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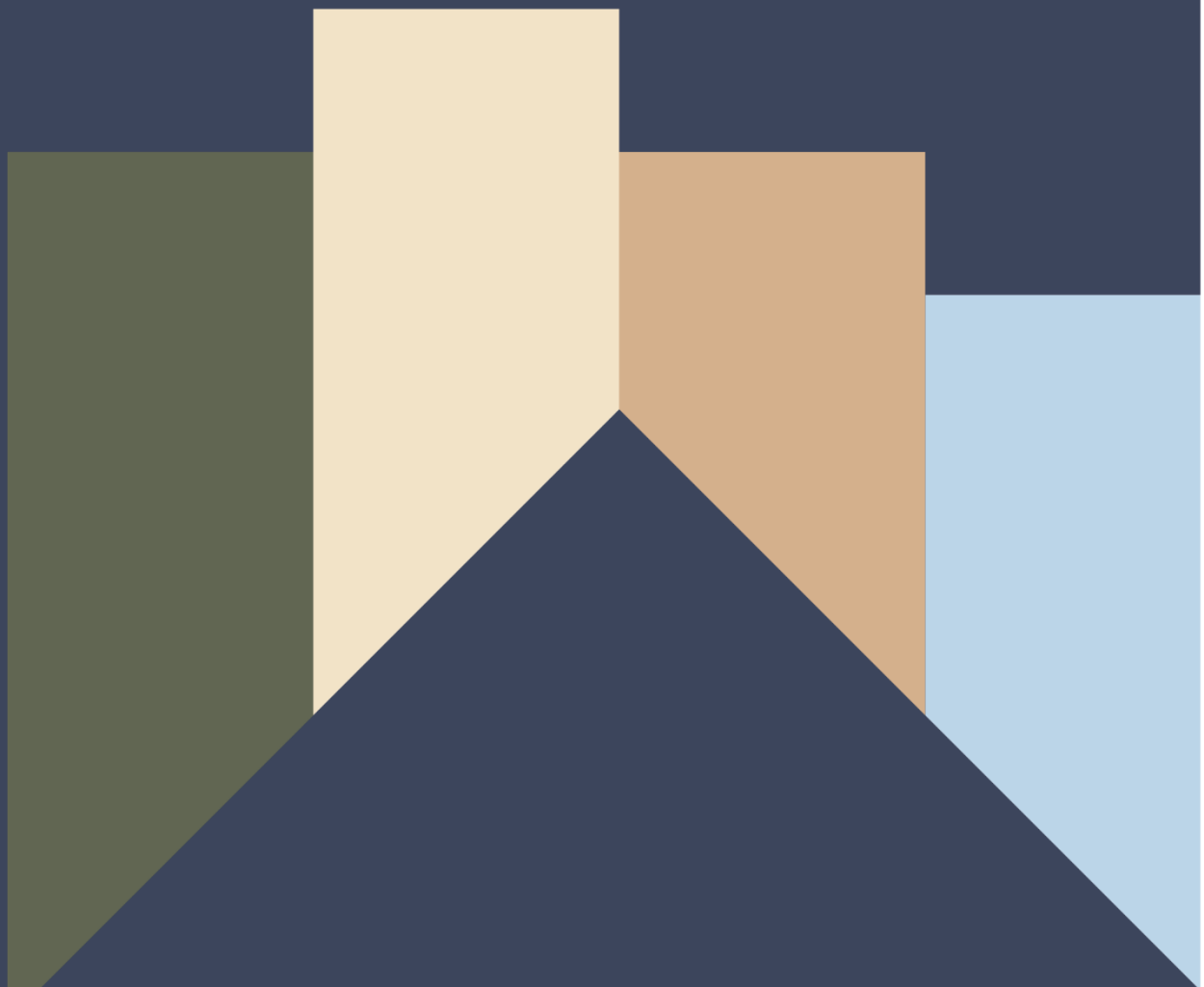
Interim National Housing Supply
and Affordability Council

INTERIM
NATIONAL
HOUSING
SUPPLY AND
AFFORDABILITY
COUNCIL

Barriers to Institutional Investment, Finance and Innovation in Housing

Report

July 2023



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The interim National Housing Supply and Affordability Council acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We play our respects to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

Foreword

All Australians should have access to safe, well-located and affordable housing. To support this goal, on 1 January 2023 the Government established the interim National Housing Supply and Affordability Council (the Council) and tasked it with building the evidence base to support policy making and improve outcomes across the housing spectrum.

On 9 May 2023, the Minister for Housing, the Hon Julie Collins MP, commissioned the Council's first piece of work: a review of barriers to institutional investment, finance and innovation in housing. The Minister asked the Council to consult widely, review arrangements in comparable international jurisdictions, identify barriers in the Australian context and recommend priority actions.

This report is an important opportunity to provide advice that can improve housing outcomes for Australians. The supply of housing in Australia falls significantly short of demand, contributing to very low vacancy rates and rental prices that are rising well ahead of wage growth. Accessing institutional capital is one way to increase housing supply, which would improve affordability and ease rental shortages.

The Council believes that the emergence of an institutional market for housing can add to the supply of rental stock and improve rental affordability. To develop institutional housing as an asset class, the Council has made 11 recommendations across 3 areas. These recommendations seek to ensure an adequate pipeline of projects suitable for institutional investment, de-risk the development of housing assets and the provision of housing services, and support social and affordable housing.

The Council is grateful for the generous input received from stakeholders through roundtable discussions and bilateral meetings. Those consulted included institutional investors and investor associations; residential construction and development entities and related peak bodies; Commonwealth, state and territory governments and agencies; the community housing sector; and research institutions.

On behalf of the Council, I am pleased to submit this report to the Minister and hope the recommendations are accepted and implemented to deliver improved housing outcomes for Australians.



Ms Susan Lloyd-Hurwitz

Chair, interim National Housing Supply and Affordability Council

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Executive summary

Australia's rental housing supply challenge

Australia deserves a housing system that promotes an inclusive, prosperous and sustainable nation. Essential to this is a well-functioning, well-supplied and responsive rental system that provides tenants with safe and secure accommodation, and access to employment and education opportunities and social services.

Such a rental system is also critical to economic prosperity. It improves labour mobility by providing more options for those seeking to relocate for employment, which supports productivity and economic participation. It also helps ensure people are able to live near their places of work.

Unfortunately, Australia is currently facing a significant rental housing supply and affordability challenge. Rental affordability has deteriorated, particularly since the COVID-19 pandemic. Finding rental accommodation is increasingly difficult; vacancy rates are at or near record lows in most cities and regions, the number of people who are experiencing homelessness is increasing, and the rate of insecure housing is growing (CoreLogic 2023b; Australian Bureau of Statistics (ABS) 2023a; Australian Institute of Health and Welfare (AIHW) 2023b).

Some of the stress in the rental system reflects cyclical factors, including the lingering effect of the pandemic on household preferences, employment arrangements and migration patterns. But there are also significant structural pressures underpinning increased demand for rental dwellings. The rising price of owner-occupied housing relative to income over the past 2 decades has constrained the ability of many households to purchase a dwelling or maintain home ownership. The long-term decline in household size has added to rental demand by contributing to household formation. The decline in social housing as a share of the total housing stock means that more lower income households require privately supplied rental accommodation than in the past (Productivity Commission 2022).

The rental market has been slow to respond to rising demand for rental housing. This in part reflects cyclical factors, including material and labour shortages. But it also reflects deeper structural constraints on the capacity of the rental market to quickly and cost effectively meet the housing needs of those who rely on rental accommodation.

The vast majority of rental housing in Australia is currently provided by individual landlords. Many landlords and tenants have respectful and mutually beneficial arrangements. But individual landlords may not always be well placed to respond to rising demand for rental housing. And the preferences, circumstances and needs of individual landlords and tenants may not always match, which can lead to sub-optimal rental experiences with respect to housing quality and tenure arrangements.

The role for institutional investment in increasing the supply of rental housing

There is a need for a major investment of capital to fund a significant increase in the quantity and diversity of Australia's stock of rental properties. As in the past, much of this capital will be provided by individual investors. Some will come from government through the creation of new social housing. Capital from institutional investors can also play a role.

Institutional investors are, broadly, entities through which investors collectively invest. They have large quantities of capital to deploy, invest for the long term, and spread their funds across a diverse range of investments.

Institutional investment in housing typically refers to equity finance invested by institutional investors in a collection of related dwellings to provide rental services at scale. It stands in contrast to the single dwelling provided by the individual landlord. It can also include direct debt financing of housing investment by institutional investors through bonds or other marketable instruments, rather than through banks or other traditional intermediaries. Implicit in the term is the existence of a wholesale secondary market for the exchange of housing assets between institutional investors.

More institutional investment in housing would benefit both investors and tenants. Institutional investors have a need for long-term assets with stable income streams. They manage significant volumes of capital, and so need markets capable of absorbing large capital flows. They also have a need for assets that are less correlated with other large, well-established asset classes.

For renters, more investment in housing by institutional investors could increase housing supply, which improves affordability and provides more housing choice for tenants. It also has the potential to drive innovation in areas such as housing design and construction, and improve the quality of the rental stock. It can drive efficiencies in areas such as energy consumption and housing maintenance. And it can create greater certainty of tenure by shielding renters from idiosyncratic factors that affect the supply of dwellings by individual investors. It also offers the potential of a more stable supply of housing, as the availability of institutional capital is less susceptible to the business and credit cycle.

Institutional investment in housing in Australia is very limited. Investment that does occur is primarily in niche sectors such as residential aged care facilities, student accommodation and subsidised affordable housing. Build-to-rent housing – which this report defines as apartment blocks or larger developments purpose-built for rental occupation and held in single ownership as a long-term revenue-generating asset (Pawson and others 2020) – is emerging as an asset class, but currently only accounts for 0.2 per cent of the total housing stock in Australia. In contrast, institutional investors have sizable allocations to Australian commercial, retail and industrial property.

Internationally, some economies have well-established or fast developing institutional housing markets (in which many Australian institutional investors participate). The United States (US) has the most mature market, supported by its large economy and advanced capital markets, long-standing system of subsidies for low-income housing and, in some jurisdictions, relatively accommodating development arrangements. In the United Kingdom (UK), the sector is growing quickly, in part due to policy measures to foster institutional investment.

Key findings and recommendations: Australia needs a market for institutional housing

The central finding of this report is that the emergence of a domestic market for housing provided by institutional investors ('institutional housing') would add to, and improve the quality and diversity of, Australia's stock of private and not-for-profit (community) rental housing. A desirable market would have a well-supplied primary market (that is, a steady pipeline of large, multi-residential, well-located, unitary (i.e. single-owner) projects coming to market), and a secondary market (where established assets are traded) with low information asymmetries and moderate transaction costs. The development of new stock would be either by institutional investors themselves, or by large developers, with the stock acquired on completion as a single asset by institutional investors to provide for rental services.

To achieve such an outcome, the interim National Housing Supply and Affordability Council (the Council) has identified 3 categories of recommendations. These are: creating a larger pipeline of suitable projects coming to market; de-risking the development and ownership of institutional housing assets; and supporting institutional investment in social and affordable housing. Some of the recommendations address structural barriers to the formation of a market. Others aim to accelerate the formation of a market and support early movers. Some do both. The recommendations are best viewed holistically, rather than as a menu of options. This reflects the fact that they are mutually reinforcing, and that government and market participants need to address all barriers to support the emergence of a market. The recommendations complement and build on recent taxation measures taken by Commonwealth, state and territory governments to encourage institutional investment, including land tax concessions, a reduction in the managed investment trust withholding tax for foreigners, and an increase in depreciation rates (the efficacy of which should be reviewed in due course).

1. Creating a larger pipeline of suitable projects

A significant factor behind the lack of a market for institutional housing is an inadequate supply of new projects suitable for institutional investment. This limits the ability of the market to grow to the critical mass of assets and participants required to ensure a well-functioning and self-sustaining market. This shortage of supply reflects the scarcity of sites suitable for the construction of institutional housing assets, planning systems that limit development, and planning system complexity and inconsistencies that add to costs and risks associated with development.

Reflecting this finding, a central recommendation of the Council is that jurisdictions classify large-scale projects intended to be held as a single asset for rent as a discrete land use type for development assessment purposes, with the goal of creating a long-term, committed rental stock. In addition, the Council recommends reviewing planning and zoning systems and land availability to support more development of such assets.

2. De-risking the development and ownership of projects of institutional housing assets

A key view of the Council that underpins its recommendations is that the risks associated with developing and owning institutional housing assets are currently elevated due to the nascent state of the market. However, once developed, the return-risk characteristics of the market would be such that the market would be viable and self-sustaining. Until a market develops, investing in housing, and *investing in the capability to invest in housing*, is unattractive relative to alternative investment opportunities.

The lack of a market elevates risks in several ways. Too few projects limit the extent to which investment and underwriting analytics can be undertaken. Price discovery is limited, increasing the difficulty of valuing assets and raising risks for trustees who must ensure equity for members. Liquidity is limited, adding to disposal risk for owners and forcing potential buyers to purchase new assets, rather than source stock from a secondary market. It limits the extent to which providers of debt finance invest in their capacity to lend to the sector. And it elevates uncertainty about government policy and regulatory arrangements, given the lack of an existing constituency that can advocate for stability in policy settings.

The Council identified that some aspects of the superannuation system affect institutional investment in housing. These include the fact that performance test benchmarks have not generally incorporated housing. Several stakeholders also argued that some superannuation disclosure requirements create a perception that funds that invest in property have high management-expense ratios.

More generally, a common theme running throughout the consultation process was that the inconsistency in policy settings and frameworks between, and sometimes within, jurisdictions adds to costs and risks of individual projects. Moreover, the lack of policy consistency limits the ability of investors to derive benefits from scale by developing, holding and managing multiple projects.

To reduce risks for developers and investors, the Council recommends the establishment of housing targets and measures to improve data availability, which will improve certainty and the availability of information to facilitate the planning, and risk and cost management, of projects. The Council also recommends addressing gaps in the provision of finance. Finally, the Council advises a review of superannuation regulations to ensure they do not disincentivise investment in housing.

3. Supporting institutional investment in social and affordable housing

There are additional barriers to institutional investment in social and affordable housing. Regulatory regimes for community housing providers are inconsistent across jurisdictions and inadequately account for the complexity of financing arrangements. In addition, different definitions of affordable housing across (and within) jurisdictions add to complexity and administrative costs and stymie scalability of the sector. More generally, a high variance in the size and capabilities in the community housing sector limits the capacity of the sector to effectively partner with institutional capital. And it is difficult for investors to achieve scale in the sector. To address these, the Council makes recommendations related to community housing provider regulation, capability building, sector definitions, and the creation of an asset aggregator.

The fact that most rental housing in Australia is provided by private landlords via a market mechanism is taken as axiomatic, and this report does not provide an opinion on the merits or otherwise of a market-based housing system. Rather, in the context of Australia's housing market, it seeks to improve housing outcomes for a large and growing segment of the population. It does this by identifying shortcomings in the provision of rental housing that institutional capital is well placed to address and proposes recommendations that remove barriers to this outcome without favouring any one form of housing provision.

While beyond the scope of the terms of reference of this report, a concluding view of the Council derived from the international evidence is that a clear and nationally consistent regulatory framework of tenant and investor rights needs to be developed in parallel to the emergence of an institutional market to ensure both tenants and investors benefit from the market. The creation of such a framework need not be a barrier to institutional investment; rather, it can potentially provide additional certainty to investors, allowing better investment forecasts and risk assessment, while at the same time providing protections and certainty for tenants.

Table of Recommendations

Recommendation 1: Build-to-rent as a separately defined development type

Commonwealth, state and territory governments should develop nationally consistent planning provisions under which large-scale build-to-rent projects are a separately defined development type subject to expedited planning and development assessment.

Recommendation 2: Reviewing planning systems

State and territory governments should identify, review and address barriers in planning and zoning systems that impede the construction of large-scale housing assets suitable for institutional investment.

Recommendation 3: Improving land availability

State and territory development corporations and their associated precinct planning bodies should accelerate land assembly (including through compulsory acquisition as a last resort), infrastructure provision and development approvals in areas which are suitable for large-scale intensive housing development.

Recommendation 4: Establishing housing targets

Commonwealth, state and territory governments should expand on the aspirational national target described in the National Housing Accord 2022 by agreeing to, and publishing, specific housing targets for each state and territory. Appropriate incentives and penalties should be attached to the meeting of these targets. This will ensure a pipeline of suitable housing assets exists to facilitate investor planning and to demonstrate policy commitment to the development of an institutional housing market.

Recommendation 5: Improving data availability

Commonwealth, state and territory governments, and the community housing sector, should work with institutional investors to identify and publish specific data that governments and the community sector are best placed to collect (or already collect) and make these data available to assist in de-risking the development and management of institutional housing assets.

Recommendation 6: Appropriate superannuation regulations

Superannuation regulations should be reviewed to ensure that they do not disincentivise investment in new asset classes, such as housing, while ensuring the integrity of the superannuation system.

Recommendation 7: Gaps in financing

Governments should address market gaps in the availability of long-term debt financing that limit institutional investment in market and affordable housing. Any provision of finance by government to support market housing should be on commercial terms. Measures should aim to close gaps in the provision of finance over time.

Recommendation 8: A national regulatory framework for the community housing sector

There should be a joint Commonwealth-state review to develop and implement a truly national regulatory framework for the community housing sector. The new framework should be designed to support engagement with institutional investors and address the increased complexity of funding arrangements in the sector.

Recommendation 9: Supporting the community housing sector to partner with institutional investors

Government support should be provided to the community housing sector, through its peak bodies or other such arrangements, to improve the ability of the sector to partner with institutional investors.

