Super Solutions

Tackling Australia's Housing Affordability and Supply Crisis

Nick Dyrenfurth and Dominic Meagher

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Executive Summary

More Australians are experiencing housing stress than ever before, whether they rent or are repaying mortgages.

The ramifications are severe and widespread. This challenge has attracted the attention of ordinary Australians, all levels of governments, various housing stakeholders, and superannuation funds, who manage over $3 trillion of savings on behalf of Australians. It makes sense that we should be able to invest national savings to solve a national crisis. Yet, in practice, there are many obstacles. Some are regulatory, others relate to how institutional investors can best invest in housing that generates the most effective social impact while also delivering good financial returns.

Efforts to solve these problems have inspired a range of solutions. For instance, Build-to-Rent (BTR) and community housing developments help increase the supply of rental properties in key demand areas. From an investor perspective, acknowledging development exposure and associated risks, they have the potential to generate relatively fixed returns at low-risk post-development.

Other investments incorporate Build-to-Rent-to-Own (BTRO), where long-term renters are able to take an option to buy their home after a certain number of years, retrospectively transferring rent payments to the purchase cost, and avoiding the wicked problem of putting together a deposit to buy a property in the traditional market and equally wicked set of challenges facing policymakers and stakeholders in facing the complex, immense challenge of making housing more affordable.

Some of these developments have been accompanied by 'affordable' or 'essential worker programs' that offer 20 per cent discounts on rent to workers in certain fields of employment. The aim of these programs is to ensure that people who perform essential services – and cannot work from home – are able to live near where the services are performed and needed. The alternative could be that those essential services become unavailable. In other cases, subsidised rent is offered to people in low-income groups, to ensure people are not automatically priced out of particular geographical areas.

What is BTR?

BTR describes a business model where a residential property investor intends to become the manager or operator of a residential building. This contrasts with the more familiar build-to-sell (BTS) model where individual dwellings are sold separately, to 'Mum and Dad' investors or owner-occupiers.

BTR complexes are usually held by single owners as a long-term income-generating asset with individual dwellings rented at market rates. This business model can suit institutional investors that treat the asset as a long-term reliable income stream. We discuss BTR in more detail in part 1 of this report.

What is BTRO?

BTRO is a new twist on BTR. This model offers tenants a pathway to ownership. For instance, after five years of renting, tenants may be offered an option of buying at the end of the lease. This can be secured by paying a refundable amount of one per cent of the purchase price. The rent and purchase price are both agreed up-front, giving renters stability while they save over the lease period.

The National Housing Finance and Investment Corporation (NHFIC), soon to be known as Housing Australia, offers a different solution: social impact bonds. These are bond issuances that institutional investors can subscribe to. From the investor's perspective, they offer a fixed rate of return for a set number of years. The capital raise is then loaned at discounted rates to registered Community Housing Providers (CHPs). CHPs are a form of social enterprise property developer/operator – they develop and manage housing projects for low income or essential service providers. Several Australian superannuation funds have subscribed to these bond issuances; however, the total number of homes provided this way is not yet close to satisfying housing needs. The issuances tend to be over-subscribed, meaning there is more interest from investors than there are well developed proposals to make use of the funds. The development-side seems to be the bottle neck, at least in recent years.

Some super funds have taken the next step, establishing their own housing development corporations in partnership with experienced developers and government agencies. They take direct equity in a developer, or even sole ownership of a project with the potential to access favourable regulatory or tax arrangements in exchange for developing projects that meet certain social needs.

There are a range of options available to institutional investors seeking to apply their financial resources to helping solve one of Australia's most intractable investment problems. Capital alone is not enough: solving the problem will take investors, developers, governments (commonwealth, state and local) and communities working in collaboration to ensure housing supply meets the affordability needs of households, communities, and investors alike. Super funds are strongly supportive of investing in 'nation-building' assets and seek opportunities to contribute to the communities through appropriate investment, focused on delivering fair long-term returns.

Further consultation with super funds is needed on the benchmarking of unlisted investments, in particular infrastructure assets, to appropriately benchmark investments. The risk of maintaining measurement against indexes that may not appropriately represent the scope of superannuation fund investments is that funds may reconsider investment in these assets, as the risk of failure of the test is considerable.[1] That said, proposed new commonwealth legislation around purpose-of-super, may obviate super fund concerns: that “the objective of super is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way” with, in the Treasurer’s words, an aim to “elevate and broaden” the super sector’s role in the economy.[2] In tandem it is mooted that superannuation tax concessions worth $53 billion could be overhauled in the May budget, in addition to the moves blocking early access to retirement savings above.[3]

'Your Future, Your Super' (YFYS) and Superannuation Industry (Supervision) Act 1993

Our housing affordability and supply recommendations below and elaborated in the concluding section must be tailored to align with Australian Prudential Regulation Authority’s (APRA) Annual ‘Your Future, Your Super’ (YFYS) performance test (whereby APRA is required to conduct an annual performance test for MySuper products).[4] The current benchmark included in the YFYS test does not include the Australian residential sector, which may inhibit investment in affordable housing. This will require further consultation with super funds around benchmarking, in particular infrastructure assets, to avoid the risk of failure of the test. As of the report’s release the commonwealth government has released the review into ‘Your Future, Your Super’, signalling that it will fine-tune the performance test and prospectively increasing the testing period from eight to ten years to encourage longer-term investment decisions and calibrating key benchmarks to ensure that funds are not unintentionally discouraged from investing in certain assets, with benchmarks to be updated for the 2023 testing period. However, super funds’ ‘Best Financial Interest Duty’ obligations will remain in their current form.[5] Then there is Section 52 2 of the Superannuation Industry (Supervision) Act 1993 which outlines the duty of super fund trustees “to perform the trustee's duties and exercise the trustee’s powers in the best interests of the beneficiaries”.[6]

To make this possible, we offer the following six point ‘Super Solution’ recommendations to alleviate housing affordability and supply issue elaborated in more detail in Part 4 of this report:

1. To encourage institutional investment and bridge the affordable housing price gap:

   a. Housing Australia (HA) should design, implement, and track a long-term national housing strategy, which includes a role for institutional investors, a plan for a far more ambitious Housing Accord and a regional and middle-to-outer suburban affordable housing construction program, with mandatory inclusionary zoning for affordable housing. HA should identify priority sites in both regional and metropolitan locations, with minimum affordable housing requirements (20-30 per cent).

b. HA should include permanent representation from industry superannuation funds and community housing peak bodies, drawing on their financial expertise and gaining valuable insights about the housing needs of its membership.

c. The Commonwealth should consider introducing targeted tax credits for meeting yield returns for institutional bond issuance investment in new dwelling builds.

d. In terms of other forms of government intervention to bridge the return gap for institutional investors, another option is governments should guarantee a minimum income return and/or provide capital grants to institutional equity investors over the life of the investment.

2. Housing Australia, as part of its national housing strategy, should establish a national definition of essential workers, eligible for affordable housing, which reflects the realities experienced during and after Covid lockdowns. Employees working in retail, services and cleaning are essential workers, and they should be incorporated into the consistent national charter we argue.

3. All levels of government must cooperate to facilitate significant institutional investment in housing, including through supply-side regulatory, tax and zoning reform.

4. Housing Australia should establish guidelines for a national charter of renter's rights and responsibilities. Germany is the country which Housing Australia can seek to emulate.

5. Housing Australia and other stakeholders must expedite the creation of a housing-specific national Environmental Social Governance framework and establish mandatory reporting standards for all developers to enforce ESG compliance to better inform investment decisions and incentivise ESG-aligned housing stock.

6. Increase in Commonwealth Rent Assistance (CRA) by 40 per cent.

Foreword

Vicki Doyle, CEO Rest Super

Foreword

Vicki Doyle,
Chief Executive Officer, Rest

Rest is one of Australia's largest profit-to-member superannuation funds, with more than 1.9 million members and around $70 billion in funds under management.[1]

Our members come from all walks of life and all corners of the country. We represent around one-in-10 Australians aged 15 and older,[2] the equivalent of one-in-seven working Australians.[3]

More than one million Rest members are women, and more than 1.2 million members are aged 35 or younger, with one in four Australians aged 20 to 24 being members of Rest. Approximately 600,000 of our members reside in regional areas.[4]

Many of our members work in part-time, casual and lower-income jobs, and often have lower balances by the time they reach retirement.

The availability and affordability of housing is undoubtedly a significant contributor to the retirement outcomes of our members.

In Rest's submission to the Retirement Income Review in early 2020, we noted that the retirement income system was designed "under the assumption that people own their home and are largely debt free at retirement."[5]

What was true then is true now. Many Rest members do not meet these 'design criteria' and are therefore disadvantaged at retirement.

Our younger members face ever-rising barriers to entering the property market. Those who do manage to enter the market will do so later in life and will have fewer working years available to pay off or reduce their mortgage. Those who are locked out of the market entirely will have a greater risk of financial insecurity as they enter retirement.

Meanwhile, many of our retirement-age members carry a mortgage and other debt well into retirement, and only a modest superannuation balance available to secure their financial position. Those who don't own a home, will likely face even greater precariousness with no option but to pay for rent with their retirement income.

Around 40 per cent of Rest members aged 50 to 64 have a mortgage on their home, according to Roy Morgan research. Moreover, 11 per cent of Rest members aged 65 and older have a mortgage.[6] The average outstanding debts (excluding credit card debt) for Rest members aged 50 to 64 year is $184,000. For those aged 65 and older, it's $131,000.[7]

Analysis by the John Curtin Research Centre suggests an estimated 18.6 per cent of Rest members, or nearly one in five members, are experiencing housing stress.[8]

More affordable housing will improve the financial well-being and security for many Rest members, and therefore provide them with greater opportunities to achieve a positive retirement outcome.

For this reason, we are pleased to support the John Curtin Research Centre in their development of this report, and welcome the exploration of potential avenues for reform. It's also why Rest is a signatory to the Australian Government's Housing Accord and a participant in the Treasurer's Investor Roundtable.

As a major investor, Rest is well placed to provide a stable, long-term source of capital for assets that can generate strong returns for our members, support Australia's economic development and provide a positive social impact.

Rest has been an investor in institutional residential developments overseas since 2014. These assets have been valuable in enhancing the financial interests of our members. However despite looking for opportunities to invest in Australian housing, we have not been able to find domestic opportunities which would provide equivalent investment returns to those overseas.

The development of residential investment opportunities at scale in Australia is worth exploring, not only to assess their potential to deliver long-term financial benefits as assets, but because making housing affordable in Australian can unquestionably facilitate better retirement outcomes for Australians, especially those who are less wealthy or vulnerable.

This report is a welcome examination of the issue and its impact. We believe that the analysis and recommendations are thoughtful and evidence-based contributions to the discussions currently underway between government, industry, and investment stakeholders.

Introduction

Australia's housing crisis and why it matters

Australia is in the midst of a housing crisis that has been decades in the making. It affects almost everyone, whether they own their own home, are paying off mortgages, aspire to owning their home, or are renting. [7] This is a crisis of affordability, availability, and of security. The result is that fewer Australians own their own home today than at any time since the aftermath of the second world war. People who do have a secure home often find that it is far from their employment, or in an area without appropriate schools, hospitals, or other essential services. And those who are lucky enough to have secure housing with all those services available often find that the people they depend on – the essential workers who make the community and essential services function – cannot afford to live near enough to ensure even affluent areas have local police, teachers, nurses, or essential retail workers. Indeed, according to a recent University of Sydney and HOPE Housing report there is no longer a single local government area across metropolitan Sydney or Melbourne where houses are affordable for early career essential workers. The study concluded that essential workers are being forced to move further away from their inner-city jobs due to ballooning rents and housing costs, in part due to their inability to work from home.[8]

Ramifications are severe for younger Australians, but also retirees, low-income workers of all ages and singles, especially older women approaching retirement age. Australia's housing crisis is a moral problem, a social problem, and an economic problem. All levels of government across the political spectrum have failed to adequately address this threat to our communal and individual wellbeing.

Shelter is a basic physical need, from the cradle to the grave. Plentiful, secure, affordable, climate friendly, energy efficient and well-ventilated housing, serviced by essential services such as health, transport, childcare, schools, proximity to employment hubs and other amenities, are a fundamental right of citizenship for Australians to enjoy good, dignified lives from formative childhood ages, through working years to retirement. It is vital to a thriving economy and healthy society.

Insufficient construction of new, affordable housing and inelastic housing supply is also driving Australia's housing crisis. Australia's National Housing Finance and Investment Corporation (NHFIC) is predicting a shortfall of 163,400 dwellings by 2032.[9] Joint research by the Community Housing Industry Association, University of Sydney, and UNSW found that more than 640,000

Australian households – about 6.6 per cent – are either homeless, live in overcrowded dwellings or are spending a third or more of their income on rent. By 2041, that number is expected to be 50 per cent higher. Low-income households are vastly over-representation the report concluded.[10]

What does this mean for taxpayers? These trends will also place an added burden on public and community housing, as well as expanding the numbers of Australians eligible for Commonwealth Rent Assistance (CRA, a non-taxable income supplement payable to eligible people who receive social security and rent privately or in community housing), placing additional strain on the federal budget, during a prolonged period of fiscal restraint. The Australian Housing Urban Research Institute (AHURI) suggests that due to renter tenure and demographic change, the demand for CRA will rise by 60 per cent, from 414,000 households in 2016 to 664,000 in 2031. This will push up spending on CRA, running at $4.6 billion, up from $2.9 billion a decade earlier.[11] And even then, as we recommend, CRA payments need to rise as part of the putting together the puzzle of housing affordability.

This report is particularly concerned with the housing and retirement outcomes for lower paid workers, especially in retail, hospitality, and administrative or personal services, that the Covid pandemic revealed to be essential workers.

An economic crisis

Getting housing right is also foundational to the economy. People need to access work and services near where they live if they are to contribute productively. Housing stress contributes to mental health problems that incur costs and lower productivity. People are either less productive or less able to allocate their effort to where it is most needed if they do not have secure housing. The housing crisis is a personal crisis for a great many Australians, but an economic crisis for all Australians.

Secure shelter is a foundational need, but ever more Australians are in ever less secure housing. This will have a significant impact on cost of living in retirement as Australians take longer to enter the property market and live with higher levels of housing debt later in life than previous generations.

The two most significant factors in ensuring a comfortable standard of living in retirement are sufficient savings and owning your own home.[12] Australia's retirement income system was based on a 'three pillars' model: voluntary savings, compulsory savings (superannuation), and the pension. But this model assumes that most retirees own their home *outright*. It assumes that housing costs would be minimal in retirement.[13] As Australia enters the mid-2020s, this model is not holding up.

Pieces of the puzzle and how to solve it

Government leadership is needed, but this will not be solved by government alone; there are many pieces of the puzzle. Central to the scope of this report is activating Australia's superannuation sector – now valued at a world-leading $3.3 trillion pool of retirement savings. The housing crisis is a social and economic crisis – it will also be a crisis in retirement. There is a clear logic to directing retirement savings toward solving this crisis. And as a major piece of the puzzle is financing new supply of appropriate housing options, superannuation is uniquely able to contribute. It is in the best interests of Australia's economic future that the debate around housing affordability and supply, puts the needs of low-income essential workers, such as retail and like-workers, front and centre.

Social and affordable housing

A recent AHURI report arguing in favor of social and affordable housing financed, developed, and managed by a combination of government, community-based and market providers identify a need for 36,000 new social and affordable homes every year to meet forecast demand to 2036.[14] This is not a new view. A 2019 report published by the International Housing Partnership and Paxon Group, 'Creation of a Global Asset Class for Affordable Housing', identified a need for investors to fund affordable housing development as a long-term, safe, social infrastructure investment vehicle.[15]

This is widely accepted across parliament and government, from the 2015 Senate Economics References Committee Report, 'Out of reach? The Australian housing affordability challenge',[16] to the House of Representatives Standing Committee on Tax and Revenue report, 'The Australian Dream: Inquiry into housing affordability and supply in Australia' (2022).[17] All Australians benefit from strong rates of home ownership, and robust supplies of affordable, climate-friendly housing.

