

# **National Housing Finance and Investment Corporation Bill Draft Legislation**

Submission – January 2018



## Introduction

PowerHousing Australia welcomes the opportunity to provide feedback on the Turnbull Government's Draft Legislation which will establish a National Housing Finance and Investment Corporation (NHFIC) in an effort to increase the supply of housing, with particular interest in affordable housing.

The Hon. Kelly O'Dwyer MP acknowledged, in her media release as Acting Treasurer, that the NHFIC, which is due to commence operations on 1 July 2018, is an important part of the Government's Reducing Pressure on Housing Affordability plan announced in the 2017-18 Budget.<sup>i</sup>

The growing issue of housing unaffordability poses a significant challenge to Government, advocacy groups, not-for-profits and low-to-moderate income earners. With 1 in 5 households recording income of less than \$650 per week, stagnant wage growth and rising rents have increased the national rate of rental stress.<sup>ii</sup> The number of people experiencing homelessness and on waiting lists for social housing has also increased significantly, while the pool of publicly-funded social housing has shrunk.<sup>iii</sup>

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'.<sup>iv</sup> 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.

Alongside other Federal and State initiatives, the NHFIC draft legislation represents a crucial step in ensuring future investments into Australia's affordable housing and related infrastructure projects. The legislation also sees Australia capitalising on international learning and best practice by underpinning affordable housing development and sector growth through promoting stable, efficient financing with institutional investment. This enables critical partnerships between Government, private industry and not-for-profit entities; an emerging three-sector solution. This legislation in conjunction with several other recent policy changes at all levels of Government has the potential to substantially increase the national supply of social and affordable housing.

Whilst Australia is currently building 220,000 dwellings per year which is 60-70,000 dwellings more than the average annual build rate<sup>v</sup>, there needs to be a national focus on incentivising the delivery of affordable housing at reasonable price points.

The 2017 Budget provided a renewed Federal focus on housing and this first salvo being implemented is required if there is to be a range of additional measures which will be needed to assist across the housing delivery spectrum.

The measures contained in the Bill are a positive step to delivering greater numbers of affordable housing dwellings to low to moderate income earners.

Our submission is structured around the following key elements:

1. National Housing Finance and Investment Corporation – Draft Legislation
2. Federal Government Housing Affordability Measures – Yield Gap Subsidy

# 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 30 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 very low incomes, with great levels of tenant satisfaction.<sup>vi</sup>

PowerHousing's growing Members are projected to have raised over \$700 million of debt facilities in 2017-18.<sup>vii</sup> 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, 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. National Housing Finance and Investment Corporation – Draft Legislation

The Bill takes international learning and applies it to the Australian context in ways that, as already stated, could drastically boost the supply of social and affordable housing.

The \$1 billion National Housing Infrastructure Facility (NHIF) provides a much-needed injection of funds into affordable housing infrastructure, and the articulated bond aggregator 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 Government as partners eligible for finance for delivering multi-tenure, affordable, private and key worker housing through the \$1B NHIF. The Infrastructure Facility being an ongoing fund is a good outcome for creating long-term options for delivery of affordable housing.

Some of the Bill's highlights include independent governance of the NHFIC from a skills-based Board with an appointed observer; an Investment Mandate that makes clear expectations around performance, decision-making and risk and return on investments; assurance that NHFIC liabilities are guaranteed by the Government; regular Board meetings convening a minimum of 4 times each calendar year, with flexibility to meet based on requirements; and review of the Bill and NHFIC function three years after the expected 1 July 2018 operational commencement.

Further, in terms of structure, the NHFIC will have around 30 staff within its budget and these resources could be depleted if its objectives are not tightly defined to achieve economies of scale in supporting affordable housing delivery. The affordable housing challenge requires tens of thousands of affordable homes and low-priced dwellings to be built on a sustained basis over many consecutive periods. As per the Core Logic PowerHousing Australia Sector Capacity Prospectus, only 3.0% of houses in Sydney sold for under \$400,000 in the year to July 2017, as opposed to 25.2% of all Sydney houses selling under this price point in the 12 months to July 2012.<sup>viii</sup> The fact that a quarter of Sydney houses sold for under \$400,000 five years ago and now we are down to just a few percent selling at this more reasonable price point shows that Australians are losing their way here. Therefore the focus in at least the early years should be on working with scale CHPs to develop partnerships to maximise the delivery of affordable housing.

