P1.54 PROCURING SOCIAL AND AFFORDABLE HOUSING

FUNDING AND FINANCING APPROACHES

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Preface

The Sustainable Built Environment National Research Centre (SBEnrc), the successor to Australia's Cooperative Research Centre (CRC) for Construction Innovation, is committed to making a leading contribution to innovation across the Australian built environment industry. We are dedicated to working collaboratively with industry and government to develop and apply practical research outcomes that improve industry practice and enhance our nation's competitiveness.

We encourage you to draw on the results of this applied research to deliver tangible outcomes for your operations. By working together, we can transform our industry through enhanced and sustainable business processes, environmental performance and productivity.

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Core Members of SBEnrc include Aurecon, BGC, Queensland Government, Government of Western Australia, New South Wales Roads and Maritime Services, New South Wales Land and Housing Corporation, Curtin University, Griffith University and Swinburne University of Technology.

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1. Executive summary

A long-standing challenge in enabling social and affordable housing has been to establish a sufficiently large and continuous stream of funding which would ideally be predictable, sustainable and responsive in catering for the rising demand. It is well understood that governments alone cannot cope with the increasing demand for social housing financing. Hence, it is imperative we look at innovative ways to fund this need with the collaboration of private institutional investors.

In the Australian housing investment scene, key barriers to attracting large-scale private institutional investments in affordable housing include: scale; investment return; liquidity; longitudinal investor awareness; stable long term government policy settings and transparency; and project pipeline capacity (Milligan et al., 2013). There has been debate over the past few years as to how substantial volumes of private finance could be leveraged into this sector. The most widely suggested approaches are: the use of retail investment vehicles; tax relief targeting Community Housing Providers; rent-to-buy models; and shared equity models.

Governments in Australia can take a proactive role in addressing the above by identifying the issues which fall into their jurisdiction regarding long-term policy setting, transparency and risk. The latter is a major component in restricting large-scale investment and has a significant impact on the various investment hurdle rates; however, under the right conditions, risk is an imputed cost/rate which may never be realised. Therefore, if these risks were removed the required investment rate would be substantially reduced, and potentially the costs associated with various housing related activities and their externalities would also be reduced.

Private investors will need to be confident that risks are transparent and manageable in order to price their involvement at a level that does not require politically impractical levels of subsidy or guarantees. Potential risk factors can be addressed to a certain extent by: providing adequate levels of assistance for those who are in need; ensuring landlords are financially sound and socially responsible and thus eligible for support and incentives; providing government funding schemes, subordinate loans, guarantees and equity; and by ensuring a sound planning mechanism to access well-located land for affordable housing development. Berry et al. (2004) suggest that one way to overcome the barriers is to create tax-exempt residential letting schemes (TERLS)[1], together with strong codes of practice, and setting minimum standards for the management and maintenance of privately rented dwellings. However, they argue that politically this approach would be difficult to introduce in Australia.

Social Ventures Australia (SVA, 2016) points out three challenges in attracting private capital: (i) the reduced economies of scale for providers and a perception of increased credit risk from institutional investors, limiting the ability for Community Housing Providers to access low-cost capital over longer terms. Institutional investors are seeking large-scale (typically greater than AUD$100m) transaction lending (or investing) to organisations with a recognised credit rating; (ii) rental yields are significantly below market returns making it a less attractive investment; and (iii) institutional investors are attracted to markets and assets with stable regulatory environments and reliable cash flows. Short-term measures and inconsistent policy direction creates uncertainty that makes investors nervous and unlikely to invest in such a market.

Different social and affordable housing projects also require different funding mechanisms. For example, some instruments work best for individual projects, while others perform better on a city, regional or national level. Also, in considering the provision of social financing, financial institutions tend to respond more to legislative incentives, while individuals tend to respond to tax incentives.

[1] It is very difficult to establish a private equity market for rental housing, especially at the affordable end. Only in the United States has this market developed to any extent and, even there, it is relatively marginal (Berry et al., 2004).

2. Background

In this Sustainable Built Environment National Research Centre (SBEnrc)[2] research project we have sought to identify the strengths and weaknesses of various social procurement approaches for social and affordable community rental housing in Australia. As an outcome of this research, a set of social procurement criteria will be developed to assist those responsible for both policy development, and asset and service delivery. To address this, social value procurement criteria have been developed, to allow both policy and delivery discussions around alternative social procurement approaches appropriate to the housing which will be needed in the future, to address changing demographic needs and emerging housing and community typologies. This report has been prepared in parallel with this overarching research (through funding from Keystart Homeloans[3]) to provide a more complete response to this topic.

The Strategic Evaluation Framework developed in the SBEnrc *Rethinking Social Housing and Valuing Social Housing* projects[4,5] provides the methodological underpinning for this work to enable a more effective way of measuring social value. This includes consideration of impacts across the nine domains of community, economy, education, employment, environment, health and wellbeing, housing, social and urban amenity. This previous research also established a productivity-based conceptual framework which highlighted productivity benefits from four angles: individual; macroeconomic; fiscal; and non-economic, such as social and environmental capital.

This research is based on a limited review of literature undertaken in 2017, focusing on documentation from SBEnrc core partner states in Australia; New South Wales (NSW), Queensland (QLD) and Western Australia (WA). It also includes a review of: AHURI literature; other national academic and industry literature; international literature from the UK (especially Housing Associations' Charitable Trust (HACT UK)[6], the European Network of Housing Researchers (ENHR)[7], the Canada Mortgage and Housing Corporation (CMHC)[8], and the US National Housing Conference (NHC)[9]. This research is limited to high level procurement approaches, and does not include procurement methods and contracts.

3. Funding and financing approaches

To paraphrase Terrill (2017), funding is the source of payment for infrastructure; that is, user charges such as tolls, fares, taxes and asset sales and financing are the methods used to obtain money to pay for the upfront costs, which may be through government revenue, government borrowing or private finance. The two distinct definitions of subsidy in the context of funding social and affordable housing are financial and economic subsidies (Scanlon and Whitehead 2008). Financial subsidies include cash flows to social sector landlords and to tenants. Payments to social landlords can be in the form of: revenue subsidies (i.e. annual payments); capital grants; subsidies for interest rates and other costs of production; as well as the use of public sector borrowing at below market interest rates. Government guarantees also reduce the costs of finance. Economic subsidies are associated with the current values and they are the difference between actual rents for the properties compared to the rents which would have otherwise been attracted in the private market. This therefore relates to the location and attractiveness of the dwellings, the efficiency by which they have been developed, and the extent of subsidy.

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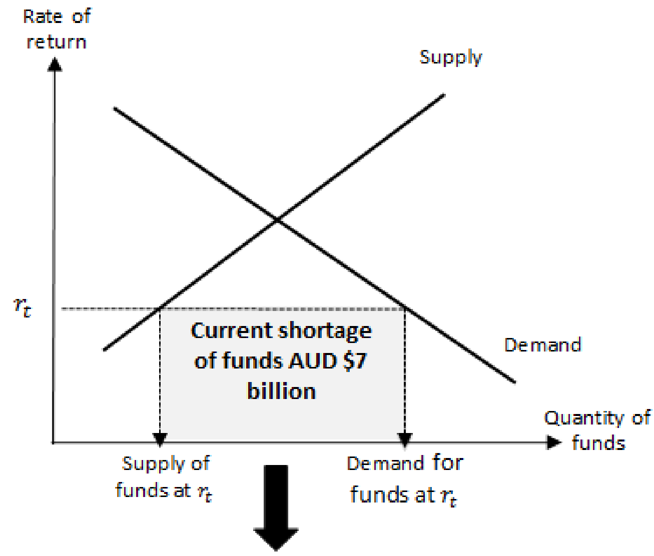
[2] www.sbenrc.com.au
[3] www.keystart.com.au
[4] http://sbenrc.com.au/research-programs/1-31-rethinking-social-housing-effective-efficient-equitable-e3/
[5] http://sbenrc.com.au/research-programs/1-41/
[6] http://www.hact.org.uk
[7] https://www.enhr.net
[8] https://www.cmhc-schl.gc.ca/en
[9] https://www.nhc.org

Also worthy of note is the NSW Federation of Housing Associations (FHA) which provides an overview of rent models (i.e. income-based, market-based and cost of provision-based) (Dowsett, 2014).
Recent studies have estimated that more than AUD$7 billion of investment annually for the foreseeable future is required in order to address the acute shortage of social and affordable housing in Australia (Earl et al., 2017). Figure 1 shows a shortage of funds at a rate of return r_t. However, government subsidies for housing across the spectrum are declining and attracting large-scale funds into housing investment initiatives faces issues of scale, investment return, liquidity, longitudinal investor awareness, stable long-term government policy settings and transparency, and project pipeline capacity.

Figure 1- Supply of and demand for funds



Current	Proposed
Commonwealth Government funding through: NHHA, NPRH, CRA, PRBP, Social housing future fund, NRAS. **Financing through**: Partnerships, Shared equity loans, Community land trusts, Bond aggregator models, Securitisation and housing bonds, Investment trusts, Financing housing cooperatives, Social impact investing	**Commonwealth Government funding through:** NHFIC, NPAH, **CHP's rent assistance through:** Build to rent **Financing through**: Rent to buy schemes, Investment Trusts (MITs)

Approaches discussed in this report include:

- Commonwealth Government funding through:
  - National Housing Finance and Investment Corporation (NHFIC)
  - National Housing and Homelessness Agreement (NHHA)
  - National Partnership Agreement on Homelessness (NPAH)
  - National Partnership on Remote Housing (NPRH)
  - Commonwealth Rent Assistance (CRA)
  - Private Rental Brokerage program (PRBP)
  - Social Housing Future Fund
  - National Rental Affordability Scheme (NRAS)
- Community Housing Providers (CHPs) rent assistance through:
  - Build to rent schemes
- Rent to buy schemes
- Financing through:

- Partnerships
- Shared equity loans
- Community land trusts
- Bond aggregator models
- Securitisation and housing bonds
- Investment trusts
- Financing housing cooperatives
- Social impact investing

Other state-based initiatives include, for example, the NSW Social and Affordable Housing Fund (SAHF), Western Australian rent setting models and shared equity loans, the Victorian government's funding schemes including HomesVic, and in Queensland, the Brisbane Housing Company (BHC) rent model, the National Affordable Housing Consortium (NAHC) and the Buy Assist shared equity scheme (AHURI, 2017a).

