PowerHousing Australia

Collaborating for a better housing future

National Housing Finance and Investment Corporation (Consequential Amendments and Transitional Provisions)

Submission – April 2018

Introduction

PowerHousing Australia welcomes the opportunity to provide the Senate Economics Legislation Committee with feedback on the proposed amendments to the National Housing Finance and Investment Corporation (NHFIC).

The growing issue of housing affordability finds increasing prevalence in the media today. Government, advocacy groups and low-to-moderate income earners face a significant challenge with 1 in 5 households recording income of less than $650 per week, stagnant wage growth and rising rents increasing the national rate of rental stress[i]. Indeed, the number of people experiencing homelessness and on waiting lists for social housing has increased significantly.[ii]

As recorded by the Productivity Commission, 'the number of public housing households has decreased over the last decade (331,136 in 2008 to 310,483 in 2017), [while] there has been an increase in the number of households in community housing, from 35,043 to 75,634'.[iii] This in part reflects transfer of some public housing stock (management and/or title) to the community housing sector in line with Government policy to expand the role of community housing in the provision of affordable housing.

With Australia currently building 220,000 dwellings per year, which is 60-70,000 dwellings more than the average annual build rate,[iv] we are now seeing a developing national focus on incentivising the delivery of affordable housing at reasonable price points.

Whilst these levels of housing production have peaked at record levels, there is a real risk that a decline in delivery over the next 24 months will reverse recent gains. Not only would a drop of 40-70,000 dwellings being produced per year impact on supply, it would impact on State and Federal taxation revenues and jobs. To put this into perspective each new dwelling that does not get built will see up to 40 trades and sub-trades work orders lost per dwelling.

There is a significant opportunity to see the development of affordable housing as a substantial component of new dwelling demand and these Budget measures can support an annual build rate closer to the levels needed to create a balanced and accessible housing market.

The 2017 Budget provided a renewed Federal focus on housing. The NHFIC legislation, in conjunction with several other policy developments at all levels of Government, has the potential to improve new housing delivery in Australia and consequently increase the volume of affordable housing dwellings for low- to moderate-income earners.

PowerHousing previously commented on the NHFIC Bill, including the Draft Investment Mandate Direction. In late March in Sydney, PowerHousing brought together member CFOs to consult with Treasury on the Investment Mandate.

Our submission is structured around the following key elements:

1. Approval of proposed elements
2. Viability of Affordable Housing Bond Aggregator and National Housing Infrastructure Facility
3. Eligibility for finance
4. Administrative/investigative power of the NHFIC

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PowerHousing Australia and its Membership

PowerHousing Australia was formed in 2005 when leading Community Housing executives recognised the value of collaboration and information-sharing in addressing the housing affordability crisis. PowerHousing facilitates a national network of 31 member Community Housing Providers (CHPs) and partners with 15 national/international brand developer, financial and sector affiliates.

PowerHousing assists our members in increasing the supply of affordable housing and delivering excellent tenancy and asset services within a community building model. We do this by facilitating regular opportunities for members to network and exchange knowledge, such as at our Annual Member Exchange amongst other networking and collaborative opportunities. Based in Canberra, we are located to promote the capacity of members and represent their policy positions to the Federal Government and other stakeholders.

PowerHousing is a member of the International Housing Partnership which brings together housing organisations across the UK, USA, Canada and Australia to collaborate, share best practice and build knowledge.

Our ASIC and ACNC-regulated members develop, own and manage social and affordable housing, providing housing worth over $15.9 billion to more than 82,000 Australians on moderate to low incomes, with great levels of tenant satisfaction.[v]

PowerHousing's growing members are projected to have raised over $700 million of debt facilities in 2017-18.[vi] In New South Wales alone, our members represent over 80 per cent of registered Community Housing stock.

As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the national supply of social and affordable housing. Profits are reinvested into acquiring, developing and managing properties and programs designed to increase the amount of affordable housing and address housing need.

The value, experience and capacity that CHPs bring to the table as we legislate for Australia's housing affordability challenge cannot be overstated.

Elements of the Submission

1. Approval of proposed amendments

The NHFIC is to be a commercial entity operating with the aim of improving housing outcomes for Australians by, primarily, providing finance, grants or investments. The Affordable Housing Bond Aggregator (AHBA), is set to provide long-term financing to CHPs and State and local governments while the NHIF will provide finance to eligible projects that support critical infrastructure.

Much to the approval of PowerHousing and its member CHPs, the draft legislation particularly in the case of the National Housing Infrastructure Facility (NHIF) positions CHPs to allow them to apply for this funding.

