More Different Futures Network Topic Review: Non-profits as Rental Market Providers

1. The Topic

Topic Review 2 (The Mortgage Market) examines how the ABC countries have reacted quickly to immediate problems of paying for housing and highlighted the challenges that are likely to emerge towards the end of 2020 as emergency supports and measures are removed, fiscal constraints tightened and house prices, and household equity, sharply fall. The immediate and longer term economic and financial instabilities arising from these potential developments and their implications for future housing policies are explored in Topic Review 3 (TR3) instabilities.

In TR3, attention was drawn to the CMHC proposition that future housing policy needs to pay more attention to the exposure of national economies and finance systems to rising macro debt to GDP ratios and, that, in consequence more policy attention may need to be addressed to rental housing development rather than expansion of home-ownership. If governments support that proposition, and many network participants did, the question then arises how rental housing will now ‘fill the gap’ and this raises the issues of which of several different rental provision models might best serve future housing policy goals. The policy questions for governments, recalling the ‘mosaic’ of different consumer and landlord types of groups that use private rental provision and the different groups of marginal home-owners, include what housing policy goals, and at what cost to the public purse, are achieved by a re-matching of marginal buyers with low (current) incomes and limited equity (in relation to house prices) into different rental housing provision groups. This note reviews both the arguments made in the network sessions for the expansion of a broad range of rental provision by non-profit providers and the identification of constraints on that development. Too often in housing policy debate arguments for and against tenures reflect strong ideological arguments about the nature of the provision system (for instance, market versus state provision) and the desirable life cycle of housing choices for particular housing groups but without much detailed thought of how tenure outcomes, as opposed to cost, quality and location, matter for individuals and the overall economy.

The last decade of research has indicated that the relatively predictable life cycles sequences and durations in different housing tenures has changed as labour markets have become more flexible, lifetime careers less certain, settled relationships more likely to fracture and more diverse health, care and wellbeing paths through increased longevity prevail. Marginal home owners are no longer younger or less skilled households but may impact relatively high permanent income households throughout their lives. Covid-19 may have particularly concentrated employment loss effects on younger, less-skilled and female labour but is has raised the probabilities of job, income and asset losses across all skill and age groups so that disrupted housing pathways will be widely spread rather than narrowly focussed.

In the bilateral meetings there was a strong sense that in the present circumstances that there is a now a moment to change policy assumptions about tenure trajectories and patterns, indeed realign
the presumptions of political choices with the realities that growing numbers of households, and indeed financial institutions, now face. These views were about both coping with emergency/stimulus and the longer term recovery pattern beyond 2025. Three particular issues pertaining to the non-profit sector were made: the need to grasp strategic possibilities; the potential for large scale equity funding of investment; and the role of non-profits in providing market rental housing in addition to the affordable rental, social rental and low-cost home-ownership roles currently pursued in some contexts in the ABC countries.

Some of the advocates for the expansion of the roles of non-profits were, of course, non-profit sector leaders. Others were observers who had noted the systemic under-provision of lower and middle income market rental housing in Australia and Canada since the 1990’s, at least. Yet more are those who believed that the rental sector investment by ‘mum and dad’/Buy to Let investors had been an inefficient management and financing route to sector expansion and had been driven by the search for capital-gain based returns that are not likely to thrive in the five years ahead. That is, there is a widespread concern on the part of many who grasp the ‘tenure rebalancing’ argument that there is a persistent yield gap for buy-to-let, commercial and build-to rent investors and that market rental supply is likely to be sluggish going forward. This raises the obvious question, why do non-profits believe they can conquer the yield-gap for middle market rental housing? Or are non-profits prepared to accept lower cash returns if other and longer run objectives are achieved? That is, investors well as consumers have preferences.

There was a strong sense in the network that, in the words of one leading market commentator, ‘this is the time for non-profits to shine in the mid-market rental sector’. For this outcome to be achieved we must understand the very different non-profit sectors across the ABC, and indeed the marked variety of organisations involved, and what needs to be done to unlock apparent potentials.