Highlights from a limited review of international literature are also discussed. In the **United States** (US) this includes: tax incentive schemes such as the Low Income Housing Tax Credits (LIHTC) program which creates incentives to develop affordable housing by offering developers annual taxation subsidies for a given period of time, on the condition that the dwelling meets the affordability requirements of the scheme; and the Housing Opportunities for People Everywhere (HOPE VI) scheme which involved extensive mixed tenure redevelopment of public housing; the Housing Choice Voucher Program and Project-Based Vouchers; the Rental Assistance Demonstration along with Build to rent models and Housing Trusts. From the **United Kingdom** (UK), examples include: City Deals; the privatisation of council housing; shared equity; impact investing; rent to buy and Build to rent models. Examples from **Austria, France** and **Switzerland** are also presented.

3.1. Commonwealth Government funding

The following section summarises current Commonwealth Government funding programs:

- **National Housing Finance and Investment Corporation (NHFIC)**[10]
  Commencement and Expiry: The Government will provide an initial $9.6 million in 2017-18 to establish the NHFIC, which will *commence operations from 1 July 2018*.
  Main outputs: The NHFIC will be established as a corporate Commonwealth entity, governed by an independent, skills-based part-time board. The NHFIC, which will be a financial intermediary, will have broad functions which will enable it to administer the programs announced by the government. For example, *five-year* AUD $1 billion National Housing Infrastructure Facility (NHIF) which will help to finance critical infrastructure to increase the stock of housing, particularly affordable housing.
  The NHFIC will operate an affordable housing bond aggregator to provide cheaper and longer term finance for community housing providers which will improve the efficiency of financing for community housing providers, enabling them to improve housing outcomes for their clients.
- **National Affordable Housing Agreement (NAHA)**[11]
  Commencement and Expiry: The NAHA is an agreement by the Council of Australian Governments that *commenced on 1 January 2009,* initiating a whole-of-government approach in tackling the problem of housing affordability.
  The Commonwealth Government is working with the states and territories to *reform the NAHA* and provide ongoing, indexed funding for a new National Housing and Homelessness Agreement (NHHA) from 2018-19.
  Main outputs: The NAHA is supported by the National Partnership Agreements on:
  - Social housing.

[10] https://www.budget.gov.au/2017-18/content/glossies/factsheets/download/FS_18_Housing_Affordability.pdf
[11] https://www.dss.gov.au/housing-support/programmes-services/national-affordable-housing-agreement

- Homelessness.
- Indigenous Australians living in remote areas.

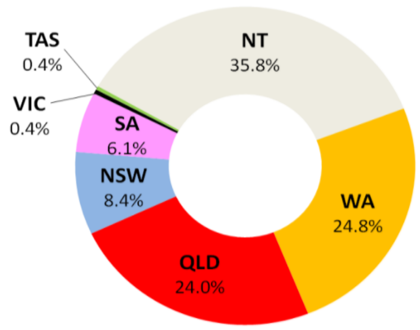
- **National Partnership Agreement on Homelessness (NPAH)[12]**
  Commencement and Expiry: The NPAH *commenced in January 2009*. This is originally a three-year agreement between the Commonwealth and State/Territory governments, The NPAH has been 'renewed' annually for the last two years (2012-13 and 2013-14) and *terminating 30 June 2018*.
  Main outputs: The agreement focuses on three key strategies to reduce homelessness:
  - Provide AUD $ 115 million per year, not indexed and matching funds required by states and territories.
  - Prevention and early intervention to stop people becoming homeless.
  - Breaking the cycle of homelessness.
  - Improving and expanding the service response to homelessness.

- **National Housing and Homelessness Agreement (NHHA)[13]**
  Commencement and Expiry: The Commonwealth Government introduced a new National Housing and Homelessness Agreement with State and Territory governments to increase the supply of new homes and improve outcomes for all Australians across the housing spectrum in *2018*. This is an ongoing funding linked to outcomes in priority areas including aggregate supply and planning and zoning reforms.
  Main outputs: The NHHA will maintain the Commonwealth's current funding of over $1.3 billion a year provided under the National Affordable Housing Specific Purpose Payment (NAHSPP) and combines NAHSPP and NPAH. NHHA aims are:
  - To provide AUD $ 4.6 billion over 3 years including $375 million of new homelessness funding, indexed annually.
  - Dedicated homelessness funding, to be matched by States and Territories, with a continued focus on people affected by domestic violence and vulnerable young people who are homeless or at risk of homelessness.

- **National Partnership on Remote Housing (NPRH)[14]**
  Commencement and Expiry:
  The NPRH came into *effect on 1 July 2016* and will *conclude on 30 June 2018*.
  Main outputs:
  - Originally covered by the National Partnership Agreement on Remote Indigenous Housing (NPARIH), which was made available to construct new homes, refurbish existing homes and provide employment and training opportunities.
  - The Australian Government committed AUD$5.5 billion over ten years to 2018 to address issues such as overcrowding, homelessness, poor housing conditions and severe shortage of housing in remote Aboriginal and Torres Strait Islander communities across Australia.
  - The NPRH aims to: include greater emphasis on improved housing sustainability; provide greater business and employment opportunities; address overcrowding by funding AUD$776.403 million over 2 years to the construction of new houses and refurbishments in larger, sustainable remote Aboriginal and Torres Strait Islander communities.
  - Breakdown of state's Percentage of NPARIH/NPRH Funding, 2008 – 2018 (Figure 2).

[12] https://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA_17.htm
[13] https://static.treasury.gov.au/uploads/sites/1/2018/03/National-Housing-and-Homelessness-Agreement.pdf
[14] https://www.pmc.gov.au/indigenous-affairs/housing/national-partnership-agreements

Figure 2-Total NPARIH/NPRH funding, AUD $ 4.68 billion, 2008 – 2018



Source: https://www.pmc.gov.au/indigenous-affairs/housing/national-partnership-agreements

- **Social and Affordable Housing Fund (SAHF)**[15]

Commencement and Expiry: The SAHF has been set up with $1.1 billion in seed capital from the Government and the funds are invested in financial markets over 25 years. After completion of phase one, tenants began moving into the first dwellings in May 2017.

Main outputs: While 100 per cent government owned, the SAHF would operate at arm's length and be structured along similar lines to the Commonwealth Government's existing Future Fund; and have a board responsible for an investment strategy to mitigate any volatility risks between fund returns and service costs, over time (Lyon, Peters & Boyd, 2016).

Each service provider will deliver a package for 25 years that consists of:

- Access to accommodation.
- Asset management and tenancy management services.
- Tailored support services for each household member.
- Performance and data reporting.

These providers are contracted to deliver 2,200 additional social and affordable homes in metropolitan and regional NSW. Each household will also benefit from tailored support services as part of their tenancy.

- **Commonwealth Rent Assistance (CRA)**[16]

Commencement and Expiry: *This is an ongoing funding scheme*.

Main outputs: A non-taxable Commonwealth Government supplementary payment added on to the benefit or family payment of people who rent in the private rental market above applicable rent thresholds. It helps income support recipients and low and moderate income families (with children) in the private rental market and in community housing.

- **Private Rental Brokerage Program (PRBP)**[17]

Commencement and Expiry: *This is an ongoing funding scheme*.

Main outputs: Aims to help vulnerable households to access and sustain private rental tenancies (AHURI, 2016).

- **National Rental Affordability Scheme (NRAS)**[18]

Commencement and Expiry: *Launched in 2008*, the NRAS has been a significant catalyst in generating the private finance needed to increase the supply of affordable rental housing in Australia (Milligan et al., 2013). *This is an ongoing funding scheme*.

Main outputs: Up to 38,000 NRAS properties which will be rented for up to 10 years will be delivered through the scheme. There are 133 housing providers (i.e., property developers, not-

[15] http://www.socialhousing.nsw.gov.au/data/assets/file/0006/536793/2017_Future_Directions_Evaluation.pdf
[16] https://www.dss.gov.au/housing-support/programmes-services/commonwealth-rent-assistance
[17] https://www.ahuri.edu.au/__data/assets/pdf_file/0017/8324/AHURI_RAP_Issue_211_The-role-of-private-rental-brokerage-programs-in-housing-outcomes-for-vulnerable-Australians.pdf
[18] https://www.dss.gov.au/our-responsibilities/housing-support/programmes-services/national-rental-affordability-scheme

for-profit organisations and community housing providers) participating in the scheme, which issues financial incentives to organisations that provide people on low to moderate incomes with an opportunity to rent homes at a rate that is at least 20 per cent below market value.

