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Growing affordable rental housing: a cost-based approach

Research report for discussion

Julie Lawson, Liam Davies, Jago Dodson, Mike Berry, Laurence Troy, Ryan van den Nouwelant and Greta Werner.

August 2026

RMIT UNIVERSITY
Centre for Urban Research

Acknowledgement of Country

The authors acknowledge the Traditional Custodians of the lands on which this research was undertaken and on which the contributing institutions are located. In Melbourne, we acknowledge the **Wurundjeri Woi-wurrung People of the Kulin Nation**, and in Sydney, the **Gadigal People of the Eora Nation**.

We pay our respects to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples. We recognise that housing policy, land governance and urban development in Australia are inseparable from the ongoing impacts of dispossession and colonial settlement. Secure, affordable housing is fundamental to self-determination, well-being, and intergenerational justice. We acknowledge and respect the ongoing leadership of Aboriginal and Torres Strait Islander communities in advocating for housing systems grounded in Country, culture, community control and long-term stewardship.

Contributors

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This research team has been led by J Lawson, Adjunct Professor, in collaboration with colleagues from Centre for Urban Research, RMIT University, Sydney University and UNSW. For further information about this report, please contact julie.lawson@rmit.edu.au, liam.davies@rmit.edu.au and jago.dodson@rmit.edu.au at the Centre for Urban Research, RMIT University, Australia.

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Executive Summary

This report sets out an agenda and implementation framework for expanding Australia's social and affordable rental housing sector beyond its current residualised level. It examines how a large-scale cost-rental housing system could be established within Australia's institutional context and proposes the legislative, financial and institutional reforms needed to support sustained growth.

Australia's housing crisis reflects not only insufficient supply but the absence of a stable system for financing, delivering and preserving affordable rental housing. Social housing has declined from approximately 5.2 per cent of dwellings in 1997 to 3.9 per cent today. Unmet need exceeds 435,000 dwellings for very-low-income households and 600,000 for the lowest two income quintiles combined. Public housing construction has fallen from around 20 per cent of completions in the 1950s to approximately 1 per cent today. Even maintaining the present social housing share would require about 4.5 per cent of new housing completions.

Commonwealth rental-housing support is also poorly aligned with the creation of enduring affordable housing assets. Of the Commonwealth rental-housing expenditures mapped by Lawson et al. (2026), more than 80 per cent—approximately $8.99 billion in 2021–22—was directed to the private rental sector through Commonwealth Rent Assistance and investor tax concessions. This compared with approximately $0.83 billion for community housing and $1.27 billion for public housing. This comparison concerns rental-housing expenditures only and excludes Commonwealth expenditure and tax concessions supporting owner-occupied housing.

The 2026–27 Commonwealth Budget demonstrates that housing tax concessions can be redesigned to serve broader housing objectives. However, the projected $3.6 billion increase in receipts from reforms to negative gearing and capital gains tax concessions has not been dedicated to affordable rental housing. The next reform task is to connect housing taxation, public investment and housing assistance to a permanent institutional framework that builds and retains regulated affordable housing assets.

The report proposes a national cost-rental housing system in which rents are based on the efficient lifecycle costs of providing housing—including land, finance, management, maintenance and renewal—rather than prevailing market prices. Drawing on established and emerging European systems and recent Australian research, it identifies four core design principles:

- permanent affordability and asset-dedication obligations
- transparent cost-based rent setting supported by efficient, long-term finance
- revolving investment mechanisms that retain repayments and operating surpluses for additional housing
- mission-driven providers operating within a legislated regulatory framework and state-based tenancy protections.

The report develops this proposal in five stages:

- **Sections 1–4** explain the institutional problem, establish the principles of cost-rental housing and examine the required financing, subsidy and regulatory architecture.
- **Sections 5–9** set out the proposed rent-setting mechanism, land-policy framework, allocation arrangements, governance model and lessons from existing Australian programs.
- **Sections 10–12** present the transition strategy, identify the responsibilities of governments and housing providers, and provide a staged implementation roadmap.
- **Sections 13–15** present proof-of-concept modelling, examine alternative growth scenarios and financing requirements, and assess the wider fiscal and housing-policy implications.
- **Sections 16–17** address the professional, industrial and public-sector capabilities needed to sustain expansion and draw together the principal conclusions. The appendices provide concept legislation and detailed modelling assumptions.

The proof-of-concept modelling tests how a cost-rental system could expand under specified assumptions concerning public capital, concessional finance, land contributions, tenant mix, inflation and rent-gap support. It illustrates how debt repayment, retained equity and reinvested surpluses could progressively strengthen the sector's capacity to finance additional housing. The modelling is not a forecast and does not estimate savings in total Commonwealth Rent Assistance expenditure. CRA remains an income-support entitlement, and any future expenditure effects would require separate microsimulation against a clearly defined policy counterfactual.

The analysis indicates that establishing the system would require sustained public capital investment, combined with low-cost finance, public land and Commonwealth–state co-investment. Redirecting selected rental-sector tax expenditures could contribute to the initial capital base, but these resources would need to be tied to cost-rent regulation, permanent asset locks, transparent provider obligations and reinvestment in additional supply.

Taken together, the proposed institutional architecture, transition roadmap, financial modelling and legislative framework show how Australia could move from fragmented, short-term programs towards a durable cost-rental housing system.

The objective is not simply to fund individual projects, but to build a regulated investment system that preserves affordability, retains public and community value, and expands social and affordable rental housing over successive generations.

Key facts and figures in this report

Scale of the housing problem

- **Social housing has declined** from around **5.2% of total dwellings in 1997** to **approximately 3.9% today**, reflecting long-term underinvestment and episodic capital programs.
- **Unmet need exceeds 435,000 dwellings** for the lowest-income households and **over 600,000 dwellings** for very-low and low-income households combined.
- To maintain the current 3.9% social housing share, Australia would need to deliver around 4.5% of all new housing completions annually, well above current output.

Distribution of Commonwealth rental-housing support

- In 2021–22, approximately $8.99 billion—more than 80 per cent of the Commonwealth rental-housing expenditures mapped by Lawson et al. (2026), flowed to the private rental sector, compared with $0.83 billion to community housing and $1.27 billion to public housing. The mapping excludes support for owner-occupied housing.
- The largest subsidy flows were:
    - Commonwealth Rent Assistance: $4.73 billion
    - Negative gearing: $2.42 billion
    - **Capital gains tax concessions: $1.90 billion**

  Together, these subsidies support private rental demand rather than building permanent affordable housing assets.
- The 2026–27 Commonwealth Budget partially corrects this subsidy imbalance by restricting negative gearing on established residential property and reducing the concessional treatment of future capital gains. Yet the reform does not by itself create permanent affordable rental assets. Unless part of the fiscal gain is redirected into a regulated cost-rental system, the reform will remain primarily a tax-fairness and home-ownership measure rather than a durable affordable housing supply strategy.

Core policy problem

- Australia's housing affordability crisis is **institutional, not cyclical**: repeated short-term programs have delivered projects but **not a durable housing system** capable of compounding public investment over time.
- The **central constraint is institutional design**, particularly fragmented financing, high capital costs and time-limited affordability rules, rather than the absolute level of public spending.

Cost-rental housing: system logic

- **Cost-rental housing sets rents based on audited lifecycle costs** (finance, operations, maintenance and renewal), **not market prices**, enabling stable and predictable affordability.

- International evidence (Austria, Denmark, Finland, Ireland, Poland and France) shows that cost-rental systems can expand at scale when supported by:
    - Low-cost, long-term finance
    - Limited-profit or non-profit providers
    - Mandatory reinvestment of surpluses
    - Permanent asset-lock provisions.

Financing fundamentals (why cost matters)

- **Financing costs account for 50–70% of lifetime housing costs** in cost-rental systems; small changes in interest rates have large rent impacts.
    - A **1 percentage point increase** in interest rates can raise required rents by **8–12%**
    - A 3-percentage point increase can raise rents by ~25–35%.
- Models relying on private equity or Availability Payment Public Private Partnership PPP-style financing therefore structurally produce **higher rents or higher long-term subsidies** than capital-led approaches.

Mixed-income system design

- The proposed system operates with a **mixed dwelling stock allocation model**, broadly consistent with European experience:
    - **~40% social housing** (very-low-income households, income-related rents)
    - **~35% affordable cost-rental housing** (low- and moderate-income households)
    - **~25% open or moderate-income housing**
      This mix stabilises provider revenues while maintaining social targeting.

System growth and fiscal dynamics (modelling results)

• Proof-of-concept modelling demonstrates that a cost-rental housing system can expand sustainably over time while reducing the modelled requirement for new rent-gap and capital support under the specified assumptions, as operating surpluses and loan repayments are recycled through a revolving investment fund. Under the model assumptions, the moderate growth scenario becomes financially self-reinforcing over the long term, with new subsidy requirements declining as debt is repaid and the asset base matures.

Four illustrative growth scenarios were modelled:

1. **Status quo (~3.9% of housing stock):** maintains the existing shortfall but does not address unmet need
2. **Low growth (6%):** stabilises the system but falls short of resolving structural housing shortages
3. **Moderate growth (8%):** establishes a viable, self-reinforcing cost-rental sector capable of sustained expansion at OEC average level of provision
4. **High growth (12%):** delivers a transformational, European-scale non-market rental system.

• Under the **moderate growth (8%)** scenario, the system becomes increasingly self-reinforcing over the long term under the model assumptions over the long term, with

subsidy requirements declining as development debt is repaid and the housing asset base matures.

• Establishing the system requires **moderate upfront capital investment**, estimated at **approximately 20–25% of development costs**, leveraged with concessional finance and land contributions.

• Redirecting a **small share of existing housing tax expenditures** would make a material contribution to financing the early expansion phase. .

Phased, legislated transition to a cost-rental system

- Aligning existing programs and subsidies under statutory cost-rent rules and permanent asset locks to ensure regulatory certainty, long-term affordability and protection of public investment without disrupting tenants or delivery pipeline.



Photo: 1 Cost- based rental housing in Vienna (Lawson, 2025)



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1. Introduction and Strategic Rationale

This report sets out an agenda and implementation framework for expanding Australia's social and affordable rental housing sector beyond its current residualised level. It examines how a large-scale *cost-rental social housing* system could be established within Australia's institutional context, drawing on international experience and recent Australian research. The report proposes a set of legislative, financial and institutional reforms capable of supporting sustained expansion of the sector over the long term.

The 2026–27 Budget confirms that Australia's housing tax architecture is no longer politically or fiscally fixed. The decision to limit negative gearing to new residential supply and to replace the 50 per cent CGT discount with indexation for most future gains represents a significant departure from the long-standing assumption that investor tax concessions should remain unconditional. This shift in understanding is consistent with the argument advanced in this report: housing subsidies should be assessed not only by their short-term effect on investor behaviour, but by whether they create durable affordability, improve tenant outcomes and build long-term public or regulated housing assets.

However, the Budget reform remains incomplete from a sustainable social housing system perspective. It redirects tax settings away from established-dwelling speculation and toward new supply, but it does not require new investor-supported dwellings to be affordable, cost-rented, securely tenanted or retained within a regulated public-interest housing sector. The negative gearing and CGT reforms therefore create an opportunity, but not yet a system. A social housing growth framework based on a cost-rental model would convert this opening into an institutional strategy by linking public fiscal support to permanent affordability, regulated providers, transparent rent-setting and reinvestment.

Social housing in Australia currently comprises approximately **3.9 per cent of total dwelling stock**, comprising both public housing and community housing. This share represents a steady forty-year structural decline as private housing supply has expanded while social housing stock construction has dwindled (Figure 1). Public dwelling construction has comprised just 1.86 per cent of total construction. During the first half of the 2020s the total public, social and community housing stock in Australia grew by just 14,356 dwellings which is well below the level needed to maintain the 3.9% share of total dwelling stock. (Figure 2). Simply maintaining social housing at its current share of the housing system would already require approximately **7,000 additional social dwellings per year**, and this annual requirement will increase over time as Australia's overall housing stock continues to grow.

Without a deliberate and sustained long-term investment strategy, social housing will continue to decline as a proportion of the housing system. This trajectory of continued privatisation of Australian housing would increasingly restrict access to social housing to households in the most acute need, while a growing number of low-income households

remain dependent on the lower end of the private rental market, which is frequently characterised by high rents, insecurity and variable housing quality.

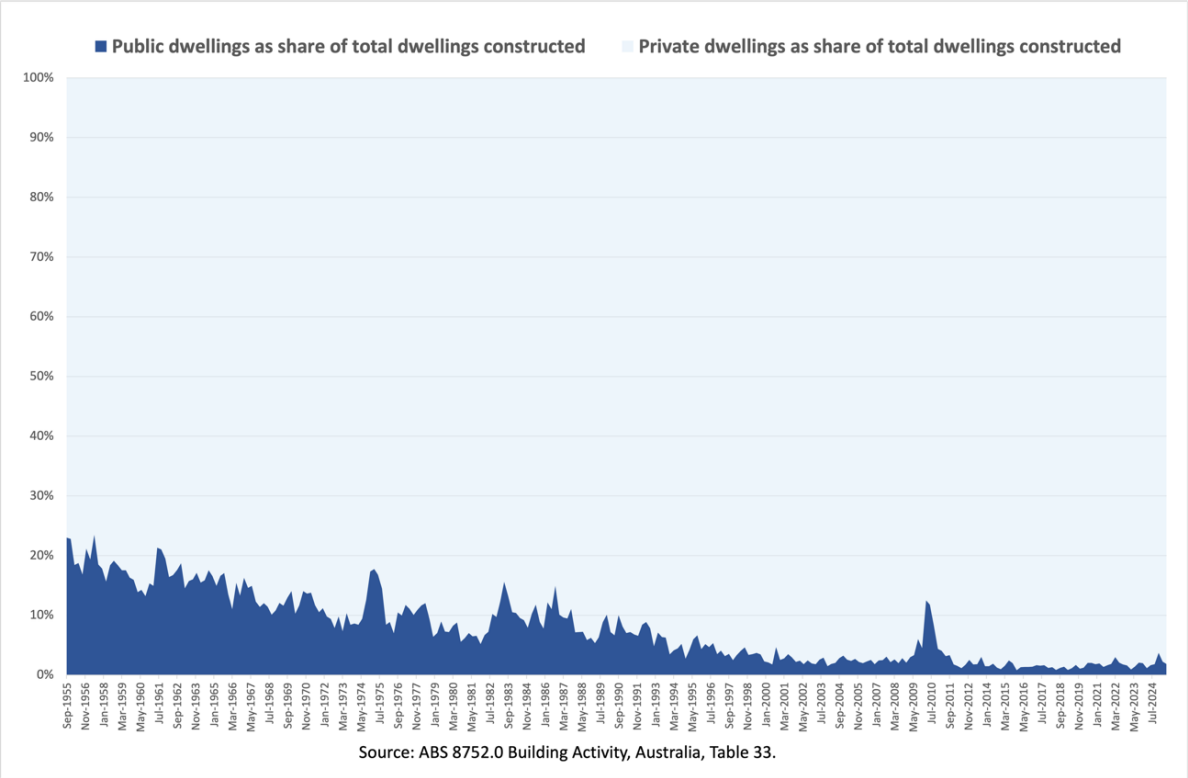


Figure 1 Public sector dwelling construction as share of total dwelling construction, 1955-2025.

A larger affordable rental sector should therefore be understood as a central component of a balanced housing system offering a stepping stone, oasis and refuge throughout residents housing careers, in dynamic social and economic contexts. While this report focuses on rental housing, affordable and stable rental options can also support pathways into home ownership – as in Austria and Finland. By stabilising housing costs and enabling households to accumulate savings, affordable rental housing can function as an important complement to owner-occupation rather than a substitute for it.

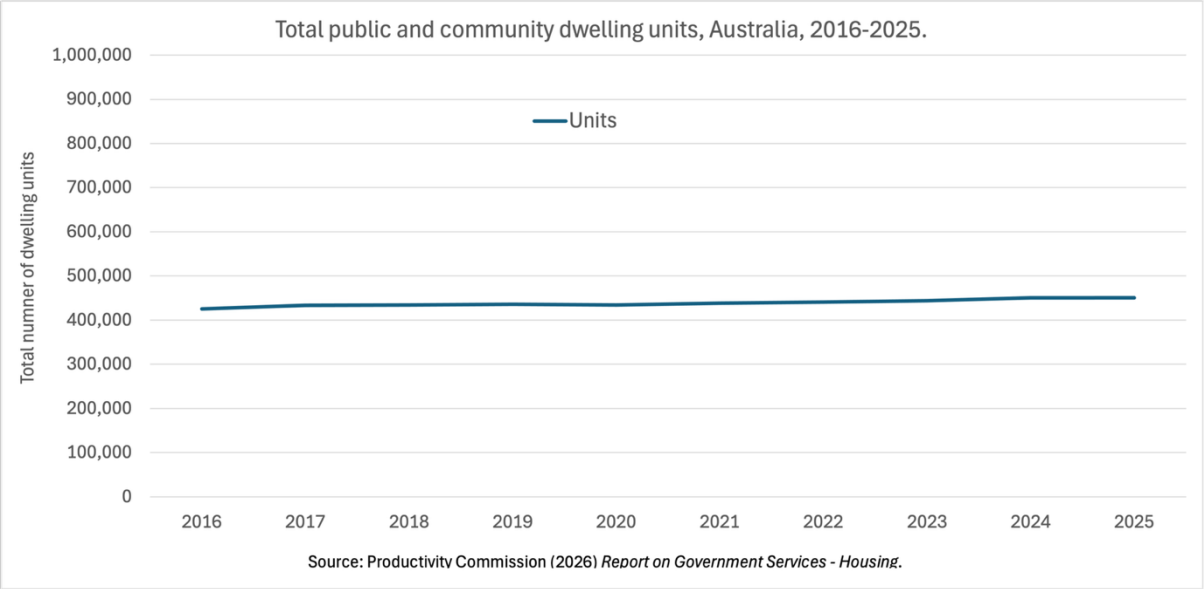


Figure 2 Public, social and community housing units, Australia, 2020-2025[1].

Expanding social and affordable housing at scale is not simply a construction or procurement contracting task. It requires a long-term **institution-building** effort. Social and affordable rental housing must be financed, operated, maintained and renewed over decades, while serving households whose incomes are often too low to support full cost recovery through rent alone. In systems where rents are tightly linked to tenant income, but subsidies do not adequately cover the gap between revenue and costs, providers face structural underfunding, deferred maintenance and limited capacity to grow. This has been a defining weakness of residualised social housing systems. A sustainable **cost-rental** approach therefore requires a different structural settlement: cost-based financing and rent-setting rules for providers, combined with explicit affordability mechanisms for tenants. The policy challenge is not only to produce more dwellings, but to create a regulated financing and operating framework that can retain public investment, protect affordability, support asset stewardship and enable reinvestment over time.

Australia's housing policy has historically relied on a sequence of short-term programs, tax incentives and procurement models. While these initiatives have delivered housing in particular periods, they have generally not produced a stable institutional framework capable of sustaining long-term growth in affordable housing supply. Evidence from both Australian and international research suggests that **institutional design—not simply the scale of the subsidy—is the decisive factor determining whether housing investment compounds over time or dissipates through episodic programs.**

[1] Includes public housing, community housing, State Owned and Managed Indigenous Housing (SOMIH) and Indigenous community housing (See Productivity Commission 2026).

International experience demonstrates that stable affordable housing systems are typically founded cost-based rental models. In such systems, rents are calculated based on the **actual lifecycle cost of providing and maintaining housing**, including land, finance, operations and long-term renewal. This approach contrasts with many affordable housing programs that define rents relative to market levels. By **linking rents to underlying costs rather than market prices**, cost-rental systems can deliver predictable rents while maintaining financial sustainability.

A major weakness in Australian housing policy evaluation is the tendency to compare programs only on annual budget outlays rather than on lifecycle fiscal effects, retained asset value and long-term subsidy trajectories. Housing delivery models generate fundamentally different long-term public balance-sheet outcomes depending on whether public expenditure produces permanent assets, recurrent service liabilities or time-limited subsidies.

The cost-rental growth model proposed in this report requires **upfront capital investment** but is designed so that this investment is gradually **recovered over the long term** while leaving governments and housing providers with a permanent housing asset base. In this sense, public expenditure is converted into a durable social infrastructure asset rather than being consumed as short-term program spending. While large-scale of capital input is required to expand Australia's social housing stock beyond its increasingly residualised level, this capital is converted into a large retained net asset that is paid off over time.

Because financing costs represent a large share of total housing costs, the time horizon over which capital is recovered is strongly influences project and program parameters. Attempting to recover capital over short periods places substantial upward pressure on rents. Successful cost-rental systems rely on long-term financing structures that spread capital costs over extended amortisation periods (the long timeframes over which development debt is gradually repaid).

For this reason, cost-rental systems incorporate safeguards to ensure that fiscal objectives do not undermine program affordability. These safeguards may include regulated cost-rent formulas, long minimum financing horizons and affordability protections linked to household income. Such mechanisms ensure the recycling of public investment does not lead to gradual rent escalation over time.

Public support in cost-rental systems is typically delivered through a combination of **capital investment, concessional finance and targeted income support**. Upfront investment reduces the structural cost of land and financing, lowering the rents required for cost recovery. Targeted rent assistance can then bridge the remaining gap for households whose incomes are insufficient to meet efficient cost-rent levels.

The structure through which public funding is delivered is therefore critical. Where support is primarily delivered through long-term service payments or availability-payment structures,

a significant share of public expenditure may be absorbed by financing costs, investor returns and risk pricing. By contrast, capital-led models build permanent housing assets on provider balance sheets, strengthen borrowing capacity, and enable surpluses to be reinvested into additional housing supply.

Over time, this approach can produce both **lower rents for tenants and lower lifetime fiscal costs**, compared to privately financed approaches, particularly when combined with efficient financing arrangements and transparent operating rules.

The model proposed in this report draws on extensive Australian and international research on cost-rental housing systems, including a recent Australian Housing and Urban Research Institute (AHURI) study examining the evolution of Australia's multi-provider social housing system and comparative studies of European limited-profit housing sectors in a variety of countries that are either well established (Austria, Finland, Denmark), transitional (Poland) and emerging (Ireland and Czech). The proposed model builds on four core institutional elements:

- Mission-driven housing providers with long-term stewardship obligations
- Regulated cost-based rent setting
- Permanent public or non-profit ownership of housing assets
- Revolving investment mechanisms that recycle surpluses and loan repayments into new supply

These institutional features have been shown internationally to support lower rents, counter-cyclical housing supply and long-term fiscal efficiency (Kössl,2022, Helsinki Housing Company, 2025)., Xia, 2025). In particular, Norris and Byrne's comparative work reinforces this point, showing that social housing systems with broad, contained and counter-cyclical financial circuits, such as Denmark and Austria, are more resilient and fiscally efficient over time than systems reliant on pro-cyclical capital grants, fragmented subsidies or 'leaky' asset arrangements that allow the value of public investment to exit the affordable housing sector (Norris and Byrne, 2017, 2021).

A brief overview of a range of cost rental systems is provided below.

What makes cost-rental housing sectors effective?

International experience demonstrates that cost-rental housing systems are most effective when supported by stable institutional frameworks that align finance, land policy, regulation and provider obligations over the long term. Across Europe, limited-profit and cost-rental housing sectors have evolved in different forms according to national legal traditions, welfare systems and housing market conditions.

Some systems are mature and deeply institutionalised, such as those in Austria, Finland and Denmark; others are transitional or undergoing reform, such as Poland; while several

countries including Ireland and Czech Republic are now developing new cost-rental and limited-profit housing sectors in response to affordability pressures and market instability.

The Irish case is particularly instructive for Australia because it demonstrates that cost rental can be introduced as a new tenure within a liberal, market-oriented housing system, rather than only inherited from mature post-war European institutions.

However, the work of Norris, O'Hara and Jordan (2026) shows that Ireland's transfer of the Austrian model evolved from an initial ambition for **systemic transformation** into a more limited **scheme adaptation**: a new intermediate rental product for households whose incomes are too high for social housing but too low to secure affordable market housing.

This distinction is critical. Ireland has shown that statutory recognition, Approved Housing Body institutional delivery, public lending, capital/equity support and secure tenancies can establish cost rental quickly and generate strong demand.

Yet Ireland's divergence from the Austrian model also highlights the risks of introducing cost rental without the full supporting architecture of a mature cost-rental system: land banking or low-cost public land, a strong limited-profit provider sector, revolving reinvestment, permanent affordability obligations, and disciplined cost-rent regulation.

Norris and Byrne's earlier comparison of Austria and Ireland (2023) reinforces this point by showing how Austria's broad, cost-based social rental sector has operated counter-cyclically to stabilise the wider housing market, whereas Ireland's more residual and market-dependent social housing system became exposed to pro-cyclical boom-bust dynamics.

Amann's extensive work on Austrian limited-profit housing is also relevant because it shows that public subsidy is most likely to create a durable affordable housing sector when it is embedded in a legally defined institutional regime. Key features include cost-based rent setting, limits on profit distribution, asset dedication to housing purposes, mandatory reinvestment of surpluses, provider obligations, regular audit, and public supervision (Amann & Mundt, 2005; Amann, Lawson, & Mundt, 2009; Amann, Anisimov, Lawson, Mundt, & Tyshchenko, 2024).

For Australia, the lesson is therefore not simply to copy Ireland's approach to cost-rental, but to **avoid stopping at the scheme stage**. A viable Australian model should embed cost rental within a legislated system of public-interest finance, land-value discipline, accredited mission-driven providers, asset locks, rent-gap support and revolving reinvestment, so that public investment builds a permanent affordable rental sector rather than a time-limited affordability program.

Despite institutional diversity, all the cost rental systems discussed above share common features. Housing is not treated purely as a speculative asset class, but as essential social and economic infrastructure delivered through mission-driven providers operating under public-interest obligations. Rents are typically linked to actual long-term costs rather than

market scarcity, while public capital inputs, operating assistance and land policies are structured to retain affordability over generations. Mature systems have also demonstrated resilience during housing crises because they reduce exposure to speculative land cycles and short-term financial returns.

This proposal builds on four core institutional elements commonly found across successful European cost-rental systems.

1. Limited-profit or mission-driven housing providers

European cost-rental sectors are typically delivered by *regulated housing providers operating under public-interest obligations*. In Austria, the Limited-Profit Housing Act (WGG 1979) governs limited-profit housing associations that must reinvest surpluses, comply with regulated cost-rent rules and retain assets for affordable housing purposes. Similar principles apply in Denmark's non-profit housing sector and Finland's state-supported cost-rental system. These providers may include municipal housing companies, cooperatives, foundations and specialised housing associations, but they operate within *prudential and regulatory frameworks designed to preserve affordability over the long term*.

Countries in transition are adapting these principles to contemporary conditions. Since 1995 Poland has progressively expanded the role of Social Building Associations (Towarzystwa Budownictwa Społecznego – TBS/SIM), which combine public support with limited-profit rental provision. Ireland introduced a formal national Cost Rental Scheme under the Affordable Housing Act 2021, while the Czech Republic has recently begun exploring institutional frameworks for municipal and affordable rental housing linked to EU recovery and cohesion funding. Measures proposed by the Czech government were approved for EU funding in 2024.

2. Cost-based rent regulation

A defining feature of these systems is the regulation of rents according to the actual costs of provision, financing, maintenance and long-term asset management. Cost-rental systems generally avoid profit-maximising market rents and instead calculate rents based on lifecycle costs, including debt servicing, management, maintenance, renewal and reserves.

In Austria, Denmark, France, Poland and Finland, cost-rent principles are embedded in **national legislation** and linked to regulated financing systems. Denmark's public housing law and 'balance rent' principle similarly ties rents to actual housing costs within the non-profit sector, with strong tenant involvement. Importantly, these systems also recognise that very low-income households may still require additional income support or rent assistance alongside cost-rents, particularly in high-cost metropolitan regions or in newly constructed dwellings.

Emerging systems such as Ireland's sought to establish this principle explicitly by offering rents targeted at levels below prevailing market rents while maintaining financial viability through lower-cost finance and public land contributions.

Unlike mature and evolving systems in Austria, Denmark, Finland, Poland and Ireland, the Czech Republic is attempting to rebuild institutional capacity after decades of market liberalisation and social residualisation. Conceptually, Czechia's EU approved measures are significant because they move housing policy away from a purely liberalised post-socialist housing market model, towards a regulated affordable rental model based on public-interest finance, cost-rent principles, and long-term affordability obligations. The architecture strongly reflects Services in the General Economic Interest (SGEI) logic, via:

- clearly defined public service objectives,
- target groups,
- affordability obligations,
- regulated compensation,
- proportionality controls,
- and prevention of overcompensation.

In practical terms, the EU-approved Czech measures from 2024, represent one of the clearest contemporary European examples of a cost-rental system being rebuilt. This was to occur using concessional public finance, EU-compatible State aid, limited-profit principles, and mission-driven affordable rental provision. However, with the election of the new Far Right government in 2025, progress in policy development has paused.

3. Public-interest finance and revolving investment structures

European cost-rental sectors are focused on efficient costs, and therefore depend on stable access to long-term, low-cost finance. Mature systems combine public investment, guarantees, regulated lending and revolving finance mechanisms, such as the build-up of equity following repayment of loans, to reduce financing costs over the lifecycle of housing assets. This lifecycle perspective is critical because international evidence consistently demonstrates that financing costs can account for a substantial share of total lifetime housing costs.

Austria, a federation of Lander or regional governments, utilises integrated provincial subsidy systems and regulated housing finance; Finland, a vast country which combines state guarantees and interest subsidy loans administered through public housing finance institutions; while Denmark relies on a highly structured municipal and mortgage-finance model. In several countries, public financial intermediaries and guarantee systems reduce risk and borrowing costs without requiring full state ownership of housing providers.

Countries such as Ireland and Poland are increasingly developing comparable financing structures through state-backed lending facilities, EU financing instruments and municipal housing investment programs. These approaches aim to create revolving investment capacity rather than relying solely on short-term grant funding or one-off development subsidies.

4. Land policy and long-term affordability safeguards

Finally, successful cost-rental systems rely on land policy frameworks that protect affordability and reduce speculative pressure. Public land leasing, land banking, inclusionary planning, value capture and municipal development corporations all play important roles in reducing structural housing costs.

Vienna's land banking and developer competition model, Helsinki's long-term municipal land leasing system and Denmark's municipal planning frameworks demonstrate how public control over land can support permanently affordable housing outcomes. In many systems, public subsidy is linked to long-term affordability obligations, asset locks and restrictions on privatisation or speculative resale.

Emerging and transitional systems increasingly recognise that without land policy reform, cost-rental housing risks becoming financially unsustainable or dependent on ongoing subsidy escalation. Consequently, new European reforms are placing greater emphasis on retaining public value in land, infrastructure and housing assets over time.

Together, these four institutional elements demonstrate that successful cost-rental housing systems are not simply financing programs or isolated housing projects. They are integrated institutional ecosystems combining regulated providers, cost-based rents, public-interest finance and long-term land stewardship to deliver stable and permanently affordable rental housing at scale.

The analysis and modelling presented in this report also draws lessons from previous Australian housing programs. Past initiatives - including stimulus-driven capital programs, tax incentive schemes and more recent financing arrangements - have each contributed to housing supply but have had differing impacts on long-term asset growth and affordability outcomes. Taken together, this evidence suggests an important policy conclusion:

Australia does not lack housing funding instruments. Rather, it lacks a coherent financing architecture and operating system capable of converting public investment into a permanently expanding affordable housing sector.

The remainder of the report sets out how a cost-rental housing system could be established and expanded within Australia's institutional context. After outlining the core design principles and institutional architecture required to support cost-based rental housing, the report examines financing arrangements, rent-setting mechanisms and the broader policy settings—such as land, governance and the roles of different levels of government and housing providers—that would enable the sector to grow at scale. Central to the report is a

proof-of-concept modelling exercise that demonstrates how a cost-rental system could expand over time under different growth scenarios while maintaining affordability and improving long-term fiscal sustainability. The report also presents a staged transition strategy showing how existing Australian programs and institutions could gradually evolve toward this model. Finally, the Appendices outline a proposed legal concept for a Cost-Rental Housing Act, illustrating how the proposed institutional and regulatory framework could be embedded in legislation to support a durable and scalable affordable housing system. A technical Appendix 2 provides further details of the modelling approach taken by the team.

2. Core Design Principles

Cost-rental housing is a system in which rents are determined by the audited lifecycle cost of providing and managing housing, rather than by prevailing market rents. These costs include land, construction, efficient long-term financing, management, maintenance and long-term renewal. The model does not depend on attracting high-yield private investment; instead, it prioritises low-cost public or mission-aligned finance, with any external investment limited to modest and regulated returns.

Within the Australian reform context proposed in this report, cost-rental housing would support a mixed non-market rental sector combining social and affordable housing, rather than replacing existing social housing programs.

In practice the system would operate with two complementary housing functions:

• **Social housing**, primarily for very low-income households, where tenants pay income-related rents and the gap between tenant contribution and efficient cost-rent is met through targeted rent assistance or operating subsidy.

• **Affordable cost-rental housing**, primarily for low- and moderate-income households whose incomes are sufficient to pay the efficient cost-rent without ongoing operating subsidy.

Under this structure, cost-rental housing provides the financial operating framework for both types of housing. Efficient financing and cost-based rent setting reduce structural housing costs, while targeted income support protects affordability for households with the lowest incomes.

The modelling presented in this report therefore assumes a socially mixed allocation model, broadly consistent with the strongest of Europe's cost-rental systems:

• approximately **40% social housing** for priority households requiring income-related rents
• approximately **35% affordable cost-rental housing** for low- and moderate-income households
• approximately **25% open access or moderate-income tenants** contributing stable rental revenue

This mix improves financial stability, supports cross-subsidisation within provider portfolios, and enables affordable housing supply to grow at scale while maintaining strong social housing outcomes.

2.1 The four rules of a cost-rental system

The proposed cost-rental system operates through four linked institutional rules.

1. Cost-based rent setting

Rents reflect the efficient cost of housing provision and management, including financing costs where applicable. Rents are **not linked to market rent benchmarks**, which avoids the inflationary effects that arise when 'affordable' rents track rising housing markets.

2. Regulated and limited returns

Efficient costs include financing costs. Returns on invested equity may be permitted but are **strictly limited and regulated** and treated as part of the cost structure. This ensures financing costs remain compatible with affordable rents. The system is designed primarily around **low-cost public or mission-driven capital**, rather than high-yield private equity.

3. Reinvestment of surpluses

Any surplus revenue beyond permitted costs and returns must be **reinvested in housing supply or asset renewal**. This strengthens provider balance sheets and allows housing providers to expand their housing portfolios over time.

4. Permanent asset dedication

Housing assets remain **permanently dedicated to regulated rental housing**, preventing the loss of affordable dwellings after subsidy periods expire. Asset-lock provisions ensure that public investment results in a durable housing sector.

System outcome

Together, these rules align the incentives of the housing system with long-term affordability, institutional asset growth and financial sustainability.

Rather than relying on time-limited rent discounts or temporary subsidy programs, the cost-rental model builds and maintains a **permanent housing asset base** capable of expanding over time. Efficient financing lowers structural housing costs, while reinvestment rules allow providers to accumulate equity and recycle capital into new supply.

In this way, the system reduces both **the cost of housing for tenants and the long-term subsidy burden for governments**, while steadily expanding the social and affordable housing sector (Lawson et al., 2026).

3. Institutional Architecture

Australia's social and affordable housing system is currently shaped by fragmented institutional responsibilities across Commonwealth, state and local governments. Policy authority is distributed across multiple departments, funding programs and regulatory arrangements, often operating without a consistent strategic framework. This fragmentation

makes it difficult to coordinate housing supply, financing mechanisms and land policy, and weakens accountability for long-term system outcomes.

International experience suggests that durable, affordable housing systems typically operate within a clearer institutional framework that allows multiple types of providers to contribute to housing supply while operating under common regulatory and financial rules. Such systems combine public, municipal, cooperative and non-profit providers within a shared structure that governs rent setting, asset stewardship and reinvestment.

In the Australian context, public housing authorities will remain an important part of the social housing system under any cost-rental system (as in Europe). The introduction of a cost-rental framework to Australia does not require the transfer of existing public housing assets to other providers. Instead, it establishes a regulatory and financial architecture within which different types of mission-driven housing providers—including state housing authorities, municipal housing companies, cooperatives and community housing organisations—can operate under common principles of cost-based rent regulation, prudent asset management and reinvestment.

Comparable arrangements have operated for several decades in several European housing systems and, in some cases, have institutional origins dating back more than a century. For example, municipal housing companies in Finland, such as Helsinki's Heka, have operated on a cost-based rental basis since the post-war expansion of Finland's public and non-profit housing system, particularly from the 1960s onwards. In Austria, municipalities, limited-profit housing associations and housing cooperatives have operated under regulated cost-based and limited-profit principles for many decades, with the modern Limited-Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz — WGG) established in 1979 but building on institutional arrangements developed during the early twentieth century. These systems are therefore not recent pilot programs, but mature and well-established institutional components of broader national housing systems.

The proposed framework, therefore, supports the development of a broader non-market rental sector. It also supports combining social housing for very low-income households with affordable housing for low- and moderate-income households. To move from Australia's current fragmented, increasingly siloed arrangements toward a more coherent, integrated and productive system, the following institutional reforms are proposed.

3.1 Establishing a National Cost-Rental Housing System (NCRHS)

While Australia's diversity of actors has enabled innovation and project delivery, it has also resulted in inconsistent regulatory rules, differing financial structures and uneven accountability arrangements across the sector.

Research on Australia's multi-provider social housing system (AHURI Final Report #452) demonstrates that this fragmentation has contributed to a lack of coherent long-term growth models and uneven governance across provider types.

A national cost-rental housing sector would address this fragmentation by gradually aligning providers operating under common affordability and stewardship principles within a uniform regulatory framework.

Under this approach, the existing **National Regulatory System for Community Housing (NRSCH)** could evolve to support a broader cost-rental housing sector. Rather than regulating only community housing providers, the framework could progressively encompass public housing authorities and other mission-driven housing providers that operate under cost-rental principles.

The result would be the formation of a **National Cost-Rental Housing Sector (NCRHS)** — a regulated institutional segment of Australia's rental housing system dedicated to providing permanently affordable housing based on cost-recovery principles.

