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Mr David Crawford
Manager, Housing Unit,
Social Policy Division,
The Treasury,
Langton Cres Parkes
ACT 2600

Via email: HousingConsultation@treasury.gov.au

12 March 2018

Dear Mr Crawford

National Housing Finance and Investment Corporation

Investment Mandate Direction 2018

Thank you for the opportunity to provide comment on the direction of the Investment Mandate to guide the National Housing and Investment Corporation (the Investment Mandate). The direction of the Investment Mandate will be vital to ensuring the success of the National Housing Finance and Investment Corporation (NHFIC) to improve housing outcomes for Australians.

The Property Council welcomed the expanded list of Eligible Project Proponents to include special purpose vehicles to allow the private sector to partner with underlying members to increase the supply of new dwellings.

The direction of the Investment Mandate, however, unnecessarily limits these opportunities to partner, which may dampen the interest in leveraging NHFIC to unlock infrastructure bottle necks.

Notably:

- The restrictive definition of the purpose of special purpose vehicles to *undertaking housing infrastructure enabling projects* would limit land and housing developers from partnering with underling eligible members.
- The consideration that the underlying eligible should have financial and/or management control of the Special Purpose Vehicles (SPVs).
- Limiting Eligible Project Proponents to SPVs at the exclusion of joint ventures (JVs)- currently one of the most common approaches adopted by the private sector when partnering with community housing providers and others to develop land and/ or housing.

Addressing these concerns to allow NHIF funding to flow on the basis of a partnership and consortium approach would magnify the impact and scale of the investments substantially and increase potential efficiencies and returns to the NHFIC more broadly.

Please find attached detailed comments on the direction of the Investment Mandate developed in consultation with the Property Council's Residential Development Council. The main recommendations are as follows over page.

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1. The Investment Mandate is reviewed one-year post-implementation to ensure that it has delivering the differing investment objectives.
2. Remove reference to a commercial approach when making financing decisions from the Investment Mandate.
3. Remove the cap on grant funding until there is a better understanding how grant funding, debt and equity financed infrastructure proposals overlap and/ interact.
4. Limit the eligibility for Affordable Housing Bond Aggregator loans to Tier 1 and 2 Community Housing Providers.
5. Expand the list of Eligible Project Proponents to include joint ventures (JVs) to reflect the current approach taken by the private sector when partnering to develop land and/ or housing.
6. Amend the definition of special purpose vehicle (SPV) to read as *an entity is a special purpose vehicle if it has the purpose of undertaking land and/or housing development projects*.
7. Broaden the evaluation criteria for special purpose vehicle (SPV) proposals to consider co-sponsorship by underlying eligible members that do not have financial or management control of the SPV.
8. Introduce a scale threshold to the eligibility criteria for projects to minimise administrative and evaluation delays.
9. Remove the provision of capacity building services from the Investment Mandate.
10. Reduce the reporting timeframe to 3 months from 6 months for each decision to make a grant, loan or investment under the NHIF.
11. Introduce maximum timeframes for the processing of applications to give certainty to proponents.

If you would like any additional information, please contact Rebecca Douthwaite on 029033 1936 or rdouthwaite@propertycouncil.com.au.

Yours sincerely

Ken Morrison
Chief Executive

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National Housing Finance and Investment Corporation

Investment Mandate Direction 2018

March 2018

Part 2 – Activities and allocation of funds

Division 1 – The Corporation's activities

The Property Council supports the engagement of the NHFIC in two activities to support investment in Australian housing:

- the establishment and operation of an Affordable Housing Bond Aggregator (AHBA) to provide finance to registered community hosing providers; and
- the establishment and operation of the National Housing Infrastructure Facility (NHIF) to provide grants and finance to support the creation of housing-related infrastructure.

The Investment Mandate must reflect the proposed 'one entity, two functions' structure of the NHFIC by appropriately specifying the differing investment objectives and desired outcomes to be delivered by each of the above activities.

The Property Council recommends that the Investment Mandate is reviewed one-year post-implementation to ensure that it is delivering the differing investment objectives.

Recommendation:

The Investment Mandate is reviewed one-year post-implementation to ensure that it has delivering the differing investment objectives.

The Property Council notes that the Investment Mandate requires NHFIC undertake a commercial approach when making financing decisions.

The Property Council is concerned that the 'commercial approach' will be understood as achieving commercial returns at the expense of accelerating new housing supply. A focus on commercial returns will not incentivise eligible proponents to bring forward projects sooner than otherwise planned.

The NHFIC, particularly as it relates to the NHIF, instead should be seeking to provide financing on more attractive terms that encourages eligible proponents to bring forward the development of new dwellings sooner than they otherwise would have done.

