

Can social housing ever be a good investment?

Property



Richard Wakelin

Has Scott Morrison just delivered the means for savers to invest directly in social housing, both receiving a decent return on their investment and feeling good about helping to ease the affordable housing crisis?

This possibility stems from the Treasurer's budget night announcement that, from 1 July, he is changing the rules for managed investment trusts (MITs) so that they can invest in social housing and that investors in these funds will receive a 60 per cent capital gains tax (CGT) discount, 10 percentage points higher than the usual 50 per cent CGT discount for other residential investments.

As I've previously discussed in these pages, several attempts have been made down the years to turn residential property into a tradeable financial instrument akin to a stock or bond. Proponents of such investment schemes have typically pointed to valid challenges of direct property that these vehicles overcome – namely that buying even the smallest property entails a six-figure dollar commitment, and direct property is an illiquid investment.

It remains to be seen if the latest incarnations of housing investment schemes – such as Brickx or DomaCom –

will achieve sufficient scale to become a mainstream option. The Treasurer should be crossing his fingers that they do, if his vision of private investor-driven social housing is to be achieved. That's because his goal is even more difficult to execute than the standard investment scheme model, because it involves social housing, which investors have understandably been wary of in the past. If fractional investment schemes that buy mainstream houses and apartments flounder, then I believe the chances of establishing a viable social fractional investment MIT model are bleak.

Am I too pessimistic? Is it possible that social housing could deliver investors a

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return that's comparable to best practice direct investment or, failing that test, that investors will accept a more moderate return for social housing?

In short, the return on social housing will always lag the benchmark. That's because the assets underpinning the investment are always in lower-value sites that will not deliver strong capital



Scott Morrison hopes a capital gains tax discount will persuade managed investment trusts to fund social housing.

growth. Any other conclusion is wishful thinking. And the preferential CGT tax treatment will never bridge the shortfall. Or, as Stuart Wemyss of ProSolution Private Clients ruefully put it, "a 60 per cent CGT discount is worthless when the CGT is nil".

I accept that the federal government does have a track record of using its substantial clout to encourage private investors into sub-optimal investments that help meet a greater policy objective. For example it has provided homes for military staff through Defence Housing

Australia and low-cost rental accommodation via the National Rental Affordability Scheme. Arguably, there is a sufficient pool of investors out there who either can't distinguish between first-rate and second-rate assets (especially in the face of a barrage of taxpayer-funded marketing) or who are happy to forgo some financial return in order to further a social objective.

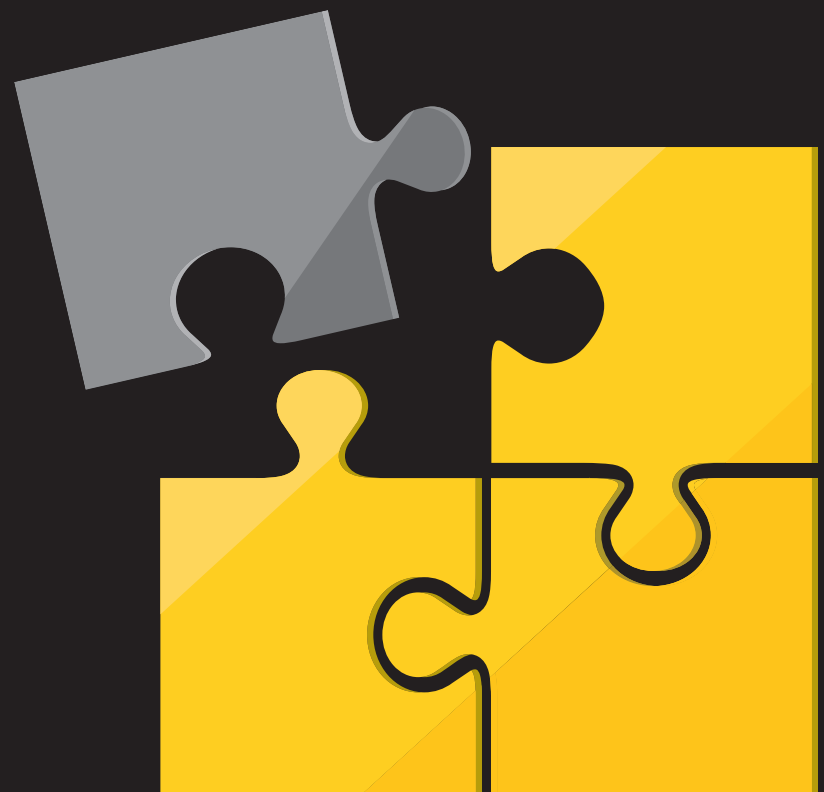
I respect those who value social outcomes, and I wish them well. But I am ill at ease when governments misuse their status to spruik

questionable assets to the unwary.

So it may be possible that social housing MITs will be a success. If so, I suspect it will be mainly due to the support of institutional investors looking for a steady utility-type income stream. Although – for the reasons mentioned above – there could be some private investors involved too. But I believe those wishing to maximise their returns should stay on the sidelines.

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