Exploring philanthropy's role in addressing the affordable housing crisis

A synthesis of the evidence

A report funded by:

Executive summary

Context

Sefa was commissioned by The Lord Mayor's Charitable Foundation (the Foundation) to undertake desk-based research, exploring the role that philanthropy has played in addressing the shortage of affordable housing. The affordable housing shortage is acute in Australia, and common internationally. Evidence from the UK, US, New Zealand and Australia has been considered. These research findings and insights gained through development of a series of case studies have been augmented with financial modelling for five different scenarios. We have reflected on the research findings, the modelling outputs and our experience as impact investors (with a portfolio that has traditionally been weighted towards affordable housing and specialist accommodation). This report provides suggestions about ways that philanthropic funds can be deployed to alleviate the barriers that constrain development of affordable housing in Australia.

We have considered the financial and non-financial barriers to affordable housing and the role that philanthropy can play in addressing both. We start from the position that philanthropists are interested in supporting the availability of appropriate, affordable, safe, secure, healthy, well located, stable housing for everyone. We know that philanthropy is not generic, and our research found that philanthropists:

- will have different levels of interest in engaging across the housing continuum. For example, some will seek to focus only on build-to-rent solutions for very low-income earners; others will look for mixed development opportunities for diverse communities, and an associated blend of private ownership and affordable rental; while others will be more interested in catalysing affordable ownership options for middle income key worker cohorts and are comfortable with supporting private asset ownership. There is need in all these areas, but funding is limited. While philanthropy typically has a higher risk appetite and interest in underwriting innovation than the public sector and / or traditional, commercial finance providers, there is a keenness to understand the implications associated with each of the options.

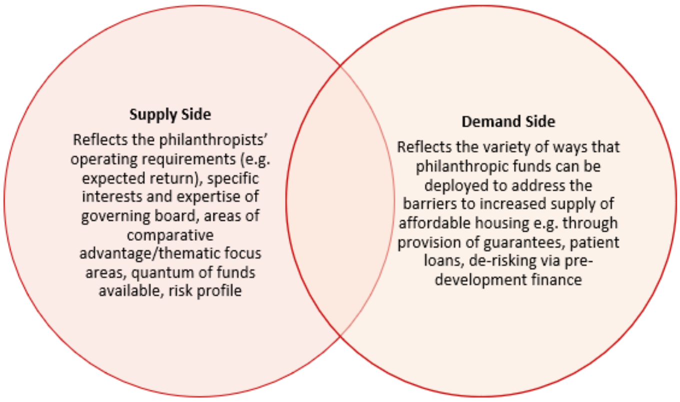
- can provide support when there is a limited track record as 'early' investors in innovative approaches and via support for evaluation, research, impact measurement and capability building. In doing so they contribute to the evidence base for policy and financing decisions and advocacy for system level changes that underpin an enabling environment for investment in affordable housing.

- will work collaboratively – to pool funds, share risks and opportunities and according to their specific area of expertise e.g. as grant makers / investors / advocates / networkers and conveners. Philanthropists generally have the freedom to operate in a flexible way which means that they can build to scale over time when there is evidence or a proven approach. They can also draw on the suite of tools available to them beyond finance.

We anticipate that our findings are applicable among philanthropists in Victoria (and Australia), however, a deep dive into the sector to better understand the philanthropic supply of capital (i.e. 'the supply side') was beyond the scope of this research. Instead, the research has focused on the demand models for philanthropic intervention (i.e. the 'demand' side), providing insights about the implications associated with the use of different types of finance and financing structures to address the financial barriers constraining affordable housing development.

Philanthropists can, with this knowledge, consider which approaches are most aligned with their and support effort / catalyse action where there is alignment. Figure 1 illustrates the relationship between supply and demand with the area where there is overlap representing the most suitable pathway for action. There are consequences associated with whichever decision is made, and this research explores the implications of the various pathways, thereby addressing the 'demand' side of the equation.

Figure 1 Understanding supply to address demand



We found that, despite the variances in population and market size and political / economic regimes, the market conditions and failures that resulted in affordable housing shortfalls, the barriers to stimulating supply of housing, and the associated 'solutions' to these challenges were consistent across the countries included in the research. There are six finance related barriers identified and there are numerous ways to address these barriers. Figure 2 presents a compilation of some of the financing options that have been applied to address the corresponding barrier. Philanthropy has contributed to the 'capital stack' associated with each of these.

Figure 2 Exploring how philanthropy can address financing barriers that constrain supply of affordable housing

Barrier	Options explored
1 Cost of land	Supporting efforts to unlock unused / underused land
	Long term lease arrangements / Community Land Trusts
	Demonstration of value of meanwhile use of land
2 Cost of finance	De-risking role to make investment more attractive for traditional finance / leverage private investment e.g. guarantees, first loss
	Patient capital • Below market interest rates • Bespoke repayment terms • No security requirements
	Top-up provider
3 Ongoing operating costs	Renovation / revitalisation / retrofitting dwellings to be energy efficient
	Payment by results / Social Impact Bond models – taking an integrated / holistic approach to housing as an enabler of better life outcomes
4 Cost of development	Modular housing – pre fabricated, offsite production with rapid onsite construction
5 Return on Investment	Stable return vs exit with capital growth
	Hybrid– risk absorption, long-term asset ownership option
6 Risks	Subsidised pre development funds

Assessing the financing options

A framework-based approach has been developed to enable objective and consistent assessment of the financing options (see Figure 3). By applying this framework when considering the variety of financing pathways that are possible, philanthropists can narrow down options to those that are most aligned with the character and capability of the trust or foundation over which they have distributive responsibilities (i.e. the supply side). The financial modelling of the shortlisted options augments the evidence base upon which decisions can be made.

Figure 3 An assessment framework for consideration of financing options

Feasibility	
Risk	Considers: • philanthropist's risk threshold (i.e. whether comfortable to invest in opportunities with limited track record v's established evidence base); • how much risk the philanthropy section of the capital stack will need to absorb to secure commercial finance • type of finance that will be deployed i.e. grant v's investment • timeframe and expectations about program performance and return of capital • whether working as part of a consortia or independently • external operating conditions and market perceptions
Ability to Manage	About collating and using the data and information contained in program reports/acquittal information to continuously improve decision making about financing for impact. Considers whether the trust/foundation has inhouse or access to the capability and capacity required to adequately oversee / manage the investments.
Achievability	
Sustainability	Considers whether philanthropy is contributing to a rational market solution. Addresses time and expectations for demonstration of sustainability v's need for ongoing subsidisation / contribution. Considers sustainability beyond finance – e.g. environmental sustainability
Scalability	Considers • the potential for an approach to be appropriate for delivery at a scale that makes it more economic and / or increases the return on investment • the size of the gap and potential for philanthropy to fill it / catalyse others to contribute to filling it
Desirability	
Impact	Requires decision making up front about the nature of the impact that philanthropy is looking to achieve through its contribution – e.g. whilst the ultimate goal may be to increase supply of accessible and affordable housing, funds might be used to support research which could be used as evidence for policy reform, or, impact could be viewed through a lens of leverage, investment in innovation etc
But for ...?	Would this happen without philanthropic support? *Should* this happen without philanthropic support e.g. is this the government's role?

The application of the framework will likely have slightly different outcomes for individual philanthropists, depending on the context and parameters within which decisions are made. Sefa acknowledges the need for nuance and variation, but, at a high level we have considered 'philanthropy' as an overall grouping and have worked through the framework for each of the financing options. Findings are summarised by barrier.

Barrier 1: Cost of land

Land cost is often the single biggest factor in improving the economics of affordable housing development. In this report we have focused on mechanisms that are relevant for philanthropists in Australia, in particular looking at examples where land as a barrier to development of affordable housing has been addressed via the outright gifting of land or making it available on long term leases, for example, using a Community Land Trust approach. We have also considered meanwhile use of otherwise unused land. The assessment framework has been applied to each of these options (Figure 4).

Figure 4 Considering philanthropy's role in addressing cost of land

Options explored	Feasible • Risk • Ability to manage	Achievable • Sustainability • Scalability	Desirable • Impact • But for?	Commentary
Supporting efforts to unlock unused / underused land	• There is value associated with knowing where unused land is and who owns it (public/private) • Beyond identification, need for activation of the site • Need for cooperation across stakeholders including levels of government which can be time consuming and effort intensive • Low / no management impost on philanthropy after supporting efforts to identify and unlock the land	• Alleviation of the cost of land from the cost of development makes it viable for developers, with philanthropic input, to develop projects with mixed income cohorts – low and moderate • Unlocking of public land could be a contribution at scale to addressing housing supply – takes political will and will require some regulatory reform.	• Unlocking of underused land and making it available for free or at a substantially reduced value will enable development of affordable housing at scale. It is a key lever that should be used by governments (across levels) • Government responsible for developing policy positions that enable access to land for affordable housing development.	• Requires curating the right partners to work with – local gov, finance, developers, community • There is increasing awareness of potential of 'lazy land' in both the public and private sectors (e.g. that owned by religious organisations). When it has been identified philanthropy can catalyse its rapid development through pre development phase financing • **Philanthropy could advocate for policies that encourage use of lazy land e.g. idle land policies, transport oriented development, release of public land and inclusionary zoning**
Long term lease arrangements/ Community Land Trusts (CLTs)	• Examples of ownership structures that can protect availability of affordable housing in perpetuity. Track record of success in the UK and US but limited use in Australia • Aligned with place-based and community centred development approaches • Low / no management impost on philanthropy after support for the establishment of the CLT or legal structure to protect long term lease/access to land	• Challenge for CLTs to function with economies of scale. The process of establishing a CLT, securing land, and developing housing which has community need and co-design at the core is complex. CLTs have particular application when applying a place-based approach and addressing the particular needs of those seeking affordable housing in specific locations/population cohorts. • There is value in investigating the viability of streamlining the process of establishing CLTs (as has been done through a peak body in the UK)	• Impact will be at the community level – CLTs give community voices opportunity to inform housing policy	• CLTs are ownership structures that preserve affordability. They are an important element of community led housing. • **Philanthropic contributions could cover the costs of establishment – which can be reasonably high based on the need to develop a legal and democratic ownership and management structure suitable for the community in which it is operational**
Demonstration of value of meanwhile use of land	• Culturally and attitudinally challenging in Australia and will require support for planners and financiers • Financing could be challenging based on short turnaround required • Considered risky and could be challenging in the social housing sector where security of tenure is important	• No precedent for meanwhile use of land for affordable housing -need for investigation of financial sustainability, which will be affected by the type of housing solution that is applied to the site. Temporary modular housing likely an option • Scalable based on the availability of unused land with 8-10 year horizons over which they will be dormant	• Impact will be similar to that associated with unlocking unused land however perceptions about risk associated with the relatively short time for which the land is available will need to be taken into account when assessing impact • Will need government level support and regulatory and planning reform	• Goes hand in hand with mobile/modular housing • Enables access for new/small players • **Role for philanthropy in demonstration projects** • **Philanthropy can support the advocacy efforts that will be required for this shift by investing in research and evidence about the impact of such an approach.**

Whilst the policy, financing and legislative levers that could mitigate the cost of land as a barrier are largely the responsibility of government, there are other non-profit land holders that have an opportunity to contribute to affordable housing supply through leveraging their land assets – an example of which is religious organisations. **Philanthropy can catalyse new ways of approaching access to land – e.g. by supporting the establishment and operations of community land trusts; by supporting pilot projects that consider the community within which the development will be located (considering the suitability of location for potential residents with respect to transport, employment, health, education etc); by working with councils to explore vision for 'community', identifying underused land (even when it is earmarked for use in a decade), and considering how this land can be used to support affordable housing that fits within council's planning and regulatory framework.**

Barrier 2: Cost of finance

Affordable housing developers are met with greater challenges than mainstream property developers when seeking the funds upfront to initiate the project and developing a revenue model that makes meeting the property management costs associated with the development feasible. It is challenging to bring the right type and scale of finance to a deal in a sector that doesn't usually attract market rates of return and which has operating/revenue models that are unfamiliar to many in the traditional financing sector. Figure 5 outlines how we have considered options for philanthropy to address the cost of finance

Figure 5 Considering philanthropy's role in addressing cost of finance

Options explored	Feasible • Risk • Ability to manage	Achievable • Sustainability • Scalability	Desirable • Impact • But for?	Commentary
De-risking role to make investment more attractive for traditional finance / leverage private investment e.g guarantees, first loss	• Philanthropy can de-risk through money or with time • Pre development work can be a costly part of a project for developers as the outcome of the DA application is uncertain and timelines may be hard to determine. • Support through a fund is of particular value if application timelines are extended and developers are smaller	• Needs topping up • Will help unlock difficult or uncertain land prospects • Fund will work best at a scale that can afford to employ experienced specialists and over time increase the success rate of approvals	• Providing a fund for NFP developers that takes the risk out of pre-development will facilitate more projects • Developers do not get finances tied up on one project	• Can catalyse development at scale • Until significant changes in policy e.g. land zoned for affordable homes only, this aims to reduce the disadvantage NFP developers face compared to larger organisations with balance sheets able to manage the uncertainty and delays of approval process and land-banking
Patient capital • Below market interest rates • Bespoke repayment terms • No security requirement	• Patient capital may involve a large facility and therefore appropriate level of oversight and due diligence would be required • Some management by philanthropy will be needed to manage/monitor after setup of financing • There is some repayment risk but this can be mitigated through careful management	• Effective on an individual project basis, may slightly accelerate the rate at which current projects are achieved. • Unless to prove the potential for a NHFIC-like financing for (non-CHP) NFP developers or the involvement of institutional investors who favour stable long term returns	• Supports projects unable to access commercial financing due to inflexible terms, unable to meet repayments or lenders requirements • Patient capital ties up philanthropic funds which may be competing with alternative impactful projects, those with competitive returns or smaller capital outlay • While unlikely considered an impact investment given the low rate, the generation of long term returns as opposed to a grant may be attractive	Transaction focused not system focused
Top-up provider	• Risk involved is determined by the amount of top-up required and inherent risks of any specific outcome generation expected • For top-ups related to positive outcomes there needs to be some method of monitoring and managing the payment based outcomes	• Effective on an individual project basis, may slightly accelerate the rate at which current projects are achieved • Best used to demonstrate the wider benefits to society or collective government savings to encourage project adoption at scale	• A very simple way of enabling projects to happen • The desirability will depend on the trade-off between the amount to top-up and the outcomes being delivered	

Philanthropic capital can contribute to the capital stack for affordable housing developments, and by doing so, can mitigate risk perceptions amongst investors. This can result in reduced financing costs and increased availability of capital. Moreover, doing so can catalyse development at scale. The other way for philanthropy to complement market-driven investment activities is through the provision of 'patient capital.' This could include sub-market returns or other non-traditional investment conditions such as sequence of repayment, unrestricted use, no security requirement, timing of repayment and acceptance of uncertain and/or alternative exits and by acting as the provider of 'top-up' financing. There is significant enthusiasm about the potential for patient capital to play a role in innovative housing solutions. However, in its nascent form philanthropic players find it challenging to transform an idea into a workable transaction structure given that this type of capital sits in between their granting and their corpus investment arm from a governance perspective. Furthermore, specialist social finance resources are not always available inhouse or contracting in assistance comes at additional cost. Therefore, this type of finance tends to be focused on a transaction level and led by disruptive / catalytic foundations rather than at a system level, thus limiting the scale of its impact.

Barrier 3: Ongoing operating costs

Ongoing operating costs relate to operations / maintenance and the provision of supportive services for tenants with complex needs. There is a role for philanthropy in both areas and our assessment is provided in Figure 6. We consider that there is a vital role for philanthropy to contribute to the development and testing of integrated models that position housing as an enabler of social and economic outcomes.

Figure 6 Considering philanthropy's role in addressing ongoing operating costs

Options explored	Feasible • Risk • Ability to manage	Achievable • Sustainability • Scalability	Desirable • Impact • But for?	Commentary
Renovation / revitalisation / retrofitting to be energy efficient	• Can be expensive to retrofit dwellings that have previously been poorly maintained • Depending on requirements there may be a need for tenants to be relocated during the renovation/revitalisation period – this is disruptive and could exacerbate vulnerabilities of tenants	• Sustainable and scalable when operating at a portfolio level which means access to economies of scale. Tends thus to work best for large community housing providers	• Better housing conditions for tenants – associated with more positive health outcomes • Better environmental performance of the buildings • Lower costs for housing providers – savings can be reinvested into the affordable housing sector	• Sweat equity is one way to subsidise the costs of renovation. • Philanthropic funds can be applied when the costs of renovation are unaffordable to community housing providers
Social impact bonds / payment for success models – integrated / holistic approach to housing as an enabler	• Typically involve complex structures and time consuming to establish and confirm indicators that will trigger performance payments • Multiple stakeholders involved in every transaction which can mean they are cumbersome to manage • Tend to be designed around complex social problems which inherently means that there is risk of achieving desired outcomes/impact	• This is not a scalable nor sustainable approach – every transaction needs to be designed to be bespoke to the particular requirements of the participating stakeholders • Tend to be associated with high 'transaction costs' – associated with upfront design requirements as well as need for rigorous monitoring and evaluation across the duration of the intervention	• Payment for outcomes as an approach tends to be associated with more impact that payment for activity/input • SIBs support demonstration projects – should the model that has been applied prove successful then there is evidence that can inform structural and system level change	• **Philanthropic funds can make the initiation of activity feasible for delivery partners.** • **There is also opportunity for philanthropy to participate beyond being providers of up front working capital, and through investments in the delivery partners, philanthropists can participate in the financial upside that becomes available should performance targets be achieved.**

Whilst the evidence base around the effectiveness of holistic approaches to affordable housing from a social outcomes perspective is building, the funding models needed to underpin the approaches remain project based. **Philanthropy can play a key role in both funding the delivery of integrated approaches and evaluating the financial (and social) impact of the approach. This can build the evidence base to shift public policy and / or public and private financing of such approaches. One way to do this is via social impact bonds which involves philanthropy 'front loading' the operating costs associated with delivering the "housing plus" services for implementing partners, mitigating cash flow constraints and enabling them to focus on program delivery. Subsequent payments to the implementing partner are contingent on achieving agreed outcomes, which reduces risk for the payer (usually government).**

Barrier 4: Cost of development

There are a number of measures that can be applied to reduce the cost of development, including

- standardisation of significant elements in the build
- efficient procurement, and
- adoption of industrial approaches such as the use of prefabricated components.

We have focused on the use of modular (off-site, prefabricated) housing in this report – an approach that combines all of the cost reduction elements outlined above and which we have assessed in Figure 7. At the core of the benefits associated with modular housing is speed. This includes speed of production in off-site, factory conditions and speed of construction of dwellings in situ (with reduced labour requirements). Using less time, minimising wastage and reducing labour costs means lower cost of construction. It also means faster solvency for developers who are able to get renters into premises quicker.

Modular housing could be a game changer for housing affordability. The acceleration of home-building could pull down rents and prices, benefiting all residents who buy or rent market-rate homes. It could also be a major boost to non-profit affordable housing developers, helping them maximise limited funds to create more subsidised homes for people who can't afford market prices. There is precedent for modular housing developments at scale in the UK and US however it remains at an emergent stage in Australia. There are some barriers that need to be addressed including: increasing the scale of manufacturing and transportation to drive efficient production; attracting financing as traditional lenders secure against land and its progress, and not offsite assets; and perceptions of poorer quality buildings**. It will require government stewardship for the development of a modular housing industry standard and this could be achieved over a medium term. Philanthropy can contribute to this ambition by supporting innovation, documenting exemplars and contributing to addressing the negative perceptions associated with this type of housing.** A model that incorporates mobility and modular housing with meanwhile use of land would be extremely innovative and could be worth exploring.

Figure 7 Considering philanthropy's role in addressing cost of development

Options explored	Feasible • Risk • Ability to manage	Achievable • Sustainability • Scalability	Desirable • Impact • But for?	Commentary
Modular housing	• Currently at small scale in Aust – there is need for more demonstration across diverse sites • Will need to address scepticism/attitudinal barriers associated with previous, poor experience with modular construction • NIMBY phenomenon – anticipate need for regulatory and planning reform as well as investment in community attitudinal change about this style of housing	• Proven scalable and sustainable overseas • Distances in Australia could make sustainability challenging. Will depend on size and location of industry that is incubated by government to spearhead this as an option • Enables quick capital recycling because houses can be built quickly allowing income stream from sale or rental	• Rapid demonstration of impact with short fabrication and construction processes • Can design homes that minimise environmental impact • Need for philanthropy to catalyse activation in this sector – support innovation, document exemplars and contribute to addressing the negative perceptions associated with this type of housing	• Need government stewardship to invest in the development of industry that can build at the scale required for cost effectiveness • Part of a multipronged solution that sees modular housing erected on previously underutilised land • Could have mobility built into the modular housing design which could make it suitable for meanwhile use sites

Barrier 5: Return on investment

When making a decision about investing in affordable housing **a long-term outlook** is an essential underpinning, rather than a desire to realise capital gains through a sales strategy. This long-term view is supported by the fact that compared with market-rate apartments, affordable housing is, in a sense, recession-proof and provides downside protection to investors. Strong demand exists for affordable properties both in times of economic prosperity and economic uncertainty which means that there is:

- relatively little risk and a reliable return on investment (if slightly sub-market)
- consistent cash flow because of subsidised rent for tenants.

That being said, misconceptions about affordable housing being a risky ‘asset class’ that does not attract commensurate returns persist. Moreover, the operating conditions mandated for institutional investors (i.e. the sole purpose test) mean that investors are obliged to direct investments to prioritise maximum return. This constrains institutional investors who might otherwise be interested in diversifying their portfolio with an allocation to secure, slightly sub-market returns for the long term. Assessment of two options that address return on investment are included in Figure 8.

There is precedent internationally for philanthropy to step in and address the issue of return on investment - through financing and structuring arrangements that account for risk that stems from the notion of time. For example, in one case study we explore how an investor has taken into account the payback period as part of their considerations about return on investment and has, with appropriate structuring, been able to prioritise investing in long term assets which derive ongoing stable returns over premium rentals or build-to-sell investments. One of the features of this case study is the securitisation (i.e. the ability to sell off debt and future cashflows) to institutional investors which enables developers to recycle the original capital and increases the capacity of the developer to deliver new projects.

Figure 8 Considering philanthropy's role in addressing return on investment

Options explored	Feasible • Risk • Ability to manage	Achievable • Sustainability • Scalability	Desirable • Impact • But for?	Commentary
Stable return vs exit with capital growth [Interest only loan]	• Takes into account payback period as part of its considerations about return on investment and has, with appropriate structuring, been able to prioritise investing in long term assets which derive ongoing stable returns over premium rentals or build-to-sell investments • Low and simple ongoing maintenance costs and processes due to long term nature of investment and availability of existing infrastructure/processes i.e well trodden loan terms and distribution processes	• Scalability variable based on the respective size of development and size of philanthropic corpus. Locks up capital but provides a sustained return. Options for recognising difference in return rate available • One of the features of this case study is the securitisation (i.e. the ability to sell off debt and future cashflows) to institutional investors which enables developers to recycle the original capital and multiplies the capacity of the developer to deliver new projects	• Ensures long term supply of affordable/social housing stock • Ability to work in partnership and mitigate the pressures on providers, supports an impact first approach e.g provides a runway for evolution and improvement of service provision • Consistent long term impact achieved • Philanthropy not subject to the same variables as impact investors or the traditional banking/finance market	Sole purpose test –while many institutional investors still apply the sole purpose test in terms of maximising financial returns, increasing numbers of financiers are adapting and attributing a part of their portfolio to reflect a triple bottom line approach: people, planet and profit. Charitable institutions with invested corpus could consider this approach, though tension may exist between the volume of grant contributions able to be made and the impact of the core finance investment supplying the distribution funds
SASC approach – risk absorption, long-term asset ownership option	• Enables organisations to provide housing for their beneficiaries • Absorbs the risks associated with buying or renting property • Satisfies investors regarding risk and return • Requires minimal new resources to manage on behalf of the borrower. Amplifies their existing skillset in managing low income tenancies [builds on their strengths]	• Provides for a market segment not covered by other government initiatives • Especially suitable for place based small to medium providers • Gives the borrower the benefit of long-term asset ownership	• Allows for the shift of assets from the general market to a regulated one. Creates a two fold impact effect, both in the securing of new assets for the affordable/social housing market and by increasing the financial asset base of key service providers, reducing the variables long term in their operating costs • 100% finance would not be achievable from the traditional financing market	Would be new in Australia

Barrier 6: Risk

Risk and the perception of risk, impact the actions of all stakeholders involved in the development, construction and management of social and affordable housing. The ability to understand, reconsider, reframe or directly address these assumptions has potential to shift the dial on the rate of engagement in affordable housing development.

Since land acquisition and soft development costs (e.g. architect, consultants, development application fees and authority charges) are incurred before construction begins, traditional investors and lenders often consider pre-development and land acquisition loans to be high risk and set the interest rates at unfeasible levels for smaller organisations to get projects off the ground or for innovative models to build a track record.

Philanthropy can be deployed to address these risks and there are international examples of philanthropic funds being used to de-risk the pre development phase through use of zero interest loans. The application of the assessment framework to this approach is detailed in Figure 9. Beyond contributing to the capital stack for investment, **philanthropic funds could be used to support research to tackle the basis from which risk perceptions about affordable housing stem and how these perceptions manifest**.

Such an understanding could contribute to resetting the market's approach to risk and the drivers of perceptions of risk and could unlock new opportunities for investment in provision of affordable housing at scale.