Recommendation 10: Standardising definitions in the social and affordable housing sector

Commonwealth, state and territory governments, with input from the community housing sector, should develop and adopt common definitions of matters related to social and affordable housing, including consistent definitions of 'affordable'. These definitions should be progressively applied to regulatory systems, planning schemes, funding agreements and government policies.

Recommendation 11: Establishing a social and affordable housing asset aggregator

The Commonwealth should support the establishment of an aggregator of social and affordable housing assets (or equity or subordinated debt), for example by subsidising the establishment costs and ongoing administrative costs of such a vehicle. Over time, the government should consider encouraging competition in the provision of aggregation services by supporting the establishment of new aggregators, including by the private sector.

Background to this report

The interim National Housing Supply and Affordability Council (the Council) is an independent advisory body established by the Australian Government.

The role of the Council is to provide independent, evidence-based expert advice to Government on matters that materially impact housing supply and affordability in Australia.

The Council is comprised of a Chair, Deputy Chair and 4 members drawn from industry, academia, local government and the not-for-profit sector, and an ex-officio member from Treasury.

The members of the Council are:

- Ms Susan Lloyd-Hurwitz (Chair)
- Mr Michael Lennon (Deputy Chair)
- Mr David O'Loughlin
- Professor Rachel Ong ViforJ
- Dr Marcus Spiller
- Ms Helen Waters Silvia
- Ms Victoria Anderson (Ex Officio)

Terms of reference

On 9 May 2023 the Minister for Housing, the Hon Julie Collins MP, commissioned the Council to review barriers to institutional investment, finance, and innovation in housing. This review is a key element of the Commonwealth's commitments under the National Housing Accord. The Terms of Reference of the review were developed in consultation with the states and territories.

Under the Terms of Reference, the Council should:

1. Identify the barriers to institutional investment, finance and innovation in social, affordable and market housing in the Australian context.
2. Report on the appetite of institutional investors to undertake debt financing, equity investment and/or directly own different housing types.
3. Have regard to the extent to which barriers and their causes are different than those in other comparable, international jurisdictions.
4. Recommend priority actions that the Commonwealth, State and Territory Governments, Community Housing Providers and the private sector can take to overcome the barriers that exist in Australia to support more institutional investment in housing.
5. Consult a range of relevant institutional investors, each State and Territory Government, and the Commonwealth, to inform its analysis, findings and recommendations.
6. Provide an interim report to the Minister for Housing by 5 June 2023, ahead of delivering a final report to the Minister for Housing by 28 July 2023.

Consultation process

To inform the findings of this report, the Council held a series of consultations with representatives from the investment sector, the property development sector, state and territory governments, academia, and the social and affordable housing sector. It also conducted a literature review. Overall, the Council held 12 consultations with 40 participants from May to early July 2023.

1. Introduction

1.1 Australia's rental housing challenge

Australia is facing a significant rental housing supply and affordability challenge. Rental affordability has worsened for many households in recent years, a trend which has accelerated since the pandemic. The share of income needed to service rent across Australia has risen from 26.5 per cent in 2020 to 30.8 per cent in March 2023 (ANZ – CoreLogic 2023). In 2022–23, the rental market witnessed its largest increase in advertised rents on record (CoreLogic 2023b). Rental stress across Australia – as measured by households that pay 30 per cent or more of gross household income on rent – is elevated: in 2021, 530,900 households in the bottom 40 per cent of Australia's income distribution were in rental stress, including 190,700 households that were paying more than 50 per cent of their income in rent (National Housing Finance and Investment Corporation (NHFIC) 2023).

Just finding rental accommodation is increasingly difficult. Vacancy rates are at or near record lows in most cities and regions (CoreLogic 2023b), the number of people experiencing homelessness increased between the 2016 and 2021 census, and the rate of insecure housing is growing (Australian Bureau of Statistics (ABS) 2023a; Productivity Commission 2023).

The need for social housing in Australia continues to grow. In 2023, the Australian Housing and Urban Research Institute (AHURI) estimated that to satisfy current unmet and projected future demand for social and affordable housing, an additional 942,000 social and affordable dwellings will need to be constructed by 2041 (Martin and others 2023). The AHURI (2023) found that over half a million (close to 565,000, or just over 6 per cent) of Australian households were living in, or had requested to live in, a form of social housing in June 2021. Of those, 163,508 were on wait lists for public housing. But there has been little change in the stock of social housing (including public housing and community housing) in Australia in the last decade, leading to a decline in the proportion of the population who live in social housing from about 4.8 per cent of the population in 2011 to 4.1 per cent in 2022 (Australian Institute of Health and Welfare (AIHW) 2023b).

These developments partly reflect the fact that more Australians rent than ever before. Census data shows that the share of households renting rose from 26.3 per cent in 2001 to 30.6 per cent in 2021 (ABS 2022a). And more Australians are renting for longer (Longview – PEXA 2023a), with 43 per cent of renters having rented for 10 years or more (National Shelter 2017).

Some of the stress in the rental system reflects cyclical factors, including the lingering effect of the pandemic on household preferences, employment arrangements and migration patterns. But there are also structural pressures underpinning greater demand for rental dwellings. The rising price of owner-occupied housing relative to income over the past 2 decades, particularly in locations with good access to jobs, education opportunities and services, has constrained the ability of many to purchase housing or maintain home ownership. A trend towards smaller households has further added to demand. And the decline in social housing as a share of the total housing stock means that more lower income households require privately supplied rental accommodation than in the past.

1.2 The need for a larger and more diverse supply of rental stock

Australia needs a housing system that promotes an inclusive, prosperous and sustainable nation. This includes a well-functioning, well-supplied and responsive rental system that provides tenants with safe and secure accommodation and access to employment and education opportunities and social services. A well-functioning rental system is also critical to economic prosperity. It improves labour mobility by providing more options for those seeking to relocate for employment, which supports productivity and economic participation. And it helps ensure that key workers are able to live near their place of work.

The 2021 Census identified 2.8 million occupied private dwellings as being rented in Australia, around 31 per cent of the housing stock (ABS 2022a). The overwhelming majority of these were supplied by individual landlords. Around 2.2 million Australians own investment properties. The majority (71 per cent) of investors own just one property, while 19 per cent own 2 properties and 10 per cent own 3 or more (Longview – PEXA 2023a). Many individual landlords and tenants have respectful and mutually beneficial arrangements. But the preferences, circumstances and needs of individual landlords and tenants may not always match, which can lead to sub-optimal rental experiences, including poorer rental quality and inflexible tenant conditions. Rental insecurity is particularly common, with around 90 per cent of lease agreements of durations of 12 months or less (Hanmer and Marquardt 2023). By contrast, tenants indicate that they would like greater choice and stability regarding the term of leases (Tenants Union of NSW 2021).

A major investment of capital is needed to fund a significant increase in the quantity and diversity of Australia's stock of rental properties. As in the past, much of this capital will be provided by individual investors. Some will come from government through the creation of new social housing. Institutional capital can also play a role, and has been part of the provision of rental services in other countries for decades. In Australia, institutional investment in housing has been of interest to policy makers and academics since at least the 1990s (see Berry and Hall 2002 for an overview of pre-2000s reports).

Box 1: Types of rental accommodation

Rental accommodation in Australia is provided by the private sector, for profit and not-for-profit community housing providers, and by governments. Renters tend to have lower incomes and spend a larger share of their disposable income on housing costs compared with owner-occupier households. The share of income needed to service rent across Australia was 30.8 per cent in March 2023 (ANZ – CoreLogic 2023). Within this context, access to appropriate and affordable rental accommodation is especially important for the wellbeing of renter households.

There are several types of housing in the rental market.

Private rental housing

Private rental housing refers to privately owned housing made available for rent to tenants with prices set by the market. Private rental housing comprises the majority of rental housing in Australia, accounting for 2.4 million of the 2.9 million households that rent (AIHW 2023c). According to the 2021 Census, around 31 per cent of households rent their home in the private rental market, a share that has risen over the past few decades (ABS 2022). Housing is predominately provided by individual landlords ('mum and dad investors').

Private rental meets the housing needs of many people. It is more flexible and usually lower cost than home ownership. However, private renters typically have less control over their property than homeowners, and their tenancies are likely to be less stable and secure than those of homeowners or public housing tenants.

Below market rate rental housing

Below market rate rental housing refers to housing that is offered at a discount to market price, with rents typically set at between 70 and 80 per cent of the prevailing market rent. This type of rental housing may be made available to individuals who work in a range of essential services, or to provide access to affordable accommodation for workers that is close to their specific place of employment. It may also include boarding houses and student accommodation. This type of housing is also sometimes referred to as affordable housing. Due to a lack of clarity in definitions, there is a lack of quality data on the stock of below market rate rental housing in Australia (Chapter 7).

Affordable rental housing

Broadly defined, affordable rental housing refers to housing available for rent at a price related to a measure of affordability. The measure of affordability can be general, or specific to the individual households utilising the housing. It is targeted at very low-to moderate-income households to reduce or eliminate housing stress. It is usually developed with some government assistance and can be owned by private investors or community housing providers. As with below market rental housing, the lack of clarity in definitions contributes to a lack of data on the stock of affordable rental housing in Australia (see further below in Chapter 8).

Social housing

Social housing is government-subsidised short and long-term rental housing for people on very-low to low incomes. Sometimes these tenants have experienced homelessness or family violence.

Originally conceived as essential infrastructure to house workers for the industrialisation of Australia in the early post war period, decades of reduced or negligible investment in social housing means that, today, the available stock is largely rationed for households on income support, and very low or low incomes.

Box 1: Types of rental accommodation (continued)

Today, rents are generally charged on the basis of household income. Social housing tenants must also satisfy other eligibility criteria. There are 2 types of social housing:

- public housing, which is owned and managed by state and territory governments
- community housing, which is managed and often owned by not-for-profit community housing providers.

There has been a steady trend in social housing dwellings shifting from being managed by public housing authorities to community housing providers. The number of community housing dwellings more than tripled between 2006 and 2022 (AIHW 2023a). More than 440,000 social housing dwellings were rented in 2022, with less than 300,000 being public housing dwellings (AIHW 2023a).

Crisis and specialist rental accommodation

Crisis accommodation and specialist housing are for people with high support needs, or at risk of homelessness. Crisis accommodation includes emergency and temporary accommodation provided as part of the specialist homelessness services accommodation in Australia. Specialist rental accommodation is purpose-built and run for particular cohorts, for example Specialist Disability Accommodation.

1.3 How institutional investors can invest in residential property

There are 2 distinct phases in the lifecycle of residential property (see Figure 1):

- the development phase, which involves the creation of the housing asset
- the asset ownership phase, which involves maintaining the asset and managing it to provide housing services and derive rental income.

Globally, most institutional investment occurs in the asset ownership phase. This reflects the core capability of institutional investors to manage assets on behalf of members to generate passive income.

Asset ownership can be a direct equity stake, where the institutional investor directly holds the property asset (for example, a residential tower). Tenant and other property management services are usually outsourced to a specialised firm.

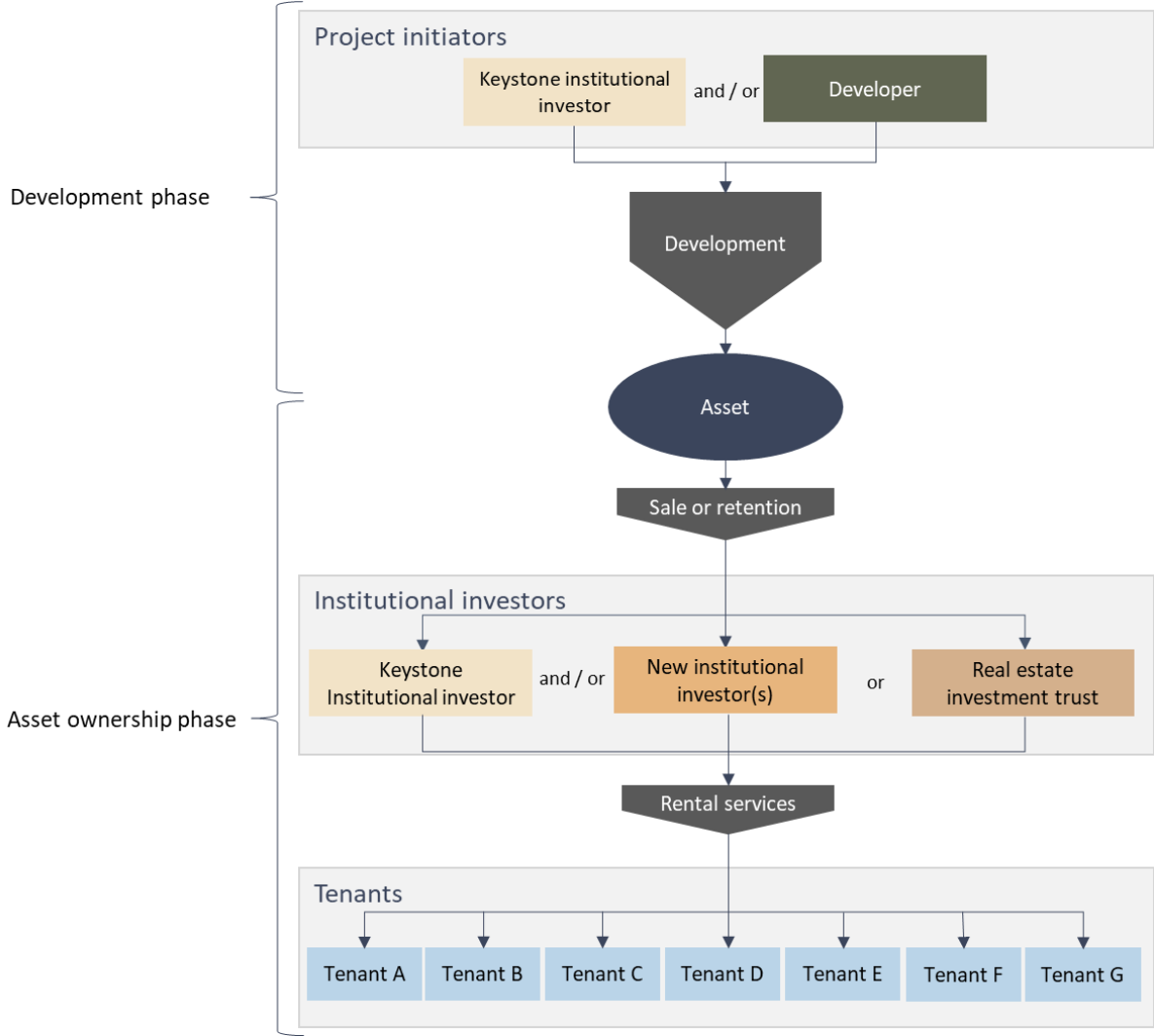
Equity stakes can also be acquired through real estate investment trusts, which are listed or unlisted vehicles that pool capital from investors to invest in a collection of property assets. Real estate investment trusts confer several advantages to institutional investors, such as a lower cost of entry to the property market, access to professional property managers, and diversification across a portfolio of properties (in exchange for a management fee). That said, very few real estate investment trusts build and invest in build-to-rent properties in Australia.

Institutional investors can also provide debt financing to large-scale property assets. Housing, like infrastructure, is a long-term investment with a relatively stable income stream. As such, the equity investment can generally be underpinned by some form of borrowing to spread the high up-front capital costs over time.

There are vehicles and markets that pool debt stakes in housing assets. The largest is the residential mortgage-backed securities market, which involves banks or other institutions packaging retail mortgages, with the principal and interest streams allocated to investors on a prioritised basis. Real estate investment trusts also pool debt exposures, in addition to equity exposures.

Finally, institutional investors, particularly those in Australia, also typically have significant indirect exposure to residential property via their holdings of retail bank stocks, as housing lending accounts for a large share of banking industry assets and profits and is a significant determinant of bank profitability.

Figure 1: Stylised model of institutional investment in housing



1.4 Potential benefits to households and the community

Increased housing supply and improved affordability

To the extent that additional institutional investment in housing flows into new supply, institutional investment can:

- reduce housing costs for households
- improve housing affordability
- alleviate financial stress across Australia.

Some investors have also adopted innovative approaches to help to address housing affordability issues, such as build-to-rent-to-buy to assist key workers with accessing home ownership (Assemble 2020). In consultation with stakeholders, the Council heard that investors have also adapted to meet the needs of the community, changing from originally targeting mobile young people to targeting high income earners, young families and single women over 45 years.

Efficient delivery of housing services

Institutional investment in residential property can enable greater economies of scale in developing and providing housing services, which could in part be passed onto consumers of housing services.

For example, the fixed costs associated with property and tenant management can be apportioned over a greater number of properties, reducing average costs. Institutional investors may also be able to negotiate lower cost ancillary services for their properties. Institutional investors holding large residential property projects may also have a lower cost of capital.

Higher quality housing services

Institutional investors providing long-term housing are likely to be incentivised to lift design and construction standards to increase the economic life of their investment and reduce ongoing maintenance and operating expenses. They may also be incentivised to reduce energy and other costs. As a result of these incentives, housing provided by institutional investors overseas is generally of higher quality in terms of design and build standards (Pawson and others 2019).

Institutional housing is usually well located, with good access to transport and employment centres. The standard of facilities, particularly communal facilities, is also higher, often featuring gyms, pools, co-working spaces, barbeque areas and other amenities.

Institutional housing also typically seeks to provide a professional and customer-oriented approach to property management which can improve property management standards in the rental sector more generally (Scanlon and others 2018).

