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| nahclogo | Level 1. 118 Vulture Street. West End Qld 4101Ph: 07 3169 2500 Email: Uceo@nahc.org.auU ABN: 30 132 604 552*3,583 new affordable rental homes built**15,000 FTE Jobs created* *$1.4billion in private investment made* *Saving tenants $17m a year in rent**A target of 1,000 new built Shared Equity Home Ownerships by 2020* |
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# AUSTRALIAN GOVERNMENT: The Treasury

NATIONAL HOUSING FINANCE and INVESTMENT CORPORATION

A submission from

**The National Affordable Housing Consortium**



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**ABOUT NAHC:**

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The National Affordable Housing Consortium is a Not For Profit Company and endorsed Charity. It was incorporated in November 2008.

In the last 8 years NAHC has worked with developers, financiers and investors to co-ordinate the delivery of 3,583 new affordable rental homes under NRAS, attracting over $1.4B in private investment. In doing so we have created strong community-business partnerships that are capable of adding thousands of additional affordable units to meet community need.

The pre-requisites for delivering affordable housing, across the needs-continuum, at scale and through an alliance of the best of industry, finance and community, are sound and reliable Government policy settings, adequate and predictable subsidy arrangements, an infrastructure approach to investment and long term holdings; and an alignment of activity across the 3 levels of Government through a revamped NHHA

As well as facilitating new housing on the ground, NAHC invests in research and development and has developed new models to assist social housing reform and pathways between the social and market systems and pathways from renting to buying. We research and address areas of market failure through commercially sound models, influencing policy settings and through an ability bring together partners that operate at scale.

NAHC expects to continue to play a leading role in social and affordable housing reform, renewal and increasing housing opportunities between social and market system. Above all, NAHC expects to add to the further growth in supply, which is essential if we are to address the underlying imbalance in the market.

**GENERAL INTRODUCTION: JOINING THE DOTS**

The Australian Government announced a range of measures in its 2017-18 Budget under its ‘Comprehensive housing affordability plan for all Australians’ and is consulting on a number of elements of that Plan.

NAHC and its partners have already provided submissions on the proposals for increased CGT concessions and MIT arrangements for affordable housing and on the National Housing and Homelessness Agreement.

This submission addresses the National Housing Finance and Investment Corporation consultation

It is essential that the Australian Government effectively join the dots across these policy and financing mechanisms.

Whilst the two prominent financing mechanisms, the Finance Corporation and MIT might enable significant investment in affordable housing via [mainly] debt and equity respectively, without the necessary policy underpinnings through the NHHA Multilateral and the required subsidy provisions via NHHA Bi-laterals and the Infrastructure Fund [along with other subsidy arrangements], failure is all but assured.

Long term debt and equity finance is simply not going to be attracted if a lack of Commonwealth/State policy agreement and a lack of long term adequate and reliable subsidy is not forthcoming.

The sector and industry are not likely to invest in an ability to deliver the 100,000 new social and 100,000 new affordable homes required over the next decade without a clear commitment by Government to evidence-based supply, affordability and funding targets that must underpin any ‘Comprehensive Plan’.

Isn’t this the lesson industry, financiers and community have learned from the last decade, where reforms in evidence [National Housing Supply Council]; Federal housing arrangements and Government scope [NAHA] and new funding mechanism [National Rental Affordability Scheme and Housing Affordability Fund] were not granted the policy certainty and long term support that our community needs if we are to deliver better housing outcomes for all Australians.

**SUMMARY OF MIT/CGT and NHHA PROPOSALS AND NEED TO JOIN THE DOTS:-** *we have set this out as it feeds directly into our recommendations on the NHFIC set out below*

***Our key finding is that the CGT concession*** is not underpinned with evidence on how it might achieve improved affordability and/or redirect investment and at what expected scale. The CGT concession is not an adequate incentive or proxy subsidy to make any real impact in achieving affordability for tenants nor in directing any significant new investment, nor is it an adequate or realistic platform to package State or other inputs around.