2. The Non-Profit Providers Pre-COVID

Non-private ownership of property differs significantly between the UK, where municipalities and non-profits still provide a fifth of homes, whereas in Australia and Canada these sectors house one in twenty persons and the private rental housing sector has played the predominant role in providing affordable homes for lower and younger middle income households. The patterns have, however, converged significantly over the last 30 years. Though the overall provision of non-private housing has stagnated in both Canada and Australia in this millennium, with slow-growing non-profit sectors hardly offsetting declining public sector stocks, the sale of council housing to sitting tenants in the UK shrank the sector despite, until 2010 significant new additions to the housing association stock. After 2012 the UK government, responsible for housing only in England, drove down new social housing provision and accelerated the transfer of association properties from social to affordable housing categories, and by 2015 disrupted the core policy regimes that had steadily expanded the association sector, both through new investment and as a recipient for transfers of municipal housing, from 1990 onwards. In Scotland, such transfers had ended after 2008, but the Scottish Government rejected the major policy switches in England, ended the right to buy of council tenants and sustained significant new levels of non-market housing investment, most of which was provided by housing associations ( and has produced almost 50,000 affordable homes, for a population of 5.5million, over the last 5 years).

Two other key shifts have changed long-term relationships between tenure and housing system /function in the housing sector. First, and this applies across all three countries, the growth in income related subsidies to low income households has increased the contestability of provision for low income households between private and non-private landlords. Second, within the non-profit provision sector there is no longer a correspondence of non-profit ownership and the provision of deeply subsidised rental housing. In the last thirty years UK housing associations have played key roles...
in the provision of low-cost ownership and shared-ownership schemes and they have since 2000 made significant contributions to mid-market rental provision. In Australia and Canada, the absence of generous subsidy programmes on any significant or sustained scale has also led some non-profits to provide near market rental housing. A key question for governments is whether the provision of relatively shallow non-profit production subsidies, that may well reduce any housing related social security payments to lower income tenants, could address the significant gaps in mid-market provision (and, arguably, the NRAS programme delivered by the Rudd government after the GFC did have such effects).

Some providers in Australia and Canada have made such investments work, almost on a case by case innovation/funding package but not as a result of wider government programmes. The UK experience has been significantly greater and facilitated by nationwide, if regionally varied, policy provisions. There is much path dependency in housing systems and policies. There are opportunities now in the UK non-profit sector that are available to few Australian and Canadian providers, because past policy actions over decades have created asset bases and organisational capacities that can design and fund diverse rental and ownership arrangements. There may be some ‘quick-fix’ ideas transferable from the UK association sector but the most important network finding for the other countries is that a serious attempt to develop a non-profit provision sector needs to start now and be pursued for a decade and more. Would this be worthwhile?

3. Recognising Non-Profit Potentials

Arguments have been made for governments in the ABC countries to rethink non-profit providers as local, community housing agents, that could provide mixed tenure developments, play key roles in inclusionary zoning, that could more readily link housing and non-housing services at neighbourhood scales and retain land and housing assets in growing metropolitan economies in non-market ownership and meet affordable housing requirements into the longer term as asset prices rise. These arguments need to be teased out but they do need to be seriously addressed if we are not to revert to ‘the business of housing as usual’ and if the gains from agglomerated urban growth are not to be eaten up by rising housing costs (as they have been in major Australian and Canadian cities in the last decade).

