

Social Housing as Infrastructure

Emerging Investment Pathways

Julie Lawson, Centre for Urban Research
RMIT University

With contributions from
Kathleen Flanagan, UTAS
Jago Dodson, RMIT & Hal Pawson, UNSW

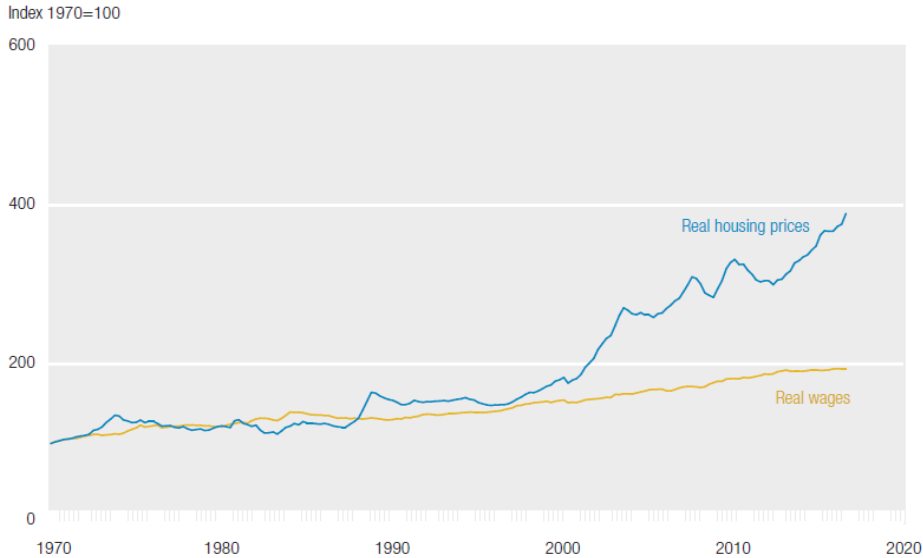
Social Housing as Infrastructure Inquiry Team

Presentation overview

1. Current situation
2. The characteristics of infrastructure
3. International approaches and applications
4. Informing a more effective investment pathway

1. Current situation

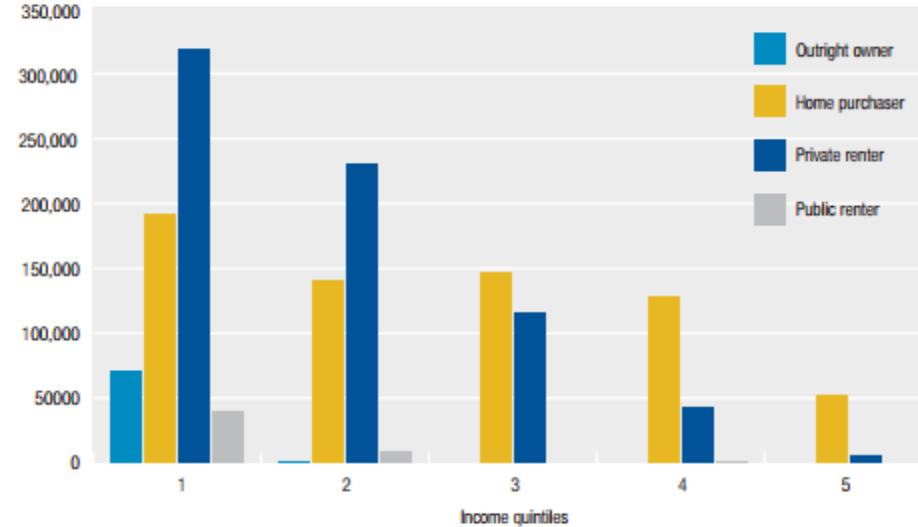
REAL HOUSING PRICE AND WAGE INDEXES: AUSTRALIA, 1970–2016



Source: Treasury, ABS; CPI adjusted.