Innovation

Large-scale investment by institutions can also support innovation in the financing, provision, access and management of rental housing (Hulse and others 2018). Large-scale investment enables innovative models of housing finance and provision to be developed which would not be possible through smaller-scale investment. Institutional investment in higher-density housing also encourages the design and development of multiple types of dwellings with different features and amenities, which can better match the diverse needs of rental households and lead to improved housing sustainability. The involvement of institutional investors in the access and management of rental housing can also create efficiencies in the administration of tenancy applications, inspection bookings, repair requests, rent collection and property management across multiple rental properties (Hulse and others 2018). These innovations also benefit institutional investors by increasing productive efficiency through economies of scale, and by catering to a greater range of market, social, and affordable rental housing tenants.

Security of tenure

Around 43 per cent of Australian renters rent for 10 years or more (National Shelter 2017). When they do move, it's often due to the decision of the landlord. This inherent insecurity of renting in Australia can affect quality of life by disrupting family, social, educational and employment networks.

Institutional investors involved in rental projects may be more willing to offer long-term tenancies and are less likely to terminate lease arrangements to dispose of their asset, reflecting their long-term investment horizon. They are also more likely to renew lease arrangements at the election of the tenant, providing the benefit of flexibility in addition to long term security. Institutional investors may also be better placed to implement policy settings that seek to support security of tenure.

A more stable housing supply

Benefits can extend to the broader community. Evidence indicates that institutional investment in housing may have counter-cyclical benefits, by maintaining construction activity during periods where traditional build-to-sell construction activity is weak (Pawson and others 2019). This reflects the fact that, in contrast to the individual investor market, institutional investors are primarily motivated by long term rental yield. In this sense, the assets in question can be seen to have infrastructure like characteristics. This may mean that the creation of these assets may not be as tied to the general housing cycle, shifts in monetary policy and shocks to the supply of materials and land. Smoothed housing supply through cycles would have further benefits in terms of greater stability in associated labour and materials markets, promoting efficiency.

Meeting the upfront cost of providing social and affordable housing

Leveraging private capital to support investment in social and affordable housing can and is increasingly being used by governments operating in a fiscally constrained environment to meet the upfront costs of new social and affordable housing stock. The 2021 Statutory Review of the Operation of the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Review) estimated a total capital investment of around \$290 billion is required over the next 2 decades to meet the current and projected shortfall of social and affordable housing, and noted governments alone cannot meet this projected shortfall in investment (Treasury 2021).

Institutional investors can meet some of this need. This reflects their requirement for stable, long-term income streams and need to meet environmental, social and governance (ESG) considerations.

1.5 Potential benefits to institutional investors

A large asset class size with a stable income stream

Residential property could be a very large alternative asset class for institutional investors. The value of Australia's housing stock is about \$9.9 trillion – greater than the value of the Australian Securities Exchange and the government and corporate bond markets combined (ABS 2023c; ASX 2023; RBA 2023a).

Housing assets are also long-lived, consistent with the investment horizon of most institutional investors. They offer a long-term and reliable rental yield with relatively low ongoing capital expenditure requirements and short vacancy periods relative to other property types. These features make residential property particularly suitable for institutional investors targeting stable returns for members seeking a consistent income stream, including those receiving a pension.

Investment in residential property can be made using either debt or equity instruments, giving institutional investors the flexibility to choose specific investment types that match the risk preferences of their investors and members. Investors can also acquire an indirect interest in a housing asset through vehicles such as unlisted or listed real estate investment trusts (although there are as yet few of these in the Australian market). Investments in social and affordable housing can also meet social and environmental objectives of those institutional investors with environmental, social and governance mandates.

Diversification benefits

Investment in residential property may allow institutional investors to increase diversification within existing investment portfolios. As returns on residential property are imperfectly correlated with other asset classes such as equity and bonds, diversifying into residential property may help institutions to reduce portfolio investment risk for a given level of return.

Investment in residential property can also be internally diversified across geographic regions and property types, reducing concentration risk. Investment in residential property is also likely to be an effective hedge against inflation, reflecting the fact rents generally rise in line with inflation over the long-term.

1.6 Potential downsides

Institutional investment in housing has attracted controversy overseas due to the strategies pursued by investors and the housing outcomes delivered. Much of this criticism arises from the fact that most institutional investors are profit-maximising entities. Individual landlords, on the other hand, while also profit-maximising, may value non-financial aspects of tenancy arrangements, such as knowing their tenants personally. While profit maximisation is consistent with the legal duties of institutional investors to members and shareholders, this may not always lead to optimal outcomes for tenants, particularly for low-income cohorts with limited market power.

There is some evidence that institutional investment can result in higher rents and a deterioration in the quality of managed property (European Commission 2020, Gabor and Kohl 2022). In some countries, institutional investors have been accused of using market downturns, such as the GFC, to buy up distressed housing assets, or using periods of fiscal austerity to acquire social housing assets from governments. Some institutions have also been criticised for purchasing discount housing stock and renovating it to justify a significant uplift in rents (Christophers 2022).

Public concerns over adverse consequences has led directly to rent controls and other forms of increased government regulation in some countries, including in parts of Germany, Denmark and Ireland (Gabor and Kohl 2022; The Economist 2021).

The Council recognises the need to avoid adverse outcomes from greater institutional investment and the need to ensure that tenancy regulation protects all users of the housing system. Accordingly, the

Council believes that regulatory regimes need to appropriately balance the needs and powers of market participants, and are sufficiently transparent to ensure parties understand their rights and obligations in advance of their respective transactions.

Implications for social and affordable housing

The use of private capital to meet the upfront (investment) cost of constructing social and affordable housing may result in a greater fiscal cost over the life of the dwelling than if governments directly fund social and affordable housing stock themselves (Lawson and others 2018, Industry Commission 1993). Whether this occurs depends on whether the additional returns required by private capital above that at which sovereign governments can raise finance exceeds efficiency gains associated with the private development of housing stock or the provision of housing services. One study by AHURI found that a mixture of capital grants and low-cost finance available (such as that available from the Affordable Housing Bond Aggregator) is more cost effective compared to a model where debt-finance is raised from private capital providers with ongoing operational subsidy (Lawson and others 2018).

That said, governments capture the positive externalities of social housing whatever the financing mechanism, through savings on other government expenditures related to greater social inclusion, education and employment outcomes associated with social and affordable housing (Lawson and others 2019).

Private investment in social and affordable housing developments often rely on the sale of the asset after a period of time to finance new assets and capital maintenance, rather than long term reliance on rental streams (Benedict and others 2022). This creates the risk that privately financed social and affordable housing eventually reverts to market housing. These risks can be mitigated by ensuring operating subsidies or other income streams are sufficient to ensure that housing assets are maintained, and the new funding is available to finance additional housing stock over time.

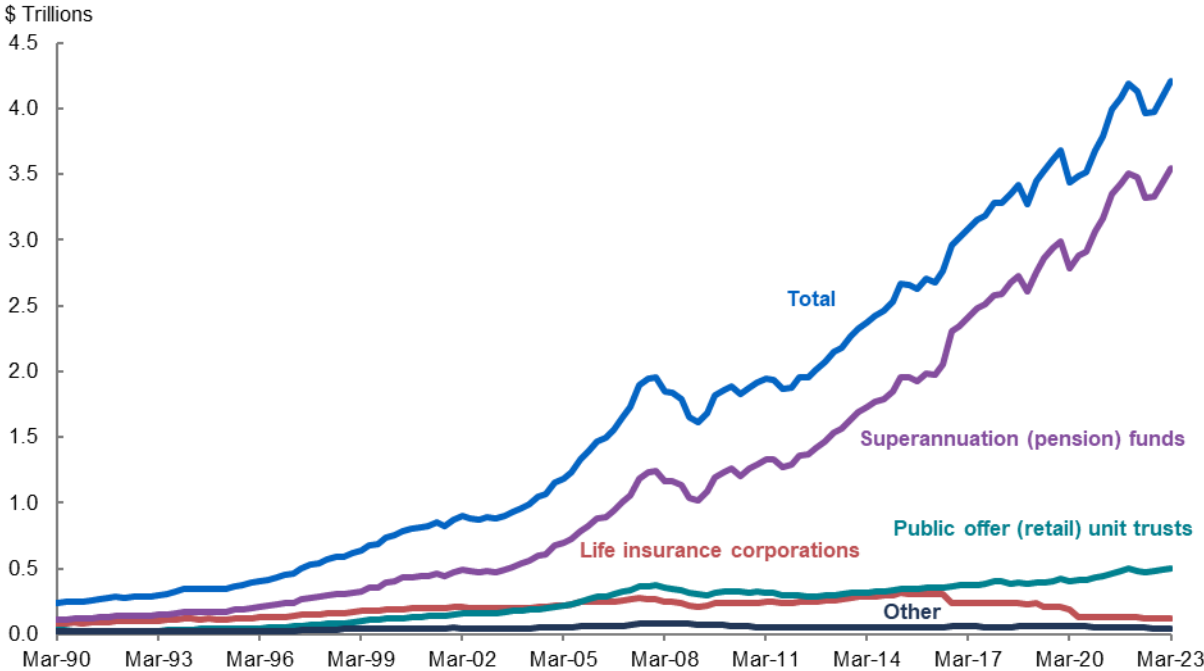
In terms of outcomes for tenants, there are concerns that greater reliance on the private sector to provide social and affordable housing can shift priority away from the groups in highest need towards housing those better suited to higher-end affordable housing, jeopardising public assets and increasing tenant insecurity (Benedict and others 2022). Accordingly, as the private provision of social and affordable housing becomes more common, there is a need for funding allocations and regulatory regimes to be appropriately calibrated to ensure the ongoing provision of housing services for high need tenants.

2. Institutional investment in property in Australia

Institutional investors are one of the largest classes of investors globally (Fukami and others 2022). Domestically, they manage around \$4.5 trillion (ABS 2023d), second only to domestic banks, which manage \$6.1 trillion in assets (Reserve Bank of Australia (RBA) 2023b). In Australia, superannuation funds are the largest cohort of institutional investors, managing assets of \$3.5 trillion (ABS 2023d).

The institutional investor sector has grown substantially since the 1990s, driven largely by the growth of superannuation funds following the introduction of the Superannuation Guarantee in 1992 (see Chart 1). As discussed in Chapter 5, the regulations and requirements governing the activities of the superannuation sector are particularly important for considering the incentives for institutional investment in residential property as a whole.

Chart 1: Size of the Australian institutional investor sector



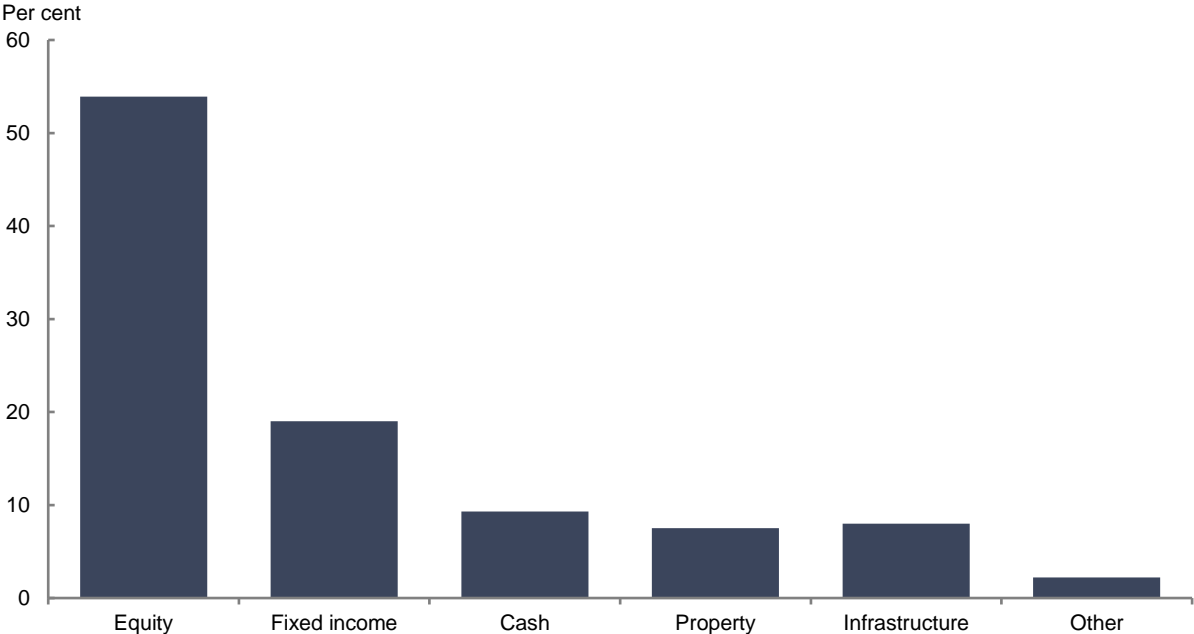
Note: Assets defined as unconsolidated assets of total managed funds institutions. Unconsolidated assets refers to the sum of transactions or balance sheet items, including those between entities in the same subsector, company group, or level of government (cross investment). ‘Other’ is the sum of ‘friendly societies’, ‘common funds’ and ‘cash management trusts’.

Source: ABS 2023d.

Institutional investors invest in a range of assets, including equity, property, bonds, and infrastructure. These asset allocation decisions are broadly determined by the investment mandate of the fund, with some scope to vary allocation according to the fund’s strategic and tactical outlook.

The most comprehensive data on the asset allocation of institutional investors is for superannuation funds regulated by the Australian Prudential Regulation Authority (APRA). Over half of superannuation assets are invested in equity securities; only 7.5 per cent are invested in property (see Chart 2). As at March 2023, this equated to around \$180 billion invested in property assets (APRA 2023).

Chart 2: Asset allocations for APRA-regulated superannuation funds, March 2023



Source: APRA 2023.

Box 2: What are institutional investors?

Institutional investors are entities that pool funds from clients or members to invest in financial and real assets. Their defining characteristic is that they are very large. They also typically invest on the behalf of others. This is in contrast to retail investors, who are typically individual investors, with limited funds, investing on their own behalf. Institutional investors can be for-profit or not-for-profit, domestic or foreign, passive or active. They include superannuation funds, unit trusts and other managed investment schemes, insurance companies, hedge funds, endowments and sovereign wealth funds.

As a group, institutional investors are by far the largest participants in equity, debt and other securities markets, both in Australia and internationally. They are also the largest type of private investor in many real asset classes, including infrastructure and commodity markets.

However, they have only a small presence in the Australian housing market, participating primarily through specialist or niche products such as student accommodation and residential aged care facilities. They do, however, invest extensively in housing offshore.

Institutional investors have fiduciary responsibilities to their investors or members to operate in their financial interest. There is generally no requirement on institutional investors to invest in a manner that supports policies such as increasing the amount of housing. However, a growing sub-segment of institutional investor is the ‘impact investor’. These investors have mandates to invest in a manner that generates outcomes that support environmental, social and governance goals. In the housing market, this is most likely to involve investing in social and affordable housing.

2.1 Property as an asset class in Australia

Most institutional capital that is allocated to property is invested in office, retail and industrial property. As an example, Table 1 depicts the property asset allocation for ISPT, one of the largest fund managers of Australian unlisted property that invests on behalf of superannuation funds. Generally, the large share of institutional investment in property directed to office, retail and industrial property reflects the fact that these property types are common and available at sufficient scale to justify investment costs, have relatively high returns (see Table 2), and have extensive performance histories (such as cash flow information, operating costs and occupancy turnover).

Table 1: Institutional investment in Australian property

Allocation across Australian property – ISPT	Share (per cent)
Office	49
Retail	35
Industrial	11
Residential & accommodation	1
Other	3

Note: Shares may not sum to 100 per cent due to rounding. ‘Other’ includes education, social infrastructure, and healthcare & life sciences. ISPT was co-founded in 1994 by AustralianSuper, Cbus and HESTA, and has grown to represent a diverse base of investors.

Source: ISPT Annual Review 2022.

Currently, most institutional investment in Australian residential property is concentrated in niche areas, such as the purpose-built student accommodation, residential aged care facilities, and the emerging build-to-rent sub-sectors (EY 2023; JLL 2022). This reflects the fact that yields on these dwelling types are relatively higher as they attract premium rents, or that these dwelling types are more efficient to deliver due to their low floor area per dwelling and ability to share amenities. These dwelling types are also typically less risky and cheaper to construct and own because the approval process, construction and service delivery is simpler or is managed by external developers and operators, or land is more readily available for such property types.

Table 2: Gross rental yields on property assets in Australia

Property class	Annual rental yield (per cent)
Aged care	6.5 ^a
Office	5.6 ^b
Retail	5.6 ^c
Purpose-built student accommodation	5.5 ^d
Logistics & industrial	4.8 ^e
Build-to-rent	4.4 ^f

Note: All data is for the March quarter 2023, except for aged care and purpose-built student accommodation (which are midpoints of their respective prime yield ranges), and build-to-rent (which is the midpoint of the target return).

a JLL Prime yield.

b JLL Prime weighted average yield (CBD prime office midpoint yield).

c JLL National regional weighed average yield.

d JLL Prime yield.

e JLL Weighted prime national yield.

f JLL Prime metropolitan yield (target stabilised range).

Source: JLL.

2.2 Purpose-built student accommodation

Purpose-built student accommodation is a niche form of rental accommodation available to university students. The purpose-built student accommodation sector currently has around 85,000 purpose-built student accommodation beds across Australia's capital cities (Savills 2022a). The size of the sector doubled over the 2012–22 period, driven by international student enrolments at Australian universities. The sector has been underwritten by overseas-based institutional investors, while domestic investors have historically been less interested (Property Council of Australia and Student Accommodation Council 2022).

2.3 Residential aged care facilities

Since the early 2000s, institutional capital has been attracted to the residential aged care sector by its sound fundamentals, in part underpinned by the ageing of Australia's population. Several large early projects supported by Macquarie Bank, AMP Capital and BUPA helped create scale in the sector and established specialised third-party operators, which manage planning approvals, construction, and the operation of residential aged care facilities on behalf of investors (Ansell Strategic 2014). Since then, private equity firms and foreign investors (sovereign wealth funds and international superannuation funds) have invested in the sector. Continuing demographic fundamentals and attractive net annual yields of 5.5 to 7.5 per cent (JLL 2022) continue to underpin investment in the sector.