The difference between social, community and affordable housing

Currently, Australia constructs a total of about 180,000 dwellings a year (across all types). The federal government's Housing Accord envisions construction rising by about 10 per cent to an average of 200,000 dwellings a year. Some of this will be in the form of social and affordable housing.[18] These terms are distinct; however the distinction is often not well understood.

'Social housing' is heavily discounted housing that is usually only available to people receiving government benefits. The rental price is typically tied to the person or household's income (usually 25 per cent). Social housing can be provided directly by government in the form of public housing, overseen by state housing authorities, or by not-for-profit (NFP) community housing providers. Social housing is the responsibility of federal and state governments, however, initiatives that make housing generally more affordable lessen the pressure on social housing demand.

'Community housing' is owned, controlled, or managed by NFP organisations and government regulated. Some specialise housing people with a disability, women, First Nation's people, and older people. Tenants can pay between 25-30 per cent of their income and are eligible to receive CRA.

'Affordable housing' by contrast is discounted housing that is usually only offered to low-income workers (e.g. police, nurses, and teachers).

The rental price is tied to the market rate in the local area (usually 75-80 per cent). Affordable housing is generally provided by not-for-profit community housing providers or subsidised private providers (see Figure 1).[19]

The supply of housing in Australia is insufficient to meet the demand. As the Productivity Commission recently noted, with just 411 dwellings per one thousand people, Australia boasts one of the lowest housing stocks amongst members of the OECD.[20] In a freely competitive market, this would result in an increase in supply, but housing is inelastic for a great many reasons. Equally, demand-driven price inflation is a real and long-term trend in Australia's housing market for reasons that are entirely unrelated to inelastic supply.

In addition, stagnant or falling real wages after years of robust growth in house prices have worsened affordability.[21] As a result, some parts of the puzzle are on the demand side and other parts are on the supply side of the housing market. Some levers, such as taxation and direct construction of new homes reside with the Commonwealth, but others such as zoning and land tax reside with the states and territories. Those state and territory pieces of the puzzle can often be unique to each state. It is the Commonwealth pieces of the puzzle that tend to be both biggest and of the most current interest to stakeholders, due to the election of a new federal Labor government in May 2022.

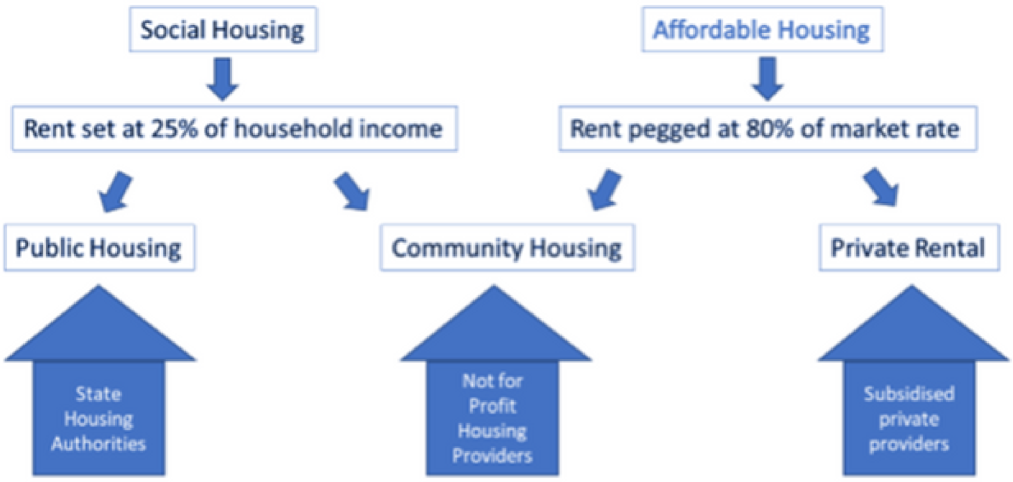

Figure 1. Social versus affordable housing

The National Housing Finance and Investment Corporation

One piece of the puzzle is the effort to encourage private finance into social or community housing. To this end, the Commonwealth Government's National Housing Finance and Investment Corporation (NHFIC) has issued a series of community housing bonds. The first of these was issued in 2019, raising $562 million from subscribers. Institutional investors including super funds have been attracted to this piece of the puzzle: Cbus super industry fund alone was allocated $30 million in community housing bonds from the initial NHFIC issuance.

Since its creation in mid-2018, NHFIC – renamed Housing Australia – has approved $3bn in long-term and low-cost loans to community housing providers to support the supply of more social and affordable housing, or 17,500 new and existing homes.[22] Total savings in interest for community housing organisations accessing NHFIC bonds are projected to exceed $550 million.[23] Part 3 explores NHFIC's Affordable Housing Bond Aggregator (AHBA) Loans in more detail.

Despite NHFIC's efforts, the scale of affordable housing construction in Australia is far below the need of its population. NHFIC CEO Nathan Dal Bon noted in November 2022 that the 2,000 to 3,000 affordable homes built in a typical year in Australia is only a quarter of the number needed to maintain a share of the overall housing stock around the level of four per cent that is generally considered necessary.

Average annual growth in social housing investment over the past decade was under 0.5 per cent; a rate that Dal Bon described as "grossly insufficient" given expected population growth.[24] Compared with other OECD countries in respect of building social housing stock as a percentage of total residential dwellings and, in particular, public spending as a percentage of GDP on social housing, Australia ranks poorly.[25]

Despite the limit on scale, NHFIC bonds illustrate the distinct roles that finance system participants can play in collaborating to build more housing more cheaply.[26] Those participants include government, commercial banks, institutional investors such as super funds and community housing providers. The report considers regulatory changes that can help accelerate institutional investment into community housing, making community housing a stand-alone asset class. This could facilitate significant funds being channelled to the sector. The interest exists. For instance, NAB committed $2 billion by 2023 (and a further $6 billion by 2029) to provide loans and is developing new financing avenues for not-for-profit and other organisations that build affordable and specialist housing such as crisis accommodation, community housing, disability housing, build-to-rent and sustainable developments. It needs to be facilitated.

New Government, new priorities

The federal Labor government's September 2022 Jobs and Skills summit widened the remit of NHFIC beyond investing in infrastructure that 'unlocks' housing supply.

The summit recommended that up to $575 million be drawn from NHFIC to directly invest in social and affordable housing. Building on this, the Albanese government's 2022 Commonwealth October (Mini) Budget committed $10 billion to the Housing Australia Future Fund (HAFF) and announced a Housing Accord. The Accord's centrepiece is building one million new houses over five years beginning in 2024. It draws together the commonwealth, states and private investors including super funds, and includes 50,000 new affordable and social housing units to be built (five per cent of the target, up from the 30,000 promised at the election). The budget also committed an initial $350 million for another 10,000 affordable homes. State/territory governments are expected to match the 10,000 homes pledge. [27] The intent is to increase long-term investment in affordable stock by covering the gap between market and subsidised rents to ensure respectable returns.[28] This was a core recommendation of our 2020 report, *Rental Nation: A Plan for More Secure Housing in Australia*.[29]

The accord also aims to address other supply-side issues such as planning regulations and release of greenfield/brownfield land. Industry funds AustralianSuper (having merged with existing player Media Super), Cbus, Australian Retirement Trust (ART), HESTA, Aware Super, Rest Super and CARE, publicly pledged support for the Accord. All have previously if tentatively entered social and affordable housing investment markets (excepting CARE).[30] But a recent ISA-Frontier report describes these investments as "a small fraction" of funds available to super funds.[31]

We map current domestic and overseas investments in Part 3; suffice to say there is significant capacity for doing more. The Albanese government's ambition to see more housing developed close to jobs and transport hubs (including TAFE campuses), especially regional centres, has particular relevance to ESG priorities.

Another new commonwealth government housing program is the 'Help to Buy' scheme. Budgeted for $324.6 million over four years, this program contributes equity to eligible home buyers, reducing the deposit and mortgage needed to buy a property. It is paired with a specific Regional First Home Buyer Support Scheme. The budget also committed $15.2 million to establish an independent National Housing Supply and Affordability Council (NHSAC) to advise the commonwealth on housing policy. One of its first tasks will be to work with the Federal Housing Minister, Julie Collins (elevated to full cabinet level), to develop a long-overdue national plan for housing and homelessness. [32] These are also core recommendations of *Rental Nation* implemented.

Several months prior to the October 2022 Commonwealth Budget, Treasurer Jim Chalmers specifically called on super funds to channel more funds into affordable housing. Then in November, an investor roundtable addressing social and affordable housing in both short- and long-term. All levels of government, CEOs of the big four retail banks, the construction sector, and investors including Rest Super CEO Vicki Doyle and CEOs of other major Australian superannuation funds all participated.

Chalmers identified low vacancy rates, high rents and difficulties finding housing near jobs as key concerns of government. [33] Ahead of the roundtable, the federal government pledged $300 million via NHFIC. The funding would construct hundreds of build-to-rent dwellings, half being affordable rentals in Sydney's west. AXA Investment Managers and St George Community Housing would manage the project. [34] Also prior to the roundtable, ART partnered with the Queensland state government's Queensland Investment Corporation, and Brisbane Housing Company as well as commercial banks to provide senior or subordinated debt for seven social and affordable housing projects across the state.

The partnership bridges the gap between discounted and market rents to make a fixed interest social housing investment that is suitable for superannuation funds.[35] In this case, the gap is closed by using CRA and by servicing debt to finance the construction.[36] Investing in affordable and social housing has also been made more attractive by recent workplace relations reforms: the *Secure Jobs, Better Pay Bill 2022* created a new Economic Inclusion Advisory Panel and requires the Treasurer and Social Services Minister to publish an annual report on these issues before each federal budget. [37]

Structure of this report

As housing affordability and supply moves to the centre of our national debate, Part 1 of this report begins by recapping long-standing problems that contribute to housing unaffordability. These include high property prices, difficulties saving a deposit to purchase a property, insecure work, low wages growth, inequitable and distortionary taxes applying to housing as an investment (capital gains and negative gearing), higher interest rates and cost of living pressures. It then identifies barriers to investment and how to harness the investment power of superannuation funds for the goals of housing affordability and supply (Part 2) and maps current social housing investments by super funds and other institutional investors (Part 3). Those investments include a mix of Build-to-Rent, Build-to-Rent-to-Own, Public-Private Partnerships, NHFIC Debt Guarantee and Bond Schemes, and other emerging models. In doing so, *Super Solutions* specifically examines how continued affordable housing shortages will impact younger people, women, Indigenous peoples, and those living in regional Australia.

The report concludes with recommendations (Part 4) that call for a holistic six-part national action plan. It details steps to improve national housing affordability and supply. It identifies tax and other regulatory barriers that prevent super funds and other institutional investors from investing in social or affordable housing assets. Building on the JCRC's previous work, we conclude that *now* is the time to activate institutional investment to make housing more affordable.

Our action plan outlines the policy adjustments needed to make affordable housing investments attractive for industry funds to invest in affordable housing projects. Implementing these recommendations would improve housing affordability and supply, boosting climate-friendly economic growth, improving retirement incomes, and ensuring the growing number of Australians who are locked out of property ownership or living in housing stress are no longer left behind, in the interest of all.

Part 1

Australia's Housing Affordability and Supply Crisis

Housing crisis summary and statistics

Australia has a housing affordability and supply crisis. It permeates affordability, availability, and security both for buyers and for renters. Home ownership rates are now the lowest since World War Two. The 2016 Census found 67 per cent of households owned their home, down steadily from 68.1 per cent in 2006 and its peak between 70-75 per cent in the 1960s (in 1947 for example, home ownership rates were 47 per cent). [38] The most recent data shows these trends have continued, with fewer homeowners and more renters. The ABS census conducted in August 2021 reveals that of all occupied private dwellings, 31 per cent are owned outright, 35 per cent are owned with a mortgage and 30.6 per cent are rented.[39]

While the total proportion owning has slipped only two percentage points from 68 per cent to 66 per cent between 1996 and 2021, the proportion owning outright (without a mortgage) has plummeted from 42 per cent to 31 per cent. The proportion renting has grown from 26.8 per cent of the population to 30.6 per cent between 2001 and 2006, with sharp increases across the 55-64 age group (15.7 per cent to 21.6 per cent), 45-54 (19.9 per cent to 27.8 per cent), 35-44 (28.2 per cent to 36.5 per cent) and 25-34(44.8 per cent to 54 per cent – see Figure 2).

As of 2022, Australia has the highest percentage of net household debt compared to similar countries, while a decade of poor real wages growth made saving a deposit harder than ever.[40]

	2001	2006	2011	2016	2021
Under 35	55.1	54.6	56.7	59.7	60.1
35 - 54	26.8	27.8	30.4	32.9	33.7
55 and over	17.7	18.2	18.9	19.7	20.6

Figure 2. Proportion of households who rent, by age of household reference person, 2001 - 2021 [41]

The so-called 'Australian dream' of home ownership is being eroded. Between the 2001 and 2021 census, the proportion of Australians who own their home outright has halved for most age groups while the proportion of people with mortgages in retirement years has increased greatly.Two decades ago, more than two in ten 35 to 44-year-olds owned their home outright. Today, fewer than one in 10 in that age group did so. The proportion of homeowners aged 55 to 64 years still owing money on their mortgages has soared since the early 2000s: from 15.5 per cent in 2001 to 35.9 per cent in 2021, representing the sharpest increase among all demographics. Indebtedness is even growing among homeowners aged 65 and over. In 2001, nearly 96 per cent of this cohort were mortgage-free. By 2021, however, of that cohort the proportion was just above 90 per cent, tripling the proportion of mortgaged owners recorded in 2001. Overall, outright owners fell from 40.0 per cent to 31 per cent and mortgagees climbed from 27.9 per cent to 35 per cent.[42] With younger Australians locked out of the housing market these numbers will worsen years to come. Conversely, the number of older Australians renting privately or living in social housing will soar.[43]

This will have a significant impact on cost of living in retirement as Australians take longer to enter the property market and live with higher levels of housing debt later in life than previous generations. Importantly, these trends will also place an added burden on public and community housing, as well as expanding the numbers of Australians eligible for Commonwealth Rent Assistance (CRA, a non-taxable income supplement payable to eligible people who receive social security and rent privately rental market or in community housing), additionally straining on the federal budget, during a prolonged period of fiscal restraint. Australian Housing Urban Research Institute (AHURI) research suggests that due to renter tenure and demographic change, the demand for CRA will rise by 60 per cent, from 414,000 households in 2016 to 664,000 in 2031. This will push up spending on CRA, now running at $4.6 billion, up from $2.9 billion a decade earlier.[44]

Renting is the fastest growing tenure type in Australia, with nearly a third of the population renting (a long-term trend). 2,842,378 households rent, or 30.6 per cent of the population, up from 30 per cent in the 2016 census.[45] Prior to 2021 the proportion of households privately renting had been increasing by roughly one per cent every five years. In the five years from 2016 to 2021 this growth tripled to three per cent and, in Australia's largest state of New South Wales, the number of renting households has increased by over 17.5 per cent since 2016.[46] Conversely, the number of people renting from a public or community housing provider has gone backwards because of shortage of such housing. June 2022 data released by the Australian Institute for Health and Welfare (AIHW) shows that in 2021 the number of social housing units rose by less than one per cent. Social housing – public and community dwellings – was stuck at 4.2 per cent of overall stock.[47] As noted below, Australians are renting for longer and often permanently, and affordable housing supply remains inadequate. The ramifications for intergenerational equity are stark.