The three most successful financing models under NRAS to date have been:

- **Equity investment (private sector sale and leaseback) model** - private developers develop stock and sell to retail investors under a 10-year leaseback arrangement, generally with a not-for-profit, such as a CHP, to provide tenancy and property management functions. None of the properties are held in perpetuity as they are sold off to repay the debt owing. Milligan et al. (2013) state that by combining the NRAS refundable tax offset, depreciation allowance and other tax benefits, negative gearing of their investment and projected capital growth has been estimated to yield these investors 5–7 per cent real returns (based on rental return and capital growth), subject to local market conditions.
- **Not-for-profit (NFP) ownership model** - debt financed projects are initiated by leading NFP housing providers. NFP organisations purchase stock and use the annual NRAS cash payments to assist them to service mortgage-backed loan finance raised through commercial banks, typically with a loan to value ratio (LVR) of 40-50%. At the end of the 10 years, the properties are retained in perpetuity and are held by government. The development model they use also benefits from other tax offsets arising from their charitable status.
- **Student housing developments on university-owned land -** universities have either used or raised their own finance and funded any borrowings which are repaid from rent revenue and the NRAS incentive over a fixed term. These deals have tended to displace infrastructure type deals that were beginning to emerge in the university accommodation sector.

Examples of important institutional developments around NRAS

- **National Affordable Housing Consortium (NAHC) in QLD** — NAHC acquires NRAS incentives for approved dwellings and sells, leases or enters into delivery agreements with the owners. In either case, NAHC appoints a property manager for the dwelling, who is responsible for selecting eligible tenants and for tenancy management. With its current model, NAHC has raised approximately AUD$1 billion from retail investors and has experienced a growth in interest from SMSFs. It has operations in three jurisdictions so far, and a national portfolio of dwellings is planned (Milligan et al., 2013).
- **Mixed tenure developments in Aberdeen, Perth, WA -** are mixed tenure developments that utilise NRAS along with other forms of government assistance to produce low cost home ownership and shared equity products, as well as affordable and social rental housing. The Western Australian Department of Communities (Housing) (WADoC) has been promoting larger-scale mixed tenure projects by utilising a combination of a variety of government incentives.
- **Residential housing trust model** — as stated in 2012, Questus[19] released its proposal for a new investment vehicle (Milligan et al., 2013). This announcement followed on from Questus obtaining a commitment of AUD$131 million as seed funding from a Singapore based private equity and fund manager, Crest Capital Asia Pty Ltd. Under this model, Questus plans to provide developers with a guaranteed acquisition of dwellings upon completion, subject to these being sold on a turnkey basis at wholesale prices (representing approximately a 15% discount on market price). It plans to hold 50 per cent of properties developed as NRAS supported affordable rental properties for a period of up to 10 years. It is intended that these will be funded by institutional equity investment with returns generated by NRAS incentives, rental income and capital growth on the assets. The remaining 50 per cent of dwellings will be sold to capture the wholesale margin through a variety of strategies, including sale into their retail residential investment fund (QRIF), sale to SMSFs, and sale to eligible tenants through a rent-to-buy option, and, progressively after year six, a shared equity program.

[19] http://www.questus.com.au

- **GRAIL Income Fund** - in August 2012 Perpetual Investments announced the Grail (Government Rental Affordability Indexed Linked) Income Fund as a new residential rental investment opportunity targeted at financial institutions (Milligan et al., 2013). The intention of the fund is to aggregate NRAS incentives that have been completed by approved NRAS participants (NRAS recipients, e.g. universities, NFPs and for-profit companies), and where the approved NRAS participant wishes to borrow against the completed stock to finance other NRAS projects. Using this approach, the NRAS incentive is passed through to the lender as an annual payment in satisfaction of the interest charge on the 10-year debt. Loans would be secured by mortgages with modest LVRs (no greater than 66% of valuation) and fully repayable in a single 'bullet payment' at maturation (i.e., no amortisation). The annual return to be distributed to investors would be the annual value of the NRAS incentive paid by the Australian Government and (possibly) the state government co-contributions, both of which are indexed to the rental consumer price index (CPI). Based on the performance of affordable housing and rental CPI performance over the last 20 years, an indicative annual return to investors of CPI plus 5% has been publicised.
- **Hold and trade** - the National Housing Company is a not-for-profit company limited by guarantee which has been registered as a charity. This is a new model which invests in housing using structured debt finance. The entity has recently raised $350M in debt finance (with strategies in place to raise an additional $200M) and has lodged a submission for over 1,600 National Rental Incentives under NRAS. If successful the company will acquire 1,600 properties in Queensland, NSW and Victoria.[20] The funding mechanism relies on the sale of properties during the 10 year NRAS period at a time when the market generates maximum capital gain in order to pay down debt and retain profits for future investment in more affordable housing. While the model does require the sale of the majority of the housing initially acquired, the structure of the company allows state and Commonwealth governments to increase stock retained by becoming an equity investor.

3.2. Rent assistance

Some current models include:

- **Transitional housing plus rent model** - this is a rent subsidy that reduces over time. It is aimed at young people (aged 16-25) and women experiencing domestic violence in NSW, providing six-month fixed term leases that can be renewed for a period up to five years and includes a support package.
- **Macquarie Park Urban Activation Precinct** - to lease properties for a five year period with the rent subsidy tapering off so that tenants are paying market rent at the end of the five year tenure.
- **WA Assisted Rental Pathways Pilot** (Western Australia Housing Authority, 2016; Western Australian Department of Communities, 2016).
- **Private rental brokerage programs** - PRBPs aim to help vulnerable households to access and sustain private rental tenancies (AHURI, 2016).

In the US, the Housing Choice Voucher Program allows very low-income families to choose and lease or purchase safe, decent, and affordable privately-owned rental housing. Eligible low-income renters with vouchers can use them to subsidise rents paid in the private market.[21] Housing choice vouchers are administered locally by public housing agencies (PHAs). The PHAs receive federal funds from the U.S. Department of Housing and Urban Development to administer the voucher program. A family

[20] Refer to Affordable housing solutions research paper, Affordable housing development models: Prepared for City of Port Phillip. Available at: http://www.portphillip.vic.gov.au/default/meeting_agenda_archive/Att_3_Final_report_from_AHS_Nov2010.pdf.

[21] Wilson Centre research paper, 'Policy shift: How the US developed a hybrid model of affordable housing provision.' Retrieved 15 June 2017, from https://www.wilsoncenter.org/sites/default/files/121814%20Affordable%20Housing.pdf.

that is issued a housing voucher is responsible for finding a suitable housing unit of the family's choice where the owner agrees to rent under the program. This unit may include the family's present residence. Rental units must meet minimum standards of health and safety. Project-Based Vouchers[22] are also available which tie subsidies to particular developments owned by eligible Limited Liability Corporations, Limited Liability Partnerships, non-profit and for-profit organizations, cooperatives, and joint ownership arrangements. The Rental Assistance Demonstration[23] is a pilot program which allows PHAs to attach some of their Housing Choice Vouchers to public housing, so that they can demonstrate a guaranteed income stream based on fair market rents.

3.3. Partnerships

Partnerships have played a crucial role in combining private and public sector resources and funds to provide social and affordable housing outcomes. There are three common arrangements evident in the social and affordable housing financing sector:

- Joint ventures - all risks and rewards are defined and allocated in a project at the outset, with the 'profits' or 'returns' to the partners being in proportion to the risks they carry.
- Alliance - partners proceed to implement a project on the basis of a set of agreed commercial principles in an open book transaction.
- PPP (Public Private Partnership) - all project risk is generally transferred from the public sector to a private sector partner in return for an agreed income stream over a period of time, generally related to the life of the asset.
- City Deals - such as the Western Sydney City Deal will focus on: public transport; employment and investment (particularly youth and Indigenous employment); more affordable housing by boosting supply and diversity; biodiversity and conservation; and arts and culture. These draw on experience in the United Kingdom (UK) where customized packages of funding and decision-making powers are negotiated between the central government in London and local authorities in the targeted city. Most contracts are for 10 years and funding often comes from all three levels of government.

Partnerships have been widely used in Australia to produce social and affordable housing through private developments. Key ingredients to the success of these projects are[24]:

- As a condition of the development, a requirement that affordable housing is an outcome.
- Access to a capital contribution to the project — land, grants, development contributions.
- Utilizing the taxation advantages of not-for-profit housing associations which are registered charities.
- A government agency with a commitment to social outcomes while working within the legislative constraints of government enterprises.

Several case studies of partnership types (joint ventures, alliances and PPPs) are discussed in a study published in the affordable housing solutions research paper, *Affordable housing development models*, prepared for City of Port Phillip.

3.4. Shared equity models

Shared equity models facilitate home ownership for those householders who may have difficulty purchasing a home through the open market. A typical shared equity scheme allows the consumer to obtain part equity in a home by sharing the overall cost with an equity partner - either a financial institution or a government backed provider. The objective of the involvement of an equity partner is to help reduce the overall costs involved in a mortgage and thus improve housing affordability.

[22] Ibid (i.e. to be found in the same place as the reference above).
[23] Ibid.
[24] Urban Land Institute, 'Successful public private partnerships from principles to practice.' Retrieved 10 June 2017, from to https://uli.org/wp-content/uploads/ULI-Documents/Successful-Public-Private-Partnerships.pdf

Allowing lower income homebuyers to buy sooner as they need a lower initial deposit and have lower ongoing housing costs, and having reduced equity in the property, means that homebuyers also make a reduced capital gain when they sell. In Western Australia, **Keystart Home Loans** have a range of shared equity products which have been available for many years. In Queensland, the DHPQ Pathways product is available to tenants and the **NAHC BuyAssist** scheme is targeted towards low to medium income earners. Eligible households would be able to secure a mortgage with little or no deposit without paying mortgage insurance, due to the assistance provided by the consortium. In return, the NAHC would have a registered second mortgage over the property, but the bank loan would still have priority. In Victoria, the **HomesVic** scheme was introduced in January 2018 and the government will co-purchase up to 400 homes.[25] The Victorian Government will help fund the scheme through a $5 million grant to the NAHC, and this funding will be matched by the consortium.[26] The buyer finances up to 75% of value on standard home loan terms (no deposit / no LMI / 30% affordability threshold), NFP / the social investor commits social equity (typically 25%), the government may contribute land or facilitate through planning gain, renewal or funding, and BuyAssist matches eligible buyer and eligible property and facilitates the sale and financing (Bank and Social Equity Investor) (Myers, 2017).[27]

Table 1 summaries the state-based programs in Australia.