2.4 Build-to-rent housing

Build-to-rent has slowly emerged in Australia over the last decade. Build-to-rent housing is purpose built and designed, long-term residential rental accommodation which is owned (and often also managed and operated, rather than outsourced) by an institutional investor. Revenue is generated primarily through rental services, with additional income generated from ancillary services. These developments are often well located with good access to transport and employment centres. The standard of facilities, particularly communal facilities, is also higher, with build-to-rent developments often featuring gyms, pools, co-working spaces, barbeque areas and other amenities. Build-to-rent accommodation typically provides 4 to 7 square metres of communal amenities per apartment, compared to 1 square metre for traditional build-to-sell developments (EY 2023).

As at February 2023, there were 11 operating build-to-rent projects worth \$16.9 billion, 9 of which are funded by foreign capital (EY 2023). To date, most investment has taken place in Melbourne, largely reflecting the fact that that city has lower land prices and more large sites available for development, especially in the inner city (JLL 2023d).

The build-to-rent sector is expected to continue to grow in the coming years, with 72 projects in the pipeline (EY 2023). Australia's tight rental market and strong population and economic growth relative to other advanced economies is expected to drive the build-to-rent sector from 2024 to 2026 (JLL 2023d). At the end of 2022, there were 5,413 build-to-rent apartments under construction, a further 5,944 build-to-rent dwellings that had received planning approval and 9,158 build-to-rent units were in the planning stage (JLL 2023d). Most of these projects are located in Victoria (60 per cent) followed by New South Wales (20 per cent), Queensland (18 per cent) and Western Australia (2 per cent) (EY 2023).

2.5 Affordable housing

Some institutional investors invest in affordable housing projects (housing options that offer discounted or subsidised housing that can assist very low to moderate income households to avoid housing stress (Box 1)). This is in part motivated by environmental, social, and corporate governance considerations. Many Australian institutional investors routinely invest in the provision of affordable housing overseas, particularly the US, because of that nation's Low-Income Housing Tax Credit Scheme – (see 3.1). Some superannuation funds have invested to maintain their 'social licence' by recognising that housing pressures affect many Australians, including fund members.

While traditionally the public sector has provided social housing, the private sector, and for-purpose organisations (community housing providers), have become increasingly involved in providing social and affordable housing, in part due to government policies (Benedict and others 2022). The emerging investment in affordable housing by institutional investors suggests that such investments can deliver good outcomes for those investors, including meeting benchmark returns.

Because of the funding gap in social and affordable housing – that is, the fact that revenues generated by social and affordable housing are insufficient to fund the cost of provision without government subsidies – institutional investors will typically only invest in developments where they assess there is sufficient certainty that the funding gap will be covered. In practice, this means that institutional investors are more likely to invest at the higher end of the social and affordable housing spectrum. These developments leverage a mixture of charitable tax concessions, developer discounts, cross subsidisation from at-market housing within mixed-tenure developments, and through financing

models that capture returns from the uplift in capital value of the assets over time (Benedict and others 2022). Others used low levels of vacancy and tenant turnover often found in affordable housing to manage investment risks. Examples of the models described above include a partnership between Lighthouse Infrastructure and St George Community Housing to deliver affordable housing (SGCH 2022), and an investment by Aware Super’s real estate arm in ‘essential worker’ affordable housing, which provides below market rental accommodation for moderate income workers in industries like health care, education, emergency services and law enforcement. Others (including Aware, HESTA and Australian Super) have invested in affordable housing as part of mixed residential developments.

2.6 Existing policy measures that support institutional investment in housing

In recent years, governments across Australia have implemented measures to encourage institutional investment to increase the supply of housing. These measures aim to attract private investment into the affordable housing sector, increase the supply of rental housing, and encourage the growth of professional rental management services (Sukkar and Morrison 2017; NSW Government 2022).

Since 1 July 2019, there has been a concessional 15 per cent managed investment trust withholding tax rate on income and capital gains attributable to investments in certain affordable and disability housing assets.

Since 2020, most state and territory governments have announced tax concessions to support institutional investment in build-to-rent developments, including 50 per cent reductions in land tax for eligible projects in New South Wales, Victoria, Queensland, Western Australia and South Australia.

In the 2023–24 Budget, the Australian Government announced 2 new measures to support institutional investment in build-to-rent to improve the international competitiveness of the Australian sector:

- Increasing the rate for the capital works tax deduction (depreciation) to 4 per cent per year.
- Reducing the final withholding tax rate on eligible fund payments from managed investment trust (MIT) investments from 30 per cent to 15 per cent.

Box 3: State and territory government concessions to stimulate the build-to-rent sector

State/Territory	Build-to-rent concessions
New South Wales	Eligible build-to-rent properties will receive a 50 per cent reduction in land value for land tax purposes for up to 20 years. An exemption from the foreign investor surcharge also applies.
Victoria	Eligible build-to-rent developments are entitled to a 50 per cent reduction on the taxable value of the land used for the build-to-rent development for up to 30 years. Full exemption from Absentee Owner Surcharge over same period.
Queensland	50 per cent discount on land tax payable for up to 20 years. Full exemption for the 2 per cent foreign investor land tax surcharge for up to 20 years. Full exemption from the Additional Foreign Acquirer Duty for the future transfer of a build-to-rent site. Note: 10 per cent of the tenancies in the dwellings must be 'affordable housing.'
Western Australia	50 per cent land tax concession for eligible large-scale build-to-rent developments for up to 20 years, commencing 1 July 2023. Developments must become operational between 12 May 2022 and 1 July 2032.
South Australia	50 per cent reduction in the land value of relevant parcels of land, where the land is being used as an eligible build-to-rent project.
Tasmania	3-year land tax exemption is available for newly built housing made available for long-term rental.
Australian Capital Territory	No unit titling of the individual dwellings allowing for substantially reduced land tax and general rates. Note: 15 per cent of the tenancies in the developments must be 'affordable housing'.
Northern Territory	None

Source: Clayton Utz 2023; Tasmanian Government 2023.

3. Institutional investment in residential property overseas

This section considers the experience of institutional investors in housing markets in selected jurisdictions overseas, with the goal of identifying the incentives and regulatory settings that support institutional investment in housing in a manner that benefits both investors and tenants. While there are significant differences between the Australian and overseas housing markets – particularly those of Europe, which have significant amounts of rental housing that is subsidised and/or provided by non-Government organisations – some common themes are identifiable (see Tables 3 and 4).

The defining characteristic of institutional investment overseas is demonstrated commercial viability. This includes attractive returns and moderate risks, supported by the availability of good quality data on revenues and costs associated with managing properties. Jurisdictions with established markets also typically have dedicated and transparent regulatory, legal and tax arrangements for the sector, in part due to the development of case law and regulation over time.

Another feature of markets overseas is some form of subsidy that fosters investment. These often take the form of tax concessions, either targeted at affordable housing or the rental market in general. Another common subsidy is debt concessions or guarantees, often designed to close gaps in the provision of finance in intermediated or capital markets. Regulatory arrangements that support institutional housing are also an important feature. Settings tend to be well established, stable and nationally harmonised, and there are often streamlined processes for large projects.

A third feature is a well-supplied pipeline of assets suited to institutional investment. In some jurisdictions, including the US, this reflects the large size of the economy, and the fact that institutional housing is a well-known asset class. In the UK, this reflects policy settings and incentives that encourage new developments suitable for institutional investment (Box 4). In others, particularly in Europe, it reflects the sale of public housing assets over time which are conducive to institutional ownership.

Table 3: Selected housing statistics across selected markets

	Australia	Canada	France	Germany	Japan	United Kingdom	United States
Home ownership rate (per cent) ^a	63.0	69.2	61.7	43.8	61.2	67.3	65.5
Housing stock growth (per cent) ^b	1.7	1.1	0.9	0.7	0.6	1.0	0.9
Population growth (per cent) ^c	1.2	1.2	0.3	0.2	-0.2	0.5	0.5
Dwellings per person ^d	0.42	0.43	0.55	0.52	0.49	0.44	0.43
Public spending on housing allowances as share of GDP (per cent) ^e	0.24	N/A	0.69	0.73	N/A	1.38	0.13
Build-to-rent housing share of housing stock (per cent) ^f	0.2	2–3	N/A	N/A	N/A	5.4	12.0

Note: As discussed in section 4.8, data on housing in Australia and internationally is lacking, and caution should be used when comparing across countries and sources.

- a Data is taken from the OECD, except for Japan (where data is taken from the Statistics Bureau of Japan). OECD figures are calculated for different years, based on the most up to date data available by country.
- b Data is taken from countries' national statistical agencies, using the compound annual growth rate for 2016–2021, except for Japan (which is for 2013–2018).
- c Data is taken from the OECD, using the compound annual growth rate for 2016–2021.
- d OECD population figures divided by official statistical figures for dwelling stock for 2021 (except Japan, which is for 2018).
- e Data is taken from the OECD (data not available for Canada and Japan).
- f Data is taken from EY 2023 and estimates based on August 2022.

Source: OECD Housing Database; National statistical agencies; EY 2023; and August 2022.

3.1 United States

The US has a decades-long history of institutional investment in housing and has fostered a well-developed and well-functioning market. Institutional investors own 12 per cent of the total housing stock (EY 2023). More recently, institutional investment has been driven by an undersupply of new housing, low rental vacancy rates and annual rental growth of 6 to 8 per cent in 2022 (Freddie Mac 2022).

The sheer size of the US market confers significant and self-reinforcing advantages. There is an active secondary market, which facilitates price discovery and investment analytics. Specialised financing is also available to institutional investors, allowing investors to access cheaper debt with longer maturities (up to 30 years). These features reduce risks and the cost of capital, putting institutional housing more on par with equities and fixed income as an asset class.

Compared to Australia, residential property in the US also tends to generate higher rental yields, but lower rates of capital appreciation (Longview – PEXA 2023a). This is attractive to many institutional investors who tend to prefer cashflow and yields over capital growth.

Most institutional investors in US housing markets adopt a ‘buy and hold’ strategy, focused on maximising income from rents and fees. They typically focus on regions or individual buildings with limited or no rent control. In some cases, institutional investors have utilised market downturns, such as the post Global Financial Crisis (GFC) period, to purchase cheap housing stock which is then upgraded to more expensive rental accommodation. This investment strategy has attracted some controversy for failing to add to new housing supply and for ‘gentrifying’ suburbs, which has reduced affordability for low-income households (Christophers 2022).

The US federal government subsidises housing construction by institutional investors. These programs are intended to boost supply, especially for lower income renters. The main US supply-side program is the Low-Income Housing Tax Credit, which has existed since 1986. The Low-Income Housing Tax Credit provides a 70 per cent subsidy for new construction and a 30 per cent subsidy for rehabilitation. Tax credits are paid out over 10 years. Rents are capped at 30 per cent of average area income for a period of 30 years. The Low-Income Housing Tax Credit is estimated to cost US\$10.6 billion in the 2022–23 fiscal year (The White House 2023). The US federal government also provides capital gains tax concessions for individuals and corporations undertaking certain forms of long-term investment, including housing, in defined areas of socio-economic disadvantage known as opportunity zones.

3.2 United Kingdom

The UK experienced a substantial increase in the need for private rental housing from the 2000s alongside a decline in home ownership rates and the sale of social housing units. Households renting via the private market increased from below 10 per cent in the mid-1990s to 37.3 per cent by 2021 (Office for National Statistics 2021). Despite this, large-scale institutional landlords in the private rental sector were slow to emerge, with only 0.1 per cent of the private rental stock being provided by landlords owning 100 units or more in 2010.

The UK Government considered the absence of institutional investors in the housing market as a weakness in the private rental sector. In response to the 2004 Barker Review of Housing Supply, the UK Government established the regulatory framework for real estate investment trusts to channel investment towards social and private market housing. This was followed by the commissioning of the *Review of the barriers to institutional investment in private rented homes* which marked a change in government policy from 2012 (the Montague Review – Box 4). This review came after the shift in market conditions following the GFC, when credit conditions were constrained (and so finance less available, particularly for new builds) as financial institutions focused on recapitalisation.

The measures implemented after the Montague Review were intended to accelerate the rate of institutional investment. Since 2012, institutional involvement in the UK private rental sector is estimated to have increased from £10 billion to £43 billion in 2022 (Investment Property Forum 2022), with an estimated 5.4 per cent of the residential sector now owned by institutions (EY 2023).

In addition, institutional investors have also invested £34 billion in student accommodation (Investment Property Forum 2022). That said, it remains unclear whether this investment has actually added to supply in the UK, or merely displaced other investment in housing (and so simply changed the mix of ownership of the housing stock).

Box 4: The Montague Review and the UK Government's Response

The 2012 Montague Review identified several barriers to the expansion of institutional investment in housing in the UK and made 5 recommendations.

- Greater flexibility for local authorities to use the planning system to facilitate private rental projects.
- More public sector land release by government and public agencies and a re-assessment of 'best value' requirements when disposing of such land to support high density housing.
- Financial incentives to stimulate new business models for housing providers, focusing on schemes that provide finance on commercial terms.
- The establishment of a dedicated government task force to work with industry to develop voluntary standards to recognise quality.
- The development of voluntary standards for the build-to-rent sector covering build quality, energy efficiency, tenancy management, maintenance and upkeep.

In response, the UK Government introduced a range of initiatives designed to boost the scale of institutional investment and the build-to-rent sector. These included the Build-to-Rent Fund and the Private Rented Sector Guarantee Scheme, which were designed to work in tandem. The Build-to-Rent Fund assisted with the development phase, while the Private Rented Sector Guarantee Scheme assisted with the long-term holding of property once construction was completed.

Build to Rent Fund

This £1 billion fund provided debt finance to builders and developers for large projects of purpose-built private rented units. Its goal was to demonstrate the viability of the build-to-rent market and to increase investor confidence. The fund offered finance on a commercial basis and required either a clear exit strategy for securing a sale or refinancing to repay the government's investment, usually within 1–2 years of completion of the dwelling units. The Government also required a senior debt position.

The fund covered up to 50 per cent of eligible development costs. To be eligible, a project could package up sites into larger portfolios but needed to create 100 or more new private rented units. Completed units needed be held as private rented stock for a minimum of 5 years.

The fund accepted applications between 2014 and 2016 and 5,565 dwelling units were completed under the program by March 2022.

Private Rented Sector Guarantee Scheme

The £3.5 billion fund involved the UK Government guaranteeing loans made to reduce borrowing costs for entities providing new rental stock for periods of up to 30 years (Homes and Community Agency 2015).

The scheme specifically targeted long-term institutional housing investors, as projects required a minimum size of £10 million and constructed dwellings were required to be rented privately for the period of the debt guarantee (Lawson 2013).

To reduce the Government's exposure, loans were limited to 80 per cent of project costs, with fund users required to make minimum equity contributions of 20 per cent. While lenders had recourse to the scheme in the event of borrower default, the UK Government attempted to mitigate this risk by having security against project assets and in some cases over other company assets (Ministry of Housing, Communities & Local Government 2018).

The scheme was launched in 2014. By 31 December 2022, borrowings of around £1.8 billion had been approved under the scheme (HM Treasury 2023).

Box 4: The Montague Review and the UK Government's Response (continued)

Affordable Homes Guarantee Programme

The Affordable Homes Guarantee Programme was a £3.5 billion debt guarantee for affordable housing (Prisk 2013). It operated similarly to the Private Rented Sector Guarantee Scheme, offering debt finance for up to 30 years. The Programme also included £450 million in grant funding for new affordable housing that could be used in conjunction with finance secured under the guarantee (Homes and Communities Agency 2014).

Private Rented Sector Taskforce

The Private Rented Sector Taskforce was a 2-year secondment of property professionals to the Department of Communities and Local Government to develop the public service's capacity to engage in institutional housing.

Following these initiatives, the number of new build-to-rent homes constructed steadily increased from 2012. Institutional investment in the private rental sector is estimated to have increased from £10 billion in 2012 to £43 billion in 2020 (Investment Property Forum 2022).

3.3 Canada

The housing rental market in Canada, like Australia, relies primarily on small-scale private investors. Institutional investors are estimated to hold at least 344,000 housing units (August 2022), which would represent between 2 to 3 per cent of the total housing stock. This investment is typically in large complexes in inner metropolitan areas. In recent years, institutional investment has risen, supported by strong demand for housing and strong rental yields.

Canada has 3 main government programs to subsidise rental housing construction by institutional investors. Two of these target the affordable end of the market:

- The Rental Construction Finance Initiative provides concessional loans and grants to stimulate construction of build-to-rent housing units.
- The National Housing Co-Investment Fund provides concessional loans and grants in partnership with provinces and territories to construct or rehabilitate rental housing units.

The third, the Canada Mortgage and Housing Corporation, provides specialised financing to developers and investors – including mortgage guarantees.

The Canadian Government announced a Housing Accelerator Fund in its 2022 Budget. The fund aims to speed the delivery of new housing by providing financial incentives to municipalities and developers. It targets the creation of 100,000 net additional housing units over the next 5 years.

3.4 France

In France, around 62 per cent of households are owner-occupiers and 36 per cent rent (OECD 2023). The majority of unsubsidised rental stock is owned by individual investors, with only around 3.5 per cent of those renting within the unsubsidised sector doing so through dwellings owned by institutional investors (Acolin 2021).

The private rental market is subject to extensive government regulation, including minimum lease periods and rent controls in 28 metropolitan regions (Acolin 2021).