Post war home-ownership contrast

These trends contrast with the post-war decades, during which Australia was made into a homeowners' paradise. (A detailed account of historical trends can be found in Rental Nation's 'Generation Rent' chapter).[48] Home ownership rose by 17 percentage points, from just half the population to over 70 per cent.[49] Between 1945 and 1956, social housing construction also increased significantly to meet the needs of returned soldiers and families.[50] Home ownership was never "universal", Peter Mares notes in his definitive 2018 study, *No Place Like Home*, but "it was the norm".[51] Longitudinal data of young adults in the decades after World War Two shows that, by 1989, 90 per cent had become homeowners. Today, however, significant sections of Generation X and Millennials (those born between 1976 and 1990) are missing out. The latter, often described as Generation Rent, are at the coalface of inter-generational inequality.[52] This generation is better educated than previous ones, yet worse off economically than their parents at the same age and struggle to break into the property market because of distorted tax settings and asset prices having risen faster than household incomes. The recent Resolve Strategic survey, shows 63 per cent of Australians believe young people will never be able to buy a home, compared to 57 per cent a year ago. 72 per cent of respondents aged between 18 and 34 say they will never be able to buy a house.[53]

Intergenerational inequality growing

The 2020 report, *Mind the Gap: The Australian Actuaries Intergenerational Equity Index*, found inequality between generations was at a 20-year high.[54] Home ownership rates are of course naturally higher for older generations as they have had more time to save a deposit., as well as benefiting from multiple favourable property cycles. Yet as asset prices rise, it is harder for young people to accumulate savings in the context of wage stagnation, insecure work, and rising underemployment.[55] In 1985, the average Australian home price was between two and three times the average salary. By 1990, it was four times the average salary. It then accelerated amid a so-called 'housing bubble' that gathered pace from the early 2000s.[56] As of September 2022, Australian dwelling values are 8.2 times higher than incomes, slightly lower than 8.5 in the June quarter, but above the decade average of 6.9. Sydney dwellings cost 9.6 times incomes, Melbourne 8 times, Brisbane 7.6 times and Perth 5.8 times.[57] The differentiation between house prices and salaries is underscored by the most recent ABS data. In 1980, half of Australian families had only one working parent (typically male). Now, the statistic is 17 per cent. In 1980, 41 per cent had both parents working. Today, it is 71 per cent. Higher female workforce participation rates and better gender equality and opportunities for women in paid work are welcome, but the fact remains that society now requires two working partners to pay off a mortgage instead of only one (Figure 3).[58]

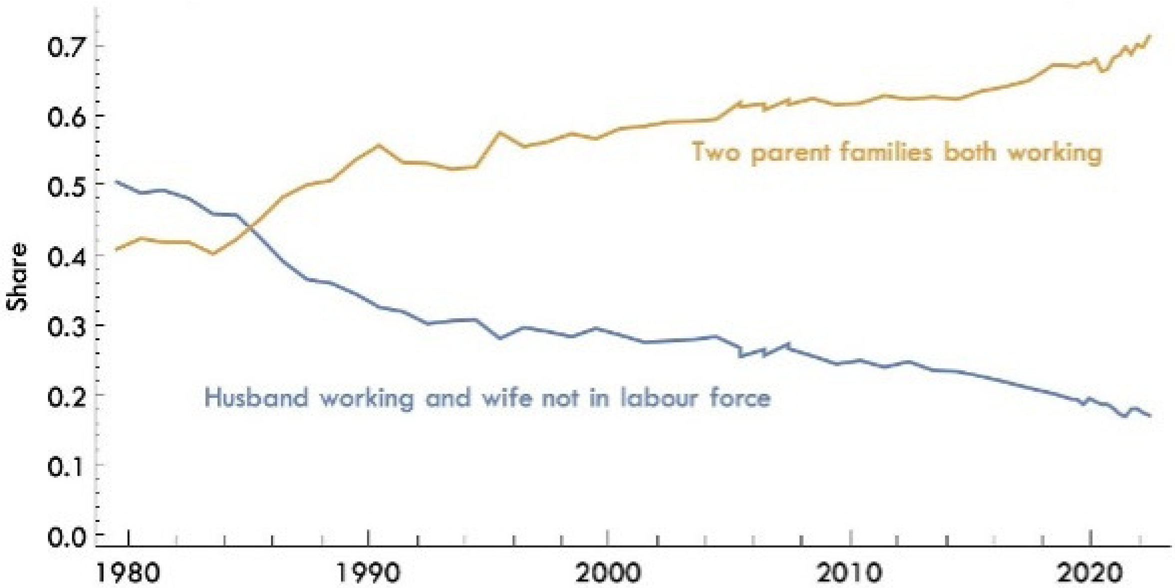

Figure 3. Australian couple families with dependents: Labour Force Status of Families [58]

Policy Determinants

Commonwealth policy since the mid-1990s has been a major factor. The housing department was reduced to a branch within social security; there was no dedicated national minister for housing until 2022; national monitoring of supply and demand conditions in the housing market were abandoned; and social housing funding cut, putting pressures on renters in the private rental sector. The proportion of owner-occupied dwellings is at its lowest since 1954. While comparable nations face similar challenges, Australia's situation is a major concern. Until this year, Australia was bereft of a dedicated national approach to home ownership and housing security and affordability.

Indigenous Australians' housing

Indigenous Australians' housing fortunes have, thankfully, improved. Home ownership increased to 42.3 per cent of households in 2021, up from 39.6 per cent in 2016 (although this may be interpreted as a result of the increase in the number of people identifying as Indigenous – in the 2021 Census, there were 352,041 Aboriginal and Torres Strait Islander (ATSIC) households, representing 3.8 per cent of all households, up from 2.1 per cent in 2001). Yet more than half of ATSIC dwellings were rented (56.1 per cent); well above the non-indigenous proportion. That includes 27.6 per cent renting privately (up from 25.3 per cent in 2016). [62]

Increase in renters

The transition from renting to home ownership is becoming less common, particularly among younger Australians. The only age group that has experienced a rise in homeownership in the past thirty years are the over-65s, and within that demographic only those in the top quintile of income distribution. [63] The home ownership rate of 30–34 year old's was 64 per cent in 1971, decreasing 14 percentage points to 50 per cent in 2021, according to AIHW 2021 census analysis. For Australians aged 25–29, the difference was similar – 50 per cent in 1971, compared with 36 per cent.

The AIHW further notes that home ownership rates have also gradually decreased among people nearing retirement. Since 1996, home ownership rates for the 50–54 age group have fallen by 7.9 percentage points over 25 years (80 per cent to 72 per cent). Home ownership rates of Australians born during 1947–1951 increased from 54 per cent in 1976 (when they were aged 25–29) to 82 per cent 45 years later in 2021 (when they were aged 70–74). By contrast, the home ownership rate of those born during 1992–1996 was 36 per cent in 2021 (when they were aged 25–29), 18 percentage points lower than the 1947–1951 cohort at the same age. Nationally, the rate of home ownership was lower for almost each successive birth cohort since the 1947–1951 birth cohort. [64]

By 2040, it is predicted that only half of Australians aged 25 to 55 will own their home. [65] This trend has been driven by favourable tax settings stimulating very high-levels of speculative investment, first-home buyers grants exacerbating high price inflation, insecure work and concomitant low wages growth, and housing shortages. [66] Prior to Covid, housing unaffordability was also being impacted by high capital inflows from foreign investment, and consistently record levels of immigration clustered in Australia's capital cities. In 2022, real home prices across Australia have climbed 193.1 per cent in the past two decades, while gross wages climbed by 87 per cent, [67] creating a significant if not impossible barrier to market entry for those Australians who don't own a property.

As more Australians rent and rent for longer these problems must be addressed. As the most recent research conducted by the Community Housing Industry Association in partnership with University of Sydney and UNSW Sydney revealed, more than 640,000 Australian households – about 6.6 per cent of a total of 9.6 million households – are practically homeless, live in overcrowded dwellings or are spending a third or more of their income on rent. By 2041, that number is expected to reach some 940,000. Low-income households are vastly overrepresented, the report concluded. [68]

House prices

One of the main factors locking people out of home ownership has been the rise in prices to unaffordable levels, certainly relative to incomes. Despite the pandemic recession and economic uncertainty, house prices remain above pre-Covid levels. Nationally, house prices increased by 17.8 per cent over 2021, while prices for apartments rose by 9.3 per cent over the same period. [69] Sydney property prices soared more than 20 per cent; Melbourne's by 13 per cent. [70]

Other capital cities experienced similar rises. Initial increases in first home buyers slowed as investors came to dominate.[71] Regional centres registered even stronger price growth, with buyers escaping cities more prone to lockdown restrictions. Nationally, regional property prices rose 21.6 per cent between August 2020 until August 2021. In regional NSW, prices leapt 24.8 per cent over the year; in regional Victoria by 20.3 per cent; and in regional Queensland by 20.6 per cent.[72] Prices rose on the back of ultra-low interest rates, government stimuli, cash savings, limited stock for sale (lower listings by vendors not just a lack of newly built properties), and demand for bigger homes as more people work from home.[73]

However, from mid-2022, national housing prices have experienced sharp falls as successive Reserve Bank of Australia (RBA) interest rate increases resulted in a significant reduction in borrowing power. As borrowing becomes more expensive it reduces the size of the buyer pool able to purchase; as demand falls so does the price of houses. Conversely, housing stock for purchase has declined as owners resist selling property while prices fall. Property data firm CoreLogic's national Home Value Index (HVI) reported home values across the country fell a further 1.1 per cent in December 2022, and 5.3 per cent over the calendar year. As CoreLogic notes, 2022 "marks the first time since 2018 where national home values fell over the calendar year. The 12 months to December also mark the largest calendar year decline since 2008, when values were down -6.4% amid the Global Financial Crisis …"[74] Most recently CoreLogic notes that after remaining virtually flat in February (-0.1 per cent), its HVI posted the first month-on-month rise since April 2022, up 0.6 per cent in March, with growth centred in Sydney's housing market as well as firmer regional markets.[75]

Domain.com.au data from the September 2022 quarter showed house prices falling at the fastest pace on record in Sydney (5.2 per cent for the quarter and 2.8 per cent year on year) and Melbourne (4.3 per cent for the quarter and 2 per cent year on year), and across the combined capitals (4 per cent for the quarter and 2.3 per cent year on year). Adelaide was the only city to create a new record house and unit price, rising 21.9 per cent year on year.[76] Sydney fell 3.1 per cent for the quarter and 5.6 per cent year on year) and Melbourne (3.3 per cent for the quarter and 2.3 per cent year on year), and across the combined capitals those figures were 2.6 per cent for the quarter and 2 per cent year on year. Adelaide along with to a lesser extent Brisbane, Hobart and Darwin bucked this trend.[77] A recent CoreLogic report showed that property prices falls of 8.4 per cent nationally between May 2022 and January 2023 is the deepest peak-to-trough fall on its records, which date back to 1980.[78]

Rental prices

While house and unit prices fell over 2022, median rental prices rose across the board as interest rates increases were passed onto to renters from landlords. (St George Bank is forecasting an 11.5 per cent rise in rental prices across 2023 following 10 per cent jump in 2022, which equates to a $10 billion increase in household rent bills).[79]

The national rental vacancy rate is a record low 0.9 per cent, and advertised rental prices grew by 10.2 per cent in capital cities and 9.7 per cent in regional areas in the year to September.[80]

The median rental house price, according to Domain.com.au, across combined capital cities rose from $470 per week to $530 per week. Brisbane and Sydney recorded dramatic increases, from $450/$570 per week to $550/$650 per week respectively.[81] Median unit rental increases are rising from $420 to $490 per week, with Sydney and Melbourne leading the way. Across the combined capital cities rents rose 6.5 per cent for the September quarter and 16.7 per cent year on year.[82] Regional median unit rent prices also rose dramatically everywhere, mirroring house rent hikes.[83] In Victoria, as revealed at a recent AHURI conference, rents increased by 20 per cent on average in 2022, and in some cases by up to 150 per cent.[84] Outcomes for renters remain patchy. CoreLogic's October 2022 Quarterly Rental Review notes that "although rental markets remain very tight, the rate of growth in rental values has started to ease slightly in some markets. Quarterly growth in capital city rents peaked at 3.1% in July and has since eased to 2.5% in the three months to November."

Nonetheless, as per house prices,[85] private rental prices well exceed pre pandemic times. Indeed, CoreLogic's Quarterly Rental Review for Q1 2023 showed the national rental index rising 2.5 per cent, up from 2.0 per cent in the December quarter, owing to demand pressures, near record low vacancies. CoreLogic Economist and report author Kaytlin Ezzy remarked that "while the annual growth trend is holding steady, it remains stubbornly high at 10.1% for the year to March, equating to an extra $52 per week or additional $2,727 a year.[86]

Why? Demand-driven price inflation, rather than just the supply of enough homes, has been a significant factor. The Grattan Institute has shown that the vast majority of mortgage lending is for the purchase of existing rather than new homes, pushing up prices for all buyers.[87] Or as a University of Sydney Institute for Innovation and Public Purpose Working Paper puts it: "Australians have been increasingly buying housing for the purpose of securing financial returns — both capital gains and rental income, in a process often described as the financialisaton of housing, but one that we think can be more accurately thought of as "rentierization" … the increasing use of housing to extract land rents, in the form of capital gains on property and rents from tenants – a process in which Australia is well advanced."[88] According to analysis by the UNSW Social Policy Research Centre and ACOSS, 80 per cent of financial assets like shares and property investment are held by the highest 20 per cent of wealth-holders.[89] Australia's housing system is driving inequality, rather than being a symptom of it. Young people who can access the housing market as first-time buyers often have a leg up from parents, perpetuating inequality across generations while property wealth creates an asset against which owners can borrow to buy more. While most investors only own one property, there has been rapid growth in investors with more than one property (and renters are just as likely to be renting from someone who owns more than one property than a single property owner). Now, with students and migrants re-entering Australia, supply-side factors are becoming a greater factor in the shortage of affordable housing and rising levels of housing stress. Supply is clearly an issue as the data cited by NHFIC CEO Nathan Dal Bon earlier demonstrated.[90]

Housing stress

There are several definitions of housing stress. According to the Rental Affordability Index (RAI) a person or household is at critical level of rental stress when 30 per cent or more of their disposable income goes towards paying regular rent. (The basic formulation applies to household income devoted to paying mortgages). Specifically, it relates to the bottom 40 per cent of households by income: "It is generally accepted that if housing costs exceed 30 per cent of a low income household's (households with the lowest 40 per cent of income) gross income, then that household is experiencing housing stress (30/40 rule)."[91] In the short term, rental stress puts pressure on people's ability to pay for essentials living costs, like food, heating, transport, health care and education. In the long term, housing stress can damage people's physical and mental health, stunt educational attainment, limit job opportunities, and lower productivity, harming the economy.[92]

Economic insecurity, rising costs of living and successive interest rate increases (passed onto both renters and mortgage holders) have exposed more Australians to elevated levels of 'housing stress' whether 'mortgage' or 'rental stress.' UNSW's City Futures Research Centre define a household as being in housing stress if they have no home, live in overcrowded dwellings, or spend more than 30 per cent of their income on rent. Using 2021 Census data, they find that 640,000 Australian households are in housing stress. Community Housing Industry Association CEO Wendy Hayhurst predicts that the number of households in housing stress will reach almost a million by 2041.[93]

Housing stress creates significant costs to individuals, society, and the economy. Housing stress places enormous financial and emotional strain on individuals and families. It reduces proximity to employment hubs and essential services notably for low-to-moderate-income groups and can cause or accentuate inequality. It is harmful to mental health, relationships, and social cohesion. One estimate of the cost of our rental stress crisis argues that the health, education, productivity, and crime costs borne by the community will reach a staggering $25 billion per year by 2051.[94]

In December 2021, Redbridge surveyed outer suburban and select regional households in Victoria and NSW on behalf of JCRC. Asked 'have you ever lost work due to your living arrangements, such as living too far away?' 15 per cent (nearly 1 in 7) responded 'Yes'. Just as many confirmed having 'felt at a disadvantage when applying for jobs because of your living arrangements, such as living too far away?' When asked 'Have you ever lost work and/or income due to moving to a different suburb?' the response was even higher – 18 per cent or nearly 1 in 5 people said 'yes'. Many respondents indicated that where they lived made it difficult to access the following essential services: childcare; preferred school; health or aged care; public transport and other community facilities (e.g. shops, libraries, sport facilities).[95] November 2022 Australian Council of Trade Unions polling found one in four Australians are skipping meals due to cost-of-living increases, more than half have cut back on essential items, 21 per cent sold assets to keep up with rising costs and 14 per cent had been forced to move to, or look for, more affordable housing. [96] The consequences flow through to the wider economy, reducing disposable incomes and thus economic growth.

Mortgage stress

'Mortgage stress' is the component of housing stress experienced by homeowners with mortgages (as opposed to housing stress experienced by renters or those with insecure or no housing). At the outset of 2020, one survey showed about one in five Australian mortgage holders (about two million households) were experiencing mortgage stress and five per cent were in extreme stress, defined as spending more than 50 per cent of their income on mortgages. [97] This is despite the then record low interest rates. The 2021 Redbridge survey discussed earlier found two thirds of respondents were spending more than 20 per cent of their household income on mortgages or rent. Close to 40 per cent reported spending more than 30 per cent of household income on housing costs.