Table 1 - State-based shared equity programs in Australia

State	Provider	Shared Equity Products
Western Australia	Keystart Home Loans[a]	SharedStart; GoodStart; Access; Aboriginal Home Ownership Scheme; Sole Parent Home Loan Private shared equity schemes: Small-scale co-ownership schemes developed in partnership with private community housing organisations and Aboriginal corporations
South Australia	HomeStart Finance[b]	Breakthrough; Equity Start; Seniors equity loan
Northern Territory	Territory Housing[c]	Homestart NT restructured in 2012 as HomeBuild Access loans - can be used for new dwellings started after 1 Jan. 2013
Victoria	Victorian Government[d]	HomesVic scheme
Queensland	Qld Dept of Housing and Public Works[e] National Affordable Housing Consortium[f]	Pathways BuyAssist
Tasmania	Housing Tasmania[g]	HomeShare
ACT	Housing ACT and IMB Ltd[h]	Shared Equity Scheme

Notes: [a] https://www.keystart.com.au/home-loans/shared
[b] http://www.homestart.com.au/unlocking-equity
[c] https://nt.gov.au/property/homeowner-incentives/low-or-middle-income-earners/homebuild-access
[d] https://www.vic.gov.au/affordablehousing/buying-a-house-in-victoria/homesvic.html
[e] https://www.qld.gov.au/housing/buying-owning-home/pathways-shared-equity-loan
[f] http://buyassistrealestate.com.au/
g http://www.homesharetas.com.au/buying-a-house/
[h] http://www.communityservices.act.gov.au/hcs/services/buying/shared_equity_scheme

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[25] http://www.news.com.au/finance/real-estate/buying/new-scheme-allows-first-home-buyers-to-buy-property-with-help-from-government/news-story/9a99b1e7e885e513d0f5f01e46da1cc3

[26] 'New scheme allows first home buyers to buy property with help from government'. Retrieved 12 August 2017. Victoria underwrites $1bn of low-interest loans for social housing https://www.theguardian.com/australia-news/2017/feb/23/victoria-underwrites-1bn-of-low-interest-loans-for-social-housing

[27] Myers, M. (2017, 31 July-1 August). *BuyAssist Australia Pty Ltd, Shared Equity Home Ownership, Pathways in Housing.* Paper presented at The Affordable Housing Development Summit, Melbourne.

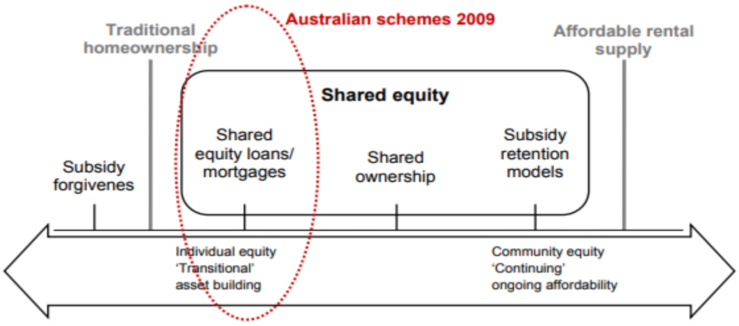
Pinnegar et al. (2010) state that small, well-targeted shared equity schemes are already successfully assisting lower and moderate income households to achieve home ownership in Australia. More specifically, HomeStart Finance in South Australia has been successful in achieving affordability objectives and maintaining financial viability. The authors highlight key features attributed to this success as: statutory independence; sustainable operating scale; staff and board members who are drawn from business and finance sectors rather than government departments; and close and trusting partnership with government housing departments and Treasuries.

Pinnegar et al. (2009) positioned shared equity arrangement in three ways.

- *Shared equity loans/mortgages* - loan arrangements are typically, but not always, in the form of mortgages. They comprise a first mortgage taken out by the primary owner on a proportion of the full cost of the property, and a second, subordinate loan, set against the remaining portion of that cost. Sometimes the secondary 'loan' may take the form of a covenant deed.
- *Shared ownership* - the main difference in shared ownership is that owners make repayments on the mortgage component, but pay rent on the remaining portion. Whitehead and Yates (2007) state that shared ownership represents an early approach to shared equity, which evolved from the public housing sector providing opportunities for existing tenants to own a part-share in their homes or developing new supply to be sold on a part-share basis to selected target groups.
- *Subsidy retention models* - these models are based on principles of equity sharing predicated on the 'community's' share of the equity staying with the actual home, which acts to reduce the cost to the next buyer (Jacobus and Lubell, 2007). Common models include deed-restricted housing, community land trusts and limited equity co-operatives.

According to Pinnegar et al. (2009), the Australian context is geared towards providing a step onto the property ladder and retaining home ownership rather than subsidy retention models (Figure 3).

Figure 3-Positioning Australian schemes in the shared equity continuum



Source: Pinnegar et al. (2009), Innovative financing for home ownership: the potential for shared equity initiatives in Australia.

3.5. Community Land Trusts (CLT)

With this approach, a not-for-profit CLT is established to acquire land to be held in perpetuity, and dwellings are then built on the land (Pinnegar et al., 2009). A long-term ground lease is created which allows for dwellings to be leased by low to moderate income households. The ground lease sets out legal obligations of the two parties, and also provides the owner of the building exclusive use of the land on which the building and improvements sit. The long-term ground lease will have a value which means the ground lease with improvements can be bought and sold. In effect the CLT model is a form of leasehold common in the business sector but adapted for residential purposes.[28]

[28] Refer to Affordable housing solutions research paper, Affordable housing development models: Prepared for City of Port Phillip. Available at: http://www.portphillip.vic.gov.au/default/meeting_agenda_archive/Att_3_Final_report_from_AHS_Nov2010.pdf.

Community Land Trusts are most common in the United States but also operate in England, Canada, Scotland, Wales and Kenya (Pinnegar et al., 2009). The key features of this structure, as identified by Davis (2007), are:

- Non-profit, tax exempt land owning corporation
- Dual ownership
- Leased land
- Perpetual affordability
- Perpetual responsibility
- Open, place-based membership
- Community control
- Tripartite governance
- Expansionist acquisition
- Flexible development

There are currently no active community land trusts providing affordable housing operating in Australia. There are some models of hybrid ownership of land and dwellings for mutual benefit such as some collectively owned land by Indigenous groups, share farmers and several models of perpetual community owned land for ecological / wildlife preservation (Crabtree, Blunden, et al., 2012; Crabtree, Phibbs, Milligan, & Blunden, 2012).

3.6. Australian Housing Finance Aggregator (AHFA)

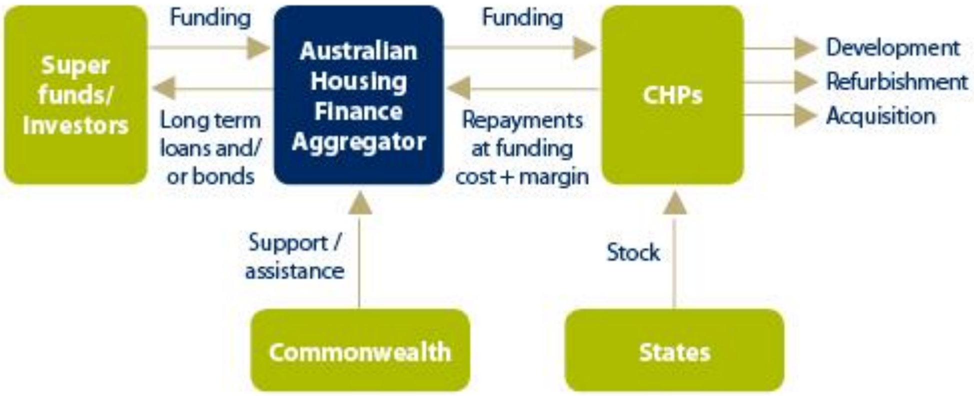
The Commonwealth Council on Federal Financial Relations (CCFFR) tasked the Affordable Housing Working Group to 'investigate innovative financing models' and 'found a "financing gap" is a major barrier to the supply of affordable housing' (Hon Scott Morrison MP, 2017). The resultant proposal is a **bond aggregator,** which 'would issue bonds to the market, and on-lend these funds to community housing providers - allowing them to access cheaper and longer term finance' (Hon Scott Morrison MP, 2017). Additional references include: NSW Federation of Housing Associations, 2014; Council on Federal Financial Relations, 2016[29]; Ernst & Young, 2017.

Social Ventures Australia (SVA) and Macquarie Group Limited (Macquarie) proposed a **housing finance aggregator** to enable social and affordable housing providers to access lower cost debt for longer terms, unlocking desperately needed 'fit-for-purpose' funding into the sector. These authors suggest that the housing finance aggregator model has been successfully implemented in the UK and has proven to be an effective and practical financing solution. The model would allow housing providers to access funding at lower interest rates and for longer terms, and as a result, unlock fit-for-purpose capital into the sector. A recent report[30] published by SVA (2016) states that the investment decisions of Australia's multi-trillion-dollar superannuation industry could impact the life of a single parent on Newstart seeking a suitable and affordable home in Sydney or Melbourne or Perth. Even a small slice of this institutional capital (managed on behalf of ordinary Australians) invested into the social and affordable housing sector could make a significant contribution to the 400,000 properties needed to support those on low incomes. Informed by the experience internationally, notably in the UK, the model proposed by SVA and Macquarie Group addresses two cost types (financing costs and financing terms) that could contribute to a better flow of capital into the sector. An NFP entity, the Australian Housing Finance Aggregator (AHFA), would liaise with social and affordable housing providers (including CHPs and others) to determine the amount of debt they seek to raise. It would aggregate these funding needs and source from superannuation funds and other institutional investors (Figure 4). The funds would be loaned to the relevant social and affordable housing providers in return for ongoing interest payments and the return of capital at the end of the loan life.

