordable housing.

Box 1: Bonnyrigg/Newleaf PPP

Only a handful of social housing PPPs have been completed to date in Australia. The Bonnyrigg project, one of the first public housing estate renewal PPPs, was expected to deliver 2,330 new public and private homes over a 14-year period from 2007. The project hoped to replace 833 public dwellings of which many were in a state of disrepair, with a 70:30 mix of private dwellings and homes for public housing tenants. After an extensive tendering process in 2005—06 and initial delivery through the Global Financial Crisis in early 2013, the Becton Property Group (the private development and construction partner of the PPP) went into receivership and demolition and construction was put on hold. At this time, stages one to three were completed and occupied, with residents in stages four to six relocated, and dwellings in stages four and five demolished. Despite extended efforts, a new development partner could not be found and NSW Family and Community Services announced in mid-2015 that the PPP was discontinued. In 2015, UrbanGrowth NSW, the NSW development agency, took over construction for the project, renamed Newleaf. Spotless, the private facilities management company initially contracted as part of the PPP consortium to provide maintenance services to the social housing, exited the project at this time as well. The role of SGCH, the CHO member of the PPP consortium contracted to deliver tenancy management services to social housing residents, broadened to encompass maintenance services for social housing properties (SGCH 2015).

Despite these issues, some of which no doubt reflect market conditions but also the risks associated with social infrastructure PPPs, the project has continued. Stages four and five were completed at the end of 2019 and stages six and seven were completed by early 2022 (SGCH 2022). In interviews undertaken by Pinnegar and Liu in November 2019, local residents reported getting on with their lives, despite delays to the renewal process. Residents reported benefits from the 'tenure-blind' redesign into a mixed tenure community, replacing the stigma that was formerly associated with the estate. Residents also valued the community building undertaken by SGCH, with its strong relationship with tenants. There have also been improved learning outcomes and employment opportunities (Pinnegar and Liu 2019).

A number of additional PPPs are in the pipeline in NSW. These include a component of social and affordable housing, either to rent or to purchase, through partnerships between government, private developers and community housing organisations. The NSW Communities Plus program aims to deliver 23,000 new and replacement social housing dwellings, 500 affordable dwellings, and 40,000 private housing dwellings over the next 10 years through renewal of public housing estates by private developers and community housing providers.

The NSW Government has identified seven public housing estates to be redeveloped through PPPs under the Communities Plus program. As shown in Table 5, at January 2022, four projects have been awarded, one project has commenced, but no dwellings have yet been delivered. Long complex procurement processes and prolonged planning approval have incurred considerable time, resources and expenses by bidding consortia and delayed execution of projects. This is discussed further below.

In 2017, the NSW Government awarded its first major project—Ivanhoe—to a consortium involving Frasers Property Australia (a large private developer) and Mission Australia Housing (a tier one registered community housing provider[1]). The $2.2 billion redevelopment of the Ivanhoe estate (currently 259 public housing dwellings) will provide 3,000 new homes, including 950 new social and 128 new affordable dwellings (NSW Family and Community Services 2017). A case study of this project is provided in Section 4.1.3.

Similarly, the Victorian Government has committed $185 million in seed funding towards a Public Housing Renewal Program to develop up to 2,500 social and affordable housing dwellings on seven existing housing estates through cross-sector partnerships over the next 10 years. In six of these projects, public land will be leased to a not-for-profit project group that will finance, design and construct new housing. The Victorian Government will provide a service payment to subsidise capital and operating costs. The CHO in the project group will manage and maintain the sites for 40 years before handing the land and all dwellings back to Homes Victoria (Victorian Government 2021).

Further, the Queensland Government has awarded two PPPs and is tendering a further two PPPs to deliver affordable and market rental housing within build to rent developments in Brisbane. These projects will deliver new affordable rental housing for Brisbane city workers who otherwise would be unable to afford to live close to their jobs, and provide stimulus to the construction industry in the wake of COVID-19 (Queensland Treasury 2021).

Table 7: Public Private Partnerships for social, affordable and private market housing, 2022

State	Funding	Target dwellings	Government announced PPP projects	Government awarded projects	Commenced construction (Jan 2022)
NSW Communities Plus	• Up to $22 billion in land value	• 23,000 social • 500 affordable • 40,000 private	7 estate renewal projects	5	1
Queensland Build to Rent Pilot Project	• $.70 billion • Rental subsidy	• 240 affordable • 510 private	4 projects	2	2
Victoria Public Housing Renewal Program	• $.185 billion seed funding • Operating Subsidy TBC	• 5,200 social and affordable	7 estate renewal projects	7	4

Source: New South Wales Government (2021); Queensland Government (2021); Victorian Government (2021).

1 The National Regulatory System for Community Housing (NRSCH) specifies three categories of registration, with Tier 1 providing the highest level of commercial risk capacity and therefore regulatory engagement.

Appendix 5 provides further details on the individual PPP projects summarised above in Table 7, including project status as at January 2022, project proponents, government inputs and target housing outputs.

While some governments find PPPs an attractive procurement method for stimulating private investment in infrastructure, long procurement and planning approval processes drive up transaction costs, negatively impact value for money and delay delivery of housing, compared to more straightforward construction procurement. Notwithstanding the complex nature of PPPs, purported advantages include scale of new housing, reduced stigmatisation through social mix, and training and employment opportunities for social housing tenants (Pinnegar and Liu 2019).

Inclusionary planning requirements and incentives

Inclusionary planning approaches require or incentivise developers of otherwise market-rate schemes to contribute to affordable housing as part of the development approval process. Common inclusionary planning approaches are mandatory inclusionary zoning, whereby developers in designated zones must contribute to affordable housing; and, incentive mechanisms that depend on voluntary developer participation, the most common of which internationally is density bonusing (Jacobus 2015; Thaden and Wang 2017). In practice, programs often contain a mix of mandatory requirements and incentives which can help offset the cost (economic loss) of affordable housing inclusion (Mukhija, Das et al. 2015). In the US, where inclusionary planning approaches are well established, research suggests that affordable units delivered through inclusionary planning approaches account for about 9 per cent of housing units permitted in applicable jurisdictions each year (Wang and Balachandran 2021).

There has been ongoing interest in the potential for inclusionary planning approaches to help deliver affordable housing supply in Australia. However progress remains limited, largely due to constraints in state planning legislation. This, in turn, reflect perceived and actual pushbacks from sectors of the development industry.

The primary Australian models of inclusionary planning remain South Australia's 15 per cent inclusionary target (introduced in 2005); and the voluntary incentives that apply in New South Wales, the most notable of which is a density bonus for infill affordable rental housing (introduced in 2009). A 2018 review found that the South Australian approach had delivered 5,485 affordable homes, over the decade 2005–15, accounting for around 17 per cent of new supply in major residential projects (Gurran, Gilbert et al. 2018). Around 3,685 or 63 per cent of the total were delivered on government land, and/or supported by other government incentive or subsidy (such as the former National Rental Affordability Scheme (NRAS)) (Gurran, Gilbert et al. 2018).

In New South Wales, voluntary planning incentives appear to have delivered a smaller proportion of affordable homes (an estimated 0.5–1 per cent of Sydney's housing supply 2009–17) (Gurran, Gilbert et al. 2018). In relation to the continuum of housing needs, only affordable rental accommodation is able to be delivered under this mechanism, and the dwellings must remain 'affordable' (offered at up to 80 per cent of market rent or at 30 per cent of gross household income) for 10 years. Both private developers and social housing providers have used this mechanism to increase the yield of their projects, which is discussed further below.

Tax concessions and incentives

Unlike the US, where the longstanding Low Income Housing Tax Credits (LIHTC) scheme has produced an ongoing pipeline of affordable rental units funded by the private sector, Australia's use of tax concessions to stimulate investment in new affordable supply has been limited and short lived. Introduced in 2008, Australia's NRAS sought to stimulate construction of 50,000 new rental dwellings. These dwelling were to be offered to eligible renters at 80 per cent of market rents for a ten year period, in return for an indexed recurrent Australian Government payment paid as a Refundable Tax Offset (RTO). Within six years of operation, NRAS had delivered 27,603 new affordable dwellings (with a further 9,980 in pipeline). However, the scheme was discontinued in 2014 following a change of government (Rowley, James et al. 2016). Despite policy goals of attracting institutional investment, NRAS investment remained limited to individual retail investors, largely due to the newness of the program, problematic financial cycle timing, and lack of certainty around ongoing allocation.

Dwellings began exiting NRAS from August 2018 and will continue to progressively exit through to June 2026, as the 10-year timeframe attached to the financial incentive concludes. Despite criticism of the scheme and concerns that joint administration by the Australian Government and state and territory governments was complex and burdensome, funding applications for the last three funding rounds were oversubscribed, with four applications for each incentive (Rowley, James et al. 2016). Overall the scheme was successful in stimulating new construction of affordable rental housing and attracting private investors who sought areas with potential for capital growth combined with a rent that was low enough to benefit from the incentive itself. However, lack of certainty regarding government commitment to NRAS undermined confidence and the scheme failed to attract institutional investors as a result.

Beyond the former NRAS, the Australian Government offers a 10 per cent capital gains tax discount on the sale of privately-owned properties that have been rented to eligible tenants by community housing providers for at least three years (Productivity Commission 2021). Further, the difference between 'market' and discounted 'affordable' rent has the status of a charitable donation for tax purposes (Productivity Commission 2021).

Some state, territory and local governments also apply land tax or property rate discounts to landlords who provide affordable housing. A 50 per cent land tax discount has been extended to eligible build to rent projects (discussed further below).

'Build to rent' and 'build to rent to buy'

As discussed in Chapter 2, special purpose build to rent projects are a relatively new development approach in Australia but one that has attracted increased attention. A variation of this approach provides a pathway to homeownership by allowing eligible households to enter into a fixed term rental agreement that can be converted to a deposit for purchase at the expiry of the set period of time.

In 2019, it was estimated that approximately 2,000 build to rent units in Australia had been completed by private industry, with another 1,000 in construction and 1,500 approved and pending commencement (Pawson, Milligan et al. 2019). For example, Mirvac, one of Australia's largest residential developers, has committed $1 billion towards a build to rent club, with the cornerstone project being the Indigo at Sydney's Olympic Park. This $180 million development will provide 258 units of housing that will be owned by Mirvac and rented to residents. Mirvac will act as the developing, investment and property manager, potentially setting up its own in-house management entity that will provide tenancy and asset management services, similar to a community housing provider but on a for-profit basis. The Clean Energy Finance Corporation has committed $50 million to this project, a 30 per cent interest as a cornerstone investor, which will include state of the art sustainability features (Mirvac 2018; Cummins 2018).

However, it remains to be seen whether a private build to rent product can, or will, deliver any affordable rental housing.

The NSW, Victorian and Queensland Governments have all introduced build to rent pilot PPP projects to deliver a mix of private, social and affordable housing. The Victorian Government is providing land under a leasehold arrangement, with the improved land and buildings to be returned at the end of an agreed term of 40 years. Three public housing estate renewal projects have been awarded to a private consortium of Tetris Capital, Icon Kajima, Citta Property Group and CHL. Projects commenced in October 2021 and when completed aim to deliver 1,091 units, of which 50 per cent will be social housing and 50 per cent will be market rental housing (Victorian Government 2022).

After running an expression of interest process, in 2019 the NSW Government shortlisted three consortiums to tender for its first build to rent project on an existing public housing site in Redfern. However, proposed planning controls reduced the site yield to a level where build to rent was not regarded as viable. In 2022, the NSW Government commenced a new tender process to select a consortium to redevelop the site under a traditional PPP model where the land is made available and the private and not-for-profit sector funds and manages the construction (NSW Government 2022).

The Queensland Government is providing a targeted subsidy to support affordable rental housing components within build to rent projects on private land. Two projects have been awarded to Mirvac/LIV Anura and Frasers Property Australia respectively and commenced construction. Affordable rental housing will be priced at a 25 to 30 per cent discount to market rent (Queensland Government 2022). Given the strength of the Brisbane rental market, even this discounted rent will only be affordable to moderate-income households, and not to low-income households.

Evidence from international systems of capital-market financed affordable housing and investment industry analysis (Appendix 2) show that affordable housing can be made to work in a build to rent market with favourable tax and planning concessions and a favourable policy approach. However, such conditions are not regarded to be sufficiently established in Australia. For instance, Pawson, Milligan et al. (2019) found that industry stakeholders generally do not see build to rent as a specifically affordable housing product, requiring substantial assistance from government in the form of land contributions and subsidies to deliver adequate returns (Pawson, Milligan et al. 2019).

An example of a 'build to rent to buy' project is provided by Make Ventures in Victoria, a small private residential development and investment company. Make Ventures has completed a 66 unit build to rent to buy project in Melbourne. Prospective purchasers sign a five-year lease with the option to purchase their home for an agreed fixed price at the end of the term (Make Ventures 2019).

Affordable home ownership and shared equity

Western Australia (WA) and South Australia (SA) have led the way in offering consumers access to low-deposit finance and shared ownership/equity housing options. Keystart in Western Australia is widely regarded as having contributed to the high rates of first home ownership in the state (HIFG 2021) and has provided home ownership opportunities for over 100,000 households. The scheme is a key component of the State Housing Strategy 2020—30 (which contains a minimum target of 20,000 Keystart loans over the 10-year period) and contributed heavily to the previous housing strategy successfully meeting its housing targets between 2010 and 2020 (Rowley, James et al. 2017).

In South Australia, the state government backed Homestart finance offers low-deposit home loans to eligible customers who need a minimum deposit of 3 per cent. Homestart Finance also offers shared equity loans. Customers can borrow up to 25 per cent of the purchase price or property valuation, whichever is lower[2], capped at a maximum of $200,000.

With the deposit being the main barrier to home ownership in Australia (Crowe, Duncan et al. 2021), low-deposit home loan schemes such as Keystart and Homestart provide home ownership opportunities that would otherwise be unavailable. They also contribute to affordability by reducing mortgage payments and removing the requirement for mortgage lenders insurance. The main disadvantage of the Keystart scheme is the relatively high interest rate on the loan compared to retail mortgage products. However, the scheme encourages customers to refinance with a commercial lender as soon as possible. This is problematic when house prices are falling and consumers end up in negative equity, but works well when prices are growing and the consumer builds enough equity to satisfy a mortgage lender.

In late 2021, the Victorian Government announced the launch of the Victorian Homebuyer Fund (VHF) pilot scheme. The VHF is a shared equity scheme where the government contributes 25 per cent towards a property's purchase price, while also reducing the minimum deposit to 5 per cent. The 25 per cent equity portion can be bought out over time and repaid on sale of the property. Finance for the homebuyers commitment of 70 per cent comes from a private sector lender and income limits apply.

2 https://www.homestart.com.au/home-loans/borrowing-boost-loans/shared-equity-option

Shared ownership and equity products allow homeowners to enter the market at a much lower price point than full ownership, delivering improved affordability and the option of stepping up to full ownership when affordable. The partner, which in the above cases is the state government, benefits from any price growth on the portion of the dwelling they retain. The UK has had established shared ownership schemes for many years, with a new government backed scheme launched recently[3].

Importantly, the parameters surrounding the schemes just outlined counterbalance potential drawbacks of commercial shared equity arrangements which can fuel additional demand in the market. This is because the schemes are linked to new supply, with eligibility limits reducing potential wider market impacts. In the case of South Australia, affordable housing for purchase is produced as part of all new housing development, providing a basis for regulating both the quality and cost of homes purchased. Finally, in comparison to commercial schemes, these models provide a basis for equity gains to be reinvested in further housing assistance programs as a revolving fund.

2.1.3 Matching government policies and subsidies to social and affordable housing products

In summary, a range of government policies and subsidies is used to leverage private sector participation in social and affordable housing in Australia (Table 8).

Government capital and tax subsidies have leveraged significant private investment into social and affordable rental housing, although tax subsidies are limited to 10 years and the program was cut short by a change in government.

Government recurrent subsidies through the NDIA have attracted significant private investment in SDA. More recently, government bonds have leveraged billions in institutional investment, with funds providing low-cost debt and construction loans to CHOs that supply new social and affordable housing.

CRA is the largest government subsidy. It supports eligible low-income households to more affordably rent in the private sector. Community housing tenants are also eligible for CRA, and this rental income has enabled CHOs to leverage private debt to fund new social and affordable housing.

Government land has supported housing across the continuum of market segments, although to a limited number of projects. The planning system has been used to generate social and affordable housing contributions in exchange for increased density and/or up-zoning, but primarily on a voluntary basis with limited take up and results. In some jurisdictions, the planning system has also supported below market rate housing (boarding houses, granny flats). However, planning approval has proven challenging and these housing options are not always affordable for even moderate-income households.

To a much lesser degree, governments have provided grants, loans and share equity schemes to assist people into affordable home ownership. Social impact bonds have been used to finance innovative models of housing on a pilot project basis, primarily targeted towards specialist and crisis accommodation.

3 https://www.gov.uk/shared-ownership-scheme

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

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

Source: Authors.

The financing gap is greatest in crisis, social and affordable rental housing targeted to people on very low and low incomes. A combination of subsidies as shown in Table 8 are often necessary to make this type of housing financially viable. By contrast, below market rate housing and affordable home purchase requires less gap financing as these are targeted towards moderate income households who can afford to pay more rent or mortgage. Case studies of projects involving the private sector that have applied these government policies and subsidies towards social and affordable housing, both for rent and for purchase, are discussed further in Chapter 4.

3. Expert perspectives on private involvement in social and affordable housing supply: Industry and policy leaders

- **A series of Investigative Panels and interviews with private investors and industry leaders revealed strong appetite for affordable housing partnerships, reflecting an increasing focus by boards and shareholders on projects that deliver social and environmental outcomes.**
- **Participants emphasised that affordable housing for low-income earners will always require some government subsidy, capital contribution, and/or an inclusionary planning mechanism. Access to government land, either outright or through a long term ground lease, is beneficial to reduce project costs and make social and affordable housing fundable.**
- **Institutional investors suggested that if governments funded social housing in a similar way to other infrastructure by setting targets and providing ongoing subsidies, it would unlock a significant capital market of investment to meet long term demand.**
- **Developers and policy leaders see public housing estate renewal PPPs as an attractive model of mixed tenure projects. However, they acknowledge that procurement and planning approval processes are long and complex, leading to additional costs.**
- **Industry and policy leaders identified wider benefits from private sector participation in social and affordable housing including training and employment, improved environmental outcomes and building the community housing sector capability. But policy leaders also emphasised that potential reputational, operational and financial risks to government need to be adequately managed.**
- **Industry participants see the community housing sector as an essential partner in mixed tenure projects but acknowledged that they will need to scale up to deliver increased supply, which requires reliable gap subsidy from government.**

This Chapter distils the outcomes of the Investigative Panels and interviews that were held with 45 sector experts, conducted in August and September 2021. Three Investigative Panels were held with private sector financiers, private for-profit property developers, CHOs and specialist housing providers delivering social and affordable housing with private sector participation. Following these three panels, a fourth panel was held with policy leaders from the Australian Government and state and territory governments around Australia. The aim of the fourth panel was to gain insights into working with the private sector to deliver social and affordable housing, and their views on potential policy proposals arising in the first three panels. This chapter also includes insights from the individual interviews held with private sector and government representatives.

We first establish the appetite, capacity and preconditions for increased private involvement in social and affordable housing. We do this by drawing on the views of private sector investors and developers, community and specialist housing providers and government policy leaders. We then examine specific models and approaches, using the range of Australian and international practice reviewed in Chapter 2 and Appendix 2 as a reference point. Last, we identify constraints and risks that must be addressed if the private sector is to support a significant increase in Australia's social and affordable housing supply.

3.1 Appetite and capacity for increased private involvement in social and affordable housing supply

Overall, participants across the three Investigative Panels and interviews revealed strong appetite in supporting social and affordable housing supply. Institutional investors and superannuation funds expressed the view that the current low interest rate context and post-COVID period had seen new interest in investing in social and affordable housing. This is despite the fact that yields are typically lower than in other forms of residential investment.

> I'd say the appetite has probably never been higher from institutional money, so that's from the big end of town. I think there's more money than there are places to invest it and also there's a much lower yield, kind of acceptable yield for the investment of that money. [Finance panel participant]

Lower yields were seen to be offset by lower risk in the social and affordable rental sector, which participants advised holds value for longer than market rate rental, thus appealing to institutional investors.

