

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

by

Michael Kerans,

Masters of Applied Science in Building Studies (Research)
C030020v3

UNIVERSITY OF TECHNOLOGY, SYDNEY
FACULTY OF DESIGN, ARCHITECTURE AND BUILDING

Report to:

Dr Garry Glazebrook- Principal Supervisor
Dr David Higgins- Co-Supervisor

December 2008

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.

Signature of the student

Production Note:

Signature removed prior to publication.

Michael C. Kerans

ACKNOWLEDGEMENTS

My unending appreciation and love goes to my darling wife Jen, who happily supported me emotionally and academically along this wonderful journey. I note her huge effort editing the whole document at least once. My sincere appreciation also goes to my daughters Tessa and Haylee for their patience and love over the years of my being locked away in the studio.

To Dave and Gaz my supervisors, it has been a great pleasure working along side you and sharing many long discussions, *at times not related to study*, good advice, great coffees and cheery support. All these have made the time pass more easily and the result far more substantial. I also thank Professor Spike Boydell for his interest and effort in making sure this research was completed the right way.

I am grateful to the doctoral students of UTS, specifically Bev Pasion and Mohammad Khan for their editorial advice, unique support and friendship.

To Geof Hawke from UTS, thanks for being my NVivo 'guru', it is a wonderful programme once understood.

My sincere thanks to the interview participants to this research, who gave of their time and knowledge freely. Unfortunately I am unable to name the interviewees due to confidentiality reasons with the exception of Noel Gately from VicUrban.

Lastly, thanks UTS for a great opportunity, so long and thanks for all the fish.....

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

Louise Pasteur (1822-1895)

CONTENTS

ABSTRACT.....	X
CHAPTER 1: INTRODUCTION	1
1.1 Background to the research.....	1
1.2 Research Purpose and Objectives	6
1.3 Research Design	8
1.4 Research Methodology	9
1.5 Definitions	10
1.5.1 Housing Affordability.....	11
1.5.2 Affordable Rental Housing.....	12
1.5.3 Housing Stress.....	13
1.5.4 Rental Gap	13
1.6 Limitations.....	14
1.7 Contribution to Knowledge.....	14
1.8 Report Structure	15
1.9 Conclusion	18
CHAPTER 2: LITERATURE REVIEW.....	19
2.1 Introduction	19
2.2 The Affordable Housing Sector Background.....	20
2.2.1 Affordable Housing Defining Characteristics.....	20
2.2.2 The Implications of Unaffordable Housing.....	25
2.2.3 Reasons Behind the Current Housing Affordability Situation	30
2.2.4 Government Assistance	37
2.2.5 Reasons to Improve the Supply of Low Rental Housing	43
2.3 Australian Affordable Rental Housing Participants/ Stakeholders	46
2.3.1 Tenants.....	47
2.3.2 Managers	49
2.3.3 Government (National, State and Local)	54
2.3.4 Investment Community.....	62
2.4 Long Term Trends in Affordable Australian Rental Housing.....	65
2.4.1 Key Drivers.....	65
2.4.2 Policy Issues	67
2.4.3 Public Supply Factors.....	71
2.4.4 Private Supply Factors.....	75
2.5 Investment Characteristics of Australian Residential Property	80
2.5.1 Additional Hurdles for Private Investment	82
2.6 Finance for the Provision of Affordable Housing.....	83
2.6.1 Private Sector Funding	85
2.6.2 Public Subsidies.....	86
2.6.3 Planning Assistance	88
2.7 Housing Affordability Determinates	88
2.7.1 Space Market.....	91
2.7.2 Property market	94
2.7.3 Capital	96
2.8 Summary.....	99
CHAPTER 3: CURRENT AFFORDABLE RENTAL FUNDING MODELS.....	100
3.1 Introduction	100
3.1.1 Requirement for an Investment Funding Model.....	101

3.1.2 Aim of Models	101
3.1.3 Methods for Financing	102
3.1.4 Funding Model Assessment Criteria	102
3.1.5 Subsidy Delivery	104
3.2 Australian Affordable Housing Models	105
3.2.1 Model 1 - National Affordable Housing Research Consortium Bonds (Consortium or Bonds) Model	105
3.2.2 Model 2 - The Public Private (LPT/ listed company) Partnership Model.....	109
3.2.3 Model 3 - The Macquarie Bank (Pooled fund) Model	113
3.2.4 Model 4 - Not for Profit Housing Company Model.....	116
3.2.5 Model 5 - The Tax Credits Model (Based upon US Low Income Housing Tax Credits Model).....	119
3.3 Key Features of the Affordable Housing Funding Models.....	125
3.3.1 Estimates of cost-effectiveness.....	128
3.4 Summary.....	130
CHAPTER 4: RESEARCH METHODOLOGY	132
4.1 Introduction	132
4.2 Justification for the Research Methodology	132
4.2.1 Research Design	135
4.2.2 Grounded Theory.....	137
4.2.3 Conceptual Framework	137
4.2.4 Triangulation Methodology	138
4.3 Research Procedures.....	139
4.3.1 Introduction.....	139
4.3.2 Research Instruments.....	139
4.3.3 Interview Participants.....	141
4.3.4 Data Analysis	143
4.3.5 Theory Building	145
4.4 Validity and Reliability	146
4.4.1 Validity	146
4.4.2 Reliability	147
4.5 Computer Programme and Use of Software	148
4.5.1 NVivo computer programme	149
4.6 Ethical Considerations.....	149
4.7 Summary.....	150
CHAPTER 5: DATA ANALYSIS RESULTS	152
5.1 Introduction	152
5.2 Interview Data Analysis.....	152
5.2.1 Presentation of the Data Analysis	155
5.3 Outline of the Analysis.....	155
5.4 Analysed Data Concepts.....	158
5.5 Return Factors.....	159
5.5.1 Investor Requirements and Motivations - Demand Factors.....	160
5.6 Risk Factors.....	176
5.6.1 Asset Management.....	177
5.6.2 Risk Issues	184
5.6.3 Property Portfolio Construction	188
5.6.4 Difficulties of a New Investment Class.....	191
5.6.5 Asset Characteristics	195
5.6.6 Developers' Motivations	196

5.6.7 Current Supply Shortage Causes	198
5.6.8 Information Deficiency	202
5.7 Subsidy Factors Indicators	204
5.7.1 Government Activity	205
5.8 Fund Characteristics	211
5.9 Summary	215
CHAPTER 6: SUMMARY, CONCLUSION AND FURTHER RESEARCH.....	217
6.1 Introduction	217
6.2 Research Summary	218
6.3 Conclusions	223
6.3.1 Affordable Housing Funding Models	223
6.3.2 Government Philosophy	225
6.3.3 Advocacy for a Government Subsidy	226
6.3.4 Investor Ambivalence	228
6.3.5 Investors Requirements	230
6.3.6 A Risk Adjusted Return	231
6.3.7 Risk Management	234
6.3.8 Perceived and Real Risks	236
6.3.9 Government Policy for Affordable Rental Housing	237
6.3.10 Conflicting Investor and Occupant Needs	238
6.3.11 Sector Awareness and Education	239
6.4 Recommendations	241
6.7 Further Research	243
7.0 APPENDICES	245
Appendix 7.1: Confirmation of the Fulfilment of the Research Purposes and Objectives ..	245
Appendix 7.2: Implications for Methodology	246
Appendix 7.3 Research Data Collected Concerning Specific Funding Models	247
Consortium or Bonds model	247
PPP or Partnership model	248
Pooled fund model	249
Not for Profit model	250
Low Income Housing Tax Credits model	251
Appendix 7.4: Federal Government National Rental Affordability Scheme (NRAS) Proposal	
.....	253
Appendix 7.5: Definition of Key Terms	255
Appendix 7.6: Introductory Letter to Interview Participants	256
Appendix 7.7: Stakeholder Questionnaire: Investor	257
Appendix 7.8: Stakeholder Questionnaire: Developer	258
Appendix 7.9: Stakeholder Questionnaire: Authority	259
Appendix 7.10: Stakeholder Questionnaire: Manager	260
Appendix 7.11: Stakeholder Questionnaire: Occupant	261
Appendix 7.12: Stakeholder Questionnaire: Valuer	262
8.0 REFERENCES	263

Figure List

Figure	Figure name	Page
1.1	Australian Residential Rent and Disposable Income Movements: 1984 to 2005	3
1.2	Rental Gap Model for Sydney Property Market	4
1.3	The role of stakeholders in the Affordable Rental Housing Sector	5
1.4	Continuing Research Process Model	8
2.1	Australian Housing Markets by Tenure	22
2.2	Proportion of Low Income Households in Australia Paying More than 30 percent of Gross Income on Housing Costs, 1999	24
2.3	Greater Sydney Metropolitan Areas Supply of Affordable Private Rental Dwellings (by LGA's)	29
2.4	Household Expenditure for the period 1999 to 2004	31
2.5	'Real' Australian House Prices and Household Disposable Income	33
2.6	Housing Credit Growth by Mortgagor Type	34
2.7	Change in Tenure and Landlord Type 1995-2004	35
2.8	Public sector dwellings completed from 1995 to 2005	38
2.9	Housing Assistance Applicants Accommodated 1995 to 2005	39
2.10	Participants in the Provision of Affordable Housing	47
2.11	Commonwealth government housing assistance expenditure on the Commonwealth-State Housing Agreement and Commonwealth Rent Assistance, 1997-2007	57
2.12	Proportion of Low Income Households Suffering Housing Stress	68
2.13	The Fall in the Supply of Public Housing in NSW from 1995 to 2005	74
2.14	Supply of Rental Dwellings in Relation to Income Brackets	75
2.15	Comparison of various investments, at different tax rates for 20 Years to 31 December 2006	81
2.16	Household Income to House Prices- 1986 to 2006	89
2.17	Three-Market Model Determinants within the Space, Property and Capital Markets	90
2.18	Affordable Rental Housing Distribution in Sydney	93
2.19	Housing Utilisation from 1995 to 2004	95
2.20	The movement in First Home Buyers average loan from 1995 to 2005	98
3.1	Consortium or Bonds Model	107
3.2	Public Private Partnership model	110
3.3	Macquarie Bank (Pooled Fund) model	114
3.4	State Government Established Not-for-Profit Housing Company model	118
3.5	The Tax Credit (US Low Income Housing Tax Credit) Model	121
4.1	The Components of Affordable Rental Housing Funding Investment Decisions	134
4.2	The Flow of Qualitative Inquiry	136
4.3	Conceptual framework of the interview process	138
5.1	Funding Model Fundamentals - Major Concept Clusters	158
5.2	Return Factors Matrix Model- Investors' Requirements and Motivations	159
5.3	Aspects of Demand which Influence an Investors Requirements	160
5.4	Investor traits which influence the return required by investors	163

5.5	Elements of Return Important to an Investors' Assessment Decision	166
5.6	Aspects of Risk Identified as Relevant to an Institutional Investor in Affordable Housing	169
5.7	Identified Aspects of an Investment Required by an Investor	173
5.8	Areas of risk significant to an affordable housing investment	176
5.9	Risk Areas Relating to the Asset Management of the Investment	177
5.10	Issues of Constructing a Property Portfolio which Represent Investment Risk	188
5.11	Factors of the Affordable Rental Housing Sector which Present as Areas of Risk to Investors in a New Investment Sector	192
5.12	Asset Characteristics Provide a Source of Investment Risk	195
5.13	Facets of Developer Motivations which Present as Areas of Risk	196
5.14	Factors which Impact upon the Supply of Affordable Housing	198
5.15	Affordable Housing Information Issues Impacting on Investor Risk	202
5.16	Affordable Housing Subsidy Determinants	204
6.1	Pattern of the Findings of the Research and How these Impact upon the Determination of a Viable Funding Model	220
6.2	Factors in the Provision of a Risk Adjusted Return to Investors	232

Table List

Table Number	Table Name	Page
1.1	Terms and Definitions used in the Affordable Housing Sector	10
2.1	Sydney Household Income Categories	21
2.2	Effects of Housing affordability on Well-Being by Scale of the Affordability Problem	27
2.3	Household Income Limits for Eligibility under the National Rental Affordability Scheme	41
2.4	The indirect influences of Government policies upon housing costs and affordability	59
2.5	Feature of the Taxation Systems Relevant to the Housing Markets	70
2.6	Legal and Institutional Features of Housing-Finance Systems	77
2.7	Comparison Between Rental Yields and Mortgage Rates	87
2.8	Australian Metropolitan Median House Prices Ratio of Inner-Suburban to Outer-Suburban Median Prices; December Quarter Data	92
3.1	Comparison of the Affordable Housing Funding Models Means of Financing	125
3.2	Affordable Housing Funding Models: Key Features	127
4.1	Interview Participant Description	142
5.1	Schedule of Interview Participant Identification	154
5.2	Demand Factors Referred to by Interview Participants	162
5.3	Investor Traits Referred to by Participants	165
5.4	Responses on Investment Returns and Subsidies to the Sector	168
5.5	Responses on the Requirement for an Efficient Funding Model Structure	179
5.6	Responses noted for requirement for professional management of the affordable housing portfolio	183
5.7	Responses on Attitudes Toward Stakeholder Risk	187
5.8	Interview Responses on the Problems Associated with a New Investment Sector	194
5.9	Interview Responses on Asset Characteristics and Developer Motivations	197
5.10	Interview Responses on Affordable Housing Supply Shortage Causes	203
5.11	Responses on the Activity of Government for Affordable Rental Housing	210
5.12	Fund Model Features Required by Interviewed Stakeholders	211
5.13	Interview Responses on a Viable Funding Model's Features	213
5.14	Funding Model Rating for Investor Criteria	214
6.1	Confirmation of the Fulfilment of the Research Purposes and Objectives through Reference to the Report Section	245
7.1	Interview responses regarding the specific fund models	252

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

CHAPTER 1

INTRODUCTION

1.1 Background to the research

Housing affordability in Australia is currently at crisis levels. The Organisation for Economic Cooperation and Development (2005) in its study of 15 OECD countries states Australia has the most over-valued houses in the Western world. The situation was so severe that in Sydney and Melbourne there are virtually no areas where an average three bedroom house is affordable to low income households (Kothari 2007).

National Shelter (2007b) stated that there are around 15 percent of Australian households in housing stress, representing approximately 1.1 million households. One million of these households are classified as having a low to moderate income. Housing stress occurs when a household's accommodation costs are unaffordable which reduces the money available for other essential expenditure such as food, health care, transport and education to an unacceptable level. Of the people suffering housing stress the highest proportion were occupants of private rental accommodation.

Privately owned rental housing represents 85 percent of the two million tenanted properties in Australia (Australian Bureau of Statistics 2006a). Supply is however weighted towards higher value inner suburban accommodation. Higher value properties provide owners with greater tax and potential capital gains benefits. The number of dwellings rented in the bottom 4/5ths of the rent distribution are actually declining as low cost housing is redeveloped, largely as a result of inner city gentrification (Cooper 2006; Kothari 2007).

The inadequate supply of affordable rental housing has been the result of market forces. Private rental supply has been slowing since the 1970's with declining investment into the sector. Supply constraints for affordable housing have been exacerbated because a low

proportion of that investment has been for low cost housing. The situation is not helped by the poor allocation of existing affordable housing. In 2001 only 11 percent of all low-income housing tenants in Sydney were accessing low rent housing stock. The balance of the low-cost housing was occupied by households who could pay a higher affordable rent (Baxter & McDonald 2005).

Regardless of higher rentals, the private rental sector continues to accommodate a large portion of tenants due to an inadequate supply of public housing. The Australian Institute of Health and Welfare (2006) noted only 27,544 households were allocated public housing for the year to June 2006. Despite these placements a total of 186,934 households remained on public housing waiting lists. Some households have waited for 10 years to be allocated public housing (Kothari 2007).

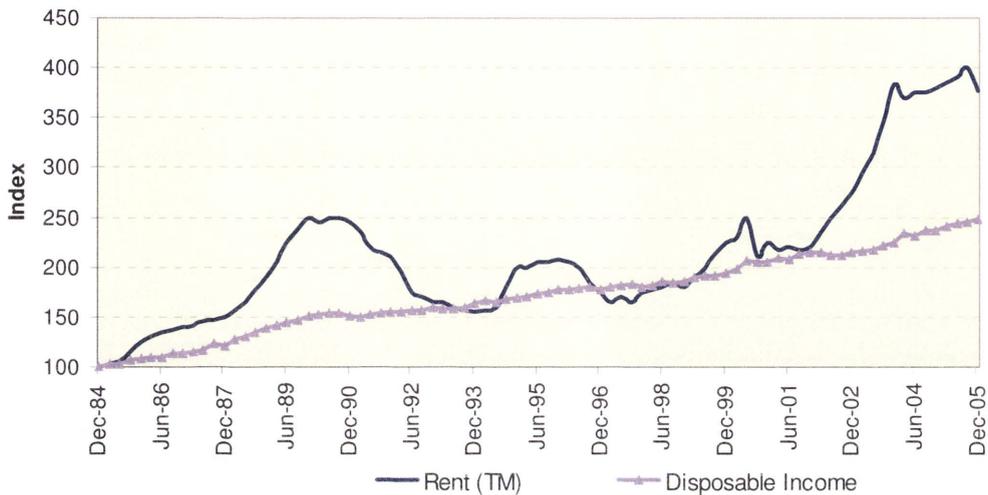
The inadequate supply of public housing is a function of a shift in public housing assistance towards an increasing reliance on rent-based subsidies for eligible private tenants (Baxter & McDonald 2005). The result has been a reduction in the public housing stock of 30,000 dwellings between 1996 and 2004.

Wilkinson (2005) reports that since the 1980's, Australian governments had adopted a non-interventionist housing policy even when house prices were escalating faster than incomes. The trend of declining affordability therefore appears likely to continue at its current pace. If that is the case, the number of households suffering housing stress is forecast to more than double, effecting one million households by 2020 (Berry 2003; Berry & Hall 2001).

An insufficient rental housing supply is compounded by an increasing demand produced from a range of socio-economic factors. One of these factors has been Sydney's population growth which has averaged 42,500 per annum since 1964, while achieving growth of over 50,000 per annum twice in the last decade. This market imbalance is evidenced by the record low vacancy of 1.2 percent for Sydney, as at March 2007 (REINSW 2007) and the strong rental growth (Australian Bureau of Statistics 2006b, 2006e; Macken 2007).

The combination of low vacancies and high demand has produced a period of strong rental growth and reduced affordability. Figure 1.1 compares the rate of Australian rental growth compared to disposable income for the period from December 1984 to December 2005.

Figure 1.1

Australian Residential Rent and Disposable Income Movements: 1984 to 2005

Source: Housing Institute of Australia (2006)

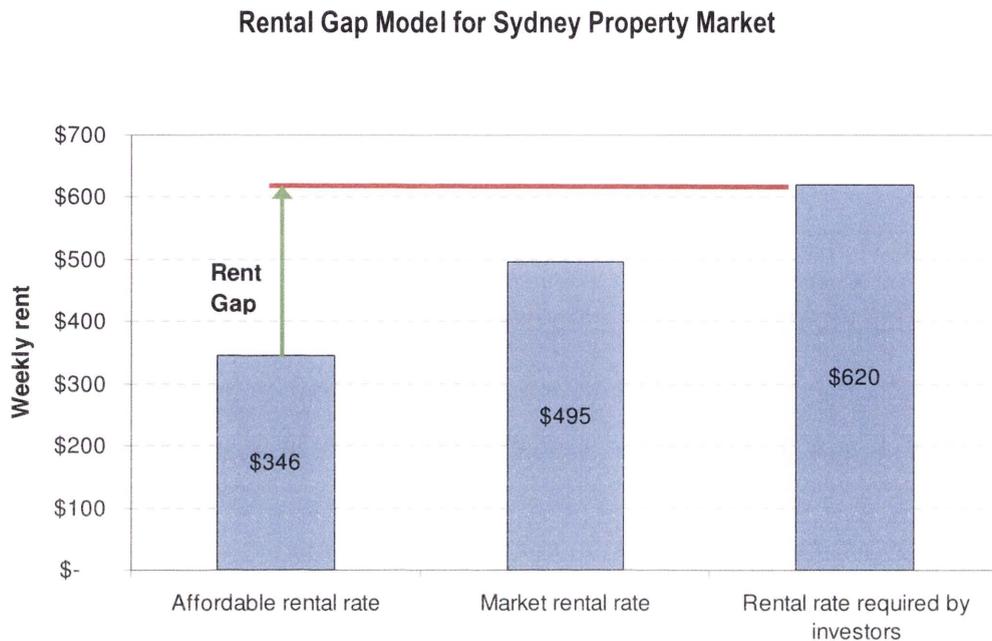
Figure 1.1 shows the extent that rental growth has exceeded disposable income growth. For the period December 2001 to September 2005 rents grew by an average of 17 percent per annum while disposable incomes only increased by 4 percent per annum for the same period. As disposable income has not kept pace with rents, many low and moderate income households have had to increase debt in order to pay for basic necessities.

This period of low affordability is caused by the shortage of low-cost housing. Disney (2007) argues the supply situation is not just a cyclical low and is likely to increase as the market is failing to respond to this imbalance. Market intervention is therefore required to improve supply and provide an expanded housing product to cater to a broader range of income households.

Various funding models have been devised in order to improve the supply of affordable rental housing. A common element of these models has been the identification of the need for private investment. Such investment will supplement the inadequate and decreasing government funding to the sector. However there are numerous hurdles to attracting private investment into the sector. One of the main hurdles relates to the low rent or income as a result of providing affordable accommodation. The lower rental return results in a "Rental gap" (Yates 1994) or "Financing gap" as there is a gap between the rent return required by investors and that

obtainable from affordable housing. Figure 2 illustrates the “gap” theory for the Sydney property market.

Figure 1.2



Source: (Allen Group 2004; Australian Bureau of Statistics 2006a; Housing NSW 2007)}

The market rental noted in Figure 1.2 is the rate which is required to be paid on the open market to obtain adequate accommodation to meet the requirements of a specific household. Figure 1.2 shows the weekly rent from an affordable house in inner Sydney has a rent gap of \$274 per week. The affordable rent is determined as being 30 percent of the household's gross income of \$1,154 per week. This is the difference between the affordable rental and the investors required rental. The rental rate required to encourage an investor is assumed to be 6 percent of the market value of the property. An investors' required rental is \$125 per week above the current market rental and which in turn is \$150 a week above an affordable rental for a family on a given income. This rental gap needs to be 'closed' before investors will agree to fund affordable housing. Many of the funding models analysed require a government subsidy to close this rental gap. At the time of this research no affordable rental housing funding model has been successful in attracting sustainable and significant institutional investment by meeting investor's income return requirements.

There are further requirements for the successful implementation of an affordable housing model. These requirements are depicted in the Figure 1.3.

Figure 1.3

The role of stakeholders in the Affordable Rental Housing Sector

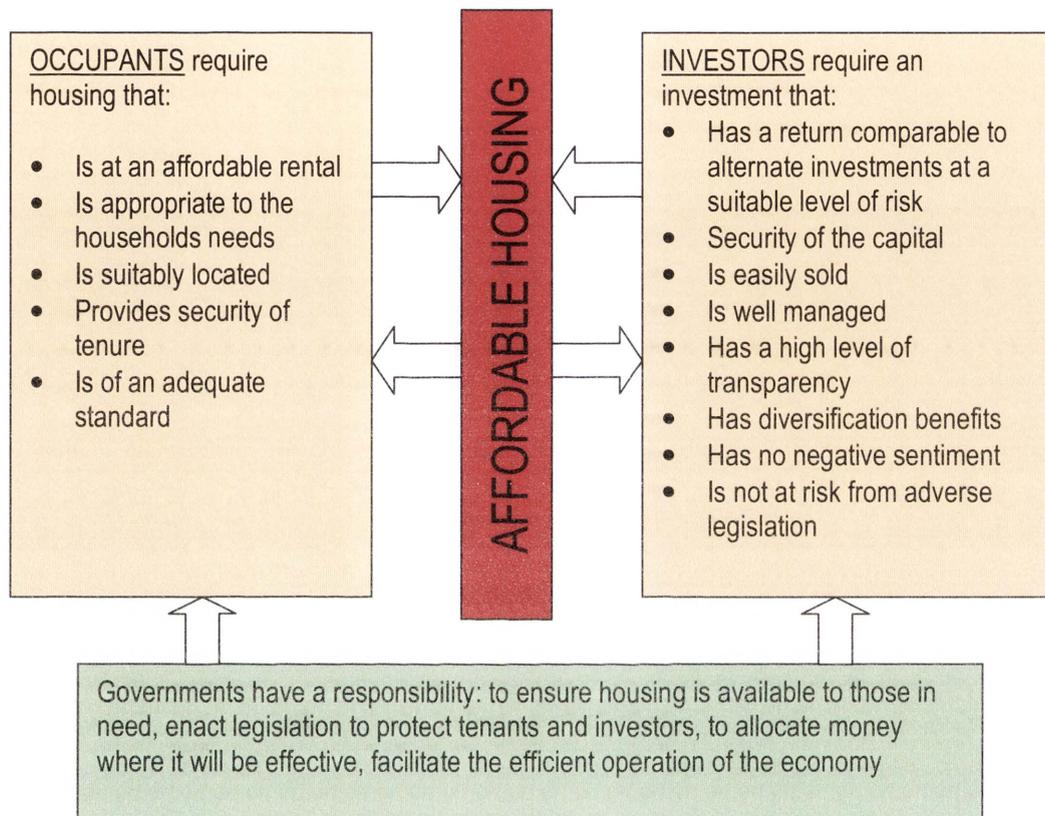


Figure 1.3 indicates the range of requirements for a successful affordable housing investment scheme. Additionally it details the activities and interaction of the main stakeholders in the affordable housing sector. As there is ongoing debate over the most appropriate means to facilitate this scheme many of the above activities are not being fulfilled and therefore the sector remains in crisis.

1.2 Research Purpose and Objectives

The purpose of this research is to identify the potential of affordable rental housing funding models, which have recently gained prominence, to successfully attract private investment. The object of attracting investment is to ensure the supply of appropriate and secure affordable rental housing for low to moderate income households.

For a model to be successful it will have to produce;

- An affordable rental level for its occupants, and
- An attractive risk adjusted rate of return for investors.

Determining the ability of these models to achieve these points under the current government policy environment is a major focus of this research.

Specifically this research sought industry involvement to assist with critically analysing the structure of the prominent funding models to determine their potential viability to provide affordable rental housing. The main focus of the analysis was on how the models accommodate or attempt to manage the rental gap and how they improve the risk adjusted return from an investment perspective.

The objectives of this research are;

- i. To detail the current state of the Australian affordable rental housing sector, with a focus on the Sydney residential market.
- ii. To describe the amount and means of government assistance (Federal, State and Local governments) directed to the sector and the level of tenant demand.
- iii. To examine and evaluate Australian affordable housing models in order to identify their strengths and weaknesses and common elements. The applicability of each model to the Australian housing market will be considered and the attractiveness to institutional investors identified.

- iv. To define the requirements demanded by the investment sector in order to consider what would be the required characteristics of an affordable rental housing model.
- v. To test the key characteristics of the currently prominent models on affordable housing stakeholders. The models assessed were;
 - Consortium or Bonds model;
 - Public Private Partnerships model;
 - Pooled Fund model;
 - Not for Profit Housing Company model; and
 - Low Income Housing Tax Credits model.

This research focuses on the financial and investment aspects of improving the supply of affordable housing to those households in the bottom two income quintiles i.e. with combined gross incomes of approximately \$30,000 to \$70,000 per annum. As a background for consideration of the investment potential and to enable the assessment of the funding models, the social impacts and necessity of affordable housing has been researched.

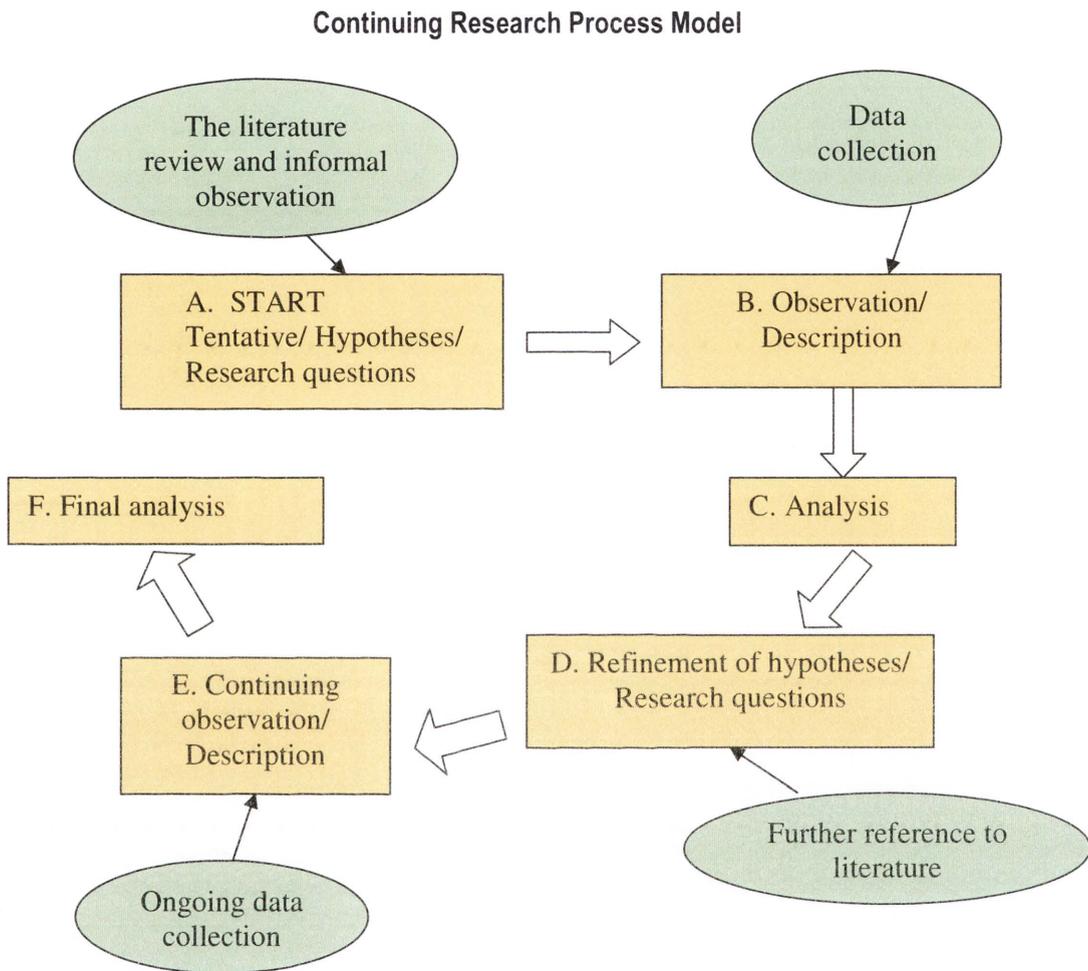
This research focuses on privately provided affordable rental housing which targets low to moderate income households. The aim of this targeted affordable housing is not to replace the role of public housing. Instead it is intended to improve the supply of lower value segments of the private rental market, where rents are unaffordable, tenure insecure and housing standards are poor (Randolph & Holloway 2002).

In summary, this research examines the variety of means available to improve the investment return from affordable rental housing. An assessment is then made on these models indicating the potential to attract investors to this sector.

1.3 Research Design

This research was undertaken using an inductive qualitative approach common in the use of grounded theory. The framework of the research task is depicted in Figure 1.4.

Figure 1.4



Source: Veal (2005)

Figure 1.4 shows the stages of the research task involving a continuing process of information gathering and analysis. The data gathering was not restricted to one stage, as new information was gathered alongside new literature on the emerging topic with this iterative process continuing until the conclusion of the report.

1.4 Research Methodology

Recently publicised private sector Australian affordable housing funding models will be critically reviewed to determine each models strengths and weaknesses. The applicability or ease of implementation in the current Australian policy framework, and the potential to improve the supply of affordable housing are key factors of this review.

This research uses a semi-structured interview technique. The interviews are structured to test the design and assumptions, in addition to investigating the limitations associated with the current private sector affordable housing models (Arksey & Knight 1999). Analysis of the interviews was completed using a grounded theory approach due to its ability to break through biases and locate underlying issues (Strauss & Corbin 1990).

The interviews included a minimum of two separate representatives from each key stakeholder group e.g. institutional investors and local and state governments. To compliment the data interviews were also completed with developers, a tenant representative and a commercial property valuer. The interviewees were chosen as representative of the affordable housing sector (Miller & Crabtree 1999). The total number of interviews totalled 21 including 3 which were interviewed a second time. A comparison of the responses and statements from the interviewees occurred to ensure the reliability of the data collected. Data collection continued until little new information was obtained.

The data targeted during each interview varied between the stakeholder groups with each interview focussing on the respondents' individual knowledge and perception of the sector. Background information regarding the stakeholder group in general was gathered prior to the interview from the literature review. Additional specific information on the relevant organisation was gathered from secondary data sources such as the organisations websites, prior to the interview to assist with rapport and encourage openness.

A component of the interviews were unstructured, focussing on particular issues which were relevant to the interviewees.

Interviews were used to assist the identification of relationships between the major variables and determinants of the affordable housing models. In addition, themes highlighted from the literature review and previous interviews were explored. An expected outcome was the

recording of attitudes and responses of the stakeholders regarding the issue of affordable housing supply. These attitudes provided guidance as to the strength of interest in undertaking that activity by both investors and governments. The interview questions in many cases were open ended and the order varied depending upon the progress of the interview (Miller & Crabtree 1999).

Following discussion concerning the key elements and structures of the main affordable housing models, the views of stakeholders were gained as to why affordable rental housing had not secured private investment and why the various models have not been implemented in Australia. In addition, stakeholder views were sought regarding how to improve the potential viability of the researched affordable housing models.

Once the structure of the models was defined and reviewed, consideration was given to elements not part of the reviewed models. Additional means of improving the return from investment in the sector were also explored.

1.5 Definitions

There are numerous terms used when referring to the issue of housing affordability. Gabriel, Jacobs, Arthurson, Burke and Yates (2005) differentiates between these terms in Table 1.1.

Table 1.1

Terms and Definitions used in the Affordable Housing Sector

Term	Definition
Affordable Housing	Generic term to cover any low cost housing (irrespective of tenure). Defined without reference to dwelling occupants but intended to meet agreed affordability benchmarks.
Housing affordability	Term usually denoting the maximum amount of income which households should be expected to pay for their housing.
Housing stress	Generic term to denote the negative impacts for households with insufficient income to secure adequate housing. It can also refer to other factors such as over-crowding and insecurity.
Housing need	Term denoting a defined standard which no household should fall below.

(Gabriel et al. 2005, p. 8 Table 1)

Expanding on the definitions of Table 1.1 provided a greater appreciation of the use of these terms

1.5.1 Housing Affordability

Housing affordability uses a household's housing cost to income ratio to assess the performance of the housing system. For example, if there has been an increase in the number of households paying more than 30 percent of their income in housing costs over time, there has been an erosion of housing affordability.

A commonly used housing affordability index is the HIA-Commonwealth Bank Affordability report which is a measure of home ownership affordability. This index measures the ratio of average household disposable income to the qualifying disposable income for the purchase of a median priced house.

Housing affordability is not solely an issue of housing accommodation cost in relation to household income. The issue also includes consideration of housing which is appropriate, in terms of design, condition and location to services and employment, and security of tenure (Allen Group 2004; Susilawati, Armitage & Skitmore 2005).

For example, Burke (2003a, p. 3) refers to the Budget Standard which considers the financial well-being of the household following payment of housing costs:

“This method assumes that housing programmes should be designed to reduce housing costs to an amount that leaves sufficient left over to cover an acceptable minimum standard of expenditure consistent with a modest budget. On the principles of this model of affordability, housing is just one part of a set of programmes that address social security issues. The method here is to identify an acceptable standard of housing expenditure as a basis for setting a general housing cost to income ratio. This might be anywhere between 15 and 30 per cent, depending on household type and location and the bundle of other household expenditures.”

The commonly used benchmark of public housing sector organisations involves a comparison of the net rental, being the gross rental payment less rent assistance, as a proportion of net income. The net income is adjusted to take into account the size and requirements of the household (Shelter Australia & Australian Council of Social Services 2003).

1.5.2 Affordable Rental Housing

The Department of Family and Communities in South Australia defines affordable rental housing as:

“Affordable housing is appropriate to the needs of households with low and moderate incomes and consumes a proportion of household income that leaves households with sufficient money to meet other basic costs such as food, clothing, healthcare and education” (Affordable Housing Innovations Unit 2005).

Social or public housing is integral to the provision of low-cost housing supply, and is seen as a subset of affordable housing. Affordable housing is at times referred to as a separate category when referring only to those people whose incomes exclude them from social housing eligibility (Johnston 2003).

Affordable rental housing is rental housing accommodation which is supplied at below market rents to reduce housing stress. Affordable housing can include “public”, “community”, “non-profit”, “social”, “emergency,” and “high need” housing. Many of these terms are used interchangeably and have occurred in an attempt to distance the housing product from the stigma attached to public housing.

Affordable housing is intended to meet the needs of households whose incomes are not sufficient to allow them to access appropriate housing in the private market without assistance. This assistance is usually in the form of government subsidies (Milligan et al. 2004).

For the purpose of this research, affordable rental housing refers the housing supplied by the private sector for low to moderate income rental households.

1.5.3 Housing Stress

Housing stress is defined as when a low to moderate income household spends more than 30 percent of their gross income on housing expenses, including rental or mortgage repayments (Kothari 2007). Housing stress is deemed to occur when a household, whose income is in the lower 40 percent income bracket, pays more than 30 percent of their income in housing expenses (Affordable Housing National Research Consortium 2001).

1.5.4 Rental Gap

The rental gap is simply defined as the difference in rent between that paid by an affordable housing tenant and the rental required to generate an investment return sufficient to attract private investment capital (Yates 1994). For an investment return to be sufficient necessitates an appropriate level of risk.

Rental gap is traditionally associated with gentrification theory (Smith 1987) and refers to the reduced value produced from capitalising a property's rental when the subject property is under-developed and therefore produces a lower return. The current definition differs from the traditional one as a rental gap occurs from a housing allocation process, specifically to tenants who meet certain income criteria, and is not the result of a lower use or level of development. The rent is specifically reduced to a below market rate to relieve their level of housing costs.

The problem of a rental gap occurs as the cost to produce a dwelling which is rented at an affordable rent and a market rent are essentially the same. Both have similar land and construction costs, and both compete in an open market for development opportunities. Providers of affordable housing must therefore be willing and able to accept a lower income return from a market 'cost' property.

The problem of allocating this lower return liability is the task of the funding models. In order to achieve an increased supply of affordable rental housing some participant or mix of participants in the supply chain needs to accept the subsidisation of this liability either through foregone income, acceptance of increased risk or a cash payment.

1.6 Limitations

Areas which this research considers includes:

- Affordable rental housing includes a range of property types to suit specific sectors of the population according to need. This research is limited to consideration of affordable rental housing which is supplied by the private sector. The public and community housing sector is an integral part of the affordable rental housing sector but is not the focus of this report. However due to the close association of public housing to affordable housing, reference is made to the public and community housing sub-market where appropriate.
- This research does not extend to other forms of low cost housing such as Independent Living Units (I.L.U.) for the aged or disabled.
- Research has focussed on the potential of currently prominent affordable housing funding models to attract private investment to boost the supply of housing. To enable these funding models to be viable will require a government policy change to provide a subsidy. In those instances, the requirement for policy change will be noted.
- The Sydney affordable rental housing market is the main region analysed and the affordable housing models are analysed in the Sydney market context. However other capital cities' rental market and economies, and the Australian and other State government policies are mentioned for the purpose of providing an understanding of the broader dynamics of the Australian residential market.
- Where possible the latest information has been sourced and provided in this report.

1.7 Contribution to Knowledge

Currently a significant and ever increasing amount of funds are looking for alternate securitised property investments. There is therefore the opportunity for a securitised portfolio of affordable rental housing if there is a viable model identified which produces an acceptable return to investors.

Various business models are presented in recent research as offering the potential to overcome the poor investment return available from affordable rental housing. If this is achieved private capital could be attracted to the sector with the aim of improving the supply and adequacy of affordable housing.

The purpose of this research was to assess the current affordable housing models based on key characteristics, most importantly viability under the current statutory framework, efficiency for the provision of housing which impacts upon the derived return and attractiveness to the investment community. Elements for improving the function of the models have also be considered, in addition to identifying areas for further research.

1.8 Report Structure

This report structure adopts a phenomenological approach, commencing with a description of the affordable rental housing sector. A thorough literature review of the most recent and significant research on the topic was completed as a basis for this study. The literature review also enabled preparation for the interview process. The relevant results of stakeholder interviews are recorded together with the results of the analysis. The last section of this report summarises the findings and draws conclusions regarding the viability of an affordable rental housing model.

Chapter One sets the framework for the research task which was complemented by Chapter Two providing an understanding of the sector from the literature. The literature review continues in Chapter Three, specifically focusing on the details of the funding models. Chapter Four establishes the case for the adoption of a qualitative research methodology, specifically in-depth semi structured interviews, with analysis completed using the QSR's NVivo software. The data collection phase focussed on the investor and government stakeholders as these were seen as most influential in the financing of the sector. Chapter Five presents the analysed data in summary and developed the theory for understanding the funding models. This chapter concludes the research by identifying the contribution to knowledge and implications of the research.

Chapter 1	<p>Introduction-</p> <ul style="list-style-type: none"> • Background to the research • Research purpose and objectives • Research design • Research Methodology • Definitions • Limitations • Contribution to knowledge • Report structure • Conclusion
Chapter 2	<p>Literature Review-</p> <ul style="list-style-type: none"> • Affordable housing sector background • Affordable housing defining characteristics • The implications of unaffordable housing • The reasons behind the current housing affordability situation • Government assistance • Reasons to improve the supply of low rental housing • Australian affordable rental housing participants/ stakeholders • Long term trends in affordable Australian rental housing • Investment characteristics of Australian residential property • Finance for the provision of affordable housing • Housing affordability determinates
Chapter 3	<p>Current affordable rental housing funding models-</p> <ul style="list-style-type: none"> • Requirements for an investment funding model • Aim of funding models • Methods of financing • Funding model assessment criteria • Subsidy delivery • Consortium or Bonds model • Public Private Partnership model • Macquarie Pooled Fund model • Not-for-Profit Housing Company model • Tax Credits model

	<ul style="list-style-type: none"> • Key features of the affordable housing funding models • Estimates of cost effectiveness
Chapter 4	<p>Research Methodology-</p> <ul style="list-style-type: none"> • Justification of the methodology • Research design • Grounded theory • Conceptual framework <p>Research Procedures-</p> <ul style="list-style-type: none"> • Research instruments • Interview participants • Data analysis • Theory building <p>Validity and Reliability-</p> <ul style="list-style-type: none"> • Validity • Reliability <p>Computer Programme and Use of Software-</p> <ul style="list-style-type: none"> • NVivo computer programme <p>Ethical issues</p>
Chapter 5	<p>Analysis of the Data and Discussion-</p> <ul style="list-style-type: none"> • Interview data analysis • Outline of the analysis • Analysed data concepts • Return factors • Risk factors • Subsidy factor indicators • Fund characteristics
Chapter 6	<p>Summary, Conclusions and Further Research-</p> <ul style="list-style-type: none"> • Research summary • Conclusions • Recommendations • Further Research
References	
Appendices	

1.9 Conclusion

This chapter provided the basis for the research report. The research question was outlined together with the key research propositions and issues and the methodology used in order to address them. A brief description of the current plight of the affordable rental housing market in Australia and New South Wales was provided as a background. This background emphasized the need to source a means of funding significant new supply of affordable rental housing. This research focuses upon such means. An outline of the report was provided together with the limitations and key assumptions of the report. On this basis the report develops further the research problem.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter covers the literature on the affordable rental housing sector in which this research is based and further orientates the reader as to the research problem, both of which were outlined in the previous chapter. The chapter commences with a definition of affordable housing and the problems associated with a shortage of affordable housing. This is followed by a review of causes of the current housing affordability crisis, what governments are doing to address the problem and the reasons for providing a solution. The process of securing funding begins by looking at the stakeholders in the sector. The stakeholders' circumstances, resources and characteristics will be discussed. This is the starting point to locate barriers to investment in the sector. The long term trends are also reviewed in order to determine how the sector achieved its current situation in terms of the market drivers, policies and supply factors which are important for an investment solution in the future.

The research problem is based on finding a means of sourcing sufficient funds for affordable housing. However the literature reviewed takes a broader sweep, covering other aspects to provide an appreciation of the current state of the sector. The investment characteristics of housing and the general determinants of housing affordability are also considered, not only to identify the relevant market forces and how these might impact upon a funding solution, but also to gain an investor's perspective. The review aims to put into perspective the issues and drivers for this sector of housing. This understanding is vital for the implementation of a viable funding model solution in the future.

2.2 The Affordable Housing Sector Background

2.2.1 Affordable Housing Defining Characteristics

The National Housing Strategy (1991) defined affordable housing as where housing costs are at a level which leaves households with sufficient income to meet other basic needs. Higher income households therefore are not considered as having an affordability problem despite proportionally high levels of housing costs, as they still have sufficient income remaining after housing expenses to meet the household's basic living requirements. Affordable housing is consequently aimed at providing housing for low to moderate income households where the income remaining after housing costs does not cover basic needs (Allen Group 2004).

The concept of affordable housing developed as a result of two factors:

- Public housing had evolved to cater solely to welfare dependent households; and
- The increasing incidence of low to moderate income households experiencing housing stress, a group over-looked until recently in respect to rental housing assistance.

These factors presented the need to devise another category of rental housing for the low to moderate income group (Milligan et al. 2004).

Affordable housing is for those households which are unable due to limited income, to access private rental accommodation. To ensure their affordability, rents are charged at a rate discounted below the market level. The discounted rent paid may vary by household e.g. low income tenants may pay 25 percent of the market with moderate income tenants 30 percent. Rents may also be charged at a discounted rate without reference to the households' income, usually 75 percent of market rents (Centre for Affordable Housing 2007). The use of an income based rental threshold is a problem for community housing operators struggling to be financially sustainable. This is particularly the case in high cost areas when incomes may have no correlation with the localities' cost of providing accommodation. In these instances the need for a rental discounted to market is a practical solution, particularly when faced with lower levels of government funding (Burke 2003b).

Table 2.1 details the yearly income categories into which Sydney households are defined for use in this report.

Table 2.1

Sydney Household Income Categories

\$60,070 per annum	Sydney median household income	
< \$30,000	< 50 percent of the median	<i>Very low income</i>
\$30,001 to \$48,000	50 to 80 percent of the median	<i>Low income</i>
\$48,001 to \$72,000	80 to 120 percent of the median	<i>Moderate income</i>

Source: Centre for Affordable Housing (2007)

Affordable housing is targeted at the bottom 40 percent of the income distribution which is categorised in Table 2.1 as the Very Low and Low income households but is commonly experienced by moderate income workers (Allen Group 2004; Shelter Tasmania 2006). An affordable rental is complemented by identifying the rental applicable to a range of rental accommodation and the term "Benchmark Affordable Rent" as seen in Table 2.2. The bottom 40 percent of households on the income distribution are broadly consistent with the 'low income' category (Susilawati, Armitage & Skitmore 2005).

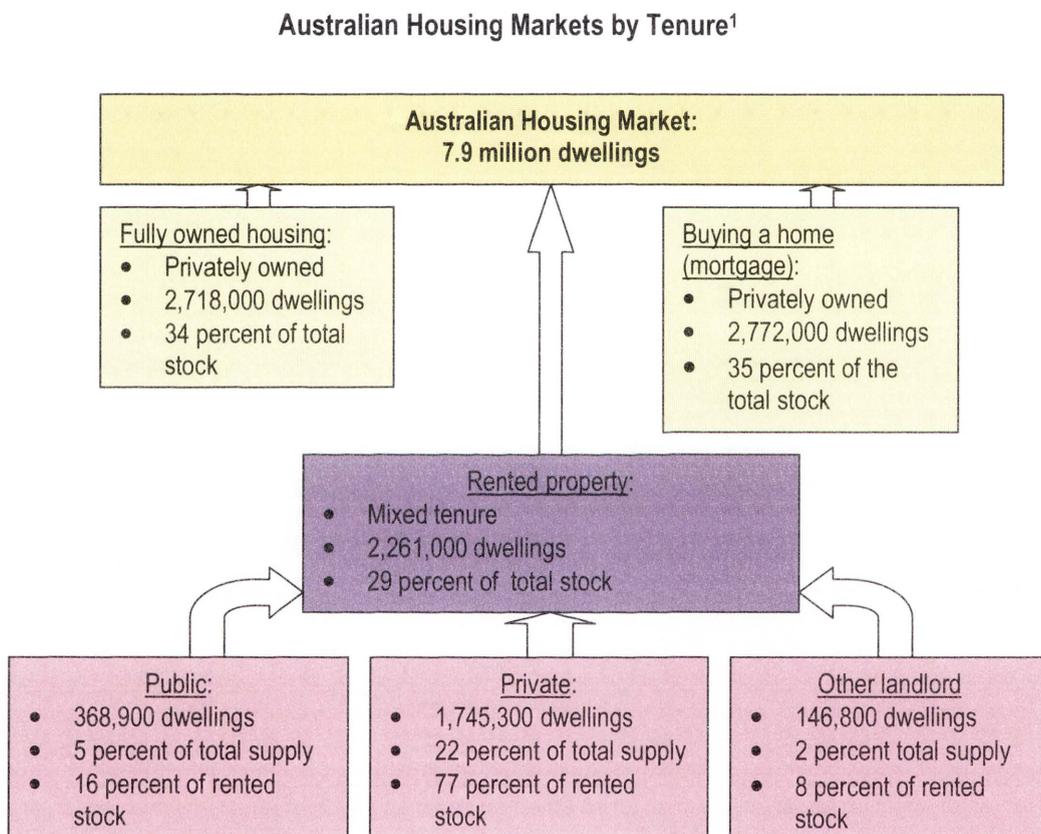
Low to moderate income households are classified as earning \$30,000 to \$72,000 gross income per annum. This income range encompasses the current salaries of university lecturers, school teachers, trade apprentices, police, nurses and a range of full time government workers and service providers. A couple can both be working conscientiously at respected jobs and their combined income can still fall within the definition of a moderate household income. The term 'working poor' has been coined as the households' salaries are not sufficient to meet housing costs and afford the basic necessities. This situation can be temporary although the state of the current housing market has raised the incidence of a long term experience (Berry 2003; Environmetrics & HBO+EMTB 2001; Randolph & Holloway 2002).

An appreciation of what affordable housing is should not be limited to a consideration of the ratio of income to housing costs alone. There needs to be a definition of what is an acceptable standard of housing, as over-consumption of housing which raises housing expenses should not be included for consideration. Conditions should also be considered as a household maybe living in a substandard dwelling or in a situation of over-crowding (Burke 1998; Gabriel et al. 2005).

Affordable housing is a broad category which includes public, community, not-for-profit and low-cost private rental accommodation. However, as stated in section 1.4 of this report, this research will focus on a section of the affordable rental housing market which excludes the sub-set of public housing which caters for Very Low income households. (National Affordable Housing Forum 2006)

To assist with understanding the proportions of income categories in the Australian housing market, Figure 2.1 shows the split by housing tenure of the 7.9 million Australian households recorded in the 2006 Census (Australian Bureau of Statistics 2006a).

Figure 2.1



Source: (Australian Bureau of Statistics 2006a; Australian Institute of Health and Welfare 2007a; Shelter NSW 2004)

¹ Some of the numbers and percentages do not total to the represented figures due to unstated categories in the census collection.

Figure 2.1 shows that public housing is a small part of the overall residential market, being only 5 percent of the total dwellings supplied and 16 percent of all rental properties. This category plus a small component of the category of 'Other landlord', which includes charity housing, are the only providers of housing which designate dwellings to those low income households in housing stress. These organisations generally manage relatively small portfolios (less than 800 dwellings) (National Community Housing Forum & Australian Housing and Urban Research Institute 2002).

For moderate income households, there is no provider of specifically designated affordable rental housing therefore they need to access private rentals. The situation is worse when it is considered that the incidence of low rentals amongst private landlords is usually a consequence of their poor management. Subsequently the housing is not maintained and rental increases do not keep pace with the market, as the landlords are more interested in the capital gain than the rental return (Australian Institute of Health and Welfare 2007a; Burke 1999; Pollard 2003).

The extent of the affordable housing problem is highlighted by comparing estimates of the shortage of low cost housing and the numbers of households in housing stress. For example, Yates and Wulff (2000) estimated that there was a national shortage of 150,000 properties in 1996 (Allen Group 2004; Shelter Tasmania 2006).

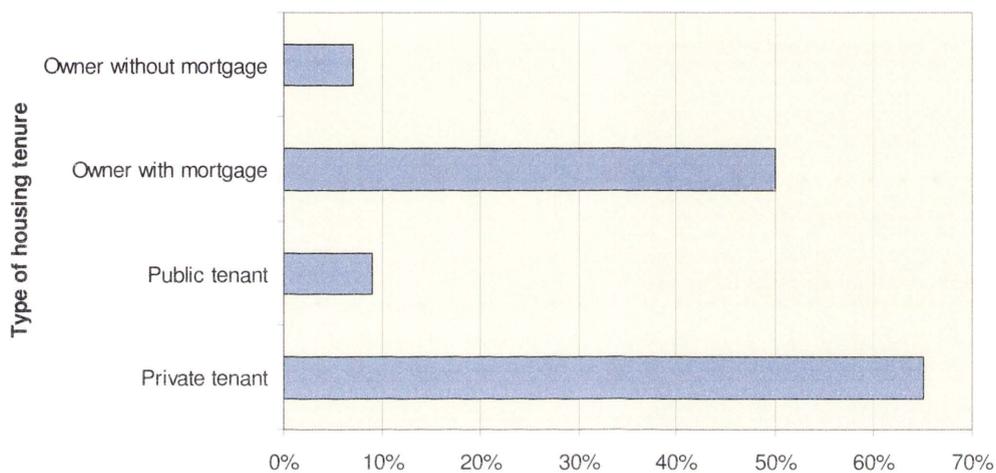
Interestingly, the number of rented dwellings increased from 1,858,324 to 2,063,947 between the 2001 and 2006 census, an increase of 11 percent. This increased supply occurred during a period of rising demand for rental accommodation as Australians moved from home ownership to the rental market (Baxter & McDonald 2005). Therefore despite this increase in rental accommodation the shortfall in the availability of affordable housing increased over this time as witnessed by a tightening in the vacancy rate (Australian Bureau of Statistics 2006a).

Over the inter-census period of 2001 to 2006 the number of dwellings rented in NSW from real estate agents increased by 71,476. The importance of this new supply is highlighted by the fall in public housing by 5,361 properties over the same period with community housing witnessing only a minor lift to supply. As the majority of this increase to privately supplied dwellings consisted of mainly higher value properties, there was little improvement for low income rental stock (Australian Bureau of Statistics 2006a).

For housing to be affordable, a low to moderate income household should not be spending more than 25 to 30 percent of their income on housing related expenses (Allen Group 2004; National Housing Strategy 1991). Households paying more than 30 percent are considered to be suffering from housing stress. Figure 2.2 details the proportions of low income households exceeding this threshold.

Figure 2.2

Proportion of Low Income Households in Australia Paying More than 30 percent of Gross Income on Housing Costs, 1999



Source: Allen Group (2004)

Figure 2.2 shows that most people experiencing housing stress occupy private rental accommodation. Of the 742,000 households experiencing housing stress in Australia in 2006, 400,000 were private tenants. This indicates that there is a low supply of affordable housing which forces tenants into the higher cost private rental market. The second largest tenure category experiencing housing stress is low-income owners with a mortgage. Many of these households will of necessity move into the rental market if there is a change in the household's circumstances i.e. job insecurity, increased living expenses through sickness, relationship break downs, change in economic circumstances etc (Allen Group 2004; Rentsch & Scott 2003).

Affordable Housing Categories

There are three affordable housing categories. These include;

Public Housing- are government owned and managed dwellings for people who are disadvantaged as far as accessing private rental accommodation. Eligibility for public housing has been increasingly tightened limiting access to this type of accommodation to those households in extreme housing need. Public housing represents less than 5% of the total dwellings in NSW or 16% of the rented stock.

Community Housing- differs from public housing as the tenant management and often property and asset management is handled by not-for-profit organisations. These organisations are usually locally based and relatively small, the largest managing around 800 units. Housing stock may be head leased from government or the private sector and sub-let to tenants. Community housing targets the low to moderate income households. Delivery is through three main types of organisations: tenant managed co-operatives; specialist housing associations; and church or welfare or local government groups which manage the property as part of their business. Community housing represents less than 1% of the total dwellings in NSW or 2% of the rental market.

Affordable rental housing- The above social housing over recent decades has targeted low income households. There is however a growing need for a broader range of income households to be catered for. This has led to the deliberate creation of an affordable rental market which is accessible to low as well as moderate income households, particularly key workers in larger cities in inner areas and other high rent areas. The current issue is to generate investment to deliver a significant supply of housing to meet the need

(National Community Housing Forum & AHURI 2002).

2.2.2 The Implications of Unaffordable Housing

The extent of the crisis of the affordable rental housing sector is highlighted by considering some key statistics. The current supply of designated affordable housing nationally is approximately 400,000 dwellings consisting of public, community and not-for-profit housing (Australian Bureau of Statistics 2006f; Australian Institute of Health and Welfare 2007a; Shelter NSW 2004). Comparing this to the estimated 400,000 private tenants who are currently

experiencing housing stress, the 220,000 people who are on public housing waiting lists, some for up to ten years or more, and a vacancy rate of 1 percent nationally, shows supply is significantly below demand for affordable housing (Allen Group 2004; Director Community Services 2004).

The limited extent of options available to a low income household's ability to access suitable housing is evidenced by the following data from a research completed in 2002 and there is no evidence to suggest the situation has eased in 2008 (Housing Institute of Australia 2008);

- "Only 10% of low income households can rent a three bedroom house in each city and then only on the outer fringes.
- Only a small number of households were able to rent a one bedroom apartment in inner Sydney.
- No low-income household could afford to purchase a three bedroom house in Sydney, Melbourne or Adelaide"

(Berry & Hall 2002, pp. 6-7).

The under-supply of affordable housing is exacerbated by the poor distribution of State public housing. These properties are commonly located in areas which offer low amenities and poor job opportunities. The distribution of public housing does vary across State capitals. In Sydney, public housing is disproportionately located with a higher supply in the north-west and south-west with 24 percent and 22 percent respectively. Only 5 percent is located in northern and 12 percent in southern areas (Waxman & Ng 2004). Private rentals are more evenly spread across Sydney.

Table 2.2 details the impact proportionally higher costs of housing has upon household members.

Table 2.2

Effects of Housing affordability on Well-Being by Scale of the Affordability Problem

Statements which are applicable to the household	Low income renters (two lowest quintiles, lowest 40 percentiles)		
	Rent as a percentage of income		
	Up to 29% (affordable)	Exceeds housing stress threshold	
30%-39%		40% and above	
Count	129	170	403
My family has sometimes gone without meals	12.6%	20.5%	29.6%
I am unable to some times heat or cool my home	37.6%	43.8%	57.3%
My children has missed out on school activities such as excursions and sports	23.3%	40.2%	42.4%
My children have had to go without adequate health and/ or dental care	20.9%	35.1%	38.7%
Likelihood of purchasing own home	62.6%	39.4%	27.2%
I feel trapped in an area with poor job prospects	28.3%	36.8%	44.2%
Approached welfare/ community/ counselling agency for assistance	19.7%	27.9%	32.9%
Sold or pawned personal possessions	17.3%	32.1%	33.7%

Source: Burke (2007)

As Table 2.2 shows, the higher the amount of rental paid as a proportion of the households' income the greater the occurrence of social and personal difficulties. These factors not only

have immediate impacts upon the household members, but also have long term ramifications due to the incidence of lower levels of education and health. Poorly educated and low health sectors of a population reduce its workforce' capacity and places additional call upon its social infrastructure. Burke's study also found that low-income households experiencing housing stress also had difficulty in paying their rent (Burke 2007). This factor can lead to further housing insecurity.

