Magical or monstrous? Hybridity in social housing governance: Understanding market oriented reforms of social rental housing
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Citation for published version (APA):
THE INVISIBLE HAND? USING TAX INCENTIVES TO ENCOURAGE INSTITUTIONAL INVESTMENT IN SOCIAL HOUSING
ABSTRACT

Over recent decades many developed countries have commercialised the provision of state-subsidised housing, and introduced a stronger role for market forces. Government financial support now often aims to leverage debt or equity investment. Spearheading this policy change is a quest for the 'Holy Grail' of contemporary social housing policy: private equity investment, sourced from large institutional investors such as banks and pension funds. For comparative housing research, this opens up exciting new territory. Recent Australian developments using tax credits to incentivise investment – based on a successful US scheme – provide a valuable opportunity for comparison. This exploratory paper contrasts the two countries' housing tax credit schemes, highlighting outcomes for investors, tenants and the wider housing system. Foregone corporate taxes provide governments with a powerful 'invisible hand' to incentivise flows of private equity, replacing direct public grants. Yet despite free market rhetoric, tax credit schemes still rely on additional government intervention - especially during financial market turbulence.

With Dr Tony Gilmour, CEO Housing Action Network, Australia. Published in: International Journal of Housing Policy 11.4: 453-468.
INTRODUCTION

From the 1980s, many Western democracies have moved social housing provision into the commercial realm and opened it to market forces. Across a number of different policy regimes, non-government housing providers now work to publically defined mandates. In Sweden and the Netherlands, for example, not-for-profits originally subsidised by government to correct the general housing market for universal access, have been remodelled as independent entrepreneurs working to publicly-defined mandates (Turner, 2007; Priemus, 2008; SABO, 2011). Britain, the US and Australia, have sought to ‘correct’ heavily-residualised public housing systems by incentivising non-government entities to provide social housing in a market context (Milligan et al., 2009; Bratt, 2009; Malpass & Victory, 2010).

To capture this pattern of change, ‘social housing’ is here broadly defined as rental accommodation provided at below-market rents by public, private and not-for-profit organisations, targeted to low and moderate income households, and supported by government subsidies of varying types. As is now the practice in the US and Australia, the term ‘affordable housing’ is here used to describe certain types of subsidised housing that are favoured as growth models over public housing.

As governments retreat from direct spending, they must remodel social housing as an area of mixed finance, yet this involves significant political risk. Debt finance, now relied upon in Britain and the Netherlands, may still involve government backing (Whitehead, 2008). Whether explicit or implied, such undertakings are increasingly viewed in the post Global Financial Crisis (GFC) environment as an untenable risk to the public purse. Alternative forms of financial backing remain open to criticism from a commercial market perspective. Dutch housing associations’ collective guarantee fund (WSW) was recently flagged by commercial property investors as a transgression of European Union (EU) Competition Policy (Gruis & Priemus, 2008).

Within the context of recoil from public spending and private debt, a quest has emerged for what has become the ‘Holy Grail’ of contemporary social housing policy: steady streams of large-scale institutional equity investment. The target investors are banks, insurance companies, investment vehicles and pension funds. For comparative housing research, this quest for institutional investment opens up exciting opportunities. Complex financial arrangements and the social and commercial trade-offs they entail remain poorly understood. Yet while policy innovation accelerates, the scarcity of parallel national approaches hinders comparative analysis. Recent Australian developments using tax credits to incentivise investment; which draw on a long-established US scheme, provide a valuable opportunity for such a comparison. They also allow a reflection on tax credits for the many countries, especially in the EU, that have not used this approach.

This exploratory article compares the US Low Income Housing Tax Credit program (LIHTC) and the Australian National Rental Affordability Scheme (NRAS). Drawing on various sources, the paper defines and reviews the basic contours of the tax credit approach in order to build understanding of the quest for institutional investment. Part One explains how tax credits function, provides background on US and Australian housing policy contexts and
describes the development of LIHTC and NRAS. Part Two compares the architecture of the two schemes; giving attention to outcomes for investors, households and the housing system.