***Our key finding on MIT*** is that such a tool could be effective in supporting an emerging Build To Rent market rent segment that would increase supply and be better suited to provide long term, reliable and professional services to [increasing numbers of] permanent renters. This has been ruled out.

***Our key findings on MIT-Affordable Housing*** is that it a welcome mechanism but is inadequate to plug the subsidy gap required in providing discounted rents [say at 75 or 80% market] and that any expectation that States should provide the subsidy needs to be embedded in agreements, policy and funding adequacy, and certainty. Investors are unlikely to enter unless these fundamentals are addressed.

The Commonwealth can itself make the MIT-Affordable Housing arrangements viable by coupling the structure to a package of incentives, including changes to capital and depreciation allowances and a more realistic approach to affordable / market mix.

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| *CGT* | *The increase in the discount from 50% to 60% is grossly inadequate to drive investment into sub market rental housing. We need an evidence based approach to the level of incentives required and the distribution of those benefits between the investor and tenant outcomes* |
| *Diversity Mix [ Stapling]* | *20% of stock in an eligible MIT can be rented at market levels. This improves financial, social and risk management outcomes* |
| *Capital & Depreciation Allowance* | *Need adjusting to incentivise longer term holding and improved energy performance & sustainability* |
| *All of Government structured support* | *We proposed a package of supports which brings together commitment from each level of Government to underpin a model that can operate at scale and nationally* |
| *Sovereign risk* | *Measures to provide confidence are required* |

***Our key findings for the NHHA*** is that specific targets for new supply across each nominated segment of the housing continuum must be set out in terms of Dollars and Dwelling numbers in each Bi-lateral Agreement and performance should be reported against these targets.

***If the main goal of the MIT/CGT and NHFIC is to drive investment into social and affordable housing an adequate, reliable funding stream must underpin them***

***Our preferred approach is*** for the Commonwealth to directly create an **Affordable Housing Supply Fund** [Subsidy] that can be allocated through NHFIC to directly support new supply social & affordable housing programs and projects operating through the Bond Aggregator or through and Eligible MIT.

***Our second option to provide subsidy certainty*** is that the NHHA is ‘Top Sliced’ so that a central Fund of [say] $300m per year can be allocated through the NHFIC to directly support new supply social & affordable housing programs and projects operating through the Bond Aggregator or through and Eligible MIT.

***Our third option*** is that the NHHA Multilateral commits each State and Territory to an agreed and ring- fenced amount that must be used to support new supply social & affordable housing programs and projects operating through the Bond Aggregator or through and Eligible MIT. This can also be set out in Bilateral Agreement which will provide focus for those in the community and private sectors preparing programs or projects through the MIT or Bond Aggregator facilities.

Example Chart Below



**Response to NHFIC Consultation Questions**

**SECTION 2:**

**Q1. We propose ‘One entity, Four Functions’.**

* ***The Bond Aggregator***
* ***The NHIF***
* ***MIT-Affordable Housing***. Whilst the structure compliance is ATO’s role, the policy and ‘program’ approach needs to sit somewhere that makes sense. Since we are creating NHFIC as the national infrastructure to guide and support the policy, it makes sense that MIT-Affordable Housing sits here. Most projects will be debt/equity, many will link to infrastructure. This alignment gets people thinking at scale
* ***Affordable Housing Supply Fund***. This is the subsidy stream essential to the policy goal of scaling up investment into social & affordable housing. 3 Funding options outlined above. Enables the NHFIC to assess and support programs and projects sourcing Debt / Equity / Infrastructure support and Subsidy. If such a Fund or Top Slicing is not agreed, there is still merit in the NHFIC having a role in facilitating and supporting subsidy inputs

**Q4. Engagement is important if it is purposeful.** The sector and industry are sick of wasting time and money on things that go nowhere, system improvements that aren’t listened to and consultation that is designed to tick the ‘done that’ box.