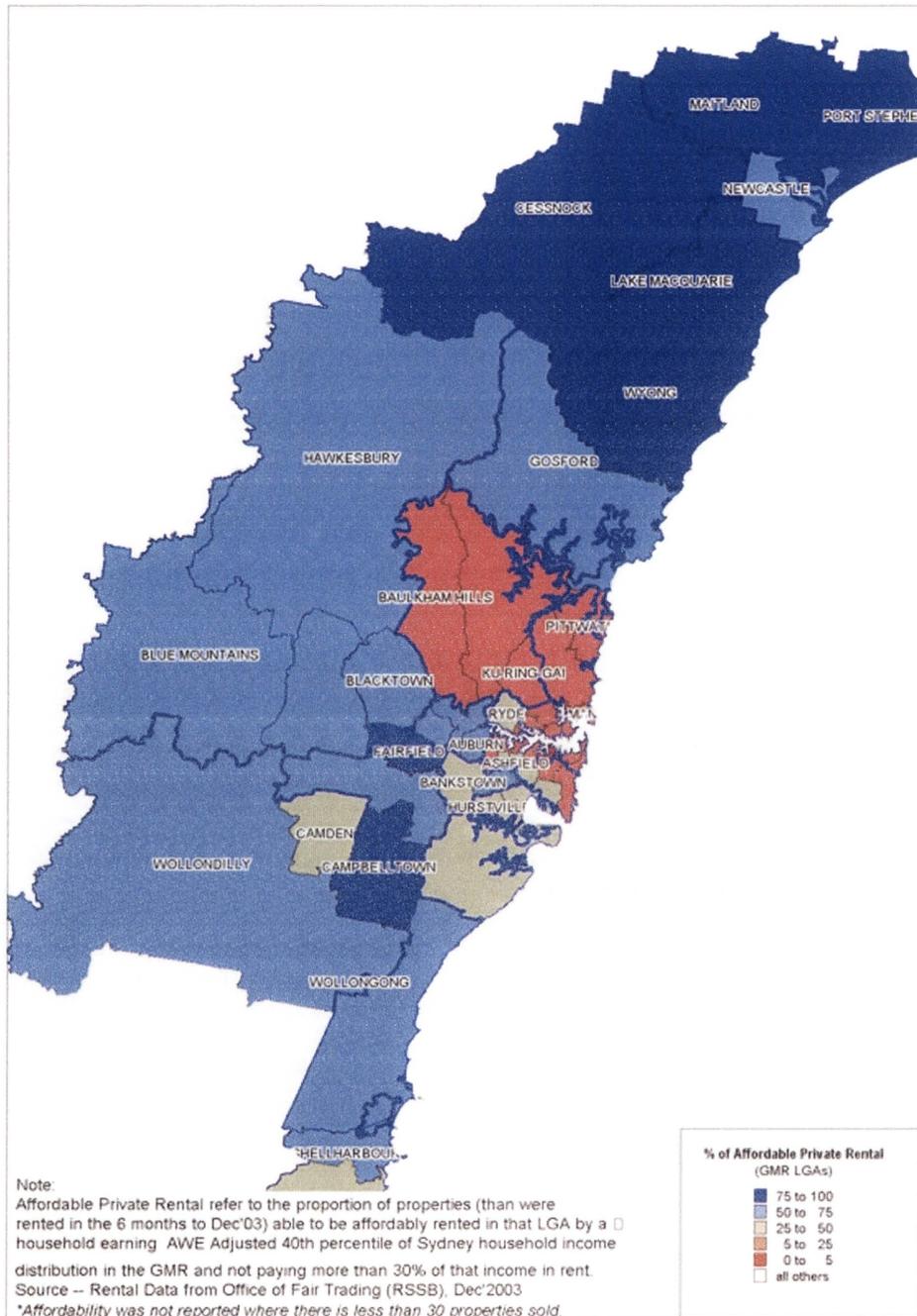
The impacts of low affordability are no longer restricted to low income households. Housing stress is now being experienced by households with higher incomes. Moderate income households which were seeking to make the transition to home ownership are now experiencing reduced opportunity for workforce participation and social mobility due to uncertain housing circumstances and are being forced to move to more affordable locations. These factors further impede their opportunities to eventually own a home (Allen Group 2004).

The impact of inadequate affordable housing supply extends beyond tenants to the broader economy. These impacts are in the form of inflated levels of transport infrastructure usage and inefficient employment markets. This is highlighted in the case of essential service workers, such as cleaners, nurses, police, and security personnel, who seek to secure affordable housing in inner city areas where employment is strong but rentals are high. These workers, with household incomes of less than \$70,000 per annum, are compelled to move to areas with more affordable housing, generally located in outer areas of the city.

Figure 2.3 identifies the locations across the Greater Sydney metropolitan area with higher levels of private affordable housing supply.

Figure 2.3

Greater Sydney Metropolitan Areas Supply of Affordable Private Rental Dwellings (by LGA's)



Source: Centre for Affordable Housing (2003)

Figure 2.3 shows the outer local government areas (LGA's), in the south west (Campbelltown) and north (Central Coast and Hunter regions) of the greater metropolitan areas offer a greater potential of affordable housing options. It is these areas which also have the lowest household income in the Greater Sydney region, up to 30 percent below the Sydney's median income (Australian Bureau of Statistics 2006a). Bradbury and Chalmers (2003) noted that unemployment in these affordable areas is higher than in inner city locations and there may also be less services to facilitate working, such as childcare placements. Local work opportunities in these affordable areas are reduced compared to inner city locations with its higher diversity and aggregation of job opportunities (Rentsch & Scott 2003). Winter (1994) disputes that affordable housing areas provide a lower level of services which disadvantage residents, however his comments focussed on young people who are not always responsible for housing costs.

A further disadvantage occurs by having affordable housing in fringe city areas as low-income tenants are required to pay significantly higher transport costs than inner city dwellers. Those living in fringe areas use an average of over 1,000 litres of fuel per year, spending up to 36 percent of their income on fuel and car costs. This compares to higher income city dwellers which use an average of only 300 litres per year. Low income tenants are therefore financially disadvantaged even further by the poorly located and low provision of affordable housing (Lucas 2007).

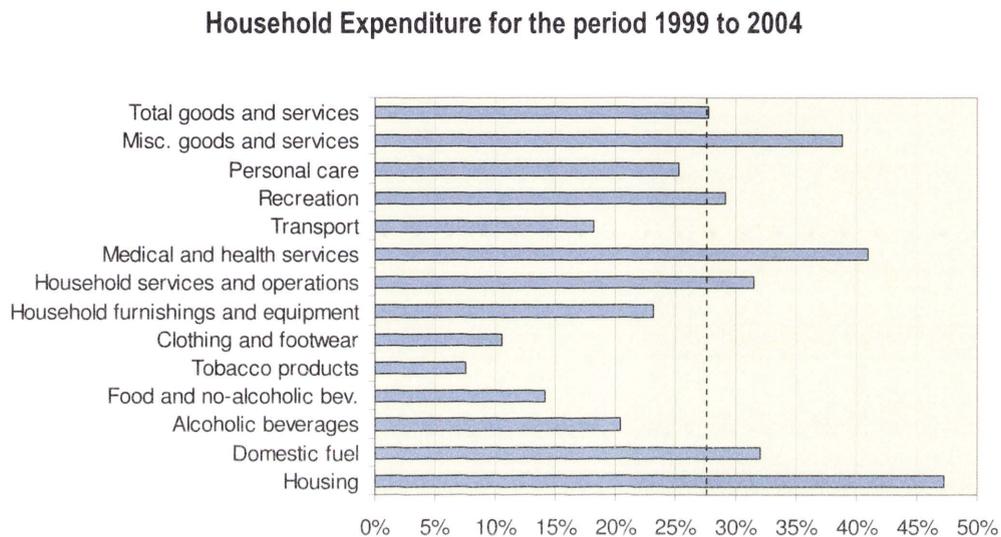
Inadequate housing has a range of social problems, such as homelessness, ill health and declining access to employment. It also appears to be one of the main causes of social exclusion and the marginalisation of people from society. If current policies and trends persist the number of households affected is estimated to rise to one million by 2028 (Berry & Hall 2002).

2.2.3 Reasons Behind the Current Housing Affordability Situation

A growing number of households are subject to unavoidable housing stress with few options for improvement. This situation has been the result of a variety of factors. Since the late 1980's, the link between labour markets and house prices has been deteriorating. Employment security has declined for many lower paid workers and there has been the growth of low waged, part-time and casual jobs. These jobs are precarious and offer an unpredictable income flow.

Low income households have little ability to pay additional costs as household budgets often do not cover basic living expenses. The situation is exacerbated as accommodation costs have increased rapidly over the past 20 years. The strongest period of growth has occurred from 1999 to 2004 (Richards 2008). This high growth rate transforms into reduced housing affordability. Figure 2.4 shows the increase in household expenditure by category for those 5 years.

Figure 2.4



Source: ABS (2006f)

The overall increase in average weekly household expenditure on goods and services between 1998-99 and 2003-04 was \$194 a week representing a 28 percent increase. By expenditure categories the largest increase in dollar terms occurred for current housing costs which were up by \$46 or a 47 percent. This was due in part to increased mortgage interest payments, up \$20 (78 percent) and increased rent payments, up \$9 (23 percent) (Australian Bureau of Statistics 2006e). Considering that household income growth for the first and second lowest income quintiles over this period was 17 percent the impact upon low income households would have been extreme.

The problem of an insufficient affordable housing supply is compounded by certain events. These include;

- A. A significant increase in the amount of smaller households.

The reasons for these smaller households include;

- An aging population;
- Trends toward later marriage and child bearing;
- Higher rates of divorce resulting in more single-parent families.
- Difficulties of affordability when there is an increased demand for smaller housing in a locality. This situation is exacerbated by smaller households have smaller incomes from which to pay for housing costs

(Baxter & McDonald 2005).

Average household size decreased, from 2.7 to 2.5 persons over 1994-95 to 2003-04, while average dwelling size increased over the same period, from 2.9 to 3.0 bedrooms per dwelling (Australian Bureau of Statistics 2006e). This has resulted in a higher cost of housing per household member. This trend creates additional financial stress for low income household's which are less able to pay the resulting higher rentals.

B. Changing income and employment circumstances

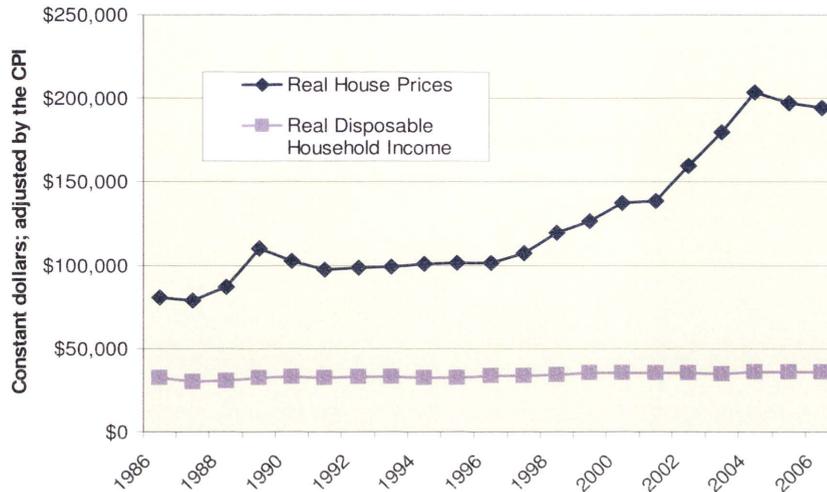
The past decade has seen a decline and greater inequality in the distribution of real disposable incomes. There has also been a decline in full time permanent jobs. These circumstances make it difficult for many households to commit to buying their own home (Parliamentary Library 2006).

C. Increases to housing prices

The housing affordability crisis is partly due to the quadrupling of established house prices over the past 20 years. Established house prices include the cost of land which the weighted average price of land in the eight capital cities increased by 60 percent over the financial years 2002 to 2004. Figure 2.5 shows the extent of the house price increase compared to household disposable incomes. Both Figure 2.5 series are shown in constant dollars after having been adjusted by the annual CPI (Parliamentary Library 2006; Urban Affairs 1999).

Figure 2.5

'Real' Australian House Prices and Household Disposable Income



Source: Parliamentary Library (2006)

Figure 2.5 show the increase in Australian house prices has far exceeded the growth of household disposable income. Real disposable household incomes have remained reasonably flat compared to real estate prices which have more than doubled.

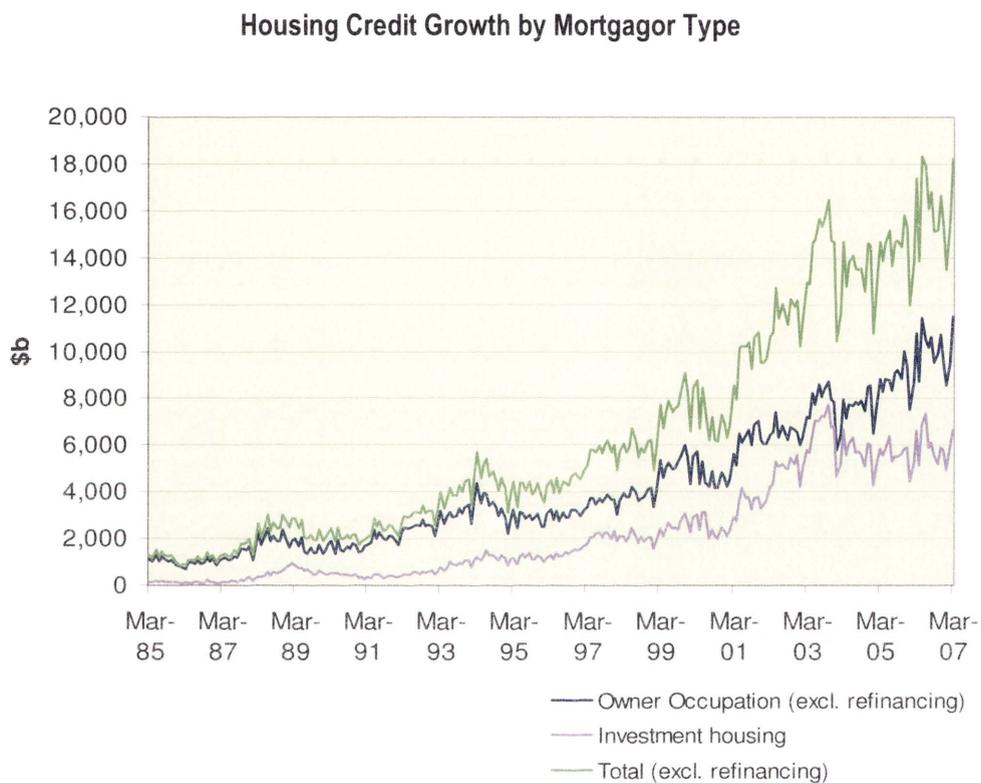
Wood (2001) argues that the supply of privately funded low-income housing has been declining and as a result private supply has not kept up with demand for low income housing. The decline is a result of after-tax returns for low cost housing being lower than higher-value dwellings. Wood gives three reasons for the difference;

- Federal Income Tax: Due to the nature of the Negative Gearing taxation policy, higher after-tax returns are delivered to higher income earners. These investors generally invest in higher value housing to derive higher capital gains.
- Economies of Scope: the management and associated costs (land tax, agency fees) of holding one high value rental dwelling are less than the costs for two cheaper dwellings of lower cost.

- Higher Maintenance Costs: low rental housing tends to be older and in need of higher maintenance and as a result incur proportionally higher maintenance costs than higher value housing.

The lack of supply of affordable housing has been exacerbated by a tightening in housing vacancy rates. This fall in supply occurred as developers responded to high construction costs and low demand by residential investors. Figure 2.6 depicts the movement in housing credit activity by mortgage type.

Figure 2.6

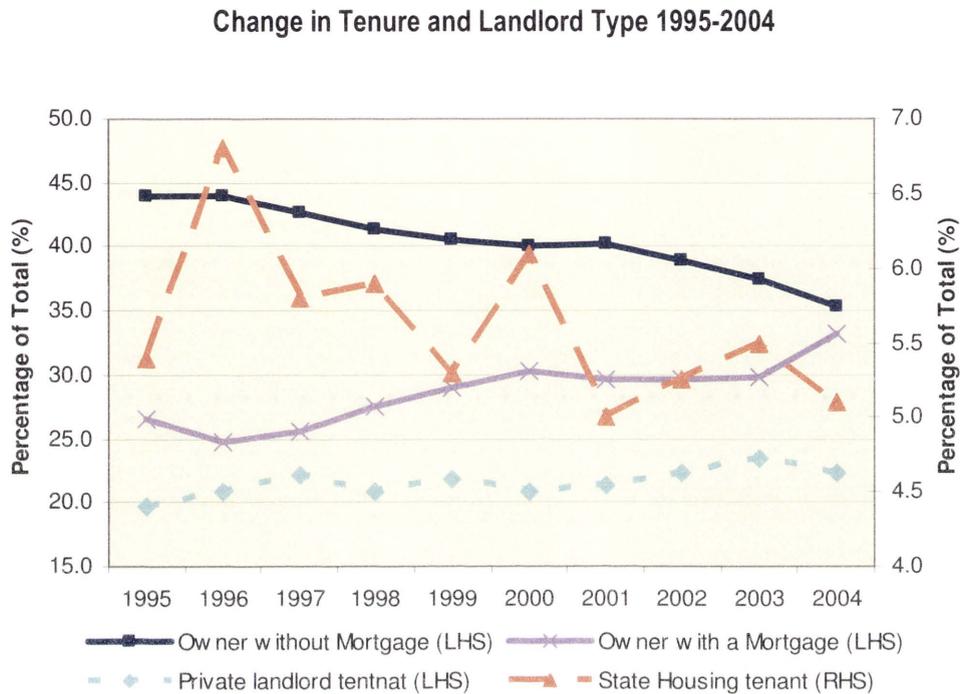


Source: (Australian Bureau of Statistics 2007)

Figure 2.6 shows the reduction to investor activity which occurred after 2003 when the capital growth expectation began to fall. Investor activity up until 2003 was at historic highs which produced an over-supply of rental accommodation. Investment housing activity had plateaued while owner occupier trend activity continued to rise.

Another factor impacting the supply of affordable housing is the change in the last decade of housing ownership. Figure 2.7 shows the changes by ownership and landlord type over the period 1995 to 2004.

Figure 2.7



Source: ABS (2006c, 2007)

Figure 2.7 depicts the rental market undergoing a long term shift where home ownership is falling, producing a rise in the proportion of tenancies. As households move from ownership to renting, there is an increase in demand for rental accommodation. The burden of this increase is being taken up by the private rental market due to a reduction in public housing supply. It is clear that the current patterns of provision of housing through the general housing market will not sufficiently improve supply for a great number of lower income Australian households. This conclusion is reached as landlords are supplying properties at the upper income range to maximise tax benefits (Rentsch & Scott 2003; Urban Affairs 1999).

There are difficulties to institutional investment in the residential housing sector. These difficulties arise from the restriction of market forces from restoring rates of return to a level which compensates an investor for the level of risk accepted. The main impediments to the

operation of the effective rental market operation for institutional investors, particularly for affordable housing, include:

- Individual investor landlords many of whom are prepared to accept lower or negative net returns;
- The impact of government regulations and tax policies which favour small property holdings;
- The complex nature of the housing commodity such as its location, type, age, size, range of services, long lived nature, flexibility of use, and importance as a necessity of life

(Berry & Hall 2002).

There are also risks that accompany a residential rental investment which require compensation and those include:

- "Financial risk associated with the economy-wide movements in interest and inflation rates;
- Management and operating risks associated with the actual operation of a rental business: maintenance costs, rental arrears, and default, vacancy rates, etc.;
- Capital risk, especially changes in the market value of the dwelling (and land) through time;
- Political risk associated with the possible impacts of future changes in government policy;
- The illiquidity of housing;
- Poor market information; and
- Absence of a track record"

(Berry & Hall 2002, p. viii)

2.2.4 Government Assistance

Assisted by the long term roll back of public housing provision, rent has been the second fastest growing areas of household spending over the past five years to 2004 (Australian Bureau of Statistics 2006f). The highest spending category was Medical Expenses and Health Care. Both areas of rising expenditure are areas where government policy has encouraged the private provision of infrastructure rather than investing public funds. Rising private housing rentals are a factor in the decline in the government provision of affordable public housing. Between 1987 and 1997 the number of public housing dwellings completed fell by over 50 percent (Senate 2006). In NSW, over the five years to June 2007, the number of public housing dwellings managed fell by over 2 percent (Moore 2004).

An example of where the government has encouraged the supply of rental accommodation is the support shown to property owners of investment property. Federal governments have chosen supportive policy solutions such as negative gearing and depreciation allowances which provides tax benefits to investors rather than undertaking the expense and risk of deficit spending, instead encouraging households to fulfil this role of housing provision (Wilson & Turnbull 2000).

The current Federal Government public housing agreement with the States does not support the expansion of public housing supply, evidenced by the decline in public housing stocks. In 1995 to 2006 the stock of public housing decreased by 65,000 dwellings or 18 percent over the 11 years (Senate 2006). This fall in supply was a consequence of a \$250 million deficit in the NSW public housing budget in 2004 (Moore 2004; Rentsch & Scott 2003). Such deficits are understandable when considering the Federal government has a general non-interventionist policy regarding the housing market (Wilkinson 2005).

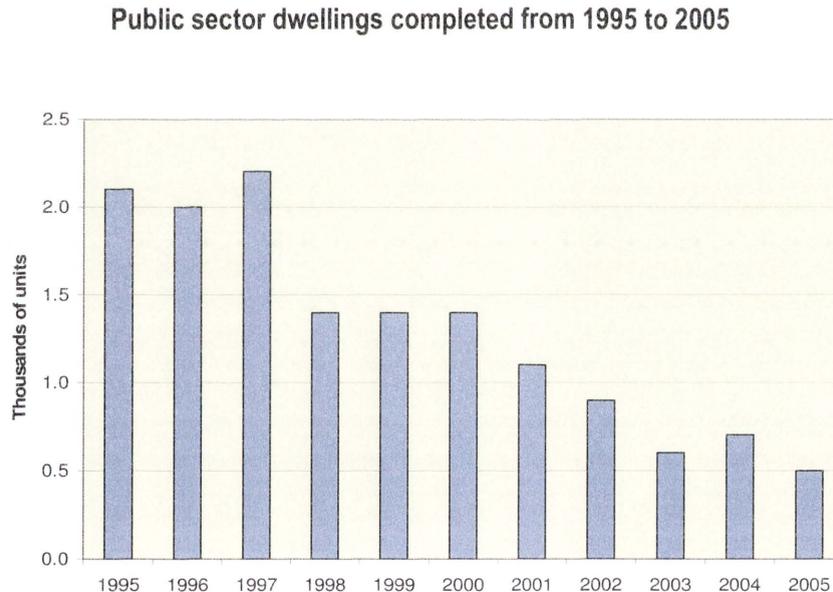
Berry (2003) is critical of the current government housing policies noting it is failing to deal with the problems of inadequate affordable housing. This follows the marginalisation of housing policies since 1987. A consequence is insufficient capital to maintain adequate standards of accommodation in aging public dwellings. In response to such limited funding, government programmes attempt to keep vulnerable households in the private rental housing market to

alleviate demand for public housing (Slater & Beer 2003). Commonwealth Government funding is therefore focussed on rental assistance to tenants in the private rental market rather than the maintenance of public housing stock (Randolph & Judd 2000). Wilkinson (Wilkinson 2005) identifies that since the late 1970's, governments have largely withdrawn from providing housing for people encountering housing difficulties, opting to provide small amounts of demand side assistance (Moore 2004; Wilkinson 2005). Rent assistance however is not meant to reduce rental expenditure to a benchmark, say 30%, but to improve rental affordability for social security recipients (Burke 1999).

Public rental housing construction has also reduced over the long term. From being an average of 6.5 percent of total construction over 1990-91 to 1994-95, it has decreased to 3.6 percent over the period 1995-96 to 2000-01. Federal Government funding under the Commonwealth State Housing Agreement also continues to decline in real terms. This policy places a capacity limit on public housing. (Berry 2003; Waxman & Ng 2004)

Figure 2.8 shows the reduction in the provision of public housing from 1995 to 2005.

Figure 2.8



Source: ABS (2006c)

Figure 2.8 depicts how over the past decade public housing supply has dropped to an average of 29% from that constructed in 1995. The negative effect of a declining public housing supply

had been compounded by poor allocation of existing public housing stock. Yates and Wulff (2005) state the shortage of low cost rental housing was estimated to be 50,000 dwellings in 1996. This situation is compounded by the occupation of over 100,000 low cost homes by high and low-moderate income households, rather than the low cost households which are in greater need.

Figure 2.9 illustrates the number of housing assistance applicants who were successful in gaining public housing accommodation from 1995 to 2005.

Figure 2.9



Source: ABS (2006c)

The falling provision of assistance to households from 2001 as shown in Figure 2.9 occurred during a period when housing prices were rising strongly and affordability was deteriorating rapidly. The failure of public housing authorities to respond to deteriorating market conditions emphasises the need for a response from the private sector in order to alleviate the stress on supply (Brotherhood of St Lawrence 2003; Moore 2004).

An alternative to housing provision for the Commonwealth Government is providing rental assistance where cash is paid directly to low income households. Total funding for rental

assistance grew by almost 30 percent over the period from 1994-2003 (Allen Group 2004). This indicates the trend of government to assisting rental housing through subsidising private rental accommodation over the provision of capital funding of public housing supply.

The current system of housing assistance is more vulnerable to market fluctuations and crises than previous systems of assistance. These fluctuations create risks for the recipient, who has no guarantee of housing while governments are faced with increasing housing assistance claims (Seelig 2004, p. 22).

The Commonwealth–State Housing Agreement (CSHA) (2003) guiding principles are stated as to provide alternate housing options, promote innovative approaches to obtain further resources into social housing through community, private sector and other partnerships. These guidelines seem to provide an opening for the introduction of a new privately supported system of housing provision in Australia. These guidelines may provide the impetus to change the current approaches to providing affordable housing options which is required as the public sector's commitment towards public housing subsidy has been waning over recent years (Seelig 2004).

However the adequacy of the governments' rent assistance over the period from 1995 to 2005 has been questioned. The mean fortnightly rental assistance received increased by \$17 whereas the mean fortnightly rent paid by recipients of assistance rose by \$66 over the same period (Australian Bureau of Statistics 2006e; Shelter Tasmania 2006). Clearly the Governments' assistance had a limited result in alleviating the housing stress of low income households over this period.

The above factors seem to indicate that assistance alone is not the answer to the problem of the lack of affordable housing. The main issue is one of housing supply. A supply side policy alternative is therefore required.

National Rental Affordability Scheme

Government's rental housing supply assistance took a different tact in July 2008 when the Federal Government announced the National Rental Affordability Scheme (NRAS). The scheme which is similar to that of the US Low Income Housing Tax Credit model aims to

stimulate the supply of affordable rental housing through providing a subsidy which should not just off-set the required lower-than-market affordable rental, but also boost the net return to the landlord. The total cost of the Scheme to the Federal Government is estimated at \$623 million to subsidise up to 50,000 new affordable rental dwellings by 2012. The governments' subsidy consists of a tax credit equal to \$6,000 per annum from the Federal Government and \$2,000 per annum from the State and Territory governments. The State government subsidy can be in the form of a cash payment or the equivalent cost provided through the waiver of fees and charges. Each of these subsidies will be indexed by the Consumer Price Index annually. In the case of the NSW Government there is a limited offer whereby the total amount of the subsidy can be paid as a lump sum at the commencement of tenancy of the property to off-set capital costs.

The subsidy scheme is targeted to assist those tenants who are may be ineligible for public housing although are still able to claim the Commonwealth Rent Assistance (CRA). Eligibility is open to households on low to moderate incomes which are noted in Table 2.3.

Table 2.3:

Household Income Limits for Eligibility under the National Rental Affordability Scheme

Item	Household Type	Income Limit (\$)	Upper Income Limit (\$)
1	Single person with no children	40,501	50,626
2	Couples, couples with 1 child, or sole parents with 1 child	55,991	69,989
3	Couples or sole parents with 2 children	69,423	86,779
4	Couples or sole parents with 3 or more children	82,855	103,569

Plibersek (2008)

NRAS specifically targets financial institutions and limits individual investor participation. It is noted that individual investors may participate through institutions such as superannuation funds or property trusts. Further size limitations were applied to applicants for the subsidies with a preference being for proposals of over 100 dwellings. A much lower proportion of proposals for subsidies were meant to involve 20 dwellings.

Round One applications for NRAS subsidies were determined in December 2008 with a total of 3,950 offers made to conforming proponents. Unofficially certain difficulties have been reported regarding NRAS. These difficulties included a much higher proportion of proposals consisting of a low number of properties, and a general lack of financial institutional involvement. The causes of the both of these can be assumed to relate to the same cause, that being a low return from an asset class which is seen to involve high risk. Various conditions of NRAS were considered by some institutions to *raise* the level of risk associated with the Scheme such as onerous sale conditions if the landlord wanted to dispose of the property part way through the subsidy period of ten years which could reduce the value of the property. This combination of factors deterred financial institutional involvement which reduced the size of funds available to fund larger proposals. Many of the approved proposals are rumoured to have been the result of housing associations financing the proposals entirely from their own limited capital base or with the assistance of State and Local governments' grants. Additional problems occurred due to the influence of international events on investor sentiment. Significant falls in the prices of homes in the US and UK have raised concerns over the future of housing in Australia. This doubt is coupled with raised levels of risk aversion stemming from the global credit crisis. It has been unofficially reported that a major Australian bank withdrew from an approved NRAS proposal despite the apparently strong initial fundamentals of the deal.

NSW State Government Affordable Housing Policies

The NSW State Government response to the affordable housing crisis has been the use of the planning system to facilitate an increase to the supply of affordable housing by two means: inclusionary zoning and voluntary developer contributions.

Inclusionary zoning applies in certain precincts, such as Green Square and Ultimo/ Pyrmont, and requires a developer to provide additional dwellings to be used as affordable accommodation as part of a projects' development consent. Spiller (Spiller 2005, p. 17) sees inclusionary zoning as "the most intellectually robust, practical and ...politically saleable option". The difficulty with the policy is the private opposition it evokes. Inclusionary zoning was first attempted in South Sydney council (now part of the Sydney of City Council) in Waterloo. The developer endeavoured to resist the scheme and went to the Land and Environment Court which ruled in favour of the developer. This policy has subsequently been included in the Environmental Planning and Assessment Amendment (Affordable Housing) Act 2000 with the insertion of sections 94F and 94G which allows for the levying of land or monetary contributions

for affordable housing (Wilkinson 2005). This requirement effectively requires developers to subsidise the supply of affordable housing (Berry & Hall 2002). The impact to affordable housing supply under this policy is considered to be limited in contrast to the magnitude of the deficit of affordable housing.

Voluntary developer contributions is enacted under Section 93F of the EP&A Act 1979 and introduced by legislation in 2005. This scheme allow for ad hoc negotiation with developers which involves incentives and imposes conditions on the developer in exchange for higher site densities (floor space bonuses) (Johnston 2008). Waverley and Canada Bay councils are two Sydney councils which use voluntary developer agreements for the provision of affordable rental housing. Developers' contributions can vary. Contributions are imposed as a condition of the development consent and can be a dedication of land free of cost, a monetary contribution, a material public benefit or a combination of these forms. Willoughby Council requires a proportion of total floor space of the project to be dedicated as affordable housing. The density bonuses can make the contribution more viable for developers. This scheme has been used in the US markets to boost the supply of affordable dwellings. These schemes depend on "buoyant housing markets and are less effective in areas where there are land shortages or where little new housing is being developed" (Milligan et al. 2004, p. 35).

Inclusionary zoning and voluntary developer contributions, have two benefits; they do not carry significant costs to central government, but in reality they transfer the costs to the private sector; and as planning is the responsibility of local government, it makes it possible to 'vertically reassign' responsibilities away from central government (Beer, Kearins & Pieters 2007). Both these factors are favourable for governments, that don't want to invest in infrastructure.

2.2.5 Reasons to Improve the Supply of Low Rental Housing

Adequate housing is noted as a fundamental need for mankind, as it assists the provision of the physiological needs of food and sleep and the higher order needs of safety. People will not seek the higher needs, being the social needs for friendship and the giving and receiving of love, and higher still, esteem, until they satisfy the basic needs of existence (Maslow 1943). The recognition of this order of motivation and the priority for society to improve demands the provision of adequate shelter.

There are many indicators that there is inadequate supply of housing and that demand for affordable housing is at crisis levels. For example, one result of the poor supply of affordable housing is an increasing number of homeless people. In 2004, due to the extremely competitive housing market over the past few years, homelessness agencies were supporting 100,000 people and each day in this period over 500 requests for assistance needed to be refused due to a lack of capacity (National Shelter 2007a).

Historically housing is the main factor involved in poverty, largely due to housing costs being the largest cost of a household. If there is not sufficient money to meet other essential costs once housing costs are paid, the household is considered in poverty (Burke 1998). Consequently a lower cost of housing for affected households reduces the incidence of poverty.

The impacts of the inadequate government housing assistance and the insufficient supply of low-cost housing can be felt across the broader community. The associated problems are directly experienced by both low and increasingly, moderate income households. However the ramifications of these problems can constrain a region's economic growth and wellbeing as its workforce has a lower education, mobility and skills levels, and private and public services are excessively burdened (Australian Council of Social Service 2003; Berry 2003; Rentsch & Scott 2003).

The lack of a suitable supply of affordable housing constrains the economy of cities due to a restraint upon economic competitiveness. Berry (2003) notes the keys to economic competitiveness include:

- Attracting and keeping creative workers who are innovation drivers. Innovation thrives on diversity, and residential diversity requires a range of housing opportunities.
- Liveable cities create productive societies. These cities are those which are socially cohesive with strong networks and a sense of safety and health without visible spatial inequality.
- Access to a supply of low paid service and medium paid essential service workers; High housing costs can encourage workers to migrate to areas in search of sustainable lifestyles. If workers have to travel long distances they are less likely to have the flexibility required for short shifts.

- Reducing pressures on paid salaries; high housing costs contribute to upward pressures on wages.
- Broad consumption; high housing costs limit expenditure on other forms of consumption.

An improved availability of affordable housing would have a direct financial stimulus on the economy. The Allen Group (2004) states the implementation by the Federal Government of one of the prominent affordable rental housing models could include the funding of 150,000 new dwellings and the generation of \$2.67 billion of housing investment. The flow-on effects for the economy of this investment would be far greater as the multiplier effect for housing is higher than it is for other industries. The Housing Institute of Australia (2006) stated that for every \$1 invested in housing construction, \$1.87 of broader economic activity is generated.

The benefits to a community as a result of an adequate supply of well developed and managed affordable housing include:

- i. "Providing for a diverse local workforce;
- ii. Providing direct economic benefits to the local community, including increased demand for goods and services which spurs economic activity;
- iii. Accommodating people with the different skills required to support communities, such as shop assistants, bus drivers, construction workers, cleaners, nurses and teachers;
- iv. Meeting the needs of the growing number of smaller households living in high cost areas; and
- v. Promoting economic and social integration- ensuring that families' housing costs are not so high that they can't afford to meet education and health costs and that there is sufficient security of tenure to improve their capacity to obtain and maintain employment

(NSW Department of Housing 2006).

The involvement of institutional investment in the affordable rental housing sector is expected to provide additional benefits to the sector. Large scale institutional operations are expected to contribute to higher liquidity of the residential market and associated improved efficiency of the sector. These improvements should lead to the reduced volatility currently present. A further advantage for the sector should be an improvement in the supply of privately rented housing and service quality. This may be achieved by industry wide regulatory improvements establishing minimum standards for management and maintenance (Crook & Kemp 1999).

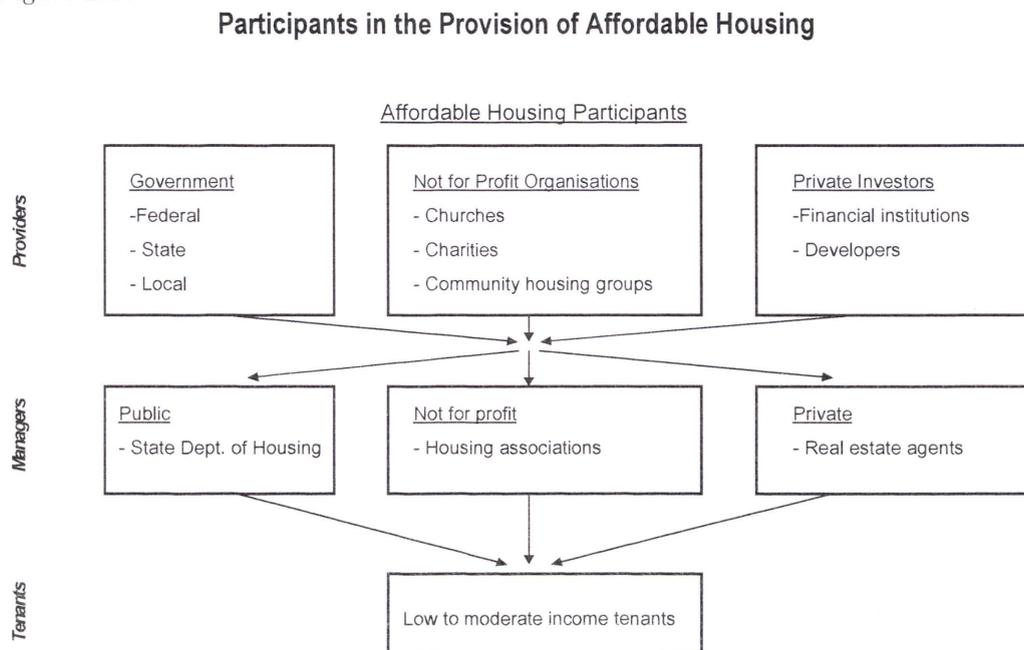
2.3 Australian Affordable Rental Housing Participants/ Stakeholders

Broadly the aim of the affordable rental housing industry is to provide housing targeted at households that are;

- In the lowest 40 percent of income distribution (after adjusting for household composition);
 - In more expensive private rental housing where housing stress is highest,
 - In unsuitable and inappropriate share accommodation;
 - Seeking the transition from public housing to the private rental market; and
 - Where provision of affordable housing would boost the potential workforce participation
- (Allen Group 2004 p.17).

Figure 2.10 illustrates the stakeholders that could be involved in affordable housing developments. The requirements of each stakeholder are complex and before opportunities to increase the level of private investment in affordable housing can be identified the issues and motivations of the stakeholders needs to be understood.

Figure 2.10



To improve the efficiency of the sector and to reduce the perceived risk of the unknown, participants need a detailed knowledge of all the stakeholders' motivations and behaviours (Malizia 2003p.463). The following summaries provide an introduction to such motivations and behaviours.

2.3.1 Tenants

History provides an insight into society's attitude toward tenants which has had an impact upon housing policy and other supply factors. Australia's abundance of rural and mineral resources assisted the economy so that by 1900, it was one of the richest countries in the world in terms of per capita income. This affluence affected tenure preference. By 1880 at least half the housing stock was owner occupied, a level not reached in most other urban societies until the mid twentieth century. This phenomenon was fuelled by building societies which targeted the affluent working class with a 'notion of home owning democracy' (Davison 1995). New immigrants also saw ownership as a way of escaping the insecurity of private rental in industrial Britain. The impact was to cast rental tenure as a secondary status to ownership which has continued until the present (Burke 1999). It can be argued that this factor also reduced the

potency of tenancy problems in the eyes of the government, resulting in tenant issues being largely ignored (Burke 1999; Montezuma 2004).

Wulff and Maher (1998) identified the private rental market as serving two main functions:

- The short term transitional housing role which provided flexibility. Housing commentators (Blelloch 2002) refer to these tenants as “on the cusp” housing aspirants whose current circumstances do not accommodate home purchase; and,
- A longer term semi-permanent/ permanent role. These include middle income households who are above the housing assistance level; and ‘affordable’ households who are within housing benefit levels (Blelloch 2002).

The disadvantages of the latter group include a lack of tenure and security, high housing costs, a lack of control over the use of the property and an unequal tax treatment.

Over recent years, house prices and rents have increased rapidly while the supply of public housing has fallen. This has impacted heavily upon what is called a ‘sandwich class’, being working households who cannot afford to purchase and who are not poor enough to access available public housing (Millar 2006). This situation is increasingly the experience of middle income households (Kothari 2007).

There is evidence to show the number of people buying their own home is falling due to higher costs and economic uncertainty. The result is a decrease in the number of outright home owners over the next two decades. Combining this reduction with the fall in public housing accommodation opportunities, there will be rising demand for private rental accommodation and potentially a greater incidence of after-housing cost poverty in the future due to the lack of affordable housing supply (Burke 1998).

In response to unaffordable housing costs, affordable housing tenants have adopted various strategies to cope. These strategies include:

“..Moving to cheaper and typically lower standard dwellings, perhaps structurally deficient and lacking in basic amenities, or in a location lacking services and employment opportunities. They have perhaps, in combination with this, shared a

dwelling with another household and thereby reduced housing outlays; over-crowding often accompanies this process" (Burke 1998, p. 165).

The rental market is said to be shaped by two groups- the working poor and the young professionals. The former cannot afford to buy a home in the area in which they work. Whereas the latter are relatively affluent people who cannot afford to buy where they want to live and don't want to make the lifestyle change (Waxman & Ng 2004 p.38).

The major groupings of tenants occupying affordable housing have been reported to include:

- Singles in private rental accommodation (mainly younger persons);
- Singles in public rental (mainly older persons);
- Sole parents in private rentals; and
- Other household types

(Ministerial Taskforce on Affordable Housing 2002).

Adding to the profile of private rental tenants, Waxman (2004) reported that 40 percent of tenants had rented for over 10 years. Long term tenants are generally older, poorer and more likely to be divorced or to live alone (Waxman & Ng 2004 p. 35).

2.3.2 Managers

The current affordable housing projects are initiated and owned by non-government not-for-profit providers for a social purpose (Milligan et al. 2004). The main types of housing providers are divided on the grounds of being either;

- Specific purpose housing companies set up and controlled by state or territory governments, e.g. City West Housing Ltd (1994) (NSW), Community Housing Canberra Ltd (1998) (ACT), and the Brisbane Housing Company Ltd (2002) (QLD);
- Housing companies formed independently, specifically to develop affordable housing, e.g. the Ecumenical Community Housing (VIC) (1999-2004), and Melbourne Affordable Housing (2003) (VIC);
- Existing community housing organisations that have expanded into project development and property ownership, mainly through joint ventures and other one-

off opportunities. Examples of these include Perth Inner City Housing Association (trading as City Housing Perth (WA) and Community Housing Ltd (1993) (VIC); and

- A housing programme initiated by a local government authority in partnership with a housing association, e.g. the City of Port Phillip/ Port Phillip Housing Association (Inc) (1985) (VIC)

(Milligan et al. 2004).

Despite the variety of housing companies in existence, the portfolios are generally small and therefore supply does not meet demand. As at 30 June 2006 approximately 29,000 households were living in community housing in Australia 60 percent were located in major cities with 90 percent of those tenants being on low incomes (Australian Institute of Health and Welfare 2007a).

The latter part of the 1990s was a period of major growth of housing associations. In 1994 the sector managed just over 3,000 dwellings. The sector has grown by 200 percent in 6 years by 2000, managing approximately 9,000 properties. Much of that growth has been through stock transfers from public housing. Such transfers improve the level of experience in the sector as the “business of managing public money to provide social housing requires increasing accountability and regulatory requirements” (NSW Federation of Housing Associations Inc. 2006, p. 5). This growth of community housing is continuing to be encouraged by the NSW State Government which launched a programme in November 2007 specifically to facilitate growth called “Planning for the Future: New directions for Community Housing in New South Wales 2007/08-2012/13”. The programme highlights particularly the viability and sustainability of community housing through financing and structural arrangements to achieve long term sustainability for community housing providers (NSW Department of Housing 2008).

The sector itself is positioning itself for growth to ensure that community housing managers were of sufficient size to be viable – both in a management and financial sense. A recent mapping project noted 67 percent of organisations have plans to or would like to grow in the future, with a strong relationship between the size of the organisation and the desire to grow (Community Housing Federation of Australia 2007). Most organisations have recorded growth with most achieved through a number of amalgamations which took place during the latter half

of the 1990s resulting in only 47 housing associations within NSW (NSW Federation of Housing Associations inc 2001). Part of that growth strategy is to build the skill and capacity of the community housing groups to secure their future sustainability. The pool of potential workers is small and even drawing on the private real estate profession for workers has its difficulties. Such workers need to be motivated in a not for profit culture which is underpinned by social justice values which is not always a comfortable fit (NSW Federation of Housing Associations Inc. 2006). The sector is emphasizing the strengthening of governance to enhance their performance to be prepared to partner with government and the private sector (Mant 2007).

The method of charging rent varies across housing companies. City West Housing Ltd uses a mixed income model applying a different rate according the level of income. As a consequence City West has been financially viable since its establishment. An example of a mixed income rent system charges very low income households rents which will do not exceed 25 percent of their gross income, for low income households, 27 percent and for moderate income households, 30 percent. By mixing low and moderate income earners in a project there is the ability to cross subsidise the lower income tenants (NSW Department of Housing 2006).

An alternate method used by the Brisbane Housing Company is to charge discounted rent at 75% of market. This method does not ensure that rents are below affordability benchmarks. It does however provide tenants easier access to areas they wish to live, such as for employment purposes, which might otherwise have been unaffordable (NSW Department of Housing 2006).

An example of a not-for-profit housing manager is Powerhouse Australia, a national network of 15 not-for-profit community housing groups that collectively control or manage approximately 15,000 rental dwellings valued at \$4 billion. The chairperson of Power House Australia, Ken Marchingo, sees major impediments to the development of not-for-profit housing companies the main being there was no (Australian) affordable housing product which had a strong business model which is easily understood (Phillips 2007). More research is therefore required to address this issue, and develop an appropriate and sustainable business model for affordable housing which is the reason for this report.

This need for growth of the not for profit community housing sector has come through realisations from two perspectives:

- From within the sector, an opportunity to be involved at the forefront of change in the affordable housing sector; and
- From outside the sector, of the capacity of not for profit housing managers to provide a financially efficient service, which prioritises service to tenants and understands the needs of lower income households.

To be involved as the affordable housing sector changes, the community housing sector has realised the need to partner with commercial groups to achieve an improvement in the supply of affordable housing. The National Community Housing Forum Roundtable in 2005 identified certain key elements of a successful partnership:

- Mutual respect and accountability between the partners and all stakeholders;
- Joint commitment to the agreed aims and objectives of the partnership;
- Clearly defined roles and responsibilities for each member of the partnership;
- Transparency, trust and disclosure within the partnership arrangement;
- Mutual recognition of, and respect for, the different values and priorities of the community and private sectors; and
- A defined exit strategy

(Croce 2005).

There is however a conflict to a partnership between the not for profit housing managers and the private and government sectors. The private sector and government are most concerned about the outcome, or benefit of entering into a partnership, while the not-for-profit organisations are more concerned with the power and status differences as the most important drawback of a partnership. The difficulty of merging values and cultures between partners was the second highest factor of the not-for-profit organisations (Susilawati, Armitage & Skitmore 2005).

In Europe, development of the community housing sector was instigated through initiating supportive policy (Gruis & Nieboer 2004). Yet in Australia, the call for the not-for-profit sector to be a key player in the development of the sector stems from the governments' requirement for a trusted manager (Clapham & Kintrea 2000). To be in a position to fill the gap between commercial and government partners, community housing groups see the need to manage

housing stock in a more commercial manner. Gruis and Nieboer (Gruis & Nieboer 2004, p. 201) refer to the need:

“to anticipate market developments and formulate a strategy for the development of their stock.”

This type of management is called “strategic housing management”. The commercial demands require the increased use of financial planning, risk management and market orientation by the not-for-profit managers. An increased market awareness should improve the not-for-profit companies’ view of the housing stock not so much as a “static phenomenon but as a dynamic asset.” This need to improve effectiveness is required due to the reduced government support and a market changing to be more dynamic and less predictable (Gruis & Nieboer 2004, p. 204).

There are many advantages of adopting strategic housing management which include:

- Improve the accumulation of required information;
- Establish priorities to improve the quality of decisions;
- Responses by the organisation will be based on sound principles; and
- Improve the efficiency of an organisation through a systematic, rational and transparent planning process

(Gruis & Nieboer 2004).

The private sector sees a conflict between the provision of a financial return while delivering social returns. This perceived conflict raises doubts over the suitability of not-for-profit organisations being able to adequately manage a portfolio for the private sector. Housing associations have both an upward accountability to financiers and Boards, while they have a downward accountability to their tenants. It is this downward or social accountability which is the main motivation for the manager of a not-for-profit organisation, however this is a lower priority for the private sector (Gruis 2005).

Milligan (2004) identifies three criteria for an affordable housing development management team to be successful;

- Ready access to capital;

- A highly responsive corporate decision making environment; and
- Operations that cover a wide geographic area.

All of these factors need to be provided through the operation of a viable funding model to have the potential to significantly improve the supply of affordable housing in Australia.

2.3.3 Government (National, State and Local)

Various State governments in Australia are adopting policies in the attempt to relieve the problem of housing affordability problems. Governments can act in three ways to provide support for the affordable housing sector:

- Lower risks to investors;
- Raise net returns through the provision of a subsidy; and
- A combination of both to raise returns and lower risk

(Berry & Hall 2002).

The Western Australian and Victorian governments have launched shared equity programmes. In Western Australia (WA), \$300 million dollars has been made available to assist purchasers. In this model the WA government will take a 30 to 40 percent share of the property and offer purchasers a low-deposit loan. The lower loan requirement will assist by reducing the mortgage repayments. This will be offered to over 3,000 low to moderate income households. Victoria has a proposed a similar program called "OwnHome" where it will offer purchasers new house-and-land packages and take a 25 percent stake in the property through a second mortgage. OwnHome will operate on a ballot system and will target households on incomes of between \$54,000 and \$60,000 (Phillips 2007). Programs like these that transfer the risk of an investment to the government improves the risk adjusted return to investors but it is still a potential cost to government and should be treated as such in budgets (Allen Group 2004, p. 23).

A subsidy can be in the form of a cash outlay either directly or indirectly, forgoing revenue, such as a tax concession or stamp duty waiver. The risk of the investment can be reduced by transferring it to another party, who may provide credit support, such as a government

guarantee, or by improving the market efficiency through generating better market information, and the reduction of transaction costs. Regulation can also assist in lowering the risk via the use of urban planning controls, to require the supply of affordable rental dwellings as part of a development approval, and financial controls, such as enforcing a proportion of funds in specific ways (Berry & Hall 2002).

The *delivery* of government support can be in two main ways:

- Supply side assistance which is designed to increase the stock of dwellings; and
- Demand side assistance which boosts the effective demand through the payment of cash (rent assistance) or a voucher to buy housing services (Berry & Hall 2002).

To date there have been few and small scale policy programmes to encourage institutional investment into the affordable rental housing sector (Berry & Hall 2002). This lack of policy programmes to encourage investment is despite the fact that in 1944, the Australian Commonwealth Government, mirroring initiatives in Britain, set up the Federal Housing Commission. Noting its intentions, it declared:

“We believe that a dwelling of good standard and equipment is not only the need but the right of every citizen- whether the dwelling is to be rented or purchased, no tenant or purchaser should be exploited by excess profit” (Lloyd & Troy 1981).

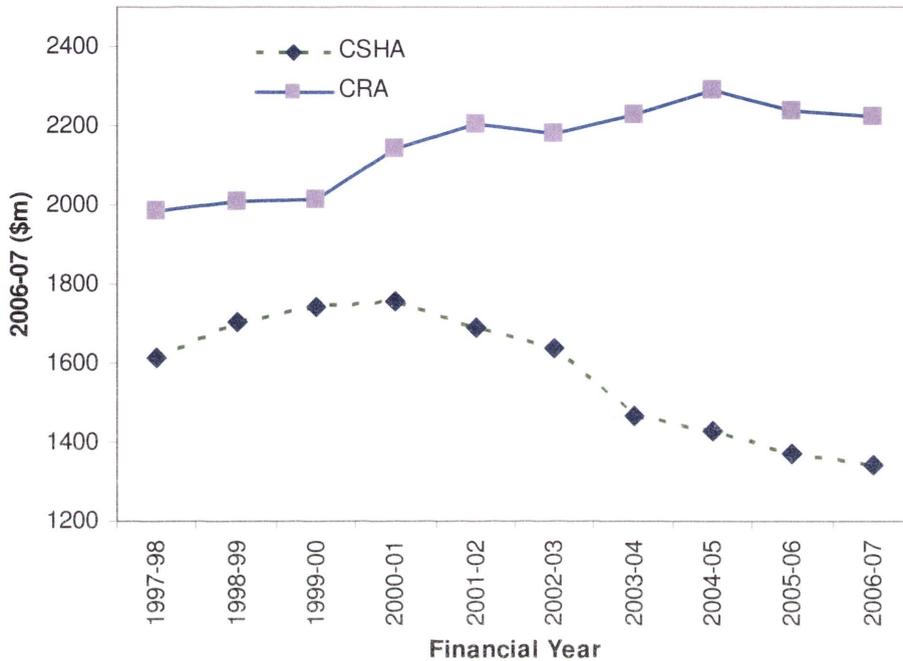
Regardless of their intention, governments over the past two decades have been adopting a ‘no intervention’ policy in the housing market despite deteriorating housing affordability conditions (Beer, Kearins & Pieters 2007). In fact, since the 1980’s federal governments have had policies restraining wages when house prices have been surging (Wilkinson 2005). This indicates the governments’ lack of priority to the issue of housing affordability. This position was enforced as the cost of major public housing programmes were seen as socially unsustainable or unnecessary and an excessive drain on public finances. The inadequacies of the public housing estates were seen as demonstrating the inadequacy of state intervention in housing provision (Dodson 2006). That inadequacy discouraged further activities by the government in that form.

That reluctance to intervene has continued and despite knowledge of the current housing affordability problem, the issue has not taken on the status of a 'policy problem' within government. Housing issues are not ranked as important enough for central agency officials to include them on the agendas for whole of government strategies. Housing ministers are one of the least heard ministers at their respective cabinet meetings (Dalton 2002). The result of the low priority of housing for more than 15 years has resulted in minimal political party competition over housing policy (Dalton 2002). The responsibility for improvement of the sector has therefore fallen to researchers, non-government agencies and social policy advocacy groups (Dalton 2002).

Housing has been caught up in the prominent social and economic shift known as neoliberalism. Neoliberalism (or neo-classical economics or economic rationalism) has been discussed in public circles since the 1960's. The key principle of neoliberalism is the operation of the market provides the most efficient means of distributing social goods and services. The ramifications upon housing have been severe, as neoliberalism has been added to a system already dominated by the market (Beer, Kearins & Pieters 2007). This belief in the allocative superiority of the markets is accompanied by a sceptical view of the ability of government to achieve social goals (Bourdieu 1998). The result is the government refraining from providing public infrastructure and services in favour of the private sector performing this task (Dodson 2006). Of note is that child care, education, medical and health and rent were among the fastest growing areas of household spending over 1993-94 to 1998-99 (Australian Bureau of Statistics 2006f). This household expenditure growth in part is linked back to the long-term government withdrawal from such public asset provision (Wilson & Turnbull 2000). This philosophy has resulted in an agenda by governments for housing where the individual is empowered to obtain their required goods and services. This empowerment is witnessed by the increased use of demand subsidies, such as Commonwealth Rent Assistance (CRA) which is now the most extensive form of government housing assistance for low income households in Australia (Hulse 2003). Figure 2.11 shows the pattern of funding of CRA and that under CSHA.

Figure 2.11

Commonwealth government housing assistance expenditure on the Commonwealth-State Housing Agreement and Commonwealth Rent Assistance, 1997-2007



Source: AIHW (2007b)

Figure 2.11 clearly shows the reduction in the funding toward the CSHA and the increase in the CRA particularly from 1999-00. The rise in demand subsidies as the dominant method of providing housing assistance indicates the influence of neoliberalism on Australian housing policy. Figure 2.11 in addition shows the reduction in assistance from the Commonwealth Government in overall spending for the support of housing. From 2004-05 CRA payments have reduced along with a fall in CSHA payments. These figures are presented in nominal terms therefore do not reflect the depreciating influence of inflation which would emphasise the fall in real spending to housing.

Neoliberal governments seek to produce a self-regulating environment where the individual takes responsibility for their own well-being (Dodson 2006). This has important ramifications upon the identification of a viable funding model for affordable rental housing in Australia, as the model which achieves this end is going to be in a preferred position.

Dodson (2006) identifies a further characteristic of a neoliberalistic government as the dominant source of statements which present the detail of the basis for their actions and the policy which will be used to address that situation. This discursive practice is defined by Bourdieu and Wacquant (1992, p. 148) as the:

“...power to constitute the given by stating it, to act upon the world by acting upon the representation of the world.”

Stakeholders in the affordable housing sector should be alert to this activity that governments create a ‘housing reality’ to which the government responds. Any model should therefore be tailored to address the ‘reality’ that is portrayed (Beer, Kearins & Pieters 2007). An additional factor common to neoliberal government activities is the “internationalisation of policy development” which is seen in the tendency for policies to be borrowed and adapted from other countries, e.g. Inclusionary zoning from the UK (Beer, Kearins & Pieters 2007).

Regardless of the limited amount of direct government policy to address the housing affordability issue, the influence of the various government jurisdictions upon affordability is significant. These influences are the result of other government policies which are detailed in Table 2.4

Table 2.4

The indirect influences of Government policies upon housing costs and affordability

Level of Government	Policy related issue
Commonwealth	<p>Interest rates</p> <p>Immigration- higher immigration adds pressure to housing demand and hence prices</p> <p>First home buyers' grants: raises effective demand which raises housing prices</p> <p>Tax system- depreciation allowance on investment/ rental properties: which produces greater benefits for higher cost housing therefore supply is skewed away from lower cost housing</p> <p>Commonwealth-State Housing Agreement (CSHA)- approach to funding; focus of programmes and not solutions</p> <p>Commonwealth Rent Assistance programme: raises tenant demand which increases rents but not supply</p>
State	<p>Stamp duties/ concessions for first home buyers; land tax: lifts the price of housing through increasing demand</p> <p>Planning policies (BASIX, energy ratings, etc.): raises the cost of housing</p> <p>CSHA/ public housing provision: inadequate supply and poor allocation of resources</p> <p>Land release strategies: provides lower cost housing in fringe areas with poor amenity</p> <p>Infrastructure funding/ development levies: raises the cost of housing</p>
Local	<p>Zoning- dwelling type and location: restricts supply</p> <p>Development controls- amount of parking; density: restricts supply</p> <p>Development contributions (section 94) and planning agreements: raises the cost of housing</p>

Source: (Berkhout 2007)

Table 2.4 details the many and varied levers which the various government jurisdictions have to influence affordable housing. Unfortunately many of the responses are seen as having a negative impact upon affordability.

Rental housing can be made more affordable by an increase in housing to low-moderate income households. Such supply measures are met by opposition on a local level from homeowners ('home-voters') who dominate most governments. This dominance of owners over affordable housing tenants occurs as tenants are considered to contribute little to local council' revenue streams while consuming larger quantities of public services (Quigley & Raphael 2004). The pressure on local governments arises as 'home-voters' have a:

"...fear that being surrounded by lower-priced housing may bring down their own property values. Moreover, there is a fear that higher-density dwellings for lower-income residents are more likely to include those of differing race, ethnicity and language. Finally, there are increasingly respectable reasons for cloaking this self interest in the common ecological good. The rhetoric of "smart growth" is espoused by ecologists and advocates to impede suburban development, and the concept has wide spread support among professional planners. Open space, green belt and urban growth boundary regulations are but a few of the names used to describe building and density restrictions that reduce housing opportunities.It is unreasonable to expect that the capacities of local governments to impede residential development will be curtailed by local 'home-voters'. This would require action by a higher regional authority or a state government. Most states have shown little interest in pursuing reforms of this kind" (Quigley & Raphael 2004, p. 210).

Quigley and Raphael (2004) continues to provide examples of US states which have a "window dressing approach" to the issue, having planning policies to support affordable housing but there are no penalties for failing to act in accordance with the guidelines. A similar situation exists with Australian State and Local planning legislation.

To contend with this situation there is a need for a combined response across all jurisdictions to the problem of the lack of affordable housing. Randolph (2000, p. 102) states, specifically referring to housing estate renewals, that there is more that can be done to encourage partnerships across the stakeholders and levels of government saying:

“We must move away from the current approach of ad hoc, short-term and unlinked policy initiatives that are not self-sustaining once completed. ... Partnership is the key element of any renewal strategy- partnerships between Federal, State and Local government”.