In both national settings studied, the notion of benefits brought through market efficiencies has provided a key policy rationale for introducing private debt and equity to social housing provision. Building on work by Adam Smith (1776), the idea of the ‘invisible hand’ has become a metaphor for how, in a free market economy, the role of government can be minimised while still achieving efficient outcomes for all market participants. Tax credits represent arguably the most marketised form of private investment in social housing. Yet, as this article will argue, the approach still relies on significant government intervention.

PART ONE: TAX CREDIT HOUSING POLICIES IN THE US AND AUSTRALIA

KNOWING YOUR TAX CREDITS

Tax credits are financial incentives awarded by government in the form of an exemption from tax for an organisation that has a tax liability. They can be used to encourage a variety of publicly desirable actions by investors, for example preserving heritage buildings. From a policy perspective their key benefit is they allow expenditure on projects without increasing visible public spending which can be politically sensitive in times of fiscal restraint. Since the resource used is forgone future taxes, tax credits escape the radar of traditional ways of measuring expenditure.

While the target investors for tax credits could be individuals, schemes to promote construction of new social housing are mainly tailored to large institutions. For the investor, tax credits may form part of a series of benefits such as depreciation allowances, development profit, or capital gain if the property is eventually sold. In social housing, tax credits tend to be awarded over a set number of years on condition that rental units are provided to meet rent levels and tenant eligibility criteria. The primary allocation mode is competitive tender for housing development projects. This introduces competition, allowing governments to select projects that are cost effective or deliver the best social outcomes. With both private and not-for-profit organisations eligible to apply, there is more of a level playing field for social housing development. As not-for-profits lack a tax liability to reduce, they may be allowed to trade tax credits for upfront development capital, or be allocated direct grants.

POLICY CONTEXT

Though differences remain, the US and Australia share several features that make for a fruitful comparison. Both have a tenure structure with private home ownership just below 70 per cent of total housing stock and social housing of around 5 per cent. National housing policies prioritise private ownership and rental, with spending on mortgage interest deductions taking the lion’s share of state support (Beer et al., 2007: p.13; Guthrie & McQuarrie, 2005). In both
national settings, public housing provided directly by the state has become marginalised and residualised. With exceptions, supply side assistance is rationed according to the logic of charity to those unable to compete in the commercial market, and increasingly positioned as a temporary safety net.

Both countries have seen a marked growth in not-for-profit housing providers over the last two decades (Gilmour, 2009). In the US, it is estimated that not-for-profit organisations now provide housing for around 1.5 million households, around 25% more than public housing authorities (Bratt, 2009, p. 67). While the greater share of Australian social housing is still run by relatively large state organisations, growing the not-for-profit sector and shifting to private finance have become central goals reflected both in the policy rhetoric, and through specific initiatives (Australian Government, 2010).

Unlike many pairings of countries featuring in comparative housing analysis, the US and Australia are both federal. The split of housing policy and funding between the national government and states, and resulting tensions, are a feature of the use of tax incentives in both countries. In both the US and Australia, most tax is collected at the national level, and corporate tax rules are largely uniform across the country. National governments are the funders of tax credits and establishing broad policy settings. However, state governments set the finer detail of implementation, including a role in allocating funding.

DEVELOPMENT OF LIHTC AND NRAS

Described by the US Federal Government as ‘the most important resource for creating affordable housing in the United States today’ (HUD, 2011), the Low-Income Housing Tax Credit (LIHTC) program has reached its 25th birthday. With a wave of new corporate investors such as Google now on board (Pristin, 2011), the LIHTC is celebrated as a tried and trusted national institution. The LIHTC was introduced in the wake of dramatic cuts to US public housing spending during the Reagan presidency, and the perceived failure of a previous program that used tax incentives to subsidise private landlords to rent properties to social housing tenants. The Tax Reform Act of 1986 introduced housing tax credits that would have to be bid for competitively, not allocated by right. In 1993, Congress declared the LIHTC program ‘permanent’. Despite several political challenges, it now enjoys bi-partisan support, and has helped build a broad coalition of for-profit and not-for-profit developers, banks, investors and consultants that support affordable housing (Dreier, 2006).

