Australian Government

CLEAN ENERGY
FINANCE CORPORATION

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Council on Federal Financial Relations
Affordable Housing Working Group
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

SUBMISSION ON AFFORDABLE HOUSING WORKING GROUP ISSUES PAPER

The Clean Energy Finance Corporation welcomes the opportunity to make a submission to the Council on Federal Financial Relations Affordable Housing Working Group.

The CEFC's mission is to accelerate Australia's transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction. The CEFC has developed an investment origination, risk management and portfolio management platform which can be leveraged to successfully support public and private-sector initiatives.

In February, the CEFC launched a $250 million Community Housing Program to promote energy efficient community housing and address the community housing industry's need for long-term finance.

Promoting energy efficiency in community housing

Evidence indicates that lower-income families tend to live in buildings with poorer energy efficiency, leading to higher energy costs. Poor building energy efficiency and high energy costs can have significant financial and health effects on households in community housing.

There are many energy efficiency improvements with payback periods of five years or less that can be incorporated into the building fabric during construction. New-build community housing should be designed to ambitious energy efficiency standards and the existing stock should be refurbished to improve energy efficiency.

While energy efficiency improvements involve upfront costs, more energy efficient community housing would lower energy bills and increase thermal comfort, improving households' financial, health and social outcomes as well as reducing carbon emissions.

Addressing the community housing industry's need for long-term finance

Levels of private finance in most community housing developments in Australia are generally low. Lending has generally been short-term, which is mismatched with typically long-lived housing assets.

There are a number of barriers that impede private financing of community housing:

Clean Energy Finance Corporation

Suite 1702, 1 Bligh Street
Sydney, NSW 2000 Australia
ABN: 43 669 904 352

e info@cleanenergyfinancecorp.com.au
t 1300 002 332
i +61 2 8039 0800

- While some mainstream and community banks have provided loans to community housing providers, only larger housing providers have had the capacity to borrow, and they have generally borrowed relatively small amounts compared to their net assets.
- While rents are stable and demand is strong, community housing providers have relatively little control over revenue, with rents limited by regulation and other sources of income dependent on government policy (such as the Australian Government's Rent Assistance payment).
- While the balance sheets of some community housing providers have been boosted by housing stock transfers through title vesting, those transfers are accompanied by strict conditions on how the assets can be dealt with that may affect their perceived value as security.

Community housing organisations have limited sources of revenue to fund new building programs and have generally faced challenges sourcing private finance on appropriate terms. Long-term debt finance from the Clean Energy Finance Corporation can help community housing organisations develop and renew community housing dwellings and ensure those properties are built to higher standards of energy efficiency.

Financing models for affordable housing

Community housing providers are playing a growing role in the housing system. But at present, only a relatively small number of community housing providers have sufficient revenue and assets to finance a significant program of dwelling construction.

Over time, increasing the availability of finance for community housing providers to develop social and affordable housing will require addressing two challenges:

- **adequacy and certainty of revenue streams** – ensuring that revenue from rental income (including Rent Assistance), the National Rental Affordability Scheme, and other government programs such as the New South Wales Government's housing services payments are sufficient for community housing providers to build new dwellings
- **the availability of assets as collateral for loans** – ensuring that community housing providers have sufficient collateral, including by transferring to them title and/or long-term management rights for existing community housing, to improve their capacity to borrow for building programs.

In place of more assets becoming available for use as collateral for loan finance, governments could consider lending directly to community housing providers, or provide limited guarantee support along the lines of the United Kingdom's Affordable Housing Guarantee Scheme, which provides low-cost debt to housing associations via The Housing Finance Corporation as discussed in Model 1 in the Issues Paper.

Our recent market report, *Financing energy efficient community housing*, is attached for reference. We look forward to working with the Affordable Housing Working Group to boost the supply of energy efficient community housing.

Yours sincerely

Oliver Yates
Chief Executive Officer
Clean Energy Finance Corporation

Attachment: *Financing energy efficient community housing: A market report by the Clean Energy Finance Corporation* (February 2016)

Financing energy efficient community housing

A market report by the
Clean Energy Finance Corporation

February 2016

CEFC
CLEAN ENERGY FINANCE CORPORATION

About the Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) invests commercially to increase the flow of funds into renewable energy, energy efficiency and low emissions technologies.

The CEFC has supported projects across the Australian economy, benefitting a diverse range of businesses, large and small. The CEFC's mission is to accelerate Australia's transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction. The CEFC does this through direct investments which attract private sector finance, as well as through its strategic co-financing partners.

The CEFC was created by the Australian Government and operates under the *Clean Energy Finance Corporation Act 2012*.