Figure 9 Considering philanthropy's role in addressing risk

Options explored	Feasible • Risk • Ability to manage	Achievable • Sustainability • Scalability	Desirable • Impact • But for?	Commentary
Subsidised pre development funds	• Not all development applications will be approved – need to factor in 'failure' when thinking about maintaining/recycling capital in a pre DA fund • Extended timeframes for approval will mean a need for patience among providers • Would need to appoint a fund manager	• A fund will not be self sustaining because some pre development costs will not be able to be recouped so there will be the need for 'top up' funding from philanthropy on an ongoing basis • The scale of the fund can be adapted according to the scale of the developers that are targeted, but it is envisaged that this fund would be most useful for less experienced, more innovative and perhaps smaller scale housing developers • Could have national remit and pool philanthropic contributions from a variety of sources	• Relies on the developer being able to recoup pre development costs through commercial finance that is secured for the development • Reduced time required upfront to secure finance for the pre-development activities which means that applications can get to approvers quicker and housing can be built to address the shortfall more immediately	• Could be a pooled fund open for applications from all eligible (i.e. NFP) developers • Recycles capital • Will require patience because of delays often incurred in approval process

Running the numbers: financial modelling of some options

A series of high-level financial models were developed to explore the implications of five different potential financing pathways that could be considered by philanthropists interested in contributing to increasing the supply of affordable housing.

We note that affordable housing represents a spectrum of demand from those on very low, low and moderate incomes. We also note that it sits as part of a broader journey out of homelessness and housing insecurity. Stable, safe and affordable housing is the best intervention at any stage of the homelessness / housing insecurity cycle. The lack of supply of properties, exacerbated by the increasing housing finance stress being experienced by moderate income households, perpetuates the current cycle of housing vulnerability.

It is also important to note that while philanthropy may have historically looked to target social housing development interventions for those solely on low and very low incomes, there is evidence that the increased demand for social housing and the decreasing affordability of its construction is corelated with the decrease in supply of affordable housing for low *and moderate* income earners. The demand for affordable housing among low and moderate income earners is especially critical when considered over time, particularly with forecasts of increasing numbers of households experiencing poverty relating to housing stress. While philanthropy has traditionally understood its mandate to sit within the realm of those on low to very low incomes, an increase in affordable supply for moderate income earners would decrease pressure on social housing demand. To this end, the models presented in this report include moderate income earners. The decision to include the moderate income cohort is based on the following factors:

- it is growing (and currently underserved)

- inclusion of moderate income alongside low in mixed tenancy models serve as a reasonable intervention to reduce future poverty
- the scale of philanthropic funds available to generate an intervention shows greater leverage when including moderate income tenancies.

Modelling outputs and what they mean

The options that have been modelled are exemplars of approaches that philanthropy can consider as options for supporting affordable housing. These are high level, hypothetical models – the intention is to highlight the reasons why particular approaches might be attractive, when they might be deployed and the implications of selecting the particular option.

Five options have been modelled. All options assume land is gifted and that there is no profit on the development except financing costs.

Option 1: Pre-Development Approval (DA) Fund

This option explores the impact of having philanthropic contributions pooled into a revolving fund that not-for-profit developers can access to cover costs associated with activities undertaken prior to submitting for development approval. The fund is useful for three main reasons:

1. it mitigates risk of cost blow outs associated with the extended timeframes usual for development approval to be provided (pre-DA loans attract higher interest costs when they are available (sometimes it is not possible to access a loan which means that equity has to be available to the NFP developer in the form of cash reserves, which is unlikely) and delays in approvals mean delays to rental revenues which puts additional financial strain on the project)
2. it absorbs the cost of failed DA applications (the model assumes 30% of the DA applications are unsuccessful)
3. it can be delivered as wraparound solution with the Fund being administered by experienced development managers who make development of 'lazy' land accessible for landowners without any in-house development expertise.

Option 2: Top up of income payments to help balance project

From a financial modelling perspective, this option provides the balancing payment where the cumulative project income cannot meet the outgoings. This could be adapted to suit payment by results or a social success note in combination with wraparound support services such as financial literacy education or employment search. This option could also gather implementation evidence for advocacy work with government to consider housing solutions and associated payment streams from a holistic, 'place based' perspective rather than in silos of housing and social welfare.

Demonstrating the validity of this approach to government and instigating structural system change of how public monies are spent can make lower-income housing more sustainable from an investor lens and contribute to the effective solution framework.

Option 3: Interest Only Development Loan

This option is feasible for philanthropists able to contribute large amounts of funds (or for a syndicate of philanthropists). It sees the provision of an interest only loan whereby the project will pay interest in perpetuity - the capital outlay is never repaid as long as the housing is maintained in the rental pool and not sold off to recoup the principal outlay. An alternative approach would be to consider selling off some of the units at a future point decided by the foundation (possibly capturing capital uplift) which would represent an exit strategy over the long term.

Option 4: Hybrid – Pre DA-Fund and Top up

This is a combination of Options 1 and 2 - it enables viability of the Pre-DA fund under some scenarios by providing smaller top-up amounts.

Option 5: Community Land Trust (CLT) selling 10 units @ 50% market discount in later years

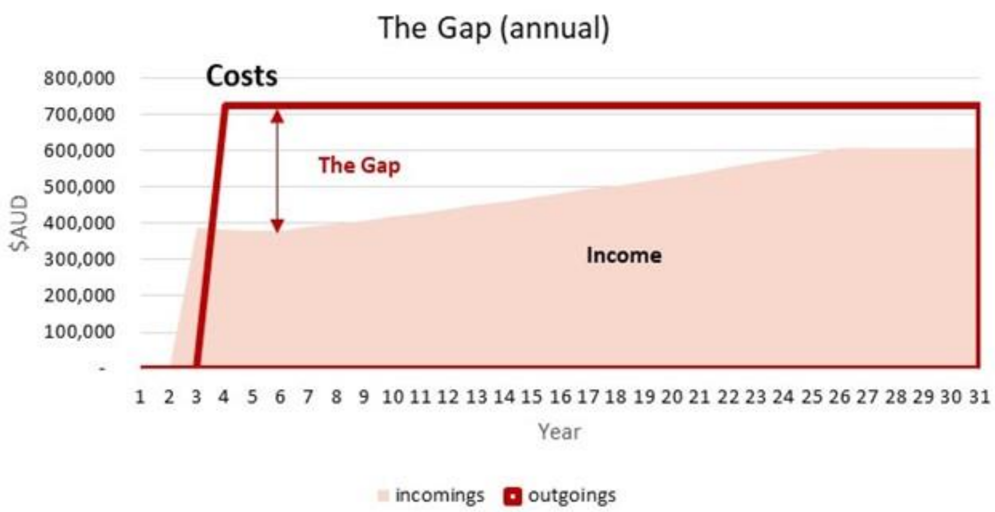
There are set up and ongoing operating costs associated with the creation of a CLT structure. Doing so however, locks in the value of the land, and so when units in a CLT are sold it is possible for them to be an affordable price (having avoided rising land costs). In the modelled scenario, the sell off of units doesn't happen at the point of construction completion (as is often required for cash injections back into the developer), rather, the units are sold over a number of years which means that tenants are able to save for a deposit over that time and can benefit from being able to purchase the unit at a 50% discount to market.

A base case was developed to enable comparison across the models. The base case looked at building a 100% rental development of 40 units (1, 2 and 3 bedrooms), located in Melbourne. The land was assumed to be gifted and the developer a not-for-profit organisation. 60% of the units were allocated at 'very low income' and 40% at 'low income' affordability. We used Victorian Government income definitions for affordable housing and set rent prices at 30% of the relevant levels.

For all options it is assumed they are able to attract commercial financing to cover the development costs (4% over 30 years) and for pre-development costs (a short-term facility of 8%, with the exception of the pre-DA fund options). Where the options have not used these rates they have been noted.

The low rental income means that it is not possible to meet the repayments associated with commercial development loans. Figure 10 highlights that, without philanthropic intervention, there is a significant, recurring annual revenue gap.

Figure 10 The base case: a significant revenue gap



Options were modelled to close the gap and comparisons made re costs to philanthropy considering:

- the financial outlay required i.e. the amount paid by philanthropy towards the project
- return - being any payment the project makes back to philanthropy
- total net costs - which is the net amount, i.e. outlay less return.

To account for the impact of timing on the cash inflows or outflows, we have applied a small discount factor of 2% (e.g. $100 today is the equivalent of $98 next year and so on).

Figure 11 summarises the costs to philanthropy associated with application of each of the models with more details provided in the narrative below.

Figure 11 Comparing costs to philanthropy associated with the models (60% very low income and 40% low income)

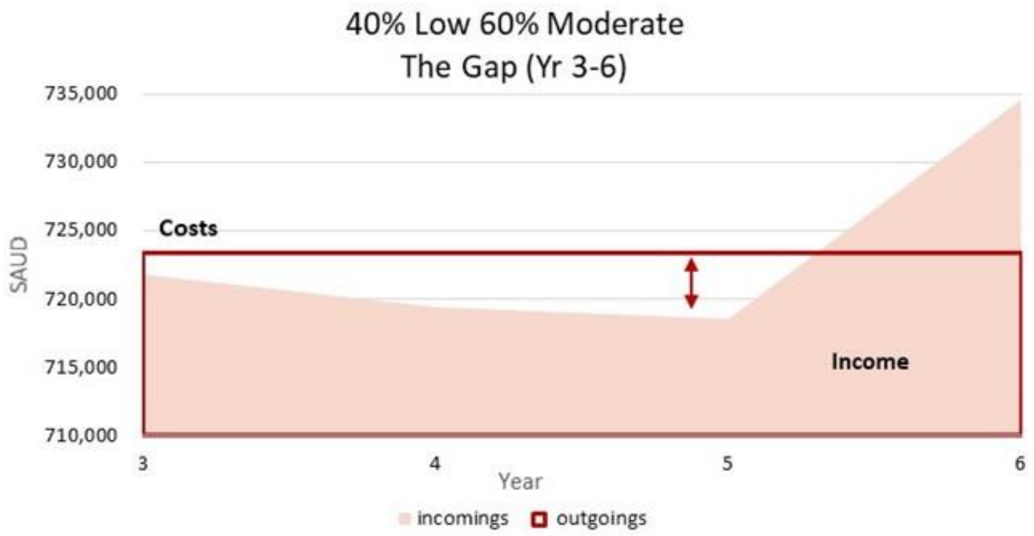
Cost to Philanthropy	Pre DA Fund	Top Up	IO loan	Pre-DA Fund & Top Up
items considered	pre-DA, inc. failures and 5% charge	top up amounts paid	investment less interest paid	as per Option 1 & 2
Outlay	cannot meet repayments	(6,491,041)	(12,508,100)	(7,876,253)
return			11,396,224	1,006,950
total costs		(6,491,041)	(1,111,876)	(6,869,303)
over c. 30yr period discounted future cashflows @2%		(5,027,571)	(4,582,409)	(5,421,156)

- **Pre DA-Fund** was not able to meet the commercial Principal and Interest (P&I) loan repayments at 4% under this tenancy mix.
- **Top-up funding** was able to meet the loan repayments although needed to provide $6.5m in total to the project for the entire period of the commercial loan repayments (4% P&I), essentially filling in the large gap in Figure 10.
- **A 2.95% Interest Only loan** of $12.5m meant by not having to repay the capital, the reduced loan payments could be serviced by the cohorts' rental income. Assessed over 30 years, the interest payments going back to the philanthropist is $11.4m, meaning this has a net cost of just over $1m. However, as the loan is structured to run in perpetuity this eventually becomes a positive return. In later cohort mixes the project can afford to service higher interest rates.
- **Hybrid of Pre-DA Fund and Top-up** required an outlay of $1.4m at the start of the project, with $1m of this returned when commercial finance (4% P&I) had been secured. However, to continue to meet the loan payments, a further $6.5m is needed as a top-up, bringing the total outlay to over $7.9m.

When the different options are evaluated using the discounted cashflow method (taking into consideration the reduced value of money over the 30-year time period), the results are reasonably similar, a cost between $4.6m and $5.4m.

We also explored an alternative tenancy mix with the development comprising 40% low and 60% moderate income tenants. The revenue gap in this case occurred in the early years of the project, as per Figure 12.

Figure 12 The timing and scale of the revenue gap when tenant cohort is 40% low income and 60% moderate income



Under this final tenancy mix (40% low and 60% moderate incomes) a fifth option was modelled – establishment of a CLT with 75% (10) of the units eventually sold at a heavily discounted rate.

All the five options explored were viable, and the interest only option even delivers a positive discounted **cashflow** (circled) **albeit over 30 years.** Figure 13 summarises the costs to philanthropy with details provided below.

Figure 13 Comparing costs to philanthropy associated with the models (40% low income and 60% moderate income)

Cost to Philanthropy	Pre DA Fund	Top Up	IO loan	Pre-DA Fund & Top Up	CLT setup & sell @50%
Items considered	pre-DA, inc. failures and 5% charge	top up amounts paid	investment less interest paid	as per Option 1 & 2	CLT setup/working Capital
Outlay	(1,370,000)	(10,346)	(12,508,100)	(1,381,867)	(788,825)
return	1,006,950		19,700,258	1,006,950	
total costs	(363,050)	(10,346)	7,192,158	(374,917)	(788,825)
over c. 30yr period discounted future cashflows @2%	(382,794)	(9,883)	1,192,767	(394,140)	(775,601)

- **Pre-DA Fund** required an outlay of $1.4m at the start of the project, with $1m of this returned when commercial finance had been secured. This option is unable to meet the repayments of a 4% commercial loan, as with the other options, but can do at the slightly lower rate of 3.95%.
- **Top-up funding** needed to provide only $10k in total to the project during the early years of the project.
- An **Interest Only loan** of $12.5m could be serviced as high as 5% supported by the increased rental income of the tenants. Assessed over 30 years, the interest payments going back to the philanthropist is just under $20m, meaning this has a positive return of just over $7m. As before, the loan is structured to run in perpetuity, so these returns will continue.
- **Hybrid of Pre-DA Fund and Top-up** required an outlay of $1.4m at the start of the project, with $1m of this returned when commercial finance (4% P&I) had been secured. A small top-up payment is required to meet the 4% loan rate.

- **CLT** option in addition to using the commercial loan facilities (8% and 4%) requires an outlay of just under $800k over a 7-year period to assist in meeting the running costs of the CLT. In later years the project is able to offer 10 of the units for sale at a 50% discount to market value.

When the different options are evaluated using the discounted cashflow method (taking into consideration the reduced value of money over the 30-year period), the results vary significantly; from a cost of nearly $800k for the CLT to a positive return of over $1m via the interest only loan. It is worth noting the CLT does support 10 households to purchase their own home, while securing the asset values to ensure the unaffordability cycle is not added to upon resale.

Conclusions

This report has applied an assessment framework to some of the types and structures of finance that can be used to tackle the financing barriers constraining affordable housing development. The quantum of finance and associated terms (duration, return) required to address the gap between revenue and costs associated with the development of a 40-unit affordable housing project has been modelled. We find that it is not feasible for philanthropy to address the revenue gap that is associated with renting the units to 60% very low and 40% low income earners.

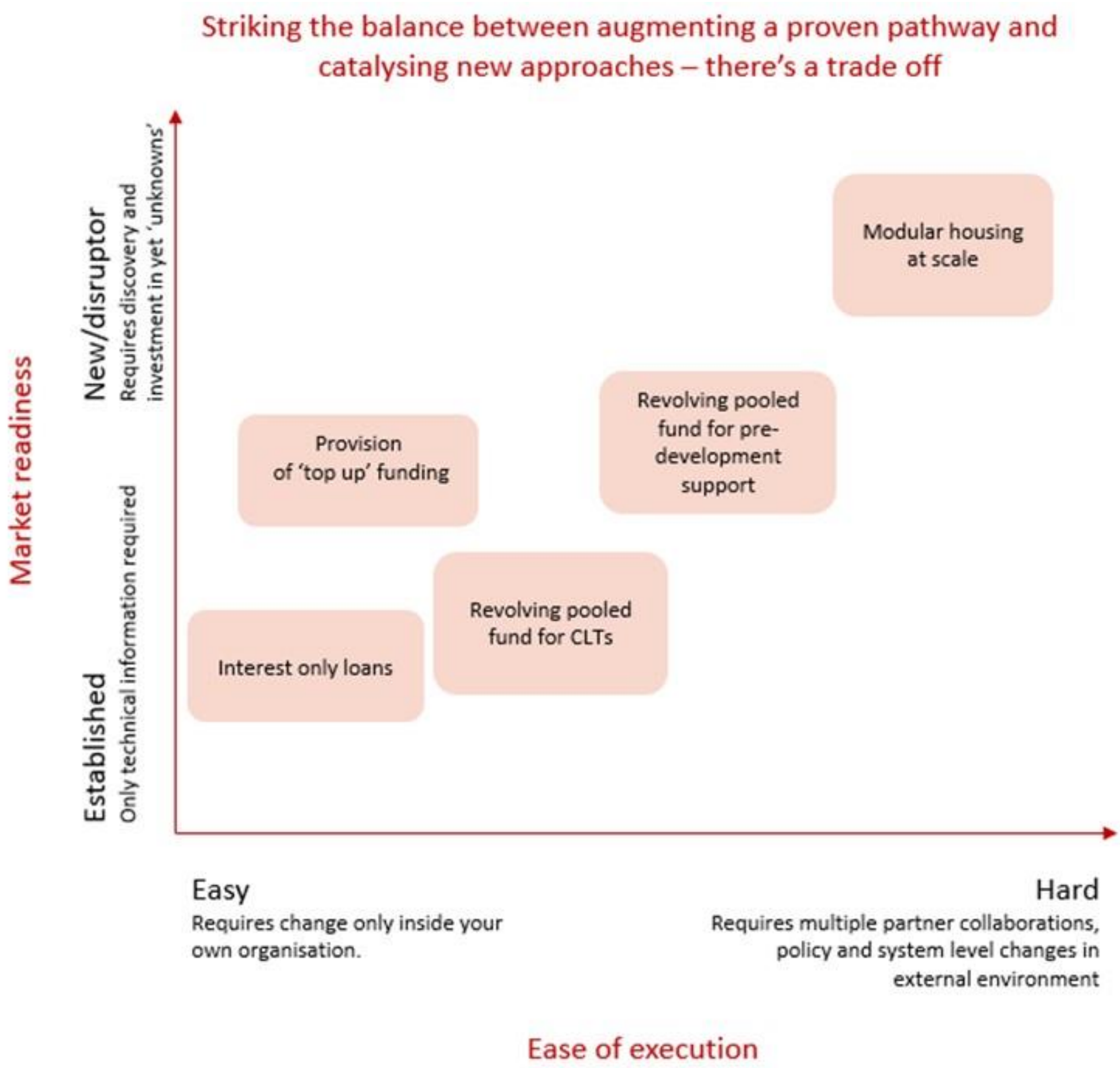
By shifting the tenancy composition to be 40% low income and 60% moderate income the feasibility of philanthropic funding being able to minimise or even fill the gap is increased. This mix of tenancy is most likely in affordable (rather than social) housing. Faced with the opportunity to make a real contribution to affordable housing supply targeting this cohort, there are four financing pathways that we recommend to philanthropy for further investigation:

1. offering interest only loans to not-for-profit housing developers
2. establishing a mechanism to provide top-up funding
3. initiating a pooled fund to support establishment and operating costs of CLTs
4. initiation of a pooled fund for pre-development support for not-for-profit developers.

Some projects are more suited to certain financing options, for example, in general lazy land projects are likely to be more suitable for the pre-DA fund. When this alignment has been established then philanthropy's role within the financing option can be assessed. There are different requirements of philanthropy associated with each of the recommended options. On the one hand, an interest only loan facility requires commitment of substantial amounts of capital over a long term (30 years) and comfort accepting a low but steady return. On the other hand, a pooled fund for pre-development support can be scaled according to the amount of funding available from philanthropists which will be correlated with the number of developments that it can support. Regardless of size however, the fact that not all development applications will be approved means that while a development management fee for such a fund in a NFP structure might result in 'top ups' to the fund, a shrinking fund should be expected. There is precedent for all these options internationally, they are implementable in Australia and we have presented them in Figure 14, considering the relative ease of implementation and whether or not the market is familiar with and has capability to support the product.

Philanthropy also has a role to play in catalysing innovation, helping build a track record and signalling impact potential. For this reason, we also recommend that philanthropy consider the opportunity to spur action in the modular housing market. Widespread availability of affordable, high quality modular housing could rapidly alleviate some of the barriers in the market. This market disruption will require collaboration across multiple stakeholders.

Figure 14 Recommended pathways for philanthropic capital



Philanthropic effort should be deployed in ways that complement or amplify public (and private) sector efforts and fill gaps where wicked problems persist. This means that in addition to addressing the financing element of the affordable housing challenge (as is the focus of this report), there is also value in considering how philanthropy can contribute to an enabling environment and influence the factors that will shape overall success. In this regard we recommend that philanthropists consider the following guiding principles when considering how and who to engage with in pursuit of better access to affordable housing for all:

- there is value associated with curating the right players/partnerships to work with philanthropy - local government, finance, developers, housing service providers and wrap around offerings
- philanthropy can support access for new players – solutions need to be not just about structuring for those providers that are already in, and at scale. There is value in enabling small players to do things differently

- place ‘need’ at the centre and support the development of solutions that are locally responsive / appropriate and financing on the back of that, rather than finding the funding and retrofitting the housing solution against it
- use pilots to test financial products and approaches and build an evidence base over time to drive policy changes and reform.

Contents

Chapter 1 An introduction to the research

Background

According to Victoria's *Planning and Environment Act 1987* (the Act), affordable housing is housing, including social housing, that is appropriate for the housing needs of any of the following:

- very low income households
- low income households, and
- moderate income households.

The term 'affordable' means that rent or mortgage payments plus utility and rates cost no more than 30% of household income for the above households. By this criterion, a significant number of Australian households do not have access to affordable housing and therefore are currently in housing stress. There is an urgent need for action to address the current demand for affordable housing and mitigate the projected increase in housing vulnerability.

Governments (across jurisdictions and layers) have initiated policies and plans and committed funding to tackle affordable housing (with a spotlight on the agenda as part of COVID-19 economic stimulus plans). There are efforts among both for profit and not-for-profit housing developers and providers to develop/rehabilitate affordable dwellings. Traditional and non-traditional sources of finance, including superannuation funds, are investing in, or investigating the viability of investing in the sector. Philanthropic contributors are considering their role within this complex and rapidly evolving space, and to help navigate this conundrum, The Lord Mayor's Charitable Foundation (The Foundation) engaged Sefa to investigate philanthropy's role in addressing the affordable housing crisis.

To respond to this question Sefa has considered various roles that philanthropy can assume and work that it can support, many of which are detailed in the 'Philanthropic toolkit' in Table 1.

Table 1 The Philanthropic Toolkit

Philanthropy can...	Philanthropy can support partners to....
Make grants	Design and deliver new, integrated housing models
Make investments	Conduct research and evaluations
Convene 'unlikely' coalitions/break down siloes	Build a culture of learning and feedback, sharing lessons learned, documenting failure, building collaborations for thought leadership
Focus on the 'wicked' problems	Build the evidence base for system level change
Take a place-based approach	Take risk
Make multi-year funding commitments	
Take risk	
Influence policy	

Despite all of the ways that philanthropy can contribute, it is important to acknowledge that the complexity and scale of the challenge means that solutions will require collaborations across sectors/organisations. In addition to addressing the **financing element** of the challenge, there is a need to consider the broader **enabling environment** and the factors that will unlock success (e.g.

policy levers, partnerships, appetite for innovation, holistic approach, social determinants). This means addressing not just housing but supporting people who are experiencing health and mental health issues, drug dependency, low education outcomes and limited employment opportunities. **Philanthropy has a role to play as a financier and as a contributor to this enabling environment.**

Methodology

We have conducted a desktop review of peer reviewed and grey literature relating to affordable housing and philanthropy's role in contributing to addressing the need for affordable housing. We have undertaken a small number of key stakeholder consultations to inform the parameters of our work and have proceeded based on an understanding that:

- increasing supply of affordable housing (to rent and to buy) is the goal (and that whilst particular population cohorts are of interest to The Foundation e.g. older women, newly arrived migrants and refugees, that a housing solution that has broad applicability is of greatest interest)
- the primary geographic area of interest is Melbourne and greater Melbourne, but it is expected that findings could have broad, national relevance (particularly in metro, urban and peri-urban areas)
- whilst the question of 'what haven't we done' is a key line of inquiry, there is a willingness to reflect on what has been done and consider whether it could be done more and / or better
- there is interest in learning lessons based on experiences in the USA, UK and New Zealand as well as locally
- philanthropy can do more than just provide funds
- the target audience for this paper is philanthropists, noting that it needs to resonate with a diversity of stakeholders if it is to contribute to the enabling environment that shifts the affordable housing debate away from 'transactions' and towards communities.

We draw on our experience as a social finance organisation with a track record of developing and then investing in capital solutions that have increased the supply of affordable housing in Australia and apply our 'practitioner lens' when considering and interpreting the literature. For example, our investments have supported housing solutions across the spectrum – from crisis accommodation, to specialist disability housing, through to construction of affordable housing for purchase by low income through to medium income earners. Some examples include:

- enabling low income households in Victoria to acquire affordable housing by reducing cost barriers via zero interest loans and the contribution of sweat equity by owners (to reduce construction costs) via the Lord Mayor's Charitable Foundation Affordable Housing Loan Fund, in partnership with **Habitat for Humanity**
- convening a syndicate of impact investors to support **Nightingale Housing's** initial development of affordable, sustainable dwellings and with this successful pilot, unlocking a model for housing ownership and community for which there is demand and which continues to be rolled out in subsequent sites (with support from senior lenders introduced by us)
- developing a funding solution and investing in the construction of specialist disability accommodation which includes six fully equipped private apartments, with a total of nine bedrooms and communal facilities including living area, dining, kitchen, and laundry. The **Independent Living Villages** (ILV) development in Blackheath has nine residents who, in addition to being able to live in their own homes, can access a dedicated team of experts who provide the services each person requires.