A March 2023 Roy Morgan (RM) poll using the standard 30 per cent rule estimated 1,230,000 mortgage holders (25.3 per cent) were 'at risk' of 'mortgage stress' in the three months to February 2023. This represents the highest number of mortgage holders considered 'At Risk' since there were nearly 1.3 million 'At Risk' in September 2011 and the proportion of mortgage holders considered 'At Risk' of mortgage stress in the three months to February (25.3 per cent) is the highest for over a decade since June 2012 (25.7 per cent). The number of mortgage holders considered 'Extremely At Risk' increased to 735,000 (15.7 per cent) in the three months to February 2023, significantly above the long-term average over the last 15 years of 659,000 (15.9 per cent). These statistics are the direct result of the RBA increasing interest rates for ten consecutive months to March. [98] According to the RBA, Australians are beginning to draw down savings to cover day-to-day expenses as cost-of-living pressures and higher interest rates bite. It estimates 14 per cent of borrowers would deplete all their savings by mid-2024 if they failed to cut non-essential spending. Even if they did slash reduce spending on non-essentials by up to 80 per cent, 9 per cent of people will run out of cash reserves. [99]

Rental stress

Turning to rental stress. The growth of private renting primarily reflects the prohibitive cost of home ownership. This structural shift, however, means more households are exposed to insecure housing, lack control over rental increases and are subject to growing levels of 'rental stress.' Rental stress has a greater impact on poor, working-class, younger, and elderly Australians. As Per Capita's Matt Lloyd-Cape argues, rental increases "should concern policymakers even more than … house prices, since they disproportionately impact lower income households who are more vulnerable to housing stress." [100] Low-income earners are being squeezed by a shortage of social housing and middle-to-high income earners who can't afford to buy houses, so are themselves driving up rental prices.

Before Covid, over half of low-income households renting privately were in rental stress. As the Productivity Commission's *Vulnerable Renters* report revealed, low-income renters stuck in rental stress, often for years, had increased from 48 per cent of low-income renters in 1995 to 54 per cent by 2018, or around 1.5 million people. In September 2019, PC research estimated that 600,000 Australian households were experiencing rental stress. Over 30 per cent and in many cases over 50 per cent of low-income renters' paychecks were going to rent or mortgage payments. The report noted how "sticky" rental stress has become for many Australians on low incomes: almost 50 per cent of those considered in rental stress in 2013 were still in rental stress four years later.[101]

There are clear long-term trends towards private rental stress, driven by low wages growth and economic insecurity. Housing costs as a proportion of income have risen dramatically for the lowest income groups (precisely the groups least likely to benefit from Covid falls in median rents). They have fewer opportunities to 'trade down' into cheaper homes away from jobs and transport.[102]

Rising rental stress has been occurring on urban fringes for some time.[103] However, rental stress is also a worrying trend in Australia's regional towns and communities. This compounds the existing lack of economic opportunities relative to major cities. The combined lack of affordable housing and employment opportunities has caused some regional centres to exhibit extreme rental stress.[104]

Rental stress is also straining an unreceptive social security system. In 2020, 40.5 per cent of low-income people receiving CRA were in rental stress while one in eight spent more than half their income in rental payments.[105] About 75 per cent of all students receiving youth allowance or rent assistance were experiencing rental stress.[106] Why? The maximum rent assistance payment is indexed in line with the consumer price index, but rents have been growing faster than the consumer price index for many years.[107] Anglicare's April 2020 national affordability 'snapshot' of more than 67,000 private rental dwellings found that fewer than three per cent matched the budget of a single person earning the minimum wage. For the unemployed who were reliant on JobSeeker, only two properties in all of Australia were rated affordable.[108] Anglicare's 2022 snapshot found that out of 45,992 listings, 1.6 per cent matched the budget of a single person earning the minimum wage and just eight rentals (0 percent) were affordable for a single person on JobSeeker. Families with both parents in work on the minimum wage can afford 15.3 percent of properties available.[109]

For many of the above reasons the Covid pandemic witnessed a sharp increase in people not being able meet rent or mortgage payments an Australians experiencing basic housing stress.[110] An extraordinary one in four renters reported being unable to pay rent on time.[111] COVID also has had a more noticeable impact on younger people and women working in traditionally 'female-dominated' sectors hallmarked by insecure employment and lower wages, along with migrants, Aboriginal and Torres Strait Islander peoples, and Australians living with a disability.

Many of these groups and especially women were also likely to have less access to early release superannuation available than to men because of the gendered pay gap and time out of the workforce. Workers who were ineligible for JobKeeper or already unemployed were at risk of rental stress or homelessness. [112]

2022

Fast forward to 2022, rental affordability has plummeted, with the latest RAI released by National Shelter, SGS Economics and Planning, the Brotherhood of St Laurence and Beyond Bank Australia in late November showing rents escalating faster than household incomes across the country. A shocking 42 per cent of all low-income renter households are living in rental stress, compared to 35 per cent in 2008. The RAI reveals that regional areas have been the hardest hit, with the worst affected states are Queensland, Tasmania, and Western Australia.[113] Further, a Savvy 2022 National Cost of Living Survey conducted in September (using the basic 30 per cent rule), found that 1.42 million Australians were devoting between 31 and 45 per cent of their household income to rent (that is experiencing rental stress), while 1.12 million reported spending between 46 per cent and 60 per cent of their income on rent (defined by Savvy as extreme stress). Thus, 14 per cent or 2.72 million Australians are passing the 30 per cent stress marker. [114]

50 per cent of 18-24-year-olds said they were stressed about rent/potential rent increases and 40 per cent of the 25–34-year-old cohort and 33 per cent of 35–44-year-old cohort expressed the same sentiment. [115] Most significantly, Dal Bon recently noted of NHFIC analysis using data from the 2021 census that “the lack of affordable rental properties is a major issue facing policy makers and market participants alike, with 42 per cent of low-income households now in rental stress, up from 35 per cent in 2008.” He further noted that about half of households earning between $41,600 and $78,000 are experiencing rental stress. Using the same formulation, that proportion balloons out to nearly eight in 10 households with annual incomes between $20,800 and $41,600, and as many as nine in 10 earning less than that. Rental stress becomes much less of an issue for households on higher incomes, with the proportion of households earning between $78,000-$104,000 and struggling to meet rents falling to under 20 per cent, and virtually disappearing in higher income households.[116]

Rental insecurity

There is a nationwide problem around renter security. A severe power imbalance exists between landlords and tenants. While not unique to Australia, many comparable developed countries have solved this problem. Here, tenants typically rely on fixed-term leases with a significant number expiring between six to twelve months: 50 per cent of renters are on a fixed-term one-year lease and 20 per cent are on a month-to-month “rolling” lease. [117] Until recently, in all jurisdictions, tenancies could be ended without grounds by landlords at the conclusion of a fixed term as short as six months.

For periodic leases landlords outside of Victoria can legally end them without cause.

One in five times that a renter moves homes, it is involuntary, often with no fault simply because landlords have decided to sell.[118] The cost of eviction is high – especially for vulnerable households and elderly residents. As the Victorian Council of Social Service notes, many tenants are forced to move more than they would like, away from steady jobs, schools and training, family, and community networks.[119] Stress is exacerbated by eviction notice periods as short as 30 days.[120]

Lack of renter rights and security of tenure produces 'rental churn.' As Lloyd-Cape explains, "in Sydney and Melbourne most rental properties leave the market within five years; sold on to owner-occupiers or occupied by the landlord themselves. This massive churn helps explain why average tenancy lengths are so low, and why tenants are so desperate to buy a home – if you can not be sure how long you'll be able stay in a property, you can not treat it as a home."[121] This churn is bad for renters in terms of the cost and stress of moving residences and disruptive to family life, work patterns, childcare, schooling, proximity to friends, close relatives, and support networks, and established ties to community life, be it sporting groups, religious affiliations, and other civil society associations. Rental churn is also bad for business as it entails higher levels of staff turnover which leads to a loss of corporate knowledge and increases costs of training and retraining, and potentially lower productivity.

Moving residence also entails a longer work commute, also shown to reduce productivity.[122] Insecurity of tenure can especially harm opportunities for low-to-middle income earners, young people, and disadvantaged groups, cutting them off from job hubs and education and training opportunities. Rental insecurity is a social justice and economic efficiency issue.

The lack of renters' rights extends to matters such as minor modifications (painting, putting pictures up and having pets) and unfair bonds. This can lead to increased evictions if tenants do not comply with unreasonable demands. The situation needs to be improved if more Australians are to be renters for longer. And it can be improved. AHURI research shows that the introduction of new rental legislation had no negative effects on the supply of rentals. That is despite 44 per cent of landlords reporting that regulation was very important for their investment decisions.[123] This month recently elected NSW Labor Premier Chris Minns announced a new policy approach which will see the appointment of a rental commissioner to help rebalance the housing market for tenants.[124]

This is to say nothing of the scourge of homelessness. 2016 ABS data (2011 is unavailable at present) shows an estimated 116,000 Australians experience homelessness on any given night, with over 8,000 sleeping rough or forced to live in overcrowded or unsafe or prohibitively expensive accommodation. This is a direct result of our lack of social housing and housing stress.[125]

Women over the age of fifty-five are the fastest growing demographic cohort of Australians experiencing homelessness, or insecure living arrangements. This is often a result of domestic violence, divorce, or a lack of financial independence as a consequence of the gender wage gap. Many women have very little in the way of superannuation balances to fall back upon.[126] The 2022 Australian Homelessness Monitor also reveals a rapid growth in homelessness in regional Australia over the past four years. Housing affordability stress was the fastest growing cause of homelessness across the country, with the monthly average number of people seeking help due to housing stress increased 27 per cent. On average, 91,300 people use homelessness services each month – an increase of 8 per cent over four years.[127] These problems are entwined: tackling private rental stress and renter insecurity goes hand in hand with addressing unacceptable levels of homelessness.

Housing stress was high prior to recent interest rate increases and have been exacerbated for both groupings (interest rate increases being passed onto renters by landlords, compounding the lack of vacancies). These trends of unaffordable and stressed housing are particularly affecting young people and exacerbating intergenerational inequality though housing asset wealth. This has led to calls over years to leverage institutional investment and specifically (industry) super funds into various forms of affordable housing (defined as rental housing that is provided at below-market rent to those who qualify, including essential workers such as but not limited to police officers and nurses).

As we examine in the next part of this report, barriers to such investment include guaranteeing commercially viable yields and state/federal tax settings along with planning and development red tape. Yet as the same section outlines, the benefits of institutional support include a reliable long-term asset-class that superannuation funds focused on low risk returns can invest in.[128] It also supports greater retirement savings for members, and in the short-to-medium term cheaper housing options for members with mixed tenancy buildings of market rate, social and affordable housing with the potential nation-building achievement of constructing carbon-neutral and/or more energy efficient housing stock. In addition, a pipeline of large-scale construction may insulate more of the domestic economy from future economic shocks. Institutional financing of social and affordable housing in Australia is gaining momentum and attracting international investment.

Part 2

Super lessons

What not to do

Two failed approaches that have proven popular with some governments are first home buyers' schemes and draining superannuation. This section explains why these are examples of what not to do.

First home buyers' schemes and demand-driven price inflation

In recent decades, state and federal housing policy has overly focused on demand incentives such as first home buyer grants. These are perfect examples of what governments ought not to do.

The First Home Owner Grant (FHOG) scheme was introduced on 1 July 2000 initially to offset the GST's implementation. Under the original scheme, a one-off grant of $7,000 was payable to eligible first-home buyers. The scheme was temporarily tripled during the Global Financial Crisis as an economic stimulus measure that ended in 2010. But state-based schemes ($10,000 typically) continued with various adjustments and stamp duty offsets. Despite being presented as a subsidy to buyers, these schemes are rightly identified as a "seller subsidy." [129] The evidence shows they make housing less affordable by bidding up prices mainly to the benefit of sellers. [130]

Loan guarantees

A variation of demand-subsidy schemes is to guarantee a portion of the loan. Normally, first home buyers with less than a twenty per cent deposit need mortgage insurance. In mid-2020, the Morrison government introduced the First Home Loan Deposit scheme (now First Home Guarantee Scheme). It allowed eligible buyers to purchase a modest home with a deposit of as little as five per cent. Government guaranteed loans up to 15 per cent of property value. [131] 15,000 first home buyers took advantage of this scheme, with new loan commitments of $32.124 billion by July 2021.[132]

Evidence suggests that the scheme helped push up house prices by 6.6 per cent over the year that it operated.[133] Although there were about 2,000 fewer home buyers in April than March 2021, they borrowed about $16,000 more on average. Investor loan commitments more than doubled in three months to $9.4 billion in July 2021, the second highest total in Australia's history.[134]

Despite having failed to make housing more affordable, the scheme was expanded in March 2022 to $35,000 guaranteed loans plus an additional $10,000 for regional buyers and $5,000 for single parents through the Regional First Home Buyer Guarantee (RFHBG) and the Family Home Guarantee (FHG).[135] A property price applies to all schemes, albeit subject to geographical location.[136]

According to AHURI, state and federal governments have spent more than $20 billion over the last decade on first home buyers grants and similar policies.[137] That is despite Brendan Coates of the Grattan Institute concluding that such schemes have typically made housing less affordable, benefiting only those who are subsidised but raising the price for everyone else.[138]

Demand subsidies can also exacerbate debt risks. Borrowers can be encouraged to commit to loans that are greater than their true ability to repay. This happened dramatically in 2022 without adequate protections.[139] Domain's First Home Buyer Report 2022 found that the average home deposit of $119,560 was 30 per cent more than Australia's average full-time salary of $90,916.[140]

Finally, there is the fact government is paying money to people who will enter the market anyhow. First home schemes aimed at short-term electoral cycles tend to create long-term problems. Economist Saul Eslake notes: "it's hard to think of any government policy that has been pursued for so long, in the face of such incontrovertible evidence that it doesn't work, than the policy of giving cash to first home buyers in the belief that doing so will promote home ownership."[141]

The latest first homebuying scheme is the Labor Government's 'Help to Buy' (HTB) scheme (already in place in some states), as that was proposed during the May 2022 election. This is a co-ownership scheme, where the Commonwealth co-invests in the property (up to 30 per cent for existing properties or 40 per cent for new builds). The scheme is significantly means-tested and targeted. Individuals must be earning less than $90,000 a year or $120,000 for couples. Only 10,000 places are available each year and location-specific price caps apply. The scheme is due to begin in 2023 and is especially attractive to older buyers who had perhaps lost their home due to a marriage breakup, and risked renting into their retirement.[142] (The government's Regional First Home Buyer Guarantee began in October 2022, which allows 10,000 eligible borrowers to save a 5 per cent deposit and apply for a home loan to borrow the remaining 95 per cent from one of 32 registered lenders. Government guaranteeing the remaining deposit gap of 15 per cent, thus avoiding LMI).[143]

There are two significant drawbacks. First, buying with a smaller deposit during a housing market downturn may result in buyers finding their home is worth less than the debt held against it. Second, more complicated transactional arrangements involving future sale proceeds and capital gains split due to the equity shares (which can be purchased back in part of whole).[144]

Overall, building more affordable stock, making it easier for homebuyers to save for a deposit through higher wages, and helping renters access secure, affordable housing, is preferable.

Draining individual superannuation balances

Ahead of the 2022 federal election, the Morrison government proposed allowing Australians to directly use their super savings to buy their first home. It proposed allowing first home buyers to use up to $50,000 (or 40 per cent) from their accounts for a deposit with the condition that if they sold the home, they returned the capital to their super fund along with a share of capital gains. [145]

This entailed a dramatic departure from the First Home Super Saver (FHSS) scheme, introduced in 2017, which ostensibly helps first-home buyers save a deposit through voluntary (not employer) super contributions of up to $15,000 each financial year and a maximum of $30,000. This scheme enjoys a discounted tax rate of 15 per cent. From 1 July 2022, the maximum savings withdrawal was to increase to $50,000.[146] The scheme is not popular – fewer than 20,000 people having used it. [147]

Australia was fortunate that the 'super for housing' policy did not become law. The overwhelming evidence suggests that draining super would only inflate property prices. The result would have been even more aspirant first-time buyers being excluded while those who managed to purchase their first home would be trapped into even more inflated mortgages. In effect, 'super for housing' policy was another attempt to transfer wealth from aspiring homeowners to existing owners.