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

The affordable housing sector was seen to have 'infinite' demand, particularly in light of the COVID-19 pandemic that has drawn attention to unmet housing need across different market segments, such as key workers. However, there are geographical differences in investment appetite. Institutional investors reported being more focused on Sydney and Melbourne where demand is consistently high.

Impact investment that demonstrates positive social or environmental impact is increasingly appealing to motivated investors in innovative new models, but the market remains limited in scale.

> I think the appetite, from Impact Investment is certainly there. Obviously, our capacity, in terms of size is limited, and for us, it's really the role around actually being able to take that risk, potentially in collaboration with philanthropy. Actually, focusing on really innovative disruptive models, and then paving the pathway to access to institutional capital. [Finance Panel participant]

Participants stated that the potential role and influence of retail ('Mum and Dad') investors, alongside super funds, was likely to support further demand for investments offering socially beneficial impact.

> Mum and dad investors have a role to play - and they're actually proving a lot of the growth in responsible investments at the minute, all the way to the super funds, who are being pushed to report on sustainable development goals and all of that. [Finance Panel participant]

Private sector residential developers expressed particular interest in mixed income and mixed tenure projects, typically involving government land. Access to government land, either outright or through a long term ground lease, is beneficial to reduce project costs and make social and affordable housing fundable.

> We have to acknowledge that if something's going to happen in this area, we have to work out how we can leverage the value of land and who has that land. [Development panel participant]

There was also growing interest in the potential for build to rent developments, including projects with a community housing partner or those targeting moderate income home ownership. Again, however, participants generally emphasised that build to rent projects by the for-profit private sector cannot provide affordable housing without additional subsidy. This is discussed further below.

Social benefit and private sector motivation

A key motivation for both investor and developer participants in participating in social and affordable housing provision is the opportunity to deliver wider social benefits, in line with new organisational charters and shareholder expectations. As noted above, with Environmental, Social and Corporate Governance (ESG) outcomes now a key part of organisational strategy across the private sector, projects delivering demonstrable social benefits are of great interest to boards, investors and shareholders.

> I think there's been a significant shift, in terms of the mandates for investors in superfunds looking for demonstrable ESG returns. That has percolated significantly further up the list of considerations than perhaps it was even 10 years ago, and certainly before that. [Interview participant]

> The Bank takes a very strong view on [ESG], particularly over the last few years. So there's a lot of value that we ascribe, internally, to it, but I think our investors and shareholders [value it] as well. So there's a … calculated value attributed by the Bank to facilitating outcomes in the social space. [Finance Panel participant]

Participants reported that investors may accept lower rates of return on projects that demonstrate clear social benefit.

> We're certainly able to apply different type return expectations around certain types of activities that the Bank's involved in, and this obviously plays into that space very strongly. [Finance Panel participant]

Similarly, developer industry participants advised that larger organisations are setting targets for social value, and investing a percentage of profits in projects that deliver against these targets. This has included working with not-for-profits on initiatives that deliver measurable social outcomes such as transitional housing.

> Thinking of some our own projects, we've been able to house people where there's specific targets - you know, government targets but also targets that relate to the institutional investors that they care about around for instance domestic and family violence. [Development Panel participant]

Wider benefits of private involvement

Policy leaders and community housing participants recognised the innovation and commercial acumen that many private partners can bring to social and affordable housing projects along with skills and expertise in large, complex transactions.

> I guess it's really being able to bring that commercial acumen, the innovation. [Policy panel participant]

At the project scale, participants advised that government is seeking developers and builders who can take on and train people in communities undergoing redevelopment to create skill and employment benefits from these projects.

Participants expressed the view that private involvement in social and affordable housing delivery would largely occur in partnership with the community housing sector, harnessing benefits such as tax exemption, local, state and territory government relationships and tenancy management expertise.

> The ability to comingle private investment with community housing providers has got to be some part of the solution. Without doing that, the private sector trying to run across, or run against … community housing providers, … we're going to have some real challenges. [Finance panel participant]

Rather than competing for scarce resources, participants saw private investment as a complement to community housing organisations' structure of reinvesting their earned risk margin into affordable housing, reducing government perception of 'leakage'.

> I keep coming back to the CHO sector is the best and the safest place to house it, essentially because the creation of their trust structure means that they leak less, in terms of what's produced. That's one of the reasons why we like to focus on that sector. We think it's sustainable as a focal point for the future. [Finance panel participant]

3.2 Established and emerging approaches and models

Participants offered specific perspectives on the range of established and emerging models for involving the private sector in social and affordable housing investment and provision, including impact investment, PPPs, home ownership products and the use of planning mechanisms.

3.2.1 Public private partnerships

There was overall agreement that the PPP model was an established and workable approach to private involvement in social and affordable housing supply. As outlined above, based on a service agreement for housing development between government, private sector, and typically community housing organisations, such partnerships can deliver upgraded and new social and affordable housing assets at limited upfront cost to government. Land is either provided to the private developer at no cost in exchange for new social and affordable housing built on the site. Alternatively, government provides a ground lease on the land at no cost and provides a subsidy to cover the capital costs of social and affordable housing.

Developers identified the appeal of PPPs involving leases on government land, provided the duration of the lease, the level of service agreement and the level of subsidy supports the financial viability of the project. However, some policy participants stated that Governments are reluctant to identify their land as 'surplus' and even if they do, the valuation may be based on highest and best use (such as development of full market rate apartments) which impacts the financial feasibility for including social and affordable housing in the project.

Some policy participants identified government's preference for leasing land for PPPs, combined with upfront subsidies, rather than selling the land.

> There is much more of an interest in long term use of the land because let's face it, most of our houses are 49-years plus anyway. Not a lot of openness to selling of land.
>
> There could be occasions where government subsidy in terms of cash, sits up front. The upfront payment's much more acceptable to Treasury and much less risk because it's out there and gone rather than over the forward estimates. [Policy Panel participant]

Participants explained that effective partnerships depend on clear roles and responsibilities, with all parties taking accountability for outcomes.

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

Risks and accountability

Participants advised that risks should be allocated to the party that is best positioned to be able to manage them most effectively and cost efficiently. For example, some policy participants see developers as being better placed to manage the risk of planning approval, and reported that government is considering accepting a lower return in the form of less social and affordable housing where the developer takes the planning risk.

> What we're pondering now is whether actually…there would be a lower number of social housing derived from the yield from a rezoning but that the time and the risk for planning actually sits with the private developer rather than with government. [Policy Panel participant]

The Ivanhoe Project case study in section 4.1.3 provides further considerations on the balance of risk allocation and social affordable housing yield in PPPs.

Tendering and Procurement

Many emphasised that government tendering processes for PPPs are often very long and complex, leading to additional costs. Unique procurement requirements across jurisdictions and programs further increases costs. Several participants reported that their organisation can only afford to tender for projects where a credible pipeline of opportunities is apparent, increasing the likelihood that bid costs will be recovered.

> Every jurisdiction we deal with has a different approach, and quite often it could be quite a costly, time-consuming process. [Finance Panel participant]

Other participants recognised that governments have to be fair and accountable, which requires extensive documentation and rigorous assessment. A staged procurement process with an expression of interest to shortlist preferred tenderers that moves into an interactive joint development phase was identified as driving successful outcomes for both government and tenderers.

> The interactive interviews that took place ... was a little bit like developing the brief jointly. That interactive process, we found probably the most helpful in getting a good outcome. [Interview participant]

The opportunity to capitalise on experience gained through repeated projects was regarded important.

> You're going to invest time, learning about a new sector … you can get the right people in the right place, to put that intellectual capital behind it, knowing that I'm actually going to get another one down the line, it should get easier, and you should get better outcomes, as you go through the process. [Finance Panel participant]

Similarly, some policy representatives spoke of learning from experience on projects in their own and other jurisdictions, and implementing improvements to simplify tender requirements and providing more information to proponents through a concierge service to assist with their bid.

> One, it reinforced the benefit of a concierge function, because we talked about that with other jurisdictions as we went in doing our initial design work. Second, the need to keep the submission processes as simple as possible and if complex information was required to ultimately to do that in a gated fashion so that not every proponent…was having to engage in extraordinary costs, time and energy and resourcing to put in a submission. [Policy interview participant]

Community housing participants warned that tendering for partnership projects often created fierce competition between CHOs and was costly to the sector. While regarding some competition as beneficial, smaller CHOs may be unable to participate.

3.2.2 Mixed tenure development and cross-subsidy

Mixed tenure is often integral to PPPs and, more widely, is a strategy for cross-subsidising new housing developments. In large PPPs, typically new construction of social housing for very low-income earners is cross subsidised through a combination of market housing for unrestricted sale and commercial rental components, affordable rental and home purchase products for moderate income households.

From the perspective of private developers and investors, mixed tenure development could be an attractive model for reducing risk.

> Certainly from a return's perspective, we get to an acceptable level of return, because we're blending an IRR from a develop and sell [to market], with a long term hold [affordable rental housing], and it's also producing an asset that our investor wants to hold for the long term, and to continue to own. If they were to build that and rent all those units as one, then they might not get to a return that they think is acceptable for the risk. [Finance Panel participant]

The Bowden case study in section 4.1.4 provides a successful example of a mixed tenure development that involved cross subsidisation to optimise affordable housing.

Some CHOs have begun to use mixed tenure strategies to cross-subsidise the expansion of their high need housing, especially in the absence of consistent government gap subsidy support. However, over-reliance on cross-subsidy models to reduce the requirement for government funding transfers risk to the CHOs. CHOs may not be appropriately capitalised and/or compensated to take this market risk of selling or renting market rate dwellings to offset affordable rents.

Some participants advised that CHOs may struggle to attract private developers and builders to partner on mixed tenure projects, or fail to achieve premiums for market components. However, high quality design and construction, as well as careful place management creates confidence for developers and purchasers, while delivering beneficial outcomes for community housing tenants.

> So we believe very much in the importance of mixed tenure developments and also that they can cross subsidise the affordable and social…Those buildings just work so beautifully, I would do that mix regardless in projects moving forward because the community outcome in those buildings is so important. [Development panel participant]

Larger developer participants stated that they have struggled to make mixed tenure projects work in Australia, but they are standard practice in the UK (described as a 'mature market'). This is due to the presence of large community housing providers with strong balance sheets in the UK, as well as a long established inclusionary planning system (Section 106 agreements) that require private developers to include social and affordable housing in their projects as a matter of course. Aware of the need to work with CHO partners at the outset, they can factor these costs into land purchase, and do not factor in inordinate risk margins due to the proven track record of partnering and delivery.

3.2.3 Tax subsidies for affordable supply

Participants advised that tax subsidies, such as the NRAS initiative discussed in Chapter 2, can successfully leverage private investment in new affordable housing supply. In particular, NRAS was seen to have worked well when incentives were used to target locations of high housing need, for instance, by supporting higher density transport-oriented developments in key metropolitan employment markets. However, some participants expressed the view that the approach may have supported development in cheaper, less well serviced and lower demand areas where the tax incentive has greatest benefit to project feasibility, but less benefit to housing need.

Criticism largely focused on the implementation of the NRAS rather than the overall model of tax incentives for affordable rental supply. Scheme differences across the Australian jurisdictions, and overlapping management by the Australian Government and state and territory governments, were seen to be cumbersome.

> One of the pitfalls of NRAS was the dual management between both the federal government and the state government. We have different models underpinning each state. So there was a lot of conflict with that. To me, it's very much…it's top-down management to get all those components to work together. [Finance Panel participant]

Under the US LIHTC scheme, social and affordable housing developers convert recurrent tax subsidies to capital project funding by selling them to investors who can apply them to tax liabilities (housing tax credits or offsets function as are dollar-for-dollar credits against actual tax liability rather than as tax deductions.)

> The best example that's out there that really works, is the US low-income housing tax credit system. It's better than NRAS, in that it deals with a number of the shortcomings. It's top down driven. It's driven from the federal government. The states get their funding, and then the states can go out and call tenders, and identify which areas and the specifics that they want to fulfil. [Finance Panel participant]

The strengths of the US LIHTC scheme were seen to be bipartisan support, top down management by the Federal Government, allocation by States with significant discretion in allocation policy priority, and ongoing continuity as a permanent program enshrined in legislation.

The relatively short 10-year affordability requirement in the NRAS was seen to compare poorly to the US LIHTC scheme, which delivers a minimum 15-year outcome. However, this shorter duration may have been critical for some investors in the Australian context, used to a shorter investment term followed by capital gain. In the absence of ongoing subsidy and an established build to rent market, this approach may have been necessary to attract private retail investment.

> We never had any problems in selling residential properties which had that [NRAS] incentive attached to it. Because they are in it for the tax advantages that came from the refundable tax offset, as well as the capital growth. [Finance Panel Participant]

Participants advised that longer term affordability is likely to require a longer term subsidy and a shift to emphasise investment returns that are not driven by capital growth. An ongoing tax subsidy was also seen as enabling the community housing sector to leverage financing from institutional investors.

> If we knew that every year the Commonwealth was coming, even with a reasonably small amount of tax credits, it could unlock all the stuff that you could bring as well. So we could work with you then, put together deals, borrow our senior debt from NHFIC and use that funding stream that ideally would come from the Commonwealth to plug that gap.
>
> We would then use NHFIC again to act as an intermediary between us and superannuation funds and we'd use that Commonwealth subsidy to pay the return that we would require - that the institutional investors would require. [Policy Panel participant]

Policy panel participants were cognisant of the looming end to the 10-year term for NRAS tax credits. Privately owned NRAS properties will no longer be required to comply with affordability requirements and are likely to simply return to the private market.

> What happens when those incentives expire and as a lot of the participants decide what to do with that stock? … I expect it'll turn into private rental stock rather than affordable rental stock. [Policy Panel participant]

3.2.4 Home ownership schemes

Policy representatives from SA and WA reported that low-deposit home loans and shared equity schemes were assisting even low income households into home ownership. SA's HomeStart Finance institution has been a critical support for low-income earners:

> So we have through HomeStart Finance, we know that we can get people into homes that might be on incomes as low as $40,000 and it's the case of finding the right product that will suit them and then educating them that that opportunity is available to them. [Policy Panel participant]

Similarly, Keystart loans in WA have assisted low income earners into homeownership requiring only a 2 per cent deposit thereby overcoming the biggest barrier to ownership.

The Tasmanian Government's Better Housing Future program was identified by some participants as a successful model for supporting affordable home purchase while also subsidising improvements to social housing. Under the program, public housing estates were transferred to CHOs. In one example, a CHO partnered with a private builder to develop a higher density tenure mix, of which a third comprised social housing and two-thirds private affordable purchase. The program provided new affordable purchase housing and an improved social housing asset.

There was some criticism of Australian Government and state and territory government grants that provide direct financial assistance for home purchase and or construction, including grants offered as economic stimulus in the wake of the COVID-19 pandemic. Strong take up was seen to have contributed to inflationary pressures in the market and exacerbated labour market and supply chain constraints.

> So there's severe shortages in labour for us and that's causing issues with how we deliver going forward. So there's lessons learned around some of that stuff in terms of the over-stimulation. [Policy Panel participant]

Panellists noted that homeownership initiatives appear to capture policy enthusiasm, despite the large and growing proportion of Australian households who rent.

> Affordable housing is often spoken about as … an affordable price point. Again, that's not helping people in those lowest two quintiles who are never going to be buying. We need affordable rental product that is going to actually achieve that. [Developer Panel]

3.2.5 Build to rent and build to rent to buy

Participants generally agreed that build to rent projects by the for-profit private sector cannot provide affordable housing without additional subsidy. They advised that although some land tax concessions are coming into play in some jurisdictions such as NSW, these are not of a sufficient level to subsidise affordable housing. In fact, developers emphasised that returns associated with the build to rent are not comparable to yields arising from traditional development projects where units are sold to investors or owner-occupiers.

> If you talk to the major players who are in the build to rent space at the moment, they will tell you that build to rent is very much a nascent sector. They will tell you that if you look at all the models and feasibility models at the moment, they don't work without a rental premium. [Development Panel participant]

Further, participants observed that Australia's build to rent product has been delivered by CHOs for 30 years, who benefit from tax concessions, rental subsidies, and more recently, access to low cost debt and loans through NHFIC. They advised that similar subsidies would be needed if private build to rent projects were to include affordable components.

> If you are required to deliver affordable housing within that space, then the returns - which are already challenged - would be even worse. So you do need concessions at a state and a federal level to make - to be able to introduce that whole affordable housing component. [Development Panel participant]

Notwithstanding these challenges, the case study in section 4.1.4. demonstrates how Aware Super is financing and delivering build to rent housing for key workers by cross-subsidising with private market rental housing.

Delivery of affordable home ownership has been more successful through the build to rent to buy model targeted to middle income Australians. This model has been proven to be financially viable and scalable by one developer participant.

> That model is scalable and I guess we've got sort of half a billion of equity of Australian Super to advance that model and we use some debt from ANZ on those projects as well, so that's scalable for middle income Australians or upper lower middle income Australians. [Development Panel participant]

Developers identified CHO tax concessions that reduce development costs as an incentive for bringing a CHO into a build to rent project.

> My view is that incorporating the community housing sector legitimately into the commerce of a project brings a bunch of tax concessions, so we can automatically lower the cost of us delivering a multi-family asset by 10 per cent compared to someone that's charging higher rents. [That's] because there's no GST for example on all the construction costs, which you know, can't currently claim back in a market or premium-to-market BTR product. [Development Panel participant]

There was some interest in the build to rent to buy model which was seen to support affordable home purchase and improve the financial viability of a project. However, it was recognised that this model is confined to households at higher income levels than typical for social and affordable housing.

3.2.6 Inclusionary planning mechanisms

By international comparison, inclusionary planning mechanisms in Australia remain limited both in prevalence and scale. Overall, however, development panel participants expressed the view that mandatory inclusionary requirements for affordable housing inclusion as part of new developments should be more widespread, particularly in high value markets.

> I think it's just got to be mandatory and it's just got to happen. [Development panel participant]

> I personally am very enticed by the idea of mandatory inclusionary zoning.... We have mandatory contributions for libraries and maybe healthcare clinics and indeed car parking. Why can't we have a mandatory contribution for affordable and social housing?. [Development panel participant]

The inclusionary zoning scheme used in SA (which requires 15 per cent of homes in new residential areas to be affordable, and is mandatory on government land) was seen to provide a fair and level playing field. As a mandatory policy, there is certainty around requirements, making it easier to assess project feasibility.

> I think the big lessons learned from us is developers need certainty. They want to know what it is they have to deliver. If you price it into the land, then you know that you'll get an outcome. [Development panel participant]

To ensure that existing projects are not unfairly affected, developers and policy participants advised phasing mandatory inclusionary schemes in over time. This could be operationalised by 'staircasing' requirements when land is rezoned, commencing with a lower level which would be increased over a five-year period.

The use of planning incentives, such as increased floorspace or car parking concessions, was seen as complementary to inclusionary zoning requirements. However, there was concern that poorly designed inclusionary schemes that do not enable developers to offset some of the costs of affordable housing inclusion could impact the viability of projects.

> I think if it's to be done properly, it should have incentives as well. So it could be less parking, above ground parking, bonus height, bonus FSR, smaller units, things of that nature. [Development panel participant]

Composition and quality of dwellings delivered through inclusionary planning

In general, community housing providers reported that the quality of dwellings delivered via inclusionary planning mechanisms is high. In SA, dwellings are offered for sale to CHOs at a discounted rate. In NSW, units may be transferred to CHOs for management for a time limited period (such as 10 years) or gifted in perpetuity. Typically there are planning requirements to ensure that these properties are indistinguishable from market offerings and are located throughout a particular building or development. However, participants pointed out that in mixed tenure schemes, high strata fees can be a significant risk and cost burden.

> The typology of the properties is quite good and the salt and peppering of the properties through the complexes are very good for us, and the price point that's been put to us is very good. So, the discount that's been offered to us to make that acquisition for affordable properties is good. The challenge we have is then forward forecasting those strata costs. [Specialist housing panel participant]

Design of inclusionary schemes

Key considerations for designing inclusionary housing schemes include the form of affordable housing contributions, tenure and affordability requirements. Participants discussed different types of inclusionary planning contributions, which range from units or land transferred or sold to local councils or community housing organisations or eligible households, through to financial payments required as a condition of development approval. Some local government areas have well established processes for receiving and investing financial contributions, through a special purpose affordable housing program or developer (such as the City West Housing Company in the City of Sydney). In the absence of such systems, participants indicated that support may be needed for locally raised contributions to be pooled in a way that is administratively efficient.