Acknowledgements

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The reviewers do not necessarily hold any of the views expressed in this report and bear no responsibility for any remaining errors.

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Summary

Community housing will require significant private investment over the next decade

There is a major shortage of social housing in Australia, with more than 200,000 approved applicants on waiting lists nationwide.

Given the ongoing demand for housing assistance and the growing expectation from governments that community housing providers will play a key role in meeting that demand, there is likely to be a significant requirement for debt finance to support development and renewal programs in coming years.

If 5,000 new community housing dwellings were built each year, $15 billion of investment would be required over the next 10 years.

Community housing should be built to ambitious energy efficiency standards

Evidence indicates that low-income households tend to live in buildings with poorer energy efficiency, leading to higher energy costs. Poor building energy efficiency and high energy costs can have significant financial and health effects on households in community housing.

There are many energy efficiency improvements with payback periods of five years or less that can be incorporated into the building fabric during construction. New-build community housing should be designed to ambitious energy efficiency standards and the existing stock should be refurbished to improve energy efficiency.

While energy efficiency improvements involve upfront costs, more energy efficient community housing would lower energy bills and increase thermal comfort, improving households' financial, health and social outcomes as well as reducing carbon emissions.

The CEFC can finance energy efficient social and affordable housing

Community housing organisations have limited sources of revenue to fund new building and have generally faced challenges sourcing private finance on appropriate terms.

Long-term debt finance from the Clean Energy Finance Corporation can help community housing organisations develop and renew community housing dwellings and ensure those properties are built to high standards of energy efficiency.

1. The outlook for community housing

WHAT IS COMMUNITY HOUSING?

Community housing is rental housing provided by registered not-for-profit organisations. It is often developed with funding or other assistance from governments, including through planning incentives. Community housing includes *social housing* and *affordable housing*.

There are around 88,500 community housing dwellings in Australia. New South Wales has the largest stock of community housing, with more than 31,000 dwellings.

Social housing is affordable rental housing provided by not-for-profit organisations or government agencies for low to moderate income households and households with special needs. Social housing rents are typically based on a formula tied to household income.

Affordable housing is rental housing for very low to moderate income households. It is priced at below-market rent so that households are also able to meet other living costs.

Community housing differs from *public housing*. Public housing is owned or operated by state and territory housing authorities to provide affordable rental accommodation.

Community housing, public housing and Indigenous community and state-owned housing together comprise the *social housing* sector.

Figure 1: There are around 88,500 community housing dwellings in Australia

	Aust	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Community housing	**88,565**	**31,155**	**16,234**	**16,680**	**9,460**	**7,076**	**4,860**	**610**	**2,490**
Public housing	323,803	110,805	64,471	51,368	33,467	39,422	8,413	10,848	5,009
State-owned and managed Indigenous housing	10,113	4,632	..	3,383	..	1,815	283	..	..

Number of social housing dwellings by state

Source: AIHW National Housing Assistance Data Repository 2013-14, CEFC

Note: Community housing includes mainstream community housing, Indigenous community housing and NT remote community housing

COMMUNITY HOUSING IS PREDOMINANTLY IN CITIES AND INNER REGIONAL AREAS

Three-quarters of community housing is in major cities and inner regional areas. Indigenous community housing is concentred in outer regional, remote and very remote parts of the country.

Community housing includes a range of housing types. Mainstream community housing mostly comprises houses and flats.

Figure 2: Three-quarters of community housing is in major cities and inner regional areas

	Major city	Inner regional	Outer regional	Remote	Very remote	Total
Mainstream community housing dwellings	45,889	16,764	7,175	781	497	71,107
Percentage	*65*	*24*	*10*	*1*	*<1*	
Indigenous community housing dwellings	1,332	2,401	3,120	2,384	8,309	17,547
Percentage	*8*	*14*	*18*	*14*	*47*	
All community housing dwellings	*47,221*	*19,166*	*10,295*	*3,165*	*8,806*	*88,654*
Percentage	*53*	*22*	*12*	*4*	*10*	

Community housing by remoteness
Some totals may vary from Figure 1 due to interpolation.
Source: AIHW National Housing Assistance Data Repository 2013-14, CEFC

Figure 3: Mainstream housing mostly comprises houses and flats

	Mainstream community housing	State-owned and managed Indigenous housing
	%	%
Separate house	31	82
Semi-detached, townhouse, etc.	16	14
Flat, unit or apartment	48	4
Other	5	0

Mix of dwelling types
Source: AIHW National Housing Assistance Data Repository 2013-14

HOUSING ASSISTANCE IS INCREASINGLY PROVIDED THROUGH COMMUNITY HOUSING

The Australian community housing sector plays a significant and growing role in providing housing assistance, following the pattern of the sector in North America and Europe.

