



‘SAFE AS HOUSES’

INTRODUCING HOUSING SUPPLY BONDS

The Greens’ plan to finance a boost in the supply of social and affordable housing

Australia’s social housing system is under increasing pressure from growing demand and chronic underinvestment. The Greens advocate a safe, innovative housing bonds instrument to unlock and channel billions of dollars in new investment into the supply of affordable rental housing.

Australia’s chronic undersupply of affordable rental housing is at a crisis point. Years of underinvestment and a housing market that is now one of the most unaffordable in the world mean that more than ever before we need strategic ways to channel and lower the cost of private investment into affordable rental housing¹.

Too many Australians are under increasing housing pressure and as a caring society we should be focusing on creating a greater supply of affordable housing.

The Greens believe it’s time to harness the innovative and responsible funding mechanisms available in other countries including the UK, USA, France, Canada, Austria and the Netherlands that provide a stable and cost effective way of funding social housing and growing the affordable housing sector.

The current time presents a great opportunity to consider a new dedicated financial mechanism to boost supply of affordable rental housing and form the basis of a ‘growth fund’ that would allow the social housing sector to grow at the scale it needs. It would also allow superannuation funds and other investors an entry point to the affordable housing industry.

A number of Australia’s eminent researchers and housing economists through the Australian Housing and Urban Research Institute (AHURI) and RMIT and UNSW have put forward a model that suits Australian conditions and is strongly supported by housing experts, peak bodies, and welfare agencies alike.

The Greens’ proposal for “Safe as Houses” Affordable Housing Supply Bonds demonstrates that a relatively modest government investment of \$25 million could raise \$2 billion in bonds - enough to finance the construction of 7,200 new homes in a year. The cumulative cost would be \$145 million over the forward estimates.

Based on the proposal developed by the Australian Housing and Urban Research Institute, the bonds scheme would include

- **Zero interest social housing growth bonds** – a long term revolving loan to non-profit housing organisations;
- **Tax smart housing supply bonds** – a long term fixed term fixed interest bond with a tax incentive (indicative 6% tax discount) to appeal to retail investors; and
- **AAA Housing Supply Bonds** – a fixed interest, long term AAA rated (government guaranteed) bond with an indicative 5% return to appeal to institutional investors such as super funds.

An independent financial intermediary, the Australian Affordable Housing Finance Corporation, will be established to further develop the proposal in consultation with all relevant stakeholders, including government, and would have responsibility for issuing the bonds and loans as part of the scheme. We would provide \$40 million over 4 years from 1 July 2014 to establish the intermediary.

The proposal is also based on the continuation of the National Rental Affordability Scheme (NRAS).

¹ Lawson, Milligan and Yates (2012) Towards cost effective private financing of affordable rental housing. Housing Finance International. Summer 2012. p25-31



> AFFORDABLE HOUSING SUPPLY BONDS

Bonds are a straightforward, long term financial instrument. 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.

> WHAT WOULD IT COST?

The independent Parliamentary Budget Office has costed an Affordable Housing Bonds scheme based on the AHURI proposal with the following parameters:

- The capital required to build 7200 new homes per annum to be largely met through private investment
- A total of \$2.035 billion of housing supply bonds to finance the construction of 7,200 homes per annum
- 10 per cent of the scheme's financing to be provided by the social housing growth bond, 20 per cent from the tax smart housing supply bonds and 70 per cent from the AAA housing supply bonds

The Parliamentary Budget Office has indicated the cost to Government to provide the bonds would be \$25 million in the first year and \$145 million over the forward estimates.

Cost type:	2014-15	2015-16	2016-17	Total
Administered expense	-20	-30	-50	-100
Revenue (foregone tax revenue)		-10	-20.0	-30
Departmental expense	-5	-5	-5	-15
(\$m)	-25	-45	-75	-145

The costings assume two thirds of the housing will be 'better than six star' conventional dwellings for up to \$350,000 each. One third will be prefabricated or alternative materials, at up to \$150,000 per dwelling.

> SHOWING LEADERSHIP

It is economically and socially responsible to invest in an adequate supply of affordable rental housing. Yet Australia's social housing sector is one of the smallest in the developed world and the chronic undersupply of affordable housing is one of Australia's most persistent problems.

- New supply has not been able to keep up with growing demand, especially for affordable rental housing
- The proportion of social housing has fallen markedly, and there are 225,000 applicants on social housing

waiting lists, many waiting between 2-10 years for a home

- There is increasing pressure on rental markets and clear evidence of market failure
- Cities are becoming more socially polarised
- There are growing and well documented shortages of housing, particularly affordable rental houses².

Business as usual will not fill these gaps or allow the great potential of the non-profit housing sector in Australia to be realised.

National leadership is needed to show a long term commitment to both increase the supply and secure investor interest in affordable rental housing. This could be easily demonstrated by promoting and backing investments in social infrastructure with government acting as an enabler and investment partner. This initiative will also create jobs in the construction sector and drive economic activity³.