The Government provides significant subsidies to support social and affordable housing. Of those renting, 43 per cent do so in the public rental sector (Acolin 2021). This form of housing is known as *habitation à loyer modéré* (HLM), and offers rents that are typically subsidised at between 50 to 66 per cent of market rents (Expatica 2023). However, there are wait lists to accessing HLM housing.

Management of France's 4.5 million HLM dwellings is split between local government entities and public-private partnerships. Construction of HLM housing is subsidised by the State through low interest loans with this funding raised through Government guaranteed (and tax free up to €35,000) public savings deposits known as Livret A and a tax equivalent to 0.45 per cent of employer payrolls. The Government also provides tax incentives to private landlords in exchange for fixing rents below market rates for minimum periods of 6, 9 or 12 years (Sellier Patrimoine 2023).

3.5 Germany

As of 2020, German residential property comprised over 40 million homes, of which 44 per cent were owner occupied and 54 per cent were rented (OECD 2023).

Germany saw the largest increase in institutional residential transactions of any economy in Europe over the period from 2012 to 2021, from 16 to 92 (Boffey 2022). Berlin alone currently has €40 billion worth of housing assets in institutional portfolios, double the value found anywhere else in Europe.

Several factors have contributed to the attractiveness of German residential property for institutional investors. In particular, these include a stable economy, sound and transparent governance, a strong long-term rental culture and a stable and reliable property market supported by policies and regulations that promote and protect real estate investments (Global Property Guide 2023; Boffey 2022).

Germany's reputation as a reliable and low-risk investment destination appeals to institutional investors and has contributed to a perception of Germany as a safe haven for investments. The long-term rental culture in Germany, particularly among younger generations, also aligns well with the investment strategies of institutional investors who seek stable, long-term returns. Tenant protection laws provide tenants with substantial rights and security. This well-regulated rental market creates an environment of stability.

In addition, Germany has experienced a significant increase in the number of renters in the last decade due to factors such as population growth, urbanisation, and changing societal preferences. This sustained demand for rental properties ensures a consistent flow of rental income for investors, making it an attractive income-generating asset class.

The German policy environment demonstrates that a robust market for institutional housing can coexist with strong tenant rights, including policies that set maximum limits on rent increases in tight housing markets and tenant protection laws that limit the circumstances under which landlords can terminate rental contracts.

3.6 Japan

Conditions in the Japanese housing market are markedly different from others. Japan's population is declining and ageing, house prices have remained lower than their peak in the early 1990s, turnover of the existing housing stock is low, and the rental vacancy rate is high as aggregate housing supply exceeds demand (Yoshida 2021; Kobayashi 2016).

The Japanese housing system has historically been characterised by a high proportion of home ownership, a private rented sector with a subset held by large companies (typically owned by a person's employer), and a relatively small public housing sector (Hirayama 2014). In 2018, around 61 per cent of Japanese households owned their own home, while around 36 per cent of households rented (including renting public rental, quasi-public rental and corporate housing) (Yoshida 2021). Residential investment by institutional investors is still small but has grown rapidly in recent years. Most investment is by Japanese real estate investment trusts, which offers institutional investors a diversified mix of real estate assets, including multifamily assets located in the major cities (Allianz Real Estate 2022; Hogen and Koide 2022).

The rental market is influenced by the Act on Land and Building Leases, and the Civil Code, which provide strong tenant protections and make it difficult for landlords to terminate leases or refuse lease renewals, and which have seen investors select tenants with shorter-term tenancies, such as college students and single young adults (Yoshida 2021).

Table 4: Policy incentives and regulatory settings for institutional investment in housing across comparable markets

	Australia	United States	United Kingdom	Canada	Germany	France	Japan
Financial incentives	Debt aggregation and concessions for social and affordable housing	Freddie Mac and Fannie May have dedicated multi-family arms that finance loan purchase and guarantee volume	Concessional and guaranteed debt Build-to-rent Co-Investment Fund	Concessional loans and grants for new construction		Preferential loan to finance build or purchase of dwelling to be let at affordable rent	N/A
Tax incentives	State Land Tax and foreign investor concessions Managed investment trust tax reduction and accelerated depreciation	Tax credits for affordable housing construction and renovation	Stamp duty concessions for aggregated holdings	GST rebates for certain new rental developments	Tax deduction for developer construction costs	Value-added tax concessions for affordable rental dwellings	Property tax discounts for multi-family dwellings
Regulatory settings	Tenancy protections and inclusionary zoning varies sub-nationally Foreign investment levies with exemptions for build-to-rent	Tenancy protections and inclusionary zoning varies sub-nationally	Inclusionary zoning (Section 106 contributions) permits for-profit investment Regulatory standardisation and harmonisation	Tenancy protections and inclusionary zoning varies sub-nationally	Extensive regulation of rental sector	Tenancy protections Extensive regulation of rent market	Tenancy protections Liberal Foreign Investment Regime

Sources: OECD Report: Measures to Property Developers to Finance Affordable Housing Construction 2021; Relevant Government Agencies; Government of Canada, GST/HST new residential rental property rebate; Acolin 2021; OECD, Rental Regulation.

4. Observations on barriers to institutional investment in housing

In preparing this report, the Council held consultations with representatives from:

- the investment sector and the property development sector, including individual institutions and peak bodies
- state and territory governments
- academia
- overseas peak bodies, and
- and the social and affordable housing sector.

The Council held 12 consultation sessions with 40 participating organisations or governments during May to early July 2023, as well as several bilateral meetings with stakeholders as part of the Council's ongoing stakeholder liaison process. The Council also reviewed the relevant academic literature.

There is clearly a willingness by institutional investors to invest in housing and an interest in seeing the asset class develop. This is consistent with both the findings of previous research into the sector and with the fact that Australian institutional investors are active participants in overseas markets for institutional housing assets (Benedict and others 2022; Pawson and others 2019; Milligan and others 2015). However, there are number of barriers to the emergence of housing as a fully formed and accepted asset class in Australia.

4.1 Lack of suitable land

An inadequate supply of land restricts the construction of assets suitable for institutional investment. This reflects a range of issues, including the inherent scarcity of land, planning restrictions, fragmentation of land holdings, and lack of suitable precinct infrastructure such as roads, water management and parks.

Infill development opportunities in urban areas are limited by the lack of suitable sites and, relatedly, the high cost of land. The supply of sites arising from obsolete industrial use is declining after several decades of redevelopment in Australia's major urban centres. When suitable sites can be sourced, the need for high density to achieve a sufficient return interacts with more complex planning requirements. Longer delays associated with high density projects also add to costs.

Statistics on land availability do not always accord with the experiences of investors and developers. This appears to reflect a disconnect between what governments consider and report as available land supply and the actual land that can be developed. While correctly zoned land may be available, its usage can be constrained by factors such as heritage protections, land fragmentation and the availability of infrastructure. In addition, correctly zoned land may not find its way into the housing supply pipeline in a timely fashion because the owners of this land may not be motivated to sell to

developers. They may wish to bank the value of the development potential of their land for future use, the timing of which will be at their absolute discretion.

4.2 Planning and zoning systems

The construction of housing in Australia requires developers to navigate a complex web of zoning and planning approval requirements. These requirements vary markedly across the 8 states and territories, and across the hundreds of local governments providing the planning consent authority for development.

While the precise system of planning differs across Australian jurisdictions, all of these systems are premised on state reservation of development rights. Access to these rights is rationed according to town plans and policies adopted by elected decision makers. Development rights are granted to proponents following verification that their projects align with adopted planning policies.

The need to regulate development arises due to market failure. If land use and development decisions are left to individual property owners responding to personal preferences and commercial opportunities, the market may not deliver an efficient settlement pattern that optimises benefits for the community.

For example, a property owner may not consider negative externalities such as the overshadowing of neighbouring properties or the overloading of local stormwater drainage networks. They also may not take the opportunity to create positive externalities such as the clustering of shops to form a lively commercial precinct. In addition, there would be an under-provision of urban services for which the derivation of a private income stream from users is impractical, such as parkland, cycleways and conservation reserves, and infrastructure such as highways, railways and trunk sewer services may be inefficiently provided because they are prone to natural monopolies.

While the economic case for the reservation and regulation of development rights is clear, it is also evident that there is scope to improve planning systems to reduce the costs associated with poorly designed, conflicting and unevenly administered regulatory systems.

These costs arise when the stock of development rights made available under statutory plans are not sufficient to meet the needs of the community. These issues are exacerbated when accompanied by technical or capability deficiencies, for example, a lack of data on future demand, or inadequate resourcing of councils.

As state-reserved assets, development rights are comparable to other government owned and regulated resources such as minerals, water for irrigation, commercial fisheries and state forests. However, the allocation of development rights does not usually attract an explicit licence fee proportionate to the value of the commercial opportunity. Instead, this commercial value is capitalised into land prices. Recognising that their decisions convey an uplift in land value, planning authorities may be prompted to create excessively complex or opaque planning policies and decision rules. Configuring regulations in this way gives them the opportunity to negotiate a share of land value uplift via development contributions. Opacity, complexity and uncertainty act as a drag on supply efficiency.

More generally, the governance and application of planning systems vary across the nation. This in part reflects varying levels of capacity in councils. Larger inner metropolitan councils often have the resources to deal with the volume and complexity of planning applications, whereas suburban and

regional councils may have more limited resources and can struggle to attract and retain qualified planning staff. Approval delays may also partly reflect the submission of non-complying developments.

Box 5: The importance of planning systems

Planning regulation is essential for efficiently delivering the desired outcomes of the urban development process, including new housing. Good planning delivers the following advantages:

- Protection of ecosystems and life-giving natural resources.
- Mitigation of negative externalities in property development: these include overshadowing, overlooking, noise intrusion and air pollution and other emissions.
- Creation and protection of positive externalities at the neighbourhood scale: this includes neighbourhood character, heritage values, cultural values and other distinctive and appreciated features of a place.
- Creation of more efficient settlement patterns at metropolitan, regional and town scales: this relates to the welfare gained through a 'designed' versus a laissez faire urban future. Examples include saved congestion and vehicular emissions through the public transport friendly and active transport friendly urban forms, productivity gains by building clusters of related firms and production of vibrant town centres by managing retail and related flows into hierarchies of activity nodes.
- Better value from infrastructure investments which have 'city shaping' power such inter-urban freeways and metropolitan rail; these projects can be used to advance the designed future for towns and cities, thereby increasing the flow of wider economic benefits from these assets, including agglomeration-linked productivity gains.
- More efficient roll out of other urban infrastructure, such as roads, water cycle management, schools and hospitals; good planning can help avoid wastage of infrastructure capacity, or failure to provide infrastructure, when development occurs in an ad-hoc rather than orderly pattern.

4.3 Inadequate risk-adjusted returns

Institutional investors make investment decisions by considering the expected return generated by a particular investment relative to its risk. This approach reflects their fiduciary responsibilities to operate in the best financial interest of their investors and members.

Notwithstanding some noteworthy pioneering investments by a small number of institutional investors, most institutional investors perceive the current risk-adjusted return on institutional housing to be uncompetitive relative to alternative assets.

Empirical evidence shows that the income yield and expected total return on Australian housing is indeed low relative to similar investment options, such as commercial and industrial property (see Table 2). But a key view of the Council is that risks are elevated due to the nascent state of the market and that the return-risk characteristics of a well-established and functioning market would be such that it is viable and self-sustaining (see Chapter 5).

4.4 Insufficient scale

Institutional investors require large projects and/or a sufficient number of projects to achieve sufficient scale to spread the fixed costs associated with developing and acquiring a project. Scale also helps investors spread out ongoing fixed management costs.

Some academic studies suggest the scale of project needed for a single large superannuation fund to invest in rental housing projects is between \$50 million and \$200 million (Milligan and others 2013). Discussions with stakeholders indicate that at least \$300 million is needed to generate sufficient scale to warrant institutional investment to defray fixed costs. The smallest actual project either completed or under construction over the past 5 years is around \$50 million, though the average project size of \$281 million suggests a preference for much larger projects (see Tables 5 and 6).

There is currently limited scope to acquire stock on such scale due to the fragmented nature of the existing housing market and difficulties in securing suitably zoned sites that could be readily developed at such scale. Where new stock is developed, it may not come to market as a single asset that institutional investors can acquire, due to the preference of developers to build to sell to individual investors (who may be willing to pay a higher price per individual dwelling) and pre-sale requirements that require a share of dwellings to be pre-sold to secure debt financing.

Table 5: Identifiable market build-to-rent projects in Australia

Project name	Institutional investor	Developer	Project value (\$m) ^a	Units	Location	Completion date
Smith Collective	UBS Asset Management	Grocon	550	1251	Gold Coast	2018
The Elements by Kinleaf	Federated Hermes/Sentinel ^h partnership	Sentinel	77 (consolidated figure across the two completed phases of the project)	173	Perth	2019
LIV Indigo	Build-to-Rent Venture ^b	Mirvac	221	315	Sydney	2020
Robertson Lane	Qualitas ^c	Arklife	60 ^f	89	Brisbane	2021
LIV Munro	Build-to-Rent Venture ^b	Mirvac	361	490	Melbourne	2022
Realm Caulfield	Blackstone	Probuild / Beck Property Group	260 ^g	437	Melbourne	2022
Indi Sydney City	Oxford Properties ^d	Investa	172 ^g	234	Sydney	2023
The Briscoe by Kinleaf	Federated Hermes/Sentinel ^h partnership	Sentinel	150	172	Melbourne	2023
LIV Anura	Build-to-Rent Venture ^b	Mirvac	270	396	Brisbane	2024
15–85 Gladstone St	Greystar Real Estate Partners ^e	Icon	500	700	Melbourne	2024
Indi Southbank	Oxford Properties ^d	Investa	350	434	Melbourne	2024
Indi Footscray	Oxford Properties ^d	Investa	450	702	Melbourne	2024
Cordelia	Qualitas ^c	Arklife	200 ^f	265	Brisbane	2024
LIV Aston	Build-to-Rent Venture ^b	Mirvac	122	474	Melbourne	2025
LIV Albert Fields	Build-to-Rent Venture ^b	Mirvac	53	498	Melbourne	2025
Greystar South Yarra	Greystar Real Estate Partners ^e	Hickory	500	625	Melbourne	2025
3 Stadium Drive, Robina	PGGM/Sentinel ^h partnership	Sentinel	200	300	Gold Coast	Not available
Villiers Street, North Melbourne	PGGM/Sentinel ^h partnership	Sentinel	300	350	Melbourne	Not available
Fitzroy and Kensington	Greystar Real Estate Partners ^e	Not available	550	500	Melbourne	Not available

- a Figures presented are project values reported by project proponents or media coverage of the project.
- b Build to Rent Venture is an investment vehicle which includes Mirvac, Clean Energy Finance Corporation and other unnamed investors. The vehicle has capital of \$1.8 billion.
- c Qualitas is an Australian based alternative real estate investment manager.
- d Oxford Properties is owned by Canadian pension fund Ontario Municipal Employees Retirement System.
- e Greystar Real Estate Partners is an international real estate developer and asset manager.
- f A consolidated figure (\$260m) for both projects and an unconsolidated figure for Arklife's Cordelia project (\$200m) could be identified (Australian Property Journal 2021). The value of the Robertson Lane project is the remainder of the consolidated figure.
- g For illustrative purposes, total project values which could not be identified have been calculated using CoreLogic's median monthly unit price for a project's location (e.g. greater Melbourne) taking a 5-year average (July 2018 to June 2023) for the price. The average price is then multiplied by a project's total units to generate an estimated project value.
- h Sentinel Fund Manager Australia ("Sentinel") is the Australian arm of American real estate investment firm Sentinel Real Estate Corporation. Values for these projects are approximate only and are predominantly development values.

Source: Project details compiled using information on developer and investor websites, and media coverage of projects.

Table 6: Identifiable affordable housing build-to-rent projects (including mixed tenure projects)

Project name	Institutional investor	Developer	Project value (\$m) ^a	Units	Location	Completion date
Westmead ^b	Lighthouse Infrastructure	Deicorp	59	85	Sydney	2021
Parramatta ^b	Lighthouse Infrastructure	Aoyiam International	61	76	Sydney	2022
Meridian Miranda ^c	Aware Super	Altis Property Partners	75 ^f	102	Sydney	2022
High Street, Preston ^c	Aware Super	Altis Property Partners	140 ^f	235	Melbourne	2022
Queens Road ^c	Aware Super	Altis Property Partners	220 ^f	369	Melbourne	2025
Liverpool ^c	Aware Super	Altis Property Partners	300	312	Sydney	2026
QIC-BHC Social Housing Consortium ^{c, e}	Australian Retirement Trust; QIC	Brisbane Housing Company	500	1,200	Queensland	N/A
Kensington ^c	Super Housing Partnerships ^d	Assemble	750	362	Melbourne	N/A
Preston ^c	Super Housing Partnerships ^d	Assemble		446	Melbourne	N/A
Coburg ^c	Super Housing Partnerships ^d	Assemble		180	Melbourne	N/A
Carnish Rd, Clayton ^c	Super Housing Partnerships ^d	Assemble		332	Melbourne	N/A
East Bentleigh ^c	Super Housing Partnerships ^d	Assemble		325	Melbourne	N/A

a Figures presented are project values reported by project proponents or relayed in media coverage of the project.

b Social and affordable housing projects.

c Mixed-tenure projects.

d Super Housing Partnerships is an investment vehicle established by superannuation fund HESTA. HESTA is currently the only disclosed institutional investor.

e The Queensland Investment Corporation (QIC)-Brisbane Housing Company (BHC) Social Housing Consortium intends to deliver up to 1,200 new homes through the partnership. The initial stage will deliver 7 projects, representing nearly 600 dwellings.

f For illustrative purposes, total project values which could not be identified have been calculated using CoreLogic's median monthly unit price for a project's location (e.g. greater Melbourne) taking a 5-year average (July 2018 to June 2023) for the price. The average price is then multiplied by a project's total units to generate an estimated project value.