**Recommendations:** PowerHousing and our Membership broadly support creation of the NHFIC.

1. PowerHousing encourages Government and Treasury to continue the consultation of stakeholders that resulted in this draft legislation throughout future planning and into the 1 July 2018 operational commencement. We suggest that items such as the Investment Mandate and accompanying expectations be part of these continuing consultations and roundtables.
2. As much of the legislation is geared toward growing social and affordable housing provision, we would expect that 'social or affordable housing' be added to the skills-based criteria for Board Members.
3. To ensure the ongoing effectiveness of the NHFIC, PowerHousing suggests the draft legislation considers the tenure, frequency and/or limitations of reappointment of an observer.
4. NHFIC resources should be applied to support scale delivery of affordable housing in the early years of the program.
5. The \$1B NHIF working directly with registered CHPs is a powerful update to the original budget announcement and the longer term outlook for the Infrastructure Facility needs to be maintained.

## 2. Federal Government Housing Affordability Measures – Yield Gap Subsidy

We recognise the Turnbull Government and various departments' efforts for collaborating with State Governments and various stakeholders over the past year to bring forward positive policy and legislative changes that have the potential to make a significant impact on the provision of affordable housing in Australia.

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 as they move up the housing continuum.

Working together at scale, CHPs can deliver significant numbers of social and affordable housing in mixed-use developments. But there is a need to meet the yield gap which is a major factor in a lack of investment in affordable housing. Quite simply, providing affordable rents at lower than market levels requires innovative approaches to closing this yield gap.

### Closing the yield gap

An Independent Pricing and Regulatory Tribunal (IPART, NSW) 2017 report<sup>x</sup> 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. A subsidy is one way of bridging the yield gap.

The Federal Government has committed to introducing and pursuing a range of housing measures in the 2017 and future Federal Budgets<sup>x</sup>. Clearly implementing the first salvo of 2017 Federal Budget measures including the NHFIC is the priority if the affordable housing challenge is to be tackled. There is opportunity however to load up the next salvo of measures, which support partnerships at scale to deliver affordable housing. These partnerships can reduce the cost of accessing and developing land, see low-cost housing incorporated at first principles of development and reduce the yield gap that occurs when housing is provided for people on low to moderate incomes.

PowerHousing Members have the capacity to work and partner to deliver innovative projects at scale and acknowledge the evolving role of Federal Governments to reduce the burden of social and affordable housing delivery by incentivising this type of low cost housing provision at first principle. This then locks in long term payback terms which can offset the yield gap.

**Recommendation:** Innovative partnerships, incentives and subsidies around minimising the yield gap need to be considered as part of the suite of housing measures the Turnbull 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 bond aggregator, 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.

## Conclusion

The NHFIC as well as other policies pursued by the Turnbull Government, in conjunction with initiatives currently being undertaken at the State level, have the potential to vastly improve the lives of many Australians struggling to secure affordable housing – from those working to save for a first home, to those struggling to meet market rent expectations, to those seeking stable housing options.

Legislating for and 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.

Ultimately, cooperation and continued collaboration between the Commonwealth, States and Territories, peak bodies, private industries and other not-for-profits will ensure innovative solutions are found to address nationwide problems of affordable housing provision in Australia.

PowerHousing Members will continue working with Federal, State and Territory Governments, private industry and affiliates to build Community Housing Sector capacity and increase the supply of affordable housing. However, minimising the yield gap will enable CHPs to continue growing affordable housing stocks and attract investment to the NHFIC.

PowerHousing and our Members look forward to continued consultation with the Government around the NHFIC and other housing measures.

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<sup>i</sup>O'Dwyer K (Acting Treasurer, Minister for Revenue and Financial Services) 2018, *Consultation on key Turnbull Government housing measures*, media release, 12 January, The Treasury, viewed 23 Jan 2018, <<http://kmo.ministers.treasury.gov.au/media-release/005-2018/>>

<sup>ii</sup>ABS. 2016 Census (Released 27 June 2017).

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- <sup>iii</sup> Productivity Commission 2017, *Report on Government Services*, Volume G, Canberra: PC.
- <sup>iv</sup> 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>>
- <sup>v</sup> 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](http://www.powerhousingaustralia.com.au/wp-content/uploads/2017/10/Affordbale-Housing-Report-EScan-July-2017.pdf)>
- <sup>vi</sup> PowerHousing Australia 2017, *Annual Report*, Canberra
- <sup>vii</sup> *ibid*
- <sup>viii</sup> CoreLogic Powerhousing Australia 2017, *Sector Capacity Prospectus*, Canberra
- <sup>ix</sup> IPART NSW 2017, *Review of rent models for social and affordable housing*'
- <sup>x</sup> Sukkar M (Assistant Minister to the Treasurer), AHURI Conference 2017 speech, Sydney, 4 Dec 2017