Participation in the NCRHS would be conditional on compliance with a set of common institutional rules, as in 2.1, designed to protect any form of public investment made in this sector, and ensure long-term affordability of its assets. These rules would include:

- regulated cost-based rent setting
- non-profit and limited-dividend status
- mandatory reinvestment of operating surpluses into housing supply or asset renewal.
- asset-lock provisions preventing the privatisation of subsidised housing assets

These institutional principles reflect widely used governance arrangements in European cost-rental housing systems (Pittini et al, 2021), where regulated providers operate under long-term affordability obligations and reinvest operating surpluses to support sector growth.

Existing public housing providers and community housing organisations could gradually transition into the framework through staged accreditation tiers and auditing, allowing providers to align governance, financial and regulatory requirements over time.

Importantly, the model would **not require asset transfers between sectors**. Instead, it would establish a shared operating framework in which different providers could continue operating while adhering to common affordability and stewardship principles.

3.2 Aligning public investment and assistance with cost-rental principles

In many current Australian housing programs, subsidies are delivered through a mix of capital grants, tax concessions, financing support and operating payments. While these instruments have supported project delivery, they are not consistently aligned with a common operating model to ensure long-term affordability.

The 2026–27 Budget moves in this direction by narrowing access to negative gearing for residential property and reducing the concessional treatment of capital gains. This is a significant step because it recognises that tax concessions are not neutral market settings

but public subsidies that shape housing investment behaviour. Yet the reform remains only partially aligned with cost-rental principles. A new dwelling can qualify for favourable Commonwealth tax treatment without being affordable, cost-rented, allocated to lower-income households, or retained as a long-term affordable housing asset. Indeed almost nothing is known about the quality or rental tenancy conditions of the dwelling stock that attracts tax concessions. Future subsidy alignment should therefore distinguish between merely adding new market supply and adding regulated affordable rental supply that conforms to transparent and accountable quality and letting standards.

For a cost-rental housing system to function effectively, public subsidies must reinforce — rather than undermine — the system's affordability objectives. A cost-rental framework would align these supports with clear regulatory conditions. Public support could include:

- capital grants
- concessional financing
- access to publicly owned land
- planning incentives
- tax concessions
- availability payments or operating assistance.

Where such support is provided, participating providers would be required to operate within the NCRHS regulatory framework and comply with cost-rental rules.

This approach would ensure that public resources are aligned to contribute directly to reducing the structural cost of housing provision while improving quality of dwellings for tenants, rather than compensating for inefficient financing arrangements (Dodson and Davies, 2024).

International experience demonstrates that financing costs can represent 50–70 per cent of lifetime housing costs, meaning that capital structures strongly influence long-term affordability. Cost-rental systems therefore need to focus on reducing financing costs through access to low-cost debt, patient capital and regulated reinvestment of surpluses.

Public rent-gap assistance remains important within such systems, particularly for lower-income households and high-cost locations. However, the role of subsidy shifts from filling structural inefficiencies to **reducing the cost base of housing provision and supporting long-term affordability**.

In a cost-rental framework, tax concessions should also be treated as conditional public support, available only where they reduce the lifecycle cost of housing provision and are matched by enforceable affordability, reinvestment and asset-stewardship obligations.

3.3 From light-touch registration to prudential supervision

The expansion of a cost-rental housing sector in Australia would require regulatory arrangements that go beyond the current light-touch registration model.

Under a cost-rental system, the regulator must perform audit functions comparable to those undertaken in European social housing systems, where independent supervisory bodies ensure that public investment is protected, and affordability obligations are maintained over the full construction, asset management, refurbishment and renewal lifecycle of housing assets.

Regulatory reform would therefore need to introduce:

- nationally standardised cost-rent accounting rules
- regulatory authority to audit allowable costs used in rent calculations
- oversight of provider capital structures and financial risk exposure
- coverage of all providers benefiting from public housing assistance, including public agencies, community housing organisations and project vehicles
- integrated financial monitoring with Housing Australia and relevant state agencies
- monitoring of asset-lock provisions and reinvestment obligations.

These functions would provide the **prudential foundation necessary for large-scale cost-rental finance**, ensuring that financial flows, rent calculations and public financial assistance are transparently governed.

Prudential supervision also provides assurance to governments, investors and tenants that housing assets remain dedicated to their social purpose over the long term.

3.4 Strengthening tenant protection and public accountability

The establishment of a cost-rental regulatory framework would complement — rather than replace — existing tenancy regulation.

Across Australia, **Residential Tenancies Acts (RTAs)** already regulate the landlord–tenant relationship, including:

- security of tenure
- rent increases
- tenant rights and dispute resolution procedures.

Cost-rental housing would therefore operate within the existing tenancy law framework of each state and territory.

However, tenancy regulation alone cannot address the upstream financial and governance conditions that determine affordability, dwelling quality and tenancy management service quality. These structural elements, including financing arrangements, rent calculations and asset stewardship, require oversight at the provider level.

Strengthening provider regulation would therefore enhance both consumer protection and system accountability.

Key elements of a strengthened framework would include:

- transparent disclosure of social housing provider financial structures and governance arrangements
- monitoring of rent levels and cost calculations
- public reporting on tenant outcomes and service quality
- stronger mechanisms for tenant representation and advocacy.

Research on Australia's social housing system (AHURI Final Report #452) found that tenants currently have limited visibility over provider financial operations and limited institutional channels through which to influence system governance.

Improved transparency and tenant participation would therefore play an important role in strengthening the legitimacy and effectiveness of the housing system.

3.5 Establishing an independent statutory regulator

Improving oversight via a strategic and strengthened framework, as mentioned above, requires regulatory reforms that are credible and independent.

International experience suggests that an effective cost-rental housing regulator requires stable public funding, operational independence, and sufficient staffing to undertake prudential supervision rather than merely administrative registration. As Lawson and Davies (2021) emphasise, regulation must extend beyond simple compliance checks to include financial oversight, governance standards, and the protection of public investment, ensuring that subsidised housing providers maintain their social mission, reinvest surpluses, and deliver adequate housing outcomes over the long term.

Over time, the regulatory framework could evolve towards a **nationally coordinated prudential regulator** responsible for supervising the cost-rental housing sector while maintaining close coordination with existing housing and tenancy institutions.

Cost-rental housing would operate within a **dual governance structure**:

• **system regulation**, providing national oversight of the financial and institutional conditions required to sustain cost-based rents and protect public investment; and
• **tenancy regulation**, administered through existing state and territory Residential Tenancies Acts and Tribunals.

Within this structure, the regulator would focus on the structural drivers of affordability and system integrity.

Key responsibilities would include:

- approving cost-rent methodologies

- auditing allowable costs and financial flows
- monitoring provider financial performance and solvency
- enforcing asset-lock provisions and reinvestment obligations
- supervising capital structures and financing arrangements
- monitoring tenant outcomes and affordability indicators
- publishing transparent sector-wide reporting.

To maintain public confidence, the regulator should operate as a **statutory authority with clear governance safeguards**, including:

- operational independence from day-to-day political direction
- transparent reporting to Parliament
- a board comprising expertise in housing finance, regulation, tenant advocacy and public administration
- formal coordination mechanisms with Housing Australia, state housing authorities and tenancy regulators.

For tenants, the system must remain accessible and transparent. The regulatory framework should therefore ensure that tenants:

- receive clear information about how rents are calculated
- retain full rights under existing tenancy laws, including protections relating to privacy, data collection and information sharing
- can challenge service failures through existing tribunal mechanisms
- are protected from sudden rent changes resulting from refinancing or restructuring decisions.

A well-functioning national housing regulator requires clear statutory authority, specialised expertise and stable institutional resources. The Finnish example illustrates the scale and organisational structure required. Finland's social housing regulator—historically the Housing Finance and Development Centre (ARA) and now integrated within the Ministry of the Environment as VARKE—operates as a specialised national agency responsible for administering housing subsidies, supervising cost-rent compliance, approving eligible providers and monitoring the financial viability and governance of supported housing entities. The system regulates around 800 housing operators and 320,000 state-subsidised rental dwellings, equivalent to around 14–15% of Finland's total housing stock. This is managed by regulated municipal companies and designated non-profit providers. VARKE's regulator monitors compliance with cost-price rent rules, subsidy conditions and allocation requirements. This requires a multidisciplinary staff combining financial analysts, housing economists, legal specialists, auditors and policy experts, supported by strong information systems and close coordination with municipalities and lenders. Although the regulator itself is relatively modest in size (around 15 staff), it oversees very large public financial flows**.** In recent years ARA has administered:

- €1–2 billion annually in state-supported housing finance (interest subsidy loans, guarantees and grants)
- oversight of a loan portfolio of around €20–25 billion linked to subsidised rental housing and right-of-occupancy housing.
- monitoring of subsidy restrictions that typically last 30–40 years.

The regulator therefore requires strong financial modelling capacity, data systems and audit capability to track compliance over long time horizons.

The regulator performs several functions simultaneously: ex-ante approval of projects receiving public support, ongoing financial monitoring of providers, audit of cost-rent calculations, guidance and training for housing providers, and enforcement when breaches occur (Lawson and Turunen, 2024).

By integrating Prudential Financial supervision, transparent governance and strong tenant protections, the Australian regulatory framework would ensure that public investment translates into durable affordability and high-quality housing services.

In this way, cost-rental housing would function as a clearly defined institutional component of Australia's broader rental housing system, capable of supporting long-term sector growth while maintaining strong public accountability.

3.6 Strengthening Australia's housing investment framework

Australia already has important institutional foundations for expanding social and affordable rental housing. Commonwealth and state governments have established a range of financing, subsidy and delivery mechanisms over several decades, including:

- capital investment programs,
- recurrent operating assistance,
- concessional finance and
- national intermediary institutions such as Housing Australia.

A particularly important foundation is the **Affordable Housing Bond Aggregator (AHBA)**, now administered by Housing Australia, which raises lower-cost finance from capital markets and on-lends it to registered community housing providers. This provides Australia with an existing national financing platform that could be scaled and better aligned with long-term cost-rental and social housing objectives. However, these mechanisms remain fragmented and insufficiently capitalised relative to need. The core challenge is therefore not the absence of institutions, but the need to consolidate, expand and coordinate them into a more durable national system for permanently affordable rental housing.

Recent initiatives, including the Housing Australia Future Fund, further strengthen this architecture by providing a dedicated funding platform to support new housing supply.

However, the scale of Australia's current housing affordability challenge requires these foundations to evolve toward a more stable and coordinated investment framework capable of sustaining housing delivery over longer time horizons. Many existing programs—including the HAFF—continue to operate through competitive funding rounds tied to individual projects. While this approach has supported important developments, it can also result in cycles of expansion followed by periods of lower construction once funding rounds conclude.

A constructive reform pathway is therefore needed to build on the institutional strengths already in place, aligning Commonwealth financing mechanisms, state and territory housing delivery systems, and local planning frameworks within a more predictable long-term investment framework. State and territory governments are increasingly important partners in housing development and renewal, and several jurisdictions have introduced significant initiatives in recent years. Strengthening coordination across these efforts would help ensure that investment programs operate as part of a continuous development pipeline rather than episodic funding cycles.

Building on what has worked well in the past—while adapting institutions to today's scale of housing need—provides a practical pathway toward a housing investment system capable of supporting sustained growth in social and affordable rental housing.

A shared capital investment framework

Sustained expansion of social and affordable housing requires coordinated capital investment across all levels of government.

Earlier Commonwealth–State Housing Agreements incorporated explicit co-investment arrangements that supported long-term development pipelines. Their removal weakened the institutional foundations for sustained housing construction, with supply increasingly driven by short-term stimulus programs rather than stable investment frameworks.

A national housing investment framework, therefore, refers to coordinated action across governments rather than a system controlled solely by the Commonwealth.

Key roles include:

Commonwealth

- financing mechanisms and subsidy design
- national financing institutions such as Housing Australia
- capital support through programs including HAFF

States and territories

- co-investment in housing programs
- planning, infrastructure coordination and regulatory oversight
- housing delivery programs

- land assembly

Local governments

- planning frameworks and inclusionary zoning
- land contributions and integration with local infrastructure.
- establishing their own CBRH providers

Regulated housing providers

- development and management of housing assets
- long-term stewardship and reinvestment

Because housing policy levers are distributed across governments, sector growth depends on aligning these roles within a shared investment framework.

Strengthening Housing Australia's intermediary role

Within this framework, Housing Australia could operate either in parallel with state fund-raising or as the central financial intermediary linking public investment with housing providers.

Housing Australia already performs some key intermediary functions necessary for a cost-rental housing system, including:

- issuing government-backed bonds
- aggregating finance for community housing providers
- administering national housing investment programs
- providing concessional loans and guarantees to regulated providers.

This intermediary role can reduce borrowing costs, standardise financing structures and improve access to capital markets for mission-driven housing providers.

Housing Australia differs from fully independent public development banks such as the Clean Energy Finance Corporation because its lending ultimately sits on the Commonwealth balance sheet and operates within government risk frameworks. Strengthening its intermediary function therefore represents the most feasible reform within Australia's existing social housing investment institutional architecture.

Rather than creating a new institution, the most practical reform pathway is to build on Housing Australia's existing capabilities, improving the alignment between financing mechanisms, public capital investment and housing delivery programs – and working collaboratively with state investment agencies. This could be conceived of initially as a transition task from the HAFF architecture to a new cost-rental housing system.

The role of states and territories

State and territory governments remain central to any durable housing investment system. They control key drivers of housing supply including land policy, planning systems and housing program delivery.

Within a shared investment framework, states can support sector expansion through:

- co-funding capital investment alongside Commonwealth programs
- contributing publicly owned land for affordable housing development
- aligning state housing programs with cost-rental and social housing models
- maintaining continuous construction pipelines
- assembling private land for transfer to cost-rental social housing providers

These contributions help avoid the **boom-and-bust development cycles** that have characterised earlier housing stimulus programs.

Aligning HAFF with long-term housing investment

The Housing Australia Future Fund represents an important institutional development in Commonwealth housing policy since its establishment in 2023 and the establishment of Husing Australia in 2018. By creating a dedicated funding vehicle for social and affordable housing investment, the HAFF provides a degree of predictability in Commonwealth support for new housing supply. However, as a relatively new mechanism, its long-term role within Australia's housing finance architecture remains uncertain. And the HAFF suffers from important weaknesses.

Under the current design, the HAFF distributes annual investment returns rather than the underlying capital of the fund. As a result, the volume of housing it can support each year is influenced by market returns and the size of the fund, and delivery is largely structured through competitive project funding rounds. While this approach has facilitated new housing projects, it may not by itself provide the scale or stability of financing required to sustain long-term sector growth.

The Australian National Audit Office's performance audit (ANAO 2026) found that Treasury's design of the HAFF delivery arrangements were only partly effective. The audit identified late establishment of core governance, risk-management, evaluation and assurance arrangements, together with insufficient transparency concerning program delivery, costs and impacts.. Lessons from this review help inform how the fund can best operate alongside other financing instruments to support the expansion of social and affordable housing in the most effective and efficient manner.

Over time, HAFF resources could be more closely integrated with Housing Australia's broader financing functions, supporting mechanisms that reduce the structural cost of housing delivery, including:

- targeted capital grants for regulated housing providers

- concessional loan structures or interest assistance
- equity contributions that strengthen provider balance sheets.

These mechanisms lower financing costs and enable rents to be set on a cost-based rather than market-based foundation, improving long-term affordability.

International experience suggests that stable social housing systems are typically supported by specialised housing finance intermediaries capable of mobilising long-term, low-cost capital through public guarantees and capital markets. Such arrangements help reduce borrowing costs, pool risk across providers and stabilise housing construction cycles over time.

Building a durable housing investment system

The objective of these reforms is not to replicate any single international model but to establish a **stable long-term social housing investment circuit suited to Australia's federal system**.

Such a system would combine:

- Commonwealth financing institutions and subsidy programs
- state capital investment and land policy
- regulated housing providers responsible for long-term asset stewardship
- transparent reporting and accountability on affordability and housing outcomes
- fair and respectful treatment of residents.

By aligning and coordinating finance, governance and housing delivery across governments, Australia can move beyond fragmented project funding toward a stable long-term national institutional framework capable of delivering permanently affordable rental housing at scale, while promoting high-quality, secure and energy-efficient housing standards that enhance housing stability, wellbeing and living conditions, particularly for lower-income and vulnerable households.

Over time, this coordinated investment system would allow housing providers to accumulate assets, recycle surpluses and progressively expand the supply of social and affordable rental housing.

4. Policy architecture, subsidisation and investment

A major weakness in Australia's housing policy architecture is that fundamentally different forms of housing expenditure are frequently grouped together under the broad category of 'housing assistance' despite producing very different long-term fiscal, economic and housing-system outcomes (Lawson et al. 2026; Dodson and Davies 2024).

From a fiscal and institutional perspective, it is important to distinguish between:

- consumption subsidies that assist households to meet current housing costs

- speculative or market-stimulating tax subsidies that support leveraged property investment and asset-price growth
- availability payments that procure housing for fixed terms
- productive asset-building investments that expand the stock of permanent affordable housing assets

These forms of expenditure differ not only in their immediate policy objectives but also in their effects on long-term public value, housing supply, affordability outcomes and fiscal sustainability.

4.1 Housing consumption subsidies

Housing consumption subsidies primarily support households in accessing existing housing supply. The largest example in Australia is Commonwealth Rent Assistance (CRA), which assists eligible households in the private rental market by supplementing rental payments.[2] Dodson and Davies (2024) observe that CRA currently operates largely independently from any integrated national framework governing affordability outcomes, tenancy quality or landlord obligations. There is currently no transparent reporting framework on the quality or security of private rental dwellings supported through CRA, nor in relation to other subsidies these dwellings receive such as negative gearing or capital gains tax concessions (Dodson and Davies 2024).

Housing consumption subsidies can play an important social protection role, particularly for lower-income households facing immediate affordability pressures. However, because they are generally not linked to the creation of additional affordable housing supply or regulated rent-setting systems, their long-term effectiveness depends heavily on market conditions. In expensive housing markets characterised by constrained supply and rising rents, demand-side subsidies may partly flow through into higher rents and be captured by investor-landlords rather than structurally improving affordability (Dodson and Davies 2024).

the Commonwealth rental-housing subsidies and tax expenditures included in their mapping by Lawson et al. (2026) similarly note that more than 80 per cent of currently flow to the private rental sector with comparatively limited public accountability on tenant outcomes nor in the formation of enduring national assets.

A regulated cost-rental or social housing system can ensure consumption subsidies such as CRA operate more efficiently as transparent rent-gap supports linked to audited cost-rents and permanent affordable housing assets. In this context, the income support program

[2] CRA is formally classified as a non-taxable supplementary payment, although its amount is linked to rent paid above a minimum threshold and capped at a maximum rate. The ABS measures rents on an out-of-pocket basis and therefore treats increases in CRA as reducing the rental price paid by eligible recipients. This statistical treatment affects measured rent inflation but does not imply that contractual or market rents have fallen.

assists households directly with rents while the public investment program simultaneously expands long-term affordable housing supply.

4.2 Speculative and market-stimulating tax subsidies

A second category of expenditure includes housing-related tax concessions that support leveraged investment in residential property. The most significant examples are negative gearing provisions and the capital gains tax (CGT) discount applying to investment housing.

Dodson and Davies (2024) estimate that Commonwealth expenditure through CRA, negative gearing and CGT concessions exceeds $8 billion annually and argue that these investor-landlord subsidies currently operate with limited transparency, accountability or integration with social housing objectives.

The negative gearing and CGT instruments reduce the after-tax cost of property investment and may stimulate investor participation in the housing market. However, unlike productive infrastructure investment, they are generally not linked to requirements concerning affordability, rent regulation, long-term asset retention or housing quality outcomes. As Dodson and Davies (2024) argue, existing tax concessions provide substantial Commonwealth support to investor-landlords without corresponding obligations to the Commonwealth relating to tenancy standards or affordable housing outcomes.

As a result, these subsidies primarily support private asset accumulation and speculative investment behaviour rather than systematically expanding the supply of permanently affordable housing. Lawson et al. (2026) similarly conclude that Australia's current housing subsidy system is fragmented and weakly connected to long-term growth of regulated affordable housing assets.

Importantly, the negative gearing and CGT investor-landlord subsidies represent ongoing fiscal expenditures through foregone government revenue while generating limited and opaque retained public value or permanent affordable housing assets.

4.3 Availability payment mechanisms

Availability payments are recurrent, time-limited government payments for the provision of an infrastructure service to specified standards, typically where the underlying asset is financed, owned or operated by a non-government provider during the contract period. Under this model, housing may be treated as a contracted accommodation service rather than as a long-term public asset. Payments generally cover construction and financing costs, operation, maintenance and lifecycle renewal, together with provider returns and allowances for risks such as inflation and interest-rate movements.

Availability payments can reduce the government's initial capital requirement because the provider raises the construction finance. However, this does not eliminate the public cost; it defers and converts it into a long-term stream of contractual payments incorporating financing costs and, where applicable, commercial returns. Consequently, under a fixed

public funding envelope, availability payments may deliver more dwellings initially but fewer dwellings over the longer term than upfront capital investment (Troy and van den Nouwelant 2023, pp. 11–16).

At the end of the contract, the housing may transfer to government or remain with the provider. If it remains with the provider, government may have contributed substantially to financing an asset with significant residual value without acquiring a corresponding public asset. If ownership transfers, government risks receiving an inadequately maintained or degraded asset carrying substantial renewal liabilities. Protecting the public interest therefore requires enforceable whole-of-life maintenance and asset-condition standards, continuing independent monitoring, and clearly specified handback requirements throughout the contract period.

4.4 Productive asset-building investments

By contrast, productive housing investments involve public capital contribution mechanisms that directly contribute to the creation, retention or expansion of affordable housing assets operating under long-term affordability obligations.

These mechanisms may include:

- capital grants
- concessional long-term finance
- public land contributions
- equity investment
- public guarantees linked to regulated housing providers.

Randolph et al. (2018) found that government-facilitated access to land, equity investment and reduced finance costs were among the most important determinants of long-term affordable housing project viability. Their research demonstrated that reducing upfront debt loads and lowering financing costs materially improve long-term affordability outcomes and project sustainability. This was further investigated and modelled in the AHURI *Social Housing as Infrastructure* Inquiry (Lawson et al, 2018), which modelled the fiscal and policy implications of five funding and financing scenarios.

Unlike recurrent market subsidies, productive investment contributes to the formation of durable national housing assets that remain on public, municipal or mission-driven provider balance sheets over extended periods. Recent research by Lawson et al. (2026) argues that more resilient European housing systems accumulate and revolve equity investment over generations through regulated reinvestment mechanisms, rather than relying primarily on fragmented project financing and recurrent subsidy arrangements.

Where combined with regulated cost-rents, reinvestment obligations and revolving financing structures, these assets can generate ongoing rental revenue streams capable of supporting maintenance, debt repayment and future housing supply expansion. Lawson et al. (2026)

note that revolving fund regulation in several European systems requires surpluses to be reinvested into expanding social and affordable housing supply, supporting cumulative sector growth over time.

This distinction also aligns with McNelis's (2005) earlier made argument that the long-term viability of social housing systems depends not on a trade-off between affordability and financial sustainability, but on ***financing arrangements capable of supporting both simultaneously***. McNelis observes that many European systems historically operated through cost-rent structures designed to ensure ongoing financial viability while maintaining affordability objectives.

4.5 Implications for housing policy reform

The distinction between affordability-financial trade-offs versus dual-objective arrangements has important implications for the future direction of Australian housing policy. Current Commonwealth housing expenditure settings remain heavily weighted toward consumption subsidies and speculative tax concessions, while comparatively limited resources are directed toward building a large-scale permanent national affordable and social housing asset.

Lawson et al. (2026) conclude that Australia currently lacks long-term growth models for social housing and instead relies heavily on fragmented project financing arrangements and recurrent subsidy mechanisms. The central fiscal challenge is therefore not simply the overall scale of housing expenditure, but the composition and long-term productivity of Commonwealth housing fiscal outlays.

Redirecting a modest proportion of existing housing-related tax expenditures toward productive cost-rental investment could support the gradual development of a self-reinforcing affordable housing sector capable of retaining public value, reducing long-term subsidy pressures and expanding affordable housing supply over time.

The 2026–27 Budget provides an important policy precedent for a shift in social housing procurement. By reducing the tax advantages attached to leveraged investment in established residential property, the Budget creates an opportunity to reallocate fiscal capacity toward more productive and socially beneficial housing investment. However, the fiscal benefit of tax reform should not simply disappear into consolidated revenue or unrelated tax reductions. If the policy objective from tax reform is to improve structural housing affordability, a defined share of savings from housing tax reform should be directed into a national cost-rental investment fund, capital grants, concessional loan facilities or equity contributions for regulated social and affordable rental providers.

From this perspective, housing policy should increasingly be assessed not only according to short-term budget impacts, but according to whether public expenditure contributes to durable national affordable housing assets, lower structural housing costs and stronger long-term housing system capability.

In practice, different social housing systems can generate very different implications for public assets, recurrent liabilities, financing costs and long-term fiscal exposure.

A clearer distinction is therefore required between:

Recurrent subsidy streams

These include ongoing payments such as Commonwealth Rent Assistance (CRA), availability payments under PPP-style housing contracts, or recurrent operating subsidies linked to housing provision. While such expenditures may support affordability or project viability in the short term, they generally do not create permanent public or regulated housing assets unless explicitly tied to retained ownership structures and reinvestment obligations.

Long-term reliance on recurrent subsidies can also expose governments to escalating fiscal commitments where rents, financing costs or market prices continue to rise over time, while leaving no permanent public asset.

Asset creation and retained public value

Capital-led investment models, by contrast, create durable housing assets that remain on public, municipal or regulated provider balance sheets over extended periods. Although these approaches may require larger upfront capital contributions, they also generate long-term retained asset value, strengthen provider equity positions and improve borrowing capacity over time.

In cost-rental systems, public investment is therefore not simply consumed as annual expenditure but progressively converted into an income-generating social infrastructure asset capable of supporting future housing supply through reinvestment mechanisms once debt is paid off.

Contingent liabilities

Different financing models also generate different forms of public risk exposure. Public-Private Partnerships and availability-payment structures may reduce visible upfront on-balance-sheet borrowing but can create substantial long-term contingent liabilities through contractual service payments, occupancy guarantees, refinancing arrangements or government-backed risk transfer mechanisms.

These liabilities are often less transparent than direct capital expenditure and may persist over multiple decades regardless of changing housing needs or financing conditions.

Financing leakage into equity returns

The financing structure of housing delivery models significantly affects the proportion of public expenditure ultimately retained within the housing system. Where projects rely heavily on private equity seeking commercial or infrastructure-scale returns, a significant

share of public subsidy may be absorbed through investor returns, financing margins, transaction costs and risk pricing.

By contrast, limited-profit, non-profit or revolving-fund approaches retain a larger share of financing benefits within the housing system itself through lower borrowing costs, regulated returns and mandatory reinvestment obligations.

This distinction is particularly important in housing because financing costs comprise a substantial proportion of lifetime housing expenditure.

Refinancing exposure

Housing systems also differ in their exposure to refinancing risk over the lifecycle of assets. Short-term or market-dependent financing structures may expose providers and governments to future increases in interest rates, refinancing costs or capital market instability.

Cost-rental systems seek to reduce this exposure through long-term amortisation structures, public guarantees, regulated financing frameworks and stable institutional investment arrangements capable of supporting predictable cost and rent trajectories over time.

For this reason, the long-term fiscal sustainability of housing systems depends not only on the level of public expenditure, but also on how financing structures allocate risk, retain asset value and shape future subsidy obligations.

Australia finances social and affordable housing through a multi-provider system involving state and territory public housing authorities and not-for-profit community housing providers. Public housing has historically been financed through direct government capital investment, supported by Commonwealth–State Housing Agreements (and their successors) and state borrowing. State governments funded, and continue to fund, construction, own much of the land and housing assets, and recover only part of the costs through income-based rents, typically set at around 25–30 per cent of tenant income. Because these rents do not cover the full lifecycle costs of housing provision under contemporary income-targeted tenancy allocation policies, public housing continues to rely on ongoing injections of government subsidies – which introduces considerable fiscal and political risk. Indeed, over the past two decades, capital investment in public housing has declined relative to overall housing growth and development has become more sporadic, contributing to a gradual contraction of public housing as a share of the national housing stock.

Community housing providers (CHPs) have increasingly taken on responsibility for delivering new social and affordable housing. Their financing model combines public subsidy with debt finance. New housing projects typically draw on capital grants from state governments, discounted or transferred public land, and tenant revenues supported by Commonwealth Rent Assistance. These inputs are combined with borrowing, through the Housing Australia bond aggregator (since 2018) or commercial bank loans, and with limited provider equity

derived from retained surpluses or transferred assets. Because the rents charged in social housing are income-based and affordable housing rents are typically discounted from market levels, these projects frequently require additional public subsidy or cross-subsidy from mixed-tenure developments to remain financially viable.

Australian social and affordable housing delivery is therefore best understood as a **layered financing system**, rather than a model in which rental income alone can support new supply. Projects typically combine public capital grants, discounted or transferred land, state asset transfers, concessional loans through Housing Australia's Affordable Housing Bond Aggregator, commercial bank debt, limited provider equity from retained surpluses or transferred assets, and, where feasible, cross-subsidy from market-sale or market-rent components. However, the capacity of debt to finance new supply is constrained by the rent-setting rules that define social and affordable housing. Social housing rents are generally income-related, often around 25–30 per cent of tenant income, while affordable housing rents are commonly set below market, including below 75 per cent of market rent in much community housing and at least 20 per cent below market rent under NRAS-type arrangements. As Randolph, Troy, Milligan and van den Nouwelant show, once sub-market rents are combined with private or concessional debt, a gap usually emerges between rental revenue and the recurrent costs of provision, including debt servicing. This means that concessional finance can reduce costs and improve feasibility, but it cannot substitute for subsidy. Additional capital subsidy, revenue-gap subsidy, discounted land, asset transfers, or mixed-tenure cross-subsidy is generally required, particularly where projects are intended to serve very low-income households or high-cost metropolitan markets (Randolph et al., 2018; Lawson et al., 2018; Troy & van den Nouwelant, 2023; Davies, 2023).

Lenders typically require sponsor equity- often around 10–20 per cent of the total project capital—to absorb construction or operational risks before debt is affected. This first-loss position improves the creditworthiness of the project and allows the provider to raise long-term debt from lenders, including Housing Australia or commercial banks. Increasingly social housing is delivered through a Special Purpose Vehicle (SPV) formed via an agreement between a public or social provider and a consortium of private for-profit entities. Separate SPVs may be created to manage the delivery of the project and then the tenancy and asset management (Chew et al 2017; see also Morphet & Clifford 2021, Beswick & Penny 2018). Such mechanisms often allow for profits above the cost of housing delivery to accrue to private SPV participants.

In the emerging availability-payment (AP) and PPP-style structures used to deliver projects funded through the Housing Australia Future Fund, the financial architecture was substantially shaped by Paxon Group, a private infrastructure, project-finance and transaction advisory firm whose core expertise lies in structuring commercially financeable PPPs and social-infrastructure transactions. Treasury commissioned Paxon in March 2023 to develop the HAFF financing model. Paxon describes its role as deriving the financial and

commercial model, creating an “investable and bankable housing supply platform”, and tailoring the investment opportunity to maximise its appeal to institutional investors. It subsequently advised Housing Australia on commercial structuring, applicant assessment, negotiations and contractual and financial close.

AECOM was commissioned to peer-review the Paxon model. Although AECOM considered its overall structure appropriate, it warned that reliance on national averages and optimistic assumptions could understate financial costs and overstate likely economic returns and housing delivery. It identified high-priority concerns about development timeframes, construction sequencing, construction-cost escalation, maintenance-cost escalation and lifecycle expenditure. Treasury adjusted some cost and maintenance assumptions but did not adopt AECOM’s recommended longer development period and revised construction tranches because these would have conflicted with the government’s five-year delivery target.

The ANAO found that this commercially oriented advice was not balanced by consultation with the Australian Housing and Urban Research Institute or by systematic consideration of comparable international housing-finance and delivery systems. Consequently, the HAFF model was developed primarily through a PPP and project-finance lens, without adequate examination of international evidence on lower-cost public borrowing, government-guaranteed lending, revolving housing funds, limited-profit providers and cost-rental systems. This omission constrained consideration of whether attracting institutional capital through availability payments offered better long-term value than financing and retaining social housing through lower-cost, public-purpose institutions (ANAO, 2026, pp. 31–35, 46–47).

In emerging availability-payment (AP) public–private partnership structures used to deliver projects funded through the Housing Australia Future Fund, private equity plays several roles within the project Special Purpose Vehicle (SPV). First, it provides **risk capital that enables project finance**. Second, equity investors receive **return-seeking income streams funded through government availability payments**. These payments cover debt service, operating costs, lifecycle maintenance and investor returns over concession periods that often extend 20–30 years.

Because equity investors typically target internal rates of return of around 10–12 per cent or higher, the inclusion of **equity capital raises the long-term cost** base of projects compared with housing systems financed primarily through low-cost public borrowing or government-guaranteed debt, such as the limited-profit or cost-rental models used in several European countries (Lawson et al, 2018).

Equity investors also typically **control the governance of the SPV**, appointing directors, overseeing construction and asset management contracts and managing refinancing and dividend decisions.

While this structure is intended to align performance incentives with contractual standards, it can place substantial control over financing, procurement, asset management and lifecycle decisions with private sponsors and SPVs over long concession periods. Such arrangements may be more readily justified for infrastructure supported by commercial revenues, such as toll roads. Social housing, however, depends on constrained rents and continuing public subsidy. Commercial financing costs, fees and investor returns therefore reduce the funding available for additional dwellings unless they generate demonstrable efficiencies or genuine risk transfer. The appropriate test is whether private participation maximises long-term housing supply, affordability, asset stewardship and public value compared with lower-cost public or government-guaranteed finance.

The eligibility of SPVs and partnerships between community housing providers, developers and financiers can produce a two-tier governance structure. Registered providers retain responsibility for tenants and regulatory compliance, while commercially oriented sponsors and intermediaries may control project origination, financing, procurement, asset management and revenue flows. Evidence examined for this research indicates that repeat-player intermediaries can occupy multiple roles and shape which projects are considered "bankable", while community housing providers may have limited influence over financing costs, affordability duration and asset ownership.

The ANAO did not identify "shell" providers or improper conduct. However, it confirmed that HAFF SPVs are eligible recipients, that the program seeks to leverage private investment through 25-year availability payments, and that high external financing costs contributed to higher-than-expected payments and deterred some community housing providers. Its findings on weak long-term risk monitoring, efficiency measurement and public reporting reinforce the need to disclose SPV control, related-party contracts, fees, investor returns, refinancing gains and residual asset ownership. Without this transparency, it is difficult to determine whether public subsidy builds lasting social-housing capacity or principally supports time-limited, commercially governed projects (ANAO 2026, pp. 7–13, 19, 42–47).

Availability-payment and PPP-style affordable housing models may reduce the need for immediate upfront public expenditure, but they do not eliminate public borrowing costs or fiscal exposure; instead, they convert these into long-term contractual commitments. The ANAO (2026) found that average Australian Government support under the HAFF and NHAF was estimated at $770,387 per dwelling in nominal terms over 25 years, with availability payments comprising the largest component. As actual delivery costs exceeded initial estimates, the government committed an additional $2.6 billion for concessional loans and $3.1 billion over 15 years from 2037–38 to meet continuing availability-payment obligations. The ANAO also found that the initial preference for private finance contributed to complexity, discouraged some community housing providers and was associated with higher-than-expected availability payments due to high external financing costs. These findings demonstrate that availability-payment structures may defer and redistribute public

costs rather than reduce them, requiring governments to fund financing costs, operating and lifecycle expenses and commercial investor returns over multi-decade contracts instead of directly capitalising housing assets through lower-cost public or government-guaranteed finance (ANAO, 2026, pp. 8–9, 35–36, 46–47).

Where projects are financed through private equity structures seeking internal rates of return substantially above sovereign borrowing costs, the long-term subsidy burden required to maintain affordability can increase significantly.

For both social and affordable housing, where rents are constrained by tenant affordability, high-cost private equity provides limited financial advantage. Instead, it increases the cost of capital and therefore the level of public subsidy required, making it a less efficient financing source than low-cost public or guaranteed debt within cost-rental housing systems.

4.6 Financing of cost-based approaches

In cost-based rental housing systems, rents are calculated to cover the actual cost of providing and maintaining housing, including financing costs, management, maintenance and long-term renewal. Because financing is the largest component of these costs, the structure of housing finance has a direct and powerful influence on rent levels.

Comparative research across European cost-rental systems shows that financing costs typically account for 50–70 per cent of the lifetime cost of housing provision (Pittini et al., 2021). As a result, relatively small changes in borrowing costs can significantly affect rents. Modelling commonly shows that a:

- 1 percentage point increase in interest rates can raise required rents by roughly 8–12 per cent
- 3 percentage point increase can raise rents by 25–35 per cent.

For this reason, successful long-term affordable housing systems focus on **minimising financing costs** rather than relying primarily on large subsidies. Public support is used to actively lower the structural cost of housing provision—through concessional finance, land policy or targeted capital grants—rather than compensating for expensive financing structures.

Best practice European social housing systems prioritise long-term, low-cost institutional finance. This is typically delivered through specialised public or quasi-public housing finance institutions, such as Caisse des Dépôts et Consignations in France, municipal banking institutions such as Bank Nederlandse Gemeenten in the Netherlands, and publicly supported lending and guarantee systems in Austria, Denmark and Finland (Norris et al, 2025; Norris and Byrne, 2021; Lawson, 2013). These institutions provide long-duration loans at relatively low interest rates, stabilising development costs and enabling housing providers to set rents on a cost-recovery basis.

Evidence reviewed by Housing Europe shows that successful cost-rental social housing systems rely on three mutually reinforcing elements (Pittini et al., 2021; Housing Europe 2025):

- long-term low-cost debt, often supported by public guarantees or specialised housing banks
- public land and planning frameworks that stabilise development costs
- reinvestment rules requiring operating surpluses to remain within the housing system.

Under these arrangements, housing providers operate under limited-profit rules and rely primarily on long-term loans, public guarantees and retained earnings rather than high-return private equity. In Austria, for example, the *Limited-Profit Housing Act* (WGG) permits only a regulated 'reasonable return' on paid-in equity—typically interpreted as around 3–4 per cent per year—while requiring all remaining surpluses to be reinvested in housing provision.

These institutional rules create a self-reinforcing financial ecosystem. As loans are gradually repaid debt servicing and principal costs decline, generating rental surpluses that allow housing providers to accumulate equity on their balance sheets. This growing equity base allows further borrowing at favourable rates and enables housing investment to expand over time through revolving funding cycles while maintaining stable rents.

