MOBILISING PRIVATE CAPITAL FOR NEW HOUSING SOLUTIONS

Whitepaper 3
May 2023

LONGVIEW | PEXA

About LongView

New solutions to Australia's housing problems

Wherever you are in your property journey, LongView helps you go further. We are an integrated residential property business, working hand in hand with our clients to provide property buying, advisory and management services, and investment funds.

The Australian housing market today does not deliver for many people. Many renters, aspiring first-homebuyers, and residential property investors face a myriad of structural challenges. We are changing these by making homeownership more accessible, empowering buyers with expertise, and improving the rental experience for owners and renters.

Our team of property professionals has decades of real-world experience in buying and managing thousands of properties. We marry this field expertise with proprietary data science and innovative financial structures to deliver superior financial performance over the long term.

About PEXA

Transforming the way we settle property in Australia

Every time a house is bought, sold, or refinanced in Australia, your lawyer, conveyancer, and lender will most likely use a digital platform to settle your property. This is where PEXA comes in. PEXA's world-first digital settlement platform has revolutionised the way we exchange property in Australia. By providing quicker access to the proceeds of a sale and near real-time tracking on property settlements, our network of financial institutions and legal and conveyancing firms helps over 20,000 families a week safely settle their homes.

And this is just the beginning. Our data and insights are helping organisations unlock the intel they need to drive change and possibilities. We're also bringing our proven financial settlement model and expertise to the United Kingdom, working in collaboration with the housing industry to digitise the house purchase, sale, and remortgaging process.

Foreword

This series of Whitepapers has sought to accurately identify the unique conditions that have created Australia's triple housing crises and then provide potential fresh solutions to them. Doing what we have done and fighting the same fights will not bring about the change we need.

This third and final Whitepaper outlines some potential solutions - some well-known and high profile, some emerging. Each is evaluated in terms of the specific realities of the Australian property market and its capacity to meet the problems outlined in the first and second Whitepapers.

A lot of recent discussion in the public arena has focussed on what governments should do, the role of superannuation funds and the emerging Build to Rent sector. These are all important discussions and part of the solutions. But this paper, by analysing the underlying economics and drivers, seeks to go further and find larger scale and more innovative solutions – solutions that help address the housing crisis and that deliver sufficient returns to attract investors - and then identify what is needed to make them a reality.

The size of the A$10 trillion residential housing market and the growing scale of the crisis mean governments alone will never be able to make a meaningful difference to bridge the widening purchase and rental affordability gap for Australians, nor the rental experience. The answer is mobilising private capital – corporate, superannuation, family office and high net worth individuals.

The good news is that there is one large pool of capital that could fund the transformations required and has already shown a propensity to invest in property - the almost $2 trillion that Australia's landlords already have invested in the asset class. And, as the second Whitepaper demonstrated, because much of this capital is poorly invested and generating poor returns alongside daily headaches for both landlords and renters, it is a capital pool that is ripe for better application.

By creating a series of residential property funds for Shared Equity and Institutional Ownership of rental accommodation, this capital pool can be redeployed for better housing outcomes as well as better investment returns. One obstacle is that a critical enabling infrastructure is currently lacking - a digital exchange creating a secondary market in units/shares in those funds. Such an exchange would create the liquidity that traditional property investment lacks and thus make it much more attractive to investors of all sizes by effectively lowering the cost of capital for all.

We believe this Whitepaper outlines an exciting vision of how to transform the Australian housing landscape in a way that is aligned with both the housing needs of Australians and the investment requirements of private capital. We are committed to building support for this vision from our colleagues throughout the property industry to bring about this transformational change.

Glenn King
CEO, PEXA

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Executive Chair, LongView

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Executive summary

Everyone wants to have the security of a good home, a place they can treat like home, rely on like home, that feels like home. Australian homeowners take these things for granted, but Australian renters don't have a place that feels like a real home. Instead, they often live under constant threat of upheaval, poor maintenance and service, and can feel pushed around in their own homes. And breaking through to buy a home of their own is getting harder every year.

The first Whitepaper in this series showed how worsening purchase affordability locks people out of owning. The second Whitepaper examined the private rental system. We found that poor rental affordability hurts renters who can't save enough to buy as a result, and that they can't get tenure security or a dignified experience outside of ownership.

Meanwhile, the majority of landlords would have been better off investing in superannuation, a far less stressful form of investment than high-maintenance direct property ownership. Despite efforts by Governments of all levels and colours, these crises are getting worse. Partly this is due to the sheer size of the problem, which affects many millions of Australians. The housing market is worth almost $10 trillion, dwarfing all other asset classes and aggregations. Solutions to our housing crises need to have the capacity to operate at significant scale to have a meaningful impact.

This third and final Whitepaper argues that new solutions to these problems could lie in mobilising private capital, including redirecting some of the capital already in housing, where Australia's 2.2 million landlords have trillions of dollars invested in a private rental system that works for neither them nor their tenants.

We consider the merits of four private investment models that could offer viable solutions to Australia's housing crises in a way that meets the needs of homebuyers, renters, and investors. The viability of these models is ultimately decided by the realities of Australia's property market: growth in Australian property prices are driven by land value, not rental yield. Commercially viable options must swim with the tide of the economics if they are to work at scale.

We find that widespread adoption of properly designed and carefully regulated Shared Equity and Institutional Ownership of existing properties presents the greatest potential to ameliorate Australia's housing crises. Shared Equity and Institutional Ownership of existing properties offer the possibility of getting more people out of the broken Australian model of renting and into owning, and where that isn't possible, into a much better model of renting which is dignified, secure, flexible, and feels like home.

Shared Equity can help get people into home ownership sooner, or get them over the line in being able to own at all. Institutional ownership allows for tenure security, much more scope for personalisation and dignified treatment by management. Renting in Australia could feel like home.

For any model to work for investors, this transformation in Australia's largest asset class would need to be supported by liquid secondary markets. Greater liquidity reduces the cost of capital, to the benefit of all participants.

Finally, private firms rightly need a social license to operate in housing: few things are more important in life than the security of a roof over our heads. Carefully designed regulation should make it impossible for bad actors to operate in the space.

Australia's housing crises have been decades in the making, so it should be no surprise that we have been finding them difficult and expensive to tackle. It is true that these models for mobilising private capital are not fixes to the short-term supply challenge (and it is not clear that good fixes are available), but they do represent an opportunity for many more Australians to benefit from the advantages of a real home.

1.

AUSTRALIA FACES ACUTE HOUSING CHALLENGES

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1. Australia faces acute housing challenges

Three distinct housing crises are undermining the ability of Australians to feel like they have a real home: the purchase affordability crisis; the rental affordability crisis and a rental experience crisis.

This chapter summarises the arguments outlined in the first two LongView/PEXA Whitepapers published earlier this year.

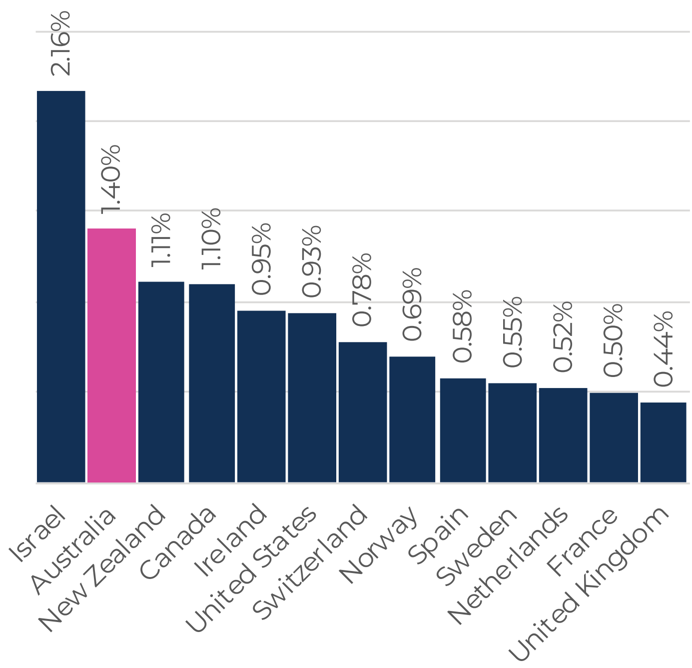
1.1 The purchase affordability crisis

Australian house prices have grown significantly since the 1950's, far outpacing inflation and wage rises. On average, median house prices in metropolitan capital cities have doubled every ten years.[1] This growth has put owning a home out of reach for many. Over the last 40 years, homeownership has fallen across nearly all age groups, with the downturn most pronounced in younger age groups who find it increasingly difficult to afford the deposits required for a mortgage.[2] Many first homebuyers now rely on the 'Bank of Mum and Dad' to enter the property market, while those without access to family wealth face an even more uphill battle.