In Leishman (2017) Housing Australia, CEDA

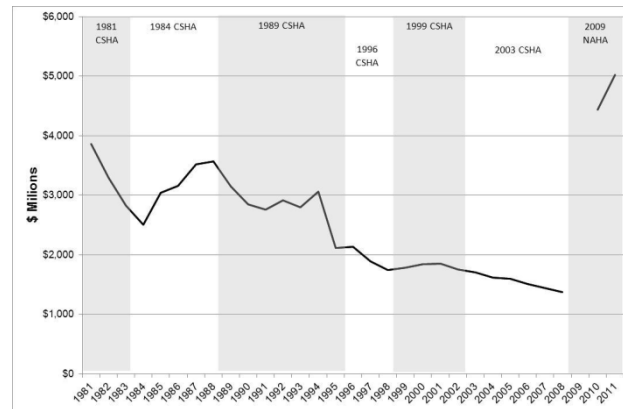
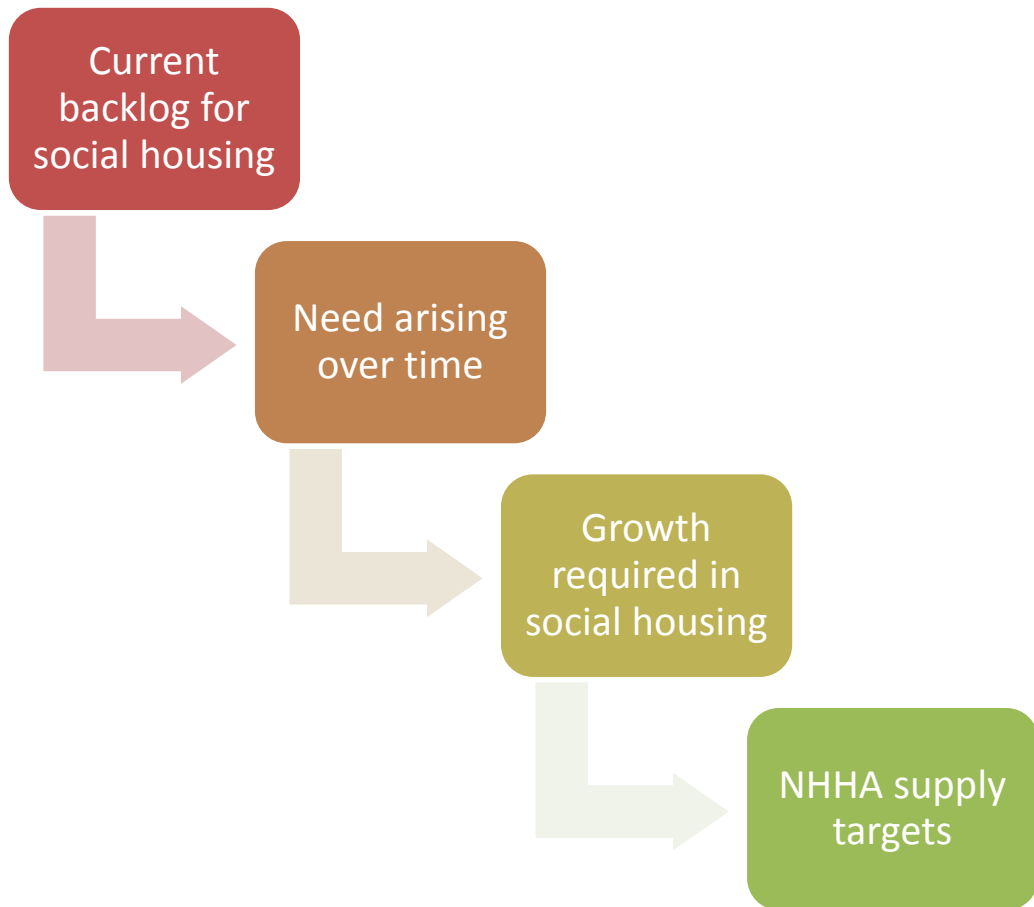
NUMBER OF HOUSEHOLDS PAYING ≥ 30 PER CENT OF INCOME ON HOUSING



Source: ABS Survey of Income and Housing, 2013–14, results derived from ABS Basic CURF data.