The growing role of the community housing sector has been driven by:

- the need to provide housing in configurations and locations that better meet tenants' needs
- a trend towards out-sourced housing services management and project development
- the trend away from governments acquiring assets on balance sheet, alongside a growing capacity of the community housing sector to raise private finance
- Rent Assistance from the Australian Government which is available to support private rental housing
- tax concessions (including GST concessions) for not-for-profit organisations.

The proportion of all social housing dwellings managed by community housing providers has grown from 10% in 2009 to 15% in 2013 (*AIWH Housing assistance in Australia 2014*) with government policies encouraging the sector to increase the supply of affordable housing (*Productivity Commission Report on Government Services 2015*). In addition, several state governments have transferred management of some of their public housing stock to the community housing sector.

The community housing sector is diverse, with a range of types of organisation offering different models of community housing. Church and faith groups, some with significant land holdings, are playing a growing role in the community housing industry.

Figure 4: Types of organisations offering community housing

Housing cooperatives, providing tenancy management and maintenance of housing that is owned by government, a central finance company or an individual cooperative

Local government housing associations, providing low cost housing in a particular municipality, are closely involved in policy, planning, funding and/or monitoring roles, and can directly manage the housing stock

Regional or local housing associations, providing property and tenancy management services and support services to tenants

Specialist providers are organisations with a specific purpose or function, such as tenancy management, housing development, or for specific target groups

Service delivery organisations that provide housing and other welfare services, such as aged care and disability services

Vertically integrated providers of affordable housing are involved in all stages of providing affordable housing, from construction to property and tenancy management

Community ownership and/or management, where housing is owned and/or managed by not-for-profit or community housing associations

Joint ventures and housing partnerships, where church and welfare entities, local government, private sector and other organisations provide resources in cooperation with State and Territory governments; or where groups of community housing providers form partnerships to maximise growth opportunities, share resources and/or manage risk

Equity share rental housing, where housing cooperatives wholly own the housing stock and lease it to tenants (who are shareholders in the cooperative and, therefore, have the rights and responsibilities of cooperative management)

Source: Productivity Commission Report on Government Services 2015

COMMUNITY HOUSING IS NATIONALLY REGULATED

Community housing providers are regulated under the National Regulatory System for Community Housing. There are hundreds of community housing organisations around the country, some of which operate in several states.

Figure 5: There are hundreds of community housing organisations around the country

New South Wales	120
Victoria	102
Queensland	265
Western Australia	34
South Australia	80
Tasmania	72
Australian Capital Territory	5
Northern Territory	37

Registered community housing organisations by state
Source: AIHW National Housing Assistance Data Repository 2013-14

The national regulatory system came into effect on 1 January 2014, and states are implementing the system according to their own timelines. Under the system, community housing providers are designated as tier 1, 2 or 3. Tier 1 and tier 2 providers have asset management capabilities.

Figure 6: Tiers of community housing providers under the national regulatory system

Tier 1: Housing providers with asset procurement and development functions (and the ability to grow social and affordable housing supply through construction, purchase or acquisition) and/or complex tenancy and property management functions that operate at scale

Tier 2: Housing providers typically involved in moderately complex asset and tenancy management activities

Tier 3: Housing providers typically involved in small-scale tenancy management activities.

Source: National Regulatory System for Community Housing

The national regulatory system is designed to promote a well governed, well managed and viable national community housing sector that meets the housing needs of tenants and provides assurance for government and investors.

DEMAND FOR HOUSING ASSISTANCE IS HIGH, WITH LONG WAITING LISTS AROUND THE COUNTRY

According to the Australian Institute of Health and Welfare, demand for social housing is growing and supply is failing to keep up. Based on growth in the number of households and demographic trends, projections indicate that demand for social housing will increase in most states and territories in coming years. Demand in Perth, for example, is projected to grow 55% between 2009 and 2021 (*AIHW Housing assistance in Australia 2014*).

Community housing serves a client group that overlaps with the client group for public housing. There are significant waiting lists for social housing around the country. AIHW estimates that nearly 206,000 applicants were on public housing waiting lists Australia-wide in 2013-14.

In New South Wales, which has the largest social housing system in Australia, there are around 60,000 approved applicants on the waiting list, with an average expected waiting period of four years or up to 10 years or more in popular locations.

