



# **Social Impact Investing Discussion Paper**

*Submission to the Treasury – February 2017*

## Introduction

PowerHousing Australia makes five important submissions on behalf of our members who are 28 of the largest Community Housing Providers in the country in regards to Social Impact Investing.

The submission includes: an overview of PowerHousing Australia and our membership; a brief background of the community and affordable housing sector, and opportunities for Impact Investment; five important principles of submission for our members and the sector and conclusions.

Social Impact Investing as used internationally, is an important component to bringing scale and quality to community and affordable housing. PowerHousing views the following five areas as integral to any Social Impact Investment initiatives for community and affordable housing:

1. Central repository of Housing Data
2. Expanded Productivity Commission Reporting and Data Analysis
3. Expand Strategic Investment Approach
4. Generation of Institutional Buy-In
5. Compiling Evidence Base of Social Impact Investment in Housing

Co-leadership from the Federal Government around Innovative Funding Models and Social Impact Investing would be invaluable in conjunction with efforts and investments made by our members as they pursue new strategies to work with governments, private industry, and consumers. It also makes economic sense for good client outcomes, affordable housing delivery and government improving its return on investment in social housing as well as supports.

## PowerHousing Australia and Membership

PowerHousing Australia is the peak national exchange for 28 of the largest scale Community Housing Providers (CHPs) registered as Tier One in the nation. We assist our CHP Members to both increase the supply of affordable housing and deliver excellent tenancy and asset services within a community building model.

We achieve this fundamentally by opening up opportunities for members to share best practice, innovative ideas and policy, facilitation of research, and benchmarking of services and special projects – which makes PowerHousing uniquely situated to work with Treasury around Social Impact Investing in the community and affordable housing space.

We collaborate together in a time of great momentum for the Australian sector, and with our members representing up to 77% of registered community housing stock in jurisdictions such as New South Wales, our members demonstrate the scale, capacity and sophistication to drive and deliver holistic social and housing outcomes.

We feel our members are ideally placed to efficiently and effectively grow impact investing in partnership with the Federal Government to deliver on the four proposed Principles outlined by Treasury.

Our members are engaged in acquiring and managing public and community housing stock across the country. We are working alongside scale developers and in developing projects themselves to bring new affordable housing stock to the market. As CHPs, our members are also working on a number of initiatives relevant to social impact investing in addition to housing, including rapid rehousing for domestic violence, employment and disability services, and aged care.

While the Government are opening up discussion and considering initiatives around innovative funding and approaches, our members are working to bring larger scale innovative approaches to fruition. The Community Housing sector is in growth supported by initiatives such as property transfers in several jurisdictions (particularly New South Wales) and our members are being recognised as having the sophistication to manage these transfers.

PowerHousing Australia as result is currently assisting the New Zealand government to leverage the Australian CHP sectors knowledge and expertise as they look to embark on their own rounds of property transfer, unprecedented in the NZ jurisdiction.

## **Community Housing Providers and Opportunities for Social Impact Investment**

Social Impact Investment is established in Australia and will be evolve a lot in the next decade.

The measurement of social investment is becoming more sophisticated with every project and through the partnerships that have developed. Its principles are being utilised by the CHP Sector and its application will only increase in coming years.

PowerHousing Australia's February 2017 meetings with the New Zealand Treasury, Social Investment Unit, Ministry of Social Development and particularly Minister Ngaro focused on social investment approach policy established in New Zealand that can be applied here in Australia.

We agree with the Treasurer that finding "access to longer-term, low-cost finance"<sup>1</sup> is imperative to boosting supply in housing and especially relevant for our CHP members. Creation of a Bond Aggregator, as recommended by the Affordable Housing Working Group is an area where the Federal Government could make a substantial contribution to social impact investment in affordable housing.

In Impact Investing Australia's 2016 Investor Report<sup>2</sup>, it is clear there is an abundance of untapped capital, most of which (around \$331 billion) is in the hands of institutions. These institutions are

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<sup>1</sup> The Hon. Scott Morrison MP, Media Release (28 January 2017) <http://sjm.ministers.treasury.gov.au/media-release/004-2017/>

<sup>2</sup> Impact Investing Australia, 2016 Investor Report (March 2016) <https://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-2016-Investor-Report.pdf>

particularly interested in affordable housing investments, but as of yet housing “is not well represented in portfolios, suggesting currently unmet demand.”<sup>2</sup> It is clear there is interest in investing in housing, and Community Housing Providers want to partner with private institutions – it is the opportunity of these potential partnerships that PowerHousing Australia and the Government can work to realize.

PowerHousing itself engaged PwC in late 2016 to undertake an investor aggregation project with Members and found that investors are attracted to the social and affordable housing sector.

In PwC’s market sounding of an aggregated funding vehicle<sup>3</sup>, we met with six institutional investors in Melbourne and Sydney and the three major rating agencies (Moody’s, Standard & Poor’s and Fitch). The investors had assets under management ranging from \$10b to +\$500b.