The 'super for housing' policy had one other unique negative, which was the timing. The Morrison government had already allowed people to withdraw from their super as part of its Covid response. Tens of billions of dollars of national savings were diverted to pay for current social security and basic public services. An estimated one million Australians had their super fund accounts closed or almost cleaned out because of the Morrison government's early release of super fund scheme, according to a recent report by the Association of Superannuation Funds of Australia (ASFA). $37.8 billion was paid out to more than three million people in 2020, arguably widening the generational wealth divide discussed above, given that young people bore the brunt of the economic crisis. [148]

Much of those funds were withdrawn by young workers, who dominated the severely affected tourism, hospitality, and retail sectors.[149] Of total approved applicants in the 2019–20 financial year, 71 per cent had incomes below $90,000, with 25 percent between $18,201-$37,000 and 46 per cent between $37,001-$90,000. In the 2020-21 financial year, 74 per cent had incomes below $120,000, with 31 per cent between $18,201-$45,000 and 43 per cent between $45,001-$120,000. Almost $3 billion[150] come out of the accounts of those aged under 30. While accounting for more than half of all people accessing their super early, people under the age of 35 took out 46 per cent of funds. Those aged between 26 and 30 withdraw more of their super than any other age group. These are the people who would normally be the next generation of prospective first property buyers. Industry analysis estimates that a 20-year-old who accessed the full $20,000 available under the scheme will lose more than $120,000 from their retirement balance; 25-30 year olds up to $100,000 worse off;

a 35-year-old will be at least $65,000 worse off, and a 40-year-old could lose more than $63,000. [151] Collectively, under 35s will be at least $51bn worse off at retirement because of the Morrison government scheme. [152] APRA data suggests a quarter of super accounts accessed had less than $1,000 left in them and 163,000 super accounts were fully depleted.[153] This scheme especially harmed renters as rents were inflated by people being forced to withdraw their super to keep up with prices. Drawing down super not only makes housing less affordable now, but it would also make retirement less affordable later.

Misguided demand-inflating policies all have one thing in common: they do nothing to address the core reasons people struggle to enter the property market. Those reasons include:

- low wage growth makes deposits difficult to save;
- insecure work makes mortgages difficult to secure;
- tax concessions and demand subsidies give existing investors anti-competitive advantages;
- and shortages of affordable housing mean there simply aren't enough options to buy.

What to do - invest more, build more

A tax regime fit for purpose

Tax reform is needed to refocus property investment on long-term reliable rental returns rather than speculative capital gains.

Governments should lead a mature, rational debate on inequitable, fiscally unsustainable, and anti-housing affordability tax policies such as capital gains tax and negative gearing. A renovated tax regime would increase rental availability and make renting a more secure form of housing, since it would reduce the risk of being evicted due to a change of owners. The result would be less housing stress. It would also improve the competitive position of renters, encouraging landlords to offer better renting experiences. A tax regime that incentivised significant private investment in BTR with proportions set aside for genuinely affordable and community housing would address the housing crisis by increasing supply and improving rental security.

An Environmental, Social, and Governance (ESG) financial investment regulatory regime that formally identifies community housing or affordable housing assets as part of an ESG investment class can also help incentivise institutional investors such as super funds to increase the supply of housing where it is needed, directly addressing the housing crisis. The current tax regime distorts the housing market, making it less accessible, less affordable, and less secure. This must change.

Build-to-rent (BTR)

Build-to-rent (BTR) is a major pillar of the push for large-scale institutional investment in residential housing, with the potential to include an affordable housing component. BTR describes a business model where a residential property investor intends to become the manager or operator of a residential building.

This contrasts with the more familiar build-to-sell (BTS) model where individual dwellings are sold separately, often to 'Mum and Dad' investors or owner-occupiers. BTR complexes are usually held by single owners as a long-term income-generating asset with individual dwellings rented at market rates. This business model can suit institutional investors that treat the asset as a long-term reliable income stream. As a result, the 'enduring' owner could be an Australian super fund, a private equity firm, insurance company, or the developer of the building. BTR residences are often relatively high-end private rentals that incorporate shared amenities. However, they can also include a portion of affordable housing, either with subsidies, ESG asset classification or some other regulatory arrangement.

The sector is an emerging investment option in Australia, worth around $10bn, a tiny amount relative to the US, where it has been an institutional asset class for decades.[154] Adoption has been largely confined to eastern capitals, hampered by unfavourable tax structures. Investors have focused on buildings which achieve a premium to current market rents to support overall return hurdles.

Benefits of BTR

Long-term ownership structures encourage long-term thinking. BTR projects tend to favour construction of higher-quality, higher-rent complexes. The model also encourages more professional and customer-oriented standards of property management.

The long-term investment intention also encourages a focus on building for durability (such as building materials and architectural quality) and efficiency (e.g. to energy and water use). A result is that early investments in BTR tend to focus on the higher end of the market, where such services and amenities can command significant premiums. Affordability can be ensured, however, by making BTR developments conditional on a certain portion of dwellings during planning approval to meet designated affordable long-term housing criteria.

There are macroeconomic and planning benefits of BTR, as well. BTR is less cyclical than the short-term speculative trading that currently drives Australia's housing market. And in contrast to traditional BTS developments, the financial viability of BTR projects does not depend on pre-sales or pre-leasing, or speculative instincts of individual buyers. This leads to greatly reduced development times, offering more flexibility to planners in respect to future zoning changes.[155]

Finally, as long-term investments, the interests of tenants and owners are better aligned with secure tenancies, with all of the personal and community benefits that such security brings (see Part 1).

Impediments to BTR in Australia

The two key impediments are land tax and GST. State-based land taxes are levied on individual dwellings, not entire holdings. Consequently, it penalises a single owner retaining an entire development project rather than selling each unit individually. The GST, meanwhile, is a complex area that requires broader tax reform to resolve. GST is embedded in acquisition and development costs but is not creditable for BTR (because nothing is sold) while it is in BTS developments. This differential treatment again affords favourable tax treatment to developments that are sold rather than rented. In addition, BTR assets are taxed more highly than other fixed-return financial assets. This creates a significant return impact to international institutional investors that might otherwise be 'first movers' in establishing a major new asset class.[156] This tax arrangement has allowed BTS developers to out-bid BTR developers for land acquisitions, impeding the growth of this asset class.

It is important to note that BTR is an emerging asset class and as such the supporting investment frameworks (i.e. valuation frameworks) are still under development. For example, valuation methodology relies upon recent sales transactions do determine appropriate sales metrics for other assets. As the asset class is emerging, there have not been any BTR sales and metrics currently used are being extrapolated from other property sectors.

What is preventing the uptake of build-to-rent in Australia? [157]

Tax disincentives

Land Tax – State land taxes are levied on the basis of individual dwellings not the entire holding and are consequently significantly higher than other property asset classes.

GST Leakage – BTR projects are not entitled to credits for GST paid on land, construction, or operations of the asset where it is developed to derive rental yield, unlike other asset classes.

Managed Investment Trust (MIT) Status – Non-resident investors who invest in MITs that own commercial, industrial, or retail assets have a withholding rate of 15 per cent. BTR does not qualify and therefore attracts 30 per cent withholding tax (with the exception if units are provided as affordable housing), making it unattractive to foreign investors.

Negative Gearing – Negative gearing favours individual ownership vs institutional ownership, as the tax loss is written off against a higher marginal tax rate.

Market barriers

Low Yields – Market rental yields in capital cities where demand would be sufficient to support a large-scale rental market are low – typically around 3 per cent after costs. In the absence of removing tax barriers, BTR does not deliver anything more than a very modest return which will not support a commercial development. However, in established markets, BTR has proven to be the most resilient and least volatile asset class, with a yield profile similar to residential portfolios.

BTS vs BTR – Given low yield and unfavourable tax treatment, BTS developers have consistently been able to out-bid BTR developers for prospective land acquisitions.

Debt Funding – Given that it is a new sector, major Australian banks have been less likely to lend to BTR projects until they have been completed and are 70 per cent+ occupancy

What is needed for BTR to succeed in Australia?

The Australian BTR sector can help alleviate the housing stress discussed in Part 1 while opening serious investment by superannuation funds, insurance companies and other financial institutions. It can introduce a valuable counter-cyclical component into Australia's residential construction industry. Two ingredients are essential: significant, government support and tax and planning concessions.

First, ideally, housing at rents affordable to low- or moderate-income earners and those classified as essential workers would be included in predominantly market-rate BTR schemes, underpinned by more generous CRA payments. As the Grattan Institute has shown, increasing CRA works: in 2021, it acted to reduce housing stress levels for recipients nationwide from 72 per cent to 46 per cent. [158]

One existing tax incentive for BTR relates to the potential for non-profit organisations to be involved in housing development. Community housing providers can procure and operate affordable rental housing at a lower cost than for-profit entities and with less subsidy. [159]

First, government can provide further incentives to encourage super funds and other private sector enterprises to invest in affordable housing, rather than chasing higher returns in overseas built-to-rent projects, through discounted or essentially free-to-lease public lands, on the proviso that a certain per cent is set specifically aside for low-income or essential worker housing. It goes without saying that this is not intended to be a replacement for government investment in social housing – either as public housing owned and managed by state housing authorities or as community housing owned and managed housing providers. It has been the practice and continued expectation that BTR in Australia will take the form of large medium-to-high-density developments (usually exceeding two hundred dwellings) in inner city and well-located middle suburb capital city locations, focused on Melbourne and Sydney. This platform's spread to other cities, including crucially region areas, and lower-density construction should be encouraged, but will require government coordination across levels (commonwealth, state and local) providing superior planning, design and tax support, with clearly enunciated targets around retaining moderate income residents in well-serviced areas through inclusionary zoning that mandates a percentage (between 10 and 20 per cent) of affordable housing earmarked for every new development.

State governments can promote its development through supply-side mechanisms such as loan guarantees in return for rent guarantees, land tax discounts and council rate exemptions, and disallowing conversion of BTR buildings to condominium, creating a level playing field for investors.[160] These actions must be paired with national efforts to demand-side issues, and better national tenancy laws that provide tenants with much greater protections such as security of tenure through stronger rights to long-term leases; limiting annual rent increases; and far stronger regulation of rent evictions.

Inner-urban renewal is an important if unspoken element of BTR and institutional investment in affordable housing models. It can be part of the solution to building well-planned, liveable, and connected outer-suburbs services by cultural, social, and environmental infrastructure, improving the quality of life of residents and workforce productivity, and combatting urban sprawl. BTR is a logical next step when it comes to designing smart cities in Australia's suburbs and regions. BTR could include refurbish-to-rent given that large amounts of public housing stock are of poor quality, and some of which is so poor it is uninhabitable. Refurbishing could be a policy that gets many more housing units into circulation than building new stock. To gain traction, BTR requires significant capital outlays and the patience necessitated by long-term investment, as well as targeted government support. BTR is not a silver bullet, but a part of a holistic national strategy.

BTR is a significant widening of choice which responds to Australia's gradual shift towards more European-style housing, where people can happily rent for life without being penalised financially.

As governments support BTR, a note of caution: this should not become a gateway to selling individual units after an interim period of generous land tax concessions. There should be no way of trying to 'have your cake and eat it too,' by cashing in on both rental returns and capital gains (or avoiding costs by selling out before major maintenance costs fall due). BTR should be for the life of the building (e.g. 40 years) to ensure developers are incentivised to build high quality, energy efficient buildings. BTR should be directed to new construction (or conversions of non-residential buildings) to ensure it adds to supply rather than consolidating portfolios of existing properties.

Build-to-rent-to-own

BTRO is a new twist on BTR. This model offers tenants a pathway to ownership. For instance, after five years of renting, tenants may be offered an option of buying at the end of the lease. This can be secured by paying a refundable amount of one per cent of the purchase price. The rent and purchase price are both agreed up-front, giving renters stability while they save over the lease period.

One example of a developer using this model is Make Ventures in Victoria, a small private residential development and investment company.

Make Ventures has completed a 66-unit project in Melbourne.[162] BTRO tenants do not contribute to a deposit, so they are not locked into buying. Prospective purchasers can buy-in prior to construction, obtaining rights akin to a landlord in an owners' corporation, providing a sense of ownership and aligning the interests of developers and residents.[163] The flexibility of BTRO has made it particularly appealing to singles or newly singles (especially singles with children),[164] and allows them to become ensconced in a community.

This model requires prudent regulation by government. Victoria has led the way. The Assemble Communities platform (essentially the same developer as Make Ventures) discussed in Part 3 is a leading example. Like BTR, it faces property tax hurdles.[165] Nonetheless, BTRO is a potential 'third way' of more affordable, secure housing.[166]

Easing the pressure on the private rental market can also be informed by developments in the community housing sector and best-practice coordination between different layers of government. Adequate public housing supply is an essential part of the housing affordability equation. (Appendix A explain how they fit into the housing affordability and supply jigsaw). In this respect, the new national peak agency specifically tasked with driving a holistic approach to affordable, secure housing including short, medium- and long-term housing targets, is a welcome addition.

Part 3

Super solutions

Mapping current investments - Australia

This section reviews recent housing investments by Australian super funds and other institutional investors. They use a range of frameworks. There is a specific focus on the use of NHFIC's Affordable Housing Bonds. It then reviews international institutional investments, notably the role that ESG regulations have had in mobilising institutional investment into housing internationally.

Australian states and territories have made major new funding commitments to increase the supply of social and affordable housing in recent years.

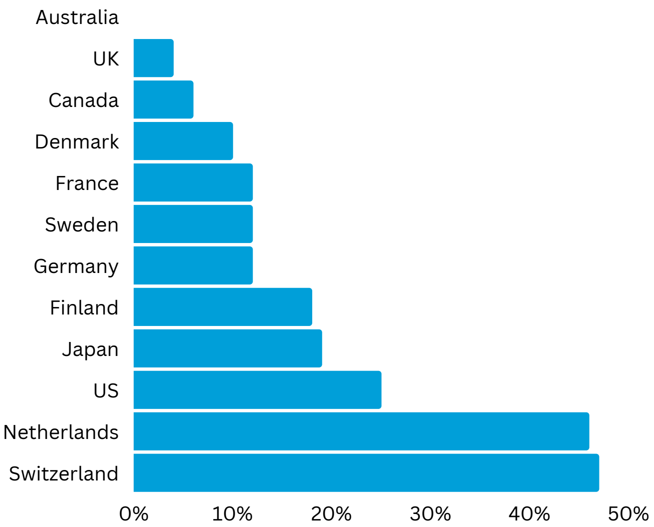

Figure 5. Residential as a percentage of global institutional portfolios.[170]

Over $11 billion has been committed by state and territory governments to deliver nearly 34,000 new homes between 2021-2025.[167] Australia currently rates poorly in relation to institutional investment in residential housing (see Figure 5), due to the fragmented structure of home ownership and predominance of mum and dad investors. Nonetheless, many social and affordable projects have been built or are scheduled in coming years.