This degree of efficient political partnering is not common in Australia despite the need for a national system involving good practice and policy innovations. The difficulty is that the country is hampered by State based perspectives which limits learning and is inefficient (Randolph & Judd 2000). Flood (2003) supports this notion of the difficulty in “bureaucratic design” to work in an efficient and co-ordinated manner. Restrictions upon this happening include limited inter-agency dialogue. This bureaucratic practice was seen as an inefficient means of operating, particularly in respect to social assistance programmes, such as housing where there was an obvious need for partnering. There have been occasions when the poor relations between jurisdictions have been detrimental to the housing sector. Berry (2000, p. 671) states:

“...the attempts by the Federal Government to encourage greater private sector involvement in social housing provision was derailed by the larger conflicts between the States and Commonwealth over the future of the CSHA.”

Recent reports in respect to the National Rental Affordability Scheme appears this ‘larger conflict’ is again damaging the housing sector as the NSW Government is offering restrictions on their subsidy which reduces the value to an investor.

The inefficiency of the current Federal-State relations is noted by numerous commentators as hindering the performance of specific sectors and the nation’s economy as a whole (Australian Business Industrial 2007; Chaney 2006; Costello 2006; Wilkins 2007). Not only are the roles and responsibilities of different levels of government increasingly unclear, but relations are not conducive to co-operation evidenced by the ex-Prime Minister Howard (2007, p. 2) who noted the “intention and preparedness of the Commonwealth Government to intervene directly at any level or in any area of government activity”. These elements have resulted in major reforms stalling and inefficiencies which have been calculated to be at least \$9 billion a year (Chaney 2006). Wilkins (2007) refers to the “ad hoc federalism” which has emerged where the adoption of any “logic or principle or coherent framework” underlying decisions occurs without any overall strategy, therefore the system is chaotic and ultimately unsustainable. The States were also seen to be complicit as they have a tendency to insist on Commonwealth funding and

assistance in areas where perhaps it is indeed the states' responsibility. Seelig (2004) refers to the significant barriers which confront a successful funding model for affordable housing and notes the attitudes and behaviours of governments at all levels as some of the barriers. A close examination of the government partnering suggested in the funding models must therefore be undertaken as this is an important consideration for a feasible funding model.

2.3.4 Investment Community

To date investment in the private rental market has not been of interest to major banks, superannuation funds and insurance companies (Berry & Hall 2002). This may be the result of their current exposure to the housing market through housing mortgages and insurance policies although these are noted as offering contractual risk and is therefore viewed differently. Additional exposure has been gained through the recent development of the securitisation of residential mortgage debt in Australia (Berry 2000).

There are various fundamental requirements for institutional investors which the affordable housing sector have not been able to provide. For an investment to warrant consideration by these investors it must involve a certain volume of funds. Superannuation funds have large amounts of funds to invest which require vehicles to allow tranches of investment with a minimum of \$50 to \$100 million (National Community Housing Forum & AHURI 2002). An additional requirement by institutions is to avoid a large exposure to any single fund therefore an affordable rental housing fund would need to be a minimum of \$300 million to be attractive to an institutional investor.

Further conditions for large scale investment include:

- A stable revenue stream;
- Assets be made available as security against debt;
- Legal access to title and the authority to negotiate borrowing facilities against these;
- The mechanics of the portfolio should be transparent (regular reporting of operating and financial information, in accordance with bank asset management policies); and

- Professional property management from providers including: an understanding of government policies and their implications; excellent customer relations; well developed internal processes and policies; efficiencies of scale; ability to carry out necessary maintenance; effective cost controls; and an ability to present financial and operating data at the portfolio level

(National Community Housing Forum & AHURI 2002).

State governments have tried to attract institutional investment to affordable or public housing due to fiscal and budgetary constraints on budgets. These attempts have largely been limited to small one-off joint ventures with charities, local governments and community groups as the projects were conditional on the land invested by these not for profit organisations. Replication of these projects was therefore limited by the restrained capital contribution by government (Berry 2000).

There is one example of an institution working with the NSW State Government in the sector. In 1990 the NSW Housing Department entered into a Public Equity Partnership with the Australian Mutual Provident (AMP) fund with investment products called PEP1 and PEP 2. AMP invested \$200 million and purchased 1490 dwellings to be rented to public tenants for up to 20 years. The properties were managed by the State Land and Housing Corporation with the rent paid by the government guaranteeing a real rate of return of 4% per annum. Properties could be sold or relet to private tenants after 7 years with the capital gain split between AMP and the State (Berry 2000). This type of scheme has not been repeated.

The Federal Government in the late 1980's to mid 1990's tried to attract private finance to the affordable housing sector using funds from the CSHA. The Commonwealth's funding had to be matched by the State Government who were reluctant to alter from supply-side to demand-side subsidies and did not like the long term commitment of paying rent to the private sector. In summary the scheme failed due to the large conflicts between the States and the Federal Governments over the CSHA (Berry 2000). This conflict still impacts upon dealings between the States and the Federal Governments over housing related issues today.

Berry and Hall (2002) notes there are reasons which discourage institutional investors into the private rental market. These include:

- “Low returns comparable to other investments with similar levels of risk;
- High risk associated with revenue flows, financing costs, operation and management costs, and public policy changes;
- High management costs on a per dwelling basis;
- Illiquidity compared to other asset classes;
- Poor market information which makes it difficult for investors to calculate the risk on potential investments; and
- No track record of large scale investment in Australia from which to assess outcomes”

(Berry & Hall 2002, pp. 11-12).

Institutional investors in rental housing would require both rental return and capital gain from their investments. Researchers therefore believe new long term investment will not be encouraged in to the sector without a concomitant increase in rents to maintain investment yields (Susilawati, Armitage & Skitmore 2005). There may be exceptions to this lack of investment interest, such as during the late 1990's and early 2000's rental properties had low rental yields but the expectation of high capital gains continued to attract retail investor interest in the sector. The strong prospect of capital gains may therefore be a similar incentive to institutional investors.

If banks and other investors are to be attracted to the sector then the portfolio would require a return which is an acceptable level above the cash rate (Tyson-Chan 2006). The level of return required depends on an investors risk tolerance, the specific project considered, alternate investment opportunities and the general state of the capital markets (Malizia 2003 p.466).

Institutional investors are seeking relatively low risk low return investments. Investment opportunities abound for high risk-high return products but investors are after products at the less risky end of the spectrum (Berry & Hall 2002). This investor appetite appears to match an affordable housing investment provided a model can be devised to manage the risks involved.

Institutional investors require low risk low return investments as government policy has been to reduce the issuance of public debt instruments. Opportunities for high risk and high return investments are plentiful particularly for global investors, but investments at the less risky end of the investment spectrum are limited (McAuley 2003). There appears to be an opportunity for the affordable rental housing sector to capitalise on this investor's requirement as the funding models investigated in this research may meet these criteria.

An increasing aspect of the institutional investment community is the rising demand for socially responsible investments (SRI's). The key qualification is that a SRI's provide fully commercial rates of return combined with additional economic benefits for either or both the investor or the third party. These collateral benefits cannot be at the cost of financial returns if the investment is to attract investors. There should be no trade off of financial return and external benefits, usually associated with other ethical investments.

There is a growing global demand for SRI products. In the UK, from 1994 to 1998, SRI approved funds increased by 327 percent and in 2001 approximately 4.0 billion pounds was invested in the retail sector. Currently there are over 120 billion pounds invested in institutional and retail funds with active SRI policies (Higgs 2008). The rise in the interest in these funds has been assisted by performance which at the very least has not under performed conventional fully diversified funds, nor the market as a whole. Such performance should continue to stimulate demand for SRI products. Australia has lagged behind the US, UK and Europe in respect to SRI demand, nevertheless, provided affordable housing returns are comparable to alternate investment opportunities, there may be considerable opportunities for securing funding for the sector as an SRI product (Berry & Hall 2002).

2.4 Long Term Trends in Affordable Australian Rental Housing

2.4.1 Key Drivers

Historically Australia achieved one of the highest rates of home ownership in the industrialised world, although since 1976, the proportion of those purchasing homes has been falling. In 1975, 69.5 percent of the lowest quintile income group purchased homes whereas in 1994 this groups' purchasing activity fell to 61.5 percent. The pressure on the rental market that this

trend has and will continue to cause will be significant, particularly as Australian Housing and Urban Research Institute (AHURI) predicts home ownership of this group to fall to 50 percent by 2045 (Waxman & Ng 2004).

Despite the housing price boom of 2002-2004 no new records were set for housing completions. This dull construction activity can be attributed to higher land prices on Sydney's fringe, over supply in some areas with apartments, the NIMBY (not in my back yard) syndrome limiting redevelopment in inner and middle ring suburban areas, where the majority of people most want to live, the shortage of skilled tradesmen and the reduced spending on public housing provision by Governments (Colebatch 2007).

Currently owner occupation is close to its maximum share of tenure. Growing debt amongst young people to fund tertiary education and the end of the 'jobs for life' ideology is delaying home purchasing (Blelloch 2002). This supports the paradigm shift away from home ownership apparent in recent housing research. This shift increases demand for rental accommodation. The increased demand is particularly acute at the cheaper end of the spectrum, as fewer households are able to progress into home ownership due to home purchase affordability issues.

The current supply of designated affordable housing nationally is approximately 400,000 dwellings consisting of public, community and not-for-profit housing (Australian Bureau of Statistics 2006f; Australian Institute of Health and Welfare 2007a; Shelter NSW 2004). When this is compared to the estimated 400,000 private tenants who are currently experiencing housing stress, the 220,000 people who are on public housing waiting lists, some for up to two years or more, and a vacancy rate of 1 percent nationally, the evidence proves that demand for affordable housing far exceeds supply (Allen Group 2004; Director Community Services 2004).

Demand for housing in the private market is affected by the growth in the number of households, movement in house prices and the availability of public and community housing. Due to a high expectation of capital growth, the amount of investors increased strongly from 2000 to 2003 however fewer investments were targeted at the lower end of the rental market. It is the upper end of the housing market which also benefits from the tax policies of negative

gearing and building depreciation allowances. The combined result disadvantages investment in low rent housing and subsequently reduces stock (Wood, Watson & Flatau 2003).

2.4.2 Policy Issues

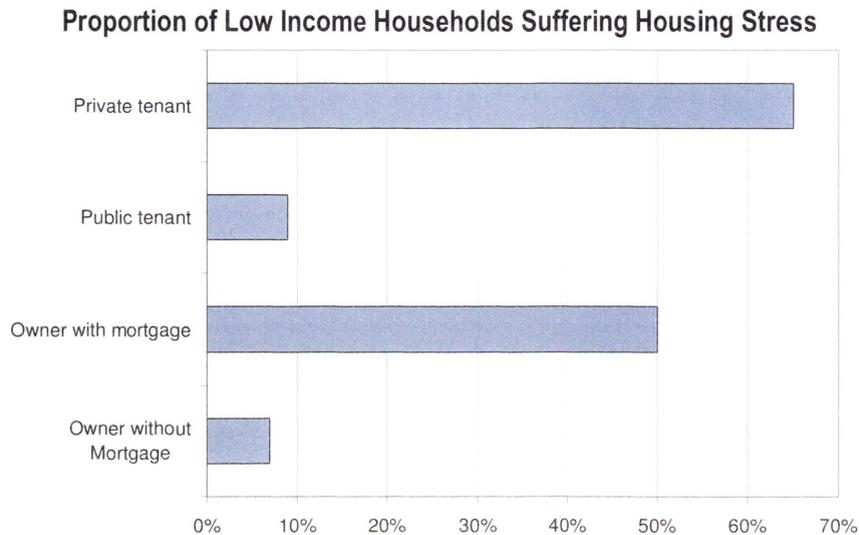
Since the early 1990's, Commonwealth housing assistance policies have been predicated on the belief that the private rental market is a more appropriate tenure than social housing. It was also thought the provision of rental assistance to tenants would result in an increase in rental supply (Ministerial Taskforce on Affordable Housing 2002). However, the Rent Assistance program failed to keep pace with rising rental costs, rendering the private rental market unaffordable for many of those on low incomes. In addition the expected increase in supply did not eventuate (Rentsch & Scott 2003). An unforeseen negative of the policy was the view by many landlords that tenants who receive subsidies as a higher risk therefore Rent Assistance compounded the difficult situation for low income tenants while causing an increase in rental price pressures (Short et al. 2008).

Housing policy has been marginalised on political agendas for the past 15 years. As a result real expenditure on social housing programmes has been in decline since the late 1990's while the demand for affordable housing has been increasing (Berry 2003pp. 418-419). While rented housing provision has been falling governments have been looking to assist home ownership. This trend is evidenced by the range of research papers commissioned by the Federal Government into furthering home ownership including the Menzies Report and the Productivity Commission Inquiry into First Home Ownership (2003). These inquiries indicate the priority of the Federal Government towards promoting home ownership while the State and Territory governments are more interested in assisting affordable rental housing (Allen Group 2004).

One way of reducing housing stress would be to reduce mortgage repayments. Such a system has recently been touted in Australia jointly by the Adelaide Bank and Rismark using a lending product called an Equity Finance Mortgage. According to this product, the lender provides 20% of the loan without a required regular repayment and is then entitled to 40% of the value of the property on disposal. This lending product has also been followed by a scheme by the recently elected Federal Labor Government known as the First Home Saver Account (Swan & Plibersek

2008). These measures were made with the belief that ownership relieves housing stress. Figure 2.12 contains some interesting data in respect to that thinking.

Figure 2.12



Source: Adapted ABS (2006a)

The Allen Group (2004) referred to the ABS (2006a) findings that there was a high proportion of 'owners with mortgages' households experiencing housing stress. As shown in Figure 2.12, 'owners with mortgages' are the household category with the second highest rate of housing stress. This indicates the benefit of assisting lower income households to purchase their home has limited impact on relieving short term housing stress. This is particularly true under standard mortgage conditions. A focus should be placed upon the provision of acceptable affordable housing which will reduce the desire to enter home mortgage and face high levels of financial stress with contractual restrictions and penalties.

Dalton (2002) raised the issue of there being a significant advantage for tenants to escape the rent trap. The rent trap is where tenants are so encumbered by their rental payment they are prohibited from purchasing their own home. Notwithstanding there seems little benefit in the short term however of moving a household from one high cost situation to another. It is acknowledged however there may be longer term benefits of removing people from the rental market, such as the potential for property capital gains and eventually being an owner without a mortgage.

In the light of that argument there has been a climate of political unwillingness at all levels to commit substantial public funds to affordable housing. Notwithstanding the results of the 1998 Ministerial Task Force on Affordable Housing were significant enough to prompt the government to enact legislation to improve the situation. The New South Wales Government pursued a range of planning based initiatives to improve supply of affordable housing in Sydney. Through the NSW Department of Urban Affairs and Planning (now the Department of Planning), a new State Environmental Planning Policy No. 70 (SEPP) was prepared to enforce support for housing. Under the Environmental Planning and Assessment Act 1979, the SEPP empowered local governments (LGA) to grant development consents requiring dedication of land or a monetary contribution by a developer to provide for affordable housing. To use SEPP No. 70 a LGA is required to have an affordable housing scheme in a local planning instrument. The resulting housing will then be targeted at a low to moderate income household (between 20 percent and 60 percent of median Sydney household incomes). Few properties have been constructed as a result, however this scheme has proved that planning can improve the supply of affordable housing, without major capital subsidies from the government (Randolph & Holloway 2002).

Unfortunately there are few incentives for developers to invest in lower cost housing. Investors in high priced rental dwellings are subject to the same tax incentives as those in low cost housing (Bolling 2007).

Housing can be seen as both an asset and a source of housing services (imputed income) and it can be owned either by the occupier or a landlord. As such the tax system can affect the housing market in various ways. For example stamp duty which is a transaction tax, limits a buyers' ability to pay by increasing the 'deposit gap' between available borrowings and the price of the property. It can also act as a disincentive to realise short term capital gain (Ellis 2006 pp.10-12).

Table 2.5 summarises the different property taxation systems in various countries. This information provides insight into why there are variations between countries' supply of rental properties.

Table 2.5

Feature of the Taxation Systems Relevant to the Housing Markets

Country	Mortgage deductibility		Capital Gains Tax		Land/ Property tax		Nega- tive gearing	Depre- ciation
	Owner	Investor	Owner	Investor	Owner	Investor		
Australia	No	Yes	No	½ rate	Limited	Yes	Yes	Yes
Canada	No	Yes	No	½ rate	Yes	Yes	Yes	Yes
France	No	Yes	No	No	Limited	Limited	Limited	Yes
Germany	No	No	No	No	Limited	Limited	Yes	Yes
Netherlands	Yes	Na	Na	Na	Yes	Yes	Na	No
NZ	No	Yes	No	No	Limited	Limited	Yes	Yes
Sweden	Yes	Yes	Limited	Limited	Yes	Yes	Yes	No
Switzerland	Yes	Yes	Yes	Yes	Yes	Yes	No	Outlays
US	Yes	Yes	Limited	Yes	Yes	Yes	Limited	Yes
UK	No	Yes	No	Yes	Limited	Yes	No	No

Source: Ellis (2006 p.11)

The information in Table 2.5 indicates that there are means available for adjusting existing policies to influence the supply and price of property. The influence of the various tax regimes can be seen in the example of Capital Gains Taxes. Generally exemptions or concessions are given for holding a property for a certain time. In Australia the holding period is one year, whereas investors would be more likely to consider shorter investment terms. This compares to France and Germany, where the concessional taxation is only available after ten years which is a disincentive for trading property over short periods. This has the effect of negatively influencing speculative demand in those countries (Ellis 2006). The rental yield can also have a large impact upon rental supply. Countries such as Canada and the United Kingdom have a gross annual rental yield of 12.0 percent and 7.5 percent respectively, which encourage investors into the housing market. This higher yield is as a consequence of beneficial housing policies, which are more conducive than in Australia (Reserve Bank of Australia 2003).

Australia's tax regime is considered to be favourable to individual landlords through negative gearing and depreciation allowances. Such specific tax benefits is one reason for the high level of small investor participation in the housing market (Ellis 2006 p.12). However studies show

that landlords with low income tenants may face higher taxes than their counterparts in the UK where negative gearing is not available (Wood & Kemp 2003).

Another tax policy which influences home purchases is mortgage interest deductibility. This reduces the capacity to service debt and the attractiveness of home ownership. Home purchasers are effectively paying their mortgage from post tax income. However if the post tax return from alternate assets is higher there is a disincentive to buy the home (Ellis 2006 p.13). More research is required to determine how to take maximum advantage of current Government policies to encourage investment in affordable housing.

2.4.3 Public Supply Factors

Australia is second to the USA in providing the lowest level of public housing in the developed nations (Rentsch & Scott 2003). The Commonwealth State Housing Agreements (CSHA) have proven to be inadequate in meeting the increasing demands and associated costs of providing low cost housing. It has been reported that \$200 million over the past 7 years has been shifted from CSHA funds that were for the provision of public housing to the means tested Centrelink Rent Assistance program. Public housing annual expenditure has declined by 13% in real terms over the past decade according to the Housing Justice Roundtable (Rentsch & Scott 2003).

As a result of falling government budgets, public housing has continued to be located away from areas with strong infrastructure where it is cheaper for Governments to build new developments. This has been at great cost to tenants as employment and community involvement becomes restricted. This impedes improvement to the circumstances of people housed in public housing which is noted by Randolph (2000, p. 92):

“Public housing programmes have failed to assist tenants to escape from the spiral of disadvantage, ...”

The emphasis appears to have been upon the quantum of supply when it needs to be more of a balance between the quantity, location and the quality of supply (Disney 2007; Rentsch & Scott 2003).

Altered employment practices have resulted in old housing estates no longer being located near employment or efficient transport services. This has resulted in full time employed public housing tenants spending more time commuting to and from work than other commuters (Luxford 2006).

The poor availability of affordable rental accommodation is exacerbated by a fall in public housing stock. In 1995-96 the stock totalled 372,000 which reduced to 345,000 in 2004 (Senate 2006). This reduction was necessitated as public housing was sold to meet the cost of refurbishing older housing stock (Powall & Withers 2004). This reduction occurred while waiting lists for public housing rose by 10 percent for the same period. The Australian Council of Social Service estimates there were 220,000 people on public housing waiting lists nationwide in 2004 (Director Community Services 2004).

The fall in public housing stock is in part, due to the rise in the amount of households accommodated who need a high level of rebate to the market rents charged by the State landlords. These rebates are not part of the Commonwealth State Housing Agreement and therefore must be paid from the rents received. This reduction to rental revenue reduces the amount available for purchase or construction for new stock to meet current and future need (Burke 1998).

Moore, in a speech to the NSW State Parliament, produced the following details on the performance of the State's public housing:

“From 1991 to 2001 operating income in New South Wales fell by 15 per cent, the biggest drop of all States, while operating expenditure grew by 41 per cent, producing a massive \$250 million deficit. The report found that State governments have decreased capital expenditure by 25 per cent to offset the increased cost of providing public housing, with New South Wales public housing stock declining from 6.2 per cent of total housing stock in 1994 to 4.7 per cent in 2001” (Moore 2004).

State housing authorities are struggling to avoid operating deficits under the restricted funding regime by increasingly selling down public dwellings to the private sector. New public housing construction is therefore only just maintaining overall current stock levels (Berry 2003 p.419).

One of the most important differences between countries in relation to affordable housing is the size of the social housing sector. If provision is effective it has the ability to remove an entire segment of the dwelling stock from the market. In countries with large social housing supply, such as Sweden and The Netherlands, tenants include middle-income households that might have otherwise been owner-occupiers. Accordingly the size and quality of the dwellings are impacted. In countries with a low supply, such as the US and Australia, the housing type is highly targeted at low-income and disadvantaged households (Ellis 2006 p.17).

In NSW public housing authorities are using short term leases in an effort to provide a benefit to a greater amount of people through tighter targeting and eligibility measures. An example of the types of leases being offered include:

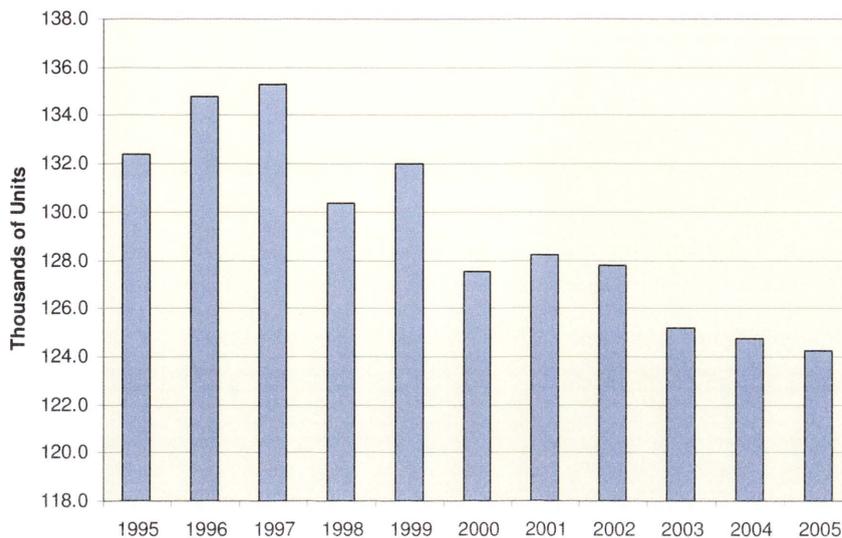
- “Two years for people in need of transitional accommodation;
- Five years for people who needs may escalate or diminish in that period; and
- Ten years for people with ongoing needs that may intensify” (Kothari 2007, p. 11).

These kinds of measures are being undertaken as there is not enough housing to meet the demand.

Milligan (2004) details that the seven largest public housing providers in Australia only provided approximately 1200 dwellings since the early 1990's. This is small considering the need for affordable housing. Unless there are further incentives and support from governments this level of supply will not increase significantly and supply will be limited to opportunistically driven projects. A method of being independent from government assistance is therefore required to strategically locate and develop a significant amount of housing projects. This is the hope of the advocates of the affordable rental housing funding models discussed in this research.

The trend in the supply of public housing over the decade to 2005 is shown in Figure 2.13.

Figure 2.13

Fall in the Supply of Public Housing in NSW from 1995 to 2005

Source: Adapted ABS(2006a)

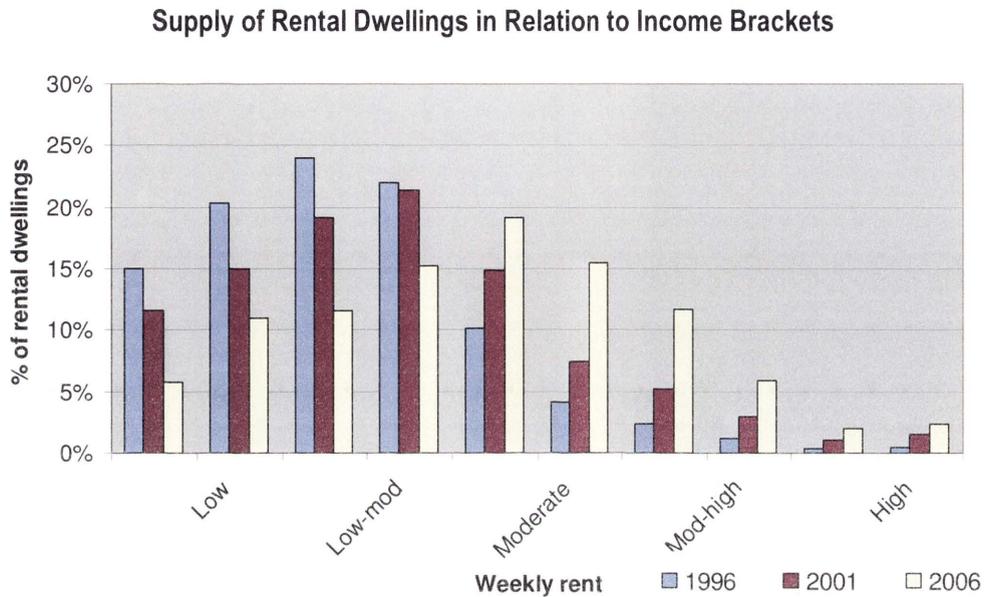
Public housing in Australia has an estimated value of \$31 billion although is decreasing from inadequate funding (Waxman & Ng 2004). The dramatic decline in the number of public sector rental dwellings in NSW is shown in Figure 2.13. Demand for low-cost rental housing is increasing at the same time as this supply of low-cost rental housing is falling. Over the period 1986-1996 the stock of low-cost rental housing fell by over 28 percent in Australia, or 70,000 dwellings, while the number of low and moderate income households grew at rates exceeding 70 percent (Affordable Housing National Research Consortium 2001).

This reduction to supply has produced long waiting times for households who qualify for public housing. It also places pressure upon private affordable housing which tenants on higher incomes may be able to afford. This causes pressure on tenants up the income hierarchy to rent properties of a higher rental than otherwise they would not choose to lease.

The reduction in public and community housing is exacerbated by events in the private market. Yates and Wulff (2005) refer to the change in private rental accommodation between the 1996

and 2001 census. The percentage of dwellings in low to moderate categories showed the largest reductions to supply while most of the other categories, particularly the higher ranges, increased as shown in Figure 2.14.

Figure 2.14



Source: Australian Bureau of Statistics (2006d)

The need for improved supply in the low to moderate rental sectors of the market is emphasised by the activity in the market as shown in Figure 2.14. The percentage of rental properties in the moderate and above sectors are increasing while the lower rental sectors are decreasing as a proportion of the total supply.

More research is required to identify how this trend can be reversed.

2.4.4 Private Supply Factors

An Australian Housing and Urban Research Institute report confirmed that between 1996 and 2001 there was an absolute decline in the total amount of housing leased to the bottom four fifths of the rental market. In 2001 there was approximately a 36,000 shortage of private rental housing in NSW for low to moderate income households (Yates, Wulff & Reynolds 2004). As government policy incentives have continued promote the supply of higher rental properties this

shortage is expected to have deteriorated further. This reduction to the availability of low cost housing coupled with increasing demand for lower income households will intensify competition for available housing and reduce options.

A boost to supply from the private sector is therefore required to improve the current housing shortage situation. To stimulate such supply of affordable rental housing, requires an active approach from the sectors' stakeholders, and/ or financial engineering to over come the problem of the rental gap. Such action is required as developers are motivated by profit when value exceeds its costs (Roulac 1976). In the case of affordable rental housing, exceeding the cost base is more difficult as the end value is reduced due to the application of a higher capitalisation rate. This is a consequence of the expected lower performance of the asset, both in respect to the income stream and the disposal value. Similarly, to warrant retaining a property for the long term, the Present Value of the future returns, a combination of income and disposal value, must exceed the cost to operate it over that time (Roulac 1976). This is also difficult to achieve as the income is set at a below market rate.

Government regulation can also strongly impact upon the supply of rental housing. An example of such regulation is that of the landlord-tenant relationship, such as rent control and the terms of eviction. Rent control reduces market responses and can therefore reduce rental returns. Restricting a landlords' ability to take possession for sale purposes or tenancy related matters raises the risk of the investment. A higher return will accordingly be required as compensation to attract investors into the market (Ellis 2006 p.18). A higher required return is therefore expected to increase the rental gap and reduce the viability of affordable housing. Table 2.6 highlights the impact of government tenancy policies upon the private supply of residential dwellings.

Table 2.6

Legal and Institutional Features of Housing-Finance Systems

Country	Owner-occupation rate (per cent)		Social housing (per cent)	Rent Control	Institutional landlords (private or social)
	1980	2002-2004			
			Latest		
Australia	71	72	5	No	Almost absent
Canada	62	66	6	Some provinces	Some REIT's
France	47	55	19	Cost-based	1.2% non social
Germany	41	42	6	Continuing tenants	~15% total stock
Netherlands	42	54	35	Yes	Social housing
NZ	73	68	6	No	Almost absent
Sweden	58	61	21	Yes	Mainly municipal
Switzerland	33	35	2	Cost-based	~1/3 rental stock
UK	65	68	20	Social only	Social Housing
US	58	69	3	Some	REIT's

Not: Social housing shares are for 1997 (Sweden; municipal housing), 1998 (Netherlands, 1999 Australia), 2000 (Switzerland, 2001 (Canada, Germany), 2002 (France, UK, US), 2004 (NZ).

Source: Ellis (2006, p. 18)

Table 2.6 indicates a *positive* response either through private or social supply of rental housing, when there *is* government regulation. It is acknowledged that such regulation is part of a system which encourages the rental system and regulation is not the sole government policy. Nevertheless, the supply still occurs as government regulation reduces certain risks of an investment. This phenomenon highlights the profile of risk to investors. Capital and yield fluctuations are the key risks to investors. To compensate investors for bearing such risk requires the payment of a higher return than otherwise expected. This higher payment creates an impediment for an asset class already hindered by a low yield. To avoid the need for a higher return, methods of reducing investors' risk exposure need to be considered (Allen Group 2004).

International experience provides further evidence that government regulation is stimulatory to private investment of affordable housing. Since the introduction of the 1988-89 Housing Act in the UK, approximately 20 billion pounds (AUD41Billion) has been invested as a consequence. The main functions of regulation would be to protect against community housing failure, reduce the cost of finance, assist the market for community housing, engender better risk management practices and management capacity (Barbato et al. 2003).

The Allen Group (2004) suggested three methods to achieve the reduction of risk for investors to encourage private rental housing supply:

- The government guarantees the yield risk by providing additional subsidies;
- The yield risk is passed to the tenants through a fixed rental (This is also a benefit to the tenants); and
- The government absorbs the capital risk by guaranteeing the asset price.

The impact from suggestions first and last methods mentioned above is a higher cost to government for the provision of affordable housing. The raised housing cost reduces the corresponding output which is expected to be a disincentive to government to accept a proposal with these terms. The incidence of these terms within the models may partly explain the low level of government assistance.

Some reasons for the low levels of private sector supply also reflect the difficulties with the asset. These difficulties include:

A comparably low yield

Without additional subsidies to improve the low yield from affordable rental housing, an investor needs to rely upon other beneficial characteristics of the asset class. These can be secondary considerations for other investment options. These 'secondary' investment characteristics are identified through consideration of an investor's requirements. These may include a lower risk or diversification benefits for an investors' portfolio. Alternatively, a re-engineering of the distribution of financial benefits may result in an acceptable return profile to investors. This may be achieved through delaying the developer's margin which will encourage a longer term involvement with the project. The revised treatment of the margin payment could include

passing initial developer's profits to investors. In its place, the developer then receives a performance-based remuneration over a period of time (Roulac 1976).

Difficulty in aggregating a portfolio

In order to maintain a vibrant investment climate investors need to be confident there will be a constant flow of well managed and well constructed property portfolios. This will ensure the longevity and growth of the sector (Blelloch 2002). It is suggested that this is partly the reason why affordable rental housing has not attracted a sustainable investment market. Supply has been piecemeal and uncertain. The difficulty of overcoming this problem has been emphasised as policies specifically designed to address supply uncertainty have failed. The difficulty arises to some degree as the private rental sector represents a small percentage of the total housing stock which are operated by individual landlords, which affords little opportunity for institutional involvement (Montezuma 2004).

Competing assets and impact of asset allocation decisions

The low level of investment demand seeking affordable housing is partly due to competing investments which include superannuation funds and a range of managed investment alternatives. The channelling of investment funds into residential property is reduced by the low allocation by property trusts to residential property (Waxman & Ng 2004).

A summary of the factors which have slowed the rate of private investment into rental accommodation since the 1970's are:

- Trends in the rate of capital growth and locational aspects of such growth;
- Taxation policies favouring home ownership;
- The attractiveness of alternate investment opportunities;
- Current and expected levels of rental return;
- Cost and availability of finance;
- Confidence in the economy generally; and
- Town planning controls

(Waxman & Ng 2004, p. 117).

2.5 Investment Characteristics of Australian Residential Property

Despite the reluctance of institutional investors into the affordable housing sector, involvement can be justified by two major financial reasons:

- Residential property has a low correlation with the traditional asset classes e.g. bonds and shares, which should assist to lower the risk of a portfolio; and
- Residential property provides a hedge against both expected and unexpected inflation so that the price of the asset is not exposed to the capital minimising effects of inflation (Montezuma 2004).

These factors are seen to combine in the case of residential property so that the investment provides risk-adjusted returns which are comparable to shares and bonds. Residential property also has a low correlation with these asset classes, thereby reducing portfolio risk. Adopting the precepts of Modern Portfolio Theory for constructing an investment portfolio, which is relevant for most institutional investors, there are strong arguments for the inclusion of residential property in a portfolio of investments (Montezuma 2004).

Housing markets diverge from capital markets a number of ways. Housing markets are:

- Illiquid;
- Indivisible, therefore the costs are relatively high to invest;
- The costs of purchasing and selling are relatively high and transactions are lengthy;
- Ownership involves expense and time to maintain the building;
- Heterogeneous (both structural and locational);
- Information is costly; and
- Price is the result of negotiation

(Hutchison 1994; Montezuma 2004, p. 234)

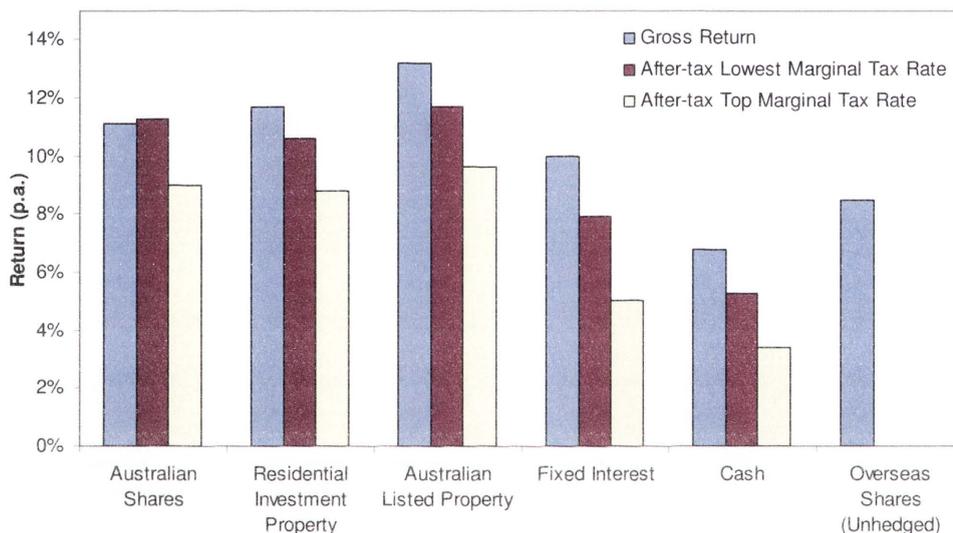
The illiquidity and the high cost or difficult access to market information act as friction to the efficient operation between the residential and the capital markets and reduce the arbitrage opportunities available to investors (Montezuma 2004). These aspects of the residential property asset class make it difficult to price at a given time. Such factors also cause noise to a housing price index which may cause it to appear to have a higher level of volatility and a lower correlation with commercial property than it actually does (Montezuma 2004). The correlation of

residential property with commercial property may be the reason why institutional investors believe having a commercial property exposure is sufficient which reduces the need for residential exposure with its accompanying perceived risks (Montezuma 2004).

The investment performance of the direct residential investment compared to other asset classes are shown in Figure 2.15

Figure 2.15

Comparison of various investments, at different tax rates for 20 Years to 31 December 2006.



Source: ASX-Russell (2006)

Figure 2.15 indicates the return from residential investment in the long term is second only to the listed property sector. This level of return is also expected to have a lower level of volatility which is a critical factor for investors. With such strong investment returns demand from institutional investors could be thought to be keen. However return is not the only aspect for criteria for investment selection. Berry (2000, p. 163) refers to the need for an:

“Appropriately structured ‘vehicle’ (to) stand between the institutions and the tenants, managing the latter and delivering tax efficient returns to the former”

This need for an 'appropriate vehicle' emphasises the need for an appropriate means of dealing with the specific risk of the investment in an efficient manner. That need goes beyond the requirement to develop and market an investment vehicle or financial instrument within which a funding model would operate. Such a vehicle would also address the non-monetary considerations, such as the ease of purchase and sale and the perceived risks (Hutchison 1994).

The risks attached to a residential investment fall into two broad categories:

- Systematic risks which include general economic risks such as inflation, unemployment, and interest rates, and natural risks such as earthquake, fire and weather.
- Unsystematic risks which include the specific risks in relation to the investment. These specific risks include financing costs, contractual risks, project management, organisational human error and systems risk

(Hall, Berry & Phibbs 2003).

2.5.1 Additional Hurdles for Private Investment

There are three areas identified which impede investment into the affordable rental housing sector, brand damage risk and the lack of information on the performance of the sector.

Brand damage

Institutional investors are extremely wary of activities which may damage their reputation or brand image. Unfortunately, there is numerous examples of private landlords who have ostensibly mistreated tenants and attracted bad publicity. As corporate investors are keen to avoid such issues, the possibility of such associated incidents creates negative sentiment toward investment in the rental housing sector (Blelloch 2002). A solution therefore needs to be identified which provides investments with a positive, or at least neutral publicity associated with the sector, if private investment participation is required. This is especially so as socially beneficial aspects of investments demand is increasing from share holders for ethical investments (Montezuma 2004). Affordable rental housing could benefit from this type of investment demand.

One solution to this 'brand risk' could be to engage a third party property manager, such as a housing association. A property manager would effectively separate the investor from the tenants and the subsequent risk. Housing associations are ideally suited for this role as they are socially attuned to the needs of the tenants which minimises the risk of public disputes.

Lack of information on the sectors performance

Over the past two decades the level of investment in commercial property has prompted a high level of reporting on performance indicators. This aids transparency and the assessment of investment returns. Unfortunately, this is not available for residential property which is a disincentive to investors as it raises the level of investment risk.

A new investment asset class

A new investment sector is often met with scepticism and the risk associated with it is perceived higher than it should in many cases. To assist the growth of a new sector extensive investor education is required. Berry (2002, p. 93) referring to SRI investments advises of the need for:

"... the education of trustees, investment managers and consultants, on what SRI is (and isn't) and the potential benefits to be gained in order to dispel prevailing myths about the necessarily inferior financial performance of SRI products..."

The same need applies to the investment community in respect to affordable rental housing. Without such education the premium demanded to compensate investors for the perceived higher risk is likely to hinder the development of the sector.

2.6 Finance for the Provision of Affordable Housing

The cost of capital is the main expense and determinant of whether a project is a success (Roulac 1976). The financing phase is therefore fundamental to a project and has the greatest potential for improving the supply of affordable rental housing therefore it needs the greatest level of attention.

Such finance for the affordable rental housing sector will include three areas for consideration.

These include:

- Credit;
- Risk; and
- Subsidy

(Hall, Berry & Phibbs 2003).

Depending upon the type of credit used a premium payment will be charged by the institution for providing a guarantee and for the acceptance of the risk. The level of premium required for such acceptance of risk is dependent upon the risks involved with the finance instrument, such as capital risk or interest rate risk exposure and how comfortable the organisation is with accepting the type of risk. This generally depends on how capable the institution is to handle the risk. For example, government is more able to accept capital risk whereas a bank may not (Hall, Berry & Phibbs 2003).

For affordable housing to be a feasible investment researchers believe there needs to be a subsidy which includes the above considerations and covers the 'gap' between the rental yield and the required return incorporating the premium payment. The required subsidy will then vary according to the risk accepted by the individual parties (Hall, Berry & Phibbs 2003).

Milligan (2004) proposes that affordable housing projects are financed through a mix of:

- Private equity and or debt finance, and
- Public subsidies and/ or
- Planning benefits.

2.6.1 Private Sector Funding

The investment community has an appetite for low risk investments that do not require high income returns with which to compliment their portfolios of higher yielding asset classes. One means of achieving such investment mentioned by Bodaken (2002) uses the securitisation of the income stream from affordable rental housing which may also preserve the capital asset value. The income return would however need to be at a level acceptable to the investment community (Allen Group 2004). Bodekin seems to over look the inherent nature of residential property as an asset class. Residential property, unlike commercial property, has a focus on its capital return, as the income return is low. Malizia (2003) identifies that stakeholders keen to attract private investment into the sector have focussed on reducing the financial risk through conservative underwriting and other forms of credit enhancement. This however has been at the expense of measures to improve the risk profile of affordable rental housing as an asset class. It is believed that it is in the area of risk mitigation that holds the greatest potential for attracting institutional investors.

To improve the level of risk of an affordable rental investment it may be possible to capitalise upon the Governments' preference towards subsidising private rental accommodation over the supply of public housing (Pocock & Masterman-Smith 2006). As the Allen Group (2004) note total funding for rental assistance grew by almost 30 percent over the period from 1994-2003. There may exist therefore the potential to secure the payment of the rental assistance directly to the affordable rental housing fund. If this were possible the provision of certainty within the affordable rental housing models would lower the risk associated with this investment. Other measures to lower the associated risk include improving information concerning the sectors stakeholders and specific performance data of the asset.

New forms of financing appear to be limited in the residential sector as Sheridan (2004) states that developers and investors tend to use the familiar forms of funding for affordable housing with little use of some of the new financing products. This tendency may also limit the potential to generate funding from the private investor sources without an extensive education programme.

The public sector has strategies to obtain private sector funds for the provision of affordable housing in the form of developer levies. This is in accord with the change in delivery of public

housing from the more traditional model to one which is more diversified. The new model includes the involvement of the Local governments. Under the State Environmental Planning and Assessment Act 1979 (EP&A Act) local councils are *obliged* to encourage the provision and maintenance of affordable housing (it is noted however that there is no penalty for not adhering to this obligation). Under the EP&A Act, if there is a State Planning Policy which has identified there is a need for affordable housing in an area, then a local council can require the payment of a contribution either in land or money for affordable housing. Commentators and industry participants consider these measures to be ineffective as the developer levies ultimately result in increased costs that are passed on to the market which reduces affordability and the impact upon the supply of affordable housing is small (NSW Urban Taskforce 2006).

2.6.2 Public Subsidies

The Federal Government' First Home Owners Grant (FHOG) was introduced in July 2000 to improve housing affordability for First Home Buyers impacted by the impost of the Goods and Services Tax (GST). The effectiveness of this policy however is questioned due to the inflationary effects upon housing prices caused by raising purchasers' effective capacity to finance the property. There is the potential short coming to the FHOG as it assists people to purchase a home but is limited in reducing high mortgage rate repayments (Allen Group 2004). In most cases the mortgage repayments are higher than the rental therefore the degree of housing stress is increased. This is of particular relevance when there is a large disparity between rental yields and mortgage rates which is currently the case. This scenario is detailed in Table 2.7.

Table 2.7

Comparison Between Rental Yields and Mortgage Rates

Property value	\$250,000
Rental payable @ 5.5% yield	\$1,145 per month
Mortgage repayment @ 8.75% interest (assuming FHOG of \$7,000 deducted and a 25 yr P. & I. amortized loan)	\$1,983 per month
Increase to the housing costs per month when purchasing.	\$837 per month

Source: Allen Group (2004)

From the calculations in Table 2.7, mortgage repayments are \$837 per month more than the rent required to lease the same property. This form of demand-side assistance results in a deterioration of the housing market affordability as the additional demand lifts the price of housing (Pocock & Masterman-Smith 2006). The FHOG in some instances has a positive impact upon the supply of affordable rental housing. Some quasi 'owner occupier' home purchasers obtain the FHOG, live in the property for a limited period, then move out and lease the property. These purchasers include young professionals who cannot afford to buy in the area in which they want to live, yet want an investment in residential property and take advantage of the government grant.

The Commonwealth State Housing Agreement (CSHA) is the statute through which funding for the provision of affordable housing occurs. The Commonwealth Government is responsible for two thirds of the CSHA total funding, with State and Territory Governments responsible for the remaining one third. In 2003-04 the CHSA programme estimate was \$1.3 billion with the Commonwealth Government paying \$930 million. Total funding under the CHSA has reduced by 20 percent in real terms over the decade 1993-2003. The purpose of these funds is to improve the welfare of tenants suffering housing stress. Funds are allocated to either the supply of rental accommodation or rental assistance. As part of the CSHA funding, the NSW Government operate a capital subsidy programme provided through the NSW Department of Housing. This programme is for the development of Debt Equity projects under the Affordable Housing Innovations Fund. Participants need to be a registered community housing provider involved in the purchasing or developing affordable housing. The total amount available for the years 2006-07 is \$6 million spread over various projects. Participants are expected to use a

combination of their own equity, debt and grant funding to finance the projects. (NSW Dept. of Housing 2007)

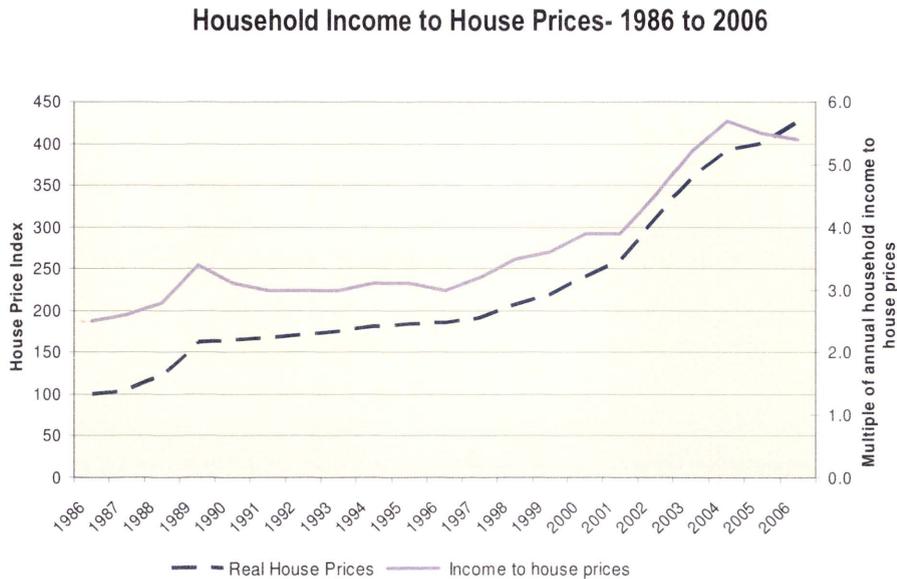
2.6.3 Planning Assistance

Roulac (1976) identified the planning process as a potential means of improving the profitability of a development. This potential needs to be maximised by developers of affordable rental housing as they have to compete on the open market for project sites. Affordable housing developers are penalised in these attempts as returns from affordable rental housing are lower than full market rental properties. This subsequently reduces the developers' ability to bid for development sites. To assist the provision of affordable rental housing local governments have the ability to approve projects with higher floor space ratios, which equates to more housing, than current planning policies allow, if there is a component designated for affordable rental housing. This method of planning assistance via voluntary developer contributions has been discussed previously in Section 2.2.4.

2.7 Housing Affordability Determinates

Australia's houses are now one of the most over-valued in the Developed World. According to the Organisation for Economic Co-operation and Development (Organisation for Economic Cooperation and Development 2005) the price of Australian housing relative to income is 50% higher than in other comparable countries. This is well out of line to the accepted long term fundamentals. One such fundamental is house prices as a multiple of annual income. Figure 2.16 shows the movement to this relationship from 1986 to 2006.

Figure 2.16



Source: Adapted from REIA (2006) and ABS (2006)

Figure 2.16 shows the multiple of annual household income to house prices fluctuated in a band 3.0 to 3.6 during the 1990's. This traditional spread was exceeded from the late 1990's, peaking in early 2004 at a ratio of over 5.7. The ability of incomes to pay for housing has clearly deteriorated over this period which has compounded affordability issues.

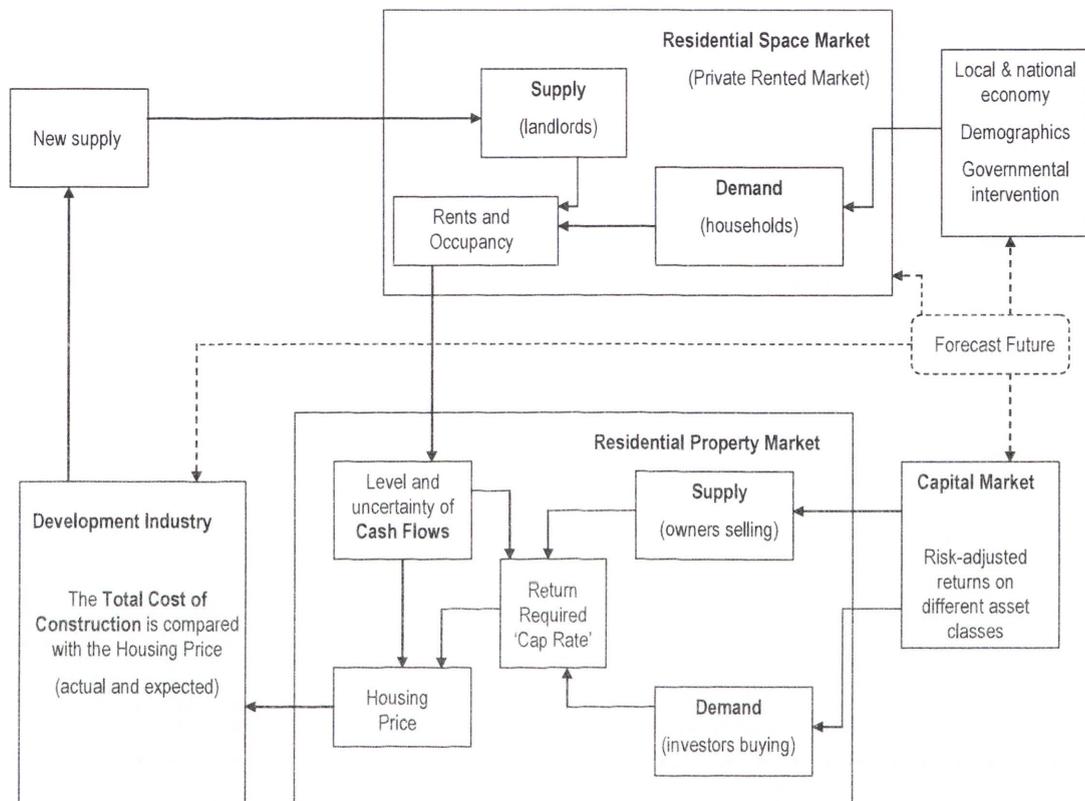
The Housing Industry Association and the Commonwealth Bank report that for the first time in 23 years the average Australian household can no longer afford to buy the average Australian home. The mortgage on a median first home requires a gross household income of \$93,300 per annum whereas the average household income is \$91,300 per annum (Colebatch 2007). Comparing these figures to the income of affordable housing tenants i.e. \$30,000 to \$70,000 per annum, the extent of the affordability problem is highlighted. This situation has reduced the level of home purchasing and produced further demand for rental accommodation.

The degree to which such increase in rental housing demand is managed varies as many of the major city rental markets are two tiered and reflect different characteristics. Generally households with secure full-time work have been experiencing rising incomes and are able to meet the cost of increased rents caused by a lift in demand. Whereas the low paid, casual workers or assistance dependent households have stagnant incomes and struggle to pay increases living expenses (Randolph & Holloway 2002).

Understanding the reasons for the current situation requires a review of the operation of the private rental housing market and the capital market as determined by the interactions of three markets: the space, property and capital markets. These three markets are depicted in Figure 2.17.

Figure 2.17

Three-Market Model Determinants within the Space, Property and Capital Markets



Source: Montezuma (2004)

The space market shown in Figure 2.17, is where the physical space is traded and determines the current rent for the rented properties; the property market is where the available housing assets are allocated among competing investors which determines the house values; and the capital market is where the housing assets compete with other contracts which offer a stream of future cash flows (Montezuma 2004, pp. 232-233). These concepts are further explored in the following sections.

2.7.1 Space Market

The space market is where demand is exercised by tenants who use or consume residential space or housing. Waxman (2004, p. 150) noted demand for rental accommodation is determined by:

- Demographic factors – population size, age distribution and household formation rate; and
- Economic factors – current and future wage levels, job security, the level and direction of interest rates, the availability of finance, shocks to the economy (Australian dollar decline), business activity and the general level of confidence.

Employment is part of the economic factors which influences the effective demand. As employment increases so to does income growth. This results in a positive relationship in the long run between personal income and house prices paid by the income earner. A negative relationship subsequently exists between unemployment and house prices. This accounts for the lower house prices in areas of higher unemployment on the fringe of cities (Waxman & Ng 2004).

The geographic features of a city can impact upon the prices of housing. Traditional urban economics assumes that cities have one centre of employment which residents have to commute to on a daily basis. Living on the fringe of the city is therefore less desirable as longer commuting times are required. This results in higher housing prices in the centre of the city (Ellis 2006). Table 2.8 shows the ratio of inner-ring to outer-ring prices for the major cities of Australia.

Table 2.8

Australian Metropolitan Median House Prices Ratio of Inner-Suburban to Outer-Suburban Median Prices; December Quarter Data

City	1998	2002	2005
Sydney	2.19	2.16	2.01
Melbourne	1.72	1.82	1.79
Brisbane	1.65	1.68	1.89
Adelaide	1.52	1.99	1.85
Perth	1.70	1.97	1.95

Sources: (Ellis 2006 p.21)

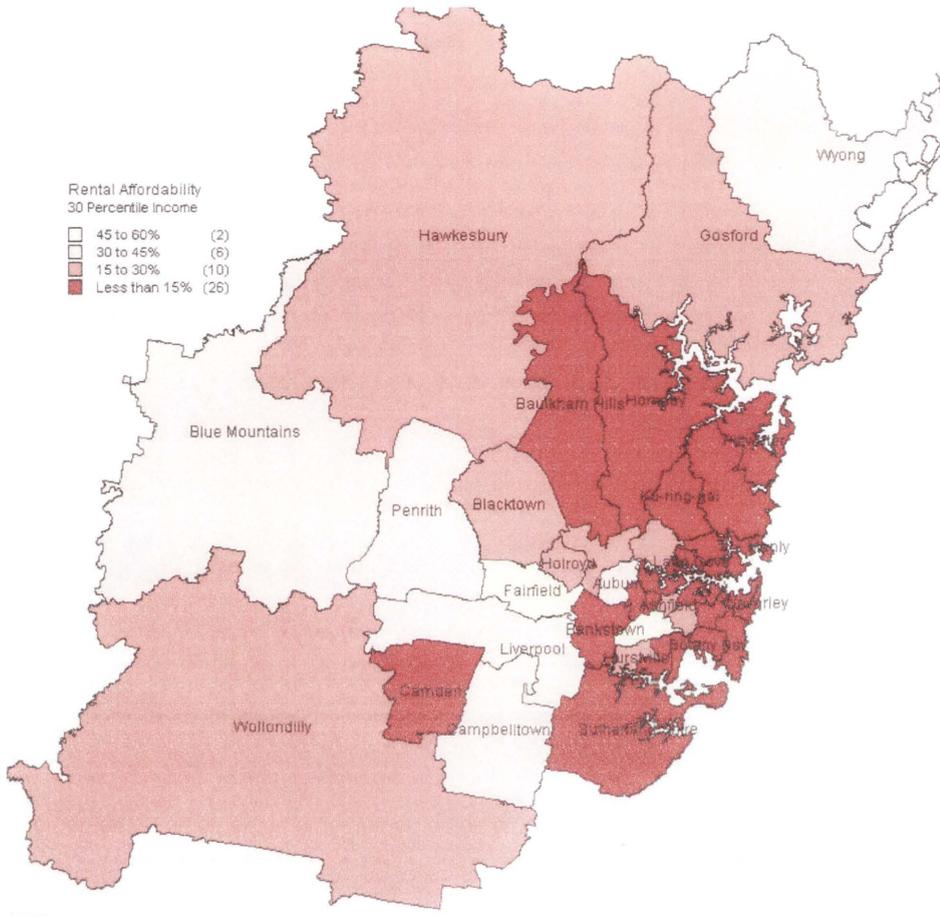
It is generally observed from Table 2.8 that larger cities have a higher ratio of inner to outer area housing prices. This arises as it is harder to provide equally efficient transport over the whole city. Therefore the cost of traffic congestion is higher at the fringe which impacts negatively upon housing prices. This is one reason why affordable housing is located in fringe areas and why inner city locations rentals are comparatively higher (Ellis 2006).

Figure 2.18 shows the extent of how affordability for low income households varies by distance from commercial centres.

Figure 2.18

Affordable Rental Housing Distribution in Sydney

Rental affordability – June 2005 Household incomes at 30TH percentile



Source: (Larkin 2005)

Figure 2.18 depicts the effects of demand for inner city locations which causes deterioration to affordability levels, particularly for lower income households.

Various property lobbyists call for releases of land on the fringes for residential development pointing to the reduced opportunities for expansion as the reason for increased housing prices (Gum 2006). Rees (2006) argues convincingly that it is the cost of land which has driven up the price of housing. Rees points to the cost of constructing a project home rose only marginally above that of wages on a per annum basis for the period between 1996 to 2005 i.e. 4.8 percent

compared to 4.3 percent. Notwithstanding, over the same period the cost of vacant land in Sydney's suburbs rose by an average of 11.3 percent per annum.

On the supply side of the space market landlords produce the housing services. This new supply depends upon the cost of developing new stock, which includes the land, construction costs and the developers' profit (Montezuma 2004). Once the value of housing defined in the property market exceed the cost of new development there will be an increase in supply in the space market of new housing.

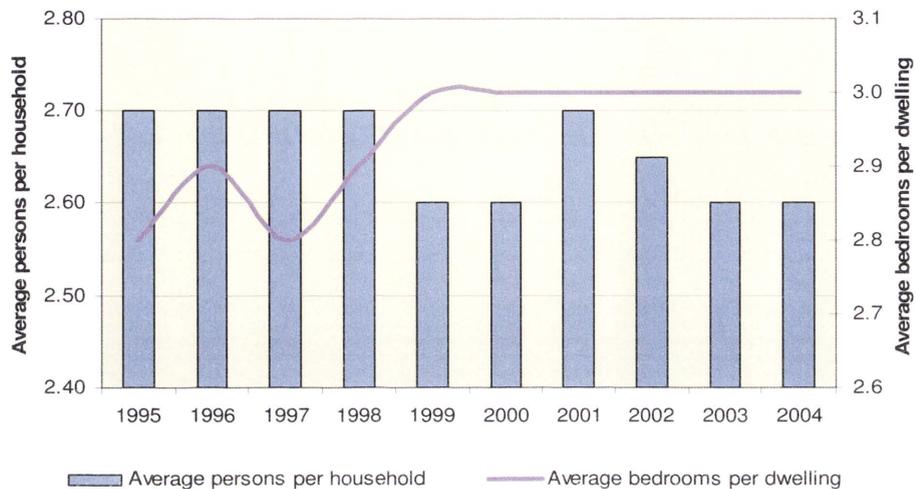
2.7.2 Property market

The property market is where housing owners both owner-occupiers and investors come who are willing to sell there stock which is met by demand from investors, both individuals and institutions (Montezuma 2004). Institutional involvement in the private rental sector is usually inversely proportional to their involvement in housing ownership (Hoesli & MacGregor 2000). This does not bode well for the Australian private rental involvement of institutions as their participation in ownership is low and confirms this finding.