Given the commercial in-confidence nature of information being provided to the NHFIC to support business cases for finance, PowerHousing supports the amendments to exclude the NHFIC from the Freedom of Information provisions. Naturally, information in applications for funding will contain commercially sensitive data and intellectual property (IP) that has been developed to secure these projects; allowing this information to become public could cause significant financial harm to businesses who have developed and/or invested in this IP.

PowerHousing is also supportive of the amendment to the Administrative Decisions Act given it would be somewhat unlikely and unreasonable for a CHP or other eligible entity to exercise the court appeals route to dispute a funding refusal.

There is also a level of comfort that the independent Board has a framework for approving investment which is further outlined below.

2. Viability of the Affordable Housing Bond Aggregator and National Housing Infrastructure Facility

PowerHousing Australia's CHP members are not-for-profit organisations who invest profits back into the social and affordable housing sector. Managing a range of property types, including affordable housing properties, provides an additional income stream for our CHPs to invest in affordable housing while supporting tenants to move up the housing continuum.

Working together at scale, CHPs can deliver significant numbers of social and affordable housing in mixed-use developments to achieve economies of scale development and management. But there is a need for an ongoing subsidy to meet the yield gap which is a major factor in a lack of investment in affordable housing.

We note that the NHFIC is intended through its objectives to increase the provision of affordable housing generally and CHPs will want to look to partner with others such as developers to be able to develop greenfield sites as efficiently as it can be delivered. Achieving these efficiencies initially will need to be undertaken in consideration of economies of scale. This is particularly the case as initially there will be under 40 staff supporting the NHFIC which is a relatively small number when considering the role of the NHFIC and the scale of the affordable housing challenge.

When we consider viability CHPs are mindful of the yield gap between income and cost of social and affordable housing provision.

Innovative partnerships and ideas around subsidising the yield gap need to be considered as part of the suite of housing measures the Federal Government is putting forward if the objective of increasing the supply of affordable housing is to be achieved. This is especially true of the NHFIC and AHBA as minimising the difference between commercial return on investment and yields traditionally seen by CHPs would help to further incentivise institutional investment in the scheme.

Feedback from PowerHousing members and affiliates suggests that the AHBA and NHIF will impact on housing development in the sector. The NHFIC's two key elements have potential to bridge the yield gap between what it costs to acquire or develop a dwelling and the ongoing management costs, and income for that affordable property.

An Independent Pricing and Regulatory Tribunal (IPART) 2017 report[vii] recommended that the Government subsidise the full difference between social housing tenants' rent contribution and the cost of providing social housing to achieve an affordable and sustainable social housing model. Bridging the yield gap will attract interest from investors, thus increasing the development of affordable housing stocks.

PowerHousing acknowledges the intent of the AHBA isn't to necessarily solve the yield gap issue for CHPs, though its government guarantee will send a clear message to investment markets, support the emergence of an asset class and reduce the cost of the finance that does have potential to reduce the gap.

Our analysis does note that there is considerable benefit to CHPs in utilising the AHBA for debt financing due primarily to the Federal Government guarantee. Total cost savings made by utilising the AHBA need to be reasonable compared to overall development costs, however this will still be beneficial for economic returns on eligible projects. We would need to ensure that the guarantee is secured for a long period, however.

The AHBA is a vital component in providing CHPs with stable and effective long-term financing to meet the growth and scale needed to provide affordable housing in Australia. PowerHousing Australia commends the Federal Government's decision to include registered CHPs with State and Local Governments as eligible partners for finance for delivering multi-tenure, affordable housing. Minimising the difference between commercial return on investment and yields traditionally seen by CHPs would help to further incentivise institutional investment in the scheme.

Central Government needs to continue to commit to measures such as these which can create stable and trusted affordable housing investments in Australia as evidenced to PowerHousing in recent field visits to the US. The establishment of an affordable housing investment market in Australia requires long-term focused domestic and offshore investors to see and understand the offer of government-backed lower risk adjusted returns over a period of time.

Investment into US affordable housing is tried and tested, and respected after 30 years of these programs. US investors themselves are mature and are accepting of lower yields and rates of return to access a longer term of stable income.

Lower yields for investors in affordable housing are accepted by a mature investment market that includes pension funds and this relates to there being a demonstrated lower volatility for the US affordable housing asset class. Data from the National Multifamily Housing Council showed that there was full occupancy during the GFC downturn with low vacancy rates. This shows a solid return on investment and a good return in times of economic uncertainty which investors globally are looking for.