There are over 40 BTR projects in Australia that are either underway or completed. Melbourne is home to 41 per cent of the completed projects and is expected to be the site for as much as 60 per cent of the BTR projects in Australia by 2026. In contrast, Sydney holds 13 per cent while 25 per cent are in south-east Queensland. [168] At the end of 2021, it was assessed that there were 2,900 BTR units in Australia, with the number then expected to hit 5,150 in 2022 and 12,000 by 2024. 4,000 units have been completed recently, with 8,100 currently under construction and another 4,400 regarded as good prospects. [169]

State governments

The Berejiklian NSW state government explicitly supported BTR by halving land tax for such projects and reforming stamp duty in 2020. A new planning policy proposed BTR development standards, providing guidance for context, character, sustainability, and amenity. Foreign investor surcharges were waived until 2040 for BTR projects and the government directly invested in a 400-home project in Redfern, that includes a mix of social, affordable, and private rental housing.[171]

The Victorian government followed suit by also halving land tax for BTR projects. In addition, it provided land to developers for its BTR PPP pilot under a 40-year leasehold arrangement. After the term expires, the improved land and buildings revert to state ownership. A private consortium, consisting of Tetris Capital, Icon Kajima, Citta Group and CHL, have been awarded three public housing estate-renewal projects. These projects commenced in October 2021 and when completed aim to deliver 1,091 units, half of which will be social housing replacing existing stock and the rest rented at market rates.[172]

Queensland has also partnered with several BTR developers offering rent subsidies, and is piloting its own unique scheme, as is the ACT. South Australia intends to follow the NSW and Victoria approach of halving land tax for eligible BTR projects from 2023.[173]

Rapid growth

There are estimates that BTR could grow from its current value of around $10 billion to as much as $300 billion by 2027.[174] This comes as the number of BTR market participants jumped from 12 to 35 between the end of 2020 and early 2022.[175] In October 2022 alone, US BTR player Sentinel Real Estate secured the support of Dutch pension fund manager PGGM to create a $1.5 billion portfolio of around 2,500 BTR units in Australia; Mirvac began searching for an investment partner for its $1.7 billion Australian BTR portfolio; Assembly Funds Management (backed by the Lowy family property group) acquired an apartment block in Melbourne's inner north for $65 million with plans to turn into a BTR-style offering; and Aware Super, Australia's 3rd largest industry fund,[176] announced BTR as a cornerstone of its planned $7 billion property platform.[177] Appendix B summarises institutional investments made or planned to be made in this space.

NHFIC's Affordable Housing Bond Aggregator (AHBA) Loans

NHFIC's Affordable Housing Bond Aggregator (AHBA) provides low cost, long-term loans to registered community housing providers (CHPs) to support the provision of more social and affordable housing. NHFIC funds AHBA loans by issuing its own bonds into the wholesale capital market. The commonwealth has also provided a $1 billion line of credit facility through which NHFIC may advance initial loans to CHPs prior to issuing bonds. The AHBA broadly uses a 'pass-through' model to provide greater funding certainty and lower finance costs to CHPs. This assists CHP's to expand their building operations and the supply of social and affordable housing.[178]

	Volume ($m)	Return	Tenor (years)	Date	Premium
1	$315	2.38%	10	28 Mar 2019	+48.3 bps
2	$315	1.52%	10.5	27 Nov 2019	+37.8 bps
3	$695	2.06%	12	29 Jun 2020	+38 bps
4	$408	2.335%	15	2 Jun 2021	+21.7 bps
5	$362	1.74%	10	15 Jun 2021	+21.5 bps
6	$100	3mBBSW+18bps*	10-yr floating	15 Jun 2021	+21.5 bps
7	$133	3.14%	12	28 Mar 2022	+34.6 bps
8	$65	4.725%	15	30 Jun 2022	+58.4 bps

**18 basis points above the 3-month Bank Bill Swap Rate*

Figure 6. NHFIC Bond Issuances (May 2019 - June 2022: $2.4b over 2.5 years) [179]

State	% Metro (total lifetime)	% Regional (total lifetime)	Value of 21-22 approvals ($m)	Dwellings supported 21-22
NSW	75	25	319.5	1,866
VIC	82	18	127.5	1,033
QLD	80	20	0	0
SA	87	13	0	0
WA	90	10	0	0
TAS	21	79	62.3	397
Overall	76	24	509.3	3,296

Figure 7. AHBA metro v regional split by state 2019 - 2022 [180]

Across 2021-22 alone, NHFIC approved $509.3 million of new loans to CHPs, saving them $96.2m, (and $550.0 million to date), supported 3,296 social and affordable homes; issued $198 million in new bonds, attracted three new international investors; financed five CHPs to deliver 733 homes, saving them $25.9m; and pledged 40,000 new homes under the Housing Accord. To date, NHFIC has allocated $3.4 billion for social and affordable housing, supporting 39 CHPs deliver 7,003 new and 9,362 existing social and affordable dwellings. Cbus and UniSuper have invested in AHBA.

Mapping current investments - overseas examples

Overseas, institutions such as pension funds and insurance companies have been very active in residential investment in countries where private rented residential property accounts for a much larger part of residential stock such as Germany (60 per cent) and the US (32 per cent).

United Kingdom

In the United Kingdom, since 1990, and especially after 2010, the percentage of UK housing stock in the private rented sector has grown from 9 per cent to 19 per cent, mostly due to BTR investment, especially in London. [181] In part this owes to long-standing fears of rent control and other reputational concerns related to the residential rental ownership dissipating. As Frontier Advisors points out, the affordable housing sector in the UK targets unlevered returns between 5 to 6 per cent over a ten-year period, in line with the overall residential market and comparable to the returns expected by other real estate segments such as offices.[182] In Britain, total investment in the private rented sector has grown from 1 billion GPBs in 2015 to an anticipated 4.02bn GBP in 2020. To date, the majority of completed projects have come from London and major provincial cities such as Manchester, Liverpool, Sheffield, and construction is underway in Birmingham and Leeds.[183]

UK government incentives for the social and affordable housing sector take two major forms. Firstly, the affordable homes program (AHP) which provides government grant funding to support the capital costs of developing affordable housing for rent or sale in the UK. This is a joint-funding exercise between government and private investors. To be eligible, for-profit companies must comply with the government housing accelerator objectives, including rental income targets of 80 per cent (maximum) of market rental value. The UK government has committed £4.7 billion of capital between 2016 and 2021 to help build at least 135,000 homes across the UK. Secondly, value added tax (VAT, Australia's GST equivalent) on development costs. Unlike Australia, BTR development projects can recover most of the VAT incurred on site acquisition and possibly some elements of construction costs which range between 0 and 20 per cent, where the developer grants a long lease (more than 21 years). In practice, this means developers work closely with local councils and housing associations and can secure extra-long lease terms, in the region of 40 years.[184]

In the UK, affordable housing projects are primarily delivered by local authorities and housing associations. These comprise a network of approximately 1,800 organisations, collectively represented by the National Housing Federation. Affordable housing programs in the UK include the Shared Ownership and Affordable Homes Programme. This program has made 4.7 billion GBP in grants to buyers under a shared-equity arrangement. The UK also has the National Planning Policy Framework (NPPF) to ensure land-use is maximised, green-belts are protected, and planning permissions actually result in homes being built. Major sites are also expected to ensure 10 per cent of homes are classed as affordable. The framework ensures developers are transparent about affordable housing commitments at the planning stage. It enables local authorities to account for building speed when issuing planning permissions and allows them to revoke permissions if construction does not begin within two years. Councils are also required to adopt the new nationwide standard so geographic distribution of housing needs can be readily assessed.[185]

In the UK, private investment in social and affordable housing trumps government grant funding by a factor of three to one. Property agent Savills UK estimates that the combination of debt finance, government grant, and planning contributions is sufficient to fund delivery of around 190,000 new affordable rental dwellings and 60,000 shared ownership dwellings between 2021-26.[186]

United States and Canada

Referred to as 'multi-family housing' in North America, BTR has generated more than 6.3 million new apartments since 1992 in the US. These now account for one in six of America's rental homes. Although briefly interrupted by the GFC, BTR is a deep, mature market with a liquid secondary market for assets. National BTR output has been running at around 300,000 units annually for at least four decades.[187] BTR is "considered one of the primary institutional real estate classes, along with office, shopping centres, and industrial, and makes up 12 per cent (USD117b) of the listed REIT market and 24 per cent (USD131b) of the unlisted market."[188] Approximately half of all the US's multi-family housing units can be classified as affordable. AHURI reports the US sector has delivered attractive returns, around 10 per cent per annum over the last decade.[189]

Institutional investment into social and affordable housing in the US increased significantly in recent years, with more than one million affordable rental units having been financed by private investors. Much of the credit for this growth is attributed to the Low-Income Housing Tax Credit (LIHTC) scheme (inaugurated in 1986). There were more than 100,000 affordable new dwellings built in 2020 alone, accounting for 10 per cent of all residential housing built that year.

The US has found significant benefits from the non-cyclicality of this type of construction. The LIHTC scheme provides a perpetual stream of funds that ensures affordable housing investment persists through economic downturns and shocks.[190]

It has been long used to address affordable housing supply shortages by encouraging private capital to invest in the development and preservation of affordable rental housing for low-income households. The program works well for two reasons: 1) the federal government issues tax credits to state and territorial governments and State Housing Associations award the credits to private developers of affordable rental projects through a competitive process delivering a minimum 15-year outcome, and 2) because social and affordable housing developers use recurring tax subsidies to fund new projects and sell them to investors who receive ten years' worth of tax credits.

No equivalent scheme exists in Australia, despite NHFIC announcing in April 2022 that the "Community Housing Industry Association and a consortium of private and public sector partners have commenced the development of an industry specific environmental, social and governance (ESG) reporting standard." [191] It should be stressed that this admirable reporting standard only applies to the community housing sector. (More details can be found in the ESG later section).

Two other North American examples are worth examining – Vancouver (Canada) and Portland (US). Both cities have ambitious private sector BTR programs, built near transport lines.

Vancouver, Canada

Canada is investing C$40 billion (A$42.6b) over the next ten years in its National Housing Strategy, which sees local administrations work in tandem with the national government. Vancouver has created the most new or renewed social and affordable housing in the past three years, having built about fifteen times as much as Melbourne in per capita terms. Until recently, it achieved this with limited federal government support. Local and provincial government, investors, and non-profit developers have developed six integrated 'game-changers,' which together are increasing capacity to scale up a viable non-speculative housing sector. In Vancouver, inclusionary zoning has been placed at the heart of housing policy, where the rate of affordable housing per new developments is set at 20 per cent. Although outcomes are not yet meeting the needs of low- and moderate-income households, they show promise of growing suitable hybrid supportive, social, and private rental housing.

Canada has decentralised its affordable housing strategy. Approximately 80 per cent is administered through state or provincial programs. The remainder is administered federally, primarily under the Canada Mortgage and Housing Corporation (CMHC). The CMHC provides annual allocations to each province/territory, which then design affordable housing programs according to local needs.

Notable affordable housing programs in Canada include: the Affordable Housing Innovation Fund (AHIF) to encourage new funding models and innovative building techniques and outcomes in the affordable housing sector; Housing Investment Corporation (HIC) which is a special purpose lender created using funds sourced from AHIF; a C$40 billion National Housing Strategy whose National Housing Co-Investment Fund (similar to Housing Australia) provides low-cost loans and capital for affordable housing; and Rental Housing Construction Tax Credit (RHCTC), which saw the Manitoba province provide tax credits over a 5-year period equal to 8 per cent of capital cost for affordable housing, up to a total of C$12,000 per unit, on the proviso that the building consists of five or more new residential rental dwellings; and at least 10 per cent are affordable rental dwellings.[192] Canada is also pursuing BTRO projects as part of a $2 billion program to double home-building in the next 10 years, creating 17,000 new homes. It intends to include more rapid housing for the homeless, along with affordable and market-rate housing projects. Of the $2 billion, $200 million is earmarked for a new BTRO program. This fund, managed by the Canada Mortgage and Housing Corp. (CMHC), encourages developers to create more opportunities for first-time homebuyers burdened by saving for a deposit.[193]

Portland

In America, Portland developers have almost entirely moved from speculative condominium development to more affordable BTR in recent years. It has also mandated inclusionary zoning, which could be scaled up to cover all well-located new developments. Portland has mandatory provisions of 20 per cent of new housing developments affordable to low-income households or 10 per cent to very low-income households. With limited but creative interventions, Portland has produced six times the amount of affordable housing (essential worker) per capita as Melbourne.

Both Portland and Vancouver have been able to provide well-located and appropriate housing, aligned with local services and infrastructure. North America also demonstrates the value of having one agency to drive change. It is far more efficient to have one purposeful national agency and parallel state government agencies explicitly mandated to target, plan, develop and deliver housing affordability, bringing together for-profit and non-profit housing providers, investors, and tenant associations.[194] This is why the establishment of Housing Australia could be a game-changer.

Nordic countries

Nordic countries provide potentially important lessons. Take, for example, Finland. Neither Finland nor Australia have historically been a nation of renters – about 70 per cent of Finnish housing is owner-occupied, a proportion similar to our nation’s. However, like Germany, rental agreements in Finland are generally permanent. Another point of departure is the nature and supply of affordable housing. In Finland, affordable housing is largely built by the private sector, but the government provides long-term low-interest loans to developers on a 5 per cent deposit and guarantees returns with a housing benefit that can cover up to 80 per cent of full market rent. The equivalent payment in Australia, CRA, is capped at a maximum rate of $75.80 per week for single people living alone, depending on rent paid, and for a couple $152.80, barely enough to avoid rental stress. Comparatively, in Australia this represents some 15 to 20 per cent of full market (unit) rent.

Social housing in Finland is generally built on publicly owned land. Local governments in Finland tend to control much larger tracts of urban land than in Australia. The City of Helsinki owns about half the land in the capital, giving it a powerful hand in planning decisions. A fifth of the dwellings in all new residential developments must be set aside for social housing, and authorities use their rental guarantee to ensure that new social housing meets high standards of design and energy efficiency. In Australia, where publicly owned land is split across three levels of government, local authorities lack the same leverage. However, Australians cities do have many suitable parcels of unused, "lazy" public land that could be used for new dwellings.[195] Drawing on the Finnish experience, leveraging community housing and BTR could boost private rental stocks and as per the case of the US and the UK smooth out boom-and-bust cycles in residential construction.

Environmental, social and governance templates

International examples show the potential of uniform ESG regulations to drive housing investment and construction, whereby investors do not indirectly support lesser building standards and homes that do not promote wellbeing, and which is intimately linked to climate change reporting and prudent climate action Uniform ESG regulations can also potentially address other interlinking issues such as cost of living through lower energy prices and better energy efficiency, whilst also driving the electrification in housing stock to meet net zero ambitions. Further, this might dovetail with the location of affordable housing in 'green zones' ideally are built close to public transport infrastructure, reduce congestion, and reduce the use of private cars (also reducing living costs).

ESG in the UK

For example, in 2020, the UK ESG Social Housing Working Group launched the voluntary reporting framework: the Sustainability Reporting Standard for Social Housing (SRS), which covers forty-eight criteria such as zero carbon targets, affordability, safety, and resident voice. The SRS enables housing providers to report their ESG performance in a way that lenders and investors can easily assess and incorporate into their ESG investment strategy, opening opportunities for investors and helping secure finance for social housing.[196]

Globally, there are over 500 voluntary sustainability reporting frameworks, such as the Task Force on Climate-Related Financial Disclosures (TCFD), Carbon Disclosures Standards Board (CDSB) and the Global Reporting Initiative (GRI). But increasingly, countries are adopting mandatory ESG reporting frameworks. The UK, European Union, and the US all have such mandatory frameworks.[197] Clear, transparent, consistent reporting helps unlock finance for ESG housing objectives. Nationally consistent frameworks have considerable advantages, but so far, Australia does not have such reporting mandates.

This section examines some of the key features of ESG reporting in the US, UK, and EU, then contrasts those systems with the current Australian system.

ESG in the US

In the US, United Methodist Church employee's retirement plans, investment funds, and health/welfare benefit plans are supervised and administered by a not-for-profit agency: Wespath Benefits and Investments. Wespath's impact investing seeks competitive returns while having a measurably positive impact on society and the environment. Wespath identifies itself as having a Positive Social Purpose (PSP). To support that purpose, its lending program invests in affordable housing and community development projects in the United States and in global microfinance. As of December 2017, it had an impact investment portfolio of USD 3.2bn, with around USD 900 million invested through the PSP Lending Program. In addition, Wespath invested over USD 500 million into energy efficiency, low-emissions electricity and transport, and water and waste management projects.[198]

It would not have had the confidence to make nor ability to justify these investments were it not for transparent ESG reporting standards that helped demonstrate how the investments aligned with their non-financial objectives.

While voluntary ESG is relatively common across the US, there are increasingly emergent mandatory ESG reporting requirements.