The flexibility of the SA scheme (that enables developers to offer dwellings for sale to eligible home purchasers or CHOs) was well regarded. It was seen as favourable to the housing development industry because it aligns with developers' established build to sell model. The SA Government ensures a pipeline of purchasers through their shared equity scheme for eligible households, as discussed in the Bowden case study in the following chapter.

However, in other states such as WA and NSW, there has been a requirement that affordable housing contributed through the planning system be maintained as affordable rental accommodation either for a set period of time or in perpetuity. This has created some difficulties for community providers who acquire units, limiting their ability to leverage or reinvest their capital assets.

> Unlocking some of the perpetuity's provisions…so that we have the flexibility that if we need to divest part thereof some of that property at a later date, and repurpose that capital for better projects, having capacity with government to allow us to do that. [Specialist housing panel participant]

Similarly, some specialist housing panel participants reported that they were unable to accept all offers of discounted units from developers seeking to meet their planning obligations, because of scheme constraints. For instance, planning or program requirements that restrict allocation to those in highest need may limit rental income and undermine long term financial viability. There can also be tension between developer aspirations to maximise rental income by charging the maximum permitted affordable rent under a policy and what is affordable to the households on CHO waiting lists.

Developers insisted that continuity and consistency over time was essential for inclusionary schemes, particularly incentive-based schemes as in NSW, to gain take up. Referring to the NSW density bonus and concessions for low-cost rental housing including boarding houses, one participant remarked:

> So there was never planning certainty because the planning controls would be changed every couple of years… that stopped larger players entering into the space because of that lack of planning certainty [Development panel participant]

The NSW planning incentive for affordable rental is discussed further in the case study in section 4.1.1.

3.3 Constraints on private sector participation from an industry perspective

In addition to funding constraints, participants identified a number of additional barriers and risks that must be addressed if the private sector is to support a significant increase in social and affordable housing. These include uncertain and inconsistent policy and regulation, development challenges including lack of access to suitable sites, labour shortages and planning system delays. Participants also warned of risks to government, community or specialist housing organisations and residents arising from poorly designed processes. These risks included the 'leaking' of public assets and subsidies, inefficient and poor delivery of projects, tenant disruption and the diversion of resources and opportunities from the community housing sector.

3.3.1 The need for capital funding and subsidy

Notwithstanding the strong appetite for private involvement across all of the Investigative Panels and interviews, participants emphasised that affordable housing for low and very low-income earners will always require some government subsidy or capital contribution. This finding is consistent with previous research as discussed in Chapter 2.

> Subsidised housing needs a subsidy and the easiest one to bank is a government subsidy. [Finance Panel Participant]

A partial alternative to direct government subsidy is to reduce project costs, such as by providing access to government land or using inclusionary planning mechanisms.

Industry and financial experts, as well as policy leaders negated the idea of a 'silver bullet' that would allow buildings to be built for less than the cost of the land, the bricks and mortar, or professional tenancy management services. Even when existing not-for-profit GST exemptions, partnerships, programs and cross-subsidies are in place, a funding gap for providing accommodation to those on very low incomes still remains. For participants, evidence of this gap is the ongoing undersupply of affordable rental housing in Australia.

> There has been, rightly or wrongly, a belief that there is a fair amount of return to be made from social and affordable housing projects, which, I think, is misplaced. Whatever the form of subsidy that is being offered, it probably isn't quite enough. [Private developer interviewee]

Private sector participants emphasised that the need for subsidy is not driven solely by private sector profit margins, but to address the gap between construction and management costs and the cash flow generated by affordable rent or sale income. Additionally, private sector participants explained their need for a profit margin that reflects the risks associated with extensive negotiation processes, novel partnering arrangements or uncertain timeframes.

> Where we've had successful projects, they've all had a level of government support, the state and/or federal … and generally that's come with a fair bit of clarity. That's either through a set payment that gives some certainty, and a risk profile that works, and/or with access to land. [Finance Panel participant].

Similarly, institutional investors need to achieve a minimum level of return. For instance, superfunds are required by the Australian Prudential Regulation Authority (APRA) to maintain returns at a certain level in order to remain in operation. Super funds also have fiduciary duties to members that prevent investing resources in new market analyses or expensive transactions with uncertain outcomes.

Social housing and specialist housing are particularly dependent on government subsidy, because the cohort is typically very low-income. Specialist housing provider participants explained that it is not even possible to repay low cost NHFIC loans from the rental revenue from the cohorts they house who are very low-income.

A consistent theme across investors and developers was the need to consider social housing for low and very low-income earners and those with particular housing needs as social infrastructure which should be funded and procured by government like other infrastructure projects such as hospitals and roads.

> If governments want to solve the problem of a dearth of supplied social and affordable housing, it's within their gift to do so, and that [is as infrastructure]- it's a well-trodden path. Whether it be through a - you know, a hospital doesn't make money, a prison doesn't make money, a toll road barely makes - well, doesn't make much money, and we seem to be able to roll them out consistently, and we get a wall of capital chasing them to death. [Finance Panel participant]

> Social infrastructure projects with a low yield but longevity, low volatility, very high demand, all of those characteristics that are exactly what institutional investors are looking for in social infrastructure and infrastructure projects. [Developer Panel Participant]

However, when considered across the continuum of housing need, some products (such as those targeting moderate-income earners) require lower levels of government subsidy. In part this is because tenants, such as key workers who are earning stable, moderate incomes, are able to pay more for their housing. They also represent a lower risk given the high demand for affordable housing. Consequently, participants identified significant potential for private investment in affordable housing for key workers. This view was also strongly expressed by interviewees in the Bowden and Aware Super case studies in section 4.1.

3.3.2 Uncertain policy settings and regulation

Participants reported that changes in government, changed and discontinued policies and programs and a lack of continuity across political and bureaucratic leadership undermine opportunities to expand social and affordable housing through private sector involvement. They emphasised that certainty is essential for investor confidence, across all regulatory and program settings.

Industry participants advised that special purpose statute is preferable to isolated contracts because it connotes greater program level certainty. Legislation implies central government support for housing programs more clearly than isolated departmental-level initiatives. It also gives more certainty of greater volume of commercial activity in social and affordable housing, which in turn offsets the time invested for the private partner to learn, negotiate and secure internal approvals for their participation. Policy participants recognised the private sector's need for certainty is understood by government, but noted difficulties in practice. For example, housing supply programs established in statute may still not enjoy the bi-partisan support that would underpin certainty or continuity.

Australia's regulatory system for affordable and social housing was intended to bolster private sector confidence in partnering with community housing not-for-profits. Established from 2008, the NRSCH standardised reporting and compliance regimes from financial management through to tenant outcomes. This was not only intended to provide comfort to early commercial bank lenders, but also to other government departments such as state treasuries or agencies contributing land.

Panel participants and interviewees noted opaque and varying regulatory practices across Australia and suggested that principle-based regulation that specifies the intent for providers and regulators without specifying rigid controls was preferable, providing flexibility for innovation. The NRSCH was identified by some as a successful model for community housing providers and, potentially, private for-profit housing providers involved in developing and managing social and affordable housing.

> There's an opportunity for longer term engagement through the community housing regulatory system tenant outcomes framework for a level of protection afforded to tenants and residents that speaks more to their quality of life…and access to services and the life outcomes that might be achieved, than the things that rental legislation regulates. [Policy interviewee]

3.3.3 Capacity in the community housing sector

The community housing industry is considered to be within the 'private sector' focus of this research. This is because its members are independent, corporate entities whose regulation and governance structures emphasise commercial and financial prudence as well as innovation in the conduct of their charitable housing missions. Panellists, including those from the community sector, reported varying levels of development and financing capacity. Participants reported a correlation between capacity and government policy consistency in affordable housing programs and funding support. Ironically, capacity growth within the community housing sector can be hamstrung by public initiatives that may have burdensome or duplicative requirements. For example, the NRSCH compliance is often duplicated by extensive government contractual agreements between providers and government.

Participants emphasised that building capacity in the CHO sector will be key to attracting further institutional investment in social and affordable housing.

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

They referred to the significant ongoing stream of government capital which has underpinned growth of the community housing sector in the United Kingdom.

> The UK sector's very, very large. It grew because it had that certainty. It had a regular program of capital grants coming year on year. So it could plan to grow... It could partner. [Policy Panel participant]

3.3.4 Development challenges

Development panel participants reflected on the impact of supply chain problems, increased material costs and labour shortages arising from the cumulative impact of the 2019—20 bushfires and subsequent COVID-19 pandemic. These challenges flowed through to social and affordable projects.

> There's this perfect storm at the moment of rising market costs, price pressure on building materials so it's all working in the wrong direction for affordable and social housing. [Development panel participant]

As noted above, there was concern that changes to the development controls and incentives applying to boarding houses and residential flat buildings incorporating affordable rental housing in NSW had undermined private sector confidence in these housing types. More widely, many were of the view that below market rate housing and affordable developments were undermined by planning controls that impose costly requirements such as underground car parking or processes that subject projects to uncertainty and delay.

Navigating the planning system was even viewed by policy making participants as a challenge for major projects involving public private partnership, where planning scheme changes are often needed before detailed development applications can be considered.

3.4 Public sector perceptions of risks from increased private sector involvement

While identifying a range of potential benefits of increased private sector involvement in affordable housing, policy participants discussed a range of potential risks to government. These included reputational, operational and financial risks.

Policy participants saw increased private involvement in social or affordable housing schemes as presenting a reputational risk to government. They cited poor delivery of previous flagship government schemes, such as that for home insulation, as examples of the reputational risks that can arise. They suggested that this risk could be mitigated through strong due diligence and oversight of project delivery by government.

Policy participants were also sensitive to the financial risks from increased private participation in the social housing sector, which depends on rental streams to fund management and maintenance operations. Long term leases of public housing that transfer the operating costs to private partners along with the rental stream mitigates these issues, while retaining the asset. However, property sales are used to finance new assets and capital maintenance expenditure.

> We actually get a rental stream and that broadly covers our operating costs and our responsive repairs and maintenance. It's the sale of property that funds our asset builds and our capital maintenance. [Policy Panel participant]

3.5 Potential wider benefits

Panellists across all of the Investigative Panel meetings identified wider benefits that may arise from private sector participation in social and affordable housing. These benefits include the opportunity to support skills and capacity building across the housing industry, improved environmental outcomes in residential housing stock, including social and affordable housing, and local employment and training opportunities.

Industry capacity building

Engaging with private partners on affordable housing projects has contributed to the skills and capacity of CHOs, who gain experience in complex transactions and procurement processes. Private partners were also seen to better identify and negotiate on key project risks, putting CHOs in a stronger position to achieve outcomes.

> We see the CHOs develop and become more sophisticated, and learn a lot from working with institutional investors, in structuring and participating in these procurement processes … Whether they continue to do that with the next bid, or do so on their own, they're left in a far better and stronger position after going through that process.
>
> I think also too, really from a negotiation position, the investors that we've seen come to the party in these consortiums just know what to look for… The ability to zero in on the key risks, negotiating on those key risks, and getting the outcomes that put the overall CHO consortium in a better position, is much more efficient, and getting the outcomes, I think could make the projects much, from a risk perspective, stronger. [Finance Panel participant]

Improved environmental outcomes

Institutional investment can drive innovative and higher environmental standards in the affordable housing sector. For instance, affordable housing projects awarded funding via the Clean Energy Finance Corporation must be built to a higher environmental standard, with sustainable design features that lower the costs of heating and cooling homes. Indeed, housing that is built to be owned and provide a rental running yield over time, rather than built to sell, will have in-built motivation for the developer and owner to reduce operating costs and specify energy efficient design and long lasting materials.

> We were obliged to deliver to a higher NatHERS rating than the minimum code requirement, and what we did deliver was substantially above that, and so that results in more efficient building, but there's savings to tenants as well … we could afford to do that, because of the involvement of CEFC. [Interview participant]

Local employment and training opportunities

Developer and policy participants see potential to build skills and capacity within local communities through programs that offer training and employment opportunities. This was seen to be particularly important in building local capacity to address the needs of remote communities, with the right contract timeframes and resources.

Measuring outcomes

Private sector participants said they need clarity around the social, environmental and economic outcomes sought by government, supported by clear targets and reporting regimes. This would help streamline tender processes and drive project delivery.

> If government really just transparently articulated what they were looking for and how they're going to evaluate other elements of a response, then you could just respond directly to that instead of having to bid everything in the hope that something … is going to stick with what government actually wants in the background. [Interview participant]

Rather than a prescriptive approach, finance and industry advised that flexibility is preferable, enabling the design of innovative solutions that can best achieve these outcomes and report on progress.

They suggested that government entities develop more sophisticated frameworks for measuring outcomes and quantifying broader benefits arising from a strong social and affordable housing sector. These may accrue across a variety of sectors, from employment and education, to health and the justice system.

> It actually does matter being able to quantify these ESG components: things like employment, education, rates of economic participation, reducing costs across other parts of the system, for instance hospitalisation or the justice system or ambulances. All of these kinds of things are real costs to government, so some of these things speak to government, some of them speak to institutional investors and we've got to get better at putting our case forward and going, this isn't just right to do but also from an economic perspective it's better. [Development panel participant]

3.6 Summary and policy implications

In summary, the Investigative Panels and interviews confirmed significant appetite for increased private sector involvement in social and affordable housing provision. In part this reflects increasing corporate commitment to achieving environmental and social outcomes. A range of established and potential new models for private investment in the sector and partnership in development projects were seen to offer opportunities for increasing social and affordable housing supply while offering additional social, economic and environmental benefits. However, participants emphasised that a number of preconditions must be addressed to achieve optimal benefits and mitigate risks. Critically, adequate capital grant and or subsidies to provide 'gap finance' is essential to underpin growth.

In the following chapter we explore these themes further through our case study investigation.

4. Private sector participation in social and affordable housing supply: Case studies

- A number of initiatives around Australia demonstrate potential forms of private involvement in social and affordable housing, from the use of state planning mechanisms through to investment models and development partnerships.
- Planning mechanisms in NSW have leveraged affordable rental units without additional financial subsidy, and contributed to more diverse forms of new housing supply. Institutional investor Investec has financed and delivered more than double the affordable home ownership required by government under a mandatory inclusionary zoning scheme in SA. This was financially feasible given the high demand for key worker housing and relatively lower risks of this mixed tenure project.
- The Aboriginal Housing Company based in Redfern, Sydney, has leveraged a unique leasehold arrangement with private partner Scape, to finance and deliver 62 affordable Aboriginal and Torres Strait Islander home. The project also created new employment opportunities for the local community.
- Aware Super has financed and delivered affordable rental housing for key workers cross-subsidised in mixed tenure projects that have a lower risk profile and achieve higher returns than their private rental housing.
- Informative marketing and communication campaigns have proven to achieve strong sales and rental of private market housing in mixed tenure projects, despite initial prejudices against social and affordable housing.
- Value alignment between private for-profit and not-for-profit partners is a critical success factor for cross sector projects.

To examine Australian practice in engaging the private sector in social and affordable housing delivery more closely, we draw on a series of case studies. As outlined in Chapter 1, the case studies were selected to include a range of approaches, products, scales and forms of involvement. They range from the state level planning policy for affordable rental housing used in NSW to site specific public private partnerships, key worker projects and an affordable rent to buy scheme. Primary data is drawn from available program information and documents as well as interviews with key informants.

Case study data is summarised in Table 9 which compares the key inputs provided by government, community and not-for-profit organisations, and the private for-profit sector, as well as housing outputs and wider outcomes. The cases are discussed in more detail in the sections below.

Table 9: Comparison of case study initiatives and projects

Case study	Government Inputs	Private for-profit inputs	CHO/ NFP inputs	Time-frame	Housing outputs (approved)	Wider outcomes
NSW ARH SEPP (NSW)	• Planning incentive	• Capital for land and build • Property and tenancy management	• Capital, debt and equity for land and build • Property and tenancy management	2011–21	• Affordable rental units. 2,450 total (38% for-profit developers)* • Boarding house rooms. 2,754 total (94% for-profit developers)*	• Supports increased and diverse housing supply
Bowden (SA)	• Planning requirement • AH purchase option	• Capital for land and build	• Affordable Housing (AH) tenancy allocation/ management	2012–18	• 32 affordable (37%) • 54 market purchase	• Environment sustainability – 5 star green rating
Aware Super (NSW, VIC, ACT, WA)	• None	• Capital to acquire or build	• AH tenancy allocation/ management	2018–present	• >1,650 essential worker affordable housing rental units (completed and under construction)	• Energy, water, and building efficiency • ESG corporate goals
Ivanhoe (NSW)	• State land at no cost	• Capital to build private and social	• Debt and equity for AH units • Property and tenancy management	2017–31	• 950 social • 130 affordable • ~2,000 private	• Employment, training, education, health, community engagement • Transitional housing • School and childcare bursaries
Pemulwuy (NSW)	• None	• 99 year head- lease rent payment upfront • Capital to build student housing	• Aboriginal Land Council Land leasehold • Capital to build AH • Property and tenancy management	2009–22	• 62 affordable for Aboriginal and Torres Strait Islander • 595 student	• Aboriginal employment: Apprentices, Building manager • Cross-cultural awareness

** Figure only includes larger scale projects determined by the Planning Panels so likely underestimates overall supply.*

Source: Authors.

4.1 Case studies

4.1.1 NSW state environmental planning policy: Affordable rental housing

The NSW State Environmental Planning Policy (Affordable Rental Housing) (ARHSEPP) is a state-wide planning policy that gives a density bonus to projects that include a proportion of affordable rental housing. As a case study, it provides evidence of the extent to which planning incentives alone can engage the private sector in affordable housing provision. Here, we review data on select development applications that have utilised the density bonus from its introduction in mid-2009 to mid-2021.

Description

ARHSEPP was introduced into NSW planning legislation in mid-2009 and has undergone numerous amendments since that time. In late 2021, it was replaced by the State Environmental Planning Policy (SEPP) (Housing), but the main provisions remain, including a density bonus and planning concessions to encourage affordable rental housing and diverse lower cost market accommodation such as boarding houses. The new instrument also includes provisions relating to co-living housing and build to rent housing.

Under the policy, affordable rental housing and boarding houses are incentivised through:

- A density bonus (for developments that meet criteria / development standards outlined in the policy)
- Increased certainty of development approval (by defining state-wide development standards which, if met, cannot be used by assessment authorities as a basis for refusal)
- (In the case of boarding houses) by making boarding house development permissible in most residential zones across the state.

To be eligible for these incentives, minimum requirements for lot size and access to public transport must be met and sites cannot be heritage listed. The incentives are available to any developer of a project that meets the policy's criteria and (at the time of analysis) the incentives are the same for developments by private for-profit and not-for-profit developers. For developments including affordable rental housing, the size of the density bonus is based on the proportion of residential floor space that is allocated as affordable rental housing. A minimum of 20 per cent must be allocated to activate a bonus. A larger floor space ratio bonus is granted where at least 50 per cent of residential floor space is allocated for affordable rental housing, which is also the maximum incentive available.

Affordable rental housing delivered under the policy must be rented to eligible households (earning up to 120% of the Greater Sydney median income) at a rent either not exceeding 30 per cent of gross household income or up to 80 per cent of market rent. And units must remain affordable for a minimum of 10 years (a subsequent amendment now extends this requirement to 15 years). Affordable rental units developed by private developers must be managed by an affordable housing provider for the duration of the affordability term. Under the ARHSEPP, boarding houses were not subject to affordability criteria, but under the new Housing SEPP they must be managed by an affordable housing provider and remain as affordable housing in perpetuity.

Outcomes

There is currently no publicly available data or government reporting on development applications determined under the ARHSEPP. Analysis of a dataset of development applications developed by Gilbert and Gurran (Gurran, Gilbert et al. 2018; Gilbert, Liu et al. 2020), updated as part of this study, reveals that developer take up of the density bonus has generally increased over time, following the housing market. Of the larger scale projects (capital investment value (CIV) of $5 million or more) determined by the NSW Planning Panels between mid 2009 and mid-2021, just over half were by for-profit developers on privately owned sites (54 projects). A further 24 were developments by CHOs, and the remaining 19 were by NSW Land and Housing Corporation (LAHC) or being developed in partnership with LAHC on LAHC sites.

The 97 applications utilising the density bonus that were submitted between mid 2009 and mid 2021 proposed just over 3,000 affordable rental dwellings, of which at least 2,500 were approved. Of those, 931 (38%) were approved within schemes by for-profit developers.