Source: Project details compiled using information on developer and investor websites, and media coverage of projects.

4.5 Lack of an existing market

The lack of a consistent and sufficient number of new, large-scale institutional housing assets coming to market, and a lack of secondary market assets for sale, creates a number of investment management risks for investors. Price discovery is limited, which adds risk and complexity for trustees, including with respect to member equity (if an asset is overvalued, exiting members are favoured over remaining members). It also raises liquidity risk, as there is no ready market to acquire or dispose of large-scale housing assets. And it reduces the availability of data for investment analysis and for credit assessment, which raises the cost of debt and equity financing. Lastly, the absence of an established market also raises uncertainty about government policy, given the lack of an existing constituency that can advocate for stability in policy settings.

As noted in Chapter 2, many Australian institutional investors that do not invest in residential property in Australia participate in the United States, the United Kingdom and other residential property markets where the institutional housing sector is better developed. These investors cite the availability of key data such as property transaction histories, and operational data on tenancies, vacancy rates and capital expenditure, as supportive of investment.

The lack of a market partly reflects the preference of large developers of new projects to sell directly to many individual investors, rather than as a single transaction to an institutional investor. This in part reflects the potential for developers to receive higher prices from individuals, and the preference of banks for a fraction of units to be pre-sold prior to commencement, after which time the ownership of the asset is fragmented and is difficult to re-constitute as a single asset.

The lack of large projects coming to market from developers for institutional investors means that the main avenue into the market is by investing in and supporting the development of projects themselves. However, there is limited appetite to invest in this format. It involves taking significant development risk, which is not a core competency of most institutional investors. Some investors also cited the difficulty in valuing build-to-rent projects over their life, which gives rise to 'sequencing' or 'J-curve' risk. This risk arises from the fact that substantial cash outflows occur at the start of a project, while there is a long tail of income over the project's life. This creates the risk that members exiting the fund prior to the completion of the project may receive inadequate or excessive compensation for their investment, at the expense or benefit of longer-term – usually younger – members. That said, this concern has not prevented institutional investors from investing in the development of commercial and industrial real estate assets, or other long-dated assets such as infrastructure.

4.6 Policy and regulatory uncertainty and complexity

Creating a stable, consistent and streamlined policy and regulatory ‘ecosystem’ is essential to the development and maintenance of housing as an asset class for institutional investors.¹

Uncertainty and complexity add to risks and costs. Of relevance for institutional investors, complexity and uncertainty tend to increase with project and asset size. For example, holding multiple residential assets often requires owners to navigate differing regulatory regimes across different state and local governments, adding to administrative costs. And by their nature, larger developments attract more regulatory oversight and uncertainty.

Areas of policy and regulatory uncertainty frequently cited during consultation included:

- local council decision making processes
- the stability of affordable housing concessions, and
- the current public debate around rent controls and tenants’ rights.

Areas of regulatory and policy inconsistency cited included:

- land use planning controls
- building regulations
- developer levies
- landlord-tenant relations
- real estate regulations
- incentives for affordable housing, and
- regulatory oversight of social and affordable housing.

Australia’s complex web of zoning and planning approval requirements is a key contributor to uncertainty and complexity. While each tier of government controls important policy levers relevant to housing development, governments often do not act in a coordinated or consistent fashion. Greater alignment across levels of government and across jurisdictions can create a more supportive policy environment. The United Kingdom’s rapidly maturing build-to-rent market was cited as an example of this, which required cooperation and standardisation across national and local governments over a number of years.

That said, policy change and uncertainty are inherent features of a democratic political system. And establishing national frameworks is difficult: different jurisdictions have differing objectives, and each jurisdiction already has established programs, policies and funding arrangements that may be

1 Similar issues have been raised in research work exploring private sector investment in social and affordable housing. See Richard Benedict, Nicole Gurrán, Catherine Gilbert, Carrie Hamilton, Steven Rowley and Sha Liu, *Private sector involvement in social and affordable housing*, final report, no. 388, (Melbourne: AHURI, 2022); Vivienne Milligan, Hal Pawson, Peter Williams and Judith Yates, *Next moves? Expanding affordable rental housing in Australia through institutional investment*, City Futures Research Centre, University of New South Wales, 2015.

inconsistent with a national approach. For example, efforts to create a national framework for the regulation of community housing providers under the National Regulatory System for Community Housing have fallen short of establishing a fully standardised regime.

A degree of variation in regulatory arrangements across jurisdictions may, in fact, contribute to policy innovation as well as improved welfare by better aligning local policies with local preferences. However, this broad proposition only holds if the principle of subsidiarity is observed in inter-jurisdictional arrangements. That is, while local matters of purely local consequence may be safely left to, say, local governments to determine, councils ought not have authority to determine matters that unduly compromise the interests of their host regional, metropolitan, state or national communities.

Box 6: What is the principle of subsidiarity?

Subsidiarity is the principle that powers and responsibilities should be with the most local level of government practicable. Such a devolved system means there is greater local input into decision-making and states, territories and local governments can customise policies and services to suit local preferences.

Australia's Federation relies on subsidiarity, with the Constitution explicitly preserving the powers of the states and territories, while granting the Commonwealth Government only limited powers. The authors of the Constitution, as evidenced in the Convention debates, expressed a desire to ensure that power remained decentralised where possible (Deem 2021).

While subsidiarity is an important part of Australia's democratic system, the delineation of responsibilities in the Constitution means that in practice, regulatory arrangements between the various tiers of government are varied, and at times overlap, which can add to complexity and costs for commercial enterprise, including institutional investors and property developers.

4.7 Unclear housing targets

Clear and enforceable housing supply targets that are consistent with the needs of regional and metropolitan communities, can create a more certain operating environment for developers and investors.

Historically, Australian jurisdictions have been reluctant to commit to specific housing targets. This in part reflected a reluctance to agree to targets that may be difficult to meet, beyond the direct control of any one jurisdiction, or are controversial or require significant resourcing. Some parallels can possibly be drawn with the variable level of compliance shown against housing targets that are sometimes imposed on local councils without any incentives or accountability mechanisms.

4.8 Inadequate and inconsistent data

There are a number of issues in the availability and quality of data that reduces the quality of analytics undertaken to support investment decisions, raising risks and the cost of capital. These issues also create uncertainty around the future pipeline of work, limiting the ability to plan investment in the sector.

These data issues reflect several factors. There is a lack of data consistency across jurisdictions due to the lack of nationally harmonised data frameworks and measurement approaches. There is also limited data sharing and integration across governments, as data are held by different agencies in different jurisdictions and there are technical and legal barriers to integrating data into a national dataset. Housing-related data is also sometimes of low quality, as data are often collected from administrative systems rather than properly designed statistical processes.

4.9 Cultural preferences

There was some scepticism among investors that there is sufficient demand for institutionally provided rental services, given Australian's cultural preference for home ownership and detached dwellings. Stakeholders also noted that early investment has been skewed towards the premium end of the market, and that there may be limited appetite for such housing.

That said, a significant share of the population has already demonstrated a preference for well-located, high-density urban accommodation at various points in their lifecycle.

4.10 Superannuation regulations

A number of superannuation funds cited disclosure requirements around taxation and other investment costs as a barrier to investment. In particular, requirements by the Australian Securities and Investment Commission (ASIC) under Regulatory Guide 97 to disclose transfer duties (stamp duty) under total fees and charges. Regulatory Guide 97 is designed to ensure fees and costs disclosures by super funds are comparable. Stamp duty is recognised as a transaction cost because it is measurable, known and an explicit cost.

Stakeholders argued this can create the perception that a fund that invests in property has high management expense ratios, which is a deterrent to potential members who are price sensitive. That said, Regulatory Guide 97 requirements on how stamp duty costs are disclosed to members does not affect the commerciality of housing projects.

Superannuation funds also cited the performance test benchmarks administered by the Australian Prudential Regulation Authority (APRA) as a barrier to investment. The performance test is designed to hold funds to account for the investment performance they deliver and the fees they charge to members. Some in the superannuation fund industry argue that the test may incentivise funds to 'hug' performance benchmarks to reduce tracking error risk and thus the risk of closure or amalgamation. This may discourage investment in assets that are not well represented in the benchmarks, including residential property.

However, changes to superannuation regulations related to performance testing will not change the commerciality of potential housing projects for superannuation funds (Treasury 2023). Consistent with this, the performance test has not stopped a number of recent investments in housing by superannuation funds, including by Australian Retirement Trust and Aware Super.

4.11 Taxation arrangements

Some stakeholders argued that the dominance in the residential market of individual landlords is a barrier to institutional investment, as they are prepared to acquire housing stock at higher prices (or, equivalently, lower yields) or charge lower rents than institutional investors.

These stakeholders indicated that individual investors are willing to purchase individual units at 1 to 1.5 percentage points lower yields than institutional investors would be prepared to accept. As a result, it is more profitable for developers of new large-scale housing projects to sell individual units to individual investors, rather than selling the entire project to a single institutional investor, even accounting for the higher marketing and other costs associated with this sales strategy.

This outcome may in part reflect features of Australia's taxation system, in particular the 50 per cent capital gains tax discount and its interaction with the ability of taxpayers to 'negatively gear' investments. As a result of these features, individuals may be prepared to acquire assets delivering relatively low returns in the near term in expectation of (concessionally taxed) capital gains in the future.

Individuals may favour residential property to achieve such outcomes, as they can typically achieve a higher degree of leverage, at a lower interest rate and for a longer term on residential property than other assets. Moreover, investment in residential property is not subject to margin calls, unlike arrangements for marketable securities. These benefits may outweigh the higher transaction costs associated with investment in residential property.

That said, 'negative gearing' is a long-standing feature of the tax system and is consistent with the core principle of Australia's tax framework that taxpayers can deduct expenses incurred in producing assessable income. The capital gains tax discount was introduced in 1999 as an economic measure to promote more efficient asset management and improve capital mobility by reducing the tax benefit derived from delaying the realisation of capital gains (Treasury 2006). The capital gains tax discount was also designed to compensate for the lack of indexation and to simplify the administration of tax arrangements without affecting business investment decisions. Like negative gearing, the capital gains tax discount applies generally – not to property specifically.

4.12 Barriers specific to investment in social and affordable housing

There are additional barriers faced by institutional investors in relation to social and affordable housing.

Policy uncertainty around bridging the funding gap

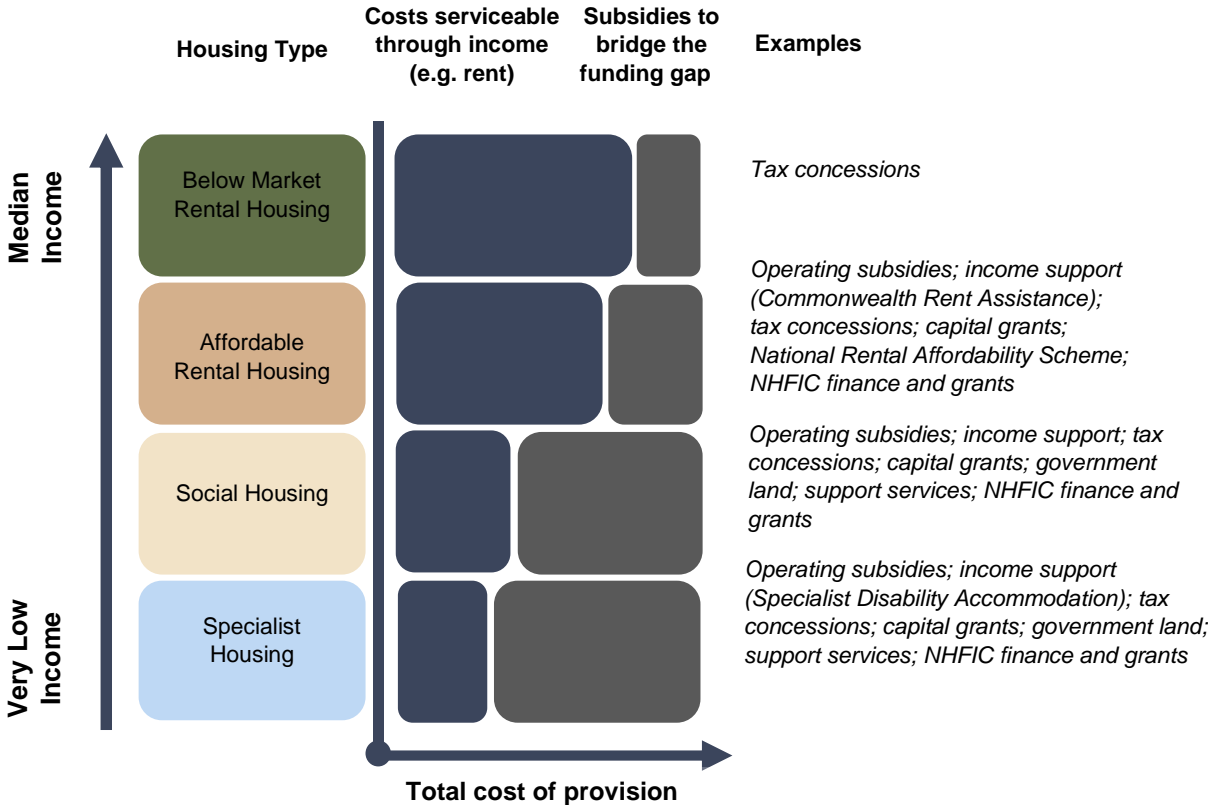
The most fundamental constraint to more social and affordable housing, including housing provided by institutional investors, is that without government assistance the revenues generated by social and affordable housing are insufficient to fund the cost of provision (the 'funding gap').

The size of this gap varies – social housing, for instance, requires substantial subsidies (in some cases, up to 100 per cent) reflecting its higher cost of provision and lower income of tenants. Conversely, the gap for below market rental housing will depend on the size of the discount to market rent. To bridge the funding gap, social and affordable housing providers need to secure a range of subsidies from different levels of government to ensure the projects are commercially viable (see Figure 2).

Even with these measures, the returns can be too low to warrant investment in social and affordable housing projects by some institutional investors. This will likely always be the case for projects at the lower end of the social and affordable housing spectrum. Institutional capital is most likely to invest in social and affordable housing projects where the funding gap is smallest, as it is easier to bridge the funding gap by pooling government subsidies or cross-subsidisation.

The Council notes governments must continue to directly support the provision of social and lower-income affordable housing to support the most vulnerable members of our community. These households are likely to require explicit support from governments to have their housing needs met – for example through public housing run by the states and territories and at the Commonwealth level through Commonwealth Rent Assistance. An ongoing service payment model as has been proposed for implementation of the Housing Australia Future Fund would be a vital source of finance to bridge the wide funding gap for social housing.

Figure 2: Illustration of the costs and funding gaps for different types of rental housing



Adapted from the Statutory Review of the Operation of the National Housing Finance and Investment Corporation Act 2018

Australia lacks a unified policy approach to addressing funding gaps. Other regimes, for example the Low-Income Housing Tax Credit program used in the United States, provides a single national framework for supporting investment in social and affordable housing which has spanned several United States administrations since the 1980s and has attracted a large and committed investor base (including Australian institutions).

In Australia, private providers of social and affordable housing typically need to gather various sources of subsidy from both state and federal governments, or in partnerships with community housing providers, to initiate and maintain projects leased at below market rates.

These sources can include:

- concessional finance and grants through NHFIC
- funding for Specialist Disability Accommodation under the National Disability Insurance Scheme
- reliance on tenants receiving Commonwealth Rent Assistance
- goods and services tax concessions
- state stamp duty concessions, and
- grants and land provided by states.

One means by which the 'funding gap' is bridged, at least in part, in international jurisdictions is a pool of capital garnered through mandatory inclusionary zoning and land value sharing mechanisms embedded in planning systems. These mechanisms require developers to either set aside a proportion of new housing to be sold or rented at sub-market rates or to make financial contributions to fund social infrastructure, including affordable housing.

For instance, in the United Kingdom section 106 of the *Town and Country Planning Act* requires developers to make either financial or in-kind contributions to public and social infrastructure, including affordable housing. In 2021–22, nearly 26,269 dwellings, amounting to 44 per cent of the total affordable housing supply in England, were delivered through section 106 contributions (Department for Levelling Up, Housing & Communities 2022).

To date, similar arrangements in Australia have proven to be fragmented, inconsistent and administratively complex. A harmonised approach to mandatory inclusionary zoning across the states and territories could be an important component in a stable and robust regulatory environment for institutional investment in social and affordable housing.

One example of policy uncertainty routinely cited by stakeholders was the National Rental Affordability Scheme (which will conclude in June 2026). While the scheme operated in a similar way to the US Low-Income Housing Tax Credit by providing financial incentives to landlords who rented out properties at below market rates, it did not attract significant interest from institutional investors.

The sector argued that because the National Rental Affordability Scheme incentive was limited to around 10 years, and the scheme was not extended in 2014 (unlike the longstanding US Low-Income Housing Tax Credit), it did not provide sufficient certainty for institutional investors to commit to long-term affordable housing projects.

There is also evidence that institutional investment did not occur at scale with the National Rental Affordability Scheme because the present value of the available subsidies was not sufficient to bridge what was then judged by institutional investors to be the operative return gap. In addition, some of these institutional investors were apprehensive about exposure to tenancy management risk. That is, the reputational damage that could arise when ‘supported tenants’ lost their market rent subsidy at the conclusion of the subsidised rental contract after 10 years.