- providing a loan to assist **Providential Homes** to purchase their first residential property in Western Sydney to use as temporary accommodation and, once wholly owned, offering much needed, but lower income, medium-term transitionary housing. Providential Homes provide high quality supported accommodation to assist people in breaking the cycle of homelessness, housing over 300 guests (single men and women, women with children, youth and families) a week.

We have reflected on the literature and our experiences as an investor and convener of finance and developed a filtering process to enable us to refine the vast number of potential approaches, to those that are particularly relevant for consideration by philanthropists in Australia and for which we have developed case studies (included in Chapter 4). The approach has been developed cognisant that provision of housing for households that would otherwise not have had access to quality, safe, appropriate dwellings represents a positive social impact. We note the Australian Housing and Urban Research Institute (AHURI) research that found a clear relationship between housing and crime, housing and education, housing and health, housing and social exclusion, and housing and poverty and hence the value associated with tackling housing problems in tandem with other social problems[1]. The case studies showcase how philanthropic contributions have unlocked affordable housing supply and in so doing, have unlocked the potential for better health and wellbeing outcomes for those residing in the dwellings.

Chapter 2 Contextualising affordable housing: the need

Australia

Housing is fundamental to the welfare of all Australians. From a social perspective it promotes and improves employment, educational and health outcomes. From an economic perspective it is a driver of participation and productivity as well as consumption, investment and savings in the economy[2].

This research has been undertaken at a time when households, particularly low-income households, are experiencing significant housing pressures. Moreover, it is undertaken against a backdrop of shortage and an estimation that Australia needs to build more than 1 million social and affordable homes by 2036 to arrest the shortfall3 - see Table 2.

Table 2 Need for social and affordable homes by state (Source: UNSW City Futures Research Centre, CHIA NSW)

State	Social housing shortfall 2019	Affordable housing shortfall 2019	Projected extra social housing needed by 2036	Projected affordable housing needed by 2036	Total needed by 2036
ACT	3,100	2,400	5,200	1,100	11,800
NSW	137,000	79,400	76,100	24,100	316,600
NT	7,500	1,500	7,900	500	17,400
QLD	102,700	54,700	73,000	23,900	254,300
SA	33,100	10,200	16,200	2,300	61,800
TAS	11,100	3,400	3,000	500	18,000
VIC	103,800	42,700	62,300	16,800	225,600
WA	39,200	19,300	47,200	12,600	118,300
Total	437,500	213,600	201,900	81,800	1,023,800

At an overarching level, from a financing perspective, a suitable construction and long-term asset holding funding model is the critical missing ingredient needed to deliver more affordable housing in Australia. A key stumbling block has been the "funding gap" between revenue from rents paid by low-income tenants and the cost of developing and maintaining good-quality housing. Amongst the key findings from AHURI research in 2018 that considered the subsidy levers that can contribute to unlocking increased availability of affordable housing, a number are relevant for consideration by philanthropy:

1. Help with **access to land** is central (especially in areas with high land prices and where there is high demand, i.e. usually in metropolitan areas) to affordable housing development and enhances long-term project viability.
2. **Reducing up-front debt load and lowering finance costs** are critical to long-term project viability. By reducing upfront costs, the interest burden during a period when no revenue can be generated from the project, and subsequently long-term financing costs, can be significantly reduced. One significant development in 2018 in terms of reducing debt load and lowering financing costs, was the establishment of The National Housing Finance and Investment

Corporation (NHFIC)[i]. NHFIC's Affordable Housing Bond Aggregator (AHBA) provides low cost and longer-term loans to registered community housing providers (CHPs) to support the provision of more social and affordable housing. The cheaper finance enables CHPs to direct more funds towards creating additional housing supply and providing services to support tenants. The longer tenor provides more certainty for CHPs and reduces refinancing risks and costs. The benefits of being able to access NHFIC finance are described by Haleh Homaei, Housing First[ii] CEO *"by allowing us to borrow funds at an affordable rate, and significantly reduce our , the NHFIC loan will allow our organisation to direct our financial resources to where it is needed most – increasing safe and affordable interest payments housing supply for people dealing with housing stress in Victoria".*[4] Since March 2019, NHFIC has issued nearly $1.2 billion of social bonds, making it the biggest issuer of social bonds in Australia. Since March 2019, NHFIC has issued nearly $1.2 billion of social bonds, making it the biggest issuer of social bonds in Australia.

3. **Delivery across the range of housing needs** helps to meet overall social and tenure mix objectives. This also **can help improve project viability through cross-subsidy**.
4. **Increasing the scale of not-for-profit provision** offers financial benefits that help ensure the long-term delivery of affordable housing. For example, community housing (not for profit) can deliver some advantages as a model for providing affordable housing because, depending on size and scope of the community housing provider, they can:
   - offer improved access to private finance
   - offer a wider housing service, enabling tenant transition from social to affordable housing
   - access additional taxation benefits by being endorsed charitable organisations, and
   - improve tenant outcomes through tailored support[5].

Addressing the scale of need outlined in Table 2 will require innovation from all stakeholders involved in the financing, constructing and managing of social and affordable housing. The scale of investment from the public sector and market based finance will dwarf what can be contributed by philanthropy, which means that the real challenge for philanthropy is to identify gaps / market failures / initiatives that are underinvested and catalyse action around them, via investment, research, collaborations for integrated solutions or other efforts.

Victoria

In research by the University of Melbourne[6] a number of key issues were highlighted as being barriers to investment in affordable housing in Melbourne:

1. **Insufficient Return on Investment:** based on interviews with stakeholders, the returns on affordable housing as an investment – in the absence of some form of subsidy – were generally seen as too low to be attractive Table 3.

i The National Housing Finance and Investment Corporation (NHFIC) is dedicated to improving housing outcomes for Australians. NHFIC commenced operations on 30 June 2018 and administers the Affordable Housing Bond Aggregator (AHBA), National Housing Infrastructure Facility (NHIF) and First Home Loan Deposit Scheme (FHLDS), and conducts research into housing demand, supply, and affordability

ii HousingFirst was able to secure a $72 million loan from AHBA to refinance existing debt and build 167 brand new homes across Melbourne and refurbish two buildings in St Kilda. Target cohorts for the housing that will be made available are individuals and families on the Victorian Housing Register: primarily older people, those living with a disability, and those escaping family violence.

Table 3 Industry expectations of returns from property

Standard rate of return for social housing	1-2%
Standard rate of return for market rental housing	3-4%
Standard rate of return for institutional investors for property (CPI+5%)	7-9%
Expected internal rate of return (IRR) for developers – low-medium risk	20%
Expected IRR for developers – higher risk	25%

2. **Limited Government Funding:** there has been limited direct or indirect government funding of affordable housing which has been compounded by the fact that the government has not been leveraging assets such as land towards its provision.

   Some progress on this front has been made, and in 2018 the Victorian government committed to a number of policy and financing positions to unlock more affordable housing. Specifically, there is a plan to develop around 6,000[7] homes and apartments through a combination of initiatives to develop new homes, renew existing homes and improve the management of social housing. The government committed to:
   - creating a $1 billion social housing growth fund for supporting partnerships between government, community housing providers (CHPs), private developers, not for profit organisations and local governments to proceed with a pipeline of housing development projects on non-Victorian Government land (private, not for profit and local government), and through a program of leasing properties from the private market (the New Rental Developments Program)
   - increasing the financial capacity of registered housing associations by providing low-cost loans and government guarantees to these providers to expand social housing stock
   - transferring management[iii] of 4,000 public housing properties from the Victorian Government's Director of Housing to community housing agencies which can in turn promote better, more tailored services that better respond to tenants' needs
   - a public housing renewal program to reinvigorate 2,500 public housing dwellings, and
   - a social housing pipeline program which includes development of social housing properties on vacant or under-used land owned by the Director of Housing.

   These commitments will be augmented in the future with the Victorian Government announcing that as part of its 2020/21 budget that it will allocate $5.3 billion to construct more than 12,000 homes through metro and regional Victoria in the four years to 2024. Of these, 9,300 will be social housing homes and 2,900 will be affordable and low-cost homes built to help low and moderate income earners live closer to where they work and provide options for private rental[iv].

3. **Risks:** Risk and perception of risk directly impact pricing and decision-making processes among stakeholders involved in the development, construction and management of social and affordable housing.

[iii] The transfer of management of these properties mean that they will still be owned by the Director of Housing. However, existing and new tenancy agreements, rent and maintenance will be managed by registered community housing agencies. The long-term transfer of management will enable community housing organisations to create more housing, by borrowing against the revenue stream created through Commonwealth Rent Assistance and rental receipts.

[iv] https://www.premier.vic.gov.au/victorias-big-housing-build

Risk increases the cost of finance and deters investment. Types of risk that are relevant to affordable housing include development risk, planning risk, and market risk. Liquidity risk also operates as a barrier, particularly to private institutional investment where there are regulations of funds that require only a certain proportion of the total portfolio be invested in assets that are illiquid.

Market risk (that is, the risk of losses due to movements in market prices) appears to be the most difficult to mitigate. Planning risk was cited by both community housing organisations and investors as both significant and something that could be addressed through policy change in the planning system. The two main elements contributing to this risk are uncertainty around decision timelines for permit applications and the possibility of third-party appeals. Both have the potential to delay projects, increase holding costs, and result in additional expenses where appeals are taken to the Victorian Civil and Administrative Tribunal (VCAT). While third party appeals are a risk factor in any development where such appeals are permitted, they are particularly salient for developments involving social housing, as there may be prejudice against social housing tenants.

Philanthropy has a role to play in addressing these barriers

There has been and continues to be a commitment from philanthropists in Victoria (and nationally) to contribute to addressing the barriers to affordable housing, to augmenting the impact of subsidy levers and to building the evidence base that shifts perceptions of risk and influences and shapes the enabling environment. Certainly, The Lord Mayor's Charitable Foundation has been spearheading this agenda in Melbourne for the last decade (see Appendix 2 for a summary of some of the Foundation's contributions to date).

Going forward there is demand amongst philanthropists to understand the relative effectiveness of several potential financing pathways. An assessment framework has been developed to enable objective and consistent assessment of the financing options (Figure 15). By applying this framework when considering the variety of financing pathways that are possible, philanthropists can narrow down options to those that are most aligned with the character and capability of the trust or foundation over which they have distributive responsibilities. The financial modelling of the shortlisted options augments the evidence base upon which decisions can be made.

Figure 15 An assessment framework to compare options

Feasibility	
Risk	Considers: • philanthropist's risk threshold (i.e. whether comfortable to invest in opportunities with limited track record v's established evidence base); • how much risk the philanthropy section of the capital stack will need to absorb to secure commercial finance • type of finance that will be deployed i.e. grant v's investment • timeframe and expectations about program performance and return of capital • whether working as part of a consortia or independently • external operating conditions and market perceptions
Ability to Manage	About collating and using the data and information contained in program reports/acquittal information to continuously improve decision making about financing for impact. Considers whether the trust/foundation has inhouse or access to the capability and capacity required to adequately oversee / manage the investments.
Achievability	
Sustainability	Considers whether philanthropy is contributing to a rational market solution. Addresses time and expectations for demonstration of sustainability v's need for ongoing subsidisation / contribution. Considers sustainability beyond finance – e.g. environmental sustainability
Scalability	Considers • the potential for an approach to be appropriate for delivery at a scale that makes it more economic and / or increases the return on investment • the size of the gap and potential for philanthropy to fill it / catalyse others to contribute to filling it
Desirability	
Impact	Requires decision making up front about the nature of the impact that philanthropy is looking to achieve through its contribution – e.g. whilst the ultimate goal may be to increase supply of accessible and affordable housing, funds might be used to support research which could be used as evidence for policy reform, or, impact could be viewed through a lens of leverage, investment in innovation etc
But for ...?	Would this happen without philanthropic support? *Should* this happen without philanthropic support e.g. is this the government's role?

Chapter 3 Addressing the barriers that underpin the affordable housing deficit – opportunities for philanthropy

Financing models need an appropriate policy, legislative and regulatory environment in order to function effectively and optimise affordable housing outcomes - these are all part of the enabling environment. There are other elements that contribute to the enabling environment, including attitudes about ownership versus rental, understanding the incentives and structures that result in 'build to sell' being prioritised over 'build to rent'. Also important is designing around community needs rather than having developers determine the type of dwellings that are built, based on access to finance and compliance with local government and planning requirements. Philanthropy can play a role in shaping the enabling environment – through investing in new and innovative approaches, working at the demonstration level and scaling if appropriate, supporting approaches through investments that can leverage other types of finance and investing in rigorous research that provides an evidence base to inform policy, legislative, regulatory and attitudinal shifts.

That being said, an enabling environment will not in and of itself result in more affordable housing and so this paper focuses on philanthropy's potential contribution to financing solutions that address barriers to increasing supply of affordable housing.

In essence, barriers to affordable housing can be collated into three thematic areas:

1. cost
2. return
3. risk

Philanthropy can be directed to address elements within either or all of these areas - see Figure 16.

Figure 16 Increasing supply of affordable housing: addressing the barriers

Enabling Environment

- Govt stewardship:
  - Budget initiatives
  - Market intervention (bonds, tax settings)
  - Planning systems
  - Infrastructure development
  - Inclusive zoning
  - Long term consistent policy settings
  - Identification of and unlocking of 'lazy land'
- Investing in communities – putting community members' needs and desires at the centre
- Addressing attitudes re housing ownership vs rental: security of accommodation e.g permanency of tenure

Barriers		Role of philanthropy	
		Financing	Beyond financing
Cost	Cost of land	Land banks CLTs Gift /peppercorn rent/long term lease	Supporting establishment of CLTs and associated regulatory and planning reform Land banks
	Cost of finance	Sub-market loans Patient capital Leverage other investors Top-ups	
	Ongoing operating costs	Integrated, holistic models e.g. supporting wellbeing and employment Refurbishment of old stock to be more energy efficient Construction of efficient and sustainable new dwellings Developments with mixed tenure for cross subsidisation	Support for integrated demonstration projects or targeted interventions for specific population cohorts
	Cost of development	Underwriting NFP developers at sub-NIHFIC scale Modular housing – fund builds and support manufacturers	Investing in research and supporting advocacy for exploration of modular housing at scale
Return	Return on Investment - Insufficient or delayed	Sub-market loans Grants 'Top-up' payments Patient capital / guaranteeing other investors exit rights in the absence of a functioning secondary market	Non-financial contributions can include providing technical advice or capacity building, facilitating partnerships, or strengthening an investee's operations and impact management practices. All of these activities can contribute to improved efficiency, effectiveness, and/or scale of the enterprise's ultimate impacts.
Risk	Risks: development, market, planning and liquidity Immaturity of community housing/affordable housing as an asset class	Guarantees 'Front loading' to cover pre-development costs Funding liquidity reserves	Support for pilot e.g. modular housing/demonstration projects Facilitate innovation Investment in evaluation as evidence base for policy influence

Philanthropy cannot, on its own, deploy finance at a scale that can solve the affordable housing challenge, but rather, can initiate action by deploying catalytic capital, which, as outlined in Figure 17, can take a variety of forms.

Figure 17 The Five P's of Catalytic Capital[8]

The challenge lies with determining the optimal combination of these forms of capital when considering how to tackle cost, return and risk.

Addressing the barriers

1. Cost of Land

Land cost is often the single biggest factor in improving the economics of affordable housing development. Six mechanisms have been used around the world to unlock urban land for affordable housing: developing new land around transportation infrastructure, releasing government-owned land for development, using regulatory measures (such as idle-land regulations) to unlock private land, assembling or readjusting land to allow development, formalising ownership of informal land and modernising land-registration systems, and reforming urban land rules to increase housing supply for all income segments (by changing density limits, for example).[9]

In this report we have focused on mechanisms that are relevant for consideration by philanthropists in Australia, in particular looking to examples where land as a barrier to development of affordable housing has been addressed via the outright gifting of land or making it available on long term leases, for example, using a Community Land Trust approach.

Land that is currently in public ownership presents unique opportunities for affordable housing, particularly when it is well located with respect to transport and services, or where it contains low-density or no housing. Under-utilised land assets owned by local governments should be considered for affordable and mixed tenure housing developments. Measures should be taken to ensure that some, or all the land in redeveloped estates, remains in public ownership or is bound by mechanisms to ensure it is being used for broader community benefit. Options here include long-term leasehold arrangements (rather than outright sale) or caveats on land title that require the provision of affordable housing for a fixed period or in perpetuity.

An alternative is to use a Community Land Trust (CLT). CLTs are non-profit corporations that develop and steward land in perpetuity for community-serving purposes, including affordable housing, civic buildings, and commercial spaces. Under the most common model, a CLT retains ownership of the land and sells the physical structures on the land to individual homeowners, non-profits, or small businesses that assume a long-term affordable ground lease. For owner-occupied properties, the CLT sells its homes to low income households at affordable purchase prices. The homeowners agree to resell their homes at restricted prices in order to keep the homes permanently affordable for future lower income buyers. Many CLTs also develop affordable rental properties. A distinguishing feature of CLTs is community control. CLTs are common in the US and the UK. The role of a hybrid CLT/land bank approach to acquiring land and then preserving and creating affordable housing is showcased in the Denver Transport Oriented Development case study 1. The Ngāti Whātua Ōrākei case study (number 2) in New Zealand is underpinned by a CLT style model, showcasing what 'for and by' community development can achieve. Beyond the collective ownership and long-term leasehold foundations, the development also offers an insight into what it means to design a financial model of engagement for end users that addresses behavioural and psychological barriers as part of financial access.

Whilst the policy, financing and legislative levers that could mitigate the cost of land as a barrier are largely the responsibility of government, there are other non-profit land holders that have an opportunity to contribute to affordable housing supply through leveraging their land assets for example, religious organisations. Philanthropy can catalyse new ways of approaching access to land – e.g. by supporting/underwriting pilot projects that consider: the community within which the development will be located; the suitability of location for potential residents with respect to transport, employment, health, education etc; councils' vision for 'community' and how affordable housing fits within that vision; and alignment between the type of dwellings that are available, the needs and desires of residents and the needs and desires of the broader community. Getting this right will optimise the value associated with the reduction/elimination of cost of land.

2. Cost of finance

Affordable housing developers are met with greater challenges than mainstream property developers when seeking funds upfront to initiate a project and developing a revenue model that makes the ongoing property management costs associated with the development feasible. Convening financing for the construction of affordable housing can be like completing a complex puzzle. It is challenging and expensive to bring the right type and scale of finance to a deal in a sector that doesn't usually attract market rates of return and which has operating/revenue models that are unfamiliar to many in the traditional financing sector. Research in the US found that "most affordable housing financing deals involve a mortgage, tax credits, and two or three other sources of money. It's not uncommon, however, for developers to rely on upward of 20 financing sources as they try to fill the gap between what it costs to build affordable housing and the money they have available.[10]" These transaction related costs can make the affordable housing development uneconomical.

Philanthropic capital can contribute to the overall capital stack for affordable housing developments which can mitigate risk perceptions amongst investors, and which can result in:

- reduced financing costs (debt interest rate or equity return expectation)

- increased availability of capital (i.e. at the same interest rate as a more senior portion of debt in the overall stack which would replace equity, which in traditional construction is significantly more expensive)

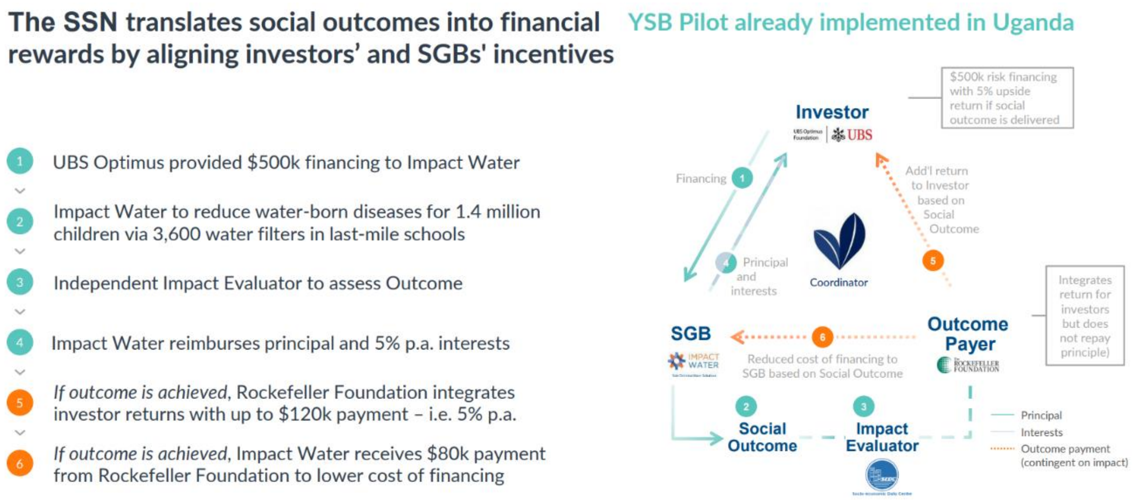
In the US the New York Housing Acquisition Fund is an example of how philanthropic seed capital was used to start a fund that was leveraged with private investment and structured so that the Fund can take on greater risk, offer patient repayment terms, below market interest rates and pricing incentives for not-for-profit developers. More information about this approach is provided in case study 4. In the UK an innovative approach to addressing cost of finance is the successful approach used by Leeds Community Homes. In this example they raised their financing via community shares (issued by a co-operative or community benefit society as a method of supporting a community business, not for financial gain, as interest received is limited and capital is at risk) and attracted match funding. Details are included in case study 5.

Another approach that philanthropy can consider would be to take on the role of 'top-up provider' – i.e. providing financial returns for a certain capital layer in the stack (e.g. equity gets 8% from the project and 2% from the Foundation *or* philanthropy takes equity in the project and accepts sub-market returns for the construction risk as a 'patient capital provider'). The financial modelling associated with such an approach is included in Chapter 5.

The concept of 'topping up' investment returns, has been adopted and proven in a non-housing context by the Rockefeller Foundation and Yunus Social Business (YSB). Their 'Social Success Note' (SSN) is a new payment by results framework that is based on a tripartite agreement between three private sector parties: the investee (small growing business – SGB – with a social purpose), impact investors and philanthropy. The capital injection by the foundation partner is used to leverage significant levels of investment capital at lower financing costs. The SSN has been piloted with the UBS Optimus Foundation in a transaction to provide access to clean water in Africa.

Yunus Social Business is in the process of replicating and scaling the concept for an investment fund that uses philanthropic outcome payments to reduce financing costs for social businesses and avoid mission drift. The investment structure outlined in Figure 18 could be adapted to the context of housing where social outcomes such as access to safe and affordable housing alongside wraparound services such as employment and well-being support, provide measurable outcomes that form part of the economics of housing provision.

Figure 18 The Social Success Note – an investment structure that aligns social outcomes and investment returns



Another way philanthropy can complement market-driven investment activities is the use of 'patient capital' through sub-market returns or other non-traditional investment conditions such as sequence of repayment, unrestricted use, no security requirement, timing of repayment and acceptance of uncertain and/or alternative exits.

3. Ongoing operating costs

Ongoing operating costs relate to:

1. operations/maintenance
2. provision of supportive services for tenants with complex needs.

Operations and maintenance

Once housing is constructed, additional cost savings can be achieved in operations and maintenance. Reducing these costs can make housing more affordable, and, establishing the right standards and governance can avoid dilapidation and help preserve housing stock.

There are two major ways to cut overall operations and maintenance costs: improving energy efficiency (e.g. via subsidies to enable retrofitting of dwellings with energy-saving materials) and reducing the costs to repair and maintain buildings through measures such as cooperative purchasing by social housing owners. Further, setting standards and empowering homeowner groups can greatly improve the quality of operations and maintenance activities. The UK Decent Homes Standard specifies minimum requirements for maintenance and provides incentives and funding to help social landlords make repairs.

In the UK, Community Led Housing (CLH) has been shown to improve the management and delivery of efficient maintenance, through independent, in-house, local and resourceful approaches, demonstrated by Granby 4 Streets CLT and LATCH (case studies 6 and 7 respectively). Research by Joseph Rowntree Foundation and Chartered Institute of Housing suggests smaller community housing providers perform favourably against bigger mainstream organisations for quality and average operating margins, 30% vs 23%. It should be noted that without the initial capital injection (Granby, an unsecured low interest social investment loan, LATCH was transferred land from local council) neither of these projects would have succeeded.