[29] http://www.federalfinancialrelations.gov.au/content/downloads/SCFFR-Terms-of-Reference.pdf

[30] Social Ventures Australia (SVA), 'New model for financing affordable housing.' Retrieved 10 June 2017, from http://www.socialventures.com.au/sva-quarterly/new-model-financing-affordable-housing/

Figure 4- Australian Housing Finance Aggregator



Source: Social Ventures Australia (SVA), 2016, "New model for financing affordable housing." Retrieved 10 June 2017, from http://www.socialventures.com.au/sva-quarterly/new-model-financing-affordable-housing/

In the United Kingdom (UK), the Housing Finance Corporation (THFC) was established in 1987 by the Housing Corporation and the National Housing Federation (UK's Housing Association Body). The THFC is an independent, specialist, not-for profit organisation, operating without government control, subsidy or guarantee of indebtedness and it makes loans to regulated Housing Associations that provide affordable housing throughout the United Kingdom. THFC funds itself through the issue of bonds to private investors and by borrowing from banks. It is assessed by credit ratings agencies such as Standard & Poor's (S&P) and their bonds are priced accordingly. The corporation has maintained a zero default record through its 22-year history, relying on the strong underlying cash flows of housing associations. As of March 2009, THFC provided £1.90 billion (USD$3.42 billion) of loans to 188 housing associations[31].

3.7. Securitisation and housing bonds

Securitisation is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming it into a security. A typical example of securitisation is a mortgage-backed security, which is a type of asset-backed security that is secured by a collection of mortgages.

Bonds are a straightforward, long-term financial instrument. Social and affordable housing supply bonds are designed to reduce the cost of funding available for community housing providers, which enhances their capacity to increase the supply of affordable rental housing. The bonds would be attractive to retail and institutional investors through a mix of tax incentives and government guarantees.

LeBlanc et al. (2009) provide a range of examples where securitisation has been used successfully to harness institutional investment for social housing funding purposes in a number of European countries, as cited in Lawson, Berry, Milligan and Yates (2009):

- In Sweden, through the Framtiden issues made between 1995 and 2001, the city of Gothenburg sold a number of portfolios of loans to multifamily housing companies that provide low cost rental houses for families through an SPV, which raised funds in the asset-backed capital markets.
- Similarly, in Finland through the Fennica issues, funds have been raised in the asset-backed capital markets by the sale of loans made by ARA[32], subsidised by another agency of the

[31] The Housing Finance Corporation Ltd [GB]. 'Investing and Borrowing Overview.' Retrieved 2 June 2017, from https://www.thfcorp.com/investing-and-borrowing/why-borrow

[32] http://www.ara.fi/en-US/Housing_finance

Republic of Finland to social housing borrowers for the purchase or construction of multifamily rental housing. In Belgium, this is also the case with the Atrium and Eve issues, where loans made to social housing companies for the provision of low-cost single-family housing were securitised.

- In the Netherlands, the Colonnade and Dutch Housing Association Finance issues going back to 1997 have financed the securitisation of loans to Dutch housing associations guaranteed by a specially established entity.

Furthermore, Freddie Mac's securitisation is another example of securitisation of tax-exempt loans made by the US state or local housing agencies and secured by affordable rental housing[33].

The Affordable Housing Finance Corporation (AHFC) model proposed by the Australian Greens would include the issue of three types of housing supply bonds[34]:

- Zero interest loan bonds worth AUD$200m per year - called 'social housing growth bonds' providing zero interest long term loans to non-profit housing organisations, public housing authorities, and affordable housing developers (10% of bonds issued).
- Tax smart housing supply bonds - long term, fixed term, fixed interest bonds (6% return) with a tax incentive (no tax is paid on the return) to appeal to retail investors (20% of bonds).
- AAA Housing Supply Bonds - a fixed interest (5% return), long term, AAA rated (government guaranteed) bonds to appeal to institutional investors such as super funds (70% of bonds issued).

The benefits of housing supply bonds include a tangible and substantial contribution towards housing supply. Ensuring that the housing supplied, with the assistance of public enhancements attracting private investment, is both affordable and secure, generating lasting benefits to family functioning, child development, individual health and economic and social participation, promoting economic stability, supporting skilled labour markets and catalysing innovation in the residential construction industry, consolidating and accelerating efforts to develop a viable non-profit housing sector at scale and providing a suitable vehicle for investment funds to meet both the yields required by policy makers and their own social, economic and environmental corporate responsibilities.

3.8. Investment trusts

Three forms of investment trusts are outlined here:

Real estate investment trusts (REITs) have been introduced in the international context to encourage investment in the private rental market and enhance the supply of rental properties. Residential REITs are used widely in the US, for example, and have been accepted widely by US institutional investors (Newell, Lee and Kupke, 2015). Milligan et al. (2013) suggested that REITs could be an effective vehicle in the Australian context for institutional investment in the private rental sector. Unlisted wholesale residential property funds and unlisted wholesale affordable housing funds are innovative ways to encourage institutional investment in the private rental sector in Australia, because they are managed by experienced fund managers and produce stable income yields with low tenancy risk (Newell et al., 2015).

In the United States (US), housing trusts include the Housing Partnership Equity Trust (HPET), which is a US social-purpose real estate investment trust, sponsored by the Housing Partnership Network. This provides a ready source of long-term, low-cost capital, enabling its non-profit partners to quickly and efficiently acquire apartment buildings that provide quality homes for families, seniors and others with modest incomes. They have been suggested as a means of overcoming the current difficulties with scale, and the geographical diversity of assets required to attract large-scale investors into the provision of affordable housing. The establishment of a housing trust would allow for housing assets

[33] 'Freddie Mac Securitization Could Help the Affordable Housing Challenge'. Retrieved 2 June 2017, from http://www.nreionline.com/multifamily/freddie-mac-securitization-could-help-affordable-housing-challenge
[34] https://greens.org.au/AHFC%20

to be aggregated at an individual state or territory level, across several states and territories, or even nationally by community, private sector or government providers of affordable housing.

In the United Kingdom (UK), REITs are essentially companies or groups of companies that manage a portfolio of real estate to earn profits for shareholders, and their special tax status means that they pay no corporation tax on the profits of their rental business, but they need to comply with a number of conditions set out in tax law when investing in social and affordable housing.

Managed investment trusts (MITs) - the Australian Government is proposing tax incentives to increase private and institutional investment in affordable housing. These changes could see community housing providers become central to new investment in affordable housing. In a nutshell, these new incentives are aimed at encouraging managed investment trusts (MITs) to invest in affordable housing. The Australian Taxation Office defines an MIT as: 'a type of unit trust in which members of the public collectively invest passive income activities, such as shares, property or fixed interest assets.'

Super fund investments - the chief executive of the AUD$37 billion health industry superannuation fund HESTA, Debby Blakey, said in a recent interview:

> *We believe the government has an important role to play to facilitate and co-ordinate investment in social housing. The government can play an active role in developing a housing bond aggregator so institutions like HESTA can invest in them. It might be through long-dated bonds which would have an attractive income or some government guarantee on the rental return of social housing projects; long-dated bonds with terms from 15 to 20 years that had a good income would be very attractive to a fund like HESTA. (Debby Blakey, CEO of the HESTA, Health Industry Super Fund).*

A relevant international example is the Scottish Government's recent plan to invest $6 million of Scottish government pension funds to provide more affordable housing.[35]

3.9. Financing housing co-operatives

These are NFP legal associations formed for the purpose of providing a housing product for members, and they are usually owned and controlled by members. Many housing cooperatives are recognised and managed on principles of participatory democracy and a common purpose. They seek to blend the provision of affordable housing with direct member participation, and, depending on the model, shared equity. There are several means by which financing can contribute to the establishment and operation of a housing cooperative. Full equity cooperatives exist whereby funding is derived directly from the members. The rent charged is very similar to that in the private market. Shared equity cooperatives involve funding from a mix of public and private sources. The funding provided may have originated from external grants or loans, which may enable affordable housing to be offered. The third option, more typical in the Australian context within the community housing sector, is the non-equity rental model. Social housing providers, such as public housing authorities, provide housing to the housing cooperative via various legal mechanisms. Tenants are usually charged social housing rents, for example, Common Equity has 33 housing co-operatives across NSW and offers accommodation to almost 500 tenants in a variety of dwelling types and locations[36].

Common Equity Housing Limited (CEHL) in Victoria is the largest owner of housing amongst Victorian housing associations, with around 2,200 properties under management. CEHL is a housing provider and developer of social affordable housing, whereby properties are head-leased by 112 individual cooperatives across Victoria. Around 5,115 people are housed by CEHL in Victoria. CEHL promotes a cooperative housing model for the individual cooperatives and provides asset management, finance

[35] 'Affordable housing given a £30m boost from pension fund cash'. Retrieved 2 June 2017, from http://www.thenational.scot/news/14898071.Affordable_housing_given_a___30m_boost_from_pension_fund_cash

[36] http://www.commonequity.com.au

and administration support to individual cooperatives. Individual cooperatives are shareholders of CEHL and influence the direction of CEHL housing policy.[37]

3.10. Social impact investing

Burkett (2010) defines social benefits as 'positive improvements in people's lives', and impacts as 'the measurable effects of an intervention'. The author includes social inclusion, employment and training, local sustainability, diversity and equity, fair trade and service innovation as some of the social benefits and impacts which can be generated through social procurement. These are considered to be investments 'made with the intention of generating measurable social and/or environmental outcomes in addition to a financial return' (Australian Government, 2017).