While stakeholders in the US community development industry cite the LIHTC as their most important resource for channelling institutional investment into social housing, they describe it as working in tandem with earlier legislation emerging from community activism (stakeholder interview, New York, 2009). In response to evidence of ‘redlining’ - where banks exclude certain low-income communities from debt finance - Congress passed the Community Reinvestment Act (CRA) in 1977. Described as a ‘greenlining’ mechanism to counteract systematic discrimination (stakeholder interview, New York, 2009) the CRA compels financial institutions to invest in low-income areas where they have customers if they wish to receive Federal approval for bank mergers (Guthrie & McQuarrie, 2005).
Figure 1 provides an overview of LIHTC. The system is complicated, involving multiple actors, and as a result took over a decade to be accepted and work efficiently. Once a developer has identified a scheme and been allocated tax credits, they are ‘sold’ via a syndicator to investors to raise capital. Investors do not necessarily pay the syndicator the full price for tax credits, and in the early years of LIHTC only 42 cents of each tax dollar went into social housing. By 1996 the figure had reached 65 cents, and at its peak in 2006 a full dollar was received (Schwartz, 2010, p. 116).

In this hypothetical example, a tax credit syndicator creates a US$70m fund from a number of institutional investors. The fund invests in several tax credit transactions: this diagram relates in detail to Tax Credit Scheme 3. The scheme builds multi-family housing costing US$75m. The State allocates to the developer US$33m of its US$90m annual tax credit allocation from the Federal Government. These tax credits encourage investment of US$30m equity by the tax credit syndicator. Other funding comes from bank loans (US$25m), state/city soft loans (US$15m) and grants (US$5m).

Australia considered innovating with new forms of institutional finance for social housing from the early 2000s. With the election of a left-of-centre government in late 2007, at a time of declining housing affordability and a severe shortage of rental housing, an innovative tax credit route was followed. The National Rental Affordability Scheme (NRAS) aimed to build 50,000 new social units over five years, followed by a further 50,000, subject to demand (Australian Government, 2008). While not explicitly modelled on the US approach, the LIHTC has been frequently cited as a source of inspiration (Plibersek, 2009).

Figure 2 shows that the Australian NRAS approach is more straightforward than the LIHTC. This is largely due to the lack of a syndication model, with a consequence that NRAS
benefits are received each year over 10 years rather than being discounted and capital received up-front. Like the LIHTC, the NRAS program has evolved over time. Though there was general political consensus at the time of the 2010 Australian national election, disagreement continues over details of the scheme (Coalition, 2010). Earlier in 2011 the 50,000 NRAS incentives were scaled back to 35,000, then the government announced the ‘missing’ 15,000 incentives would merely be delayed (Gillard, 2011). Therefore, unlike the LIHTC, Australia’s NRAS does not yet have the feel of being ‘permanent’.

In this hypothetical example, a not-for-profit organisation is developing a new housing scheme to build 100 properties at a cost of A$300,000 each to build, total value A$30m. Funding is provided through a A$5m land donation, $5m from the organisation’s own resources, plus a flow of NRAS incentives worth c.A$10m in total over 10 years. Bank facilities of up to A$20m are needed to pay for the development upfront. These facilities will be repaid from NRAS inflows over a 10 year period and rental income from tenants. If the organisation was a for-profit developer they would be unlikely to receive the A$5m funding from the state or local council.

Figure 2: NRAS summary
Source: authors.

