

Master Builders Australia

Submission to the Treasury Housing Unit

on

*National Housing Finance and Investment
Corporation – Investment Mandate Direction 2018
- Exposure Draft*

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1 Introduction

- 1.1 Master Builders Australia (Master Builders) is pleased to provide feedback to the Investment Mandate (IM) exposure draft of the National Housing Finance and Investment Corporation (NHIFC).
- 1.2 Master Builders is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations. Over 127 years the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.
- 1.3 The building and construction industry:
- Consists of over 340,000 business entities, of which approximately 97% are considered small businesses (fewer than 20 employees);
 - Employs close to 1.1 million people (around 1 in every 10 workers) representing the third largest employing industry behind retail and health services;
 - Represents over 8% of GDP, the second largest sector within the economy;
 - Trains more than half of the total number of trades based apprentices every year, being well over 50,000 apprentices;
 - Performs building work each year to a value of approximately \$200 billion; and
 - The cumulative building and construction task over the next decade will require work done to the value of \$2.6 trillion and for the number of people employed in the industry to rise by 300,000 to 1.3 million¹.

¹ These estimates are derived for the period 2016-2026.

- 1.4 Master Builders commends the Government for its focus on the critical issue of housing affordability and supporting measures announced as part of the 2017 Federal Budget.
- 1.5 Master Builders welcomes the implementation of the \$1 billion NHIF to boost the supply of new housing and reduce the cost of providing new land for residential construction.
- 1.6 We also welcome the implementation of the NHIFC to oversee the NHIF and the Affordable Housing Bond Aggregator (AHBA), on 1 July 2018.
- 1.7 In response to the exposure draft, in summary, Master Builders recommends the following:

2 Part 2 - Activity and allocation of funds

- 2.1 Master Builders Australia supports, in full, the activities and allocation of funds set out in: Division 1 – Activities, Division 2 - Allocation and repayment of funds – AHBA, and Division 3 – Allocation and maintenance of funds – NHIF and capacity building, of the Investment Mandate Exposure Draft.

3 Part 3 – Affordable Housing Bond Aggregator (AHBA)

- 3.1 Master Builders supports the implementation of the AHBA to be administered under the NHIFC. In response to the first Consultation Paper Master Builders recommended the following:
 - AHBA should provide “cheaper and longer-term finance for community and affordable housing providers” in accordance with the initial recommendations in the *Affordable Housing Working Group Report: Innovative Financing Models to Improve The supply of Affordable Housing*, and Recommendation 4 of the *Establishment of an Australian Affordable Housing Bond Aggregator report* (the Consultation Paper).
 - To appeal to the widest possible audience of consumers it is important for the AHBA to issue wholesale bonds, consistent with recommendation 2 of the Consultation Paper.

- Master Builders supports the implementation of a pass-through model, noting the effectiveness of this approach overseas, consistent with Recommendation 3 of the Consultation Paper.
- Master Builders also supports the implementation of a pass-through model, noting the effectiveness of this approach overseas, consistent with Recommendation 3 of the Consultation Paper.
- The preferred financial arrangement would be for the AHBA to not be subject to a Government guarantee. There is a risk that such a guarantee could encourage adverse lending behaviours by the AHBA.
- Master Builders acknowledges that without a guarantee the “BAs strong credit may be a function of robust and strict lending criteria” which could limit the number of loans and the scope of community housing providers able to access funding under the BA.
- Master Builders therefore agrees that a standalone BA “*may not be successful*” and may result in “*onerous credit policies which disincentivises CHP participation.*” However, it is recommended that subsequent research into the viability of a standalone AHBA be undertaken before a decision is made as to whether the BA will receive a Government guarantee.
- The preferred financial arrangement would be for the BA to not be subject to a Government guarantee. There is a risk that such a guarantee could encourage adverse lending behaviours by the BA. The analysis in the Consultation Paper also notes “that there is sufficient sector debt (approx. \$1 billion) to supply market demand.”
- Given the poor outcomes of the National Affordable Housing Agreement (NAHA) as noted in the Productivity Commission Report on Government Services (2017), Master Builders Recommends that new funding to support the affordable housing sector be conditional on new affordable housing supply targets and that any existing funding under the NAHA be redirected under the AHBA.

