



## SUBMISSION

### HOUSING AUSTRALIA FUTURE FUND FACILITY AND NATIONAL HOUSING ACCORD FACILITY, (HOUSING AUSTRALIA INVESTMENT MANDATE DIRECTION)

#### Summary

Super Housing Partnerships Pty Ltd is pleased to make a submission to the exposure draft amendments to the National Housing Finance and Investment Corporation Investment Mandate Direction 2018 (to be renamed the Housing Australia Investment Mandate Direction 2018) and accompanying explanatory statement.

Super Housing Partnerships is a specialist housing investment manager focused on increasing the housing supply through partnerships with large institutional investors. SHP was established to provide innovative solutions to significantly increase the supply of affordable, sustainable and suitable housing choices to all Australians.

Super Housing Partnerships works to create a flow of capital from institutional investors into new housing at scale through the opportunity to invest in a portfolio of build to rent (multi-family) or build-to-rent-to-own housing with resilient long-term returns, with a focus on social, affordable and “essential worker” housing.

In making this submission, we welcome the opportunity to assist in this significant reform to address the critical shortage of affordable housing in Australia. Our submission supports the direction of the Housing Australia Investment Mandate Direction (**Investment Mandate**) and focuses on how the current drafting supports the participation of institutional capital at scale to meaningfully enhance the supply of sustainable and affordable housing options.

We encourage the government to play a facilitation role with the aim to deliver stable, consistent settings that provide certainty to market players and facilitate the establishment of a deep, liquid market that, once established will efficiently deliver outcomes. The early facilitation helps to catalyse an efficient market to attract a broad range of investors.

#### Background

Super Housing Partnerships understands that the Housing Australia Future Fund and the Housing Accord are part of a range of Government initiatives to improve housing outcomes for Australians and will collectively support an additional 20,000 social homes and 20,000 affordable homes across Australia over the next 5 years.

The purpose of the Investment Mandate is to establish the administration of the Housing Australia Future Fund Facility and the National Housing Accord Facility and entrust Housing Australia with all key administration functions.

Super Housing Partnerships supports Housing Australia's role as administrator of both the Housing Australia Future Fund Facility and the National Housing Accord Facility.

Super Housing Partnerships has worked with investors to deliver build-to-rent (**BTR**) solutions and build-to-rent-to-own (**BTRTO**).

As an asset class, BTR is experiencing a large upward demand within Australia as over 7,400 units are currently planned to be constructed and supported by institutional capital in the next three years.

Relative to other countries, investment in Australian BTR and BTRTO as a percentage of institutional real estate portfolios accounts for a very low portion of less than 1%, compared with the US - over 20%.

International examples show that to catalyse a strong build-to-rent marketplace delivering housing security for those who need it most, governments need to be specific about their social impact expectations and target incentives towards these outcomes, we believe the Investment Mandate is written to achieve this.

Policy settings play a crucial role in encouraging institutional investors to participate in the market. Critically, as Australia has a deep institutional investor pool, the government focus is best placed to catalyse a marketplace and allow for the natural growth of that marketplace over time.

### **Housing Australia**

The Minister for Housing, Homelessness, and Small Business has the authority under the Housing Australia Act 2018 to give directions to the Board of Housing Australia concerning its functions.

Housing Australia, governed by an independent board, was established to enhance housing outcomes across Australia. It performs this role through its financing function, guarantee function and capacity building function.

Super Housing Partnerships supports this structure.

### **Key elements of the draft Investment Mandate**

Two new facilities are introduced - the Housing Australia Future Fund Facility (HAFFF) and the National Housing Accord Facility (NHAF).

- The HAFFF is the vehicle by which Housing Australia will distribute disbursements received from the Housing Australia Future Fund (**HAFF**);
- In connection with the HAFF/HAFFF the Government has committed to deliver 30,000 social and affordable homes over five years – 20,000 social homes and 10,000 affordable homes;
- The Housing Accord is an agreement between all levels of government and other stakeholders including various industry super funds to improve supply and affordability of housing in Australia; and

- In connection with the Housing Accord the Government has committed to support delivery of an additional 10,000 affordable homes over five years. This will be achieved through the funds directed to Housing Australia to deliver the affordable homes.