This outcomes-based approach 'brings together governments, service providers, investors and communities to tackle a range of policy (social and environmental) issues. It provides governments with an alternative and innovative mechanism to address social and environmental issues while also leveraging government and private sector capital, building a stronger culture of robust evaluation and evidenced-based decision making, and creating a heightened focus on outcomes' (Treasury, 2017).

In January 2017, the Commonwealth Government launched the Social Impact Investing Discussion Paper (Australian Government, 2017). This paper proposes 'an enabling environment for private sector-led social impact investing and by funding (or co-funding with State and Territory Governments) investments which generate savings or avoided future costs to fund reforms and deliver better outcomes for Australians'.

Examples include:

- The Hutt Street Centre[38] (Common Ground Adelaide, 2015[39]). This pilot was followed up in 2017 with a further announcement of a social impact bond programme to assist an additional 600 people experiencing, or at risk of, homelessness (Bettison, 2017).
- NSW Office of Social Impact Investment released two Social Benefit Bonds to 'deliver better services and results for families at risk' (NSW Office of Social Impact Investment, 2017). More recent activity includes the Newpin Social Benefit Bond (NSW Office of Social Impact Investing, 2017).
- The Queensland Government Treasury is piloting three Social Benefit Bonds. Expressions of interest for the first of these were called for in February 2016, 'to tackle complex social challenges with new funding that complements but does not compete with grants for existing social services' (Curtis Pitt MP, 2016). The most recent was announced in July 2017 to support young people at risk of homelessness. This is a partnership between Westpac Banking Corporation (Westpac) and Social Outcomes to support Churches of Christ in Queensland (Queensland Treasury, 2017[40]).
- The 2017/18 Commonwealth Government budget 'announced it will provide AUD$10.2 million over 10 years from 2017–18 to partner with state and territory governments to trial the use of social impact investments'. These are targeting better outcomes for young people at risk of homelessness (AHURI, 2017b).

The Greater London Authority, in partnership with the Department for Communities and Local Government, is responsible for the world's first social impact bond (SIB) for those who were sleeping rough. The homelessness social impact bond project was launched in London in November 2012. It was designed to improve outcomes for persistent rough sleepers, a sample population of 830 (Cooper, Graham and O'Dwyer, 2013). This social impact bond helps the cohort access appropriate services via personalised recovery pathways, leading to sustainable outcomes. The SIB model of commissioning and contracting services is unique in that it is funded from social investment and is 100% payment by results. Two participating organisations (St Mungo's Broadway and Thames Reach (St Mungo's merged

[37] https://chiavic.com.au/housing-co-operatives
[38] https://www.huttstcentre.org.au
[39] http://www.commongroundadelaide.org.au/
[40] https://s3.treasury.qld.gov.au/test-files/files/SBB-Youth-CONNECT-Information-Memorandum.pdf

with Broadway in April 2014)) each target half of the cohort, both utilising a different financing structure. St Mungo's Broadway established a special purpose vehicle (SPV) which holds the risk, while Thames Reach organisation funds interventions through social investors' unsecured loans. Both participating organisations had invested their own funds. There are five outcomes for the two organisations to achieve, which include reducing rough sleeping, stable accommodation, reconnection, employment and health. Each of the five outcomes is allocated a different proportion of the overall funding available, and evidence must be provided before payment can occur across the individual outcomes.

The **MaRS Centre for Impact Investing** examined 15 social finance models and instruments relevant to affordable housing in Australia, Austria, France, the Netherlands, the U.K. and the U.S. Each case study included an overview and assessment of the social finance model in terms of type and level of government participation, the role of local authorities and councils, the involvement of non-profit and private sectors, and barriers to implementing the model. The annualized average rates of return on investments in the case studies ranged from 0.5 percent to 6 percent.[41]

3.11. Other state-based funding initiatives

In NSW, the **Social and Affordable Housing Fund (SAHF)** is a key initiative of Future Directions to provide more social housing. The SAHF comprises two main elements including SAHF NSW (the Fund) to which the NSW government has contributed AUD$1.1 billion in seed funding (to be invested by the NSW Treasury Corporation) with returns to be used to support SAHF Phase 1 projects. (NSW Federation of Housing Associations, 2014; NSW Family and Community Services, 2017).

In Western Australia, Keystart's **Aboriginal Home Ownership Scheme** was established in 1995 and is designed to educate, support and provide an opportunity for Aboriginal and Torres Strait Islanders to help them buy an affordable home to live in. This loan is available to both first home buyers and subsequent home buyers. Keystart's **low deposit home loans,** which is a variable interest rate loan that allows to buy an established home or build a new house.

In Queensland, the 2017 State Budget allocated AUD$1.5b to a social housing project to build 5,000 homes,[42] and established the **Housing Construction Jobs Program** (one element of the *Queensland Housing Strategy 2017-2027*), which encourages partnerships with the private sector and community housing providers to deliver jobs, drive economic growth at a local level and ensure better community outcomes. The Brisbane Housing Company (BHC) rent model is also a large provider of social and affordable housing, and rents properties at 50, 60 and 74.9 per cent of market rent, depending on household composition and income.[43]

In Victoria, the state government will use its borrowing power to act as guarantor for up to AUD$1bn worth of low-interest loans to help registered housing associations secure new social and affordable housing stock. The initiative, called the Social Housing Growth Fund, is an Australian first, and is a collaboration between government and private and philanthropic sectors which the government says will ultimately support up to 2,200 vulnerable households. Salta Properties are developing a 260-unit, AUD$330 million tower at Docklands in Melbourne for the build-to-rent market, with leases up to 10 years in length.

Mission Australia Housing currently owns or manages more than 2,000 social and affordable homes, including Sydney's $32 million Common Ground development.[44] They serve communities in Queensland, Tasmania, New South Wales and Victoria. Social enterprise **Homes for Homes (HFH)**

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[41] Research Insight. 'International Environmental Scan of Social Finance for Affordable Housing'. Retrieved 5 September, ftp://ftp.cmhc-schl.gc.ca/chic-ccdh/Research_Reports-Rapports_de_recherche/2017/RR_MaRS_International_Enviro_Scan_webfile.pdf

[42] http://www.couriermail.com.au/news/queensland/queensland-government/queensland-state-budget-2017-15b-social-housing-project-to-build-5000-homes/news-story/b1d9c13cf7f53be5587f83ad297eddb8

[43] http://www.communityhousing.org.au/S4%20presentation%20attachments/Rent%20Discussion%20Paper%20November%202014.pdf

[44] https://www.missionaustralia.com.au/housing

released AUD$300,000 of funding in Victoria and AUD$200,000 of funding in the ACT in 2018.[45]They raise funds through donations from property sales, with homeowners and property stakeholders voluntarily registering with HFH and agreeing to donate 0.1 per cent of their property's sale price to the initiative.

3.12. Additional international examples

Following on from the move away from traditional public grant and loan funded models and the decline in direct government involvement in housing finance, Lawson et al. (2009) highlight the use of incentives and subsidies to attract institutional finance at scale to the sector. Additional approaches to those discussed above, in the international context are:

- Housing tax credits (US)
- Rental assistance programs (US)
- Affordable Housing Guarantee Scheme (UK)
- Help to buy (UK)
- Rent to buy (UK)
- Syndicated bonds issuer (UK)
- Rental construction financing (CMHC)
- Affordable rental innovation fund (CMHC)
- Mortgage loan insurance (CMHC)
- Taxation, loans and shared equity (Austria)
- Protected circuit (France)
- Loan and bond system with public guarantees (Switzerland).

Housing tax credits (US) - Low Income Housing Tax Credit (LIHTC) in the United States[46]. A major example of where government assistance has been successful in financing affordable rental housing through institutional investment is through the LIHTC in the United States (Lawson et al., 2016). It provides tax credits to developers who construct affordable housing. The LIHTC is, to some extent, the pre-cursor for NRAS in Australia. One key difference, however, is that recipients of these tax credits are able to trade them on the open market, thus providing a source of development capital. Another difference is that investment returns are gained mostly from revenue, not through capital growth.

Housing Opportunities for People Everywhere (HOPE VI) was established in the US in 1992 and ended in 2010. This program played an important role in transforming 'distressed' estates into more mixed income and mixed tenured communities, by allowing for the demolition and replacement of public housing with housing for low income families, with developments that contain a mix of incomes and housing tenures (Lawson et al., 2016). An additional objective of HOPE VI was to attract significant private sector investment that would help to improve neighbourhood conditions, not only on the site itself, but also within the surrounding area.

In the UK, social housing has relied on public grants, known as Social Housing Grants since 1974. Private finance was introduced in 1988 via the Housing Act, creating a combination of private bank finance and public grants. In 2004, for-profit companies were enabled to take part in the SHGs to promote the growth of social housing. Bank debt and bonds are the two main sources of private finance in England, with a variety of options available in each.

Affordable Housing Finance (AHF) is the exclusive delivery partner of the **Affordable Housing Guarantee Scheme (AHGS)** in the UK. AHF manages a large portfolio of over 60 housing associations, and monitors a diverse selection of loans amounting to over £2.5bn. AHF funds itself through the issuance of bonds on the capital markets, while simultaneously borrowing from the European Investment Bank. AHF was awarded an 'AA stable' credit rating from Standard and Poor's.[47]

Help to Buy (UK)[48] - in April 2016 the Homes and Communities Agency (HCA) opened bidding to the Shared Ownership and Affordable Homes Programme 2016 to 2021 through publication of a prospectus. The equity loan will be made by the HCA to the purchaser and will be paid directly to

[45] http://www.homesforhomes.com.au/news/press-releases/homes-homes-opens-first-ever-funding-round/

[46] Refer to Lawson et al. (2016)

[47] Affordable Housing Finance Plc. Retrieved 4 August 2017, from https://www.thfcorp.com/investing-and-borrowing/affordable-housing-finance

[48] https://www.gov.uk/government/collections/help-to-buy-equity-loan-guidance-and-application-forms

registered house builders with no house builder contribution. Investment of £12.bn is expected until 2021. So far, 120,864 sales have occurred, of which 81% are first home buyers.