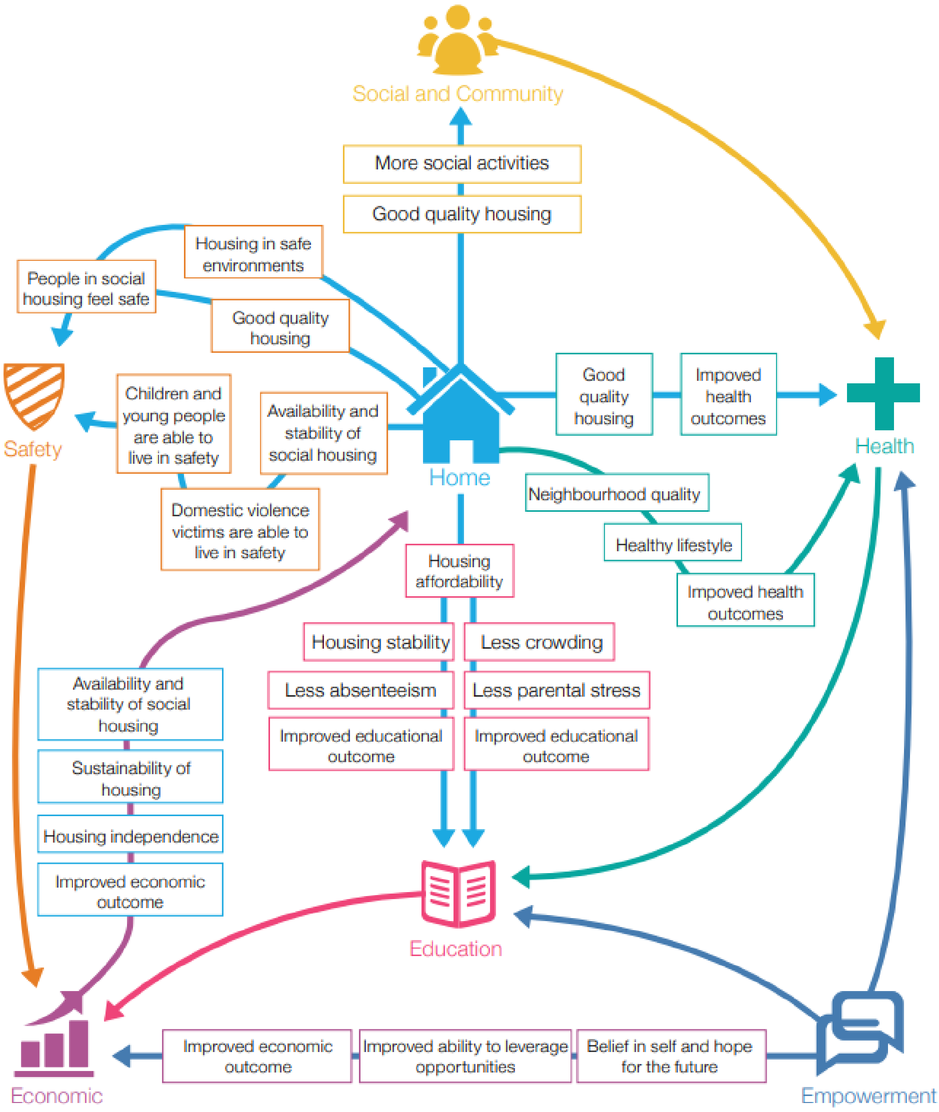
Provision of supportive/integrated services

Meeting the ongoing operating costs as an affordable housing provider can be challenging based on:

- the limited capacity to pay rent among tenants who are predominantly lowest quintile earners
- the often complex needs of tenants and intensive support programs required to empower them to secure health, education and subsequently employment (and hence income).

To address these challenges, housing needs to be positioned as an enabler of social and economic outcomes (see Figure 19) but with acknowledgement that optimal outcomes require investing holistically. The relationship between housing and wellbeing – taking into account safety, health, economic prosperity, sense of community is well documented in the literature[11]. There is potential for philanthropy to take this holistic view and support programs that consider the needs of individuals/families beyond access to shelter e.g. combining housing with wraparound social services in a holistic impact and place-based approach.

Figure 19 Outcome model for affordable housing



Source: NSW FACS

Whilst the evidence base around the effectiveness of holistic approaches to affordable housing from a social outcomes perspective is building, the funding models needed to underpin the approaches remain project based. Philanthropy can play a key role in both funding the delivery of integrated approaches and evaluating the financial (and social) impact of the approach - building the evidence base that can shift public policy and/or public and private financing of such approaches. One way to do this is via **pay for success**[v] contracting which sees philanthropy 'front loading' the operating costs associated with delivering the "housing +" services for implementing partners, thereby mitigating cash flow constraints and enabling them to focus on program delivery. Subsequent payments to the implementing partner are contingent on achieving agreed outcomes which reduce risk for the payer (usually government). Case studies are used to demonstrate how these approaches have worked in action in the US and UK, with The Home for Good Program (case study 8) and Thames Reach Program in Greater London (case study 9).

[v] Also often referred to as Payment by Results contracts, Social Impact Bonds and Social Benefit Bonds

Pay for Success (PFS) contracts provide a way for governments to test human service programs through the private sector and only pay if the program delivers on its promised results.

In a PFS contract, participants — including private investors, philanthropists, government entities, and service providers — set targets for success and ways to measure them (e.g., a reduction in homelessness). Governments pay for the services in part or in full based on outcomes. In some cases, investors provide initial funding and are reimbursed by the government if the outcomes are achieved.

4. Cost of development

To meet the rising demand for affordable housing, developers will need to become more productive. In most of the world, traditional approaches are still being used to build residential housing. Instead of improving productivity with new approaches and tools, as other industries have done over the past two decades, the McKinsey Global Institute reports that the construction industry has seen productivity (of capital and labour) decline by 10 to 20 percent in many countries. There are several measures that can be applied to reduce these development costs, including:

- standardisation of significant elements in the build (e.g. structural design and finishing elements) and applying this at a portfolio level
- efficient procurement (e.g. the UK procurement efficiency initiative, which created buying consortia among owners of social housing, helped save 15 to 30 percent on certain materials.) For affordable housing, where margins are relatively thin, smart procurement can help builders withstand swings in commodity prices that might wipe out profits. Lean operations in construction including eliminating waste, streamlining critical-path processes, and reducing buffer times between processes can also reduce time and cost,
- adoption of industrial approaches such as use of prefabricated components.

Case studies in this report that address development costs focus on the use of modular (off-site, prefabricated) housing. At the core of the benefits associated with modular housing is speed – speed of production in off-site, factory conditions and speed of construction of dwellings in situ (with reduced labour requirements). Using less time, minimising wastage and reducing labour costs means lower cost of construction. It also means faster solvency for developers who are able to get renters into premises quicker.

Modular housing could be a game changer for housing affordability. The acceleration of homebuilding it could catalyse could pull down rents and prices, benefiting all residents who buy or rent market-rate homes. And it could be a major boost to non-profit affordable housing developers as well, helping them maximise limited funds to create more subsidised homes for people who can't afford market prices.

Moving most of the home manufacturing process to remote factory sites outside of expensive cities also has the potential to fix the wicked problem of construction workers not being able to afford to live where they work, which squeezes the availability of labour, which raises construction costs, which in turn makes those cities even less affordable to workers.

By moving to modular, the on-site construction time and risks are significantly reduced (e.g. delays caused by poor weather, as components are built in an indoor controlled environment), the repeatable designs generate efficiencies and economies of scale, and the portability of some modular designs provide a unique opportunity for 'meanwhile land' that is unused but cannot be unlocked for the longer term, as required by traditional construction. There are some barriers to overcome; the scale of manufacturing and transportation to drive efficient production, the difficulties in attracting financing as traditional lenders secure against land and its progress, and not offsite assets and perceptions of poorer quality buildings.

Case studies 10 and 11 explore how modular housing has been used in the UK. The benefits associated with being able to produce modular housing 'at scale' are particularly showcased in Case Study 11 where, with access to land, a private developer (BoKlok) is able to develop 162 houses for affordable rental and sale.

5. Return on investment

While an increasing amount of institutional and private capital has flowed to the affordable housing sector over the past several years, there remains a variety of common misconceptions, particularly about risk and return. In Australia governments are working to lever the balance sheets of long-term investors such as overseas pension funds, Australian superannuation funds, insurance companies and family offices to invest into affordable housing. But many institutional investors have the obligation to deliver profit to members and shareholders under the sole purpose test[vi] which makes it inherently difficult for superannuation funds and the private sector to build affordable housing.

That being said, some institutional investors are placing increasing importance on the environmental, social and governance (ESG) impacts of their investment strategies. For example, there has been movement relating to climate change, with Rest Super agreeing in a settlement ahead of a Federal Court hearing, to align its investment portfolio with a climate goal of net zero emissions by 2050 and to report against the Task Force on Climate-Related Financial Disclosures (TCFD). Other superannuation funds are following suit in a voluntary pledge. Some funds have committed (relatively small) investments into social and affordable housing. This is evident among superannuation funds, in particular those that are industry funds, or which have an ESG lens, and thus have a strong interest to align investments with the expectations of their membership base such as key workers or the societal engaged demographic. For example, HESTA invested $20m of their Social Impact Investment Trust (managed by Social Ventures Australia) into the Nightingale Housing Village, a 185-apartment, carbon-neutral residential project in Brunswick, Victoria. More than 80% of HESTA members are women working in the health and community services sector. 20% of apartments in the Nightingale Housing project were allocated to key contribution workers such as nurses, aged care professionals, and those working in the not-for-profit sector. Investment returns met HESTA's target but the small size and high transaction costs to structure suitable investments remain as barriers. To unlock capital at a broader scale, advocacy is needed to adapt the sole-purpose test so that investors have the flexibility to balance the provision of financial benefits to members upon their retirement with the growing expectation that institutional investors demonstrate their social license to operate..

For family offices and foundations, when deciding about investing in affordable housing, a long-term outlook is an essential underpinning rather than a desire to realise capital gains through a sales strategy. This long-term view is supported by the fact that compared with market-rate apartments, affordable housing is, in a sense, recession-proof and provides downside protection to investors. Exceptionally strong demand exists for affordable properties, both in times of economic prosperity

[vi] The Australian Tax Office (ATO) requires [that] all activities of super funds must be for the sole purpose of providing retirement benefits to their members (or to their dependents if any of their fund members die before retiring). Every investment or management decision made by superannuation fund trustees must be consistent with this sole purpose. Essentially, the intention of the sole purpose test is to ensure that fund trustees make decisions that are in the best retirement interests of their members, not their current interests (or those of related parties). Source: https://www.superguide.com.au/smsfs/what-is-the-sole-purpose-test-and-how-does-it-work

and economic uncertainty. In fact, demand in this sector is almost always growing. In times of economic prosperity, rents and home prices tend to rise much faster than wages, resulting in increased demand for affordable housing. In times of economic uncertainty, when economic growth, job growth or other factors may slow, demand in the sector also rises.

So, demand constantly increases, regardless of the stage of the market cycle. Yet supply cannot keep up with this growing demand and, in many cases, continues to fall behind market demand. Because of this rising demand and diminishing supply, affordable-housing units experience little to no turnover and are almost always occupied, consistently maintaining high occupancy rates.

These conditions mean that there is:

- relatively little risk and a reliable return on investment (if slightly sub-market)
- consistent cash flow because of subsidised rent for tenants.

In case study 12, we showcase how the Social and Sustainable Capital Housing Fund is playing a key role in addressing the issue of perceived risk and is unlocking capital for charities and social enterprises through a structure that:

- enables organisations to provide housing for their beneficiaries
- absorbs the risks associated with buying or renting property
- gives the borrower the benefit of long-term asset ownership
- satisfies investors regarding risk and return.

In the Flex case study (number 13) we explore how an investor has taken into account the payback period as part of their considerations about return on investment and has, with appropriate structuring, been able to prioritise investing in long term assets which derive ongoing stable returns over premium rentals or build-to-sell investments. One of the features of this case study is the securitisation (i.e. the ability to sell off debt and future cashflows) to institutional investors which enables developers to recycle the original capital and increases the capacity of the developer to deliver new projects.

6. Risk

Risk and perception of risk impact the actions of all stakeholders involved in the development, construction and management of social and affordable housing.

Risk sits in the fear part of the brain and acts as a blocker to change/action which thus results in the preferencing of the status quo. Yet what is considered risky is underpinned by a set of beliefs and assumptions about our function and purpose as individuals and organisations. The ability to understand, reconsider, reframe or directly address these assumptions has potential to shift the dial on the rate of engagement in affordable housing development.

Perhaps the most prevalent assumption around risks affecting the sector sits in the sum created out of the common adage, risk vs reward, and our relationship to time. These phenomena directly drive up the cost of finance at the early stages of design and development when there is uncertainty around the commitments of other stakeholders. Since land acquisition and soft development costs (e.g. architect, consultants, development application fees and authority charges) are incurred before construction begins, traditional investors and lenders often consider pre-development and land acquisition loans to be high risk and set the interest rates at levels that make it unfeasible for smaller organisations to get projects off the ground or for innovative models to build a track record.

In Australia, a not-for profit development start-up in Sydney that is backed by philanthropists, is challenging these assumptions. Their approach (see case study 3) makes it accessible and risk free for 'lazy' landowners such as faith-based groups to 'unlock' these assets into social outcomes as well as into regular income streams for their own operations. At a local level in the US, the Arizona Community Foundation's Affordable Housing Loan Fund provides zero interest loans to cover pre-development costs to affordable housing providers (see case study 14).

Furthermore, when it comes to unlocking land at an affordable rate by local, state or other agencies, there is the expectation of a return that exceeds all other potential future returns. There is an incentive to wait for something 'better', driving inaction on approval for access, development or re-zoning. This is compounded by a set of beliefs around the function and role of the parties involved e.g that we must always make the most money we can. That those seeking social and affordable housing are 'undesirable' community members. That housing is an asset class.

The state can directly intervene in the sector to address these challenges. In the state of Hamburg in Germany, 20% of annual land release by the government is earmarked for community-led developments. Whilst these community groups must pay market price and go through a formal expression of interest (EOI) process, there is no profit-maximising bidding from commercial developers. The government provides community groups with patient (i.e. extended settlement) terms on the land which allows the groups to coordinate project design and additional capital aligned with purpose.

In the social service sector risk is often reframed as 'opportunity cost' and this thinking has interesting applications to more traditional risk/reward thinking. As part of a contribution to an enabling environment for affordable housing investment, philanthropic funds could support radical investigation around the following questions:

- Why is development cost risky when there is such high demand?
- What if our function as a society is fundamentally to provide housing for our community (i.e. applying a human rights approach to housing)[12]?
- What if access to land by community residents created better, longer-term value than that created by external investors?
- What are the risks and costs of doing nothing?

Building out thinking around the above questions and supporting discourse that challenges norms around ownership and beliefs about 'right to hold' could contribute to a shift in perceptions around risk. For example, when resilience and collective ownership is considered as a mitigant for perceived risk, the development of social and affordable housing given the demand should be considered less risky than commercial construction. Resetting the market's approach to risk and the drivers of perceptions of risk could unlock new opportunities for investment in provision of affordable housing at scale. An applied example of a different, community-led ownership model is the CLT for which a financial model has been included in Chapter 5.

Barriers beyond finance – philanthropy's opportunity to support an enabling environment and leverage the diverse approaches to impact

Philanthropy can be deployed to do more than mitigate cost barriers and there is an existing track record of philanthropic capital being invested in the Australian affordable housing sector to:

Facilitate innovation – Experimentation is critical for developing more efficient and effective solutions for affordable housing. However, it is often difficult to attract capital from commercial markets to fund innovation, given the high risks and uncertain financial returns. The subsidy built into catalytic philanthropic capital can be critical for providing enterprises with the time and flexibility needed to develop and refine impact-oriented business models.

- e.g. Project Independence's shared equity housing model for people with disability.

The Project Independence model provides a home ownership option for people with an intellectual disability. Residents live in separate homes with accommodation for a live-in resident coordinator to support them. This arrangement offers residents flexibility, a long-term housing option, and a steppingstone to independent living. It also gives them the choice to acquire equity in the property.

Each resident completes a one year 'try before you buy' rental period during which they live in the unit to assess if Project Independence is the right accommodation option for them before purchasing. Residents can then build up equity in the property through regular payments from their Disability Support Pension.

The first two developments in Canberra have been operational for over 12 months and Project Independence has secured $1.5 million in philanthropic grants and in-kind donations from partners including The Snow Foundation and Icon plus access to a $500,000 construction loan from Social Ventures Australia to partly finance the development of a third ACT development. Evidence of the success of the project lies in the number of people that are on the waitlist for properties of this type.

Help build a track record – Risk is difficult for investors to assess without any historical information about performance. Catalytic capital can help investees establish proof of concept for a new impact-oriented business model and demonstrate the ability to both achieve intended impacts and repay an investor within the anticipated timeline and target financial return parameters.

- e.g. Nightingale Housing (NGH) built its prototype project backed by impact investors and is now attracting institutional capital from super funds and mainstream banks.

The premise underpinning Nightingale Housing's triple bottom line housing model is that the apartments it provides are environmentally sustainable (and offer associated lower living costs), sold at-cost (with new residents signing a caveat agreeing to pass on this saving to future owners) and with a focus on community (through shared amenities).

For its first site in Brunswick, NGH had unsuccessfully approached 34 different funders for construction finance. Without a track record and without a strong balance sheet, the project was deemed too high risk amongst these funders.

Fortunately a group of impact investors were excited about the innovation of the model and confident there was strong demand for this type of housing and so contributed to a syndicate providing $6.5 million in senior debt to fund the construction of Nightingale 1.0. NGH's initial development went on to win the Victorian Premier's Sustainability Award for the Built Environment. This success triggered opportunities for larger and more frequent projects for NGH and thus a need for access to more senior funding. In subsequent developments NAB has provided senior debt with mezzanine debt contributed by impact investors de-risking the capital stack to meet NAB's credit risk policy.

Based on this proven track record, NGH has been able to attract superfund HESTA as equity investor and NAB corporate banking to fund their Nightingale Village development across six individual sites.

Moreover, NGH is now considered as "investable" by other institutions such as Bank Australia, ANZ and Australian Super.

Leverage additional investment - Catalytic capital can help mitigate real and perceived risks by blending capital from investors with different risk-return expectations together to create investment structures that work for both the investors and investees. Grants, guarantees, and/or first-loss capital in the form of subordinated debt or equity are common instruments for leveraging capital from more conventional investors and/or helping impact enterprises access capital on more favourable terms.

- e.g. Thames Reach mixed equity and loan structure for the homelessness Social Impact Bond (SIB)

Thames Reach needed to secure investment to be able to take part in the SIB, but at a late stage in the process, their investor pulled out. Luckily, they were able to create a mixed equity and loan structure, with two investors and a foundation. The new investors provided discounted and unsecured loans, with one of the investors receiving further outcome-linked returns. The foundation supplied a grant, enabling the delivery of a particular set of outcomes. See case study 1 for further details

Signal impact potential – A reputable investor can increase the credibility and visibility of an investee by providing a "first-in" anchor investment for a larger capital raise, which may lead others to invest. Catalytic capital providers may even share components of their due diligence to ease the burden for other potential investors.

- e.g. The Foundation's $500,000 capital grant to CHP Housing Choices for them to buy into the Nightingale Village in Brunswick.

The capital grant of $500,000 from The Foundation which was leveraged with low-cost debt from NHFIC allowed Housing Choices, a Tier 1 community housing provider, to commit to a 'bulk' purchase of 24 units in the Nightingale Village development (led by Nightingale Housing) at an additional discount. In the Nightingale Village 20% of all accommodation is earmarked for CHP ownership to support the creation of mixed urban communities.

The commitment from Housing Choices as a cornerstone buyer focusing on lower income households attracted a superfund (HESTA) as a provider of equity to the development. HESTA seeks to invest their corpus into assets that align with the values of their key worker membership base, resonating with Nightingale Housing's triple-bottom line approach and Housing Choices' mission. With these impact-led partners on board for the project, NAB was attracted to provide the largest part of the funding puzzle, senior construction debt.

Unlocking supply through mobility along the housing continuum – the various forms of housing types, underlying operational models and eligibility of beneficiaries/occupants do not always allow for effective transition from supported accommodation to less subsidised housing. Public policy, market mechanisms and availability are factors that decrease incentives and reduce the transitioning of families in between housing categories. Philanthropic or impact-first funders can create new housing offerings and affordable housing rentals for households in greatest need.

- e.g. Barnett Foundation - an affordable home ownership model that uses shared equity to free up social housing stock.

Many social housing tenants that have been in their assigned housing over extended periods of time have sufficient income to service a mortgage but face the barriers of deposit saving and passing the bank's mortgage screens. The Barnett Foundation, a charitable developer, has developed an approach that unlocks the possibility of home ownership for social housing tenants. The Barnett Foundation works with CHP partners to select eligible families that would qualify for a residential mortgage of up to 80% of the dwelling's market value and that might have access to modest savings. These two sources of funds cover the build cost. The Barnett Foundation then offers a second ranking mortgage for the remaining 20% of the market value in the form of a medium-term shared equity model (the 'Barnett Advance') that families can refinance to fully own the dwelling. The repaid capital is reinvested into additional housing.

At the first site, the Melbourne Apartment Project, 28 of the 34 units were sold in an off-the-plan process to social housing tenants while the remaining six units were either sold at market rate or retained by the organisation to rent at market rates to cross-subsidise the project and establish a market value precedent for the other units. The previous units occupied by the 28 purchasing families were freed up and released back into the social housing letting pool.

- e.g. Assemble – providing long-term secure tenure to renters with the option to purchase the unit at a certain price point.

Assemble is a new real estate group that is working with banks and institutional investors to create an affordable " Build to Rent to Own" model that provides participants with security of tenure for five years and an option to then buy the dwelling at an agreed fixed price at the end of the rental term.

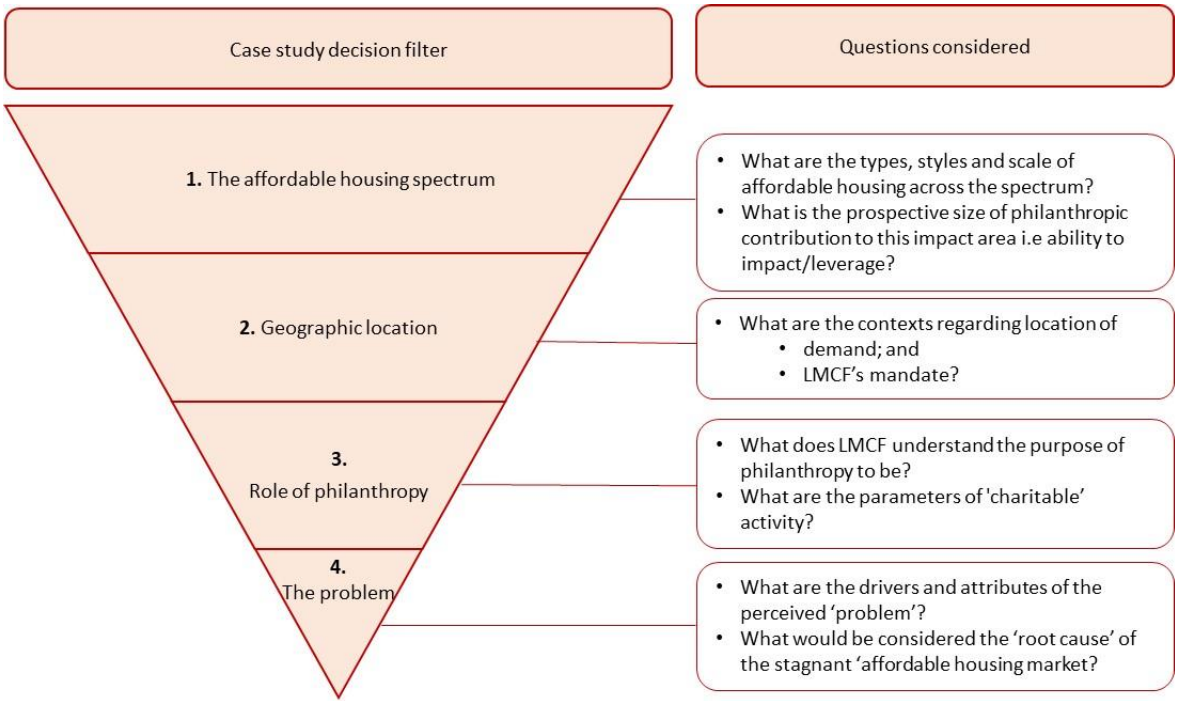
Assemble supports their communities with their opt-in financial coaching service and assists families to save their deposits with the help of services and bulk-buying initiatives. By signing the contract of sale for purchase at the outset of the development, future home buyers may also be eligible for off-the-plan stamp duty exemptions that increase overall affordability. Institutional investors are attracted by long-term investment yields and a known exit to their investment.

Using case studies to understand how philanthropy has been used to address the barriers to affordable housing

Chapter 4 contains a series of case studies that showcase how philanthropy has played a financing and non-financing role in addressing the affordable housing challenge both domestically and internationally. We have developed a method to filter case studies for inclusion in this report to ensure that the showcased approaches are relevant for consideration by The Foundation (and other philanthropists) – see Figure 20.

The lessons learned from across the numerous approaches underpin the financing structures that are presented and modelled in Chapter 5.