In recognition that more attractive financing terms will be needed to incentivise proponents, reference to a 'commercial approach' should be removed from the Investment mandate.

Recommendation:

The Investment Mandate removes reference to a 'commercial approach' when making financing decisions.

The Property Council does not support the proposal for the NHFIC to enter into contracts for capacity building services to be included in the Investment Mandate. Capacity building services extend beyond the above defined two activities of the NHFIC.

Capacity building services should be provided through AusIndustry as this is part of their core business deliverables (and budget) using existing infrastructure and networks to provide registered community housing providers with access to experienced business advisors.

Division 2 – Allocation and repayment of Funds - AHBA

The Property Council supports the initial allocation of $150 million to a reserve until a bond issuance (wholesale) can be made.

The Property Council would also seek to clarify the total allocation of money appropriated for the AHBA by Parliament prior to the first loan repayment by the NHFIC on 30 June 2023.

Division 3 – Allocation and maintenance of funds – NHIF and capacity building

The Property Council strongly supports the committed $1 billion over five years to the NHIF for the NHFIC to make loans, investments and grants to housing-related infrastructure projects.

The Property Council supports the requirement to maintain the value of the funds it has used to provide infrastructure loans and to make investments.

The Property Council supports the minimum target value of the permanent fund understanding that the Permanent Fund consists of current infrastructure investments and loans under the NHIF, plus the total sum of funds appropriated for the NHIFIC, less the funds in the AHBA initial reserve, infrastructure grants and capacity building grants made up to that time.

The Property Council does not support the $173.5 million cap on grants available for infrastructure funding given that 'unlocking' infrastructure is unlikely to lend itself to pure equity or debt or arrangements directly.

It has been suggested that a blend of financing and funding may be required – which would increase demand for grant funding from the NHIF.

The Property Council recommends that the cap is removed until there is a better understanding of how grant funded infrastructure and debt and equity financed infrastructure proposals overlap and/or interact.

> **Recommendation:**
>
> **Remove the cap on grant funding until there is a better understanding how grant funding, debt and equity financed infrastructure proposals overlap and/ interact.**

Part 3 – The Affordable Housing Bond Aggregator

The Property Council supports the Investment mandate explicitly providing a government guarantee for issued bonds as this will provide investor confidence and deliver enhanced pricing advantages for CHPs.

Given this guarantee, the Property Council suggests limiting the legibility for loans to Tier 1 and 2 CHPs. These CHPs are more likely to have ongoing development at a certain scale as well as organisational capacity to apply for loans.

The Property Council also supports the implementation of an investment risk evaluation process to assess the risks associated with AHBA.

Recommendation:

Limit the eligibility for Affordable Housing Bond Aggregator loans to Tier 1 and 2 Community Housing Providers.

Part 4 – The National Housing Infrastructure Facility

Eligible Project Proponents

The Property Council welcomes and strongly supports the expanded list of eligible project proponents to include special purpose vehicles, local government investment corporations and utility providers.

The Property Council has clarified that the objective of this expanded list is to allow the private sector to partner with underlying eligible members to apply for funding and/or financing.

This not clear in the current drafting of the Investment Mandate.

The current drafting of the Investment Mandate unnecessarily limits the opportunities for the private sector to partner with the underlying eligible members.

Notably:

Limiting Eligible Project Proponents to special purpose vehicles (SPVs) at the exclusion of joint ventures (JVs)- currently one of the most common approaches adopted by the private sector when partnering with community housing providers and others to develop land and/ or housing.

The Property Council recommends that Eligible Project Proponents is expanded to include JVs to minimise administrative costs on the eligible members. Including JVs would better reflect the current approach undertaken by the private sector and underlying members to partner for the development land and/ or housing.

Recommendation:

Expand the list of Eligible Project Proponents to include joint ventures to reflect the current approach taken by the private sector when partnering to develop land and/ or housing.

The restrictive definition of the purpose of SPVs to undertaking housing infrastructure enabling projects would limit land and housing developers from partnering with underling eligible members.

The Property Council recommends that the definition of special purpose vehicle is amended to better reflect that the objective: allowing property developers to partner with underlying eligible members to apply for funding and/or financing from the NHIF to develop new housing by unlocking enabling infrastructure. The proposed amendment is over page.

From:

(2)(a)(i) an entity is a special purpose vehicle if it has the purpose of undertaking housing infrastructure enabling projects.

To read:

(2)(a)(i) an entity is a special purpose vehicle if it has the purpose of undertaking land and/or housing development projects.