During the 1990's demand for housing was eclipsed by demand for higher quality housing. This was assisted by a reduction in interest rates over the same period which enabled households to borrow increase mortgage debt (Macken 2007). A similar change to housing demand occurred to housing utilisation. Figure 2.19 shows the fall to housing utility over the years from 1995 to 2004 as representative of this trend for demand of a higher quality of housing. Housing utility is defined as the amount of housing which is demanded by each per person per household. As housing utility falls the same number of people result in demand more housing, expressed in larger homes which correspond to higher housing costs per person.

Figure 2.19

Housing Utilisation from 1995 to 2004



Source: Adapted from (Australian Bureau of Statistics 2006e)

Figure 2.19 shows that over the ten years to 2004 Australians have been demanding larger amounts of dwelling per person. As supply occurs to meet this demand, low to moderate income households which may not have the increased demand for household space, or have a higher housing utility, are forced to operate in the same market which is supplied by these larger homes. An overall reduction in housing utility is therefore seen to impact upon rentals across a broad spectrum of the housing market. Higher rentals are required by individual households who have a low utility or not. Such supply increases the cost of homes and raises the required rental for the capital investment.

The supply of new rental stock is influenced by numerous factors. Each of these factors offers the potential to provide an advantage not identified by the subject affordable housing models. These factors may be implicit in the models, although the limited representation of the models does not refer to detailed treatment of the following determinants. New supply is determined by;

- Costs of construction (labour, land and capital);
- Cost and availability of finance;
- Number and quality of existing rental stock;
- Existing mix of supply and demand for housing;
- Government regulations and legislation;

- State of the economy;
- Yields on alternate investments;
- Expectations of the level of demand;
- Level of consumer and business confidence;
- Distance from the central business district; and
- Foreign investment

(Waxman & Ng 2004).

All of the above factors should be considered when developing new affordable rental housing to try and meet demand by occupants and investors.

2.7.3 Capital

“The performance of property in the capital market is determined by the perceptions of potential investors concerning the level and uncertainty of the assets’ cash flows” (Montezuma 2004, p. 233). These perceptions may not necessarily be sound and are open to speculation especially when considering an unknown market. An example of this perception occurred during the low interest rate environment and other macro economic developments in Australia since the late 1990’s which increased the effective demand for housing in expectation of price growth. As the supply of housing is inherently slow to adjust to this increase in demand, housing price pressures followed (Ellis 2006).

The applied risk premium for housing investment is the product of the risk associated with the cash flows defined in the space market and how these relate to the capital market. The risk premium will increase if the space and capital markets are not integrated (Montezuma 2004). Integration is assisted by the following factors:

- “Availability of well-structured residential vehicles, providing a route to indirect investment;
- Regulation of lending on housing and specialisation of the housing finance circuit;
- Regulation affecting private rented housing; fiscal treatment of private landlords and tenants relative to other sectors or housing and other forms of investment; and
- Availability and quality of the information on the residential property market”

(Montezuma 2004, p. 234)

The Australian private rental property market and the affordable rental sub-sector is missing the first and fourth factors above list, therefore the level of integration is restricted. This restriction limits the level of substitution between the two markets which hinders investment. There is however a beneficial element to such poor integration as it often results in improved diversification benefits from the rental sector to institutional investors and a profitable arbitrage (Montezuma 2004). It is noted that once the integration of the markets reaches a certain level institutional investors will consider investing in the sector (Montezuma 2004). At this point the investment market for affordable rental housing will be an acceptable institutional investment grade asset class and attracting significant amounts of capital. This highlights the need for a robust investment vehicle and the availability of quality housing market performance information.

The Reserve Banks' monetary policy is also a large determinant of housing affordability. As interest rates rise so do mortgage repayments and in turn affordability falls. This is of particular concern recently as household debt levels were at historic highs, being 158 percent of disposable income. This is more than double the rate a decade ago (Reserve Bank Australia 2007). The high debt servicing burden is consequently slowing demand in New South Wales. The impact upon lower income households is greater as many are using debt to fund living expenses. Subsequently these households have less money available to pay for housing which reduces their ability to pay which reduces affordability levels.

It is a common perception that interest rates have a negative relationship with house prices. A review of house prices over the recent past appears to contradict that notion. As witnessed in the late 1980's, interest rates reached 17 percent at the peak of the cycle while housing prices were increasing rapidly. Therefore other expectations such as for price growth, higher real incomes and increased demand through migration can override higher interest rates (Waxman & Ng 2004).

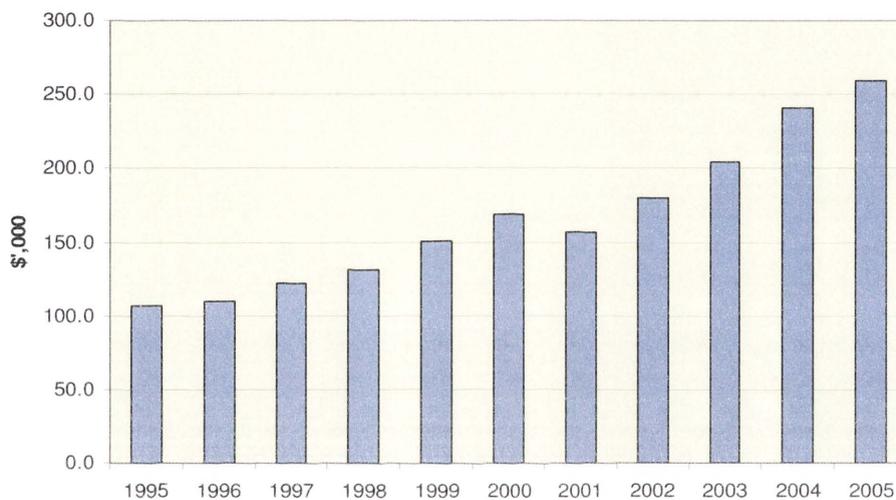
Another factor is the availability of housing finance which can increase accessibility to purchasing. In Australia, banks remain the dominant source of home lending finance, although non-bank lenders have taken an increased share of the mortgage market. This competition has prompted a variety of new products, such as low-start loans, shared equity loans and split (or cocktail) loans, no-frills and budget priced loans (Ellis 2006 p.1; Waxman & Ng 2004 p.400).

This increased competition in the lending market improved affordability for a period. As a result buyer demand increased through raised levels of accessibility to finance. This subsequently fuelled house price growth, resulting in deterioration to housing affordability (Waxman & Ng 2004).

The increase in access to finance is reflected in the increased value of First Home Buyers loans over the period from 1995 to 2005 which is shown in Figure 2.20.

Figure 2.20

The movement in First Home Buyers average loan from 1995 to 2005



Source: Adapted from (Australian Bureau of Statistics 2006e)

It is clearly displayed in Figure 2.20 that the rise in house prices has had a marked impact upon the size of mortgages paid by first home buyers. Mortgages for first home buyers have increased from approximately \$100,000 in 1995 to over \$250,000 in 2005, being an increase of 150 percent over the ten years. This clearly indicates a reduction in affordability especially at the lower end of the income market. Despite interest rates falling from 8.9 percent in December 1995 to 6.8 percent in December 2005 the larger mortgage produced an increase to mortgage repayments of 88 percent for a loan over twenty five years. This occurrence has forced many households to stay in the rental market longer which adds pressure on the already low supply of affordable rental housing in Australia.

2.8 Summary

The issues that need to be considered when proposing new options for investment in the affordable rental market in Australia are summarised as follows:

- The current financial situation of affordable rental housing does not generate an adequate return for institutional investors.
- The current Australian public and private investment strategies do not encourage an increase in supply to meet the current demand of affordable rental housing.
- Recent Australian Federal and State government practice have focused on a reduction in capital funding for affordable housing stock and an increase in the allowances for tenant rental subsidies.
- More research is needed to understand the perceived risks and barriers to institutional investment in Australia before a feasible funding model can be developed.
- Current research has generated various funding model options. As yet none of these models have been implemented in Australia.
- It is likely that a feasible model for the Australian affordable rental housing market will draw on elements of funds that have been successful in other countries.

CHAPTER 3

CURRENT AFFORDABLE RENTAL HOUSING FUNDING MODELS

3.1 Introduction

Over the last few years, a number of proposals for generating institutional investment in affordable rental housing have been put forward. These proposals have utilized a variety of funding models which are discussed in detail in this chapter. Discussion of these funding models is covered separately due to the centrality of the topic to the research project.

The chapter commences with an outline of the necessity for, aims and requirements of each funding model. Each of the models discussed requires a Government subsidy in order to generate returns suitable to attract private investors to the sector, with each model varying the means of handling and determining the quantum of the subsidy. Commentary on the various forms which a Government subsidy can take is included as many of the models are not restricted in form a subsidy can take, barring the Tax Credit model.

The focus of the chapter is on five Australian funding models, which include the Consortium or Bonds model, the Public Private Partnership model, the Pooled Fund model, the Not-for-Profit Housing Company model and the Tax Credit model. The structure, beneficial and detrimental elements and factors for consideration of each model are included. In addition, a brief comparison of the models based on their cost effectiveness and other criteria concludes the chapter.

3.1.1 Requirement for an Investment Funding Model

Currently there is a low level of institutional investment in the affordable housing sector in Australia. This level of involvement can in part be attributed to the financial arrangements which are designed for, and cater to individuals, instead of institutions (Seelig 2001).

In addition to the unsuitable investment products which are currently available, institutional investors have not been active in the private rental dwelling market largely due to the expected returns being too low when the perceived risks are taken into account. The risks associated with the investment include:

- i. Capital risk for the dwellings
- ii. Interest rate and inflation risk;
- iii. Rental yield risk;
- iv. Operating cost risk; and
- v. Political risk arising from government policy changes

(Berry & Hall 2005).

The funding models have to address these risks in order to attract institutional / private investment or to be able to provide returns which justify the acceptance of these risks. This aspect is discussed more fully in the following section.

3.1.2 Aim of Models

The risk adjusted return from full market residential property is currently too low to attract institutional investors. As the return from affordable housing is even lower, action is required to either:

- Raise the net return given the risk which would be achieved through a subsidy;
- Reduce the risk to investors, given the returns. This can be achieved through transferring the risk to different parties or improved efficiencies which might arise

through institutional involvement². Such efficiencies could cause the affordable rent required to fall to the level or lower than that of market rentals; and

- A combination of the two actions

(Berry & Hall 2005).

It is therefore important to consider which of the funding models achieve these aims when determining the most viable model.

3.1.3 Methods for Financing

There can be a host of delivery mechanisms and support options for affordable housing but they would of course be redundant without financing. Financing can be achieved by either debt and/ or equity. Debt refers to the financial instrument that returns the amount borrowed, plus interest which is either a fixed, floating or real (indexed to inflation) rate. Equity is by direct ownership, a stock exchange company, or a property trust (Berry & Hall 2005).

3.1.4 Funding Model Assessment Criteria

The assessment criteria for the funding models include the following:

Equity; Households should be treated equally from the scheme. Notwithstanding the scheme will target low to middle income households and exclude other income groups.

Efficiency; Operating costs should be minimised to provide as much housing as possible relative to the investment. From an investor's view point, efficiency would include investors benefiting from the system while achieving affordable rentals. From governments' perspective, the cost per household assisted should be minimised, due to restricted budget allowances.

Volume of funds; A significantly large investment of funds is required to impact upon the sectors problems. This also necessitates that the scheme is liquid, able to be

² Institutional involvement is expected to cause these efficiencies over time. Expected efficiencies include information improvement, lower leakage from taxes and duties such as stamp duty and improved standards for best practice, lower capitalization and debt servicing rates.

priced by investors or their consultants, and offered in amounts suitable to an investment grade asset. A minimum capitalisation of \$300 million appears appropriate.

Feasible; The scheme must be able operate in the current economic and political environment. It appears from this research that feasibility is the most important criteria, as this will determine which model would be adopted by government. Once initiated the investment product is expected to evolve to suit market demands and achieve the previously mentioned assessment criteria

(Berry & Hall 2005).

The purpose of assessing the models appears to be not so much one of which is the 'best' model, but rather which model is appropriate to the current environment. The 'best' model is determined through financial analysis, whereas viability is determined by a review of the policies, requirements and attitudes of the stakeholders.

The funding models which are generally considered as the 'best' often have the following outcomes:

- "... (the ability to) generate the largest volume of private investment for affordable housing with the capacity to significantly reduce housing stress in a timely manner;
- is accessible to housing providers and their target households;
- minimised subsidy costs through efficient targeting and risk management, and;
- were simple and flexible to implement, as well as capable of contributing to desired housing outcomes in a range of economic and institutional circumstances..."

(Affordable Housing National Research Consortium 2001, p. 30).

An implicit assumption for most of the funding models, bar the Pooled Fund model, is the inclusion of tenants with a minimum household income of \$20,000 per annum. This assumption is made acknowledging the necessity for the continuation of the two housing assistance programmes, rent assistance to social security beneficiaries in the private rental sector and the public housing grants system. The funding models are proposed as a means of supplementing

the existing schemes for the assistance of low to moderate income households (Berry & Hall 2002).

The major barrier to institutional investment in the sector appears to be the inadequate risk adjusted rate of return. To overcome this Berry and Hall ((2002) suggests there are three requirements for a viable model: a guaranteed rental stream; a means of delivery for the subsidy; and a private financing option, these are detailed as follows:

Guaranteed rental stream- ensures the investor obtains a stable low risk cash flow from the rental. This may be provided by the government or via a head lease by a housing manager.

Means of delivery- a transparent and robust, low risk business model which deals efficiently with the management and operation of the housing portfolio, with a low level of leakage of benefits.

Private financing option- a means to secure private finance by providing a return which is attractive to investors.

3.1.5 Subsidy Delivery

The involvement of external stakeholders in the affordable rental housing sector for the effective delivery of the required subsidy is seen as vital to the success of the sector. There are examples of where governments alone have tried to attend to the problem of housing and these programmes have not been sustainable, such as the public housing system. There needs to be the involvement and commitment of government across all jurisdictions on a national level and especially:

“clarity of thought and action, and commitment from government in partnership with communities, business and voluntary groups” (Randolph & Judd 2000, p. 103).

As stated, all of the models considered involve a level of subsidy. There are a variety of means for which a subsidy can be delivered.

- i. “A direct financial contribution on an up-front or recurring basis;
- ii. A non-financial contribution, such as a land contribution; or

- iii. A re-allocation of risk" (possibly through a guarantee of capital or rental returns, or regulation)

(Allen Group 2004, p. 39).

The transparency and impact upon government budgets differ for the above subsidy alternatives, yet all of them represent a cost to the government or in the case of a tax credit, foregone income. Governments' attitude would determine preferences for one of the above forms of subsidy over the other means.

3.2 Australian Affordable Housing Models

The models considered for this report include the following;

- The National Affordable Housing Research Consortium Bonds Model;
- The Public Private (listed company) Partnership Model;
- The Macquarie Bank (Pooled fund) Model;
- Not for Profit Housing Company; and
- Low Income Housing Tax Credit Model.

Details are of these models are provided in the following sections.

3.2.1 Model 1 - National Affordable Housing Research Consortium Bonds (Consortium or Bonds) Model

This model is the result of a national committee in 2001 comprising representatives from the housing, building and development industries, trade unions and not-for-profit organisations with consultants including Australian Housing and Urban Research Institute (AHURI), The Allen Consulting Group and Trudeau & Associates.

3.2.1.1 Structure of the Model

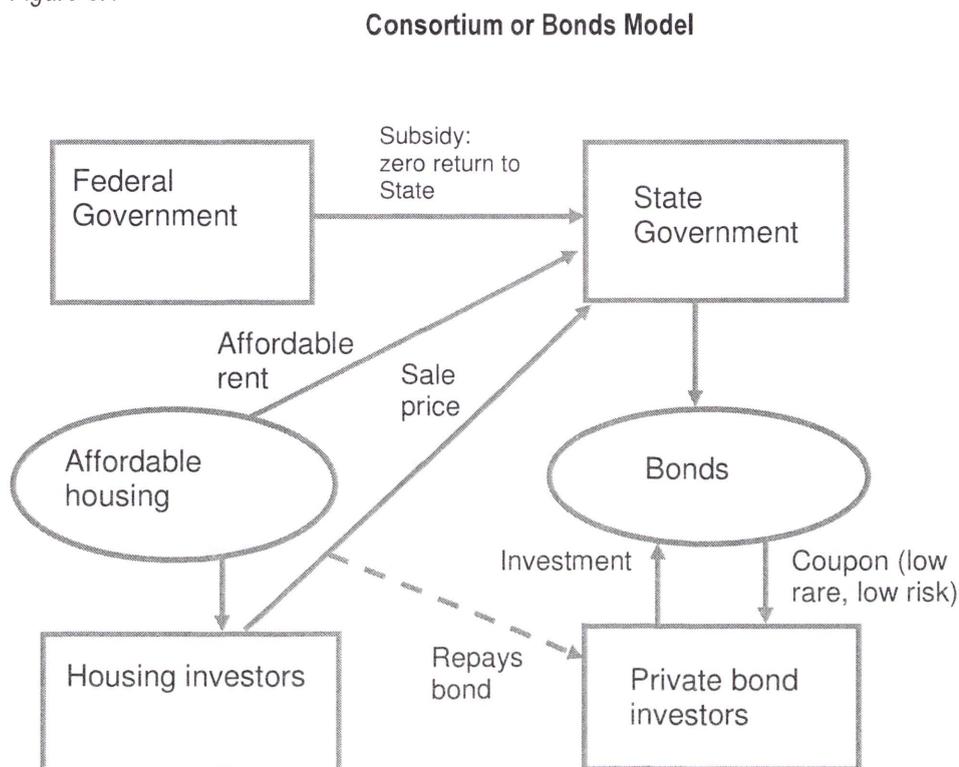
The design features of the model are:

- State governments issue inflation indexed bonds, the proceeds of which are used by State Housing Authorities or other housing providers to fund development of affordable rental housing. The Commonwealth Government guarantees the bonds through a bilateral agreement.
- Bond coupon payments would be paid using net rental returns and government subsidies. These subsidies could be either cash or tax concessions relating to the bond income.
- The participation of the Commonwealth Government, in respect to the guarantee and the additional subsidy, is dependent upon the State governments agreeing to match the value of the Commonwealth's contribution.
- State governments would bear the risk for implementation involved with the administration, construction, management and letting.
- The State Housing Authorities (SHA) will progressively sell off the dwellings after a minimum period when they fall vacant with the funds used to pay back the debt. This programme of disposal keeps the Commonwealth's financial subsidy at a manageable level

(Affordable Housing National Research Consortium 2001; National Community Housing Forum & Australian Housing and Urban Research Institute 2002).

Figure 3.1 graphically shows the above models' structure.

Figure 3.1



3.2.1.2 Beneficial Elements

The degree of leverage of private funds to Federal government subsidy will vary from state to state, depending upon the cost of housing in each jurisdiction. The expected leverage is approximately a 4 to 5 multiple, so that every dollar of government subsidy is matched by 4 to 5 dollars of private funds (Berry & Hall 2005).

This model is expected to generate a large amount of institutional investor interest. This interest is expected as bonds are an investment product which is well known to investors and offers a low risk low return investment product (Allen Group 2004; Berry et al. 2004).

Berry and Hall (2005, p. 106) report the advantages to this scheme to include:

- "A low cost to government;
- A high degree of targeting to need;
- Control over the programme residing with the States and Territories;

- Flexibility, in that changing need can be monitored over time and the new loan transactions brought on-line when required;
- An equitable treatment of households suffering housing stress...
- This approach has the real potential to raise continually very large volumes of private investment from institutional investors."

The transaction is cost neutral to the States provided that the estimated subsidy covers the actual gap between the rental yield and the SHA costs each year (Berry et al. 2004). The uncertainty of the sufficiency of the subsidy therefore represents a risk to the States. The premium for accepting the risk associated with guaranteeing the asset or capital risk is the same for the government as it is for the private sector. Notably the cost of the risk exposure is not reflected as a cost and therefore is not reflected in government budget documents (Allen Group 2004). It therefore makes it easier for the government to accept this risk. The cost of bond financing is cheaper for the government due to higher credit ratings, strong investor demand for the investment products and an established and liquid market for the high credit rated products (Allen Group 2004). Due to the bilateral agreement, the underwriting of the borrowings by the Commonwealth government lowers the cost of the finance while the State governments take the capital risk of repaying the bonds (Allen Group 2004).

The requirement to sell assets in order to repay debt is part of a strategy to maintain the relevance of the housing stock. It is expected that the Commonwealth and the States can at anytime, launch another bond programme release to 'top-up' the existing scheme. This strategy places an onus upon the SHA's to be active managers, buying and selling stock to ensure the relevance to actual demand and requirements (Berry et al. 2004). The past performance of the SHA's would be viewed with scepticism by investors due to a history of passive management with public housing estates.

3.2.1.3 Detrimental Elements

The State governments carry a high level of capital risk which is not the case with the other models (Berry & Hall 2005). As the State's are risk averse, this is seen as a negative to the viability of this model. State entities are responsible for affordable housing developments and are assumed to be under the same taxation treatment as the private sector so there are no tax savings using the Bond model. The Bond model depends upon public borrowings which is considered improbable in a neo-liberal environment where public debt reduction is the ideal (Berry et al. 2004). There is an increased level of skill required by State Housing Authorities to manage the housing portfolio to ensure it is meeting the demands and requirements of affordable housing tenants (Berry et al. 2004).

3.2.1.4 Factors for Consideration

The Australian Government has a very low level of debt when compared to other nations. In 2007 Australia's Federal Government debt is estimated to be 15.2% of its GDP. This percentage of debt is well below the level of OECD countries with 40% (McAuley 2003). This level of debt provides advantages as a buffer against financial world downturns. Nevertheless there remains the ability to fund approximately \$260 billion dollars of infrastructure while still remaining below OECD levels of debt. This level of debt appears lower than prudence would require at the expense of public infrastructure, including affordable housing (Allen Group 2004). This reluctance to fund infrastructure through debt is a hurdle to the political feasibility for this model despite it being the most efficient model. Its efficiency is displayed by leveraging the largest amount of private investment from government dollars.

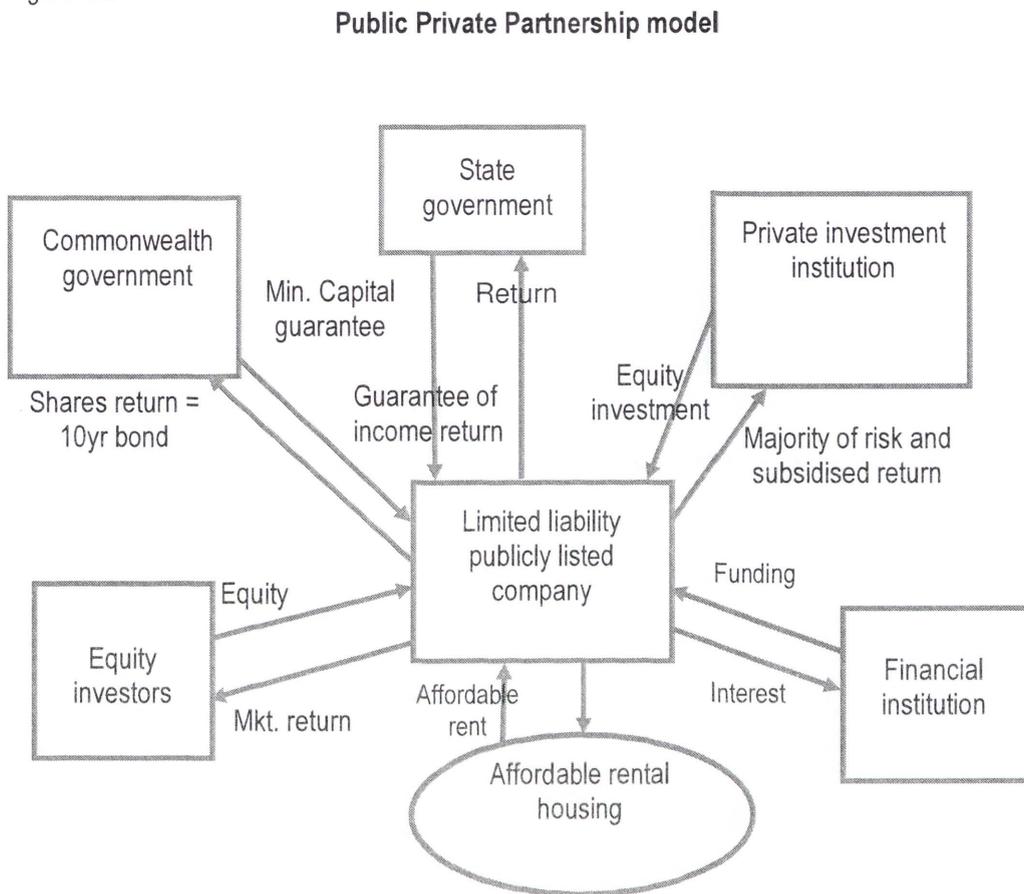
3.2.2 Model 2 - The Public Private (LPT/ listed company) Partnership Model

3.2.2.1 Structure of the Model

This model uses a special purpose vehicle (SPV), either a listed company or a listed property trust, to raise equity or debt to fund affordable housing development. The use of a listed company has tax advantages over a property trust structure. The particular feature of this model is the apportioning of risk to the private partner. This varies from the usual form of a

public private partnership (PPP) where the risk is shared between the government and the private sector (Allen Group 2004). The structure of the model is displayed in Figure 3.2.

Figure 3.2



3.2.2.2 Beneficial Elements

The use of a PPP is designed to employ the abilities and resources of the private sector to innovate and to drive efficiencies and synergies (Allen Group 2004; Gilbertson 2005). PPP's allow for governments to initiate the provision of infrastructure while not incurring any public debt, in times of restricted government budgets (Allen Group 2004).

In practice the operation of PPP's tend to become more efficient as costs fall and benefits increase. Costs fall as expertise is gained negotiating contracts which reduces the transaction costs and innovations in delivery are employed (Allen Group 2004). This benefit is one which

can apply to any of the funding models where the private sector is involved. There is a clear allocation of responsibilities under the PPP agreement (Gilbertson 2005).

3.2.2.3 Detrimental Elements

The apportionment of risk to the private partner requires a premium be paid as compensation which reduces the output from the model. This is coupled by the higher borrowing costs for the private sector relative to that of the government (Allen Group 2004).

The strengths of the PPP model is the innovative proposals suggested as solutions to the affordable rental housing. An example includes the redevelopment of the previous NSW public housing estate at Bonnyrigg, where four private partners were involved with government, and all partners being responsible for certain tasks. But many stakeholders in the current market hold doubts about the attractive yet misleading approaches which will raise the level of perceived risk accompanying this model (Susilawati, Armitage & Skitmore 2005). Such risks are supported by the existence of implementation problems with PPP's which have led to a low applicability when it comes to real projects. This low applicability is despite there being existing government policy and guidelines in place to support these initiatives (Susilawati, Armitage & Skitmore 2005).

An additional inefficiency of this model is the high transaction costs involved, which increases as there is significant risk sharing. These costs arise from the detailed contracts to be negotiated and formalised, and the legal and financial advice. These costs tend to rise along with the complexity of the deal and the size of the project (Allen Group 2004).

In many cases, the PPP deals are treated as commercial-in-confidence which restricts the associated transparency. This lack of transparency will impede the capacity of the sector to improve and grow, and raise the level of perceived risk to investors. This facet of PPP's will restrict the replicability of the model across the sector. PPP's have as a consequence, a reputation for being appropriate for specific developments. The applicability of the model to the large scale development of the affordable housing is therefore questioned (Allen Group 2004).

Australia has experience with PPP's dating back to the 1980's. There has been significant interest across various government departments using this model in respect to the delivery of

defence and transport infrastructure. Nevertheless, there appears to be limited Commonwealth commitment to this approach which may reflect why State governments assume greater responsibility for relevant areas of infrastructure and service delivery using this model (Allen Group 2004). In an environment where the levels of government are dysfunctional, this lack of acceptance of PPP's is seen as a major obstacle to the feasibility of the model. On a State government level, the public sectors capacity to deliver PPP's is increasing, but institutional attitudes still appear indifferent to use of this model. Such indifference may be the result of the associated financial and political risk of PPP's. Notwithstanding, these risks are considered to be lower in respect to their application to the affordable housing sector which may improve the potential for this models success to attract investment (Allen Group 2004).

Due to the probity requirements of Government, the PPP process is lengthy. A current redevelopment programme at Bonnyrigg in NSW, commenced with a Register of Interest which closed in 2002 with the final agreement with the selected party occurring in 2006 (Gilbertson 2005).

3.2.2.4 Factors for Consideration

Malizia (2003 p. 463) supports the use of public private partnerships as the preferred way to complete inner city redevelopments. This support is based on the grounds that the blending of "public and privately sourced debt and equity capital is expected to produce projects which are economically viable, socially beneficial and financially feasible". These outcomes are not restricted to the PPP model and could be said about all of the funding models described.

The partnering of community-based organisations and the public sector can lower the perceived risks of a project through their specialist knowledge and therefore reduce the required equity return. This would facilitate the use of lower capitalisation rates and higher appraised values leading to improvement in a projects viability (Malizia 2003). The benefits derived from engaging the innovation, synergy and efficiency potential of the private sector may outweigh the higher costs of debt and compensation to the private partner for accepting a higher level of risk.

3.2.3 Model 3 - The Macquarie Bank (Pooled fund) Model

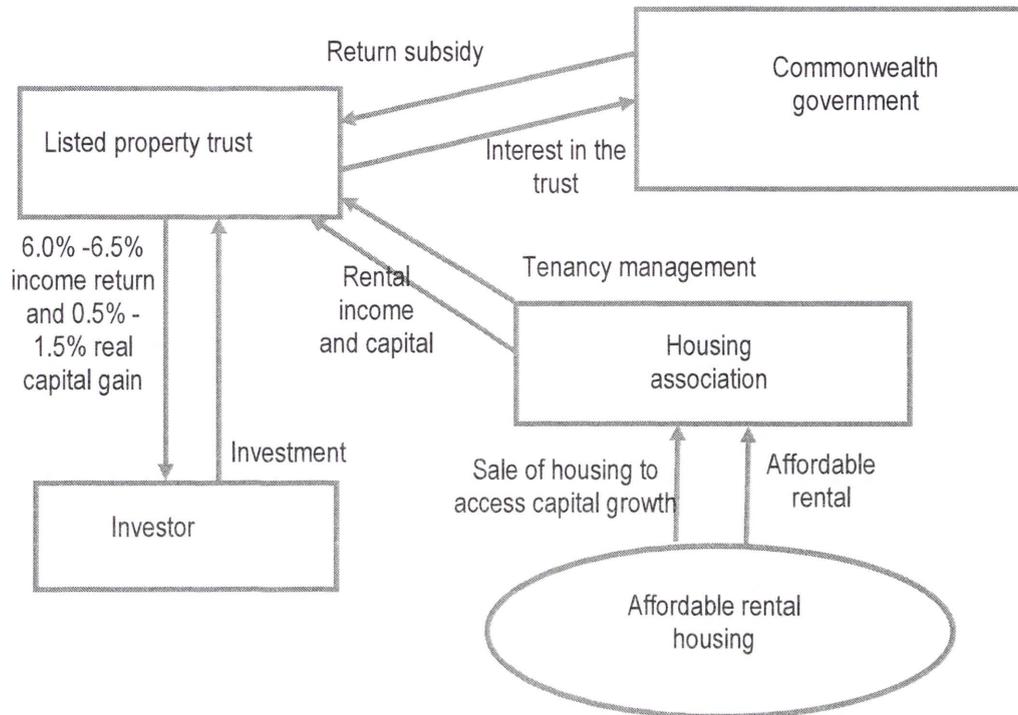
This model is the product of Macquarie Bank suggesting an alternate investment vehicle to harness the professional retail investor. Macquarie Bank provided the parameters of the model to a team of researchers from AHURI at Swinburne-Monash Research Centre who assessed its feasibility and reported on the outcome of the analysis in 2002.

3.2.3.1 Structure of the Model

This model utilises a vehicle managed by a funds manager which would be seeking to achieve a commercial return from residential property. The acquired property and subsequent tenants would be managed by a community housing organisation (CHO) at a fee payable by the fund. The vehicle would operate in a similar way to a property trust in the commercial property sector and the investment would have an equity nature. The fund would target households in receipt of Centrelink payments with annual incomes ranging between \$30,000 and \$40,000 per annum. Rents would be charged at a level designed to produce a yield of 6% to 6.5%. Investors would also benefit from capital gains assumed to be between 0.5% and 1.5% in real terms (Berry et al. 2004).

Macquarie Bank's estimate of the return required by investors, considering the risks and property market inefficiencies, would be in excess of 10% total return pre-tax. This compares to a base case model showing a total return of 6%, inclusive of capital growth, well short of most investors' requirements. A significant government subsidy is therefore required to boost the return to investors. This subsidy would have to be well in excess of that applicable to the Bond model (Berry et al. 2004). Without the necessarily large subsidy, Macquarie Bank concludes the vehicle would only be suitable to 'ethical investors', a class of investors which is currently small in Australia (Berry et al. 2004). The workings of the model is shown in Figure 3.3.

Figure 3.3

Macquarie Bank (Pooled Fund) model**3.2.3.2 Beneficial Elements**

Berry et al (2004, p. 63) states the advantages of the Pooled fund model as:

- “It could aggregate a large volume of small savings;
- A growing stream of finance could be provided for well-organised and professionally run community housing organisations; and
- It provides equity-like investment opportunities akin to commercial property trusts in the residential sector (with diversification benefits to investors).”

An additional benefit to investors seeking residential exposure is the lower capital requirement for investment into residential property (McNelis, Hayward & Bisset 2002).

3.2.3.3 Detrimental Elements

The disadvantages of the Pooled Fund model are:

- The returns generated from the fund are not sufficient to attract private investment without substantial subsidies from the government. This scenario would be very costly with limited leverage of government funds;
- Liquidity would be similar to that of a direct residential investment but it would be less than alternate investments;
- There is a current shortage of suitable community housing organisations; and
- The model does not cater to households with an income below \$30,000 per annum

(Berry et al. 2004; McNelis, Hayward & Bisset 2002).

The motives of operation for a housing association and a listed property trust management are often diametrically opposed therefore the suggested partnering is not expected to be feasible. In addition the listed environment, being largely yield focussed and 'deal' driven, is not compatible with the affordable housing sector which offers a low income return and long term investment characteristics.

3.2.3.4 Factors for Consideration

The Pooled Fund model breaks the attachment which retail investors have with the physical side or the 'bricks and mortar' of the investment. McNelis, Hayward and Bisset (2002) suggest that this element of a residential property investment may not impact upon the level of returns required. An alternate thought is that the attachment, control over and basic trust in the asset provided by the 'bricks and mortar' would lower the required rate of return of the retail investor, therefore a higher rate of return would be required for an investment without these emotive characteristics.

The Pooled Fund would participate on a stage where there are many alternate investments, i.e. the stock market, where investor's expectation of return would tend to be higher (McNelis, Hayward & Bisset 2002). The parameters of the model stipulated by Macquarie Bank, targets tenants with incomes between \$30,000 and \$40,000 per annum to be housed in inner and middle ring suburbs of Melbourne. McNelis, Hayward and Bisset (2002) suggests that returns in these areas are likely to be 3% real. The relevance of these figures to the Sydney market is

doubted with rents required to achieve this level of return resulting in a high amount of housing stress to the tenants. The application of the model in the Sydney market would necessitate a higher subsidy from Government to avoid an increased level of housing stress.

3.2.4 Model 4 - Not for Profit Housing Company Model

There are two main categories of not-for-profit housing companies:

- Government-funded companies (e.g. City West Housing P/L; Brisbane Housing Company Ltd) and
- Independent/ not-for-profit companies/ associations/ cooperatives (e.g. Melbourne Affordable Housing). These corporations originated in welfare or church sectors to assist special or high need clients

(Milligan et al. 2004).

Not-for-profit housing companies primarily focus on providing affordable housing. Nevertheless to continue that activity they need to remain financially viable (McNelis & Burke 2006). The main source of income for not-for-profit housing companies is largely rental income although this avenue is restricted due to the need to keep rentals affordable. To achieve a sufficient revenue stream not-for-profit housing companies use various levers or mechanisms. These include:

- Savings on developer margins (being not-for-profit);
- Equity contribution from Government by way of capital (land and including joint ventures);
- GST exemption;
- Access to Commonwealth Rent Assistance (CRA)
- Receiving the proceeds of developer contributions;
- Planning gains from Inclusionary zoning, density bonuses and planning incentives; and
- Cross subsidising low income with medium income tenants

(Milligan et al. 2004).

3.2.4.1 Structure of the Model

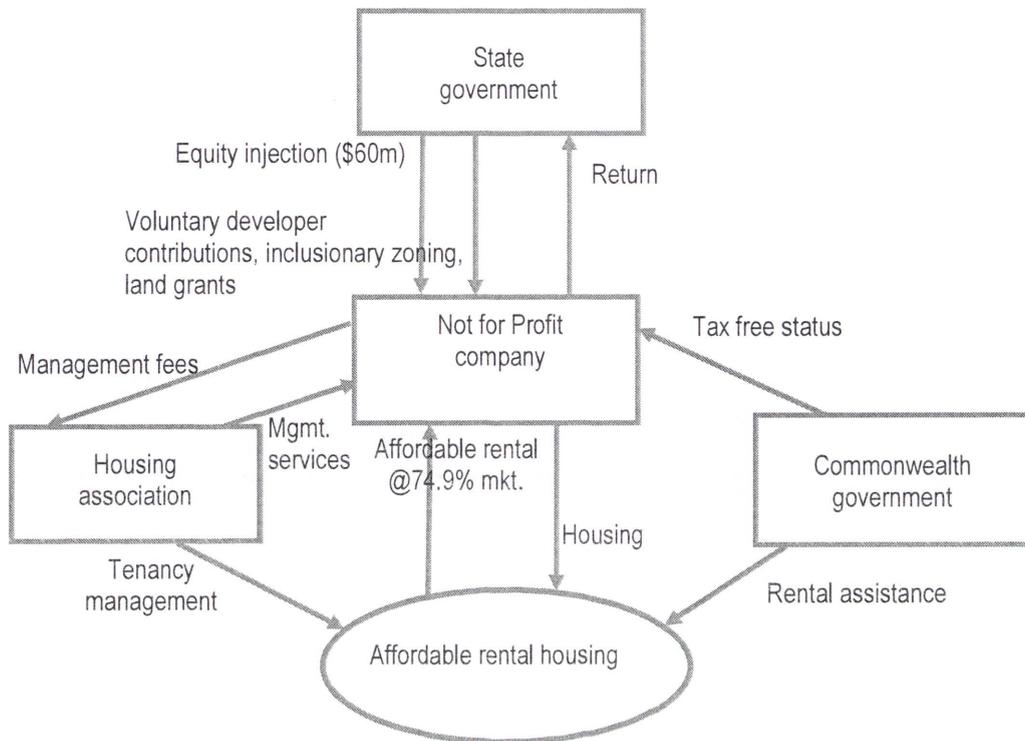
The following structure is based upon the model used by the Brisbane Housing Company, a Not-for-Profit housing company established by the Queensland Government and the Brisbane City Council.

- Creation of a non-profit corporate vehicle to acquire a stock of housing to be let as affordable rents (e.g. 600 dwellings in the City of Brisbane.)
- Government support comes from:
 - An upfront equity 'gift' by State government (\$60 m over the first 4 years)
 - Exemption from income tax and GST
 - Commonwealth rent assistance to eligible tenants
- Private tax deductible donations and voluntary developer contributions are also assumed although at conservative levels.
- The company conservatively leverages (<20%) its equity by borrowing from the private sector- via sale of state government bonds (implied state guarantee).
- Management of the stock acquired will be split between the company and community sector agencies.
- Tenants will pay 74.9% of market rents. Other State initiated not-for-profit housing company's base the rentals on the income of the tenant targeting an overall level of rent being 30% of incomes across the portfolio and using higher rentals to cross subsidise lower income tenants.
- The longer the life of the company the lower the cost to government of the scheme

(Berry & Hall 2002).

A graphical representation of the above structure is shown in Figure 3.4.

Figure 3.4

State Government Established Not-for-Profit Housing Company model**3.2.4.2 Beneficial Elements**

Benefits of the Not-for-Profit model include:

- “The organisations were well designed and housing was built to a high standard;
- Housing was well located;
- Able to take advantage of their tax free status;
- Able to trial new rent setting and allocation models to achieve best rent revenue (and to include CRA);
- Are more flexible, innovative and offer more diversity than the traditional housing associations; and
- Benefit from integrating project design, development and long term management in one agency”

(Cartwright et al. 2006, p. 80).

3.2.4.3 Detrimental Elements

The main issue in respect to the use of the Not-for-Profit model is its limited capacity to create sufficient affordable housing and achieve economies of scale. This is partly because Governments do not have a policy to provide continuing and substantive support for the Not-for-Profit companies (Cartwright et al. 2006).

3.2.4.4 Factors for Consideration

State governments are increasingly looking at not-for-profit housing companies as a way of providing sustainable and more diversified social housing (Cartwright et al. 2006). This attention is the result of falling budgets devoted to social housing in the face of increased numbers of low and moderate income households experiencing housing stress. For this reason, alternative forms of financing and delivering affordable housing, such as the subject models for this research, have been devised (Milligan et al. 2004).

3.2.5 Model 5 - The Tax Credits Model (Based upon US Low Income Housing Tax Credits Model)

Since the introduction in the 1990's of the Low Income Housing Tax Credits (LIHTC) scheme, indirect equity investment into the residential property market has occurred on a large scale by pension funds, mutual funds and insurance companies (Berry & Hall 2005). Aside from this activity there is little direct involvement by institutional investors in the US private rental market, except in the multi-dwelling³ market. Investment occurs through Real Estate Investment Trusts (REIT's) and more typically, through the bundling of tax credits under the model for the financing of investor-developer syndicates which are then on-sold to institutions (Berry & Hall 2005). A similar scheme has been suggested by the recently elected Labor Federal Government in Australia known as the National Rental Affordability Scheme. At the time of this research the scheme was in the process of development and the level of institutional interest had not been determined.

³ An apartment building, or other building that is subdivided into multiple residences. An example could also be a boarding house with share facilities between residents.

3.2.5.1 Structure of the Model

The Tax Credits model is based upon the US LIHTC scheme and uses a specific form of tax concession.

The US LIHTC model operates according to these practices.

- The Federal Government allocates a fixed level of tax credits to the State governments based upon a dollar rate per capita;
- Developers apply for these tax credits in return for the delivery of specified affordable rental housing projects;
- A range of criteria are used to assess the applications beyond affordability and each State has flexibility with these criteria;
- A range of tax credits apply. For those projects involving new or substantial refurbishment, a rate of 9% of the development costs is applied for a period of 10 years. If the project benefits from other government assistance a tax credit of 4% of development costs applies for 10 years;
- The successful bidder then sells these credits, via an ownership interest in the property to private investors. The proceeds are then used as up-front equity for the funding of the project with the benefit of lower funding requirements. These reduced costs allow lower rentals to be charged;
- The low income occupancies must be maintained for 30 years to a portion of the project depending upon the level of income of the occupants. If 20% of the development is occupied by households with an income of 50% below the local median, or 40% of households with incomes 60% below the local median. Rent levels also must be less than 30% of the local median incomes;
- The developer retains an ownership in the property and guarantees the investment performance and the flow of tax credits to the investors; and
- The amount of credit allocated is limited to the amount sufficient to make the property financially feasible, otherwise known as the equity gap. This is amount of equity the property needs to complete its capital requirements

(Allen Group 2004; Hobart & Schwartz 2000).

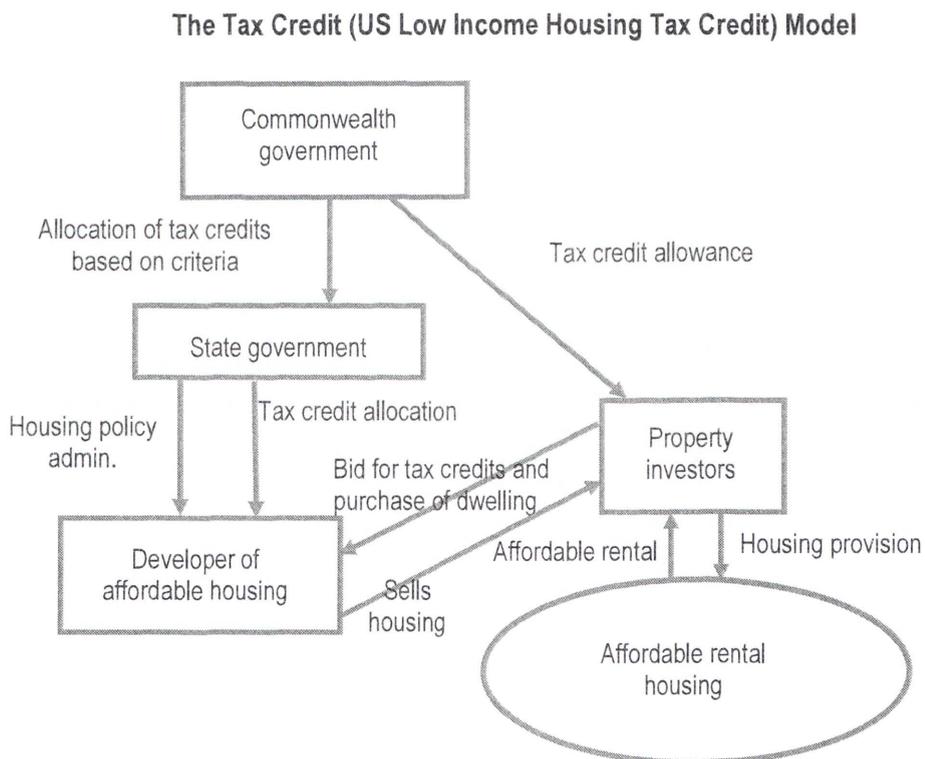
The allocation of tax credits to the States and Territories based upon a per capita basis would not be appropriate in Australia due to the different hurdles for participating in affordable housing

markets across jurisdictions. These hurdles vary due to the differing levels of land supply, the cost of land and construction costs and market values for residential property. Property markets suffer from varying levels of housing stress due to the unique characteristics of that market and should attract a higher amount of subsidy accordingly.

Similar to the PPP model, the Tax Credits model allocates market risk to the private sector. A feature of the Tax Credits model is the involvement of three levels of government. The Commonwealth's contribution is capped, the State and Territory governments administer the housing policy and due to competition, local governments are often partnering with developers to produce high quality proposals (Allen Group 2004).

The structure of the Tax Credit model is shown in Figure 3.5.

Figure 3.5



The LIHTC model provides a tax credit for a period of 10 years on new rental housing provided a proportion of the development is let at sub-market rents (Berry & Hall 2005). Investor' demand is such that they are willing to pay close to the present value of the ten-year

stream of credits, which ranges between 60 to 70 cents in the credit dollar (Hobart & Schwartz 2000).

3.2.5.2 Beneficial Elements

The scheme has been operating in the US for over 19 years and despite significant compliance costs and complex packaging, addition benefits are flowing from the projects. These benefits include raised standards above a minimum and the inclusion of practices to enhance the social elements within the projects (Allen Group 2004). Selective demand by institutional investors has occurred despite the amount of interested equity investors exceeding the supply of product from developers. Investors have been very thorough with their due diligence process and continued to look for the quality developments on offer (Hobart & Schwartz 2000). This experience highlights investors' desire for quality assets for their investment portfolios over the desire to invest. Ultimately this will impact upon the product supplied to the market which appears to have happened. The improvements to housing provision standards and successful management practices are rapidly emulated due to the strong network within jurisdictions in the US (Allen Group 2004).

Tax credits are likely to generate significant demand from the investment community as people show strong interest in tax minimisation despite an element of political risk of the duration of the policy attached to it (Allen Group 2004). Demand is also expected to be heightened as the Tax Credit model is a standardised scheme and does not have the complexity of the PPP model. Investors should find the Tax Credits model easier to understand and implement (Allen Group 2004). The reduced complexity is also expected to lower the cost of transactions than those for the PPP model. Savings arise as the tax credits are fixed which negates the need for a contract negotiation phase, with the award based upon the merits of the project (Allen Group 2004).

The tax credit is unlike other tax concessions and is applied on a dollar and not an income offset basis and is therefore a more equitable basis as it benefits different classes of investors equally, unlike an income offset basis where investors on high incomes derive a higher benefit (Allen Group 2004). This basis makes it easier for the total tax subsidy to be capped which relieves the risk of government budget blow outs (Berry 2003). There may still be an increase in the cost of the subsidy above that allowed as financial structures may be able to leverage additional taxation benefits in schemes which benefit from the initial tax concession. This risk

has caused reluctance within the Commonwealth government previously for similar proposed schemes which involved these practices (Allen Group 2004).

3.2.5.3 Detrimental Elements

The Tax Credits model attempts to maximise the benefits for a predetermined cost and therefore has an inability to meet changing development circumstances. This contrasts to the PPP model where the successful projects are assessed on a combination of benefits and subsidy. This leads to a situation under the Tax Credit model where projects are concentrated in poor neighbourhoods (Allen Group 2004).

The cost of borrowing for the Tax Credits scheme, like the PPP model, is higher than the Bonds model. These higher costs arise from the involvement of private financiers who have a higher cost of capital. Higher costs also arise from the need for a high level of surveillance to ensure compliance with government conditions under the scheme. Such surveillance is required as there is the possibility of fraud via benefits claimed on stock not rented at affordable rents (Berry 2003). A raised compliance requirement adds to the complexity of the programme which can be confusing to private developers and this may present as a disincentive to their participation (Hobart & Schwartz 2000).

Wood (2004) suggests the Tax Credits scheme would have a modest impact on housing stress as governments would reduce direct demand subsidies, such as Rent Assistance, to compensate for the cost of the new programme. A limited government budget necessitates that allocations towards housing affordability will not be increased as new programmes are introduced. However as tax concessions do not appear on the expenditure side of the government accounts, there appears to be less danger of this scheme impacting upon existing demand subsidies than other models discussed in this research.

From a political philosophical position, the Tax Credits model appears to be politically unfeasible as it contradicts the existing fiscal philosophy of government central agencies who are winding back the use of special tax concessions (Berry 2003). The recent proposition of the Commonwealth's National Rental Assistance Scheme would seem to contradict that view.

3.2.5.4 Factors for Consideration

The Tax Credit model is designed for the low income tenant market but middle to high income tenants may occupy some of these properties as landlords pick the tenants, thus reducing the benefits of the scheme (Wood, Watson & Flateau 2004). This model requires an increased monitoring of tenants income. However as landlords are eligible for the tax credit regardless of the income of the tenant, there is little incentive to undertake this additional monitoring. This is particularly so as the quality of the cash flow may be perceived as of a higher quality coming from higher income tenants. This need for additional monitoring could be said to arise with all affordable housing properties, where there is no requirement to target tenants by income and where housing associations are not involved in the management of the properties (Wood, Watson & Flateau 2004). An appropriate tenant management programme is therefore required to compliment this model.

Developers in the LIHTC model play an important role although their activity can be a negative. A characteristic of developers is their desire for short term involvement in projects. Therefore the continuing involvement of the developer for the period of the tax credits (ten years) appears opposed to their usual requirements. To compensate for this added liability and commitment there needs to be an incentive paid. Part of this incentive can come through developers using the residual cash flow for their own benefit. Such compensation could be seen as leakage from the affordable housing sector which other models may have been able to capture (Hobart & Schwartz 2000).

Consideration of the past and current government housing policies designed to induce the private sector to supply rental accommodation provides an indication of the Governments' preferred means of assistance for the sector. The main policies assisting investors are tax concessions including negative gearing and depreciation allowances. The use of tax concessions such as those used with the Tax Credit model is therefore favoured over direct government expenditure (Wilson & Turnbull 2000). A means of supplementing the foregone tax income of the scheme could be through the replacement of the existing depreciation allowance for new rental construction at zero cost, most of which is applied to the upper end of the apartment market (Seelig 2004).

3.3 Key Features of the Affordable Housing Funding Models

Berry (2002) provides a broad method for distinguishing the funding models. Each of the funding models requires a means of financing. This financing means falls into two categories: debt and equity. A third category exists when there is a combination of both debt and equity. Considering each model's means of financing identifies various features which are shown in Table 3.1.

Table 3.1

Comparison of the Affordable Housing Funding Models Means of Financing

Funding Model	Financing Means	Source of Finance
Consortium or Bonds	Debt	Sole Government involvement and liability
Public Private Partnership	Debt / Equity	Debt is sourced from the private sector and equity is split between the government and the private partner through the public company structure, with private investor equity in the company
Not for Profit Housing Company	Debt / Equity	Equity is provided by the government which allows for limited raising of equity from the private sector
Pooled Fund	Equity	Equity is provided by private investors with government holding an equity interest
Tax Credit	Equity	Equity is solely from the private sector

Consideration of the Table 3.1 identifies the Consortium or Bonds model as the only model with sole government involvement and therefore all the liability of the scheme rests with the government. At the other end of the financing spectrum, the Tax Credits model is the only model where the private sector is the sole source of finance and therefore accepts all of the risk with the provision of housing. The other models result in a sharing of the liability between government and the private sector.

Looking more closely at the detail of each model the Allen Group (2004) suggested a number of measures for categorising the funding models. These measures are grouped as follows:

- Estimation of the gross financing gap-
 - Risk allocations, borrowing costs, transaction costs and the base case which is representative of a broad spectrum of investors.
- Estimation of the net government impact-
 - Taxation revenue clawbacks⁴ and displacement effects⁵
- Impacts of additional investment on the economy and the housing market.

The above measures provide a thorough means for quantitatively assessing the models cost and benefits however they do not consider the qualitative aspects of the schemes and the proposed stakeholders. Such qualitative aspects includes the attitude for acceptance of risk, either by the government or private investors, how the models fit with the governments philosophy nor the risk associated with each model, such as the market it operates in. The Allen Group (2004) have not mentioned the aspects which impact upon the viability of the funding models. These aspects relate to their structure, risk sharing and stakeholders involved. Stakeholders are an important element as some of the partnerships may not be considered compatible. For example, the partnering of the State Government and the private sector for the delivery of affordable housing are referred to as "an uneasy pairing" due to the apparent conflict of interests involved (Phillips 2006).

⁴ Taxation revenue clawbacks refers the tax payments which the government will receive as a result of the operation of the affordable housing model e.g. increased construction worker taxation.

⁵ Displacement effects are the activities which will not be undertaken or which will be modified as a result of the adoption of the funding model e.g. private sector housing which may not be built as a result of the provision of affordable housing. The result of this displacement may cause reduced revenues to the government.

An alternate means of categorising the main features for each of the models considered are included in Table 3.2

Table 3.2

Affordable Housing Funding Models: Key Features

Features/ Models	Consortium or Bonds	Public Private Partnership	Pooled Fund	Not-for-Profit Housing Company	Tax Credits
Subsidy form	State Government issued debt with Federal guarantee and tax free interest. Unrestricted liability to government	Government guaranteed subsidy of rental return and Federal government accepts capital risk. Unrestricted liability government	Government subsidy to boost income return. Unrestricted liability to government	Initial State Government grant plus developer contributions and private funding. Limited liability to government	Tax concession. Limited liability to government.
Efficiency	Lowest cost of capital due to high credit rating of government raises efficiency	Government involvement improves credit rating and lowers the cost of capital with strong private sector innovation potential	High rate of return required due to listed environment raises costs. High private sector innovation potential	Lower costs from tax free status and low risk. Limited gearing and innovation potential	Use of housing authorities not for profit status raises efficiency with private sector innovation potential
Funding source	Bond investors	Publicly listed company investment, initially by government and private partner at high cost, then from equity investors	Publicly listed property trust investment with partial government investment	State government grants, private debt funding and developer levies for planning bonuses	Purchasers of dwellings with approved tax credits via private financiers
Partnering involved	Federal and State Governments	Federal, State governments and private company or not for profit housing manager	Federal /State government with listed trust manager and not for profit housing manager	State with not for profit housing company	Federal, and State governments with not for profit housing manager
Housing provider	State authority	Private company	Private listed trust	Not-for-Profit company	Private developers
Political philosophy consideration	Provision of assets is contrary to policy. Known model for infrastructure	Provision of assets is contrary to policy. Known model for infrastructure	Assistance of market supplied asset is appropriate. Known model for property.	Provision of assets is contrary to policy. Used by State government	Assistance of market supplied asset is appropriate. Model used overseas
Scale potential	High as investor interest is strong	Moderate as project based model and not applicable to large scale roll out	High as easy to replicate and known model	Limited due to restricted funding sources and low private sector involvement	Moderate as complexity and compliance may restrict participation

Considering the features for each model in Table 3.2 reveals the models which have acceptable features from a governments' perspective. Considering the form of subsidy, only the Not for Profit and the Tax Credit models have limited liability which is highly desirable however the Not for Profit model has a limited capacity to improve supply. On an efficiency basis, the Bonds model exceeds all other models on a cost of capital basis except it lacks the potential for private sector innovation to drive improved systems and housing standards delivery. On a funding source basis, the Bonds and the Tax Credits model are the only models which do not involve the government for funding. As for partnering, the potential for conflict is considered least with the Not for Profit model as there is only one level of government involved, although the Pooled Fund model involves the a listed vehicle with a not for profit manager which is considered to be incompatible. Most models use the private sector for housing provision and should benefit accordingly with only the Bonds model using a public authority whose reputation is marred by past public housing experiences and little experience beyond that sphere. On the grounds of the political philosophy most models except for the Pooled Fund and Tax Credits models are discounted as they involve the government intervening in the markets operation by providing the housing assets.

Some of the practical assumptions common to the models reviewed include;

- Governments are assumed to require management by recognised affordable housing associations. These will be responsible for tenant selection.
- Head leases with these housing associations would specify tenancy and maintenance standards plus incentives for excellence.
- It is generally assumed that vacancies will be low as the lower rental will attract a higher demand. This will have an impact upon the rental revenue

(Allen Group 2004).

3.3.1 Estimates of cost-effectiveness

According to the Allen Group (2004) the Bonds model was the lowest cost option followed by the Tax Credits model and the Partnerships model. It is expected the Pooled Fund and the Not-for-Profit models represent reduced cost effectiveness, although these models were not

assessed by the Allen Group. This lower cost effectiveness is thought to arise from the high rate of return required to operate in a listed property trust environment for the Pooled Fund model necessitating a higher subsidy (Berry et al. 2004). The Not-for Profit Housing company model involves large upfront costs to the government and limited private debt funding. The Not-for-Profit companies also depend heavily upon Government annual grants to compliment their rent revenue (Milligan et al. 2004). The Not-for-Profit model nevertheless benefits from a tax free status which improves its cost effectiveness (Cartwright et al. 2006).

The Bonds model has the lowest financing gap, followed by the Tax Credits model and the Partnership model. All three models have a net financing gap range between 3% and 4% as a percentage of the property value (Allen Group 2004). The financing gap is the difference between the derived return from the property when provided by the relevant fund model and the required rate of return of investors. Over coming this financing gap is likely to be a key aspect of any funding model adopted in Australia.

On a net subsidy cost in dollars per household assisted per annum, the same order of effectiveness of the models applies as above; the Bonds model, followed by the Tax Credit model and the Partnerships model. The amount of net subsidy per household required for each of these three models ranges from \$5,000 to \$8,000 per annum. This cost to government is reduced due to taxation revenues from the investment of around \$1,300 per annum for the Bonds model (Allen Group 2004).