There are many theories about what has caused this, including government tax regimes and subsidies, foreign investment, and interest rates. Each of these do play a role, but data suggests they are less important than is often assumed.

In the first Whitepaper, we explored the role of Australia's unique demographic profile, combined with the unusual nature of our cities, to explain Australia's long record of house price growth. Australia has one of the highest population growth rates in the developed world, primarily driven by immigration (Figure 1).

Figure 1 | Average population growth rates of comparable OECD countries 1982-2022.[3]



[1] (CoreLogic Australia, 2018).
[2] (Yates, 2015) and (ABS, 2022).
[3] (World Bank, 2022).

More than half this population is concentrated in just three urban centres: Sydney, Melbourne, and Southeast Queensland. Australia's major urban areas are also unusually spread out, with dense CBDs surrounded by expansive low-density suburbs. This has led to a phenomenon that is unusually acute in Australian cities; namely well-located land – land where people can live near jobs, services, and amenities – is in ever-increasingly short supply. Australia's population is forecast to continue to grow at a high rate. The population is also set to become even more concentrated, with forecasts indicating that Australia's three largest capital cities will go from housing 50% of Australia's population currently to 57% by 2054. Both will increase housing demand, particularly for land in well located areas which is in increasingly short supply.

The result is a stark dichotomy between winners and losers in the Australian housing market. The value of land accounts for most of the difference in price growth between houses and apartments over the long term. Owners of houses increasingly benefit from longstanding growth as apartment owners experience less growth and first homebuyers are locked out of the security of owning their own home.

1.2 A broken private rental system

The Australian private rental system represents a significant portion of the housing market. More than 26% of all households in Australia rented privately in 2021, totalling more than 2.9 million households.[5] The deteriorating affordability of housing has led to an increasing number of individuals renting on a permanent basis – 43% of renters have been renting for a decade or more.[6]

In Australia, rental properties are primarily owned by individual investors.[7] An estimated 2.2 million Australians have invested in property. Most rental properties are owned by individual investors who own only one or a few investment properties in what has been described as a 'cottage industry'; 71.5% of investors own one property, 18.8% own two, and 9.7% own three or more.[8] Ownership of investment properties is also highly fragmented among many different demographics with diverse motivations, circumstances, and needs.

In the second Whitepaper, we explored two distinct challenges for renters in the Australian private rental market: rental affordability and rental experience.

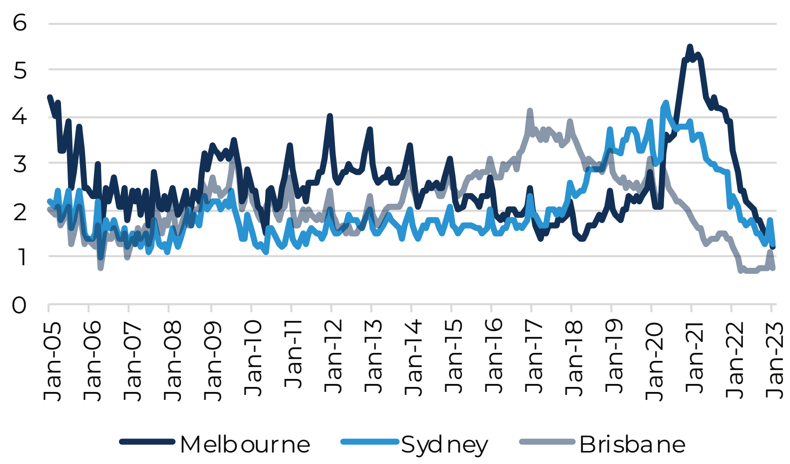
Rental affordability

Rental prices have increased over the past three decades at a speed that has outpaced inflation. Although median wages have largely kept pace, rent is increasingly unaffordable for lower income households, which include some of Australia's more vulnerable demographics.[9] These include the recipients of government stipends, single-parent households, and older households. One of the biggest challenges for lower-income renters is finding a rental property at all. It is generally harder for these households to obtain accommodation because property managers are likely to preference higher income applicants.

4 (ABS, 2021) and (ABS, 2018).
5 (AIHW, 2022).
6 (Shelter, 2017) and (Martin et al., 2022).
7 (Read, 2022).
8 Ibid.
9 (ABS, 2022b) and (ABS, 2022c).

At the time of writing this Whitepaper, competition for rentals is unusually intense. Vacancy rates in Melbourne, Sydney, and Brisbane are all at record lows (Figure 2). It is now more than five times harder to get a property in Melbourne than in late 2020.

Figure 2 | Vacancy rates, Melbourne, Sydney, and Brisbane (%, 2005-23).[10]



Rental experience

Australia is one of the hardest places in the developed world to be a renter. The biggest challenge renters face is insecurity; long term leases are rare, and renters live with constant uncertainty about whether they will have to move. Few private renters stay in the same property for more than five years, with the majority moving frequently.

Further, rental quality is often poor. Maintenance is often a headache to organise and there are few incentives for the landlord to improve the quality of rental properties more broadly. Renters often have limited ability to make minor alterations. These factors together make it difficult for renters to make a home out of their rental accommodation.

The system doesn't work for many landlords either

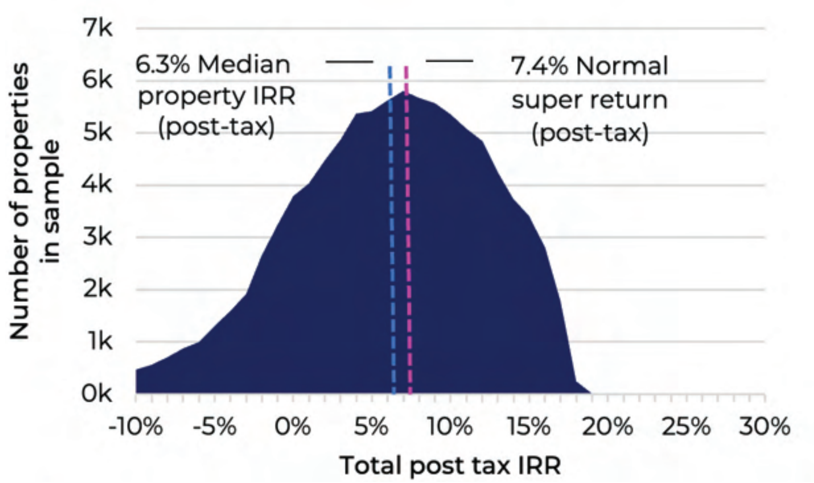
Investing in property is often perceived as a symbol of security, a tangible source of retirement income, and a legacy to pass on to future generations. Residential property is also one of the few asset classes that can be interchangeably used both personally (to live in) and for investment purposes (to rent). In this way, property investment is for many people an emotional decision as well as a financial one.

Yet property investment is often complex, stressful, and risky. It can be much more time-consuming than expected, and unanticipated maintenance costs are not uncommon. Since 1990, approximately 60% of all property investors would have profited more by investing in superannuation, often because they bought a poorly-performing property (Figure 3).[11]

[10] (SQM, 2023).

[11] Note: this comparison has limitations: while property is an asset class, superannuation is an aggregation. Indeed, some superfunds invest in property. Nonetheless, it is useful as a point of reference.

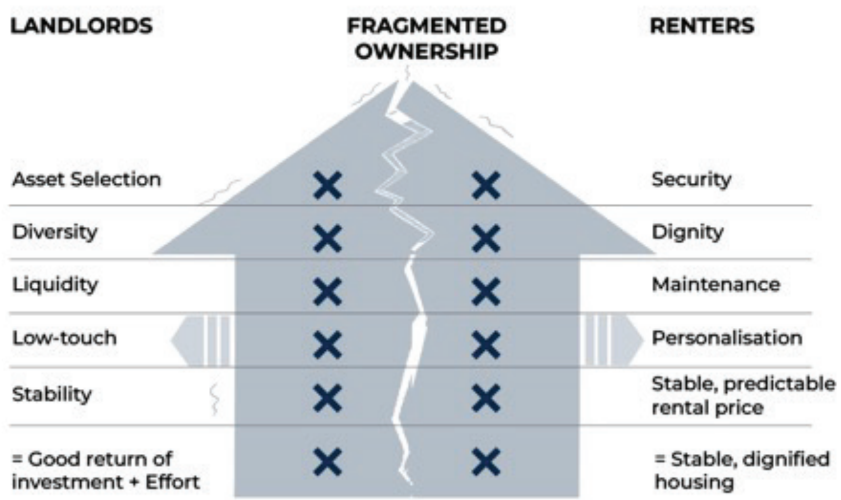
Figure 3 | 80% LVR IRR distribution of actual 4 to 10-year property investments in Melbourne, Brisbane, and Sydney between 1990-2020.[12]



Such difficulties partly explain why half of all investment properties exit the rental market within five years.[13] With sale being the most common reason for landlord-initiated lease terminations, the poor experience of landlords is closely related to the insecurity that underpins poor rental experiences for renters in Australia.