The Explanatory Memorandum accompanying the exposure draft states:

*“HAFFF and the NHAF will help encourage investment in housing (particularly in the social or affordable housing sector) and contribute to the development of the community housing sector”*

Super Housing Partnerships sees this as a positive step and is supportive of the governance arrangements outlined in the Investment Mandate to facilitate the distribution of disbursements.

### **Eligible Loan and Grant Recipients**

- Eligible recipients include States and Territories, community housing providers and others.
- Housing Australia may also provide finance to a HAFFF special purpose vehicle that is a ‘Constitutional corporation’ (i.e. a company).
- To meet the definition, the HAFFF special purpose vehicle must have a purpose of undertaking projects that increase available social housing or affordable housing, or both social and affordable housing, or undertaking projects that address acute housing needs. The HAFFF special purpose vehicle must further have at least one member that is an eligible recipient (i.e., such as a government agency or a community housing provider).

Super Housing Partnerships supports this criterion for recipient eligibility. We see this as a sensible approach to leverage the existing capabilities and expertise held throughout the housing system whilst providing an effective means for private institutional capital to invest in social and affordable housing.

### **Eligible Projects**

The Investment Mandate establishes that eligible projects are those where:

- the project is a HAFFF project;
- the project proponent is eligible;
- for loans, the credit/risk position is reasonable/acceptable; and
- the project delivers value for money, in terms of the amount of housing delivered relative to the amount of government support provided.

*A ‘HAFFF project’ is a project: that increases available social housing or affordable housing or both (regardless of whether or not the project would also increase available housing of other types) or addresses acute housing needs (regardless of whether or not the project would also address housing needs of other types) or does both of the above.*

Super Housing Partnerships supports this criterion for project eligibility. We see this as a sensible approach to ensure the outcomes of funded projects are in line with government, investor and community expectations and needs including social integration and other favourable outcomes achieved by adoption of a mixed tenure, tenure blind approach wherever possible.

### **Social and Affordable Housing Definitions**

Super Housing Partnerships considers this an opportune time to settle definitions for the sector to support clarity and purpose of the Investment Mandate.

- Social housing is an umbrella term that typically refers to either public housing owned and managed by State and Territory governments or community housing;

Affordable housing is generally used to refer to a range of housing types that seek to reduce or eliminate housing stress for low to moderate income households, where housing stress is typically defined as spending more than 30 per cent of household income on housing costs. This can include rental housing offered at below-market rent and pathways to home ownership for low to medium income households (such as shared equity arrangements or subsidised loans); and

- Acute housing refers to crisis housing offered to cohorts at serious risk of, or who are already experiencing, homelessness. This includes short-term and emergency housing, medium-to-long-term transitional housing and specialist services in relation to housing. This should not be considered to be an exhaustive description.

Super Housing Partnerships encourages the consideration of a further change to the draft to settle the definitions of housing types.

There is a balance between providing Housing Australia with the flexibility to recognize and 'reward' innovation in how social and affordable housing impact is realized by the market (on the one hand) and the need for a certain level of certainty which enables large scale investors to develop large, long term portfolio style investment strategies for investment in housing.

Super Housing Partnerships is supportive of a definition that caps rents for affordable housing by reference to income (but does not require income-based rents as with social housing), namely 30% of household income.

### **Concession Period**

Super Housing Partnerships supports a concession period of 25 years with a preference for individual assets to be capable of being cycled 'in and out' on a like for like basis.

### **Dwelling types**

Dwellings can include those delivered via the construction of a new home, the purchase of newly-built homes, through the renovation of an existing residential dwelling that was otherwise uninhabitable, or through the conversion of a non-residential property to a residential dwelling.

Super Housing Partnerships supports this approach but notes that quality environmental sustainability objectives should be prioritized as well.