A total of 33 boarding house applications were determined by the Planning Panels between mid-2009 and mid-2021. The vast majority of these (85%) were by for-profit developers on privately owned sites. Projects by for-profit developers tended to be larger than those by CHOs, ranging in size from 22 to 592 rooms with the largest projects being for student housing. Overall, over 2,754 boarding house rooms were approved by the Planning Panels, 2,581 of which (94%) were in developments by for-profit developers.

The new Housing SEPP will confine boarding house provisions to affordable housing by community housing organisations. In future, private developers will need to comply with provisions for co-living housing types, which have more stringent development standards including larger unit sizes.

Assessment

In summary, the review of data on the take up of planning incentives for affordable rental housing and new boarding house projects shows relatively consistent interest from private sector developers as well as public and community housing providers. The scheme is delivering a very modest yield of new affordable rental dwellings, affordable to moderate income earners, and stable tenure (for at least 10 years duration), without explicit government subsidy. It is providing a lever for private developers to engage with CHOs on a project basis. Although affordable housing delivered by private developers is limited to ten years' duration, wider take up would yield a pipeline of affordable and secure rental accommodation even in higher value metropolitan markets. The model could also be considered as part of a mandatory inclusionary planning scheme introduced when land is rezoned for higher density housing development.

In comparison, the affordability and appropriateness of boarding house accommodation delivered by private sector providers remains unclear (Troy, Van den Nouwelant et al. 2019), and future use of this mechanism will be limited to community housing organisations only. It remains to be seen whether the new co-living developments will prove attractive to private developers and deliver lower cost rental accommodation. Further, the ongoing changes to the development standards applying to lower cost and affordable development types may reduce their take up.

Overall however, the analysis shown here suggests that density bonuses and planning concessions for affordable housing may be further developed or adapted for other market contexts or settings.

4.1.2 Pemulwuy project - Aboriginal affordable housing and student accommodation (NSW)

The Pemulwuy project case study is a partnership between the Aboriginal Housing Company (AHC) and private developers to build a mixed tenure and mixed use project on 'the Block' in Redfern, Sydney. This site has a long history as a focal point for Aboriginal housing in Redfern. In the early 1970s, the AHC began to acquire houses on 'the Block' with an initial Australian Government grant, acquiring the final property in 1994. By the early 2000s, the AHC commenced plans to redevelop the site, which benefits from close proximity to the city and excellent rail connections. However, there was ongoing controversy about the appropriate planning controls to enable redevelopment of the area, as well as community concern about the nature and composition of new housing to be constructed.

Description and outcomes

The private developer partners are Deicorp, a residential and commercial developer, and Scape, which builds student accommodation. The first phase was completed in December 2020 and provides 26 apartments and 36 three and four bed townhouses as affordable rental housing for Aboriginal and Torres Strait Islander people. The second phase was completed in July 2021 and provides 595 beds of student accommodation. Communal amenities and spaces, a child care centre, a boxing gym, art gallery, AHC office space and commercial and retail spaces are due for completion in 2022.

The inclusion of student accommodation within the project was necessary to finance the Aboriginal rental housing component. AHC worked with Deicorp to determine the building height and number of student accommodation units required to raise the capital to deliver the rest of the program, and to have this approved as a variation to the development control.

AHC selected a student accommodation partner with aligned values as they saw this was critical to the project. They saw Scape has a focus on cultural respect and pastoral care around the wellbeing for students.

> For us, the wellbeing of students, regardless what culture they're from, particularly if they're sitting on our land, is priority. It is paramount to us. I think we shared a lot of similar values. [Interview participant]

Rather than purchase part of the site, Scape committed to a 99-year ground lease for the student accommodation portion of the development. This was unusual to the AHC Board but they successfully executed the ground lease, with strict conditions including no alcohol at any times, approval for events, and AHC approval for any building improvements. Scape paid for the entire lease upfront, giving AHC the capital to build their own project unencumbered by additional debt. AHC will also receive revenue from the commercial and retail spaces to cross-subsidise their operating costs.

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

Assessment

In addition to the housing outcomes, employment opportunities for Aboriginal and Torres Strait Islander people were integral to the project design. Through AHC's Leading the Way program, 23 young people have been employed with Deicorp through the construction phase. This includes four apprentices and the building manager who all grew up on the site. Additionally, AHC has worked with over 40 consultants over the course of the project to provide leadership, particularly in Indigenous engagement and cross-cultural awareness training:

> We were able to then work … as an industry expert on culture and leading the way … to help these… wider mainstream organisations … implement their Indigenous engagement strategies, and cross-cultural awareness training packages. [Interview participant]

Overall, AHC interviewees regarded this project and partnership to have successfully delivered housing and wider benefits for their local community. Interviewees described an alignment of values as being critical to their effective partnership. Trust was also an important factor in this success, gained through clear and transparent communication with the private partners. This innovative financing and partnership approach may provide a framework for other Indigenous land corporations, tailored to their communities' needs, protocols and opportunities.

4.1.3 Ivanhoe communities plus mixed tenure public private partnership (NSW)

This case study is a partnership between a community housing organisation and private developer to redevelop a public housing estate as part of the NSW Government's Communities Plus program.

Description and outcomes

Frasers Property Australia and tier one community housing provider Mission Australia Housing are redeveloping the 8.2 hectare Ivanhoe estate (currently 259 public housing dwellings) in Macquarie Park in Sydney, NSW under a project development agreement. The project was originally announced in August 2017. In May 2020, the NSW Government approved the revised master plan and stage one plans for the development of a mixed tenure community. The project was included in the NSW Government's Planning System Acceleration Program, benefitting from a faster approval process. Nevertheless, the planning approval process still took approximately two and a half years.

The NSW Government has contributed the land in exchange for 950 social housing and 130 affordable rental dwellings. Frasers Property Australia is providing the capital for the project, which will be financed through the sale of around 2,000 market homes. The development will also provide a new high school, residential aged care facility with a senior's wellness centre, two childcare centres, a supermarket, shops and green spaces. Construction of stage one commenced in 2021 and will deliver 259 social and 130 affordable rental dwellings, along with market housing.

Frasers Property Australia has committed to a portion of the affordable rental housing being provided at 50 per cent of market rate. This 'transitional' housing aims to assist households to move from social housing to affordable rental housing (capped at 20% reduction to market rate, therefore 80% of market rent), one of NSW Government's social objectives. The development is also funding wrap-around services through Mission Australia Housing to deliver social outcomes over the life of the project. This will include employment, education and community engagement programs.

Assessment

Interviewees were positive about the potential to renew aging social housing while delivering additional and varied new housing supply as well as broader benefits:

> With those large urban renewal projects, you can gain not just initiatives and innovation in built form and delivery, but also in the social outcomes. It allows you to have the scale to actually do something meaningful in the social outcomes that can be run with and in conjunction with the CHP and government. [Private sector interview participant]

Again, value alignment was seen to be critical to effective partnership. In this instance, the private partner was committed to working closely with the community housing partner to deliver a mixed tenure project with social outcomes. Interviewees expressed the view that government must define these social outcomes and tie them into the development agreement to ensure they are achieved.

> I would say government and CHP sector need to ensure that a developer is aligned, has value alignment with the delivery of a mixed-tenure community… There should always be a CHP partner for the social outcomes… and [these] should be linked to the development. [Private sector interview participant]

However, interview participants advised that such projects are complex and involve considerable risks to developers in tendering and delivery, including 'termination rights for government if we don't perform':

> We take all planning risk, all construction risk, all WHS risk, all market risk, the whole lot. [Private sector interview participant]

It was suggested that Government could get a better return, in the form of more social and affordable housing, if they shared more of that risk.

Prejudices against social housing were another challenge, with people expressing these views on the Ivanhoe website. Nevertheless, there has been strong sales of the market housing, demonstrating there is a healthy demand for mixed tenure developments.

> So the prejudices are still there…but that being said, we've made 380 sales - 375 sales in 12 months on our first site. [Private sector interview participant]

4.1.4 Aware Super essential worker affordable rental housing (NSW, VIC, ACT and WA)

This case study is of a superannuation fund that has begun investing in affordable rental housing for essential workers. It currently has projects in NSW, Victoria, ACT and WA.

Description and outcomes

Aware Super is the second largest not-for-profit superannuation fund in Australia, with 1.1 million members. Many of their members are essential workers such as nurses, fire fighters and teachers. Aware Super is investing in essential worker affordable housing as a way to provide attractive returns for members, while also 'making a difference in the communities where members live, work and retire'.[4]

To date, Aware Super has secured 15 sites for affordable housing in Sydney, Melbourne, Canberra and Perth. Once developed these properties will provide over 1,650 affordable housing units rented at 80 per cent of market rent to essential workers.

Aware Super is investing in these without any government subsidies or planning incentives but, rather, as part of their diversified property portfolio. Aware Super has explored several models. The first project was a development site in Miranda, NSW which Aware Super developed with their longstanding partner Altis Property Partners. It consists of two towers, one providing 51 units of private housing and the other 51 units of affordable essential worker rental housing. The affordable essential worker housing was partially financed through market sales of the private units.

During the beginning of the COVID-19 pandemic when the housing market slowed, Aware Super was able to acquire recently developed units at a very discounted price, enabling them to rent the units as affordable essential worker rental housing. In other projects Aware Super has acquired 'to-be completed' units at a discount within a development, enabling the developer to secure financing to proceed with the project.

These opportunities for discounted acquisition are less common in the current strong housing market. This has led Aware Super to focus on developments that they fund and build themselves, taking on the development risk, and providing attractive long term returns to members through a combination of private market, build to rent and essential worker affordable housing. This also enables them to control building and sustainability standards in line with their ESG objectives and targets.

The medium term intention is for projects to be sold at between five and 10 years, with returns reinvested into new projects including essential worker affordable housing.

Assessment

Interviewees advised that there has been strong demand for affordable housing by essential workers particularly during the COVID-19 pandemic, meaning high occupancy levels for these projects. This has reduced risk and supported returns that are even higher than their private rental housing portfolio.

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

4 https://aware.com.au/member/investments-and-performance/our-approach-responsible-ownership/affordable-housing

As with the Ivanhoe project, prejudice against affordable housing was expressed by some potential purchasers of their mixed tenure Miranda project. But they found that with education, most interested purchasers were not deterred from buying and living in the development.

> People would go, ooh what's this affordable housing tower? Is it drug dealers and criminals? Because no one understands what affordable means. So, there's an education issue frankly.
>
> Then, we would say … oh well, no, it's actually essential workers. It's nurses and professionals and police and firemen. Oh, that sounds great. Happy to have those people in my building. [Super fund interview participant]

In sum, this case study demonstrates the potential to include affordable rental housing as part of a diversified residential investment portfolio. Despite the lack of government assistance, the projects are providing an attractive long term return to members as well as housing outcomes for essential workers.

> I think the bottom line is we have found a way to develop essential worker affordable housing in a way that's profitable for our members and provides good stock. [Super fund interview participant]

4.1.5 Bowden affordable build to rent to buy housing (SA)

This affordable build to rent to buy scheme was initiated by a private investment fund and targets moderate-income key workers aspiring to first home ownership.

Description and outcomes

Investec, a large investment fund, developed an innovative mixed tenure apartment project in Bowden, SA that integrates market with affordable housing targeted at moderate-income key workers. The development site was government land purchased by Investec that had a mandatory inclusionary zoning requirement of at least 15 per cent affordable housing.

Investec proposed to the SA Government that they could more than double the 15 per cent affordable housing required under the mandatory inclusionary zoning as a rent to buy product. Eligible key worker households are entitled to rent their apartments at a 25.1 per cent discount to market rent for a maximum of three years whilst they save a deposit to purchase the apartment. The purchase price is set on the basis that no greater than 30 per cent of key worker's household income is to be spent on living costs such as mortgage payments (reflecting discount to market value of up to 17 per cent) (Interviewee).

Assessment

The 32 affordable apartments initially housed a diversity of key workers including a nurse, railway worker, social worker, hospitality and retail staff. Tier one community housing organisation CHL managed the advertising and allocation process, and managed the affordable housing tenancies. Several social housing tenants participated in the program and purchased their home, demonstrating that this model provides a pathway to homeownership, with the right price controls. Nearly all of the 32 key workers progressed to ownership within the first 12 months. Furthermore, nearly 90 per cent of the 54 private market apartments were pre-sold, indicating a strong market demand for this type of mixed tenure development.

The SA Government de-risked Investec's position in financing and developing this project by guaranteeing that, should the key worker be unable to purchase within three years, the SA Government would acquire any of the key worker apartments. This reduced risk enabled Investec to take a reduced commercial return for the development, and to put more return into the project in the form of increased affordable housing.

Even though the SA Government has not had to acquire any of the affordable housing, their guarantee leveraged a higher affordable housing outcome than the inclusionary zoning requirement, at no additional cost to government.

Interviewees expressed the view that institutional investors have a very strong appetite for mixed tenure developments such as these. Echoing the Aware Super experience, they advised that the extremely high demand by key workers for affordable and secure rental housing, reduces the overall risk compared to a strictly market based development.

> What's the appeal for investors to activate these sorts of projects? I think that a key factor is not only the social outcomes and impact that's delivered, but also the fact that, this sort of investment can be considered as quite low risk, as compared to a normal market-based project, because of the demand/supply equation in relation to the shortage of affordable accommodation.
>
> Providing an integrated product to market to the different cohorts is a really nice risk mitigating factor for an investment product. We think that there's plenty of capital out there that can be properly deployed into well-structured projects like this. [Private sector interview participant]

In short, Investec delivered over twice the affordable housing required under SA Government's mandatory inclusionary zoning policy by providing rent to buy units. This reduced the project risk, enabling Investec to take a lower return and to invest the balance into the affordable housing. The SA Government further de-risked the project by guaranteeing the purchase of the affordable housing after three years if the tenants were not able to. However, this 'buy option' was not invoked, as all of these homes were eventually purchased by the household at a below market price that guaranteed affordability. Given the high demand for affordable housing, this model of mixed tenure housing has considerable potential in attracting private capital due to its low risk compared to pure market residential development.

4.2 Summary and policy development implications

As outlined above, the private sector has had long and varied involvement in providing subsidised, social and affordable housing in Australia. This involvement ranges from the provision of private rental accommodation to households receiving CRA through to partnerships in renewing social housing estates and the direct development of affordable homes. However, to date, the outcomes of these approaches have been mixed. A key limitation has been the failure to leverage a significant increase in social or affordable housing supply in Australia, largely due to the lack of capital funding or subsidy to underpin growth. But there are also concerns about the extent to which these measures have provided genuinely affordable or appropriate outcomes for lower income tenants and those with special housing needs, and wider questions about the efficiency and value for money of particular approaches.

Examining a range of these approaches more closely through case studies, many of which combine models such as planning requirements with public land or funding, the opportunity to leverage additional private contributions to social and affordable housing supply is apparent. As shown in Table 9, these approaches have resulted in mixed tenure developments whereby the private component cross-subsidises affordable housing outcomes. In many cases, additional benefits are achieved, such as environmental sustainability features, as well as training and employment opportunities for target communities.

Drawing on this Australian practice and our review of the international evidence, a typology of affordable housing product types and potential private sector involvement emerges (Table 10). It also considers the range of development contexts in urban and regional Australia. The typology highlights the potential to optimise government, community and not-for-profit, and private sector roles in addressing particular market segments across the continuum of housing need.

Table 10: Typology of affordable housing product types and potential private sector roles

Product	Government subsidy, policy or regulation	Development contexts	Potential private for-profit sector role	Potential private not-for-profit sector role
Specialist housing (including crisis, disability, youth, Indigenous, senior housing)	• Capital grant • Operating/service/ rental subsidy • Land lease or transfer • National Regulatory System for Community Housing (NRSCH)	• Varied	• Institutional investment of equity • Construction or operating debt • Development management • Ownership	• Development • Ownership • Property and tenancy management
Social housing (managed by CHO)	• Capital grant • Operating/service/ rental subsidy • Government backed bonds • Land lease or transfer • Inclusionary planning requirement / incentive • NRSCH	• Urban (often estate) renewal; mix of inner, middle, outer and regional locations	• Institutional investment/finance • Development/ Construction • Sale of private market housing in mixed tenure projects	• Development • Ownership • Property and tenancy management
Affordable rental (income based rent) (managed by CHO or private landlord)	• Some capital funding/ operating/service/ rental subsidy required; affordability may be time limited • Rental subsidy (eligible households) • Government backed bonds • Land lease or transfer • Inclusionary planning requirement/ incentive • NRSCH	• Urban renewal/ infill (higher value metropolitan markets)	• Institutional investment/finance • Development/ Construction Ownership • Property and Tenancy Management • Sale of private market housing in mixed tenure projects	• Development • Ownership • Property and Tenancy Management
Below market rental (e.g. key worker build to rent, boarding houses, student accommodation)	• Tax subsidy/concession • Land lease • Planning concession/ incentive • Regulation may be required to manage access/ affordability for target groups	• Urban renewal/ infill	• Institutional investment/finance • Development/ Construction Ownership • Property and Tenancy Management	• Development • Ownership • Property and Tenancy Management
Low-cost home ownership (including shared equity, build to rent to buy)	• Home owner grants • Government loan and shared equity schemes • Planning requirements or incentives • Regulation may be required to manage access/ affordability for target groups	• Greenfield or redevelopment projects	• Finance • Development/ construction • Property and Tenancy Management • Market housing sales	• Tenancy Allocation/ Management

Source: Authors.

In the following, final chapter, we consider strategies and policy option for implementing these models on the ground.

5. Conclusion: Options and considerations for expanding private sector involvement in social and affordable housing supply

- **The private sector is already involved in delivering social and affordable projects in Australia and expresses significant appetite for leveraging new and increased opportunities, across specialist, social and affordable housing. In many cases, this reflects corporate governance and shareholder expectations for investments and projects that deliver social and environmental outcomes.**
- **Maximising these opportunities in the context of widespread and growing housing need will require strong regulation, efficient procurement processes and adequate 'gap' subsidy.**
- **Models to engage the private sector in social and affordable housing provision should emphasise collaboration and partnership across the public, community and private sectors to build capacity throughout the housing industry.**
- **This collaboration should be guided by rigorous national, state and local housing strategies that identify long term housing demand for specialist, social, affordable and market housing, and articulate clear delivery targets by market segment. Strategies must be underpinned by enduring policy, firm funding commitments and viable delivery mechanisms.**
- **Government regulation and oversight is essential to ensure the affordability, accessibility and quality of social and affordable housing delivered through models involving the private sector.**

From institutional investors interested in financing socially beneficial products, to residential developers engaged in mixed tenure projects, this research has revealed strong private sector interest in increasing involvement in social and affordable housing supply. Both community and specialist housing providers and policy leaders identify potential benefits from private partnerships, including access to additional resources and expertise, which can build capacity across the housing industry. However, despite recent developments, including the establishment of the NHIFIC, new social and affordable housing to date has been limited outside closed-ended state programs.

In this concluding chapter we discuss the lessons learned regarding potential approaches to engaging the private sector in the supply of different housing products. Considering our findings regarding industry and government appetite for private sector engagement in social and affordable housing provision and panellists' perceptions of the key challenges for scaling, we outline a strategic roadmap for governments to support the scaling up of private sector involvement in social and affordable housing in Australia. Increased private sector involvement in social and affordable housing is far from a panacea for the current affordability crisis. However, there is an opportunity for governments to foster greater private sector engagement in contexts where clear public benefits can be ensured. Findings of this study suggest that the focus of scaling up private sector engagement should be to extend and augment, rather than replace, current government programs and initiatives.

5.1 Lessons from existing models for engaging the private sector in social and affordable housing provision

In Chapter 4 we outlined a typology of affordable housing product types and potential forms of private sector involvement, drawing on the Australian practice and our review of the international evidence (Table 10). In Chapter 2, we matched government approaches to stimulate private participation to the different housing products (Table 8). With reference to the review criteria outlined in Chapter 1 and the advice of industry and policy leaders through the Investigative Panels and interviews, we return to this typology below in Table 11 to assess each approach relative to the housing product(s) it supports, highlighting housing and wider outcomes.