Introducing Housing Supply bonds is a strong and strategic action to channel lower cost institutional investment to appropriate and well regulated housing managers, such as not-for-profit community housing providers that meets the housing needs of lower income households.

> WHY BONDS?

Australia currently has an unsophisticated and inadequate approach to funding affordable rental housing.

Core funding has been in decline over the last 15 years, and we spend significantly more on demand subsidies for housing rather than for supply. In terms of 'investment' into rental housing, the government has largely left it to the private and speculative investor market to provide long term affordable tenancies: a paradox in terms. Australia's private rental market is one of the most expensive in the world, and offers the less secure and more costly housing conditions than most OECD countries⁴.

Research demonstrates most private investment is in existing buildings rather than new dwellings, and in higher value rather than affordable housing. Investors compete with first home buyers or less wealthy purchasers. As landlords, investors are

² See for example Lawson, Milligan and Yates (2012) Housing Supply Bonds – a suitable instrument to channel investment towards affordable housing in Australia? Australian Housing and Urban Research Institute (AHURI). AHURI Final Report no. 188

³ The NRAS scheme for example has provided the 'missing link' in the viability of many housing developments and acted as an extra-cyclical stimulus for the construction industry. See Community Housing Federation of Australia (I2013). National Rental Affordability Scheme. Participant Roundtables Nov-Dec 2013. Final Report. February 2013

⁴ Wulff, Reynolds, Dharmalingham, Hulse and Yates (2011) cited in Lawson (2012) Housing supply bonds and attracting institutional investment. *Around the House* no 91. Shelter NSW. December 2012. p9-12



driven to realise their investment and not to provide a long term public service – and ‘churn’ properties in and out of the market which adversely impacts on tenants⁵. Research has shown 25% of tenancies are terminated due to sale in the first year⁶.

Australian banks are also part of the problem. They will not provide finance to affordable housing developments, for dwellings smaller than 50sqm and are only willing to provide limited funds to non-profit housing organisations. Private finance also has a high cost.

There is also a lack of large scale institutional investment in affordable housing in Australia. Yet there is great opportunity to attract investment from Australia’s large institutional investors, including superannuation funds which hold \$1.3 trillion (\$1300 billion) in funds – a sum that will grow to \$3.2 trillion by 2035⁷.

There has been growing interest in developing bond instruments to attract private investment in order to deliver a range of goods and services, and to expand the corporate bond market in Australia⁸. Infrastructure bonds for example were recently proposed by a coalition of 10 peak bodies including the Property Council and the Australian Conservation Fund in the ‘New Deal for Urban Australia’⁹.

More recently the potential for housing supply bonds to attract private investment into non-government not for profit sector has been the subject of a number of reports, inquiries and campaigns¹⁰.

In 2010 the Productivity Commission report on the not for profit sector highlighted that a lack of access to private capital and the absence of financial intermediaries was hindering the sectors’ development. In 2011 the Senate Economics References Committee inquiry examined the barriers and options available to develop a mature capital market for Australia’s social economy.

In a nutshell, housing supply bonds are a new investment asset class that allow both institutional and retail (‘mum and dad’) investors to contribute to affordable housing by buying a simple bond.

Bonds are designed to reduce the cost of finance to the community housing providers, and to attract larger volumes of

appropriate investment, under improved terms and conditions to those that currently exist in order to increase the supply of high quality, secure and affordable rental housing.

> THE BONDS PROPOSAL

The Affordable Housing Supply Bonds proposal is based on the model outlined in two consecutive reports by the Australian Housing and Urban Research Institute (AHURI) which described international measures to channel investment towards affordable housing and how these might apply in the Australian context¹¹. In developing the model AHURI consulted with bond investors including super funds in developing the instruments. In particular they looked at successful practice in Austria, and conducted extensive industry consultation on the design of a suitable bonds instrument for Australia, tailored to local conditions.

A recent report and investigative panel initiated by the Housing Ministers’ Advisory Committee shows institutional investors have considerable interest in the proposal and support the bonds concept. The research also emphasises the importance of certainty of funding for supply of affordable housing, something that has been lacking in the NRAS program for example¹².

Many prominent housing and welfare peak bodies support the model put forward by AHURI and are now calling for the introduction of affordable housing bonds. This includes the Salvation Army¹³, National Shelter¹⁴, the McKell Institute¹⁵ and the prominent ‘Australians for Affordable Housing’ coalition, representing over 60 national housing, welfare and community sector organisations¹⁶. The proposal has attracted considerable interest from key stakeholders, in particular pension funds.¹⁷

¹¹ See Lawson, Gilmour and Milligan for AHURI (2010); and Lawson, Milligan and Yates (2012) Lawson et al (2012), Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia? AHURI Final Report No.188, Australian Housing and Urban Research Institute, Melbourne, 2012.