The appetite for capital investment is strong with the relative stability and return of Australian assets being favourable also from those offshore. This is no more evident than the record levels of foreign investment into new residential property as recorded in the most recent FIRB annual report with the number of foreign investment residential approvals growing to 40,149 in 2015-16 compared with

11,668 in 2012-13. This represented $72.4 billion in 2015-16 of proposed investment in comparison to $17.2 billion in 2012-13. China was the largest source of approved investment accounting for around 25 per cent of approvals.

As there is a wave of foreign capital looking to invest in Australian residential real estate there is the opportunity to see some of the funds channelled into affordable housing and this would require seeking further feedback around mechanisms such as a Managed Investment Trust.

3. Eligibility for finance

To ensure that the risk profile for affordable housing investment across the aggregation is the lowest possible and to secure commensurate low finance rates, the eligibility of CHPs in accessing finance needs to be limited as appropriate. We understand that there is not a 'minimum' value required to use these funds but in the first instance there should be focus on scale projects.

Introducing the right structures for scale investment in and development and management of social and affordable housing is critical to further enabling CHP sector capacity and increasing the availability of affordable housing.

The Investment Mandate itself provides direction for the independent NHFIC Board around investment policies and strategies to allow autonomous evaluation of financing requests. Whilst there is sense in considering scale investment in the first instance there is the ability for registered CHPs to access the funds.

Non-Tier One CHPs, who may not have tenure of ongoing development activities or only having one-off or small-scale development activities, could benefit from accessing NHFIC funding, but may need some initial capacity-building support. Our members are therefore encouraged by Federal investments into CHP capacity. Part 5 of the Investment Mandate direction covers *Support for capacity building*, in which a cap of $1.5 million applies to the amount of money the NHFIC can spend on capacity-building activities for registered CHPs. The NHFIC would purchase these services for registered CHPs, which would assist them to develop their financial, property development and management capabilities.

4. Administrative/investigative power of the NHFIC

The question has been raised on the extent of the investigative or administrative role of the NHFIC and the extent that it overlaps or works in liaison with the Regulator.

As is the case for the UK's The Housing Finance Corporation there will need to be a compliance role undertaken by the NHFIC and this could require some resources from a lean team of 36 employees.

PowerHousing Australia believes that there needs to be close linkages with the current regulatory framework for CHPs across the jurisdictions and the NHFIC would be well-supported working closely with a sufficiently resourced national regulatory system.

Conclusion

PowerHousing Australia's members are broadly supportive of the NHFIC legislation and look forward to its implementation next financial year. Introducing the right structures for scale investment in and development and management of social and affordable housing is critical to further enabling CHP sector capacity and increasing the availability of affordable housing.

PowerHousing Australia is supportive of the legislated amendments to both the Freedom of Information and Administrative Decisions Acts. Our member CHPs look forward to further consultation on the NHFIC legislation.

PowerHousing is hopeful of tangible outcomes in terms of increased delivery of housing and therefore increased delivery of affordable housing, and notes that there will be a benefit from the NHIF and the AHBA on cost savings.

PowerHousing Australia's members look forward to continued consultation with Federal, State and Territory Governments, private industry and affiliates to build Community Housing Sector capacity and increase the supply of affordable housing in partnership with these Treasury initiatives.

For Further queries contact:

Nicholas Proud
Chief Executive Officer
PowerHousing Australia
[redacted]

Scarlett Mitchell
Research and Project Officer
PowerHousing Australia
[redacted]

PowerHousing Australia
PO Box 77 Deakin West, ACT 2600
Unit 10, Thesiger Crt, Deakin ACT
(02) 6210 5040
Website: http://www.powerhousingaustralia.com.au/

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[i]ABS. 2016 Census (Released 27 June 2017).
[ii]Productivity Commission 2017, *Report on Government Services,* Volume G, Canberra: PC.
[iii]Productivity Commission 2018, *Report on Government Services,* Volume G, Chapter 18, pp18.4, accessed 23 Jan 2018, <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/housing-and-homelessness/housing/rogs-2018-partg-chapter18.pdf>
[iv]ABS. 2016 Census (Released 27 June 2017), *8752.0 - Building Activity, Australia, Dec 2016*. For more info: <www.powerhousingaustralia.com.au/wp-content/uploads/2017/10/Affordbale-Housing-Report-EScan-July-2017.pdf>
[v]PowerHousing Australia 2017, *Annual Report,* Canberra
[vi]ibid
[vii]IPART NSW 2017, *Review of rent models for social and affordable housing,* <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Affordable-Housing/Review-of-