The status quo creates problems for everyone, renters and landlords alike. Solutions to these challenges need to break the current nexus between landlords and renters, to create a system that can work for everyone (Figure 4).

Figure 4 | The landlord-renter relationship nexus.



[12] LongView Analysis of Propic residential property data. The analysis considers the distribution of IRRs for 4 to 10-year property ownership periods. The data has been sampled to be 58% houses and 42% units. The distribution of CAGRs has been taken from ownership periods that have occurred between 1990 and 2020. See Whitepaper 2 for further details on methodology.

[13] (Martin et al., 2022).

2.

THE SEARCH FOR SOLUTIONS

2. The search for solutions

For decades, governments, non-profit organisations and others have strived to improve Australian housing outcomes. Yet despite this enormous effort, things are generally getting worse, not better. This section explores why that might be.

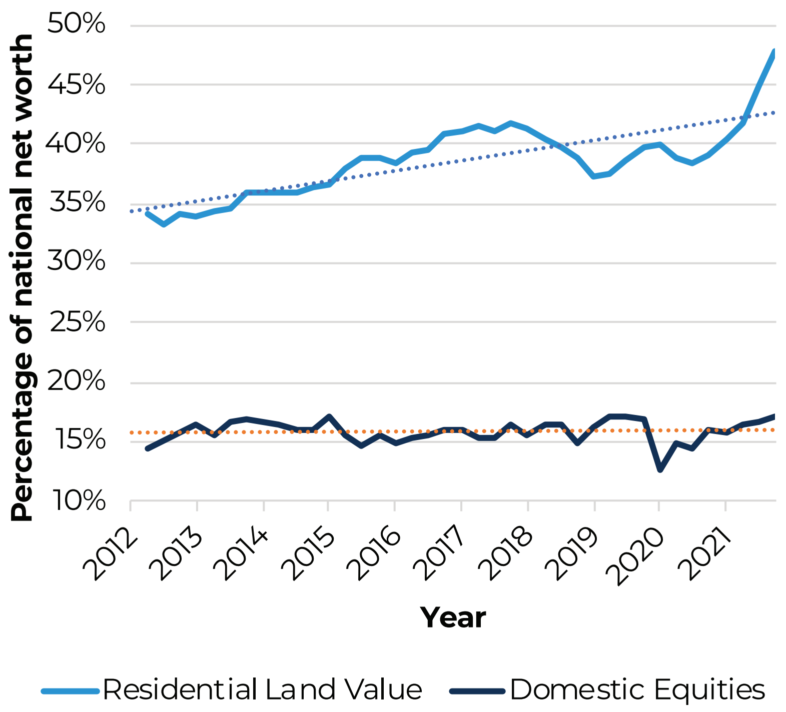
2.1 Solutions need to meet the size of the challenge

It is easy to underestimate the scale of housing in Australia. Housing affects all of us. Each year, nearly 140,000 Australians buy their first home.[14] Australia has more than 2.2 million landlords, with more than 2.9 million households renting in the private rental system.[15]

With a total value of $9.8 trillion, the housing market dwarfs all other asset classes and aggregations. With an average annual growth rate of 7.2% in Australian capital cities that has lasted nearly 50 years, the annual change in property prices is comparable to a third of Australia's total GDP.[16] In comparison, the Federal Government will spend just $3.5B on housing this year – 30 years of government spending combined would amount to just 1% of the total value of house prices.[17]

Residential land alone (not including housing sitting on that land) now accounts for more than 50% of Australia's national assets, up from just over 30% in 2012, while the total value of domestic equities hovered between 14% and 18% as a proportion of total assets over the same period (Figure 5).[18]

Figure 5 | Residential land value as a proportion of total national assets.[19]



14 (AIHW, 2022).
15 (Read, 2022), (AIHW, 2022).
16 (Bleby, 2022a), (ABS, 2021b) and (FRED, 2022a). The ABS series which concludes in 2021 has been extended with data from the Federal Reserve Bank of St. Louis to incorporate 2022 results.
17 (Budget, Australian Government, 2023) This does not include $2.2B in spending on urban and regional development.
18 Ibid.
19 (Bleby, 2022a), (ABS, 2021b) and (FRED, 2022a). The ABS series which concludes in 2021 has been extended with data from the Federal Reserve Bank of St. Louis to incorporate 2022 results.

The scale of Australia's housing market is colossal. Effective solutions to Australia's housing crises will need to work at a large scale if they are to have a meaningful impact.

2.2 Why lots of attempted solutions haven't worked

Solutions that don't make enough of a difference

Some debates revolve around solutions that don't make a large enough difference. Without debating the merits, it is interesting to consider the mathematics of changing negative gearing for investment properties or capital gains tax exemptions for primary places of residence. Despite the political capital that has been spent in recent years exploring changes to these policies, a Grattan Institute report, cited by the Reserve Bank of Australia, estimated that they had only a 2% impact on Australian house prices.[20] In the context of a property market that grows at a compound rate of around 7% annually, they are not sufficient as long-term solutions to Australia's housing crises.

Similarly, enormous effort has been spent by state governments in recent years to improve the experiences of renters, such as the Victorian legislation to remove no-grounds evictions and permits tenants to keep pets, and Queensland's legislation to limit rent raises to once per year. These changes have been important, but despite the political capital required, they don't make a significant difference to the central problem that Australian renters face: insecurity of tenure.[21]

[20] (Daley J, D Wood and H Parsonage, 2016).
[21] (LongView PEXA, 2023).

Solutions that are not feasible at scale

Many solutions, while having a meaningful impact on the lives of those they reach, are too costly in Australia at the scale required to make a difference. For example, while advocates have pressed for massive investment in social housing for 50 years, over that period, the proportion of Australians accessing social housing has collapsed. Other countries have maintained much higher levels of social housing provisions, in contrast to Australia, as they had kept substantial tracts of land in public ownership. When the high ongoing rental subsidy required for public housing tenants is also taken into account, the total cost of increasing the provision of social housing is extremely high.[22]

Solutions that are too focused on demand instead of supply

On affordability, many of the measures eventually adopted by governments seek to improve affordability from a demand, rather than supply perspective. Increasing the buying power of Australians has the effect of increasing demand for the limited housing stock available. Economics tells us that more demand without additional supply almost always results in upward pressure on prices. With increasing land values, this does not alleviate housing affordability issues.

Solutions that are not realistic

Examples of unrealistic solutions include building entirely new cities, or radically reducing population growth by blocking foreign immigration. Building a new city would be prohibitively expensive,

[22] (Coates B, 2021).

take decades, and fail to take advantage of any of the existing infrastructure that drives most Australians to live in major capital cities, and (as is the case with most similar efforts around the world), would likely see low uptake.

Radically reducing immigration would similarly have profound impacts on Australia's economic structure, population make-up and long-term security. While reducing migration would see some lowering of rents and prices, the cost would be a substantial worsening in Australia's economic position.[23]

It has also often been argued that government should more generally try to stop house prices increasing. This is not practically possible, given that prices are driven by our population growth and scarcity of well-located urban land, and it would also be politically impossible.

Around 140,000 people become homeowners for the first time each year.[24] They would benefit from lowering house prices. But approximately eight million households already own at least one property, either outright or through a mortgage. Policies that might result in lower house prices are not in their interests. Former Prime Minister John Howard famously made this clear when he commented that he had never had anyone complain to him about the price of their house going up.

In addition, mortgage lenders, who represent a significant part of Australia's economy, have high exposure to housing prices, and so are highly sensitive to major reforms that might impact price. Perhaps most notably, state government fiscal positions are in large part driven by property values through stamp duty payments. As a result, reductions in property values limit the ability for governments to deliver spending goals.

It is unsurprising that governments find it difficult to act, other than to further increase demand – and therefore prices – through policies such as first home buyer grants.