Yates (2017) Housing Australia, CEDA

1.1 Addressing substantial backlog and arising need



Source: ABS 2011, *Dwelling Unit Commencements, Australia, Preliminary*, Australian Bureau of Statistics, Canberra

Social Housing Need and Unit Cost 2017-2037

Summary of needs and costs	Addressing backlog of unmet need by 2037			Meeting newly arising needs to 2037		
Type of need, units required and costs (2017)	Unmet need	Average annual dwelling construction	Average annual cost*	Estimated future need to 2036	Average annual dwelling construction	Average annual cost*
Greater Sydney	83,197	4,160	\$1,349.8M	71,471	3,574	\$1,144.9M
Rest of NSW	51,526	2,576	\$601.3M	18,005	900	\$212.2M
Greater Melbourne	87,651	4,383	\$1,415.3M	63,955	3,198	\$1,018.0M
Rest of Vic.	25,948	1,297	\$209.2M	10,374	519	\$83.3M
Greater Brisbane	46,216	2,311	\$557.4M	43,299	2,165	\$525.6M
Rest of Qld	55,901	2,795	\$593.2M	39,178	1,959	\$409.2M
Greater Perth	30,210	1,510	\$400.8M	47,115	2,356	\$626.5M
Rest of WA	8,039	402	\$78.2M	10,289	514	\$101.7M
Greater Adelaide	27,656	1,383	\$290.7M	18,319	916	\$195.0M
Rest of SA	6,717	336	\$40.4M	2,024	101	\$12.1M
Greater Hobart	4,812	241	\$62.4M	2,053	103	\$26.6M
Rest of Tas.	6,023	301	\$48.4M	1,616	81	\$13.1M
Greater Darwin	1,391	70	\$17.3M	1,337	67	\$16.7M
Rest of NT	5,889	294	\$47.7M	5,585	279	\$45.3M
ACT	3,838	192	\$77.2M	5,977	299	\$120.2M
Grand Total	445,013	22,251	\$5,789.3M	340,598	17,030	\$4,550.4M

Preliminary need and cost estimates, assumptions and methodology in Lawson, van den Nouwelant, Pawson (forthcoming)
An Investment Pathway for Social Housing as Infrastructure, Final Report, AHURI

1.2 Current decision making *fit for purpose*?



AHURI Inquiry

Social Housing as Infrastructure

A - UTAS

- What is the justification for defining social housing as infrastructure, alongside other forms of infrastructure?

B - RMIT

- How can a business case approach and cost-benefit framework be established for social housing investment?

C – RMIT/UNSW

- What is the most effective investment pathway to deliver required housing outcomes?

Peer
reviewed
Final
Reports
Online
Q4 2018

2.1 Is social housing *Infrastructure*?

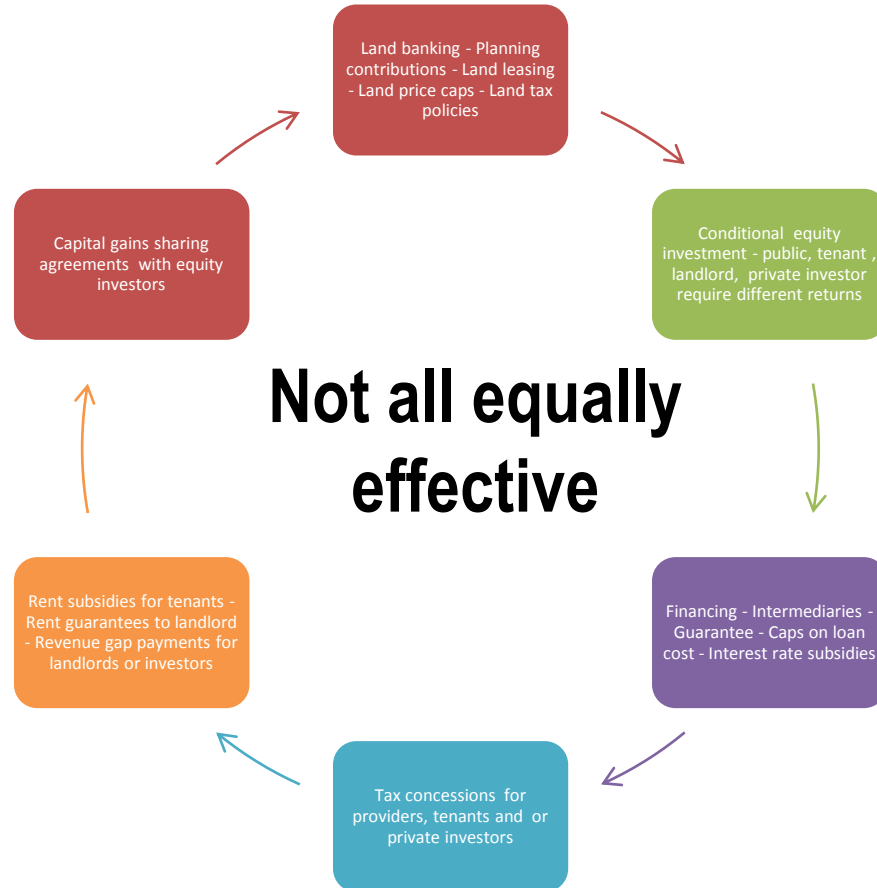
1. **Physical structures** that support a network or system ✓
2. **Intangible services** that support a network or system ✓
3. Addresses **social, environmental & economic goals** ✓
4. Delivers **community service obligations** ✓
5. Can involve **monopoly over essential services** and deliver financial returns also risk ✓
6. Increasingly **delivered by a variety of providers**, not just government but also third and private sectors ✓
7. Ideally performance reinforced by **appropriate regulation and financial reporting** ✓