Table 11: Assessment of existing approaches

Approach / model	Product(s)	Affordable / appropriate housing supply outcomes	Efficiency	Longer term benefits	Wider social, environmental and economic benefits
Government capital grant (e.g. Commonwealth, State / Territory capital funding / operating/ service subsidy)	• Specialist housing • Social housing	• Optimised • Permanent housing maximises affordable appropriate outcomes	• Optimised • Efficient administration from upfront subsidy	• Optimised • Permanent new housing ensures long term benefits	• Optimised • Construction stimulates economy and creates jobs • Smooths economic cycles • Builds cross sector industry capacity
Tax concessions / incentives (e.g. NRAS, support for affordable private rental)	• Social and affordable rental housing	• Achieved • Increases affordable appropriate housing, limited to the duration of subsidy	• Partially achieved • Initial administration complexity reduces efficiency until market established	• Partially achieved • Dependent on scale and longevity of government commitment and duration of subsidy	• Achieved • Investors / partners can help deliver high environmental / employment outcomes • Smooths economic cycles • Builds cross sector industry capacity

Approach / model	Product(s)	Affordable / appropriate housing supply outcomes	Efficiency	Longer term benefits	Wider social, environmental and economic benefits
Institutional investment in bonds (with or without guarantees) (e.g. NHFIC Affordable Housing Bond Aggregator, Impact Bonds)	• Specialist housing • Social housing • Affordable rental housing	• Achieved • Project delivery subject to the availability of other capital / subsidy / land	• Partially achieved • Administration complexity reduces efficiency	• Achieved • Dependent on scale and longevity of government commitment	• Achieved • Investors / partners can help deliver high environmental / employment outcomes • Smooths economic cycles • Builds cross sector industry capacity
Rental subsidy (e.g. Commonwealth Rent Assistance)	• Subsidises low and very low income households in PRS and community housing	• Partially Achieved • Affordability and accessibility dependent on local market	• Achieved • Efficient administration of large scale program	• Achieved • Dependent on scale and longevity of government commitment	• Achieved • Builds community housing sector capacity by supporting debt for new supply
Public Private Partnerships (e.g. Social housing construction / estate redevelopment)	• Social/ affordable/ private mixed tenure housing • Build to rent	• Partially achieved • Small number of projects to date • Higher public subsidy / land values should support higher social/ affordable outcomes	• Partially achieved • Lengthy procurement and planning approval processes add to costs	• Achieved • New supply ensures long term benefits and builds industry capacity	• Partially achieved • Place making initiatives for more cohesive communities • Education, training and employment opportunities • Builds cross sector industry capacity • Risk of existing tenant displacement
Inclusionary planning mechanisms (e.g. SA mandatory contributions / NSW incentives; concessions for below market rate housing)	• Social housing / affordable rental / below market rate rental • Build to rent • Build to rent to buy	• Limited • Depends on development context, planning provisions & market cycle • Below market rate housing may be inappropriate / unaffordable for high need groups	• Limited • Changes and uncertainty of planning mechanisms impacts on efficiency and confidence	• Limited • Dependent on duration of requirement for affordability	• Limited • Not linked as a requirement
Shared equity and loans to support home ownership (e.g. SA Homestart, WA KeyStart	• Affordable home ownership • Build to rent to buy	• Limited • Benefits moderate income households, not low income households with highest demand	• Partially achieved • Relatively high interest rate compared to retail mortgages	• Limited • Dependent on scale and longevity of government commitment	• Limited • Targeted to individual households
Private for profit build to rent (e.g. NSW and VIC planning incentives and tax concessions, QLD subsidy)	• Below market rate rental housing	• Limited • Small number of projects • Current concessions are not sufficient to support affordable rental housing	• Not achieved • Nascent sector in private for profit, limited scale	• Limited • Dependent on government policies and subsidies	• Limited • Small number of projects to date • Place making initiatives for more cohesive communities

Source: Authors.

The majority of approaches canvassed in this typology are catalysed by government and involve community housing organisations as key partners. This reflects the need for government subsidy to expand the supply of housing for very low-income earners and those with special needs. Further along the housing continuum, the private sector may successfully initiate and deliver projects without direct government subsidy, for instance, when targeting key workers or to meet corporate governance objectives. However, all approaches depend on supportive policy and regulatory frameworks, as discussed further below.

When assessing the outcomes of each approach relative to the criteria for assessing affordable housing initiatives and private involvement, we recognise that actual outcomes will depend greatly on the design and implementation of particular programs. Further, although we have characterised each approach as discrete, in practice, more significant initiatives will combine a number of approaches together. With these caveats, it is possible to identify some generalisable observations about each of the approaches outlined and the ways in which private involvement may contribute to social or affordable housing outcomes. We highlight specific barriers, risks, and mitigation strategies associated with each approach in Table 12.

Capital grant

First, it is clear that capital grant maximises delivery of deeply affordable housing units through purpose built new construction for very low-income earners and those with special needs. All participants in this study emphasised the importance of capital subsidy to underpin growth in social and affordable housing supply. The current level of capital funding by state and territory governments needs to be sustained in combination with other subsidies and additional Australian Government capital funding in order to deliver the 36,000 new social and affordable homes required per year to meet the forecast demand to 2036 (Lawson, Pawson et al. 2018). There is a need for a robust but reasonable procurement process to ensure due diligence, quality and value.

Tax incentives

Tax incentives have proved an effective mechanism for stimulating new affordable rental supply at scale, benefitting the housing industry overall and delivering a pipeline of units for lower income earners. Experience reviewed above demonstrates the potential opportunity for a national subsidy (tax or capital) to fund the gap between affordable and market rental housing to increase supply. This, in turn, creates a pipeline of projects that can provide the scale that is needed to attract institutional investment. In order to improve affordability, the level of subsidy could be based on the local housing market, with rent capped at an affordable level for an extended duration, such as 20 to 30 years.

Institutional investment and government bonds

Government bonds with guarantees modestly reduce the cost of financing for community and not-for-profit housing developers by reducing interest margin and extending loan tenor. To achieve feasibility, projects depend on the availability of other inputs (such as land and rental assistance) and the inclusion of mixed tenure products to cross-subsidise social housing provision.

In both cases, private involvement through financing and development may extend the social, environmental and economic benefits of social and specialist housing and contribute to wider housing system efficiency through industry capacity building and counter cyclical activity.

There is an opportunity for further institutional investment in bonds issued by the Australian Government through NHFIC to provide low-cost finance (debt and equity) for new affordable housing. This investment is supported by strong interest in bonds issued to date and record low interest rates. As discussed above, regulation of affordable housing providers and a requirement for tier one accreditation ensures proper governance, mitigates the risk of poor maintenance or management, and provides assurance to government and investors. A framework for measuring outcomes would assist to gather data, measure performance and build confidence in this asset class.

Impact investment through initiatives such as social impact bonds is limited in scale but can be effectively targeted towards innovative pilot projects, particularly for specialist housing with support services that is less likely to attract large scale institutional investment.

Commonwealth Rental Assistance

As the evidence reviewed shows, CRA is the largest government program, supporting over 1.35 million households a year. However, affordability and appropriateness of housing is dependent on the existing local rental market, with some 46 per cent of recipients still in housing stress even after the subsidy[5]. CRA is also available to social housing residents whose tenancies have been transferred to community housing organisations. The additional rental revenue improves the financial viability of the CHO and supports debt service on loans for new housing.

Public private partnerships

The outcomes of PPPs (typically to redevelop or construct new mixed tenure developments) have been variable and limited to a small number of projects to date. PPPs present an opportunity for state and territory governments to attract private investment in renewing public housing estates to refurbish and increase social and affordable housing, along with private housing. Feasibility studies are important to confirm financial viability and the optimal new social and affordable housing in exchange for government land, through title transfer, concessional lease or contribution. Streamlined procurement aligned to planning approval processes is important to reduce delays and transaction costs. Risks associated with the potential 'leakage' of public assets through private involvement or market sales can be addressed through long term leasing models. Careful design and management processes are needed to avoid disrupting or displacing established communities. Given the inherently complex nature of these projects, PPPs benefit from strong governance, clear roles and risk allocation.

Inclusionary planning

Inclusionary planning mechanisms can support private delivery of affordable rental and home purchase products for moderate income groups, through mandatory requirements and planning incentives. Both approaches were endorsed by participants in this study. However, additional sources of subsidy are needed to provide significant quantities of affordable housing for high need groups and low-income households. Further, there are ongoing barriers to the use of inclusionary planning mechanisms under state and territory planning legislation, and new requirements must be introduced over time.

The planning system can also support below market rate housing (such as boarding houses, small units and build to rent projects) by offering concessions on development standards and requirements. However, such accommodation may be inappropriate for many households and is not necessarily affordable for low-income earners. Further, participants cautioned that changes and uncertainty in the planning regulations applying to diverse and lower cost housing types undermine developer confidence.

An additional limitation of inclusionary planning mechanisms is that they tend to work in tandem with market conditions, delivering increased affordable housing opportunities when wider development activity is buoyant. However, the availability of planning concessions and mechanisms that incorporate affordable housing partners as part of new development may offer some cushioning or alternative opportunities when market conditions shift.

Shared equity and loans to support affordable home purchase

Shared ownership and equity products provide an alternative home ownership option, improving affordability by reducing the deposit requirement, the size of the mortgage and therefore monthly mortgage payments. Low-deposit home loans and shared equity schemes have successfully supported home ownership for moderate-income earners for many years in some Australian jurisdictions and are low-cost and low-risk for governments. They have been popular in the UK for decades (Monk and Whitehead 2010). If properly structured, shared ownership or equity schemes have potential to deliver housing for key workers and other moderate-income earners in all Australian cities and regional areas (Gilbert, Nasreen et al. 2021). There is also potential for private sector institutions to help fund such schemes or develop their own schemes for their own employees.

5 https://www.pc.gov.au/research/ongoing/report-on-government-services/2022/housing-and-homelessness

Build to rent and build to rent to buy

Private build to rent projects can deliver a component of affordable housing. However, this requires a combination of favourable tax and planning concessions (such as density bonuses and relaxed parking requirements) and potentially access to government land to cross-subsidise the cost. These have not been sufficient to support affordable rental housing in private for-profit build to rent projects to date. However, build to rent to buy schemes targeted at moderate-income households have been proven to be financially viable and scalable.

5.2 Industry appetite for increasing private sector engagement and key risks and challenges

Our research revealed strong appetite across sectors for increasing private sector engagement. However, to date, a number of challenges have constrained this engagement. Further, our review of the international evidence and Australian experience to date also highlights a number of significant risks which need to be managed in contemplating an increased role for the private sector in delivering Australia's affordable or social housing supply. These include:

- potential disruptions to established communities or displacement of residents when social housing stock is transferred, sold or redeveloped
- the risk that public subsidy or assets will be 'leaked' through sale or redevelopment of existing social housing, or time limited affordability requirements on new products
- the risk of housing that is sub-standard in construction and size
- the risk of housing that is located and designed to better suit ultimate home purchasers (when affordable rental requirements expire) and not the needs of the initial renting households
- dilapidation or mismanagement of social or affordable rental housing stock
- reduced growth of the not-for-profit and community housing sector, forced to compete with private entities for limited funding
- increased supply of sub-market housing for those on moderate incomes such as key workers, but reduced supply of homes affordable to those on very low incomes as inclusionary planning obligations are discharged without the additional government subsidy needed for deep affordability.

These are summarised in relation to each of the different approaches and models in Table 12 along with potential mitigation strategies. Further details are provided in Appendix 6. As shown in Table 12 there are challenges and risks associated with all of the models, including rental assistance, government funding, tax subsidies, planning or market based approaches. However, as discussed in Chapters 3 and 4, careful policy design, adequate and certain levels of funding, as well as strong regulatory settings, are able to mitigate many of these issues.

Industry participants reiterated the importance of such strategies, expressing overarching concern about changing government policy environments and even the prospect of projects being withdrawn during procurement phases. They emphasised that a stable regulatory environment and funding certainty is essential to increasing the scale of private sector investment.

Table 12: Challenges, risks, and mitigation strategies

Approach/ Model	Challenges /Risks	Mitigation strategies
Commonwealth Rental Assistance	• Pricing not aligned to rental market	• Indexing CRA to rent rises
Government capital funding	• Very limited funding for new housing • Tight procurement and delivery timeframes • Cashflow constrained without cross-subsidy	• Sustained levels of capital funding • Robust procurement process to ensure value and due diligence • Reasonable delivery time (5 years) with quality assurance • Mixed income and mixed tenure projects
Institutional investment in bonds	• Scale and liquidity • Emerging asset class • Risk of poor maintenance or management	• NHFIC future commitment to bonds • Collect performance data • Regulation of providers
Subsidies (tax and capital)	• Lack of certainty • Flat subsidy rate • Limited affordability and duration	• Government renew subsidies with targets • Set rate relative to market • Extend duration of subsidy
Planning incentives (inclusionary zoning)	• Limited schemes • Limited take up • Depends on/works with market conditions	• Mandatory targets for affordable housing • Fast track planning approval • Mixed income and mixed tenure projects
Public housing renewal (PPPs)	• Impact on established communities • Lack of sites • Long, costly procurement • Delayed planning consent • Complexity and risk	• Careful community engagement and rehousing strategies • Feasibility studies • Streamline procurement • Align with planning approval • Strong governance, clear roles and risk allocation
Build to rent	• Returns not as competitive as 'build to sell' products due to tax and planning • Affordable housing not financially feasible	• Govt subsidy or leased land • Tax relief (land tax, stamp duty) • Density and design requirements • Build to rent to buy schemes
Social impact bonds	• Limited scale • Outcome measurement	• Target innovative pilot projects • Government define outcomes and share data for evidence-based models

Source: Authors.

Risks to government

When contributing land or other resources to support private involvement in new social and affordable supply, governments incur a loss of capital assets from their balance sheets, as well as rental revenue needed to fund operations and maintain public housing. To address this, governments are increasingly focusing on long term ground leases as a mechanism for contributing land for mixed income and mixed tenure developments by the private sector. Grounds leases enable governments to share operating accountability and risk of the development project, but retain the asset on the public balance sheet. This asset is then to be returned at the end of the term with an improved capital value.

The growth and consolidation of CHOs

Increased private investment in social and affordable housing can support the growth and consolidation of CHOs. Private investors are seeking to partner with larger CHOs with an established track record of project delivery and solid tenancy management that de-risks returns. However, smaller CHOs who serve specialist housing cohorts may struggle to compete with larger CHOs to offer the scale transactions sought by institutional investment and larger development projects. To mitigate this, governments have an ongoing role to provide additional support and resources to these specific cohorts to ensure their housing needs are met, and that the diversity of specialist CHOs is not lost.

A number of policy makers and industry participants involved in this study expressed the concern that increasing emphasis on private investment in the sector may result in affordable rental housing, rather than the social housing sector, because moderate-income earners deliver higher returns. In line with international research and experience (Crook and Kemp 2018; van Bortel and Gruis 2019), findings of this study confirm this perception and show that in the absence of sufficient government subsidy, market focused models will prioritise higher income groups.

Overall, many participants were concerned to ensure that policy energy and housing assistance funds continue to prioritise households in the lower two income quintiles, who are likely to remain lifelong renters. Maintaining this focus requires ongoing market segmentation to quantify demand from low and very low-income cohorts, and to define appropriate funding mechanisms and policies to address this need in parallel with strategies to serve moderate income households such as key worker groups. Some participants stated that politicians often prioritise homeownership policies at the expense of sound rental housing policy.

5.3 Roles and interdependencies across sectors

Clarifying the optimal roles for the government, private not-for-profit and private for-profit sectors is an important basis for effective partnership and collaboration. Drawing on the investigative panels, case study data and evidence review, Table 13 summarises these roles.

Table 13: Sector roles in social and affordable housing supply

Private for-profit	Government	Private not-for-profit
• Access to finance • Capacity to leverage • Development expertise • Asset management • Property management • Land bank • Tenancy management • Employment and training opportunities	Australian Government: • Rental subsidies • Tax subsidies and concessions • Bonds and loans • Grants • Land • Capital funding • Regulation • State Governments: • Planning incentives and requirements • Grants • Operating subsidy • Land • Capital funding • Regulation • Local Government: • Planning incentives and requirements • Land	CHOs: • Development management • Tenancy management • Property management • Community engagement • Coordinating access to support services, training, education and employment opportunities • Service Providers: • Case management • Support services • Training, education and employment opportunities

Source: Authors.

As shown, the private for-profit sector has the capacity to provide significant financial investment into affordable housing, given the right risk and return profile. As outlined above, this requires scale and certainty from government in relation to available subsidies as well as provision of bond finance or loan guarantees. Further, government has an important role to play in regulating investors to ensure that the drive for return does not compromise the quality and affordability of housing outcomes. This is discussed further below.

Private for-profit sector partners typically bring significant expertise in residential development, helping reduce risks in project delivery. There is capacity within the private development industry to deliver large scale residential projects across Australia on behalf of government with CHO partners. The private sector also has extensive experience in asset management of social and community housing, with a current annual turnover of around $1 billion currently. Assurance of quality and value for money in construction and asset management is ideally a shared responsibility, with requirements clearly defined upfront by the client and verification undertaken by all parties.

In addition to capital funding, loan support, tax incentives and rental subsidies, the Australian Government and state and territory governments also have a role to play in providing land, either through public housing estates or other under-utilised sites that are suitable for renewal through public private partnerships. They have a role in undertaking feasibility studies to assess options for mixed income, tenure or use projects. State, territory and local governments can use the planning system to incentivise or require affordable housing within private residential developments.

State and territory governments' regulation of the community housing sector is NRSCH. This provides a robust and appropriate vehicle for regulation as it is already established and eligibility is open (although not mandatory) for private affordable housing providers. Tier one accreditation with NRSCH (and the comparable systems in Victoria and Western Australia) provides assurance to government and private investors of the viability and integrity of the housing provider.

The existing government regulation of the private rental housing sector is equally important to ensure appropriate housing, equitable access and tenure stability for tenants. The states and territories regulate rental tenancies via legislation that is administered through Civil Administration Tribunals, and there is an ongoing need to review the adequacy of existing standards and tenant protections.

Private not-for-profit CHOs provide a range of roles and services in delivering and managing affordable housing, sometimes in partnership with the private sector. Larger CHOs are increasingly taking on a development role, organising finance (private and government) and managing construction themselves. All CHOs provide property management, which includes property condition inspections, maintenance requests, tenant damage identification and cost recovery. Tenancy management is core business for CHOs and includes wait list management, eligibility and allocation, rent setting and collection, arrears management, termination, complaints, appeals, case management, access to support services. CHOs have very strong relationships with their tenants, where necessary coordinating access to support services, education and employment opportunities. CHOs also focus on community engagement, seeking residents' inputs to community developments and services.

Other not-for-profit organisations provide case management and support services, including counselling, training, education and employment placement.

5.4 From a national housing strategy to state and local implementation

A strategic approach is needed to optimise resources from the private, government and community housing sectors to increase the supply of social and affordable housing over the next 25 years.

Stage one involves the Australian Government and state, territory and local governments developing housing strategies to understand the long term (15 to 20 year) demand for housing across market segments, including crisis, specialist, social, affordable rental, affordable purchase and private market housing. The NHFIC has already commenced an effort within the research component of its investment mandate to publish a flagship report on Australian housing supply and demand each year.

As part of these strategies, robust analysis comparing this future demand to current supply is needed to specify targets by market segment and typology, location and timeframe. That analysis cannot stand alone. Implementation commitments, including gap funding and supporting arrangements to be delivered by each level of government, are paramount.

Once federal housing targets, outcomes and ongoing gap funding programs are defined and quantified, the Australian Government and state and territory governments should commit funding to deliver these outcomes and housing targets across market segments. This funding should be implemented through programs that further engage the private sector, in partnership with the CHO sector. State, territory and local governments should also implement policies through the planning system to engage the private sector in delivering social and affordable housing.

Table 14: Stages and activities for each level of government to expand social and affordable housing supply through increased private sector engagement

Stage	Level of Government	Activity
Housing Strategy	Australian, state, territory and local	Understand future demand across housing market segments, current supply and gap analysis of housing need, which type, where
Housing targets	Australian, state, territory and local	Quantify and set targets of new homes by market segment, including crisis, social and affordable housing, to meet forecast demand, by housing type, location and timeframe
Gap subsidy program	Australian, state and territory	Quantify finance required and design efficient allocation of ongoing gap subsidy program to leverage private participation by market segment e.g. crisis, social and affordable housing. Gap finance could be formulated as capital grant, tax concession, or recurrent subsidy
Outcomes	Australian, state and territory	Define social, economic, environmental, and other benefits sought, define measures, targets and reporting frameworks e.g. local employment, climate resilient design
Budgets	Australian, state, territory and local	Commit funding to ongoing gap subsidy supplemented by annual targeted budgets to engage private sector in contributing to delivery of housing targets across market segments
Policies and programs	Australian, state, territory and local	Implement clear, consistent policies and programs to engage private sector in contributing to delivery of housing targets across market segments
Procurement	Australian, state and territory	Implement clear, consistent procurement to competitively and efficiently award resources to the private and CHO sectors
Regulatory systems	Australian, state and territory	Implement principles-based regulatory system to monitor and control quality of providers and housing
Risk and performance	Australian, state, territory and local	Gather and analyse data through regular reporting to manage risks, inform continual improvement and evidence based models

Source: Authors.