2.3 As well as being at a sufficient scale, solutions must swim with the tide of the economics

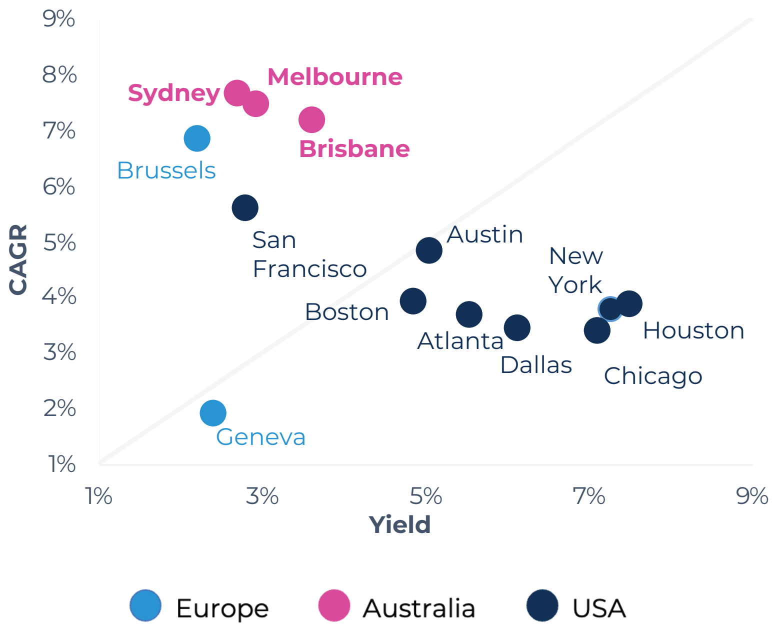
It's important to be clear on what is different about the Australian property market compared to those in places such as the US and the UK. Australia has exceptionally high population growth, a population that is concentrated in a small number of large cities, and strong macroeconomic management.

The defining characteristics of Australian cities – large and spaced out (the opposite of dense European or Asian cities), together with unusually high population growth, means that well-located land is even scarcer here than elsewhere. That's what makes Australia a high capital growth market. Because Australia is a high capital growth market, it is also by definition a low yield market (Figure 6).

[23] (Coates B and Reysenbach, T, 2022).

[24] Ibid.

Figure 6 | Property CAGR (1986-2021) and Yield (2021) - selected cities comparison.[25]



Importing business models from different markets, with different housing markets, is unlikely to be effective in the Australian context. For example, unlike much of the United States, Australian property returns are primarily driven by capital growth, not yield. This is because rental prices are low compared to property prices, and Australian property price growth has been consistently strong for nearly all of Australia's Post-Federation history. As a result, solutions are more likely to be assessed as having a positive impact on returns if they give greater exposure to growth than yield, and vice versa.

[25] (ABS, 2021b), (CoreLogic, 2022), (FRED, 2022b), (Zillow, 2022), (BIS, 2022), (RealAdvisor, 2022).

2.4 Mobilising private capital could reach the scale required

The size of Australia's housing market, and the difficulties governments have in addressing housing crises at sufficient scale, offers an opportunity for private capital to provide solutions. Notably, these solutions can come in addition to, and potentially dwarf, government and non-profit action, increasing the effort invested in solving these problems without diminishing the value of existing initiatives.

Private capital in Australia falls into three groups:

1. Major investment groups: Superannuation funds and investment banks
2. Smaller investment groups: Family offices and other smaller-scale funds
3. Individual investors: High net worth individuals and ordinary property investors (landlords)

Each of these groups has their own reasons for investing in property. Major investment groups invest in property for risk management, diversification, and low volatility. Smaller investment groups such as family offices typically invest in property for historically strong growth and as a stable store of wealth. Landlords often invest in property due to familiarity, non-volatility, concern about the accessibility of other asset classes, and preferences for physical assets that feel more secure than other equity types.

When discussing private investment in Australia, most of the discussion, and certainly most policy emphasis, is placed on the first of these groups – notably large superannuation funds. The Federal Government has recently announced a major push to work with superannuation funds to engage with the Australian housing sector, as they currently have very little exposure to Australian residential property (particularly considering their size and the size of the asset class).[26] But a much larger source of capital also lies in the third group, where Australia's two million individual property investors account for ownership of 26% (approximately $2.5T) of Australia's $9.8 trillion residential property market and unlike superannuation funds, have already chosen the residential property asset class.[27]

Chapter 3 looks at the potential of private investment models to harness private capital – including that of Australia's landlords – to work at scale and make a significant difference to Australia's housing crises.

[26] (Wright, 2022).

[27] (Martin et al., 2022), (ABS, 2021b). Note that investor properties are typically lower in value than those of owner occupiers, so the total value of investment properties may be less than $2.5T.

3.

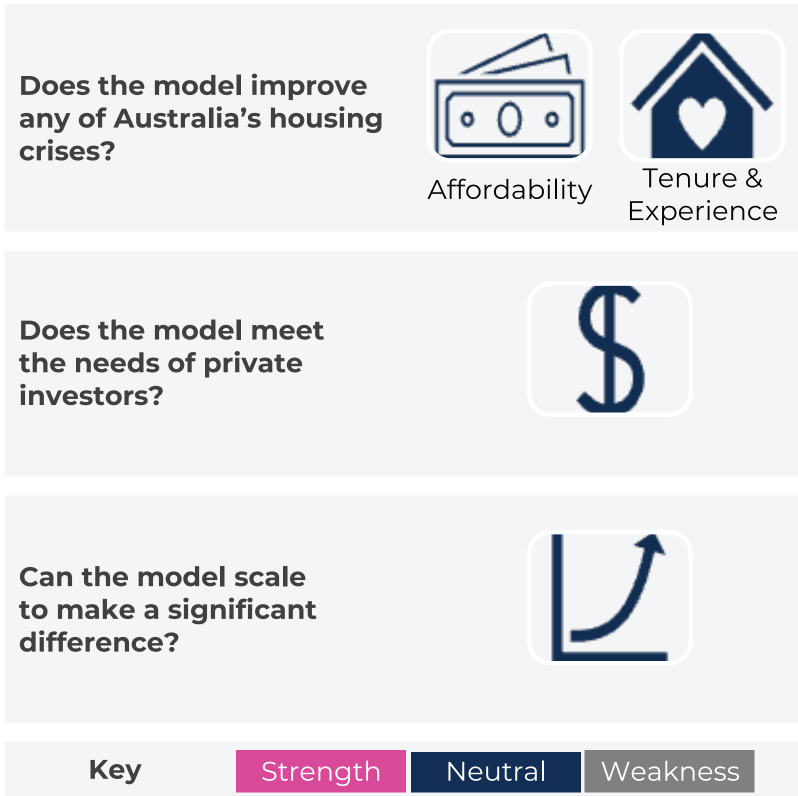
ASSESSING PRIVATE INVESTMENT MODELS

3 Assessing private investment models

Private investment models need to satisfy three criteria to determine whether they will be effective.[28] First, does the model improve any of the three housing crises (purchase affordability, rental affordability, and rental experience)? Second, does the model meet the needs of private investors? Third, can it scale to make a significant difference?

Figure 7 outlines this framework, which is described further below.

Figure 7 | Model Assessment Criteria.



[28] There is a great deal of variety in the implementation of these models. Even good models can have unintended and negative outcomes when poor business practices are adopted. While it is important to acknowledge these risks, we evaluate private sector solutions according to their standard implementation, rather than against worst-case scenarios that are not reflective of the model as a whole.

This Whitepaper assesses four investment models:

- Shared Equity
- Build to Rent (BTR)
- Institutional Ownership of existing properties
- Rent to Buy (RTB)

These models were chosen for their proven track record of capital investment internationally, and the minimal government involvement required to deploy them.

Does the model improve any of Australia's housing crises?

Affordability: The expected cost of homeownership or rent relative to market rates.

- Strength: enables people to access homeownership or renting at a price lower than they would without the model.
- Neutral: has either no impact on affordability or varies depending on model design. For example, while some variants of a model might target affordability, not all will.
- Weakness: offers homeownership or renting at above-market rates.
- Tenure and experience: The impact of a model on the security of renters, and the quality of their experience.
- Strength: improves tenure security for renters, or, since tenure and experience are highest with owner occupation, earlier access to homeownership for homebuyers.
- Neutral: has either no impact on tenure or experience or varies depending on model design. For example, while some variants of a model might improve tenure or experience for renters, others will not.
- Weakness: further undermines rental experience in, or further increases barriers to homeownership.

The delivery of either outcome should come without detriment to the other – for example, rental prices should not come at the cost of tenure security.

Does the model work for investors?

Return: The financial performance investors can expect relative to other investment asset classes. This includes the risks, volatility, liquidity, and tax treatment associated with those returns.

- Strength: offers risk-adjusted returns above what investors can expect from traditional sources with limited risk and volatility.
- Neutral: offers risk-adjusted returns on a par with what investors can expect from alternative sources or varies depending on model design.
- Weakness: offers risk-adjusted returns below what investors can expect from indexed equities or bonds.