Previous large-scale initiatives in social and affordable housing, such as the Social Housing Initiative in 2009, have also been time limited and did not provide an ongoing subsidy. Government measures that aim to bridge the funding gap should be ongoing to provide as much certainty as possible to institutional investors were demonstrated to be effective in increasing social and affordable housing supply. For example, funding social and affordable housing in a similar way to other infrastructure by setting targets and providing ongoing subsidies might provide sufficient certainty to attract more private capital to the sector. A model like that proposed by the Australian Government for the Housing Australia Future Fund could help address this uncertainty.

Some institutional investors argue that all providers of social and affordable housing (i.e. including institutional investors) should be able to access the same subsidy assistance that is available to community housing providers. This includes tax concessions available to registered charities. They noted that partnering with community housing providers can create additional complexity and counterparty risk, and that some community housing providers lack the capability to partner effectively with institutional investors (see below).

Conversely, community housing providers argue that they are best placed to cater to the needs of vulnerable tenants and provide specific support services, though they acknowledge this point is less relevant for affordable housing and below market rent housing provided to less vulnerable clients such as essential workers. They also noted that there are several examples of institutional investors partnering successfully with community housing providers to deliver affordable housing as part of mixed-tenure developments.

Institutional investors are not well placed to manage the additional costs associated with vulnerable tenants and tenants with special needs. These tenancy services often require additional capital to be provided. While this can be managed by contracting tenancy management in the affordable and social housing sectors to community housing providers, it creates an inherent limitation of the extent to which institutional investment can support the social and affordable housing sector. Additionally, the tax concessions afforded to not-for-profit community housing providers is given in explicit recognition of ‘non-market’ activities these organisations provide. Such arrangements may be inconsistent with the core mandate of institutional investors.

A lack of capability among some community housing providers to partner with institutional capital

The performance of the community housing sector in sustaining social and affordable tenancies is well recognised. That said, the scale and capability of community housing providers varies across and within jurisdictions, including in terms of organisation type, core business, capacity, scale and maturity. Institutional investors assess that only 10 – 15 providers have sufficient capability to partner with them. The limited range of capacity of providers in the sector is unsurprising given the still relatively nascent state of the sector. Many only specialise in tenancy services, rather than building or redeveloping social and affordable housing stock. Nonetheless, some institutional investors have

begun partnering with community housing providers in projects that include affordable housing, such as the partnership between Lighthouse Infrastructure and St George Community Housing. Some community housing providers have, however, developed quickly and have strong governance, management and financial profiles.

Coupled with the nascency of the sector and the ‘first mover problem,’ complexity around the additional arrangements to partner with community housing providers also acts as a disincentive for institutional capital to invest in projects with social and affordable housing components.

Lack of agreed definitions

There is a wide range of housing that falls between the private rental market and homelessness services on the housing continuum, often referred to as ‘social and affordable housing’ (see Box 1). At a high level, ‘social and affordable housing’ refers to a range of discounted or subsidised housing that can assist low to moderate income households to avoid housing stress (Treasury 2021). While the broad phrase ‘social and affordable housing’ is often used, it is not a uniform, singular asset class. There is a large degree of variation in the types of housing that fall under this banner, with different characteristics.

There is no common definition of ‘affordable’ housing for either renters or owners in Australia (see Box 1 and AHURI 2023). The definition varies across and within jurisdictions, including across programs, policies, legislation and regulations. Without a common, implementable definition, institutions face inconsistent and uncertain conditions when making investment decisions around affordable housing projects. It creates confusion as to whether a project will be eligible for the patchwork of concessions offered by different tiers of government.

The difficulty in agreeing on a single definition in part reflects differing goals of participants:

- Community housing sector stakeholders tend to favour an income-based approach that better reflects affordability constraints for low-income tenants.
- Investors seek to minimise investment uncertainty and so tend to favour a measure linked to market rents.

Outdated and inconsistent regulatory regimes for the community housing sector

The lack of a consistent national framework for the regulation of the community housing sector adds to costs and uncertainty for institutional investors looking to invest in social and affordable housing. While most jurisdictions have adopted the National Regulatory System of Community Housing, Victoria and Western Australia have their own regulatory regimes for community housing providers.

There have long been calls to harmonise the different regulatory regimes for community housing providers (Milligan and others 2017; NSW DCJ 2021). A 2016 report by the Affordable Housing Working Group established by the Council on Federal Financial Relations and the National Regulatory System for Community Housing Review (2021) both agreed that:

- Inconsistencies across the different regulatory regimes reduce investor confidence in the sector.
- The Commonwealth, state and territory governments should collaborate with the community housing sector to develop and implement a uniform and nationally applied regulatory framework.
- The National Regulatory System for Community Housing should be expanded to cover all providers of social and affordable housing, including, where applicable, for-profit providers.

During consultation, stakeholders argued that current regulations are no longer fit-for-purpose as they do not account for current financing arrangements, company structures or business practices. The NHFIC Review noted current arrangements focus on compliance rather than capacity building, poor quality and availability of sector data, and a lack of measures for tenant outcomes. It found that to build trust among investors, the regulatory system must be improved, with more focus on governance, clearly defined rules and transparency (Treasury 2021).

5. The need for a market for institutional housing

5.1 Supporting a market for institutional housing

The central finding of this report is that the emergence of a domestic market for institutional housing would add to, and improve the quality of, Australia's stock of well-located private rental and social and affordable housing, offer more housing diversity and choice for renters, and improve rental affordability. For institutional investors, it would provide a new and potentially large domestic asset class that meets the investment objectives and preferences of many members and unitholders.

A desirable system would have a well-supplied primary market (that is, a steady pipeline of large, multi-residential, well-located projects coming to market), and a well-regulated secondary market with low information asymmetries and moderate transaction costs. The development of new stock would be either by institutional investors themselves as build-to-rent developments, or by large developers, with the stock acquired on completion as a single asset by institutional investors to be used as rental stock.

Commonwealth and state tax measures are supporting this outcome. But, as discussed in Chapter 4, barriers remain. The following chapters propose recommendations to address these.

The recommendations are best viewed holistically, rather than as a menu of options, reflecting the fact that they are mutually reinforcing, and all barriers need to be addressed to support the full and sustainable emergence of a market.

The recommendations draw upon the literature on market efficiency, which emphasises the need for appropriate regulatory and legal frameworks, market transparency, low information asymmetries, low transaction costs, and policy consistency and certainty (discussed further in Box 7).

Box 7: Establishing a viable and well-functioning asset market

Well-functioning markets result in the most efficient allocation of resources in an economy, taking into account the preferences of consumers and producers (Productivity Commission 2013; Murtough and others 2002).

To function well, an asset market requires the following conditions:

- Low transaction costs
- Low uncertainty about the essential attributes of the asset
- Low information asymmetry between market participants
- A sufficient number of buyers and sellers, and
- Property rights that can be cost effectively enforced.

Box 7: Establishing a viable and well-functioning asset market (continued)

The formation of markets can be assisted by government intervention. Governments can ensure that robust legal and regulatory frameworks are in place that protect property rights and reduce information asymmetries.

Governments can also intervene with tax settings or subsidies to reduce transaction costs, improve information about the asset and the market, and to otherwise entice participation to achieve a critical mass of participants, for example by supporting first movers and demonstrating market viability through its own investment.

5.2 Catalysing a market

The recommendations also draw upon the literature on catalysing markets. Public policy normally seeks to encourage the organic growth of commercial sectors of the economy without subsidies or other interventions. However, governments can accelerate market development to more quickly achieve the critical mass of participants and activity needed to generate ongoing, sustainable growth, in particular by supporting first movers (see Box 8), demonstrating viability ('proof of concept'), and demonstrating the commitment of government to the development of a market (Pawson and Milligan 2013).

Box 8: A first mover problem

Institutional housing as an asset class in Australia is unproven, and information on investment performance is limited. This is a critical issue for institutional investors, as relative performance can be as important as absolute performance to the success or otherwise of a particular provider. Superannuation funds in particular emphasised to the Council that the APRA performance test disincentivised investment in unproven assets, as the potential reputational cost of underperformance outweighs the potential benefit of outperformance (see Chapter 4).

In short, the industry has a 'first mover problem'. The first mover problem refers to the reluctance of firms to enter a market due to perceived disadvantages of early entry. This may be due to the fact that barriers to entry are reducing over time, how quickly the specific technology is evolving (running the risk of investing in obsolete assets), or the unproven nature of the product (Suarez F and Lanzolla G 2005).

As a first mover, start-up costs (such as capability building, research and development, and marketing of a new type of product) are likely to be higher than for later market entrants, who may have the advantage of adopting or improving upon the business model or product developed by the earlier entrant.

Policy solutions to address the first mover problem involve fostering more complete and well-functioning markets and reducing information asymmetries to reduce costs and risk. In some cases, governments can provide subsidies to help defray the cost of being a first mover.

6. Creating a pipeline of suitable new projects

6.1 Addressing planning and zoning barriers

Zoning and planning restrictions limit the ability of developers to bring to market projects appropriate for institutional investment. This is because large-scale residential property developments are the most difficult to get approved, and because they are the most complex, costly and time consuming in terms of meeting planning compliance requirements. Relatedly, inconsistencies in settings between and within jurisdictions limit the ability of investors to achieve scale efficiencies by developing, holding and managing multiple projects.

A central recommendation of the Council is that the planning treatment of large-scale build-to-rent projects should reflect the significant size and positive nature of their external impacts. Accordingly, governments should classify large-scale projects that are to be available for rent as a discrete land use type for development assessment purposes. The defining attributes of this land use type should include:

- scale (for example, projects over a minimum number of dwellings)
- tenure (buildings retained for residential rental on an indefinite basis or for the life of the building) and
- subdivision (dwellings to be kept on one title or equivalent to prevent on-selling to individual investors).

As major interventions in most development settings, these projects will have implications for place quality and functionality extending well beyond the local neighbourhood. As long term committed rental stock, these projects will also play an enhanced infrastructure role supporting the local and regional economy through improved access to labour and skills.

The Council also believes planning systems should be reviewed more generally to support the construction of large-scale housing assets suitable for institutional investment, consistent with best practice in planning. Principles to guide this process are described in Box 9.

Recommendation 1: Build-to-rent as a separately defined development type

Commonwealth, state and territory governments should develop nationally consistent planning provisions under which large-scale build-to-rent projects are a separately defined development type subject to expedited planning and development assessment.

Recommendation 2: Reviewing planning systems

State and territory governments should identify, review and address barriers in planning and zoning systems that impede the construction of large-scale housing assets suitable for institutional investment.

Box 9: Principles to improve planning systems

The Council has identified high-level principles which might guide ongoing improvement of planning regulation across jurisdictions. In doing so, the Council recognises that the states and territories continue to pursue their own reform initiatives which, to varying degrees, align with these principles.

These principles include:

- **Subsidiarity.** Plan making and development assessment powers should be distributed across State, regional and local authorities with reference to subsidiarity. That is, decisions on plans and projects where prospective impacts are primarily local should be left to local forums, while proposals of metropolitan, regional or state-wide significance should be determined by forums accountable to those spheres of community.
- **Efficient regulation.** Proposed new planning rules should be subject to an efficiency test, consistent with the approach to most other regulations. Regulatory impact assessments of planning rules should be conducted.
- **Arm's length development assessment.** Where possible, development assessment – a primarily technical process of verifying compliance with adopted rules – should be separated from policy formulation which is rightly the province of elected decision makers.
- **Certainty in development contributions.** Transparency, consistency and certainty should characterise development contribution arrangements, including separation of policies and rules in respect of licensing of development rights (or value capture), user pays contributions for infrastructure used by development, impact mitigation where projects impose unanticipated costs on local infrastructure and the environment, and inclusionary provisions where development is expected to incorporate or pay for provision of certain features to be deemed sustainable (for example, open space, water cycle management and social and affordable housing).

6.2 Addressing the lack of suitable land

Finding land suitable for the development of projects that are attractive to institutional investors is challenging. Land is by its nature scarce, and the supply of sites becoming available from former industrial, government and other uses continues to diminish. Land that is otherwise suitable may not be available for development due to a range of factors, including the fragmentation of holdings and a lack of suitable precinct infrastructure.

This challenge is likely to warrant greater public sector involvement in the assembly and wholesaling of development-ready land. Such arrangements have occurred in the past, for example in the 1970s and 1980s government land development corporations were significant players in many housing sub-markets.

Most jurisdictions retain development corporations mandated to deploy surplus government land to meet commercial and planning policy objectives. Several of these corporations are empowered to progress urban renewal at the precinct level, including land assembly, master-planning and super-lotting; provision or co-ordination of key infrastructure to enable development; organising site clean-up; and preparation of appropriate planning instruments to facilitate and de-risk development.

Recommendation 3: Improving land availability

State and territory development corporations and their associated precinct planning bodies should accelerate land assembly (including through compulsory acquisition as a last resort), infrastructure provision and development approvals in areas which are suitable for large-scale intensive housing development.

7. De-risking the development and ownership of institutional housing assets

A key view of the Council that underpins its recommendations is that risks are elevated due to the nascent state of the market. Once developed, the return-risk characteristics of a market for institutional housing would be such that the market is viable and self-sustaining. Until then, investing in housing, and investing in the capability to invest in housing, is unattractive relative to alternative investment opportunities.

7.1 Housing targets to reduce uncertainty

A lack of operating and policy certainty in the Australian housing market is frequently cited in both the literature and by stakeholders as a barrier to institutional investment.

Clear and enforceable housing supply targets for the states and territories would help create a more certain operating environment, including for institutional investors. Such targets would send a clear signal to the market on the intentions of the various government jurisdictions to support housing supply and facilitate planning by developers and investors.

The National Housing Accord is one mechanism that could help establish targets. The Accord was agreed by the Commonwealth, state and territory governments, the Australian Local Government Association, investors and the construction sector on 25 October 2022. It establishes a national aspirational target to deliver 1 million new homes over the 5 years from 2024. The Council believes that each state and territory should move beyond the aspirational target and commit to meeting an appropriate share of the Housing Accord target, with incentives to do so provided by the Commonwealth.

The former National Competition Policy may provide a suitable model for an appropriate incentive and accountability framework. Under the policy, which ran from 1995 to 2005, states and territories agreed to implement legislative, structural and pricing reforms to promote greater competition in sectors including energy, water, transport, telecommunications and agriculture. The states and territories were incentivised to implement the necessary reforms through competition payments. In addition, accountability was ensured by linking these payments to satisfying detailed, periodic assessments of performance.

A similar model could be implemented to support the delivery of housing targets by each state and territory. This would require the Australian Government to consider providing financial payments to the states and territories to support delivery of their housing targets. In exchange, states and territories should accept responsibility for the delivery of the housing targets, as well as the necessary planning reforms and provision of essential infrastructure to both enable and expediate large-scale investment in new housing supply.

Recommendation 4: Establishing housing targets

Commonwealth, state and territory governments should expand on the aspirational national target described in the National Housing Accord 2022 by agreeing to, and publishing, specific housing targets for each state and territory. Appropriate incentives and penalties should be attached to the meeting of these targets. This will ensure a pipeline of suitable housing assets exists to facilitate investor planning and to demonstrate policy commitment to the development of an institutional housing market.

7.2 Improving data availability and quality

Government measures to improve the availability and quality of relevant data

Institutional investors regularly cite a lack of data with which to conduct the investment analysis needed to support investment decisions. This lack of data adds to uncertainty for institutional investors, as well as banks and other providers of debt capital, raising the cost of capital and reducing the viability of projects.

No one single entity can take responsibility for addressing this lack of data. Relevant data is spread across governments, the private and non-government sectors. All sectors have a role to play in addressing data gaps to assist in accelerating the development of the Australian market.

Government held data

Governments across Australia hold a multitude of relevant data. However, there are issues with respect to this information, including:

- Inconsistency in data sources across jurisdictions due to the lack of nationally harmonised data frameworks and measurement approaches.
- Limited data sharing and integration, as data are held by different agencies in different jurisdictions and there are technical and legal barriers (for example, data sharing and privacy agreements) to integrate data into a national dataset.
- Data quality, which is often low as data are collected from administrative systems rather than properly designed statistical processes. Some data collection agencies lack the capability to improve data quality.

The Australian Bureau of Statistics is currently involved in a range of initiatives to improve housing data, particularly around land release and zoning. The Housing and Homelessness Ministerial Council should continue its work to improve housing and homelessness datasets under the new National Housing and Homelessness Agreement to address gaps in the housing evidence base. The Council also notes that it has an important role to play in developing the availability and consistency of housing-related data as part of its remit.

This work should be appropriately resourced to ensure improvements in the availability, consistency and quality of housing data. Priority should be given to the renewed funding of the new indicators of

land and housing supply and the established dwelling stock data developed by the Australian Bureau of Statistics, which have the potential to be important data sources for developers and institutional investors.

Privately held data

The private sector and community housing sector have a role to play in contributing to the establishment of a market for institutional housing, given the significant potential benefits to members, unitholders and tenants. As such, the Council recommends that the private sector should consider the establishment of a group to promote the development of databases that facilitate large-scale investment in the residential rental market. This group would seek to improve the availability of data of relevance to institutional investors including rental yields, capital growth, tenancy turnover, vacancy rates, property expenses and the transaction history of large residential assets. While data held by private sector firms that is useful in supporting investment decisions is commercially valuable, the benefits of data sharing to the establishment of a market for institutional housing would be significant.

Similarly, the lack of published data on the performance of community housing providers limits institutional investment in the sector. Data such as build costs, operating and maintenance expenditure, vacancy rates and rates of tenant default could support investment in the sector. Bodies such as the NHFIC, through its capacity building function, and peak bodies such as the Community Housing Industry Association, could consider making publicly available relevant data to facilitate greater institutional investment in the sector.