The network sessions discussed the UK experience in some detail, both to identify the possibilities and the practices of non-profits in providing market and near market rental housing. Past policy decisions have created some significantly large non-profit providers in the UK, and Places for People (that owns 80,000 homes throughout the UK and manages 200,000 more), Sanctuary and the Wheatley Group (with 40,000 homes in Glasgow alone: and grown out of the transfer of Glasgow’s public housing stock in 2003) all contributed to the network discussion. They have, in the last decade, all made significant investments in mid-market or intermediate rental housing. Some of the investment had effective subsidy rates of close to 20 percent of cost, some negligible contributions and there are innovations being considered to fund such investment without government subsidy. Several key points emerged in the discussion

1. The scale of these organisations, backed by a strong regulatory regime, allowed them to raise low-margin bond finance in tranches of up to $500m that funded investment strategies rather than project by project funding; the strong asset base, well managed cash-flows and balance sheet strength of these large organisations gave confidence to financial institutions. In the UK, and for some time in the Scottish context, smaller associations (often with not more than 2000 units) have secured syndicated loans and on occasions tried to pool assets to facilitate borrowing. Clearly a piecemeal and peripatetic interest in supporting non-profit providers is unlikely to create the strategic pattern and scale for effective sector growth.
2. With scale there had also been a growth of well supported strategic competence that has led new innovation and diversity in housing finance and provision and innovation (in Canada, governance and funding arrangements, have inhibited the equivalent TCHC transfer from achieving many of these innovation and diversity roles, and in Australia there has been a limited and partial evaluation of the economic and social benefits of transferring housing assets out of state ownership and into non-profit financing ownership that might drive more diverse tenure outcomes).

3. For these UK providers the past grant spending of the government has created their current equity and housing value uplifts in major metropolitan markets has been their friend (raising the asset values and leverage capabilities and investment possibilities as house prices have grown).

4. There has, in recent years, bust a significant growth in investment into major associations, of equity investment led by pension funds. Pension funds in the UK are concerned to match their long-term obligations with, inter alia, long-term, low risk income streams. Non-profit providers have a reputation as patient capital investors with high quality management of individual properties, multi-apartment buildings and local neighbourhood and, in consequence are seen as removing reputation risks for pension funds whilst also meeting ‘social responsibility’ obligations. Network members operating in financial/real estate markets highlighted that the present collapse of interest in investing in commercial real estate in urban areas provides a current opportunity to attract significant scale equity investment.

5. Non-profits have been interested in diversifying provision from ‘social housing’ because different provision and tenure streams facilitate scale economies in strategic and financial management and spread overhead costs, help stabilise revenue streams as governments switch tenure interests; and, critically, they have facilitated more effective place-making by providing tenure diversity both in renewal/regeneration schemes and new housing developments.

6. Procurement of mid-market rental housing has been by different routes that has helped housing markets function more efficiently

   • From the 1990’s onwards associations, and over a range of sizes, have participated in mortgage rescue schemes, supported by government funding, to buy-out the homes of distressed middle income households, house them as renters and allow the facility to buy back when their circumstances recover: arguably such measures could have really significant roles in all ABC countries from now through 2021 and 2022 as unemployment rates for home-owners rise and house prices fall (and equity sharing variants of this scheme are possible); and, by extension, as private landlords seek to dispose of portfolios geared to short-term lets and Air BnB, through the Covid-emergency there could be much merit in bring these portfolios into non-profit ownership

   • Not-for-profits have played key roles, and often developed lasting partnerships with private development companies, in taking ownership and managing the ‘affordable housing’ provision in inclusionary zoning projects (and this has reduced sales risks and management costs for development companies)

   • Where more extensive grant or soft-loan facilities have been available non-profits have commissioned their own developments

7. Market and near-market provision by non-profits have been more extensive in faster growth cities and well-connected towns.
4. Potential Policy Actions

Supportive national and state/province and local governments, indeed collaborative partnerships of all three levels of government have been essential to the development of the sector and its capacity, this includes

- Recognising that non-profits do require deep subsidies if they are to house lowest income quintile groups in affordable, accessible housing (European governments in general see no conceptual nor policy value in the North American notion of ‘normally occurring affordable housing’) but that near market roles require little or potentially know capital subsidy.
- Seeing non-profits as owners that can shift households and residents between renting, owning and non-owning tenures as individual and national economic circumstances change (for instance in the present recovery governments could assist non-profits to provide near market, middle income rental housing with limited subsidy, no more than present homebuyer stimulus packages, and commit to transfer that equity amount to the resident when their economic circumstances improve and asset values rise).
- Encouraging more flexible local planning regulations, for instance by allowing less onerous setback and parking regulations for well-located, green investment that also aim for carbon neutrality.
- Involving not-for-profits as key recipients and property and neighbourhood managers, in partnership with private sector developers, in inclusionary zoning projects (and this does occur in all three countries but is not general practice).