PART TWO: POLICY COMPARISON AND OUTCOMES ANALYSIS

This section contrasts the design and mechanisms used in the housing tax credit systems in the US and Australia, then discusses outcomes of the tax credit approach for various stakeholders. While the considerably shorter time-span of the NRAS poses a challenge in making comparisons, we examine its design and its development to date.
LIHTC AND NRAS COMPARED

The LIHTC and the NRAS are both run as co-productions of national and state governments. As shown in Table 1 below, the respective roles of these different levels of government are distinct under the LIHTC Program, while the NRAS delineates areas of shared responsibility.

Table 1. Scheme architecture comparisons

<table>
<thead>
<tr>
<th></th>
<th>US - LIHTC</th>
<th>Australia - NRAS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National allocation</strong></td>
<td>States allocated a fixed amount of credits based on headcount (total population, not housing need)</td>
<td>No allocation of national slice of NRAS funds between states (states may place cap on their contribution)</td>
</tr>
<tr>
<td><strong>Bidding process</strong></td>
<td>Annual rounds, transparent process with clear disclosure of winners</td>
<td>Four rounds so far, at different times and on varying conditions. Process not transparent – winners not disclosed</td>
</tr>
<tr>
<td><strong>Scale of governance</strong></td>
<td>Funded nationally, with states deciding on allocations and in charge of administration</td>
<td>Funded nationally, with both national and state governments needing to sign off on bids. Administration split between both levels of government</td>
</tr>
<tr>
<td><strong>Compliance</strong></td>
<td>Annual contract compliance coordinated by the states. Most not-for-profit LIHTC recipients regulated as charities under the Federal Tax Code</td>
<td>Annual compliance coordinated by national government. Not-for-profit NRAS recipients regulated by the Tax Office as charities, and by the states (for-profits are not regulated).</td>
</tr>
</tbody>
</table>

In line with the goal of bringing market discipline to affordable housing provision (Guthrie and McQuarrie, 2005), both schemes rely on a competitive bidding process, with projects assessed against publically defined criteria and winners awarded tax credits. While the US program first allocates tax credits to the states on a per-capita basis, the Australian approach relies solely on a national competitive tender.

Under the LIHTC, a comprehensive system of disclosure of winners and other program outcomes has developed, including a publically accessible database operating since 1997. With NRAS, a lack of transparency regarding allocations has provoked public criticism. Only since June 2011 has a highly summarised NRAS allocation report been issued (Australian Government, 2011), and in August persistent parliamentary questions led to the disclosure of a list of NRAS recipients (Australian Parliament, 2011). Despite their market orientation, the two tax credit schemes are still considered public initiatives requiring active and on-going government participation.

INVESTOR OUTCOMES

Table 2 summarises the operation of the two programs. In both countries not-for-profit housing organisations have been beneficiaries of tax credit programs, though obtain benefit in different ways. Not-for-profit organisations in the US still need syndicators to raise institutional
finance, whereas in Australia the not-for-profit NRAS recipients receive a government grant - and therefore remain removed from institutional investment. Private sector for-profit NRAS recipients are becoming more significant in Australia, up from 30% of allocations in January 2010, to 45% in March 2011 (Finnigan, 2011).

Table 2. Investor outcome comparisons

<table>
<thead>
<tr>
<th></th>
<th>US – LIHTC</th>
<th>Australia - NRAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient organisations</td>
<td>Not-for-profit 21%; for profit 79% (minimum of 10% must go to not-for-profits)</td>
<td>Not-for-profit 55%; for profit 45% (as at March 2011)</td>
</tr>
<tr>
<td>Private sector investor types</td>
<td>Mainly banks, some companies</td>
<td>Mainly investment and development consortia with private investors</td>
</tr>
<tr>
<td>Institutional investment?</td>
<td>Yes, though mainly financial institutions fulfilling requirements of the Community Reinvestment Act</td>
<td>Little evidence of institutional investment to date from banks, pension funds etc.</td>
</tr>
<tr>
<td>Investor income</td>
<td>Tax credits and depreciation but seldom capital gain</td>
<td>Tax allowances (or grants for not-for-profits), capital gain, depreciation</td>
</tr>
<tr>
<td>GFC impact</td>
<td>Problems with investor appetite for tax credits led to lower syndication efficiencies and national government Intervention:</td>
<td>GFC has had only modest impact in Australia. The downturn in residential development increased interest in NRAS</td>
</tr>
</tbody>
</table>

Source: Various policy documents; Schwartz (2010); Finnigan (2011).