- That funding allocated under the BA is prioritised to projects which directly boost the supply of housing and land for new affordable housing developments as recommended by the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016)*, noting “that the major barrier to the supply of affordable housing is the financing gap.”
- That funding is targeted at projects which most effectively close the ‘financing gap’ as defined in the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016)*, noting “that no innovative financing model will close this (financing) gap and a sustained increase in the investment by governments is required to stimulate affordable housing production... and investment.”

3.2 In response to the Investment Mandate Exposure Draft Master Builders makes the following additional recommendations for the development of the AHBA:

- Master Builders supports the eligibility for loans of the AHBA as outlined in Division 1 – section 16 of the Investment Mandate Exposure Draft.
- Master Builders requests more specific guidelines to be outlined under Division 1 – section 17 in terms of what type of security the AHBA may seek from community housing provider before being eligible for loans under the AHBA.
- Given the relatively small size and short balance sheets of regional community housing providers, tight restrictions around the security of loans may exclude some, and in some geographies, a significant number of community housing providers.
- It is therefore recommended that security to be allowed through partnerships - mixed tenure or special purpose vehicle arrangements -where smaller community housing providers can partner with larger

builders or developers arrangements and leverage their stronger financial position to provide security.

- Master Builders supports the matters to be considered when making lending decisions as outlined under Division 2 – section 19.
- However, the AHBA must ensure that any requirement to provide evidence that other private sector finance is not available or may reduce the scale of a proposed community housing development does not add to the cost of accessing finance through the AHBA. Doing so may diminish the ability of the AHBA to provide finance at an acceptable cost to support community housing projects.
- To adequately address the financing gap as defined in the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016)*, the AHBA should offset the value of below market community housing returns/yields. For example, reducing the financing cost to a level comparable to the relative difference in returns between community housing and market based rental properties.
- Additionally, Master Builders strongly recommends that construction finance is available through the AHBA. Master Builders considers this as critically important if the AHBA is to achieve its mandate of increasing the supply of social and community housing.

4 Part 4 – National Housing Infrastructure Facility (NHIF)

4.1 Master Builders supports the mandate of the (NHIF) as defined under Part 4 of the Investment Mandate Exposure Draft.

4.2 In response to the first Consultation Paper Master Builders recommended the following:

- Master Builders considers the implementation of the \$1 billion NHIF as a reasonable and adequate response to the recommendations of

the Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016).

- However, there are a number of additional items which have not been addressed in the Consultation Paper which should be considered before making a decision on the structure of the NHIF.
- Specifically, the Consultation Paper notes total funding under the NHIF to be split into:
 - \$600 million in lending,
 - \$225 million in equity investment, and
 - \$175 million in grants
- Given that a number of projects to unlock new housing supply may not generate direct revenue, Master Builders recommended a more detailed review be undertaken into the allocation of funding under the three financing streams noted above. Specifically, a review of the type of projects which may be eligible for the different forms of financing and whether this matches up to projects identified as priorities to address chokepoints in supply – in line with the original mandate of the NHIF.

4.3 In response to the Investment Mandate Exposure Draft Master Builders makes the following additional recommendations for the development of the NHIF:

- Previous recommendations to allow more flexibility in the allocation of funding through the three funding streams (loans, grants and equity) have been adequately addressed in the Investment Mandate Exposure Draft.
- Master Builders supports the broader mandate for eligibility of project proponents, specifically, the inclusion of an entity that is a special purpose vehicle. Master Builders agrees with the definition of a special purpose vehicle, as defined under Part 4, Division 1 section 22 (2) for the purpose of the NHIF.