As the cost effectiveness of the Pooled and Not-for-Profit models are lower the financing gap and net subsidy per household per annum is expected to be higher than the other models assessed by the Allen Group. The comparison shows that none of the reviewed models satisfy all criteria. This produces the necessity of identifying which facets of the models are predominant to stakeholders. As all models produce a sufficient return, attention must focus on which risk or other stakeholder requirements are vital in determining a models' viability.

3.4 Summary

This chapter reviewed the literature specifically related to the five funding models which were the subject of this research. An introduction to the funding models was provided which included an outline for their necessity, aims, and requirements.

All of the funding models were noted to require a government subsidy. Variation across the models occurred regarding how the subsidy was treated and the determinants which gave rise to the need for and the quantum of the subsidy. The variation arose from the differing structures and participants involved in the funding and housing provision process. The treatment of risk was a key determinant for the amount of the subsidy required. Details on the various forms a subsidy can take were also provided.

The assumed provision of a subsidy for all the models reviewed is sufficient to produce a return which is attractive to institutional investors. Berry (Berry & Hall 2002) states that institutional investors need an investment or asset class to provide the opportunity for large scale investment and that the Bonds, PPP and Not-for-Profit Housing company models achieve this goal. The Tax Credits and Pooled Fund models also achieve this end (Allen Group 2004). The models do not vary on this critical point, although the Not-for-Profit model has a reduced return. It is the means of achieving the acceptable return and the potential for providing for a volume of finance which varies between models. Each model has attractive elements, such as government bond security (Bonds), or a model which has been implemented successfully overseas (Tax Credits), or a model which is well known to domestic markets and readily adopted (Pooled Funds) and appeals to different sections of the investment community and government. It is this similarity of the models which causes the dilemma of which model is most viable. Berry (Berry & Hall 2002, p. viii) goes further referring to the Bond, PPP and Not-for-Profit models as all being viable. It is suggested however that viability goes beyond what could 'work' to consider which model provides the best fit to the current circumstances and the main determinants which government' and investment communities' decisions hinge on. This is succinctly stated as:

(Berry & Hall 2002, p. 30).

The Allen Group (2004) provided financial assessments of three of the funding models, the Bonds, Partnership and Tax Credits models which was referred to as means of understanding the relative strengths of each model and their outputs. The Pooled and Not-for-Profit models are considered against the Allen Groups financial assessment when sufficient information was provided from the literature. This information is provided to give the reader a perspective of all five models.

A detailed review of the model's main features was completed considering each of the funding models operational structure, main beneficial and detrimental elements. The review concluded with a review of other factors which may impact a models' potential viability. The need for identification of the predominant requirements of stakeholders, apart from return, for a model to be viable was highlighted.

The 'best' model as determined from financial assessment was the Bonds model, followed by the Partnership, Tax Credit, Pooled Fund and Not-for-Profit models. This determination was based upon the cost effectiveness and the ability of being able to address the need of providing a significant amount of affordable housing. Basing the feasibility and viability of a model solely on the level of cost effectiveness was seen to lack account of other important factors, such as the political appropriateness of the schemes. These other factors are considered crucial in terms of providing a clearer understanding of what is the most viable funding model for affordable rental housing in the current Australian marketplace.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 Introduction

This chapter explains the reasons for the selected research methodology and details the procedures used for the analysis of the data. The rigour applied and techniques adopted will be shown to be appropriate to the research task and the output suitable for assessing the funding models as previously detailed in Chapter Three. A conceptual framework which was the basis for the interview questions is considered along with the main issues of the research task explored. The procedural requirements of the research, being the sources of data, pilot study, interviews and data recording are considered followed by a discussion of the validity and reliability of the research. Concluding this chapter is an explanation for the use of the computer programme employed for the analysis, being NVivo version 9, manufactured by QSR International.

4.2 Justification for the Research Methodology

There are two broad components which are at the centre of an informed investment decision: an understanding of the unique business dynamics relative to the investment and a suitable financial model (Stake & Trumbull 1982). The literature review, discussed the need for, structure of, and the social and economic benefits from, various funding models for affordable rental housing. A lot of research focuses on the quantitative or numerical aspects of the problem and pose possible financial solutions (Lincoln & Guba 1985). While this financial information is important, it is only half of the process, evidenced by the limited response from the affordable housing stakeholders in Australia. The business dynamics also need to be understood, as a funding model has to match these in order to be viable in this current

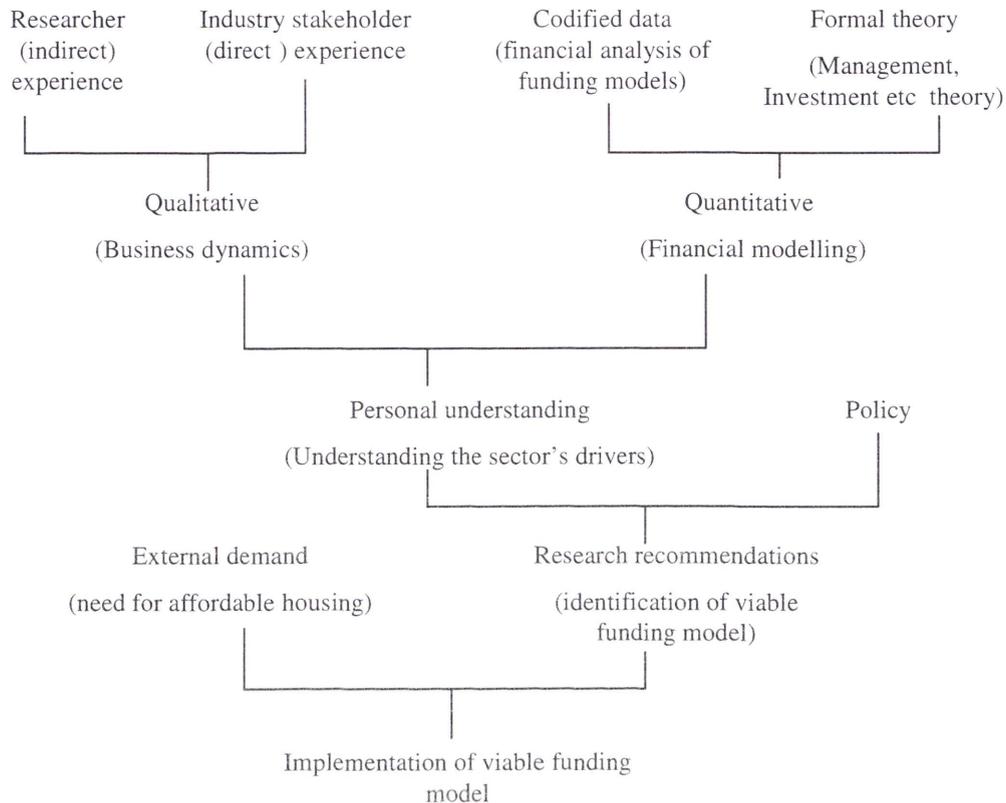
economic and political climate. Identifying these fundamentals is essential to determine which funding model is the most appropriate for the Australian market.

Understanding the market dynamics is not straight forward as the housing market and in particular, the affordable rental housing sector, is a complex structure of government policy, social factors, commercial relationships, investment expectations, needs and desires. A flexible and less structured research technique is better placed than a quantitative approach to address those issues. Non-numerical data helps to understand the dynamics of the sector and to gain a new perspective that is based on more than financial feasibility. A qualitative approach used data collected from interviews with industry stakeholders to describe the market from their perspective (Heath 1997; Strauss & Corbin 1990).

The components associated with the decision process for investment into affordable housing are shown in Figure 4.1.

Figure 4.1-

The Components of Affordable Rental Housing Funding Investment Decisions



Adapted: Stake and Trumbull (1982)

Figure 4.1 shows the need for two broad approaches of research, qualitative and quantitative, in the process of determining the best investment decision. Both methods are used to address different types of issues and both compliment the understanding of the industry as a whole. It is important to match this understanding with a corporate policy, which provides the necessary motivation for identifying a viable funding model to recommend. Success also depends on appropriate demand for additional investment in affordable rental housing which will drive further investment resulting in the implementation of the viable the funding model (Stake & Trumbull 1982).

An understanding of the qualitative aspects of the decision process appeared inadequate and it was believed that this could be one of the reasons for a lack of funding in the affordable rental

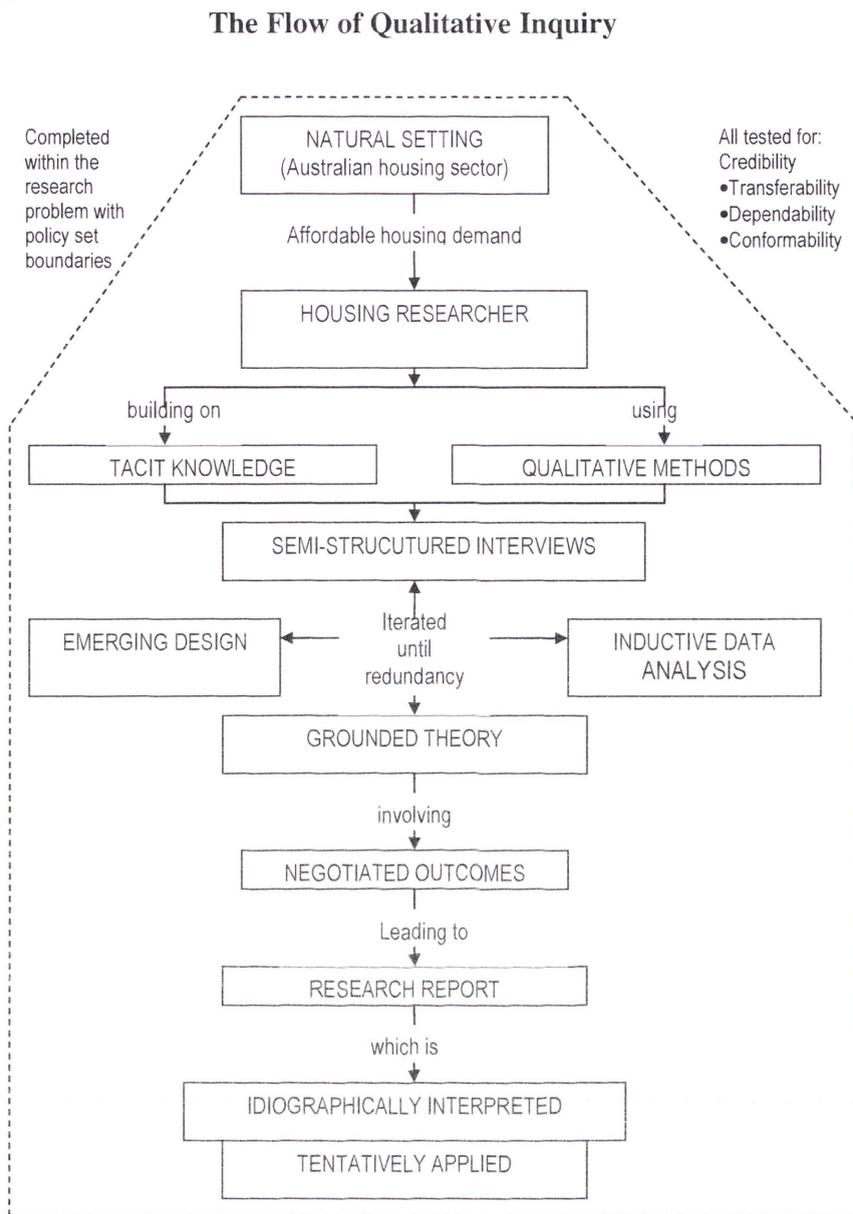
housing market in Australia. This belief led to the re-examination of the dynamic business issues intuitively, assisted by added experience of the researcher, for the identification of the barriers for investment (Stake & Trumbull 1982).

4.2.1 Research Design

The benefit of a qualitative approach for this research is the ability to allow the researcher to observe without imposing meaning (Silverman 2004). Approaching the research with a limited amount of predefined methods and avoiding early conclusions allowed the researcher to be open to unsuspected discoveries which could have otherwise been missed (Miles & Huberman 1984).

The issue of designing the research programme in advance, to ensure the efficient completion of the research, was therefore removed in favour of a more progressive or developmental process. This type of research progress is characteristic of a qualitative inquiry which is depicted in Figure 4.2.

Figure 4.2



Amended from Lincoln and Guba (1985, p. 188)

A qualitative inquiry allows for themes to develop unhindered which represent the 'best fit' to the data referred to as 'negotiated outcomes' in the Figure 4.2. Such freedom may result in conclusions which are in disagreement with the current thinking. To avoid contempt for this research, as far as the available resources allowed, the inquiry was completed with due diligence to lessen the risk of error (Lincoln & Guba 1985).

4.2.2 Grounded Theory

The need for a grounded theory approach was reflected in the need to step behind the obvious reasons for the insufficient funding of affordable rental housing. The strength of grounded theory is the potential to assist the researcher to break through biases and assumptions brought to the research process to locate the underlying issues (Palmer et al. 2004; Strauss & Corbin 1990).

Grounded theory also favours 'cooperative relationships'. These relationships are best defined as "soft" core concepts and as such are best identified through *exploratory* research, which is a strength of grounded theory (Parkhe 1993). Cooperative relationships have been reported to be one option for successfully delivering affordable rental housing.

4.2.3 Conceptual Framework

The conceptual framework provided three functions which were important to the progress of the research:

- a representation of the broad interview guide approach for the researcher;
- a visual depiction of the relationships within the housing sector. The analysis and description of those relationships were central to the research task; and
- an outline of the key issues impacting the sector

(Miles & Huberman 1994).

The interviews were based upon a conceptual framework, depicted in Figure 4.3. The conceptual framework evolved out of the literature and pilot studies.

Figure 4.3

Conceptual framework of the interview process

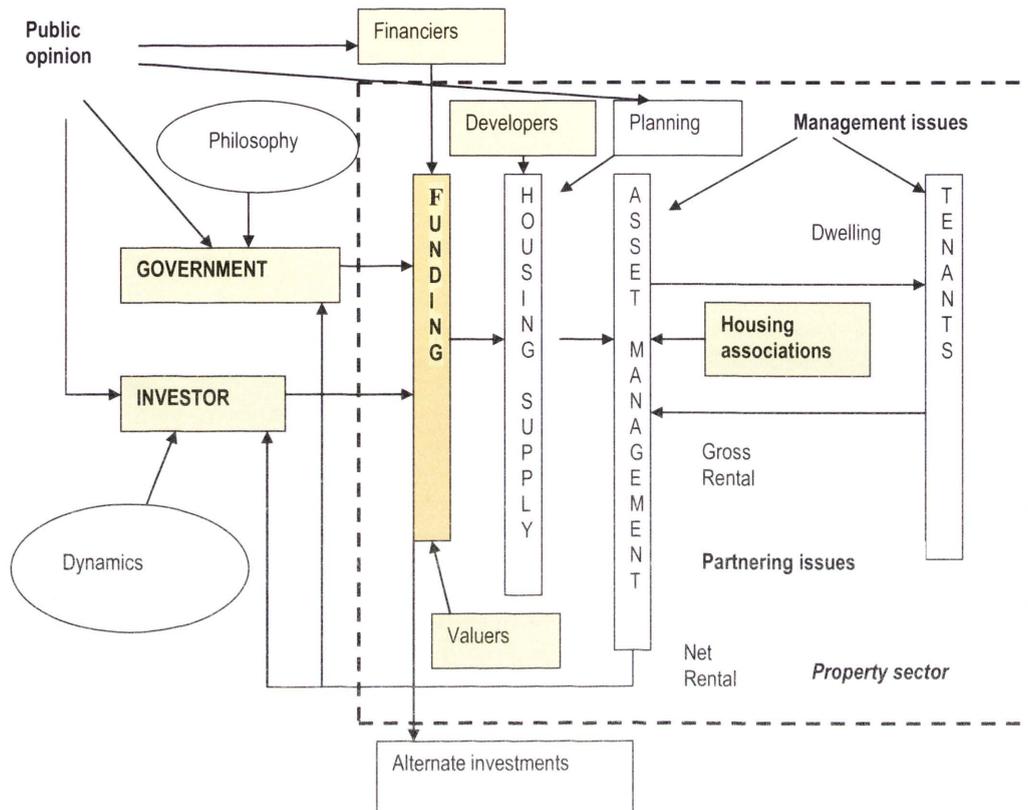


Figure 4.3 shows there are various factors impacting upon the affordable housing sector and the flow of funds for the provision of new dwellings. These factors, such as public opinion, management and partnering issues, investors' dynamics and the governments' philosophy, are all external to the funding activity itself. Nevertheless these factors need to be understood and accommodated for in order access investment into the sector. The concepts shown in Figure 4.3 were explored during the interviews and their importance to securing funding for the supply of affordable rental housing.

4.2.4 Triangulation Methodology

A mixed methods approach, based on a survey with the intent of using a triangulation process to enhance and confirm the research findings was used. Further benefits were obtained with this approach as the survey questions forced the participants to focus on differing, although

complimentary questions within the study. Participants needed to consider the issues in a more defined manner and the survey also encouraged them to consider broader issues and encouraged their creativity. The responses to the survey were also used to reflect upon certain interview questions to derive a better understanding of other responses (Arksey & Knight 1999).

Completing the survey also highlighted the benefits of grounded theory. In many cases, the constant comparison of the interview data undertaken for the grounded theory analysis contradicted some of the survey answers. This anomaly is assumed to have occurred as a result of the social issues involved in study. Participants appear to have provided a 'politically correct' answer while analysis of the responses revealed alternate and emotive beliefs.

4.3 Research Procedures

4.3.1 Introduction

The initial part of this chapter clarified the choice of research paradigm and methodology. The following section discusses how these methodologies were applied to the research task. Specific details on the means of collecting the data and the type of data collected as well as the method and means of analysis are described.

4.3.2 Research Instruments

4.3.2.1 Pilot study

The pilot study was completed to review the results of the literature review and determined whether there were any gaps in the understanding of the researcher. The study also alerted the researcher to key issues and continued a process of raising theoretical sensitivity which continued through the interview process (Strauss & Corbin 1990). Following the pilot study, the outcomes were considered and the questionnaire guides revised accordingly.

Participants in the pilot study were a sub-set of the intended study population plus other industry informants which included:

- Housing association manager;
- Community housing director;
- Urban planner; and
- Sociology lecturer.

The sample group for the interviews had been designed to include as many perspectives as possible of the research problem.

4.3.2.2 Survey

The interview participant meetings included the completion of a Likert ranking scale survey. In addition to the ranking response, participants were asked for the reason supporting their choice. The reasoning was considered important to obtain further insights not provided from the use of open-ended questions (Arksey & Knight 1999; De Vaus 2002).

The survey was used during the interview process for a number of reasons:

- to encourage the respondent to rate the importance of key issues in relation to certain aspects of funding models;
- to force the respondent to think about certain issues which were considered vital to the funding models' construct; and
- to enable triangulation within the research and to graphically compare the ratings of the respondents

(Susilawati, Armitage & Skitmore 2005).

The use of a survey in qualitative interviews is recommended as ideally the two sets of answers reinforce each other (Arksey & Knight 1999). In this instance the survey provided some variation from the analysed interview conclusions.

The survey consisted of ten closed questions, a copy of which is included in the appendices.

The results from the survey were mixed as the objective of the mid-point was to avoid uncertain answers or indications of ambivalence. This objective failed and some of the respondents chose a ranking of 3 as a neutral or undecided position. Others indicated certain questions as

not able to be ranked, as they were obligatory, or a basic requirement for the operation of a property portfolio/ property fund. There was limited success in some cases as participants failed to respond to the questionnaire with consistency which resulted at times, in a vague outcome. The ranking activity successfully focussed the thinking of the participants on key issues of the funding models to which they expanded upon.

As the focus of the research is on the Sydney market, the majority of the stakeholders were within a convenient distance. Four interviews were completed over the telephone due to participants' schedules limiting their availability and the location of some stakeholders (De Vaus 2002).

4.3.3 Interview Participants

In order to consider the breadth and reliability of the data, a description of the interview participants' stakeholder group represented during the interviews are provided in the following Table 4.1. Specific details are not provided for the purpose of ensuring anonymity.

Table 4.1

Interview Participant Description

Hierarchy of Response	Case study-Stakeholder group	Definition	No. of interviews completed
Primary Views	Investors	Private affordable rental housing investor, residential property trust manager, property financier, board member of a superannuation fund, asset consultant, Listed property trust business development manager, credit analyst	10
	Managers	Not for profit affordable housing company, housing association group	2
	Authorities	Housing officer from a local government, deputy mayor of a local government, director of community services of a local government, state government affordable housing representative	5
	Developers	State development authority, private affordable housing developer and fund manager, Listed property trust developer	2
Secondary Views	Occupants	Tenant representative body	1
	Valuer	Principal of a national property valuation company	1
		Total	21

The primary stakeholder groups were considered as vital to the process of funding and the provision of affordable rental housing. These stakeholders were seen to have the most influence upon the investment decision process and whose opinions were considered to be of greater importance regarding the best funding models. The secondary stakeholders were recognised as having a role in the affordable rental housing process however their influence upon the investment decisions was considered to be less.

The interview participants were identified as being prominent practitioners in their field of practice. Others were recommended as key sources of relevant information and experience by

informants during the Pilot Study and as the interviews progressed, using a snowballing technique (Arksey & Knight 1999; McCracken 1988; Perry 2002).

4.3.3.1 Sample size

The views from a minimum of two participants from each primary stakeholder group were obtained to enable comparison and to highlight any inconsistencies. Comparative interviews were not completed for secondary stakeholders whose opinions were not as crucial to the funding decision. Due to the centrality of the investor interest to the research question, a larger number of investor interviews were completed. In addition the diversity of this group necessitated an increased number of interviews to obtain a breadth of views from both institutional and other private investors. The second most numerous interviews completed were with the authorities or government group. This group was seen as important particularly on the issue of a subsidy, however did not require as many interviews due to a reduced diversity of opinions (Yin 2003).

Twenty one interviews were completed with representatives of the primary stakeholder groups and two interviews from the secondary group. The number of interviews was considered sufficient as evidenced by a redundancy of information following the analysis and a sharp fall of new information being obtained from the latter interviews (Arksey & Knight 1999; McCracken 1988; Perry 2002). The redundancy of information is an important aspect of the analysis of data using grounded theory.

4.3.4 Data Analysis

The application of grounded theory involved an iterative process to establish categories that addressed the research questions, while considering the research literature, and allowed the data to be coded in a meaningful way. These categories needed to be specific to be meaningful and yet broad enough to allow sufficient data to be coded (Arksey & Knight 1999).

Links were sought between the categories and emerging concepts explored while keeping in mind the research goals. Significance was placed upon the stated priorities of the stakeholders

in respect to the required changes to policies and practices that would be required to address the issues (Arksey & Knight 1999).

Coding of the first, and progressively each succeeding interview, raised issues relating to suitable categories for further research that were explored in subsequent interviews (Strauss & Corbin 1990). This however was not always possible due to the finite number of interviews completed. Fortunately some of the latter participants possessed a broader knowledge of the affordable housing sector and could respond to queries assumed to be outside of their experience.

As the analysis progressed and the categories into which the data was sorted expanded, there was a risk that too many categories may have resulted in fundamentally different concepts being overlooked (Asher & Midwest Political Science Association (U.S.) 1984). At one stage in the analysis a complete revision and verification of the coding was required. The strategy was subsequently adopted that as the concepts were derived or observed, they were subject to a series of testing to ensure they were applicable. In addition, during the course of the analysis, the apparent theories were regularly checked against the known data (Strauss & Corbin 1990).

4.3.4.1 Theoretical Sensitivity

To reduce the risk of bias occurring in the analysis, the 'Flip-Flop technique', referred to by Strauss and Corben (1990) was applied. This technique involves considering the extreme alternative of a situation to reveal issues not otherwise apparent.

Another method used to overcome the bias which previous experience and research may have caused, was the use of systematic comparison. In some instances it was required to undertake "close-in-comparisons", using two scenarios which are closely related to the research topic and which contained a strong difference. This method also assisted in highlighting additional concepts previously not identified, similar to the Flip-Flop method.

4.3.4.2 Triangulation

Triangulation was used throughout the analysis phase as a means of verifying the outcomes of coding and theory building. Miles and Huberman (1984, p. 234) recommends this process saying that triangulation "...is supposed to support a finding by showing that independent measures of it agree with it, or at least, don't contradict it." The same reference refers to triangulation as "the seeing and the hearing" of multiple instances of a certain concept from several different and independent sources. These 'multiple instances' are the essence of grounded theory and provided confidence in the conclusions reached.

Triangulation was achieved through a comparison of the categories and theories identified or through an inductive process, from statements made by the interview participants and the literature. An inductive process involves the drawing of conclusions from specific data and relating it as a general principle.

Triangulation was also used in an alternate fashion during the analysis. Consideration of variance between each participants' response occurred as such variation often reveal significant elements. When such anomalies were identified, attempts were made to explain the occurrence. Generally the practice of looking for disconfirming as well as confirming evidence was used, as these, at times, proved fertile ground for further understanding of the affordable housing sector.

4.3.5 Theory Building

The coding of the data using a theoretical scheme was the first step in the development of the research. There was then the requirement to identify how the concepts were linked.

Revision of the categorized data assisted in the identification of links between the categories. The emerging concepts were then explored which resulted in the development of tentative theories. These theories were then tested in each successive round of interviews (Arksey & Knight 1999).

There was a risk of forming fixed ideas of theories before a thorough and precise analysis of the detailed transcripts was complete. This was avoided by using the process of induction from the data and confirmation from outside sources, such as the literature. This process was continued until repetitive confirmation was achieved, being the natural conclusion to the analysis when using grounded theory (Silverman 2004).

4.4 Validity and Reliability

4.4.1 Validity

Validity was achieved with the application of a mixed-methods approach and a process of iteration, within individual interviews and across interviews, assisted by the pairing of interviews within the primary participants' groupings (Asher & Midwest Political Science Association (U.S.) 1984; Leege & Francis 1974; Miles & Huberman 1984; Webb 1966).

The research was enhanced through the researcher's professional experience which raised sensitivity to the accuracy of the meaning of the data (Strauss & Corbin 1990). This may have raised concerns over interviewer bias which was addressed by a number of means. These included:

- Being well acquainted with the sector and its key issues to be able to keep the research focussed;
- Having a set of pre-determined questions which were asked as uniformly as possible;
- Researching the organisation and the interviewee to assist the credibility of the interviewer which encouraged more open responses;
- Providing the questions to be covered prior to the interview which allowed the participant to prepare and to be able to answer accurately;
- Being aware of the occurrence of, and avoiding the temptation to, lead responses; and
- During the transcription process maintaining a watch for any subjective responses to a participants statements which might indicate inaccurate information

(Arksey & Knight 1999).

Respondent bias was addressed through;

- Emphasis on the academic nature of the research; and
- Recycling of questions if there was a suspicion that a politically acceptable response was being provided.

A form of respondent validation following the draft analysis was undertaken via a presentation to various stakeholder representatives, informed academics and other industry participants, which were recognised as experts in the industry (Silverman 2004).

4.4.2 Reliability

The reliability of the questionnaire was improved through clarifying issues with examples to ensure the participants understanding of the questions posed (Asher & Midwest Political Science Association (U.S.) 1984; De Vaus 2002).

During the interview, in the transcribing phase and particularly during the analysis, the reactions of the respondents were noted to determine the accuracy of the responses (Keats & NetLibrary Inc. 2000).

The ability to generalise from the response data was of little concern as the questions related predominantly to practice and industry requirements where there was little scope for uncertainty of its meaning and applicability to the sector (Lincoln & Guba 1985). It was therefore the participants understood the questions asked and were able to provide reliable responses.

In all instances, following the interviews, there was the opportunity for the researcher to return to the participant for further assistance. This was taken as a mark of the success of the interview and the building of the relationship between the researcher and the participant.

It was recognised that no observation can be free of the underlying assumptions that guide it. With this awareness, for the sake of reliability, key relevant quotations have been provided, which are without the researchers inference (Bryman 1988).

4.5 Computer Programme and Use of Software

The process of analysing the 21 interviews could have been preformed without the use of computer programme, but the use of a suitable programme made the task of thinking about, and analysing the data more robust. It also ensures more accountability, encourages a more refined and thorough analysis, and assists with a more reliable outcome (Miles & Huberman 1994; Silverman 2004; Tesch 1989; Weitzman & Miles 1998).

Sound reasons exist for using a computer-assisted analysis of qualitative data (CAQDAS) software which included:

- Assisting in the handling of large amounts of data;
- Improved rigour through improved counting and searching of irregular concepts;
- Facilitated the development of consistent coding schemes; and
- Assisted with sampling decisions, to avoid limitations to the data

(Silverman 2004).

CAQDAS can improve the confidence with which empirical generalisations are made through theoretical sampling. Such improvement is derived through the ease of completing comparisons within the data. The sampling which occurs in a naturalistic approach is very different to conventional sampling. The object is the meaning of the data and not statistical considerations about the data. The method of qualitative sampling occurs on the flow of information and not prior understandings or set determinants. The sampling activity ends when successive information becomes redundant and the meaning within the data is revealed and substantiated (Blismas 2003; Strauss & Corbin 1990). Reiterating, the aim of qualitative analysis is not to complete empirical generalisations, but rather to develop theory.

There was a risk that the retrieved data could be taken out of context which can then make it unintelligible. The danger also exists to misconstrue the meanings of statements which was contrary to the main aim of qualitative research. The risk of misconstruing the data was reduced by considering the whole interviews output in one sitting to discern the broad significance of the results (Briggs 1986).

4.5.1 NVivo computer programme

The CAQDAS chosen to assist with the analysis of the data was NVivo Version 7 0SP4, produced by QSR International.

The NVivo programme is a code-based theory-building package which did more than assisted with the coding and management of data, such as the code-and-retrieve programmes. NVivo allowed for the writing up of “second level” inputs such as memos and annotations which were linked to the appropriate location or data source. These reports assisted the qualitative analysis by recording the reflections the researcher had during the data collection and analysis phase in a seamless non-interfering way. NVivo allowed the user to write extended descriptions about the meanings of the data or code which assisted with future coding (Weitzman & Miles 1998).

Free form coding, allowing the selection of paragraphs, sentences, phrases or words to be selected, if required, was easily accommodated by NVivo, as with the other programmes such as ATLAS/ti or HyperRESEARCH. This provided an unrestricted means to record concepts and to note relevant pieces from the data. The indexing of the data within NVivo also enabled recording not just the coded information, but also the relationships among the concepts. This recording flexibility allowed for data from a particular case to be used for multiple documents and comparisons made, or cross-case analysis performed.

4.6 Ethical Considerations

To conform to university ethical requirements, an introductory package was sent to each of the participants containing:

- Identification of the researcher;
- Details on the academic degree being undertaken;
- Name and contact of the academic institution;
- Purpose of the study;
- Detail on what the research involves, including a list of the semi-structured questions guide;

- Details of what will happen to the data once collected;
- A statement to say that the participant is free to withdraw at any time from the interview; and
- A consent form.

Ethical guidelines also stress the importance of informed consent. Initially this was undertaken through the provision of an introductory letter to each participant using the university's form letter for consent. Both these documents are attached in the appendices (CVX).

All of the data was recorded in accordance with the University's Privacy principles. Confidentiality will be maintained unless with the express permission from the participant.

4.7 Summary

This chapter explains the research methodology, specifically the sources of the data, procedures adopted, methodology limitations and the computer software used for the analysis.

It was recognised at the beginning of the research that the housing market is a complex structure due its mix of investment and social characteristics, supply and demand factors and the number of interested stakeholders. This matrix of influences cannot be adequately explained using a quantitative approach, which commences with a hypothesis and follows with a numerical analysis. Commencing the research with this understanding, a qualitative approach was used for this investigative task of assessing which of the subject funding models were viable in the current political and economic environment.

Twenty one interviews were completed involving representatives from institutional and private investor groups, financial institution, State and local government, developers, residential managers, and tenants. A Grounded theory approach was adopted to analyse the findings of the interviews. The emerging themes were refined through an iterative comparative process referencing the data and the literature (Strauss & Corbin 1990).

This data highlighted some of the barriers for investment in affordable rental housing in Australia. A complete presentation of the results and data analysis is presented in the following chapter.

CHAPTER 5

DATA ANALYSIS RESULTS

5.1 Introduction

This chapter provides the results of analysis from the interview responses. The interviews were analysed using a grounded theory technique with the assistance of data analysis software both of which were detailed in the previous chapter. This chapter aims to present the findings and analysis of the interviews without drawing conclusions. The following chapter will place these findings within the context of the literature and together form the basis for determining the viable funding model.

The analysis represents interpretations of the participants comments backed at times with relevant quotations to support the interpretation and provide validity to the research output. The presentation of the analysed views from the affordable rental housing sector stakeholders represents a contribution to the existing body of knowledge.

5.2 Interview Data Analysis

The research data for this project was collected by undertaking 21 interviews. These interviews resulted in a total of approximately 130,000 words of transcript. The use of the QSR software 'NVivo' enabled analysis based on a grounded theory approach. Output resulting from the analysis consisting of approximately 20,000 words of concepts, or ideas relevant to the research question, 'emerged' out of the interviews. These concepts were contained in memorandums referenced back to the specific interviews. The concepts have been sorted into clusters of information, relevant to the funding models and are described in the following section of this chapter. Each cluster is graphically introduced using figures produced by NVivo.

These figures detail the relationship of the concepts to the research question and the interrelatedness of the data. Each major cluster is termed in the figures as a parent cluster with minor clusters or concepts, which are related to and are components of the parent cluster, termed child clusters.

These concepts more precisely represent the interpreted views of the interview participants. Throughout this chapter there will be reference to the views and specific quotations from the participants to the interviews which form the research data. To assist with maintaining the anonymity of the participants a system of identification is used for reporting. This system will aid the reader to locate the source of the view thereby adding richness and validity to the research. The interview participant identification is included in Table 5.1

Table 5.1

Schedule of Interview Participant Identification

Identification	Description of participant	
	Institution	Position
LG1	Local council	Director
LG2	Local council	Housing officer
LG3	Local council	Senior councillor
SG1	NSW Government- Centre for Affordable Housing	Senior officer
I1	Institutional residential property	Fund manager
I2	Larger private affordable rental housing portfolio	Private investor
I3	Institutional investment manager	Credit analyst
I4	Large superannuation fund board member and past C.E.O. of an institutional investment management company	Director
I5	Institution investment	Fund adviser
I6	Business manager of a larger property fund manager	Business manager
I7	Australian international bank	C.E.O.
I8	Affordable rental housing fund	C.E.O.
D1	State owned (Victorian) land development company	Senior manager
D2	Listed property trust fund which included residential property development	Senior manager
M2	Housing associations representative and participant in numerous affordable rental housing funding 'round tables'	Senior manager representative
M3	Large housing association	General manager
T1	Tenant advocacy body	Senior representative
V1	National property valuation firm	C.E.O.

5.2.1 Presentation of the Data Analysis

The clusters are linked together in a hierarchy structure. For each of the parent and child clusters a summary of the concepts identified during the analysis is provided. Where appropriate, quotations are included.

To assist the reader the figures at the beginning of each new parent clusters depicts the hierarchy of the concepts and the pattern within the data. Each of the child clusters build the parent cluster concept. This hierarchy of concepts provides a broad support for the conclusions of this research. There are many links interweaving the concepts and reinforcing each of the findings. A portrayal of these interwoven links is beyond the static presentation of this report.

In addition, a matrix of the concepts identified is included at the end of each parent cluster. These matrices indicate who were making comments in relation to the identified concepts. Patterns regarding the incidence of the relevant statements are identified following each matrix table.

5.3 Outline of the Analysis

The results of the analysis are presented in a logical form based on the fundamentals of the challenge facing the funding of affordable rental housing. These fundamentals broadly include return, risk and subsidy.

It is acknowledged the reason for the absence of private investment into the affordable rental housing sector is the problem of the rental gap (Yates 1994). The rental gap is defined as the shortfall to an institutional investors' required risk adjusted return. This shortfall is also known as the finance gap or yield gap (Yates 1996). The inadequacy of the return is highlighted by consideration of investor' requirements and motivations identified during the analysis and contained in under the following concepts noted in this chapter:

- Return characteristics required by investors;
- Investor traits;
- Investor demand;

- Investors risk appetite; and
- Desired investment qualities.

Considering the relationship between the risk of an affordable rental housing investment and the associated return; a lower risk from the investment would improve the resulting risk adjusted return. This improved risk adjusted return could result in two outcomes:

- Raise the potential for the existing structures and subsidies to bridge the rental gap; and
- Lower the quantum of any additional subsidy required to attract investors.

These risks refer to the uncertainty of the investment performing as expected, more than the volatility of the cash flow. However the factors causing such uncertainty do have the potential to result in fluctuations to the cash flow which stem from the underlying structure, asset characteristics, occupants, managers and associated agreements.

The completed analysis using grounded theory assisted in identifying from the interview responses, the risks to an investment into affordable rental housing. A summary of these risks are noted as being:

- Asset management;
- Property portfolio construction;
- Difficulties of a new investment class;
- Problematic asset characteristics;
- Developers' motivations;
- Current supply shortage causes; and
- Information deficiency

It is clear from the data analysis that these risks need to be addressed to encourage investors into the sector. Many of these risks relate to management issues which go beyond the activity of funding. The practical realm of management of the assets however is not covered in the funding model literature. This omission does not negate the fact that management is a subsequent and linked activity to funding. Interestingly the analysis shows, the issue of

management is a key reason why private investors are not active in the sector. It appears that, if questions concerning asset management can be answered, the path of investment into the sector becomes less risky, as clarity for the efficient delivery of affordable rental housing is achieved.

Acknowledging the presence of these risks, there is a need for additional subsidy, over and above that already provided to the affordable housing sector, such as charitable status to not-for-profit housing management organisations. The suitable source for such subsidy is government. Prior to adopting a policy to provide additional subsidies for affordable housing, government has to consider its own criteria. Literature indicates the principle determinant of the government's criteria is their political philosophy, described as broadly neo-liberalist. This philosophy will shape the manner in which an additional subsidy, if any, is delivered to the market. The manner of delivery is then a crucial consideration to the viability of a funding model. It is this factor which easily differentiates the funding models into what is viable and what is not.

The neo-liberal stance is demonstrated by the following categories identified during the analysis:

- Current government activity;
- Regulation of the stakeholders; and
- Political philosophy

These identified risk factors, return requirements and political policy criteria form the structure within which the viable funding model must fit. These identified elements are used to analyse the funding models to determine their viability.

A schedule of key fund characteristics has been identified against which the models have been compared. The result of this analysis is provided in a series of tables.

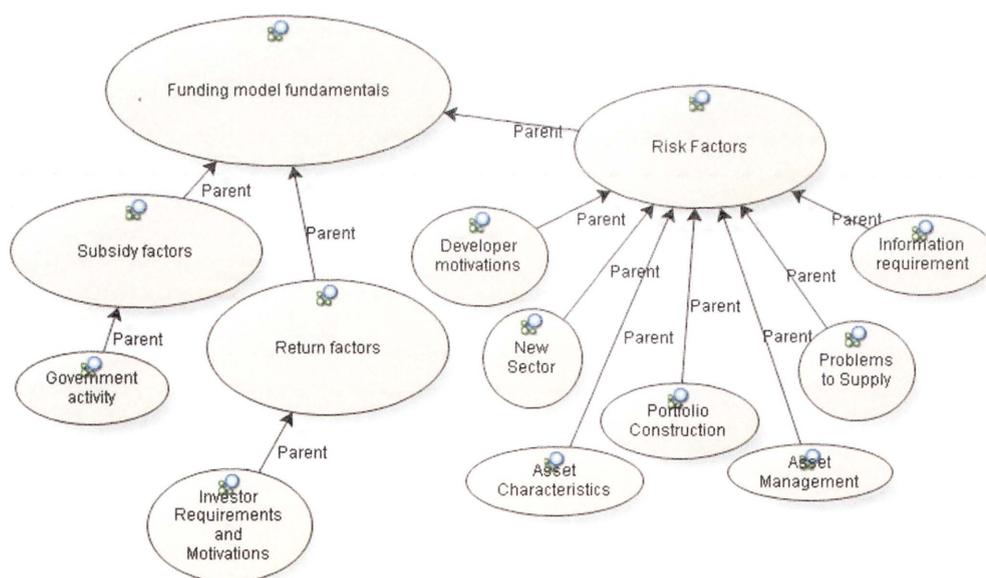
5.4 Analysed Data Concepts

There is a hierarchy of concepts which underpins the research findings of this project. Each identified concept's relationship to others and to the whole research problem was established. Commonalities or links between the individual concepts were recognised and provided the basis for the clustering of child concepts into parent clusters. The link of each parent cluster to other parent clusters was then considered. This process continued until all relevant comments from the interview data had been sorted into appropriate concept clusters. This hierarchy of concepts firstly establishes then confirms through, at times, repeated observations of similar comments from varying participants. These observations can be observed from the interview response matrices. This organisational process was assisted through the use of NVivo.

The main, or 'parent' cluster for this research are the fundamentals for a viable funding model. This main cluster is supported by the other minor, or 'child' clusters. The broad structure for the grouping of the clusters is depicted in Figure 5.1.

Figure 5.1

Funding Model Fundamentals - Major Concept Clusters



Each of the child clusters, being the Risk factors, Subsidy factors and Return factors, shown in Figure 5.1, have a matrix of their own child clusters adding support, understanding and depth to

the higher parent cluster. The direction of the arrow indicates the relationship of a child cluster to a parent cluster. Each of the above child clusters will be expanded to reveal the matrix of clusters with the accompanying analysed data concepts as the results are presented.

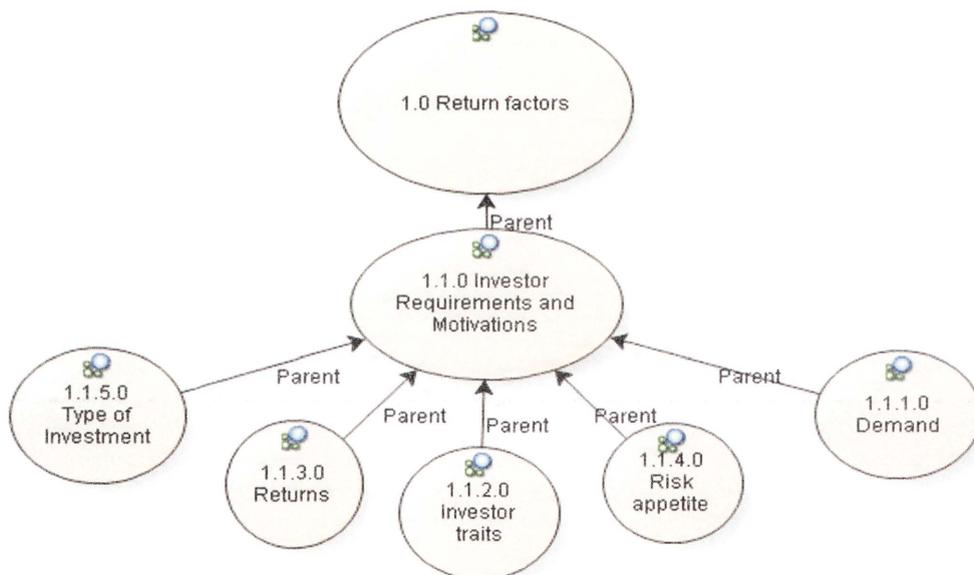
These parent and child models are produced using NVivo.

5.5 Return Factors

The relevance of the return obtained from affordable rental housing is confirmed when considering the requirements of potential institutional investors. The requirement for an adequate return is shown to be not simply a matter of a level of percentage obtained from an investment, but rather it encompasses a broader range of expectations.

Figure 5.2 NVivo:

Return Factors Matrix Model- Investors' Requirements and Motivations



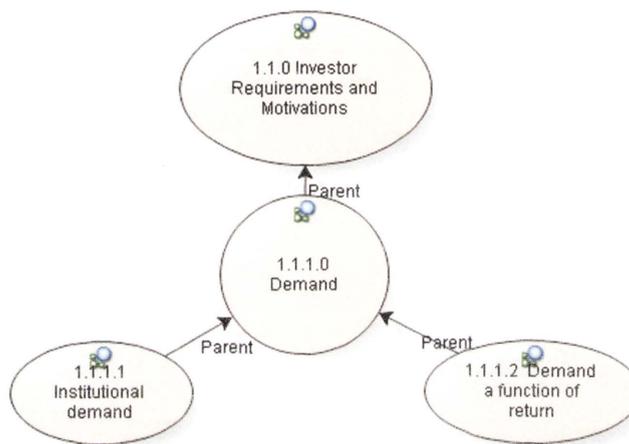
Each of the minor clusters identified in Figure 5.2 make up the group of concepts which define the investors' requirements and motivations. Each of these clusters will be expanded in the following section to show the complexity of the requirements of the investor.

5.5.1 Investor Requirements and Motivations - Demand Factors

The first minor cluster of ideas considered under the major cluster of Investors' Requirements and Motivations, is the Demand Factors. The influences which shape the demands of the investor are split into two sub-categories displayed in Figure 5.3.

Figure 5.3 NVivo:

Aspects of Demand which Influence an Investors Requirements



5.5.1.1 Investor Demand

The level of demand for an affordable rental housing investment vehicle is unknown as there has not been one assembled before of the size that institutions would be interested. Notwithstanding, the residential sector is a known core asset class and provided the returns are acceptable it is expected there will be investor interest. Part of this interest was expected to be due to the diversification benefits from a residential investment, although investors place a higher priority on return and volatility. Consequently investor' interest should increase when opportunities for above market returns appear. The level of institutional interest may be curbed by the knowledge of poor housing affordability with a subsequent low price growth expectation for the sector.

"There is no problem with investors.... it is quite viable as long as you are getting 9%, and then you would be able to get that kind of trust away every day of the week"(D2).

.. "the truth is that if I had the choice of a wholesale fund where the rental incomes were underwritten by private sector tenants, and an affordable housing trust, I would take the income producing assets which are leased to corporates any day because there is no worry about political interference. It is a free market, the ultimate terminal value of these income producing assets will be usually better and gets better price growth than perhaps houses will, depending on which suburb of course"(D2).

"If I can go back to the basic statement and that is, institutional investment in residential property still hasn't happened. So the answer is that institutional investors are saying, "doesn't matter, we are not interested. It just hasn't happened" (I5).

In these statements the stakeholders emphasise the requirement for return as the asset class is known and acceptable to them. However the return from alternate property assets with lower risk poses a hurdle to investment. To overcome this lack of interest there needs to be some additional incentive.

5.5.1.1.1 Demand a Function of Return

A variety of investors will be attracted by differing return characteristics; a high risk investment will need to have a high return. Commensurately for a low return asset, a low risk is required. Interest in the residential sector is negligible as the return is not seen to compensate for the risks involved. *"I think that if the return is poor, it is going to be difficult to get away"(I4).*

The alternative of other asset classes, including commercial property, offer better risk return characteristics and a strong disincentive for investment into residential property.

Table 5.2

Demand Factors Referred to by Interview Participants

Participants	Demand	Demand a function of return	Institutional demand
1 : D1 interview	0	0	0
2 : D2 interview	0	1	0
3 : I1 interview	1	1	1
4 : I2 interview - 2nd Interview	0	0	0
5 : I3 Interview	0	0	0
6 : I4 interview	0	1	0
7 : I5 interview Part 1	1	1	1
8 : I5 interview Part 2	0	0	0
9 : I6 Interview	0	0	0
10 : I6 Additions to 1st interview	0	0	0
11 : I6 Complete Interview	1	0	0
12 : I7 Interview	0	1	0
13 : I8 full last interview	0	0	0
14 : I8 interview Part III	0	0	0
15 : LG1and LG2 Interview	0	0	0
16 : LG3 Additional interview	0	0	0
17 : LG3 interview revised	0	0	0
18 : M2 Interview	0	0	0
19 : M3 interview	0	0	0
20 : SG4 interview	0	0	0
21 : T1 interview t	0	1	0
22 : V1 Interview	0	0	0

The ideas presented in the previous section represent a summary of the interview statements relevant to the concept of investor demand. The statements categorised under this concept were made by the participants identified in Table 5.2.

For Table 5.2, the inclusion of a '1' in the relevant box indicates that there has been a comment, or comments made during the participant interview (noted in rows across the page) which was relevant to the concept (in columns down the page). Similarly, a '0' in the box indicates that there was no relevant comment made. The same rules apply for each successive table noting the occurrence of relevant comments.

Table 5.2 is presented to indicate the occurrence of relevant statements and by whom the statements were made. It is not intended that any statistical representativeness should be drawn from the presentation of the data. The interview participants were chosen in a purposive way which negates the need to show such statistical validity (Perry 2002).

As indicated by Table 5.2, the incidence of statements made in respect to investor demand, not surprisingly are predominantly made by investors. The higher incidence of comments in respect

to demand being related to return indicates the level of demand is highly correlated to the level of return.

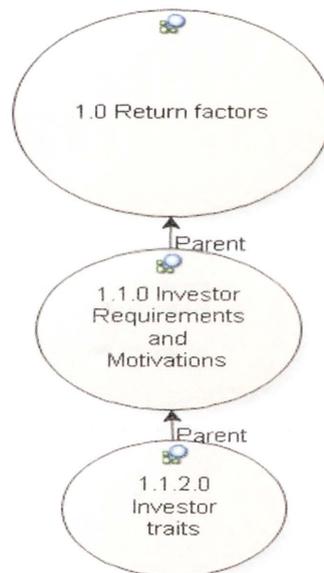
5.5.1.2 Investor Traits

The requirements and subsequent demand of investors is seen as a reflection of their particular values, motivations and knowledge base. Understanding these aspects assist to model a viable fund vehicle.

Figure 5.4 shows the importance of investor's traits as a determinant of the required return. The characteristics and desires of investors shape the return demanded from investments.

Figure 5.4 NVivo:

Investor traits which influence the return required by investors



Source: Analysis of interview data

Institutional investors are not currently investing in residential property and they still need convincing to move into this sector. It is a further leap to invest in affordable housing which has increased difficulties over residential property. Not all lenders will want to be involved with the affordable housing sector, as they may not want to associate themselves with the sector considered a social asset, but rather remain a commercially known lender. The desire for a

socially responsible investment appears to come from the notions of aspirational institution board members, whereas their consultants require a financial reward to justify the investment.

Retail investors differ from institutional investors. They get pleasure from the ownership, or the more traditional benefits of the investment, even though they don't own it directly and can't access it. Additionally retail investors trust the full returns will be available to them. Retail investors may be interested in a smaller vehicle but more sophisticated institutional investors will not.

It appears that there are certain types of investors which want different types of products. Some want bonds, others want an indexed product and others want to be tied to property. Investors either want to cover risk while others are seeking absolute return. In the instance of an investor with an interest in property, they would generally be seeking a property fund which outperformed the property sector in some measure while exposing the investor to property related risk levels.

"While a lot of people say that they have a social conscience all right, they won't go and put their hand in their pocket to meet that social conscience. What they do like is that if they can get a return that is like any other asset class that has got a social content in it as well, they may well be more pushed towards that investment than the other one" (18).

"I think in a retail market that is right, there is a joy of ownership" (11).

".. institutions want scale. So they do not want to put \$20 million in a fund, they want to put \$200 million in, 20% investor in a billion dollar fund. So they want scale. We're talking big money there. Which has its own problems" (11).

"From my experience you've got funds wanting to cover risk or absolute returns" (13).

The above statements reveal a range of investor traits: investors want either high returns or to have the risk compensated for, institutions are concerned about size of an investment whereas smaller investors take pride in the ownership, while a social investment will only be of interest if there is an adequate return to go with it.

The ideas presented in the previous section represent a summary of the interview statements relevant to the concept of investor demand. The statements categorised under this concept were made by the participants identified in Table 5.3.

Table 5.3

Investor Traits Referred to by Participants

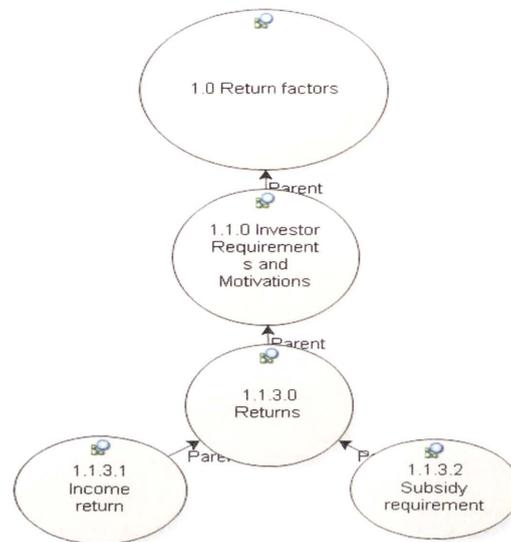
Participants	Investor traits
1 : D1 interview	0
2 : D2 interview	0
3 : I1 interview	1
4 : I2 interview - 2nd Interview	0
5 : I3 Interview	1
6 : I4 interview	1
7 : I5 interview Part 1	1
8 : I5 interview Part 2	0
9 : I6 Interview	1
10 : I6 Additions to 1st interview	0
11 : I6 Complete Interview	1
12 : I7 Interview	1
13 : I8 full last interview	0
14 : I8 interview Part III	1
15 : LG1and LG2 Interview	0
16 : LG3 Additional interview	0
17 : LG3 interview revised	0
18 : M2 Interview	0
19 : M3 interview	0
20 : SG4 interview	0
21 : T1 interview	0
22 : V1 Interview	1

As indicated by the "1"s in Table 5.3 the amount of statements which provided insight into investors traits were numerous which was helpful in understanding their motivations and requirements.

5.5.1.3 Investor Return Characteristics

Investors require specific aspects of return which determine the choice of their investment. Figure 5.5 indicates the categories under which these aspects are grouped.

Figure 5.5 NVivo:

Elements of Return Important to an Investors' Assessment Decision

Source: Analysis of interview data

Investors will always demand a similar return from comparable asset classes. The level of return needs to consider the factors which impact upon the investment as investors need to be paid for the risk they take. If there are disadvantages such as liquidity problems, or a lack of transparency, these need to be reflected in the return. The return therefore needs to reflect the characteristics of the investment. Residential property produces a return which is suitable for its unique characteristics, provided the investor receives the return undiluted and the delivery means does not add to that risk. Ideally this benchmark return would be enhanced through diversification or unitisation and freedom from management issues. The hurdle rate for total nominal return for investors is between 9% and 10% per annum. If this is achieved the product will attract investor interest.

The expectation is that investors are rational who will consider the risk. As the sector is an unknown risk it is reasonable that the assessment of the risk is likely to be very subjective. Assessment of an investment will always be completed according to the basic criteria but the unknown qualities of the sector may require a premium to the return paid.

"...we fully assess the risk and compare that across the asset classes. The funds have a broad scope to invest. So if this product has a AA risk, we compare that to other AA rated products" (13)

"What they do like, is that if they can get a return that is like any other asset class, that has got a social content in it as well, they may well be more pushed towards that investment than the other one" (18).

5.5.1.3.1 Income Return

Institutional investors need, as a component of total return, a secure and regular income return, which does not have to be at a high rate. If the end value becomes uncertain more importance is placed upon the security of the income cash flow. If any of these are uncertain then a higher overall return will be required. Providing a proportionally higher income return reduces the risk of the investment as it lowers reliance upon the uncertain future capital return to lift the return to the required rate. The income provides a return sooner which carries less risk. Therefore a lower total return could be offered if there was a means of improving the income return. Superannuation funds do have flexibility to consider a broader range of investments as long as it does not impact upon the primary goals of the fund. If the returns were regular, the investment could be treated as a type of bond product and put in the fixed interest basket.

"But it does need some regular return. So some cash return and some expectation of getting your money back gradually say over a ten year period. That is my view. The super fund's, they are long-term investors, they do need some regular cash that they can put into fixed interest or they can reinvest it back into residential again, but they like to have that choice." (16)

"Yes, I would expect people to be after rental return more than anything else. Particularly where we are today. A lot of this talk about housing affordability is very topical because itself is at very low levels. So would you go into a market given the premise that you will achieve big capital gains. Probably not." (17)

5.5.1.3.2 Subsidy requirement

Considering the low returns and the perceived high risk accompanying the sector, there is a necessity for a subsidy as investors will not consider a low return. Expecting investors to accept a low return would in effect be expecting them to subsidise the investment. A low return may be acceptable if there was a guaranteed return of a suitable quality. Notwithstanding a requirement for a subsidy is viewed as an added risk as the investment does not produce a sustainable return. A subsidy would be less of a risk if provided as part of a current government policy and a greater risk if the subsidy arises from a new policy.

A lender would prefer a situation to have no government involvement in a project therefore removing the risk of a change in government policy. Notwithstanding the risk of a change of government policy is seen to be less for a housing related policy as this is a priority sector for the government. Reliance upon a subsidy for housing would then be treated with the same risk as for government.

Table 5.4

Responses on Investment Returns and Subsidies to the Sector

Participants	Returns	Subsidy requirement	Income return
1 : D1 interview	0	0	0
2 : D2 interview	1	0	0
3 : I1 interview	1	1	0
4 : I2 interview - 2nd Interview	1	0	0
5 : I3 Interview	1	0	1
6 : I4 interview	1	0	1
7 : I5 interview Part 1	1	1	0
8 : I5 interview Part 2	0	0	0
9 : I6 Interview	1	1	1
10 : I6 Additions to 1st interview	0	0	0
11 : I6 Complete Interview	1	0	0
12 : I7 Interview	1	1	1
13 : I8 full last interview	0	0	0
14 : I8 interview Part III	1	1	1
15 : LG1and LG2 Interview	0	1	0
16 : LG3 Additional interview	0	0	0
17 : LG3 interview revised	0	0	0
18 : M2 Interview	0	0	0
19 : M3 interview	0	1	0
20 : SG4 interview	0	0	0
21 : T1 interview	0	0	0
22 : V1 Interview	1	0	1

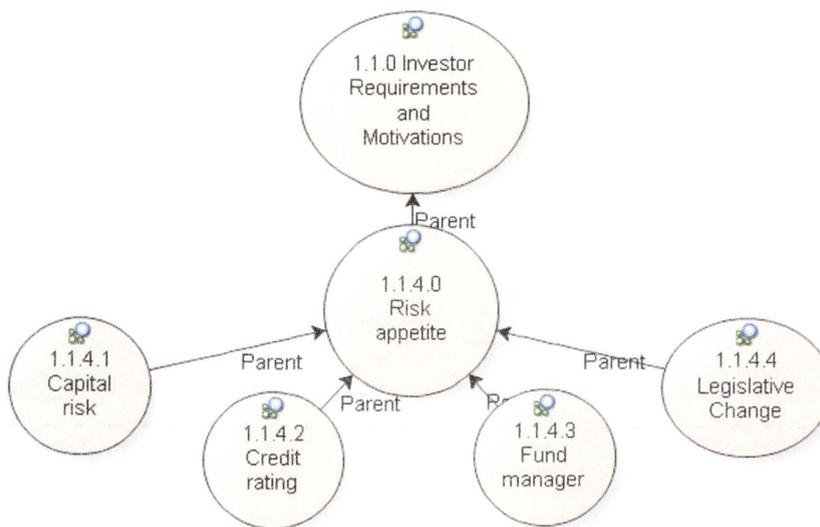
It appears from the responses noted in Table 5.4 the issue of returns is an important one, especially for the investor category of participants. As the relevant responses are less for a subsidy and an income return there may be an indication that participants were more focussed on the need for return than the need for how it was delivered.

5.5.1.4 Investors Risk Appetite

An investors' risk appetite is seen as being a major influence upon the type of investment chosen and the level of return demanded from the investment. Areas of risk identified for investors in affordable rental housing are shown in Figure 5.6

Figure 5.6 NVivo

Aspects of Risk Identified as Relevant to an Institutional Investor in Affordable Housing



Source: Analysis of interview data

Investors have differing risk responses; institutional investors are more sophisticated and would complete a thorough risk evaluation, comparing risk across the asset classes, whereas retail investors generally rely upon their advisors and usually would be comfortable with residential property risk. Retail investors would be happy to accept a market risk, including both capital gain and loss. Therefore there is no need for a capital guarantee.

Regardless, the consideration of risk has increased due to recent global events. Therefore when formulating an investment product, you need to consider the risks you are asking investors and other participants in the funding process to accept and tailor the investment product to suit their expectations. The treatment of risk and the compensation for it is critical to the success of a model. A focus needs to be upon the unique or non-systematic risks as all property is subject to risk through various forms e.g. tax, legislation etc, which is unavoidable and not exceptional.