Following this, clear, consistent procurement processes should be implemented by each level of government for their respective programs to competitively and efficiently award resources to the private sector and CHO sectors to deliver this housing, working in partnership.

Finally, regulatory systems should be established or adopted to measure, monitor and control achievement of these targets and the quality of providers and housing. Ideally, this should be on a national basis for consistency. However, all levels of government should collect and report data at the appropriate scale to monitor progress against targets, manage risks and inform continual improvement.

5.5 Conclusion

Overall, the findings of this study point to strong and rising private interest in engaging in Australia's social and affordable housing sector, provided that certain conditions (such as adequate baseline funding along with policy certainty) can be met. However, it is clear from the international evidence that private involvement should be viewed as a way of extending, rather than replacing, public subsidy to house low-income earners and those with special needs.

Further, the findings of this study also point to a number of risks that need to be managed in contemplating an increased role for the private sector. However, when programs are carefully designed and risks mitigated through stringent regulation and oversight, private involvement can extend public subsidy and resources. This is accomplished by leveraging access to additional sources of capital and land, assistance in cross-subsidising the provision of housing for those on very low and low incomes, and supporting innovation in the design and delivery of new housing products across a mix of market segments.

A final risk is that the new and apparently rising appetite for private investment in the affordable housing sector (which is not unique to Australia) likely reflects a search for yield in the context of reduced alternative opportunities following the global financial crisis in the wake of the COVID-19 pandemic. If returns on other assets improve, this appetite may diminish. One way of countering this risk is to clearly signpost investment opportunities around the broader environmental, social and governance goals that are increasingly important to the private sector.

Lastly, it is essential to emphasise that private investment in housing that is affordable for very low-income earners will only be enabled by deep capital grants. Where governments are not able to provide deep financial subsidy to underpin affordable housing construction, much stronger use of other resources and levers (such as government land or land use planning powers) will be needed.

In Australia's context, the use of government land to underpin affordable housing construction has been largely limited to the renewal of existing social housing estates as described in this report, or more widely by requirements for government land sale or development to deliver financially competitive returns.

Neither of these scenarios is sufficient to provide for significant growth in social or affordable housing supply. State land use planning mechanisms could be extended to secure sites for affordable housing provision. However, existing approaches would need to be significantly extended to deliver outcomes at scale. Schemes such as the density bonus approach used in NSW or a limited inclusionary zoning scheme whereby a modest proportion of capital investment value is collected to provide funding for new construction, are insufficient. Rather, a far broader and consistently applied approach would be needed to overcome the high cost of acquiring residential sites. As has been demonstrated in SA, broad state-wide requirements for a proportion of affordable homes to be included in all new developments, are able to be factored into land acquisition decisions. Combined with programs to ensure that target households or not for profit housing providers are able to purchase or rent these dwellings produced via inclusionary planning schemes, this approach would help reduce land prices enabling developers and builders to contribute to a stable pipeline of affordable stock over time.

Well managed and resourced strategies will also contribute to capacity building within the not-for-profit social and affordable housing sector and the housing industry more widely. Ultimately, this will help stabilise rates of new housing production, enabling construction to respond better to Australia's population growth and change, serving housing need rather than peaks and troughs in the market cycle.

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Appendix 1: Key Terms and Definitions

Key terms and definitions regarding housing products and government subsidies and policies involving private sector participation in social and affordable housing.

Affordable housing - housing that is subsidised and is subject to access and affordability requirements set by government. It encapsulates:

- rental housing priced at below market rents and earmarked for eligible low to moderate-income households
- owner-occupied housing for eligible households that is provided under a subsidised loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement (Milligan, Pawson et al. 2017).

This definition includes all forms of subsidised housing where access is restricted to eligible households. It may include homes delivered through the planning system for affordable rent or purchase, but is distinguished from below market rate housing more widely by:

1. a requirement that the affordable outcome be delivered as a condition of planning approval or other contractual, regulatory or statutory arrangement
2. a requirement that access be restricted to eligible households, usually defined by income.

Affordable rental housing may be managed by private or community housing organisations, with affordable rent not exceeding 30 per cent of household income or up to a maximum of 80 per cent of market rent.

Below Market Rate (BMR) Housing – refers to housing that costs less to produce and/or offered to market at a lower price. BMR housing may reflect a lower quality, less amenity and/or farther location from services. BMR housing does not have any access or affordability requirements and therefore affordability is not guaranteed.

Boarding houses - a form of rental accommodation for a wide range of tenants including singles, retirees, students and young couples. Boarding houses are wholly or partly let in lodgings; have rooms, some of which may have private kitchen and bathroom facilities, that accommodate one or more lodgers; may have shared facilities, such as a communal living room, bathroom, kitchen or laundry.

Build to rent (BTR) housing – large scale, purpose built rental housing that is held in single ownership and professionally managed rather than individually sold in a strata. BTR housing is generally situated close to transport and services and funded by CHOs, large-scale developers and/or institutional investors.

Build to rent to buy housing – involves the purchase of a property in instalments, with property settlement and legal ownership only happening once all of the instalments are paid. RTB schemes involve a contract with the seller, such as a lease, to live in the property for a period of time. Part of the rental payment goes toward accruing equity, and paying other expenses like council rates, water rates and insurance. At the end of the rental contract, the extra equity accrued during the rental phase may be applied towards the purchase price. Usually, this involves a bank loan to purchase the home.

Commonwealth Rental Assistance (CRA) – a non-taxable income supplement to eligible people who rent in the private rental market or community housing. In order to qualify, a person or household must qualify for social security or income support supplement, and pay more than a minimum amount of rent, called the rent threshold, for their principal home. Social housing tenants living in state government-managed housing are not eligible for CRA, but if the management contract is transferred to a not-for-profit CHO, the tenant becomes eligible for CRA even when the housing is still owned by the state government.

Community housing - housing that is owned or managed by not-for-profit community housing organisations (CHOs), the vast majority of which is subsidised and subject to access and affordability requirements set by government. It encapsulates housing for rent by eligible very low, low and moderate income households, built and maintained by CHOs or private companies, sometimes with tenant participation and local employment. Since 2008, the community housing sector has grown considerably through both transfer of management contracts for state government-owned social housing, and through the short-lived National Rental Affordability Scheme program (2008—13) The National Regulatory System for Community Housing was also established in 2008 to ensure a well governed, well managed and viable community housing sector that meets the housing needs of tenants and provides assurance for government and investors.

Crisis housing – short term rental accommodation managed by government and not-for-profit organisations that is subsidised and is subject to access requirements set by government. It encapsulates emergency housing for people who are at risk of becoming, or are, homeless or who are escaping domestic violence. It also includes temporary accommodation subsidised by government and provided by private owners and not-for-profit organisations.

Density bonus – a land use planning intervention by government allowing developers increased floor space in return for affordable rental housing. The size of the density bonus is based on the proportion of residential floor space that is allocated as affordable rental housing.

Inclusionary zoning - a land use planning intervention by government that either mandates or creates incentives (see Density Bonus) so that a proportion of a residential development comprises affordable housing dwellings. There are two main approaches to building affordable housing through inclusionary zoning. The first is the mandatory model which requires that a number of affordable homes are included in developments as a condition of planning approval. The second approach is the voluntary incentive model, where new affordable housing is encouraged by reducing costs for developers. There are varying approaches for the ownership and management of the affordable rental housing delivered.

Indigenous housing - housing for Aboriginal and Torres Strait Islander Australians that is subsidised and is subject to access and affordability requirements set by government. It encapsulates housing for rent by eligible very low, low and moderate-income households, managed by government and/or not-for-profit Indigenous organisations. Private companies are contracted to build and maintain the housing, sometimes with requirements for apprenticeships, Indigenous employment and tenant employment.

Infill development – housing development sites within existing urban areas, including large scale previously developed sites (brownfield) and under-utilised properties (greyfield) sites. Infill housing ranges from medium and high-density housing, to townhouses, villas and ancillary dwellings.

Key worker - The term usually refers to employees in services that are essential to a city's functioning but who earn low to moderate incomes. In cities and regions with high housing costs, this makes access to appropriate and affordable housing in reasonable proximity to work difficult for key workers. All key worker jobs require physical presence—few key workers can work from home. Proximity to work is particularly important in healthcare, emergency services and some community and welfare support roles in order for workers to cover shifts, quickly respond to increases in service demand and attend emergency situations (Gilbert, Nasreen et al. 2021).

Low-income household - households earning incomes between 50 and 80 per cent of the median income for their metropolitan region.

Moderate-income household - households with incomes between 80 and 120 per cent of median income for their metropolitan region (e.g. essential public service providers and key workers such as teachers, nurses and emergency service workers, particularly those at an early career stage).

Public Private Partnerships (PPP) – partnership contracts between government, private and not-for-profit sectors in the delivery of services and infrastructure where the private sector builds the specified infrastructure in return for availability payments for a set term (often 30 years) upon the satisfaction of documented Key Performance Indicators.

Public housing renewal - The process whereby existing, ageing public housing estates or buildings are redeveloped to improve both housing outcomes for public housing tenants and the neighbourhood's amenity. Public housing renewal projects are typically done through PPPs involving private developers, private finance, community housing organisations and government.

Senior housing – subsidised affordable rental housing for people over the age of 55 who are at risk of becoming, or are, homeless, managed by government and not-for-profit organisations, often accompanied by support services.

Shared equity housing – consumers share the capital cost of purchasing a home with an equity partner, either government-backed or private sector-led schemes, in return for a share of any home price appreciation that occurs.

Social housing – rental housing that is owned, subsidised, and subject to access and affordability requirements set by government. It encapsulates housing for rent by eligible very low and low income households, managed by government or by not-for-profit community housing organisations. Private companies are contracted to build and maintain the housing, sometimes with requirements for apprenticeships, Indigenous employment and tenant employment.

Specialist Disability Accommodation (SDA) - accommodation for people who require specialist housing solutions, including to assist with the delivery of supports that cater for their extreme functional impairment or very high support needs. Government provides capital funding to stimulate private investment in the development of new dwellings that meet design standards and are for use by eligible participants. SDA funding is not for support services, but is instead for the homes in which these services are delivered.

Student housing - purpose built student accommodation (PBSA) is built for university students by private developers. Properties usually take one of two forms: self-contained studio or clusterflats with private kitchens but shared living space; modern halls of residence containing ensuite bedrooms with shared kitchen, dining and living facilities.

Very low-income household - households earning incomes of less than 50 per cent of the median income for their metropolitan region (e.g. working households in minimum wage and low paid jobs, as well as households on government pensions and other government benefits).

Youth housing – subsidised transitional medium term affordable rental accommodation for young people aged 16—25 that is provided by government and not-for-profit organisations, often accompanied with case management and support to get into education, find employment and develop living skills.

Appendix 2: Evidence Review: International models for private involvement in social and affordable housing provision

In the years of financial austerity following the Global Financial Crisis (GFC), there has been renewed emphasis on leveraging private resources to finance, develop or deliver new social and affordable housing supply.

We reviewed key international models of private involvement in social and affordable housing, focusing on published research evidence. In doing so, we consider the quantum and appropriateness of affordable housing generated through private involvement; program and housing market efficiency; as well as longer term benefits, such as increasing industry capacity across the not-for-profit and for-profit housing sectors. We also identify available evidence on negative outcomes or risks associated with particular approaches as well as the policy settings needed maximise beneficial outcomes and manage risks.

Private investment

Government bonds and guarantees

In the United Kingdom (UK), bond market issuance via the capital markets is now the major source of funding for the social housing sector. In 2013–14, bonds to the value of £2.9 billion were issued by Housing Associations in the debt capital markets, exceeding the £2.5 billion raised via bank debt (Williams and Whitehead 2015).

The Affordable Housing Guarantee scheme provides a guarantee to support debt raised by Housing Associations and other private registered social landlords. In June 2013, The Housing Finance Corporation (THFC) was appointed to administer the guarantee scheme which amounted to an initial £3.5 billion (Haffner, Hoekstra et al. 2016). In 2019, the Government committed an additional £3.5 billion to fund the building of 30,000 affordable homes.

The benefits of institutional investment in social housing are balanced by concerns that private funding is forcing Housing Associations away from the social housing mission to open market developments. Bringing increased debt levels into the sector also brings increased risk, the potential for instability and pressure for increased rental income from affordable and market price homes (Smyth 2019).

Critically, growth of the social housing finance market in the UK has been supported by guaranteed rental income sustained by housing benefit (rental subsidy); and a longstanding planning framework which requires affordable homes to be included in new residential development. In England, there have been no capital grants for affordable housing secured under developer contributions for many years, whereas there have been in Scotland. This has made a major difference in the types of affordable homes in each nation, with more social rented homes in Scotland.

Tax concessions

The use of tax concessions to encourage investment in affordable housing development has a long history in the US and occurred briefly in Australia under the National Rental Affordability Scheme (NRAS) (Rowley, James et al. 2016).

The US Low Income Housing Tax Credit (LIHTC) program was established in 1987 to channel private investment into rental provision at sub-market prices. Under the scheme, developers apply to the Government for tax credits after having demonstrated financial viability to deliver affordable housing on a site with the addition of the tax credit equity. They raise capital for these projects by selling the 10-year flow of the tax credits to private investors.

Developers are required to achieve specified affordability targets for a minimum of 15—55 years (depending on state requirements). Projects must demonstrate either:

- at least 20 per cent units being affordable for households earning up to 50 per cent area median family income, or
- at least 40 per cent of units being affordable for households earning up to 60 per cent area median family income (equivalent to key workers—teachers, nurses, police officers).

Investors become limited partners or owners in the project for 15 years. In many states, tax credits are so over-subscribed that only one project in five is successful in winning an allocation of the subsidy. Investors and developers face recapture penalties if the project does not comply with affordability requirements and other standards.

The LIHTC program has facilitated the development of more than 100,000 dwellings per year, for a total of over three million new affordable homes in the period 1987—19 (US Department of Housing and Urban Development, 2021).

While the LIHTC program has generated significant private investment in millions of new affordable homes in the US, the funding extends for a finite period of time after which the housing can be converted to market-rate occupancy. Preserving the assets for low-income households when tax credits expire has become a key challenge, particularly with the rise of private equity investors in the multi-unit real estate market. There has also been concern in recent years that the program subsidises new housing development in softer markets where additional supply may not be required (McClure 2019).

Overall, and in contrast to recent experience in Australia (Rowley, James et al. 2016), the LIHTC scheme has benefitted from enduring, bi-partisan political support. Statutory obligations on banks to invest in under-served markets under the Community Reinvestment Act have helped support the scheme in particular and affordable housing development in general. Backed by a broad coalition of for-profit and not-for-profit developers, banks, investors and consultants, the LIHTC has led to the creation of a third sector of housing industry focused on affordable housing.

Private development and partnerships

Moving from the financing of new social and affordable projects, we turn now to particular development approaches. These range from build to rent projects that may include affordable or lower cost market accommodation, to public-private partnerships to develop or redevelop social or affordable housing, and planning system approaches which ensure opportunities for social and affordable housing are included as part of new residential development.

Build to rent

In the US, build to rent (or multi-family) is one of the most well-established residential assets available to institutional investors. Over the past 10 years, its popularity has soared to 25 per cent of total property investment. The low-risk, stable returns offered by build to rent are known for garnering the interest of investors from across the globe.

This overall success is largely made possible by the financial system in the US, particularly their banking and debt systems. The competitive nature of the US financial system allows banks to carve out their own niches and focus on one primary area. For example, financial institutions like Freddie Mac have a dedicated multi-family arm that financed $73.2 billion in loan purchase and guarantee volume in 2017 alone (Development Finance Partners 2018).

In the US market, approximately 350,000 new multi-family homes have been constructed per year over the past five years, accounting for an average of 35 per cent of all new housing in the US (National Association of Realtors 2019). In the US, government backed lending has contributed to the build to rent multi-family housing sector growing to 25 per cent of the total property investment market. Approximately one-third of this housing (over 70,000 homes a year since 1995) is targeted as affordable rental housing, increasing access to low and moderate-income households. However, much of this housing is funded through LIHTC, with affordability ensured only for a fixed duration.

The UK Government has adjusted their tax laws and provided debt guarantees to attract institutional investment into private build to rent development. Since 2016, the UK government has been taxing build to rent landlords more favourably than developers of private build to sell developments (Scanlon 2018). Most recently, from April 2022 the UK government will exempt build to rent developments from a new residential property developer tax that applies to the profits from private for sale developments (HM Treasury 2021).

The Government Housing White Paper released in February 2017 allowed for changing planning rules so councils could proactively plan for more build to rent homes where there is a need, making it easier for build to rent developers to offer affordable private rent in place of other types of affordable home. The Mayor of London's Housing Plan sets out a different approach to assessing the viability of build to rent developments opening up a Fast Track Route through the planning system for proposals that meet minimum requirements for affordable housing (Trident Real Estate Capital 2018).

According to the British Property Federation (2021), by the end of 2021 70,785 build to rent units have been built, 42,119 were in construction and 99,273 more units were either in planning or under construction by around 2019. It remains to be seen the extent to which these build to rent developments provide affordable rental housing.

In Australia, there has been rising interest in the potential for build to rent development to increase the supply of housing overall, and provide a secure, long term rental option for those unable to enter home ownership. To date, however, progress has been slow, with very few build to rent projects underway or completed. In the following chapter we discuss build to rent projects emerging in the Australian context.

Partnerships between private developers and public or not-for-profit housing providers

Partnerships between private developers and public or not-for-profit housing providers have traditionally focused on the redevelopment of public housing estates characterised by large land holdings, deteriorating assets, and in many cases broader social problems associated with economic disadvantage and stigma. Renewing these estates—often in partnership with a private sector developer or with the intention of introducing a mix of tenures including private ownership or rental—has become a ubiquitous but contentious strategy for refurbishing or creating new social and affordable housing units at a lower capital cost to government (Pawson, Milligan et al. 2019).

In some ways these redevelopment models mirror conventional PPPs that typically involve capital investment in infrastructure raised by a private partner, with the investment repaid over a concession period by government and revenue from user fees. Social infrastructure projects that include residential developments such as social and affordable housing, are typically smaller in scale than PPPs but are likely to involve a wider range of partners. The traditional PPP infrastructure arrangement has been applied to affordable rental housing in Australia primarily in the context of large public housing estate renewals tendered to private and not-for-profit consortia.

The international evidence and Australian experience to date suggests that such arrangements are often complex, involving high levels of public scrutiny, and potentially high exposure to political interference and policy changes. There can be tension between expected social outcomes and financial returns, and concerns about the privatisation or loss of public housing assets. Conflicts may arise where private and not-for-profit organisations undertake roles previously performed by the public sector and difficulties changing established working procedures. For private developers, bidding costs are expensive due to complexity, while expected returns are often smaller than associated with traditional infrastructure projects (Jefferies and McGeorge 2009). Ideally each partner assumes those risks they are best placed to manage and those responsibilities from which they can make most benefit. However, this can present difficulties given often quite different capacities between parties to carry that risk (Gilmour, Wiesel et al. 2010).

In the UK there is also an established practice of partnership between private developers and not-for-profit housing providers on new residential projects. These may range in scale from smaller developments on land owned by the public or not-for-profit partner, to large scale master-planned projects led by private developers. Private developers are often required or incentivised to include social or affordable housing by government tendering (on public sites) or land use planning provisions such as inclusionary zoning.

Inclusionary planning requirements or incentives

Planning system requirements or incentives to include affordable housing in new development have accounted for a rising proportion of social and affordable homes in the UK and in many parts of the US. In the UK, particularly England, national planning guidance emphasises affordable housing as a material consideration when assessing planning proposals. This enables local authorities to establish needs-based targets in development plans (Crook, Henneberry et al. 2016).