It is worth noting that good asset selection underpins investor outcomes for all the models. All models require some level of asset selection expertise on the part of the model manager. For example, Institutional Ownership focused on capital growth needs to select properties that are more likely to grow and BTR models that charge premium rents need to build their developments in highly desirable locations. Unlike other assets, property is not a ‘desk-bound’ investment class. Each property is unique, and physical site inspections are required for all investments: many US REITs have thousands of full-time staff whose sole purpose is to inspect and manage properties within the funds. This requires a different organisational and staffing structure than typical investment classes.

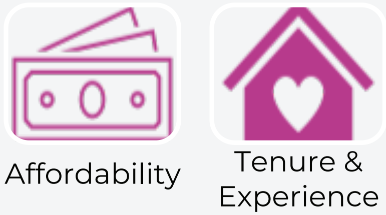
Can the model scale to make a significant difference?

Scalability: The ability of a model to grow to the size where it would make a noticeable difference to Australia’s housing crises while continuing to meet the needs of investors.

- Strength: scales more efficiently and effectively the greater the capital allocated.
- Neutral: scales in a way that is directly proportionate to the capital invested.
- Weakness: scales less efficiently and effectively the greater the capital allocated.

3.1 Shared Equity

Does the model improve any of Australia's housing crises?



Does the model meet the needs of private investors?

Can the model scale to make a significant difference?

Key Strength | Neutral | Weakness

Description

Shared Equity models involve a third-party investor co-investing in a property with a homeowner in exchange for a share of a property's capital growth. Shared Equity programs enable buyers to buy properties with lower deposit savings. They can also result in lower monthly mortgage payments, allowing owners to share financial risk with third parties. Shared Equity programs exist in Australia at both State and Federal government level.[29] The model has an extensive history overseas, mostly funded by governments to improve housing affordability, but also by private sector organisations to achieve commercial outcomes.

Shared Equity: A US Case Study

Unison's HomeBuyer program, established in 2007, is a privately funded Shared Equity model designed to help first-time homebuyers overcome the hurdle of a mortgage downpayment by offering up to 50% of that downpayment in exchange for an ownership stake in the home.[30] Operating in 30 states, Unison has invested in over 10,000 homes worth a combined value of over $8.2 billion.

The amount that Unison contributes to the down payment is based on a percentage of the home's purchase price, the buyer's creditworthiness, and other factors. The model improves purchase affordability by reducing the deposit barrier required for a mortgage. Unison shares in the gain or loss in the value of the home in lieu of interest repayments and receives repayment for their share when the home is sold or refinanced.

[29] For example, Keystart is a government initiative established in 1989 to provide low-deposit home loans to Western Australians. Under the initiative, Keystart co-owns a portion of the house with homeowners and provides up to 30% of the funding to buy a home, reducing the loan amount and monthly repayments (Government of Western Australia, 2021).

[30] (Unison, 2023).

Does the solution make a significant contribution to solving Australia's housing crises?

Affordability

Shared Equity models can ease Australia's purchase affordability crisis by allowing homebuyers to purchase property with lower savings for a deposit in exchange for giving some of their home's equity or capital growth to a third party.[31] This is particularly relevant for first homebuyers or those who have difficulty saving for the large deposit needed to purchase a home, including those who do not have access to financial support from family members. In this model, both the home buyer and the investor share the risk associated with the capital growth performance of the property.

The affordability of Shared Equity is dependent on the design of the contract. Some will involve sharing equity growth in the property, in which case the cost of the model will depend on the property's growth and the growth allocation to the third party. Others will target affordable housing, offering low-cost equity in exchange for capital growth, making homeownership more accessible.

Some argue that widespread adoption of Shared Equity could further stimulate demand, leading to increased prices. This could be an outcome if uptake is very high – for example, if privately funded Shared Equity programs were to grow to a hundred times the size of current government Shared Equity programs Australia-wide, all programs combined would then represent approximately 2% of the total value of the asset class and so would start to have a meaningful impact on prices.[32]

Tenure and Experience

Shared Equity models improve the ability of individuals and families to purchase properties. Homeownership, even with a mortgage, is the best form of housing security in Australia, with no risk of residency being terminated by a landlord, and numerous protections from banks and governments to help financially at-risk households avoid foreclosure.

Homeowners also experience a higher quality of experience than renters. Homeowners face few restrictions around alterations, renovations, or pets, and aren't subject to inspections, lease contract renewals, or disrespectful treatment by property managers. People with disabilities can also more easily make alterations to their properties to suit their accessibility needs.[33]

Does the solution work for investors?

Shared Equity models can offer good returns for investors, so long as they select strong capital growth assets. Their consistent success in attracting investor capital is evidenced by the numerous Shared Equity programs in dozens of countries worldwide. Underpinning this success is the flexible nature of Shared Equity contracts, which can be tailored to the economic contexts of different countries, and the strength of Shared Equity in balancing risk, where the relatively low value of individual contracts mean

[31] It is also worth noting here that homeownership comes with substantial tax and transfer advantages in Australia.

[32] (NSW Shared Equity Home Buyer Help, 2023), (Hon. Danial Andrews MP 2022), (Keystart 2023).

[33] (Pinnegar, Easthope, Randolph, Williams & Yates, 2009).

that firms can diversify investment across lots of different properties, rather than relying on one or two.

Can the model scale to make a significant difference?

Setting up the infrastructure needed for a Shared Equity operation (including regulatory approvals, mortgage lenders and customer acquisition channels) is a substantial effort, but once this is in place, Shared Equity can then scale quickly. It should be noted, however, that because each Shared Equity contract is for a relatively small amount, scaling is more resource intensive than other models.

A further point of consideration is the liquidity of Shared Equity investments. Unlike equity markets, Shared Equity models tend to be quite illiquid, with investors needing to wait for properties to be sold by homeowners or for the homeowners to directly buy out the contract. In this way, the liquidity of Shared Equity investments is directly dependent on home tenure (or the capacity of homeowners to buy out the Shared Equity provider earlier).

Figure 8 outlines the expected tenures for Australian capital city properties purchased between 1998 and 2008. It demonstrates that investors start receiving returns in the first few years of investment and, although some properties are held for extended periods, a third are sold within six years and more than half within ten years. Nonetheless, when combined with buy-back incentives for Shared Equity customers and the creation of secondary markets, illiquidity is often less of a concern for Shared Equity than it at first appears (Figure 8).

Figure 8 | Australian capital city property tenure curve (1998 - 2023).[34]

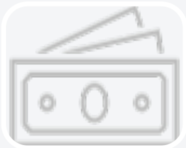
Conclusion

Shared Equity models are a compelling solution to Australia's purchase affordability crisis because they improve the accessibility of homeownership. They can offer good returns to investors if they have strong asset selection capabilities, because they provide good exposure to capital growth, the core component of returns in Australian housing markets.

[34] LongView analysis of Propic data.

3.2 Build to Rent (BTR)

Does the model improve any of Australia's housing crises?



Affordability

Tenure & Experience

Does the model meet the needs of private investors?

Can the model scale to make a significant difference?

Key	Strength	Neutral	Weakness

Description

BTR is a model in which developers build properties, often high-density apartments, without the intention of selling them individually. Instead, these properties are held by the developers or a wholesale purchaser and offered for rent indefinitely. So far in Australia, BTR has targeted the premium rental market. The model has also gained attention as a way of increasing housing supply, with governments hoping that for a trickle-down effect on the rent prices overall. As a result, various tax breaks have further encouraged the growth of these models in recent years.[35]

BTR: A UK case study

London & Quadrant (L&Q) manages more than 120,000 homes, housing over a quarter of a million residents, and are also one of the largest developers of BTR properties in the UK.[36] L&Q specialises in developments of luxury apartments that serve higher income groups. L&Q investors have enjoyed strong returns from the BTR model, in large part due to the premium rents.

The model also swims with the tide of the UK housing market, where average rental yield is typically 5-6%, nearly double that in Australia, making rental income a more important source of return for investors than growth.

[35] (Duncan, 2022).

[36] (L&Q, 2023).

Does the solution make a significant contribution to solving Australia's housing crises?