2.2 Who funds and finances infrastructure?

1. Government, community and consumers
2. Consumers via rents, fares, fees and tolls
3. Long term debt used to finance the assets required
4. Increasingly private funds invest equity for returns

We all do!

3. International and national 'levers'



3.1 Publicly led, mixed funding and private equity investment pathways

England's growing financialisation of social housing sees public investment decline but low supply has led to new funding, Council building and guarantees. REITS slowly emerge on SH market.

Finland's mixed model combines grants, interest rate subsidies and guarantees with cost effective finance for regulated social housing

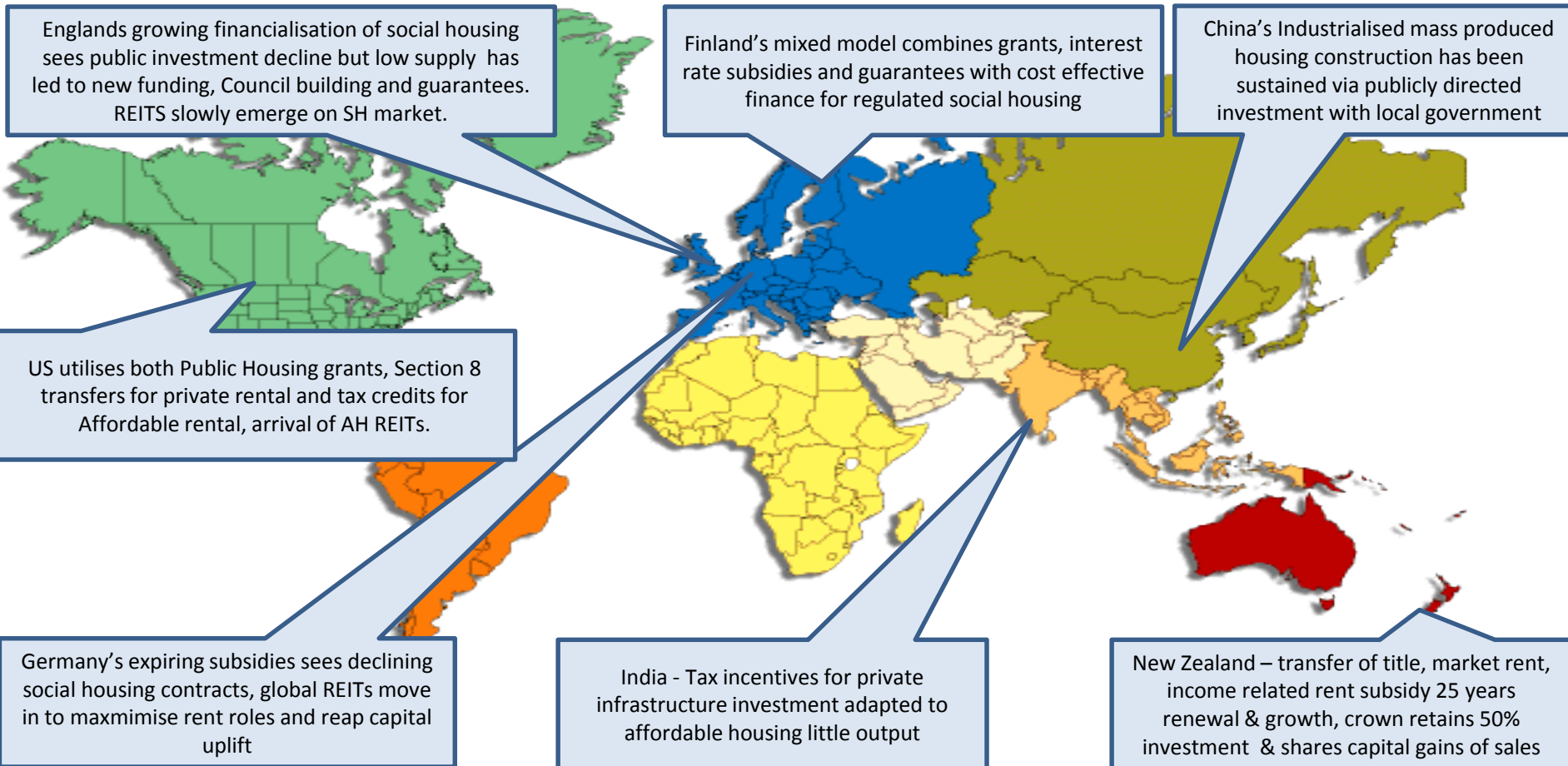
China's Industrialised mass produced housing construction has been sustained via publicly directed investment with local government