Figure 20 A stepwise approach for case study selection



Understandings & Assumptions		Application to research and case study selection
1. The housing spectrum	Given the limited amount of philanthropy directed to affordable housing, spread across diverse cohorts and the role of government in 'social housing', philanthropy/'other money' can best enable developments by smaller NFP and profit for purpose developers.	• Combination of repayable / return earning finance and use of grants • Philanthropy should be 'additional' – i.e not a gap filler for government responsibilities
2. Geographic Location	Demand for affordable housing is most acute in urban and peri urban economic centres i.e connected state/regional capitals. These criteria correlate directly with the geography of LMCF's mandate specifically central and urban Melbourne.	• Focus on medium and high density build models • Urban and peri-urban locations • Connectivity to economic [employment/services] and public transport infrastructure
3. Role of Philanthropy	Sefa understands that LMCF consider 'charity' to stop at the point of supplying an individual with a personal asset. However it does extend to enabling change to the terms of access to develop/acquire a personal asset. Therefore both build to rent and build to own models should be considered. Philanthropy is considered by LMCF to be best spent where impact is amplified through a) its leverage to bring in further capital/supports; or b) it ability to take risk others can't, for the purposes of creating evidence	• Addressing demand for housing from citizens using both public and private housing [inclusion of mix use models]. • Primary focus on build to rent but build to own in scope • Focus on opportunities to leverage additional finance and collaborations to address complex challenges / integrated solutions • Philanthropy as a catalyser through grants, investments, ability to take /instigate sub market returns or recycle capital
4. The Problem	This 'Problem' is broadly understood to be the 'barriers' to getting developments off the ground by the market. These barriers are manifold but most frequently include: cost of land acquisition; cost of finance [for developers and prospective tenants]; cost of construction; cost of risk/cost of proof [of new models]; and, cost of time [speed/conditions of money - yield gap and payback periods for developers and users], cost of demand.	• Addressing one or more cost and risk barriers in scope • About deploying enough of the 'right' type of finance to enable initiatives that prioritise social impact and NFP developers rather than profit for private sector • Allow for cost/time axis to be addressed effectively for end users/beneficiaries

Chapter 4 Learning from international and domestic experiences

Contextualising affordable housing in the UK, USA and New Zealand

UK

The UK is in a housing crisis and it is widely acknowledged the housing market has failed. There are not enough homes being built, rents and house prices are unaffordable to many. Living conditions are deemed inadequate for 4 million people, 320,000 people are homeless of which 200,000 are children and 5,000 rough sleepers, the latter almost tripling in the past decade. Shelter, a UK housing charity, estimates 3 million social (i.e. truly affordable) homes need to be built over the next 20 years.

Social housing explainer - *historically social housing was affordable housing*

For a number of decades, housing was split into that which was owner occupied by middle and high income earners and, for the lower income earners, affordable rented homes were provided largely through social housing delivered by local governments. The building of social housing at scale was considered a local government obligation after World War 1, building 'homes for heroes'. This resulted in 5.5 million social homes being built over 100 years, with local councils from the 1950s to the 1980s building 90,000 homes a year. In the UK, social housing was the same as affordable rentals.

In the 1980s the government's policy changed course, with council tenants eligible for 'right to buy' schemes, central government restricting ability to build more stock and encouraging the offloading of stock to housing associations. Post the 2007-08 Global Financial Crisis (GFC), austerity measures meant that councils were forced to sell off assets to provide services, thus significantly depleting housing stock. Local councils have been reliant on using private landlords and hotels, and social housing waiting lists have more than 1 million families.[13] The Government's recent attempts to incentivise the market to provide affordable housing for both sale and rent, has under-delivered. In 2018-19 half of all affordable homes built (57,485 in England) were delivered through Section 106 (requirement for developers to offset costs of the community impact of development, or specifically the provision of affordable homes) and despite this being a 22% increase on the prior year, it is still only 41% of the 145,000[14] needed annually. Recent changes to the enforceability of section 106 (to aid building industry and developers) are expected to significantly reduce this.

In addition, there are economic drivers exacerbating the problem. Property buying in the UK is more financially beneficial than renting due to the very low interest rate environment and rising house prices. Buy-to-let are considered a good return on investment for homeowners compared to other forms of savings or investments. This has resulted in soaring house prices, pricing many out of the market (only 14% of towns are affordable for key workers to buy, falling to 9% for nurses) and tenancies that are short term and insecure (compared to mainland Europe) with increasing rental costs and often unsafe conditions.

In 1800's Victorian Britain, philanthropists like Peabody and Rowntree were behind the provision of affordable housing, delivering thousands of homes by 1900. While they stepped back when the State stepped in, they have been called to the fore again, but in a different capacity. As noted in the Smith Institute's report[15] "[l]and prices and construction costs have reached stratospheric levels; therefore, unlike their Victorian forebears, it is simply not feasible for modern philanthropists to develop thousands of homes – especially in places like London" and thus suggesting that "funding the design and construction of exemplary homes and the development of best practice in housing services can create the opportunity for these to be mainstreamed".

USA

The United States is facing the worst affordable housing crisis in a generation, with more households competing for an increasingly limited supply of rental housing[16]. The extent of this crisis is manifested in the number of people experiencing homelessness – which in January 2019, per the Department of Housing and Urban development's (HUD) Annual Point in Time Count[vii], was 567,715.

Several factors underpin the affordable housing crisis:

- Low-cost housing is disappearing from the market – the fastest rise in home prices is at the low end of the market where "cheap" homes, or those selling for less than 75 percent of the median price, are appreciating at twice the rate of high-end homes. Further, in the cities with the greatest increases in housing costs, the expensive housing encourages private equity firms and other investors to buy up apartment buildings and evict the current residents
- America isn't building enough affordable homes: fewer people are moving (meaning that there is less stock available to buy), major cities have fewer plots available for development (influenced by the 'not in my backyard' - NIMBY phenomenon), construction costs (driven by materials prices) are increasing, and there are labour shortages – all of which mean that developers can only make a profit on high end developments.

The housing crisis is most severe for extremely low-income renters and minorities (African Americans and Hispanics) are hit hardest by the crisis. Extremely low-income households account for 71% of the nation's severely cost-burdened renters and approximately 11 million families spend more than half of their income on housing.[17] The crisis is geographically dispersed - research by the National Low Income Housing Coalition (NLIHC) found that for those working a 40-hour week on the minimum wage, there is *no state in the country* where a modest two-bedroom rental home is affordable (defined as costing less than 30 percent of the renters' income) and that a renter earning the federal minimum wage of $7.25 an hour would need to work 117 hours a week for a two-bedroom rental home to be affordable.

There are two market-based solutions—tax credits to get developers to build low-cost units, and vouchers that are intended to help poor people afford them—that provide the dominant share of affordable housing, both of which are insufficient for the scale of need.

The Low-Income Housing Tax Credit (LIHTC) program is the largest source of assisted rental housing. Since its inception in 1986, the program has supported the construction, rehabilitation, or acquisition of nearly 2.5 million affordable rentals. Despite this, research by the NLIHC finds that the gap between supply and demand for affordable rental units available to very low-income households is 7.7 million. This shortfall could become much worse given the threats to the affordable supply - unsubsidised low-rent units are continually lost to upgrading or removal, while subsidised units with expiring contracts are at risk of shifting to market rate.

The Housing Choice Voucher Program (HCV) is a federal housing assistance program that helps 2.2 million low-income households rent modest units of their choice in the private market. But due to funding limitations, about 3 in 4 households eligible for a voucher do not receive any form of federal

[vii] The Point-in-Time (PIT) count is a count of sheltered and unsheltered people experiencing homelessness on a single night in January

rental assistance. The HCV program depends on landlord participation to make privately owned units available to voucher holders; therefore, their participation determines the number of available units and their geographic distribution.

There is an urgent need for federal, state and local collaboration for deliberate intervention in the market and establishment of an enabling policy and financing environment to build, fund, preserve and encourage affordable housing.

New Zealand

New Zealand's housing market is amongst the most expensive in the world. New Zealand's three major cities are now considered *"severely unaffordable"* [18], meaning that the median cost of housing is more than 5:1 times the median wage. The current median house price in Auckland is around 9.5 times the average household income.[19]

Like Australia 'affordable' and 'social' housing in New Zealand operate across a spectrum and though the terms are often used interchangeably, they represent different relationships to the market. For the purposes of the following case studies 'social' represents housing whose tenants pay for the service out of a government subsidy and 'affordable' by the relationship between the cost and income of tenants or buyers.

In New Zealand it is the growth in demand for 'affordable housing' by low- and middle-income earners (traditional market renters and first home buyers) which has put additional strain on the 'social' housing market. The cost of subsidised housing is rising with market prices, meaning new developments are becoming less financially viable.[20]

Of particular note, no longer serviced by the private market, are cohorts comprising of youth (first home buyers, key and casual workers, and renters) the ageing, and those retiring who are no longer able to afford their existing housing on their new income.[21] This has led to significant overcrowding and the occupation of housing which is unfit for habitation from a health perspective.

Though variable based on the volume of *affordable* housing available in the market, New Zealand is currently estimated to need between 1500 and 3500 additional *social* housing units each year—for at least the next decade to meet with demand.[22]

Inevitably complex in nature PwC finds that New Zealand's current housing crisis has some key drivers including:

- significant increase in demand resulting from population growth and immigration
- rising land costs (limited available land in 'connected' urban zones)
- high feasibility and build cost
- tight financing regulations
- stagnant wage growth.

Case studies

A series of case studies from the UK, US, New Zealand and Australia have been curated to showcase some of the ways that philanthropy has been deployed to address the barriers to the development of more affordable housing (Figure 21). These case studies are compiled cognisant of the fact that there is no 'one size fits all' approach and in fact, a number of barriers can be tackled in well-designed, comprehensive initiatives.

Figure 21 A snapshot of case studies showcasing philanthropy's contribution to affordable housing

Barriers		Case studies
Cost	Cost of land	1. US: Denver Transport Oriented Development (TOD) Fund 2. NZ: The Ngāti Whātua Ōrākei Trust 3. NSW: NFP Pre-Development fund on church land
	Cost of finance	4. US: New York City Housing Acquisition Fund 5. UK: Leeds Community Housing (crowd & match funding)
	Ongoing operating costs	6. UK: Granby 4 Community Land Trust 7. UK: LATCH 8. US: Home for Good (Payment for Success model, homelessness, intensive support) 9. UK: Thames Reach Homelessness SIB
	Cost of development	10. UK: PLACE (modular homes, meanwhile land) 11. UK: BoKlok - modular
Return	Insufficient / Delayed Return on Investment (form of exit … driving 'build to sell' rather than build to rent)	12. UK: Social and Sustainable Capital Housing Fund 13. UK: NEF Flex – fluctuate affordable: market mix for rental market
Risk	Risks: development, market, planning and liquidity Immaturity of community housing/affordable housing as an asset class	14. US: Arizona Community Foundation's Affordable Housing Loan Fund and Community Impact Loan Fund

Case Study 1: Denver Transport Oriented Development (TOD) Fund

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓	✓			✓			✓	

Context

The Denver region initiated a multi-billion-dollar expansion of its fixed-guideway transit system 'FasTraks' in 2004 (upgrades scheduled to be complete by 2020).

The project aimed to reduce regional congestion, create more liveable communities, and strengthen the region's economic competitiveness while enabling it to accommodate a projected one million additional households expected between 2005 and 2035. It was estimated that an additional 110,000 households would seek housing within a half-mile of light rail stations and that 40 percent of the demand for transit-accessible housing (44,000 units) would come from lower income households. This figure was nearly double the total number of restricted, affordable units currently available in the Metro Denver area.

Challenge

- **rising land prices** near existing and planned transit stations
- **expensive infrastructure** needed on TOD sites that were previously non-residential
- rezoning and land assembly needed at TOD sites, which were leading to lengthy and expensive acquisition and permitting processes
- **inadequate capital among local affordable housing developers** to buy and hold land for several years in anticipation of the arrival of transit in the future
- declining state subsidies for affordable housing due to budgetary constraints
- **complexity of financing** mixed- or 100-percent affordable housing developments as compared to purely market-rate housing
- limited regional policy support for the inclusion of affordable alongside market-rate housing.

Solution

The Denver Transport Oriented Development (TOD) Fund is the first affordable TOD acquisition fund in the United States. It offers borrowers below-market interest rate loans for terms up to five years. It operates as a line of credit to the Urban Land Conservancy (ULC), a well-capitalised non-profit which was established in 2003 to preserve real estate assets in urban areas to ensure their long-term community benefit. ULC combines the functions of a traditional Community Land Trust with those of a private land bank to support the preservation and creation of affordable housing as well as school facilities, community centres, and affordable office space for non-profits.

ULC's land acquisitions are targeted in areas anticipating or experiencing gentrification, where early purchase can enable the preservation or development of community-serving uses that would be difficult or impossible if land prices rose significantly. Typically, ULC retains land ownership of the properties it acquires and sells existing buildings, or property development rights, to partners who agree to maintain or build new affordable homes or other community assets. Often ULC will use a 99-year land lease to ensure long-term community benefits and affordability. But in some instances, when a land lease arrangement is unworkable for a development partner, or land is too expensive to retain, ULC will sell the land and employ a long-term land use covenant (typically 89 years) to guarantee community interests are served in perpetuity. Eighty percent of the households served by ULC are very low-income.

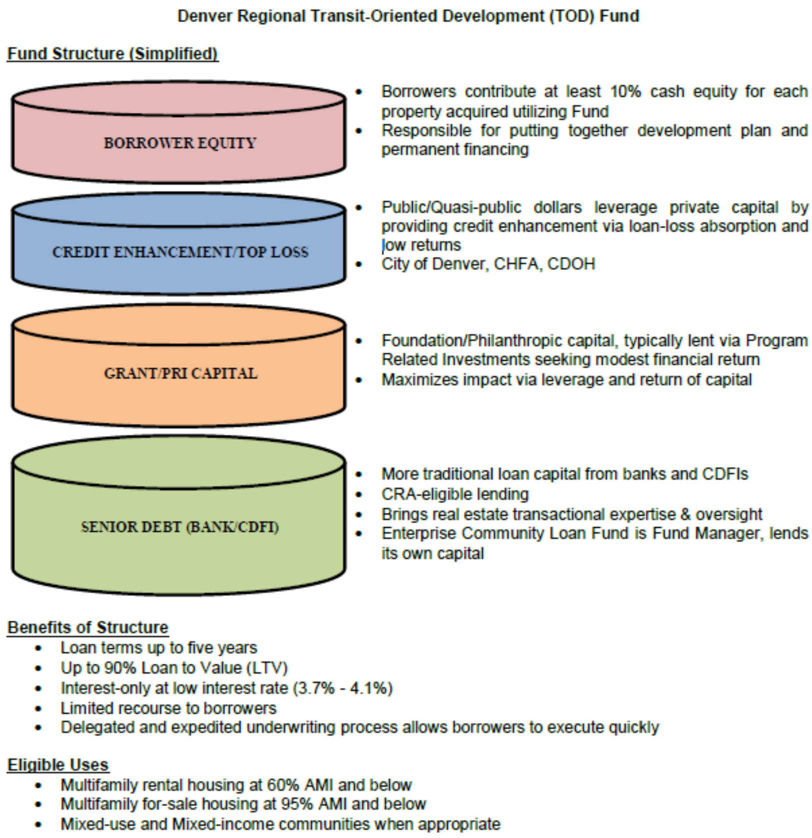
Important to ULC's success has been having a **dedicated, moderately-patient, deep-pocketed lender** (the Denver TOD Fund), which has helped ULC move quickly to acquire properties near FasTracks and high-frequency bus stops. ULC is able to borrow up to $3 million per loan from the fund at 90% LTV, interest only, on a 60% non-recourse basis (that means the fund can only recapture 40% of the loan in case of default) to acquire property near public transport.

Impact:

ULC assisted or owned properties are responsible for more than one-fifth of all new and preserved affordable TOD housing within the region. Since its inception, 17 loans have been made through the Denver Regional TOD Fund providing a total of $34 million in financing. As a result, more than 1,450 affordable homes near public transit have been created or preserved.

The Denver TOD Fund Capital Stack

The City of Denver was the largest single investor in the Denver TOD Fund. The city made a $2.5 million "**top loss" investment in the fund, in which it assumes the greatest risk in case any loans result in capital losses**. This investment has enabled other funders, including the John D and Catherine T Macarthur Foundation, Colorado Housing and Finance Authority, Rose Community Foundation and local banks and CDFIs, to participate in the fund that may otherwise have been deterred by the risk. The city's investment was motivated in part by an interest in reducing the combined costs of housing and transportation that disproportionately burden lower income households in Denver, and by a desire to help lower income households continue to be able to stay in neighbourhoods where transit investments are made. Capital is invested in the fund with a 10-year commitment; the capital revolves through the first five years and is distributed to investors in order of seniority thereafter.



The fund anticipates that its $30 million in capital investments to purchase and hold sites will leverage $100 million in local economic development, creating non-construction and permanent jobs.

Case study 2: Ngāti Whātua Ōrākei - Affordable Housing

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓	✓	✓	✓					✓

Context

For Ngāti Whātua Ōrākei hapū warm, safe kāinga (home) for hapū members is a priority. Many hapū members currently live in overcrowded, damp and unsafe housing environments - despite employment - due to the severe unaffordability of the private market in Auckland, which is one of the most competitive housing markets in the world. Ngāti Whātua Ōrākei hapū decided to tackle the issue of affordable housing for first home buyers. By doing so they sought to prove a new model that could shift the dial on access to secure affordable housing for hapū members.

Ngāti Whātua Ōrākei hapū, through this pilot, developed 30 new affordable residences for families and first home buyers with ready access to public transport and the Auckland CBD. Uniquely this development was designed not simply to solve for market failures but to directly address the barriers to entry of the intended cohort.

Challenge

A number of challenges were important to the Ngāti Whātua Ōrākei development, many of whom are lower income households.

In the broader market context these centred on:

- **land availability and prices** near existing transport infrastructure
- **cost of project development** and construction

For the cohort of intended purchasers these included:

- **finance for purchasers -** particularly saving for a deposit in the context of tight lending criteria and existing rental prices
- **financial literacy** of proposed purchasers (relating to saving for and managing the lumpy nature of anticipated ownership costs)
- **psychological challenges –** cultural norms including the dream of the quarter acre block and the view that homeownership was unattainable by significant numbers of members.

Solution

The development of 30 medium density houses at a capped price on the fringe of Auckland's CBD.

It would be easy to consider the solution as one dimensional – that it ve considered a 'Community Land Trust'. The Ngāti Whātua Ōrākei Trust, owned/held appropriate land in perpetuity outside of the 'commercial market' in the desired location. Further, the commercial arm of the hapū effectively absorbed the 'development' costs of the project.

This however was only one aspect of the solution and would fail to capture the key enabling mechanisms built into the full project.

Setting aside the ability of the Trust to address the cost of the land barrier, the solution developed by Ngāti Whātua Ōrākei considered maximum and evolving use of land, and designing a financial approach centred around the needs of a pre-determined purchaser group.

These considerations evolved into a solution that dealt effectively with both time and space, and their relationships to accessibility cost. The solution included the following key aspects for its success:

- medium density builds rather than the traditional quarter acre block reduced the costs of site and additional infrastructure build
- residences were built with room to grow e.g insulated garages that allowed for the growth of the purchasing and occupying families
- accessibility to public transport infrastructure
- 150-year leasehold terms to allow for a sense of ownership and intergenerational housing security
- vendor finance directly from the hapū
- time allowed for successful purchasers to save a deposit (18 months)
- deposit set at 5% rather than the typical 20% required by banks
- financial literacy assistance for purchasers in the lead up to ownership
- pre-determined fixed weekly repayments which factored in 'strata type' functions managed by the hapū including home insurance
- capped price re-sale value within the hapū community

The ballot for the development was more than 300% oversubscribed and at the time of completion only one purchaser was unable to meet the requirements, with that property being subsequently allocated from the waitlist.

Capital stack

- Philanthropy or pro-bono work covered the cost of development (term sheets etc.)
- Commercial construction costs
- Submarket fixed rate finance (from vendor for purchasers)

Case study 3: Australian NFP developer – use of privately owned 'lazy land'

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓	✓		✓	✓	✓			

Context

Faith-based organisations exist with a mission to contribute to community outcomes and the alleviation of poverty generally. Some faith-based organisations own a lot of assets, including 'lazy land' i.e. land that is unused or underused. This land is often in prime central residential areas, zoned for development or with high potential for rezoning. It has been estimated that one denomination has 1,000 such sites in Sydney alone.

Challenge

There is an opportunity for faith-based organisations, as landowners, to pursue valuable mission-aligned investment to ensure their own financial sustainability through unlocking their underused and unused land for affordable housing and its associated recurring rental income. However, these organisations may not have the expertise, risk appetite or free cash to develop these lands for housing.

Pre-development feasibility expenses are costly and high risk as not all sites are feasible for development. There have been instances where developers have had their fingers burnt when seeking to work with churches and, even in cases where there is alignment between faith-based organisations and developers, risk remains with securing council approval for any development (for example, where Nightingale Housing intended to partner with Fresh Hope and the development application was rejected by Marrickville Council.[viii])

Solution

An Australian non-profit developer which aims to maximise the spiritual, social, environmental and financial return of property owned by churches, charities and other faith-aligned NFP's in Australia was recently established and has funding for operating expenses for a 3-year period. It draws on philanthropic support (to offer a zero-interest loan) to cover development project funding costs up to the point of development application (DA) approval.

Following DA approval, mainstream financing is applied for and coordinated by the developer, initial project funding is then repaid and recycled which can then be applied to subsequent new projects. A standard development management fee on all successful projects is charged which supports the financial sustainability of operations, and possibly also the high-risk capital investment pool.

As faith-based organisations often have significant balance sheet assets against which to leverage, financing costs are favourable - several organisations have access to denomination specific funding pools such as the Catholic Development Fund (with sub-market interest rates).

The developer intends to manage property on behalf of the church and will coordinate arrangements with aligned CHP and wraparound services. Full asset ownership remains in perpetuity with the church and all developments are 'build to rent', i.e. no sales. The asset is head leased pre-

[viii] https://www.thefifthestate.com.au/innovation/residential-2/why-nightingale-and-fresh-hopes-low-carbon-affordable-rental-development-in-marrickville-has-stalled/

building to suitable CHP via long-term contracts. Absence of land costs and availability of low-cost financing for development costs means that there is less pressure on rental yields. There is potential for projects that integrate social, aged care, disabilities, affordable housing, meeting and worship space.

The approach is being piloted with the recent submission of its first DA for consideration. Philanthropic backing will provide flexibility for adaptation of the approach, if necessary, as well as the patience to see the model shift from being an idea to application at scale.

The Capital Stack

1. Philanthropy:
   - funds pre-development soft costs
   - funds organisational operating costs
   - is repaid after refinancing

2. Church provides:
   - Land
   - Asset backed financing of development
   - Portion of rental income received

3. CHP / others agree on leases before building is complete
   - Portion of rental income

Case study 4: New York City Housing Acquisition Fund

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
		✓	✓		✓			✓	

Context

In the early 2000s the stock of city-owned buildings and land that had been the cornerstone for many of New York City's housing programs was approaching zero. Affordable housing organisations that once relied on the city contributing properties for prices as low as $1 now had to acquire vacant land or properties for their pipelines. This was happening against a background of skyrocketing property values. Many affordable housing developers in New York City struggled to access the capital they needed to buy land or existing properties and, as a result, they often lost promising affordable housing opportunities to market-rate players who could assemble capital far more quickly.

Challenge

To provide flexible funds to mission-driven developers to acquire and preserve affordable buildings for low and moderate-income residents, which might otherwise be sold to speculative investors.

Solution

The NYC Housing Acquisition Fund (NYCAF) was created in 2006. It was launched with first-loss capital from its lead housing agency (the NYC Department of Housing Preservation and Development), and $32 million in subordinated, low-cost debt from six foundations. This included catalytic capital from the John D. and Catherine T. MacArthur Foundation ($5 million), The Rockefeller Foundation ($5 million), Ford Foundation ($4 million), FB Heron Foundation ($1 million), Robin Hood Foundation ($5.5 million), and Starr Foundation ($12.5 million) — which laid the groundwork for senior loans from 16 financial institutions. By **blending funds from these sources of capital, the Fund can take on greater risk and offer patient repayment terms tailored to project needs, below-market interest rates, and pricing incentives for non-profits and minority/women-owned developers**. The Fund structure allocates the risk so that public and philanthropic dollars serve as a guarantee limiting the senior lenders' risk exposure.

It provides both non-profit and for-profit affordable housing developers with early financial resources. Activities funded include:

- acquisition of land/properties
- construction 'soft costs'
- capitalised interest
- predevelopment and environmental costs (including remediation)
- architectural plans
- feasibility consultants.

Below-market rate loans are made for up to three-year terms. For-profit developers can receive loans with an LTV ratio of up to 95%, and non-profit developers can receive loans with an LTV ratio of up to 130%.

Impact

- Each dollar the city has invested in the Fund has **leverage**d $7 additional private dollars
- Over more than a decade, this innovative blended Fund has raised and invested more than $504 million to help finance 13,692 affordable apartments for low- to moderate-income residents[ix]. It has helped anchor revitalisation efforts that make communities safer and stronger, while protecting against displacement so that long-time residents can benefit from the gains that accompany economic growth.

Example of application: Landing Road Residence

Landing Road Residence is a relatively new homeless shelter in the Bronx, NYC. It is part of the Turning the Tide Initiative that **co-locates and co-finances traditional shelter and permanent affordable housing. The model leverages shared financing to provide cost-effective shelter to subsidise rents for very low-income, formerly homeless individuals and families on the same site**.

The Landing Road Residence has been developed and is owned and operated by non-profit shelter provider Bowery Residents' Committee (BRC). The development focuses on single adults without severe mental health disorders or substance abuse issues who are able to work, are in job training or are searching for work with BRC's help. Most are likely at the facility due to job loss or difficulty finding housing they can afford.

The bottom two floors of the building are a 200-bed shelter for single men. The rest of the building is affordable apartments. Apartments are split between 111 studios and 24 one- and two-bedroom apartments. The studios go to formerly homeless single adults earning at or below 35% of the AMI and cost US$470 per month. The one and two bedrooms cost around US$715 and US$1,000 respectively and go to families earning 60% AMI or less. On-site social services are provided by BRC and off-site services are available through BRC's own mental health and substance abuse centres and several partner organisations.