Recommendation 5: Improving data availability

Commonwealth, state and territory governments, and the community housing sector, should work with institutional investors to identify and publish specific data that governments and the community sector are best placed to collect (or already collect) and make these data available to assist in de-risking the development and management of institutional housing assets.

7.3 Addressing disincentives in superannuation regulations

ASIC Regulatory Guide 97

ASIC Regulatory Guide 97 requires superannuation funds to disclose transfer duties (stamp duty) within total fees and charges in their reports to members. This is to ensure that fees and costs disclosures by super funds are comparable across funds and fund managers. Stamp duty is recognised as a transaction cost because it is measurable, known and an explicit cost.

How stamp duty costs are disclosed to members does not impact the commerciality of housing projects per se, and superannuation funds have a legal duty to make decisions in the best financial interests of their members, regardless of how fees and costs are reported.

Nevertheless, superannuation funds have indicated that the requirement is a barrier to investment in housing because it can create the perception that a fund that invests in property has a high management expense ratio, which is a deterrent for price sensitive members to invest in that particular fund. This is a competitive issue for superannuation funds and may distort decision making by members to their financial detriment.

The Council encourages the Government to consider whether the current regulatory requirements relating to disclosure are unduly distorting superannuation fund investment decisions in housing.

The APRA performance test

APRA administers an annual performance test for superannuation products that is designed to hold funds to account for the investment performance they deliver and the fees they charge to members. The lack of a developed market for institutional investment in housing assets means that housing as an investment class is not well represented by the benchmarks used to conduct these tests.

Superannuation funds have an incentive to ‘hug’ the benchmarks to reduce tracking error risk and thus the risk of closure or amalgamation, which disincentivises investment in assets that are not well represented in the benchmarks, including residential property.

The relevant benchmark for an equity investment in housing is ‘Australian unlisted property’, which consists primarily of retail, commercial and industrial property.

Superannuation funds argue this is too high a benchmark for investment in housing, which is generally considered lower risk due to the stability of its returns.

The performance test has not stopped investment in recent housing projects, including:

- Australian Retirement Trust has partnered with Queensland Investment Corporation to finance social and affordable housing supply in Queensland.
- Aware Super committing nearly \$900 million to essential worker affordable housing projects nationally.
- CBUS Super committing \$500 million to the construction of new social and affordable homes through the Housing Australia Future Fund as part of the National Housing Accord.

The performance test has improved outcomes for members by encouraging underperforming funds to improve or exit the industry and put pressure on funds to reduce fees.

The Council notes the Government has announced it will continue to consult on changes regarding the performance test. The Council encourages the Government to address the effect of the performance test on the willingness of investors to invest in emerging asset classes such as housing.

Recommendation 6: Appropriate superannuation regulations

Superannuation regulations should be reviewed to ensure that they do not disincentivise investment in new asset classes, such as housing, while ensuring the integrity of the superannuation system.

7.4 Guarantees or loans to complete the market for long-term financing

Most property investment is partly financed by debt, reflecting the fact that stable income streams are available to service loan obligations. For long-lived assets like property, owners will prefer long-term loan arrangements to limit refinancing risk (Commonwealth Government 2016).

Nascent markets typically face constraints regarding the availability of finance. Lenders (in Australia's case, primarily banks) may not have lending policies in place to assess lending options, there may be issues of security enforcement or disposal risk in the event of default, and lenders may not have sufficient data to conduct credit assessment.

Institutional investors in Australia may have reduced access to finance for institutional housing, which is restricting the growth of the sector. Discussions with institutional investors and lenders indicate that loan terms are typically 3 to 5 years, in contrast to more established markets such as the United States, where financing terms of up to 30 years are available. In addition, the degree of leverage permitted by Australian banks is generally lower, at around 40–50 per cent (compared to around 65 per cent in the United States). Interest coverage ratios and other loan covenants are also typically more restrictive. And risk premia – the additional return demanded by lenders above risk free rates – are generally higher for institutional housing in Australia than in the United States (Rowley and others 2014).

These outcomes are consistent with the financing arrangements observed regarding the few large-scale projects that have been undertaken in Australia to date. That said, gaps in financing are difficult to assess, and many reflect the financing preferences of investors (i.e. demand factors) rather than an inadequate supply of financing on appropriate terms. Further work is needed to understand the nature of financing gaps in the Australian context and the extent to which they are a barrier to institutional investment.

To address a financing gap in its market, the United Kingdom introduced measures specifically targeted at build-to-rent in the form of loan guarantees and concessional loans with terms of up to 30 years to 'kickstart' the market and enable scale. The measures provided developers with financing at a lower cost and for longer tenors than was otherwise obtainable in the market (see Box 4).

Following these measures, institutional investment in the UK private rental sector increased significantly to 5.4 per cent of the total value of the housing stock (see Chapter 3). However, it's not clear that this investment added to supply in the United Kingdom, or merely brought forward supply or displaced other investment in housing (and so simply changed the mix of ownership of the housing stock). It could also be the case that the growth in investment in the sector reflects broader factors, such as strong demand for housing and low interest rates. Moreover, the loan guarantees and concessional loans were introduced alongside a number of other policy measures, and it is not clear to what extent these may be responsible for the growth in investment. Further research is needed to disentangle these various effects.

Recommendation 7: Gaps in financing

Governments should address market gaps in the availability of long-term debt financing that limit institutional investment in market and affordable housing. Any provision of finance by government to support market housing should be on commercial terms. Measures should aim to close gaps in the provision of finance over time.

8. Supporting institutional investment in social and affordable housing

Many of the barriers to institutional investment in private market housing are also relevant to social and affordable housing. There are also barriers specific to this sector. These barriers relate to the lack of a truly national regulatory regime for community housing providers, the ability of the community housing sector to partner with institutional investments, and inconsistencies around the definitions of the different classes of housing in this sector, particularly the definition of 'affordable housing'.

8.1 A truly national regulatory regime for community housing providers

Many stakeholders during consultation for this report expressed a desire for greater harmonisation of the regulatory frameworks for community housing providers.

Most community housing providers in Australia are registered under the National Regulatory System for Community Housing. The vision of the National Regulatory System for Community Housing is to ensure a well-governed, well-managed and viable community housing sector that meets the housing needs of tenants (National Regulatory System for Community Housing 2022a; New South Wales Government, Department of Communities and Justice 2019). The National Regulatory System for Community Housing is also designed to identify, monitor and respond to risks that have serious consequences for tenants, funders and investors, community housing assets and the reputation of the sector (National Regulatory System for Community Housing 2022a).

Western Australia and Victoria did not opt in to the National Regulatory System for Community Housing and maintain their own regulatory regimes. As such, community housing providers operate under different regimes with different reporting requirements and timings in different jurisdictions. This adds to the administrative burden for providers operating across states, and may be constraining organisations from expanding operations, curtailing the growth of the sector. Efforts to resolve this within current arrangements have not been successful. For instance, in 2021 the Community Housing Industry Association Victoria noted that attempts to align the Victorian regulatory system with the National Regulatory System for Community Housing has not assisted Victorian community housing providers that operate across state boundaries (Community Housing Industry Association Victoria).

Even for jurisdictions within the national system, there are inconsistencies in the application of the regulations, with different timing, format and scope of reporting requirements across states. This reflects the fact that the National Regulatory System for Community Housing is a decentralised regulatory system, which relies on individual jurisdictions applying a common set of principles (New South Wales Government, Department of Communities and Justice 2019).

The National Regulatory System for Community Housing has not evolved since it commenced in 2014. As such, it doesn't account for changes in finance, company structures and other business practices that have evolved since then as part of the emerging 'hybridity' in the sector. In addition, the current regulatory regimes are not able to adequately regulate the growing number of for-profit affordable housing providers, as traditional community housing providers change their business models to attract more private capital (New South Wales Government, Department of Communities and Justice 2021).

There are registration categories under the National Regulatory System for Community Housing and state-based regimes, known as the tier system, which determine an organisation's level of risk due to the scale and scope of its activities (National Regulatory System for Community Housing 2022b). The tier of registration determines the performance requirements and intensity of regulatory engagement. The tier system has been criticised and has at times been misinterpreted by third parties, including financiers and investors, as a ranking of performance and creditworthiness rather than a classification of the scale and scope of its operations (New South Wales Government, Department of Communities and Justice 2019; National Regulatory System for Community Housing 2022b).

A truly national regulatory system for community housing providers could raise standards to support the development and capability of the sector, including by ensuring a greater focus on lifting financial and governance capabilities. This would be a significant step up for the sector and bolster investor confidence. However, work on reforming the National Regulatory System for Community Housing, stemming from the intergovernmental 2021 Review of the National Regulatory System for Community Housing, including the potential adoption by Victoria and Western Australia, has not progressed.

It can be argued that NHFIC, through its administration of its financing programs, performs a quasi-regulatory role for the sector. For example, community housing providers must be registered to access concessional loan finance from the Affordable Housing Bond Aggregator and the National Housing Infrastructure Facility. This provides an incentive for community housing providers to be registered under either the national or a state-based scheme. In addition, through the oversight (and potential enforcement) of its rights as the largest creditor to the sector, and the conditions it requires as part of its loan agreements, NHFIC now exerts considerable influence, and has an interest in the development and good governance of the sector. In addition, NHFIC has been a sponsor of the development of an Environmental, Social and Governance reporting standard for the community housing sector.

A stronger, national regulatory regime could be an appropriate expectation in return for further and ongoing Australian Government support of the social and affordable housing sector, including that provided through NHFIC.

Recommendation 8: A national regulatory framework for the community housing sector

There should be a joint Commonwealth-state review to develop and implement a truly national regulatory framework for the community housing sector. The new framework should be designed to support engagement with institutional investors and address the increased complexity of funding arrangements in the sector.

8.2 Supporting community housing providers to partner with institutional capital

Developing the capability of the community housing sector will encourage more institutional investment in projects led by, or in partnership with, community housing providers.

Institutional investors have demonstrated a preference to partner with community housing providers when investing in affordable housing. Community housing providers have demonstrated experience and expertise in managing affordable housing tenancies, especially for vulnerable tenants, and can manage compliance associated with government incentives and concessions for supplying affordable housing. Partnering with community housing providers provides governments with more reassurance that the value of government expenditure translates to a benefit for the community. However, partnering with institutional capital creates new risks and requirements for community housing providers to manage.

Stakeholders report that there are a limited number of community housing providers of sufficient scale and sophistication to partner with private capital. Some of the larger community housing providers operate nationally and with increasing scale and sophistication. However, most are small-scale providers focussed on tenancy management – around 70 per cent of community housing providers manage fewer than 50 dwellings each (AIHW 2023a). The diversity in capacity across the sector can be explained by its relative youth, particularly compared to the United Kingdom and European nations who have well-established equivalents.²

There are some programs in place to support capability building in the sector. For example, NHFIC's Capacity Building Program provides grants of up to \$20,000 to registered community housing providers for tailored assistance from a panel of professional advisory services to help them apply for NHFIC finance under the Affordable Housing Bond Aggregator or the National Housing Infrastructure Facility. But the program is limited to supporting community housing providers applying for NHFIC finance.

The 2021 Statutory Review of the *National Housing Finance and Investment Corporation Act 2018* recommended that the value of these grants be increased to \$75,000 to more adequately cover the typical costs of professional advisory services. This recommendation has not been implemented.

As discussed above, a stronger regulatory regime for all community housing providers could also lift standards in the sector. Additionally, the community housing sector itself could take more responsibility for lifting standards. The Council suggests government, the relevant peak bodies, or other bodies or fora for community housing providers develop additional programs to build capability in the sector. For example, these parties could consider leveraging external expertise within the public sector, the private sector and academia through temporary placements with community housing providers. This could build capacity and facilitate knowledge transfer in areas including financial and economic analysis, governance, policy and research, risk management, procurement and project management.

2 It also should be acknowledged that Governments in the United Kingdom and in Europe have assisted the not-for-profit sector through funded programs designed to uplift capacity, including training and skills development for staff and the temporary placement of subject matter experts within housing providers (Milligan and others 2004).

Recommendation 9: Supporting the community housing sector to partner with institutional investors

Government support should be provided to the community housing sector, through its peak bodies or other such arrangements, to improve the ability of the sector to partner with institutional investors.

8.3 Consistent definitions

There is a wide range of types of housing that can be considered ‘social and affordable housing’ (see Box 1). The phrase can refer to housing for those on very low incomes and the most vulnerable in our community, such as crisis accommodation and specialist housing, through to below-market rental housing, such as discounted housing for ‘key workers’. But governments, policy makers and industry often use the broad term of ‘social and affordable’ housing without clarifying the meaning of the term. The term presents the sector as a uniform asset class, and disguises the diversity in the different providers and classes of housing. This lack of consistency and specificity means institutional investors face additional uncertainty and risk when making investment decisions on social and affordable housing projects, particularly given institutional investors often need to secure a patchwork of government subsidies to ensure social and affordable housing developments are financially viable.

‘Affordability’ can be defined by a household’s ability to pay (usually with reference to the household’s income), or as a discount to a market price. ‘Affordable housing’ sometimes only refers to rental housing; in other contexts it includes pathways to homeownership, such as discounted price points, shared equity and low deposit home loans schemes. It can sometimes also encompass social housing.

In the context of affordable rental housing, there are 2 broad approaches to defining ‘affordability’:

- as a proportion of market rent, usually less than 75 per cent³
- as a proportion of household income, usually 30 per cent or less⁴.

Sometimes, affordable housing is defined by the entity providing the housing service. For example, to access the lower 15 per cent Managed Investment Trust withholding tax rate for affordable housing in the *Income Tax Assessment Act 1997* (Commonwealth), an ‘affordable dwelling’ is defined as one managed by a registered community housing provider.

These differing definitions highlight the fundamental differences between the needs of the various actors involved in social and affordable housing. For institutional investors, a reference to a market rate helps meet their legal obligations to members and regulators; for those seeking to achieve social

3 For example, to register as a charity to secure GST concessions for non-commercial activities, not-for-profits must supply accommodation at less than 75 per cent of the market value under *A New Tax System (Goods and Services Tax) Act 1999*. And the National Housing Accord 2022 has defined affordable housing as ‘rental housing that is provided at below market rent to qualifying tenants (usually between 70 and 80 per cent of market rent).’ (Treasury 2022)

4 For example, the NSW State Environmental Planning Policy (Housing) 2021 defines affordable housing as very low to moderate income households paying no more than 30 per cent of their gross income on rent (New South Wales Government, Department of Planning 2023).

policy aims, a reference to the ability of households to pay helps ensure subsidies are well calibrated; and for governments, references to existing regulatory architecture supports administrative efficiency. While agreeing on, and implementing, common definitions will be difficult, there are considerable benefits to be had, not just for institutional investors, but for the sector more generally.

Recommendation 10: Standardising definitions in the social and affordable housing sector

Commonwealth, state and territory governments, with input from the community housing sector, should develop and adopt common definitions of matters related to social and affordable housing, including consistent definitions of 'affordable'. These definitions should be progressively applied to regulatory systems, planning schemes, funding agreements and government policies.

8.4 Supporting aggregators to facilitate scale

Institutional investors require large projects to achieve sufficient scale to spread the fixed costs associated with developing and/or acquiring an asset. Scale also helps investors spread out ongoing management costs. More generally, institutional investors need to invest in several projects of sufficient scale to warrant investing in their capacity to invest in institutional housing.

Some academic studies suggest the 'package scale' needed for a single large institutional investor to invest in rental housing projects is between \$50 million and \$200 million (Milligan and others 2013). Discussions with stakeholders for this report indicate that a project needs to be at least \$300 million to warrant investment. Tables 5 and 6 (Chapter 4) show that most projects that have occurred in Australia are between \$50 million and \$500 million.

There are limited opportunities for institutional investors to acquire residential housing assets on such scale. This largely reflects the lack of a pipeline of appropriate projects reaching market (see Chapter 6). In addition, for social and affordable housing the limited size and financial capability of some community housing provider partners and the relatively small project sizes may limit institutional appetite to invest (see section 8.2).

Governments could facilitate scale in the sector by supporting the use of aggregators, particularly for social and affordable housing (where a private sector aggregator is less likely to emerge). Aggregation vehicles have demonstrated that pooling assets into a single vehicle is an effective way of achieving scale (and of sharing risk and costs). These vehicles can involve the aggregation of housing assets (i.e. buildings), equity stakes, or of debt issued by developers or owners. Investment in the aggregator can be by one or many investors. They are familiar to institutional investors, who invest widely in such vehicles (e.g. into REITS), and who themselves are a type of aggregator (they pool capital from investors and invest in a range of assets).

At present, the largest aggregation vehicle in the residential housing sector is the Affordable Housing Bond Aggregator, administered by NHFIC. The Affordable Housing Bond Aggregator aggregates loans made to community housing providers by NHFIC and in turn issues affordable housing bonds to investors to fund those loans. These bonds are currently supported by a Commonwealth guarantee, meaning that institutional investors are not taking a direct exposure to the underlying housing assets.

Some stakeholders observed that the Affordable Housing Bond Aggregator has created a market for Commonwealth-guaranteed debt that pays a yield premium over equivalent Australian Government Bonds (on average around 40 basis points), but this has not as yet translated into the formation of a market for debt issued by affordable housing providers that is purchased directly by providers of private capital (Treasury 2021). That said, the Affordable Housing Bond Aggregator has significantly expanded access to, and reduced the cost of, finance for affordable housing providers, which has supported the creation and ongoing provision of affordable housing dwellings.

Recommendation 11: Establishing a social and affordable housing asset aggregator

The Commonwealth should support the establishment of an aggregator of social and affordable housing assets (or equity or subordinated debt), for example by subsidising the establishment costs and ongoing administrative costs of such a vehicle. Over time, the government should consider encouraging competition in the provision of aggregation services by supporting the establishment of new aggregators, including by the private sector.

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