> **Recommendation:**
>
> **Amend the definition of special purpose vehicle (SPV) to read as *an entity is a special purpose vehicle if it has the purpose of undertaking land and/or housing development projects.***

The consideration that the underlying eligible should have financial and/or management control of the Special Purpose Vehicles (SPVs).

In addition, when considering whether to finance an SPV "based on a holistic assessment of prescribed matters", the NHFIC should broaden the evaluation to include co-sponsorship arrangements where the underlying member does not have significant financial or management control of the SPV.

This approach would ensure that the underlying eligible members actively support the need for the specified housing enabling infrastructure project – without needing to necessarily take on the risk of financing or management.

This would better reflect the commercial realities of SPVs between developers and CHPs and utility providers, where the developer is more likely to have a majority control, but actively involve a CHP or utility provider without financial or management control.

> **Recommendation:**
>
> **Broaden the evaluation criteria for special purpose vehicle (SPV) proposals to consider co-sponsorship by underlying eligible members that do not have financial or management control of the SPV.**

It is important to note that the financing will only have value to the SPV if the NFIC terms and requirements provide lower loan application hurdles than private sector financing – noting that group/ corporate loans do not have restrictions on eligibility.

Addressing these concerns to allow NHIF funding to flow on the basis of a partnership and consortium approach would magnify the impact and scale of the investments substantially and increase potential efficiencies and returns to the NHFIC more broadly.

Eligible Projects

The Property Council supports the project eligibility criteria. However, section (a) citing examples of critical infrastructure must be supported by supplementary criteria to filter the number of projects submitted and set clear objectives so that stakeholders can largely self-assess their projects to determine if they are likely to be approved for financing, before committing resources.

A matrix of factors and their corresponding weightings in the assessment process should form part of the publicly available tools available to project proponents. This should be extended to include tying project funding to housing supply outcomes. For example, funding a new road project where the local government SPV partner has rezoned adjacent lots to allow development to commence in a timely way.

Otherwise, there is a risk that applications with little prospect of success could impede the efficient functioning of the NHFIC's assessment and approval processes. The recently released Infrastructure Australia Assessment Framework, with its associated templates and checklists, could provide a useful model to develop a similar tool for the NHIF and bond aggregator.

Project eligibility should be extended to include a scale threshold for projects.

Basing eligibility on a scale threshold will ensure that the NHIF is not overwhelmed with applications that will not make a significant addition to the supply of new dwellings or improve housing affordability outcomes on scale:

- The administrative and transactional cost to the number of dwellings delivered is reduced on a per dwelling basis.
- Processing fewer, more scaled financing applications will ensure that the NHIF application and approvals process is timely and does not stall the advancement of projects

Recommendation:

Introduce a scale threshold to the eligibility criteria for projects to minimise administrative and evaluation delays.

Part 5 – Capacity building activities

The Property Council does not support the purchase of capacity building services. This is significantly beyond the scope of the two activities identified to support investment in Australian housing: to establish the AHBA and the NHIF.

The need to improve the operational and institutional capacity of community housing providers is recognised with the CHP industry[1]. However, capacity building services should be provided through existing programs. To do otherwise would risk duplication with other government agencies and further reduce the administrative capacity of the NHFIC to assess applications.

As recommended in the previous section, eligibility to apply should be limited to tier 1 and 2 CHPs that have the operational and institutional capacity to apply for and manage responsibly financing issued under the NHFIC.

Recommendation:

Remove the provision of capacity building services from the Investment Mandate.

[1] AHURI. 2017. Ready for Growth? Inquiry into Australia's affordable housing industry capacity. https://www.ahuri.edu.au/__data/assets/pdf_file/0016/12832/Ready-for-growth-Inquiry-into-Australias-affordable-housing-industry-capacity-Visual-Report.pdf

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Part 6 – Governance

The Property Council supports Section 31 require the NHFIC to communicate its reasons for making a particular decision to provided finance, or not, to the entity making the financial proposal.

The Property Council supports Section 32 requiring guidance to assist potential applications, given the additional parameters recommended above such as a minimum number of dwellings for eligible projects.

The Property Council strongly supports the publishing of details of each decision to make a grant, loan or investment under the NHIF. The Property Council, however, does recommend that the timeframe of six months is reduced to three months of the decision.

> **Recommendation:**
>
> **Reduce the reporting timeframe to 3 months from 6 months for each decision to make a grant, loan or investment under the NHIF.**

In addition, the Property Council recommends that timeframes are given for the processing of applications under the NHIF for advancement of the approvals process with a set maximum limit. This will provide certainty to the sector and limit holding costs.

> **Recommendation:**
>
> **Introduce maximum timeframes for the processing of applications to give certainty to proponents.**

Property Council Contacts

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