Blessing Bags

AFFORDABLE HOUSING INFRASTRUCTURE BOOSTER

Policy Information Paper

The Affordable Housing Infrastructure Booster (AHIB) was developed to increase the supply of affordable rental dwellings in areas experiencing particular housing market stress and or areas of particular state priorities (Nygaard 2019)The Community Housing Investment Association describes the Affordable housing Infrastructure Booster as aiming to generate dwellings that will be let at least 20% below market rents for twenty years and these properties be targeted to low and income households. Rental affordability policy is a relatively new phenomenon in Australia (Mares 2018). The National Rental Affordability Scheme (NRAS) was an important catalyst for the development of affordable rental dwellings for low- and moderate-income households. The Affordable Housing Infrastructure Booster was developed in 2019. In 2019 the issue of affordable rental housing for low- and moderate-income households remerged on the policy agenda in the wake of the first National Rental Affordability Scheme housing developments reverting to market price. The Affordable Housing Infrastructure Booster utilises regulation and tax credits as policy instruments to ensure the financial viability and success of the policy. The Affordable Housing Infrastructure Booster aims to complement not replace the existing suit of Commonwealth and State level housing instruments and policies, that aim to deliver affordable housing (Nygaard 2019). Moreover, the Affordable Housing Infrastructure Booster was intended to enable projects to be built that would otherwise would not be built to accommodate low to moderate income households. The Affordable Infrastructure Housing Booster addresses the delivery of affordable housing in tight housing markets, the length of affordability and more notably institutional investment attractiveness which forms part of a long standing Australian public policy objective.

The National Rental Affordability Scheme 2008 was the first initiative in Australia specifically focused on increasing the supply of affordable rental accommodation for low- and moderate-income households. The National Rental Affordability Scheme was developed in response to a growing concern among Australians about housing affordability. A policy window was created for housing affordability to rise to the agenda partially due to a focusing event, the Global Financial Crisis. The global financial crisis brought about a confluence of the three policy streams (Hill & Varone 2017). The National Rental Affordability Scheme formed part of a wider economic stimulus package intended by the Kevin Rudd government to boost demand for goods and services in response to the turbulent macroeconomic environment. (Nygaard 2019)

The National Affordability Scheme provided annual financial incentives for up to ten years for approved housing providers. The incentive was issued to housing providers that provided affordable rental properties at least twenty percent below market rates. (Mares 2018). The first properties created under the National Rental Affordability Scheme to revert back to market rate was set to do so in 2019. The need for a program to continue to develop affordable rental housing was more critical than ever in 2019. (Mares 2018). Housing affordability had worsened and there was an increasing realisation among the public that access to housing is not only an issue among very low-income households but extends to moderate income households and occupations that are central to the knowledge economy. (Yates et al 2006, Hulse et al 2015) In response to the latter in July of 2018 the Swinburne University centre for Urban Transmissions was commissioned by the Community Housing Industry Association (CHIA) New South Wales to develop a blueprint for a new policy initiative aimed at increasing the number of affordable rental properties for low and moderate income households. (Nygaard 2019)

Affordable housing is increasingly recognised as part of the infrastructure that underpins urban productivity and liveability and the ability to meet future population growth and social justice objectives (Maclennan et al 2015, 1A 2016). In comparison the policy and financial levers that underpin affordable housing infrastructure are fragmented and diffused. Moreover, the development of housing policy requires a multi-stakeholder involvement. (Nygaard 2019) To develop successful housing policy the interests and capabilities of state, local government, housing developers, operators and finance actors must be considered. (Hill & Varone 2017)

The Affordable Housing Infrastructure booster is explicitly based on the recognition that the Commonwealth is a partner in the process to increase the supply of affordable rental dwellings for low to moderate income households. The Affordable Housing Infrastructure Booster was not developed as a substitute for local and state government policy but to compliment state and commonwealth housing policies and in turn enhance the provision of affordable rental dwellings. (Hill & Varone 2017) By complimenting existing and emerging housing policies The Affordable Housing Infrastructure Booster is able to reflect the joint interests that state government, commonwealth government, private, non-for-profit sectors and investors may have in promoting affordable rental housing; due to this the Affordable Housing Infrastructure Booster does not intended to address the gross funding gap in the provision of affordable dwellings in isolation. (Nygaard 2019) The boost provided by the Affordable Income Housing Scheme would be based upon the net financing gap. The net financing gap is the remains after other equity investment and policy initiatives are accounted for.