Creating a facility like Landing Road requires a lot of upfront capital. **The property was purchased through acquisition and predevelopment loans from the NYCAF (US$5.1 million)** and the Corporation for Supportive Housing (US$500,000).

The city funding that BRC receives for operating the shelter helps underwrite the costs of the affordable housing. BRC uses the surplus income generated by the shelter part of the building, resources that a private developer would take as profit, and re-invests it into the housing part of the building.

[ix] https://www.nycacquisitionfund.com/ accessed 19/10/2020

Case study 5: Leeds Community Housing

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓	✓		✓			✓		

Context

Leeds is a diverse and growing city. It is also one of the UK's most deprived according to research by the Ministry of Housing, Communities and Local Government.[23] As is the case across the UK, Leeds is experiencing an affordable housing crisis, with limited affordable homes being built and 24,000 people on the waiting list for housing as of 2016. Leeds City Council has been looking for ways to regenerate the area and provide quality, accessible and affordable homes. They are actively supportive of minimising empty private homes and the community-led housing sector, both of which feature in their housing strategy.

Challenge

Citu is a private developer with a commitment to community (they don't sell to investors) and a mission to deliver innovative and sustainable homes. Citu had an interest in developing an industrial site in the Climate Innovation District (CID) in Leeds and wanted to partner with an organisation capable of delivering community focused homes as part of their section 106 requirements. Citu was seeking an aligned partner for the development.

Leeds Community Homes (LCH) formed in 2015 is the hub for community led housing in the region. LCH invested much time, energy and commitment in the creation of a strong community and worked hard to place itself in the running for the project, competing against established housing associations. Despite lacking a track record, based on organisational alignment, LCH was selected as Citu's partner for the development.

Solution and capital stack

Citu agreed to grant a 999-year lease of 16 pepper potted 1- and 2-bedroom flats in the Climate Innovation District development to LCH for £800,000, enabling LCH to play a role in the development of community within the overall scheme[x]. The development incorporates 500 low carbon Citu[xi] including apartments and houses, alongside manufacturing, leisure, offices and climate resilient public realm in the heart of Leeds.

The 16 LCH flats are to be made available for affordable rental and sale. Land for the flats was obtained under section 106 (local council subsidised land costs) with the condition that nine flats be retained for social rent for the local authority housing waiting list. LCH, using a CLT structure, retains these nine flats and can sell the other seven.

LCH needed to raise £950,000 to purchase the homes from the developer and cover lease and additional costs. In order to raise the money required, LCH decided to use the mechanism of **community shares**. Community shares are a method of supporting community businesses. They must only be issued by a co-operative or community benefit society, and they tend not to be used

[x] Each resident in the development will become a member of a Community Interest Company (CIC) which will take over when the development is fully sold. The CIC will own the land, infrastructure, and renewable energy systems within the development

[xi] Citu Home – a new timber framed housing system which will create one of the most airtight and energy efficient homes in the world.

for investors expecting much financial gain, as interest received is limited and there is no guarantee the full capital will be returned if the project suffers financially.

LCH relied on Power to Change, a charitable trust (set up from the National Lottery Community Fund) that supports community businesses, to provide a **grant** (£9,300) to help them prepare the community shares offer.

LCH was able to raise £360,000 through its **community share** offer (£260,000 from private investors and a £100,000 'matched funding' contribution from Power to Change). All capital raised through the share offer was 'at risk'. Investment through the share offer provided LCH with an **affordable, patient source of finance at an early stage in its development** – the proposed 2% interest rate (payable from year 4) is around half of what would be expected on a long-term mortgage. Shareholder funds contribute towards the cost of purchasing flats and provide working capital until such time as all flats are rented out/have been sold and LCH is generating sufficient income to cover operating costs, primarily through rental income.

The remaining £600,000 will be generated through the sale of the seven homes, at approximately 60% of market value (and made available to people whose household income means that they would be unable to afford the flats at full market value). The sale of these flats, even at below market value, allows the quick return of capital back into LCH's capital structure and therefore reduces the financing costs and subsidises the rental properties.

Unfortunately, there have been substantial delays to the development due to the repercussions of the Grenfell Tower tragedy which has resulted in restrictions on timber development in schemes over 11 metres. While construction delays are common, the ability to manage the expectations of the community shareholders (sixty percent of whom are local community members) will be key.

Case study 6: Urban Regeneration - Granby 4 Streets CLT

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓	✓			✓		✓		

Context

In 2009 a group of residents took direct action to improve their local living environment in the Toxteth area of Liverpool. They had been living among many derelict houses that had been left to fall into disrepair and were earmarked for demolition by Liverpool City Council as part of the Government's Housing Market Renewal Program. The residents banded together to improve the local environment (e.g. cleaning the streets and painting the boarded houses) and while doing so, realised there was appetite among the residents to do something about the empty homes. They formalised the work that they were doing, and in 2011, established the Granby 4 Streets CLT.

Challenge

In 2012, the CLT won a small urban garden competition which was noticed by the Steinbeck Studio who came to visit them. They saw what was happening in the neighbourhood, liked the idea of citizens being active in the community and Steinbeck offered a loan. The challenge was to engage local council and get access to the land. Based on being able to successfully attract private investment, the Liverpool City Council began to take notice of the activities and ambitions of the CLT and eventually was convinced to transfer 10 properties over to the Granby 4 Streets CLT. Granby 4 Streets is the **first Community Land Trust to focus on the renovation of existing buildings.**

Solution

Granby 4 Streets CLT attracted a **highly concessional £500,000 loan** (0% for the first five years and then 4% for four years, moving onto banking terms) **from a social investor,** Steinbeck Studios. This allowed Assemble, a collective of architects, to create development plans and a feasibility study for the area. The access to finance proved instrumental in getting buy-in from Liverpool Council to support the project and **transfer the assets from the council to the CLT**.

They **refurbished 10, 2-bedroom homes** (including a Winter Garden due to a tree growing in the middle of one of the houses), regenerating the area and supporting local retail, social and creative enterprises. Five of the houses were sold for affordable prices and the remaining five are available for social rent. The regeneration efforts created housing and the development won the prestigious Turner Prize for art in 2015.

Before and after pictures from Assemble

The Capital Stack

A **£500,000 development loan** from social investor, Steinbeck Studios was the cornerstone investment that catalysed the Granby 4 Streets development.

In addition, Granby 4 Streets has been very **successful in fundraising £900,000 to support the early development and initial capital costs** of the project. The grants comprise:

- £14,800 CLT feasibility grant (National CLT Network)
- £128,000 affordable homes grant (Nationwide Foundation)
- £32,000 feasibility grant (Homes & Communities Agency)
- £37,500 grant (Department for Communities and Local Government)
- £10,000 feasibility grant – Four Corners (Heritage Lottery)
- £10,000 project activity grant (Awards for All)
- £385,000 community business development (Power to Change)
- £249,000 Winter Garden (Arts Council)
- £40,000 Winter Garden (Trusthouse Foundation).

Granby 4 Streets CLT aims to ensure that it will not be reliant on restricted income or grants and will be able to further develop using self-generated income. They are moving towards a position of being financially sustainable. Income from rent for the houses, shops and workshop will pay the operating costs of the CLT and repayments on loans. They have calculated that every house they rent produces a surplus of £3,500 a year, which can be invested into the CLT.

Case study 7: Renovating empty homes - Latch

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓		✓	✓			✓		

Context

The Ministry of Housing, Communities and Local Government estimates that there are approximately 650,000 empty homes in the UK, with almost 9,000 of those in Leeds. These homes not only are a huge waste of potential living space when demand for affordable housing is so high, but as the properties decline, they can attract social problems and cause issues for the neighbourhoods.

Challenge

Leeds council has a number of initiatives to reduce the amount of empty homes, including the creation of a social enterprise to advise empty home owners, compulsory purchase orders, empty home loans to renovate and return them for occupation, increases in council tax for long term unoccupied homes, and third sector partnerships, such as the one they have with Leeds Action To Create Homes (Latch).

Latch purchases empty and rundown houses and refurbishes them to create good quality homes. Most of the refurbishment work is done by Latch staff and unemployed trainees. Some have construction experience already, while others learn new skills as they work on site. When they're fully modernised and furnished, Latch provides these properties as supported housing for single people and families who are homeless or in housing need, and who need support to enable them to set up and sustain their tenancies e.g., women fleeing domestic violence, ex-offenders, and people with mental health, drug or alcohol problems.

Latch's supported housing is a steppingstone to independent living. Tenants are encouraged to stay with Latch for no longer than three years and are supported to move on to permanent independent accommodation.

Latch has been supported by Leeds Council since 1990 when they leased them two rundown properties.

Solution and capital stack

Latch activity is focused around three services:

1. Supported Housing: supporting tenants to move into their homes and to have successful tenancies
2. Property Management: maintaining Latch housing, ensuring they are well looked after and meet all relevant standards
3. Housing Development: refurbishing newly acquired properties whilst providing employment, training and volunteering opportunities.

Latch currently manages or owns 86 properties (58 properties are owned by Latch and the remaining 28 are leased from partner organisations). **Over the years, Latch has been successful in securing grants from a variety of sources**, to support its property renovation and development work.

From 2012-15 Latch secured grants of £979,000 through the Department for Communities and Local Government Empty Homes Community Grants Programme (EHCGP) to purchase and refurbish 15 empty properties, housing 39 adults and children. The Ecology Building Society provided **loan finance to supplement this grant funding**. "This funding made a substantial contribution to the sustainability of Latch," said James Hartley CEO. "The 15 properties we purchased increased the value of assets held by over 100% to £2.1 million and increased our revenue by 30%. Most importantly it enabled Latch to meet the needs of more people in housing need and to use its newfound financial strength to develop further housing."Since the EHCGP funding came to an end, Latch has continued to acquire and refurbish properties with the help of a variety of funders:

- 'Empty Homes 3' - Latch worked closely with Leeds City Council (CC) to develop a program to acquire and refurbish 16 more properties, known as Empty Homes 3. Leases on 13 properties already managed by Latch and in the ownership of Leeds CC were extended to 99 years, making it possible to raise loan finance against them. Grant funding was raised from Leeds CC through the Right to Buy Receipts Grants Programme which the local authority was running. This 16-home programme was also supported by £100,000 from LandAid and £105,000 from Nationwide Foundation and loan funding from Triodos bank of £1.1m. This project completed in December 2018.
- 'Empty Homes 4' - The follow-on project called Empty Homes 4 started in January 2019 and aimed to create eight new homes over the following 12 months. The eight properties were purchased as of October 2019, with three completed and let and five more due to be completed over the next three months. This project was funded by Leeds City Council Right to Buy Grant of £205,000, a £25,000 grant from LandAid and a loan from Leeds City council of £680,000.
- 'Connect Partnership' - A new project commencing in October 2019 is in partnership with Connect Housing and Canopy Housing. Using Homes England funding this partnership will see 28 new homes created. Latch will create 10 new homes over 14 months and then manage these on behalf of Connect Housing.
- 'Latch Creates' – Starting in October 2019, this project involves the purchase and conversion of a five-bedroom property into four high quality self-contained flats over 15 months. Funding of approx. £26,000 has been obtained from the Homes in Community Hands fund for the pre-development works (primarily the planning and design works). The purchase and conversion will be funded through a grant from Power to Change Community Business Fund of approx. £294,000, a Liverpool CC Right to Buy Grant of £130,000 and a loan from Triodos bank of approx. £150,000.

Case study 8: Home for Good – Pay for success model: housing for homeless individuals with complex needs

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
		✓	✓		✓			✓	

Context

On any given night, over a thousand people in Anchorage lack a safe and stable place to live. Of those, a small minority experience persistent homelessness and cycle through emergency response systems. Unlike residents who may just need temporary economic assistance to get back on their feet, these roughly 350 individuals typically have disabling behavioural health conditions and need housing paired with robust support services.

Home for Good aims to help 150 of Anchorage's most visible and vulnerable homeless residents within the next three years by connecting them with housing and support services. Home for Good's supportive housing includes services designed to build independent living and tenancy skills and connect people with the community-based health care, treatment and employment services they need to stay housed, out of emergency rooms, and out of jail. In addition, a landlord liaison, plus a risk pool, supports landlords willing to take a chance on renters they may otherwise be reluctant to rent to, like those with criminal records and mental illness.

Challenge

The Home for Good initiative aims to address one of the most complex challenges Anchorage faces: helping to transition persistently homeless, disabled residents—who often cycle through shelters, jails, and hospitals—into stable housing.

Solution

In 2019 Home for Good launched a pilot project with 21 people housed in supportive housing. One year later, participants had experienced 85% fewer arrests, 85% fewer trips to the Anchorage Safety Centre, 63% fewer shelter stays, and 44% fewer trips to hospital emergency departments. Of the 21 people housed, 19 remained stably housed and were continuing to work with case managers. The initiative was enabled by a **demonstration grant** from the U.S. Department of Justice and Department of Housing and Urban Development to United Way of Anchorage in 2016.

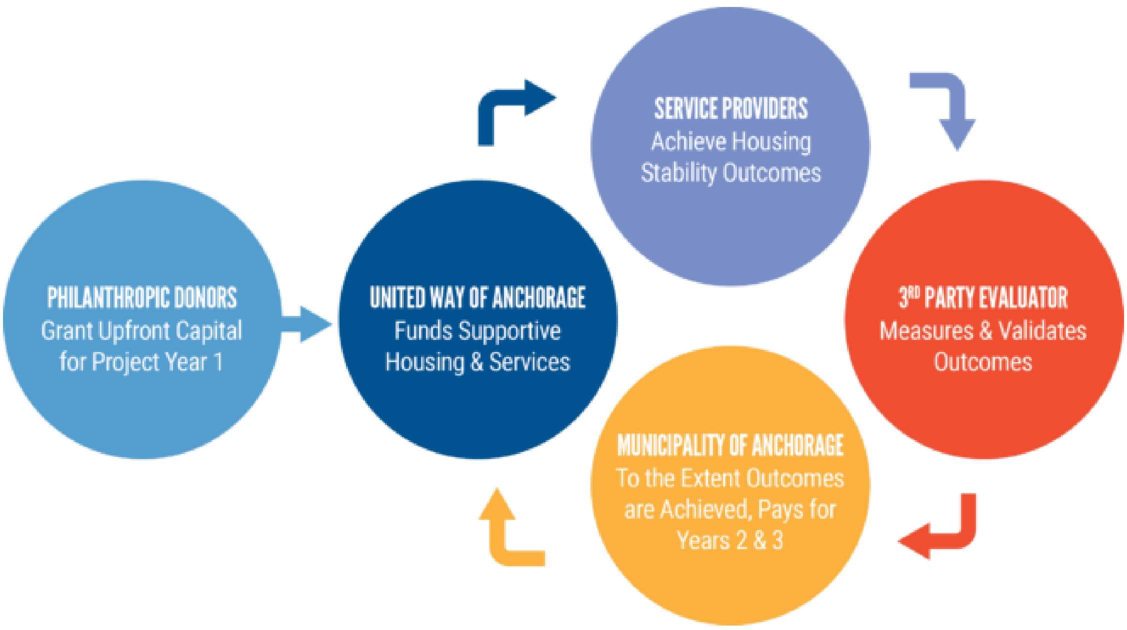
On the back of the evidence, in March 2020, the Anchorage Assembly approved the backbone financial infrastructure for the project launch by establishing a **Pay for Success** funding vehicle and a $4.5 million borrowing program. That laid the groundwork for the development of the Pay for Success contract with the program managers: Municipality of Anchorage, the United Way of Anchorage (program delivery), and national non-profit Social Finance, Inc.

Home for Good is the first project in Alaska to use a "Pay for Success" (PFS) financing model, which attaches unique fiscal accountability to public policy expenditures. **Philanthropy** (The Alaska Mental Health Trust Authority, Premera Blue Cross, Providence Alaska Foundation, and Rasmuson Foundation) **has committed over $2 million in start-up funding to operate the first year of the three-year project.** Years two and three are then funded by the Municipality, up to $4.5 million, but only if targeted results have been achieved according to the terms of a PFS contract. If the terms of the contract are not met or are only partially met, the Municipality doesn't pay or partially pays accordingly. Funds are released to the project for each stable month achieved—for up to 24 months after enrolment—with carefully defined exceptions and exclusions for things like jail or hospital stays. The program will also measure reductions in use of crisis services such as shelter stays, emergency room visits, Safety Centre intakes, and arrests.

The Pay for Success Financial Model for 'Home for Good'

- services delivered by Southcentral Foundation and Alaska Behavioural Health
- independent, formal evaluation from NPC Research
- technical assistance from the Corporation for Supportive Housing
- funding from the Rasmuson Foundation, Alaska Mental Health Trust Authority, Premera Blue Cross, Providence Alaska Foundation, and the Alaska Community Foundation
- program management from the United Way of Anchorage, Social Finance, Inc., and the Municipality of Anchorage. In its additional role as a funder, the Municipality ensures accountability by tying payments to successfully achieved outcomes.

Elements of the financial model are outlined in the figure below.



Case study 9: Thames Reach – Homelessness Social Impact Bond

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
		✓	✓				✓		

Context

The Combined Homelessness and Information Network (CHAIN) found in 2018 that there were 8,655 rough sleepers in London. Rough sleepers are defined as those sleeping in the open air or other places not fit for habitation. Rough sleepers often have complex needs, such as mental health or substance abuse problems and it can be difficult for them to access the services they need.

Homelessness is a very expensive issue for government and there is appetite to explore new ways to deliver the interventions necessary to address the challenge of entrenched homelessness and, at the same time, build an evidence base to inform better policy, programs and funding.

Social Impact Bonds (SIBs) are a way of providing the upfront funding needed to deliver Payment by Results (PbR) contracts. They are seen as ways to finance the testing or development of social interventions or evidence-based delivery models.[xii] Using SIBs, the Government (who commissions the services) can transfer risk (associated with trialling new models/approaches) to investors, who, in return, receive a financial gain should the pre-agreed outcomes associated with delivery of the new model be achieved. The SIB model is intended to support the development of innovative solutions that deliver outcomes as opposed to the commissioning of specific services.

Challenge

The London Homelessness SIB was created by the Greater London Authority (GLA) to find new ways to address the needs of 831 entrenched rough sleepers. It was the second SIB ever created (and first completed). Two experienced service providers, Thames Reach and St Mungo, were selected as delivery partners and the outcomes around which the SIB (and thus payments) were initially structured are outlined in Figure 22 Outcomes and payments, weighted according to importance.[24]

Figure 22 Outcomes and payments, weighted according to importance

Goal	Metric	Payment Mechanism	Proportion of allocated funding
Reduced rough sleeping	Reduced number of individuals rough sleeping each quarter	Payments according to a progress beyond a baseline of expected reduction	25%
Sustained stable accommodation	Confirmed entry to non-hostel tenancy, and sustained for 12 and 18 months (with allowance for occasional rough sleeping)	Payment on entry to accommodation, and at 12 and 18 month points	40%
Sustained reconnection	Confirmed reconnection outside of the UK	Payment on reconnection and at 6 month point	25%
Employability and employment	Sustained full-time employment. Sustained part-time employment. Sustained volunteering. Level 2 qualification achieved.	Payments when employment or volunteering sustained for 13 and 26 weeks. Payment for achievement of Level 2 qualification.	5%
Better managed health	Reduction in Accident and Emergency episodes	Payments for reduction in episodes against baseline	5%

During the SIB the health outcome was dropped given concerns about lack of access to good data.

[xii] https://emmatomkinson.com/category/social-impact-bonds

Solution

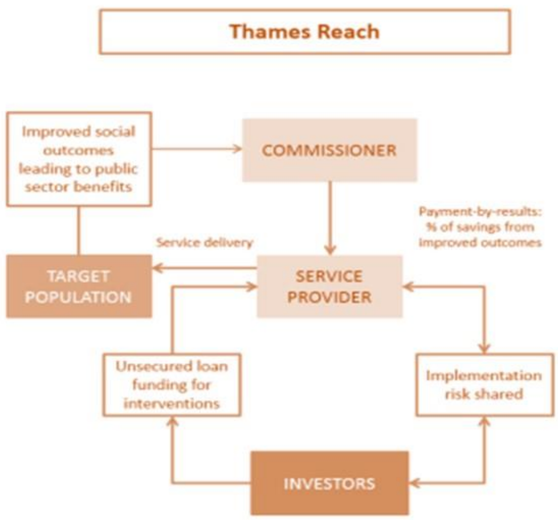
416 people were allocated to Thames Reach to work with. At the core of their delivery approach was the use of 'navigators'. The use of the term 'navigator' reflects the fact that the job requires the Thames Reach worker to support the service user off the street but also to access different services and help them find their way through the complex systems that have previously created barriers for people sustaining themselves off the street. Built into the role was the need for flexibility and adjustment as the work of the team changed as progress was made in helping people off the street. So, what was initially street-facing engagement, by year two moved to becoming work focused on helping people sustain themselves in accommodation and developing employment related skills, knowledge and experience.

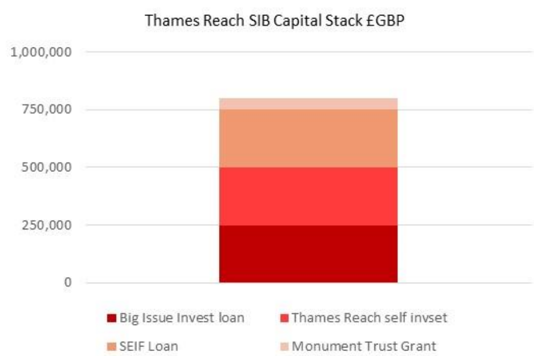
The Capital Stack

Social investors had an interest in "how being able to demonstrate the social impact can drive investment suitability and how the use of outcomes-based contracts allows providers flexibility in how they deliver their services most effectively and efficiently".

The structure to finance the Thames Reach SIB contract is outlined in Figure 23. Thames Reach's involvement in the SIB was enabled because they were initially able to secure a **£60,000 grant from Investment Readiness** fund to develop an attractive proposal. When selected to participate, their intervention was funded through **social investors' loans**.

Figure 23 Structure of the SIB and its capital stack





Thames Reach covered the upfront costs of the SIB through funding from the Department of Health Social Enterprise Investment Fund (SEIF) (unsecured loan), Big Issue Invest (secured loan) and contributions from their own reserves. In addition, The Monument Trust provided a grant that was not subject to repayment. The investors (Big Issue Invest and SEIF) were repaid on a quarterly basis with fixed interest rates with payments commencing within the first year of operations. These repayments were not based on outcomes achievement, so unlike under a conventionally funded SIB, as long as Thames Reach did not default on its loans, investors did not assume any degree of risk if the project failed. Big Issue Invest also received a percentage of outcomes paid in addition to its loan repayments with interest, so had the potential to share in the outcomes payments received from the GLA.

Thames Reach assumed the direct financial risks of low performance. The organisation chose to use this approach (a direct provider model) to minimise the transaction costs associated with establishing a SIB contract. This also meant that if successful, Thames Reach would gain substantial surpluses from the outcomes payments from the GLA after repaying the two investor loans, to put toward other programmes.

As part of the loan agreement with Big Issue Invest, the investor was given observer status on the Thames Reach Board, and this relationship progressed in a manner that has become a long-term partnership.

At the end of the project, of the 415 people supported:

- 67 remained on the street, with most people moving to temporary or settled accommodation
- 47 were assisted to return home
- 82 were able to sustain their accommodation for at least one year
- 30 have successfully taken up employment or volunteering opportunities.

Despite these successes, the project failed to reduce rough sleeping below the modelled baseline used in the SIB design. The impact evaluation of the SIB showed that despite rough sleeping targets not being met, the SIB had a significant positive impact on rough sleeping over the first two years of the programme.

Case study 10: PLACE – temporary modular housing on meanwhile use land

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓			✓			✓		

Context

There are currently more than 54,000 homeless households living in temporary accommodation in London – more than four-fifths of whom are families with children. Temporary accommodation typically means privately rented flats and can also include B&Bs and hostels.

Challenge

At present, more than a third of homeless households accommodated by London boroughs are accommodated outside the area of the local authority accommodating them. A body of research demonstrates that such placements can often disrupt childcare, education, and support networks, with serious impacts for families' health and wellbeing, and children's life chances, as well as making it more difficult to sustain employment.

Further, boroughs are facing cost pressures as a result of covering growing shortfalls between welfare benefits available to rising numbers of homeless households, spending longer periods in temporary accommodation, and the costs of providing that accommodation for them.

Finally, the London Housing Strategy and draft London Plan states, "to make efficient use of land that would otherwise be left vacant, boroughs are encouraged to identify sites that are suitable for residential occupation to be used for **meanwhile housing** including land in both public and private ownership" and that "meanwhile housing can be provided in the form of precision-manufactured homes. This can reduce construction time and the units can potentially be reused at a later date on another site."

Solution

In an attempt to offer high-quality, local temporary accommodation for families, London boroughs have joined forces with the Mayor of London to initiate PLACE (Pan-London Accommodation Collaborative Enterprise).

The aims of the initiative are:

- to increase the supply of good-quality family size accommodation
- provide lower-cost, better-quality options for households in temporary accommodation
- deliver new homes on sites which would otherwise remain dormant in the short or long term.

PLACE will deliver 200 **modular homes** (which are constructed off-site) by 2022. The modular homes will be placed on vacant '**meanwhile' sites** – land earmarked for development in the medium to long term, but which will remain underused for several years (usually 8-10). By working with a number of London local authorities, the units can be relocated from their existing site to the next most suitable available site in another local authority area.