“Another big bonus which is not so much a risk feature, which is a reason to invest, is the low correlation with anything else. It does not move with other markets so as a de-risking stock it is quite attractive. I think institutions recognise that as well.” (11)

“I would say it is a function of what you are asking investors to take.” (11)

“I think, it is property, it is bricks and mortar, the security is there. They are happy to accept losses as well as gains depending on where the market moves. That is the business that they’re in assessing risk and taking it.” (16)

5.5.1.4.1 Capital Risk

Investors need to have secure claims to the title which ensures the value of the asset flows to the investor. This security is essential as residential investment traditionally depends upon capital return. If this security cannot be modelled then the fund will struggle to gain investor interest. Notwithstanding, holding title directly is not necessary provided the investors' rights are secure and there are many examples where direct access to the title is not provided e.g. securitised investments, leasehold and a trustee or government holding title. Having government holding title is seen as a negative as it may restrict the investor from liquidating the asset if the situation is required.

“Access to title, security of capital, and the capacity to enforce, from a banker’s perspective is critical.” (17)

5.5.1.4.2 Credit Rating

Investors will want the investment to be rated and the rating agencies will require commercial managers rather than housing associations managing the portfolio.

“You actually need, to satisfy a rating agency, a very effective property manager and facility manager etc. because it is all part of the total package. It is no point saying to a fund we cannot pay distributions because 20 percent of the portfolio is vacant or they have rental of arrears.”
(D2)

5.5.1.4.3 Fund Manager

Affordable rental housing once established will require a high level of service to ensure success of the sector. This will be compounded by an expected high level of attention coming from government and social agencies which will be keen to see it succeed. Fund managers are already to perform at a high level as current financial regulations set a high standard which removes much of the associated risk. However a well known manager with a good track record has an easier time selling new products as the market has a greater confidence in these players.

“I think this stuff has got to be, you know, there will be such a focus, it has got to be exemplary. And particularly if it is entering new markets where there will be a whole lot of people wanting to see and say doom I suspect. I think you have just got to be at the top of the game really. Once again coming back, public sector agencies are going to be involved in this stuff. That is where the political eye will go about ‘how do we avoid a disaster’. I hate saying that.” (LG1)

“In the current environment the quality of the fund manager is now coming under far greater scrutiny.” (I3)

“I think the management investment schemes legislation is such that the bar is pretty high anyway. So I think it is always important, and it is easier to sell, if someone has a track record it is easier to sell than someone as an upstart.” (I1)

5.5.1.4.4 Legislative Change

Investors would not want to be exposed to risk associated with a change of legislation. The probability of a major change is seen as low, although recent events, such as the Sydney Cross City Tunnel, may be thought to have increased that probability.

“Government risk is probably more important than ever knowing what happened over the Cross City Tunnel. Government takes steps that are electorally popular” (I3).

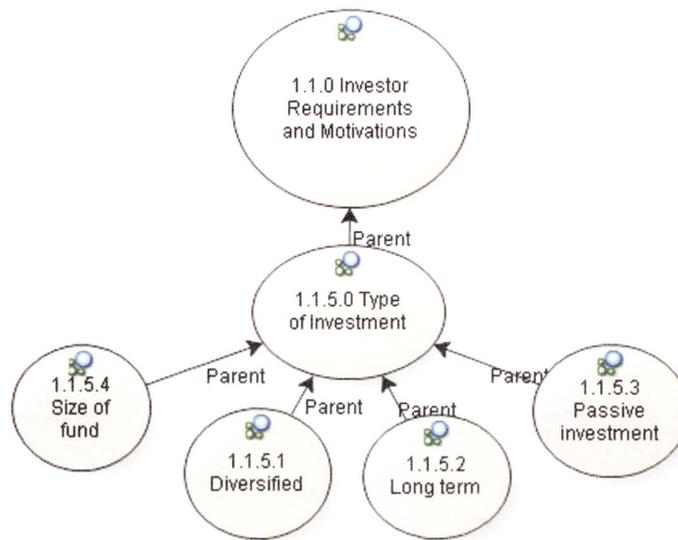
Investors therefore consider the risk of reliance upon government policy and would like a surety that the legislation will not alter during the term of the investment. Failing to obtain such surety, an alternative is an effective exit strategy from the investment.

“I guess the thing I always sort of come back to is, if there is investment in affordable housing, it is really the nature, or the structure of the vehicle that is there. There is a point where, most investors will at some point want to move on from that investment. How they can extricate themselves from that investment. How do they get their capital back. And so if you have got long term rental housing you cannot necessarily sell the assets at a given point. So if something is structured how do you cater for that take out I suppose when the investors says I want to invest for seven years and then move on. How that is managed is a key factor.” (M3)

5.5.1.5 Type of Investment

An investment can have various characteristics with many of these determined by the asset in which is involved. Other characteristics are shaped by the expectations of the investor. The various aspects of an investment required by an investor in residential property are shown in the Figure 5.7.

Figure 5.7 NVivo

Identified Aspects of an Investment Required by an Investor

Source: Analysis of interview data

Figure 5.7 depicts the four elements which were identified as important factors for an affordable rental housing investment. These include the market capitalisation or size of the fund, the diversity within the fund which reduces the risk of the investment and the diversification benefits supplied to the investors' portfolio, the term of the investment, and the need for a passive investment.

On a broad fund level, investors require:

- A core property return; income and growth i.e. a market return;
 - A diversified portfolio of quality assets;
 - Scale, a fund which is large enough to provide diversification and liquidity;
 - Significant asset and tenant management efficiencies to achieve cost reductions and also to remove the headache of tenant management and potentially brand damage. This will deliver favourable customer outcomes and reduces brand risk;
 - Independence from government to allow the investor freedom to operate as they choose;
 - Partial liquidity i.e. annual cash, to cover contingencies while paying returns;
- and

- The amount of equity in the project which is an important issue for pricing the investment.

Specific investment characteristics of investors include consideration of two main areas; the physical attributes being the quality and location of the asset, and the financial attribute of returns on equity. The physical attributes underwrite capital growth and the financial attributes underwrite the returns. Investors don't seem to have a preference whether it is affordable housing, or social housing, they don't care what it is as long as it is managed properly, the asset is a quality asset and the return is sufficient to attract their funds.

Institutional investors categorise an investment, according to the investments behaviour, if it behaves like a bond, or has bond like features, then it is treated like a bond. If it has growth features it is then treated accordingly. An affordable rental housing investment product would produce low but regular returns and would be seen to comply as an alternate asset class investment due to its growth potential and unique characteristics.

"Investors are only looking at two things the quality of the asset, the location of the asset, and the returns on equity. So they are not interested in anything else. So the first two things underwrite capital growth and the last underwrites the returns. They don't care whether it is affordable housing, or social housing, they don't care what it is as long as it is managed properly, the asset is a quality assets and the returns is sufficient to attract their funds. All the other things go away." (18)

"So if this is a relatively low returning asset with low..? One of the difficulties I see with it is, the income yield is low, but is the cash flow consistent through the rental flows and those things? (14)

Yes they are. (MK)

So they are consistent, but they are of low order. So from a return perspective they have got to accept this kind of return ceiling.... Okay... well I would think that it would be competing in the alternative space." (14)

5.5.1.5.1 Diversified

Investors like diversity but will acknowledge that not all types of assets will be included in the fund, as not all assets will not suit the fund' criteria. The desire for a quality investment portfolio will not be compromised for the sake of diversity. There is recognition of a low correlation of property with other assets but this has not prompted institutions into the sector. Investors may not see the distinction between residential and commercial property. Therefore a residential vehicle would just be another "layer" of property to them. The investment decision then becomes a matter of return and risk associated with the property class. Apparently the positive factors of an affordable rental portfolio are not weighted in the investment decision as demand appears low.

A further benefit of an affordable rental housing portfolio is a diversified of cash flow due to the large number of tenancies. Vacancy risk would also be diversified, although investors would still prefer the quality of the cash flow from a single 'blue chip' commercial tenant.

"Another big bonus which is not so much a risk feature, which is a reason to invest, is the low correlation with anything else. It does not move with other markets. So as a de-risking stock it is quite attractive. I think Institutions recognize that as well but it has not got them into the market as yet." (11)

5.5.1.5.2 Size of Fund

Investors want a fund which has a large capitalisation value as this provides diversification opportunities and also limits individual exposure by spreading the exposure to more investors. A vehicle would have to be around \$500 million to be attractive to an institutional investor. One reason is the investment into the fund has to be large enough for the beneficial impacts from the investment to be meaningful for the portfolio. Institutional investors usually invest in tranches of \$100 million.

"So critical mass is somewhere in the \$200 million to \$300 million mark and that is the low point. We have just done some work on turnover which says that, I think I mentioned before, a billion dollar fund is fine and probably significantly more than that, or somewhere in that region.

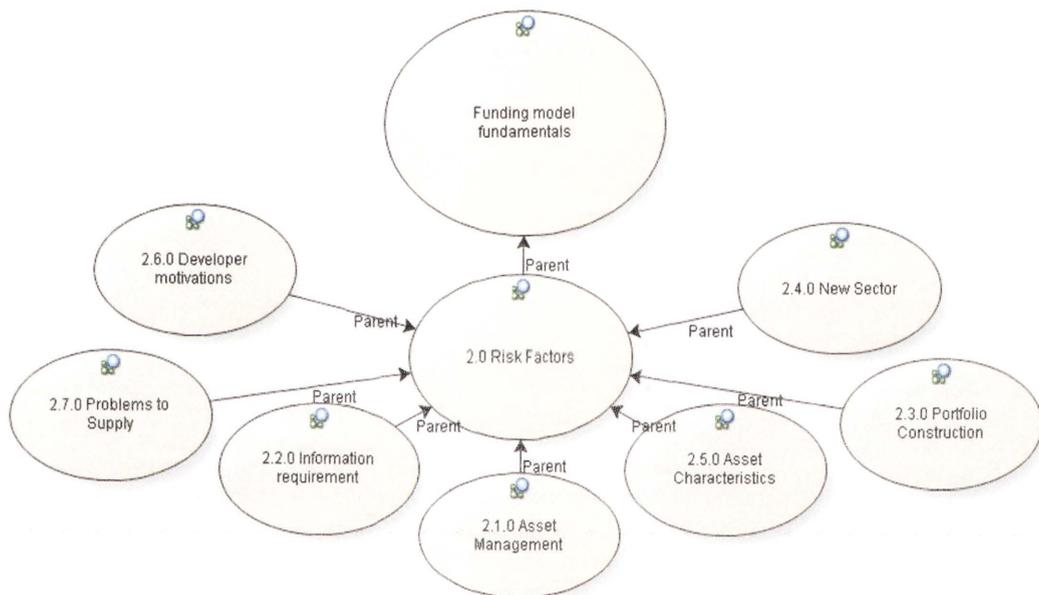
And frankly once you get up to those sorts of numbers, it, certainly for the retail markets, the platforms, that's okay. The interesting question some of the very large institutional investors have a minimum investment approaching \$100 million and they wouldn't, and simple numbers, probably want more than 20%. So you have just got to 500 million just on the back of that.”(15)

5.6 Risk Factors

The risk associated with affordable rental housing is diverse with many areas of risk arising due to the unknown nature of the asset class. The variety of risks is shown in Figure 5.8.

Figure 5.8 NVivo

Areas of risk significant to an affordable housing investment



Source: Analysis of interview data

Figure 5.8 indicates the many factors which are significant considerations to investment into affordable rental housing. These risks are at the heart of the issue of the current lack of privately funded affordable housing. This significance is due to the impact upon the level of risk per unit of return required by investors. The identified areas are expanded below.

5.6.1 Asset Management

Asset management was repeatedly stated as the key to the successful performance of a property investment.

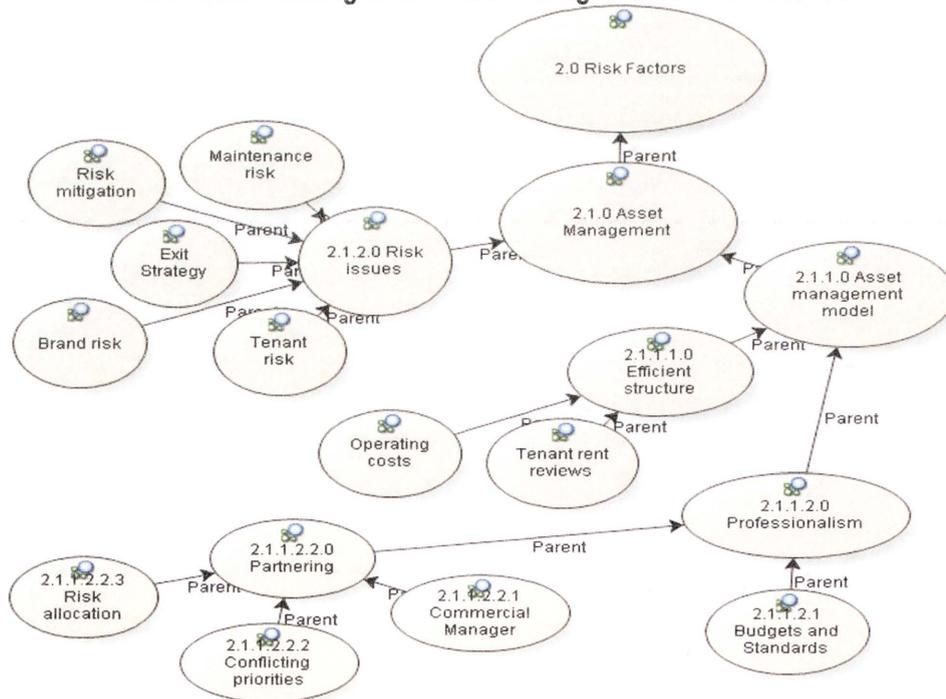
“The other risks might be cost overruns and.... The big issue really is that, When you are doing things like PPP’s, you’ll find that the development costs in the end and all the savings you might make are really not where the big dollars are. The big dollars are finding a very effective facilities maintenance model that actually works.” (D2)

“That is one of the challenges. Assembling the portfolio and managing it. Assembling thousands of dwellings and managing it is seen as really difficult and nobody has been able to do it or done it properly. If it was done I believe the investors would invest in it.” (I6)

The breadth of the issues contained in the cluster for asset management depicted in Figure 5.9 provides a basis for understanding why this area is so crucial to the investment performance.

Figure 5.9 NVivo

Risk Areas Relating to the Asset Management of the Investment



Source: Analysis of interview data

5.6.1.1 Efficient Structure

Management of a large portfolio is going to be very expensive and therefore it must be efficient. To achieve additional efficiency it may be beneficial to have a manager with a vested interest so that they are prepared to accept some of the costs of management and avoid return leakage. This is necessitated due to the lower rentals derived from affordable housing therefore every measure to improve the return through efficiencies must be adopted. Controlling the operating costs would be a crucial element of an efficient asset management service and the success of the fund, as operating costs can impact dramatically upon returns over time.

The structure of the fund is the focus of investors, including the agreements, not only with the tenants but also partnering agreements. The structure needs to be kept simple with clear allocation of responsibilities. The degree of reliance upon each facet of the structure for the fund's success is also an important consideration. For example, a model may rely on the savings achieved by a not for profit housing associations completing the management, which can improve the efficiency of the model as there is less value leakage from the model from taxes. This reliance placed a higher risk on that aspect of the fund model.

"I go back to the very basic issues of what we assess as being the reason why it hasn't happened in the past and that is, and that is the inefficiency of managing a portfolio. In simple terms, the dripping taps. And this sounds awful but it is a cottage industry, it really is. It is built around local real estate agents doing rents and the local plumber and the brother in law of the agent is looking after the maintenance, and it is a very, very inefficiently, low organized as it management structure, including leases etc. that needs a solution." (15)

Table 5.5 indicates which participants made comments which were relevant to the above concept of the efficient structure of the fund model.

Table 5.5

Responses on the Requirement for an Efficient Funding Model Structure

Participants	Asset management model	Efficient structure	Operating costs	Tenant rent reviews
1 : D1 interview	0	0	0	0
2 : D2 interview	1	0	1	0
3 : I1 interview	0	0	0	0
4 : I2 interview - 2nd Interview	0	0	1	0
5 : I3 Interview	0	0	0	0
6 : I4 interview	0	0	0	0
7 : I5 interview Part 1	1	1	0	0
8 : I5 interview Part 2	0	1	0	0
9 : I6 Interview	1	0	0	0
10 : I6 Additions to 1st interview	0	0	0	0
11 : I6 Complete Interview	1	1	0	0
12 : I7 Interview	1	0	0	0
13 : I8 full last interview	0	0	0	0
14 : I8 interview Part III	0	0	0	0
15 : LG1and LG2 Interview	0	0	0	0
16 : LG3 Additional interview	0	0	0	0
17 : LG3 interview revised	0	0	0	0
18 : M2 Interview	0	1	1	1
19 : M3 interview	1	1	0	1
20 : SG4 interview	1	0	0	0
21 : T1 interview	0	1	0	1
22 : V1 Interview	0	0	0	0

Table 5.4 shows the breadth of comments in respect to the asset management model was wide spread being received from most of the participant groups. An efficient structure was also noted by many which show the issue was recognised as important by investors, managers and tenants alike. Those involved at the 'grass roots' being the management and the occupancy also note the means of conducting rent reviews as a priority to the efficiency of the model.

5.6.1.2 Professionalism

Management costs are significant as well as the operating costs to the income of a large portfolio. Management therefore requires a high level of expertise to achieve savings and service levels while keeping management costs contained. The manager needs to be some one with a proven track record and with some financial backing. These requirements place housing associations in a weak position although their size and financial position is probably more the result of the market being small and the industry fragmented.

"I believe that that is a key. Yes. I believe that managing cost effectively and professionally managing thousands of dwellings is expensive and it has to be done brilliantly. You have got to have a solution to that. That is an absolute key. That would give you ongoing annual savings over, for an investment. That is critical." (I6)

5.6.1.2.1 Budgets and Standards

There is importance placed upon the property management to ensure properties are maintained to a standard. These standards need to be clear and budgets in place for the property manager to follow. Investors would be very interested in reviewing these risk mitigating procedures. The procedures adopted to undertake the management of the portfolio must similarly be of a high quality and transparent. The management system must have clear authority paths to be able to attend to tasks immediately.

"The standard of repairs is, has got to be agreed up front, as ten year estimates, agreed to new budgets, and then a program of spending it. Otherwise you get in this difficult situation of where you are not maintaining the properties and it's the people who suffer. In a commercial office, if you didn't maintain things, you would know that you would lose your tenants because it is a competitive market. This managing agent needs to have had these negotiations and to have some power and to have struck a deal. I haven't put much more force into that. I know it is a big issue." (I6)

5.6.1.2.2 Partnering

By allocating responsibilities to specific parties for aspects of the operation, the housing delivery vehicle has transparency and benefits through using specialist skills for each task. The use of a related party to the tenant to complete the management is also considered to have benefits, using the example of the Defence Housing portfolio. The Defence Housing model uses the Defence Force management team to complete management and maintenance to the properties. Benefits include understanding the needs of the occupants and provision of the service at a reduced fee in order to support the social element. These managers accept the management risk while providing a cheaper service due to their vested interest.

"I think there is a partnering approach there and I think the private sector is yet to provide a solution on how to effectively and cost efficiently manage big portfolios of these assets. So in

the absence of that solution, out-source that to someone who represents the tenants and give him some power and that is probably a government authority of some sort.” (I6)

The use of a housing association would have the same benefits although capacity constraints would be a negative. It appears the experience of using the St George Housing Association for the management of tenant matters at Bonnyrigg has been a positive one for other commercial partners. This experience bodes well for the prospects of partnering with housing associations in the future. A credit rating agency will review partnering issues, if the investors rely upon that aspect of the management for their returns. One relevant issue is the ability to replace the manager which impacts upon a model's sustainability. In many cases this is not a risk element although for housing associations there are a limited number of qualified organisations capable of delivering professional services.

“Are you rated according to the partnering you are involved with,... such as xxxxxx doing the management? (MK)

If you are a rating agent looking at the fund, they will certainly look at that sort of stuff. I do not know how they score it. And it will be different according to different agencies. But certainly if we are going to be doing a bond issue an S &P or Moody's would be looking at it from a debt side, they would definitely be looking at that. What happens if they fell over? can you replace them? All that sort of stuff. So it is important.” (I1)

Including local councils for the delivery of housing adds another layer of complexity and risk to the process. This complexity arises as councils do not have the ability to manage complex financial arrangements. The solution to benefiting from their involvement is employing them for simple tasks and to have an additional layer of management. Albeit this solution reduces efficiency and raises costs.

5.6.1.2.2.1 Conflicting Priorities

A conflict of interests is perceived to exist between a fund manager and a property/ tenant manager. The housing associations perceive that as a risk to their services. Demands for higher reporting standards and alternate work ethics and priorities for service are seen as potential issues by the private sector. This is rebutted as currently local housing authorities and co-operatives report to the State government which the housing managers are earnest to

complete. There is therefore an existing regimented practice of reporting to a higher provider in place.

The objection that there would be conflicts between not for profit managers and private fund managers is dependent upon the specific choice, as housing associations are undergoing a process of raising the standards of their service delivery to meet the potential future demand by the private sector.

"I actually think that an arrangement between an LPT and a housing association would be basically, like trying to mix oil and water. In the end, people who are involved in a lot of those housing associations, they don't really have a strong grip on market economics or market realities." (D2)

"So that understanding is pretty crucial. Certainly a fund's manager has to be someone who is looking for longer term returns rather than shorter term returns otherwise we are not going to, you know the person who is looking after tenants is going to be struggling to have communiqué with someone who is after returns. So they have to be managing reasonably patient capital. But other than that they want them not to be cowboys I guess. There is a real risk that we will have people putting together funds which are about macadamia nut farms rather than about establishing the basis for financing a fairly secure and established industry." (M2)

5.6.1.2.2.2 Risk allocation

Good practice is considered to include the giving over of responsibilities to partners who have the authority to act so that they own the problem and have the opportunity to act appropriately. A variation to the PPP model is where all the various tasks are divided into who can do the job best. This occurred with the redevelopment at Bonnyrigg. A lowering of costs can be achieved if the specialist parties are involved early in the process. An example of the benefits of partnering and risk allocation is to have one of the partners take on the risk for the vacancy or arrears. This would be a positive over a conventional residential management arrangement with a subsequent improvement to the investment.

"The other thing would be, if you broke it up, a type of partnership model into different components and allowed participation in the development side and the management side, something like that, rather than it being just one whole package. So people might be interested

in accelerating the construction of things, or the financial engineering or whatever. So that might be attractive. So then you would say well the finished product is in the government's hands and it's management is with a community housing authority. But if people can get some participation in the early stage then there may be some offset of the other stuff, that's what is more interesting." (I4)

The above statements were received from the participants noted in Table 5.6.

Table 5.6

Responses noted for requirement for professional management of the affordable housing portfolio

Participants	Professionalism	Partnering	Conflicting priorities	Risk allocation	Commercial Manager	Budgets and Standards
1 : D1 interview	0	0	0	0	0	0
2 : D2 interview	0	1	1	0	0	0
3 : I1 interview	0	1	0	1	0	0
4 : I2 interview - 2nd Interview	1	0	0	0	0	0
5 : I3 Interview	0	0	0	0	0	0
6 : I4 interview	1	0	0	1	0	0
7 : I5 interview Part 1	0	0	0	0	0	0
8 : I5 interview Part 2	1	0	0	1	1	0
9 : I6 Interview	1	1	1	1	0	1
10 : I6 Additions to 1st interview	0	0	0	0	0	0
11 : I6 Complete Interview	0	1	1	1	1	1
12 : I7 Interview	1	1	0	1	1	1
13 : I8 full last interview	0	0	0	0	0	0
14 : I8 interview Part III	0	0	0	0	0	0
15 : LG1 and LG2 Interview	0	0	1	0	0	0
16 : LG3 Additional interview	0	1	0	0	0	0
17 : LG3 interview revised	0	0	0	0	0	0
18 : M2 Interview	0	1	1	1	0	0
19 : M3 interview	0	1	1	1	1	1
20 : SG4 interview	0	1	1	0	0	0
21 : T1 interview	0	1	0	1	0	0
22 : V1 Interview	0	0	0	0	0	0

Table 5.6 indicates some interesting patterns. The need for professionalism by the property manager is noted exclusively by the investor group, whereas the related practical issues of partnering, conflicting priorities and risk allocation were noted across all of the stakeholders with the exception of the valuer who had limited involvement with the sector.

5.6.2 Risk Issues

5.6.2.1 Risk Mitigation

An investment goes beyond the funding aspects and considers the life of the asset. Ideally the management model should remove this investment concern through efficient asset management which removes the risk from the investor. Maintenance risk, arrears risk, brand risk and property management are all factors included in this consideration. These areas may be mitigated through government or sector regulation and procedures which would need to be transparent to allay investors' fears.

"I think it all comes back to the, like the Defence Housing Model where they manage it themselves, it is taken out of the investors hands, it is not the headache. It is done by investment housing for two reasons. One is they want a certain standard of accommodation for their employees so they manage that. But also they take the headache away from investors. I think somebody has to stand in there and do that, not necessarily a fund manager. It could be a party with another vested interest." (16)

5.6.2.2 Maintenance Risk

This is seen as the key risk to the success of the fund and it is the immediate thought of institutional investors. The property management role is important, but the individual circumstances will determine the degree of importance. If there are clear procedures to ensure the maintenance is maintained then the risk lessens. Similarly there needs to be seen a sufficient allocation towards maintenance requirements of such a programme.

"Well I suppose the biggest issue is maintenance." (D2)

"The risks are, ... how would you describe the risks? There is a kind of maintenance risk? (14)

"The quality of the property management is important. But for RMBS's you would assume that people are going to look after their properties. (13)

But provided there would be firm and definite procedures for maintenance, that would give you confidence? (MK)

Yes." (13)

“And so when we looked at the structure, the provision for maintenance was a priority for the proponent of the bonds, it didn't really appear to be sufficient. So that is an area that you look at fairly closely”. (13)

5.6.2.3 Brand risk

The issue of brand damage is so great that if there is risk of it occurring, fund managers will not let the investment proceed. Alternately there would be the cases where there might be some reputation benefits of investing in a fund with large social benefits.

“I think that is super important. That is where the brand risk is eliminated. Because if you manage a reasonable standard of accommodation and have good communication with your tenants. And if there is a problem you can show that you have done your part of it. There will always be problems but if you've done what you are required to do and have done that well.”
(16)

5.6.2.4 Exit Strategy

If problems arise there needs to be the ability to dispose of properties. However an exit strategy for a product like this is seen as difficult as housing is a sensitive issue which may cause brand damage if not handled correctly when disposing of the asset. This is the perception of investors which is important to consider. Any disposal requirement or need to achieve book values would be supported by the benefit of having a positive rental reversion for the whole portfolio. This occurs as the rents charged are reduced below market. This benefit will be available provided you can get access to the market rental when required e.g. you are not hindered by a lease or there are social ramifications restricting the sale.

“You look at things like: location, quality of construction, and all those things and also with a view to determining an asset in its current use is not a viable and you do end up being stuck with it. So you to look at your exit strategies as well. So that is your starting point.” (17)

5.6.2.5 Tenant Risk

Housing associations are seen as the best managers as they are able to deal with the tenants who can be seen as a high risk. Housing associations also build communities which add value

and can assist with the operation of the property. Further support to the tenant body is provided through diversification of the occupants. This can be achieved by having variation of tenants' income. Benefits are achieved as diversity is healthy for communities where mono-cultures stigmatise and stultify. Benefits to the investment are achieved through a diversity of income sources and the social health for the housing project.

"But the property management side of it we are very tough in a compassionate way. Some of the people we house are not that financially astute, so if they get into financial difficulties they don't really have the ability to recover. So if we can be "hard on them" to keep them up to date then in a way we feel that we are doing them a long-term service. And also it is an educational process. But if they do get into difficulties we go out of their way to assist them. Also with behaviour, the general public have a, in many cases a dim view of, um, supported housing, wrongly in many cases because probably they have the only had about the worst scenarios and that sort of colours their viewpoint so our attitude is that we want to change that. And the only way to do that is to demonstrate high quality property management where we don't have those problems." (M3)

"So there is a lot of education about, some of it is de-mythologising the customer base, some of it is understanding the risks which is going to be different in this area..." (M2)

Table 5.7 shows the participants who made relevant comments relating risk.

Table 5.7

Responses on Attitudes Toward Stakeholder Risk

Participants	Risk issues	Tenant risk	Brand risk	Risk mitigation	Maintenance risk	Exit Strategy
1 : D1 interview	0	0	0	0	0	0
2 : D2 interview	0	0	0	0	1	0
3 : I1 interview	0	0	0	0	0	0
4 : I2 interview - 2nd Interview	0	0	0	0	0	0
5 : I3 Interview	0	0	0	0	1	0
6 : I4 interview	0	1	1	1	1	0
7 : I5 interview Part 1	0	0	0	0	0	1
8 : I5 interview Part 2	0	0	0	0	0	0
9 : I6 Interview	0	0	1	1	0	1
10 : I6 Additions to 1st interview	0	0	0	0	0	0
11 : I6 Complete Interview	0	0	1	0	1	0
12 : I7 Interview	0	0	0	0	0	1
13 : I8 full last interview	0	0	0	0	0	0
14 : I8 interview Part III	0	0	0	0	0	0
15 : LG1and LG2 Interview	0	1	0	0	0	0
16 : LG3 Additional interview	0	0	0	0	0	0
17 : LG3 interview revised	0	0	0	0	0	0
18 : M2 Interview	0	1	0	0	0	1
19 : M3 interview	0	1	0	1	1	0
20 : SG4 interview	1	0	0	0	1	0
21 : T1 interview	0	1	0	0	0	1
22 : V1 Interview	0	0	0	0	0	0

Table 5.7 reveals the priority amongst the participants when considering risk related issues. There was a low incidence of comments made relating to tenant risk from investors and the only comment received related to the cash flow perspective. This may have been due to an understanding of who would be 'affordable tenants'. Despite the high level of rapport with the participants it is assumed there would have been the existence of some politically correct behaviour. Noticeably it was the tenants representative, housing managers and socially aware local government officers who were more aware of the need to enhance the view of tenants noting there needed to a level of education to improve the image of the category. The high incidence of maintenance risk highlights the perception that housing is a deteriorating asset, and the common thought that rental housing is poorly maintained.

5.6.3 Property Portfolio Construction

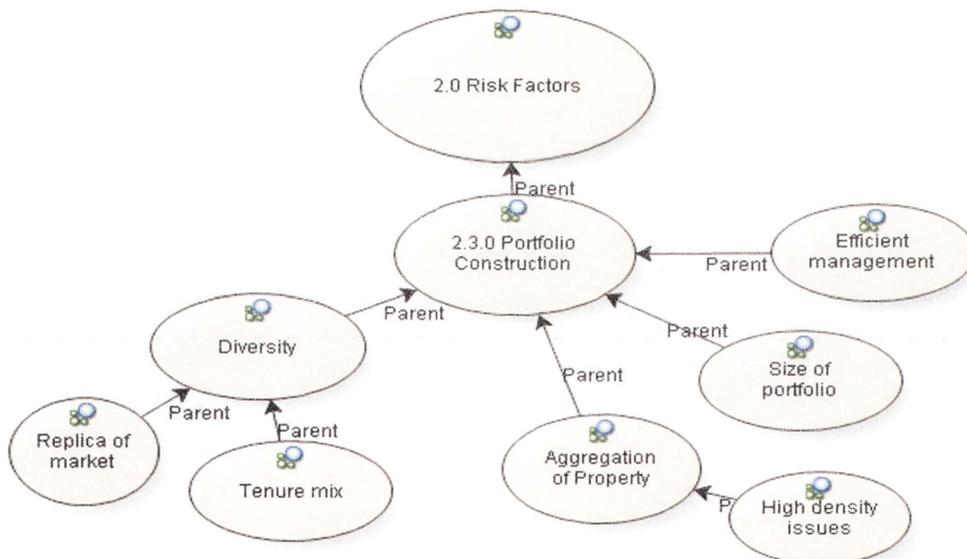
There appears to be four property portfolio essentials:

- Aggregating a portfolio of well located, well constructed assets;
- Holding a diversified portfolio, which is more important for affordable rental housing, as “lumps” of supply is not ideal;
- A professional and efficient management of the portfolio; and
- A portfolio large enough which is suitable for institutional investors

Figure 5.10 identifies the components of the task of constructing a property portfolio. Each of these components represents actions to counter risk and in themselves may be sources of risk, if not achieved.

Figure 5.10 NVivo

Issues of Constructing a Property Portfolio which Represent Investment Risk



Source: Analysis of interview data

The components of Figure 5.10 are detailed in the following sections.

A portfolio of well built quality assets in good locations is seen as a risk mitigant. Properties of this type will assist with:

- Promoting appreciation for the property and demand to live there;
- Assist with efficient marketing strategies; and
- Capital growth.

The standards of the property need to be appropriate to the type of occupant. If the tenant is expected to be rough then there needs to be a robust construction to be able to handle the wear and tear. This highlights the need for a quality property construction. An additional benefit will be lower maintenance.

5.6.3.1 Aggregation of Property

The problem of aggregating a large enough portfolio suitable for institutional investment is lengthy and difficult, as residential estates are usually of a lower capital value compared to investment grade commercial properties. Therefore more projects need to be bought to amass a significant portfolio. Smaller developments are easier to develop and locate, but involve a greater number of transactions and management issues compound with the number of sites managed. The solution is difficult to solve and the problem is multi-dimensional.

“More significantly is assembling a portfolio. And that is what (happened with) Westpac’s Defence Housing, so at least they solved that. For someone else to do it, to assemble a portfolio, it is not easily done.” (15)

5.6.3.2 High Density Issues

The cost to construct and maintain the services of high density buildings are greater which leads to the supply of lower density buildings for affordable rental housing. The associated union activity required for higher density high, rise buildings is seen as raising the cost of construction which can be a large negative for affordable housing where costs need to be strictly controlled. The tendency is therefore to avoid high rise developments.

This issue of avoiding high rise developments is accentuated as the supply of undeveloped land is limited, especially in areas where there is high demand for affordable housing, that being inner city areas. In these areas there is a need for higher densities due to the limited availability of sites and to maximise the land use. An additional hurdle occurs as high density and high rise developments evoke strong resident resistance as it is considered to detract from

the amenity of the locality. A further issue is the higher cost of services and maintenance in high rise buildings which impact upon restricted cash flows.

“Terrace houses and town houses are probably fine because you haven’t got here sinking funds etc. etc. and it is only the body corporate. The majority of people are not favourably disposed to paying body corporate fees. And those fees are larger in multi-story due to lifts, air conditioning and all sorts of services. You have got to create sinking funds for the whole, to replace all of the services in the building every ten to fifteen years.” (D2)

“...from a council view, I suppose as we said before if you go to a larger scale development, you run up against issues such as amenity,...” (LG2)

5.6.3.3 Diversity

Location has a significant impact upon a property investment’s performance, whereas property fund management is focuses on diversification; a diversity of tenants, as well as property types (I1). The highest level of diversity is obtained by replicating the market (I6). This market replication also assists when market information is limited and the better performing sectors are difficult to identify. The task of identifying the best performing sectors is more difficult due to the long term nature of the asset which evolves through many cycles and influences. A limiting factor for achieving an efficient level of diversity is the availability of capital.

Diversity can also be achieved within property developments as referred to in section 5.6.2.5. Diversity in an affordable rental housing development would be limited as there would be no tenure mix and all the tenants are managed by the one manager for the one owner.

“We like to see diversification in a portfolio but we do not necessarily invest in a product just for diversity, it has got to make sense”. (I3)

5.6.3.4 Efficient Management

One of the reasons why there hasn’t been a large portfolio aggregated before is the inefficiency of managing a large portfolio. The current sector is too inefficient which results in excessive leakage and a reduced return.

"I go back to the very basic issues of what we assess as being the reason why it hasn't happened in the past and that is, and that is the inefficiency of managing a portfolio." (15)

5.6.3.5 Size of Portfolio

The size of the portfolio is a function of the investor you are targeting. As size is not going to happen quickly there maybe a need to cater to retail investors until you get to the size which will be suitable with institutions. A limitation to the size of the portfolio at this time is the inadequacy of housing associations which are seen to be vital to the growth of the sector.

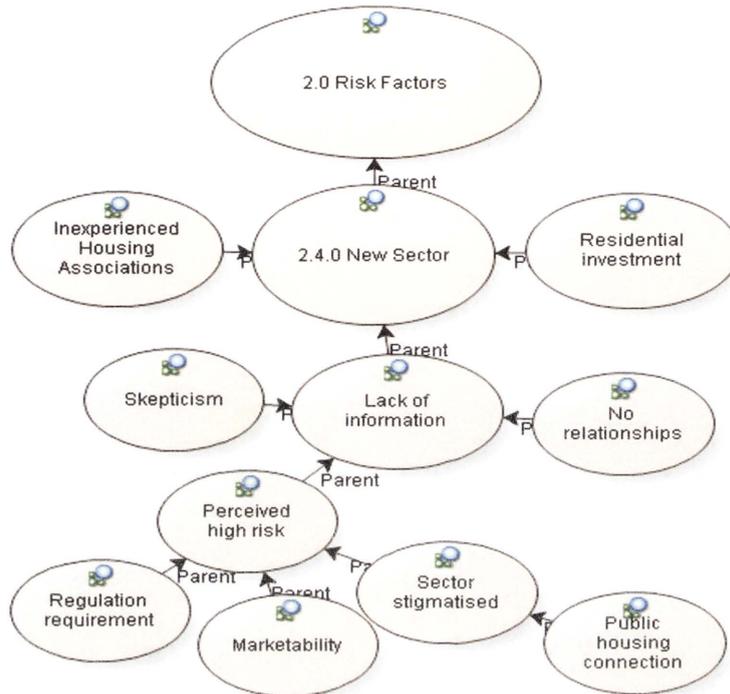
"Another thing I would say, institutions want to scale. So they do not want to put \$20 million in a fund, They want to put \$200 million , 20% investor in a billion dollar fund. So they want scale. We're talking big money there. Which has his own problems. Because you cannot get a scale over night." (11)

5.6.4 Difficulties of a New Investment Class

There are many factors which impede the development of a new investment class. Many of those factors arise from investors' lack of familiarity with the asset and the participants. This lack of familiarity gives rise to uncertainty which is seen as risk. Figure 5.11 identifies the factors of the affordable housing sector considered as risk.

Figure 5.11 NVivo

Factors of the Affordable Rental Housing Sector which Present as Areas of Risk to Investors in a New Investment Sector



Source: Analysis of interview data

5.6.4.1 Inexperienced Housing Associations

Efficiencies are improved through the use of housing associations which have a tax free status as there is no leakage due to tax. This efficiency is only achieved if housing associations hold title to the property. However as housing associations are generally small and lack financial backing, the risk to investors is perceived as high. As a pre-condition to housing associations owning property, the industry recognises housing authorities need to prove themselves before they are allowed to take on such high levels of responsibility. M3 notes this issue:

“Not saying that the existing not for profit housing companies would just jump in and do it,”

The need for improved skills justifies the recent move within the industry for accreditation and regulation of the sector.

The uncertainty concerning this matter is evidenced by a statement later in the M3 interview which refers to the improvement made by the housing associations specifically, the good skill sets, boards and management structures which are in place.

“They have got more expertise, they have got more expert people being employed in the industry, so the whole industry is really starting to take off. There are now takes and boards, there used to be a lot of voluntary people in community housing, and that was great, because they were very passionate. But now they’re big business, they need people with particular expertise and that is happening with boards and with staff.” (M3)

5.6.4.2 Lack of information

The poor information available concerning the sector gives rise to many incorrect perceptions and uncertainties. The sector is commonly thought of as suffering from the same difficulties as State-run public housing which has a poor reputation. Such connections were thought to impede the ability to substantiate a quality portfolio to future investors. These incorrect perceptions are also considered to have the potential to impact upon the marketability of the product upon sale. V1 provided a candid response on this matter:

“And the other unknown regarding affordable housing is that is there going to be the capital growth in it, or is it going to run down because you have got lower socio-economic people living in there? Maintenance costs get higher, and ghetto becomes ghetto.”

The reputation of housing associations are also coloured by this ignorance and their strengths doubted. Business across the industry is retarded as dealings tend to operate through relationships, with these relationships acting as a risk mitigant. For affordable housing such relationships with the business community have not had the opportunity to develop. In replace of this, stakeholders see a benefit in the government regulation of the sector.

The inadequate or incorrect information occurs in relation to tenants. Tenants are seen as high risk and welfare dependent, aspects which would be reflected in the rating of the quality of the cash flow. Similar perceived risks arising from the low level of information raises the required return from the sector. This elevated compensatory return is expected to apply for only a limited period. As information improves, the sector is expected to mature and witness a reduction in the required yield.

"There is no such asset class at the moment. And so investors and lenders have no information about it. Regulation in the UK, particularly over a period of time, came comprehensive information which was also of assistance in bringing financing in." (M2)

Table 5.8 depicts the diversity of participant categories which made comments in respect to the concept of problems arising from a new investment sector.

Table: 5.8

Interview Responses on the Problems Associated with a New Investment Sector

Participants	New Sector	Lack of information	Perceived high risk	Sector stigmatised	Public housing connection	Regulation requirement	Marketability
1 : D1 interview	0	0	0	1	0	0	0
2 : D2 interview	0	0	0	1	0	0	1
3 : I1 interview	0	0	0	0	0	0	0
4 : I2 interview - 2nd Interview	0	0	0	0	0	0	0
5 : I3 Interview	0	0	0	0	0	0	0
6 : I4 interview	0	0	0	0	0	0	0
7 : I5 interview Part 1	0	0	0	0	0	0	0
8 : I5 interview Part 2	0	0	0	0	0	0	0
9 : I6 Interview	1	1	1	0	0	0	0
10 : I6 Additions to 1st interview	0	0	0	0	0	0	0
11 : I6 Complete Interview	0	0	0	0	0	0	0
12 : I7 Interview	0	0	1	0	1	0	0
13 : I8 full last interview	0	0	0	0	0	0	0
14 : I8 interview Part III	0	0	0	1	1	0	0
15 : LG1and LG2 Interview	0	1	0	0	0	0	0
16 : LG3 Additional interview	0	0	0	0	0	0	0
17 : LG3 interview revised	0	0	0	0	0	0	0
18 : M2 Interview	0	1	1	1	0	1	0
19 : M3 interview	0	0	0	1	1	0	0
20 : SG1 interview	1	1	0	1	1	0	0
21 : T1 interview	0	0	0	0	0	0	0
22 : V1 Interview	0	0	1	1	1	0	1

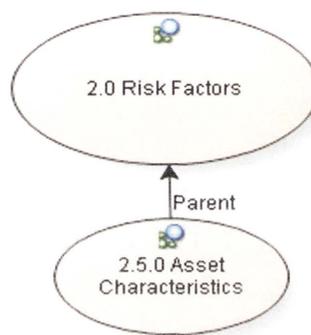
As Table 5.8 indicates, there is a greater openness concerning the difficulties of the new sector in those participant categories which have involvement in the affordable housing sector at the moment. Those categories are the ones having to deal with the implications of external parties opinions therefore the risks are obvious. I6 was the most articulate of the private sector which may be due to their current consideration of residential as a potential investment class and therefore had been confronted with the risks.

5.6.5 Asset Characteristics

Any investment is impacted by the unique qualities of the underlying asset. This experience applies equally to investment into residential property. The linkage of asset characteristics as a risk factor is indicated in Figure 5.12.

Figure 5.12 NVivo

Asset Characteristics Provide a Source of Investment Risk



Source: Analysis of interview data

Essentially residential property is seen as a core investment, which is a defensive long term passive asset. Being dependent upon capital growth there is a requirement for the investor to have access to the full amount of capital gains. Such capital gains have in the past been the factor of the finite supply of land and the planning regime which is seen to create value for existing developments through the restriction of competitive projects. The risk of negative capital returns is therefore considered as low. Generally the total return from residential property is perceived as adequate provided the investor can be provided with a return which is not diluted by inefficient management structures.

Negatives in relation to the performance of the asset include:

- Sector is not transparent;
- Asset is a depreciating asset and therefore the property management is essential to ensure the value does not fall;
- High cost of transactions which makes dealing difficult;
- Low return restricts debt repayment coverage;
- Risk of government involvement as it is a social good; and

- Unless you are a wealthy investor which can benefit from negative gearing the investment is not positive in the early years of the investment if there are no capital gains due to the low income return.

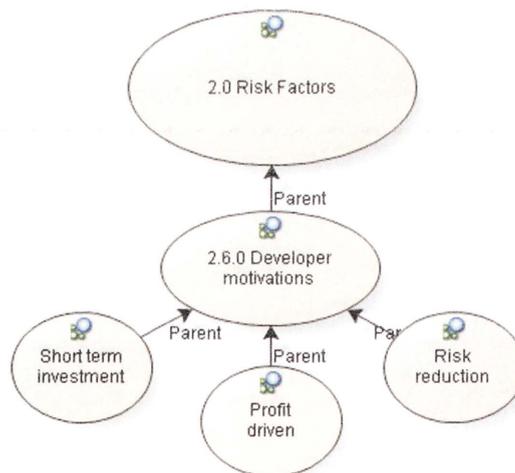
"It is a tough market to gear in at different times. In a bull market when properties are doubling every twelve months, it is easy to get capital because you can recapitalise in the debt markets. In the current markets total returns are far from, are well below cost of borrowing at the moment. Long term that won't be true, but as we sit, if you look at Sydney market, rental yields might be reasonable, but the capital growth is pretty low. You still are expecting net 4% for the next twelve months may be, whatever it is certainly lower than the seven and a quarter you are paying to borrow." (I1)

5.6.6 Developers' Motivations

Aspects of developers' motivations can impact upon the supply of adequate affordable housing and the long term performance of the asset. Figure 5.13 indicates some of the facets of the developers' motivations.

Figure 5.13 NVivo

Facets of Developer Motivations which Present as Areas of Risk



Source: Analysis of interview data

Developer's responses supported the idea that they are strongly profit driven. One respondent involved in a shared equity arrangement and estate redevelopment did have a long term interest and therefore understood the potential for the enhancement of value through quality building. The other was motivated by the take-out at the end of construction. The latter response can lead to quality issues, or unsuitable supply, being inappropriate to demand whether in location or accommodation, if not regulated. Being strongly profit driven, there is a view developers are largely opportunistic and apply their limited resources to secure projects which produce the most gain with the least amount of effort.

"They don't care because all they're going to do is deliver a product. They're just going to be looking for a take-out party. All he's going to do is just build a property and flog it to a vehicle, either a wholesale fund or a listed property trust. So he really doesn't care so long as the payments are there." (D2)

The incidence of comments from participants in respect to the asset characteristics and developer motivations were not unexpected as shown in Table 5.9.

Table 5.9

Interview Responses on Asset Characteristics and Developer Motivations

Participants	Asset Characteristics	Developer motivations	Short term investment	Profit driven	Risk reduction
1 : D1 interview	0	1	1	0	1
2 : D2 interview	1	0	1	1	1
3 : I1 interview	1	0	1	0	1
4 : I2 interview - 2nd Interview	0	0	0	0	0
5 : I3 Interview	0	0	0	0	0
6 : I4 interview	0	0	0	0	0
7 : I5 interview Part 1	1	0	0	0	0
8 : I5 interview Part 2	1	0	0	0	0
9 : I6 Interview	1	0	0	0	0
10 : I6 Additions to 1st interview	0	0	0	0	0
11 : I6 Complete Interview	1	0	0	0	0
12 : I7 Interview	1	0	0	0	0
13 : I8 full last interview	1	0	0	0	0
14 : I8 interview Part III	0	0	0	0	0
15 : LG1and LG2 Interview	0	0	0	1	0
16 : LG3 Additional interview	0	0	0	0	0
17 : LG3 interview revised	0	0	0	0	0
18 : M2 Interview	0	0	0	0	0
19 : M3 interview	1	0	0	0	0
20 : SG1 interview	0	0	0	0	0
21 : T1 interview	0	0	0	0	0
22 : V1 Interview	1	0	0	0	0

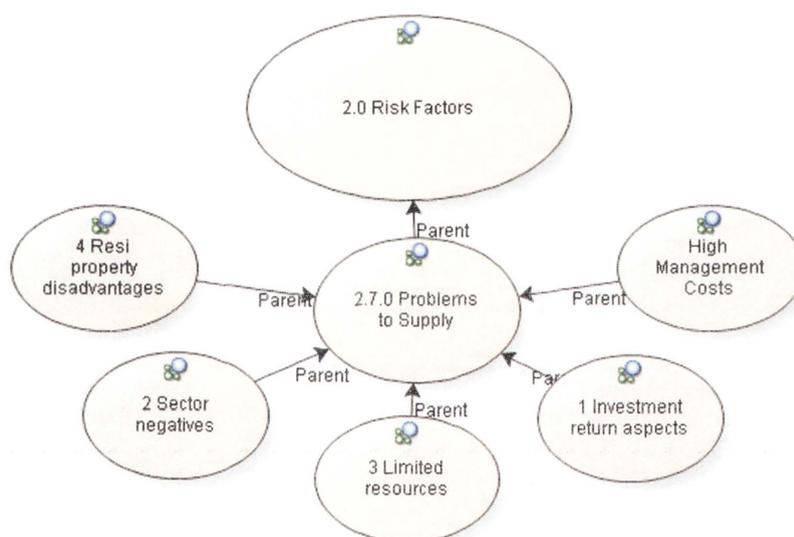
Comments were received from representatives from all participant categories in respect to the characteristics of residential property, as indicated in Table 5.9. Most of the relevant remarks concerning developers were, as expected, received from developers. I1 has considerable experience in the residential property as an asset class and was aware of the associated problems.

5.6.7 Current Supply Shortage Causes

The current under-supply of affordable housing was seen to be attributed to various factors as indicated in Figure 5.14.

Figure 5.14 NVivo

Factors which Impact upon the Supply of Affordable Housing



Source: Analysis of interview data

The issues depicted in Figure 5.14 have linkages to other risk factors identified in this report. An outcome of these issues is the restriction of supply to the sector. As investors desire an investment in a sector which has growth potential so as to be able to achieve the benefits of scale and liquidity, restrictions to supply is seen as a risk to the investment.

5.6.7.1 Problems to Supply

On a government level, policy in respect to affordable housing is ineffective; local government have a low knowledge of existing State policies and are not concerned about the ignorance, while the State government does not push for compliance. Such activities are indications of the State governments' low priority towards affordable housing matters. This situation is promoted by resident opposition to what is seen as 'public housing'.

The hurdles to constructing an efficient housing portfolio which has attractive investment returns is being experienced by various fund managers who are trying to construct full market paying residential investment vehicles. Many of the measures attempted to achieve an attractive investment return is through reliance upon complex tax rulings which are involved and result in long delays as tax offices review the terms of the schemes. Such delays and the employment of consultants prove costly and time consuming. To be successful in achieving similar goals for the affordable rental housing sector is seen as more difficult due to the associated reduced rental income and lower funding sources.

"In order for that to deliver affordable housing they've had to try and develop a fairly complex model that relies upon some of the timing, a lot of timing issues around tax payments and so on and they are still struggling around the partnership with the not for profit in terms of tax rulings. The tax office hasn't ruled out yet, but it has been going on for two years. I mean, our tax law is a real barrier to some of these funds to the extent where they really want to push down genuinely in to affordable housing then they either become highly engineered, or they involve a not for profit in a way which makes it very hard to get the tax and rulings right. So we have just got nothing. I think it is a sensible model if we can only get the environment, particularly the tax law right." (M2)

5.6.7.2 Investment Return Aspects

The profit margins are a large determinant of the supply of affordable housing. Higher density buildings provide a lower margin whereas low density projects offer higher developer margins with greater site availability in outer fringe locations. These dynamics result in obstacles to appropriate supply and may result in development activity being directed away from affordable housing projects.

Similarly the investment returns from alternate non-property investments are higher than affordable housing. These higher returns which are produced with less effort and risk are a disincentive for investors to invest in the sector.

“The income streams. You can be as clever as you like in terms of financial engineering, or the products have or whatever, and we are making gains on both of those fronts. So you can start to pull down the overall cost I think. But still, at the moment, while this is cyclical who knows what the future trajectory will be but, I mean at the moment, just ordinary market rental doesn't provide commercial returns. It certainly doesn't provide comparable returns to other investments. And I am trying to remember where the graphs are but they go over the past ten years, they are quite dramatic from fairly significant returns to 4% or,.. So that is the ordinary rental market and so you start going down to a sub market price.” (M2)

“I don't know why it is not so popular, probably because it is easier for people to make money more easily with other investment opportunities.” (D1)

5.6.7.3 Sector Negatives

One of the difficulties for the sector has been the low investment return which has failed to attract the involvement of the required skills which might have solved the issue of supply and funding. To overcome this issue of the low return a subsidy may therefore be required. A high subsidy will be required as new sectors require a higher rate of return until information on the performance of the sector promotes competition and risk reductions from a maturing of the sector.

Other barriers impeding the development of the sector have been:

- Nominal knowledge of affordable rental housing which makes it difficult to consider and look for opportunities. An effective education campaign needs to occur to lift the public's awareness;
- Areas recognised as needing affordable housing, inner city locations where house prices are high, are also seen as the areas where it is important to maintain the existing amenity. These are seen to be opposing objectives which may explain why practical support is weak but it is supported notionally;

"...it's quite lucky in that we have got a high transport network. So we have that as a good strong base as well.

LG2: and proximity to jobs, which is really important

LG3: which also makes the area very attractive for people and how we balance community expectation, why people are moving here and the need for greater density with all of those other criteria that you have said are tricky." (LG1 and LG2)

- Housing associations are hindered in their ability to grow stock independently as they have limited or no access to equity.

"Without that capital base you cannot access equity." (LG1)

- Relations between State and local governments are strained therefore there is hesitancy to act upon State policies.

"...increasingly it appears that local government gets reminded that it is simply a creation of state government full stop. In the current agendas of how they are being played out this becomes pretty critical in terms of the role at this level, if we have got a role to play." (LG1)

- The sector is still seen as burdened with long term tenancies which restrict capital withdrawal from the sector.

5.6.7.4 Limited Resources

The sector is restricted from development in many areas. Some of these areas include:

- A section within local government circles appears to support affordable housing but resources are limited to fund required specialty services;
- Many councils are restricted in their view of what might be achievable and look at projects like the Bonnyrigg conversion and see large scale improvement to the area as being the only way;
- The availability of large development sites suitable for the scale required for affordable housing developments is limited. Such limited thinking overlooks the potential for smaller site development;
- There are limited services in local government areas which cause a conflict of interests; and
- Promoting the needs of affordable tenants over another group would increase demand and result in falling service levels.

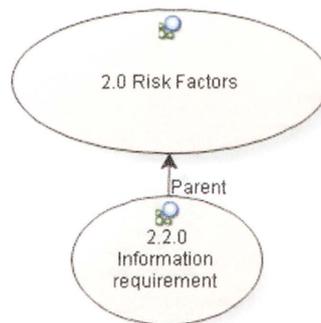
“But also ensuring that the long-term viability of the community is looked at so, in terms of aging, in terms of appropriate service delivery to aging, not only in terms of accommodation but in the service support. Aging in place is a particular strategy that is important in terms of disability as well. If you are increasing the density of this area then you are looking at, potentially, greater use of the structural and infrastructure services in the area.” (LG2)

5.6.8 Information Deficiency

There is a need for an improvement in the amount of information available on the affordable housing sector. The deficiency of such information is seen as a risk to investors as indicated by Figure 5.15.

Figure 5.15 NVivo

Affordable Housing Information Issues Impacting on Investor Risk



Source: Analysis of interview data

A requirement for greater Information exists through the sector in various forms:

- The investors may see the tenant risk as greater which in many cases is incorrect;
- Housing associations need to be trained to understand the requirements of investors; and
- Investors doubt the ability of housing associations and expect a conflict of interest;

Information regarding residential property is also seen as lacking; the reporting of sales information has improved however rental data is not seen as reliable. The Victorian government has recognised this need for a bank of information on which to make an informed decision and commissioned the production of this data to further the sector. A similar initiative should be adopted in New South Wales. Such data base could include historical information on the performance of the asset in order to sell the product to investors. The lack of information raises perceived risk and the need for a compensatory payment of a premium return.

Table 5.10 reveals the pattern of respondent's relevant comments in relation to the shortage causes for affordable housing.

Table 5.10

Interview Responses on Affordable Housing Supply Shortage Causes

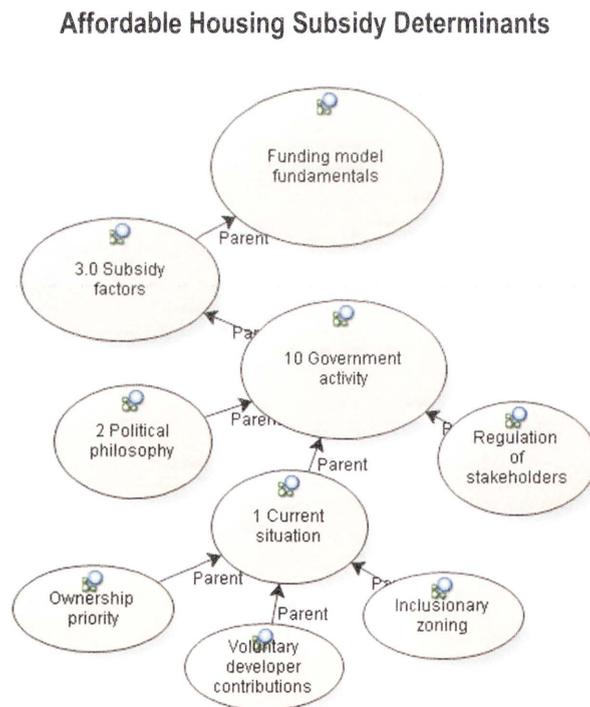
Participants	Problems to Supply	Investment return aspects	Sector negatives	Limited resources	Resi property disadvantages	High Management Costs	Information requirement
D1 interview	0	1	1	0	0	0	1
D2 interview	1	1	1	0	0	0	1
I1 interview	0	0	0	0	0	0	1
I2 interview - 2nd Interview	0	1	0	0	0	0	0
I3 Interview	0	0	0	0	0	0	1
I4 interview	0	1	1	0	0	0	0
I5 interview Part 1	0	0	0	0	1	0	0
I5 interview Part 2	0	0	0	0	0	0	1
I6 Interview	1	0	1	0	0	1	1
I6 Additions to 1st interview	0	0	0	0	0	0	0
I6 Complete Interview	0	0	0	0	0	0	0
I7 Interview	0	0	0	0	0	0	1
I8 full last interview	0	0	0	0	0	0	0
I8 interview Part III	0	0	0	0	0	0	0
LG1and LG2 Interview	0	1	1	1	0	0	0
LG3 Additional interview	1	0	1	0	0	0	0
LG3 interview revised	0	0	0	0	0	0	0
M2 Interview	1	1	1	1	1	0	1
M3 interview	0	0	1	1	0	0	0
SG1 interview	0	0	1	1	0	0	1
T1 interview	0	0	0	0	0	0	0
V1 Interview	0	0	0	0	0	0	0

Reasons for the low supply of affordable housing are noted in the patterns of responses contained in Table 5.10. The high level of responses regarding improved information was matched by the number noting the sectors negatives as reasons for supply problems. It is not coincidence that improved information will also remove some of the sectors perceived negatives. The inadequate return aspects are also related to information improvement as the associated risks would improve the risk adjusted return from the investment.

5.7 Subsidy Factors Indicators

The activity of government has a large influence upon the current and future shape of the affordable rental housing sector. Some of the ways in which the government impacts upon the sector are seen in Figure 5.16.

Figure 5.16 NVivo



Source: Analysis of interview data

5.7.1 Government Activity

The activities of government on all levels have severely impacted the state of housing, and in particular, the affordable housing markets. Many of the current policies to assist the housing sector are seen as a negative. An example is the First Home Buyers Grant which is widely seen as inflationary. A result of the State's public housing management has resulted in the sector being stigmatised. This stigmatisation impacts upon the attitudes of the community and the governments involved with them.

"The inefficiency and the bloody ineptitude of the state governments when they delivered in the sixties, when they tried to deliver social housing into the marketplace. They blew it totally. And that's still haunting us today." (I8)

The attitude of the State government and its departments is conservative and therefore they are not expected to assist through amending policy to assist the sector. This indicates the low motivation of the State government to assist the affordable housing sector.

