



**Affordable Housing
Infrastructure Booster**

Executive Summary.

A report and policy blueprint for the Community
Housing Industry Association NSW

A/Prof Christian Nygaard Centre for Urban Transitions
Swinburne University of Technology



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The Affordable Housing Infrastructure Booster (AHIB) aims to increase the supply of affordable rental properties in areas experiencing particular housing market stress and/or areas of particular state priorities.

Properties must be let at least 20% below local market rents for 20 years to low and moderate-income households. Unlike the previous National Rental Affordability Scheme (NRAS), and a number of international initiatives, AHIB lets the desired housing outcomes and locations determine the financial boost that is provided, rather than the financial boost conditioning the type of housing and locations that can be provided. AHIB is responsive to variation in construction cost, land cost and local rent levels.

Like some international initiatives, AHIB provides a tax credit that affordable housing developers can use to raise capital from investors and form equity partnerships. This capital injection reduces the project's borrowing requirement and debts servicing costs, enabling a positively geared investment profile and a much higher level housing that can be retained, or re-invested, beyond the initial 20-year affordability period. AHIB is thus a vehicle for a long-term strategy to provide an infrastructure of affordable housing in Australian cities and neighbourhoods.

Unlike NRAS and a number of international initiatives, AHIB does not operate with a priori determined annual levels of support or project level subsidies. Instead, affordable housing developers tender for the boost required to service borrowing costs at prudential standards and meet acceptable rates of investor returns. Affordable housing developers can thus start by considering what type of housing is required where and then bid for tax credits to boost the financial viability of the project.

State level administering agencies evaluate tax-credit tenders against marginality thresholds and additional state level housing priorities and value for money outcomes. Marginality thresholds set the upper levels at which a project requires no more than a boost to make it financially viable.

AHIB is not a silver bullet. Tax credit bids that seek to cover the entire gross financing gap (see AHIB in 7 steps box) are usually not boosted. This provision intends to crowd-in innovation, other equity investment/contribution, private sector innovation and/or state and local authority public policy levers in the delivery of affordable housing projects.

Tendering for tax credits will produce market information to adjust and refine marginality thresholds over time. If the initial credit pool is too ambitious (relative to number of tenderers) then the competitive processes that enables identification of marginality thresholds is weakened. The affordable housing supply aspirations boosted by AHIB should therefore be built-up gradually.

Value for money measures, such as timeliness and low and moderate-income household targeting includes affordability options beyond the 20-year affordability period, use-before provisions on claiming tax credits, tendering for tax credits and benchmarking of construction costs. Operating AHIB on a net financing gap basis provides additional value for money options, such as tax credit to rent rebate standards.

AHIB specifically intends to incentivise large-scale institutional investment by enabling equity partnerships, flexibility in matching tax credits to tax liabilities, tradeable tax credits and a time-value adjusted rise in the level of tax credits.

AHIB provides a boost to affordable housing infrastructure projects, not individual households. Monitoring and reporting of low and moderate-income occupancy standards are therefore on a project basis, rather than a tenancy basis. This provides additional security for tenants if their income status changes and additional flexibility for housing providers in managing and creating mixed communities.

AHIB complements the existing suite of Commonwealth and State level instruments and policies to deliver affordable housing. For instance, reduced borrowing requirements boost the financial characteristics of affordable housing projects and so the ability to meet the prudential lending standards of the National Housing Finance and Investment Corporation.

AHIB is intended to enable a financial boost to projects that otherwise would not be built, or not built for low and moderate-income households. In doing so, it also addresses a number of key issues – notably institutional investment attractiveness, delivery of affordable housing in tight housing markets and length of affordability period – identified in previous domestic and international policies. Institutional investment in affordable housing is a longer standing Australian public policy objective.

AHIB in 7 steps

for housing providers tendering for a specific affordable housing project.

1

Project planning and estimation of affordable housing project costs.

2

Estimation of rental revenue stream generated by the affordable properties, including any operational subsidies and, where relevant, commonwealth rent assistance.

3

Estimation of borrowing and interest cost serviceable by the affordable housing project's rental revenue stream while meeting prudential lending criteria, e.g. interest coverage ratio and rates of return.

= Project cost – borrowing serviceable by rental revenue stream generates the gross financing gap.

4

Identification of additional equity contributions in the form of capital and land.

= Gross financing gap – additional equity contributions generates the net financing gap.

5

Submit tender for tax credits to meet net financing gap; and meet prudential lending standards and investment returns. Tax credits can be sold to investors in return for additional equity injection and formation of an equity partnership.

6

The administering agency evaluates tax credit tender against marginality thresholds (upper level at which a project is deemed supportable by the Booster) and additional state level housing priorities and value for money outcomes.

7

Investor benefit through a dollar-for-dollar reduction in tax liability for a flexible period of time (5-15 years). The tax credits are tradeable and adjusted for the time value of money providing investors with risk reduction and an additional financial incentive.



AHIB is thus a vehicle for a long-term strategy to provide an infrastructure of affordable housing in Australian cities and neighbourhoods.

The Affordable Housing Infrastructure
Booster complements the existing suite of
Commonwealth and State level instruments
and policies to deliver affordable housing.



www.communityhousing.org.au

Suite 5
619 Elizabeth St
Redfern, NSW 2016

P 02 9690 2447
F 02 8399 2122
info@communityhousing.org.au