Homes will be let at a range of rent levels in accordance with Local Housing Allowance levels in the area of placement, and this will be capped contractually at 80% of market levels. Local Housing Allowance rent levels represent a financially better option in many cases to the cost to boroughs of alternative accommodation used to house homeless families.

To get involved in the scheme, boroughs need to identify a meanwhile site and join PLACE. PLACE will then procure the modular housing units and manage the installation and removal and rent homes to boroughs at 90 per cent of the 2011 Local Housing Allowance rate, providing a less expensive option for local authorities.

The Capital Stack

The initiative is supported by £11 million of non-recoverable grant funding from the Mayor of London Innovation Fund. Seed funding from London Ventures, a London councils innovation programme was matched with contributions from London councils (£200,000).

The business model anticipates that all surpluses generated by PLACE are used to drive the delivery of additional homes for this purpose. This will include purchasing further units where there is site demand and replacing existing units at the end of their lifespan. This model, rather than creating a one off solution, creates a long-term delivery model with potential to expand and recycle incomes to scale up delivery of homes.

Case study 11: BoKlok

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
	✓			✓			✓		

Context

Worthing, a town on the South coast of England, is an increasingly popular place to live, with its proximity to nearby Brighton and being commutable by train to London. It is bordered by the English Channel to the South and a national park to the North which puts the limited land available for development at a premium. Homes are expensive at 11 times the average local salary and there are more than 1,300 households on the affordable housing waiting list.

Work commissioned by the council estimates the affordable housing need at approximately 400 per year to meet demand.

Challenge

As with many councils in UK, there is not the space or funding to build homes needed, and so new innovative approaches are required. “The council’s initial analysis indicated the land earmarked for [what became] the new BoKlok homes could provide 45 homes using a traditional approach, with 13 classed as affordable or [that]…BoKlok could treble the number of homes on the site.” (New Civil Engineer)

Solution

BoKlok is an affordable housing developer co-owned by IKEA and SKANSKA. It began in Sweden in 1997 and since its establishment, BloKlok has built over 12,000 homes across Scandinavia. BoKlok has twenty years of experience **creating sustainable, quality, low-cost homes at scale**. Homes are manufactured in a factory and small apartments can be built in a day. It is now expanding into other markets, including the UK and Germany.

Worthing Council agreed to lease land for BoKlok to pay ground rent on. In return BoKlok will develop 162 homes, 30% of which will be delivered at cost value for social housing. The remaining 70% will be sold by developers under the 'left to live' calculation. The ‘left to live’ affordability calculation considers a single parent on an average salary as a full-time employee and determines what would be affordable based on a 25-year mortgage, after paying taxes and living costs. The homes will also have restrictions to prevent their use as investment properties.

The project is a pilot scheme; if successful the collaboration will continue with the council and BoKlok considering a programme to provide 500 homes in the borough.

Case study 12: Social and Sustainable Housing Fund

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
✓		✓		✓			✓		

Context

Social and Sustainable Capital (SASC) is an impact-led social investor established in 2012. SASC launched two funds in 2014: The Community Investment Fund and The Third Sector Investment Fund and over the period since these funds were established, SASC has invested in organisations operating in many sectors across the UK. The experience gained managing these first two funds made it possible for SASC to develop a sector specific offering – the Social and Sustainable Housing Fund (SASH).

Challenge

Acknowledging that for many organisations, housing their beneficiaries is increasingly difficult, in 2017 Social and Sustainable Capital designed a structure that:

- enables organisations to provide housing for their beneficiaries
- absorbs the risks associated with buying or renting property
- gives the borrower the benefit of long-term asset ownership
- satisfies investors regarding risk and return.

Solution

SASH was established and launched in May 2019 with the following goals:

- to improve the lives of vulnerable individuals by increasing their access to safe, stable and appropriate housing
- to make small to medium sized charitable organisations financially stronger, by allowing them to buy housing in a low-risk way
- delivering housing and support services to vulnerable individuals
- establishing a track record of property and tenancy management.

SASH has been designed to provide small and medium sized charities and social enterprises with the finance to fund 100% of the property purchase plus associated costs, without requiring fixed term mortgage-like repayments.

To achieve this, SASC provides a **loan facility for a ten-year** period during which the borrower:

- sources and purchases properties (typically over the first year to eighteen months)
- manages the properties and gets paid for doing so over the life of the facility
- pays SASC rent receipts less insurance and maintenance costs

SASC takes a legal charge over each property purchased in the portfolio.

At the end of the ten-year facility period the borrower has the option to:

- repay 85% of the value of the property portfolio (independently assessed) subject to a minimum of 75% of the initial loan, or
- return the property to the Fund if they are unable to/choose not to repay.

To be eligible for investment an organisation must demonstrate the following:

- registration as a charity or social purpose organisation
- based and operating in the United Kingdom
- delivering housing and support services to vulnerable individuals. These can include (but are not limited to) those fleeing domestic violence, children leaving care, ex-offenders, asylum seekers, people with complex mental health issues and people with addiction issues
- a track record of property and tenancy management
- recognition of the value of home ownership to their organisation
- an unmet demand for housing for the vulnerable individuals they support
- local property market knowledge
- generating measurable social impact
- annual income between £500,000 and £30 million
- strong management and governance.

The Capital Stack

Since its establishment, SASH has invested more than £16 million in six organisations offering housing solutions for people with disability, asylum seekers/refugees, women and children fleeing domestic violence, socially excluded and vulnerable individuals with complex needs and ex-offenders. Figure 24 highlights the difference between the approach to financing applied by SASC and that associated with conventional funding.

Figure 24 SASC structure vs conventional funding

	SASC Structure	Conventional Funding
What we will fund	SASC will fund 100% of the purchase price of the properties (including stamp duty land tax and staff costs associated with the acquisition strategy	Typically max 70% LTV
Cost of Funding	Up front arrangement fee: none Running cost: For ten years, the borrower passes through all rents received on properties funded by SASH investment less: • Insurance costs • Maintenance costs • Management fee retained by the borrower. Legal costs: SASC contributes up to £10,000 for borrower legal costs	Upfront fee: bank charges will vary Running cost: interest plus capital repayments of loan Legal costs: vary
Performance risk	SASC takes all void risk, non-payment risk and rental income risk (e.g. housing benefit changes)	Borrower takes all performance risk
Property value risk	Borrower may end up repaying more or less than the amount initially borrowed in year ten. Borrower has the right to hand properties back to SASC and the loan will be written down to nil.	Borrower takes all property value downside and upside
Balance sheet treatment	Assets and related loans appear on borrower's balance sheet	Assets and related loans appear on borrowers balance sheet
Other benefits	Ability to provide beneficiaries with housing whilst getting paid for doing so and taking no risk Ability to buy properties out of the structure through the life of the transaction	

Case study 13: NEF Flex

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
✓	✓				✓		✓		

Context

Traditionally rentals in the UK were largely provided through social housing (via a local council or housing association) but recently has been offered by private landlords with only one or two homes. This has contributed to variable quality, security of tenure and affordability for tenants. The government, keen to expand the Build-to-Rent (BtR) sector, introduced a number of supportive policy initiatives, and whilst there has been growth in recent years, it is still a nascent sector.

That being said, there are concerns that the growth in the supply is not at the affordable end of the spectrum and as such, there have been calls for stamp duty surcharge exemptions, and the zoning of some public land as BtR only and ensuring for the affordability needs of local communities.[xiii]

Section 106 is a condition of the planning permission system to get contributions from developers to pay for local infrastructure and affordable housing (usually defined by a number of subsidised affordable units). This restriction is however viewed as an additional risk for BtR developers, particularly when facing unfavourable changing economic conditions because, if market rents go down, incoming revenues will drop either through reduced rental income or increased vacancies, thereby reducing the financial subsidy of the social homes.

Challenge

Many investors have been reluctant to invest in BtR, as compared to build to sell, because there are slimmer margins in the short term, tax disadvantages and a delay to the return of capital, preventing developers or investors from starting new projects. With a mixed tenure rental scheme, providers are at the mercy of rental market prices and demand, leading to income streams that are unstable, and therefore unattractive for institutional investors.

The New Economics Foundation (NEF) proposed a new housing scheme, named NEF Flex which was developed to overcome two challenges. Firstly, that of the section 106 requirements of a defined number of affordable units that would be needed for a BtR development, and secondly, to 'recycle' the capital quicker.

Solution

NEF obtained an amendment to section 106 to allow for a **maximum income to be earned by a developer instead of defined number of affordable units**. In doing so, it created the possibility of providers being able to flexibly change the ratio of affordable rent to market rent units.

The alternative calculation, using a maximum income, works under the following conditions:

1. If market rents increase, the additional income can be used to:
    - provide additional subsidised homes by reducing the number of homes available for market rent
    - purchase additional land.

[xiii] https://www.resolutionfoundation.org/app/uploads/2014/08/Building-homes-for-generation-rent.pdf

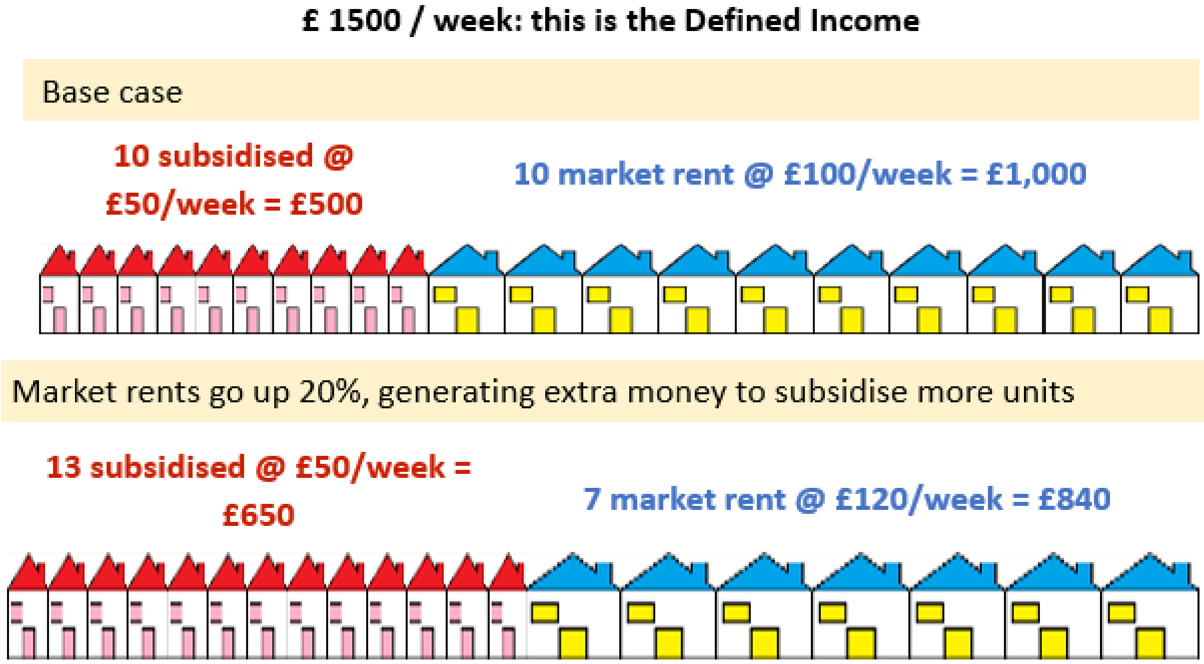
2. If market rents decrease, the number of social homes would be decreased to allow for more market rent homes.

The benefits of this flexible rent is:

- steady income streams, becoming attractive to institutional investors
- mixed tenure communities.

Figure 25 illustrates how an increase in market rents can result in increased availability of affordable housing via the NEF Flex model. The NEF proposal suggested this works best for a reasonably large development site (e.g. >100 units) to allow for 'flex' of individual units through natural attrition.

Figure 25 The impact of increasing market rent in the NEF Flex model: more affordable housing



Developments applying this approach have the potential to be sold onto institutional investors, freeing up the original investment to allow the project cycle to begin again. Modelling suggests that selling the stable income streams associated with the NEF approach to a mutual fund enables capital recycling to deliver four times as many homes over a ten-year loan period

The Capital Stack

Early 2020 saw the opening of a fund "The BMO UK Housing Fund" to invest in BtR affordable housing in the UK. The fund is managed by Canadian Bank of Montreal, BMO Global Asset Management. BMO is working with Home Group (a UK housing association) to deliver the homes.

The homes are not directed at social housing tenants as the scheme was initially conceived, but rather focus on lower to middle income, local key workers. The motivation of BMO is to trade the churn associated with short leases from chasing rental income growth to reduce volatile cashflows by providing long term homes with a steady sustainable income.

The Fund size is £45 million and Big Society Capital has committed £15 million as a seed investor. The Fund will target a circa 6% return and 4.5% annual distribution yield.

Case study 14: Arizona Community Foundation Affordable Housing Loan Fund

ROI	Cost of land	Cost of finance	Ongoing op. costs	Cost of dev.	Risk	Australia	UK	US	New Zealand
		✓		✓	✓			✓	

Context

According to the National Low Income Housing Coalition, Arizona's rental-housing supply can now meet only a quarter of the state's needs. In fact, Arizona has just 25 affordable and available rental units for every 100 extremely low-income rental households.

About 20% of Arizona rental households are extremely low income and 78 percent of Arizona's poorest households spend more than half their income on housing.

Challenge

Increase the supply of affordable housing options.

Solution

In 2007 The Arizona Community Foundation (ACF), in partnership with Phoenix Local Initiatives Support Corporation, and with financial support from several community partners created the **Affordable Housing Loan Fund**, to provide pre-development funding for affordable housing projects across Arizona.

Unlike traditional charitable funds, ACF **provides zero-interest loans of up to $75,000 per project to non-profit housing developers for the pre-development phase of affordable housing projects**, for which financing is not typically available. Once the project receives long-term lender financing, loans are repaid to the Fund—making those dollars available for new projects.

The Affordable Housing Loan Fund supports a variety of types of housing for low-to moderate-income individuals and families, homeless veterans, senior citizens, and disabled adults. Several of the supported projects buy and rehabilitate foreclosed properties and resell them to moderate-income buyers, often in partnership with local governments.

The Fund is flexible in light of changing housing market conditions, and funds supportive housing, rehabilitation of foreclosed and abandoned properties, and conversion of existing inventory for affordable uses.

Impact

- A total of $4.9 million loaned for 49 housing projects across Arizona
- Leveraged approximately $512.8 million in housing (2,937 units)
- Created over 3,000 jobs

Examples of application:

1. The Coffelt-Lamoreaux Apartment Homes were the state's first affordable housing project. They were built in 1953 to house veterans returning from the Korean War. When the community

faced the threat of demolition due to unsafe living conditions in 2012, the Housing Authority of Maricopa County, developer Gorman and Company, and dozens of other partners worked to transform the neighbourhood into modern, affordable homes for the hundreds of families who lived there. To launch the project, the Housing Authority leveraged the ACF Affordable Housing Loan Fund as a resource. The pre-development loan helped support much of the initial activity required to bring the project to fruition. Rents vary at Coffelt and are based on 30 percent of residents' incomes.

2. The **Highland Square Senior Apartments located on West Mingus Avenue in Cottonwood** is a local project supported by the ACF Affordable Housing Loan Fund. The apartment complex opened its doors in 2017 and has 60 units of affordable housing for seniors aged 62 or older. All 60 units have rental subsidies allowing residents to pay only 30% of their income towards rent and utilities. Seventy percent of the units service households at 50% AMI. Highland Square has partnered with Catholic charities to provide on-site services such as monthly nutrition and financial literacy classes. Other services include transportation, recreation and wellness classes, blood pressure screening, on-site food pantry and referrals to other services in the area.

In 2012 ACF launched the **Community Impact Loan Fund to provide loans and loan guarantees to non-profit businesses**. The Fund offers loans to non-profit community projects, often at or below market rates. As loans are repaid, funds become available for use with other projects, creating a continual recycling of charitable capital.

The Community Impact Loan Fund:

- **applies lessons learned from ACF's successful Affordable Housing Program to other important areas of need in Arizona**
- produces greater leverage and scale by using a small portion of assets as recyclable, low-interest, or market-rate loans across multiple non-profit sectors
- introduces new and sophisticated financial tools to non-profits, increasing organisational expertise and ultimately strengthening the non-profit sector
- provides access to capital that may not be available or affordable to non-profits through traditional lenders
- expands impact across the broader community
- attracts new donors interested in achieving greater community impact.

Chapter 5 Testing the implications of different approaches to investment in affordable housing: the modelling

Disclaimer

The models described in this paper have been developed to enable a comparison of some of the options open to philanthropy to assist with financing in the affordable housing space. The models and their assumptions, as hypothetical examples, do not claim to be accurate or complete, and should not be considered as a recommendation to take into a particular property development, for philanthropic investment or granting objectives, financial situation or needs. You will make your own independent assessment of the reliability, accuracy, completeness or suitability of this information, and will rely on it at your own risk. The modelling is illustrative to enable comparison of the options. of the options.

Contextualising the models

Five high-level financial models were developed to explore the implications of five different potential financing pathways that could be considered by philanthropists interested in contributing to increasing the supply of affordable housing.

We note that affordable housing represents a spectrum of demand from those on very low, low and moderate incomes. We also note that it sits as part of a broader journey out of homelessness and housing insecurity. Stable, safe and affordable housing is the best intervention at any stage of the homelessness / housing insecurity cycle. The lack of supply of properties, exacerbated by the increasing housing finance stress being experienced by moderate income households, perpetuates the current cycle of housing vulnerability.

It is also important to note that while philanthropy may have historically looked to target social housing development interventions for those solely on low and very low incomes, there is evidence that the increased demand for social housing and the decreasing affordability of its construction is corelated with the decrease in supply of affordable housing for low and moderate income earners. The demand for affordable housing among low and moderate income earners is especially critical when considered over time, particularly with forecasts of increasing numbers of households experiencing poverty relating to housing stress. While philanthropy has traditionally understood its mandate to sit within the realm of those on low to very low incomes, an increase in affordable supply for moderate income earners would decrease pressure on social housing demand. To this end, the models presented in this report include moderate income earners. The decision to include the moderate income cohort is based on the following factors:

- it is growing (and currently underserved)
- inclusion of moderate income alongside low in mixed tenancy models serve as a reasonable intervention to reduce future poverty
- the scale of philanthropic funds available to generate an intervention shows greater leverage when including moderate income tenancies.

Model Assumptions

In building the models, as a starting point, the option must break-even as a minimum (i.e. meet the loan repayments) to be considered. There is no requirement to generate any surplus. In all cases land has been gifted. Key assumptions underpinning the modelling and definitions for key terms are outlined in Table 4. Further modelling details are available in Appendix 1.

Table 4 Modelling assumptions and key definitions

Element	Assumption / Definition
The Units	Models include a mix of 40 one, two and three-bedroom units. They are 50, 75 and 90 sqm respectively and located in Melbourne.
Timings	• Pre-Development occurs in years 0 - 1 • Construction occurs in years 1 - 2 • Rent is received in year 3
Costs	Assumes a construction cost of $3,500/sqm, and that pre-development costs are equivalent to 10% of the overall construction cost.
Rental income	The rents are set at 30% of tenant income, with the rental prices correlating to a single adult, couple, or family income respectively. The income changes depending on the tenant mix and includes a vacancy rate. The model uses the upper limits of the income ranges. Rents are static for the first five years and increase 2% per annum following. Rental income is offset by rental maintenance and management costs, which increase at 2% per annum.
Sales income	The unit sales prices range from $470,000 - $570,000. The sales prices increase yearly by 2%. In the CLT option, the units are sold at 50% of market price.
Loan facilities	• Pre-development finance facility is short term (assumed in these models to be one year, although often the facility may be needed for much longer, as discussed above), to have weak or no security and attracts a premium rate, here at 8%. • Construction finance facility is long term (assumed in these models to be between 20 and 30 years) but because it is secured against the land to be developed, has a rate of 4%. • During construction the facility charges interest only (one year) but capitalises this by adding it to the loan amount, meaning no payment is required during this period. Once construction ends, regular principal and interest payments are expected.
Outlay	The total amount of cash outflows from philanthropy to the project.
Return	The total amount of any cash inflows to philanthropy from the project.
Net Costs	The outlay less the return.
Discounted cashflows (DCF) & Net Present Value (NPV)	Generally, money is considered to reduce in value as time goes on – i.e. $100 five years from now would be valued less than $100 is valued today. To assess the relative value between the years, a discount factor can be applied. For example, a discount factor of 10% would value $100 today as $91 next year and $83 the following year. The sum of these discounted cashflows is the Net Present Value (NPV). Application of a discount factor and conversion to NPV

	allows the comparison of options which have a very different timing profile of cash inflows and outflows. A positive NPV shows a project is a worthwhile investment at that particular discount rate. A negative NPV shows the project will cost money. The options that have been considered in this paper have applied a 2% discount rate.

Before exploring the modelling outputs it's useful to understand the challenges associated with initiating affordable housing developments. The pre-development phase is risky because outcomes are uncertain and consideration timelines variable. Under a standard process, a developer is required to invest time and money to take the chosen plot through to development approval (DA). Assuming all goes well, and development is approved, the pre-development loan can be refinanced into a construction loan. The modelling assumes that DA is successful 70% of the time, that is, developers 'lose' pre-development money for nearly one in three projects.

Some organisations have cash reserves to be able to finance the approval delays and / or losses, but for those that do not, due to the lack of security or collateral (i.e. the land being developed), there may be a need for a short-term commercial loan which will attract a higher interest rate than construction finance – this risk acts as a disincentive to innovation and development projects that are not straightforward. Moreover, delays at this stage of a project compound overall financial pressure on the project, not just because financing is at a premium rate instead of the lower construction rate, but also because of the longer the gap between the initial outlays for pre-development work (architects, engineers etc) and the time when the project is generating rental income.

Modelling outputs and what they mean

The options that have been modelled are exemplars of approaches that philanthropy can reasonably consider as options for supporting affordable housing. These are high level, hypothetical models – the intention is to highlight the reasons why approaches might be attractive, when they might be deployed and the implications of selecting the particular option.

Option1: Pre-Development Approval (DA) Fund

This option explores the impact of having philanthropic contributions pooled into a revolving fund that not-for-profit developers can access to cover costs associated with activities undertaken prior to submitting for development approval. The fund is useful for three main reasons:

1. it mitigates risk of cost blow outs due to the usual extended timeframes associated with development approval (pre-DA loans attract higher interest costs when they are available (sometimes it is not possible to access a loan which means that equity has to be available to the NFP developer in the form of cash reserves, which is unlikely) and delays in approvals mean delays to rental revenues which puts additional financial strain on the project
2. it absorbs the cost of failed DA applications (the model assumes 30% of the DA applications are unsuccessful)
3. it can be delivered as a wraparound solution with the Fund being administered by experienced development managers who make development of 'lazy' land accessible for landowners without any in-house development expertise.

Option 2: Top up revenue payments to help balance project

From a financial modelling perspective, this option provides the balancing payment where the cumulative project income cannot meet the outgoings. This could be adapted to suit payment by results or a social success note in combination with wraparound support services such as financial literacy education or employment search. This option could also gather implementation evidence for advocacy work with government to consider housing solutions and associated payment streams from a holistic, place-based perspective rather than in silos of housing and social welfare.

Demonstrating the validity of this approach to government and instigating structural system change of how public monies are spent can make lower-income housing more sustainable from an investor lens and contribute to the effective solution framework.

Option 3: Interest Only Development Loan

This option is feasible for philanthropists able to contribute large amounts of funds (or for a syndicate of philanthropists). It sees the provision of an interest only loan whereby the project will pay interest in perpetuity - the capital outlay is never repaid as long as the housing is maintained in the rental pool and not sold off to recoup the principal outlay. An alternative approach would be to consider sell off (of some or all) of the units at a future point in time decided by the Foundation (possibly capturing capital uplift) which would represent an exit strategy over the long term.

Option 4: Hybrid – Pre-DA Fund and Top up

This is a combination of Options 1 and 2 - it enables viability of the Pre-DA fund under some scenarios by providing smaller top-up amounts.

Option 5: Community Land Trust (CLT) selling 10 units @50% market discount in later years

There are establishment and ongoing operating costs associated with the creation of a CLT structure. Philanthropy is used to pay for these costs. Doing so however, locks in the value of the land, and so when units in a CLT are sold it is possible for them to be sold at an affordable price (having avoided rising land costs). In the modelled scenario, the sell-off of units doesn't happen at the point of construction completion (as is often required for cash injections back into the developer), rather, the units are sold over a number of years which means that tenants are able to save for a deposit over that time and can benefit from being able to purchase the unit at a 50% discount to market.

Modelling the base case: of 60% very low income and 40% low income tenancy mix

A base case was developed to enable comparison across the models. The base case looked at building a 100% rental development of 40 units (one, two and three bedrooms), located in Melbourne. **60% of the units were allocated at 'very low income' and 40% at 'low income' affordability.** The Victorian Government income definitions for affordable housing were used and therefore rent prices are set at 30% of the relevant levels.

For all options it is assumed they are able to attract commercial financing to cover the development costs (4% over 30 years) and for pre-development costs (a short-term facility of 8%, with the exception of the pre-DA fund options). Where the options have not used these rates, they have been noted.

Figure 26 summarises the implications of each of the modelled options.