The Austrian experience demonstrates the cumulative financial effect of these arrangements in a federal setting. Under their national Limited-Profit Housing Act, provider equity is permanently dedicated to housing, distributions to owners are restricted and approximately 90 per cent of profits are retained and reinvested. Austria's limited-profit housing associations consequently operate, in effect, as decentralised revolving housing funds: public investment and cost-rental income build an asset and equity base that can support subsequent borrowing, construction and renewal (Klien et al., 2023). By 2021, the 185 limited-profit housing associations held combined assets of approximately €59.9 billion, owned around 652,600 rental and cooperative dwellings, invested approximately €3.7 billion in new construction and spent more than €1 billion on maintenance and renovation during that year (Gutheil-Knopp-Kirchwald and Kössl, 2022). This does not eliminate the continuing importance of public support and low-cost long-term finance. Rather, it shows how these inputs can be converted into permanent institutional capacity, reducing reliance on repeated project-by-project grants as the regulated provider sector matures.

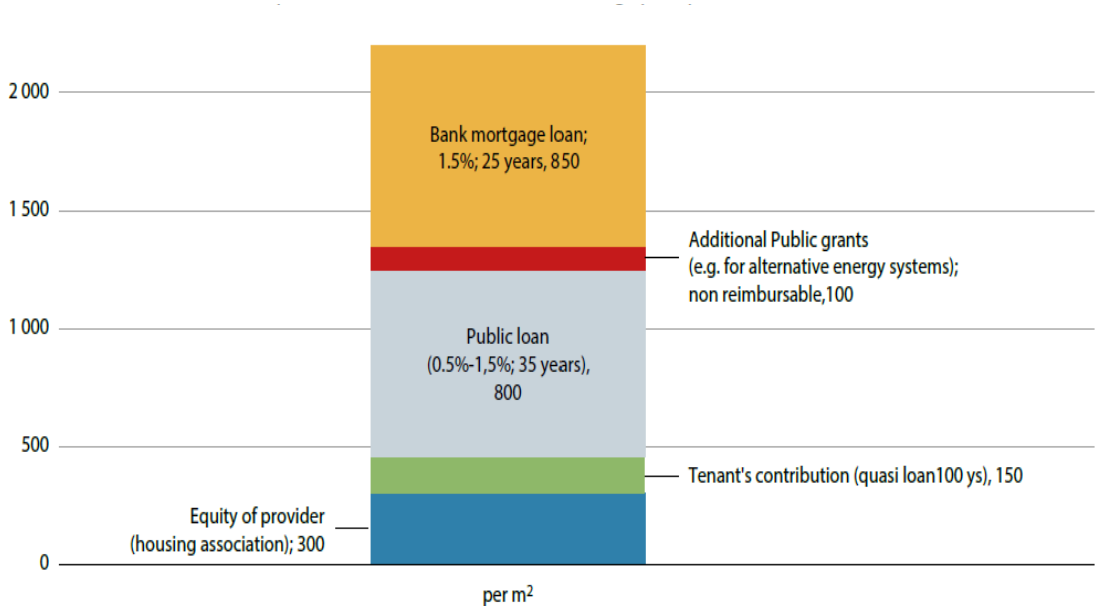


Figure 3 Project financing structure for a typical housing project by housing associations in Vienna

Source: Adapted from Kössl (2019)

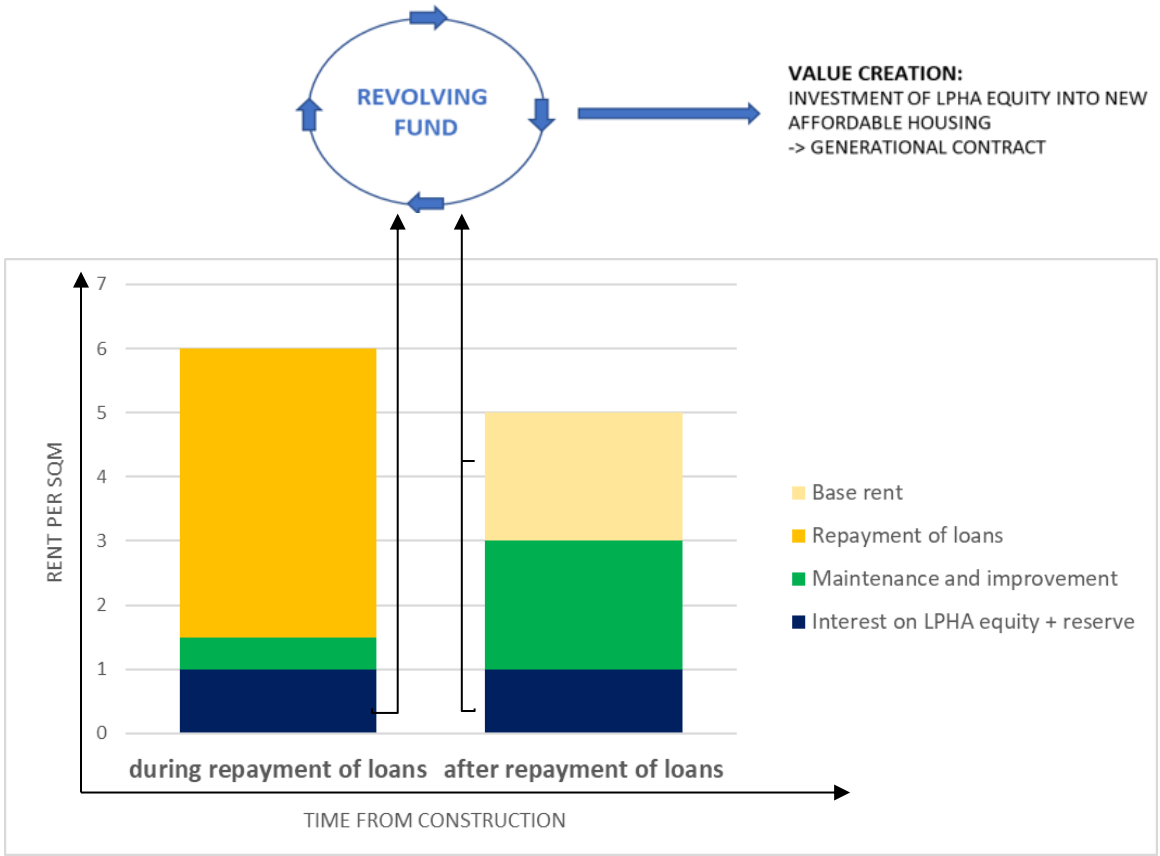


Figure 4 Value creation within a cost rental financing structure before and after repayment of capital loan.

Source: Adapted from Kössl (2019)

The central policy lesson from the experience of leading European examples therefore, is that large-scale affordable housing systems depend less on the volume of subsidy than on the design of the financing architecture. Systems built on predictable, low-cost finance and reinvestment rules can expand housing supply while maintaining durable affordability.

By contrast, Australia's current financing approach remains project-based and fragmented, relying on complex combinations of grants, land contributions, operating subsidies and relatively higher-cost private debt delivered through a miscellany of providers. Unlike many European social housing systems, Australia has limited mechanisms to accumulate and recycle equity across the sector through revolving funds or long-term cost-recovery frameworks. As a result, growth in social and affordable housing in Australia tends to depend on episodic government programs and negotiated development deals rather than a stable institutional financing architecture and associated governance arrangements that can sustain expansion over time.

4.7 International lessons on efficient low-cost bond finance

Cost-rental housing, as with most forms of investment in assets, is highly sensitive to the cost, tenor and stability of debt because housing has high up-front capital costs that must be repaid over long periods through rents, public subsidy, or both. Comparative European evidence shows that bond finance can be an important instrument for spreading these capital costs over time, but low-cost bond finance is rarely achieved by individual financial providers acting alone. Rather, stronger housing finance systems embed bond finance within a wider public-purpose financing architecture: public development banks, bond aggregators, or special-purpose intermediaries, raise finance from capital markets and on-lend to regulated social housing providers, often supported by public or mutual guarantees, prudential oversight and clear limits on eligible borrowers (Norris et al., 2025; Lawson, 2013).

This architecture matters because sustainable or social housing bonds do not automatically produce affordability. Sustainable finance may expand the pool of private capital available for social housing and renovation, but it usually does so through bond issues that are converted into loans to social housing providers, who must repay the debt and report on environmental, social and governance outcomes (Norris, O'Hara, Earley and Stephens, 2025). Housing Europe's (2025) review similarly shows that much of Europe's apparently 'private' finance for social housing is in fact highly publicly structured, incentivised, guaranteed or intermediated. The French CDC, Finnish MuniFin and Dutch NWB/WSW models all demonstrate that low-cost finance depends on specialised institutions, public guarantees, pooled risk and strong regulation, rather than direct exposure of individual social providers to capital markets (Housing Europe, 2025).

For Australia, the relevant policy question is therefore not only whether Housing Australia or another entity should issue 'housing bonds'. The more important question is what institutional design would make those bonds genuinely low-cost and ensure that the public benefit of the issuing mechanism is passed through to housing providers and in turn into lower-cost rents and sustainable long-term maintenance and reinvestment. International evidence points to several common design features for such financial systems: pooled borrowing demand, regular issuance, public or mutual credit enhancement, regulated eligible borrowers, asset stewardship obligations, rent regulation, transparent reporting and prudential supervision (Lawson, 2013; Housing Europe, 2025). A summary of the main international bond-raising and housing finance intermediary models that are most relevant to an Australian cost-rental system is presented below (Table 1).

Table 1 Bond raising in European social and affordable housing

Country/model	Core bond-raising or finance mechanism	Latest issuance/volume evidence	How low-cost capital is achieved	Lessons for an Australian cost-rental system
Netherlands — NWB Bank and WSW guarantee system	NWB Bank raises capital on bond markets and lends to Dutch housing associations (HA); WSW provides the sectoral guaranteed architecture.	NWB reported 25 outstanding SDG Housing Bonds and €34.5 billion in outstanding loans to social housing associations in its 2024 SDG Housing Bond reporting. It also reported that 2.31 million households benefited from sub-market rents and stable housing in social dwellings. (NWB Bank) WSW records a €95 billion guaranteed loan portfolio, AAA ratings, and an estimated 0.75 percentage point interest benefit for Dutch HA.	Low-cost finance is achieved through a public-sector bank, large-scale bond issuance, WSW risk pooling, public backstop arrangements, strong collateral and prudential regulation.	The clearest comparator for a mature Australian cost-rental bond system: Housing Australia could aggregate borrowing, secure a strong rating/guarantee, and on-lend only to regulated cost-rental providers.
Finland — MuniFin / Municipality Finance	MuniFin raises international capital-market funding and lends to municipalities, municipal companies and state-subsidised housing providers.	MuniFin's 2024 annual report records €35.2 billion in long-term customer financing, €8.9 billion in new long-term funding, and €9.3 billion in outstanding sustainable finance. Social finance reached €2.5 billion across 152 projects at the end of 2024. MuniFin also issued five benchmark bonds in 2024 and a record number of sustainable bonds, including three green bonds. (Kuntarahoitus)	Low-cost finance is enabled by municipal ownership, the Municipal Guarantee Board guarantee structure, high credit quality, diversified international issuance and stable public-purpose lending.	Highly relevant where public or municipal cost-rental providers are central. It shows that "private" debt can be low cost when publicly guaranteed and institutionally mediated. Guarantees are only provided to approved and most efficient forms of financing.
France — Caisse des Dépôts / Banque des Territoires and Livret A savings circuit	CDC/Banque des Territoires channels regulated household savings into long-term loans for social and affordable housing. This is not a conventional bond model but functions as a protected low-cost capital circuit.	Housing Europe's 2025 France factsheet reports that Banque des Territoires achieved a record year in 2024, with €20.9 billion in loans dedicated to social housing and urban policy, supporting 115,000 new social and intermediate housing units and renovation activity. (Housing Europe) CDC's 2024 results also state that the Group helped provide a home to 225,400 people in 2024 through construction and	Cost is reduced through regulated household savings, public-purpose intermediation, long maturities and public-policy lending mandates.	Australia lacks a Livret A equivalent, but the lesson is to create a protected investment of savings circuit for long-term affordable rental assets, rather than relying only on episodic grants or market-priced debt.

Country/model	Core bond-raising or finance mechanism	Latest issuance/volume evidence	How low-cost capital is achieved	Lessons for an Australian cost-rental system
		acquisition of social and intermediate housing. (caissedesdepots.fr)		
Switzerland — EGW / CCL bond-issuing cooperative	EGW/CCL pools borrowing demand from non-profit housing providers and issues federally guaranteed bonds.	EGW reported that in 2025 it launched two bonds totalling just over CHF 258 million. At end-2025, EGW supported almost 39,000 dwellings in more than 1,000 developments. In March 2026, EGW launched Series 75, a CHF 129.5 million, 20-year bond with all-in costs of 1.1720% p.a. (egw-ccl.ch)	Federal guarantees, pooled issuance, low administrative cost and careful borrower/member selection allow EGW to raise finance more cheaply than comparable fixed-rate mortgages. (egw-ccl.ch)	Highly relevant for a smaller or fragmented Australian CHP/cost-rental sector. It shows how smaller providers can access bond-market pricing through aggregation and a public guarantee.
Ireland — Housing Finance Agency	The HFA is a public financial intermediary lending to local authorities, approved housing bodies and other eligible public-interest housing actors, including cost-rental delivery.	HFA's 2024 annual report records €1.46 billion in total loans, an €8.6 billion loan book, €2.1 billion in AHB loans approved, €1.3 billion in loan advances to AHBs, and 4,525 homes completed in 2024. (hfa.ie)	State ownership/backing, public mandate, specialist lending expertise and regulation of approved housing bodies reduce risk and support long-term lending.	Particularly relevant because Ireland is a recent cost-rental case. It shows how a public finance agency can scale cost-rental delivery while provider regulation matures.
Austria — housing construction convertible bonds and housing banks	Specialised housing banks issue tax-privileged housing construction convertible bonds to channel investment into limited-profit and subsidised housing.	Recent research by Kössl reports that, since their introduction in 1993, Austria's active housing construction banks have issued around €23 billion in tax-privileged housing bonds, used primarily for new construction and renovation by limited-profit housing associations. (ideas.repec.org)	Cost is reduced through tax treatment, specialised housing banks, limited-profit provider regulation, cost-rent rules, public subsidy and reinvestment obligations.	The Austrian lesson is that bond incentives must sit within a regulated provider system. Australia would need limited-return rules, cost-rent accounting and reinvestment obligations.
Denmark — Landsbyggefonden / National Building Fund	Not a classic bond-issuer; Denmark uses a sectoral revolving fund financed by tenant/provider contributions and recycled repayments.	Landsbyggefonden states that it supports Denmark's non-profit housing sector and helps ensure affordable and well-maintained homes for around 1 million citizens. (Landsbyggefonden) Housing2030 reports that Denmark's social and affordable housing sector includes around 600,000 housing units, housing about one in six people. (Housing2030)	Cost is reduced over time by recycling sector resources, equalising costs and retaining surpluses inside the non-profit housing system.	Australia should complement bond finance with a revolving-fund logic: cost-rental rents should repay debt, build reserves and support reinvestment in future supply.

The comparative international evidence shows that efficient low-cost bond finance depends less on the bond instrument itself than on the institutional architecture surrounding it. Public development banks and specialist intermediaries can lower finance costs by raising long-term finance through bond markets, leveraging stronger public credit standing, filling gaps left by commercial lenders, and channelling funds to social housing providers under public-policy mandates (EqualHouse, 2025b). Structured guarantees can reduce the perceived risk to bond investors and moderate the yield required, but the full benefit is only passed through where an efficient not-for-profit or public-purpose intermediary on-lends to regulated housing providers at low or zero margin (Lawson, 2013).

Sustainable housing bonds can broaden the investor pool and align housing investment with ESG objectives, but they also introduce repayment, interest-rate and reporting obligations that may exclude smaller or newer providers unless supported by aggregation, capacity-building and regulatory supervision (Norris et al., 2025; EqualHouse, 2025a). Revolving funds provide a complementary mechanism by retaining rent revenues, provider equity or public contributions within the housing system and recycling them into future development, thereby reducing reliance on repeated one-off subsidies or higher-cost commercial debt (EqualHouse, 2025c; Norris and Lawson, 2023).

A cost-rental bond program for Australia should be designed as part of a regulated national investment circuit. Housing Australia, or a dedicated cost-rental finance intermediary, would need to aggregate borrowing demand, issue or support long-term debt, use guarantees prudently, and restrict access to regulated providers subject to cost-rent rules, asset locks, reinvestment obligations and financial oversight. Without those safeguards, bond finance may increase supply but will not necessarily produce durable affordability.

Table 2 Characteristics of bond financing for social and affordable rental housing

Characteristic	Why it matters for cost-rental housing
A specialised financial intermediary	Reduces transaction costs, aggregates borrowing demand, manages investor relations and avoids every provider having to become a capital-market issuer.
Pooling and regular issuance	Larger, predictable bond issuance attracts institutional investors and improves liquidity, pricing and confidence.
Public, mutual or layered guarantee	Reduces lender risk and therefore interest costs but must be paired with prudential oversight to avoid moral hazard.
Regulated eligible borrowers	Low-cost finance is only safe where borrowers are public, non-profit, limited-profit or tightly regulated cost-rental providers.
Long-term fixed-rate debt	Protects rent-setting from interest-rate volatility and refinancing risk.
Cost-rent or regulated-rent framework	Ensures lower finance costs flow into lower rents, better maintenance or reinvestment rather than provider extraction.
Asset locks and reinvestment obligations	Prevent public subsidy and accumulated equity from leaking into privatisation, windfall gains or excessive returns.
Prudential supervision and stress testing	Guarantees are low-cost for government only if provider viability, collateral, cash flows and debt-service ratios are actively supervised.
Transparent reporting and ESG/social impact metrics	Helps attract responsible investors while demonstrating that bond proceeds support affordable rents, energy performance and social outcomes.
Integration with land and subsidy policy	Bond finance lowers the cost of capital, but cannot by itself overcome high land costs, very low-income rents or remote construction costs.

Source: Authors, drawing on the sources used and referred to in this section.

5. Rent-Setting Mechanism

Rent-setting is an essential component of an affordable cost-rental housing system. Affordable housing systems use several approaches to rent-setting, each with different implications for affordability, subsidy requirements, provider viability and the long-term sustainability of the housing system. The most common approaches include below-market rents, cost-based rents, utility-based rents and rent-geared-to-income arrangements. In practice, these approaches are often combined across different parts of the housing system, reflecting differing policy objectives, tenant income profiles and institutional arrangements.

Australia's rent-setting arrangements have evolved significantly over time across public housing, community housing and, more recently, affordable housing programs. In the period from the 1940s to the 1970s public housing systems incorporated important elements of historic and pooled cost-rent principles, whereby rental revenue contributed to operating costs, maintenance, debt servicing and long-term asset renewal. From the 1970s onward, however, rent policy increasingly shifted to income-related rents as public housing became more tightly targeted to lower-income and higher-needs households. McNelis (2005) argued that this transition reflected both the growing welfare focus of public housing and the declining income profile of tenants, while also exposing unresolved tensions between affordability and provider financial viability within Australia's housing finance system. Importantly, McNelis argued that there can be no trade-off between financial viability and affordability, because **financial viability is not the objective of social housing itself, but a necessary precondition for sustaining affordable housing provision over time**.

The AHURI research undertaken by McNelis and Burke (2004) and McNelis (2006) provides an important conceptual foundation for the present report. Rather than treating rent-setting as merely an administrative issue, their work developed one of the first systematic comparative analyses of social housing rental systems internationally. Their research reviewed rental systems in New Zealand, the United States, Canada, the United Kingdom, Germany, Sweden and the Netherlands, alongside Australian public, community, Indigenous and emerging affordable housing systems. Importantly, this work distinguished between 'property rents', which relate to the cost or value of the dwelling, and 'household rents', which relate to the circumstances and income of tenants. McNelis and Burke (2004) demonstrated that **Australia's system had become unusually dependent on household rents to achieve both affordability and provider viability**, effectively embedding an affordability subsidy within the provider's own revenue system rather than transparently separating capital financing, operational and asset maintenance cost recovery from tenant income support.

McNelis and Burke's (2004) comparative analysis showed that many European housing systems operated forms of property- or cost-based rents, where rental revenue contributed toward lifecycle housing costs, including maintenance, management, debt servicing and long-term asset renewal, while affordability for lower-income households was protected through explicit housing allowances or external subsidy mechanisms. However, Mc Nelis (2006) did not extend this discussion to present detail on how these systems operate within wider financial frameworks, such as revolving surplus systems, retained earnings frameworks, limited-profit regulation, asset locks, or institutional reinvestment obligations, in the way later European cost-rental literature does (Housing Europe, 2021, Lawson, Norris and Wallbaum 2021, Lawson, Davies et al, 2026).

In many European cost-rental and limited-profit housing systems, the financial viability of housing providers depended less directly on the income profile of sitting tenants because

affordability and provider sustainability were addressed through a broader institutional framework. This typically combined cost-based rents, external housing allowances or rent assistance, low-cost long-term finance, public land policies, accumulated provider equity, revolving surpluses, broader tenant income mixes and reinvestment obligations that strengthened provider balance sheets over time. By contrast, as Australian public housing became increasingly residualised and more tightly targeted to very low-income households from the 1970s onwards, provider revenues became increasingly dependent on deeply rebated household rents while maintenance liabilities, asset renewal pressures and operating deficits grew. A system that was based on capital repayment through a mixed low- and modest-income tenant profile was implicitly transitioned to a low-income tenant model without adequately accounting for the stripping out of in moderate-income tenants whose higher rents underwrote a necessary share of the capital and operating costs. In the absence of sufficiently integrated capital investment, revolving finance mechanisms or retained surpluses, Australian providers became more dependent on periodic government subsidy to sustain existing stock and support future growth.

Hall and Berry (2007a; 2007b; 2009) later reinforced these concerns about asset management and financial sustainability by demonstrating how ageing stock, declining tenant incomes, deeply rebated rents and inadequate capital investment contributed to persistent operating deficits across both public and community housing sectors.

The present report builds directly on this earlier body of work. Whereas earlier Australian debates often focused on whether rents should be market-related or income-related on the assumption that social housing risks 'crowding out' market provision, the present report emphasises the institutional architecture required to sustain affordable housing over the long term as a sector in itself that is superior to market provision for low-income housing provision because it retains and recycles finance internal to the system, rather than allowing 'leakage' into private profit. This institutional architecture includes the interaction between land policy, low-cost finance, lifecycle asset management, bond aggregation, provider regulation, explicit rent-gap subsidy and long-term reinvestment mechanisms.

Today, most Australian public housing — and a significant proportion of community housing operating social housing tenancies — uses rent-geared-to-income arrangements, typically around 25–30 per cent of household income. Affordable housing programs, by contrast, often benchmark affordability against discounted market rents, commonly around 70–80 per cent of market levels. While these approaches improve affordability for many households, the rents collected frequently do not reflect the underlying lifecycle costs of providing, maintaining and renewing housing assets. As a result, providers remain dependent on continuing public subsidy which provides scant internal margin such that they struggle to build sufficient equity reserves to enable long-term renewal and growth.

The model proposed in the present report seeks to address this structural weakness by distinguishing more clearly between the efficient cost of operating housing and the rent paid

by households. Under this approach, the rent required to sustain a dwelling is first calculated on a cost-recovery basis, covering finance, maintenance, management and long-term renewal. Where households cannot afford that rent, particularly in social housing, explicit rent assistance or targeted subsidy mechanisms ensure that tenants pay rents aligned with their capacity to pay. International experience suggests that more resilient non-market housing systems separate these two functions: cost-based rents sustain the housing asset and provider system by setting rents at the level needed for long-term financing repayment asset maintenance, while income-based assistance protects affordability for lower-income households. In this sense, the proposed framework should not be understood as choosing between social housing and affordable housing, but as establishing a coherent financing and operating system capable of sustaining both within a larger non-market rental sector.

5.1 Market-benchmarked 'below-market' rents

In many affordable housing programs rents are defined relative to prevailing market prices, for example at 75–80 per cent of local market rent. While this approach appears to deliver a discount, it has important limitations.

Because rents remain tied to market prices, they fluctuate with housing market conditions, and may also vary relative to tenant income, rather than the underlying real cost of financing, building and providing housing. When market rents rise rapidly relative to incomes, as observed in many Australian cities, so-called 'affordable' rents can still become unaffordable for many low-income households, even while the real cost of provision has not changed. In addition, benchmarking against market rents often directs subsidies toward moderate-income households while doing little to assist households in greatest need. This approach therefore tends to deliver temporary affordability discounts rather than structurally affordable housing.

While market rent benchmarks are often used as reference points in Australian housing policy, their practical role differs across housing programs. Within public housing, most tenants pay income-related rents, typically set as a proportion of household income. As a result, market rents function primarily as an administrative benchmark or cap rather than determining the actual rent paid by most tenants.

Changes in market rents therefore have limited direct impact on the rent paid by most public housing tenants, as income-related rent formulas operate as an effective safeguard against rent increases arising from housing market cycles. Even among households paying market rents, many are not high-income households; they may occupy smaller or lower-quality dwellings or live in extended households where income assessment affects rebate eligibility.

Market rent benchmarks play a more substantial role in the affordable housing sub-sector, particularly where rents are defined as a discount from prevailing market rents (for example 75–80 per cent of market rent). In these programs, changes in market rents can translate directly into changes in tenant rents.

For this reason, the policy concern addressed in this report relates primarily to the widespread use of market-benchmarked 'affordable rents' in supply programs, rather than the operation of income-related rents within traditional social housing.

5.2 Cost-rental housing

Cost-rental housing differs from approaches in which affordable rents are set primarily as a discount to market rent and the remaining affordability gap is met through subsidy. Under a cost-rental approach, the rent requirement is derived principally from the efficient, long-term cost of providing, financing, operating and renewing the housing, rather than directly from the property's prevailing market rental value.

Although the precise rules vary between countries and providers, cost-based rental systems in Austria, Denmark, Finland and France generally apply a cost-recovery principle that can be expressed as:

$$\text{Cost rent} = \text{financing costs} + \text{management and operating costs} + \text{maintenance costs} + \text{lifecycle and replacement reserves}$$

Where land is leased or financed separately, land-lease payments or land-amortisation costs may also be included.

Cost rent is therefore distinct from the rent ultimately paid by every tenant. Household income may still determine eligibility, income-related assistance or the tenant contribution, while regulation may impose affordability or rent limits. Where an income-based tenant rent is below cost rent, an additional subsidy or cross-subsidy is required; where it exceeds cost rent, regulated rules may permit the surplus to be retained and reinvested.

Housing Europe (2021) and related international research describe cost-based rental housing as encompassing:

- financing costs associated with land acquisition and construction;
- operating and housing-management costs;
- routine and planned maintenance;
- lifecycle renewal and replacement reserves; and
- where applicable, long-term capital-replacement costs.

Financing conditions are consequently a major influence on cost rent and affordability, alongside land, construction, operating and renewal costs. Public land contributions, capital grants and concessional long-term finance can reduce cost rent by limiting the amount and

cost of debt that must be recovered through rental revenue (Pittini et al. 2021, Housing Europe 2021; Norris et al. 2025; Lawson et al. 2026).

5.3 Income-related rents and rent assistance

Even where housing is delivered efficiently through cost-rent systems, some households—particularly those on very low incomes—may still be unable to afford the full cost-rent of a dwelling. In such cases, an additional mechanism is required to protect affordability: income-related rent support.

In Australia's social housing system, this support approach is already widely used. Public housing and most community housing social tenancies use income-related rent arrangements. Eligible public housing tenants generally pay around 25 per cent of assessable household income, although the treatment of particular income components varies and some jurisdictions charge up to 30 per cent for moderate-income households. The amount payable is normally capped at an administratively assessed market rent. The difference between the market rent and the lower income-related rent is conventionally described as a rental rebate or subsidy; it is not calculated by reference to the actual cost of providing, financing and maintaining the dwelling, nor does it necessarily represent a separately funded payment to the housing authority.

Community housing providers commonly charge a proportion of assessable household income plus the tenant's Commonwealth Rent Assistance entitlement, subject to the applicable rent ceiling. CRA therefore provides additional rental revenue to community housing providers through eligible tenants, whereas mainstream public housing tenants are generally ineligible for CRA because their assistance is delivered through state and territory rent subsidies (McNelis and Burke 2004, pp. 9–11; Hall and Berry 2004, pp. vii–viii, 131, 136; AIHW 2025; Productivity Commission 2026).

Current policies confirm jurisdictional variation: NSW generally applies rates ranging from 25 to 30 per cent according to household income, South Australia applies 25 or 30 per cent, and Western Australia generally applies 25 per cent, in each case subject to the assessed market-rent ceiling (Homes NSW 2024; SA Housing Trust 2024; Department of Housing and Works 2026).

Under a cost-rental housing framework, the underlying rent required to operate the dwelling would first be calculated on a **cost-recovery basis**, covering finance, maintenance and long-term asset renewal, not on a market-rent basis. Where households cannot afford that cost-rent, tenants would continue to pay **income-related rents aligned with their capacity to pay**, with the remaining shortfall covered through targeted rent-gap subsidy mechanisms. In the Australian context, **Commonwealth Rent Assistance (CRA)** can play an important complementary role for eligible tenants—particularly in community housing and affordable housing programs—helping to bridge any gap between income-based rent contributions and the underlying cost-rent underlying cost.

A key principle of cost-rental systems, however, is that **rent assistance should complement efficient social and affordable housing provision rather than substitute for it**. If rents are structurally high because of expensive land, inefficient financing arrangements or speculative and profit-oriented private investment models, demand-side subsidies risk simply inflating housing costs without addressing the underlying drivers of affordability. For this reason, cost-rental frameworks focus first on **reducing the structural cost of housing provision**, while targeted income-related assistance ensures that very low-income households can still access and sustain their tenancies.

5.4 Balancing public capital investment and revenue assistance

The most durable affordable housing systems therefore, balance two types of public support:

1. **Public capital investment**, delivered upfront through land policy, concessional finance and targeted grants to reduce the structural cost of housing provision
2. **Revenue assistance**, such as income-related rent assistance that compensate social and affordable cost-rental housing providers for the gap between tenant income thresholds and efficient cost-rents.

When these elements are aligned, several outcomes follow:

- housing rents become stable and predictable over the long-term
- public spending becomes more efficient, transparent and controlled
- the role of demand-side assistance becomes more transparent and better aligned with regulated housing costs; its aggregate fiscal effect requires separate modelling
- affordability becomes structurally embedded in the housing system.

In this way, cost-rental housing transforms affordable housing policy from a system of temporary discounts into a **stable institutional framework for long-term affordability**. This stable institutional framework is explained in the following sections.

5.5 Cost Formula

Under a cost-rental model, permissible rental revenue is determined by the eligible and independently verified lifecycle costs of providing, financing, managing, maintaining and renewing the housing, rather than by direct reference to prevailing private-market rents. Cost-based rent setting increases pricing transparency and limits the transmission of market-rent inflation that occurs when “affordable” rents are defined as a fixed discount from market prices.

Cost-rental social and affordable housing should therefore be understood as a distinct, regulated system of provision - not simply market housing offered at a discount. Although its

land, construction, financing and operating costs remain affected by wider economic and market conditions, its rents are not directly benchmarked against those of comparable private rental dwellings.

The general lifecycle cost-rent formula is:

$$\text{Cost rent per dwelling} = \frac{\begin{array}{c}\text{financing costs} + \text{operating and management costs} \\ + \text{maintenance and renewal costs} + \text{permitted reserves} \\ + \text{land lease or amortisation costs} - \text{applicable assistance and} \\ \text{other income}\end{array}}{\text{number of dwellings}}$$

The precise eligible cost components, allocation methods and accounting periods vary between national systems and individual housing programmes. The formula nevertheless expresses the common principle that rents recover the efficient, regulated costs of delivering and sustaining housing over its lifecycle. Public grants, concessional land, subsidised finance and other provider income reduce the costs that must be recovered from tenants. Crucially, prevailing market rents do not provide the reference point for determining the cost rent.

Because cost rents reflect provision and lifecycle costs rather than tenants' individual incomes, an efficiently determined cost rent may still exceed what some lower-income households can reasonably afford. Additional targeted support may therefore be required to bridge the gap between the regulated cost rent and an affordable tenant contribution. This support need not take the form of a general income payment to tenants: it may instead be delivered through an income-related rent rebate, a provider-side operating subsidy or another transparent public payment compensating the provider for the difference between the cost rent and the rent paid by the tenant.

Two complementary mechanisms are possible in the Australian context:

CRA could continue to contribute to rental revenue for eligible cost-rental tenants. However, CRA is not currently designed to meet the precise gap between an income-based tenant payment and the regulated cost rent. Any such function would require policy redesign or a separate provider-side rent-gap mechanism.

Alternatively, Australia could adopt a system similar to income-related rent assistance, such as those used in New Zealand, where tenants pay a fixed share of income (for example around 25–30% of household income) and government covers the agreed remaining gap between that payment and the regulator-assessed cost-rent. This Income Related Rent Subsidy (IRRS) is paid to social and affordable housing providers rather than via tenant income support. The subsidy is based on transparent assessment of the costs to the provider of supplying the housing rather than on the market rent of the dwelling.

In such frameworks, coordinated capital investment and efficient finance reduce the structural cost of housing, while targeted income support or rent-gap subsidy ensures

affordability for the lowest-income households. This approach ensures that revenue assistance components complement—rather than substitute for—structural cost reductions achieved through the cost-rental system. Because future rents are stabilised in a cost-rental system governments are less exposed to market changes in terms of tenant rent-gap assistance. Strict regulation based on transparently audited national provider cost profile data avoids concerns about provider incentives to capture fiscal support.

In practice, cost-rental systems rarely apply identical rents across all dwellings within a housing portfolio. While the overall cost base of the system is typically calculated at portfolio level, individual rents are usually differentiated according to dwelling characteristics such as size, location, amenity, and energy performance.

Many European cost-rental systems combine portfolio-level accounting for the lifecycle cost of housing provision with regulated dwelling-level rent variations to reflect internal stock differences. For example, rent differentiation may be determined through points systems that allocate values to quantitative and qualitative factors such as floor area, number of bedrooms, building or dwelling age, extent of refurbishment, accessibility features, environmental performance, or further amenity features such as orientation or outlook. This approach allows housing providers to reflect differences in dwelling characteristics and tenant housing service quantity quality while ensuring that rents remain anchored to the underlying cost structure rather than to speculative market values.

Internal rent differentiation mechanisms enable cost-rental systems to accommodate diverse housing stock without requiring identical rents across all dwellings, while managing financial terms at the overall portfolio level. Rent differentiation may reflect objective differences in dwelling size, quality, location, amenity or service level, while ensuring that total rental income remains anchored to the eligible costs of provision, financing, management and maintenance. This differentiation can also support a more mixed income profile within a multi-dwelling development, where higher rents for larger, better-located or higher-amenity dwellings help balance lower rents for smaller or less advantaged dwellings (as in the Finnish system). The key condition is that any internal pricing or cross-subsidy remains transparent, rule-based and consistent with the overall cost-rent model operating at the portfolio level, rather than becoming a market-rent mechanism.

5.6 Affordability dynamics in a cost-rental housing system

The modelling of a cost-rental financing and operational framework applied to Australian cost conditions presented in this report demonstrates that affordability in a cost-rental system is not fixed at the moment housing is built. Instead, it evolves over time as the financing costs of the housing stock change and as the housing system matures. Three phases in the financing cycle for cost-rental housing can be observed.

First, in the initial years following construction, rents are primarily determined by the **direct up-front cost of financing the development**. Debt servicing, interest payments, and capital amortisation constitute the largest share of the cost-rent calculation.

During this phase, cost-rents tend to be **higher than they will be later in the life of the building**, because the system is still repaying development finance. The modelling shows that affordability outcomes vary across households:

- **Very-low-income households** cannot meet cost-rents without income-based rent assistance
- **Low-income households** may face affordability pressure depending on dwelling size and local costs
- **Moderate-income households** can generally afford cost-rent housing and form an important part of the tenant mix.

The first phase therefore requires **targeted public support** to meet the gap between financing costs and rent income, either through capital grants to reduce the financing burden or via income-based rent assistance or provider rent subsidy to meet low-income tenant rent-gaps.

In the second phase, as the housing stock ages and capital debt is progressively repaid, the cost structure of the system begins to change. The modelling shows that:

- debt servicing costs decline
- operating costs remain relatively stable
- rent levels stabilise or grow only modestly with inflation

This structural shift in financial servicing costs means that **the same dwellings become more affordable over time** without requiring additional subsidy. Households that may have required assistance initially, but who experience income growth may no longer require income-related housing assistance or rent-gap subsidy later in the lifecycle of the building.

For moderate-income households, cost-rent housing can become increasingly competitive over time because market rents typically rise faster than rents based on historic financing, eligible costs, management and maintenance. This is evident in established cost-rental systems such as **Helsinki and Vienna**, where regulated cost-based rents are generally well below comparable private market rents, especially in well-located urban areas. Where tenants' incomes rise faster than their cost rent, households may accrue savings that can support later home ownership, equity-building, mobility within the provider's stock, or other consumption needs. This can have long-term benefits for working households approaching or transitioning into retirement, as lower and more predictable housing costs improve financial security.

In the third phase of a cost-rental system of provision, once capital debt has been largely repaid, the modelling shows that rental income begins to exceed capital repayment costs and generates **operating surpluses**. These surpluses perform two important functions:

1. supporting dwelling renovation and long-term asset maintenance
2. contributing to revolving investment funds that finance new housing supply

At this stage the cost-rent housing stock becomes structurally more affordable for a broader range of households. A system without debt and a strong rental stream requires **less ongoing subsidy**, because the accumulated capital within the housing sector supports its continued operation and expansion. The system remains highly regulated to ensure the benefits of debt repayment translate into ongoing affordability outcomes.

For households, the outcome is that:

- very-low-income households still require targeted support
- low-income households increasingly find cost-rent housing affordable
- moderate-income households benefit from ongoing stable rents significantly below market levels.

The modelling demonstrates that **affordability is strongly influenced by the financial structure** of housing provision and the lifecycle of housing finance. By lowering financing costs and allowing debt to be repaid over time, cost-rental systems gradually expand the number of households for whom housing is affordable without requiring permanent operating subsidies. In effect, the system shifts from a model where affordability depends heavily on ongoing public subsidy to one where affordability is increasingly supported by the internal financial dynamics of the housing sector itself.