Both tax credit schemes explicitly target institutional investors, typically large and well-capitalised organisations with access to wholesale funding. In the US, restrictions on claiming depreciation allowances together with onerous application procedures shifted the investment market for LIHTCs from individuals to institutions from the late 1980s. LIHTC investment by individuals rather than institutions fell from a high of 98 per cent in 1988 to below 5 per cent since 2002 (Ernst & Young, 2009). The rise of intermediaries that began to actively market the credits to large institutional investors also helped engineer this shift (Guthrie and McQuarrie, 2005). However, it was the ability of financial institutions to use LIHTC investment to comply with Community Reinvestment Act rules, described in Part One, that created the largest investor class, particularly from the mid 1990s when banks overtook a broader range of corporate investors. In 2006 an estimated 85 per cent of LIHTC assets were purchased by financial institutions (Ernst & Young, 2009).

Australia’s NRAS scheme similarly targets institutions, and in particular, pension funds, which, as at March 2011 managed funds of A$1.36 trillion, up from A$200 billion in the mid-1990s (Berry, 2000; APRA, 2011). NRAS incentives have been offered in four rounds, with round three raising the minimum application size from 20 to 1,000 incentives and explicitly targeting ‘large institutional investors’, (Plibersek, 2009). Successful round three applicants were made public in Parliament August 2011. Of the 14 recipient organisations, 4 were traditional not-for-profits, 3 universities and public agencies, 1 a finance company, 2 not-for-profit investment
vehicles, and 4 for-profit investment/development vehicles (Parliament of Australia, 2011). Several of the round three investment vehicles target wealthy private individuals. Therefore although Australia is witnessing the emergence of US-style intermediaries, there is little evidence of significant institutional investment, which had been a main policy goal. Unlike in the US there is no ‘stick’ to promote this type of investment, just financial ‘carrots’ which have turned out to be attractive to individuals paying higher rate tax. Furthermore, there is less tradition of institutional investment in Australia residential development compared to the US, with most property investors being families owning and renting a second home (Gilmour & Milligan, 2009).

The GFC has provided insights into the role of investors in affordable housing. In the US, the LIHTC’s reliance on investment by large financial institutions quickly became its Achilles heel with the appetite for tax-credits falling sharply after profits plummeted, risk aversion increased and some banks failed. Tax credit syndicators raised less capital, placing many development projects on hold. In 2009, only US$4.5 billion in tax equity was raised through the LIHTC, compared with US$9 billion in 2006 (Pristin, 2011). In response, Congress passed the American Recovery and Reinvestment Act in early 2009, allowing state agencies to exchange US$2.25 billion of tax credits for grants to be used to fund the shortfall in costs on stalled LIHTC projects (Schwartz, 2010). Yet after weakened demand caused LIHTC prices to decline, investor interest picked up, with a new class of investors, including Google and Verizon, entering a tax credit market previously dominated by banks (Pristin, 2011). 2010 investment is estimated at $7 billion (Pristin, 2011). Hence the GFC showed that in times of market failure, the ‘invisible hand’ was replaced by far more traditional forms of government intervention with public agencies giving grants to eligible housing projects. While the Australian property market did experience a downturn in the post-GFC environment, this was far less severe, and led to increased interest in using the NRAS.

**HOUSEHOLD OUTCOMES**

Contrasts between the LIHTC and NRAS at household and tenant level are shown in Table 3. Noticeably different housing outcomes have been achieved as a result of variations between the housing policy settings in the two countries.