Affordability

BTR models in Australia are nearly always targeted at the premium end of the rental market.[37] Advocates of BTR models argue that although these developments are not themselves affordable, they increase overall housing supply, which pushes down the rental price of other properties. There is considerable debate around the claim that BTR developments will eventually increase supply to the extent they will improve rental affordability.[38] Further, it is unclear whether BTR models increase investment in housing development, or just re-allocate existing private capital already earmarked for property investment.[39]

BTR focuses on new build apartments, and it is likely that capital depreciation on new apartment buildings is greater in the early years of investment. Anecdotally, rising building maintenance costs in some BTR models have driven some US institutional landlords to aggressively raise rents, as yields are slowly eroded by falling structural value over time.[40]

While there is increasing interest in BTR as an affordable housing solution, it is not yet clear that the economics of the model can be adapted accordingly. It is likely that BTR at below-market rental rates would require significant ongoing government subsidy.

[37] (Gilbert et al., 2020).
[38] (Brill and Durrant, 2021).
[39] Ibid.
[40] (Property Council of Australia, 2021).

Tenure and Experience

BTR tenants enjoy much better tenure security than other types of rental accommodation. BTR models are generally well maintained and professionally managed, as should be expected for their premium price point. Together with the availability of high-quality common spaces and facilities, this means that BTR users often enjoy good tenure security and experience, representing a strength of premium-rent BTR models in their early years.[41] Over time, as premium rents become more difficult to sustain as the building and facilities age, it might become more challenging to provide good a rental experience, particularly if building owners change.

Does the solution work for investors?

In the US and the UK, high rental yields have underpinned relatively strong financial returns to BTR investors. Australia has lower rental yields than the US and UK, as its property market is driven by high capital growth, which is in turn a function of growth in the value of land value. Therefore, it could be argued that BTR swims against the tide of the economics in Australia. The average Australian annual gross rental yield for high density apartments (as explored in the first Whitepaper) hovers around 4%.[42] But the capital growth of these types of these high-density apartments tends to be closer to 2.5%.[43] When factoring in maintenance and

[41] (Webb, 2021).
[42] (Kusher, 2022), (Fox & Tulip, 2014).
[43] LongView analysis of Propic data.
[44] (DTF Victoria, 2018).

corporate overheads it is possible that the total returns to BTR in Australia would be low relative to overseas markets, which often have much higher yields.[44]

There has been significant investment in BTR in Australia in recent years. Although the financial performance of these models is not publicly available, they have been persuasive enough to attract large capital commitments.

Apartments that rent at a premium when brand new properties may struggle to maintain that premium when the stock becomes older and dated and less competitive with fresh offerings. Thus, there is a risk of flat or declining rents over time. Many BTR prospectuses predict strong rental growth as a driver of returns. It is important to note that because many new build properties are added to the average each year, the rise in "average" rents across all properties can mask a lower rise in rents, or even decrease, in each individual property.

It is possible that the government tax concessions awarded to BTR developments are sufficient to compensate for poor overall returns, or that most of the returns are concentrated in the initial development, with the less lucrative ownership period being left to other parties, particularly as the building and facilities age.

Can the model scale to make a significant difference?

BTR can be scaled if there is enough capital, but it is not yet clear how attractive the model is to investors when deployed in the Australian property market.

Even when capital is available, there are challenges with access to sufficient numbers of sites, time to approval, &c. Most Australian BTR developments so far have been high rise apartment buildings in CBDs, and it is unclear whether the model can work for other housing formats e.g. medium density in the suburbs, where it is harder to find available sites.

At the time of writing, the total number of BTR apartments that are operating, under construction and in planning is around 16,500. [45] Compared to the hundreds of thousands of extra households that Australia needs to house in the coming years, this seems a small number. It remains unclear whether BTR is attractive enough to operate at the kind of scale needed to make a real difference to our housing crises.

Conclusion

BTR offers tenure security and a better experience for renters (at least in the early years), even if it does little for the problem of housing affordability. Nonetheless, BTR – which depends on high yields in the US and UK for its returns – swims against the tide of the economics of the Australian property market. As a result, good financial returns might be difficult to maintain after initial development.

[45] (Harley R, 2023)

3.3 Institutional Ownership of existing properties

Does the model improve any of Australia's housing crises?

Affordability

Tenure & Experience

Does the model meet the needs of private investors?

Can the model scale to make a significant difference?

Key Strength Neutral Weakness

Description

Institutional Ownership of existing properties is an investment structure focused on acquiring portfolios of residential property which are held over the long term and offered for rent. With a long history in Europe and the US (where many are Rental Real Estate Investment Trusts – REITs – and others are corporations), it has recently gained traction as an investment vehicle for financial institutions, attracting global media attention for their growth. Institutional Ownership offers investors exposure to both rental yield and capital growth and can provide further benefits like diversification, liquidity, and passive income generation.[46]

Institutional Ownership: US Case Study

Housing Partnership Equity Trust (HPET) is a US based Rental REIT. It partners with non-profits to provide low- and moderate-income families with secure and affordable tenancy and manages over US$85 million in equity. Primarily focused on yield, they have consistently provided 5-8% dividend returns on top of growth over the course of its existence.[47]

HPET has maintained a commitment to affordable rent levels, with properties meeting affordability criteria even for families earning 60% of median household income in the Trust's target investment areas. It has been able to achieve this through close collaboration with local authorities and housing associations.[48]

[46] (Klasa et al., 2023).
[47] (Robaton, 2020).
[48] (Housing Partnership Network, 2023).

Does the solution make a signi icant contribution to solving Australia's housing crises?

Affordability

The affordability of Institutional Ownership of existing properties is dependent on the design of the model. Some explicitly provide affordable housing (either through building tax concessions into the economics or forfeiting yield in favour of investing in high capital growth areas), while others invest purely for total financial returns.[49] The extent to which the investor relies on capital growth rather than rental yield for returns may affect the rental affordability.

Tenure and Experience

Institutional Ownership can offer much better tenure security than those renting from individual landlords. As explored in the second Whitepaper, property investors in Australia have relatively low hold periods, with sale being the most common reason for tenure termination, and 41% of rental properties exiting the market within five years. In contrast, Institutional Ownership funds hold properties for long periods, and can therefore provide tenure security to tenants.

Institutional Ownership is also able to provide a better rental experience to renters. While most rental properties in Australia are managed by first-time landlords or poorly resourced real estate agencies, Institutional Ownership funds professionalise their property management, offering better service, support, and respect for renters.

Institutional Ownership of existing assets can open the door to innovations that improve the lives of tenants while also meeting the financial requirements of investors. A good example of this is energy retrofitting. Because tenants are typically responsible for energy bills, landlords currently have little reason to improve the energy efficiency of the properties that they manage. Conversely, if Institutional Ownership models were able, at scale, to package energy with rent to deliver a lower total cost, energy retrofitting would benefit both renters and investors.

A draft Renters' Compact

Institutional Ownership of existing properties make it possible to give renters the tenure security not currently available in the Australian private rental market. As well as the relief that comes from not living with the possibility they may have to move, Institutional Ownership could further differentiate themselves by giving guarantees relating to safety, autonomy, flexibility, and dignity.

Depending on the design of the model, potential tenants could be offered a range of benefits, for example:

- Multi-year rental agreements

[49] (Newell et al., 2015).

- Interior alterations
- Maintenance request guarantees
- High minimum standards on heating and cooling, alongside minimum energy efficiency standards
- Either no rent increases beyond CPI, or market-to-market smoothed rent increases over time
- Help with rent arrears caused by loss of employment
- Respectful treatment by property managers and participation in facilities governance

Does the solution work for investors?

Institutional Ownership models focused on capital growth could offer good returns for investors, as they swim with the tide of Australian property market economics. Institutional Ownership can be diversified across a range of property locations and types, reducing risk. If liquid secondary markets were developed (see Chapter 5), property investors could 'cash out,' in part or whole, at any time, dramatically improving liquidity compared to direct investment.

These models are often considerably more efficient than direct property investment because they create an economy of scale for maintenance and tenant management. The principal challenges are in the costs of land tax and whether structural approaches or regulatory changes can ameliorate these costs.

Can the model scale to make a significant difference?

Institutional Ownership models can grow relatively easily because they involve the acquisition of existing assets which are not subject to delays caused by limited site availability, zoning, or approvals. They can also benefit from economies of scale as the asset class is so large - there are millions of existing properties. As the fund grows, the cost of managing the properties can be spread across a larger portfolio, reducing the overall cost per property.

Another advantage of Institutional Ownership is the ability to work towards an optimised capital structure (which current landlords are unable to do). For example, by using debt to finance the acquisition of new properties, Institutional Ownership funds can rapidly increase the size of their portfolio and generate higher returns for investors (though it should be noted that this should be managed carefully – as seen in parts of the US, non-optimal capital structures in the form of too much debt can cause significant problems).