"On a state level, I would say it, desperately like to say that Morris lemma is sincere but, I am sorry I just, you know but like, there have been so many things that they could have done, little things admittedly,... and Michael Costa is running the show and the market prevails, full stop. My own view is that I don't think the state government is terribly sincere about this issue at all" (LG3).

One of the indicators of the level of priority to the sector is insufficient allocation of funding. The funding which is supplied through the State is small and needs to be accompanied with additional funding to produce new housing. As housing associations have little equity of their own, the total finances for construction is limited as finance institutions require equity of at least 80 percent.

The lack of funding assistance is combined with a lack of policy related support from the NSW State government. This is shown in the following comment:

"If you have got a clear system that people understand then you can operate within it. If you don't have that then, especially in terms of local government then, it means you are unsure of where you can move or not and that means you are frozen (LG3)".

The NSW State government have provided local councils with affordable housing guidelines whereas the State government's actions confuse these policies. In some instances this has thwarted the development of the sector. Local councils are also reluctant to be seen as favouring developers through planning bonuses despite these bonuses being part of an affordable rental housing strategy. The NSW government has stalled on providing a NSW Interim Affordable Housing Strategy promised for mid-2006. Faced with such limited State government support, local governments would prefer the backing and directive of the Federal Government to justify planning decisions involving density bonuses.

The low level of priority for affordable housing is also witnessed at the local government level. An inner city council recognising the problems associated with affordable rental housing considered itself fortunate to have a rating base which comprised of a significant amount of commercial properties. This boosted the councils' income and removed the need to support affordable rental housing as a means of sourcing additional income. The income need by some council's out weighs that for affordable rental housing. An example provided stated a council's need for funding was so significant that any excess funds, generated from the affordable housing portfolio, would be used to purchase commercial property, as these were higher yielding assets.

"The example given was Botany Council whom it was suggested would not consider the need for affordable housing. Not because there was not the need for it but rather the council could avoid the associated problems arising from affordable housing provision from local residents. They could avoid it as they did have this additional strong cash flow from the commercial properties." (LG3)

Government activity in this area appears to be impeded by a lack of a functional relationship between the levels of government. State governments have seen the local governments' inefficiencies and are in the process of amending the development approval regime. Recent NSW State government responses to the Federal governments National Rental Affordability Scheme was seen as hindering the objectives of the scheme. The NSW government were suggesting options which would not be attractive to corporate investors, such as restrictive requirements to gain access to the subsidy. This is seen as a large factor reflecting the poor relationships between the two levels of government and the low priority for affordable housing on a State level.

There seems to be a lot of concern that the government could alter their policies and this is a risk to the success of an investment which depended upon government legislation for a particular benefit.

5.7.1.1 Inclusionary Zoning

The NSW State Government's policy of inclusionary zoning evoked a mixed response from participants. The inefficiency of the policy provoked one developer to devise an affordable rental model designed to boost supply over that provided under inclusionary zoning. Inclusionary zoning has however been instrumental in establishing an affordable housing portfolio which is expected to become self supporting. This is a fortunate outcome as the area impacted by this zoning will ultimately be fully developed and new supply will end.

"The only reason why I began developing a model was my argument with the affordable housing Levy that was put forward in South Sydney and existed in Waverly council as a way of funding affordable housing. I simply said this is never going to work. The reason behind it was, it is really simple, the levy is about \$15,000 per the apartment. To say the typical one bedroom apartment is \$450,000 to \$500,000, you only get one affordable apartment for every 30 dwellings which you are going to take a long time. If you took (the total of) Sydney wide apartments being built right at the moment, maybe 5000, that is only going to give you maybe 150 affordable dwellings, if you are lucky, in one year." (D2)

"Yes but the thing is, council's are much keener on inclusionary zoning because it is much more simple than negotiating voluntary planning agreements as it can be difficult. Often they do not have the expertise needed and can be subject to criticism such as deal making. So it is a bit tricky." (SG1)

5.7.1.2 Voluntary Developer Contributions

This is the main policy avenue to improve the supply of affordable housing in NSW. The main attribute is it produces housing which is held by local governments in perpetuity, which other schemes do not achieve. Council can of course sell the property at any time. Despite the importance of this policy councils are ill-equipped to handle the process, particularly at the negotiation phase. The success of the process is complicated by conflicting forces at the local

government level. These conflicts were noted as between the administration and planning departments.

"The big problem at the moment is local government which is inefficient and ineffective in its planning policy to be able to deliver the right outcomes across the whole marketplace. Politicians, local government, is politically motivated and the politicians within a local government have too many self interests to be able to get any scale to anything. That is the problem, number one." (18)

5.7.1.3 Regulation of the Stakeholders

Regulation is generally seen as assisting the standing of the sector as stakeholders are aware participants are required to account for their practices. Other benefits include the lowering of risk which results in the subsequent lowering of funding costs. There is opposition to the regulation of property but not as much for the regulation of the stakeholders, particularly the housing associations or managers. Regulation is treated cautiously as policies set up by government may not be in accord with how the market would act. Regulation may therefore add risk, in situations where a market response is required and operators are restricted from undertaking that action.

"As a commercial organisation we tend to rely upon market forces in our assessment. If we can see that it makes sense from a market perspective then we tend to view that favourably. If it's reliance upon anything such as subsidies or regulations that distort from what would be the normal market approach then to us it would be an issue" (17).

Overall the positive impact of government regulating the sector is not expected to be significant with reliance always being upon the risk adjusted return levels.

5.7.1.4 Political Philosophy

LG3 quote identifies, the political philosophy shapes the reality of what is achievable in the world in which we operate.

"Particularly since we're all living with the microeconomic reform and economic rationalism, is the era at the moment. All those things thankfully might be changing a bit, but that is still the reality" (LG3).

The political philosophy is seen as the principles which provide guidance in practical matters. As such it is incumbent to consider this philosophy when assessing what is viable and what is

not, particularly when there is involvement with government. The governments' philosophy is evidenced by their actions.

The motivation of the government is observed in what evokes their support. The State government wants a return from an activity if they are being expected to support it. The State does not consider the need for affordable housing above the need for the housing to pay for itself. State government support for affordable housing depends upon the long term financial sustainability of the scheme. Financial support for affordable housing will be required to "*achieve some purpose*" (D1) other than housing those in need. Therefore support for affordable housing is not seen as an issue which alone justifies the requirement of a subsidy; it needs to be assisted or motivated by another cause or outcome. There has been little commitment to affordable housing by government and so the sector has not progressed.

The priorities of the government are witnessed through considering that governments will be looking more at the risk to them associated with a funding model than at the efficiency. "*But the big issue for the State's was that the State's ended up bearing the risk. So they wouldn't support it*" (SG1). Industry respondents also recognise that government, particularly at the higher levels, that is the State and Federal governments, do not place a high priority upon affordable rental housing. The Government's policy to hold housing assets is also questioned and seen as not fitting current practice.

The risk borne by government is seen as a crucial component of any scheme considered as they are risk averse. "*That is the other problem with such a risk averse world these days*" (LG3). Even on a Federal level there appears to be a risk aversion and conservatism. Any model the government will adopt will therefore lack the taking on of risk by the government.

A fundamental indicator of how a government thinks is their rhetoric and whether their actions support their words. LG1 refers to the use of mixed messages coming from the State government. The concept was local government are themselves victim to the discursive activity of government, believing one thing and not seeing any support, while perhaps witnessing an opposing action.

The practice of western governments has been the use of discursive speech to project to the public an image as to how they want them to think. The government's actions can then be seen to be in accord with the circumstances. One participant made a contradictory statement which identified the confusion in the sector which may have been the result of such discursive activity. The participant had just acknowledged the ability of the funding models to work, but then the assumption was made that there must not be a workable model as the State government are very keen to expand the supply of affordable housing. That indicated a belief the government would act if there was a solution. The dilemma appeared to be: 'Why wouldn't the State be working to improve supply if there was a model out there that works?' The conclusion was then reached that there must *not* be a workable model! The participant further concluded that the problem needs to be large enough that it is politically expedient for the government to do some thing about it.

Table 5.11

Responses on the Activity of Government for Affordable Rental Housing

Participants	Political philosophy	Regulation of stakeholders	Government activity
1 : D1 interview	1	0	0
2 : D2 interview	1	0	0
3 : I1 interview	0	1	0
4 : I2 interview - 2nd Interview	0	0	0
5 : I3 Interview	0	0	0
6 : I4 interview	0	0	0
7 : I5 interview Part 1	0	1	0
8 : I5 interview Part 2	0	0	0
9 : I6 Interview	1	0	0
10 : I6 Additions to 1st interview	0	0	0
11 : I6 Complete Interview	0	0	0
12 : I7 Interview	0	1	0
13 : I8 full last interview	0	0	0
14 : I8 interview Part III	1	1	0
15 : LG1and LG2 Interview	1	1	0
16 : LG3 Additional interview	1	0	0
17 : LG3 interview revised	0	0	0
18 : M2 Interview	1	1	0
19 : M3 interview	1	0	0
20 : SG4 interview	1	1	0
21 : T1 interview	1	1	0
22 : V1 Interview	0	1	0

As noted in Table 5.11, many within government and those already involved in the sector commented on the governments' philosophy as being an important determinant for their activities. There were also some strong opinions expressed by investors in respect to regulation as this was not seen a favourable, preferring freedom to operate as a risk mitigant.

5.8 Fund Characteristics

There were various features of a funding model identified during the interviews which were viewed as vital to the viability of the models. These requirements were seen as essential for an investment vehicle by the industry stakeholders and therefore represent key criteria for which to assess the subject models.

The funding models features are listed in the Table 5.12 together with a brief definition of the feature.

Table 5.12

Fund Model Features Required by Interviewed Stakeholders

Fund model feature required	Definition of the feature
Access to title by investors	The need of investors to have direct access to the title of the asset, as opposed to an investors' interest being subordinate to another.
Cash flow	The income cash flow needs to be sufficient to cover the operation of the portfolio. Sustainability; the level of dependency on enhancements and subsidies, leases and other agreements, diversification. Clear understanding of the process of providing the income return to the investor.
Clear accountability	A clear method of reporting to assist accountability and a process of checks to manage the operation.
Cost effective	An efficient taxation structure is ideal.
Access to government funding	The ability to access funds from the government which are at a low or 'no debt servicing' cost.
Partnering	Consideration of the partnering proposed by the fund model. For example, which levels of government are involved? What is the current level of trust and functionality between the parties?
Risk responsibility	The acceptance of risk by the party which is most able and willing to accommodate it. This has the benefit of lowering the required return payment for the participant.

Simplicity of the model	For a new sector investors want simplicity as they would need time to get acquainted with the sector and to understand the workings before any additional complications are applied.
Market capitalisation	Institutional investors have a requirement for a minimum sized fund which is generally \$300 to \$500 million. A large fund will enable sufficient diversity and be able to access and take advantage of opportunities available to larger vehicles, e.g. economies of scale.
Scaleable	The ability to grow and use its resources productively.
Liquidity	Different investors require differing liquidity levels; retail investors want a high level, while institutional investors have little need for it, preferring an exit strategy. Liquidity of the asset can be impeded by no market or large penalties which restrict the sale.
Term of the investment	The term of the investment needs to be for an appropriate length of time, e.g. 10 years to be acceptable to investors.
Transparency	Transparency assists with understanding the workings of the investment. Trusted managers do not require as much transparency as they have the confidence of investors. The government also needs transparency and believes that transparency can only be obtained if a housing association manages the property, as opposed to if private agents are used. Transparency allows for investors to price the risk.

The above comments can be attributed to the specific participants through the matrix shown in Table 5.13.

Table 5.13

Interview Responses on a Viable Funding Model's Features

Participants	Access to title	Partnering	Size of Fund	Cost effective	Clear accountability	Transparency	Subsidies	Politically feasible	Simplicity of model	Cash flow	Term of investment	Liquidity
D1 interview	1	1	0	0	0	1	0	0	0	0	0	0
D2 interview	1	1	0	0	0	1	1	1	1	0	0	1
I1 interview	0	1	0	1	0	1	0	0	1	0	0	1
I2 interview - 2nd	0	0	0	0	0	1	0	0	0	0	0	1
I3 Interview	0	0	0	0	0	0	0	0	1	1	0	1
I4 interview	0	0	0	0	0	1	0	0	1	0	0	1
I5 interview	0	0	0	0	0	1	1	0	1	0	0	1
Part 1 I5 interview	1	1	0	0	0	0	1	0	1	0	0	0
Part 2 I6 Interview	0	1	0	1	0	1	1	0	1	0	0	0
I6 Additions to 1st interview	0	0	0	0	0	0	0	0	0	0	0	0
I6 Complete Interview	0	0	0	0	0	0	0	0	0	0	0	0
I7 Interview	0	0	0	0	0	1	0	0	1	1	0	1
I8 full last interview	0	0	0	0	0	0	0	0	0	0	0	0
I8 interview	0	0	0	0	0	1	0	0	1	0	0	1
Part III LG1 and LG2 Interview	0	0	0	0	0	1	0	0	1	0	0	0
LG3 Additional interview	0	1	0	0	0	0	0	0	1	0	0	0
LG3 interview revised	0	0	0	0	0	0	0	0	0	0	0	0
M2 Interview	0	1	0	0	0	1	1	0	1	0	0	1
M3 interview	0	1	1	1	1	1	0	0	1	0	0	1
SG1 interview	1	1	0	1	0	1	0	1	1	0	0	0
T1 interview	0	1	1	0	0	0	0	0	0	0	0	0
V1 Interview	0	0	0	0	0	1	0	0	0	0	1	1

The fund characteristics mentioned in Table 5.12 provide an easy to apply check list for each of the reviewed funding models. A summary of how each of the funding models comply with the identified investors criteria is provided in Table 5.14.

Table 5.14

Funding Model Rating for Investor Criteria

Fund model feature required	Bond Model	PPP Model	Pooled Fund Model	Not for Profit Model	Tax Credits Model
Access to title by investors	✓	X	✓	X	✓
Cash flow	✓	✓	✓	✓	✓
Clear accountability	✓	X	✓	✓	X
Cost effective	✓	✓	X	✓	✓
Access to government funding	✓	X	X	✓	X
Partnering	X	X	✓	✓	X
Risk responsibility	X	X	✓	✓	X
Simplicity of the model	✓	X	✓	✓	X
Market capitalisation	✓	X	✓	X	✓
Scaleable	✓	X	✓	X	✓
Liquidity	✓	✓	✓	X	X
Term of the investment	✓	✓	✓	X	✓
Transparency	✓	X	✓	✓	X

Considering the review of the funding models as shown in Table 5.14 it is difficult to choose which of the models take precedence as the criteria used are not weighted in order of preference for the stakeholders. Regardless the Bond model does rank well as it has a majority of the desired features. This is in accord with the majority of comments received from the participants in this research as well as the literature which have prioritised the models such as the Allen Group (Allen Group 2004). Notwithstanding, without a definite basis with which to select between funding models identification of a viable model in the context of the current government policy and the economic climate is uncertain. A further basis for making a sound identification possible is therefore required.

5.9 Summary

This chapter presents the results of the analysis of the completed interviews on stakeholders of the affordable rental housing sector. The data has been presented objectively to assist the reader to come to an understanding of the issues prior to their combination with the literature in the concluding chapter to address the research questions.

This chapter focuses on the fundamental challenges facing the funding and supply of affordable rental housing, including return, risk and subsidy. The low return is commonly regarded as the sole reason for the lack of investment in to the sector. Investors however do not just consider the return of an investment, as the associated risk is equally important. The level of risk associated with an investment will require an appropriate level of return. As the return from affordable rental housing is relatively fixed, emphasis must turn to the associated risk to improve an assets' investment performance. Investors are seeking low risk low return investments. Therefore an investment market exists if the risk can be effectively managed or subsidised by one of the stakeholders provided it is not the investor. The chapter ends with a list of features noted as being important to a viable funding model. This set of features will be used in the following chapter to compare the subject models.

Residential property was not seen as an asset class which investors are particularly interested in, despite the potential advantages of diversifying existing investment portfolios. This arose as the perceived risk associated with the investment was not compensated by the return. The perceived risk was high as the asset and its past performance and the participants were

unknown to the investment community. Residential property's need for maintenance was a key issue which placed importance on the asset management model. Similarly, as tenants of affordable housing were viewed negatively and effective management model was critical. A major obstacle to securing institutional investment was the amalgamation of a significantly large portfolio as there were numerous obstacles to achieving that aim identified. As the requirement for a subsidy was identified as essential to achieve institutional investment, the current activities and philosophy of government were considered to illuminate which model for delivering this subsidy would be acceptable. Such indicators are fundamental to identifying a viable model for government as new policies would not diverge from current practice.

CHAPTER 6

SUMMARY, CONCLUSION AND FURTHER RESEARCH

6.1 Introduction

Governments are especially responsive to the voting power of the 'aspirational middle class' (Wilson & Turnbull 2000) therefore as the incidence of housing stress upon middle income households increases, perhaps the political will to do some thing about the problem will also increase. This research investigating a viable funding model for the affordable rental housing is therefore timely.

A qualitative research method was used for the task of assessing the viability of the funding models. This method is a new approach for this area of study. The principles of grounded theory were adopted for the analysis of interviews of key industry stakeholders due to its potential to generate new theory grounded in experts' views. The application of grounded theory to this area of study represents a contribution to the current body of knowledge.

The thesis' purpose was to build a theory through which a viable funding model could be identified in order to attract private investment into the affordable rental housing sector. This purpose would be achieved if the devised theory effectively explained the forces and requirements operating with in the sector. This explanation is necessary as these forces and requirements provide the framework within which a funding model needs to operate. This research presents new information regarding the views and experience of affordable housing stakeholders.

6.2 Research Summary

This research was expected to locate weaknesses in the models which rendered them unworkable and hence did not evoke support from government. The reasons which made the models unworkable were expected to be the inability to address the requirements of the investment community. However what was found was the models could all be successfully implemented if government provided an appropriate subsidy. The benefits of providing a subsidy were obvious, substantial and meaningful. The extent of these benefits raised questions regarding the governments' motivations despite their rhetoric which proclaimed they were interested in assisting, and had a clear mandate, to provide for the people's housing needs, especially the less fortunate. Such statements were supported by the existence of government departments, both State and Federal, set up to assist affordable housing, yet supply was slow and inconsequential compared to the need. Investors and government alike focused solely on the rental gap pointing to the shortfall in the investment return as the reason for the lack of investment. A more critical consideration was that the investment return failed to provide sufficient compensation for institutional investors relative to the risks involved. As a result, supply remained limited. The inadequacy of the governments' financial commitment to the affordable housing sector on all jurisdictional levels is key the reason that none of these funding models studied have been adopted.

The existence of numerous feasible funding models supports the idea that the problem is one of devising a model which generates a return from an inherently low yielding asset to attract private investment. So the problem was perceived as being a financial challenge; one of developing a structure which would be acceptable to government as a vehicle to adequately cradle a proposed subsidy provided by government that would encourage significant institutional investment in to the sector.

It was assumed therefore that one of the reasons none of the funding models studied had been implemented was because the 'best' option was still being formulated. The true reason for this lack of investment activity is suspected to involve a consideration of what government prefers.

This research has identified that there are significant barriers to investment within the political and business sectors which are acknowledged by all levels of government. There has not been

the political will to enact policy that will address these barriers and in turn encourage investment in the affordable rental housing sector.

The normative theory of social choice includes the idea that the result of the operation of the social process is the socially most preferred option (Asher & Midwest Political Science Association (U.S.) 1984). On this premise it could be thought that the current affordable rental housing problem has occurred either as a result of society's intent to not be involved in a solution or because of society's lack of knowledge of the sector.

The research showed that the reason why none of these funding models had not been adopted was not because of their failure to provide a suitable vehicle which was acceptable to government but for other reasons. One of the main reasons was there has been no political will to significantly intervene in this sector to try and address the problem. The new National Rental Affordability Scheme may prove there is now some political will of the recently elected Labor Federal Government. However as this scheme is yet to be passed as legislation, the degree of Government will is still open for speculation at this time.

In the interim and to avoid the associated risks which accompanies government involvement, it is suggested that a solution which involves working within the current political and economic environment be developed to encourage and support private investment in the affordable rental housing sector.

The main themes identified during this research which assisted with providing a path for the assessment of a viable funding model are depicted in Figure 6.1. These themes are the interacting factors which determine the level of private investment in affordable rental housing.

Figure 6.1

**Pattern of the Findings of the Research and How these Impact upon the Determination
of a Viable Funding Model**

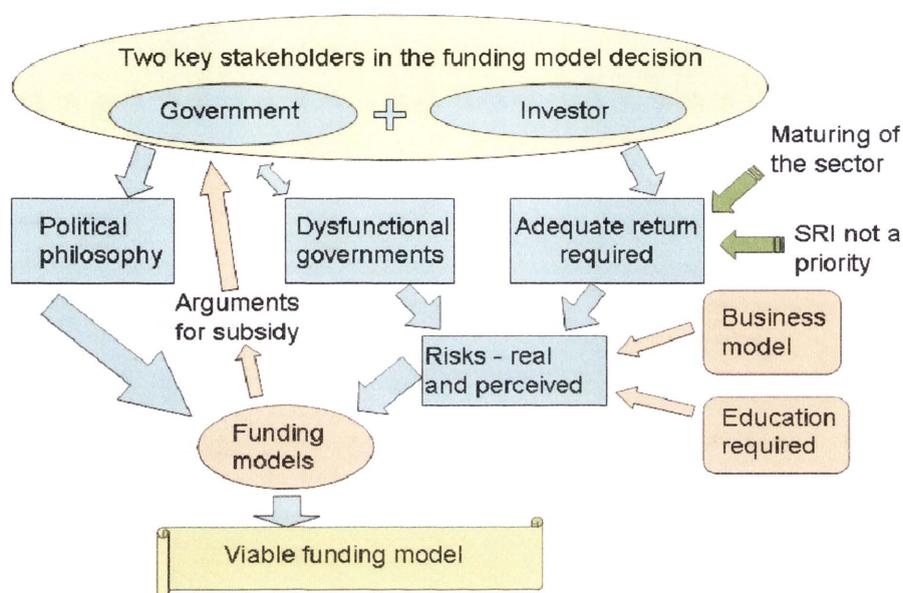


Figure 6.1 shows the dominance of the government and the investor stakeholder group for the process of determining a viable funding model. The governments position in this determination is the most influential as commentators broadly agree that a subsidy is required to attract private investment. This need for a subsidy places the government's approval as the most critical element of a successful funding model. However, government approval does not lower the need for a funding model to produce an expectation of a sufficient risk adjusted return for investors. This research confirms that the level of demand for a socially responsible investment (SRI) does not alter the priority for a commercial return. The literature shows that all of the studied funding models produce a viable risk adjusted return albeit while requiring various levels of subsidy to match the unique risk characteristics of each model. The risks are real but are perceived subjectively as the sector is unknown to the institutional investor. To address this unknown risk an effective education programme is required. This education could occur through government assistance and industry involvement where performance data is collected and made freely available to potential investors.

An additional area of risk identified by this research which was not considered in the literature concerning the funding models was the risk associated with the business model for operating an affordable rental housing portfolio. It was seen that a more complete business model was required. This business model needed to deliver a subsidy to the sector but also efficiently produce affordable rental housing to facilitate institutional investment into the sector. This task needed to occur while balancing opposing cultures. For example, the current not for profit housing associations which manage affordable rental housing are seen by institutional investors as unprofessional. This perception need to change as the level of professionalism of housing associations improves.

As seen in the UK affordable housing market government support provided the impetus for the private sector to participate in the affordable rental housing sector. Over time this participation is expected to produce efficiencies and an effective business model will evolve providing increasing knowledge about the sector and its players. Acknowledging this likely development, does not detract from the benefit of addressing the issues of return and portfolio management upfront to facilitate the expedient supply of affordable rental housing. A maturing of the sector is expected to result in improving returns, particularly over the initial period of development when information regarding the sector grows and investors become comfortable with the risks. Higher returns should be a further incentive to investors to participate. Discussion regarding the potential and benefits of the maturing of the sector is not provided in the literature regarding the Australian affordable housing situation. International literature does however, refer to this phenomenon in other countries.

The realisation that all of the models produce a commercial return supports the conclusion that the models are merely part of an extensive series of arguments by researchers and industry stakeholders to convince government to provide a subsidy. This research shows that stakeholders are ultimately focussed on the outcome of these arguments, being investment into the sector. The means through which this investment occurs is of a secondary concern to stakeholders, whether through a tax concession or equity in a listed company is not important.

Government's decisions generally are the outward expression of their policy which in turn is shaped by their political philosophy. The current government philosophy is neoliberal. The neoliberal policy stance is for government to generally oppose intervening in the operation of

the market. Asset provision was therefore not considered nor was debt funding capital projects applicable for funding options in this political climate. An indication of how a neo-liberal position will impact upon the approval of a funding model can be provided by a review of current government activities in the affordable rental housing sector i.e. through tax concessions, such as negative gearing and depreciation allowances. A model which supported the operation of the market and empowerment of the individual within that market would be the obvious choice. Consideration of the current government policies did provide clear indications of what model was viable under the current regime, being the Tax Credits model. This conclusion is supported by the Federal Governments proposed National Rental Affordability Scheme, which is based on a tax credit subsidy to institutional investors.

To improve the overall function of the affordable rental housing sector and to reduce the associated risk, two key obstacles were identified in this research and need to be systematically addressed or avoided. The easiest to address was the need for better information regarding the affordable rental housing sector and its participants. Demystifying the sector would lower the perceived risk to investors. The other factor which is more difficult to effect improvement was the impact of inefficient relationships between the various governments' jurisdictions, which impedes operation of the affordable rental housing sector.

A further restriction upon the sector was the level of perceived risk for investors' which is heightened by the sector being new and untested, plus the asset class is stigmatised. The path to increasing the supply of affordable housing was therefore seen as too difficult and also investors, developers and governments had left it alone. It was confirmed that the funding models investigated went along way to accommodating the demands of investors and would produce an acceptable return provided an appropriate subsidy was forthcoming from Government. Current proposed Federal legislation referred to as the National Rental Affordability Scheme does address the issue of a subsidy and so institutional investment is a potential reality for the Australian affordable housing sector.

6.3 Conclusions

6.3.1 Affordable Housing Funding Models

The prime finding of this research was identifying the criteria which indicate the funding model that would be viable in this current political and economic environment. Beer, Kearin and Pieters (2007, p. 13) provided a useful guide to undertaking this task:

“The implementation of policies relating to housing affordability in Australia must be examined with reference to the impact of neoliberalism, the history of housing policy and the welfare state in Australia, and the relationship between the three tiers of government.”

The factors mentioned by Beer, Kearin and Pieters (2007) were considered with the results detailed earlier in Section 3.3. The result showed that the funding models all have positive and negative attributes when considering their qualification as a viable funding option. However the Tax Credit model is the only model which satisfies all key criteria. Dodson (2006) argues that neoliberalism seeks to produce an environment where the individual takes responsibility for their own well being. Therefore the funding model which assists individuals to supply affordable housing is favoured. Only the Tax Credit model, based on the US model, achieves that end, as the other models include the supply of housing by institutions.

The Tax Credit model is known to work well in the US which gives the Australian government comfort regarding the policy. Beer, Kearin and Pieters (2007) notes that borrowing international policies is a hallmark of neoliberalism. A current NSW affordable housing policy example is inclusionary zoning which was used in the UK prior its adoption. This characteristic of borrowing policies points to either the use of the Not-for-Profit housing company model used in the UK or the Low Income Housing Tax Credit (LIHTC) model used in the US⁶. The PPP funding model also has the advantage of being a proven method due to it having been used extensively in Australia for infrastructure provision. Notwithstanding Susilawati and Armitage (2004) state that “many (affordable housing) stakeholders hold doubts about the specious attractions of such (PPP) models.”

⁶ The National Rental Affordability Scheme recommends the not for profit housing companies to manage the affordable housing portfolios and therefore may be considered as borrowing elements from both the UK and the US affordable housing models.

Berry and Hall (2002) supports the consideration of past governments' housing policy to identify the preferred funding option (Beer, Kearins & Pieters 2007), stating:

“Options that cut across or contradict well-established policy directions are unlikely to be introduced in the short to medium term.”

The long term shift away from housing provision is clear with the focus of Federal Government rental housing policy on Rental Assistance to encourage *private* housing provision. Therefore regardless of the Bonds model being highly rated in a number of areas as shown in Table 5.3, particularly the efficient provision of housing, other means of assistance will dominate the Government's decision which does not involve direct government housing provision. Such means include tax concessions rather than direct expenditure, as they offer the Government lower risk alternatives (Wilson & Turnbull 2000). From a tax concession basis, of the readily scalable models, which excludes the Not for Profit Housing Company model, only the Tax Credit model satisfies this criteria.

Section 5.5.1.4 identifies the need to consider the risk which the model adds to the process and how the model treats the existing risks. LG1 identified the counter productive activity of the State Government toward affordable housing. LG3 provided evidence of where the State Government had repeatedly reneged on policies regarding affordable housing and planning policies in general. Berry (2000) refers to the conflicts between the State and Federal Governments, while Flood (2003) identifies government bureaucracy as difficult to operate with and doubts whether it could act efficiently or in a co-ordinated manner. Randolph (2000) confirms these statements and suggests that there is partnership risk between levels of government. The inefficiency is noted by LG1 and T1 noting the lengthy time taken to reach the contract stage for the redevelopment of the Bonnyrigg housing estate. These elements present as significant risk factors for a funding model which is required to operate efficiently. Examining the relationships between the tiers of government, any model which relies upon the acceptance of risk by the State government and an efficient partnership between Federal and State Governments or State and Local Governments will be viewed as difficult to operate. Risk is seen as a strong deterrent to government noted by LG3 who referred broadly to the “risk-averse world” in which he operated in. SG4 noted the reason why the NSW State Government did not like the Bond model was that it required them accepting the risk. Such government risk

aversion benefits the PPP, Pooled Fund and Tax Credits model as the risk is not passed to the State Governments.

A final financial consideration of governments' aversion to the risk of budget blow-outs, leaves the Tax Credit model as the most favoured. The Allen Group (2004) state there are two means of lowering investor risk which come at a cost to government; subsidising the yield or a capital guarantee. Both costs present as a disincentive to Government however a capital guarantee is the greater. The liability or risk responsibility varies across the models as shown in Table 3.1. Only the Tax Credit model involves no exposure to government, aside from the subsidy funding as equity or ownership of the scheme is entirely with the private sector.

Further models' strengths are detailed in Table 5.3 but the results are inconclusive. Table 3.2 also summarises the main features with all of the models displaying desired and less than desired features. Section 3.3.1 includes a ranking of the models in terms of cost to the government. The Bonds model followed by the Tax Credits model and then the PPP model have the lowest cost. The Not for Profit housing company model has large initial upfront costs and the Pooled Fund operating environment requires a higher subsidy to match the yields of the listed property trust market. The Bonds model has the lowest rental or financing gap followed again by the Tax Credits and PPP models, all with a gap of about 3 to 4 percent of the value of the property (Allen Group 2004). Ranking the models according to the net subsidy cost has the same result with the Bonds model having the lowest cost with the three models subsidies ranging between \$5,000 and \$8,000 per annum (Allen Group 2004). In summary, the Tax Credit model has the benefit if meeting government requirements at an acceptable cost.

6.3.2 Government Philosophy

It is not unusual to expect government policies to be determined by a broader political agenda or philosophy. Such philosophies determine the 'reality' or means to address economic and social issues requisite of government intervention (Beer, Kearins & Pieters 2007). The significance of the current political philosophy is highlighted by the responses recorded in Table 5.10. A funding model's viability therefore requires its characteristics to conform to the government's philosophy. The identification of the current political philosophy was key to answering the research problem. This philosophy of neoliberalism, is also referred to as

economic rationalism in Australia is manifest through the discursive activity of government to describe the problem which its policies are suited to address (Bourdieu & Wacquant 1992). Dodson (2006) confirms this as an Australian experience identified by the lack of success of government policies in meeting stated objectives. LG3 refers to its occurrence commenting that the State Government are not sincere about what they say. Despite the rhetoric that housing is a main priority D1 commented that the State Government places profits before housing, and that it was not sufficient for government to justify a policy based upon providing for peoples need.

Neoliberalism's fundamental premise is the allocative superiority of the market. Beer (2007) argues the governments' use of the planning system is an example of how the market is used to meet the deficit in housing supply. This view rejects the provision of assets as government intervention in the efficient operation of the market. It is argued by Bourdieu (1998) that such withdrawal is based upon the premise that governments are ineffective in achieving social goals. Consequently government initiatives which seek to address affordable housing problems are seen as a low priority, deferring to the markets operation to address the issues. A non-interventionist policy in respect to housing is also supported due to it being an excessive drain on public finances (Dodson 2006; Wilkinson 2005).

The means of strengthening the housing user in the market is therefore the preferred method as it allows the markets' operation. LG3 sums up the situation stating "the market prevails." This empowerment is demonstrated in the increased usage of demand side rental assistance over housing provision as part of the CSHA. 'Demand-side' individual assistance can be seen through the First Home Owners Grant. 'Supply-side' individual assistance examples include negative gearing and depreciation policies.

6.3.3 Advocacy for a Government Subsidy

To persuade Government to alter their position regarding rental housing subsidy obviously required a workable means to deliver the assistance. Notably all of the models investigated in this research were seen to have the potential to produce an acceptable investment return with the proviso of a subsidy which is appropriate to the Australian market. Interestingly this

research showed that it is more than the requirement for a suitable financial model which is the barrier to institutional investment in this sector.

Participant I1 presented the solution to the problem of funding affordable housing in simple terms; it just needed government support. This comment strengthens the concept that the purpose for the multitude of funding models is to provide reasoning to persuade the government to contribute a subsidy. Participant I2 commenting on one of the funding models stated: "*So strip it all down and it is simply a subsidy scheme*" (I2). It appears *how* the subsidy is provided is not the issue. Participant M2 in response to the question; 'What would a manager be seeking from an affordable rental housing investment vehicle?' the response was given; "*Money!*" (M2).

Dalton (2002) describes how the task of furthering the cause of improved supply of affordable rental housing fell mainly to industry, research groups and the not for profit community as governments lacked motivation in this area. However this task of improving the supply of housing was dependent upon a subsidy from government. The Federal Government in turn needed to be shown:

- An efficient means to achieve an increased supply of affordable housing;
- Subsequent benefits which flow from implementation of the scheme; and
- A policy which fitted the political philosophy of the current government.

Once these were provided there was only the requirement of the political will. The funding models in this research it appears were developed as attempts to address these issues and to persuade government to provide the required subsidy. Research on the funding models was not simply the ideological application of theory, but they are rather part of a targeted campaign advocating for a subsidy from government. Berry and Hall (2002, p. viii) specifically identifies government as the recipient for the research, stating that government needs to be clear about the criteria they are using when selecting a funding model.

The *raison d'être* for the models was questioned when various respondents from the investor and manager participant categories expressed no preference as to which model should be adopted. Such ambivalence arose as respondents acknowledged the merit of many aspects of the models, but their primary focus was not on the *means* but rather on *obtaining* the subsidy.

Each subsequent funding model was assumed to be an attempt to improve upon what had previously not been successful in meeting government's requirements. It quickly became apparent that as long as the funding model provided a means which sufficiently addressed the risks, or there was appropriate compensation for the level of risk provided, the decision on which model should be used was academic, or rather political.

One of the respondents (LG2) raised the idea of a mix of models to solve the problem which is similar to that proposed by Seelig (2004), who thought there is no "magic bullet" and the answer may lie with some "loose patchwork of ideas and models". A specific model was therefore not required. This idea carried the expectation that the passing of time would bring improvements and innovations. However without a subsidy such improvements and innovations would remain hypothetical.

It appeared that alternatives were provided to counter potential arguments or to find a way when other suggestions had failed. The presentation of a viable funding model by D2 and LG3 provided an indication of the reactions of participants. When faced with cumbersome or inefficient government policies individuals provide alternative ways to overcome the governments' policy inadequacy.

The emphasis of the advocacy campaign was on initiating the development of the sector by obtaining a government subsidy, by any means. This complacency as to the 'best' model plus the fact that at least one stakeholder group supported each model, supported the conclusion the models were designed for advocacy purposes. This argument lessens the importance of identifying the 'best' model but does not reduce the need for recognising a 'viable' funding model, that which suits the current Government policy and Australia's economic climate.

6.3.4 Investor Ambivalence

Despite governments' pre-eminence in the choice to adopt a funding model and commit the required subsidy investor demand for the sector was a vital requirement. Participant I5 summed up the attitude of investors to the sector by asking "why?" Why should an investor consider a residential investment over that of other comparable asset classes? Investment into residential

property is generally supported by the argument that property can provide good portfolio diversification benefits. From the evidence provided in Section 5.5.1.1 the portfolio diversification characteristics were not seen as a feature strong enough to overlook the low return and higher risks. Berry and Hall (2002) provides good reasons why investors should be ambivalent to the residential sector including: the high risk to revenue; high financing and transaction costs; and high operation and management costs. Hutchison (1994) provides further reasons for not being interested in residential property as the illiquidity and indivisible nature of the asset. Alternatively Montezuma (2004) argues diversification *is* a justification for institutional investors, in addition to a residential investment being a hedge against inflation.

It appears that investors do not make the differentiation between property classes and generally consider that the benefits of such exposure to the property sector can be obtained through commercial property which has the additional benefit of higher returns. Ease of involvement in commercial property is facilitated by the listed property trust sector which offers lower entry and exit costs and liquidity which are priorities for investors. It also appears that investors do not make the distinction between securitised and unsecuritised investment into property despite the fact that the returns are weakly correlated as argued by Goetzmann and Ibbotson (1990).

Participant I6 at the time of the research was attempting to launch a residential property fund and said that the investor community was not receptive to the idea of investing in the full market sector. Therefore persuading investment into affordable housing would be even more difficult due lower returns and the perceived higher risks.

Residential property as an asset class is hindered by a relatively low income return. This low income return is usually compensated for in the long term by strong capital gains growth. Reliance upon a future event in order to achieve a sufficient return raises the risk for the investment and consequently the importance of the income return. Participant I7 raised an additional concern for investment in an affordable housing product stating that added risk arose when a product required a subsidy to achieve an acceptable return. This lack of self sufficiency is a significant risk. The asset class would always therefore carry this additional subsidy risk.

6.3.5 Investors Requirements

Section 5.5.1.5 provides further details on some of the key requirements of investors which were revealed by the research. On a broad fund level these requirements include:

- A core property return; income and growth i.e. a market return;
Income return is noted as important and is discussed in Section 5.5.1.3.1. Income return is preferred as a component of the total return as there is less risk than for capital returns which is derived in the future;
- A diversified portfolio of quality assets;
- Scale, a fund which is large enough to provide diversification and liquidity. The minimum size for institutional to investment is \$300 million to \$500 million (National Community Housing Forum & Australian Housing and Urban Research Institute 2002);
- Significant asset and tenant management efficiencies to achieve cost reductions and to remove the headache of tenant management and potential brand damage. This will deliver favourable customer outcomes and reduce brand risk.
Quality asset management is seen as a major requirement. This requirement was identified across participant categories, specifically by D2 and I6 in section 5.6.1;
- Independence from government to allow the investor freedom to operate as they choose. Section 5.5.1.4.1 discusses investors requirement for access to title which is unhindered by government;
- Partial liquidity i.e. annual cash, to cover contingencies while paying returns; and
- The amount of equity in the project which is an important issue for pricing the investment.

The above factors are summarised by the quote by I8:

“They don’t care whether it is affordable housing or social housing, they don’t care what it is as long as it is managed properly, the asset is a quality asset and the returns are sufficient to attract their funds. All the other things go away.”

Sections 5.5.1.4.2 and 5.5.1.4.3 refer to the external areas of the funding model being the credit rating and the fund manager. To achieve a high credit rating a high level of professionalism from the property manager and similarly a fund manager is required. Linked to the credit rating of the property portfolio is the quality of the portfolio which considers two

facets: the physical and the financial attributes. The physical attributes of location and quality of construction underwrite the capital growth and the financial attributes secure the income return (I8). Both of these management issues were seen as brand risk mitigants which are very important to an investors' decision (I6).

6.3.6 A Risk Adjusted Return

Investors considered the risk associated with an investment more highly than the return produced. Risk is the main deterrent for investors as well as the government, therefore the allocation and treatment of risk is vital in the assessment of the funding models. Section 5.5.1.3 discusses this in detail with I3 noting the risk is "fully assessed" by investors before investing. Malizia (2003) states that as investors have different risk tolerances the return required to compensate for the associated risk will vary. The priority of risk to some investors is highlighted by Ellis (2006) who identifies that regulation would assist investment into the sector as it would reduce risk.

Systematic risk was the same for all of the funding models considered as they would operate in the same economic and property markets. It is therefore important to note that each funding model has its own inherent risks due to the partners involved, levels of exposure to other markets e.g. the stock market, exposure to legislative change, being an untested model, and occupant and manager exposure. The models will therefore be considered differently by investors.

Both risk and return is vital in the assessment of the funding models as investors consider the resulting *risk adjusted* return. The funding model however cannot stand alone and needs to be coupled with a business model. The funding model is the financial route which a subsidy is delivered and investment returns produced. The business model is the practical delivery of affordable accommodation, income collection and maintenance. Both these models have the potential to increase risk to the investor.

Figure 6.2 depicts the significance of the risk in the provision of a risk adjusted return.

Figure 6.2

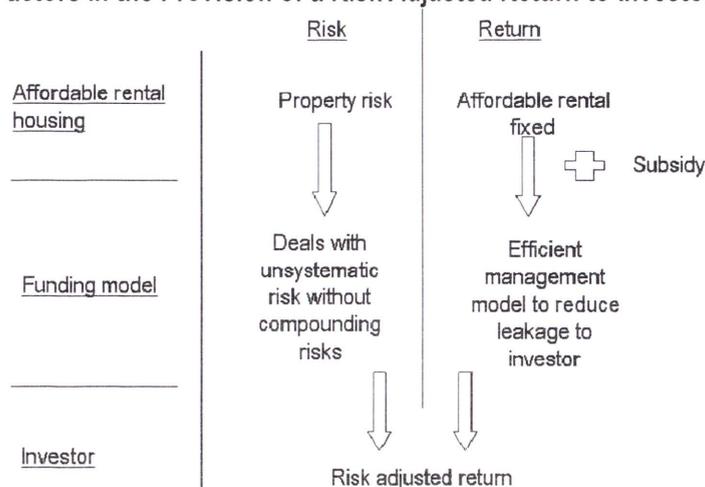
Factors in the Provision of a Risk Adjusted Return to Investors

Figure 6.2 shows the importance of the funding *and* business or management model to the eventual return provided to investors. Assuming the rental and subsidy is fixed, the model is the only variable in the process. It is also acknowledged that affordable rental housing, even when coupled with a government subsidy will produce a low yield. It is therefore essential for the model to reduce risk to be an attractive investment. This is important as there are investors who seek low return low risk investments. If the risk could be adequately addressed, there would be demand for an affordable housing investment.

Such risk treatment occurs through an efficient asset management and business model. Efficiency is highlighted in section 5.5.1.3 which discusses the need for the return produced to reflect the asset. For residential property, if the return is undiluted and close to a pure residential property return, the compensation is considered to be suitable for the risk accepted (16). Berry and Hall (2002) refers to the need for such a model as there is a high risk for operation and management costs to blow out (Sec.5.6.2.1). Yates and Wulff (2005) identify the shortcomings of bureaucratic public housing portfolio management which emphasizes the need for an efficient model, particularly if there are tight eligibility criteria.

16 notes the private sector has not yet devised a cost efficient and effective means of managing large residential portfolios. This is difficult to argue as yet there has not been the occasion to test such a model. Phillips (2007) emphasises the need for a transparent and robust business model. In Section 5.5.1.3 it is noted the required business model should enhance returns, have

little inherent risk and be able to respond efficiently to other risks. I5 highlighted that at the time of the interview eight business groups who were working at establishing residential investment vehicles but were held back as they did not have a efficient business model. Section 5.6.1.1 provides clear guidance on the qualities for such a business model, being a simple structure with clear responsibilities to assist functioning and transparency.

A good business model should account for maintenance risk which is a large concern for investors and can be mitigated by adequate maintenance procedures and allowances (M3). I6 recommends set budgets and clear standards as a good risk strategy. This is substantiated as insufficient allowances, for required repairs, is considered a large negative by prospective investors.

The idea of partnering to share risk responsibility was expressed by many of the research participants. Benefits included cost reductions, transparency and higher servicing levels if the tenancy/ property management was handled by a related party with a vested interest, such as a not for profit community housing company (I6). Higher servicing results from an understanding of the occupants needs and service provision which is often at a subsidised fee to support the social element of the tenant base (sec. 5.6.1.2.2)

I1 states the business model which includes the partnering arrangements must present as a low risk for credit rating purposes as it can impact negatively upon the sustainability of the scheme. D2 argues it is therefore essential to have a professional tenant manager. Partnering with government however was seen as adding an additional layer of risk and complexity (Sec. 5.6.1.2.2). These statements were made as difficulties were perceived to arise from the conflicting goals and work ethics between private sector and not for profit housing managers (D2). Demands for higher reporting standards and alternate work ethics and priorities for service by community organisations were seen as potential issues for the private sector.

A further area of risk is legislative change which can prove critical to the operation of a property investment. An effective strategy to deal with this change and also a multitude of risks is an efficient exit strategy. Disposing of an affordable rental housing asset is seen as high risk due to potential brand damage issues (I6). M3 emphasises a key factor is to manage the asset disposal process well, particularly at the end of an investment term. This is where the skills of

the social housing manager are essential as they are practiced in handling difficult occupant situations (sec.5.6.2.5).

Difficult negotiations between tenants and fund managers are viewed positively, when parties have an equal status, such as when a large housing manager represents the tenants. This strategy removes the brand risk from investors (I6). V1 notes the benefit of below market rentals when considering exit strategies for affordable housing as there is always a positive rental reversion available. A positive reversion benefit is dependent on short lease terms.

6.3.7 Risk Management

An effective risk management strategy is the apportioning of risk to the stakeholder who is best placed to deal with the risk element. This strategy is discussed in section 5.6.1.2.2.2. Allocating the responsibility for the risk allows that party to 'own' the risk and to deal with the situation in an efficient manner resulting in improved efficiency and lower costs. Milligan *et al* (2004) when explaining the optimal method for housing provision lists a number of benefits for segregating the tasks to those best suited, such as:

- Minimization of establishment costs when existing companies or structures are used;
- Specialist development and property management groups can generate attractive and appropriate solutions at least cost;
- Involving local government where possible can take advantage of their greater planning powers and discretion;
- Specialist groups can bring advantages of economies of scale which reduces risk and process costs; and
- Groups accustomed to working in a region are acquainted with the market conditions and regulations.

Limitations to the benefits of splitting the housing delivery functions to the most capable party can arise from the potential for "uneasy pairing" between parties due to a conflict of interest or difficulties in operating together in an efficient manner (Phillips 2006). Participant D2 states that some of the models include partnering which are not realistic referring to the difficulty of expecting the private listed property sector to work with the community housing managers "like

trying to mix oil and water". This difficult mix is recognised by housing associations as well (NSW Federation of Housing Associations Inc. 2006). The degree of risk attached to each models' partnering arrangements are therefore considered to be a significant issue.

Randolph (2000) and Flood (2003) state that due to the extent of the affordable housing problem it is critical to have a partnership approach as a solution. It is important to note that none of the affordable rental models considered in this research includes the tenant as part of the investment process. Notwithstanding there are various shared equity affordable housing ownership models that consider this aspect of partnering, however these models were beyond the scope of this research.

The inclusion of occupants in the investment process attempts to minimize management issues and maintenance costs. The research demonstrated that there was interest from one developer (D2) and two investors (I8 and I6) in this idea of including occupants in the process. The options suggested included an equity sharing by tenants and a reverse mortgage model. Both options attempt to address the cost of facilities management and maintenance by giving the occupant a level of equity as an incentive. Occupant partnering is discussed by Berry (2003) and Yates (1992) from an ownership perspective but there were no references in relation to tenancies.

Management risk was emphasised throughout this research due to the difficulty of managing a large and diverse portfolio (Berry & Hall 2002). Many of the funding models have been engineered to provide a sufficient investment return, but reports fail to address in detail the required business model. Montezuma (2004) discusses the need for a well-structured residential vehicle which will assist the integration of the property and capital markets to ensure the flow of investment. The business model was considered a high level of risk and an area which required significant attention and development.

Section 5.6.3 details a major risk mitigation strategy is in the construction of the housing portfolio. A portfolio which consists of quality well located property, which is well diversified by type, size and design, will provide a low risk return. The portfolio's operation would be assisted by professional and efficient management. All of these factors are seen as negatives by investors if they are not achieved.

6.3.8 Perceived and Real Risks

The literature (Berry & Hall 2005; Flannery 1993; Folkestad 2005; Short et al. 2008) provided discussion on the usual risks involved in the investment process which were confirmed by the research. These risks include: financial risk, management and operating risk, political risk and capital risk as well as the barriers of illiquidity and a lack of information on the sector. The latter two risk factors are noted by I6 as causing 'noise' or uncertainty in the sector. This noise produces raised levels of *perceived* risk and volatility which is often viewed subjectively resulting in reduced investor demand (Montezuma 2004).

A risk which was very relevant to participants and noted previously was brand risk or reputation risk. This risk can arise from bad publicity due to the social nature of housing and the assumed vulnerability of occupants on lower incomes. Brand risk is perceived to be high for this sector.

D2 refers to specific affordable housing areas of risk which would reduce the attractiveness of the investment. Alternate investments are noted as being easier and operating on a free market which is perceived as not the case with affordable rental housing. Therefore the investment is tainted due to this apparent restriction, whether correctly or not. Even the possibility of a higher return would not justify consideration of the investment due to the restriction to trading.

Montezuma (2004) states that the actual performance of the property market will be impacted by these perceptions of risk relative to the cash flows, validated in D2's example and realised through reduced demand. A heightened perceived risk impacts all participants and hence the sector. It appears Governments also do not have a good perception of the risks involved which results in deficient housing policies. The private sector over-estimates the risks and disregards the sector in favour of other asset classes. Social housing managers also perceive the risks as larger and are reluctant to embrace the opportunity of exposure to the private sector. As discussed in Section 6.3.11 these issues could be significantly addressed through an effective education campaign to all prospective stakeholders in the sector.

The sector is currently impacted by a negative view which stems from the past State public housing estates of the 1960's (I8). D2 expressed the risk associated with an affordable rental

housing portfolio as being greater than they are. Section 5.5.1.3 refers to the affordable rental housing sector as an unknown to investors and as such will be viewed subjectively. The difficulty to the sector's appeal is the higher perceived risk requires a commensurately higher return as compensation. Montezuma (2004) points to such events as evidence that the specific performance of the capital market is determined by the perceptions of potential investors. The difficulty is that to effectively reduce perceptions requires information which for the sector is not easily gained and costly to access.

6.3.9 Government Policy for Affordable Rental Housing

Evidence of Australian' Government's lack of success with intervention is shown historically by past housing assistance programmes (Dodson 2006). A recent example is Rental Assistance which was designed to increase supply (Ministerial Taskforce on Affordable Housing 2002), but resulted in increased rents (Short et al. 2008). Other measures adopted by the NSW Government include developer contributions and inclusionary zoning (Spiller 2005). These policies are considered by many as too slow to bring about significant supply (D2) despite the recognition that there has been a, albeit limited, positive result. Such policies are seen by government however as robust, practical and perhaps most importantly politically saleable (Spiller 2005). Using the planning system does evoke opposition from developers (D2) as reliance upon developers is seen as inappropriate as discussed in section 5.6.6. These policies effectively transfer the responsibility for subsidising affordable rental housing to purchasers. Rejection of this subsidy transfer indicates societies' low priority for affordable rental housing and the expectation that governments should be the source of the subsidy.

The lower priority of the rental housing market is seen by the increasing marginalisation of housing policies over the past 15 years. This marginalisation has resulted in real expenditure on the sector declining since the 1990's (Berry 2003). Government's priority has been on supporting home ownership witnessed by the introduction of the First Home Owners Grant and more recently the First Home Saver Account (Swan & Plibersek 2008). There is however little benefit in shifting households from one situation of financial stress to another. Dalton (2002) argues the benefit of removing people from the 'rental trap' due to the long term benefits. This argument is only justified if the rental market 'traps' tenants and offers a poor housing alternative.

The presence of government is not necessarily a positive for the affordable housing sector. Notwithstanding, M2 calls on government to regulate the sector to reduce risk to community housing managers (Barbato et al. 2003) whereas I7 points to regulation impeding the activities of the market. This idea of the risk associated with Government involvement is not mentioned in the literature despite it being an obvious problem. The omission of discussing poor inter-governmental relationships supports the theme that the funding models are part of an advocacy campaign. Advocates involved in such a campaign for affordable housing would be attempting to get governments in an amenable disposition and therefore would be reluctant to criticise the workings of government.

6.3.10 Conflicting Investor and Occupant Needs

A difficulty for residential property investment stems from its dual nature as a capital *and* a social good (McAuley 2003). This dual nature has the potential to cause conflict and an inefficient outcome from trying to balance both demand sets. For example, the investor demands the highest returns while the occupant is seeking the most affordable housing which is appropriate to their needs (Gruis 2005).

The research shows that in order to achieve a balance there needs to be a separation of the manager from the investor as well as the manager from the tenants. This dilemma is part of the difficulty of implementing an efficient business model for affordable rental housing. The separation needs to be to parties with a similar negotiating capacity otherwise one party will over-ride the other's demands creating conflict (I6). The housing manager is therefore central to this process as they are required to perform two management roles; one being, as disciplined, efficient and structured to investors and a second, as humane and friendly, to tenants. Often community housing groups have acted in the interests of the tenants but have lacked the necessary skills to match the requirements of the business community (D2). The social housing manager has been service orientated although housing managers now face the requisites of the commercial world. Jacobs and Manzi (2000) provide the example of where the requirement to perform to standards is met by a "strategy of resistance" from within the community housing sector. Susilawati, Armitage and Skitmore (2005) sees conflicts to the efficient partnering of private, government and not for profit housing managers as they have a

different focus, outcome and values, cultures and power and status. The issue is reported in the literature internationally referring to the need for the adoption of "Strategic Housing Management" (Gruis & Nieboer 2004). McDermont (2007) questions the ability of housing associations to accommodate the demands of private funding agencies requiring the professionalisation of boards of directors and the re-branding of tenants as clients. Conflict within the sector occurs on the supply side as well as developer motivations are profit driven and focus on short term gains which are counter to the long term performance of the sector. Such activity is also shown to skew supply in certain areas as discussed in section 5.6.6.

The research showed this management difficulty was foreseen by investors who view the housing manager's task with skepticism (D2). Berry and Hall (2002, p. 94) refers to this problem as "the mechanism for delivering the necessary subsidy". The business model is an integral part of this mechanism although is not considered in depth in Australian literature. The Australian literature alternately focuses on addressing the other property and financial risks, and the provision of an adequate return. Section 5.6.1.1 of this report highlights the need for an efficient management model which is potentially being undertaken by various not-for-profit housing companies. Notwithstanding the not-for-profit operations are seen as the most costly of delivery models which may indicate the balance is skewed towards the social considerations. While this may be the strength of the not-for-profit model, as it provides sustainability, there is still a question of whether the model will work in a private investment scenario while investors view housing association management with skepticism.

6.3.11 Sector Awareness and Education

Addressing the skepticism and stigma of the affordable housing sector is required to assist with attracting the required level of institutional investment. Such investment will be encouraged through the integration of the residential property market and the capital market. This integration will be achieved when a sound investment vehicle is identified, being the subject of this research, and when there is quality market information available. These two points are therefore critical. Montezuma (2004) refers to the friction which is caused by poor market information which reduces arbitrage opportunities and make it difficult to price. Berry and Hall (Berry & Hall 2002) reasons further that institutions are discouraged by the lack of quality information which makes it difficult to calculate risk and to assess investment outcomes. The pattern of responses linking information with the perceived negative view regarding the

affordable housing sector is shown in Table 5.9. Without knowledge of the sector, it makes it difficult to consider and to recognize opportunities (sec. 5.6.7.3). The poor level of information is said to cause opposition to new development as housing projects are considered to be of low quality. The extent of the information problem is witnessed by the link between affordable rental housing and public housing, producing expectations of poor maintenance levels in estates, a low standard of occupants, and poor marketability of the properties with likely impacts upon capital values. Development of the sector is also impeded as business relationships are hindered by a lack of knowledge of the stakeholders (sec.5.6.4.2).

Education should also involve the building and promotion of relationships to assist investment in the sector as relationships are a cornerstone of business activity and investment. The function of knowledge concerning the industry players has a regulatory effect and provides comfort to the participants, which facilitates the operation of business. Montezuma (2004) refers to this provision of comfort as integration between the investors and the property markets. Basically 'you go with the one you know'. Interestingly Plibersek (2008, p. 4) recognises the corporate wisdom in knowing your business partners. With this intention the proposed National Rental Affordability Scheme (NRAS) includes an "expert Partner Facilitator to help bring interested participants together to consider possible involvement in the Scheme." The recognition of the need for such facilitators highlights the information void between business and the affordable housing practitioners.

It is largely believed that the growth of the affordable housing sector will be through the use of these not-for-profit housing managers. Despite a rapid improvement in the skill base there is still a shortage which is not currently being met by the normal operation of the labour market. This shortage is likely to hinder the uptake of these services by the private sector and improvement of perceptions of the housing managers' abilities (NSW Federation of Housing Associations Inc. 2006).

6.4 Recommendations

Initiating an Information Programme to Combat the Perceived Risks in the Sector and Facilitate Participant Relationships

There is an obvious need for an effective education programme to combat the perceived risks in the affordable rental housing sector. The type of risk that might be addressed through such programme includes business partner risk. There is a lack of appreciation by institutional investors and developers of the skill base and strong corporate governance which is the norm in the top Not for Profit housing manager groups. It is recommended that such education programme to be completed by government as part of their attempts to promote private investment in the sector. A complimentary programme should provide opportunities for networking across the investor and community housing groups. There are indications of the awareness of this need contained in the National Rental Affordability Scheme proposal. The Scheme proposal includes the use of Partnership Facilitators for Round One. These facilitators are designed to assist the building of relationships across the sector which is seen as vital to the development of the sector. By encouraging contact between the practitioners and providers/ investors would assist the building of relationships and reduce the perceived risk of partnering and a subsequent lowering of the subsidy needed to produce the required investment risk adjusted return.

Consideration of the Means of Allocating Property Management Risk to Tenants

The report has discussed the benefits of allocating risk to specific stakeholders in the affordable rental housing sector (refer sec. 3.1.5, sec. 1.5.4 and Appendix 7.3). One such avenue for risk allocation involves the tenant. Tenant partnering provides the potential for significant cost savings and risk reduction for rental accommodation. There is evidence of such risk sharing occurring through the operation of housing cooperatives. These housing cooperatives offer the potential for an improved housing experience as tenants participate in the management of the housing project. Through such involvement risks are generally allocated equitably which facilitates the acceptance of the risk and any associated ramifications. Indications were received through the research data collection phase that the investment community recognises the benefit of improved customer satisfaction evidenced by lower operating costs. The rise in interest of Shared Equity home ownership finance schemes

by financial institutions is further evidence of the recognition of the benefits of such risk sharing. It is therefore recommended that the involvement of the tenant in housing rental agreements and property management roles should be given greater consideration by government agencies and landlords.

Greater Consideration on and Development of the Property Management Model of Affordable Rental Housing

The housing literature in Australia mentions to a limited level the need for an efficient structure or business model for the delivery and management of services for the provision of affordable rental housing. However such minor consideration overlooks the importance a delivery model plays in the viability of an affordable rental housing funding model. The provision of this service has the potential to impact significantly upon investment returns. The delivery model should therefore be an integral part of the funding literature. International research considers an aspect of the topic referring to the conflict of motivations between institutional landlords and social housing managers. A detailed consideration of the requirements of an affordable housing management company however is not presented. Some of the features which support an efficient management operation are noted in this research. One significant feature for a responsible and efficient housing manager is the inclusion of an external board of external directors. Such directors should have a mix of private sector experience in the legal, development, finance and accountancy professions. It is recommended that a schedule for the skills required on such a board be prepared as a proforma for future housing managers. Further good practice recommendations include the education of tenants in personal finance management and the procedures for operation of the property they occupy, reinforcing their role in the housing community. It is further recommended that the development of a 'best practice' check list for the requirements of a community housing company would improve the efficiency and transparency of their operations.