Equitable calculation within the cost-rent formula can reduce the need for income-based rent support by lowering the underlying cost structure of housing itself. The modelling shows that rents are primarily driven by capital costs and land costs rather than operating expenses, meaning that if financing is structured fairly, through long-term low-interest loans, limited-return equity, and reduced land costs, the resulting cost-rent can be set at levels affordable to a much larger share of households.

Mixed-income allocation further spreads costs across households with different incomes, stabilising provider finances without requiring rents to be set below cost for everyone.

Over time, as development debt is repaid, rents stabilise relative to incomes and operating surpluses can be reinvested into maintenance and new housing supply, further strengthening affordability. In this way, equitable cost calculations shift the system from relying on widespread income-based rent subsidies toward a model where only the lowest-income households require targeted assistance.

One concern sometimes raised regarding cost-rental systems is that high construction costs for newly developed housing could increase the average cost-rent across the housing

portfolio. In practice, mature cost-rental systems manage this issue through portfolio effects and long-term financing structures.

New housing typically carries higher cost-rents during the early years of its lifecycle because development debt must be serviced and amortised. This effect is comparable to an individual household with a mortgage whose repayments have a high interest component in early years, but which declines in later years in favour of principal. As buildings age and capital debt is repaid, cost-rents typically decline relative to market rents. Older dwellings with low remaining debt therefore contribute lower cost-rents within provider portfolios.

As cost-rental sectors expand over time, housing providers manage portfolios containing dwellings of different ages and cost structures. Older dwellings with lower-cost profiles can therefore help stabilise the overall rent structure of the portfolio, offsetting the higher costs associated with newly constructed housing. Long amortisation periods, concessional finance, capital grants and land policy interventions further reduce the risk that new development costs translate into excessive rent levels.

5.7 Tenancy sustainment and support interface costs

In addition to standard housing management costs, social housing providers frequently incur additional costs associated with sustaining tenancies for households with complex needs. These costs arise at the interface between housing provision and social support systems and may include intensive tenancy engagement, coordination with health or social services, culturally appropriate tenancy management, crisis intervention, and neighbourhood support activities.

Australian research has shown that these costs can be significant and vary according to the tenant cohort being housed. Earlier studies estimated that tenancy sustainment activities accounted for approximately 10 per cent of housing management costs on average, with a further 9 per cent associated with community development and neighbourhood support activities. These proportions may be higher in housing portfolios with large numbers of tenants requiring ongoing support, including households with mental health needs, people exiting homelessness, and many Aboriginal tenants.

These costs are distinct from formal support services delivered by health, disability or community service providers. Rather, they represent the operational interface costs faced by social landlords when managing tenancies involving vulnerable households.

International experience suggests that these costs can be addressed in two complementary ways. First, cost-rent accounting frameworks can incorporate a transparent allowance for tenancy sustainment and community management activities within housing management budgets. Second, where housing providers deliver housing for tenants with significant support needs, funding arrangements may deliver compensation for part of these costs to

relevant social policy portfolios, including health or social services, via dedicated and transparently calculated payments, rather than expecting housing providers alone to absorb these costs internally without clear accounting.

Recognising tenancy sustainment costs explicitly within system design is important to ensure that housing providers serving higher-needs tenants are not financially disadvantaged within a cost-rental housing framework. Transparency of sustainment costs is necessary to separate the capital and operating costs of provision of the dwelling from the costs associated with the varying capacities of differing tenant cohorts.

5.8 The advantages and disadvantages of cost-rental systems and safeguards

Drawing on the evidence from studies and comparative literature on **Austria, Denmark, Finland, Poland and Ireland** the experience of cost-rental housing shows that it can deliver **stable affordability and long-term supply**, but only when supported by specific institutional safeguards.

The assessment presented above draws primarily on a set of comparative and country-focused studies examining the operation and financing of cost-rental and limited-profit social housing systems in Europe. The core evidence base is the comparative study by Pittini, Turnbull and Yordanova (2021), which analyses the regulatory frameworks, financing arrangements and rent-setting mechanisms of cost-based housing systems in Austria, Denmark and Finland, highlighting how cost-recovery rents, reinvested surpluses and diversified funding enable long-term affordability and sector growth. This is complemented by Norris and Byrne (2021), which compares the financing structures of Denmark and Ireland and demonstrates how broad and diversified “financial circuits” contribute to the resilience and expansion of social housing sectors, while reliance on narrow funding sources can lead to contraction. Evidence on Central and Eastern European cost-rental models is drawn from studies of the Polish TBS/SIM system, particularly Muczyński (2023) and Przymeński (2021), which examine the institutional design and financing of limited-profit rental housing and identify challenges arising from rent caps and policy changes that weakened the revolving funding model. Finally, insights into the transfer and adaptation of the cost-rental model are informed by Norris, Jordan and O’Hara (2026), who analyse the policy transfer of the Austrian cost-rental system to Ireland and highlights how institutional context, financing arrangements and regulatory design shape the success or limitations of policy adoption.

Together, these studies provide the empirical basis for identifying the advantages, risks and safeguards associated with cost-rental housing systems.

Table 3 Cost-Based Rental Housing (CBRH) in Austria, Denmark, Finland, Poland and Ireland

Dimension	Austria	Denmark	Finland	Poland (TBS / SIM)	Ireland (Early Cost-Rental)
Main housing providers	Limited-profit housing associations (LPHAs) operating under the Limited Profit Housing Act	Non-profit housing associations governed by tenant boards	Municipal housing companies and regulated non-profit providers	Social Housing Associations (Towarzystwo Budownictwa Społecznego — TBS) and municipal Social Housing Initiative companies (Społeczne Inicjatywy Mieszkaniowe — SIM)	Approved Housing Bodies (AHBs), local authorities
Legal framework	Limited-Profit Housing Act regulating profits, reinvestment and rent setting	Danish Social Housing Act governing non-profit housing	State regulation through the Housing Finance and Development Centre (ARA system)	TBS legislation introduced in 1995; SIM reform after 2021	Affordable Housing Act 2021 establishing cost-rental sector
Rent-setting method	Cost-based rents covering loans, management, maintenance and reserves	Strict cost-based rent covering lifecycle costs	Cost-based rents regulated through state housing system	Cost-based rents with legal rent caps	Cost-rental intended to cover development and management costs
Profit distribution	Limited returns allowed on invested equity, but largely reinvested	No profit distribution: surpluses reinvested	Restricted profit distribution, as in Austria	Limited-profit model, but less strictly enforced	Non-profit providers required to reinvest surpluses

Dimension	Austria	Denmark	Finland	Poland (TBS / SIM)	Ireland (Early Cost-Rental)
Financing structure	Combination of public loans, bank finance, tenant equity and provider equity	Mortgage loans guaranteed by municipalities plus tenant deposits and subsidies	State-supported long-term loans plus municipal finance	Loans from national development bank BGK plus tenant contributions	Public loans, Cost Rental Equity Loan (CREL) and subsidies
Revolving investment mechanisms	Surpluses reinvested by providers in new developments	National Building Fund (Landsbyggefonden) redistributes surpluses and funds renovations	State loan systems and provider reinvestment	Earlier revolving fund dismantled, weakening system growth	Revolving mechanisms not yet fully developed
Land policy support	Strong municipal land banking and development competitions	Municipal planning powers and land allocation	Large municipal land ownership and long-term land leasing	Municipal involvement in development but weaker land policy tools	Public land frequently used for pilot projects
Tenant role in governance	Limited tenant governance	Strong tenant democracy in housing associations	Less tenant governance but strong public oversight	Limited tenant governance	Limited tenant governance
Sector scale	Large non-profit sector covering around one quarter of housing stock	Major social housing sector serving broad population	Significant municipal rental housing sector	Smaller affordable rental sector	Very early stage of development
Target households	Broad income range; mixed communities	Broad income groups including middle-income households	Lower and middle-income households	Moderate-income households	Middle-income households priced out of ownership

The lessons of these models are examined in three categories: advantages (pros), risks (cons), and safeguards that prevent failure.

Table 4 Advantages, explanation and evidence for CBRH

Advantage	Explanation	Evidence
Structural affordability	Rents are based on actual lifecycle costs rather than speculative market rents, which stabilises housing costs over time.	Cost-based rent systems allow providers to cover financing, maintenance and renovation costs while maintaining affordability.
Long-term financial sustainability	Housing providers generate operating surpluses that are reinvested into maintenance and new construction, creating a self-reinforcing system.	European cost-rental sectors demonstrate durable capacity to expand affordable housing supply.
Stable investment environment	Predictable rents and regulated providers enable access to long-term low-cost finance from public lenders, banks and institutional investors.	Housing sectors with diversified funding circuits are more resilient than those dependent on grants alone.
Counter-cyclical housing supply	Non-profit providers and revolving funds allow construction to continue even during economic downturns.	Denmark expanded social housing after the financial crisis while other countries reduced supply.
Mixed-income communities	Cost-rental housing can accommodate moderate-income households, avoiding the residualisation common in highly targeted social housing systems.	Cost-based systems aim to provide affordable housing “for the many, not the few.”
Better asset management	Long-term ownership encourages lifecycle maintenance and energy renovations.	Providers plan investments across the full building lifecycle.

Table 5 Risks, explanation and evidence for CBRH

Risk	Explanation	Evidence
High initial rents in new developments	Early rents can still be relatively high because construction and financing costs are included.	Cost-rent includes loan repayment and lifecycle costs.
Dependence on supportive policy frameworks	Without long-term political support, systems can stagnate or shrink.	Ireland's system weakened because it relied mainly on state grants rather than diversified finance.
Land cost inflation	Rising land prices can undermine affordability if not controlled through planning or land policy.	Cost-rent systems are sensitive to upstream development costs.
Rent ceilings set too low	If political pressure keeps rents below cost recovery, housing providers cannot maintain or expand stock.	In Poland, low rent limits undermined the financial sustainability of TBS/SIM housing.
Weak institutional capacity	Countries without experienced housing providers may struggle to implement the model effectively.	Policy transfers studies show that institutional differences affect success.
Policy transfer challenges	Copying the model without replicating its institutional framework leads to incomplete outcomes.	Ireland's cost-rental model differs significantly from the Austrian original.

Safeguards Required for Successful Cost-Rental Systems

Evidence from Austria, Denmark, Finland and other countries shows that **strong institutional safeguards** are critical to ensure a sustainable cost-rental system. How these safeguards are designed in relevant exemplary countries is outlined below.

1. Limited-profit housing providers

Successful cost-rental systems generally rely on mission-driven housing organisations subject to limits on profit distribution and returns on invested equity, with operating surpluses retained or reinvested in the maintenance, renewal and expansion of affordable housing.

Examples:

- Austrian limited-profit housing associations
- Danish non-profit housing associations
- Finnish municipal and regulated providers

These rules prevent housing assets from becoming speculative investments.

2. Clear cost-rent regulation

Regulation must define:

- which costs can be included in rents
- limits on profit distribution
- transparency requirements for rent calculations

The Housing Europe study (2021) concludes that rents must cover **loan repayment, maintenance and reserves** to maintain financial sustainability.

3. Long-term public finance institutions

Successful systems rely on **patient capital** such as:

- development banks
- public housing funds
- regulated savings schemes.

Diversified funding circuits protect housing supply from political cycles.

4. Revolving housing funds

Revolving housing funds recycle loan repayments, interest receipts, retained surpluses and other dedicated revenues into the maintenance, renewal and development of affordable housing. As capital is repaid and reused, the fund can support successive generations of investment rather than financing only a single round of projects.

Example:

- Denmark's National Building Fund (Landsbyggefonden).

These mechanisms allow the housing sector to grow without constant government subsidy.

5. Land policy safeguards (addressed below)

Affordable housing systems require:

- municipal (or equivalent authority) land banking
- long-term land leasing
- planning requirements for affordable housing.

Without these policies, rising land prices undermine cost-rent calculations.

6. Independent regulation and transparency

Housing providers must be subject to:

- financial audits
- governance standards
- tenant protections.

These safeguards ensure providers adhere to cost based and non-profit institutional requirements, maintain trust in the sector and ensure reinvestment commitments are respected.

Cost-rental systems rely on strong regulatory safeguards to ensure that rents remain transparent, stable and aligned with long-term affordability objectives. European experience documented by (Pittini et al. 2021) shows that durable affordability depends not only on cost-based rent formulas but also on institutional mechanisms that prevent deferred maintenance, sudden rent increases and financial instability within housing providers.

Mandatory sinking funds for renovation and renewal

Providers must establish dedicated lifecycle reserve funds to cover major repairs, refurbishment and long-term building renewal. Contributions to these funds are incorporated into the original capital and operating cost model and the ongoing cost-rent calculation and accumulated over time so that buildings can be maintained and upgraded without requiring sudden rent increases or emergency public subsidies. European cost-rental sectors treat these funds as a core part of financial planning, ensuring that housing quality is preserved across the entire life of the asset.

Indexed cost reviews at regular intervals

Cost-rents are typically reviewed periodically—commonly every **three to five years**—to reflect verified changes in operating costs, financing costs and long-term maintenance needs. These reviews are conducted according to regulated accounting rules and are subject to oversight by housing regulators or independent auditors. The purpose of indexed reviews

is to maintain financial sustainability while ensuring that rent adjustments reflect **actual cost changes rather than market fluctuations**.

Tenant protection from cost shocks

To protect households from sudden increases in housing costs, cost-rental systems incorporate safeguards such as gradual rent adjustments, caps on annual increases and income-related rent support where necessary. These mechanisms ensure that unavoidable cost changes—such as interest rate shifts or major refurbishment works—do not translate into sudden rent burden increases for tenants. In practice, tenant protections are often combined with targeted income-based assistance to support providers to let to lower-income households so that rent increases remain manageable and predictable.

Together, these safeguards reinforce the core principle of the cost-rental model: **housing rents should remain stable, transparent and predictable over time**, reflecting the real cost of operating and maintaining housing rather than the volatility of rental markets.

6. Land Policy Integration

While land policy is not the focus of this report, success of any affordable housing scheme is highly dependent on land policy instruments and their use.

Over the past three decades, Australian land policy has coincided with a sharp deterioration in housing affordability, with house prices rising much faster than incomes and more strongly than in many OECD countries. Despite repeated land-release and planning reforms, the result has been higher land values, rising price-to-income ratios and declining access to home ownership and affordable rental housing. In effect, land policy has expanded development pipelines but has not consistently delivered affordable housing outcomes.

Previous research (Davison, Milligan and Lawson, 2011) demonstrated that Australian land agencies could significantly expand affordable housing supply by shifting from land disposal toward **strategic land stewardship** - assembling sites, leasing land long-term, partnering with non-profit providers and using land value capture to cross-subsidise affordable housing. However, the impact of such approaches has been limited because many land agencies operate under commercial return mandates, policy responsibilities are fragmented across jurisdictions, and funding arrangements discourage long-term land management strategies. International experience in cities such as Vienna, Paris and Helsinki shows that when land agencies are integrated with housing finance, planning and regulation, they become powerful instruments for delivering stable, well-located affordable housing supply (Lawson and Anisimov, 2026).

Australian evidence also suggests that land markets themselves play a significant role in shaping affordability outcomes. Research examining development practices has shown that residential land release is often **staged over time rather than immediately brought to market**, allowing developers to manage supply and prices strategically to optimise profit relative to risk (Fitzgerald, 2022). Similarly, broader analysis of Australian housing markets shows how planning gains and infrastructure investment can be capitalised into land values rather than translated into lower housing prices, particularly where land supply and development timing are controlled by private actors (Murray, 2024). These dynamics mean that policies intended to expand land supply do not automatically translate into lower housing costs.

Australia already deploys a range of land policy tools—including planning-led land release, limited inclusionary zoning schemes, infrastructure contributions, urban renewal agencies such as Landcom and Development WA, and occasional value-capture mechanisms. However, these tools are fragmented, inconsistently applied and rarely coordinated with long-term housing affordability goals. The requirement that Australian land development corporations operate commercially and often return dividends to government materially shapes their behaviour and significantly constrains their effectiveness as instruments for expanding public or social housing. The impact is not simply administrative; it affects land

pricing, project selection, housing mix and long-term asset ownership, all of which determine housing outcomes.

Inclusionary zoning can produce affordable housing, but when implemented through fragmented, negotiated and relatively low contribution requirements, it generates only small and fragmented volumes of dwellings and does not materially change housing system outcomes. Australian inclusionary zoning and planning value-capture policies have produced only modest numbers of affordable housing dwellings. The most established scheme—the City West Affordable Housing program in Sydney—has delivered around 900 affordable homes over more than two decades, managed by the not-for-profit City West Housing Company. Other jurisdictions, including South Australia, the ACT and parts of New South Wales, apply affordable housing requirements or density bonuses in specific developments, typically requiring between 10 and 15 per cent of dwellings to be affordable. These units are usually owned or managed by registered community housing providers and subject to rent caps or income eligibility requirements, often for fixed periods such as 15 years. While these policies demonstrate the potential to capture some land value uplift from rezoning, their limited, fragmented and negotiated application has muted their overall impact on housing affordability, producing relatively small numbers of dwellings compared with the scale of housing need. It is unlikely that inclusionary zoning can deliver more than a tiny marginal gain for Australia's social and affordable housing stock.

In contrast to Australian experience, France provides one of the clearest examples of how mandatory inclusionary housing can deliver large numbers of affordable homes in high-value cities. The Solidarity and Urban Renewal Law require municipalities in metropolitan areas to ensure that at least 25% of housing stock is social housing. Municipalities that fail to meet this quota face financial penalties and possible state intervention in planning decisions.

The Paris experience shows that inclusionary housing can operate at scale when it is mandatory, embedded in planning law and supported by active public land policy, a model that could inform stronger inclusionary and value-capture frameworks in Australia. In Paris the law is implemented alongside proactive municipal land policy, planning requirements and partnerships with regulated social housing providers.

Since 2001 the city has delivered more than 110,000 additional social housing dwellings, increasing the social housing share from about 13% to over 23% of the housing stock.

A recent French example is the Paris 2024 Olympic and Paralympic Village, now converted and permanently occupied. Designed from the outset as an inclusive neighbourhood, the project of 2,800 dwellings hosts a significant share of social and affordable housing managed by regulated housing providers.

Paris 2024 Olympic and Paralympic Athletes' Village, now being transformed into a mixed-use neighbourhood with permanent housing, public facilities and workplaces. Photographs: Julie Lawson, 2025.



Adapting the Paris example, similar principles could be applied to Australian inner-city and district-centre densification programs. Where planning reforms increase allowable height or floor-space ratios—particularly around major transport nodes and activity centres, a defined share of the resulting development uplift could be captured for non-market cost-rental housing. For example, rezonings could require 20–30% of additional floor area or dwellings to be delivered as permanent social or cost-rental housing, with these homes transferred to public or regulated community housing providers and secured through long-term affordability covenants. Applied to current metropolitan densification strategies, such as Victoria's plan to accommodate approximately 300,000 additional dwellings in activity-centre redevelopment areas over the next 25–30 years, or NSW's expansion of housing within 800 metres of major transport nodes and district centres, such an approach could generate a substantial pipeline of social housing. If 20% of dwellings in these redevelopment areas were delivered as social or cost-rental housing, a program delivering 300,000 new homes could produce around 60,000 permanently affordable dwellings over three decades, significantly expanding the non-market housing sector while accommodating urban growth.

In the Australian institutional context, such a policy would most effectively be administered through existing planning and housing governance structures. State and territory governments would embed mandatory inclusionary housing requirements within planning legislation and metropolitan planning schemes so that when rezoning or density increases occur—particularly in activity centres or around major transport nodes—a defined share of the additional development capacity (for example **20–30% of additional floor area or dwellings**) must be delivered as permanent social or cost-rental housing. Local governments would implement this requirement through the development approval process, ensuring that developers provide the housing on site, dedicate land, or contribute funds where appropriate. Completed dwellings would then be transferred to state housing authorities or regulated community housing providers for long-term management under existing housing regulation frameworks, while any financial contributions could be pooled and administered through **Housing Australia** capital investment fund or state housing programs to support additional affordable housing projects. This approach would allow densification policies to systematically expand the social housing sector using institutions already operating within Australia's planning and housing system.

Because land values capture much of the benefit generated by rezoning and infrastructure investment, housing systems that rely primarily on **market-priced land acquisition** struggle to deliver durable cost-rental housing at scale. Without structural land reform, public subsidies intended to support affordable housing can simply be capitalised into higher market land prices. Cost-rental sectors in Europe demonstrate that sustained affordability depends on systematic land policy—public land leasing rather than sale, value-capture zoning, land-banking agencies, inclusionary land allocation and long-term metropolitan land strategies—so that land becomes an enabling infrastructure input rather than the main driver of housing costs.

A more effective Australian approach would link land policy explicitly to housing outcomes through long-term metropolitan land strategies, active public land banking and mandatory inclusionary housing allocation in rezoned areas. Public land should generally be leased rather than sold to mission-driven housing providers, as long-term land leasing preserves public ownership, maintains government balance-sheet assets—important for public debt ratings—and allows land value to continue supporting affordable housing over time. However, this approach involves an important trade-off. In the Australian context, community housing providers often rely on land ownership to strengthen their balance sheets and leverage debt finance, and limiting asset ownership can constrain their capacity to scale development. International experience suggests that this tension can be managed through carefully designed leasing frameworks—such as very long-term leases, secure revenue streams and public loan guarantees—which allow providers to borrow against future rental income rather than land assets, while ensuring that publicly supported land remains dedicated to affordable housing over the long term.

As in many world cities with leading affordable housing systems: Vienna, Paris, and Helsinki, land-banking institutions should also be strengthened and explicitly mandated to support public-interest housing outcomes. Governance arrangements should enable **local governments to participate actively in land stewardship**, including land banking, site assembly and partnerships with non-profit providers. Regional examples already exist councils such as **Cessnock City Council** and **Forbes Shire Council** have demonstrated that local governments can assemble and steward land to support housing development in the public interest.

International experience demonstrates how strategic land stewardship can reduce housing costs and support long-term affordable housing systems. In cities such as Helsinki, the municipality retains ownership of most development land and allocates sites to housing providers through **long-term ground leases typically lasting 60–100 years**. This approach significantly reduces development costs by removing the need for housing providers to finance land acquisition, while allowing the city to capture increases in land value over time. Municipal land leasing also enables cities to allocate sites strategically across housing tenures—including cost-rental, cooperative and market housing—thereby maintaining a balanced housing system and ensuring that affordable housing is delivered in well-located areas. Because long-term leases provide stable and secure tenure for lenders, they also support access to long-term infrastructure-style finance for housing development. The Helsinki model therefore illustrates how land policy can function as a core component of affordable housing systems by lowering structural development costs while preserving public ownership of urban land (City of Helsinki, 2021; Lawson, 2023).

Both Australian and European experience consistently shows that land policy determines whether increased housing supply lowers prices or simply inflates land values. Cost-rental housing systems therefore depend on coordinated land governance linking planning, land management and housing finance.

For cost-rental housing to succeed in Australia, state and territory governments would need to take the lead and reform planning and development promotion activities to:

- **prioritise long-term leasing of public land rather than outright sale**, particularly for mission-driven affordable housing providers, while ensuring leasing structures still allow providers to secure development finance

- **implement value-capture zoning across rezoned areas**, ensuring that a defined share of land value uplift is allocated to affordable and cost-rental housing

- **establish or strengthen metropolitan land assembly and land-banking agencies** with mandates to acquire, assemble and release land for affordable housing development

- **require inclusionary land allocation in major rezoning and urban expansion areas**, ensuring that affordable and cost-rental housing is embedded in new developments

• **introduce mechanisms to encourage the timely development of privately held land**, such as development time limits, 'use-it-or-lose-it' planning permissions, infrastructure charging frameworks, or land value taxation that discourages speculative land holding

• **embed these mechanisms within binding metropolitan and regional land strategies**, ensuring that land supply, infrastructure planning and affordable housing delivery are coordinated over the long term

Such reforms should also clarify governance arrangements between state and local governments so that councils can play a more proactive role in land stewardship. Without these structural changes, land policy will remain led by private development, dependent on case-by-case negotiation and cannot reliably provide the **large-scale, low-cost land supply required for a sustainable cost-rental housing sector**.

7. Inclusive Allocation and Access Framework

Cost-rental housing systems typically operate a mixed-income tenant profile to support financial sustainability. Mixed-income allocation frameworks can encounter political resistance in policy environments where social housing has historically been narrowly targeted to households in greatest need. In Australia, proposals for broader allocation models have sometimes been rejected despite evidence that mixed-income housing can improve financial sustainability and reduce long-term subsidy requirements.

Earlier policy proposals in several jurisdictions demonstrated that incorporating moderate-income households within regulated affordable housing systems could reduce operating deficits through cross-subsidy. However, since the 1970s policy logics demanding the targeting of perceived subsidies to tenants with greatest social needs have led to the application of highly socially targeted models that typically result in very low-income tenant profiles with income-related rent revenues unable to cover operating and maintenance costs (Davies 2022).

Recognising these political and institutional constraints is important when designing allocation frameworks for an expanded cost-rental sector. Clear eligibility criteria, transparent rent-setting rules and strong public accountability mechanisms can help ensure that mixed allocation models maintain social objectives while supporting financial sustainability.

It is well researched and understood that Australia's highly targeted social housing system has become residualised and financially constrained, limiting both its social reach and its capacity to expand supply. An expansionary mixed-income cost-rental model—like those used in Austria, Denmark and Finland—offers a way to broaden access, stabilise provider revenues and enable affordable housing supply to grow at scale while still prioritising households in greatest need. However, experience with programs such as the Social and Affordable Housing Fund (SAHF) suggests that mixed tenancy models can encounter resistance within parts of the sector and community, reflecting longstanding expectations that social housing should be reserved exclusively for the most disadvantaged households. There is also a policy concern that allowing moderate-income households to access regulated affordable housing could be interpreted as providing an unfair benefit relative to the private rental market, potentially raising questions under competition policy frameworks such as National Competition Policy (NCP) Principle 4.

International experience suggests these concerns can be addressed through clear allocation frameworks, transparent rent-setting rules and careful institutional design. In Europe, cost-rental systems deliberately combine social purpose with financial sustainability by serving a broader range of income groups. Moderate-income households contribute stable rental revenues that support financially viable housing providers, while targeted rent support mechanisms ensure that very low-income households remain prioritised. Research on

mixed-tenure housing suggests such models are often justified as a means of reducing concentrations of disadvantage and promoting social integration; however, empirical evidence for these outcomes is mixed and highly context-dependent (Arthurson, 2012; Bond et al., 2010). At a housing-system level, more diverse tenure structures may contribute to greater long-term stability when supported by appropriate institutional frameworks (Pawson, Milligan & Yates, 2020).

Recent developments in European policy further reinforce this approach and well-designed public support for both social and affordable housing. In December 2025 the European Union revised its **state aid rules for Services of General Economic Interest (SGEI)** to recognise that affordable housing may legitimately serve not only the lowest-income households but also broader groups of workers who cannot access adequate housing in dysfunctional markets. These reforms acknowledge that housing affordability challenges now extend well beyond traditional social housing populations and that public support for regulated affordable housing can therefore be justified as a response to structural market failure rather than as a distortion of competition.

The Austrian cost-rental system provides a particularly relevant institutional example. Under the **Limited Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz)**, the system is not restricted to a specific organisational form. Instead, it establishes a set of operating rules: rents must reflect actual costs, profits are limited, surpluses must be reinvested in housing, and assets remain dedicated to long-term affordability. Any entity—cooperative, municipal company, non-profit association or private organisation—can participate provided it agrees to operate under these rules. In this sense, the Austrian model regulates **the behaviour of providers rather than their ownership structure**, creating an open framework in which participation is voluntary but conditional on adherence to public-interest obligations (Mundt, 2018; Pittini et al., 2021). This approach addresses competition concerns because the framework does not exclude private actors; instead, it establishes a level playing field in which organisations that choose to participate accept limitations on profit extraction in exchange for access to supportive financing and land policies.

Within this framework, a **needs-prioritised but mixed-income allocation model** can support both social and financial objectives. A structure such as:

- **40 % priority households**, supported by a targeted rent-gap or housing allowance mechanism
- 35 % moderate-income workers
- 25 % open access households

helps ensure that the system remains socially targeted while maintaining financially stable housing providers and socially mixed communities. Importantly, by serving ordinary workers as well as households in acute housing need, mixed-income cost-rental housing also builds wider political legitimacy and long-term institutional stability. European experience shows

that this broader social base has been critical in enabling affordable housing sectors to expand sustainably over decades rather than remaining marginal and residual components of the housing system (Norris & Byrne, 2021; Pittini et al., 2021). However, Austria, Denmark and Finland developed mixed-income social and cost-rental housing within universalist welfare systems, whereas Australia's system has moved away from universalism as the cost rental public housing system that operated until the 1970s has become highly residualised and strongly associated with welfare support. This difference in policy intent and tenant outcome creates implementation risks, particularly around public acceptance and sector support.

7.1 Legal Framework for Mixed Allocation

A preliminary review of Australia's current legal framework suggests that it does **not prohibit mixed-income allocation** within social or affordable housing, but several regulatory settings may shape how housing providers allocate dwellings.

Housing program legislation and agreements

The primary national policy framework is the National Housing and Homelessness Agreement (NHHA), established under the Federal Financial Relations Act 2009 (Commonwealth) and intergovernmental agreements between the Commonwealth and states.

The NHHA requires jurisdictions to prioritise households in 'greatest need', particularly those experiencing homelessness or severe housing stress. While this does not legally prevent broader eligibility, it creates strong programmatic incentives for allocating social housing primarily to very low-income households.

Relevant provisions:

- Federal Financial Relations Act 2009 (Commonwealth)
- National Housing and Homelessness Agreement (NHHA), Schedule F to the Intergovernmental Agreement on Federal Financial Relations.

States implement the NHHA through their own social housing policies and eligibility frameworks, which typically define income limits and priority categories.

Examples include:

- NSW Housing Pathways Eligibility Policy (Housing Act 2001 (NSW))
- Victorian Social Housing Eligibility Framework administered under the Housing Act 1983 (Vic)
- Queensland Housing Act 2003 (Qld) social housing eligibility rules

These policies emphasise priority access for households in the greatest need but do not preclude broader allocation models in which programs explicitly allow affordable housing alongside social housing.

Charity law governing community housing providers

Many community housing providers operate as registered charities under the Australian Charities and Not-for-profits Commission Act 2012 (Commonwealth) and must meet the legal definition of charity under the Charities Act 2013 (Commonwealth).

Section 12 of the Charities Act 2013 recognises charitable purposes including:

- 'advancing social or public welfare', including relieving poverty or disadvantage.

Affordable housing provision can qualify as a charitable activity where it demonstrably assists people experiencing housing stress or disadvantage. Mixed-income housing models are generally permissible when moderate-income tenants help finance housing that serves disadvantaged groups. However, the interpretation of 'public benefit' has sometimes encouraged providers to focus narrowly on very low-income households.

Relevant legislation:

- Charities Act 2013 (Commonwealth)
- Australian Charities and Not-for-profits Commission Act 2012 (Commonwealth).

Regulatory oversight of community housing providers

Community housing providers are regulated under the National Regulatory System for Community Housing (NRSCH), established through state legislation such as:

- Housing Act 2001 (NSW)
- Housing Act 1983 (Vic)
- equivalent legislation in participating states.

The National Regulatory Code for Community Housing Providers requires providers to demonstrate:

- housing outcomes for tenants
- financial viability
- appropriate tenancy management.

The code does not prescribe tenant income mix or prohibit mixed allocation strategies, leaving allocation policies largely determined by program rules and funding agreements.

Relevant regulatory instrument:

- National Regulatory Code for Community Housing Providers (2014) and *Community Housing Providers (Adoption of National Law) Act 2012* (NSW).

Competition law

The **Competition and Consumer Act 2010 (Commonwealth)** does not restrict mixed-income allocation in social or affordable housing programs. Housing programs funded or regulated by government fall within the scope of public policy interventions and are not generally considered anti-competitive conduct.

Implications for cost-rental housing

The preliminary review of existing frameworks provided above implies that mixed-income allocation is legally permissible but influenced by program design and funding conditions that prioritise households in greatest need. Even where there may be doubts about permissibility under existing housing policy and welfare regimes it would remain open to Parliament to legislate necessary empowering changes.

International cost-rental systems address concerns about differential tenancy mix by explicitly recognising that housing sectors can serve multiple income groups simultaneously, while maintaining priority access for vulnerable households through waiting-list or quota systems.

International cost-rental and social housing systems generally operate on the principle that subsidised rental housing should serve a broad segment of the population while still prioritising households in greatest need. This approach is embedded in several European legal frameworks. In Austria, limited-profit housing associations operate under the Wohnungsgemeinnützigkeitsgesetz (Limited-Profit Housing Act – WGG), which requires cost-based rents and reinvestment of surpluses, while eligibility is determined through provincial housing subsidy laws that apply relatively high-income ceilings, allowing a large share of the population to access regulated housing. (Austria: Wohnungsgemeinnützigkeitsgesetz (WGG), BGBl. Nr. 139/1979, as amended; provincial housing subsidy laws such as the Wiener Wohnbauförderungs- und Wohnhaussanierungsgesetz 1989.)

In Denmark, non-profit housing is governed by the Almenboligloven (Social Housing Act), under which housing organisations allocate most dwellings through open waiting lists, while municipalities may reserve up to 25 per cent of units for households in urgent housing need, thereby combining broad access with targeted priority allocation. (Almenboligloven (Consolidated Act No. 1877 of 27 September 2021, Denmark). Finland's state-subsidised cost-rental housing system (ARA housing) operates under the Act on Interest Subsidy for Rental Housing Loans and Right-of-Occupancy Housing Loans (604/2001) and the Act on the Use, Assignment and Redemption of State-Subsidised Rental Dwellings (1190/1993); allocations are overseen by municipalities, which must consider housing need and income while maintaining balanced social structures across housing portfolios.

France's regulated social housing sector, governed by the Code de la construction et de l'habitation (CCH), applies tiered income ceilings linked to different financing programs (PLAI, PLUS and PLS), enabling social housing organisations (organismes HLM) to house

households across a range of income groups while reserving a share of dwellings for priority households through municipal allocation rights. France: Code de la construction et de l'habitation, particularly Articles L411-1 to L481-3 governing HLM housing organisations and income eligibility thresholds).

Poland's cost-rental sector, developed through Social Housing Associations (Towarzystwa Budownictwa Społecznego – TBS), operates under the Act of 26 October 1995 on Certain Forms of Housing Support, which sets income ceilings designed to serve moderate-income households unable to access market housing while maintaining affordability through regulated cost-based rents. (Poland: Act of 26 October 1995 on Certain Forms of Housing Support (Ustawa o niektórych formach popierania budownictwa mieszkaniowego).

Clarifying mixed-income tenure principles in Australian housing policy, either through program guidelines or future cost-rental legislation, would provide greater certainty for housing providers seeking to maintain financially sustainable and socially mixed housing portfolios. Given that Commonwealth public housing policy from the 1950s to the 1970s allowed for mixed-income tenure policies there would seem to be no insurmountable impediment to returning to a version of such an approach within a future cost-rent social and affordable housing sector model

8. Governance Model

Governance arrangements for social and affordable housing in Australia are currently shaped by the **National Regulatory System for Community Housing (NRSCH)** and related state regulatory frameworks. These systems focus primarily on provider registration, corporate governance capability and financial viability. While this framework has played an important role in stabilising the community housing sector and supporting its growth, oversight remains fragmented across jurisdictions and provider types. Public housing authorities operate under separate accountability arrangements, and some emerging delivery models, particularly those involving complex financing structures and special purpose vehicles, may fall partially outside existing regulatory frameworks.

Research undertaken as part of recent regulatory reviews (Lawson, Milligan and Davies 2022; Lawson and Davies 2021) has highlighted that the NRSCH was originally designed for a smaller and less financially complex sector. As the system has evolved toward a multi-provider environment involving larger community housing providers, partnerships with private developers and more complex financing arrangements, some aspects of regulation have struggled to keep pace with changes in provider structure, financing models and sector scale.

International comparisons suggest that stronger regulatory architecture can support the long-term growth, sustainability and credibility of non-market housing sectors. In countries

such as Scotland, Austria and Denmark, regulatory systems typically combine clearer non-profit mandates, independent supervisory bodies, stronger financial oversight and mechanisms for tenant participation. These arrangements help protect public investment, reinforce the social purpose of providers and support the expansion of affordable housing supply over time (Lawson and Davies, 2021).

By comparison, Australia's regulatory framework places relatively greater emphasis on organisational compliance and less on system-wide prudential supervision, tenant representation and sector-wide financial transparency. Previous reviews have therefore suggested that governance arrangements could be strengthened by clarifying mission requirements, improving transparency around financial structures and reinforcing accountability mechanisms as the sector grows.

A strengthened governance framework could move beyond minimal audit and compliance toward a **mission-driven regulatory model** that protects the public purpose of social and affordable housing while supporting sector expansion. International examples illustrate different approaches. In Denmark, tenant democracy is embedded in the governance of *almene boliger* housing organisations, with tenants electing governing bodies and municipalities exercising supervisory oversight. In Austria, limited-profit housing associations operate under corporate law but are subject to strict statutory auditing, profit limits and reinvestment requirements designed to preserve the social purpose of the sector.

9. Lessons Integrated from Australian Programs

Several clear lessons emerge from recent Australian affordable housing programs that can inform institutional reforms required to support a durable cost-rental housing system. The first lesson is that management arrangements are not a sufficient basis to establish an expansionary stock growth program. Recent research examining the longer-term impacts of public housing transfers to community housing providers highlights important structural limits in Australia's current approach to expanding the social housing system. Between 2015–16 and 2023–24 approximately **23,900 public housing dwellings were transferred to community housing providers**, contributing to the expansion of the sector to around **129,900 dwellings, representing roughly 29 per cent of Australia's social housing stock** (Liu et al., 2026). While these transfers have strengthened tenancy management capacity and diversified the provider landscape, the evidence indicates that they have largely redistributed the management of existing housing rather than generating substantial new supply. In many cases, providers assumed responsibility for ageing housing stock with significant maintenance liabilities, while the underlying housing assets often remained in public ownership through management transfer arrangements. Such encumbrances mean that providers' ability to leverage these transferred stock portfolios for redevelopment or long-term borrowing has remained constrained. The clear policy implication is that management transfers alone do not create the financial platform or conditions required for sustained housing supply growth. Durable expansion of affordable housing requires institutional models in which housing providers accumulate housing assets operating under stable cost-based financing frameworks that allow reinvestment and portfolio expansion (Liu et al., 2026).