Below is a summary of their feedback:

- Highly confident of appetite for long-term funding from the funds management sector.
- Investors had limited existing knowledge of CHP sector but were quick to understand the strong demand/supply fundamentals and strong asset-backing.
- Attracted to the social responsible investing element –an increasing number of funds management clients are seeking this.
- Return requirement appears to be reasonable –only small premium would be required for first issuance.
- Ratings agencies are able to provide a credit estimate for PowerHousing Australia Members which would improve marketability of a transaction.

The January 2017 Report on Government Services (ROGS)<sup>4</sup> released by the Productivity Commission also shone a light on the outcomes from the CHP sector in delivering housing for those on very low incomes.

The ROGS illustrated that while states have decreased spending on public housing stock, community housing numbers have increased. Community housing has the best amenity and location scores nationally. Community housing has the highest level of acceptable standard homes - 88.8% of dwellings acceptable (CHP), which exceeds the ratings for other non CHP providers by up to 10 percentage points.

Such reporting provides confidence for investors that CHPs deliver the highest level of return on social investment.

PowerHousing Members are investing in measuring social impact, creating benchmarks, and maximizing return on social investment. As measurement matures in the next 12-24 months, it will

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<sup>3</sup> PwC, PowerHousing Australia: PwC Findings Report – Aggregated Funding (February 2017)

<sup>4</sup> Productivity Commission, Report on Government Services, Chapter 18 - Housing (January 2017)  
<http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/housing/rogs-2017-volume-g-chapter18.pdf>

make it easier for investors to add housing to their portfolios and create the evidence base needed for further investment.

This is good news for delivering outcomes for tenants, families, communities and both public and private investors.

Collaboration and guidance from the Federal Government, and support from State and Local Governments in incentivising investments and collecting high-quality data will ensure the highest measurable return on investment in social housing and wrap around services.

## Five Principles of Interest

### 1. Central Repository of Housing Data

Currently there are significant gaps and variances in the data collected and available from states around community and affordable housing. We agree with the Affordable Housing Working Group that:

“a significant issue with reporting on the state of the affordable housing sector is the lack of data on the sector and inconsistencies in how affordable housing is defined across the sector, academia and governments. The main source of data on affordable housing is the Productivity Commission’s annual Report on Government Services, however this only reports on housing managed by either public housing authorities or CHPs. It reports based on the management of the dwelling, rather than ownership of title and does not differentiate between the types of housing provided by CHPs (i.e. social versus sub-market rentals). Given this, there is an opportunity to improve consistency in national data collection and there would be benefit in publishing this data.”<sup>5</sup>

This lack of data is an impediment to the growth of Impact Investing in the community and affordable housing sector. As shown by Impact Investing Australia, potential investors have not become active in the impact investment area because there is a lack of information, data, benchmarks and research.<sup>2</sup>

While this is a larger problem in the field of Impact Investing in Australia, support by the Federal Government to create a Housing Data repository with more comprehensive data would help to fill the information gap that investors perceive as problematic.

There is a need for a repository of national residential development metrics data to be at hand to benefit long term national affordable housing policy decisions that relate to low income earners and particularly those in social housing.

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<sup>5</sup> Council On Federal Financial Relations, Affordable Housing Working Group, Innovative Financing Models to Improve the Supply of Affordable Housing (October 2016)  
[http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2016/CFFR%20Affordable%20Housing%20Working%20Group/Key%20Documents/PDF/Final\\_report.ashx](http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2016/CFFR%20Affordable%20Housing%20Working%20Group/Key%20Documents/PDF/Final_report.ashx)

Such a repository would provide affordable housing metrics on all housing users including social housing tenants, renters, first home owners, owner occupiers, seniors, and investors both domestic and foreign.

Such data will also guide the land supply decisions that are critical not just to affordable housing delivery but to the financial wellbeing of Commonwealth and State budgets, jobs of Australians in the residential industry and building stronger communities.

## **2. Expanded Productivity Commission Reporting and Data Analysis**

With more comprehensive data, Government can produce more robust and meaningful analysis and information outputs around community and affordable housing.

In the 2017 Report on Government Service<sup>4</sup>, it was noted that community housing organisations are working in partnership with the Australian, State and Territory governments, and the private sector, to increase the supply of affordable housing.

The report also illustrated that while states have decreased spending on public housing stock, community housing numbers have increased. Community housing has the best amenity and location scores nationally. Community housing has the highest level of acceptable standard homes - 88.8% of dwellings acceptable (CHP), whereas Public Housing only 80.7% of all dwellings acceptable.<sup>4</sup>

While this information is useful, there are gaps in data collection, and areas of analysis that in the future would prove helpful to the entire housing sector in regards to social impact measurement and investment, especially in regards to cost-benefit analysis, value capture more broadly, and evidence-based investment practices.