In support of commitments to achieve net-zero emissions by 2050, President Biden signed the Executive Order on Climate-Related Financial Risk in 2021, which calls for public disclosure of such risks. In March 2022, the Securities and Exchange Commission (SEC) proposed expanding the annual reporting obligations of publicly traded companies to include disclosures of their climate-risks. Reporting would include: 1) the company's climate risk management processes; 2) how the risks identified would impact financial performance; 3) how these risks are managed and mitigated; and 4) any scenario analysis, transition plans, and publicly announced climate goals. Additionally, companies would be required to disclose their Scope 1 and 2 emissions from 2024.

Beyond federal regulations, companies in the US may also have to comply with state regulations, such as California which in 2022 passed the Climate Corporate Accountability Act. This act requires companies operating in California that generate over $1 billion in annual revenue to disclose their GHG emissions.[199] Such reporting requirements empower investors to make decisions that align with a fuller range of their objectives.

ESG in the UK

In the UK, the *Companies Act* 2006 regulates the annual reporting obligations of companies and is a key legislative instrument for ESG reporting. They see such reporting as essential to achieving the UK's legislated target of net zero emissions by 2050.

In 2022, reporting obligations under the *Companies Act* were expanded to include sustainability matters on the recommendation of the Task Force on Climate-Related Financial Disclosure (TCFD). Companies must report their strategy, processes, and due diligence regarding their impact on the environment, their employees, social matters, human rights, anti-corruption, and anti-bribery. Climate disclosures must include related risks and opportunities, and how these are managed through targets, KPIs, and corporate governance. Starting in 2023, ESG reporting in the UK will be further formalised through the Sustainability Disclosure Requirements (SDRs) for large companies. This provides a framework for companies to manage sustainability risks, opportunities, impacts, and targets. Additionally, large UK companies are required to report their domestic energy use and Scope 1 and 2 emissions in both their annual reports and through the Streamlined Energy and Carbon Reporting process. These ESG disclosure are expected to become fully mandatory for large companies in the UK by 2025.

ESG in the EU

ESG reporting is also mandatory in the EU for large companies. Like the UK, it has committed to carbon neutrality by 2050. In line with the Green Deal, the EU has several reporting measures to redirect financing to sustainable activities and engage the private sector. Since 2017, large companies must comply with the EU Non-Financial Reporting Directive (NFRD), requiring annual disclosure of social and environmental issues as well as board diversity measures (i.e. age, gender, educational and professional background). By 2023, the NFRD will be expanded to include the Corporate Social Responsibility Directive (CSRD). This expands reporting requirements all listed companies and large companies, expanding the number of companies covered from about 11,000 to more than 50,000. It also introduces stricter requirements under the new EU sustainability reporting standards and a scientifically enforceable definition of sustainable activities to minimise greenwashing.

International alignment

With so many reporting standards, there have been efforts to simplify processes through international alignment. The International Sustainability Standards Board (ISSB), a sibling to the International Financial Reporting Standards Foundation (IFRS), was announced at COP26 in November 2021. The aim of the ISSB is to set recommendations for ESG reporting and converge existing standards for future financial reports and ESG reports so they make sense read together.[200]

ESG in Australia

In Australia there are a plethora of Environmental, Social and Governance (ESG) standards, with voluntary reporting for businesses operating in a transparent, environmentally, and socially responsible way and practicing good governance in terms of identifying and implement ESG goals.

In 2022, CHIA commissioned and set a "standard tool for measuring, managing, reporting and interpreting community impact generated by the Australian community housing sector", in its words "the first edition of the ESG Reporting Standard for Australian community housing, developed for, and by, the sector". [201] The most recent addition was on 12 December 2022: the Albanese government announced plans to mandate banks and other large businesses to publicly announce their emission reduction activities. In the words of Treasurer, Jim Chalmers, Australian firms "need to make credible disclosures to remain competitive in global capital markets … this information is need-to-know – essential to mobilising the weight of our financial system behind the net zero transition." Further, the government aims to tackle "greenwashing – ensuring the credibility of sustainability-related financial targets, products and investments – because credibility is everything". Treasury has released a consultation paper, with public submissions having closed in February 2023, on the shape of a domestic climate risk disclosure system, phased in over time with "appropriately tailored requirements to comparable commonwealth public sector corporate entities and investment funds". [202] It is expected that Treasury will issue a public report incorporating submissions and recommendations sometime during 2023.

The challenge for Australian policymakers is to harmonise numerous voluntary frameworks and standards. The sheer number of these can confuse the market, leading to non-compliance.

Simplifying the regime will improve compliance and facilitate ESG-aligned investments. That is the judgement of Standards Australia [203] and was recently backed up by the Australian Competition and Consumer Commission (ACCC) when the ACCC warned companies of the need to prove their sustainability claims.[204] A further challenge relates to measuring 'scope 3 emissions' — embedded in their supply chains and partnerships, both upstream and downstream – as well as potential human rights abuses. [205] A comprehensive, national climate risk disclosure system will go some way to harmonising these standards. Housing developers/providers needing to report the ESG performance of their building and occupants, particularly in BTR, should include a mechanism where developers can be held accountable after the keys are handed over. This would address reputational risk that many super funds have often cited as a reason to not invest in affordable homes. Harmonising reporting standards should act as a stepping-stone towards or run in tandem with the necessary uplift required in general building standards to ensure energy efficiency and low running cost homes for Australians and well-designed planning (e.g. resilient to floods, draughts and bushfires accruing from climate change – for instance, consult the Green Building Council Australia voluntary rating tool). [206] The latter element of improved ESG is beyond the scope of this report, nonetheless, housing is undeniably a critical element of Australia's ESG agenda.

Putting the jigsaw pieces together - potential pathways for super funds

There are clear benefits accruing to members of investing in the supply of social and affordable housing, but only if government provides certainty and implements whole of sector reform, especially in the non NHFIC bond issuance sector. Expansion of BTR and BTRO might provide access to cheaper, high quality and energy friendly secure housing, and for the fund itself, as with others, long-run steady, predictable returns on ESG compliant investments, in turn potentially lifting member's retirement incomes. Returns will come from the rent received from tenants, combined with the potential capital growth on the value of apartments. These locations are high employment areas for those working in retail, hospitality, and service sector services, making these investments especially relevant. Finally, it would be more than advantageous if employees working in retail, essential services and cleaning were clearly defined as essential workers, something which requires a consistent national charter as there exists a significant variability in the definition of a essential worker nationally, nor is the term universal, with 'essential worker' and 'frontline service provider' often having the same meaning. [207] As AHURI have pointed out this is an impediment when local councils are deciding who to put into existing and new affordable housing developments, exacerbated by the fragmented nature of regulatory authorities, advisory boards and CHPs across states (especially in regional areas).[208]

Investment potential

Analysing potential strategies that may adopt for investing in housing needs to consider both the financial returns in terms of risk and yield, and the social impact in terms of the additional number of dwellings supplied where they are needed. The NHFIC bond and loan scheme, AHBA, offers a convenient comparison for low-risk fixed income housing assets because there is clear information and data available.

NHFIC's annual reports provide detail on the eight bond issuances they have managed since their first transaction in March 2019. This includes the date and face value of each issuance, the coupon rate and maturity date. They also report the premium relative to the Australian Commonwealth Government Bond (ACGB) benchmark. NHFIC also provides detail on how the finance raised by those bond issuances is used. This includes the name of the CHPs of other projects supported, the value of the loan, use to which it is put, and the number of new or existing dwellings supported.

In total, NHFIC has raised almost $2.4 billion over the first 42 months of its AHBA program – an average of $684 million per year. Seven of the eight issuances were fixed rate returns over at least 10 years (two issuances had a tenor of 12 years and two had 15 years). The fixed rate issuances offered an average fixed return of 2.57 per cent and an average premium of 37.2 basis points above the ACGB benchmark at the time of issuance. NHFIC also report the number of investors in each issuance. The number ranges between 20 and 35, although many interested investors also miss out as each issuance has been oversubscribed. Assuming an average issuance has thirty successful investors that are allocated an equal portion of bonds, we estimate the value a successful institutional investor might expect to be able to invest through the AHBA scheme each year. An institutional investor that successfully purchased an average share of each issuance could expect to have a portfolio of $80 million NHFIC bonds, generating an average fixed rate of return of just over 2.5 percent, or 37.2 basis points above the ACGB benchmark. They would have added $23 million to their portfolio each year (around $10 million per issuance). These figures reflect only the first 42 months of the program – there are reasons to expect the program will grow over time, but establishing the baseline helps ground expectations. These benchmark figures are summarised below (Figure 8):

In relation to the impact of this investment, NHFIC provide detailed reports. Our summary is not intended to be a comprehensive statement of the value of NHFIC, which does much more than simply issue loans. It is intended only as a benchmark estimate of the housing impact an investor might expect. According to NHFIC's annual report for 2022, NHFIC has "approved $3.0 billion in long-term loans to 38 CHPs, supporting 16,363 new and existing homes and potentially saving these CHPs an estimated $550 million in interest and fees as well as other indirect costs associated with refinancing." They also "approved $413.5 million in infrastructure facilities to unlock over 7,500 projected new dwellings and accelerate housing supply [and] helped over 63,000 Australians purchase or build a home."

	Total issuance	Ave. annual issuance value ($m)	Ave. return (%)	Ave. premium relative to ACGB benchmark (BP)
First 42 months	$2,393	$684	2.557%	37.2 bps
Per investor (assuming thirty equal investors)	$80	$23	2.557%	37.2 bps

Figure 8. Bond strategy benchmarks: NHFIC Summary Data

In 2021-22, the AHBA program, “approved $509.3 million of new loans to CHPs, supporting the delivery of 3,296 social and affordable dwellings and saving an estimated $96.2 million in interest and fees as well as other indirect costs [and] provided eleven capacity building program grants to assist CHPs to develop their financial and management capabilities.”

We assume that the $3.0 billion in loans to CHPs, supporting 16,363 new and existing homes and saving CHPs $550 million is the most directly measurable social benefit in terms of housing that results from the AHBA bond scheme. (We do not concern ourselves here that the value of loans is higher than the value of bond issuances – $3.0 billion relative to $2.4 billion). As we previously considered that each issuance included an average of thirty institutional investors, we assume that an average investor participating in all eight issuances could estimate their social impact to be around:

- $80 million in loans
- 545 new or existing homes supported
- $18 million in savings to CHPs.

Combined with the results summarised in Figure 9, these figures offer a reasonable benchmark for assessing the housing investment strategy of an institutional investor in Australia. Investing $80 million over 3 years to support 545 homes while generating an average fixed rate return of 2.557 per cent (37.2 basis points above the benchmark rate) provides a lower bound comparison, because it is the performance available from a conservative strategy of simply investing in bond issuances.

Outperforming this baseline can mean achieving a higher return and consequently a bigger impact. It can also mean investing at a larger scale. Scale is essential. Investing $2 billion in affordable housing would equate to an investment twenty-five times larger than what might be available through a bonds-only strategy. At the same rate of social impact per dollar, which would equate to support for around 13,600 homes. We can consider this a reasonable target, assuming the intention to invest $2 billion.

Achieving this scale cannot rely on simply investing more in NHFIC bonds, although if the supply increases that can be considered. A mixed strategy that includes some form of direct equity or partnership with developers and different levels of government is likely to be required.

As discussed in Part 3, Aware Super reports its Essential Worker Housing Program (EWHP) includes fifteen projects, with “more than 1,800 units”. From this we can assume around 120 units per project. If the target is to support around 13,600 homes, this implies 113 projects.

The next step in planning a housing investment strategy for super funds would be to identify the minimum return expected, work with developers to assess the investment opportunities, and work with governments to bridge the gap between a commercial return and a social impact offering.

Part 4

Recommendations

As this report has shown there are a range of options available to institutional investors seeking to apply their financial resources to helping solve one of Australia's most intractable problems – the unaffordability and supply of housing. Solving our national housing crisis requires a holistic approach to bring together investors, developers, governments (commonwealth, state and local), housing peak bodies and other interested parties working in collaboration to ensure Australia's housing supply meets the affordability needs of households, communities, and investors alike.

To make this possible, we offer the following six point 'Super Solution' recommendations:

1. To encourage institutional investment and bridge the affordable housing price gap:

   a. The commonwealth's creation of Housing Australia underscores the need for said body to design, implement and track the progress of a **long-term national housing strategy**, mapping future demand and supply needs, including by location and type of dwelling. Co-designed with the commonwealth, state and local governments, this strategy should precisely spell out the role of **private, institutional investors such as superannuation funds.** Additionally, the national housing strategy must work towards a **far more ambitious aim for affordable housing within the Housing Accord**. Currently they constitute five per cent of the one million homes proposed to be built over five years. Over the next two decades, that aim should be lifted to 10-15 per cent. Finally, a national strategy should have a **clearly defined focus on building more regional and middle-to-outer suburban houses.** Schemes such as BTR and BTRO cannot be restricted to the inner-cities, catering to higher income earners. What is required is **mandatory inclusionary zoning for new affordable housing nationally**. HA should identify priority sites in both regional and metropolitan locations, with minimum affordable housing requirements (20-30 per cent).

   b. As part of the commonwealth's stated commitment to, attracting institutional investors to invest in social and affordable housing, the board of NHFIC (soon to be Housing Australia) should have a **mandatory permanent industry superannuation fund presence** along with **community housing peak bodies**, e.g. Community

Housing Industry Association, to draw on their **financial expertise** and gain **valuable insights about the housing needs of its membership**.

c. The commonwealth should consider introducing **targeted tax credits** for meeting yield returns for institutional bond issuance investment in new builds. This could be modelled on the **US's Low-Income Housing Tax Credit System**; whereby social and affordable housing developers convert recurrent tax subsidies to capital project funding by selling them to investors who offset them to tax liabilities.

d. In terms of other forms of government intervention to bridge the yield gap, a further option is the Commonwealth **guaranteeing** an agreed rate of return per annum over the life of the built asset to institutional investors, taking into consideration the asset's depreciation. Similarly, as practised in the UK, government could issue non-repayable **capital grants to developers** to cover a portion of (strictly defined) construction costs, on the proviso dwellings have a mandated affordable component.

2. Australia lacks a clear and consistent definition of who constitutes an essential worker. Too many workers who cannot work from home and whose employment is vital to the functioning of our society and economy are precluded from existing definitions and programs. Housing Australia, as part of its national housing strategy, **should mandate a clear, consistent national definition of who is an essential worker.** Covid has shown us that **employees working in retail, services and cleaning were essential workers, and they should be incorporated into the consistent national charter.** This might have the potential to encourage institutional investors to invest more heavily in BTR, BTRO and essential worker housing which cover their membership.

3. The transformation of renting in Australia to a mainstream, non-transitional form of housing and long-term trends towards housing stress requires the commonwealth to work in tandem with state, territory, and local governments to support supply-side tax and other changes to **facilitate significant institutional investment** particularly by superannuation funds in large-scale construction of build-to-rent and like models. Current legislation does not clearly account for these asset classes. **Reform is needed to facilitate the conditions to make investing in affordable housing more sustainable**, through GST reform (a commonwealth responsibility) and land tax changes, mandatory inclusionary zoning (state and local government responsibility), and subsidies for investors (commonwealth and states). There is **scope for government to lead a renewed and rational debate about housing market tax distortions** such as regressive and fiscally imprudent Capital Gains Tax settings and Negative Gearing limits.

4. Linked explicitly to these reforms and expansion of build-to-rent etc, Housing Australia should establish basic guidelines around **a national charter of renter's rights and responsibilities**, setting national minimum standards around security of tenure, fair rent increases, security bonds (including ending the 'dead money' practice of end-of-lease rental security bonds not delivering for renters and establish a bond waiver system for women and families fleeing domestic violence). Our national housing laws must stress that security of tenure is paramount. Germany is the best-practice country which Housing Australia can seek to institutionally emulate in an Australian setting.

5. Housing Australia, working with the Clean Energy Financial Corporation and stakeholders such as CHIA but also institutional investors must expediate the **creation of a nationally-consistent Environmental Social Governance reporting standards**, with the aim of common shifting from voluntary to mandatory reporting standards for all developers in a transparent, consistent, and comparable way, to **drive and better inform responsible housing investment and construction.** As it stands Australia is bereft of a uniform ESG framework, which ideally would be incorporated into the Corporations Act. Templates as discussed in this report include the UK ESG Social Housing Working Group's Sustainability Reporting Standard for Social Housing and the International Sustainability Standards Board announced at COP26 in November 2021. The overarching aim is to **harmonise voluntary frameworks and standards**, act against ESG non-compliance, and **facilitate ESG-aligned housing investments.** This should aim to go beyond the current NHFIC community housing-only ESG agenda.