A second lesson concerns the temporary nature of affordability created by time-limited subsidy programs, illustrated by the experience of the National Rental Affordability Scheme (NRAS). Within the regulated community housing sector dataset analysed in AHURI Final Report #452 (Lawson et al 2026a), NRAS dwellings accounted for 7,730 homes, representing around 6% of registered provider stock in 2024. The NRAS scheme design relies on certificate-based incentives to supply housing at an affordable rent and are applicable for a fixed period, after which affordability requirements expire. After that expiry providers may set rents at their prerogative, whether non-profit or profit oriented, or market or on-market calibrated. This potential for rental resetting highlights the vulnerability of affordability outcomes that depend on temporary subsidy streams. Once incentives cease, dwellings can revert to market rents that the incumbent tenants may struggle to bear. The policy implication is that affordable housing systems require permanent affordability covenants attached to the dwelling rather than the subsidy. In a cost-rental framework, affordability can be secured through long-term regulatory arrangements, such as asset locks, cost-based rent setting and reinvestment obligations, that ensure that public support produces enduring social housing assets.

A third lesson arises from the stop–start character of Australian social housing investment cycles, most clearly visible in the Social Housing Initiative and subsequent program discontinuities, or in the current Housing Australian Future Fund program. Historical data cited in AHURI Final Report #452 (Lawson et al 2026a) show that public housing construction accounted for approximately 20% of all housing completions in the mid-1950s but has declined to around 1% of completions today. The AHURI Final Report #452 (Lawson et al 2026a) report also estimates that public and community housing would need to reach roughly 4.5% of all completions simply to maintain the existing share of social housing stock relative to total stock. These assessments illustrate the structural weakness of episodic funding programs: when capital programs conclude, development pipelines collapse and sector capacity contracts. The appropriate reform response is the establishment of an ongoing revolving housing finance system capable of sustaining a continuous social and affordable housing stock development pipeline. Such a system would rely on long-term public or quasi-public finance, potentially channelled through institutions such as Housing Australia, combined with reinvestment of operating surpluses and repayment flows to support new development cycles.

A fourth lesson concerns the financial and procurement structure underpinning the delivery of social and affordable housing through programs such as the Housing Australia Future Fund. By mid-2025 only around 500 homes had been completed since the program's launch in late 2023, compared with the target of 40,000 dwellings by mid-2029, with estimated annual delivery capacity of roughly 6,000–8,000 dwellings. AHURI financial modelling found that delivering social housing through commercial finance supported by recurrent operating assistance could impose substantially higher long-term costs on government than upfront public capital investment combined with efficient, government-supported finance. For the first annual tranche of dwellings modelled, the lifetime government subsidy cost of the fully commercially financed pathway was 24 per cent higher than the lowest-cost capital-investment scenario; this additional liability accumulated as successive annual tranches were delivered. The report also cited UK National Audit Office evidence estimating private-finance costs of 7–8 per cent, compared with average government borrowing costs of 3–4 per cent. These findings demonstrate that financing structure, cost of capital and the balance between upfront investment and recurrent subsidy are central determinants of the long-term cost and affordability of social housing (Lawson et al. 2018, pp. 30–31, 111–114; Lawson et al. 2024).

At the same time, Australian and international audit evidence recognises that public–private delivery models may provide access to specialist design, construction, financing and asset-management capabilities, particularly for large and complex projects. These potential benefits do not, however, guarantee better quality, delivery certainty or value for money. Their realisation depends on effective competition, appropriate risk allocation, enforceable performance requirements and strong public-sector procurement and contract-management capability. The policy challenge is therefore to assess, project by project, whether the

specialist expertise and lifecycle integration offered by private partners justify the higher financing and transaction costs, contractual inflexibility and governance risks associated with private delivery (ANAO 2003, 2009; VAGO 2009, 2010, 2013; ECA 2018; OECD 2020).

The reform implication is twofold. First, affordable housing finance should increasingly rely on **low-cost public or mission-driven capital**, anchored in cost-based rent setting rather than market-linked investor return expectations. Second, governments and the community housing sector should invest in strengthening their own **development, procurement and asset-management capability**, enabling them to deliver housing at scale while maintaining high standards of governance, compliance and quality.

European cost-rental systems demonstrate that this combination, low-cost finance combined with strong institutional housing providers, can support efficient housing delivery without relying heavily on high-return private equity. By reducing the cost of capital while building institutional delivery capability, cost-rental systems structurally reduce the rent required to cover housing costs and enable affordable housing supply to expand sustainably over time.

A fifth lesson relates to the fragmented structure of Australia's community housing provider sector. The AHURI Final Report #452 (Lawson et al 2026a) identifies 492 community housing organisations operating nationally in 2024, including 345 regulated under the National Regulatory System for Community Housing, with additional providers regulated separately in Victoria and Western Australia. Despite this large number of organisations, the sector is highly concentrated: 63 top-tier providers manage approximately 105,285 tenancies, representing about 75% of regulated community housing stock. The AHURI Final Report #452 (Lawson et al 2026a) report also identifies 14 for-profit providers registered within the regulatory system, though these manage relatively small portfolios and often operate as management entities rather than long-term housing owners. This fragmentation reflects the evolution of the sector through multiple policy programs and procurement processes with temporal and jurisdictional variances across Commonwealth and State/Territory programs rather than through a coherent and consistent long-term financial and institutional design. To overcome this incoherence the appropriate reform response is the **establishment of an accredited cost-rental provider sector, in which participation in subsidised housing delivery is limited to organisations operating under a legislated cost-rental framework**. Such accreditation would require compliance with regulated cost-rent calculations, lifecycle maintenance reserves, reinvestment of surpluses, transparent financing structures and long-term asset stewardship.

Taken together, these lessons highlight a consistent theme across the evidence base: Australia's social and affordable housing system has evolved through temporary subsidies, episodic funding cycles, complex financing arrangements and fragmented institutional structures. These patterns have produced a system that is incapable of meeting contemporary housing needs. Addressing these weaknesses requires a shift toward a stable institutional housing system with a long-term growth program built around regulated cost-

rental providers. By **combining permanent affordability covenants, revolving housing finance, efficient cost-based rent setting and a clearly accredited provider sector, governments can gradually transform the current patchwork of housing programs into a durable system capable of delivering affordable rental housing at scale**.

Table 6 Lessons from Australian approaches and reform responses

Lesson	Reform response
NRAS expiry risk	Permanent affordability covenants
SHI stop–start cycle,	Revolving finance system
HAFF yield logic, high cost of capital	Cost-based rent logic
Fragmented providers, varying mission focus, includes for profits	Accredited sector model, admit only providers compliant with Cost Rental legislated model

10. Transition strategy

The adoption of a national cost-rental social housing system requires a sector wide transition from current settings. Before setting out the transition strategy, it is important to clarify that the proposed cost-rental framework is intended to **build on Australia's existing housing institutions rather than replace them**. Public housing authorities would remain a central component of the future cost-rental system, continuing to own and manage social housing while operating within a defined cost-based financing and investment framework where appropriate. Community housing providers would be able to **transition voluntarily** into the cost-rental framework where this supports their development and financing capacity, while continuing to operate under existing regulatory arrangements where appropriate. Over time, Commonwealth initiatives such as the **Housing Australia Future Fund** and state housing programs could be progressively aligned with cost-rental financing and operating principles, enabling more consistent investment and delivery across jurisdictions.

Importantly, the transition to a cost-rental social and affordable housing system does **not require the transfer of existing public housing assets** but rather focuses on improving the institutional and financing architecture that supports future housing development and long-term sector growth. As shown, the evidence across this report and AHURI Final Report #452 (Lawson 2026a) suggests that Australia's current affordable housing framework is characterised by a fragmented subsidy architecture. Commonwealth Rent Assistance, capital grants, charitable tax concessions, state operating subsidies and project-based financing mechanisms have developed incrementally rather than as parts of a coherent system. As documented by AHURI Final Report #452 (Lawson et al 2026a), this episodic funding and institutional fragmentation has produced a system oriented toward short-term competitive project procurement rather than sustained sector growth, where a scattered mix of providers compete for subsidies on a project-by-project basis rather than accumulate housing assets within a coherent overall system over time.

Recent delivery mechanisms associated with the Housing Australia Future Fund have introduced risks associated with complex financing structures. RMIT's submission to the ANAO inquiry (Davies et al 2026) argued that project-level special purpose vehicles, private equity participation and availability-style payments can increase financing costs and reduce transparency regarding the level and distribution of public subsidy. Higher financing costs ultimately translate into higher rents or the need for larger public subsidies, undermining affordability objectives.

Analysis by Dodson and Davies (2024) demonstrates that several large Commonwealth housing-related market subsidies, particularly tax concessions and income support through CRA, operate largely independently of regulatory affordability oversight. Public spending through these subsidies does not consistently translate into verifiable durable affordable housing supply and the cost of support is driven by prevailing market conditions rather than the cost of dwelling construction, operation and maintenance.

Taken together, these findings suggest that the central challenge is not the existence of multiple housing providers or subsidy streams, but the absence of a clear institutional operating model that aligns public capital investment, ongoing assistance, regulation and financing structures with long-term affordability.

Three transition pathways to a national cost-rental social and affordable housing system can therefore be considered:

The **first option** is to repurpose existing subsidies and concessions to support a regulated cost-rental housing system. Under this approach, existing instruments, including Commonwealth Rent Assistance (CRA) and Housing Australia Future Fund financing and tax concessions available to community housing providers, would be retained but made conditional on provider adherence to national consistent cost-rental principles. Providers would be required to set rents based on audited cost recovery, maintain lifecycle maintenance reserves and reinvest surpluses into additional housing supply. This option would align existing fiscal supports with a coherent operating model while avoiding disruption to current delivery capacity. However, the limitations of this approach should also be recognised. Because current subsidy programs were not designed around cost-rental principles, simply repurposing them may result in **partial or inconsistent implementation**, with differing regulatory frameworks and financial structures operating in parallel. Without stronger institutional reform, the system could remain fragmented, and the full benefits of cost-rental financing and governance may not be realised.

A **second option** is to grandfather existing CHP arrangements while requiring that all new subsidised housing operate under cost-rental rules. This approach would protect existing contractual and financial arrangements while establishing a clear direction for future supply. Over time, as the share of cost-rental housing grows, the system would gradually converge toward a more coherent institutional framework. The limitation of this pathway is that convergence may occur **slowly and unevenly**, particularly if legacy arrangements continue to dominate the existing housing portfolio or if the scale of investment into a new cost-rental system is limited. For many years the CHP sector could operate under **dual regulatory and financial systems**, potentially increasing administrative complexity and reducing transparency.

A **third option** would involve replacing the existing subsidy architecture with a unified cost-rental system, accompanied by transparent capital funding and redesigned rent-gap assistance. While conceptually attractive in terms of policy clarity and fiscal transparency, the research cautions that abrupt restructuring could disrupt sector capacity and slow housing delivery in the short term. At the same time, the current system already imposes significant complexity on providers, who must navigate multiple regulators, legacy programs, contractual agreements and financing structures. Community housing providers often manage portfolios governed by different subsidy rules, compliance regimes and reporting requirements.

For this reason, while an abrupt termination of existing arrangements is neither feasible nor advisable, a **managed transition pathway** could be investigated. Such an approach would allow CHPs to progressively adopt the efficiencies of a cost-rental system, such as simplified rent structures, clearer financing frameworks and more consistent regulatory oversight, rather than waiting for the expiry of long-term agreements such as 20-year HAFF contracts, leases or financing arrangements. Transitional mechanisms might include voluntary opt-in conversion pathways, refinancing options, or staged regulatory alignment that allows existing providers to move toward the new framework over time without undermining existing contractual obligations.

11. Responsible Stakeholders

Successful transition to cost-rental housing requires cross-party political commitment to a stable operating model and a multi-level governance framework in which:

- the Commonwealth aligns housing investment, taxation policy and national housing programs with the cost-rental model
- Commonwealth and state governments agree on financial frameworks, including capital investment targets and joint funding, which are long term and stable
- Treasury ensures fiscal efficiency, subsidy transparency and long-term investment stability and fulfilment of set targets
- Housing Australia provides low-cost housing finance and investment coordination
- states regulate providers, coordinate land assembly and housing supply and maintain tenancy protections through Residential Tenancies Acts
- local governments support land assembly and land-use planning mechanisms
- housing providers operate under a cost-rental model that reinvests surpluses into future housing supply while remaining subject to mainstream tenancy law.

Across this governance framework, cost-rental dwellings should remain **fully integrated within Australia's rental housing system**. Tenants should therefore continue to exercise rights through state and territory Residential Tenancies Acts and associated tribunals, which govern leases, rent payment, maintenance obligations, eviction procedures and dispute resolution. Cost-rental regulation should operate alongside these protections by governing **the financial and institutional inputs that determine affordability**, rather than replacing existing tenancy frameworks. We note that Dodson and Davies (2024) argued in favour of Commonwealth rental housing support programs stipulating that housing providers should operate tenancy agreements that exceed the minimum set out in state residential tenancy legislation in terms of tenant security of tenure, conditions and dwelling quality.

Together, these reforms would support the gradual emergence of a national stable institutional housing sector capable of delivering permanently affordable rental housing at scale, replacing fragmented project subsidies with a coherent and financially sustainable housing system while maintaining clear and enforceable tenant protections.

11.1 Commonwealth Government

The 2026–27 Budget reforms to negative gearing and CGT create a useful fiscal opening, but because they are prospective, grandfather existing investments and phase in gradually, they would be unlikely on their own to provide sufficient upfront public equity required for rapid cost-rental expansion. The additional Commonwealth tax revenue generated by the negative gearing and CGT changes should therefore be treated as one component of a broader capital strategy, alongside HAFF expansion, Commonwealth–state co-investment, public land contributions, concessional finance and, if required, broader revenue measures.

The Commonwealth's central role in a national cost-rental social and affordable housing system is to align fiscal policy and subsidy settings with the cost-rental operating model and sustain long-term financial framework agreements on housing. Upfront capital funding is important because it lowers the structural cost of housing provision and therefore the cost-rent required to operate the dwelling. Modelling for this report indicates that, under the assumptions adopted, a capital grant equal to 25 per cent of construction costs reduces the weighted average cost rent by approximately 16 per cent relative to an otherwise equivalent no-grant scenario. This substantially reduces the subsidy required to bridge the gap between cost rent and the rent affordable to lower-income households. The model does not, however, depend on governments meeting the full capital cost through large one-off grants. A viable framework can combine moderate upfront capital contributions, public land or land equity, concessional long-term finance and targeted assistance for households unable to meet the resulting cost rent.

Smaller capital contributions remain feasible, but increase debt-servicing costs, cost rents and recurrent subsidy requirements while potentially slowing sector expansion. A coordinated Commonwealth–state investment framework, informed by the shared funding arrangements formerly provided under the Commonwealth–State Housing Agreement, could therefore offer an efficient mechanism for establishing a cost-rental sector at scale (Lawson et al. 2026). Funding also includes integrating Commonwealth Rent Assistance (CRA) as a transparent rent-gap subsidy for lower-income households living in cost-rental dwellings and ensuring that major funding programs following on from the Housing Australia Future Fund are strengthened and adapted to support projects operating under cost-rent principles.

While the HAFF establishes an important funding platform it will soon be fully dispersed. Its current scale, while important, is insufficient to support the level of investment required to expand social and affordable housing at the pace needed. Over time, the fund should therefore be progressively expanded through additional public capital contributions. This may require consideration of broader revenue reforms capable of generating significant long-term housing investment, including measures such as inheritance or wealth-based taxation. Simply relying on the gradual reform or grandfathering of existing housing tax concessions, such as capital gains tax discounts or negative gearing arrangements, is unlikely to provide sufficient upfront public equity to build the scale of investment required.

Commonwealth agencies must also reform tax and charitable concessions so that access to these benefits is conditional on reinvestment obligations, asset-lock provisions and transparent reporting of rents and financing costs, ensuring that public support contributes directly to the expansion of permanently affordable housing.

In designing these programs, Commonwealth policy should also ensure that cost-rent determinations made through the financing framework translate clearly into rent obligations

within State-regulated residential tenancy agreements, enabling tenants to understand rent structures and exercise their rights through established tenancy systems.

11.2 Commonwealth Treasury

The Commonwealth Treasury should take the strategic role of designing and stewarding the fiscal framework for the cost-rental system, ensuring that public expenditure, taxation settings and financing instruments are coherently aligned with long-term affordability outcomes. This includes making housing capital investment and operating assistance transparent and outcomes-focused, aligning tax and transfer settings: particularly rent assistance, housing tax concessions and public capital support, with cost-rent principles, and assessing the long-term fiscal efficiency of alternative financing models over the full lifecycle of housing assets.

Treasury should also report transparently on the housing-system recycling of fiscal gains generated by NG and CGT reform. This would allow Parliament and the public to assess whether housing tax reform is merely extracting taxation from housing to improve the budget position, or whether it is being retained within the housing sector but recycled into productive housing investment capable of expanding regulated affordable rental supply.

Treasury also has a central coordination role across the federation, working with state and territory governments to align national housing policy, capital investment frameworks and regulatory settings. This includes ensuring that public finance mechanisms, such as Housing Australia bond issuance, government-backed lending and capital grant programs, are structured to minimise the cost of capital, support stable provider balance sheets, and reinforce reinvestment rather than short-term extraction. Treasury is also responsible for the Commonwealth position on urban affairs under the current Administrative Arrangements, thus providing potential for coordination with State planning systems to support cost-rental housing supply.

Critically, Treasury must ensure that the fiscal design of cost-rental housing supports predictable and stable rent trajectories over time. This requires joining up financing policy, rent-gap subsidy design and refinancing rules so that changes in interest rates, refinancing cycles or financial restructuring do not translate into sudden rent increases that undermine affordability or conflict with tenancy protections. By embedding predictability and transparency into the fiscal architecture, rather than relying on ad-hoc and temporal program funding Treasury plays a key role in ensuring that cost-rental housing functions as long-term social infrastructure rather than a series of short-term budget measures limited in timescale to the forward estimates.

11.3 Housing Australia

Housing Australia forms the central financial institution within the proposed cost-rental housing system. Its primary role is to mobilise and allocate long-term, low-cost finance to accredited cost-rental providers, pooling borrowing across the sector and issuing

government-backed housing bonds to reduce financing costs. In line with the financing assumptions in the model, most of the project capital would be supplied through long-duration debt raised or intermediated by Housing Australia, complemented by capital grants and land contributions from governments.

In the near-term Housing Australia should strengthen its role as a national housing finance intermediary. Over time, as the scale of the sector grows, its functions could evolve toward those of a specialised housing finance institution like those operating in several European countries.

For example, Housing Australia could evolve into a specialised national housing finance institution, supporting sector expansion through a combination of bond issuance, loan guarantees and the management of revolving housing investment funds. By aggregating capital and recycling loan repayments, this financing architecture would allow the cost-rental sector to grow progressively while maintaining relatively low borrowing costs.

While Housing Australia provides the financing platform, rent setting and financial compliance would be overseen by a new Independent Cost-Rental Housing Regulator (see below), established under the proposed legislative framework presented in the appendix. Cost-rental social and affordable housing providers would be required to apply transparent cost-rent accounting methodologies, with rent calculations audited and approved by the regulator and disclosed to tenants. These calculations would also be reflected in tenancy agreements governed by state and territory Residential Tenancies Acts, ensuring that tenants can clearly understand how rents are determined.

11.3 State Housing Authorities

State government housing authorities remain central to housing system delivery and regulation. Their primary responsibilities include implementing cost-rental standards within state housing programs, aligning state capital investment programs with the national cost-rental framework, and overseeing the regulation of housing providers through existing housing and community housing regulatory systems. In practice, these responsibilities would be discharged through coordinated Commonwealth–state investment arrangements like earlier national housing agreements, with both levels of government contributing capital funding and policy support to enable sector expansion.

States also control key supply-side policy levers, particularly land policy and planning regulation. Measures such as public land leasing, strategic land banking, inclusionary zoning and value-capture planning mechanisms will be critical to ensuring a stable pipeline of development sites capable of supporting cost-rental housing at scale. Strengthening these instruments may require a renewed public role for states in land assembly and development to procure suitable sites that are accessible for cost-rental housing providers. Historically, Australian state governments played a much more active role in acquiring, servicing and planning land through housing commissions and development agencies, which helped shape

the expansion of both urban suburbs and regional towns. Rebuilding this strategic land management capacity—through modern land development agencies, public land banking and coordinated infrastructure planning—would support higher quality urban development outcomes while ensuring that land supply aligns with long-term housing policy objectives.

State governments also administer the **Residential Tenancies Acts** that govern rental housing. These Acts should continue to apply to cost-rental dwellings, ensuring that tenants retain access to familiar legal protections and dispute-resolution mechanisms through tenancy regulators and tribunals. This includes the ability to challenge rent obligations, service failures or tenancy breaches under established tenancy law, reinforcing transparency and tenant confidence in the cost-rental system.

11.5 Housing Regulators

Housing regulators will need to expand their oversight beyond the current focus on financial viability to include supervision of compliance with the cost-rental operating model. Evidence from AHURI Final Report #452 and the MPS Affordable Housing Research for Reform program highlights that Australia's social and affordable housing sector has evolved through fragmented programs and diverse provider models, creating uneven practices in rent setting, financing structures and asset management. A transition to a cost-rental system therefore requires a more clearly defined regulatory framework that monitors compliance with core operating principles, including audited cost-rent calculations, adequate lifecycle maintenance reserves, reinvestment of operating surpluses, and transparency of financing arrangements.

International regulatory experience demonstrates that strong oversight of the operating model is essential to protect public investment and maintain affordability over the long term. In successful European systems such as Austria and Denmark, regulatory frameworks explicitly require non-profit housing providers to operate on a cost-recovery basis, maintain maintenance plans, and reinvest surpluses into housing renewal and expansion. These safeguards ensure that housing assets remain well maintained and that public capital investment and operating assistance continue to support long-term supply growth rather than short-term financial gains.

The **Options for Regulating the Good Growth of Victoria's Social and Affordable Housing** report similarly emphasises that regulation must define and monitor the operating model of non-profit housing providers, including the revolving use of subsidised assets and the reinvestment of surpluses generated through housing operations. It recommends stronger auditing capacity, asset registers and regulatory oversight of financing arrangements to ensure that public resources are used transparently and consistently with social housing objectives.

11.6 Community Housing Providers and Cost-Rental Providers

Existing community housing providers play a central role in transitioning to the cost-rental operating model. Providers that choose to become accredited cost-rental organisations would adopt cost-based rent setting, maintain long-term asset stewardship and reinvest surpluses into additional housing supply.

Over time, these organisations would evolve from project-based delivery agents into long-term institutional housing providers capable of scaling supply.

While operating under cost-rent principles, providers would remain **landlords under state Residential Tenancies Acts**, ensuring that tenant rights regarding leases, repairs, rent payment and dispute resolution remain fully enforceable through existing tenancy systems.

11.7 Local Governments

Local governments play a crucial role in enabling cost-rental housing through their control over planning frameworks, land policy and local development coordination. Municipal planning systems can facilitate cost-rental housing by embedding affordable housing objectives within planning schemes, applying inclusionary zoning requirements in areas of growth and renewal, and negotiating affordable housing contributions as part of major development approvals. These mechanisms can ensure that a share of new housing supply contributes to long-term affordable rental housing rather than relying solely on separate subsidy programs.

Local governments can also use development contributions and planning agreements to help fund the infrastructure that supports new housing supply. Contributions linked to major rezonings, urban renewal areas or transport corridors can be structured to support affordable housing outcomes, either through land contributions, direct housing delivery or financial contributions to affordable housing funds. In growth areas and redevelopment precincts, such mechanisms can help capture part of the land value created by planning decisions and reinvest it into the provision of cost-rental housing.

In many locations, municipalities also control strategically located public land and can play an important role in bringing forward development sites. Public land can be leased or contributed to cost-rental housing developments through transparent development processes, allowing housing providers to deliver permanently affordable rental housing in well-located neighbourhoods close to jobs, services and public transport. International experience demonstrates that municipal land policies are often decisive in enabling large-scale affordable housing systems.

Local governments are also central to the planning and delivery of area renewal and neighbourhood regeneration. Through master planning, precinct planning and urban renewal programs, municipalities can coordinate housing development with transport, infrastructure, public space and community services. Embedding cost-rental housing within

these broader urban development strategies helps ensure that affordable housing is integrated into mixed communities rather than delivered as isolated projects.

By enabling land supply for cost-rental housing while tenancy rights remain protected through state Residential Tenancies Acts, local planning frameworks can help integrate cost-rental housing as a normal and stable component of the rental housing system. Alongside their efforts, financial and provider regulation can safeguard affordability and public investment, while RTAs continue to govern the everyday relationship between landlords and tenants and provide accessible pathways for dispute resolution and enforcement.

11.8 The role of the private sector

The development and operation of a large-scale cost-rental housing sector will continue to rely heavily on the capabilities of Australia's private sector. The proposed system does not replace private sector participation in housing delivery; rather, it reshapes the institutional framework within which private actors operate so that their activities are aligned with and contribute to public long-term affordable housing aspirations and outcomes.

Private sector participation occurs at multiple stages of the housing supply chain.

Development and construction

Private developers, builders, architects, engineers and project managers will remain central to the physical delivery of housing. The construction industry provides the design, engineering, building and refurbishment services required to produce and maintain housing assets. As the cost-rental sector expands, it would generate a stable and predictable development pipeline, enabling construction firms to invest in productivity improvements, modern methods of construction and workforce skills development at trades and professional levels. This is discussed further in Section 15, which highlights the potential for a larger affordable housing sector to support growth in Australia's industrial housing capacity.

Professional and technical services

The housing sector relies on a wide range of professional services including planning, surveying, legal services, asset management, financial advisory services and engineering expertise. Private sector firms will continue to provide these services to housing providers, government agencies and development partnerships.

Financial services

Private financial institutions, including banks, superannuation funds and bond investors, may participate in housing finance under regulated conditions. In a cost-rental framework, however, financing structures are designed to prioritise low-cost long-term debt rather than high-return equity investment. Private capital has a primary role to play through debt provision or regulated limited-return investment vehicles aligned with long-term housing objectives.

Industrial supply chains and workforce capacity

The construction supply chain, including manufacturers of building materials, prefabricated housing components and building technologies, will also benefit from a stable long-term housing development pipeline. A larger and more predictable social and affordable housing construction program can underpin investment in modern construction methods, including modular and prefabricated housing systems that may improve productivity and reduce construction timelines while achieving non-housing benefits such as reduced waste or improved employment inclusion.

Property services and maintenance

Private sector firms also play a critical role in the long-term management and maintenance of housing assets. Maintenance contractors, facilities management providers and specialist service companies support housing providers in maintaining housing quality, energy performance and lifecycle refurbishment.

Taken together, these private sector roles described above demonstrate that expanding a cost-rental housing sector is not a shift away from private sector involvement in housing delivery. Rather, it establishes a more stable institutional environment in which private sector capabilities are directed toward the production and stewardship of long-term affordable housing assets. Indeed, by providing the policy foundation for a long-term expansion of social and affordable housing, a cost-rental system would likely enable greater housing supply than would be the case under prevailing market conditions.

The expansion of a new coordinated national social and affordable housing ecosystem of professional, industrial and financial actors is discussed further in Section 15, which considers the workforce, industrial and institutional capabilities required to sustain long-term growth in the housing sector.

12. Implementation Roadmap

The roadmap below operationalises the preferred transition pathway: repurposing existing subsidies toward a cost-rental operating model while grandfathering existing arrangements. It requires sustained political commitment and industry agreement between responsible stakeholders and assumes coordinated action between state housing authorities, Commonwealth Treasury and Housing Australia. Given that the transition to a mature cost-rental system will unfold over many years, policy durability will be critical. This suggests the importance of building broad cross-party understanding and support for the approach across federal and state jurisdictions, recognising that long-term housing investment frameworks are most effective when they remain stable across electoral cycles. Engagement with policymakers across the political spectrum who recognise the scale of Australia's housing challenges will therefore be essential to ensure that reforms are understood, refined where necessary, and sustained over time.

This proposed roadmap for discussion is informed by an evaluation of evidence and policy issues raised in a series of recent publications, presentations and submissions: the AHURI Final Report #452 *Australia's multi-provider social housing system – contest or growth?* (Lawson et al. 2026a), *presentation to NSW and Australian government officials: Growing Affordable Rental Housing via a Cost-Rental System (Lawson et al. March and April 2026)*, the RMIT University Housing Research Network *Submission to the ANAO Inquiry on the Housing Australia Future Fund* (Davies et al 2026), and the report on establishing *National Rental Regulation System* (Dodson and Davies 2024) as well as a wide background of research investigations into social housing over the past two decades.

The national cost-rental social and affordable housing system roadmap is structured around **three phases over approximately 10–15 years**, reflecting the time required to align financing systems, provider behaviour and regulatory frameworks.

12.1 Phase 1 — Institutional Alignment (Years 1-3)

Objective: Raise broad awareness, acceptance and establishment of the policy, regulatory and financial architecture required for cost-rental housing.

Step 1. Define the Cost-Rental Operating Model

Develop national standards defining:

- cost-rent calculation methodology
- lifecycle maintenance reserves
- reinvestment requirements
- limits on profit extraction
- transparency requirements for financing structures.

These standards should be incorporated into housing program guidelines and regulatory frameworks.

Step 2. Establish a National Independent Cost-Rental Housing Regulator

Create a national regulator to oversee the establishment, development and regulation of the national cost-rental housing system.

The regulator would:

- monitor and audit cost-rental providers
- maintain and publish data on the cost-rental sector (see step 6)
- report to the government and parliament on sector performance
- undertake enforcement actions as empowered by legislation

Step 3. Establish Cost-Rental Provider Accreditation

Create a **Cost-Rental Provider category** within the national housing regulatory system.

Accredited providers must demonstrate:

- long-term asset ownership or stewardship
- audited cost-rent setting
- reinvestment of surpluses into new housing supply.

Existing community housing providers may transition voluntarily.

Step 4. Align HAFF Financing with CR Principles

Future financing under the **Housing Australia Future Fund** should require:

- cost-rent setting
- transparent financing structures
- limits on equity extraction.

This reduces reliance on complex SPV arrangements identified as risks in the ANAO inquiry submission.

Step 5. Integrate Commonwealth Cost-Rental Provider Assistance

Implement a **rent-gap subsidy** supporting cost-rental social and affordable housing providers to accommodate lower-income tenants by meeting the difference between income-based tenant payments and the cost-rent required to supply the dwelling. This arrangement would supplant the role of **CRA** in social housing.

This arrangement ensures income or rent-gap support complements regulated rents rather than market rents.

Step 6. Establish Data and Reporting Systems

Develop a national dataset covering:

- cost-rent factors and levels
- capital costs
- financing structures
- reinvestment flows.

Improved transparency addresses the accountability gaps highlighted in the research.

12.1 Phase 2 — Social and Affordable Housing Supply Transition (Years 4-7)

Objective: Shift new housing supply toward the cost-rental model while maintaining sector capacity.

Step 1. Require Cost-Rental Compliance for New Subsidised Housing

All new dwellings receiving Commonwealth or state support should operate under cost-rental rules.

This includes:

- HAFF-supported projects
- state affordable housing programs
- land-contribution developments.

Step 2. Encourage CHP Portfolio Conversion

Provide incentives for existing community housing providers to transition portfolios to cost-rental operations, including:

- access to lower-cost finance through Housing Australia
- eligibility for future capital programs.

Step 3. Improve CR Provider Access to Low-Cost Finance

Expand financing tools such as:

- long-term bond finance via Housing Australia
- government-backed lending programs
- revolving housing investment funds.

Lower financing costs are central to maintaining affordable rents.

Step 4. Align Land Policy with CR Delivery

State governments should implement measures prioritise:

- public land leasing rather than sale
- value capture zoning mechanisms

- coordination and assembly of land for access by CR providers

Land policy reform is essential for scaling supply.

12.3 Phase 3 — System Consolidation (Years 8–15)

Objective: Establish a mature cost-rental housing sector.

Step 1. Gradual Convergence of Legacy Programs

Over time, legacy subsidy arrangements can be aligned with cost-rental principles through:

- refinancing opportunities
- voluntary portfolio restructuring.

Step 2. Expand Cost-Rental Housing Supply

Target a significant share of new non-market housing supply delivered through cost-rental providers.

This creates a stable institutional housing sector like those operating in several European countries.

Step 3. Strengthen most efficient and effective circuits of investment

Encourage long-term investment structures compatible with cost-rental housing, including:

- public housing finance institutions
- pension fund participation (fixed income bonds) within regulated frameworks.
- Where public equity is limited or unavailable allow for private equity but only under reasonable and regulated limits, as in Austria and now regulated in Europe (SGEI, 38).

Step 4. Establish Long-Term Policy Stability

A stable regulatory framework will allow providers to:

- accumulate housing assets
- reinvest surpluses
- expand supply over successive development cycles

12.4 Expected Outcomes

A successful transition would result in:

- lower financing costs for affordable housing
- stable cost-based rents rather than market-linked rents
- greater transparency of public subsidy

- a growing institutional housing sector capable of delivering affordable housing at scale.

Over time, this would shift Australia's housing system from fragmented project subsidies toward a durable cost-rental housing sector delivering permanent affordability and expanding housing supply.

13. Proof of Concept: Modelling a Cost-Rental Housing System for Australia

The preceding sections describe the institutional architecture required for a national cost-rental housing system. To test whether such a system could operate within Australia's fiscal and institutional settings, the research team developed a proof-of-concept financial model drawing on the empirical findings presented in the AHURI Final Report #452 *Australia's multi-provider social housing system – contest or growth?* (Lawson et al 2026a) and the modelling framework developed for the MPS Affordable Housing Research for Reform presentations made in Sydney and Canberra Q1, 2026 (Lawson et al. 2026b, slide 20).

The purpose of the modelling is not to forecast precise budget outcomes but to test whether a self-reinforcing cost-rental housing system could be established using realistic assumptions about Australian construction costs, financing conditions, tenant incomes and public subsidy levels.

The results demonstrate that a scalable, financially sustainable cost-rental housing system is feasible within Australia's current institutional environment if three structural conditions are met:

1. Land contributions are provided by government or mission-driven providers
2. Financing relies primarily on low-cost long-term debt
3. Surpluses are reinvested through a revolving housing investment fund

The model estimates Commonwealth cash capital and recurrent-support requirements. Land acquisition costs are excluded from the Commonwealth financing requirement because the baseline assumes that state or local governments, or mission-driven providers, contribute land as equity within the national cost-rental framework. The land is not costless: its market or opportunity value should be reported separately as an in-kind public capital contribution when assessing total whole-of-government support. Where land is leased rather than contributed without charge, any ground rent must be included in the cost-rent calculation.

Under the baseline assumptions, the ongoing medium-growth scenario transitions from publicly supported expansion to self-financing growth within the modelled cash flows, while remaining dependent on contributed land and low-cost, long-term finance. Thus, a proactive national approach to land policy and strategic investment remains vital – combining the

capacities and strengths of all levels of government, as is the case for most forms of social infrastructure.

13.1 Core system structure

The modelling assumes a layered capital structure consistent with international cost-rental systems.

Typical projects are financed through:

- Land contribution (100%) provided by state, territory or local governments, or mission-driven providers, on direct transfer or long-term lease arrangement
- Debt financing (approximately 75%) supplied through Housing Australia or government-backed bond issuance
- Capital grants (approximately 25%) supporting deep affordability in early years
- Income-based tenant rents calculated as a proportion of household income
- A temporary rent-gap subsidy to bridge the difference between income-based rents and cost-rent levels in the early years of the system.

Concerns about limited land availability for housing development are anticipated, but these often reflect institutional constraints rather than absolute land scarcity. Public sector capacity to assemble and bank urban land has declined, though continues in some domains such as transport infrastructure provision. Historically, Australian governments played a central role in mobilising land for housing through public land banking, subdivision and development, from colonial Crown land policies from the 1850s, through to the activities of state housing commissions and land development agencies in the twentieth century. Urban development corporations remain but operate under commercial constraints. The dismantling of public institutions such as the MMBW in Victoria and corporatisation and commercial mandates of public land banking institutions since the 1990s has left land assembly largely to private markets, which has slowed redevelopment and increased land costs. Housing affordability goals are harder to pursue when land agencies must maximise financial returns and when the pace of development is reliant on private developers.

International experience shows that active land policy, through public land banking, development corporations, land readjustment and value capture—can significantly expand the supply of developable land while stabilising prices. Reintroducing these tools would strengthen the capacity to deliver social and affordable housing under a cost-rental model. We note that the Victorian government, for example, has recently expanded its land assembly and (re)development capabilities through the designation of Homes Victoria as a development authority for public housing precincts under the Big Housing Build program while the Suburban Rail Loop Authority has strong powers to assemble land for station precinct development.

In the early phase of the proposed cost rental system expansion, governments would provide land, capital grants and rent-gap payments. Over time, however, the model assumes that operating surpluses from mature housing assets accumulate in a pooled reinvestment fund. This fund gradually replaces direct public subsidy as the source of capital grants and rent-gap support for new projects.

This mechanism is illustrated in the transition from the initial stage of system development, where public capital investment and operating assistance are primarily government funded, to the revolving stage where reinvested surpluses support further supply expansion.

The modelling therefore reflects the key institutional principle observed in successful European systems: public investment creates long-term assets that continuously finance future housing supply rather than being dissipated through recurrent subsidies or investor returns.

13.2 Key modelling assumptions

The proof-of-concept model tests system behaviour using transparent, illustrative assumptions, some of which represent favourable policy conditions necessary to test the proposed system. These have been drawn from Australian housing data and international cost-rental practice.

The principal input parameters include:

Finance assumptions:

- long-term debt financing through Housing Australia
- loan durations aligned with housing asset life cycles
- interest rates reflecting government-backed borrowing
- capital grants reduce overall borrowing requirements

Operating assumptions:

- annual operating costs and maintenance reserves
- lifecycle refurbishment and rebuilding costs
- inflation of approximately 2.5% annually, (2.5 per cent only as a **long-run steady-state assumption**, it is not a forecast of prevailing inflation or construction-cost escalation.)

Tenant composition:

The model assumes a mixed-income tenant base, reflecting the allocation framework proposed in Section 7:

- very low-income households - 40%
- moderate-income households - 35%
- a smaller share of open-access tenants - 25%

This social mix stabilises rental income while maintaining strong social targeting.

Housing stock characteristics:

- diverse dwelling sizes and household types
- realistic building lifecycles before major renewal
- gradual expansion of the stock to reach target system scale.

