**National Housing Finance and Investment Corporation – draft Investment Mandate Direction**

Submission – March 2018

# Introduction

PowerHousing Australia welcomes the opportunity to provide Treasury with feedback on the National Housing Finance and Investment Corporation (NHFIC) draft Investment Mandate Direction (IMD).

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,[[1]](#endnote-1). Indeed, the number of people experiencing homelessness and on waiting lists for social housing has increased significantly.[[2]](#endnote-2)

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’.[[3]](#endnote-3) 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.

The 2017 Budget provided a renewed Federal focus on housing and the NHFIC Bill and accompanying Investment Mandate Direction are a positive step in delivering greater numbers of affordable housing dwellings to low- to moderate-income earners.

With Australia currently building 220,000 dwellings per year, which is 60-70,000 dwellings more than the average annual build rate,[[4]](#endnote-4) we are now seeing a developing national focus on incentivising the delivery of affordable housing at reasonable price points.

Alongside other Federal and State initiatives, the draft IMD represents an important development in encouraging 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 legislation, in conjunction with several other recent policy changes at all levels of Government, has the potential to improve new housing delivery in Australia and consequently aid the delivery of social and affordable housing.

Our submission is structured around the following key elements:

1. Security for loans
2. General comment

# 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 today 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 very low incomes, with great levels of tenant satisfaction.[[5]](#endnote-5)

## PowerHousing’s growing members are projected to have raised over $700 million of debt facilities in 2017-18.[[6]](#endnote-6) 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. **Security for loans**

Much of the feedback PowerHousing has received from our members has been around security for loans.

Section 17 states, ‘the NHFIC must seek security from providers for any loan, at least commensurate with existing security arrangements with Commercial Financiers’, and section 24(3) states ‘the NHFIC must seek security from eligible applicants for any loan, at least commensurate with existing security arrangements with Commercial Financiers’. Section 24 discusses the financing mechanisms of the NHIF; 24(2) details the various loan concessions that may be provided to CHPs by the NHFIC including longer loan tenor, lower interest rates and lower or different fee structures than those offered by Commercial Financiers.

CHPs’ existing finance arrangements are already a tripartite agreement between the CHP, the bank and the relevant state government. Introducing the NHFIC adds a fourth party to the arrangement.

A factor that may not have been considered is that, under existing bank covenants, financiers put limitations on CHPs which limit borrowings by having increased cover, debt service cover and debt to equity limits. For increased borrowings to be achieved, it may be necessary to refinance existing commercial loans due to these financing constraints, or to use Special Purpose Vehicles which isolate the debt from the CHP parent.

It is important that the Investment Mandate complements the existing financing arrangements with other existing vehicles and secured creditors and as such additional complexity and securitisation requirements should be carefully considered. The existence of a Government guarantee and the strong support offered by the Government under S. 24(2) will potentially reduce the yield gap, however the security for loans requirement as drafted here could reverse these gains.

**Recommendation:** Sections 17 and 24(3) be reconsidered and potentially left open as being an additional area for concession or, alternatively, be subject to consultation by the Treasury to determine how security would operate over the next few months.

1. **General comment**

In a general sense, the Investment Mandate Direction (IMD) is a sensible document that sets up parameters in which the NHFIC will operate. Our members are largely content with the direction and intent.

The IMD provides direction to the NHFIC Board on the two core functions of the NHFIC:

* The Affordable Housing Bond Aggregator (AHBA)
* The National Housing Infrastructure Facility (NHIF)

The Affordable Housing Bond Aggregator (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.

The NHIF aims to overcome barriers to the provision of housing that are due to the lack of necessary infrastructure. It provides finance to eligible projects that support critical infrastructure, which in turn broadly support housing development. PowerHousing members are generally supportive of measures such as these.

Our members are 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.

The requirement of the NHFIC to communicate its reasons for making a particular decision to provide or not provide finance is appreciated by our members. Receiving clear feedback will aid CHPs in developing better practice and enable future success.

# Conclusion

The NHFIC’s draft Investment Mandate Direction is set to improve the delivery of new housing across the cost spectrum, including affordable housing.

PowerHousing Australia’s members are broadly supportive of the NHFIC and accompanying draft IMD. 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 IMD should further consider or consult on the matter of security for loans granted by the NHFIC. The AHBA is an important step in providing CHPs with stable and effective long-term financing while the NHIF will assist in overcoming impediments to infrastructure-building in new housing developments. The community housing sector at large is supportive of the NHFIC’s engagement in capacity-building services.

Ultimately, the increase of both national housing delivery and affordable housing in particular will ease the burden of Australia’s housing crisis. Encouraging investment in the community housing sector will enable CHPs to better fulfil their aim of increasing Australia’s stocks of affordable housing.

PowerHousing Australia’s 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.

PowerHousing and our members look forward to continued consultation with the Government around the NHFIC draft Investment Mandate Direction and future housing measures.

## For Further queries contact:

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1. ABS. 2016 Census (Released 27 June 2017). [↑](#endnote-ref-1)
2. Productivity Commission 2017, *Report on Government Services,* Volume G, Canberra: PC. [↑](#endnote-ref-2)
3. 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> [↑](#endnote-ref-3)
4. 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)> [↑](#endnote-ref-4)
5. PowerHousing Australia 2017, *Annual Report,* Canberra [↑](#endnote-ref-5)
6. ibid [↑](#endnote-ref-6)