During the policy cycle in which the Affordable Housing Infrastructure Scheme was developed the National Rental Affordability Infrastructure was analysed and evaluated to provide feedback for policy development. Unlike the National Rental Affordability Scheme and numerous international policies aimed at increasing housing affordability, the AHIB lets the desired housing outcome and locations determine the financial boost that is provided. (Nygaard 2019) By not adopting a *priori* determined level of annual level of support and project subsidies, affordable housing developers tender for the boost required to service borrowing costs and prudential standards to increase profitability for investors. We can relate this back to the long-term public policy objective if increasing attractiveness of investment in housing for institutions. By not pre-determining financial incentives housing developers sought to meet the demand of low to moderate income households; therefore the interests of low to moderate income households were heavily considered in institutional investment and in the policy design. (Mares 2018)

There is a growing recognition within government and the public service that to deal with wicked problems such as housing affordability policies need to be flexible and adaptive differing from the mechanistic models that have traditionally dominated policy development and government thinking (Antoniades,2014). The Affordable Housing Infrastructure Booster is highly flexible with state level administering agencies empowered to evaluate tax credits and tender available credits against marginality thresholds value for money outcomes and additional state level housing priorities. (Nygaard 2019) The Affordable Housing Infrastructure Booster is based upon the net financing gap as aforementioned. This provision enables crowd in innovation, equity contribution, private sector innovation and government public policy levers to interact with one another to deliver affordable housing to the community. It is worth noting that by operating on a net financing basis the affordable housing infrastructure booster has the potential to reduce the total tax credits below the total rent rebate achieved for low to moderate income households. Moreover, The Affordable Housing Infrastructure booster is intended to incentivise institutional and private sector investment in increasing the supply of affordable dwellings across state and commonwealth governmental contexts need to adapt to specific outcomes. (Nygaard 2019)

A key issue for the viability of any public policy is the successful identification of projects to support or in this case boost. The affordable housing infrastructure booster provides boosts in the form of a tax credits. In the case of the Affordable Housing Infrastructure Booster tax credits act as a policy instrument to increase the supply of rental properties available for low to moderate income households. When deciding the type of tax credit to enlist policy makers considered the supply and demand of the housing market. In this way the interests of low to moderate income households, who are the key stakeholder are central to policy development as which was determined by research into the prices of rental property, number of applicants for low to moderately priced dwellings and overcrowding by The Centre for Urban Transitions. In the process of doing this research The Centre for Urban Transitions found that flat rate tax incentives can be too low or generous resulting in a need for additional incentives to create low to moderate income housing and differentiated rates, say by geography would address broad variations in outcomes but not project specific variations. (Nygaard 2019) To identify the correct form of incentive the Affordable Housing Infrastructure Booster invited developers and development partnerships to tender the necessary tax credits to ensure acceptable rates of return to investors and therefore the viability of the policy. The latter emphasises the importance of feedback from stakeholders such as investors and developers during policy development, evaluation and consultation. Another important stakeholder that played a part in the determination of tax credits is the local community which the affordable rental dwellings for low to moderate income households are set to be developed. (Mares 2018) The state level administrative body for AHIB worked with independent bodies to establish relevant thresholds which suited the community housing market contexts. Competition for tax credit is necessary to ensure the value of public money, incentivise stakeholder cooperation and enable the refinement of the affordable housing infrastructure booster over the long term (Nygaard 2019).

Regulatory instruments and standardisation are the classical instruments of politics that are used to address social and economic issues and create successful policy. Regulation and Standardisation can effectively manage risk in policy development and increase financial viability of a project. Incentivising large scale institutional investment in housing requires a regulatory approach. Moreover, managers of all affordable housing infrastructure boosters are required to be registered to the National Regulatory System for Community Housing Providers or a state-based body of equal merit as approved by the Community Housing Infrastructure Association. (Nygaard 2019). Regulations focus on investors'risk premium, asset management, governance, financial viability and operational management. Regulatory instruments ensure the opportunity to intervene and the power of policy makers; two important factors in maintain a policy fulfil its intended use and is not hijacked for a private group or citizens agenda.

The affordability of housing in Australia is recognised unilaterally by state government, commonwealth government and community organisations as a significant concern. The coronavirus pandemic has seen an increasing number of Australians struggling to afford rent and an increase of demand for low to middle income rental properties. The Affordable Housing Infrastructure Booster will need to be increased in the future if the government wants to maintain the current balance of supply and demand for low to moderate rental dwellings. The circumstances caused by COVID resulted in a rental relief grants by the government, when these grants cease, we are likely to see a surge in demand for affordable rental properties. A key achievement of the National Rental Affordability Scheme and The Affordable Housing Infrastructure Booster was leveraging private investment thereby creating a new housing asset class reliant on lower rents. Notwithstanding achievements of The Affordable Housing Infrastructure Booster there is need for long term investment in rental affordability for low to moderate income households.

Reference

Antoniades, H. (2014). Housing Affordability in Australia: The National Rental Affordability Scheme v. Public Housing and Welfare Programs. In *Asian Real Estate Society Conference*. AsRES.

Hayhurst, W. (2020) *Parliamentary Enquiry into Homelessness in Australia.*

Hill, M., & Varone, F. (2017). Michael Hill and Frédéric Varone (eds.) 2017: The Public Policy Process. London and New York: Routledge. ISBN 978-1-138-90950-2, www. routledge. com/9781138909502.

Hulse, K., Reynolds, M., Stone, W., & Yates, J. (2015). Supply shortages and affordability outcomes in the private rental sector: short and longer term trends.

Mares, P. (2018). *No Place Like Home: Repairing Australia's Housing Crisis*. Text Publishing.

Nygaard, C. (2019) Affordable Housing Infrastructure Booster. *Centre for Urban Transitions.*

Pawson, H., Milligan, V., & Yates, J. (2020). Financing and Governing Affordable Rental Housing. In *Housing Policy in Australia* (pp. 259-298). Palgrave Macmillan, Singapore.