6. A **40 per cent increase in Commonwealth Rent Assistance** (CRA) payments to eligible recipients to ease the pressure on the strained private rental housing sector.

Appendix A

Community housing

Rental market pressure can also be eased by developments in the community housing sector. Community housing should be seen as complementary to public and private, for-profit initiatives and the existing stock of state-run public housing. Yet Australia is lagging behind. Around 15 per cent of all housing in the world-leading UK is provided by community housing associations whereas in Australia, it is less than one per cent.[209] It has underpinned the growth and viability of the fairest and best-performing social housing systems in the world such as Sweden, Denmark, and the Netherlands. In this model, management and/or ownership of land (including allocated land owned by the state) is vested in not-for-profit community organisations aimed at long-term affordability and tenure security akin to public housing. Management thus can be run along the lines of innovative co-operatives and housing trusts. Providers are innovative, flexible not-for-profits who have taken calculated risks and proven adept at responding quickly to the needs of residents.

Community housing complements other construction approaches (both public and private) and has underpinned some of the fairest and best-performing affordable housing system. Sweden, Denmark, and the Netherlands all make excellent use of community housing.

In this model, management and/or ownership of land (including allocations of state-owned land) is vested in not-for-profit community organisations. They ensure long-term affordability and tenure security, akin to public housing. Management may be run as innovative co-operatives or housing trusts.

There are many examples of community housing providers in Australia.[210] For example, Caggara House is an initiative of the not-for-profit Brisbane Housing Company (BHC). Since it was set up in 2002, BHC has built 1,300 affordable rental dwellings and earned the same AA-credit rating as the Commonwealth Bank. Housing First (previously the Port Phillip Housing Association) has 1,200 dwellings around Melbourne, built through strategic partnerships with private developers, community organisations, and all tiers of government to build energy-efficient homes with low running costs. In Sydney, BlueCHP has a portfolio of 1,600 properties, including Macarthur Gardens, a mix of apartments clustered close to Macarthur Railway Station, Macarthur Square Shopping Centre, and Western Sydney University. These are innovative, flexible not-for-profits who have taken calculated risks and proven adept at responding quickly to the needs of residents.

One reason community housing manages to be so flexible is that providers can borrow against their assets allowing them to monetise existing assets and reinvest in public benefits. In the appropriate financial environment, they can then grow their asset base to meet a range of housing needs. [211]

Community housing is particularly beneficial for groups of people with particular needs. For instance, Women's Housing Limited and Aboriginal Housing Victoria serve particular needs beyond just housing. Other marginalised demographics can also benefit from this model. Their tailored housing options offer wrap-around services for very low-income residents in need of both shelter and care. This saves governments money otherwise used to fund homelessness organisations.

Public housing

Australia's public housing shortfall was 524,000 dwellings in 2022, expected to increase to 671,000 over a decade. 162,500 people are on waiting lists.[212] Public housing provides support where it is most needed, allowing people to live in dignity, ensuring Aboriginal citizens and people with disability do not live in substandard, inappropriate homes, and giving survivors of family violence options other than sleeping on couches etc, or, worse: remaining in abusive relationships.

The new Labor government's four-year $10bn social housing fund includes support for 30,000 new social and affordable homes (10,000 designated for essential workers). State governments have plans to build 15,000 social housing dwellings in the next two years. This is an important start, but much more is required to bridge the substantial gap. Major private sector investment will be needed. [213]

Private investment in social housing

For social housing specifically, British pension funds found have targeted returns between 6 and 8 per cent. AustralianSuper CEO Paul Schroder observes that social housing projects would need a minimum return of 6 per cent to be considered viable. [214] Mixed tenure developments, may help ensure the viability of projects. This requires better coordination across levels of government.

Appendix B

Institutional investments made or planned to be made in BTR/BTRO

Private investment in social housing

Australian Super and Assemble Communities

One of the earliest Australian investors in BTR/BTRO was industry fund Australian Super, Australia's biggest superannuation fund.[215] In June 2020 it took a 25 per cent equity stake in the affordable housing developer Assemble Communities.[216] Australian Super's $3 billion pipeline of social and affordable builds is the largest of its kind in Australia.[217] It aims to invest several hundred million dollars annually in a pipeline of BTR homes, as well as units occupants rent for five years before purchasing at a fixed market price set today. And the rent offsets the cost of purchase, facilitating the institutional investment in this innovative, scalable housing development model.[218] Assemble Communities sets its rate of return margin at one-third below the traditional BTS model.[219]

Assemble's first development was a partnership with Wulff Projects and Icon Developments that opened in 2018. It comprised forty-eight apartments and eighteen townhouses in the inner-north suburb of Clifton Hill. Another completed project is its 198-unit development in Melbourne's inner north-west suburb of Kensington. The properties are targeted at households in low-to-moderate-income bands as defined by the state government, with 20 per cent of the dwellings delivered at half the local market rent and a further 30 per cent at 15-20 per cent below market rates.[220] Their program includes an essential worker component, that offers a discount to essential workers employed in particular fields such as nurses and teachers. Assemble also offers financial coaching and bulk-buying initiatives for household services such as internet, utilities, and farm-direct groceries.[221] In October 2022, Assemble announced construction would shortly commence on two new developments in Brunswick and Kensington in Melbourne, comprising some 370 units.[222]

Aware Super

Aware Super (a recent merger of First State Super, VicSuper, and WASuper) has invested $200 million in worker housing, including a 55-unit residential development in the Melbourne suburb of Moonee Ponds, six kilometres from the CBD. The rental properties will be available on their essential worker program at 80 per cent of the market rate for the area. They will provide affordable options close to workplaces, the CBD, and facilities like hospitals and schools. Aware Super's essential worker housing portfolio includes thirty-five residential units in Hurstville (15 kilometres from the Sydney CBD), seventeen residential units located in Waterloo (4 kilometres south of the Sydney CBD), sixty-one residential units in Epping (22 kilometres from Sydney CBD) and thirty-five residential units located in Northmead (27 kilometres from the Sydney CBD). Construction for Meridian Miranda in Sydney's south commenced in July 2019 and consists of 102 apartments across two buildings. The BTR units (51) have been reserved as affordable housing and are also on the essential worker program. The remaining units (51) were available for purchase. Aware Super has hundreds of apartments already rented to essential workers and expects to surpass 1,000 by 2024[223] with an eventual target of 1,700.[224]

In September 2022, Aware Super launched Aware Real Estate with the aim of managing $7 billion in assets across their entire real estate portfolio within five years. They present the investment as key to lowering fees and driving returns for members. The property platform will actively manage their directly-owned Australian portfolio of living, industrial, office and mixed-use property.[225] Supported by Altis Property Partners, it purchased the nearly 7,000 square metre site, Bayview on the Park, with plans to develop it as a major residential hub.[226] This project is their first purpose-built essential worker affordable housing development in Melbourne. In total, Aware Real Estate has eleven existing assets and eight in development valued at $1.7 billion.

They report 99 per cent occupancy across their residential space. They report a development pipeline across all sectors including BTR of $2.3 billion.[227] There are already five hundred build-to-rent-style apartments in the portfolio spread across NSW, Victoria, Western Australia, and ACT (in Sydney, Melbourne, Perth and Canberra, and industrial investments in Western Sydney. As Aware Super deputy CIO Damien Webb has recently stated: "As part of our strategy to deliver strong returns and lower … we're aiming to increase our internally managed direct real estate portfolio from 50 per cent to as much as 80 per cent by 2025.[228]

HESTA

HESTA is an industry fund for the health and community services sector. It invested in housing-related sustainability bonds and the Social Impact Investment Trust. Its housing investments include a $20 million joint venture development in Brunswick, in Melbourne's inner north.[229] The project, in conjunction with Nightingale Housing and Social Ventures Australia (a not-for-profit), will consist of 185 carbon-neutral apartments in six buildings. Twenty per cent of the apartments will be rented to essential workers, such as nurses and professionals in the aged care/not-for-profit sectors. A further 20 per cent were pre-sold to community housing operators to provide affordable housing to eligible tenants. The remainder were sold to the public, many of whom are first homebuyers.[230]

HESTA also announced a $240 million investment to become the founding investor of a specialist affordable housing fund manager: Super Housing Partnerships (SHP). SHP would back the fund's focus on a pipeline of BTR apartment projects, largely based in Victoria. SHP "seeks to increase the supply of affordable, sustainable and appropriate housing choices, and connect institutional investors with access to equity investment in new BTR housing projects".[231] SHP addresses some of the barriers to institutional investment by acting as an aggregator. It accumulates capital from institutional investors into the fund's housing strategies. It currently anticipates developing more than 1,600 mixed-tenure dwellings – a blend of social, affordable, market-rate and specialist disability accommodation. SHP's first fund will partner with Assemble and Housing Choices Australia, a large, accredited community housing provider. Importantly, all SHP housing projects aim to be net zero carbon operations.[232]

Cbus

Cbus, the building industry super fund, has committed an estimated $650 million towards social housing initiatives.[233] In November 2019 they invested $30 million in a bond issuance by the National Housing Finance and Investment Corporation. Tertiary education fund UniSuper also participated. The issue raised $135 million for discounted loans to Community Housing Providers (CHPs), subsidised by the Commonwealth at low interest rates.[234] NHFIC, with Cbus, announced its support for an NSW Land and Housing Corporation (LAHC) pilot of new social and affordable housing for NSW.

The Community Housing Renewal Program (CHRP) will see LAHC partner with Community Housing Providers to deliver new social, affordable, and private dwellings on selected LAHC-owned land under a long-term lease. The CHRP pilot includes six shovel-ready sites in Sydney that will deliver ninety-six dwellings. A second tranche of sites is being prepared for release after the pilot which will include 300 new social, affordable, and private dwellings in metropolitan and regional NSW.[245] As of October 2022, Cbus has invested $150 million in NHFIC social and sustainable bond issues in the last four years, supporting the delivery of thousands of social and affordable homes, community housing, private rental homes, and disability accommodation.[236]

Australian Retirement Trust

Australian Retirement Trust (ART), one of the country's largest super funds, have effectively became a direct investor in social housing. It formed a partnership with the Queensland state government (though its $2 billion Housing Investment Fund and the Queensland Investment Corporation), and asset-manager Brisbane Housing Company (BHC), which is part-financed by the NHFICs Bond Aggregator. Together with commercial banks, they are providing senior or subordinated debt for the social housing development project. $150 million will come from ART. This may provide a new model for institutional investors to support social housing. The partnership aims to make social housing suitable for super funds as a fixed interest investment by bridging the gap between the discounted rent paid by occupants and rent needed to generate a commercial yield.[237] In this case, the gap is closed using CRA as well as servicing debt to finance the actual construction of an initial 118 dwellings in two locations – Chermside and Redcliffe (the latter a small town outside of Brisbane) – to be completed by 2024. 600 houses will begin construction in 2023. About 1,200 homes are expected to be eventually delivered under the structure with construction starting within the next three years. The total value of all seven projects is projected to be $250 million.[238] One report suggested the subordinated debt will be issued at a 300 to 400 basis point margin over the 90-day Bank Bill Swap Rate, more attractive to institutional investors.[239]

Housing Investor Rountable

At the November 2022 Housing Investor Roundtable, the federal government announced the first major step in its plan to facilitate more and faster institutional investment in housing: it pledged $300 million to construct hundreds of BTR dwellings. As part of the plan, NHFIC will invest $300 million into the loan facility. That investment will begin with a $150 million contribution to the development of 350 build-to-rent dwellings near Westmead Hospital in Sydney's west, half of which will be affordable rentals. AXA Investment Managers have been identified as an investment partner and will be offered long-term concessional finance to make the project profitable. St George Community Housing has been named as project manager and expects to deliver 350 homes for essential workers drawn from the nearby hospital.[240] According to NHFIC, the new homes will include market and affordable build-to-rent dwellings, located within the new Westmead Health and Innovation Precinct, one of the largest health, education, research, and training precincts in Australia. Work on the development is expected to start in early 2023 with completion scheduled for 2025.[241]

Amidst the roundtable and in line with the Housing Accord, Cbus pledged up to half a billion dollars towards the construction of new social and affordable homes over five years through the HAFF (subject to finalising commercial terms).[242]

	Invested	Pledged
Cbus	$150m in NHFIC (now HAFF) bonds	$500m in HAFF bonds (TBC)
HESTA	$240m equity in SHP for BTR; involved in NHFIC's first Sustainability Bond, which raised around $400 million in loans and grants through a consortium, to help registered community housing providers; $20m equity co-partnership in the Nightingale housing project. HESTA has also committed a total of A$70 million to Social Ventures Australia's (SVA) Social Impact Investment Trust (SIIT). HESTA's initial A$30 million investment was deployed towards several social impact projects (including affordable housing). Most recently, it allocated a further A$40 million to SIIT.	$70m to SITT
Australian Super	25 per cent in Assemble Communities	TBC
ART	None	$150m in subordinated debt
Aware Super	1,700 affordable units in Essential Worker Housing Program as part of its $1.7bn housing portfolio	$7bn in real estate assets (target rather than pledge)

Figure 9. Australian Super Funds with investments in Social and Affordable Housing

Outside of the super sector, other investors are entering Australia's BTR market.

Greystar Real Estate Partners

Greystar Real Estate Partners is a multinational that is backing a $500 million project in Fishermen's Bend in Melbourne's inner-south. Purportedly one of the nation's largest BTR developments with 700 new residential apartments to be built across three towers and housing up to 1,500 residents, it is aiming to be powered by 100 per cent renewable energy and is scheduled for completion by 2024. [243] Greystar has more BTR projects in the pipeline after acquiring a property in Fitzroy, in Melbourne's inner-north in October 2022. The proposal will reportedly develop over 400 BTR residential units expected to be worth over $350 million. Earlier in 2022, Greystar exchanged contracts for another Melbourne (inner-west) property in Kensington, with a similarly valued proposal to develop over 400 BTR residential units. Along with a project in inner-east, South Yarra, Greystar has four BTR projects in its Melbourne pipeline, totaling 2,000 BTR units.[244]

Mirvac

Sydney-based developer Mirvac completed one of Australia's first BTR projects 'LIV Indigo' at Sydney Olympic Park in 2020, backed by the Clean Energy Finance Corporation, designed to achieve 40 per cent less greenhouse gas emissions. Tenants are afforded the right to renew their lease on a rolling one-year basis. Crucially, the project included the removal of security bonds.[245]

Mirvac additionally has more than $1 billion BTR developments under construction. 490 apartments at LIV Munro in Melbourne's Queen Victoria Market are set to be completed by year's end 2022. The project includes a community hub, public parking, affordable housing childcare, and an 80-room hotel.[246] Other projects include LIV Anura, Brisbane (396 apartments underway) and a planned 474-apartment project at LIV Aston, Melbourne as well as Brunswick. On completion, Mirvac's BTR network will include 2,173 apartments across its current pipeline. Mirvac's BTR pipeline is backed by JPMorgan, UBS, and Macquarie Capital, with an estimated value of $6 billion.[247]

	Investment as of March 2023	Pipeline
Greystar	$500m	$700m approx.
Mirvac	$147m	$1bn

Figure 10. Current major BTR managers not offering affordable component

BTR heating up

Major ASX-listed property developers, Lendlease Group and Raptis Group are also seeking potential BTR opportunities.[248] Earlier in 2022, Conscious Investment Management announced a $150 million deal with HousingFirst to acquire social and affordable housing stock. And Lighthouse Infrastructure have announced $59 million to invest in essential worker housing with St George.[249]
In late 2022, there are dozens of private BTR developments in varying stages of development:

- Melbourne: Home Apartments (Richmond, Southbank, Docklands); Blackstone (Caulfield Village); Piccolo (South Melbourne); LDS Property (Garnet, Bulleen); (Zirconia, Alphington); DeMaio Properties (Gateway, Northcote); Sentinel (West Melbourne).
- Sydney: HOME Parramatta.
- Perth: Sentinel; Element 27, Subiaco.
- Brisbane: Frasers Property; Brunswick & Co, Fortitude Valley.[250]

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