While dwelling types yielded through the LIHTC program vary, most takes the form of multi-family blocks, a pattern of development that is both relatively common in urban areas and consistent with the aim of minimising dwelling costs. The average LIHTC development contains 58 units. Around 51% of homes are located in lower income areas of central cities and 35% in suburbs. In line with tax rules for state agencies to prioritise projects serving tenants on the lowest incomes, some 80% of LIHTC schemes contain only low income tenants (Schwartz, 2010). However, mixed-income or mixed tenure developments help support projects in areas with high development costs. By contrast in Australia there are a wider variety of new building types, with only 51% multi-family blocks, and many detached homes or townhouses. Introduced at a time when moderate-income households were being priced out of many areas, the NRAS has often been used to promote mixed-income, mixed-tenure projects. Australian
targeting data have not been released, though stakeholder interviews suggest for-profits have been selecting tenants at the upper ends of the income threshold. Both programs favour urban areas, with only 14% of US and 20% of Australian tax credits supporting affordable housing in regional or rural areas (Serlin, 2011).

### Table 3. Household outcome comparisons

<table>
<thead>
<tr>
<th></th>
<th>US - LIHTC</th>
<th>Australia - NRAS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property types</strong></td>
<td>Generally single tenure, multi-family blocks. LIHTC has seldom been used for mixed income/mixed tenure schemes</td>
<td>Variety of built forms. Many examples of mixed income schemes, and de-concentration of public housing</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>New construction 62%, acquisition and rehabilitation 38% (Schwartz, 2010).</td>
<td>Must be new construction</td>
</tr>
<tr>
<td><strong>Duration of affordability</strong></td>
<td>Properties must be rented at prescribed rents for a minimum 15 years, extended in 1989 to 30 years.</td>
<td>After 10 years of rental on prescribed terms the property can be sold</td>
</tr>
<tr>
<td><strong>Tenant profile</strong></td>
<td>Working households on low incomes (Buron et al., 2000). Needier tenants may be accommodated with demand-support (vouchers)</td>
<td>Working households on low and moderate incomes. Policy often refers to ‘key workers’ and cites nurses, fire-fighters etc.</td>
</tr>
<tr>
<td><strong>Tenant eligibility</strong></td>
<td>Set at a national level. Minimum of 20% of homes affordable to households earning up to 50% of area median gross income (or 40% available to households earning up to 60% area median gross incomes)</td>
<td>Set by national government. Upper income levels range from A$44,128 for a single person to A$104,913 for a couple with 3 children</td>
</tr>
<tr>
<td><strong>Rent setting</strong></td>
<td>Up to 30%, of 50% or 60% of area median gross incomes depending on eligibility criteria chosen</td>
<td>Up to 80% of market rental levels</td>
</tr>
</tbody>
</table>

While a detailed analysis of tenancy outcomes under the two schemes lies beyond the scope of this article, the length of time that the dwelling remains in the scheme is important. The LIHTC started with a 15 year ‘compliance period’, soon extended to 30 years. In practice, investors rarely wish to resume occupation of the property at this time as major refurbishment will be needed. Australia elected for a 10 year compliance period such that, in theory, lower income tenants in the half of NRAS properties owned by private sector organisations could be evicted in favour of market rate renters or sale to a private purchaser. LIHTC investors look to tax credit and depreciation benefits, whereas NRAS investors factor into their calculations capital gain. With shorter compliance periods, Australian tenants of tax credit funded accommodation have potentially less longevity in the property than their US counterparts. However, neither the LIHTC program nor the NRAS force owners to write long term leases, making their tenure more similar to private rental than public housing.
HOUSING SYSTEM OUTCOMES

Table 4 compares LIHTC and NRAS program outcomes at the level of the housing system.