13.3 System growth scenarios

Four growth scenarios were tested to assess the fiscal and structural implications of expanding Australia's social housing system:

1. Status quo — maintaining social housing at approximately 3.9% of total dwellings
2. Low growth — expanding to 6% of housing stock
3. Moderate growth — expanding to 8% of housing stock
4. High growth — expanding to 12% of housing stock

These scenarios are not forecasts but alternative policy targets that illustrate how the cost-rental financing system behaves under different expansion targets.

Table 7 Comparison of scenarios and their outcomes

Scenario / Target social housing share / Policy ambition	Housing system impact	Fiscal implications	Overall assessment
1. Maintain status quo **3.9% of stock** **Stable residualisation**	Maintains current supply share but does not address growing unmet need. Social housing remains residualised and continues to decline relative to population growth.	Lowest immediate fiscal cost but rising long-term costs through rent assistance and crisis programs.	Not a solution to the housing crisis. Maintains structural shortage.
2. Low growth **6% of stock** **Incremental reform**	Expands affordable housing modestly and stabilises the sector. Supply remains below levels seen in comparator OECD countries.	Moderate investment required. System begins to accumulate assets but still relies heavily on ongoing subsidy.	Improvement but insufficient scale to significantly reduce unmet need.
3. Moderate growth **8% of stock** **Structural reform**	Establishes a viable cost-rental sector capable of serving a broad range of households and sustaining mixed-income communities. Australia's social stock raises to approximately the OECD average.	Higher upfront investment but improved long-term fiscal sustainability as assets and reinvestment funds accumulate.	Optimal balance between affordability impact and fiscal feasibility.
4. High growth **12% of stock** **Transformational expansion**	Creates a large non-market housing sector comparable to leading European systems. Significantly improves affordability, stabilises rents and expands choice across the rental system.	Highest initial investment but generates the largest long-term public asset base and housing system resilience.	Most ambitious scenario, with the greatest long-term affordability impact.

13.3.1 Scenario 1 - Maintain status quo of social housing as 3.9% of total dwelling stock

In this scenario sufficient stock is constructed to maintain the current share of social housing at 3.9 per cent of total dwelling stock.

The modelling indicates that maintaining the current share of social housing requires ongoing construction simply to offset population growth. In other words, stagnation still requires significant investment.

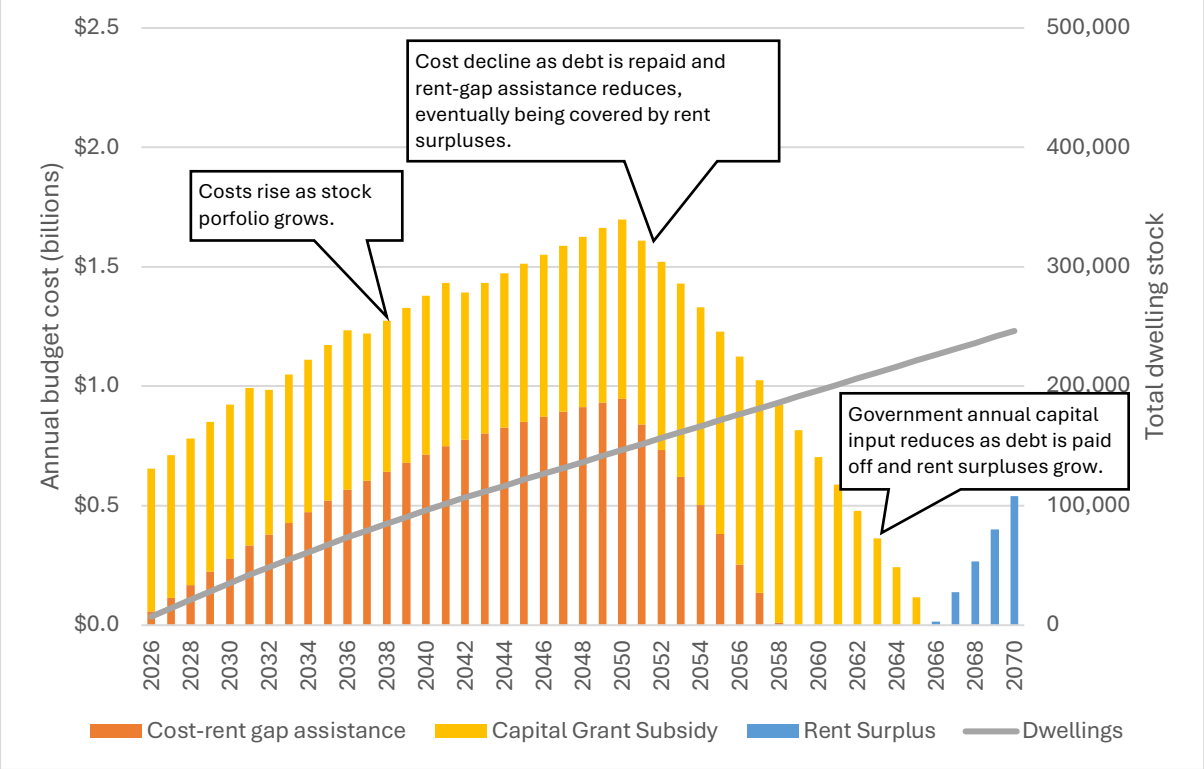


Figure 5 Modelling of scenario 1 at 3.9% of total stock

The first scenario models what happens if Australia simply maintains the current share of social housing at approximately 3.9% of the housing stock.

In this case, new construction maintains existing levels rather than expanding the sector. As shown in the chart, government expenditure rises during the early years as capital investment and rent operating assistance support new construction.

However, once the debt begins to be repaid, public costs gradually decline. Rental income increasingly covers operating costs and debt service, generating small surpluses over time.

While this scenario appears fiscally modest, it has a major limitation: **it does not address Australia's growing housing need**. The social housing sector remains residualised and continues to shrink relative to population growth.

In other words, this scenario represents **policy stability but not policy effectiveness**. It maintains the current system rather than solving the housing crisis.

13.3.2 Scenario 2 – Low growth of social housing to 6% of total dwelling stock

The second scenario models a moderate expansion of the social housing sector to around 6% of total housing stock.

Under this scenario, construction activity increases significantly during the first two decades as the sector grows toward the target share. Public capital investment and rent gap assistance peak during the expansion phase because large volumes of housing are being built.

However, once the target share is reached, annual construction slows and public expenditure declines. As loans are repaid, rent-gap assistance gradually falls and rental income begins to generate surplus cash flows.

This scenario illustrates an important feature of cost-rental systems: **public investment is front-loaded but not permanent**. As the housing stock matures and debt is repaid, the system increasingly finances itself.

Nevertheless, at 6% of total housing stock, the sector remains relatively small by international standards and would likely be insufficient to significantly reduce housing stress among low- and moderate-income households.

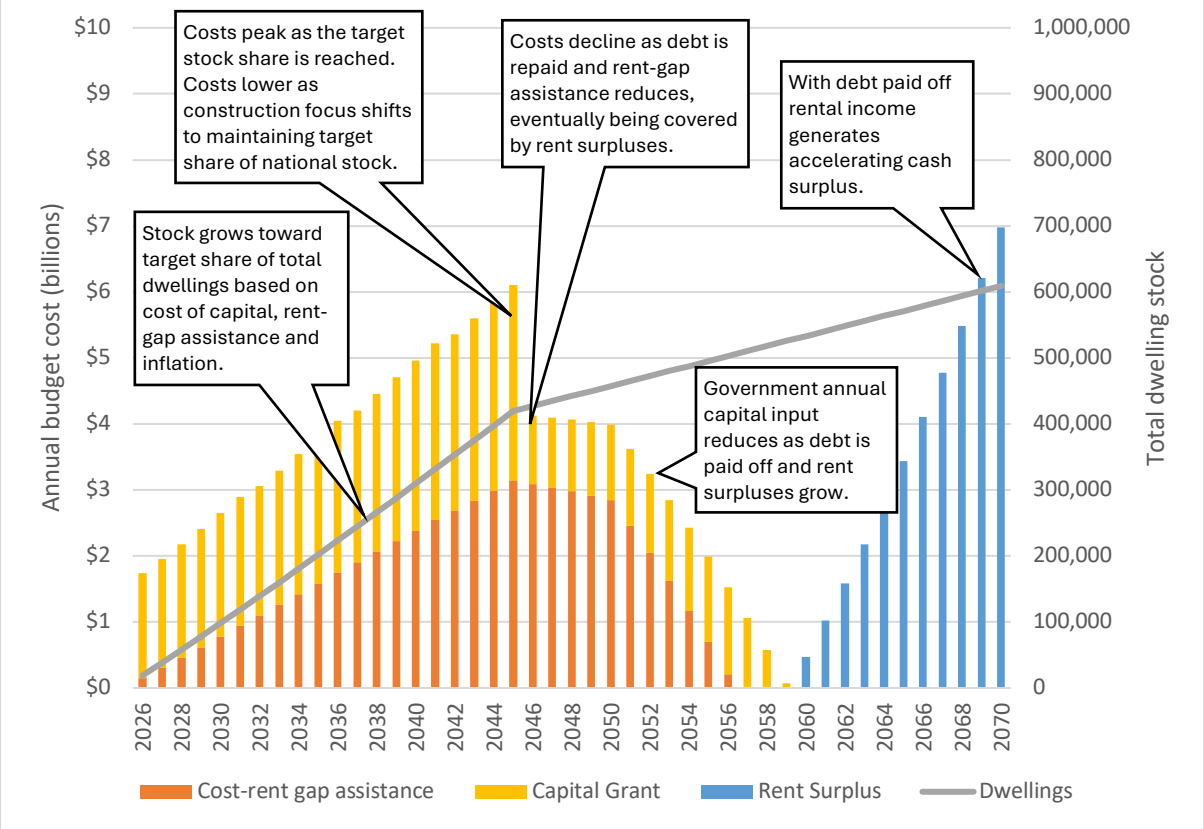


Figure 6 Modelling of Scenario 2 SH growth to 6% of total stock

13.3.3 Scenario 3 - Moderate growth of social housing to 8% of total dwelling stock

The third scenario expands the sector further, reaching **8% of total housing stock**. This level is particularly significant because it approaches the scale at which non-market housing begins to exert a stabilising effect in the broader housing system, especially in relation to the lower-cost segment of the private rental market.

Achieving this level requires higher initial investment, as reflected in the larger capital grants and rent-gap assistance during the expansion phase. However, once the housing stock reaches its target share, construction requirements fall and operating revenues derived from the rental income on a large stock base begin to generate substantial surpluses.

Over time, those rental income surpluses accumulate into a **revolving investment fund**, which can finance additional housing development without requiring the same level of ongoing government subsidy.

In contrast to Scenario 1 and 2, this scenario represents a **structural reform pathway**: it establishes a viable cost-rental sector capable of serving a wider range of households and sustaining mixed-income communities. This scenario would lead to cost-rental social housing comprising approximately 25 per cent of the total national rental housing stock, an increase from the current approximately 10 percent current share.

Importantly, Scenario 3 also strikes a balance between **affordability impact and fiscal feasibility**, making it one of the most realistic policy options for large-scale reform. This scenario also would have a moderating effect on the private rental market, without overly distortionary effects.

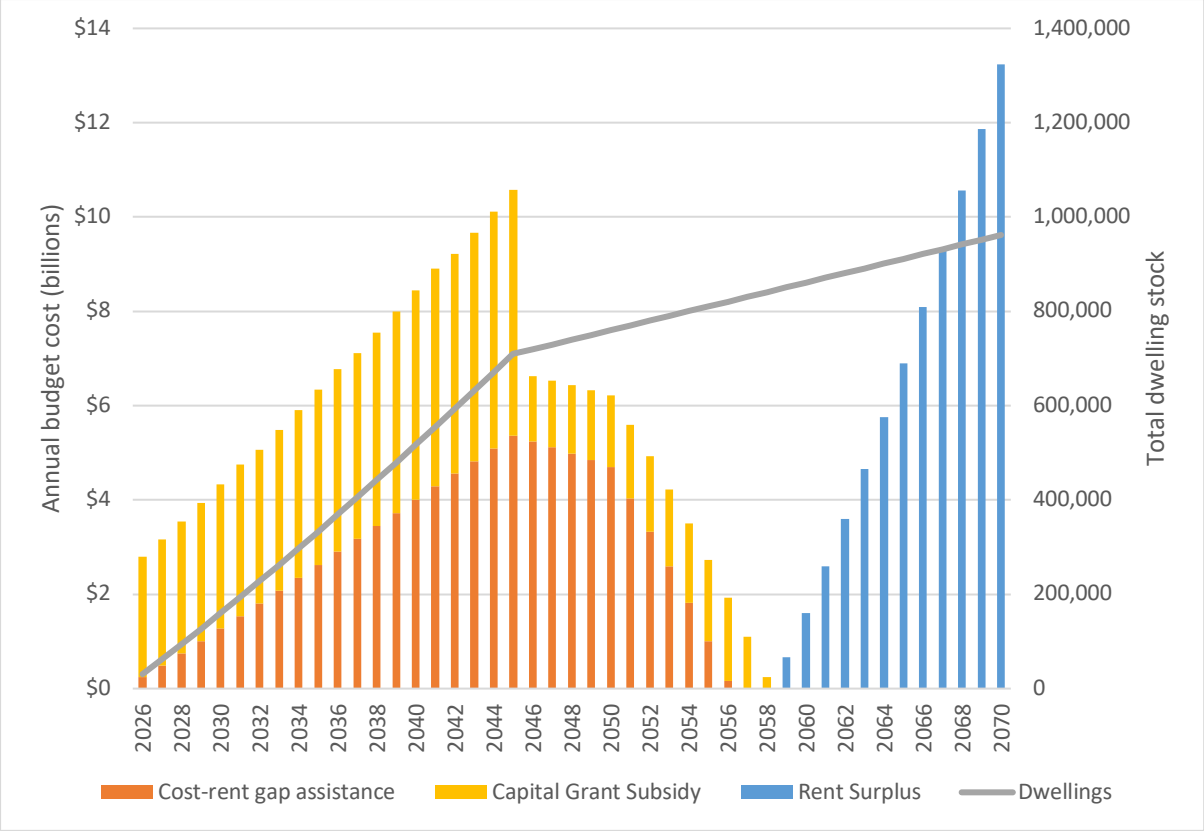


Figure 7 Modelling of scenario 3 SH growth to 8% of the total stock

13.3.4 Scenario 4 - High growth of social housing to 12% of total dwelling stock

The fourth scenario models a more ambitious transformation in which social and cost-rental housing expand to **12% of total housing stock**.

This level of social housing stock approaches the scale seen in many successful European housing systems. Achieving this scenario requires the largest initial investment, with substantial capital grants and rent-gap assistance during the expansion phase.

However, because of the large initial inputs the long-term effects are also the most significant among all the scenarios modelled. A large non-market housing sector can provide a broad range of direct social and affordable rental options for low- and modest-income households while also stabilising private rental housing markets, and moderate rent inflation.

Under this scenario, after 25-years as the housing stock matures and loans are repaid, surplus rental income generates **very large revenue streams** that can be reinvested into new housing supply. In effect, the housing system begins to **finance its own growth**.

This scenario demonstrates how sustained public investment can create a large, resilient housing sector that functions as social infrastructure rather than a residual safety net.

We note that it is not inconceivable if Australia had implemented this scale of cost-rental social housing investment in the year 2000 it would have by now paid off the capital cost for the additional 1.2 million social and affordable dwellings gained and would be anticipating an accelerating annual rental surplus. This surplus would exceed $5 billion within four years and $10 billion with 6 years, supporting further self-sustaining expansion of the social and affordable stock.

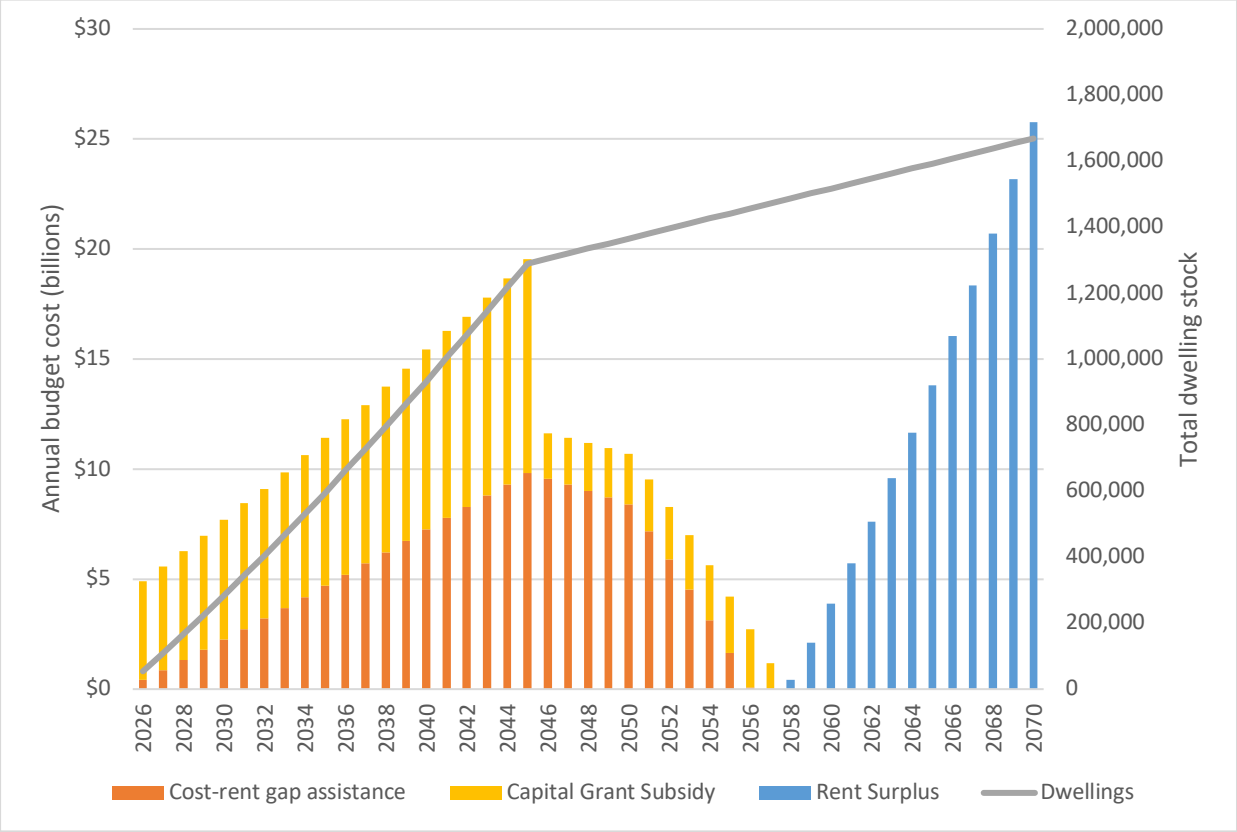


Figure 8 Modelling of scenario 4 high SH growth to 12% of stock13.4 Fiscal dynamics over time

The cost-rental social and affordable housing stock growth and financing modelling also demonstrates how public investment requirements change over time.

In the early expansion phase:

- governments provide capital grants to reduce structural costs
- governments provide rent-gap assistance to providers to support lower-income tenants.

These supports are necessary while the system is building its initial asset base.

However, as projects mature:

- debt is gradually repaid
- lifecycle reserves accumulate

- operating surpluses begin to emerge.

These surpluses are channelled into a reinvestment fund, which can finance new development and cover rent-gap assistance payments for lower-income tenants.

Under the moderate growth scenario reaching approximately 8% of housing stock, the modelling indicates:

- rent-gap assistance is required for low-income tenants for roughly 37 years
- capital support declines as debt is repaid
- the system becomes fully self-sustaining after approximately 48 years.

From that point onward, the housing stock effectively operates as a permanent public infrastructure financing system, capable of renewing and expanding itself without requiring new permanent structural subsidies, in contrast to an availability payment model. In the absence of structural disruption, this arrangement would maintain Australia's social and affordable housing supply at the target level of **8 per cent of dwelling stock in perpetuity**.

13.5 Comparative fiscal performance of alternative housing delivery models

The proof-of-concept modelling presented in this report should be understood relative to alternative housing financing and procurement models currently used within Australia.

Different delivery approaches generate substantially different long-term fiscal trajectories, public asset outcomes, financing costs and contingent liabilities. Comparing these approaches over the lifecycle of housing assets is therefore critical to evaluating long-term housing system efficiency. In the table below, HAFF is a Commonwealth funding vehicle; AP/PPP is a procurement/contracting model. Some HAFF-funded projects may use payment streams, but HAFF itself is not necessarily a PPP – it could also support a cost rental model in the future.

International audit and infrastructure-governance evidence caution that **PPP and availability-payment models should be used only where they demonstrably outperform** conventional public or non-profit delivery on whole-life cost, risk allocation, transparency and service outcomes. The European Court of Auditors (2018) found widespread shortcomings in EU PPPs, including delays, cost increases and limited value-for-money benefits. Likewise, the UK National Audit Office (2018; 2025) found that PFI/PF2 created substantial long-term payment obligations. The OECD (2020) recommends rigorous ex-ante appraisal, transparent disclosure of whole-life costs and contingent liabilities, and credible comparison with public delivery alternatives. The OECD (2020) legal instrument on the governance of infrastructure was adopted on 17 July 2020 to set governance principles for infrastructure decision-making and a more agnostic approach to procurement and PPPs.

Australia is a member of the working group for its implementation thus should reflect this agreed position in future infrastructure procurement.

The comparison below (Table 8) demonstrates that housing delivery models generate fundamentally different long-term fiscal, institutional and housing-system outcomes.

A key policy risk in infrastructure-style housing procurement is the tendency to privilege financing models that minimise visible upfront public borrowing while obscuring long-term contractual liabilities and financing costs. Availability-payment and PPP-style procurement structures may therefore appear fiscally attractive in the short term even where they generate substantially higher long-term public expenditure. International audit and public finance reviews have repeatedly warned that off-balance-sheet procurement structures can obscure the long-term fiscal implications of infrastructure delivery. Reviews by the European Court of Auditors (2018) and the UK National Audit Office (2018, 2025) found that PPP and PFI arrangements may generate substantial long-term public payment obligations through service contracts, refinancing exposure, risk-transfer pricing and investor returns, despite reducing visible upfront public borrowing requirements. The NAO states that over 700 operational PFI/PF2 deals had a capital value of around £60 billion, annual charges of £10.3 billion in 2016–17, and future charges of £199 billion continuing into the 2040s. The ECA report's official summary states that expected PPP benefits were often not achieved and that projects suffered delays, cost increases and under-use. These reviews also highlighted concerns regarding value for money, transparency and the treatment of long-term liabilities within public accounting frameworks.[3]

In housing systems, these issues are particularly important because affordability outcomes are highly sensitive to financing costs over long amortisation periods. Financing structures that embed higher private capital costs or long-term contractual payment obligations may therefore increase the long-term subsidy burden required to maintain affordable rents. Approaches relying primarily on recurrent subsidies such as an availability payment model, market-priced finance, or private equity may reduce visible upfront public expenditure, but can also generate higher long-term subsidy obligations, financing leakage, refinancing exposure and weaker retention of public value via durable assets.

By contrast, capital-led cost-rental approaches seek to convert public expenditure into retained affordable housing assets capable of generating stable rental income, strengthening provider balance sheets and supporting reinvestment into future supply.

From a long-term fiscal perspective, the critical policy issue is therefore not simply the scale of public expenditure, but whether housing investment mechanisms create durable

[3] The NAO report explicitly documents: £199 billion future payment obligations, higher financing costs and long-term recurrent liabilities continuing into the 2040s. For these and other reasons AP PPP style schemes have been terminated or discontinued in the UK and Ireland.

affordable assets, reduce structural housing costs and build institutional capacity capable of sustaining housing supply over time.

Table 8 Comparing approaches to funding and financing social and affordable housing

Dimension	Direct public / public housing capital model	HAFF-style grant/subsidy-supported delivery	Availability Payment / PPP-style delivery	Market tax concession model	Proposed CBRH model
Core financing structure	Public capital funding and/or public borrowing	Public subsidy, grants, concessional loans or program payments through Housing Australia/HAFF	Private finance repaid through long-term government service or availability payments	Indirect support through tax concessions and CRA	Public capital layer + land/equity contribution + long-term debt + regulated cost rents
Main public expenditure type	Upfront capital plus ongoing operating support where rents are below cost	Mix of capital grants, concessional finance and recurrent subsidy	Long-term contractual recurrent payments	Revenue foregone and demand-side transfers	Moderate upfront capital plus rent-gap support during expansion
Asset creation	Strong where dwellings remain publicly owned	Depends on grant conditions, ownership and affordability covenants	Depends on contract and ownership structure	Weak: does not systematically create affordable assets	Strong: assets retained by public, municipal or mission-driven providers
Long-term affordability	Potentially permanent, subject to maintenance funding and policy settings	Depends on funding conditions and covenant duration	Contract-limited unless permanent obligations are embedded	Generally not secured	Permanent or long-term through asset locks and cost-rent regulation
Financing cost	Low if government-funded; higher if reliant on provider debt	Varies by instrument	Typically higher due to private finance, equity returns and risk pricing	Market-based	Lower if supported by concessional debt, public guarantees and regulated returns
Recurrent subsidy exposure	High where tenant rents do not meet	Medium to high depending on subsidy design	High and contractually locked in	Ongoing and diffuse	Declines as debt amortises and

Dimension	Direct public / public housing capital model	HAFF-style grant/subsidy-supported delivery	Availability Payment / PPP-style delivery	Market tax concession model	Proposed CBRH model
	operating and renewal costs				reinvestment capacity grows
Contingent / contractual liabilities	Transparent public liability	Depends on guarantees and funding commitments	Potentially substantial long-term contractual obligations	Indirect fiscal exposure through tax expenditure growth	More transparent; regulated providers
Financing leakage	Low if publicly delivered	Moderate depending on delivery structure	Higher, public payments fund private debt, equity returns, fees, etc.	High leakage into investor returns and asset-price effects	Lower due to limited returns, asset locks and reinvestment
Refinancing exposure	Low if sovereign financed; higher if provider debt is short term	Variable	Potentially significant depending on contract design	High through market cycles and investor borrowing costs	Reduced but not eliminated; depends on loan terms, interest-rate management
Public value retained	High	Variable	Variable	Low	High
System-growth dynamic	Budget dependent	Program-round dependent	Contract pipeline dependent	Market-led and cyclical	Revolving, cumulative and institutionally expandable
Treasury risk issue	Upfront fiscal cost and operating deficits	Additionality, covenant duration, subsidy efficiency	Long-term payment obligations and value-for-money	Poor targeting and weak supply additionality	Need to test scale, subsidy path, interest-rate risk and provider capacity

13.6 Implications for design of cost-based rental housing policy

The proof-of-concept modelling presented in this report informs three important policy conclusions.

First, the primary barrier to large-scale affordable housing in Australia is system **institutional design**, not simply the level of public funding. The modelling demonstrates that when low-cost finance is invested in housing assets that are retained over the long term with surpluses reinvested, the value and scale of public investment compounds over time. But this outcome requires a coherent finance and institutional system operating over long timeframes.

Second, the cost of capital is decisive. Even small initial additional margins in financing costs significantly increase required rents and total capital cost over the construction and repayment cycle. This confirms the importance of efficient low-cost public or quasi-public finance mechanisms such as those used in European cost-rental systems.

Third, system scale matters. Small, project-based programs cannot produce the financial and institutional dynamics required for long-term affordability. A sustainable cost-rental sector requires a deliberate active decision to build the system toward a transformative critical mass of housing assets.

13.7 Conclusions from proof of concept

Taken together, the modelling demonstrates that a national cost-rental housing system is economically feasible in Australia. The transition requires sustained large scale public investment during the early decades, but the long-term outcome is the creation of a self-reinforcing institutional housing sector that continuously expands affordable housing supply without ongoing public capital subsidy.

A realistic medium-term objective is to expand Australia's social and cost-rental housing sector from its current level of approximately 3.9 per cent of total housing stock to 6 per cent (Scenario 2) or 8 per cent (Scenario 3) of total dwelling stock over the next two decades. This scale would be sufficient to stabilise the sector, meaningfully reduce unmet housing need and establish the institutional financing architecture required for long-term system growth, while remaining achievable within Australia's fiscal and governance framework.

Rather than relying on temporary subsidy programs or complex financing structures, the cost-rental model converts public investment into permanent affordable housing assets. Once established at sufficient scale, the system can operate as a revolving housing infrastructure platform, delivering stable rents, long-term affordability and growing supply over successive development cycles.

14. Financing the Initial Phase: towards durable asset growth

A central policy question in establishing a national cost-rental housing system concerns how the initial phase of public investment should be financed. The modelling presented earlier demonstrates that once a sufficient base of regulated affordable housing assets has been established, the system can progressively strengthen its own financial capacity through rental revenue in excess of capital repayments resulting in amortisation of debt, retained equity growth and reinvestment of operating surpluses. In this respect, the long-term fiscal challenge is not primarily one of permanent subsidy dependence, but rather the financing of the early decades of sector expansion while the housing stock, equity base and revolving investment capacity are being built up.

This distinction is important because Australia's current housing policy settings already involve substantial ongoing public expenditure and tax concessions directed toward the housing system. The AHURI Final Report #452 on Australia's multi-provider rental housing system (Lawson et al. 2026a) demonstrated that the overwhelming majority of Commonwealth rental housing assistance currently flows via the private rental market through Commonwealth Rent Assistance, negative gearing and capital gains tax concessions, rather than toward the direct expansion of permanent social or affordable housing assets. The consequence of government subsidies that overwhelmingly favour commercial over social and affordable housing providers is a much reduced and rationed public stock that is unable to meet social needs, and reliance on a private rental market that is riven with affordability and security problems.

The key policy issue is therefore not simply the overall scale of housing expenditure, but the extent to which existing subsidies and concessions generate durable public value, reduce structural housing costs and contribute to the long-term growth of affordable housing supply.

Recent Australian housing policy research has increasingly questioned the fragmented and weakly coordinated nature of current subsidy settings, particularly where substantial public expenditure supports private rental investment without corresponding affordability, tenancy quality or long-term asset-retention obligations (Dodson and Davies 2024; Lawson et al. 2026).

The modelling undertaken for this report suggests that the initial expansion of a cost-rental sector does not require governments to fully fund construction costs or create entirely new large-scale expenditure streams. Rather, moderate capital investment combined with public land contributions, concessional finance and regulated reinvestment mechanisms can establish a self-reinforcing affordable housing system over time. International evidence demonstrates that durable affordable housing systems are typically characterised by long-term public investment linked to retained affordable housing assets, revolving funds, regulated reinvestment obligations and institutional equity accumulation. In Austria,

Denmark, Finland and France, cost-rental and limited-profit housing systems progressively built financial resilience by recycling operating surpluses and retained equity into future housing supply rather than relying primarily on fragmented short-term project subsidies or recurrent market incentives (Lawson et al. 2026; Norris and Byrne 2021, Housing Europe, 2021).

14.1 The scale and distribution of existing rental-housing subsidies and tax expenditures

Australia's rental-housing system receives substantial Commonwealth support through income assistance, tax expenditures and direct housing programs. Within the expenditures mapped by Lawson et al. (2026), more than 80 per cent flowed to the private rental sector. This comparison does not include Commonwealth support for owner-occupied housing and should not be interpreted as an assessment of expenditure across the entire housing system.

The principal instruments have included:

- Negative gearing tax deductions, allowing investor-landlords to offset rental losses against other taxable income
- The 50 per cent capital gains tax (CGT) discount, applied when investment properties are sold
- Commonwealth Rent Assistance (CRA), a demand-side subsidy paid to low-income tenants renting in the private market.

Policy analysis shows that negative gearing and the capital gains tax discount together represent multi-billion-dollar annual tax expenditures, primarily benefiting higher-income households investing in residential property (Dodson and Davies 2024; Lawson et al 2026a).

While these subsidies influence investment behaviour in the housing market, they do not systematically produce durable affordable housing assets, nor are they linked to requirements regarding rent levels, tenant outcomes or housing quality (Dodson and Davies, 2024).

14.2 Redirecting housing tax concessions toward supply

The modelling undertaken for this proposal[4] shows that establishing a national cost-rental housing sector requires a moderate level of upfront public capital support, but not full public

[4] The modelling underpinning this estimate assumes an average development cost of approximately $400,000 per dwelling across a mixed dwelling profile (apartments, townhouses and detached dwellings). Project financing assumes a capital structure comprising approximately 25 per cent public capital grant, around 15–20

funding of construction costs. Under the assumptions used in the model, average development costs of roughly $400,000 per dwelling, including allowances for construction, professional fees, operating costs and lifecycle maintenance reserves, financed through a mix of public land equity, capital grants and long-term debt, the public capital contribution represents only part of the total financing stack. In the central growth scenarios, capital grants account for roughly **20–25 per cent of development costs**, with the remaining costs financed through long-term low-cost debt and provider equity within the cost-rental system.

On this basis, the modelling suggests that a capital program in the order of **$2–3 billion per year in the early phase** would be sufficient to initiate sector expansion and place the system on a trajectory capable of reaching **around 8 per cent of national housing stock over time**, provided it is combined with concessional finance and land contributions from governments. This estimate therefore does not assume that public funding covers the full cost of construction or that development occurs without associated costs such as insurance, maintenance or management. Rather, the capital contribution functions as an **equity layer** that reduces the structural cost of projects, lowers cost-rents and improves financial viability.

Even at this scale, the required capital investment remains modest relative to the rental-sector tax expenditures and assistance examined in this report.. Commonwealth housing subsidies directed to the private rental market, including Commonwealth Rent Assistance, negative gearing and the capital gains tax concession, amount to many billions of dollars annually.

The 2026–27 Commonwealth Budget materially changes the policy context for this proposal. From 1 July 2027, negative gearing for residential property will be limited to new builds, while existing investments held before 7:30 pm AEST on 12 May 2026 will be grandfathered. Net rental losses on established residential properties purchased after the relevant transition period will no longer be deductible against unrelated labour or business income but will be quarantined against rental income or future residential property gains. The Budget also replaces the 50 per cent CGT discount with inflation-adjusted indexation for most future gains from 1 July 2027, while introducing a 30 per cent minimum tax rate on realised gains and preserving optional access to the existing CGT discount for new builds. These reforms are officially framed as supporting new housing supply, home ownership and tax fairness.

For the purposes of this report, the significance of the reform is not only the estimated fiscal saving. Its broader importance is institutional: the NG and CT reforms show that Commonwealth housing tax concessions can be redesigned prospectively and differentiated

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per cent land or equity contribution, and the remainder financed through long-term debt at approximately 4.5 per cent interest over a 25-year period. Operating costs, insurance, maintenance and lifecycle renewal reserves are included within the cost-rent calculation. The capital grant therefore functions as an equity contribution that reduces the structural cost of projects rather than funding the full construction cost of housing.

by housing-policy purpose. The next logical step is to differentiate not only between established dwellings and new builds, but between unregulated market supply and regulated social and affordable rental supply. A cost-rental framework would provide the institutional vehicle for this further differentiation.

Such reforms would improve the transparency and social performance of housing tax expenditures by ensuring that public capital and operating assistances generates measurable public benefits within the housing system. In effect, this approach would redirect a portion of existing subsidies currently supporting speculative housing investment toward the investment in **permanent social and affordable rental housing supply**.

14.3 Aligning Commonwealth fiscal instruments with housing outcomes

A major weakness in Australia's housing policy architecture is the lack of coordination between Commonwealth fiscal instruments affecting housing outcomes and the misallocation of investment incentives. Tax concessions for landlords, income support for tenants and housing investment programs currently operate largely in isolation from one another.

Evidence from AHURI Final Report #452 (Lawson et al, 2026) shows that in 2021–22 around $8.99 billion, over 80 per cent of the Commonwealth rental-housing expenditures included in the mapping.(not including support for homeowners), flowed to the private rental sector, including $4.73 billion in Commonwealth Rent Assistance, $2.42 billion in negative gearing concessions, and $1.90 billion in Capital Gains Tax concessions, compared with much smaller flows to providers with a clear public-interest focus: $0.83 billion to community housing and $1.27 billion to public housing.

The 2026–27 Budget estimates that reforms to negative gearing and CGT will increase receipts by $3.6 billion over five years from 2025–26. This revenue effect is modest relative to total housing need because the reforms are prospective and grandfather existing investments. Nevertheless, it provides a concrete fiscal basis for beginning to reorient Commonwealth housing expenditure away from unconditional private investor subsidies and toward public investment in regulated affordable rental supply.

The Budget reforms also partially advance the logic of Dodson and Davies' (2024) proposed National Rental Regulation System. Their proposal treats NG, CGT and CRA as elements of a combined Commonwealth rental subsidy architecture, rather than as separate tax and transfer instruments. The 2026–27 Budget takes the first step by narrowing unconditional access to NG and CGT concessions. A cost-rental strategy would further advance this reform by ensuring that remaining or redirected fiscal support is tied to regulated affordability, tenancy quality, transparent allocation and long-term asset stewardship.

A strategic reallocation of resources could involve:

- dedicating a defined share of NG/CGT reform receipts to a National Cost-Rental Housing Investment Fund;
- making future housing tax preferences conditional on affordability, quality, reinvestment and asset-lock obligations;
- aligning CRA with regulated cost-rental dwellings as a transparent rent-gap subsidy for lower-income tenants;
- establishing a reporting framework showing whether Commonwealth housing capital investment and rent-gap assistances produce durable affordable housing assets, improved tenant outcomes or merely private capital gains.

This would move Commonwealth housing policy from a fragmented subsidy model to a coherent investment architecture. The objective should not be simply to reduce the fiscal cost of NG and CGT concessions, but to convert the remaining fiscal effort into measurable housing-system outcomes: additional regulated dwellings, lower cost-rents, stronger tenant security, improved dwelling quality and retained public value.

Box 1 What the 2026–27 Budget changes do - and do not - achieve

The 2026–27 Budget represents the most significant Commonwealth reform of negative gearing and CGT settings in decades. It limits negative gearing for residential property to new builds from 1 July 2027, grandfathers existing investments, replaces the 50 per cent CGT discount with indexation for most future gains, and introduces a 30 per cent minimum tax rate on realised gains. These reforms reduce the tax preference for leveraged investment in established dwellings and partly redirect incentives toward new supply.