Other considerations for Institutional Ownership

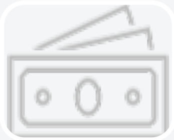
Land tax policy represents a significant barrier to the development of Institutional Ownership. Under current settings, the more land that individuals and corporations own, the higher the proportionate rates of land tax they pay. Since providers of affordable housing, at rents 25% less than the market, are exempt from land tax, the only current pathway for Institutional Ownership is thought as Affordable Housing providers. This is good for the provision of below-market rentals but means that households in the private rental system would not be able to access the tenure security and improved experience that Institutional Ownership would make possible.

Conclusion

Institutional Ownership offers a promising solution to Australia's housing crises. They provide better tenure security and experience for renters and a financial outlook and experience for investors that is a huge improvement on being a landlord in the current private rental system. Solving for the land tax barrier via structural solutions (like micro-trusts) or access to affordable housing exemptions, and the broad availability of liquid secondary markets (discussed in Chapter 4) will both be crucial to scaling in Australia.

3.4 Rent to Buy (RTB)

Does the model improve any of Australia's housing crises?



Affordability

Tenure & Experience

Does the model work for investors?

Can the model scale to make a significant difference?

Key Strength | Neutral | Weakness

Summary

RTB models allow renters to pay above market rents to gradually purchase a home or to purchase a home at a predetermined price at the end of a lease term, often having already made some payments towards this price over the course of their lease. They have gained popularity in many countries, including the US, UK, Canada, South Africa, New Zealand, Ireland, and India.[50] RTB seeks to improve access to homeownership by lowering the amount of upfront savings required, and providing an option of a fixed purchase price.

The benefits of RTB include easier access to homeownership without a large deposit, and in some cases the option to pay part of the purchase price through rent. This can also pose risks for renters, such as the potential forfeiture of equity if the property's value does not increase as expected, and difficulties in obtaining a mortgage if the property is overpriced.

RTB models are not limited to standalone use but can be integrated with other models to provide a suite of affordable housing solutions.[51] For instance, a combination of Build to Rent (BTR) and RTB can result in a 'Build to Rent to Buy' model where investors develop new housing complexes for leasing, which can be sold to tenants via RTB. Institutional Ownership models can also leverage RTB to combine rental yield and capital growth for investors, providing greater stability of returns.

[50] (Chong, 2020).

[51] (Cox, 2023).

RTB: A US Case Study

Home Partners of America is a privately funded Rent to Buy group based in the United States. The company offers a lease purchase program, where renters lease out a home for up to five years with the option of buying the home at any point during the lease period for a predetermined price. [52] Home Partners of America also offers to provide financing for this purchase if it is made. Home Partners of America was founded in 2012 and operates in more than 2,200 metropolitan areas across the United States. Since its inception the company has acquired more than 28,000 RTB properties (many of which they have sold), serving over 62,000 individual tenants through the program to date.[53]

Does the solution make a significant contribution to solving Australia's housing crises?

Affordability

RTB is typically a more expensive form of homeownership in the long term. Renters generally pay above market rate to lease the property, and then have the option to buy at a predetermined price. [54] The above-market rents encourage property purchase and limit exposure to long term price growth, which might otherwise cause investors to sell properties at below-market rates due to pre-agreed prices. In most cases, the solution is most suitable for high-income earners who have low savings and so otherwise face a high deposit barrier. It should be noted that in Australia, where rental yields as a proportion of purchase price are very low, even large increases in monthly payments may not advance ownership as quickly as in higher yield markets.

Tenure and Experience

Tenure security is a strength of RTB models. Agreements generally involve long lease lengths (3-5 years or more), meaning that even if tenants do not go on to buy the property, their level of tenure security has still been improved by the agreement.[55] Further, the models create a better dynamic between landlords and tenants that is conducive to longer tenure. Tenants are encouraged to take care of their property in the knowledge that they may eventually own it, and institutional landlords rely on making the property pleasant to live in so that the tenant may one day buy it.

Does the solution work for investors?

RTB is unlikely to provide as good returns to investors as other models. RTB arrangements have pre-established purchase prices, so if a property increases in value more than expected, investors may incur losses on the transaction. On the other hand, if the property value decreases or is less than expected, tenants have the option to not purchase the property. [56] As mentioned above, it is common for landlords to charge higher rents in exchange for the option to buy a house. This may lead to higher yields during the investment period, but still presents risks to the investor depending on the final purchase price.

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[52] (Home Partners of America, 2023).
[53] Ibid.
[54] (Delahunty, 2023).
[55] (Assemble Communities, 2021).
[56] (Bleby, 2022b).

Can the model scale to make a significant difference?

As discussed above, RTB models generally require above-market rents for the model to work, making it most attractive to customers who have low savings and high incomes. As this is a relatively small group of people, it is unclear that there would be enough demand for the model to operate on a large scale.

Conclusion

While RTB does offer a pathway to homeownership, it may worsen rental affordability up to that point, making it attractive only for people with low savings and high incomes. In addition, it presents risks that might make investors unwilling to invest in large numbers.

4.

ENABLING INFRASTRUCTURE

4 Enabling infrastructure

These models require enabling infrastructure to be effective in the Australian context. Just as electric cars need a network of charging stations to become a real transport option, systems to enable private capital to mobilise at scale would also be needed. This chapter looks at two important parts of the puzzle: secondary investment markets, and the use of data and information, including a national social housing register.

4.1 Liquid secondary investment markets

Liquid secondary investment markets enable the buying and selling of financial units in investment funds, in a similar way to other asset classes such as equities on the stock market.

They are particularly beneficial for the four models discussed in Chapter 3, all of which otherwise have long investment periods. For land-intensive, capital growth-oriented models, liquidity is especially valuable because they can have little to no ongoing rental yield income.

Without a liquid secondary market, solutions like Shared Equity and (capital growth-oriented) Institutional Ownership require very 'patient' capital, where some or all returns may not be available for many years. While the level of returns can be attractive, the lack of liquidity, even for emergency withdrawal, is a significant disadvantage. Having liquid secondary markets could dramatically reduce the cost of capital for these investments, making them more attractive to all types of investors.

Secondary markets are sometimes criticised for failing to provide the instantaneous liquidity seen in places like the stock market. But this level of liquidity is not actually desirable property investments. Many people invest in residential assets due to their stability, which would only be undermined by a market with a high transaction volume. Secondary markets are better suited for property funds than other financial products as they create lower volatility than publicly traded equities, which is desirable for property assets because they are typically sought after for their stability. Liquidating an actual property typically takes 60-120 days, so even monthly liquidity would be advantageous to investors. Indeed, it would be preferable that funds trade at NAV rather than fluctuate with the general stock market.

As such, secondary market exchanges appropriate to the characteristics of the asset class and their investors, such as a specialist exchange for residential property with a focus on independent verification of NAV, would be the ideal form of liquidity.

Secondary markets also allow investors to enter and exit investments easily without disrupting the operation of those investments, reducing financing costs and improving returns. This, in turn, benefits homeowners and tenants, as secondary markets allow investments to change hands without the need to sell homes or end leases (see also 5.2 below).

By providing greater flexibility in capital management and liquidity for investors, secondary investment markets are critical to the success of private capital models.

4.2 Unlocking data

A second barrier to efficiently solving Australian housing crises is the shortage of accurate, timely, granular data. Data already held within private sector organisations could play a much more important role in delivering rapid insights on both demographic and property trends, but Australia significantly lags other countries on access to de-identified, timely data. For example, building a detailed national picture of our housing supply challenges is easier said than done. Organisations – including those in the private sector – with access to rich national data could help solve our housing crises more efficiently by providing both aggregated and localised data on site availability, development applications and times series of aerial imagery.

Social housing is another example of where better access to information would contribute to better housing outcomes (see below).

A national social housing register

After years of underinvestment, we are recognising that our social housing systems need to change. With the help of new technology, a centralised, national social housing register to support the provision of social and affordable housing could help increase transparency and provide security to Australians who need affordable housing.

A range of approval conditions, contracts, and concessions are involved in expanding the supply of social and affordable housing.

For example, a local council might use approval conditions to require several units in a complex to be reserved for essential workers or, in the future, a superannuation fund might obtain tax concessions for institutional residential ownership investments. There is currently no consolidated framework to keep track of these obligations or the long-term use of the properties. Many of the approval conditions or contracts are time-limited and, even when valid, are difficult to track.

One option is a simple standard form notation that can be placed on each property's title (or on a standalone register) to record a commitment to social or affordable housing. This would enable a readily searchable national database to be created. Over time the register could become the foundation for a robust and recognised asset sub-class, providing security to Australians who cannot afford a market-priced property and for those who invest to provide them with a home.

5.