US utilises both Public Housing grants, Section 8 transfers for private rental and tax credits for Affordable rental, arrival of AH REITs.

Germany's expiring subsidies sees declining social housing contracts, global REITs move in to maximise rent roles and reap capital uplift

India - Tax incentives for private infrastructure investment adapted to affordable housing little output

New Zealand – transfer of title, market rent, income related rent subsidy 25 years renewal & growth, crown retains 50% investment & shares capital gains of sales



3.2 Finland - *not just dreaming, doing well*

Best housing outcomes in Europe

Addressing homelessness

Youth independence

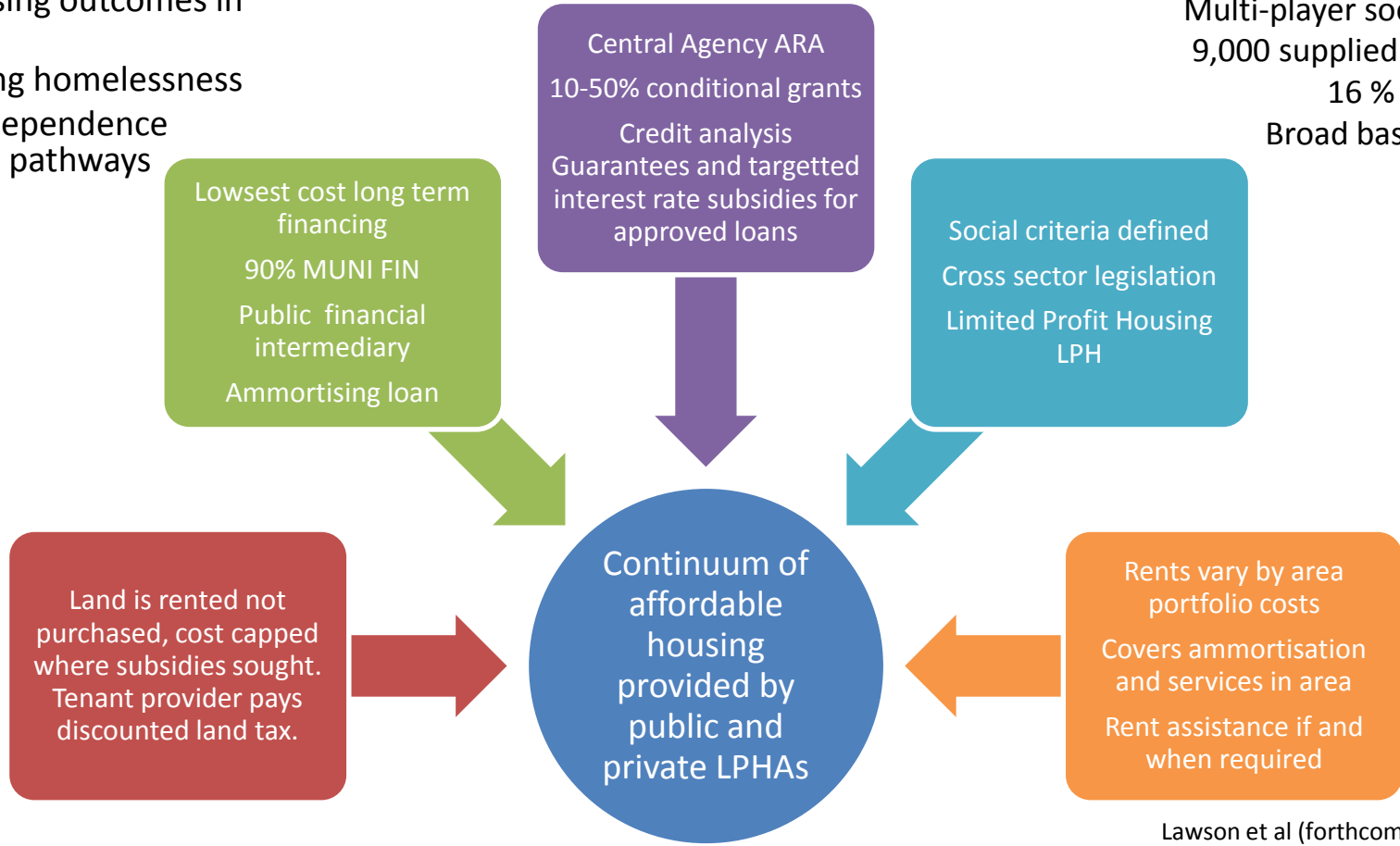
Providing pathways

Multi-player social sector

9,000 supplied p.a (22%)

16 % of market

Broad based access



3.3 'U turn' on public investment?

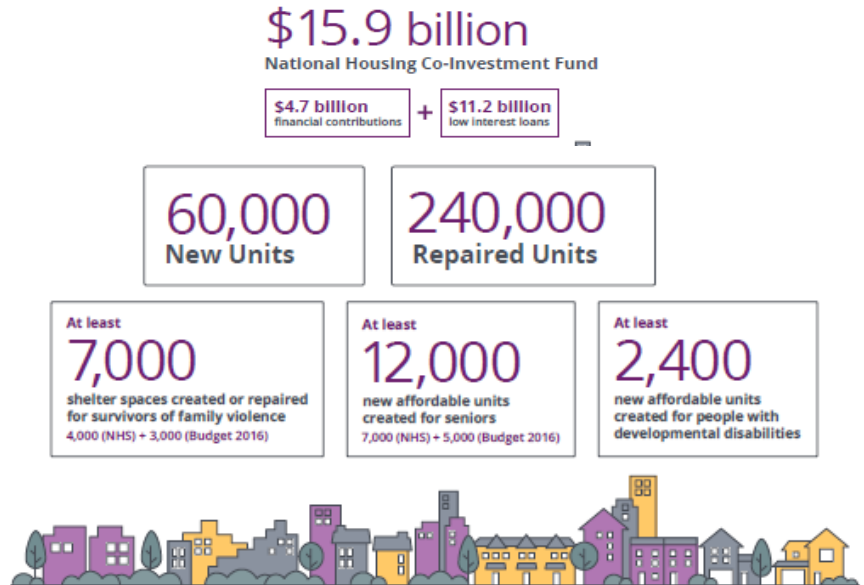
UK – £15.3 (AU\$26.7) billion 3 years

- Increased capital investment in affordable and social housing for areas of greatest need to £9 (AU\$15.7) billion
- NfP and Councils to compete for funds
- Lifting public borrowing caps to LGs
- Strengthening planning powers to intervene in land markets
- Regional and small site plans
- Guarantees to support builders access finance
- Co-fund 5 new 'garden towns'
- Housing Infrastructure Fund
- Loans for estate regeneration