Over a 30-year period, the consistent application of local affordable housing targets that provide the basis for site based negotiated agreements has led to a well-established framework for supporting new affordable supply through the planning system. Of the 52,000 social and affordable homes completed in England between 2020—21, just under half were funded through planning ('s106') obligations alone (Housing and Communities 2021). It is important to note that the inclusionary planning system has evolved over time, supported by strong capital grants for social housing construction, and an ongoing, needs-based rental subsidy ('housing benefit'), allowing social housing associations to contribute to the cost of new affordable units within private led developments. With government grants for new social housing production now declining, the long established planning system framework has ensured ongoing supply of social and affordable homes. However, the range or social and affordable housing stock produced in this way has shifted towards more affordable or 'below market' units targeting those on lower or moderate incomes, rather than accommodation for those on very low incomes, due to lower availability of government subsidy for new construction.

In the US there are a variety of approaches for requiring or incentivising affordable housing in new development, reflecting differences in state and local planning frameworks (Schuetz, Meltzer et al. 2009; Centre for Housing Policy 2014). These include mandatory requirements within particular areas or zones (inclusionary zoning); and 'impact fees' that charge an additional payment for developments likely to cause the loss of, or generate increased demand for, affordable housing. Voluntary approaches include 'density bonuses' that permit increased floorspace in return for affordable housing and 'planning concessions' which relieve developers of certain requirements (such as car parking or landscaping), provided that they include affordable housing within their projects. In some US states, affordable housing developers may contravene local planning requirements in local areas which have not maintained adequate affordable housing supply (Hananel 2014). Overall, inclusionary planning approaches have been adopted by an estimated 400+ cities in the US (Centre for Housing Policy 2014). In the absence of significant government grant, inclusionary planning models rely on high levels of private development activity. The evidence suggests that even strong inclusionary planning frameworks are insufficient to address the extent of unmet housing needs.

Private ownership or management

Large corporate landlords and private equity firms have played an increasing role in the acquisition and management of rental portfolios, including within the affordable sector. In the US, the emergence of private equity firms that invest in rental housing, particularly multi-unit housing, has occurred particularly in the post-GFC era. In parts of Europe such as Germany, the privatisation of social housing led to the emergence of large corporate landlords. It is important to distinguish here between the acquisition and management of existing social or affordable rental housing, and the private build to rent sector, which produces new housing supply and was discussed in the previous section.

Private equity investment in affordable rental housing

There is a large and diverse affordable rental sector in the US, where many states have rent control policies and provision for secure, long term tenancies. In this context, rental properties, particularly in the apartment multi-unit) sector, are a distinct asset class. In the lead up to the Global Financial Crisis, liberal access to mortgage finance and changes to state housing policies encouraged private equity real estate investment in riskier assets.

For example, there was a wave of aggressive private equity investment in New York City's affordable rental sector during the mid-2000s real estate boom. However, with affordable rental housing delivering lower returns and associated with higher costs in tenant turnover and maintenance, profits were lower than expected (Fields and Uffer 2016). One portfolio of 10,000 rental units purchased by private equity firms and securitised in commercial mortgage-backed securities lost $71 million in a year. Overleveraged buildings led investors to raise rents, cut maintenance and other services and, in some cases, to foreclose (Fields 2015).

In the years following the Global Financial Crisis there has been ongoing private equity investment in the rental sector, including affordable housing. However, left unregulated, aggressive private equity investment has led to the loss of and degraded condition of existing affordable rental housing (Fields and Uffer 2016).

Large corporate landlords

In countries most effected by the Global Financial Crisis, including Germany, Ireland, UK and the US, government programs for the disposal of impaired public assets have significantly increased the position of large corporate landlords in the private rental sector (Martin, Hulse et al. 2018).

There has been relatively little investment by the large corporate landlords in new construction of social or affordable housing, but they have engaged in active portfolio management (acquisitions and sales). Some large corporates have invested in modernisation works, in order to increase rents while others have sought to minimise their maintenance costs (Martin, Hulse et al. 2018).

The German housing system stands out for a Private Rental Sector (PRS) that is remarkably large, housing 54 per cent of households in 2021 (Schmidt 2021). While always the largest sector, the private rental sector has grown since the mid-1990s through the sale of public housing and housing owned by private industrial conglomerates to large corporate landlords. It is estimated that large corporate landlords own around 60 per cent of social housing (Martin, Hulse et al. 2017).

However, tenants' representatives have identified a range of issues in these portfolios including inadequate operating costs settlements, insufficient stock maintenance leading to poor quality accommodation, rent increases and a lack of access to landlords (BBSR 2017). In September 2021, more than a million Berliners voted to 'resocialise' approximately 240,000 apartments by bringing them back into public sector ownership (Vasudevan 2021).

Policy implications and potential lessons for Australia

In summarising the international research evidence on private involvement in social and affordable housing supply, a number of qualifications must be made. Firstly, it is always difficult to transfer approaches and experiences from one setting to another, given the very different contextual factors that characterise each country and specific points in time. At the macro level, overarching, longstanding systems of governance, welfare provision, housing production and tenure, help explain how and why particular approaches have been adopted by specific jurisdictions. At the micro level, details of program design, regulation and implementation arrangements shape outcomes. Further, by necessity, our review is drawn solely on available research evidence and published material, without the benefit of detailed on-the-ground investigation. Nevertheless, almost all of the approaches reviewed here have begun to emerge in the Australian policy landscape, not least because housing investment and larger residential development entities are increasingly international in their operations. This makes it important to consider the lessons from international experience and potential implications for Australia. Drawing on our evaluation criteria for assessing these approaches the table below summarises evidence regarding the affordability, appropriateness of housing delivered, as well as the efficiency and longer term benefits of each approach.

As shown in Table A1 on the following page, government backed bonds and loan guarantees have led to the growth of institutional investment in the supply of new affordable housing. In the UK, regulated housing associations utilise this finance to develop and provide appropriate and efficient housing, mitigating risks for both investors and residents. However, there are concerns that institutional investment is turning housing associations away from the social housing mission, making them quasi private sector developers whose main focus is on open market developments and increased rental income.

In the context of the US, tax concessions through the LIHTC program have proven instrumental in delivering a pipeline of affordable rental units, financed by private equity and debt. However, affordability is secured only for the duration of the tax subsidy, typically expiring after 30 years and raising the prospect of displacement for lower income tenants. Further, with the majority of credits awarded to private affordable housing developers, it may be argued that not-for-profit developers have been squeezed out of an uneven playing field.

Models of private involvement in developing new social and affordable housing supply may include the growing build to rent sector, with approximately one-third of this housing in the US targeting eligible low-income earners. However, the majority of this housing is funded through the LIHTC, and build to rent projects appear unlikely to offer affordable rents for lower income earners without additional subsidy.

While more emergent, the UK build to rent private rental sector is contributing new affordable housing supply, typically in response to planning requirements for affordable homes. Overall, consistent application of planning requirements for affordable housing inclusion has contributed to new supply of appropriate homes over time. However, in the UK, there have been ongoing concerns about the inefficiency of site specific negotiations for affordable housing, which are often protracted and resource intensive. Further, as government grants for new social housing construction decline, planning requirements for affordable housing have increasingly allowed developers to meet their obligations through products requiring lower subsidy by targeting higher income groups, such as keyworkers.

Table A1: International models of private sector participation in social and affordable housing supply

Approach	Affordable housing	Appropriate housing	Efficiency	Longer term benefits	Risks and unintended consequences avoided
Private investment					
Government bonds & guarantees (e.g. UK and US)	Strong	Strong	Strong	Strong	Weak
Tax concessions (e.g. Low Income Housing Tax Credits (LIHTC) US)	Strong	Strong	Strong	Weak	Weak
Private development and partnerships					
Build to Rent and Multi-Family Housing (e.g. US and UK)	Medium	Strong	Strong	Medium	Weak
Partnerships (including PPPs and mixed tenure projects) (e.g. UK and US)	Medium	Medium	Weak	Medium	Weak
Inclusionary planning (e.g. UK and US)	Medium	Medium	Medium	Weak	Weak
Private ownership or management					
Rental Assistance (e.g. US Housing Choice Section 8 vouchers)	Strong	Weak	Medium	Medium	Weak
Private Equity Investment (e.g. US and European countries, including Germany)	Weak	Weak	Weak	Contra	Contra
Large corporate landlords (e.g. US, UK and European countries, including Germany)	Weak	Weak	Weak	Contra	Contra

Strong evidence *Medium evidence* *Weak evidence* *Contra evidence*

Source: Authors.

The evidence on public private partnerships to deliver new social and affordable housing, often through 'estate' renewal, remains mixed. While an established model for redeveloping aged social housing supply and or adding to the existing stock, the approach has been associated with trauma and displacement for established residents in many cases. These projects also involve long procurement and planning approval processes, with increased costs to developers.

In the UK and parts of the US, governments have applied mandatory inclusionary zoning through the planning system, resulting in more affordable, appropriate housing. However, evidence shows that inclusionary planning is not sufficient alone to meet long term housing demand and focus is shifting towards delivering housing for moderate income households due to lower availability of government subsidy for new construction.

In the US, Housing Choice (Section 8) Rental Vouchers enable millions of people to lease housing in the private rental market at an affordable rate. Further, this rental subsidy improves the capacity for developers to leverage private debt for construction or refurbishment of affordable housing. However, while improving affordability, where recipients use this subsidy to rent existing housing units, the quality and appropriateness is dependent on the market. Historically and more recently in the wake of COVID-19 pandemic, the rental subsidy has been taken advantage of by 'slum lords' providing sub-standard housing in high market locations, such as Single Room Occupancy (SRO) hotels in New York City and San Francisco. Thus, as shown in Table A1 there are questions as to the appropriateness of housing outcomes delivered via this subsidy.

The involvement of large corporate landlords in the US, UK and European countries (including in Germany's affordable rental sector) has been associated with increased rents and displacement of existing tenants, as well as poor maintenance of the housing stock. Similarly, in the US, private equity investment in under-market rental property and social housing has led to many existing low-income households being displaced through regentrification or being stranded in sub-standard housing while investors cut costs to sustain target returns.

Overall, the international evidence points to strong and rising private interest in engaging in the social and affordable housing sector. As explored in Chapters 3 and 4, this interest is mirrored in Australia provided that certain conditions (such as adequate baseline funding along with policy certainty) can be met. It is clear from the international evidence that private involvement should be viewed as a way of extending, rather than replacing, public subsidy to house low income earners and those with special needs.

The evidence reviewed here also highlights a number of risks that need to be managed in contemplating an increased role for the private sector in delivering Australia's affordable or social housing supply. These include:

- potential disruptions to established communities or displacement of residents when social housing stock is transferred, sold or redeveloped
- the risk that public subsidy or assets will be 'leaked' through sale or redevelopment of existing social housing; or time limited affordability requirements on new products
- dilapidation or mismanagement of social or affordable rental housing stock
- reduced growth of the not-for-profit, community housing sector, forced to compete with private entities for limited funding
- increased supply of sub-market housing for those on moderate incomes such as key workers, but reduced supply of homes affordable to those on very low incomes as inclusionary planning obligations are discharged without the additional government subsidy needed for deep affordability.

In sum, the international evidence suggests that involving the private sector does not necessarily lead to increased social or affordable housing supply and, in fact, may lead to poorer outcomes for residents and communities. However, when programs are carefully designed and risks mitigated through stringent regulation and oversight, private involvement can:

- extend public subsidy and resources, by leveraging access to additional sources of capital and land
- assist in cross-subsidising the provision of housing for those on very low and low incomes
- support innovation in the design and delivery of new housing products and the mix of market segments served
- contribute to capacity building within the not-for-profit social and affordable housing sector and the housing industry more widely
- help stabilise rates of new housing production, enabling construction to respond better to shifts in demographic demand (e.g. population growth and change, unmet housing need), rather than peaks and troughs in the market cycle.

Appendix 3: List of Investigative Panel and interview participants

Table A2: Finance investigative panel participants

First name	Last name	Position	Organisation, department or company
Peter	Johnston	Director	Lighthouse Infrastructure
Hanna	Ebeling	Chief Executive Officer	Social Enterprise Finance Australia
David	Somerville	Chairman	Questus Ltd
Rebecca	Thomas	Executive Director/Impact Investment	Social Ventures Australia
Alastair	Wright	Principal	Altis Property Partners
Esther	Gachuhi	Assistant Asset Manager	Altis Property Partners
Andrew	Miller	Asset Manager	Altis Property Partners
Ryan	Slocome	Principal	Tetris Capital
Chris	Jones	Head of Asset Management	Capella Capital
Michael	Thorpe	Managing Director	CBA
Anonymous			
Anonymous			

Table A3: Development investigative panel participants

First name	Last name	Position	Organisation, department or company
Malcolm	Devin	General Manager	ByGroup
Kris	Daff	Managing Director	Assemble and MAKE Ventures
Paul	Burnell	Managing Director	RONALD YOUNG + CO BUILDERS
Janet	Chappelle	Manager	Landcom
Toni	Milis	Group Executive	Lendlease Foundation
Daniel	Ballard	Acting Director - Assets, Capital & Major Projects	Department of Communities WA
Richard	MacLachlan	National Acquisitions Manager	Meriton
Rebecca	Oelkers	Chief Executive Officer	BHC Creating Liveable Communities
Anonymous			
Anonymous			

Table A4: Specialist housing investigative panel participants

First name	Last name	Position	Organisation, department or company
Michelle	Blakeley	Architect	My Home
Chris	Smith	CEO	Foundation Housing
Ben	Barry	Executive Director	Macquarie Impact Fund
Sean	Kelly	Manager Housing	Bethanie Housing
Judy	Line	Chief Executive Officer	Women's Housing Ltd.

Table A5: Policy investigative panel participants

First name	Last name	Position	Organisation, department or company
Jared	Collins	A/Executive Director	Housing and Homelessness Division, WA Department of Communities
Deborah	Brill	Deputy Chief Executive	NSW Land and Housing Corporation
Jodi	Davy	Affordable Housing Planning Specialist	SA Housing Trust
Kristal	Comeadow	Senior Manager	SA Housing Trust
Katherine	Leong	Specialist Advisor Affordable and Disability Housing	Homes Victoria
Anna	Campbell	Executive Director, Housing, Homelessnes and Disability	NSW Department of Communities and Justice
Oliver	Hough	Director Housing Policy and Design Section	Housing and Homelessness Policy, Department of Social Services
Wendy	Hayhurst	CEO	Community Housing Institute of Australia
Anonymous			

Table A6: Interview participants

First name	Last name	Position	Organisation, department or company
Jessemy	Stone	Director Housing Programs	Communities Tasmania
Alisi	Tutuila	Chairperson	Aboriginal Housing Company
Cameron	Jackson	General Manager Development	Frasers Property Australia
Gidon	Edinburg	Director	Plenary Group
Nils	Miller	Chief Executive Officer	PrivateInvest
Damien	Webb	Deputy Chief Investment Officer/Head of Real Assets	Aware Super
Andrew	Brooks	Group Executive – Homes	SGCH
Anonymous			
Anonymous			

Appendix 4: Current government policies and programs to leverage private sector participation in social and affordable housing supply in Australia

Table A7 below provides details on current government policies and programs to leverage private sector participation in social and affordable housing supply across jurisdictions in Australia. This information was verified by the government policy investigative panel representatives as at 31 October 2021, unless noted otherwise.

Table A7: Current government policies and programs to leverage private sector participation in social and affordable housing supply

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Australian Government	**Commonwealth Rent Assistance (CRA)** CRA is a non-taxable income supplement, generally paid fortnightly, to eligible recipients. To be eligible, families or individuals paying private rent must: be in receipt of a social security or veterans' income support payment and/or receive more than the base rate of Family Tax Benefit Part A, and pay or be liable to pay more than the specified rent thresholds. Certain social housing tenants are eligible for CRA, such as those living in community housing or Indigenous community housing and, in some states and territories, state owned and managed Indigenous housing (SOMIH). CRA is not generally payable to public housing tenants as state and territory housing authorities already subsidise rent for these tenants. (AIHW 2021)	• Around $5.3 billion (2021—22)	• Around 1.5 million eligible individuals and families (2021—22)
Australian Government	**National Housing Finance and Investment Corporation's (NHFIC) Affordable Housing Bond Aggregator (AHBA)** • Joint lead managers ANZ, CBA, Deutsche Bank, UBS and Westpac • 28 private investors in fixed-rate bond • 15 private investors in floating-rate bond • Local and offshore investors. • Total savings for participating CHOs from NHFIC bonds to date exceed $42m, which they can use to provide warp around services and more social and affordable housing. (NHFIC 2021)	• As at 17 August 2021, over $2.5 billion of loans to CHOs have been approved by NHFIC.	• As at 17 August 2021, NHFIC had supported the delivery of around 4,600 new social and affordable dwellings and the refinancing of 8,300 existing dwellings through the AHBA.
Australian Government	**NHFIC's National Housing Infrastructure Facility (NHIF)** Concessional loans and grant funding for new and updated infrastructure needed for new housing, such as roads, water, sewerage, electrical, communications and remediation. (NHFIC 2021)	• $1 billion, including: • As at 17 August 2021, NHFIC's Board has approved over $300 million in loans and grants to eligible borrowers under the NHIF.	• As at 17 August 2021, NHFIC has supported the delivery of over 5,700 new social, affordable and market dwellings through the NHIF.

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Australian Government	**Specialist Disability Accommodation (SDA)** • SDA is a range of housing, designed for NDIS participants with extreme functional impairment or very high support needs. • SDA funding is only used for housing, not services or supports, and is provided through participants' NDIS plans. • All providers of SDA must be registered through the NDIS Quality and Safeguards Commission and all SDA dwellings are required to be enrolled with the NDIA. • The SDA Rules outline dwelling enrolment requirements such as design categories, building types and other features that affect SDA funding. (NDIS 2021)	• $204 million per year in annualised supports in active plans (2021)	• No cap on the number of SDA participants. • Estimated to be 6% of NDIS recipients.
Australian Government	**Safe Places Emergency Accommodation Program (Safe Places)** Safe Places is an open competitive capital works grant program, funding the renovation, building or purchase of dwellings to create safe emergency accommodation, for women and children escaping family and domestic violence. Funding is being provided across all states and territories – in remote, regional and metropolitan areas, where there is unmet need for emergency or crisis accommodation.	• $72.6 million	• When completed, funded Safe Places projects will provide about 780 new safe places to assist around 6,340 women and children escaping domestic violence each year.
Australian Government	**National Rental Affordability Scheme (NRAS)** The National Rental Affordability Scheme (NRAS, the Scheme), which commenced in 2008, provides an annual financial incentive for approved participants who rent dwellings to eligible people on low to moderate incomes at a rate at least 20 per cent below market rent. Incentives are available for up to 10 years per dwelling. As announced in the 2014—15 Budget, there will be no further funding rounds or new allocations of NRAS incentives beyond those allocated in the Scheme and held by approved participants at that time. Dwellings began exiting NRAS from August 2018 and will continue to progressively exit through to June 2026, as the ten-year timeframe attached to the financial incentive concludes. There is currently no expectation the Scheme will be extended beyond this ten-year term. At the conclusion of the 10 year incentive period for NRAS dwellings, ongoing tenancy arrangements are a matter of discussion between tenants, property managers, approved participants and the investors who own the dwellings. The dwellings will remain subject to all relevant state government tenancy and landlord laws, with respect to lease agreements and rental increases. Commonwealth Rent Assistance will remain available for eligible tenants.	• $250 million (2020—21)	

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Australian Government	**City and Regional Deals** City and regional deals comprise a partnership between the Australian Government, state and local governments, and communities to align planning and investment in cities where deals have been agreed. City and Regional Deals are tailored to the unique circumstances of each deal location, and are informed by conversations with communities about the type of city they want to live and work in. To date, eight City Deals and three Regional Deals have been agreed to, with another City Deal announced.		
Australian Government	**Commonwealth Land** The Government is contributing to the supply of housing by disposing of land that is no longer required by the Commonwealth, some of which is suitable for residential housing. In December 2017, the Government updated the Commonwealth Property Disposal Policy to require that any proposed sale of Commonwealth land that is suitable for housing should include affordable housing initiatives, where practical. At that time, the Australian Government also published the Australian Government Property Register, which enables all Australians to propose alternative uses for Commonwealth land.		
South Australia	**Our Housing Future 2020-2030** Reduce housing stress through 20,000 affordable housing solutions including: • Affordable Housing Initiative to create new options in the affordable housing market. • Neighbourhood Renewal Program to increase amenity, supply and diversity of housing types through renewal of older public housing. • Reviewing and developing under-utilised government, private and NFP land to drive innovation and supply new affordable housing. • Community Housing Asset and Investment Plans leveraging the benefits of leasing 5000 SAHT properties to stimulate new homes by CHOs. • Inclusionary, design and incentive provisions in the planning system, including the 15% Affordable Housing Policy. • HomeStart Finance Loans to targeted low and moderate income households. • Supported private rental opportunities for eligible social housing customers. • Moderate Income Rent Reforms to create a more equitable private market system through increasing rent to 30% of moderate income social housing tenants from 2021-22. • New Housing Renewal module to the Planning and Design Code to guide housing renewal projects and create new affordable housing.	$680m in total including: • $398.7m Affordable Housing Initiative • $54m Neighbourhood Renewal Program over five years • $220m construction investment • Additional $5m to Affordable Housing Fund • $400,000 affordable community housing land tax exemption	20,000 affordable housing solutions, including: • 1000 new affordable homes by 2025 • Innovation in financing, design and construction • 1,000 new social, affordable and market homes • 5,000 new affordable homes • 10,000 loans for purchase • 100 supported private rentals