It is this gap of knowledge that many institutions list as preventing them from further investing in social impact.<sup>2</sup> Thus, not only would expanded analysis help housing providers improve their product and stock, but it would also help secure funding from large institutions – precisely the type of investment needed to bolster affordable housing supply.

As seen with the Social Investment Unit in New Zealand<sup>6</sup>, Australia could increase the scope of the social housing analysis from the Productivity Commission's Report of Government Services and look to further invest in social impact measurement.

Irrespective, PowerHousing Members will undertake this work and will look to work with Federal, State and Territory Registrars to minimise the red tape and duplication of reporting but will also look to work with existing reporting such as ROGS to demonstrate the efficiencies of the CHP sector to social impact investors.

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<sup>6</sup> New Zealand Treasury, Social Investment Unit (27 October 2016)  
<http://www.treasury.govt.nz/statesector/socialinvestment>

PowerHousing Members will also be looking to employ best practice social impact measurement with leading data agencies such as CoreLogic to better evaluate the market in which social impact is undertaken, all to ensure that affordable housing is tackled in the coming decade.

### **3. Expand Strategic Investment Approach**

With greater data and expanded analysis in the affordable housing sector, Government can structure investment opportunities around data and outcome-driven decision making. Investors want to make data and outcome-driven investments, and Community Housing Providers want to provide the best stock and services possible.

We welcome the \$96 million Try, Test, and Learn Fund developed by the Department of Social Services. This type of innovative program and investment which applies rigorous and evidence-based investment practices to social services could be expanded or replicated for community and affordable housing. It could be strengthened further with private capital investment.

Similar to the New Zealand Social Investment Approach, using data, technology and innovative ideas in community and affordable housing, and continually evaluating and improving practice for investment would further bolster the social impact work of our members.

### **4. Generation of Institutional Buy-In**

As mentioned above, there is significant interest in investing in community and affordable housing, however, the potential in this space remains unrealized.

While Institutions are interested in potentially adding housing to their portfolios<sup>2,3</sup>, there appears to be an overall lack of buy-in by the financial sector, housing developers, and other large institutions relevant to housing.

We acknowledge the “financing gap” as articulated by the Affordable Housing Working Group<sup>4</sup>. The gap between return on investment in community housing, and that of market returns remains a problem for institutional investment.

As do regulatory, financial, and tax policies across states also mentioned in the Innovative Financing Models to Improve the Supply of Affordable Housing<sup>4</sup>.

Having data and analysis that provide better information for investment, as well as encouragement and incentives from Government to invest in housing would help to further generate institutional buy-in. As would addressing some of the barriers highlighted by the Affordable Housing Working Group<sup>4</sup>.

## 5. **Compiling Evidence Base of Social Impact Investment in Housing**

One of the biggest aspects missing from the Social Impact Investment landscape in Australia is an evidence base for social impact investment.

We agree with the Treasurer that the UK is leading the way on this front with a number of affordable housing initiatives and projects in the UK that can be used as evidence of this type of investment. However, evidence of social impact investment in housing can be found in several countries including Australia.

Thus, if the Federal Government can work with other governments (both nationally and internationally) to compile evidence, project design, and outcomes from various housing projects – both Institutions and CHPs would have easier access to evidence and a bank for future ideas and projects.

One of the initiatives to investigate is the Housing Finance Corporation, an independent body that makes low-interest loans to regulated housing associations through the issue of bonds to private investors.

Acting as an intermediary between investors and affordable housing developers, the HFC gives the sector the cash boost it needs to grow the number of cheap rental properties.

## **Conclusion**

PowerHousing Australia is encouraged by the Government's interest in Social Impact Investment, and we urge the Government to continue in this direction.

Social and affordable housing is an area of social investment that has a proven track record of success in other countries, and would greatly benefit the Australian sector.

If implemented well, such an approach could transform the Community Housing Provider Sector in Australia to boost affordable housing supply, deliver better return on investment for governments and improve outcomes for our most vulnerable citizens.

Australian CHPs have been working for years to expand social impact investment, and commit to lead in a national shift towards data and outcome-driven social investment.

Working with PowerHousing Australia and investing in our members would bring scale to social and affordable housing projects, but also improve outcomes and expand scope for the many thousands of individuals and families able to utilize their multiple services.

Social Impact Investment by Government in social and affordable housing makes good economic sense, but also has the potential to create meaningful change to individual Australians' lives.



**For Further queries contact:**

Nicholas Proud  
Chief Executive Officer  
PowerHousing Australia  
[nproud@powerhousing.com.au](mailto:nproud@powerhousing.com.au)

Kelsey Boivin  
Research and Project Officer  
PowerHousing Australia  
[kboivin@powerhousing.com.au](mailto:kboivin@powerhousing.com.au)

**PowerHousing Australia**

PO Box 77 Deakin West, ACT 2600

(02) 6210 5040

Website: <http://www.powerhousingaustralia.com.au/>