UK Autumn Budget, November 22, 2017

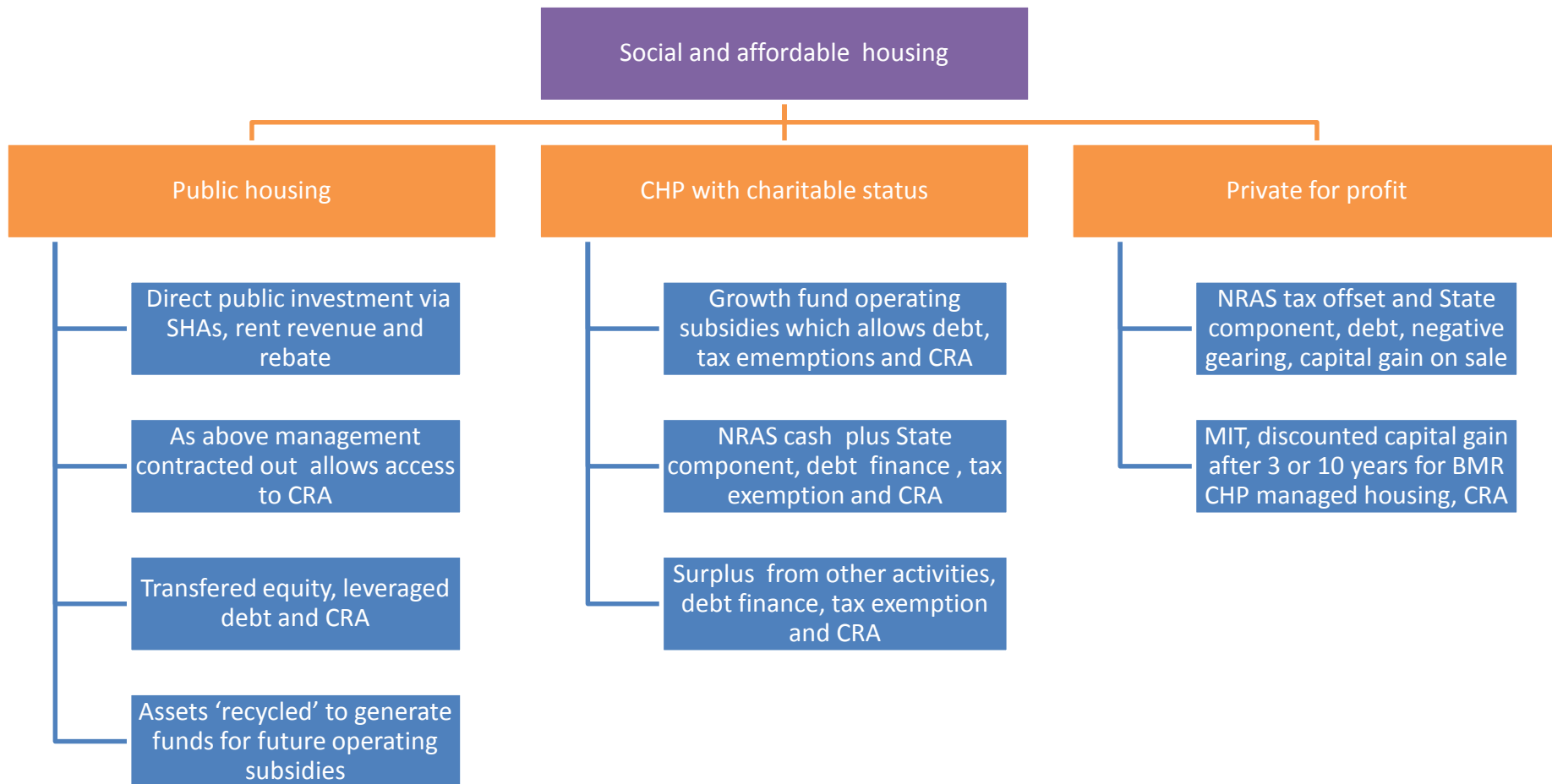
Canada \$40 (AU\$ 41.3) billion 10 years