Compilation of Key Performance Indicator Report by Community Housing Managers

This research has noted the void of understanding and appreciation of the community housing managers by the investment community. To improve this situation it is recommended that community housing managers commence a structured data collection process which in time will support their credentials as professional housing managers. Such data would include the key performance indicators which are usually cited as proof of the level of competency of other

housing managers. The data would include evidence of historic vacancy rates, tenant arrears, operating costs, make-good allowances and re-letting periods. These areas are currently perceived by the private sector as being inadequate and therefore needs proof to dispel these inaccurate views. This key performance reporting would also be a necessary requisite of a rating agency which would be engaged as part of an institutional investor's due diligence process. Discussions with the community housing managers reveals the dearth of documentation which currently justifies their professional and credit rating position and agree such structured effort would be beneficial.

6.7 Further Research

This research has highlighted some important areas for further research:

- Involvement of tenants in the investment process in order to reduce maintenance and management costs and risk associated with both. This would involve passing some of the responsibility for these areas to the tenant. In addition, the tenant is best placed to deal with rental risk. Practices which enable tenants to adequately handle this risk need to be explored.
- The issue of strategic housing management is not addressed in an Australian context and the sector would benefit from research into a feasible and efficient business model for the supply and operation of affordable housing by community housing companies.
- This research has identified the need for quality performance data on residential property upon which institutional investors can rely. A system of data collection, analysis and distribution similar to that operated by the Property Council of Australia and Investment Property Database for commercial property, would benefit the sector immensely.
- As an addition to the previous research suggestion, quantitative research into the risk adjusted return of affordable rental housing is recommended. This would require robust income and capital return data produced as part of a performance data series. With this data a risk adjusted return could be calculated to determine the relative performance of the asset compared to other low risk low return assets. Such information, if complimentary to affordable rental housing, may affect institutions portfolio weighting towards residential property.

- A summary of the development and operating expenditure savings not for profit housing organisations are able to take advantage of would highlight the benefit of using this management model to improve efficiency in the sector. This research identified some uncertainty within the housing industry of what savings were available.

7.0 Appendices

Appendix 7.1: Confirmation of the Fulfilment of the Research Purposes and Objectives

The research purposes and objectives stated in section 1.2 have been fulfilled with confirmation provided through specific referencing to the report section as noted in Table 6.1.

Table 7.1

Confirmation of the Fulfilment of the Research Purposes and Objectives through Reference to the Report Section

	Research Purposes and Objectives	Section of the report
i.	Briefly describe the current state of the Australian affordable rental housing sector, with a focus on the Sydney residential market.	2.2
ii.	Describe the amount and means of government assistance (Federal, State and Local governments) directed to the sector and the level of tenant demand.	2.2.4, 2.6.2, 2.6.3 2.2.3, 2.2.5, 2.3.1
iii.	Examine and evaluate Australian affordable housing models in order to identify their strengths and weaknesses and common elements. The applicability of each model to the Australian market will be considered and the attractiveness to institutional investors identified.	Chapter 3
iv.	Define the requirements demanded by the private investment sector in order to consider what would be the required characteristics of an affordable rental housing model.	2.3.4, 2.6.1, 2.7 and Chapter 5
v.	Test the key characteristics of the currently prominent models on affordable housing stakeholders.	Chapter 5
vi.	To identify areas within the current body of knowledge where there is as need for further research which will improve the potential of securing private investor funding for the provision of affordable rental housing.	6.7

Appendix 7.2: Implications for Methodology

The use of Grounded theory for this exercise was truly enlightening and appropriate for the task. The researcher as far as possible sought to remain open and objective during the data collection and analysis phase which enabled revelations to be unearthed. At times these were not completely unexpected as on a first reading the concept was not apparent. The iterative method of Strauss (1990) looking at the data and then being prompted to back the literature not only added depth of understanding but also happened in a very natural flow. The benefit of looking at the data multiple times was very obvious as on many occasions new insights were discovered on previously coded sections of the data. The process is a lengthy one and the researcher found benefit in leaving an issue for a while and allowing it to be mulled over, almost subconsciously. It was in this way that some of the patterns in the data were discovered.

There were benefits and negatives working with QSR's NVivo. Initially I found the programme very frustrating and the language used in the help manual of little help. The instructions were also at times simplistic and not able to explain the full potential of the system. I recommend training on the programme at the beginning of the research process to avoid frustration and possibly giving up on what is a very good system. The facilities of NVivo allowed for easy detailed analysis while allowing every concept produced to be captured directly during the analysis. The system also prompts consideration of the broader issues as well which is helpful in seeing the big picture. There were some difficulties experienced during the reporting process however this may have been a lack of knowledge about the programme.

Advice was provided to be less descriptive and more creative with the titles given to the codes identified and convey some insight into what is happening. This proved to be good advice. Some of the research questions, or the aims of my research, were used as tree nodes so as to be able to commence some of the conceptualisation early. This practice also provided some parameters to my coding which assisted in limiting the number of unrelated codes.

Appendix 7.3 Research Data Collected Concerning Specific Funding Models

Specific comments were made by the participants directly in relation to the subject fund models themselves and in reference to unique aspects of the fund models. The following section includes a summary of those comments in point form which will be used for the assessment of the models in following chapter.

Consortium or Bonds model

1. The involvement of government hinders the operation of the scheme by additional policies and requirements which slows progress and reduces the commercial success potential. There would also be increased probity, governance and procedural issues involved it would reduce the viability of the fund immediately. This would cause the costs with the operation to rise. (This also applies to the PPP or Partnership model.)
2. Government exposure means that the level of debt funding can be raised as there is less of a property risk profile and more government risk. Access to the governments AAA rating also reduces the cost of funding.
3. There is seen to be a problem with the State government buying property.
4. Due to the lack of government bonds there would be a demand for this type of investment which investors need to go overseas to access similar investments.
5. The Bond model allows for rental flow in a straight through process which is ideal.
6. Persuading State government to take on the risk is said to be difficult if not impossible and this is supported by the way they are currently responding to the proposal to contribute to the NRAS.
7. There are barriers to State and Federal governments working together.
8. The Bonds model appears to be yield based which would raise the level of subsidy required.

PPP or Partnership model

1. Provided a subsidy can be supplied to the sector, the increased return should attract additional skills to the sector which will assist in the maturing and efficiency of the sector.
2. The States are reluctant to accept risk and therefore they seek to allocate risk to the other party/ies. This risk shifting raises the level of payment required by the partner as compensation. The perception in the industry is the PPP model is skewed to benefit the government. The government takes many of the benefits of the PPP's, so it is not really a partnership but really a form of privatising some of the risks.
3. The yield suggested for this model is to be linked to the top ASX200 stocks This had most participants surprised and said it should be more appropriately be linked to a residential income return which is lower. This level of return is not needed as they are not bearing ASX 200 risk as it is backed by the government.
4. It was suggested that the partnerships model is one which usually revolves around a single project. PPP's have a reputation as being for one project only and it set up for just one solution, tailor made for that scenario, which restricts its applicability for a broader use.
5. The high cost of a PPP is not suited to providing housing as there is low returns from the sector. The current housing PPP's are large and involve the redevelopment of the whole area which requires the government to be involved in the infrastructure planning.
6. I1: the guarantee of a high return equal to the ASX 200 I2: The involvement in the stock market makes the model open to comparison with other vehicles. Therefore issues of transparency come into focus more.
7. PPP's are not known for their success in NSW and lack public confidence.
8. An example was given which showed the PPP process in respect to a housing estate redevelopment, was lengthy (2 ½ years).
9. Some argued that the issues of "the uncertainty, the long time frames, the sensitivity to policy issues" (17), are all part of it and participants know what to expect and are prepared to accept it.
10. Support was given to this model as it close to that which has been undertaken recently so it is a known product.

11. A recent example of where the government altered the PPP arrangement was mentioned i.e. Cross City Tunnel, to support the idea that the risk of working with the government has increased.

Pooled fund model

1. The Pooled fund model is easy to grow through new public offerings. If a listed property trust (LPT) model was used for this purpose, there is the added difficulty in sourcing accretive property purchases. This difficulty may make it harder to grow the fund.
2. The partnering of housing associations with an extreme commercially managed vehicle such as a LPT may face severe problems as the partnership will struggle with a conflicting mixture of aims and ideals. The uneven resources would necessarily require an uneven sharing of the risk burden. This situation cannot be altered easily.
3. The predominant restricted resources of the housing associations is a hindrance to fund model where title is held by them as the risk is larger as there is no backing.
4. The LPT model is a known vehicle but in reality, it is not a property sector anymore, but rather a sector of hedge funds due to the proliferation of financial engineering. In this environment it would be hard for a residentially based product to compete.
5. The use of this model would be difficult to make competitive due to the low yields which does not suit the LPT market. The structure may suit the not for profits more. In addition the low consistent coupon-like return, if it was combined with a index linked value and the long term nature of the investment could produce investor demand.
6. The quoted rates of return for the Pooled funds model as being acceptable to investors is considered to be too high. A more acceptable rate that would be acceptable is the normal rate of return of residential. An income return of 4%-5%, plus normal growth is acceptable to an investor. However this is diluted through management fees and other outgoings. This especially the case as the asset is inefficient to manage and the cost is higher. The problem is compounded with affordable rental as the rental is lower. Should such quoted high rates of income return be required a subsequently higher subsidy will occur.

Not for Profit model

1. The model has a limited scale potential as compared to some of the other models but it appears as though it will remain part of the spectrum of housing supply due to the ability to house welfare tenants by harnessing additional benefits not available to other structures and the government. These benefits include tax exemption, land tax and stamp duty exemption. These savings allow it to produce 25% more housing at the same cost, competing in the open market against developers.
2. Low returns are generated from this model due to the subsidising of some rentals for low income households. The low returns hinder the attraction of private investment along with the negligible equity in the properties they manage.
3. Management is generally on behalf of other organisations or as a service to the community. The model is not designed for commercial use. Nevertheless the structure is robust, transparent and trusted by government. Their place in the market is secure for these reasons.
4. The inability to attract private investment will restrict the eventual size capability of these funds.
5. The not for profit model is the only working model and well known therefore it is being supported by government and other bodies such as local councils and charities.
6. The not for profit managers have the benefit of being committed to the sector therefore considers and plans for the long term costs.
7. The articles of the company include strong governance guidelines to ensure high standards are maintained and transparency.

Low Income Housing Tax Credits model

1. This model was seen as attractive to investors however failed to gain government support of the previous government (Liberal) as that party was reluctant to provide tax credits.
2. Obtaining a tax advantage is an attractive option to many investors particularly high net worth individuals. The model is confirmed to work well in the US where it operates as part of the economy.
3. The subsidies provided through the tax system were harder to manage than other models. The difficulty in management was therefore given as a positive for the Bonds model as the equity model was easier to manage.
4. The tax credit also adds complexity and added risk as the government can alter their policy.
5. A simple handling of the subsidy is required otherwise it reduces the efficiency of the model.
6. The US model includes a provision of the subsidy to successful developers and their subsequent bidding process with investors is not considered efficient as value is lost out of the system to the developer.
7. The Federal and State governments have confidence in the management by a housing association for the long term management of affordable housing. The small size of most housing associations is seen as a hindrance to development of the sector.
8. The fixed term of the investment and tenancies under this scheme is a negative.
9. Under the current proposed National Rental Affordability Scheme proposed for Australia, there are two sources of funding which is not ideal as it causes additional complexity. This complexity and added risk by the involvement of additional subsidy providers, was seen in the difficulties being experienced with the NSW State government. The NSW government was suggesting options which would not be attractive to corporate investors, such as restrictive requirements to gain access to the subsidy. This is seen as a large factor reflecting the poor relationships between the two levels of government.

Table 7.1 indicates the participants who made relevant comments in respect to the various funding models.

Table 7.1

Interview responses in respect to the specific fund models

Participant	Current funding model ideas	Bonds model	Partnerships model	Pooled Fund model	Not for profit housing company	LIHTC model
D1 interview	0	1	1	1	1	1
D2 interview	1	1	1	1	1	1
I1 interview	1	1	1	1	1	1
I2 interview - 2nd Interview	1	1	1	0	0	1
I3 Interview	1	0	1	0	0	0
I4 interview	1	1	1	1	0	0
I5 interview Part 1	0	1	0	0	0	0
I5 interview Part 2	1	1	0	0	0	0
I6 Interview	0	1	1	1	1	1
I6 Additions to 1st interview	0	0	1	1	0	0
I6 Complete Interview	0	1	1	1	0	1
I7 Interview	0	0	1	0	0	0
I8 full last interview	0	0	0	0	0	0
I8 interview Part III	1	0	0	0	1	0
LG1 and LG2 Interview	0	1	1	1	1	1
LG3 Additional interview	1	0	0	0	0	0
LG3 interview revised	0	0	0	0	0	0
M2 Interview	1	1	1	1	1	1
M3 interview	1	1	0	1	1	1
SG1 interview	1	1	1	0	1	1
T1 interview	0	1	1	1	0	1
V1 Interview	0	0	0	0	0	1

Appendix 7.4: Federal Government National Rental Affordability Scheme (NRAS) Proposal

The following is an excerpt from the Department of Families, Housing, Community Services and Indigenous Affairs website.

Background

The National Rental Affordability Scheme is a 2007 Federal Election Commitment. The Australian Government will provide funding to:

- increase the supply of affordable rental dwellings;
- reduce rental costs for low to moderate income households; and
- encourage large scale investment and innovative delivery of affordable housing.

The National Rental Affordability Scheme offers annual incentives for a period of ten years. The two key elements are:

- A Commonwealth Government incentive of \$6,000 per dwelling per year refundable tax offset or payment; and
- A State or Territory Government incentive of \$2,000 per dwelling per year in direct or in kind financial support.

The Scheme will help stimulate supply of up to 50,000 new affordable rental dwellings across Australia by June 2012. If market demand remains strong, a further 50,000 incentives for new affordable rental dwellings will be available from July 2012 onwards.

Key features

The Scheme offers an incentive to providers of new dwellings on the condition that they are rented to low and moderate income households at least 20 per cent below-market rates. The incentive comprises a Commonwealth Government contribution of \$6,000 per dwelling per year in the form of a refundable tax offset or payment, and a State or Territory Government contribution valued at \$2,000 per dwelling per year in the form of financial and/or other support.

It will be provided annually for ten years on condition that throughout that period the dwelling is rented to eligible low and moderate income households.

The Scheme is designed to pool significant resources from a range of participants including financial institutions, non-profit organisations and local government which, when combined with the incentives from the Scheme, will increase the supply of lower-rent housing. These resources could include loans; equity investments; capital grants by Commonwealth, State and Territory or local governments; donations by charities; free or discounted land by churches; or contributions by developers in accordance with planning requirements.

The tenant eligibility criteria will ensure the Scheme is open to families on low and moderate incomes, individuals who are looking to rent a property for the first time, and singles in private or public rental accommodation, including people working or undertaking study or training.

Calls for Applications

Establishment Phase (1 July 2008-30 June 2010)

There will be two Calls for Applications for incentives in the Establishment Phase. The first Call for Applications, **Round 1**, is now open until 4 September 2008. Round 1 focuses on proposals that can deliver completed dwellings which will be available for rent during the 2008-09 and 2009-10 financial years. As it is not expected that the full 11,000 incentives will be allocated in Round 1, a second Call for Applications (**Round 2**), will be issued in October 2008.

Expansion Phase (1 July 2010 - 30 June 2012)

The allocation of incentives under the Expansion Phase will be through Round 3 with subsequent calls for the allocation of incentives under this Phase issued annually. The timing of subsequent Calls for Applications will be considered following a review of the Establishment Phase. Round 3 Call for Applications will occur in March 2009 for proposals that can deliver dwellings available for rent by June 2012. Any remaining Incentives from the Establishment Phase will also be allocated in this Round.

Appendix 7.5: Definition of Key Terms

- Affordable rental housing: where no more than one third of household income is required to meet the rental payments. (Yates *et al* 2004)
- Rental Gap: the difference between an affordable rental and the required rate of return by a property investor (The Allen Consulting Group 2004).
- Private affordable housing: affordable rental accommodation by institutional investors and private individuals.
- Low income households: households which receive less than \$335 per week (\$17,420 p.a.) and represent 16% of all households in private rental accommodation in 2001. (Yates *et al* 2004)
- Property market: includes affordable housing tenants and private affordable housing providers.
- Securitize: To convert an asset into a security that can then be sold to investors.
- The ABS (2000) refers defines housing costs as including 'mortgage repayments, rental payments; water and council rates; strata levies; and repairs and maintenance'.

Appendix 7.6: Introductory Letter to Interview Participants

December 20, 2008

Attention: XXXXXXXXXXXXXXXX

XXXXXXXXXX
XXXXXXXXXX,
XXXXXXXXXXXXX
Sydney NSW XXXX

Dear XXXXXXXXXXXXX,

Re: **Affordable Rental Housing Research**

XXXXXXXXXXXXX from XXXXXXXXX has recommended that I contact you due to your appreciation of the problem of Australia's low supply of affordable rental housing and request your participation in an hour long interview. This interview will discuss the ability of an affordable rental housing funding model to secure private investment in order to significantly boost supply.

I am currently undertaking a Masters of Applied Science in Building Studies at the University of Technology, Sydney. Previously, I have worked in the Australian property industry in both the commercial and residential property sectors, for over 20 years. It is my intention to use this experience in the affordable housing rental market, specifically targeting low to moderate earning households. I believe there is a solution to the problem of insufficient supply without the need of government subsidies.

My research involves obtaining responses from key stakeholders in the affordable rental housing sector. These views will be used to identify a viable model or at least assist in the further development of a successful funding model; one which does not require a change of government policy.

Interviews will be held over the period 19th November to 7th December 2007.

My contact number during business hours is 02 XXXXXXXXXX or XXXXXXXXXX, should you wish to discuss this matter. I will further attempt to contact you via telephone shortly after delivery of this letter.

Thankyou for your consideration of this matter and I look forward to discussing this matter with you further.

Sincerely,

Michael Kerans

Appendix 7.7: Stakeholder Questionnaire: Investor

Michael Kerans
Master of Property – University of Technology, Sydney (UTS)
Affordable rental housing funding models

Your participation in this interview will be valued as it will:

- Identify the essential elements of a commercially and politically viable funding model for affordable rental housing
- Identify the shortcomings of the prominent funding models
- Provide an understanding of the attitude toward the affordable rental housing sector as an investment grade asset

-
- 1) What is your company's activities in the affordable housing sector?
 - 2) Using a scale of 1 to 5, with 1 being not important and 5 being most important, rate the following factors for a viable affordable rental housing investment fund-
 - a) Level of transparency;
 - b) Simplicity of the funding model
 - c) Liquidity (ease of disposal of investment)
 - d) Risk return comparable to alternate assets
 - e) Security of capital
 - f) Quality of funds management
 - g) Quality of property management
 - h) Diversification of the investment in your portfolio
 - i) Low risk of adverse legislative change i.e. performance dependent upon government policy
 - j) Market capitalisation value of the investment vehicle
 - 3) Which funding models do you think are either workable/ not workable/ have reservations with? And why?
 - 4) Which features of the models are most likely to meet the key objectives of a viable funding model?
 - 5) What do you see as the advantages/ disadvantages of partnering for the successful operation of an affordable rental housing fund?
 - 6) What other features of a successful funding model would you recommend?
 - 7) What, if any, are the impediments to the success of affordable rental housing as an investment grade asset?
 - 8) What would be the preferred basis of guarantee of an affordable rental housing investment vehicle?
 - 9) What would investors be seeking from an affordable rental housing investment vehicle?
 - 10) Is an increase above current levels of government support/ regulation necessary for an affordable housing investment fund? Why?
 - 11) An essential feature of affordable rental housing is a low income return. How important is income return to the investment decision making process?

Appendix 7.8: Stakeholder Questionnaire: Developer

Michael Kerans
Master of Property – University of Technology, Sydney (UTS)
Affordable rental housing funding models

Your participation in this interview will be valued as it will:

- Identify the essential elements of a viable funding model for affordable rental housing
- Identify the shortcomings of the prominent funding models
- Provide an understanding of the attitude of toward the affordable rental housing sector as an investment grade asset

-
- 1) What are your company's activities in the affordable housing sector?
 - 2) Which areas do you see as most suitable for affordable rental housing? Why?
 - 3) Using a scale of 1 to 5, with 1 being not important and 5 being very important, rate the following factors for a viable affordable rental housing investment fund-
 - a) Level of transparency;
 - b) Simplicity of the funding model
 - c) Liquidity (ease of disposal of investment)
 - d) Risk return comparable to alternate assets
 - e) Security of capital
 - f) Quality of funds management
 - g) Quality of property management
 - h) Diversification of investments
 - i) Low risk of adverse legislative change i.e. performance dependent upon government policy
 - j) Market capitalisation value of the investment vehicle
 - 4) Which funding models do you think are either workable/ not workable/ have reservations with? Why?
 - 5) Which features of the models are most likely to meet the key objectives of a viable funding model?
 - 6) What other features would you recommend to improve the success of such a model?
 - 7) What, if any, are the impediments to the success of affordable rental housing as an investment grade asset?
 - 8) What do you see as the advantages/ disadvantages of partnering to achieve the successful operation of an affordable rental housing fund?
 - 9) Recent global events i.e. sub-prime mortgage lending, highlight the risks associated with housing investment, what risks do you see with investment in affordable rental housing and how would you mitigate these risks?
 - 10) What would developers be seeking from an affordable rental housing investment fund?
 - 11) Is an increase above current levels of government support/ regulation necessary for the success of an affordable housing investment fund? Why?

Appendix 7.9: Stakeholder Questionnaire: Authority

Michael Kerans
Master of Property – University of Technology, Sydney (UTS)
Affordable rental housing funding models

Your participation in this interview will be valued as it will:

- Identify the essential requirements of a commercially and politically viable funding model for affordable rental housing
- Identify the shortcomings of the subject funding models
- Provide an understanding of the attitude towards the affordable rental housing sector as an investment asset

-
1. What affordable rental housing activities is your authority activity involved in?
 2. What, if any, are the impediments to the success of affordable rental housing as an investment asset class?
 3. Which funding models do you think are either workable/ not workable/ have reservations with? And why?
 4. Which features of the models most meet the key objectives of a viable model?
 5. Using a scale of 1 to 5, with 1 being not important and 5 being most important, rate the following factors for a viable investment fund-
 - a) Level of transparency;
 - b) Simplicity of the funding model
 - c) Security of capital
 - d) Self determination by the manager of asset strategies (hold/ dispose) and maintenance expenditure budgets
 - e) Quality of funds management
 - f) Quality of property management
 - g) Low risk of adverse legislative change i.e. performance dependent upon government policy
 - h) Market capitalisation value of the investment vehicle
 - i) Long term tenancies
 6. At each level of government, how important is the housing affordability issue?
 7. What is your opinion regarding the requirement of market intervention to address the problem of affordable housing?
 8. What is your opinion regarding the use of private or public funding to improve the rental affordability situation?
 9. In your opinion it is it best to try and reduce the rental affordability problem through supply side or demand side measures? Why?
 10. What, if any additional services are required by having an affordable rental housing policy?

Appendix 7.10: Stakeholder Questionnaire: Manager

Michael Kerans
Master of Property – University of Technology, Sydney (UTS)
Affordable rental housing funding models

Your participation in this interview will be valued as it will:

- Identify the essential elements of a viable funding model for affordable rental housing
- Identify the shortcomings of the prominent funding models
- Provide an understanding of the attitude of toward the affordable rental housing sector as an investment asset

-
- 1) What are your activities in the affordable housing sector?
 - 2) What, if any, are the impediments to the success of affordable rental housing as an investment grade asset?
 - 3) Which funding models do you think are either workable/ not workable/ have reservations with? Why?
 - 4) Which features of the models are most likely to achieve the objectives of a viable funding model? Why?
 - 5) What do you see as the advantages/ disadvantages of partnering to the successful operation of an affordable rental housing fund?
 - 6) Using a scale of 1 to 5 with 1 being not important and 5 being very important, rate the following factors for a viable affordable rental housing fund-
 - a) Level of transparency;
 - b) Simplicity of the management model
 - c) Liquidity (ease of disposal of investment)
 - d) Self determination by the manager of asset strategies (hold/ dispose) and maintenance expenditure budgets
 - e) Security of capital
 - f) Long term tenancies
 - g) Quality of funds management
 - h) Quality of property management
 - i) Low risk of adverse legislative change i.e. performance dependent upon government policy
 - j) Market capitalisation value of the investment vehicle
 - 5) At each level of government, how important is the housing affordability issue?
 - 6) What is your opinion regarding the use of private or public funding to improve the rental affordability situation?
 - 7) Should intervention be used to impact the supply side or demand side to reduce the affordability problem? Why?
 - 8) What is your opinion regarding the requirement of market intervention to address the problem of affordable housing?
 - 9) What would a manager be seeking from an affordable rental housing investment fund?

Appendix 7.11: Stakeholder Questionnaire: Occupant

Michael Kerans
Master of Property – University of Technology, Sydney (UTS)
Affordable rental housing funding models

Your participation in this interview will be valued as it will:

- Identify the essential elements of a commercially and politically viable funding model for affordable rental housing
- Identify the shortcomings of the prominent funding models
- Provide an understanding of the attitude of toward the affordable rental housing sector as an investment asset

-
- 1) What is your organisations' current involvement in affordable rental housing?
 - 2) Using a scale of 1 to 5 with 1 being not important and 5 being very important, rate the following factors for an investment fund-
 - a) Level of transparency;
 - b) Simplicity of the funding model
 - c) Liquidity (ease of disposal of investment)
 - d) Self determination by the manager of asset strategies (hold/ dispose) and maintenance expenditure budgets
 - e) Security of capital
 - f) Quality of funds management
 - g) Quality of property management
 - h) Long term tenancies
 - i) Low risk of adverse legislative change i.e. performance dependent upon government policy
 - j) Control of/ legal interest in the dwelling stock
 - 3) Which funding models do you think are either workable/ not workable/ have reservations with? Why?
 - 4) Which features of the models are most likely to achieve the objectives of a viable funding model?
 - 5) What do you see as the advantages/ disadvantages of partnering to the successful operation of an affordable rental housing fund?
 - 6) What, if any, are the impediments to the success of affordable rental housing as an investment grade asset?
 - 7) What would tenants be seeking from an affordable rental housing investment fund?
 - 8) Is government approval/ support/ regulation necessary for an affordable housing investment fund and if so, in what form would you suggest?

Appendix 7.12: Stakeholder Questionnaire: Valuer

Michael Kerans
Master of Property – University of Technology, Sydney (UTS)
Affordable rental housing funding models

Your participation in this interview will be valued as it will:

-
- Identify the essential elements of a commercially and politically viable funding model for affordable rental housing
 - Identify the shortcomings of the prominent funding models
 - Provide an understanding of the attitude toward the affordable rental housing sector as an investment grade asset
-
- What is your company's current involvement with affordable rental housing?
 - What would be the required rate of return (pre-tax) to an investor in an affordable rental housing model, split between income, capital and total?
 - What would be the discount rate applicable to the valuation of an affordable rental housing project in Sydney? Would this vary by locality?
 - Which funding models do you think are either workable/ not workable/ have reservations with? And why?
 - Which features of the models are most likely to meet the key objectives of a viable funding model?
 - Using a scale of 1 to 5 with 1 being not important and 5 being very important, rate the following factors for an investment fund-
 - a) Level of transparency;
 - b) Simplicity of the funding model
 - c) Liquidity (ease of disposal of investment)
 - d) Risk return comparable to alternate assets
 - e) Security of capital
 - f) Quality of funds management
 - g) Quality of property management
 - h) Diversification of investments
 - i) Low risk of adverse legislative change i.e. performance dependent upon government policy
 - j) Market capitalisation value of the investment vehicle
 - What, if any, are the impediments to the success of affordable rental housing as a investment grade asset?
 - Recent global events i.e. sub-prime mortgage lending, highlight the risks associated with affordable housing investment, what risks do you see with investment in affordable rental housing and how would you mitigate these risks?
 - What would investors be seeking from an affordable rental housing investment vehicle?
 - Is government approval/ support necessary for an affordable housing investment fund?
 - An essential feature of affordable rental housing is a low income return. How important is income return to your choice of investment assets?

8.0 References

- Affordable Housing Innovations Unit 2005, *Affordable housing innovations program*, in S.A.D.f.F.a. Communities (ed.)no August 2005, p. 6.
- Affordable Housing National Research Consortium 2001, *Affordable Housing in Australia: Pressing need, effective solution*, Canberra.
- Allen Group 2004, *Better Housing Futures- Stimulating private investment in affordable housing*, Melbourne.
- Arksey, H. & Knight, P. 1999, *Interviewing for Social Scientists: An Introductory Resource with Examples* Sage Publications London.
- Asher, H.B. & Midwest Political Science Association (U.S.) 1984, *Theory-building and data analysis in the social sciences*, 1st edn, University of Tennessee Press, in cooperation with the Midwest Political Science Association, Knoxville.
- ASX-Russell 2006, *Long term investing: Report highlights*, ASX, Sydney.
- Australian Bureau of Statistics 2006a, *2006 Quick Stats*, Australian Government
<http://www.censusdata.abs.gov.au/ABSNavigation/prenav/ViewData?action=402&documentproductno=0&documenttype=Main%20Features&order=1&abname=Summary&areacode=0&issue=2006&producttype=QuickStats&javascript=true&textversion=false&navmapdisplayed=true&breadcrumb=LPD&&collection=Census&period=2006&producttype=QuickStats&>.
- Australian Bureau of Statistics 2006b, *Australian Historical Population Statistics, 2006*, Australian Bureau of Statistics.
- Australian Bureau of Statistics 2006c, *Australian Social Trends CAT. NO. 4102.0 Table 2.1*, AGPS.
- Australian Bureau of Statistics 2006d, *Gross Household Income (weekly) by Rent (weekly) - Time Series Statistics (1996, 2001, 2006 Census Years) - Australia*, ABS,
[http://www.censusdata.abs.gov.au/ABSNavigation/prenav/ViewData?action=404&documentproductno=0&documenttype=Details&order=1&tabname=Details&areacode=0&issue=2006&producttype=Census%20Tables&javascript=true&textversion=false&navmapdisplayed=true&breadcrumb=TLPD&&collection=Census&period=2006&productlabel=Gross%20Household%20Income%20\(weekly\)%20by%20Rent%20\(weekly\)%20-%20Time%20Series%20Statistics%20\(1996,%202001,%202006%20Census%20Years\)&producttype=Census%20Tables&method=Place%20of%20Usual%20Residence&topic=Housing%20Rental&](http://www.censusdata.abs.gov.au/ABSNavigation/prenav/ViewData?action=404&documentproductno=0&documenttype=Details&order=1&tabname=Details&areacode=0&issue=2006&producttype=Census%20Tables&javascript=true&textversion=false&navmapdisplayed=true&breadcrumb=TLPD&&collection=Census&period=2006&productlabel=Gross%20Household%20Income%20(weekly)%20by%20Rent%20(weekly)%20-%20Time%20Series%20Statistics%20(1996,%202001,%202006%20Census%20Years)&producttype=Census%20Tables&method=Place%20of%20Usual%20Residence&topic=Housing%20Rental&).
- Australian Bureau of Statistics 2006e, *Household Expenditure Survey, Australia: Summary of Results, 2003-04 (Reissue)*, viewed 9/05/07
[http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6530.0Main%20Features32003-04%20\(Reissue\)?opendocument&tabname=Summary&prodno=6530.0&issue=2003-04%20\(Reissue\)&num=&view=>](http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6530.0Main%20Features32003-04%20(Reissue)?opendocument&tabname=Summary&prodno=6530.0&issue=2003-04%20(Reissue)&num=&view=>).
- Australian Bureau of Statistics 2006f, *Household Expenditure Survey: summary of results 2003-04 (reissue)*,
[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/6D5F1DDFF4729C60CA25705900755727/\\$File/65300_2003-04.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/6D5F1DDFF4729C60CA25705900755727/$File/65300_2003-04.pdf).

- Australian Bureau of Statistics 2007, *Housing Finance, Australia, Apr 2007*, <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/05DBC E56402EC566CA25723D000F2999?OpenDocument>>.
- Australian Business Industrial 2007, *Submission to Inquiry into Options for a New Industrial Relations System*, Australian Business Industrial, Sydney.
- Australian Council of Social Service 2003, *The Bare Necessities: Poverty and Deprivation in Australia Today*, Sydney.
- Australian Institute of Health and Welfare 2006, *Public Rental Housing 2005-06: Commonwealth State Housing Agreement national data reports*, in A.I.o.H.a. Welfare (ed.) December 2006 edn, p. 46.
- Australian Institute of Health and Welfare 2007a, *Community housing 2005-06: Commonwealth State Housing Agreement national data reports*, in A.I.o.H.a. Welfare (ed.) Australian Institute of Health and Welfare, p. 77 <<http://www.aihw.gov.au/publications/whgwp/whgwp56/whgwp56.pdf>>.
- Australian Institute of Health and Welfare 2007b, *Private rental assistance 2005-06: Commonwealth State Housing Agreement national data reports*, in A.I.o.H.a. Welfare (ed.) Australian Institute of Health and Welfare, p. 39.
- Barbato, C., Clough, R., Farrar, A. & Phibbs, P. 2003, *Stakeholder requirements for enabling regulatory arrangements for community housing in Australia*, AHURI Sydney Research Centre, National Community Housing Forum., Sydney.
- Baxter, J. & McDonald, P. 2005, *Why is the rate of home ownership in Australia falling?*, Australian National University AHURI, Canberra.
- Beer, A., Kearins, B. & Pieters, H. 2007, 'Housing Affordability and Planning in Australia: The Challenge of Policy Under Neo-liberalism', *Housing Studies*, vol. 22, no. 1, pp. 11 - 24.
- Berkhout, V. 2007, *Housing affordability and Affordable housing: Is there a role for planners and the planning system?*, Presentation powerpoint, Sydney.
- Berry, M. 2000, 'Investment in Rental Housing in Australia: Small Landlords and Institutional Investors', *Housing Studies*, vol. 15, no. 5, pp. 661-681.
- Berry, M. 2003, 'Why is it important to boost the supply of affordable housing in Australia- and how can we do it?', *Urban Policy and Research*, vol. 21, no. 4, p. 41435.
- Berry, M. & Hall, J. 2001, 'Policy Options for stimulating private sector investment in affordable housing across Australia: Stage 1', paper presented to the *Affordable Housing National Research Consortium*.
- Berry, M. & Hall, J. 2002, *New approaches to expanding the supply of affordable housing in Australia: an increasing role for the private sector*, Australian Housing and Urban Research Institute RMIT Research Centre, Melbourne.
- Berry, M. & Hall, J. 2005, 'Institutional investment in rental housing in Australia: A policy framework and two models', *Urban Studies*, vol. 42, no. 1, pp. 91-111.
- Berry, M., Whitehead, C., Williams, P. & Yates, J. 2004, *Financing affordable housing: a critical comparative review of the United Kingdom and Australia*, Australian Housing and Urban Research Institute, Sydney.
- Blelloch, I. 2002, 'Forming a joint venture with an institutional partner: A residential property case study', *Briefings in Real Estate Finance*, vol. 2, no. 1, pp. 36-41.

- Blismas, N.D., A. 2003, 'Computer aided qualitative data analysis: panacea of paradox?', *Building Research and Information*, vol. 31, no. 6, pp. 455-463.
- Bodaken, M. 2002, 'The increasing shortage of rental housing in America: action items for preservation', *Housing Facts and Findings*, vol. 4, no. 4, p. 1.
- Bolling, M. 2007, 'Renters feel the squeeze', *Herald-Sun*, 26 May 2007, viewed 29 May 2007.
- Bourdieu, P. 1998, 'Utopia of Endless Exploitation: The Essence of Neoliberalism', *Le Monde diplomatique*, no. December 1998, pp. 1-5.
- Bourdieu, P. & Wacquant, L.J.D. 1992, *An invitation to reflexive sociology*, University of Chicago Press, Chicago.
- Bradbury, B. & Chalmers, J. 2003, *Housing, location and employment*, AHURI, Sydney.
- Briggs, C.L. 1986, *Learning to ask: A sociological appraisal of the role of interview in social science*, Cambridge University Press, Cambridge.
- Brotherhood of St Lawrence 2003, *Submission to the Productivity Commission Inquiry into First Home Ownership*, Melbourne.
- Bryman, A. 1988, *Quantity and quality in social research*, Unwin Hyman, London ; Boston.
- Burke, T. 1998, 'Housing and Poverty', in R. Fincher & J. Nieuwenhuysen (eds), *Australian Poverty* Melbourne University Press, Melbourne, p. 376.
- Burke, T. 1999, *Private Rental in Australia*, Institute for Social Research, Sydney.
- Burke, T. 2003a, *Measuring housing affordability*, AHURI, Melbourne.
- Burke, T. 2003b, 'Measuring housing affordability', *AHURI Workshop: Housing affordability*, pp. 1-9.
- Burke, T. 2007, 'Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships', paper presented to the *Financial Review Housing Congress 2007*.
- Cartwright, C., Curran, J., Parnell, M., Pope, L. & Carpenter, L. 2006, *Investigating Models of Affordable Housing for Older People and People with Disabilities in the Mid North Coast Region of New South Wales*, NSW Department of Housing, Sydney.
- Centre for Affordable Housing 2003, *Where do we need affordable housing?*, in D.o. Housing (ed.) <<http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/Affordable+Housing+in+NSW/Where+Do+We+Need+Affordable+Housing/Percentage+of+Affordable+Private+Rental+Metropolitan+LGAs%29.htm>>.
- Centre for Affordable Housing 2007, 'About Affordable Housing ', viewed 10 July 2007 <<http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/About+Affordable+Housing/>>.
- Chaney, M. 2006, *Federal-State Relations at a Crossroads Says BCA*, <<http://www.bca.com.au/Content.aspx?ContentID=100801>>.
- Clapham, D. & Kintrea, K. 2000, 'Community-based Housing Organisations and the Local Governance Debate', *Housing Studies*, vol. 15, no. 4, pp. 533 - 559.
- Colebatch, T. 2007, 'For the first time, the average household can no longer afford the average home', *The Age*, 13 February 2007.

- Community Housing Federation of Australia 2007, *2005-06 Community housing mapping project: report on findings*, Report Number ISBN 0 9577998 5 3, Community Housing Federation of Australia, Canberra.
- Cooper, M. 2006, *Gimme Shelter! Getting serious about private development of affordable housing in Australia*, Urbis JHD, Sydney.
- Costello, P. 2006, 'FEMM, Solomon Islands, GST, federal-state relations, industrial relations, COAG, guest workers', p. 4.
- Croce, C. 2005, 'Taking public private partnerships forward', *National Community Housing Forum Roundtable*, Perth, p. 7.
- Crook, D. & Kemp, P. 1999, *Financial institutions and private rented housing*, Joseph Rowntree Foundation, York.
- Dalton, T. 2002, 'Which way housing policy: Housing markets and policy agendas', *Just Policy*, vol. 25.
- Davison, G. 1995, 'Australia: the first suburban nation?', *Journal of Urban History*, vol. v22, no. n1, p. p40(35).
- De Vaus, D.A. 2002, *Surveys in social research*, 5th edn, Routledge, London.
- Director Community Services, T. 2004, *Consideration for the provision of public housing*, in N.D.o.C. Services (ed.) vol. Reports\2004\DOCS 11 16, NSW Government Printer, p. 27<<http://www.kiama.nsw.gov.au/Corporate-Services/pdf/Business-Papers/Report-DCS-041116.pdf>>.
- Disney, J. 2007, 'Affordable Housing in Australia: Some key problems and priorities for action', Sydney.
- Dodson, J. 2006, *Rolling the State: Government, neoliberalism and housing assistance in four advanced economies*, Griffith University, Brisbane.
- Ellis, L. 2006, *Housing and Housing Finance: The view from Australia and beyond*, Economics Analysis Department, Reserve Bank of Australia, Canberra.
- Environmetrics & HBO+EMTB, A. 2001, *Housing Market for Households on Moderate Incomes*, Landcom, Sydney.
- Flannery, M. (ed.) 1993, *Government risk-bearing in the financial sector of a capitalist economy*, Kluwer, Boston.
- Flood, J. 2003, *Urban Slums: The case of Sydney, Australia*, Urban Resources, Melbourne.
- Folkestad, G. 2005, 'Risk Management for Residential Property: hedging alternatives for small investors', Masters thesis, Hogskolan I Jonkoping. Jonkoping.
- Gabriel, M., Jacobs, K., Arthurson, K., Burke, T. & Yates, J. 2005, *Conceptualising and measuring the housing affordability problem*, AHURI, Melbourne/Sydney.
- Gilbertson, P. 2005, 'Public Private Partnerships: what are the risks? what are the benefits?', *NCHF National Stakeholders Roundtable*, Housing NSW, Sydney.
- Goetzmann, W. & Ibbotson, R. 1990, 'The performance of real estate as an asset class', *Journal of Applied Corporate Finance*, vol. 3, no. 1, pp. 65-76.
- Gruis, V. 2005, 'Financial and Social Returns in Housing Asset Management: Theory and Dutch Housing Associations' Practice', *Urban Stud*, vol. 42, no. 10, pp. 1771-1794.
- Gruis, V. & Nieboer, N. 2004, 'Strategic housing management: An asset management model for social landlords', *Property Management*, vol. 22, no. 3, pp. 201-213.
- Gum, K. 2006, *The property industry: capital gains in search of rental returns*, The Brisbane Institute, <http://www.brisinst.org.au/resources/gum_kingsley_propertyindustry.html>.

- Hall, J., Berry, M. & Phibbs, P. 2003, *Policy options for stimulating involvement in affordable housing across Australia: operationising and implementing viable new options ("Stage 5")*, Australian Housing and Urban Research Institute, Sydney.
- Heath, A.W. 1997, 'The proposal in qualitative research', *The Qualitative Report*, vol. 3, no. 1.
- Higgs, C. 2008, 'The UK SRI Market Booms', *GreenMoney Journal*, vol. 16, no. 4, pp. 1-3.
- Hobart, S. & Schwartz, R. 2000, 'The low income housing tax credit', *On Line Opinion*, p. 9, viewed 10 March 2008
<<http://www.onlineopinion.com.au/print.asp?article=2001>>.
- Hoesli, M. & MacGregor, B. 2000, *Property Investment: Principles and Practices of Portfolio Management*, Longman-Pearson Educational, London.
- Housing Institute of Australia 2006, *The Economic Multiplier Effects of Housing*, Housing Institute of Australia, Sydney.
- Housing Institute of Australia 2008, 'Housing Report Highlights Supply Challenges', *Media Release*, no. 21 February 2008, viewed 26 February 2008.
- Housing Institute of Australia & Commonwealth Bank of Australia 2006, 'Quarterly Review of Housing Affordability December Quarter 2005', no. 12 January 2006, pp. 1-12,
<<http://economics.hia.com.au/media/NatReleaseDec05State.pdf>>.
- Housing NSW 2007, *Rent and Sales Report No. 82*, NSW Government,
<http://www.housing.nsw.gov.au/NR/rdonlyres/65871F5F-4474-456F-A473-0908C3110760/0/Rent_Report82_07q4.xls>.
- Howard, J. 2007, *Address to the Millenium Forum*, Office of the Prime Minister of Australia, <<http://www.pm.gov.au/media/Speech/2007/Speech24507.cfm>>.
- Hulse, K. 2003, *An international review of housing allowances*, AHURI, Melbourne.
- Hutchison, N. 1994, 'Housing as an investment?: A comparison of returns from housing with other types of investment', *Journal of Property Finance*, vol. 5, no. 2, pp. 47-61.
- Jacobs, K. & Manzi, T. 2000, 'Performance indicators and social constructivism: conflict and control in housing management', *Critical Social Policy*, vol. 20, no. 1, pp. 85-103.
- Johnston, C. 2003, *Affordable housing: what is it?*, Shelter NSW, Sydney.
- Johnston, C. 2008, *Levying developers for affordable housing- a resource paper*, Shelter NSW, Sydney.
- Keats, D.M. & NetLibrary Inc. 2000, *Interviewing a practical guide for students and professionals*, University of New South Wales Press,
<<http://www.lib.uts.edu.au/cgi/goto.cgi?url=http://www.netLibrary.com/urlapi.asp?action=summary&v=1&bookid=52606>>.
- Kothari, M. 2007, *Report on the special rapporteur on the adequate supply of housing as a component of the right to an adequate standard of living*, in H.R. Council (ed.) Government Printer, p. 38<<http://www.ohchr.org/english/bodies/hrcouncil/docs/4session/A.HRC.4.18.Add.2.pdf>>.
- Larkin, A. 2005, *Opportunity knocks for affordable housing*, Parramatta<<http://www.sheltersnsw.org.au/docs/ahn-post0512larkin.pdf>>.
- Leege, D.C. & Francis, W.L. 1974, *Political research : design, measurement, and analysis*, Basic Books, New York.

- Lincoln, Y.S. & Guba, E.G. 1985, *Naturalistic inquiry*, Sage Publications, Beverly Hills, Calif.
- Lloyd, C. & Troy, P. 1981, 'The Commonwealth Housing Commission and a National Housing Policy', paper presented to the *Urban Research Unit Seminar*, Research School of Social Sciences, ANU, Canberra, 1981.
- Lucas, C. 2007, 'It's tale of two cities as fringe dwellers pay the petrol price', *The Age*, 14 May 2007, p. 1, viewed 22 May 2007.
- Luxford, L. 2006, *Housing assistance and disadvantaged places*, Report Number 85, AHURI
Queensland Department of Housing, Brisbane.
- Macken, D. 2007, 'Why property will never be the same', *The Weekend Australian Financial Review (Perspective)*, 21-22 April 2007, pp. 19-21.
- Malizia, E. 2003, 'Structuring Urban Redevelopment Projects: Moving Participants Up the Learning Curve', *Journal of Real Estate Research*, vol. 25, no. 4, pp. 463-478.
- Mant, J. 2007, 'Rethinking social housing: A new role for housing co-operatives and community housing', *National Housing Co-operative Conference 2007*, vol. Summer 2007, Melbourne, p. 17.
- Maslow, A. 1943, 'Theory of Motivation', *Psychosomatic Medicine*, vol. 5, pp. 85-92.
- McAuley, I. 2003, 'Public debt: Another perspective', *Australian Review of Public Affairs*, viewed 10 June 2008
<<http://www.australianreview.net/digest/2003/06/mcauley.html>>.
- McCracken, G.D. 1988, *The long interview*, Sage Publications, Newbury Park, California.
- McDermont, M. 2007, 'Mixed Messages: Housing Associations and Corporate Governance', *Social Legal Studies*, vol. 16, no. 1, pp. 71-94.
- McNelis, S. & Burke, T. 2006, *Rental systems in Australia and Overseas*, AHURI Swinburne Institute of social research, Melbourne.
- McNelis, S., Hayward, D. & Bisset, H. 2002, *A private retail investment vehicle for the community housing sector*, AHURI Swinburne-Monash Research Centre, Melbourne.
- Miles, M.B. & Huberman, A.M. 1984, *Qualitative data analysis : a sourcebook of new methods*, Sage Publications, California.
- Miles, M.B. & Huberman, A.M. 1994, *Qualitative data analysis : an expanded sourcebook*, 2nd edn, Sage, Thousand Oaks, Calif.
- Millar, R. 2006, 'Unlock the city, say developers', *The Age (National)*, 4 November 2006.
- Miller, W. & Crabtree, B. 1999, *Doing qualitative research*, Sage Publications London.
- Milligan, V., Phibbs, P., Fagan, K. & Gurran, N. 2004, *A practical framework for expanding affordable housing services in Australia: learning from experience*, Report Number 60190, AHURI, Sydney.
- Ministerial Taskforce on Affordable Housing 2002, *Affordable Housing in the Australian Capital Territory: Strategies for action*, Report Number 02/1411, ACT Affordable Housing Taskforce, Canberra.
- Montezuma, J. 2004, 'Housing investment in an institutional portfolio context: a review of the issues', *Property Management*, vol. 22, no. 3, pp. 230-249.
- Moore, C. 2004, *Public Housing*, in P.o. NSW (ed.)Hansard, p. 8921.

- National Affordable Housing Forum 2006, 'Achieving a National Affordable Housing Agreement -Background Paper 5', *National Affordable Housing Forum* Swinbourne University of Technology, Brisbane.
- National Community Housing Forum & AHURI 2002, 'Private financing models for social and affordable housing', *National seminar 2002*.
- National Community Housing Forum & Australian Housing and Urban Research Institute 2002, 'Private financing models for social and affordable housing', *National Seminar 2002*, p. 35<<http://nchf.org.au/downloads/Summary-proceedings.pdf>>.
- National Housing Strategy 1991, *The affordability of Australian housing*, no No.2, AGPS.
- National Shelter 2007a, *Australian Housing- A Fair Share, National Shelter Policy Platform 2007*, National Shelter, Brisbane.
- National Shelter 2007b, *Housing Australia: factsheet*, Shelter, Adelaide.
- NSW Department of Housing 2006, *Who benefits from Affordable Housing*, in NSW Department of Housing (ed.)NSW Department of Housing,, p. 1<<http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/About+Affordable+Housing/Who+Benefits+From+Affordable+Housing.>>.
- NSW Department of Housing 2008, *Second Round of Community Housing Growth Tender*, in D.o. Housing (ed.)NSW Department of Housing, p. 1<<http://www.housing.nsw.gov.au/Office+of+Community+Housing/Community+Housing+Providers/Products+and+Services/Programs+and+Grants.htm>>.
- NSW Dept. of Housing 2007, 'Debt Equity Affordable Housing 2006-07 ', viewed 12 July 2007 <<http://www.housing.nsw.gov.au/>>.
- NSW Federation of Housing Associations inc 2001, *Submission to the Inquiry into the Definition of Charities & Related Organisations*, NSW Federation of Housing Associations inc Sydney.
- NSW Federation of Housing Associations Inc. 2006, *Review of the skills base in NSW and future challenges for Vocational Education and Training*, NSW Federation of Housing Associations Inc., Sydney.
- NSW Urban Taskforce 2006, *Affordable Housing: Issues with existing planning mechanisms at State and Local Government level and options to stimulate private investment*, NSW Urban Taskforce, Sydney.
- Organisation for Economic Cooperation and Development 2005, *Recent House Price Developments, Chapter Three*, Organisation for Economic Cooperation and Development, Paris.
- Palmer, C., Ziersch, A., Arthurson, K. & Baum, F. 2004, 'Challenging the Stigma of Public Housing: Preliminary Findings from a Qualitative Study in South Australia ', *Urban Policy and Research*, vol. 22, no. 4, pp. 411-426 (416).
- Parkhe, A. 1993, "'Messy" research, methodological predispositions, and theory development in international joint ventures ', *The Academy of Management Review*, vol. 18, no. 2, pp. 227-268.
- Parliamentary Library 2006, *House Prices*, Canberra.
- Perry, C. 2002, 'A structured approach to presenting theses: notes for students and their supervisors', *Australasian Marketing Journal*, vol. 6, no. 1, pp. 63-86.
- Phillips, M. 2006, 'Social housing lures developers', *Australian Financial Review (Property)*, 5 October 2006, p. 1.

- Phillips, M. 2007, 'Super funds find a new home in housing market', *Australian Financial Review*, 8 March 2007.
- Plibersek, T. 2008, *National Rental Affordability Scheme-technical discussion paper*, in H. Department of Families, Community Services and Indigenous Affairs (ed.) Commonwealth of Australia, p. 20.
- Pocock, B. & Masterman-Smith, H. 2006, 'Work Families and Affordable Housing', paper presented to the *Paper presented at the Dunstan Foundation Forum: 'Over our heads: Housing costs and Australia's future'* 6 June 2006, National Wine Centre, Botanic Road, Adelaide, Adelaide.
- Pollard, P. 2003, *Submission to the Productivity Commission Inquiry into the affordability of housing for first home buyers* Sydney.
- Powall, M. & Withers, G. 2004, 'National Summit on Housing Affordability-Resource Paper', paper presented to the *National Summit on Housing Affordability*, Canberra, 29 June 2004.
- Quigley, J. & Raphael, S. 2004, 'Is housing unaffordable? Why isn't it more affordable?', *The Journal of Economic Perspectives*, vol. 18, no. 1, pp. 191-214.
- Randolph, B. & Holloway, D. 2002, 'The Anatomy of Housing Stress in Sydney', *Urban Policy and Research*, vol. 20, no. 4, pp. 329-355.
- Randolph, B. & Judd, B. 2000, 'Community renewal and large public housing estates', *Urban Policy and Research*, vol. 18, no. 1, pp. 91-104.
- Rees, D. 2006, 'Affordable housing: where is the problem?', *Property Australia*, vol. 20, no. 10, pp. 72-73.
- REINSW 2007, 'Latest vacancy rates provide no relief', no. 3 April 2007, viewed 3 July 2007 <<http://www.reinsw.com.au/Latest-vacancy-rates-provide-no-relief/default.aspx>>.
- Rentsch, I. & Scott, D. 2003, *Submission to the Productivity Commission Commonwealth Inquiry on First Home Ownership* AUSTRALIAN ASSOCIATION OF SOCIAL WORKERS, Canberra.
- Reserve Bank Australia 2007, *Household Finances - selected ratios. Dec 2006*, <<http://www.rba.gov.au/Statistics/Bulletin/B21hist.xls>>.
- Reserve Bank of Australia 2003, *Submission to the Productivity Commission Inquiry on First Home Ownership*, Canberra.
- Richards, A. 2008, 'Some Observations on the Cost of Housing in Australia', paper presented to the *Address to 2008 Economic and Social Outlook Conference*, Melbourne Institute, 27 March 2008.
- Roulac, S. 1976, 'Changing economics implies new property investment relationships', *California Management Review*, vol. 18, no. 3, pp. 57-66.
- Seelig, T. 2001, 'The Political Economy of Private Rental Housing in Brisbane', Doctoral thesis, Swinburne University of Technology, Melbourne.
- Seelig, T. 2004, 'Models of affordable housing within the Queensland context', paper presented to the *Queensland Shelter Conference*, Brisbane, June 2004.
- Senate, T. 2006, *Budget Estimates*, in S.C.A.L. Committee (ed.) Commonwealth of Australia, viewed 6 June 2007 <<http://www.aph.gov.au/hansard/senate/commtee/S9352.pdf>>.
- Shelter Australia & Australian Council of Social Services 2003, *Rent Assistance: does it deliver affordability?*, Shelter Australia
Australian Council of Social Services, Sydney.
- Shelter NSW 2004, *Housing Sydneysiders*, Shelter NSW, Sydney.

- Shelter Tasmania 2006, 'Private Rental Housing still not Affordable', *Sheltashortz*, September 2006.
- Sheridan, M. 2004, 'Funding affordable housing', *Muti Family Trends*, vol. Winter 2004, pp. 1-4.
- Short, P., Seelig, T., Warren, C., Susilawati, C. & Thompson, A. 2008, *Risk Assessment practices in the private rental sector: implications for low-income renters*, AHURI, Brisbane.
- Silverman, D. 2004, *Qualitative research : theory, method and practice*, 2nd edn, SAGE Publications Ltd, London.
- Slater, M. & Beer, A. 2003, *Housing Evictions in South Australia*, Australian Centre for Social Science Research, Adelaide.
- Smith, N. 1987, 'Gentrification and the Rent Gap', *Annals of the Association of American Geographers*, vol. 77, no. 3, p. 4.
- Spiller, M. 2005, 'Affordable Housing in High Value Locations; the Potential Contribution of the Planning System', *Housing Works: The Journal of the Australasian Housing Institute*, vol. 3, no. 2, pp. 16-18.
- Stake, R. & Trumbull, D. 1982, 'Naturalistic generalizations', *Review Journal of Philosophy and Social Science*, vol. 7, no. 1-2, pp. 1-12.
- Strauss, A.L. & Corbin, J.M. 1990, *Basics of qualitative research : grounded theory procedures and techniques*, Sage Publications, Newbury Park, Calif.
- Susilawati, C. & Armitage, L. 2004, 'Do Public Private Partnerships Facilitate Affordable Housing Outcomes in Queensland?', *Australian Property Journal*, vol. August, no. August, pp. 184-187.
- Susilawati, C., Armitage, L. & Skitmore, M. 2005, 'Barriers to expanding partnerships for affordable rental housing investment', paper presented to the *PRRES Conference 2005*.
- Swan, W. & Plibersek 2008, *National Rental Affordability Scheme*, in F. Treasury & H. Dept. of Family, Community Services and Indigenous Affairs (eds) Australian Government, p. 15.
- Tesch, R. (ed.) 1989, *Computer software and qualitative analysis: A reassessment.*, Transaction Publishers, New Brunswick, New Jersey.
- Tyson-Chan, D. 2006, 'New funds set the pace in the mortgage sector', *Money Management*, 16 October 2006.
- Urban Affairs, N.D.o. 1999, *Affordable Housing Strategy - background paper*, in N.D.U. Affairs (ed.) vol. 99/48, Government.
- Veal, A.J. (ed.) 2005, *Business Research Methods: A managerial approach*, Pearson Education Australia, Sydney.
- Waxman, P. & Ng, K. 2004, *Investing in residential property: understanding the Australian market*, 5th edn, Wrightbooks.
- Webb, E.J. 1966, *Unobtrusive measures : nonreactive research in the social sciences*, Rand McNally, Chicago.
- Weitzman, E.A. & Miles, M.B. 1998, *Computer programmes for qualitative data analysis; a software source book*, 2nd edn, Sage Publications, Thousand Oaks CA.
- Wilkins, R. 2007, 'Election 2007: Federal-state relations', *Australian Review of Public Affairs*, no. September 2007, pp. 1-4, viewed 16 June 2008
<<http://www.australianreview.net/digest/2007/election/wilkins.html>>.
- Wilkinson, J. 2005, *Affordable housing in NSW: Past to present*, NSW Parliamentary Library Research Service, Sydney.

- Wilson, S. & Turnbull, N. 2000, 'Australian's secret Keynesianism', *Australian Review Digest*, no. 11 August 2000, p. 5, viewed 27 February 2008 <http://www.australianreview.net/digest/2000/08/wilson_turnbull.html>.
- Winter, I. 1994, 'Young people living on the urban fringe: is it a tale of two cities?', *Family Matters Australian Institute of Family Studies*, vol. 38, pp. 43-45.
- Wood, G. 2001, 'Promoting the supply of low-income rental housing', *Urban Policy and Research*, vol. 19, no. 4, pp. 425-440.
- Wood, G. & Kemp, P. 2003, 'The Taxation of Australian Landlords: Would the British tax Treatment of Rental Investments Increase tax Burdens if Introduced in Australia?', *urban Studies*, vol. 40, no. 4, pp. pp747-765.
- Wood, G., Watson, R. & Flatau, P. 2003, *Increasing the supply of affordable private rental housing*, Report Number Issue 26, AHURI Western Australia Research Centre, Perth.
- Wood, G., Watson, R. & Flatau, P. 2004, *Would a Low Income Housing Tax Credit Programme Ease Housing Affordability Stress Among Low Income Australian Rental Tenants?*, RMIT-AHURI/NATSEM Research Centre, Melbourne.
- Wulff, M. & Mayer, C. 1998, 'Long-term renters in the Australian housing market', *Housing Studies*, vol. 13, no. 1, pp. 83-89.
- Yates, J. 1992, 'Shared ownership: The socialisation or privatisation of housing?', *Housing Studies*, vol. 7, no. 2, pp. 97 - 111.
- Yates, J. 1994, 'Private finance for social housing in Australia', *Housing Policy Debate*, vol. 5, no. 2, pp. 177-202.
- Yates, J. 1996, 'Towards a reassessment of the private rental market', *Housing Studies*, vol. 11, no. 1, pp. 35 - 50.
- Yates, J. & Wulff, M. 2000, 'Wither low cost private rental housing?', *Urban Policy and Research*, vol. 18, no. 1, pp. 45-64.
- Yates, J. & Wulff, M. 2005, 'Market Provision of affordable rental housing: lessons from recent trends in Australia', *Urban Policy and Research*, vol. 23, no. 1, pp. 5-19.
- Yates, J., Wulff, M. & Reynolds, M. 2004, *Changes in the Supply of and Need for Low Income Rent Dwellings in the Private Rental Market*, AHURI, Melbourne.
- Yin, R.K. 2003, *Case study research : design and methods*, Rev. edn, Sage Publications, Beverly Hills, Calif.