Table 4. Housing system outcomes

<table>
<thead>
<tr>
<th></th>
<th>US - LIHTC</th>
<th>Australia - NRAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable housing supply</td>
<td>Large increase in affordable housing supply: 1,600,000 homes built 1996-2006 (80,000 per year)</td>
<td>Small increase in housing supply to date: 24,685 NRAS incentives awarded and 4,063 homes built: 2008 -2011</td>
</tr>
<tr>
<td>Location of new housing</td>
<td>May not target areas in states with acute housing affordability problems</td>
<td>Targets neither states nor areas within states that have severe affordability issues</td>
</tr>
<tr>
<td>Industry structure</td>
<td>Larger not-for-profits often act as developers, but not always tenancy managers</td>
<td>Private sector NRAS recipients often outsource tenancy management to not-for-profit housing organisations</td>
</tr>
<tr>
<td>Subsidy efficiency</td>
<td>'Leakage' of funds occurs through the syndication process</td>
<td>Generally more efficient than LIHTC, though compliance costs may be high</td>
</tr>
<tr>
<td>Compliance burden</td>
<td>Low - though no clear systems in place if a not-for-profit housing provider fails</td>
<td>High and duplicated - though good support of not-for-profit providers</td>
</tr>
</tbody>
</table>


Affordable housing supply

While the LIHTC has achieved a large volume of housing supply, estimated at over 2,400,000 dwellings since its inception (Serlin, 2011), the NRAS is likely to fall short of the Australian Government target of 50,000 dwellings from 2008-2013. Fewer than 25,000 incentives have been awarded and slightly over 4,000 dwellings constructed (Australian Government, 2011). However, these targets may be unrealistic and in fact detrimental to a scheme that requires new relationships to be forged. The impact of the NRAS on Australian affordable housing supply will not be apparent until more time has passed.

In considering the housing supply impacts of the two tax credit programs it is significant that both are favoured over public housing as a model for growth in their respective national contexts (Guthrie and McQuarrie: 2005 p8; Lawson et al., 2009). In this light, the shift over time away from public housing, which has traditionally allowed for stock to be retained in the long-term or renewed strategically, and towards a supply model based on temporary affordability, amounts to a significant sustainability challenge. With affordability requirements for dwellings yielded by the LIHTC and other similar programs now expiring, community development stakeholders are faced with the new challenge of affordable housing preservation. In 2009, the number of units in with 'use' (affordability) requirements set to expire in New York City surpassed the number of affordable units being built (Fernandez, 2009).

In view of these emerging sustainability issues in the US context, the reliance of Australia’s’ NRAS on capital gain as an investor incentive, combined with significantly shorter
affordability requirements, emerges as a matter of grave concern that may heighten the need for future government intervention.

**Targeting housing to areas of greatest need**

Guided by the profit motive, a fixed level of subsidy per property will tend to result in developers building where costs are lowest; normally determined by land costs. As a result, social housing is less likely to be built in areas where there is the greatest housing need. Rather than relying on the ‘invisible hand’, governments impose rules to try and target housing outcomes.

US tax credits are allocated between states based on headcount. This does not necessarily map housing need - for example, demand for social housing could be disproportionately high in a state with a small population. Having received their annual national allocation, states may either allow bids from any location or, as in the case of California since 1997, undertake regional sub-allocations based on a formula incorporating population, housing costs, wealth and urbanisation (Gilmour & Milligan, 2009). Hence the application of the LIHTC across the US is a patchwork, with only some jurisdictions attempting to carefully target housing need. Australia’s NRAS program is even less targeted to housing need as bids are accepted from anywhere in the country. For example, of the 24,685 NRAS incentives allocated up to July 2011, New South Wales (NSW) received 1% yet the state is home to 32% of Australia’s population and includes the least affordable city – Sydney (Australian Government, 2011).