The two important things are:

The sector and key stakeholders need a formal, empowered role, probably through an Advisory Committee.

The NHFIC needs to negotiate its arrangements with States as per our NHHA proposals, but irrespective of whether it is in the NHHA, a clear and agreed **“Pathway To Projects”** must to be available to the sector and industry.

This is likely to need to be State by State refined, especially if we cannot bind this into the NHHA Mutli-lateral. The aim must be to set out agreed criteria for submissions and assessment. EG. If a project needs Debt and Subsidy [Often State] what will be the best and cheapest process to those respective decisions by the Bond Aggregator and the State subsidy provider? Lets also learn the lessons from the twin track decision making in NRAS.

**SECTION 3.**

**Q3, 5, 7, 8.**

Encouraging partnerships between LG’s the community and private sector that facilitate increased new supply of affordable housing is essential.

LG are already active players in many cases and Policy and Investment Support should provide direction and encouragement. **It is misplaced to get too prescriptive about what can or can’t be included as the Fund must be seeking to drive innovation. It will be challenge to set out some clear priorities whilst retaining an open mind to innovation.**

Partnerships can align different capabilities and thereby leverage investment further, for example a combination of Planning Policy enhancements, Charitable Tax Incentives, Social Impact Investment and Private Investment.

**Application to the Fund should be able to come from:**

* LG alone
* LG led partnerships or Consortia
* CHP, as long as they have the written support of LG [Not necessarily as a partnership]
* CHP led partnerships or Consortia, if they include the LG / or LG support
* MIT-Affordable Housing with the written support of LG

The private sector should be encouraged to partner with the above.

**NAHC is proposing** that the Fund prioritize and support **Inclusionary Zoning** initiatives, supporting early adoption and easing market transition and carrying some of the implied cost transfer that can occur in this transition period.

**NAHC is proposing** **that a specific facility be made available for a planned approach to ‘Key Worker’ housing as ‘essential infrastructure’ planned alongside other social infrastructure. It would work like this:- T**he Fund invites Governments to identify their forward planning around future key social infrastructure, schools & other education facilities; hospitals & other health facilities; public transport hubs; fire stations etc. Plans should identify key worker housing needs and the Fund should assist in facilitating that planned delivery. Never again should we plan a school or hospital without thinking about where the teachers or nurses can afford to live.

**Value Uplift is a community owned asset**, through our democratic rule setting and regulatory processes we provide an effective license or right to uplift in value, usually but not always exclusively for private benefit.

There are plenty of reasons to rethink how we view and utilize the value uplift that we as a community control. Tools exist to value that uplift, charges are applied for infrastructure and other benefits from that uplift but we lack a long term policy that combines Inclusionary Zoning with Fair Capture & Distribution of Value.

How did Greater London adjust its planning and policy settings to achieve a 30% affordable housing supply and manage a transition that did not lead to major market dislocation or a failure to invest?

**NAHC support the NHFIC to develop a policy approach that guides the Fund to support outcomes and good practice in this area, through demonstration pilots or other ways. For example it could reward LG’s and other with a better grant/loan mix for initiatives that maximize and capture Uplift for affordable housing supply**

**SECTION 4**

**Q1 NAHC strongly opposes the restriction of Bond funds just to Tier 1 and 2 CHP’s for the following reasons:**

* There are a wide range of entities with significant experience and capacity outside registered CHP’s that would add capacity and innovation to delivery, including aged care providers, disability housing providers, NRAS providers. This includes private providers. Indeed NAHC, the largest NRAS provider in Australia with 3,583 dwellings delivered is not a Registered CHP.
* The National Regulatory System is not national and is not consistent. Many also argue that it is not fit for purpose in an environment of diverse investment, innovative partnership and JV structures and businesses operating beyond State Housing Authority activity or funding. The commitment to fix this is welcome, but we should not be predicating access to investment funds on the promise of a fit for purpose regulatory system that requires multi-jurisdictional agreement.
* To create and sustain investor interest in Bond issues there needs to be scale and repetition in issuance to stimulate a Bond Market that is more vanilla than boutique. Given the scale of funds available within our domestic Supers it seems self-defeating to only enable CHP’s with a limited borrowing requirement into the tent.