However, the reforms do not establish an affordable rental system. They do not require new investor-supported dwellings to be cost-rented, affordable, securely tenanted, energy efficient, allocated to lower-income households or retained as affordable rental assets. They should therefore be understood as a necessary but incomplete step. A cost-rental housing framework would provide the missing institutional mechanism by linking public fiscal support to regulated rents, mission-driven providers, asset locks and reinvestment.

15. Policy implications of CBRH expansion

15.1 Housing system outcomes

Policy objective: Improve housing affordability and reduce housing stress

- Scenario 3 (see above) expands regulated social and cost-rental housing to around **8 % of total housing stock**, reducing reliance on the private rental market for lower-income households and improving housing stability.
- This aligns with the policy objective of **improving access to secure, affordable housing**, reflected in national housing agreements and state housing strategies.
- By increasing supply of regulated rental housing, the model reduces structural reliance on high-cost private rental markets supported by demand-side subsidies such as Commonwealth Rent Assistance (CRA).

15.2 Fiscal effects and public balance sheet

Policy objective: improve fiscal sustainability and long-term public asset creation

- The CBRH model shifts housing policy toward **capital formation rather than ongoing subsidy**, creating a permanent housing asset base that generates rental income and long-term reinvestment capacity.
- Scenario 3 (see above) therefore represents a form of national **social infrastructure investment**, where public expenditure creates durable assets rather than solely supporting household consumption.
- Evidence from the AHURI inquiries and reports on housing as infrastructure and economic and social impact shows that social housing investment can generate

whole-of-government fiscal benefits, including avoided expenditure across health, justice and welfare systems.

- Governments can therefore assess housing investment using infrastructure-style appraisal frameworks that consider **net present value, avoided costs and wider economic benefits**

15.3 Interaction with Commonwealth Rent Assistance (CRA)

The policy objective proposed here is to align income assistance more transparently with regulated rents and durable affordability outcomes.

Expansion of regulated cost-rental housing could alter the distribution and rate of growth of Commonwealth Rent Assistance expenditure by changing both the rents paid by eligible households and the tenures in which assistance is received. However, CRA is an income-support entitlement rather than an affordability-gap funding mechanism, and eligible community-housing tenants may continue to receive it.

It therefore does not estimate savings in total CRA expenditure. Any such effect would require separate microsimulation against a clearly specified policy and expenditure counterfactual.

15.4 Private rental sector impacts

Policy objective: improve rental market stability

- Scenario 3 is unlikely to displace the private rental sector but may reduce demand pressures in the **lowest-income segment of the market**.
- Over time this could moderate rental volatility and improve standards by increasing competition from **professionally managed regulated housing providers**

15.5 Housing taxation and investment policy

Policy objective: improve efficiency of housing investment incentives

- The 2026–27 Budget reforms to negative gearing and CGT demonstrate that housing tax settings can be redesigned to support explicit housing-policy objectives. By limiting negative gearing to new builds and reducing the concessional treatment of future capital gains, the reforms reduce the bias toward leveraged investment in established dwellings and create a stronger link between tax preferences and additional housing supply.
- However, the reform does not yet distinguish between market-rate new supply and regulated affordable rental supply. From a cost-rental perspective, this is the key remaining policy gap. Public tax preferences should produce public housing outcomes. Future reforms should therefore attach stronger conditions to any

ongoing or preferential tax treatment, including long-term affordability, transparent rent-setting, dwelling quality standards, reinvestment obligations and asset retention.

- Scenario 3 provides a practical institutional pathway for this rebalancing. By expanding regulated social and cost-rental housing to around 8 per cent of national housing stock, government can shift housing investment incentives from speculative asset accumulation toward productive long-term rental infrastructure. This would preserve a functioning private rental market while creating a larger regulated sector capable of reducing rent stress, improving security and stabilising housing costs for lower- and moderate-income households.

15.6 Productivity and labour market outcomes

Policy objective: improve labour mobility and economic productivity

- Secure and affordable housing improves labour market participation and mobility by enabling households to live closer to employment and maintain stable living arrangements.
- Housing policy research identifies productivity gains from improved labour market matching and reduced commuting costs associated with well-located housing supply, including for modest income 'key workers'.
- These benefits align with national and state objectives to improve **urban productivity and workforce participation**.

15.7 Health system impacts

Policy objective: reduce health system costs and improve wellbeing

- Secure and affordable housing has measurable health benefits, including reductions in hospital admissions and emergency service use among vulnerable populations.
- The AHURI housing economics framework identifies **direct government health cost savings** associated with stable housing for formerly homeless households.
- These avoided costs provide a fiscal rationale for housing investment as part of broader health policy.

15.8 Justice and social policy outcomes

Policy objective: reduce homelessness and recidivism

- Access to stable housing reduces interactions with the justice system and lowers the likelihood of reoffending among formerly incarcerated individuals.
- Evidence used in housing economic analysis frameworks identifies measurable **avoided justice costs** associated with providing stable housing.
- This aligns with broader policy objectives across justice and social services to reduce homelessness and improve reintegration outcomes.

15.9 Energy efficiency and sustainability

Policy objective: support climate and energy transition

- New cost-rental housing built to modern standards can significantly improve energy efficiency and reduce household energy costs.
- Housing policy frameworks highlight environmental benefits including lower energy consumption, improved building performance and reduced carbon emissions.
- These outcomes align with national and state objectives relating to energy efficiency, emissions reduction and sustainable urban development.

15.10 Overall policy implications

Taken together, Scenario 3 represents a structural reform that aligns housing policy with broader government objectives in fiscal sustainability, productivity, social inclusion and environmental performance. The evidence base suggests that the full benefits of expanded social and cost-rental housing extend beyond housing portfolios and should be assessed through whole-of-government impact frameworks, including avoided costs and wider economic benefits.

16. Growing housing sector professional and industrial capability

The establishment of a sustained long-term large-scale investment program in a cost-rental social housing sector would provide certainty in professional and industrial capacity development.

16.1 Growing social housing sector capability

The current episodic approach to social housing sector growth program financing means that social housing providers face highly variable demand for professional competencies, in housing project design, financing, development, project management and in ongoing asset and tenancy management, as funding booms and busts. Such professional skill sets are difficult to mobilise on short timeframes with the result that higher cost external professional specialists may need to be brought in on a short-term basis without that capacity being retained by the sector, resulting in ongoing capability gaps.

A sustained and predictable stream of funding to grow a cost-rental social housing sector would enable investment in longer-term structural increase in housing provider capability through training and professional development across design, financing, development, project management and other essential competencies allowing a wider array of array of career pathways. This in turn would support greater capability and professionalisation within the sector, including signals to university and other training providers to offer a greater array of specialised courses for cost-rental social housing professionals. Creating a larger-scale and stronger professional skills and capability career development and training ecosystem would in turn lead to greater productivity and effectiveness in social housing delivery.

16.2 Expanding Australia's industrial housing production sector

Sustained cost-rental social housing investment could also support an increase in the productivity of the Australian industrial housing sector through uptake of 'modern methods of construction' such as offsite and modular fabrication. Such a program could support the Commonwealth productivity and industrial policy via the Future Made in Australia, National Reconstruction Fund and Jobs and Skills agenda. Modern methods of construction can **accelerate housing construction timeframes while increasing quality** and strengthening the diversity of the construction workforce. However modern methods of construction require large scale up-front investment in capital plant and equipment that in turn depends on certainty in terms of future construction demand. Hence a long-term large-scale program using modern methods of construction could help to further establish this sector in Australia by **smoothing out housing construction volatility** which is a major constraint (Sharam et al 2026) while also providing spillover benefits into private housing construction.

Across much of Europe, the social and affordable rental housing sector functions as a **strategic demand anchor** that can shape the structure and productivity of the residential construction industry. Countries such as France, Austria, Finland, Denmark and the Netherlands have used large, stable non-profit or regulated housing providers to create

predictable long-term pipelines of development, enabling construction firms to invest in industrialised building methods, modern methods of construction and supply-chain innovation. For example, the French social housing sector (HLM) delivers roughly 80,000–100,000 dwellings annually, representing around one quarter of national housing output, which has enabled large-scale adoption of prefabrication and industrialised timber and concrete systems (USH 2023; Ministry of Ecological Transition). Similarly, Austria's limited-profit housing associations (GBVs) and the Dutch housing associations together account for 20–30% of national housing production, providing continuous demand that supports specialised contractors, design standardisation and productivity improvements. In Finland, the state-supported ARA/VARKE system and municipal land policy ensure that a large share of new developments is delivered by regulated providers using standardised procurement frameworks and lifecycle cost criteria, which favour high-performance envelopes, prefabrication and long-term durability. By maintaining and aggregating social housing construction demand across thousands of dwellings and financing projects through long-term low-cost loans, these sectors **reduce construction cycles and capacity investment risk**, enable long-term factory-based production methods and create the scale necessary for sustained industry transformation.

Beyond productivity gains, modern methods of construction applied to social and affordable housing offer opportunities to **improve building performance** through standardised and validated building materials and techniques. European social and affordable housing sectors drive systemic improvements in circular construction, energy performance and affordability through regulatory and financial frameworks tied to long-term asset stewardship. Because non-profit and regulated providers typically retain ownership of housing for 40–80 years, they adopt **lifecycle investment models** that integrate energy efficiency, low-carbon materials and maintenance planning from the outset. Danish *almene boliger* housing associations, for example, use sector-wide procurement and the Landsbyggefonden revolving fund to finance deep renovations and energy retrofits across more than 600,000 dwellings, supporting innovation in modular façade systems and industrialised renovation techniques. In the Netherlands, housing associations managing around 2.3 million dwellings (about 30% of the housing stock) have pioneered **large-scale energy renovation programmes** such as Energiesprong, which industrialised net-zero retrofits through prefabricated building envelopes and integrated energy modules. French and Austrian providers similarly apply cost-rental frameworks that prioritise durability, energy performance and material reuse, often achieving rents significantly below market levels while maintaining high building standards. Taken together, these systems demonstrate how mission-driven affordable housing sectors act as institutional clients for the construction industry, aligning finance, regulation and procurement to deliver higher productivity, lower lifecycle costs and faster diffusion of sustainable construction technologies across the broader housing market. Such approaches if applied in a large-scale long-term social and

affordable housing growth program could strengthen efforts at **improving Australia's national construction code**, which have been delayed due to sector cost aversion.

Australia's current 'feast or famine' and project-based approach to social housing sector development limits the scope a European style social housing transformation of construction sector. However, the establishment of a long-term large-scale cost-rental housing sector with annual dwelling construction targets for offsite and modular construction could provide confidence to the modern methods of construction sector to invest in the necessary capital plant and equipment that can meet the construction required, or a portion thereof. By supporting an increase in the capacity of the modern methods of construction sector a long-term large-scale cost-rental social housing sector construction program could support the 'take-off' of this sector, supporting **wider industrial transformation of dwelling construction**, with national productivity benefits.

16.3 Strengthening public service housing policy capability

The governance framework and the implementation roadmap depend not only on new financing mechanisms and regulatory arrangements but also on the institutional capability of governments to plan, finance and steward housing development over the long term.

The governance framework described in Section 11 and the implementation roadmap outlined in Section 12 depend not only on new financing mechanisms and regulatory arrangements but also on the institutional capability of governments to plan, finance and steward housing development over the long term. Establishing a cost-rental housing system therefore requires **renewed public sector capacity** across Commonwealth, state and local governments. Without this capability, the financial and regulatory reforms proposed in earlier sections will not translate into a sustained expansion of affordable housing supply.

Housing policy in Australia historically relied on stronger public institutions than those operating today. Throughout much of the twentieth century, state housing commissions and development authorities played a central role in acquiring and servicing land, coordinating infrastructure provision and delivering housing at scale. These organisations helped shape the expansion of new suburbs and regional towns by aligning housing development with transport infrastructure, employment opportunities and essential community services. Housing policy operated not only as a social welfare intervention but also as a strategic component of economic and regional development.

Over recent decades, however, many of these institutional capacities have been reduced or fragmented as housing delivery shifted toward program-based funding and greater reliance on private development markets. Research undertaken through this report and AHURI Final Report #452 (Lawson et al 2026) highlights how this transition has weakened the coordination of housing investment, land policy and infrastructure planning. Instead of a coherent national institutional housing system, supply outcomes have increasingly

depended on short-term programs and market cycles rather than long-term planning objectives.

Re-establishing housing as a core component of national infrastructure policy requires rebuilding public sector capability in several interrelated areas.

First, governments require **stronger institutional capacity to coordinate long-term housing finance and capital investment**. As outlined in earlier sections, the cost-rental system relies on financing structures that combine public land contributions, moderate capital grants and long-term debt finance mobilised through institutions such as Housing Australia. Establishing and managing these financing frameworks requires specialist public expertise in housing finance, infrastructure investment and long-term asset management.

Second, governments need **renewed capacity in land assembly, strategic planning and development coordination**. Housing infrastructure must be planned in conjunction with transport networks, employment centres, utilities and community facilities. State and local governments therefore play a crucial role in aligning land policy with housing supply through instruments such as public land leasing, land banking, inclusionary zoning and value-capture planning mechanisms. Rebuilding expertise in precinct planning, land development and infrastructure coordination will be essential to ensure that cost-rental housing is delivered in well-located neighbourhoods and growth areas rather than confined to residual sites.

Third, governments must strengthen their capacity to **steward publicly supported housing assets over the long term**. International experience demonstrates that successful cost-rental systems rely on robust institutional stewardship to retain and protect public investment and maintain housing quality over the long term, not just in the procurement phase. Regulatory institutions must therefore monitor provider performance, ensure that cost-rent principles are followed, and verify that operating surpluses are reinvested into maintenance, renewal and future housing supply. Evidence from international regulatory systems indicates that such oversight is essential to sustain affordability and prevent value leakage from publicly supported housing assets.

Encouragingly, elements of this institutional capacity are already re-emerging in Australia. Housing policy coordination between Commonwealth, state and local governments has strengthened in recent years, while new financing mechanisms and regulatory reforms are being explored across several jurisdictions. There is now a *National Housing Plan* (Australian Treasury 2026), that attempts to coordinate policies and programs across government portfolios and with states and territories. Research undertaken through the **Good Growth regulatory framework** similarly emphasises that long-term investment programs, clear operating principles for non-profit providers and stronger regulatory institutions can support sustained expansion of social and affordable housing supply.

The development of a cost-rental housing system provides an opportunity to consolidate and extend these emerging institutional capabilities. By rebuilding public sector expertise in

housing finance, land development and regulatory oversight, governments can re-establish housing as a form of essential infrastructure—planned alongside transport, employment and community services—and ensure that Australian cities and regional towns are able to support sustainable economic development, social inclusion and environmental resilience over the long term.

In this context, public sector capacity building should be understood not as a temporary administrative task but as a long-term institutional investment. Just as infrastructure agencies maintain expertise in transport or energy systems, governments must maintain durable capability in housing finance, land development and asset stewardship to sustain the growth of a national cost-rental housing sector.

17. Conclusion: the path to reform

Australia's housing affordability crisis reflects not simply a shortage of supply but the absence of a coherent institutional framework capable of producing affordable rental housing at scale. Over the past three decades, Commonwealth housing policy has evolved through a sequence of discrete programs: capital grants, tax incentives, rapid procurement schemes and time-limited affordability programs. While each initiative has delivered some housing in the short term, collectively these schemes have failed to establish a system capable of establishing and sustaining a long-term growth trajectory in affordable housing supply.

Evidence from the AHURI research into Australia's multi-provider housing system (Lawson et al 2026) clearly demonstrates that **the current policy framework is fragmented, episodic and failing** to sustain a growth trajectory for social housing. For more than four decades, social housing has declined as a share of the national housing stock, development programs have been irregular, and providers have operated within complex and inconsistent financial, subsidy and regulatory environments. Without stable and coherent financing structures and clear institutional mandates, social and affordable housing providers are unable to accumulate assets, reinvest surpluses or maintain continuous development pipelines. The result is a system that produces a trickle of ongoing development with occasional booms in complex projects but does not produce enduring affordability outcomes.

At the same time, **housing policy instruments are disconnected** across taxation, social security and housing investment (Dodson and Davies 2024). Demand-side subsidies support tenants facing high rents in the private market, while tax concessions (up to 30 June 2026) have encouraged property investment without guaranteeing affordability or tenant protections. Public investment therefore circulates through the housing system without consistently producing durable affordable housing assets.

The proposal presented in this report addresses this structural problem through the creation of a national cost-rental housing sector. Rather than relying on temporary incentives or complex financing arrangements, a cost-rental system links rents directly to the efficient lifecycle costs of housing provision. By combining cost-based rents with concessional finance, public land contributions and targeted capital support, the system enables housing providers to deliver **stable, predictable rents** while maintaining long-term financial sustainability.

Proof-of-concept modelling demonstrates that such a system is feasible within Australia's institutional and fiscal settings. Initial public investment supports the early expansion phase, while over time operating surpluses and capital repayments are recycled through a reinvestment fund that finances new housing development. In this way, public investment becomes a form of seed capital for a housing infrastructure system capable of sustaining its own growth.

Importantly, the level of public investment required to initiate this system is modest relative to existing housing subsidies. Redirecting a small share of current tax expenditures associated with housing investment could provide the capital base required to establish a cost-rental sector without significantly **increasing overall housing expenditure**. The reform therefore lies not in expanding fiscal commitments but in restructuring the mechanisms through which housing assistance is deployed.

Institutional design is central to the transition to a social and affordable housing growth trajectory. A national cost-rental sector requires a **coherent regulatory framework** that aligns finance, rent-setting and asset management with long-term affordability objectives. This includes nationally standardised cost-rent accounting, prudential oversight of provider finances, and regulatory safeguards to ensure that operating surpluses are reinvested in housing supply. At the same time, effective regulation must address the power imbalance between providers and tenants by strengthening transparency, consumer protections and tenant representation within the housing system.

Equally important is the development of a **mission-driven provider sector** capable of operating at scale. International experience demonstrates that durable affordable housing systems rely on specialised housing institutions with long-term mandates to develop, manage and reinvest housing assets. By establishing a regulated cost-rental framework (see also concept legislation in the appendix of this report), Australia can support the emergence of such institutions while ensuring that public support remains tied to the provision of affordable housing over the lifetime of the asset.

Finally, investment, allocation and access policies must be designed to serve both **social objectives and the long-term system sustainability** to maintain decent quality housing and grow the sectors contribution to housing options. By combining priority households supported through income-related rents with low- and moderate-income workers able to pay efficient cost-rents, and a limited proportion of open-access tenants, the system stabilises provider revenues, enables internal cross-subsidisation, and reduces long-term reliance on public operating assistance. This allocation model supports financially resilient providers, socially mixed communities, and the broad political legitimacy required for sustained sector expansion over multiple investment cycles.

Taken together, the reforms set out in this report represent a shift in Australian housing policy from fragmented, program-based interventions toward deliberate **national long-term institution building**. The strategic task is not simply to finance additional housing projects, but to establish a durable cost-rental housing system governed by clear rules on rent-setting, reinvestment and asset stewardship. By embedding stable finance, transparent regulation and mission-driven providers within a national cost-rental framework, Australia can redirect selected rental-sector subsidies and tax expenditures into long-term regulated housing assets, preserve affordability across generations, and create a self-reinforcing housing

system capable of growing affordable rental supply at scale while supporting inclusive, well-functioning communities.

This report has presented policy review and scenario-based proof-of-concept modelling to argue that Australia should establish a long-term large-scale program of social and affordable housing construction based on a cost-rental financing and operating model. This model includes potential for large-scale capital financing that would create a durable social and affordable housing stock at a rate and size that could bring Australia up to the OECD average of 8 per cent of stock by 2047. This requires both the financing arrangements and a national institutional framework that can support efficient capital inputs and operational management of social and affordable dwellings. Implementing such a program would move Australia beyond the current pattern of trickle growth accompanied by short-term and insufficient booms.

The scenarios we have tested suggest that a long-term growth program could be funded for approximately similar levels of subsidy as currently accrue to the private rental sector through Commonwealth Rent Assistance, negative gearing and the capital gains tax exemption (or equivalent revenues generated after 30 June 2026). These funds could be allocated to support a growth-oriented cost-rental social and affordable housing sector.

At its essence the proposed move to a large-scale cost-rental social and affordable housing system involves a shift in focus from supporting private rental housing delivered by speculative investor-landlords to a system supporting social and affordable housing delivered by efficient and effective regulated publicly-oriented housing providers. Rather than the unregulated, transparent and opaque private rental sector that houses most low- and modest-income Australians a national cost-rental social and affordable housing system would be both financially efficient while also transparent and accountable.

The past four decades of Commonwealth rental-housing assistance and tax policy have been founded on the assumption that the private market, if channelled sufficient public subsidy without transparency or accountability, would deliver quality, affordable and secure housing at lower cost than public or social regulated sectors. That assumption has failed miserably in delivering a permanent and affordable rental housing stock for low-income households. The misallocation of government subsidies to the opaque and unaccountable private rental sector is a factor in the current housing supply and affordability crisis. It is time to return to an ambitious national program to expand and evolve Australia's residualised social and affordable sector into a fiscally efficient and socially effective large-scale long-term vehicle to build Australia out of the housing crisis and create a durable asset for future generations.

Appendix 1. Legal concept for a Cost-Rental Housing Act

The following legislative outline adopts Australian statutory drafting conventions and institutional arrangements to translate these principles into an implementable legal framework. This legislative bill concept is designed to replace episodic housing programs with a permanent institutional system.

Housing Tax Reform Receipts and Cost-Rental Investment
The Commonwealth may appropriate, allocate or otherwise direct funds equivalent to all or part of the fiscal savings arising from reforms to housing-related tax concessions, including negative gearing and capital gains tax concessions, to the National Revolving Housing Fund or equivalent cost-rental investment mechanism. Such funds must be applied to purposes consistent with this Act, including capital grants, concessional loans, land-equity contributions, rent-gap support and prudentially supervised investment in accredited cost-rental housing providers.

Part 1 — Preamble Cost-Rental Housing Act

1. Short title

This Act may be cited as the Cost-Rental Housing Act 2026.

2. Commencement

Provisions commence on Proclamation or 12 months after Assent.

3. Objects of the Act

The objects are to:

a. establish a permanent national cost-rental housing system;

b. ensure long-term affordability through cost-recovery rents;

c. strengthen public and community housing sector capacity;

d. support counter-cyclical housing supply;

e. ensure public investment creates durable housing assets;

f. promote housing as essential infrastructure.

Part 2 — Interpretation and Key definitions

- Cost-rent, is rent calculated solely from audited lifecycle costs.
- Certified provider, is entity accredited under Part 5.
- Limited-dividend entity, is a provider subject to statutory return cap.
- Public-interest housing, is housing operated under this Act.

- Revolving Housing Fund, is a national fund established under Part 6.

- Eligible costs, are housing provision costs and factors, including land, construction, finance, maintenance, lifecycle renewal and management costs (mirroring Austrian statutory definition of eligible costs

- Surplus, is revenue exceeding permitted cost-rent.

Part 3 — Establishment of National Cost-Rental Housing System

Division 1 — Creation

1. A national regulated housing sector is established, known as the

National Cost-Rental Housing System (NCRHS).

2. The system shall operate alongside existing Commonwealth, state and territory housing programs.

Division 2 — Principles

The system must operate according to statutory principles:

- cost-recovery rents

- non-profit or limited-profit operation

- reinvestment of surpluses

- permanent affordability

- public accountability

These reflect international best practice showing long-term system sustainability depends on legal institutional frameworks rather than temporary programs

Part 4 — Cost-Rent Regulation

1. Statutory rent-setting formula

Rent must equal: > Total eligible lifecycle costs ÷ number of dwellings

Based on permitted actual costs

Market benchmarks must not be used.

2. Independent approval

Cost-rent calculations must be:

- audited annually

- approved by regulator

- publicly disclosed

This addresses transparency gaps identified in current Australian delivery models

3. Return limits

Providers may earn returns only on equity invested and only up to a capped rate prescribed by regulation.

4. Surplus reinvestment obligation

All surpluses must be applied to:

- maintenance

- renewal

- new supply

and cannot be distributed as dividends.

Part 5 — Provider Accreditation

1. Establishment of certification system

Only certified providers may deliver cost-rental housing.

2. Eligibility

Providers must:

- operate on non-profit or limited-profit basis

- maintain asset locks

- comply with reporting requirements

- demonstrate financial capacity

This mirrors EU-aligned models requiring licensed providers with governance obligations

3. Classes of provider

Regulations may prescribe categories including:

- State housing authorities

- Community housing providers

- Local government housing corporations

- Cooperative housing entities

- Aboriginal-controlled housing organisations

Part 6 — National Revolving Housing Fund

1. Establishment

A statutory fund is established, known as the National Housing Investment and Renewal Fund.

2. Functions

The Fund may:

- provide concessional loans
- issue housing bonds
- provide guarantees
- reinvest loan repayments

[Revolving funding structures are proven to enable sustained development capacity in European systems]

3. Capital sources

Funds may derive from:

- Commonwealth appropriations
- loan repayments
- bond issuance
- state contributions
- institutional investors

4 Housing Tax Reform Receipts and Cost-Rental Investment

- The Commonwealth may appropriate, allocate or otherwise direct funds equivalent to all or part of the fiscal savings arising from reforms to housing-related tax concessions, including negative gearing and capital gains tax concessions, to the National Revolving Housing Fund or equivalent cost-rental investment mechanism.

- Such funds must be applied to purposes consistent with this Act, including capital grants, concessional loans, land-equity contributions, rent-gap support and prudentially supervised investment in accredited cost-rental housing providers.

Part 7 — Role of Housing Australia

Housing Australia must:

a. operate as national development bank for cost-rental housing;

b. pool borrowing across providers;

c. issue government-backed housing bonds;

d. manage and allocation needs based capital investment and subsidy programs

d. publish financing costs and performance.

Part 8 — Land and Asset Safeguards

8.1. Public-interest use of Commonwealth land

Where government-owned land is used for cost-rental housing:

- land must remain in public ownership and may be leased only to an approved housing provider;
- leases must restrict the land to regulated cost-rental housing and provide appropriate monitoring, enforcement and step-in rights;
- sale, transfer, conversion or material encumbrance must require parliamentary or other prescribed statutory approval;
- disposal must protect existing tenants and result in equivalent or greater replacement housing; and
- proceeds must be reinvested exclusively in regulated cost-rental housing.

8.2. Asset dedication and asset lock

Cost-rental dwellings developed with public land, funding or concessional finance must:

- remain dedicated to regulated cost-rental use for their useful life;
- be protected by an enforceable asset lock recorded in legislation, on title, in the lease or through the funding agreement;
- not be sold, converted, refinanced or transferred outside the regulated system without regulatory approval;
- retain the asset lock following any transfer, restructuring, enforcement or change in provider; and
- be transferred only to an eligible public or regulated housing provider.

8.3. Disposal, redevelopment and replacement

Disposal or redevelopment may be approved only where:

- the asset is no longer safe, serviceable or suitable, or redevelopment will produce a better housing outcome;
- tenants receive suitable alternative accommodation and appropriate relocation protections;
- there is no unjustified loss of regulated housing capacity;
- replacement dwellings are subject to an equivalent asset lock; and

- all proceeds are paid into a restricted housing fund and reinvested in regulated housing.

8.4. Enforcement

The regulator should be empowered to:

- maintain a register of dedicated land and assets; -
- monitor compliance and require regular reporting;
- prevent or remedy unauthorised transactions;
- impose conditions, penalties or funding sanctions; and
- arrange transfer to another approved provider where necessary to protect tenants and preserve the housing stock.

Part 9 — Allocation Framework

Allocation must:

- prioritise households in greatest need

- include moderate-income households

- support social mix and access to services

Eligibility thresholds must be updated annually using national income distribution data.

Broad eligibility improves system stability and avoids residualisation, as demonstrated in successful European systems.

Part 10 — Tenant Rights and Participation

The following will be minimum standards for residential tenancies let under the Act

1. Tenants must receive minimum 5-year leases.

2. Evictions require judicial review.

3. Tenant advisory councils must be established.

Participatory governance is recommended for legitimacy and performance monitoring

Part 11 — Regulatory Authority

1. Establishment

An independent statutory authority is established:

> Australian Cost-Rental Housing Regulator

2. Functions

The Regulator must:

- approve rent calculations
- audit providers
- monitor financial flows
- enforce compliance
- publish annual sector report

Independent oversight is necessary to prevent opaque financial structures and value leakage

Part 12 — Transparency and Reporting

Providers must publicly disclose:

- project costs
- financing sources
- rent calculations
- surplus use
- executive remuneration

Part 13 — Climate and Quality Standards

All projects must meet:

- nationally prescribed energy performance standards
- climate resilience criteria
- accessibility requirements

Absence of such requirements risks long-term cost inefficiency and tenant burden

Part 14 — Intergovernmental Framework

The Minister must enter agreements with states and territories to:

- coordinate funding
- align planning rules
- identify land supply

Part 15 — Transition and Integration

Existing programs (including HAFF-funded dwellings) may be transitioned into the NCRHS where they meet certification standards.

Part 16 — Review

Statutory review is required every 5 years including:

- affordability outcomes
- supply growth
- fiscal impacts
- tenant wellbeing

Appendix 2. Cost rental modelling technical appendix

This appendix provides a detailed explanation of the modelling framework underpinning the analysis, intended for readers with a technical interest in the structure, assumptions, and fiscal dynamics of the cost-rental housing system model. It sets out the core parameters and mechanisms used to simulate sector expansion, public investment, rental flows, and long-term asset formation.

In particular, the appendix clarifies key modelling assumptions, explains the treatment of capital and recurrent fiscal flows, and demonstrates how public investment translates into an accumulated housing asset base over time. It presents sensitivity testing undertaken to assess the robustness of results to variations in interest rates, tenant composition, and development costs, and transparently acknowledges the model's limitations.

A2.1. Overview of the modelling framework

The modelling represents a simplified financing structure intended to illustrate the dynamics of a cost-rental housing system rather than the detailed financing structure of individual projects. The model simulates the expansion of a national cost-rental housing sector under alternative growth scenarios.

The baseline modelling assumes that land for cost-rental housing developments is provided through public land policy mechanisms, including land banking, land leasing or discounted land contributions. This reflects international practice in successful cost-rental systems where public land policy plays a central role in maintaining housing affordability. If land were acquired at full market value, development costs and required rents would increase. Governments could respond through a combination of capital grants, land policy or cross-subsidisation within mixed-income developments.

Table 9 The role of land and cost implications

Land scenario	Cost implication
Public land contribution	Baseline model
Discounted public land	Moderate cost increase
Market land purchase	Significant cost increase

For each year of operation, the model estimates:

- number of dwellings built
- capital investment required
- rental income generated
- operating costs
- debt servicing costs

- rent-gap assistance
- accumulated housing assets.

The model then calculates the **net fiscal impact over time**, including the transition from initial public investment to long-term reinvestment capacity.

A2.2 Data sources

The modelling draws on a range of Australian national datasets commonly used in housing policy analysis. These include ABS population and housing statistics, Productivity Commission Report on Government Services data on social housing costs, Rawlinsons quantity survey and construction cost benchmarks, Reserve Bank financial indicators, and evidence from AHURI research on the Australian social housing system.

Table 10 The data used in the modelling of Cost-Based Rental Housing

Data type	Source
Population and household projections	Australian Bureau of Statistics (ABS) Household and Family Projections, Australia
Household composition and income distribution	ABS Census 2021 (adjusted for inflation)
Operating costs of social housing providers	Productivity Commission Report on Government Services (ROGS) (Table 18A.50)
Construction costs	Rawlinsons' Construction Cost Guide (Rawlinsons Quantity Surveyors 2025)
Interest rates and financing benchmarks	Reserve Bank of Australia long-term government bond yields and housing finance statistics
Inflation and price trends	ABS price statistics
Housing program and subsidy data	Commonwealth and State housing program reports
Comparative institutional and policy benchmarks	AHURI Final Report #452 (Lawson et al 2026) and related AHURI research

A2.3 Decent standard of design, construction

The model assumes that new dwellings meet contemporary **housing quality and sustainability standards, finished to a moderate standard** (Rawlinsons Quantity Surveyors 2025). Social and affordable housing units would be visually indistinguishable from all other units.

These standards include:

A2.3.1 Energy performance

Energy performance assumptions[5] in the modelling are consistent with contemporary Australian building standards and sustainability objectives for residential development. These standards aim to reduce household energy consumption, improve thermal comfort and protect residents from rising energy costs. Energy efficiency is therefore treated not only as an environmental requirement but also as an affordability and housing quality measure, since lower energy consumption reduces ongoing operating costs for both tenants and housing providers.

Key assumptions include:

- Compliance with the National Construction Code (NCC) energy efficiency standards, including the current minimum 7-star NatHERS thermal performance requirement for new residential buildings, which is designed to reduce heating and cooling demand through improved building fabric and passive design.
- High-performance building envelopes, incorporating effective insulation, high-performance glazing, shading and climate-responsive building orientation to minimise heat loss in winter and heat gain in summer, thereby improving indoor comfort and reducing reliance on mechanical heating and cooling.
- Efficient electric heating and cooling systems, particularly the use of high-efficiency reverse-cycle heat pumps and other low-energy building services that significantly reduce operational energy consumption compared with traditional systems.
- Integration of passive solar design principles, including building orientation, natural daylight access and cross-ventilation to reduce energy demand and enhance indoor environmental quality.

[5] Energy performance standards referenced here are established under the Australian Building Codes Board National Construction Code (NCC), which introduced a minimum **7-star NatHERS thermal performance requirement for new residential buildings from 2022**. NatHERS (Nationwide House Energy Rating Scheme) assesses the thermal efficiency of residential building design based on climate-specific modelling of heating and cooling demand. Additional guidance on passive solar design, energy-efficient housing and building performance is provided through the Commonwealth Scientific and Industrial Research Organisation *YourHome* design guide and through policy frameworks and technical guidance issued by the Australian Government Department of Climate Change, Energy, the Environment and Water relating to residential energy efficiency and low-carbon buildings.

- Potential integration of renewable energy systems, such as rooftop solar photovoltaic generation or shared energy systems within developments, to reduce operational emissions and stabilise long-term energy costs.

These assumptions reflect widely recognised building performance standards in Australia that support energy-efficient, climate-responsive housing, while also aligning with emerging national and state policy objectives for low-carbon and net-zero residential buildings. Improved energy performance reduces household utility costs, improves thermal comfort and health outcomes for residents, and reduces lifecycle operating costs for housing providers.

A2.3.2 Urban design and density

Developments are assumed to align with strategic planning and urban design principles promoted in Australian planning practice, including those supported by the Planning Institute of Australia and state metropolitan strategies[6]. These principles emphasise well-designed, compact and connected neighbourhoods that support housing diversity, affordability and sustainable urban growth.

Key assumptions include:

- Transit-oriented medium density housing, with new development located near public transport corridors, employment centres and community services to reduce car dependency and support sustainable travel behaviour.
- Mixed-tenure neighbourhoods, integrating social housing, affordable cost-rental housing and moderate-income housing within the same developments to promote social inclusion and long-term community stability.
- Integrated infrastructure planning, ensuring that housing growth is coordinated with transport, schools, health services, parks and utilities so that new communities develop with adequate social and physical infrastructure.
- Walkable urban form, with housing designed around active streets, local centres and high-quality public space to support everyday accessibility and reduce reliance on private vehicles.

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[6] Australian best practice in housing density and urban design is reflected in guidance issued by national and state planning institutions and professional bodies. The Planning Institute of Australia advocates strategically planned increases in housing density in locations supported by transport, infrastructure and services, accompanied by strong urban design controls and housing diversity. Relevant policy frameworks include the Planning Institute of Australia (2023) *Planning for the Housing We Need* policy position; the New South Wales Department of Planning and Environment *Better Placed: An Integrated Design Policy for the Built Environment of NSW* (2017); the Government of New South Wales Transport-Oriented Development Program (2023); and the Victorian Department of Transport and Planning *Better Apartments Design Standards* and *Apartment Design Guidelines for Victoria* (2017–2021). These frameworks emphasise well-located medium-density housing, high-quality urban design, walkable neighbourhoods, access to public transport, housing diversity and integration with social infrastructure. Together they establish widely accepted Australian benchmarks for delivering higher-density housing while maintaining liveability, environmental performance and community amenity.

- Efficient land use and appropriate density, encouraging medium-density housing forms such as apartments, terraces and courtyard housing that provide housing diversity while maintaining high urban design standards.

These assumptions reflect widely recognised planning principles in Australia that support **compact cities, efficient infrastructure provision and improved housing affordability**, while also aligning with international best practice in sustainable urban development.

A2.3.3 Dwelling size and mix

Seven different dwelling typologies are included in the dwelling mix. Dwelling sizes are based on current market provision. All flats are assumed to be in mid-rise buildings, all town are assumed to be double story, and all houses single story. Lot size is based on current market provision, with site coverage being 75% to allow for open space and permeable surfaces. All scenarios had the same proportions of dwellings, with 70% being flats, 10% being townhouse, and 20% being houses. This supports in-fill objectives for most metropolitan cities in Australia.

Table 11 Dwelling assumptions

Dwelling type	Size	Proportion of stock
1 bedroom flat	45m^2 plus 8m^2 balcony	30%
2 bedroom flat	70m^2 plus 8m^2 balcony	30%
3 bedroom flat	95m^2 plus 12m^2 balcony	10%
2 bedroom townhouse	90m^2 (double story) on 60m^2 lot	5%
3 bedroom townhouse	105m^2 (double story) on 70m^2 lot	5%
3 bedroom house	105m^2 (single story) on 140m^2 lot	15%
4 bedroom house	160m^2 (double story) on 213m^2 lot	5%

A2.3.4 Parking assumptions

Parking provision assumptions in the modelling reflect contemporary Australian planning practice and international experience indicating that lower parking ratios are appropriate for housing located in areas with good access to public transport and services.

Parking assumptions draw on contemporary Australian planning frameworks that increasingly support reduced parking provision for well-located housing developments. Relevant guidance includes policies promoted by the Planning Institute of Australia advocating location-sensitive parking standards and transit-oriented development; the New South Wales Department of Planning and Environment Transport-Oriented Development Program and associated planning reforms allowing reduced parking requirements near rail stations and high-frequency public transport; and the Victorian Department of Transport and

Planning provisions that enable parking reductions where developments are located in areas with strong public transport accessibility and active transport options. International evidence on the relationship between parking requirements, housing affordability and development feasibility is also reflected in research by the Organisation for Economic Co-operation and Development and urban planning literature on parking reform and transit-oriented development.