### **Prioritisation of near-term increase in social and affordable housing stock**

Housing Australia is required to make reasonable efforts to identify potential project proponents with projects that increase the supply of social housing or affordable housing in the short term. The business or activities of these potential proponents may include projects that increase available social or affordable housing in the short term and financing under the HAFFF may assist the potential proponents to further such projects. An example of a project that increases social or affordable housing in the short term could be “spot purchases” of existing, ready-for tenancy dwellings that will be offered as social or affordable homes whereby the spot purchases add to the social and affordable housing supply stock.

Super Housing Partnerships supports this approach but notes the need for these investments to be capital efficient having regard to the obvious need for value for money to be demonstrable in the context of “spot purchases” being sustainable solutions to the current housing crisis.

### **Private Sector Investment**

Super Housing Partnerships notes Housing Australia’s criteria for making a loan or grant under the HAFF includes among other things consideration of:

- whether finance under the HAFFF is needed to encourage private sector participation in financing the project;
- whether finance under the HAFFF would complement, leverage, or support other State or Territory finance or activities;
- relevant reports or advice by the National Housing Supply and Affordability Council (NHSAC) on unmet social, affordable, or acute housing needs and the appropriate use of HAFF disbursements to meet those needs where these reports are publicly available or disclosed by Housing Australia to the project proponent. Note the NHSAC has recently released its report *Barriers to Institutional Investment in Housing, Supply & Affordability*
- the extent to which underlying eligible members will be involved in the project over its duration where the project proponent is a HAFFF special purpose vehicle.

In particular, Super Housing Partnerships notes:

*“Consideration of these matters ensures financing is directed towards projects which increase the availability of social and affordable housing or address acute housing needs in areas which are most in need of assistance. These disbursements can be combined with financing from the private sector. It requires consideration of whether certain financing types will attract institutional investment or private finance into the project or will leverage existing support from State or Territory finance or activities. Furthermore, it obliges Housing Australia to consider whether its financing decisions are providing housing outcomes on an as-needs and equitable basis across jurisdictions. The balancing of these considerations and the flexibility provided by the range of financing options on offer by Housing Australia will ensure it is able to deliver a number of housing priorities, including increasing the supply of available social and affordable housing; encouraging private sector participation in the social and affordable housing sector; and addressing acute housing needs (including housing improvements in remote and non-remote Indigenous communities and crisis and transitional housing for women and child impacted by domestic violence and older women at risk of*

*homelessness, and veterans experiencing homelessness or at risk of homelessness”.*

Super Housing Partnerships supports the emphasis being given to private investment in housing, especially large-scale institutional investment. The housing crisis is not something that governments alone can solve so it is critical that investment models leverage the government funding, subsidy and/or concessions provided by government as a key enabler of private capital.

We have previously submitted that solutions to the housing crisis cannot be delivered by public funding alone. Government money is best used as a form of enabler or accelerant for private capital to the extent that a deep market is established.

### **Geographic equity**

Housing Australia must consider the extent to which a project would be consistent with increasing the availability of social housing and affordable housing, and addressing acute housing needs, including in regional, rural and remote Australia on an equitable, as needs basis.

Super Housing Partnerships acknowledges that housing affordability affects most if not all Australian housing markets and a focus on geographic equity is essential. The basic rental metrics in regional, rural and remote locations will mean different levels of government funding, subsidy and/or concessions will be required if institutional investment is to be attracted to these locations.

### **Activity Centres**

Housing Australia must consider the extent to which the dwellings delivered under the project are well-located (close to work, schools, transport and other amenities, and supporting productivity and liveability).

Super Housing Partnerships supports this approach as a way of encouraging private capital to deliver authentic housing outcomes and provides other desirable social and community benefits.

We look forward to further discussions.

For more information please contact:

CEO Carolyn Viney

(via Mary Delahunty [mary@sevenadvisory.com.au](mailto:mary@sevenadvisory.com.au))