Governments, and indeed investors and non-profits, need to scrutinise these possibilities in the new post-Covid context. Current politically driven subsidies to drive stimulus spending into home-ownership purchases that may face potential price/equity losses over the next two years of greater value than the grants/equity shares on offer to purchase and conventional needs-based non-profit rental lobby arguments are, arguably, equally lazy responses to the current crises in the economy and the housing systems of the ABC. CMHC, NFIC, Homes for England and the devolved authorities in the rest of the UK need to urgently review the potential roles of the NFP sector to 2025 and 2030. The key questions will be potential costs and efficiency, the entrepreneurial and innovation gains from disrupting present provision systems that have not served these nations well.

The potential policy gains that policymakers need to look at include:

- Would larger rental sectors, with stable, long-term, high reputation landlords (private and non-profit) landlords add to overall housing system and economic stability, and especially in pressured metropolitan locations?
- Would provision by non-profits with a commitment to long-term ownership of land, properties and a focus on affordable housing provision deliver fairer and more inclusive outcomes? For a decade and more renters in London have devoted 40 percent of their income to housing costs, with higher burdens for lower income households in the market sector; in Sydney in 2016/17 households on or below middle income paid around $6000 per annum in excess of 30 percent of their incomes to rent their market homes.
- Non-profit and community ownership of rental housing removes both the leakage of long-term gains to higher income and non-local households and removes the tax breaks, where property is used as an income tax loss device, that redistribute rental gains to upper income, Australian households (though arguably, non-profits should also pay any land tax replacement)
- Non-profits with working clients could improve urban labour market productivity outcomes; in near market rental and low cost home-ownership options, should be encouraged to seek
out ‘productive places’ as they seek to maximise the incomes and job opportunities of working age households and not simply meet housing ‘needs’ targets in locations that are affordable simply because they are remote.

Some of the constraints of non-profits on expanding their market rental roles that are internal to the sector were noted above. But there is also and imperative to pay attention to the constraints on strategic policymaking. The lack of a clear understanding within the political and policy making systems, of all three countries, of what non-profit sectors can, and do, achieve still needs to be addressed and particularly within large Australian states. There is in almost all the subnational/Federal levels of government in the ABC countries a lack of strategic organisational capacity to drive a major transformation of the provision of rental housing. In Canada, a significant city such as Halifax has few powers and official experience to drive such change and at the Provincial level there are no efforts to promote affordable rental housing other than income subsidies for market tenants. Housing, other than as a welfare/homelessness function, has been deprived of strategic resources in many jurisdictions to refashion non-profit solutions to address the problems of 2020 and beyond. In Canada, in contrast to the pre-1995 era, when there was a fuller, clearer Federal responsibility for housing outcomes (and non-market production running at ten times present levels) there was a more local presence of CMHC that could fashion strategic change. That does not always now happen outside of the largest city and metropolitan housing markets. Similar observations apply in the Australian context and in some parts of the UK too. Homes for England, NFIC and CMHC all have key roles to play in developing the local capacities and organisation to respond to the national calls for resource bids that they fashion.

There are urgent roles for non-profits to play, in the months let alone years ahead, in mortgage rescue and distressed portfolio purchases that would help stabilise markets now, and the economy, and begin to form an asset base for forward action on non-profit market roles to 2025, including the creation of safe, flexible routes into home-ownership as the economy stabilises and moves forward. Different thinking, within politics, is required to deal with these difficult times. An urgent review of non-profit roles in balancing rental market and roles and patiently creating firm foundations for longer term ownership is required in all the ABC countries.

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