COMMUNITY HOUSING ACCOUNTS FOR MOST OF THE GROWTH IN SOCIAL HOUSING OVER THE LAST DECADE

Community housing has seen strong growth over the last decade, with average growth of nearly 5,000 dwellings each year. That growth rate was boosted by rapid increases during the Social Housing Initiative of the Nation Building economic stimulus program (2009-2012) and the transfer of some public housing to the community housing sector in several states. By contrast, the stock of public housing dwellings has declined by nearly 17,500 since 2005-06.

MEETING DEMAND CREATES A SIGNFICANT INVESTMENT OPPORTUNITY

If 5,000 new community housing dwellings were built each year, that would see 50,000 dwellings built over a decade, and represent a $15 billion investment opportunity based on an average cost per dwelling of around $300,000.

If community housing providers developed or renewed 10,000 new dwellings each year, it would see 100,000 dwellings built over a decade and represent a $30 billion investment opportunity. Building 100,000 new community housing dwellings would halve the estimated current national waiting list for public housing.

By way of comparison, on average around 150,000 new residential dwellings have been built nationally each year for the last decade (*ABS, CEFC*).

GOVERNMENTS ARE PROMOTING PRIVATE INVESTMENT IN COMMUNITY HOUSING

- The New South Wales Government has announced a 10-year strategy to deliver up to 23,000 new and replacement social housing dwellings, and its Social and Affordable Housing Fund is targeting 3,000 new dwellings in its first procurement round this year.
- Renewal SA is targeting an increase in the supply of affordable housing in South Australia.
- The Western Australian Housing Authority is targeting the delivery of 30,000 affordable homes.

Figure 7: Community housing accounts for most of the growth in social housing over the last decade

	Mainstream community housing	Indigenous community housing	NT remote community housing	Public housing	State-owned and managed Indigenous housing	Total
2005–06	32,349	22,192	na	341,378	12,893	Na
2006–07	35,161	22,018	na	339,771	13,098	na
2007–08	38,519	23,279	na	337,866	12,778	na
2008–09	41,718	20,232	4,631	336,464	12,056	415,101
2009–10	45,975	18,695	4,631	333,383	11,952	414,636
2010–11	57,901	17,276	4,765	331,371	9,820	421,133
2011–12	59,993	16,773	4,965	330,906	10,047	422,684
2012–13	65,865	17,162	5,056	328,340	10,084	426,507
2013–14	71,036	17,529	5,096	323,803	10,113	427,577
8-year change	*38,687*	*-4,663*	*na*	*-17,575*	*-2,780*	*na*

Social housing dwellings by program type, 2005-06 to 2013-14
Source: AIHW National Housing Assistance Data Repository 2013-14

2. Energy efficiency in community housing

There is little direct data on the energy efficiency of community housing dwellings in Australia. But evidence suggests that low-income households tend to live in buildings with poorer energy efficiency, which leads to higher energy costs. Poor building energy efficiency and high energy costs can have significant financial and health effects on households in social housing.

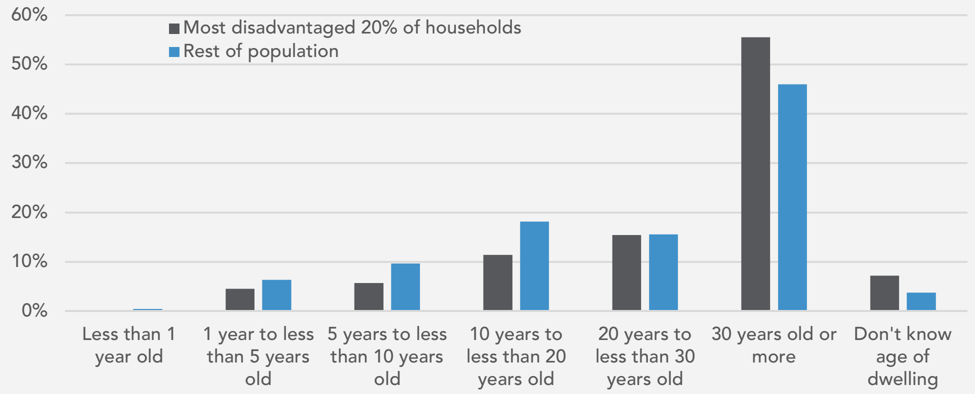
Overall, low-income tenants are twice as likely to be living in an uninsulated home compared to owner-occupiers (ACOSS, *Energy Efficiency and low income households: policy to improve affordability and extreme weather adaptation*). Across the country, the most disadvantaged households are more likely to live in fibro houses than the rest of the population (unpublished ABS data from *Environmental Issues: Energy Use and Conservation* survey). More than 40% of the most disadvantaged households are renters.

A 2011 survey found that more than half of all community housing dwellings surveyed did not have any insulation and nearly one third had inefficient electric hot water systems (*Urmee et al 2012*).

