

Residential Housing risk and returns and their importance to responsible investors and social housing providers: Evidence from Australia

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The Australian housing market is severely unaffordable. Australia forecasts demand for one million social and affordable dwellings by 2036. The social housing sector in Australia struggles to finance private investments to meet the rising demand for affordable houses. Increasing Socially Responsible Impact (SRI) investors are an excellent source of finance for the affordable housing sector. However, housing associations and relevant government institutions have not paid sufficient attention to the SRI investors as a source of housing finance. SRI investors consider the environmental, social, and governance (ESG) performances in their investment process. Therefore, this study evaluates the Australian social housing sector's ability to attract SRI investors. This study aims to connect socially responsible impact investors and social housing associations as a solution to the lack of private investments for the provision of much-needed affordable housing. First, the downside risk measures are collected from the residential housing market transactional data in Brisbane, Australia and ESG-related investments. Then four focus-group discussions are conducted with industry experts to support the impact evidence required by SRI investors. We also apply a multifactor asset pricing model to estimate the risk parameters of affordable housing submarkets and expensive submarkets. Finally, a three-dimensional portfolio optimization technique is employed to evaluate the profitability of responsible investors' investment portfolios after incorporating affordable housing assets. It was found that affordable housing submarkets have more downside protection and risk-adjusted returns than other real estate and ESG-related investments. The multifactor asset pricing model shows that the affordable housing submarkets have the lowest risk exposures. Focus-group discussions provide strong impact evidence on the ESG performance of the affordable housing industry. The results of this study demonstrate that affordable housing is a safe and sound investment that provides the social impact and profitability required by socially responsible impact investors.

Keywords: *Socially Responsible Impact, Social Housing Sector, Residential Housing Market*

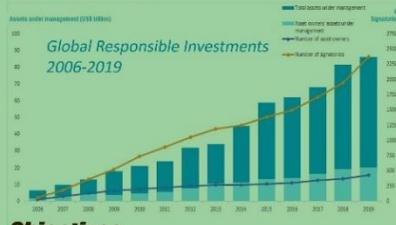


Overview

This study aims to connect socially responsible impact investors and social housing associations as a solution to the lack of private investments for the provision of much-needed affordable housing. Finally it paves the way to achieve four Sustainable Development Goals (SDG).

Introduction

According to the Annual Demographia International Housing Affordability Survey-2020, the Australian housing market is severely unaffordable. Australia forecasts demand for one million social and affordable dwellings by 2036. The social housing sector in Australia struggles to finance private investments to meet the rising demand for affordable houses. Increasing Socially Responsible Impact (SRI) investors are an excellent source of finance for the affordable housing sector. However, housing associations and relevant government institutions have not paid sufficient attention to the SRI investors as a source of housing finance. SRI investors consider the environmental, social, and governance (ESG) performances in their investment process. Therefore, I evaluate the Australian social housing sector's ability to attract SRI investors.



Objectives

- [1] To examine the performances and impact evidence of affordable housing assets compared to other ESG investments and expensive houses?
- [2] To evaluate the role of affordable housing assets in the responsible investors' portfolio?

Methodology

- [1] First, I calculated the downside risk measures from the residential housing market data in Brisbane and ESG related investments.
- [2] Then I conducted four focus-group discussions with industry experts to support the impact evidence required by SRI investors.
- [3] I also apply a multifactor asset pricing model to estimate the risk parameters of affordable housing submarkets and expensive submarkets.
- [4] Finally, I employ a three-dimensional portfolio optimization technique to evaluate the profitability of responsible investors' investment portfolios after incorporating affordable housing assets.

Results

- [1] I find that affordable housing submarkets have more downside protection and risk-adjusted returns than other real estate and ESG related investments.
- [2] The multifactor asset pricing model shows that the affordable housing submarkets have the lowest risk exposures.
- [3] Focus-group discussions provide strong impact evidence on ESG performance of the affordable housing industry.

Conclusion

The results demonstrate that affordable housing is a safe and sound investment that has the ESG impacts and profitability required by socially responsible investors.

Impact

- This study,
- [1] advocates for a strong partnership among housing associations and SRI investors to finance the rising housing demand at a lower cost,
 - [2] supports the government to change the existing regulations and policies to incorporate ESG aspects into the social housing sector,
 - [3] enables the social housing sector to evaluate its ESG performances.

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