- Federal government returns to invest



National Housing Strategy November 22, 2017

3.2 Current Australian provision pathways – an effective mix for growth?

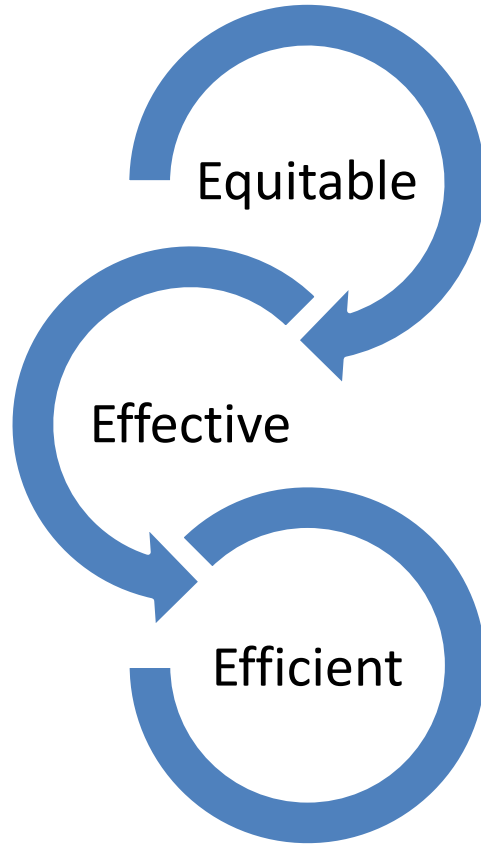


4. Informing an effective investment pathway



4.1 What principles should guide an investment pathway?

- Increases opportunities for access to decent standard to those who need it
- Improves condition of existing stock
- Builds provider capacity to deliver
- Stable and robust in adverse markets
- Sustains long term political commitment
- Furthers related policy goals: economic stability, socio-spatial inclusion, low energy/carbon use, innovation in construction methods.



- Steer resources to address unmet and arising needs
 - Enables development in areas of opportunity (horizontal equity)
 - Delivers greatest subsidy to greatest need (vertical equity)
 - Fair allocation of risks (vertical equity) to those who can manage them
-
- Reduces waiting times for housing
 - Reduces cost of capital
 - Acceptable impact on other forms of indirect and direct subsidy across jurisdictions
 - Appropriate distribution of risks and contingent liabilities
 - Efficient use of time and human resources (including management fees and specialist services)

4.2 Translating KPIs into measurable elements

Cost Element	Key performance indicator	Need to assess
Cost effectiveness	<ul style="list-style-type: none"> Maximum delivery of social housing, at benchmark standard and cost. 	<ul style="list-style-type: none"> Clarify all costs to government, both direct and indirect and ascertain their contribution to the supply and quality of social housing dwellings produced.
Cost reducing	<ul style="list-style-type: none"> Minimal financing costs for social housing delivered at benchmark standard and cost 	<ul style="list-style-type: none"> Impact of financing costs on overall unit costs, commensurate with the risks and comparable with the cost of public finance
Rent reducing	<ul style="list-style-type: none"> Financing model places minimal pressure on tenants' rents 	<ul style="list-style-type: none"> Impact of funding and financing on rent levels and the indexing of rents, at an individual, project and provider level. Impact of financing on rent assistance demanded
Equitable	<ul style="list-style-type: none"> Optimize allocation of available subsidies to benefit lowest income households and those with complex needs. 	<ul style="list-style-type: none"> Greatest allocation of direct and indirect subsidies to address greatest need: deeper subsidies for complex needs, shallower subsidies for less complex needs.
Appropriate risk allocation	<ul style="list-style-type: none"> Appropriate and fair allocation of risk across key players: government, providers, investors and tenants. 	<ul style="list-style-type: none"> Risks allocated appropriately and managed to reduce financing costs and improve housing outcomes. Rate of return commensurate with investor risk.
Impact on public finances	<ul style="list-style-type: none"> Allocation from government budget is predictable, stable and affordable for government over time 	<ul style="list-style-type: none"> Cost to government well defined, stable able to be anticipated and agreed on by government. Protects health of public finances.
Robustness	<ul style="list-style-type: none"> Mechanism maximises economic and financial stability and moderates volatility. 	<ul style="list-style-type: none"> Ability to provide appropriate levels and costs of finance in adverse market conditions
Feasibility	<ul style="list-style-type: none"> Mechanism attracts long term political and stakeholder support. 	<ul style="list-style-type: none"> Contributes to social housing policy objectives. Supported by peak industry bodies, providers, administrators and governments.
Effective delivery	<ul style="list-style-type: none"> Optimised application of professional and industry standards in delivery. 	<ul style="list-style-type: none"> Reinforces adherence to regulations, best practice and promotes ongoing improvements in social housing management
Enhances capacity	<ul style="list-style-type: none"> Maximum professional standards of delivery of social housing under given finance arrangements 	<ul style="list-style-type: none"> Conditions of finance reinforce performance of registered providers. Subsidies require providers to adhere to applicable standards. Supports preferred housing

4.3 Modelling *effective* alternatives

- Build on latest research on needs and most effective investment pathways
- Minding the gap – allocation and returns
- Clarify and model costs December to April 2018
- Inquiry Panel July 2018
- Draft Final Report & Peer Review August 2018
- Publication online October 2018

Follow AHURI



Twitter
@AHURI_Research



Facebook
Search “AHURI”



Subscribe to **AHURI news** via the
website



ahuri.edu.au

Putting together the building blocks