CONCLUSION

5 Conclusion

Australia's housing crises have been decades in the making, so it should be no surprise that we have been finding them difficult and expensive to tackle. Although these models are not fixes to short-term supply issues – and it is not clear that good fixes are available – transformational improvements could be made over the medium and longer term by mobilising private capital in a way that works for homebuyers, renters, and investors.

This chapter concludes that all four models – Shared Equity, BTR, Institutional Ownership and RTB – have the potential to ease Australia's housing crises if designed and regulated effectively. However, Shared Equity and Institutional Ownership offer by far the most potential both in terms of commercial viability and how much difference they would make. Critically, these models swim with the tide of the economics of the Australian property market.

This concluding chapter explains how both Shared Equity and Institutional Ownership separate physical assets from financial flows and finishes by mapping out a possible future state for Australian housing if these models worked.

5.1 Shared Equity and Institutional Ownership could make a transformational difference

By reducing the level of savings required to buy a home, Shared Equity models make homeownership more affordable. While Institutional Ownership would have a neutral impact on affordability, this model would significantly improve renter tenure security and experience. Specific models focused on affordable housing would also ease the rental affordability crisis. Both models could meet the needs of investors. Shared Equity models expose investors to capital growth (the strength of the Australian property market), with high asset diversity and low scalability difficulty. Institutional Ownership offers similar benefits, although requires more capital to scale effectively.

These solutions need enabling infrastructure to be most effective. Secondary investor markets would increase fund liquidity, reducing risks for investors, and so increase their willingness to fund them. Carefully managed open data systems would enable better decision-making by all parties.

5.2 Property funds separate physical assets from financial flows

One of the most powerful ways that mobilising private sector capital can address Australia's housing crises is through separating physical assets from financial flows.

At the moment, homeownership is the only way to guarantee a good housing experience in Australia. The purchase affordability crisis has resulted in more and more people unable to access homeownership, while landlords in a fragmented ownership landscape are forced to invest in single, high-value investments that are highly inflexible, have variable returns and high switching costs, and are 'high-touch', with a range of maintenance and management headaches.

Making it possible to invest in residential property as part of a consolidated fund enables landlords to access capital growth without the compromises associated with direct ownership of individual properties. Secondary investment markets would solve for the inflexibility – the illiquidity – of direct ownership.

Furthermore, since fund unit investments and redemptions can take place separately from transfers of ownership of individual properties, occupants of the property do not have to move if investors wish to sell their assets. The property continues to belong to the fund, so they can continue to live in the property and treat it like home.

This finally breaks the nexus of individual tenants with individual landlords and individual properties (see Figure 4 on page 8) which results in the poor experience Australian renters currently face. In this way, separating the physical assets from the financial flows solves the problem for both renters and landlords, and shows how Australia's landlords could be a critical part of solving our housing crises.

5.3 Liberating landlords and renters from fragmented ownership

As mentioned on page 12, the largest pool of available capital for residential property funds is not in superannuation funds (though this is still very large) but with landlords themselves. As the second Whitepaper demonstrated, many landlords receive poor to mediocre returns alongside multiple operational headaches.

Offering landlords, the opportunity to continue to invest in their asset class of choice, but with high quality asset selection and therefore capital gains returns, liquidity, diversity across thousands of properties and no property management headaches is a compelling proposition. At the same time, the capital they redirected would lead either to more homeownership through Shared Equity or dignified tenancy through Institutional Ownership. Indeed, the housing stock that is currently owned in fragmented private ownership would then be able to 'roll into' these funds and be available for a better rental experience.

Some landlords will prefer to remain with the perceived security of individual "bricks and mortar" assets, but, given the total pool of landlord-owned properties is over $2Tn, it would take only a small proportion transitioning their ownership into funds to liberate large capital sums.

5.4 A possible future state for Australian housing

Everyone wants to be able to have the security of a good home, a place they can treat like home, rely on like home, that feels like home. Australian homeowners take these things for granted, but Australian renters don't have a place that feels like a real home. Instead, they often live under constant threat of upheaval, poor maintenance, and service, and can feel pushed around in their own homes.[57]

Shared Equity and Institutional Ownership offer the possibility of getting renters out of renting into owning, and where that isn't

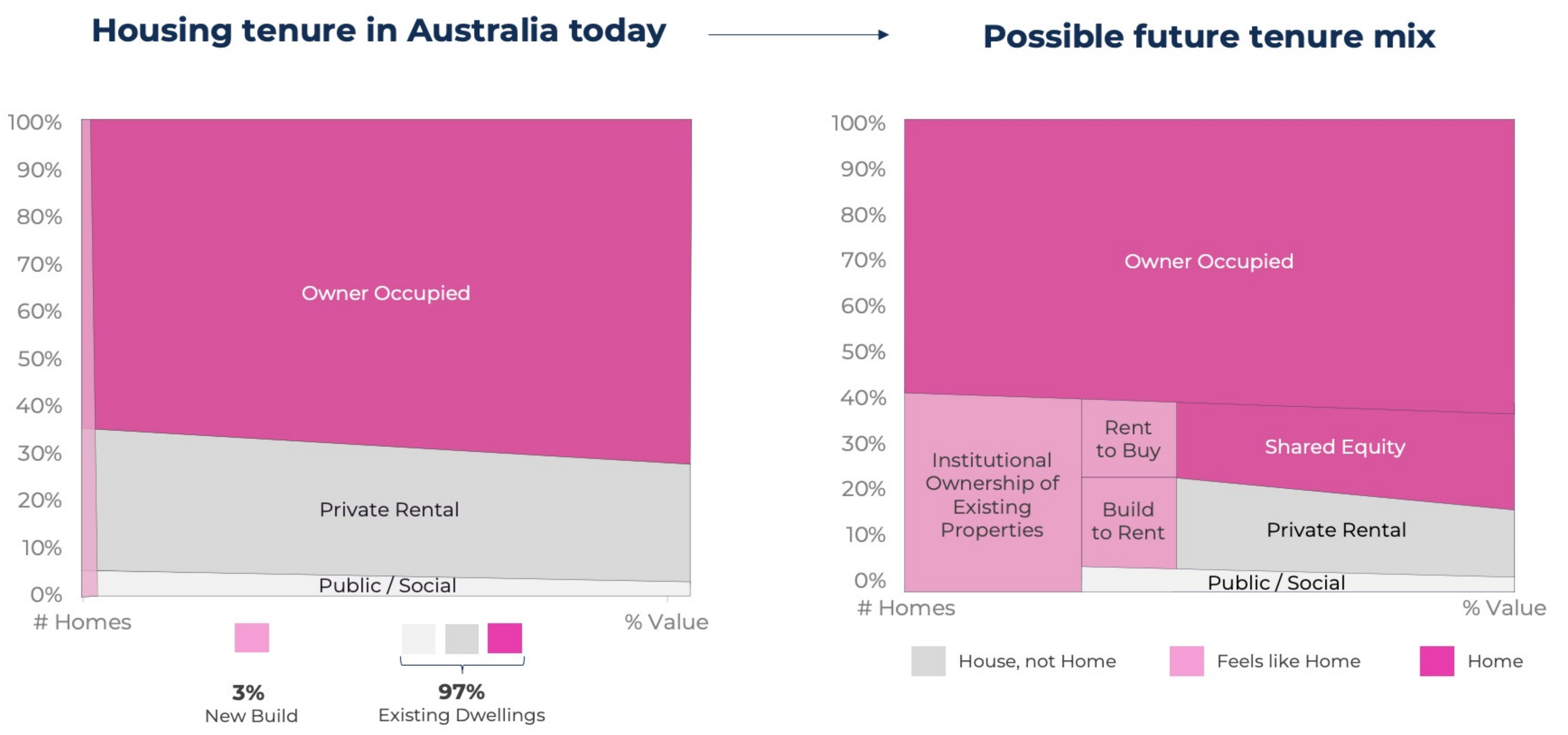
[57] See for example Noack, G. (2023).

possible, into a much better model of renting which is dignified, secure, flexible, and feels like home. Shared Equity can help get people into homeownership sooner or get them over the line in being able to own at all. Institutional ownership allows for tenure security, much increased scope for personalisation and being treated with dignity by management. Renting in Australia could feel like home.

Private sector firms rightly need a social license to operate in housing. Few things are more important than having a secure roof over our heads. Careful systems of regulation that make Shared Equity and Institutional Ownership possible while making it impossible for bad actors to play will be important.

Australia's housing future could look different to today (Figure 9). It is true that these models for mobilising private capital are not fixes to the shorter-term supply challenge (and it is not clear that good fixes are available), but they do represent an opportunity for many more Australians to feel like they have a home.

Figure 9 | Private Sector Solutions and Australia's Future Housing Landscape.[58]



[58] (AIHW, 2022)

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