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Tasmania	**Affordable Housing Strategy 2015-2025** **Affordable Housing Action Plan 2019-2023** • Land release to supply 380 lots for new affordable homes. • 200 long term, affordable private rentals. • Review and introduction of planning policies and mechanisms to increase supply of affordable homes. • Better Housing Futures vacant land transferred to CHOs to increase supply of affordable homes. • Private rental assistance to help with bonds, arrears and removal costs. • First Home Owners Grant and First Home Builders Boost. • HomeShare (shared equity) scheme and Streets Ahead (deposit assistance) program to help low to moderate income households into home ownership.	• $200m over eight years	• 2400 new affordable lots and homes
Tasmania	**Community Housing Growth Program 2020-2023** Funded from Rebuilding Tasmania Infrastructure Investment COVID-19 Response. Funding and land contributions to CHOs to build new social and affordable housing, create jobs in the building industry and stimulate the economy.	• Up to $100m by 2023	• 1,000 new social homes
Tasmania	**Extended Social Housing Build 2023-2027** $280 million investment over four years (2023-2027) to provide an additional 2 000 social housing dwellings.	• $280 million over four years	• 2,000 new social housing dwellings
Queensland	**Queensland Housing Investment Growth Initiative** Through the Housing and Homelessness Action Plan 2021–2025, the Queensland Government is delivering the $1.813 billion Queensland Housing Investment Growth Initiative (QHIGI) to accelerate the commencement of 6,365 new social homes for vulnerable Queenslanders by 30 June 2025. The QHIGI is delivered through three key initiatives that provide a framework to boost housing supply in response to specific local need: • The Housing Investment Fund – delivering 3,600 new social housing commencements funded from the annual returns of the Queensland Government's initial $1 billion capital investment. • Quick Starts Qld – boosting social housing through 2,765 new commencements across Queensland, delivered through an integrated capital investment program to accelerate planned acquisition, new construction and redevelopment opportunities. • Help to Home – a $40 million investment over two years to deliver housing outcomes for up to 1,000 eligible households by headleasing private market properties.	$2.9bn including: • $1bn capital investment to generate $40m per annum • $1.813bn capital • $40m over two years	• 6,365 social housing commencements by June 2025 • Up to 1,000 eligible households assisted by headleasing private market properties

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Victoria	**Victoria's Big Housing Build** • $5.3 billion to build more than 12,000 new homes throughout metro and regional Victoria. • Boost social housing stocks by 10 per cent. • This initiative will create an average of 10,000 new jobs each year for the next four years. • Generating an estimated $6.7 billion in economic activity and creating new opportunity – with 10 per cent of the work on major projects to be done by apprentices, cadets and trainees. • This initiative includes changes to the Victoria Planning Provisions (amendments VC187 and VC190) and all planning schemes to streamline the planning permit process for housing projects by or on behalf of the Director of Housing to rapidly deliver social and affordable housing.	$5.3bn including: • $532m to build new homes on public land • $948m to build and spot purchase with private sector • $2.14bn for partnerships with private and community housing sectors	12,000 new homes including: • 2,900 new affordable and market homes for first home buyers and renters More than 9,300 new social housing dwellings, 10% for Indigenous housing including: • 500 new social and 540 new affordable and market homes • 1,600 new social and 200 new affordable
Victoria	**Ground Lease Model – Homes Victoria** Partnership approach to lease public land from Homes Victoria to a not-for-profit project group who will finance, design, and construct new housing. Community housing providers manage and maintain the sites for 40 years, before handing the land and all dwellings back to Homes Victoria. Sites will deliver social, affordable, specialist disability and market rental homes.	• Includes $50 million investment through the Big Housing Build to support a development in Flemington. Remaining funding for the project will be covered by private investment	Minimum of 1,110 new homes: • 619 new social, • 52 new specialist disability, • 365 new market rental and 126 new affordable homes
Victoria	**Urban renewal precincts – Fishermans Bend and Arden** Fishermans Bend – will eventually accommodate 80,000 residents and 80,000 jobs by 2050, including a 6 per cent affordable housing target for all new development. Arden precinct – will eventually accommodate 15,000 residents and 34,000 jobs in Melbourne's inner north, including affordable housing.		• Fishermans Bend - 6 per cent affordable housing target by 2050 for all new development • Arden precinct – TBC affordable housing component

Victoria	**Homes for Victorians**
	• Public Housing Renewal program to replace seven major public housing estates with new mixed income residential through PPPs.
	• Social Housing Growth fund to support innovative partnerships with consortia including community, private, not-for-profit and local government sectors through:
	  ◦ Construction of new social and affordable dwellings on non-Victorian Government land – the Build and Operate program (BOP).
	  ◦ Recurrent funding to lease new dwellings from the private sector to increase social housing rental stock and facilitate investment in new social housing for the rental market – the New Rental Developments Program (NRDP).
		• $185m for Public Housing Renewal Program (PPPs)
		• $1bn Social Housing Growth Fund
			• 5,200 new homes through partnerships
			• Renewal of 2,500 homes
			• Up to 2,200 households

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Victoria	**Victorian Homebuyer Fund** $500 million shared equity scheme available to support more than 3,000 Victorians to become homeowners. Expansion of the $50 million HomesVic Shared Equity Initiative from 2018—20. Eligible participants only require a 5 per cent deposit and the Victorian Government provides up to 25 per cent of the purchase price, in exchange for an equivalent share in the property. Aboriginal and Torres Strait Islander homebuyers can buy with a deposit as low as 3.5 per cent and receive a Government contribution of up to 35 per cent.	• $500 million	• Supporting 3,000 Victorians to become homeowners • Previous HomesVic Shared Equity Initiative – supported more than 335 households to buy their first home
Victoria	**Regional Workforce Pilots** $5 million to help regional and rural communities attract more skilled workers through affordable housing interventions. Pilot areas include the High Country, Great South Coast, Robinvale, and Grampians. Interventions include a Key Worker Housing Program and other solutions for seasonal worker housing.	• $5 million	• Undetermined – funds being used to identify housing gaps, support key workers to find housing, and rezone and prepare land for future affordable housing developments.
Western Australia	**WA 2021-22 Budget COVID Response** • $750m social housing investment fund to deliver new homes and ensure a significant pipeline of work for the construction industry, including: • $168.8 million for the conversion of around 500 AH properties; • $40 million for a program of spot purchasing in both metropolitan and regional areas for social housing; • $6 million for the retention and refurbishment of approximately 120 existing properties; • $12.8 million to carry out building assessments on the more than 10,000 ageing public housing and Government Regional Officer Housing assets; • $5.5 million to assist with planning and business case development for future social housing development on State Government owned land; • $522 million to deliver new social homes from 2022-23; and • development of two common ground facilities which is underway.	• $522 million by 2022—23 • $228 million short term projects	• 3,300 new social homes • Renovate 500 AH properties

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Western Australia	**WA Housing Strategy 2020-2030** WA Housing Stimulation Package to kickstart economic recovery and support the building and construction sectors. Social Housing Economic Recovery Package. Housing Investment Package. METRONET Social and Affordable Housing and Jobs Package Strategic Response: Supply Create the conditions and mechanisms to harness private and institutional investment for social and affordable housing Strategic Response: Access Continue to responsibly support home ownership opportunities for households on low to moderate incomes through Keystart	$863 million including: • $319 million • $150 million • $394 million	• 250 new homes • 1500 refurbished • 3800 maintained • Ensure a minimum of 20 per cent social and affordable homes in Govt residential developments • By 2030, provide a minimum of 20,000 low-deposit home loans through KeyStart
Northern Territory	**Northern Territory Housing Strategy 2020—25: A Home for all Territorians** Bond Assistance Loan Scheme to support low-income households access to the private rental market. Home purchase assistance through low-deposit loans and subsidised interest rate products under the HomeBuild Access Program and the Home Buyer residential land purchase program.	• $500 million • $200 million	• New public housing • Increase living spaces in existing homes • Repairs and maintenance
New South Wales	Housing 2041 and the 2021—22 Action Plan Government Property Index (GPI) provides free information on NSW Government-owned property and allows industry to put forward innovative proposal to put the land to better use, including Temporary Supported Accommodation and additional community housing.	No funding commitments	No targets
New South Wales	**Future Directions for Social Housing in NSW** Social and Affordable Housing Fund Subsidy funding to support debt servicing over 25 years by CHOs to build new social and affordable housing and coordinate access to tailored support services. Funded and delivered through consortia of CHOs, financers, and developers.	• $1.1 billion seed capital invested to provide subsidies for up to 25 years	• SAHF: 3,400 new homes By the end of 2023
New South Wales	**Communities Plus** Integrated housing developments being delivered in partnership with the private, NGO and community housing sectors. The program includes sites in metropolitan Sydney and regional NSW.	• Up to $22 billion	• Overall 23,000 social, 500 affordable and 40,000 private homes over ten years

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
New South Wales	**COVID-19 Social Housing Stimulus Package** The NSW Budget includes $852.5 million capital expenditure in 2021—22, to support the delivery of social and affordable housing and capital upgrades across New South Wales through the NSW Land and Housing Corporation (LAHC) and Aboriginal Housing Office (AHO).	• $183 million in 2021—22	• 1,400 new homes
	This builds on the Government's $812.0 million COVID-19 social housing stimulus package announced last year. This package is expected to deliver over 800 new houses and upgrades to around 16,500 existing properties across the LAHC, AHO and community housing portfolios across 2020-21 and 2021—22. The package has also accelerated the Airds-Bradbury and Claymore housing estate redevelopments, contributing to the delivery of over 500 new social housing dwellings and 1,000 new land lots for sale to build private homes. (Budget Paper 3: Infrastructure Statement 2021-2022)	$812 million in 2020—21 including: • $250 million construction • $150 million place-based developments • $200 million upgrades • $145 million Aboriginal housing	• 800 new social homes • 16,500 upgraded homes • 580 new social homes • 500 new social • 1,000 new lots for private sale • 3,500 upgraded CH homes • 200 new Aboriginal homes
New South Wales	**Affordable Rental Housing SEPP 2009** Encourages private investment in new affordable rental housing through: • In-fill development, New Generation Boarding Houses, Granny Flats	• No funding	• No targets
	Facilitates delivery of new housing by the Land and Housing Corporation with self-assessment pathways, density bonuses and other planning concessions. LAHC partners with private sector developers to deliver the new stock.	• No funding	• No targets
New South Wales	**Draft Housing SEPP 2021** Require new boarding houses to be managed by registered community housing organisations for affordable housing. Increased density bonus of 25% above existing FSR for this housing type. Increase minimum affordability commitment from 10 years to 15 years for new infill affordable housing.		
New South Wales	**Build to Rent Tax Concessions** NSW Government introduced a land tax discount of 50 per cent until 2040, for new build-to-rent housing projects of at least 50 self-contained units, with a different threshold for regional areas to be considered. Construction must have commenced on or after 1 July 2020. An exemption from foreign investor surcharges will also be provided until 2040 for build to rent developers, and integrity measures will be included to ensure that these discounts are not used for tax avoidance.		

Government	Current policy or program (as at October 2021)	Current funding (as at October 2021)	Target
Australian Capital Territory	**ACT Government COVID-19 funding** The ACT Government has injected an additional $61 million into public housing through a package of investments that will provide additional housing for people in need. The ACT Government will allocate $32 million in land and extend the Growing and Renewing Public Housing program for a 6th year with a further $20 million to allow for the construction of 60 additional new public housing dwellings. This brings the total additional public housing under the program to at least 260 homes, plus the renewal of 1,000 properties.	$61 million including: • $32 million in land • $20 million for construction	• 60 additional new homes
TOTAL		**$118.2 billion**	**75,015 new homes**

Source: Authors.

Appendix 5: Current public private partnership housing projects in Australia

Table A8 below summarises the status of current public private partnerships including social and affordable housing in Australian as at January 2022. This includes projects in Victoria under the Public Housing Renewal Program, NSW projects under the Communities Plus program, and Queensland Build to Rent Pilot PPPs.

Table A8: Current public private partnership housing projects in Australia

Project	Status at Jan 2022	Proponents	Govt Inputs	Outputs
Victoria Public Housing Renewal Program				
New Street, Brighton	• Site preparation commenced Oct 2021 • Construction to start in February 2022 • Construction to completed in 2024	• CHL • Tetris Capital • Icon Kajima • Citta Property Group • NHFIC	• 40-year ground lease • plus Service Payment	• 50:50 • Social: Market rental • 280 social and market rental homes
Victoria Street, Flemington	• Site preparation commenced Oct 2021 • Construction to start in February 2022 • Construction to completed in 2024	• Same as above	• 4- year ground lease • plus Service Payment	• Same as above • 366 social and market rental homes
Bangs Street, Prahran	• Same as above	• Same as above	• 40-year ground lease • plus Service Payment	• Save as above • 445 social and market rental homes
Collingwood	• Commencement expected in late 2021 (at 10/09/21) • Completion estimated 2024	• Fieldwork Projects	• Land • Capital	• 150 social homes
South Yarra	• Commencement estimated in 2022	• Hayball	• Land • Capital	• 330 social homes
Abbotsford Street, North Melbourne	• Community Consultation 2021-2022	• MAB Corporation • Housing First	• Land	• Replace old social housing with new social homes

Project	Status at Jan 2022	Proponents	Govt Inputs	Outputs
Oakover Road, Preston	• Community Consultation 2021—22 • Construction estimated in 2022	• MAB Corporation • Housing First	• Land	• Replace old social housing with • 99 new social homes • 461 private sales targeting First Home Buyers
Walker Street, Northcote	• Community Consultation 2021—22 • Construction estimated in 2022	• MAB Corporation • Housing First	• Land	• Replace old social housing with • 106 new social homes and • 144 private sales targeting First Home Buyers
Queensland Build to Rent Pilot Projects				
60 Skyring Terrace, Newstead	• Construction commenced • Completion forecast 2024	• Mirvac • LIV Anura	• Rental subsidy	• 395 rental homes • 25% discount to market rent
210 Brunswick Street, Fortitude Valley	• Construction commenced • Completion forecast 2024	• Frasers Property Australia	• Rental subsidy	• 366 • 25-30% discount to market rent
50 Quay Street, Brisbane	• Tender process • EOI completed	• Mirvac and • Pacific Living shortlisted	• Land • Rental subsidy	
Privately owned site	• Tender process • EOI completed	• Lendlease • Greystar • Australian Unity • Make Ventures • Shortlisted	• Rental subsidy	
NSW Communities Plus				
Ivanhoe Estate, Macquarie Park	• Stage 1 Construction Commenced	• Frasers Property Australia • Mission Australia Housing	• Land • (259 social existing)	• 3,000 home total • 950 social • 128 affordable • Community Facilities, High School, Retail and Green space
Elizabeth Street, Redfern	• Tender in progress • Rezoning • (Build to rent model not viable under planning controls, changed to traditional PPP model)		• Land	• 300 home total • 95 social rental • 205 market sales
Eden Street, Arnecliff	• DA lodged	• Billbergia Group • Evolve Housing	• Land • (142 social existing)	• 744 homes total • 180 new social • Retail and community amenities, park

Project	Status at Jan 2022	Proponents	Govt Inputs	Outputs
Telopea Precinct	• Master Planning	• Frasers Property • Hume CH	• Land	• 3,500-4,500 total • 1,000 social and affordable
Villawood Estate	• DA lodged	• Traders in Purple		
Waterloo Estate	• Pre-exhibition			
Riverwood Renewal Project	• Master planning		• Land	

Sources: Victorian Government (2021); Homes Victoria (2021); Queensland Treasury (2021); Queensland Government (2021); Mirvac (2021); Frasers Property (2021); New South Wales Government (2018); New South Wales Government (2021)

Appendix 6: Strategies to stimulate private sector involvement in social and affordable housing

Table A9 below summarises strategies to stimulate private sector involvement in new affordable housing. It is based on what has worked in Australia and overseas, with strategies to overcome barriers.

Table A9: Strategies to stimulate private sector involvement in social and affordable housing

Initiative	Barriers and challenge	Strategies to overcome
Government rental subsidies: **Commonwealth Rental Assistance**	• lack of certainty of government commitment • nearly half of recipients are still in housing stress.	• government long term commitment • index CRA based on rent rises rather than CPI • government loans and grants (bond assistance, rent payment, relocation grant, etc.) • tax incentives for landlords who provide long term leases.
Government backed bonds and loans	• scale and liquidity • secure rental revenue stream • higher rental yields • emerging asset class • risk of poor maintenance • risk of tenant displacement.	• government commitment to future bonds, with security, scale and duration • promote mixed income developments to cross-subsidise rental income • require management by Tier 1 accredited housing provider • extend eligibility to Tier 1 accredited for-profit developers providing affordable housing, to increase capacity for delivery and leverage • develop framework and gather data on outcomes and performance of funded programs.
Subsidies (tax/ capital)	• lack of certainty of government commitment • flat rate subsidy provides lower gain in high cost markets, creating disincentives in areas of need • limited duration on affordability.	• renew government subsidy with long term commitment, to facilitate pipeline of projects, in conjunction with institutional investment • set measurable targets and objectives • extend duration of affordability cap • set subsidy levels relative to local market to ensure affordability • streamline administration, with states distributing a share of credits according to policy priorities, planning system, market conditions and in combination with their own assets and subsidies • legislation requiring banks to invest in subsidies as part of corporate social responsibility.
Capital investment:	• tight delivery timeframes impacting quality and value for money • cashflow constrained without cross subsidy from private rental/ sales • cost pressures from sinking funds and additional support services for target cohorts.	• government invest in ongoing capital program for new and upgraded social and affordable housing • promote mixed income/mixed tenure developments to cross-subsidise from private rental/sales, and increase yield and rental revenue for improved financial sustainability • robust, reasonable procurement timeline and process to ensure due diligence, quality and value • states to administer program according to policy priorities, planning system, market condition and in combination with their own assets and subsidies to optimise yield.

Initiative	Barriers and challenge	Strategies to overcome
Public Private Partnerships: **Public Housing Renewal**	• robust, reasonable procurement timelines • loss of government asset • loss of housing during redevelopment.	• assess government's assets to identify sites suitable for mixed use/ mixed income/mixed tenure development • public housing estates assessed to determine financial feasibility and planning incentives to optimise social and affordable housing • long term concessional leasehold of land as alternative to title transfer • infill redevelopment and/or staged development to provide housing continuity for existing residents.
Planning incentives: **Mandatory inclusionary zoning**	• lack of suitable sites • duration and complexity of planning approval • accessing development finance • regentrification displacing local residents • community opposition • workforce limitations	• assess government's assets to identify sites suitable for mixed use/ mixed income/mixed tenure development • set mandatory targets for social and affordable housing for all major residential developments, particularly on government sites and/or upzoned • financial feasibility to determine optimal affordable housing relative to value capture • fast track planning approval and access to institutional development finance for projects that meet or exceed affordable housing targets • require affordable housing within the community (City West Housing) • industry training to increase workforce, in conjunction with economic stimulus program.
Build to rent and Build to rent to buy	• returns not competitive with build to sell due to tax and planning system • government subsidies required for affordable housing • community opposition.	• government land tax concessions and planning incentives for mixed income projects • fast track planning approval and access to institutional development finance for projects that meet or exceed affordable housing targets • consider density requirements and design standards to support affordable housing • partner with CHPs to leverage charitable tax free status and to manage social and affordable housing component • design cohesively so that affordable and private is indistinguishable.
Social Impact Bonds	• outcome measurement and attribution of savings • lengthy and costly procurement • limited scale	• government define target outcomes, measurement framework, and share data for evidence-based models • EOI followed by co-design process of shortlisted proposals • target innovative pilots in specialist housing, not likely to be feasible for large scale institutional investment.

Source: Authors.

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