Excessive parking requirements increase construction costs, reduce the number of dwellings that can be delivered on a site, and can undermine the affordability objectives of affordable and social housing programs. For this reason, many planning frameworks now allow reduced parking requirements where such developments are located among **transit-oriented, walkable or mobility-rich environments**. Under a cost-based rental approach, these reduced costs are passed on reduced cost rents.

Key assumptions include:

- **Reduced parking ratios in transit-oriented locations**, recognising that developments located near frequent public transport, employment centres and services typically have lower car ownership and travel demand.
- **Location-sensitive parking provision**, where parking requirements vary according to urban context and access to transport infrastructure rather than applying a single minimum standard across all areas.
- **Integration with sustainable transport planning**, including access to public transport, walking and cycling infrastructure, shared mobility services and car-share schemes that reduce reliance on private vehicles.
- **Efficient land use in higher-density housing**, recognising that underground or structured parking can significantly increase development costs and reduce housing supply if applied excessively in affordable housing projects.

Typical parking assumptions used in the modelling are consistent with planning practice that differentiates parking requirements by location and type of dwelling:

Table 12 Parking ratios by location

Location	Typical parking ratio
Inner urban areas	0.3–0.5 spaces per dwelling
Middle suburban areas	0.5–0.8 spaces per dwelling
Outer suburban areas	0.8–1.0 spaces per dwelling

Table 13 Parking spaces per dwelling type

Dwelling type	Parking spaces assumed
1 bedroom apartments	0.4 spaces
2 bedroom apartments	0.7 spaces
3 bedroom apartments	1.0 space
Townhouses and houses	2.0 spaces

These assumptions reflect the growing use of **transport-oriented development and mobility-based planning approaches** in Australian cities, where parking provision is calibrated to transport accessibility and housing affordability objectives. Reduced parking requirements can significantly lower development costs, improve land-use efficiency and enable higher housing yields on constrained sites.

A2.4 Key modelling assumptions

The model uses illustrative assumptions combining conservative financing parameters with favourable land and capital-policy settings, including relatively short loan terms and no private equity contribution. In practice, longer-term finance or provider equity could reduce required operating assistance.

A2.4.1 Financing parameters

The model requires eight basic parameters covering the loan term, interest rate, share of capital grant, land contribution (from State/Territory government), extent of provider equity, operating costs plus expected cost inflation and the dwelling lifespan. The values for these parameters are set out below (Table 14).

Table 14 Key financial parameters

Parameter	Assumption in model
Loan term	25 years
Interest rate	4.5%
Capital grant share	25% of development cost
Land contribution	100% public or mission-provider land equity contribution; land acquisition cost excluded from project debt but not from total public resource cost.
Provider equity	Not assumed in baseline model
Operating costs	$12,000 per dwelling per year, adjusted for inflation
Operating cost inflation	CPI (~2.5%) 2.5% is a long-run baseline; higher-inflation cases required." Current inflation is materially higher, including 3.8 per cent CPI and 5.8 per cent new-dwelling price growth in June 2026.
Dwelling lifespan	~80 years

The baseline model assumes a 25-year loan amortisation period, which reflects a relatively conservative financing assumption compared with international cost-rental systems. In many European housing systems, development finance is provided over longer terms of 35–45 years, often supported by public financial institutions or government guarantees. Longer loan maturities reduce annual debt servicing costs and therefore reduce required rent levels. The modelling presented in this report therefore represents a cautious estimate of financing costs rather than an optimised cost-rental financing structure.

Extending loan maturities to 35–40 years would reduce annual debt service costs and therefore reduce required rent-gap assistance. Most cost-rental housing systems rely on **much longer-term finance** (Table 15), typically supported by public financial institutions or government guarantees.[7]

[7] International cost-rental housing systems typically rely on long-term, low-cost finance supported by public financial institutions, regulated savings schemes or government guarantees. Loan maturities of **30–40 years or longer** are common in European affordable housing systems. In Austria, limited-profit housing associations finance developments through long-term loans typically structured over 35–40 years under the Limited-Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz). Danish non-profit housing is financed through long-term mortgage lending and the National Building Fund under the *Almenboligloven*, typically over 30–40 years. In Finland, cost-rental housing financed under the state-supported ARA system (now administered through the Ministry of the Environment) also relies on long-term loans and interest subsidies, often exceeding 35 years. In France, social and affordable housing providers access long-term loans through the Caisse des Dépôts et Consignations financed by the regulated Livret A savings system, with maturities extending up to 80 years for some housing programs. Comparative analysis of these systems is provided in research by Housing Europe (Pittini. Et al, 2021), the Organisation for Economic Co-operation and Development (2021) and the United

Table 15 International comparators for CBRH loan terms

Country	Typical loan term
Austria	35–40 years
Denmark	30–40 years
Finland	35–45 years
France (CDC Livret A loans)	up to 80 years

A2.4.2 Land costs

The baseline modelling assumes that land for cost-rental housing developments is provided through public land policy mechanisms, including land banking, land leasing or discounted land contributions. This reflects international practice[8] in successful cost-rental systems where public land policy plays a central role in maintaining housing affordability. **Land policy is therefore part of the housing system**, not an external factor.

Publicly contributed land is not costless. Its market value or opportunity cost should be reported as an in-kind public capital contribution when assessing total government support and system costs.

In practice, most successful cost-rental systems rely heavily on public land policy, including:

- **Vienna's *wohnfonds_wien*** (Vienna Land Provision and Urban Renewal Fund) undertakes land banking, where the city acquires and prepares development land and releases it through developer competitions with regulated land price ceilings and mandatory affordability quotas, ensuring that a large share of new housing is delivered by limited-profit or subsidised providers at cost-based rents.
- **Helsinki's municipal land leasing**, where the city retains ownership of most residential land and leases plots to housing providers under long-term ground leases, with lease conditions and pricing structured to support a tenure mix and ensure that regulated affordable and cost-rent housing can be delivered at controlled development costs.
- **The Paris SRU law and ZAC land development is successful in** assisting municipalities to assemble and service land within designated development zones (*Zones d'Aménagement Concerté*) and capture part of the resulting land value uplift to

Nations Economic Commission for Europe (2021), which highlight the role of long-term public or quasi-public finance in enabling cost-based rental housing models.

[8] Singapore **state land supply**, where the government acquires land through the Land Acquisition Act and allocates it for housing development through the Housing and Development Board and the Urban Redevelopment Authority.

finance infrastructure and support the delivery of social and affordable housing within urban renewal areas.

If land for cost-rental social and affordable housing was acquired at full market value, development costs and required rents would increase. Governments could respond through a combination of capital grants, land policy or cross-subsidisation within mixed-income developments.

A2.4 3. Tenant mix assumptions

The modelling in this report assumes a **mixed-income allocation model** consistent with the structure of many cost-rental housing systems internationally. This includes rent subsidised social housing for very low-income households, affordable cost-rent for low-moderate income households, and moderate rent housing for middle income households.

Table 16 CBRH tenant mix integrates social, affordable and PRS allocative norms

Tenant group	Income category	Income bracket (percentile)	Share **of stock allocations**
Social housing	Very low	<=20th	40%
Affordable cost-rent	Low-moderate	20th-40th	35%
Moderate income	Middle	40th-60th	25%

This distribution balances three objectives: ensuring access for very-low-income households, maintaining financial sustainability through cross-subsidisation, and supporting socially mixed communities.

Approximately **40% of dwellings are allocated to very-low-income households**, who typically pay income-related rents far below the cost-rent required to cover development and operating costs. The gap between tenant rent and cost-rent is covered through rent-gap assistance. The remaining dwellings are occupied by households paying income-based rent, capped at the lesser of 25% above cost-based rents or market rent.

This mix allows **internal cross-subsidisation within the housing portfolio**, reducing reliance on ongoing public subsidy while maintaining the social housing mission. It also reflects international practice in cost-rental systems where a mix of tenant incomes supports both financial stability and social inclusion.

The tenant mix also affects the fiscal trajectory of the system. Increasing the share of very-low-income households reduces average rental income and increases required rent assistance.

One sensitivity test considers the impact of increasing the share of very-low-income tenants from **40%** of the dwelling stock to **50%**. This scenario was explored during the modelling

review by adjusting the assumed tenant mix and estimating the resulting change in rent-gap assistance.

Indicative modelling results suggest:

Table 17 Implications of increasing the share of social housing to 50%

Indicator	Base scenario	50 % social housing
Peak rent-gap assistance	~$10.5 billion	~$12 billion
Fiscal crossover	~2058	~2060

Increasing the share of social housing therefore:

- increases necessary rent-gap assistance
- slightly delays the time at which the system becomes financially self-reinforcing.

However, the modelling indicates that the overall structure of the system remains financially viable, with the housing asset base continuing to grow and subsidy requirements declining over time. The tenant mix has a range of consequences for consideration by policy makers.

A2.4.4. Cost-rent calculation

For the purposes of the modelling, annual cost rent is calculated as:

$$\text{Cost rent} = \text{annual debt-servicing costs} + \text{operating costs}$$

Debt-servicing costs are calculated on the debt remaining after land equity, capital grants and other upfront contributions have been deducted. The model assumes a 4.5 per cent interest rate and a 25-year loan term. Operating costs are initially set at $12,000 per dwelling and increase annually with inflation.

Tenant rents are modelled at 30 per cent of household income for those on the lowest income tier. Where the rent collected from the tenant is below the cost rent, the difference represents the rent-gap subsidy required from government. Where collected rent exceeds cost rent, a surplus is generated.

Because nominal debt repayments remain broadly stable while rents and operating costs increase with inflation, and because debt repayments cease when the loan is repaid, the financing component of cost rent declines in real terms over time. Under the model, resulting surpluses are retained within the system and used to:

- offset and progressively revolve the initial capital contribution

- support cross-subsidisation of households whose income-based rents fall below cost rent; and
- contribute to a reinvestment fund supporting future capital grants and sector growth.

A2.5. Rent-gap subsidy

In the cost-rent modelling for this research, the affordability of social housing dwellings for tenants is maintained through a **rent-gap subsidy** that bridges the difference between the economic cost of providing the dwelling (the *cost-rent*) and the rent that low-income tenants can reasonably pay. This mechanism allows the housing provider to recover development, financing and operating costs while ensuring that rents remain affordable for households with limited incomes.

The **cost-rent** represents the rent required to cover the full cost of housing provision over time. It typically includes:

- debt servicing costs associated with development finance
- operating expenses such as administration, insurance and repairs
- lifecycle maintenance and management costs
- reserves for long-term capital replacement.

By contrast, **tenant rents in social housing are usually income-based**, meaning that rents are set as a proportion of household income rather than the cost of housing provision. In Australia this commonly involves rent levels of around **25–30% of assessable household income**, ensuring that housing remains affordable for very-low-income households.

The rent-gap subsidy therefore represents the difference between the cost-rent required for financial sustainability and the lower rent that tenants can afford.

The rent-gap subsidy can be expressed as:

$$\text{Rent-gap subsidy} = \text{Cost-rent} - \text{Tenant rent}$$

Where:

- **Cost-rent** = rent required to recover development, financing and operating costs
- **Tenant rent** = income-based rent paid by tenants.

Under this arrangement:

- social housing tenants pay income-related rents, ensuring affordability
- governments provide a rent-gap subsidy that allows providers to meet cost-recovery requirements.

In the early years of a housing development, the rent gap tends to be larger because **debt servicing costs are highest early in the loan amortisation period**. As loans are gradually

repaid, the capital component of the cost-rent declines. This reduces the required subsidy over time and increases the provider's capacity to reinvest surpluses into additional housing supply.

As a result, the **rent-gap subsidy typically declines over the lifecycle** of the housing portfolio, particularly once development loans have been repaid and buildings transition into a lower-cost operating phase. This dynamic is a key feature of cost-rental systems, allowing the housing stock to become progressively more financially self-sustaining as the asset base matures. Once all loans are repaid, ongoing rental income typically generates increasingly large surpluses relative to residual costs.

A2.6. Capital investment requirements

The model assumes a financing structure typical of many regulated affordable housing systems, combining **public capital support with long-term debt finance and limited provider equity**. This structure reduces the cost of capital while maintaining financial discipline within housing providers.

Table 18 Typical financing structure for cost-based rental housing

Source of Finance	Share of total 'capital stack'
Public capital grants	~25%
Debt finance	~65%
Provider equity	~10%
Total	100%

A2.6.1 Public capital grants

Capital grants represent direct government investment in housing development. These grants reduce the amount of borrowing required to finance construction and therefore lower the cost-rent required to recover development costs. Because debt servicing costs are typically the largest component of cost-rent, even modest capital grants can significantly reduce required rents. Capital grants are not repaid to government by cost-rental housing providers. These grants remain a permanent component of the capital composition of the dwelling stock procured through the cost-rent model.

A2.6.2 Debt finance

Most development costs are financed through low-cost **long-term debt**, usually structured as amortising loans. Debt is repaid through rental income over the life of the loan. The cost of debt is therefore a key determinant of cost-rent levels. Lower interest rates or longer loan terms reduce annual debt servicing costs and improve affordability.

A2.6.3 Provider equity

Housing providers may contribute a limited share of project equity, typically derived from retained surpluses, land contributions or institutional investment. Provider equity strengthens balance sheets and improves access to finance but is generally kept modest in cost-rental systems to minimise required rents.

A2.6.4 Effect on cost-rent

Capital grants reduce cost rent by lowering the development cost that must be financed through debt. In the model, cost rent is calculated as:

$$\text{Cost rent per dwelling} = \frac{\text{annual debt-servicing costs} + \text{operating costs}}{\text{number of dwellings}}$$

The operating-cost allowance is intended to cover the recurrent costs of providing and maintaining the housing. The current model does not separately identify lifecycle reserves; these should be added to the formula only if they are explicitly included and separately modelled.

By reducing the debt principal, capital grants lower annual debt repayments and therefore the cost rent and associated rent-gap subsidy. The modelled financing structure combines:

- public land and capital contributions to reduce the amount requiring debt finance;
- long-term debt to spread the remaining development costs over time; and
- provider equity, where available, to reduce leverage and strengthen financial resilience.

The scale of these contributions determines the resulting debt burden, cost rent and subsidy requirement.

2.6.3 Provider equity as accumulated permanent capital

Provider equity in a mature cost-rental system should not be understood primarily as external risk capital requiring market-rate returns. Rather, it can develop progressively as permanently committed institutional capital generated through retained earnings, accumulated reserves, land and a growing housing asset base. Austria demonstrates this cumulative process. Under the Limited-Profit Housing Act, the equity of limited-profit housing associations is permanently dedicated to public-interest purposes, distributions to owners are restricted and approximately 90 per cent of profits are retained. These resources must be regularly reinvested in limited-profit housing, enabling the associations themselves to operate as revolving housing funds (Klien et al., 2023). As their balance sheets mature, providers can finance a greater share of new development from their own resources, reducing - but not eliminating—the need for new public contributions and external borrowing.

The scale achieved through this model is substantial. At the end of 2021, Austria's 185 limited-profit housing associations held combined assets of approximately €59.9 billion, owned around 652,600 rental and cooperative dwellings, invested approximately €3.7 billion in new construction and spent more than €1 billion on maintenance and renovation during that year (Gutheil-Knopp-Kirchwald and Kössl, 2022). The evidence does not show that cost-rental housing becomes independent of public policy or low-cost long-term finance. It shows instead that public investment, cost-recovery rents, asset dedication and mandatory reinvestment can progressively build the equity and borrowing capacity of regulated providers. For Australia, the implication is that the initial provider-equity share should remain modest, but the regulatory framework should require surpluses and capital gains to remain within the cost-rental system. Over time, this would convert project-level public support into an expanding base of permanent institutional capital capable of supporting subsequent generations of affordable housing.

A2.7 Fiscal trajectory of the housing system

The modelling illustrates how the fiscal profile of a cost-rental housing system evolves over time as the housing portfolio expands and development loans are gradually repaid.

The fiscal dynamics can be summarised in three stages: Expansion, Stabilisation and Maturity.

Table 19 Fiscal behaviour at expansion, stabilisation and maturation stage

Stage	Fiscal behaviour
Expansion	capital investment and rent-gap assistance rise as new housing is delivered
Stabilisation	rent-gap assistance declines as earlier development loans are repaid
Maturity	reinvestment surpluses emerge from older housing stock as loan repayments decline

A2.7.1 Expansion phase

During the early expansion phase of system growth, government outlays increase as new housing is constructed. Public capital grants support development while rent-gap asistance bridges the difference between cost-rent and income-based rents for social housing tenants.

Because the housing stock is expanding rapidly, **subsidy requirements increase during this phase**.

A2.7.2 Stabilisation phase

As earlier developments age and development loans are gradually repaid, **debt servicing costs decline in this phase**. The cost-rent required for these dwellings falls accordingly, reducing the size of the rent-gap subsidy.

At the stabilisation phase the system begins to stabilise:

- subsidy growth slows
- the housing asset base expands
- average portfolio costs begin to decline.

A2.7.3 Maturity phase

Once a significant share of the housing stock has completed loan amortisation, the system enters a mature phase. Older dwellings continue to generate rental income while carrying much lower financing costs.

In this phase **housing providers generate reinvestment surpluses**, which can be used to:

- fund renewal and maintenance
- finance new housing development
- reduce reliance on government subsidy.

In this phase the system transitions from a subsidy-supported expansion phase to a self-reinforcing reinvestment cycle that continues to expand stock with no further government capital input, albeit at a slower rate than earlier phases.

A2.8 Tested Scenarios

In this research four policy scenarios were tested to examine how different levels of social housing expansion affect fiscal requirements, housing supply and the long-term structure of the housing system. The scenarios were modelled using the cost-rental framework developed by research team member Liam Davies. Each scenario assumes the same underlying financial structure—combining capital grants, long-term debt finance and mixed-income tenancies—but differs in the **target share of social housing within the total housing system**.

Table 20 Four CBRH target scenarios tested

Scenario	Target social housing share **of total dwelling stock**
Scenario 1	Maintain 3.9%
Scenario 2	Grow to 6%
Scenario 3	Grow to 8%
Scenario 4	Grow to 12%

A2.8.1 Scenario 1 – Maintain the current (3.9%)

Scenario 1 represents a baseline continuation scenario in which social housing grows only in line with population and household growth, maintaining its current share of approximately 3.9% of total housing stock. Under this scenario, new housing construction largely replaces existing stock that reaches the end of its useful life while only modestly increasing the overall number of social and affordable dwellings.

In fiscal terms, this scenario requires the lowest level of capital investment and rent-gap subsidy, but it also produces the smallest increase in housing supply. The modelling shows that maintaining the current share does little to reduce existing housing shortages or waiting lists and therefore represents a continuation of current policy settings rather than a structural reform.

A2.8.2 Scenario 2 – Moderate expansion of social housing share of total stock (6%)

Scenario 2 models a moderate expansion of the social housing system, increasing the share of social housing to around 6% of total dwellings over time. This level is consistent with modest growth in affordable housing programs and increased coordination between Commonwealth and state housing initiatives.

The modelling indicates that this scenario requires higher capital investment and rent-gap support during the expansion phase but remains fiscally manageable. Housing supply expands steadily, and the housing portfolio begins to generate reinvestment capacity as earlier developments complete loan amortisation. Scenario 2 represents a moderate reform pathway that expands the sector while limiting fiscal exposure.

A2.8.3 Scenario 3 – Large-scale expansion social housing share of total stock (8%)

Scenario 3 represents a large-scale expansion of the cost-rental housing system, increasing social housing to around 8% of the national housing stock. This scenario assumes a sustained national program of housing construction supported by capital grants, public land contributions and long-term debt finance.

Under this scenario, housing construction accelerates significantly, producing a large portfolio of regulated housing assets over time. Fiscal requirements are higher during the

early decades because both capital investment and rent-gap assistance increase as the housing system expands. However, as development loans are repaid and the housing portfolio matures, the system begins generating reinvestment surpluses and subsidy requirements decline.

Scenario 3 therefore demonstrates how large-scale investment can produce a substantial national housing asset base while remaining fiscally sustainable over the long term.

A2.8.4 Scenario 4 – Structural transformation of social housing share of total stock (12%)

Scenario 4 represents a transformational expansion of the social housing system, increasing the sector to around 12% of the national housing stock. This level is broadly comparable to the scale of regulated housing systems in several European countries.

Achieving this level requires the highest level of housing construction and capital investment during the expansion phase. Fiscal support peaks earlier and at higher levels than in the other scenarios because a much larger housing portfolio is developed over a shorter period.

However, this scenario also produces the largest long-term housing asset base and the strongest reinvestment capacity, as a mature portfolio of housing assets continues generating rental income long after development loans have been repaid.

A2.8.5 Interpretation of the scenario testing

The four scenarios illustrate the policy trade-off between short-term fiscal commitments and long-term housing outcomes. Smaller short-term programs require less immediate investment but deliver fewer homes and generate smaller housing assets. Larger long-term programs require greater early investment but create a much larger housing system capable of supporting a higher share of low- and modest-income households over the long term.

The modelling therefore highlights that expanding cost-rental housing should be understood not only as a housing policy intervention but also as a long-term investment in building national housing infrastructure.

A2.9 Public asset formation and long-term fiscal effects

A key feature of the cost-rental model is that public expenditure does not only finance housing consumption; it also **creates a durable housing asset portfolio**. Capital grants and land contributions support the development of dwellings that remain in the ownership of public or mission-driven housing providers, generating both **long-term rental income streams** and **reinvestment capacity**.

Public investment therefore produces three structural outcomes:

- **A permanent housing asset portfolio:** Housing constructed through the program remains within regulated housing systems and continues to serve future generations of tenants.

- **Stable rental income streams:** Rental income supports operating costs, lifecycle maintenance and debt repayment.
- **Long-term reinvestment capacity:** As development loans are repaid, the financing component of cost-rent declines and older dwellings begin generating surpluses that can finance further housing supply.

The modelling indicates that sustained housing investment produces a **large and growing national housing asset base** over time.

A2.9.1 Illustrative public housing asset formation – Scenario 3

Scenario 3 represents a large-scale expansion pathway in which the cost-rental housing sector grows steadily through coordinated Commonwealth and state investment to reach 8 % of national dwelling stock. Notably the value of **housing assets created grows much faster than the cumulative subsidy** required to establish the system (Table 19).

Early decades involve higher public expenditure due to construction and rent-gap support, but the housing portfolio continues to expand and accumulate value over time. By the time the system matures, **the housing asset base substantially exceeds the cumulative fiscal support** used to establish it.

Illustrative estimates of housing asset value were calculated by applying replacement-cost based valuation methods commonly used for public sector physical assets to the projected housing stock generated by the model. Asset values were estimated using indicative national average dwelling prices.

The approach broadly aligns with the valuation principles applied in Australian public-sector financial reporting under:

AASB 116 Property, Plant and Equipment

AASB 13 Fair Value Measurement

associated public-sector guidance for non-financial assets used to deliver public services.

These standards require government-owned infrastructure and service-delivery assets (including housing and schools) to be measured at fair value, typically estimated using current replacement cost where active markets are limited. Data sources informing the modelling are per sections A2.2 through A2.5.

Because the model focuses on fiscal flows rather than asset valuation, the asset estimates should be interpreted as illustrative order-of-magnitude estimates of the public capital stock created, rather than precise financial statement valuations.

These estimates illustrate scale of national housing assets created through sustained housing investment. Over time, the accumulated housing portfolio represents a major form of social infrastructure comparable to transport, energy or water infrastructure.

Importantly, the fiscal dynamics evolve as the system matures. In the early decades, government outlays include capital grants and rent-gap assistance. As development loans are amortised and the housing portfolio expands:

- debt servicing declines
- subsidy requirements fall
- rental income continues
- the public housing asset base grows.

The modelling therefore represents a capital formation strategy rather than a permanent subsidy program (Table 19).

Table 21 Cumulative support and asset value

Year	Housing stock **(additional)**	Cumulative public support	Gross housing asset value*	Asset value relative to cumulative **public** support
2035	~330,000 dwellings	~$45 billion	~$165–215 billion	3.7–4.8 times cumulative support
2045	~710,000 dwellings	$130 billion	~$355–460 billion	2.7–3.5 times cumulative support
2059	~850,000 dwellings	~$190 billion	~$425–550 billion	2.3–2.9 times cumulative support
2075	~1 million dwellings	As per 2059, with no additional support required	~$500–660 billion	2.7–3.5 times cumulative support
2100	~1.26 million dwellings		~$630–820 billion	more than 3.4 times cumulative support

*Indicative asset values based on conservative replacement-cost assumptions of $500k–$650k per dwelling in long-term real terms (not adjusted for price increase).

A2.10 Sensitivity testing

The modelling framework is designed to allow policymakers to test alternative assumptions and build their own scenarios, enabling them to explore the consequences of different policy settings and to inform the development of appropriate and feasible housing policies.

For example, the framework allows a range of tenant mix options, contingent risks and policy responses to be explored. It links housing supply targets, development costs, financing structures, tenant rent contributions and public assistance over time, enabling policymakers to examine how different assumptions influence both the fiscal trajectory of the system and the long-term growth of the housing asset portfolio. By adjusting key parameters, such as interest rates, construction costs, tenant mix, capital grant levels and land inputs, the model can simulate how changes in economic conditions or policy settings affect housing delivery, subsidy requirements and the timing of financial stabilisation.

Several areas are therefore particularly important for sensitivity testing, including interest rates, construction cost inflation, capital investment settings and land costs.

Interest rate risk is one of the most important variables affecting the financial viability of cost-rental housing. Because development is primarily financed through long-term debt, higher interest rates increase annual debt servicing costs and therefore raise the cost-rent required to sustain housing operations. If interest rates rise significantly, the gap between cost-rent and income-based rents for social housing tenants will increase. Governments may respond to this risk through a range of policy instruments, including higher capital grants to reduce borrowing requirements, or by adjusting the tenant mix to increase the share of tenants paying cost-based rents, thereby strengthening internal cross-subsidisation within the housing portfolio.

A second key risk identified is construction cost inflation. In many housing markets, construction costs have risen faster than general inflation, reflecting labour shortages, materials costs and regulatory changes. If construction costs continue to rise faster than household incomes, this can create a structural gap between the cost of delivering housing and the rent that lower-income households can afford. Under these conditions, rent-gap assistance may need to increase and the fiscal crossover point, where the system begins generating reinvestment surpluses, may occur later than projected. Sensitivity testing using the model can easily examine the impact of higher construction costs on both subsidy requirements and the long-term growth of the housing asset portfolio.

The model can also examine the impact of changes in capital investment settings. Higher levels of capital grant funding reduce the debt burden carried by housing providers and therefore lower the cost-rent required to recover development costs. This reduces rent-gap assistance and improves affordability outcomes. Conversely, if capital investment levels are reduced, providers must rely more heavily on debt finance, which increases cost-rent and raises the level of subsidy required to maintain affordability. Testing alternative capital investment levels therefore allows policymakers to examine the trade-off between upfront public investment and long-term subsidy commitments.

Finally, the modelling recognises that land costs are one of the most significant drivers of housing development costs. In many urban areas, land can represent a substantial share of total project costs, meaning that housing affordability is highly sensitive to land price movements. Land policy plays a central role in the viability of cost-rental housing systems. Several policy instruments can be used to mitigate land cost pressures, including direct public land contributions, land value capture mechanisms that recycle development gains into affordable housing, and inclusionary zoning requirements that secure affordable housing as part of private development. These approaches allow governments to manage land costs while supporting the long-term expansion of regulated housing supply.

A2.11. Interaction of CBRH with land policy

Australia's land policy strongly affects housing costs. The strongest direct planning levers sit with the states and territories through planning codes, housing SEPPs, regional plans, design guides, affordable housing overlays, public land programs and fast-track pathways. The Commonwealth's main levers are planning reform, construction standards and enabling infrastructure funding rather than direct land-use control.

Across jurisdictions, the most relevant recurring instruments are: planning codes and design standards, affordable housing contribution or inclusionary mechanisms, public land release or leasing programs, transit-oriented or infill housing reforms, and agency-led delivery on surplus government land. NSW, Victoria, South Australia, Queensland and the ACT now have particularly explicit affordable/social housing provisions or pathways, while WA, Tasmania and the NT rely more heavily on public land, design codes and housing strategies alongside general planning controls.

Land policy tools used in Australia (Table 22) to varying capacity include:

- public land contribution
- inclusionary zoning
- land value capture
- municipal land leasing.

Table 22 Land policy tools used in Australia to impact housing outcomes

Instrument	Technical definition	How it operates in practice in Australia	Typical policy objective
Public land contribution	Allocation of publicly owned land to housing development through transfer, discounted sale, development partnerships or long-term lease.	State governments, development corporations and local governments allocate government-owned land parcels for housing projects, often through competitive development processes. Land cost reductions improve project feasibility and allow affordable or social housing to be delivered within mixed-tenure developments.	Reduce development costs and enable affordable housing supply.
Government land development agencies	Public agencies responsible for assembling land, servicing infrastructure and coordinating development.	Agencies such as Landcom (NSW), DevelopmentWA, Homes Victoria, Renewal SA, and Economic Development Queensland master-plan major sites, undertake land consolidation and require affordable housing outcomes in development projects.	Strategic land assembly, coordinated urban development and housing supply.

Instrument	Technical definition	How it operates in practice in Australia	Typical policy objective
Inclusionary zoning (mandatory)	Statutory planning requirement that a defined proportion of housing in new developments be delivered as affordable housing.	Implemented most strongly in South Australia, where developments must include 15% affordable housing in significant residential projects. The requirement is embedded in planning approvals and subdivision processes.	Deliver affordable housing within market developments.
Inclusionary planning agreements (negotiated)	Planning agreements between developers and governments requiring affordable housing contributions as a condition of development approval.	Used in NSW and some local government areas through Voluntary Planning Agreements (VPAs) or site-specific rezoning negotiations. Developers may deliver dwellings or provide financial contributions to affordable housing funds.	Capture development value to fund affordable housing.
Land value capture (rezoning uplift)	Mechanism allowing governments to capture part of the land value increase generated by planning decisions.	When land is rezoned for higher density or new urban uses, governments may impose development contributions, planning levies or infrastructure charges reflecting the increased land value created by the planning decision.	Fund infrastructure and affordable housing linked to urban growth.
Development contributions / infrastructure levies	Charges imposed on developers to fund infrastructure required for new development areas.	Widely used across states under planning legislation. Contributions fund roads, utilities, parks and community facilities in new housing areas and renewal precincts.	Ensure growth pays for infrastructure supporting housing development.
Urban renewal land assembly	Strategic consolidation of fragmented land parcels to enable redevelopment at higher densities.	State development authorities assemble land in renewal precincts and deliver master-planned redevelopment projects, often including social and affordable housing components.	Enable large-scale redevelopment and mixed tenure housing.
Municipal land leasing (ground lease)	Long-term leasing of publicly owned land to housing providers while retaining public ownership of the land asset.	Public authorities lease land to housing providers or developers under long-term ground leases (often 40–99 years). Providers develop housing while the public authority retains land ownership and can impose affordability conditions.	Maintain long-term public control over land and support affordable housing delivery.

Instrument	Technical definition	How it operates in practice in Australia	Typical policy objective
Density bonuses	Planning incentives allowing higher development density in exchange for affordable housing provision.	Some planning schemes allow additional floor space or height limits if affordable housing is delivered within the project.	Encourage voluntary affordable housing contributions.
Urban renewal authority development competitions	Competitive development processes for public land that include affordable housing criteria.	Development authorities release public land through design and development competitions requiring proposals to deliver mixed-income housing outcomes including affordable dwellings.	Achieve policy objectives through controlled land release.
Land banking	Strategic public acquisition and holding of land for future development.	Governments purchase or retain land in strategic locations ahead of urban expansion or renewal, allowing development to occur later under controlled conditions including affordable housing requirements.	Stabilise land supply and influence long-term urban development patterns.

A2.12. Fiscal interactions with the private rental market and related expenditures

Scenario 3 models the expansion of regulated social and cost-rental housing to approximately 8 per cent of the national housing stock, equivalent to roughly 850,000 dwellings by the late 2050s, rising toward around 1.3 million dwellings over the longer term as the system matures. This pathway represents a moderate structural expansion of the regulated rental sector compared with the current level of approximately 3.9 per cent of housing stock. In this section we discuss the fiscal interactions with the private rental market and related expenditures.

A2.12.1 Direct fiscal investment

During the expansion phase of Scenario 3, governments provide two main forms of support:

- capital grants to reduce development costs
- rent-gap assistance where tenant income-based rents are below cost-rent.

Under the Scenario 3 modelling, cumulative public capital investment rises progressively during the system build-up, reaching **approximately $120–140 billion in capital support over the main expansion period**, while **peak annual rent-gap assistance reaches around $10–11 billion before gradually declining as loans are repaid**.

The rent-gap assistance requirement reflects the income-based rent structure for very-low-income tenants. The rent-gap assistance requirement is defined as:

$$\text{Rent-gap assistance} = \text{cost-rent} - \text{tenant rent}$$

As debt amortises and operating revenues increase, this gap declines, and the system gradually stabilises.

A2.12.2 Public balance-sheet effects

Unlike demand-side subsidies which leak into the private sector with little transparency or accountability, capital investment in regulated housing generates **long-term public assets under transparent and accountable management and audit regimes**. Under Scenario 3, the housing portfolio grows steadily:

Table 23 Generated Housing Stock and Estimated Asset Value Created

Year	Housing stock	Estimated asset value*
~2059	~850,000 dwellings	~$420–550 billion
~2100	~1.26 million dwellings	~$630–820 billion

*Indicative asset values based on conservative replacement-cost assumptions of $500k–$650k per dwelling in long-term real terms.

These assets generate ongoing rental income streams and support reinvestment through provider balance sheets. The result is a substantial **public or regulated housing asset base**, rather than a purely recurrent expenditure program under which stock returns to private operation and rent setting once the expenditure ceases.

A2.12.3 Housing subsidy interactions

Expanding regulated supply may reduce the growth of demand-side subsidies over time. Commonwealth Rent Assistance (CRA)—currently costing approximately $6–7 billion per year—could grow more slowly if a larger share of low-income households is housed in regulated dwellings with structurally lower rents.

Tax expenditure implications

The transition may also affect housing-related tax expenditures. The Australian tax system has long provided substantial indirect support to investor housing through negative gearing deductions and capital gains tax discounts. The 2026-2027 Commonwealth proposes to reduce these tax advantages.

Reduced reliance on investor-owned rental housing could therefore reduce the long-term growth of these tax expenditures. The transition could also reduce some revenues, particularly capital gains tax receipts from investor housing transactions. The fiscal impact therefore depends on broader housing taxation settings and market responses.

A2.12.4 Whole-of-government impacts

Evidence from Australian housing policy research indicates that secure housing can also generate **cross-portfolio fiscal benefits**, including reduced expenditure on homelessness

services, health care and justice systems. These avoided costs are increasingly recognised in infrastructure-style appraisal of housing investment.

Overall, the fiscal implications of Scenario 3 can be summarised as follows:

Short term

- higher capital investment
- moderate rent-gap assistance.

Medium term

- declining rent-gap assistance as debt falls
- stabilisation of housing assistance costs.

Long term

- large public housing asset portfolio
- rental income supporting reinvestment
- reduced reliance on demand-side housing subsidies.

The net fiscal outcome therefore depends strongly on:

- the design of housing tax policy
- the scale of transition from private rental to regulated housing
- the value governments place on long-term public assets relative to ongoing subsidy expenditures.

A2.13. Limitations and usefulness of the model

The modelling presented in this report is proof-of-concept analysis designed to illustrate the long-term structural dynamics of a regulated cost-rental housing system, rather than to provide a detailed operational blueprint for programme implementation. It therefore operates at a system level, focusing on the interaction between capital investment, rent structures, asset growth and subsidy requirements over time. In its current form it is not an investment analysis model.

Several important **limitations** should be recognised.

The model is not a Commonwealth budget model or a forecast of whole-of-government expenditure. The model also does not simulate the detailed financing structures used in individual housing developments. In practice, projects may involve different combinations of:

- debt and equity financing
- concessional loans or guarantees
- capital grants
- cross-subsidy between tenure types.

These financing structures can significantly influence project feasibility and rent levels. The model instead uses simplified assumptions to represent typical development and financing costs, and cost-recovery conditions across the system.

Land costs are a major determinant of housing development feasibility, particularly in high-value urban markets. The model does not incorporate site-specific land prices or land acquisition strategies. Instead, it assumes representative development costs consistent with typical metropolitan housing development. In practice, land policy instruments—such as public land contribution, land leasing or inclusionary zoning—may substantially alter project economics. Intervention by relevant urban authorities to procure and assemble land for cost-rental social housing providers is a necessary component of the system.

The modelled rent-gap payment should not be interpreted as a projection of Commonwealth Rent Assistance. CRA is governed by household eligibility, minimum-rent thresholds and maximum payment rates and is not calibrated to meet the difference between an affordable tenant contribution and the cost of providing a dwelling. The model does not estimate changes in CRA eligibility, take-up or aggregate expenditure. Consequently, no conclusion about future CRA savings can be drawn from the modelling. Further work in this area could be productive.

Housing markets vary significantly across Australia in terms of land values, construction costs, rental markets, and housing demand. The model does not attempt to simulate regional housing market dynamics or geographic differences in housing development costs or affordability. Detailed disaggregated investigation has been undertaken by others, for example AHURI research by Randolph et al (2018), further CHIA and AHURI research by Lawson et al (2018), Troy et al (2019) and Troy and van den Nouwelant (2023). Instead, the model presented in the current research provides a proof-of-concept representation of the national housing system.

The model also simplifies the interaction between housing supply programs and other policy domains, including:

- taxation of housing investment
- planning and land policy
- housing assistance programs such as Commonwealth Rent Assistance.

These policy settings can significantly affect housing system outcomes but are outside the scope of the modelling framework.

Despite these limitations, the modelling provides **valuable insights** into the long-term behaviour of a regulated housing system.

The model illustrates how a cost-rental housing sector evolves over time as:

- housing assets accumulate

- debt is gradually repaid
- rental income stabilises
- subsidy requirements change.

This allows policymakers to understand the long-term trajectory of housing investment and subsidy requirements.

The modelling allows different system expansion scenarios to be compared, illustrating how alternative levels of housing supply affect:

- housing stock composition
- fiscal support requirements
- the balance between public and market rental housing.

The model helps test the implications of core structural assumptions such as:

- cost-rent recovery mechanisms
- mixed-income tenancy structures
- long-term reinvestment of rental surpluses.

This enables policymakers to assess whether the underlying institutional design of the model is financially sustainable over time.

Finally, the modelling provides a strategic framework for policy discussion, allowing governments and stakeholders to explore the potential scale, trajectory and fiscal implications of expanding regulated housing supply.

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