Figure 26 Comparing costs to philanthropy associated with the models (Base case: 60% very low income and 40% low income)

	Pre DA Fund	Top Up	IO loan	Pre-DA Fund & Top Up
Development				
units	40	40	40	40
rent	40	40	40	40
sale	0	0	0	0
Financing Facilities				
Commercial facility (Pre-development) phase	N/A	$1.4m	$1.4m	N/A
Rate (P&I)		8.00%	8.00%	
Term		1	1	
Commercial Facility (Construction phase)	$12.0m	$12.5m[1]		$12.0m
Rate (P&I)	4.00%	4.00%		4.00%
Term	30	30		30
Philanthropic Facility (Construction phase)			$12.5m	
Rate (IO)			2.95% IO	
Term			perpetuity	
Cost to Philanthropy				
Outlay	Pre-DA Fund fails with this cohort. Cannot meet loan repayments	($6.5m)	($12.5m)	($7.9m)
Return			$11.4m	$1.0m[2]
Total costs		($6.5m)	($1.1m)	($6.9m)
over c. 30yr period discounted future cashflows @2%		($5.0m)	($4.5m)	($5.4m)
Size of philanthropic contribution per unit		($0.2m)	($0.3m)	($0.2m)
Variables considered in calculating above	*Pre-DA costs inc. failures, pre-DA fund received 5% fee once commercial finance secured*	*top up amounts paid*	*investment less interest paid*	*as per Option 1 & 2*
Notes:		1. Includes refinancing of pre-development work		2. Repayment of successful pre-DA work and 5% fee

A deeper dive into the options as applied to the base case

Option 1 – Pre-DA Fund

This option models what would happen if a fund was established that provided funding to not-for-profit developers to take land through to DA. There is no interest charged on the funds which are not repayable until construction begins, upon which a percentage fee is charged to the developer, repaid when commercial construction financing is in place **at 4% over 30 years.**

The initial outlay to the developer is smaller as they only pay for the successful DA, whereas in the other options, the DA cost is higher to cover the 30% failure rate of the other projects.
The rental income generated from this tenure mix is **insufficient** to meet the loan repayments of the construction facility.

Option 2 - Top-up

Under this option, the developer is responsible for the pre-development costs. Applying the 70% success rate, the developer also needs to factor in the cost of the failed projects, which increases the DA costs. Developers access a short-term **commercial loan facility at 8%** to cover these costs. Once the development is approved, the facility is converted into a cheaper commercial construction loan **at 4% over 30yrs**.

The rental income associated with the base case cohort of tenants is **only enough** to meet the loan repayments of the construction facility and requires **a $6.5m top up** to ensure the project doesn't run out of money.

Option 3 - Interest Only Loan

Under this option, the developer is responsible for pre-development costs. Applying the 70% success rate, the developer also needs to factor in the cost of the failed projects, which increases the DA costs. Developers access a short-term commercial loan facility **at 8%** to cover these costs. Once the development has been approved, the facility is converted into an **interest only loan at 2.95% provided by philanthropy**. Developers are not charged interest during construction, but at construction completion it is expected that interest payments will be made in perpetuity.

The rental income generated from this base case cohort of tenants is **enough** to meet the repayments of the interest only facility, but only at the **maximum of 2.95%.**

Option 4 – The Hybrid (Pre-DA Fund & Top-up)

This option is a hybrid of Options 1 and 2. It models what would happen if a fund was established that provides funding to not-for-profit developers to take land through to DA. There is no interest charged on the funds which are not repayable until construction begins upon which a percentage fee is charged to the developer, repaid when commercial construction financing is in place **at 4% over 30 years**. The initial outlay to the developer is smaller as they only pay for the successful DA, whereas in the other options, the DA cost is higher to cover the 30% failure rate of the other projects.

Despite the DA Fund, the rental income generated with this cohort is **only enough** to meet the loan repayments of the construction facility with **a $7.8m top up** to ensure the project doesn't run out of money.

Modelling the implications of an alternative tenancy mix: 40% low income and 60% moderate income

We explored an alternative tenancy mix with the development comprising 40% low and 60% moderate income tenants and, in this case, a fifth option was modelled – establishment of a CLT with 75% (10) of the units eventually sold at a heavily discounted rate.

All the five options explored were viable, and the interest only option even delivers a positive discounted **cashflow** (circled) **albeit over 30 years.** Figure 27 summarises the costs to philanthropy with details provided below.

Figure 27 Comparing costs to philanthropy associated with the options (40% low income and 60% moderate income)

	Pre DA Fund	Top Up	IO loan	Pre-DA Fund & Top Up	CLT setup & sell @50% market value
Development					
units	40	40	40	40	40
rent	40	40	40	40	30
sale	0	0	0	0	10[1]
Financing Facilities					
Commercial facility (Pre-development) phase	N/A	$1.4m	$1.4m	N/A	$1.4m
Rate (P&I)		8.00%	8.00%		8.00%
Term		1	1		1
Commercial Facility (Construction phase)	$12.0m	$12.5m[2]	N/A	$12.0m	$12.7m[3]
Rate (P&I)	3.95%	4.00%		4.00%	4.00%
Term	30	30		30	30
Philanthropic Facility (Construction phase)			$12.5m		
Rate (IO)			5% IO		
Term			perpetuity		
Cost to Philanthropy					
Outlay	($1.4m)	(< $0.1m)	($12.5m)	($1.4m)	($0.8m)
return	$1.0m[4]		$19.7m[5]	$1.0m[6]	
total costs	($0.4m)	(< $0.1m)	$7.2m	($0.4m)	($0.8m)
over c. 30yr period discounted future cashflows @2%	($0.4m)	(< $0.1m)	$1.2m	($0.4m)	($0.8m)
Size of philanthropic contribution per unit	(< $0.1m)	(< $0.1m)	($0.3m)	(< $0.1m)	(< $0.1m)
Variables considered in calculating above	*Pre-DA costs inc. failures, pre-DA fund received 5% fee once commercial finance secured*	*Amounts paid by philanthropy to 'top-up' revenues*	*philanthropic investment less interest paid*	*as per Option 1 & 2*	*CLT setup & working capital*
Notes:	4. Repayment of successful pre-DA work and 5% fee	2. Includes refinancing of pre-development work	5. Interest payments	6. Repayment of successful pre-DA work and 5% fee	1. 10 units are sold from year 10 at 50% of market value 3. Includes setup costs of CLT and refinancing of pre-DA work

A deeper dive into the options as applied to alternative tenancy mix

Option 1 – Pre-DA Fund

This option models what would happen if a fund was established that provided funding to not-for-profit developers to take land through to DA. There is no interest charged on the funds which are not repayable until construction begins upon which a percentage fee is charged to the developer, repaid once commercial construction financing is in place **at 3.95% over 30 years**. The initial outlay to the developer is reduced as they only pay for the successful DA, whereas in the other options, the DA cost is higher to cover the 30% failure rate of the other projects.

The rental income with this cohort is **enough** to meet the loan repayments of the construction facility, but only if they can find **construction finance at 3.95% instead of at 4%**

Option 2 - Top-up

Under this option, the developer is responsible for the pre-development costs. Applying the 70% success rate, the developer also needs to factor in the cost of the failed projects, which increases the DA costs. Developers access a **short-term commercial loan facility at 8%** to cover these costs. Once the development is approved, the facility is converted into a cheaper commercial construction loan **at 4% over 30yrs**.

The rental income with this cohort is **only enough** to meet the loan repayments of the construction facility with a **$10,000 top up** to ensure the project does not run out of money.

Option 3 - Interest Only Loan

Under this option, the developer is responsible for the pre-development costs. Applying the 70% success rate, the developer also needs to factor in the cost of the failed projects, which increases the DA costs. Developers access a short-term **commercial loan facility at 8%** to cover these costs.

Once the development is approved, the facility is converted into an **interest only loan at 5% provided by philanthropy**. Developers are not charged interest during construction, but at construction completion it is expected that interest payments will be made in perpetuity.

The rental income with this cohort is **enough** to meet the loan repayments of the interest only facility. **It has a positive NPV of over $1m.**

Option 4 – The Hybrid (Pre-DA Fund & Top-up)

This option is a hybrid of Options 1 and 2. It models what would happen if a fund was established that provides funding to not-for-profit developers to take land through to DA. There is no interest charged on the funds which are not repayable until construction begins upon which a percentage fee is charged to the developer, repaid when commercial construction financing is in place **at 4% over 30 years**. The initial outlay to the developer is smaller as they only pay for the successful DA, whereas in the other options, the DA cost is higher to cover the 30% failure rate of the other projects.

The rental income with this cohort is **enough** to meet the loan repayments of the **construction facility at 4% but only with a small top up** is needed to ensure the project does not run out of money.

Option 5 - CLT

Under this option, the developer is responsible for the pre-development costs. Applying the 70% success rate, the developer also needs to factor in the cost of the failed projects, which increases the DA costs. Developers access a **short-term commercial loan facility at 8%** to cover these costs. Once the development is approved, the facility is converted into a cheaper commercial construction loan **at 4% over 30 years**.

Before the project is complete, there is work to be done to set up the structure of the CLT and to support its ongoing operations (which includes managing the community members as well as various member/services fees and costs). **In year 10 onwards, the project supports the sale of 10 units at a 50% discount to market**. This discount is to reflect the restrictions placed upon the resale value of the units, and to increase affordability.

The rental income with this cohort is **only enough** to meet the loan repayments of the construction facility and the ongoing costs of the CLT structure with **a $788,000 top up** to ensure the project doesn't run out of money.

A comparison across the models

As indicated in Figure 28, the implications for philanthropy in terms of quantum of contribution, timeframes, potential for return, capability to manage and level of innovation and risk, vary significantly across each of the models that were developed. These comparisons however are useful for high level assessment – the options are representative of the 'demand' side for philanthropic capital. Philanthropists can consider these outputs in light of the supply side characteristics of their philanthropic capital to identify the options that are most likely to align across both sides of the equation. Rigorous modelling for a fully scoped option(s) would subsequently be required for informed decision making.

Figure 28 Comparing the models and philanthropy's role in each

	Financial Mechanisms					"Wild Card"
Comparison elements	Option 1 – Pre-DA Fund	Option 2 – Top up	Option 3 – Interest Only Loan	Option 4 – Hybrid Pre-DA Fund & Top up	Option 5 - CLT	Option 6 – Modular
Size of philanthropic contribution required $ / per unit	< $50k	< $500	< $350k	< $50k	< $50k	?
Total size of philanthropic contribution required	$1.4m	< $0.1m	$12.5m* * Corpus investment, $19.7m returned over 30yrs	$1.4m	$0.8m	?
Time horizon / length of investment e.g. lumpy/ upfront / steady	1 year	3 years	perpetuity	3 years	7 years	Short term (upfront project funding) to long term (system change)
Financial and specialist resources required to launch and develop	• Financial resources to support a spend-down revolving fund • Development expertise	• Payment by results frameworks • Outcome monitoring, measurement	• Resources to support large loan size (individual or syndicated)	• As per options 1 & 2	• CLT legal and administrative support	• Extensive policy planning, regulatory and financing reform required
Innovation/disruption	New to Australia	Transaction level, but no systems led approach	Demonstration of patient capital	New to Australia	Limited in Australia	Limited in Australia
Cohort viability (what income group does this model work?)	Low to Moderate	All	All	Low to Moderate	Moderate	All
Bridging supply and demand	• For lazy, difficult or risky land projects • Small developers • Land rich but expertise poor organisations	• For projects with measurable outcomes, wrap-around services • Demonstration potential of innovative & outcome based approaches • Best suited for projects with low revenues/tight margins.	• Best suited for projects with low revenues/tight margins. • Sizeable upfront investment, but pays back investment and delivers returns in perpetuity	Option 1 &2	• Cohorts suitable for community led homes, • Potential homeowners • Lock-in affordability of land value	• 'Meanwhile' land, ideal for quick to construct, transportable homes • New employment opportunities • Specific investments in modular orgs or tech • System level change in modular manufacturing & associated industries

Chapter 6 Conclusions

This report has applied an assessment framework to some of the types and structures of finance that can be used to tackle the financing barriers constraining affordable housing development. The quantum of finance and associated terms (duration, return) required to address the gap between revenue and costs associated with the development of a 40-unit affordable housing project has been modelled. We find that it is not feasible for philanthropy to address the revenue gap that is associated with renting the units to 60% very low and 40% low income earners.

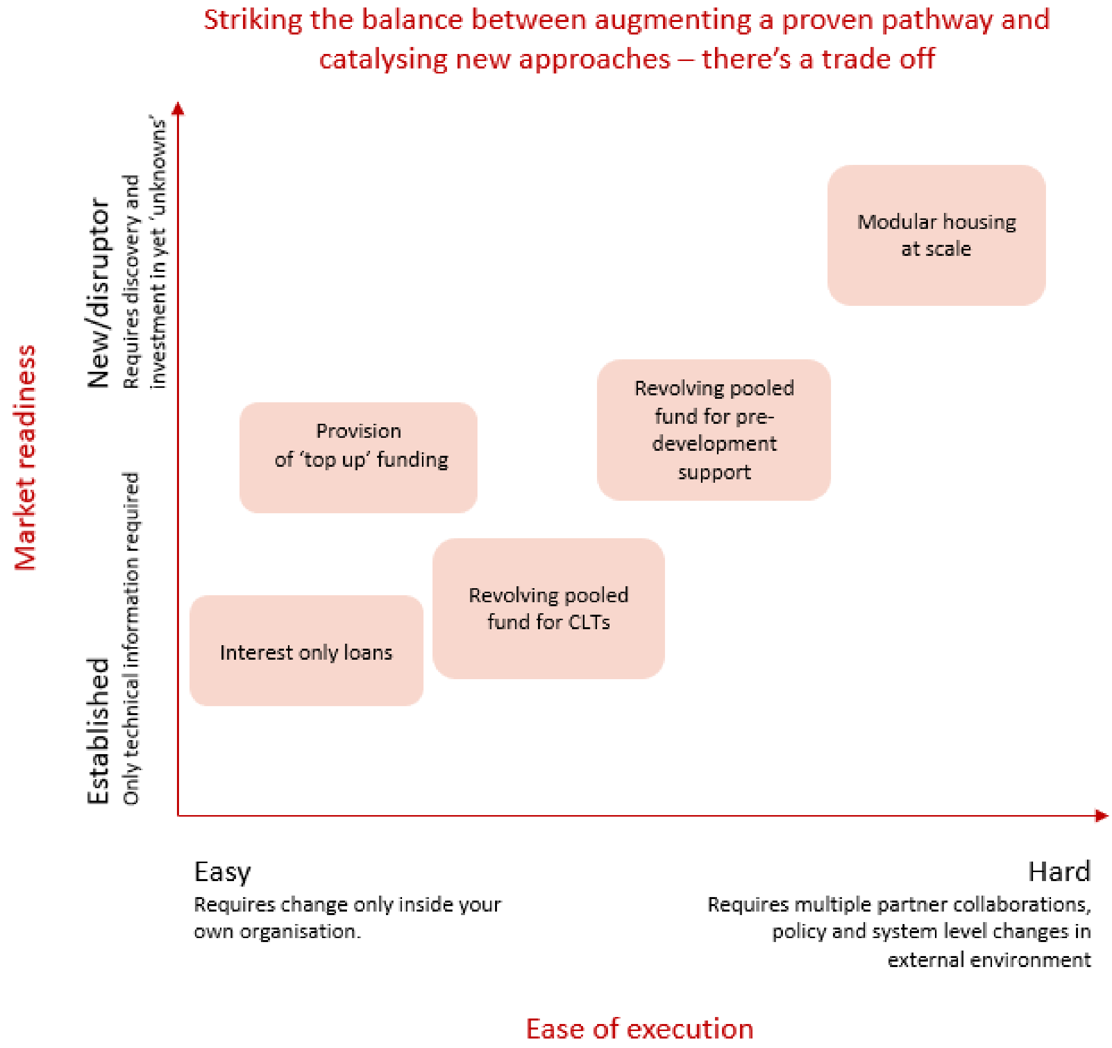
By shifting the tenancy composition to be 40% low income and 60% moderate income the feasibility of philanthropic funding being able to minimise, or even fill the gap, is increased. This mixture of tenancy is most likely in affordable (rather than social) housing. Faced with the opportunity to make a real contribution to affordable housing supply targeting this cohort, there are four financing pathways that we recommend to philanthropy for further investigation:

1. offering interest only loans to not-for-profit housing developers
2. establishing a mechanism to provide top-up funding
3. initiating a pooled fund to support establishment and operating costs of CLTs
4. initiation of a pooled fund for pre-development support for not-for-profit developers.

Some projects are more suited to certain financing options, for example, in general 'lazy' land projects are likely to be more suitable for the pre-DA fund. When this alignment has been established then philanthropy's role within the financing option can be assessed. There are different requirements of philanthropy associated with each of the recommended options. On the one hand, an interest only loan facility requires commitment of substantial amounts of capital over a long term (30 years) and comfort accepting a low but steady return. On the other hand, a pooled fund for pre-development support can be scaled according to the amount of funding available from philanthropists which will be correlated with the number of developments that it can support. Regardless of size however, the fact that not all development applications will be approved means that while a development management fee for such a fund in a NFP structure might result in 'top ups' to the fund, a shrinking fund should be expected. There is precedent for all these options internationally, they are implementable in Australia and we have presented them in Figure 29, considering the relative ease of implementation and whether or not the market is familiar with and has capability to support the product.

Philanthropy also has a role to play in catalysing innovation, helping build a track record and signalling impact potential. For this reason, we also recommend that philanthropy consider the opportunity to spur action in the modular housing market. Widespread availability of affordable, high quality modular housing could rapidly alleviate some of the barriers in the market. This market disruption will require collaboration across multiple stakeholders.

Figure 29 Recommended pathways for philanthropic capital



Philanthropic effort should be deployed in ways that complement or amplify public (and private) sector efforts and fill gaps where wicked problems persist. This means that in addition to addressing the financing element of the affordable housing challenge (as is the focus of this report), there is also value in considering how philanthropy can contribute to an enabling environment and influence the factors that will shape overall success. In this regard we recommend that philanthropists consider the following guiding principles when considering how to engage, and who to engage with, in pursuit of better access to affordable housing for all:

- there is value associated with curating the right players/partnerships to work with philanthropy - local government, finance, developers, housing service providers and wrap around offerings
- philanthropy can support access for new players – solutions need to be not just about structuring for those providers that are already in, and at scale. There is value in enabling small players to do things differently
- place 'need' at the centre and support the development of solutions that are locally responsive / appropriate and financing on the back of that, rather than finding the funding and retrofitting the housing solution against it
- use pilots to test financial products and approaches and build an evidence base over time to drive policy changes and reform.

Appendix 1: Modelling assumptions

Development

Pre Development Approval activity	1 year
Construction activity	1 year
Success rate of Pre Development Approval	70.0%
Pre Development Approval Fee	5.0%

Costs

Land	Free	
PreDevelopment costs (of Development)	10%	
Development costs / sqm	3,500	http://www.napierblakeley.com/images/docs/CC_Datacard_Melbourne_July20_a.pdf
Additional Costs (of total costs)	12%	

Ongoing costs

Selling costs as a % of sales $	7%
Rental maintenance as a % of rental $	10%
Rental management as a % of rental $	5%
Capacity	92%

Tax Tax implications were not considered for these calculations, however a 7% cost of sales is included for CLT sales

 # Units 40

	Area (sqm)	Sales $	CLT $		
1BED	50	360,000	195,000	235,000	Minimum area for apartments (NSW SEPP65; VIC has none in place)
2BED	70	540,000	297,500	260,000	Median $/unit Melbourne RealEstate.com.au (3 bed price estimated)
3BED	95	810,000	395,000	285,000	
Average	72	570,000	295,833		

Unit mix

60% V. Low 40% Low

		V. Low	Low	Moderate	V. Low	Low	Moderate
		60%	40%	0%	60%	40%	0%
1BED	20%	12%	8%	0%	5	3	
2BED	70%	42%	28%	0%	17	11	
3BED	10%	6%	4%	0%	2	2	

40% Low 60% Moderate

		V. Low	Low	Moderate	V. Low	Low	Moderate
		0%	40%	60%	0%	40%	60%
1BED	20%	0%	8%	12%		3	5
2BED	70%	0%	28%	42%		11	17
3BED	10%	0%	4%	6%		2	2

* units rounded where %'s don't give a whole number

Income ranges

	V. Low	Low	Moderate
Single adult	$25,220	$40,340	$60,510
Couple, no dependents	$37,820	$60,520	$90,770
Family (1 or 2 parents & dependent children)	$52,940	$84,720	$127,080

Rental income

		V. Low	Low	Moderate
1BED	Single	$7,566	$12,102	$18,153
2BED	Couple	$11,346	$18,156	$27,231
3BED	Family	$15,882	$25,416	$38,124

* No rental assistance was assumed

Increases

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5 onwards
Rental increases	0%	0%	0%	0%	0%	2%
Rental maintenance	0%	2%	2%	2%	2%	2%
Rental management	0%	2%	2%	2%	2%	2%
Sales increases	0%	2%	2%	2%	2%	2%

Financing

Commercial Construction Facility

Interest rate	4%	* unless otherwise stated
Term	23-30 years	

Interest only (capitalising) until construction ends

Commercial Pre-DA facility

Interest rate	8%	* unless otherwise stated
Term	1 year	

Appendix 2: The Lord Mayor's Charitable Foundation – philanthropic leadership around affordable housing in Melbourne

The Foundation has worked on addressing homelessness as a priority for over ten years. It recognises that the lack of affordable housing is one of the primary causes of homelessness and has supported innovative responses through a variety of means: direct grants to non-profits and social enterprises, supporting the Affordable Housing Challenge, funding research organisations and policy work.

Direct Grants

The Foundation has contributed to a number of capital works projects initiated by various for-purpose organisations in the Greater Melbourne region:

Organisation	Project	Project Description	Location	Grant Amount
VincentCare	Oznam House	Oznam House: 63 crisis accommodation apartments, 41 transitional apartments, and 26 independent living units for adults over the age of 50 who have experienced long-term homelessness.	North Melbourne	$600,000
Melbourne City Mission	Frontyard	Frontyard: 18 crisis accommodation beds, creating a world-first, fully integrated response to youth homelessness.	Melbourne	$250,000
Launch Housing	Family Supportive Housing Project	Family Supporting Housing Project: providing accommodation to 68 women and 200 children currently living in complex and potentially harmful circumstances.	Dandenong	$500,000
Housing Choices	Affordable Housing Challenge	Building 48 units in Preston	Preston	$1,000,000
Housing Choices	Nightingale Village	24 units in a mixed tenure development with high environmental credentials	Brunswick	$500,000
YWCA	Richmond Redevelop-ment	28 new units on an existing site	Richmond	$500,000

Affordable Housing Challenge

The Affordable Housing Challenge is a Foundation initiative that encourages cross-sector collaboration in response to Greater Melbourne's homelessness and affordable housing issues. Each time the Challenge is run, it aims to inspire innovative, energy efficient solutions to help meet the affordable housing needs of their community and be replicable, scalable and provide learnings for future initiatives.

The Foundation ran the first Challenge in 2017 with local government land partners who could make suitable land available at no cost (by title transfer or 50-year lease). The Foundation provided a $1 million grant to Housing Choices to build an affordable housing complex with over 40 units on a site provided by the City of Darebin.

The 2020 Affordable Housing Challenge focused on not-for-profits, including faith-based organisations but not community housing providers, who wish to use their existing land holdings to increase the supply of affordable housing in Melbourne. These land holdings could be in the form of vacant land, strata or redevelopment of existing buildings. The Foundation awarded $50,000 feasibility grants to four organisations to explore the best utilisation of land or existing buildings, and one $500,000 capital works grant to McAuley Community Services for Women to demolish existing, outdated units and build 12 new self-contained apartments, with 26 beds for women and children in Maribyrnong. The land is owned by the Sisters of Mercy, who will provide a 20-year peppercorn lease to McAuley.

Research Organisations

The Foundation funds projects within universities and research institutes that have the capacity to bring transformational change to a particular sector or area of practice (excluding clinical research trials). In 2019 the Foundation made the following grants for research projects relating to housing:

Organisation	Project	Project Description	Grant Amount
Monash University	Unequivocal Women's Housing: Quality affordable housing and landscaping for women at risk of homelessness.	This project addresses the need for user-focused feedback to provide a framework for future, affordable, fit-for-purpose housing types for women. The project will analyse a series of case studies of existing housing types; refuge, boarding house, tiny house, apartment, townhouse and family home, provided for women experiencing or at risk of homelessness.	$33,631
RMIT University	Enhancing support services for people with disability and complex needs in permanent supportive housing.	This project will build an evidence base regarding the support needs of people with lived experience of homelessness and disability (including psychosocial) living in permanent supportive housing in the City of Melbourne. Using a case study methodology this project will develop key principles and strategies for a Disability Support and Systems Framework for this population.	$46,333
Western Community Legal Centre Limited (WEstjustice)	International Students Accommodation Legal Service – Regulation of Unsafe Housing.	WEstjustice will research how many international students reside in situations of precarious or unsafe tenure and how many 'rooming houses' exist in small CBD and inner suburban properties unsuitable for such use. This will help to improve oversight and enforcement under the Residential Tenancies and Public Health and Wellbeing Acts for inappropriate rooming house spaces and encourage students to report rogue landlords.	$48,000

Policy Work

The Foundation has an active presence in conversations regarding policy development in Victoria and Australia regarding homelessness and affordable housing – convening leading thinkers and promoting an informed evidence base for decision making. The Foundation has spoken at the National Housing Conference and made submissions to inquiries into homelessness in Victoria and Australia. It supports the Raise the Rate for Good campaign to raise the Newstart level above the poverty line, in order to improve housing affordability for tenants receiving Centrelink benefits.

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