¹² Milligan, Yates, Weisel, and Pawson (2013) *Financing rental housing through institutional investment – Volume 1: outcomes of an investigative panel, and Volume 2: supplementary papers*. AHURI Final Report No. 202. Melbourne: Australian Housing and Urban Research Institute. At

<http://www.ahuri.edu.au/publications/projects/p71016>

¹³ The Salvation Army (2010) Statements for the Federal Election recommended government consider the concept of affordable housing bonds as a way to provide low-cost housing and related infrastructures development.

¹⁴ The National Shelter Policy Platform (2012) recommends the creation of vehicles such as unit investment trusts (in which investors can invest in the overall, fund instead of in individual properties) and Affordable Housing Bonds for attracting and managing institutional investment in rental Housing.

¹⁵ http://mckellinstitute.org.au/wp-content/uploads/2012/04/Mckell_HomesForAll_A4.pdf

¹⁶ Australians for Affordable Housing (2012) Addressing Housing Affordability in Australia: A 4-point plan for the next five years.

¹⁷ Australia’s largest industry superannuation fund, Australian Super, has backed a proposal for government-guaranteed housing supply bonds which it says could bring billions of dollars into the ailing not-for-profit social housing sector.” reported in Australian Financial Review, 31 May 2012, see

http://afr.com/p/business/property/super_funds_could_back_cheap_homes_FHNt4F2w7uHhec8DfjmGN

⁵ Wood and Ong (2010) Factors shaping the design to become a landlord and retain rental investments. Final Report 142. AHURI. Melbourne, cited in Lawson, Milligan and Yates (2012)

⁶ Wood and Ong (2010)

⁷ Lawson, Milligan and Yates (2012)

⁸ Lawson, Milligan and Yates (2012)

⁹

http://www.acfonline.org.au/sites/default/files/resources/ACF_A_New_Deal_for_Urban_Australia_report.pdf

¹⁰ Lawson, Milligan and Yates (2012)



The bonds proposal the Greens advocate draws on AHURI's research and has been refined in collaboration with the researchers to a more modest level that could be scaled up over time¹⁸.

The model put forward is based on a suite of three bonds which include:

1. **'Zero interest' public bond issues**
2. **A tax incentive** on 'retail' investor bonds
3. **Guaranteed (AAA equivalent) bonds** suitable for institutional investors

Each bond type is described below (Table 1).

Bond type	Description	Investor segment
'Zero interest' housing growth bonds	These loans would be allocated on a transparent and competitive basis to registered non-profit community housing organisations for approved development proposals. These are long term revolving public loans to registered non-profit housing organisations. The loans would make up 10% of the financing.	Governments
'Tax smart' housing supply bonds	A fixed term, fixed interest long term bond with a tax incentive (an indicative 6% tax free coupon). The returns generated would be tax free, the bonds are assumed to earn about 6% per year. These bonds are assumed to make up 20% of the financing.	Retail ('mum and dad') investors, highly taxed private investors and private fund managers. (30-48% tax rate).
'AAA' housing supply bonds	A fixed interest, long term government guaranteed bond (an indicative 5% coupon). Providing a government guarantee reduces perceived risk and is attractive to fixed income portfolios of super funds. The bonds provide senior loans in approved co-financed projects. These bonds are assumed to make up 70% of the financing.	Institutional investors such as super funds and insurance funds (15% tax rate).

Table 1: Summary of Affordable Housing Supply Bonds suite
(Adapted from Lawson [2012] and Lawson, Milligan and Yates, [2012])

¹⁸ The model proposed is a scaled down version of a model described by AHURI (2012) in which it was demonstrated, through research and extensive consultation that government investment of \$90 million a year could leverage \$7 billion of private investment into affordable rental housing, enough to fund 20,000 new dwellings. To issue bonds over five years would cost 1.4 billion and leverage \$35 billion worth of investment into the affordable housing sector¹⁸ See Lawson et al (2012); Lawson et al (2010); and Lawson, Milligan and Yates (2012)

> WHAT ARE THE BENEFITS?

The housing supply bonds model could substantially increase the supply of affordable rental housing, promote stability in the residential construction sector and promote innovation in medium density manufacture and design. All these outcomes underpin more sustainable patterns of economic growth, urban development and improve access to affordable housing.

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, support 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.

> OTHER PARTIES

Labor has made some recent efforts on the provision of affordable housing but they have not been at the scale or over the long term needed. The social housing initiative in 2009 funded 19,200 new social housing dwellings but has now ceased. The National Rental Affordability Scheme (NRAS) introduced in 2008 offers tax credits for supply of 50,000 new rental dwellings that are leased at below market rates, and has been a great success, with the last two rounds oversubscribed. It has generated interest from individual investors but is yet to attract large scale institutional investment. This is mostly due to a lack of commitment to a longer term, permanent scheme, and ongoing administration problems and delays in the scheme.

The Coalition have not yet released a housing policy.

The Australian Greens acknowledge the important research conducted by the Australian Housing and Urban Research Institute (AHURI) and in particular the research undertaken by RMIT and UNSW researchers Julie Lawson, Vivienne Milligan and Judith Yates on Housing Supply Bonds.