

**BRIDGING THE AFFORDABLE RENTAL HOUSING GAP:  
ESTABLISHING A VIABLE FUNDING MODEL TO ATTRACT  
INSTITUTIONAL INVESTMENT**

by

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Bridging the Affordable Rental Gap: Establishing a Viable Funding Model to Attract Institutional Investment

## Certificate of Authorship

I certify that the work in this thesis has not previously been submitted for a degree not has it been submitted as part of requirements for a degree except as fully acknowledged in the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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Michael C. Kerans

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*"In the fields of observation chance favours only the prepared mind"*

Louise Pasteur (1822-1895)

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## ABSTRACT

The OECD states Australia's housing is by far the most over-valued in the Western World. Over one million Australian households have housing costs which are unaffordable which reduces money available for other essentials such as food, health care and education. Without intervention the number of effected households is forecast to double by 2020. Government strategies increasingly focus on rental subsidy to assist low income households. This strategy has proved to be inadequate to meet the continuing growth in demand for affordable housing.

A new form of supply-led assistance is necessary. Government funding is limited and so the focus is on the private sector, specifically institutional investors to offer a viable solution. An issue for institutional investment is the gap between the perceived risk-adjusted return from affordable rental housing and that of alternate low risk asset classes. This gap is known as the rental gap. To bridge this gap a viable funding model needs to provide: an efficient structure to minimise the rental gap and lower the associated investment risk; and comply with current government policies.

This research compares and contrasts the five leading rental housing affordability models that are currently prominent in Australia. To assist in identifying a viable funding model semi structured interviews of 18 key stakeholders of the affordable housing sector were obtained, including Chief Investment Officers of institutional investors, and other senior representatives of local and state governments, developers and not for profit housing groups. QSR's Nvivo software was used to analyse the stakeholders' views using a qualitative grounded theory approach with the findings considered against existing housing affordability literature.

The research showed that investment in the housing affordability sector was primarily dependent on the current political environment. The '*best*' funding model was a secondary consideration. In the current economic and political climate, the "*tax credit model*" met the key requirements.

As institutional investors focus on both the return and associated risk, both real and perceived, improved information on the sector would result in a reduced the perception of risk and raise the likelihood of an attractive risk adjusted return.

Bridging the Affordable Rental Gap: Establishing a Viable Funding Model to Attract Institutional Investment