- Master Builders strongly supports the provisions set out under Part 4, Division 1 section 23 - Eligible projects, to exclude funding for community infrastructure.
- However, the NHIF must ensure that any requirement as outlined under Part 4, Division 1 section 23 (d) does not add to the cost of accessing finance through the NHIF. Doing so may diminish the ability of the NHIF to provide finance (loans) at an acceptable cost for housing related infrastructure projects.
- Master Builders strongly recommends that there is no cap placed on the scale or number of houses that a single financing package can support. Doing so risks excluding regional towns and smaller regional cities from funding through the NHIF.
- Master Builders recommends that to ensure regional towns and smaller cities are allowed equitable access to the NHIF that regional projects are given special consideration on loans, or perhaps through favoured eligibility for grants funding.

4.4 There are a number of other issues which are not directly covered in the Part 4 of the Investment Mandate Exposure Draft which are also worth considering in the final assessment of the NHIF, including:

- Is there a way for the NHIF to support the Federal Government's ability set supply targets and place conditions around funding to local governments?
- The NHIF is complimentary to other Federal and State government infrastructure and development programs. For example, the Federal Government Cities Deals programs, Transport Infrastructure programs, Roads to Recovery, Blackspot Program, Western Sydney Infrastructure Program, that already provide funding to states and local governments for infrastructure improvements.

- There may be capacity over time for these existing programs to be incorporated into the fund to better coordinate and leverage the integration of planning and zoning, and subsequently more targeted and sustainable investment approaches in infrastructure.
 - Master Builders recommends giving priority to projects under the NHIF which compliment Cities Deals and larger transport infrastructure projects (through the Transport Infrastructure program).
 - Often developer charges and council fees are passed onto new home buyers to recoup developments costs. How would the Federal Government ensure these charges are equally adjusted in cases where Federal funding through the NHIF is used to develop this infrastructure?
 - Rising land and land development costs have been the single greatest contributor to rapidly rising house prices. Reducing these costs must be a priority of the NHIF and feature heavily in the decision making process to funding housing related infrastructure projects.
- 4.5 Detailed research into the potential benefits of investment under the NHIF is found in the attachments (A and B). In short, this research found that investments made under the NHIF could support the construction of an additional 100,000 new houses in the next five years if implemented immediately and targeted at the most critical chokepoints in the housing market.
- 4.6 Master Builders recommends that funding under the NHIF address the policy reform priorities outlined in this research (attachments A and B), and prioritise reforms which will have the greatest potential impact in terms of boosting future housing supply.
- 4.7 Given failure in previous programs such as the National Affordable Housing Agreement (NAHA) to boost housing supply, Master Builders recommends any funding to be allocated to State or local governments be subject to conditional arrangements which ensure Federal funding is achieving its intended outcomes – in this case to increase the supply of new housing in areas which need it most.

New housing supply targets set and agreed upon at the time of transaction would be the most the prudent and simple measure.

- 4.8 The NHIFC may also seek to use other possible metrics as conditions for funding, including but not limited to: a requirement to reduce the waiting list for community/public housing, distribution targets, density targets for inner city areas, house price growth targets, land affordability targets, greater reporting transparency around infrastructure and council fees for both revenue and expenditure. Master Builders would welcome the opportunity to work with the Housing Unit Team at Treasury to develop these metrics.

5 Part 5 – Support for Capacity Building

- 5.1 Master Builders supports the definition and criteria set out in the Investment Mandate Exposure Draft for, and support for capacity building.
- 5.2 No additional recommendations are provided.

6 Part 6 – General Governance Matters

- 6.1 Master Builders supports the criteria set out in the Investment Mandate Exposure Draft on general governance matters.
- 6.2 Master Builders strong recommends that the governance panel set up to support the NHFIC include representation from industry to ensure that the AHBA and NHIF are best structured and targeted to support industry in the development of community housing and housing related infrastructure. It is important that the investment mandate, as a first priority achieves its aim of boosting the supply of affordable and social housing.