We would contend that Government has established extensive regulatory controls that provide a basis for confidence and suggest access is available to

* Any NRS provider
* Any Approved Participant under NRAS Regulations
* Any NFP or Charity registered under the ACNC
* Regulated Aged care or disability service providers
* Any MIT-Affordable Housing
* The Private Sector through a partnership arrangement with one or more of the above and where management of the stock is through a CHP, Approved Participant or regulated NFP / Charity

**Q3. NAHC recommends that** in the Start Up phase- say 5 years or $5B- that Bonds are underpinned with a **Government Guarantee** and the position can be reviewed in year 5. As well as the obvious benefits around market-making and pricing risk, it means that the NHFIC can have **a more beneficial approach to the security** **required** from the sector in this start up phase

This is important given the nature of controls over much of the CHP managed public housing stock or assets previously funded by State Governments.

**An ideal approach** to security would **first ranking mortgage security over the funded assets [only**] with an approach to **ICR** that is more modest than banks require. [If Government wants to scale up quickly **1.00** is ideal but **1.2** is sufficient given the policy purpose and lower risk factors, like new-build product and strong demand]. Not sure why we would want further Covenants except to **stop leakage** of Government supported funds out of social and affordable housing and that should sit in the overarching policy and Contract structure. This has to be achieved in a way that does not put barriers to rational asset management and portfolio decisions.

Third party security should also be accepted, for example the Victorian Government ‘Guarantee Fund’

**Q5. Yes in principle**. It would be good to create a strong domestic Bond market but given the long term experience of large institutions overseas and a more diverse view on risk/reward over longer terms, a more competitive international market may enhance scale and lower cost of funds and extend terms. This also might help facilitate better debt / equity arrangements through MIT Affordable Housing

**Q6.** This will be answered by those institutions but through our discussions we understand that issues should be no less than $200m, up to $500m but should also be a regular and growing issuance to build a sustainable, low cost of transaction market place.

**Q8. NAHC strongly supports a Government Guarantee, at least for the Start Up Phase of 5 years or $5B, with an further review at that time based on the evidence of market acceptance, pricing and delivery performance.**

**SUMMARY**

Many proponents will have identified the key issues of scale and subsidy. These cannot be left to the uncertainties of current Federal relations in the housing field. We must have the subsidy arrangements on the table at the same time as the Bond and MIT. Otherwise the Bond Aggregator may be like a car with no fuel, all the parts work but it can’t go anywhere.

NAHC has put forward its own quite modest proposals that link up NHHA with MIT and Bond Aggregator in a way that would provide some funding certainty, at a limited scale admittedly.

Our approach could see a balanced way forward in which the Commonwealth provides further tax concessions or depreciation write down to improve the effectiveness of the MIT and provides an initial guarantee under the Bond issuance, with States allocating dedicated subsidy funds to support the Bond and MIT through a top slice or Bilateral commitment through NHHA. A dedicated Commonwealth Funded ‘Affordable Housing Supply Fund’ is obviously the best contender for market making at scale.

Other innovations that could drive scale and investment:-

* National Affordable Housing Providers peak body is calling for a Low Income Housing Tax Credit scheme that builds on some of the most successful features of NRAS [ 32,000 new homes and $11Billion in private investment since 2009] whilst addressing some of the program shortcomings. NAHC supports that initiative
* Some financial institutions are calling on Bonds to be issued effectively interest free, [Government paying the coupon] which would provide a large scale stimulus which could double the community housing sector over 10 years. Also very supportable

The NAHC Group thanks Treasury for the opportunity to respond to its Consultation paper and we look forward to seeing the Governments response

 With Regards

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