**Industry impacts and subsidy efficiency**

The gradual development of the LIHTC Program highlights potential for the shift to private investment finance to create new business niches for both not-for-profit and for-profit intermediaries and other participants. Much of the appeal of tax credit schemes lies in their potential to stimulate and professionalise new industries, mobilise diverse coalitions, and replace the bureaucratic inefficiencies of public housing with competition, innovation, and synergies. The LIHTC has been credited with “the emergence of a new logic around which community development would be framed” (Guthrie & McQuarrie, 2005). The political rhetoric around the NRAS echoes this line of reasoning (Plibersek, 2009), and early signs of diversification and professionalisation of an affordable housing industry are emerging.

Diversification and professionalisation of the affordable housing industry does, however, come at a cost. The more complex the industry becomes, the higher the potential for leakage of public funds to intermediaries in the form of transaction costs. The emergence of tax-credit syndicators in the US provides an example, with Federal Government advising that “syndication is a complex and expensive process…. the market for housing tax credits is as complicated and sophisticated as the market for stocks and bonds” (HUD, 2011).

**CONCLUSIONS**

Within the context of recoil from both direct spending on social housing and a stalled private debt market, institutional investment in social housing has emerged as a highly sought after policy solution believed to possess miraculous transformative power. Yet as public resources
flow into schemes for attaining this prize, little is known about the dynamics of institutional investment or about the sacrifices necessary to win it. This paper has examined what is arguably the most marketised form of private investment in social housing - the use of tax credits to attract investment from large financial institutions. The US and Australian schemes provided case material for comparison. While the differing timespans of these schemes limited scope for systematic comparison of housing outcomes, examination of their architecture reveals some key attributes of the tax credit approach, highlighting its appeal to investors, and some of its policy implications.

In both national settings, the notion of 'the invisible hand'- benefits brought through market efficiencies in place of direct government involvement, has provided a key policy rationale for tax credit schemes. But to what extent is this ideal reflected in practice? Our findings do reveal an 'invisible hand' of sorts. Foregone corporate taxes that escape the radar of traditional ways of measuring public spending do indeed provide governments with a powerful, yet 'invisible' means to incentivise flows of private equity, replacing direct public grants. This lends considerable political appeal to the tax credit. Yet as the housing tax credit represents a cost to the public purse, it may be more accurately described as a different form of government intervention, rather than a means of avoiding it.

Our analysis of the LIHTC program over time also revealed reliance on other forms of direct government intervention. In the post-GFC environment, LIHTCs had to be traded for direct housing grants. A further government intervention directly associated with the success of the US program, and in place before it started, shows that the US program is not self-standing. Rather than relying on the 'carrot' approach, using incentives to draw in investment, the Community Reinvestment Act constitutes an old fashioned 'stick', with repercussions for financial institutions that fail to invest in low-income communities. Lastly, affordability outcomes of the LIHTC have been strengthened over time through legislation to protect tenant outcomes through a higher minimum prescribed affordability duration of 30 years.

In regard to these latter two types of US government intervention, stark contrasts between the LIHTC and the NRAS reveal implications for housing policy transfer between countries with different institutional settings. The Australian scheme has been promoted to institutional investors, yet there is no Community Reinvestment Act type legislation in place to compel them to invest in low-income communities. Add to this an affordability requirement of only 10 years, and reliance on capital gain, NRAS resembles a 'lite' version of the LIHTC.

While our analysis highlights the extent to which tax credit programs continue to rely on governments to achieve social outcomes, it also reveals important developments that do indeed originate from market dynamics. Of greatest significance is the fact that organisations compete for tax credits, which has marketised the field of affordable housing provision enabling higher quality schemes to progress. The effect is significant, helping transform significant parts of US and Australian social housing through stimulating the rise of new intermediary organisations, encouraging innovation, creating more of a level playing field between not-for-profit and for-profit players, and mobilising a broad coalition of actors in support of affordable housing. The irony is that is not some 'invisible hand' that has unleashed and supported these market forces, but the very visible hand of government through funding, regulation and support.
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