The UK **Rent to Buy**[49] scheme allows working households to rent a home at intermediate rent, providing them with the opportunity to save for a deposit, and to then go on and purchase their first home.

The **Starter Homes Local Authority Funding Programme** (UK)[50] is designed to accelerate the supply of brownfield land available for the development of starter homes. The government provides a £10 million fund to help local authorities to prepare vacant and underused brownfield land so that high-quality homes can be made available for first time buyers and contribute to government's target of 200,000 starter homes in 2017 to 2018.

The **Canada Mortgage and Housing Corporation (CMHC)** provides tools and financial assistance to help people in need to create affordable housing without long-term subsidies. These initiatives include:

- **Rental Construction Financing** which provides low cost loans to encourage the construction of rental housing across Canada, where the need for a supply of rental property is clearly demonstrated. It provides up to $2.5 billion in loans over 4 years, beginning in 2017.[51]
- **Affordable Rental Innovation Fund** to encourage new funding models and innovative building techniques in the rental housing sector. CMHC looks for unique ideas that will revolutionize the sector moving forward. In the process, the CAD$200M Fund is expected to help create up to 4,000 new affordable units over 5 years and will reduce reliance on long-term government subsidies.[52]
- **Mortgage Loan Insurance** - the CMHC offers seed funding, rental construction funding and mortgage loan insurance products to support the construction, purchase and refinancing of a wide range of rental properties such as standard rental housing, retirement housing, supportive housing, student housing and single room occupancy.[53]
- **Covered Bond[54] Framework** - as part of the 2012 Federal Budget, amendments were made to the National Housing Act, charging CMHC with administering a legal framework for covered bonds. Federally and provincially regulated financial institutions that meet the requirements of the program are able to issue covered bonds under the framework.

In Austria, a mixture of **taxation, loans and shared equity** is used to fund social housing. A contribution from employers and employees (0.5% of wages each) is collected at state level. This is then passed onto federal provinces so they can add it to their budgets, dedicated to supporting social housing provisions.[55] Furthermore, in some provinces annuity grants are paid to social housing providers in order to lower rents. In Austria, financing of social housing is based on different sources. In addition to bank loans, developers' equity and tenants' contributions, public loans are available through the promotion schemes of the federal provinces. An average financing model in Austria is illustrated in **Error! Reference source not found.**.

[49] https://www.gov.uk/guidance/capital-funding-guide/2-rent-to-buy

[50] https://www.gov.uk/government/collections/starter-homes-local-authority-funding-programme

[51] Canada Mortgage and Housing Corporation. Retrieved 27 July 2017, from https://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/mupr/rental-construction-financing.cfm

[52] Ibid.

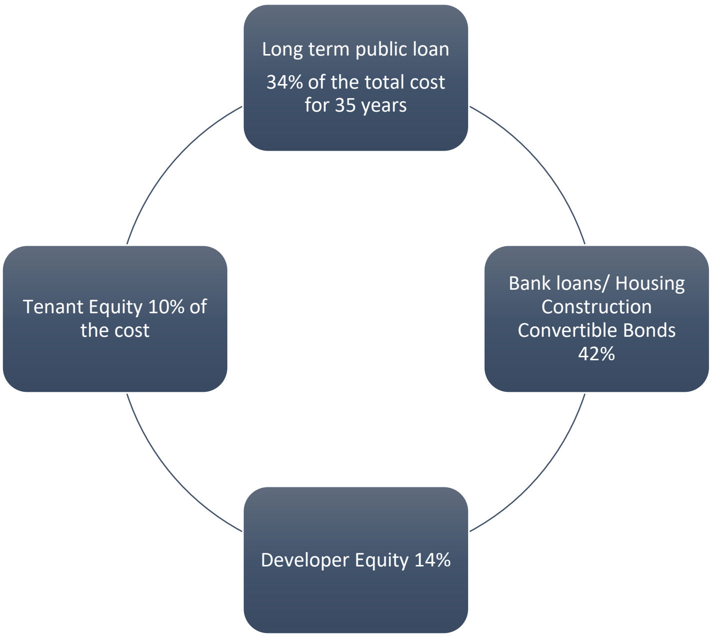
[53] Canada Mortgage and Housing Corporation. 'Rental Housing Solutions'. Retrieved 27 July 2017, https://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/mupr/index.cfm

[54] Covered bonds are debt instruments that are issued by a financial institution and secured by a segregated pool of high quality assets (the 'cover assets'), primarily uninsured Canadian residential mortgages. The issuer of a covered bond pays periodic interest and principal on the bond to investors, in accordance with terms that are set upon issuance (CMHC).

[55] European social housing observatory report, 'Study on financing of social housing of 6 European countries.' Retrieved 15 June 2017, available from www.housingeurope.eu/file/217/download (1MB).

Moreover, as for housing taxation,[56] Austria enjoys an exemption from the European Union Value Added Tax (EU VAT) Directive, which states that 10% VAT is charged on rents, therefore landlords can deduct VAT from the cost of construction. Property tax exemption is applicable for social housing and also for private bodies receiving public compensation. There is a low level of indirect fiscal advantage for affordable housing, and there are tax allowances for individual housing costs on a limited level, and tax exemptions (tax on interest) for *Bausparen* (saving deposits for home owners' financing) and for *Wohnbauanleihen* (covered bonds for financing multi-family housing).

Figure 5-An average social housing financing model in Austria



Source: Figures are from the European social housing observatory report, Study on financing of social housing of 6 European countries.[57]

Lawson et al. (2009) state that to ensure low-cost finance for social housing construction, for over 200 years the French government has sustained a **protected circuit**. This involves the conversion of short term deposits into long term loans at cost price for services in the public interest, such as transport, universities and housing. Deposits made into the Livret A government backed savings scheme are the main source of loan funds to build social housing, while providing security and adequate return for investors. Social housing in France is largely funded by off-market loans, supplemented by various employer grants, local and state government subsidies, guarantees and tax incentives, as well as a small contribution of landlords' own equity (Lawson et al., 2009).

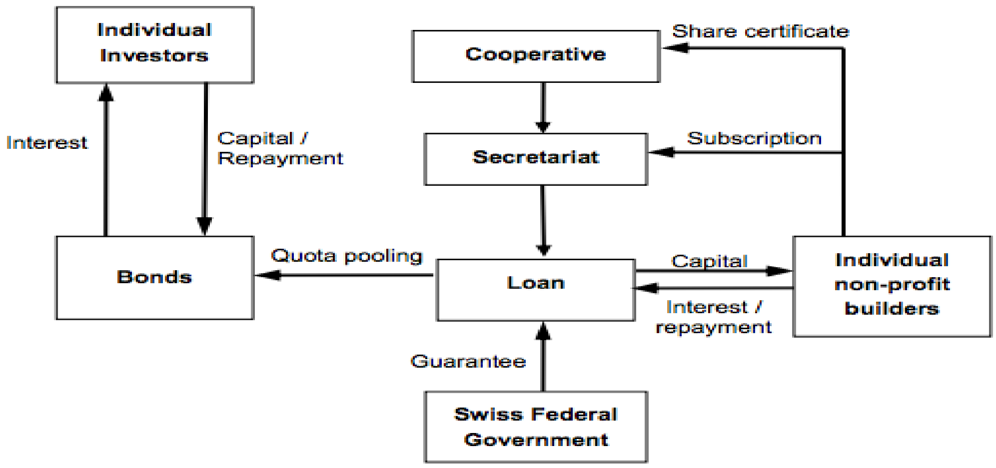
To promote and generate housing in Switzerland, the Swiss government has made provision for **subsidies and low cost loans** (Lawson et al., 2009). The availability of these subsidies has decreased so the government has moved to debt finance to grow the sector. To reduce finance costs, small low interest loans are competitively allocated from an accumulated revolving fund, financed by the federal government and managed by the sector (Figure 6). Lawson et al. (2009) state that these loans contribute five percent of total project costs. In addition, the sector has established its own members' fund based on a levy per dwelling, which can issue small loans. Most recently they have established another revolving fund specifically to assist new cooperatives. To promote access to private loans, the non-profit sector and federal government established a **bond issuing cooperative** in 1991. This secures lower-cost capital from the market by issuing 7–10 year bonds guaranteed by the federal government. There are several variations of the mixed financing regime, with varying proportions of

[56] PWC report December 2015, 'Key tax issues at year end for real estate investors 2015/2016.' Retrieved 10 June 2017, from to https://www.pwc.lu/en/real-estate/docs/pwc-re-key-tax-issues-real-estate-2015-2016.pdf

[57] Available at: www.housingeurope.eu/file/217/download (1MB).

cooperative equity, low interest loans provided by the sector's revolving funds, together with funds from the bond issuing cooperative and commercial loans.

Figure 6-Swiss bond issuing co-operative



Source: Federal Office of Housing Switzerland, 2006 cited in Lawson et al. (2009)

4. Summary and findings

Different social and affordable housing projects require different social finance tools and methods. The applicability of social finance models may depend on the scale of the projects. Some instruments work best for individual projects, while others perform better on a city, regional or national level. For instance, in Australia, public private partnership programs, shared equity loans, investment trusts are recommended in small to moderate scale projects, as project risk is generally transferred from the public sector to a private sector partner in return for an agreed income stream over a period of time, generally related to the life of the asset. Further, in the Australian context, investments trusts such as REITs and MITs is a relatively new area to be further explored and used to enhance supply of affordable and social housing finance with adequate government support by way of tax incentives etc. The Australian Government's City Deals are also deemed to be an effective way for state governments, industry and local communities to develop collective plans for growth. Table 2 summarises linking/matching financing mechanisms with recommended investment/projects in Australia.

While the eventual sale of properties can be used to create equity financing opportunities, the consistent stream of rental income from housing projects makes debt financing a viable alternative. Credit enhancement tools (for example, loan guarantees, first-loss capital) can be very effective in raising capital from institutional investors. In considering the provision of social financing, financial institutions tend to respond more to legislative incentives, while individuals tend to respond to tax incentives. Potential risk factors can be addressed to a certain extent by: providing adequate levels of assistance for those who are in need; ensuring landlords are financially sound and socially responsible and thus eligible for support and incentives; providing government funding schemes, subordinate loans, guarantees and equity; and by ensuring a sound planning mechanism to access well located land for affordable housing development.

The support and engagement of private institutions are crucial in catering for the rising demand of social and affordable housing financing schemes. Thus, the required return of these investments should be adjusted to capture the above mentioned risk items. In order to manage risks and ensure successful outcomes, housing developers, associations and intermediaries with good financial track records and high credit ratings play a key role in the success of the underlying investments and instruments. Lending for land acquisition and construction can be high risk, hence, it should be balanced with lower risk, lower cost lending. Also, following integrated approaches to housing project development comprising experts in finance and in social outcomes, can accomplish financial and social goals at the same time. ***Governments can contribute to social finance initiatives for social and affordable housing by providing credit enhancement tools, tax incentives and rental support; enabling intermediaries to benefit from their high credit ratings; playing the role of supporter for social impact bonds by way of being more transparent, making data available, including making better use of, and sharing and linking, administrative data sets; and creating a platform to bring partners from different sectors together.***

Finally, the potential risks and opportunities of using social finance tools and models for affordable housing have to be identified before a decision can be made to rely on them to fund projects. Table 2 links financing tools to project scale and possible risks, and Table summarises these factors based on the limited review of the Australian and international literature. The risk factors are categorised as:

- Cost of finance
- Credit/Default risk
- Sustainability/long-term predictability of funds
- Government policy reforms
- Lack of incentives to innovative funding and financing schemes

Table 2 – Linking/matching financing mechanisms with recommended investment/projects in Australia

Financing tools	Recommended for	Risks
Partnerships **Shared equity loans** **Investment trusts** - **REITs** - **MITs**	Small to moderate-scale projects.	Sustainability/long-term predictability of funds Credit/Default risk
Social impact investing	Small to moderate-scale projects.	Sustainability/long-term predictability of funds
Bond aggregator models **Securitisation and housing bonds**	Moderate to large-scale projects.	Credit/default risk
City Deals	Moderate to large-scale projects and is an effective way for state governments, industry and local communities to develop collective plans for growth.	Government policy reforms Sustainability/long-term predictability of funds
Build to rent/rent to buy schemes	Small-scale projects.	Cost of finance Lack of incentives to innovative funding and financing schemes
Community land trusts **Financing housing cooperatives**	Small-scale projects.	Cost of finance Government policy reforms

Table 3 - Risk analysis of the existing social and affordable housing funding models

Risk factors	Examples
Cost of finance - the higher the share of public investment and stability of revenue settings, the lower the cost of private finance and more affordable the dwellings can be.	THFC, UK – when an intermediary like THFC is combined with a government guarantee it can be more effective in reducing perceived risks, such as financing costs. Over the past 30 years, THFC co-financed more than 2.4 million dwellings through well-regulated landlords with a commitment to securing affordable housing.[58] These regulated landlords allocate dwellings on the basis of need rather than assigning them to the highest bidder. In return they have access to favourable public loans, tax incentives and direct revenue support. Australia – Commonwealth Government funding including National Housing and Homelessness Agreement, National Partnership Agreement on Homelessness (NPAH) AUD$115million, Remote Indigenous housing AUD$478million, National Rental Affordability Scheme (NRAS), Commonwealth Rent Assistance (CRA), Private rental brokerage program (PRA), Social Housing Future Fund. Land available at below market rates from government assets may need to be a precursor for success in the establishment and early years of this sector.
Credit risk/default risk - can be controlled with private public partnerships	THFC, UK – this experience has ensured a zero-default record and stable A credit rating from Standard and Poor's. The UK's Affordable Housing Guarantee Scheme (AHGS) delivered USD$ 4.15 billion[59] at or below the rate of government bonds in its three-year period. Affordable Housing Finance (AHF), which is the delivery partner of the AHGS, was awarded an 'AA stable' credit rating from Standard and Poor's.[60] Switzerland's government-backed bonds - since 1991, the Swiss government has helped to build, then backed a potential bond issuing co-operative. This created a new market for bonds and drove down mortgage interest rates for affordable rental housing in Switzerland.
Sustainability/long-term predictability of funds - can be achieved through setting milestones	UK City Deals[61] – milestones are part of funding deals and if they are not met it means the next tranche of cash could be held back. The UK now has its own dedicated evaluation panel for City Deals. Social policy bonds as a mechanism to achieve policy objectives with indefinite horizons. A government would issue a bond on the financial markets, promising to redeem it at a specific price whenever the specified policy objective is achieved (Horesh, 2000).

[58] 'Aggregate bonds and Scott Morrison's proposal to boost affordable housing'. Retrieved 2 August 2017, http://www.abc.net.au/news/2017-03-10/scott-morrisons-affordable-housing-proposal-looks-to-the-uk/8342504
[59] Ibid.
[60] Affordable Housing Finance Plc. Retrieved 4 August 2017, from https://www.thfcorp.com/investing-and-borrowing/affordable-housing-finance
[61] http://governmentnews.com.au/2017/03/26709/

Government policy reforms - disproportionate flow back - while cities drive growth, the income and tax receipts from this goes mainly to the state or federal government, while cities are stuck with the problems stemming from growth, like congestion, pollution and a shortage of affordable housing.	UK City Deals – the UK Government committed to removing barriers to cities' growth plans by providing funding and transferring to each city the ability to make decisions relevant to that city. Tax privileged saving deposit system for affordable housing. Property developers have noted that the current negative gearing regime, capital gains tax concessions, the need to amend the Tax Act Division 6C property public trading trust definitions to classify apartments as assets for operating income and not capital growth, and changes to land tax arrangements are required to make the build-to-rent market a viable option for Australia[62].
Current Australian policy settings affecting supply (capital investment, planning provisions) and rent assistance are too weak and uncertain.[63]	Australian City Deals[64] – these city deals will cut down the funding complexities and will give cities direct access to central government decision makers, which in turn will help them secure funding and support from other government departments. Tax incentive schemes such as the Low Income Housing Tax Credits (LIHTC) program in the US create incentives to develop affordable housing by offering developers annual taxation subsidies for a given period of time, on the condition that the dwelling meets the affordability requirements of the scheme.
Lack of innovative funding or financing approaches	Shared equity loans, bond aggregator models, super fund/pension fund investment. The Housing Choice Voucher Program and Project-Based Vouchers. Rental assistance demonstration, built-to-rent models.

[62] 'Could built to rent model solve our affordable housing woes'. Retrieved 12 August 2017, https://sourceable.net/could-the-build-to-rent-model-solve-our-affordable-housing-woes/

[63] 'Aggregate bonds and Scott Morrison's proposal to boost affordable housing'. Retrieved 2 August 2017, http://www.abc.net.au/news/2017-03-10/scott-morrisons-affordable-housing-proposal-looks-to-the-uk/8342504

[64] Ibid.

5. Glossary

AHF	Affordable Housing Finance
AHFA	Australian Housing Finance Aggregator
AHFC	Affordable Housing Finance Corporation
AHGS	Affordable Housing Guarantee Scheme
AHURI	Australian Housing and Urban Research Institute
BHC	Brisbane Housing Company
CCFFR	Commonwealth Council on Federal Financial Relations
CEHL	Common Equity Housing Limited
CHP	Community Housing Providers
CLT	Community Land Trusts
CMHC	Canada Mortgage and Housing Corporation
CRA	Commonwealth Rent Assistance
ENHR	European Network of Housing Researchers
FHA	Federation of Housing Associations
HACT	Housing Associations' Charitable Trust
HCA	Homes and Communities Agency
HFH	Homes for Homes
HOPE VI	Housing Opportunities for People Everywhere
HPET	Housing Partnership Equity Trust
LIHTC	Low Income Housing Tax Credit
MIT	Managed investment trusts
NAHC	National Affordable Housing Consortium
NAHSPP	National Affordable Housing Specific Purpose Payment
NFP	Not-for-profit
NHC	National Housing Conference
NHFIC	National Housing Finance and Investment Corporation
NHHA	National Housing and Homelessness Agreement
NHIF	National Housing Infrastructure Facility
NPAH	National Partnership Agreement on Homelessness
NPARIH	National Partnership Agreement on Remote Indigenous Housing
NPRH	National Partnership on Remote Housing
NRAS	National Rental Affordability Scheme
PHA	Public housing agencies
PPP	Public Private Partnership
PRBP	Private Rental Brokerage program
REIT	Real estate investment trusts
SAHF	Social and Affordable Housing Fund
SIB	Social impact bond
SPV	Special purpose vehicle
SVA	Social Ventures Australia
TERLS	Tax-exempt residential letting schemes
THFC	Housing Finance Corporation
VAT	Value Added Tax

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