Around 70% of the most disadvantaged households live in dwellings that are more than 20 years old, indicating that they are less likely to be designed with active or passive energy efficiency features incorporated (unpublished ABS data from *Environmental Issues: Energy Use and Conservation* survey).

Many social housing tenants have high energy consumption: as share of household income, low-income households spend three times what high-income households spend on in-home energy (*ABS 4670.0 Household Energy Consumption Survey*). ABS survey data shows that households that received most of their gross weekly income from a government pension spent $61 per week – close to 10% of their income – on total energy costs, around twice that for other households (*ABS 4670.0 Household Energy Consumption Survey, 2012*).

Figure 8: Around 70% of the most disadvantaged households live in dwellings that are more than 20 years old



Share of households in each category by age of dwelling

Source: unpublished ABS data from Environmental Issues: Energy Use and Conservation survey

WHY ARE RENTAL HOUSES LESS ENERGY EFFICIENT?

The *split incentive problem* explains why rental housing tends not to have high levels of energy efficiency: while most of the benefits of increased energy efficiency – lower energy bills and a more comfortable living environment – accrue to the tenant, the upfront costs of improving energy efficiency of a property are borne by the property's owner or manager. That makes it less likely that owners or managers of rental properties will invest in energy efficiency compared to owner-occupiers.

In addition, tenants generally do not have the right to modify their fabric of their homes without agreement from the landlord, and any gains in asset value from energy efficiency investments are captured by the landlord (*Gabriel et al, AHURI 2010*).

OPPORTUNITY FOR ENERGY EFFICIENCY IMPROVEMENTS

There are many energy efficiency improvements with payback periods of five years or less that can be incorporated into the fabric of the building during construction.

While incorporating energy efficiency measures during construction is in many instances cheaper than retrofitting existing dwellings, the large stock of existing social housing dwellings with low levels of energy efficiency suggests that there is a significant investment opportunity in retrofitting dwellings as well.

The appliance replacement cycle also presents an opportunity to improve energy efficiency. In total, appliances such as refrigerators and ovens contribute around a third of home energy use (*yourhome.gov.au*). ClimateWorks Australia research has identified that purchasing highly efficient appliances at the time of natural replacement could cut Australia's household energy bills by $471 million per year, while saving over two million tonnes of emissions per year.

As well as reducing carbon emissions, more energy efficient community housing would improve the financial and health outcomes of households in social housing by lowering energy bills and increasing thermal comfort.

Figure 9: Many energy efficiency improvements can be incorporated into the fabric of the dwelling

	Estimated additional capital cost per unit	Estimated energy cost saving	Estimated simple payback period
	$	$	Years
Improving insulation in external walls and adding floor insulation	1,000	250	4.4
Double glazing instead of single glazing	1,500	250	6.0
LED lighting in place of fluorescent lighting	250	75	3.3
Induction stoves in place of gas stoves	600	200	3.0
Secure screen door where no clear cross ventilation	300	150	2.0
In-home energy monitoring	250	150	1.7
Central solar plant to meet base building electricity demand from lighting, lifts etc	*20,000	*7,300	2.7

Illustrative energy efficiency improvements in a new-build social housing development
Payback period assumes 25c/KWh tariff including network charges
Central solar plant cost is total cost for base building installation (not per-unit cost)
Source: CEFC

HOW IS ENERGY EFFICIENCY BENCHMARKED?

There are a number of national ratings systems for energy efficiency in residential properties which can be used for benchmarking new and existing community housing dwellings.

Figure 10: Energy efficiency rating schemes for residential properties

The **Nationwide House Energy Rating Scheme (NatHERS)** provides a reliable way to estimate and rank the potential thermal performance of residential buildings. The system, administered by the Department of Industry, Innovation and Science, can be used to determine the efficiency of a design of an existing or planned home and give it a star rating of between 0 and 10, allowing for different sized houses and climates to ensure nationwide consistency.

The Green Building Council of Australia developed the **Green Star** system to evaluate the environmental design and construction of new buildings, new fit-outs and master-planned precincts.

Ratings schemes do not necessarily capture all the factors that are relevant for lowering tenants' costs. For example, a NatHERS rating is based on a dwelling's energy consumption and does not take into account the carbon intensity of the supplied electricity. That means installing solar PV does not affect a building's NatHERS rating, though it is likely to translate into lower long-term energy costs for residents.

ENERGY EFFICIENCY IN NEW SOCIAL HOUSING

In general, there are no specific requirements for social housing beyond satisfying the relevant minimum building code requirements.

Some social housing programs have adopted energy efficiency requirements:

- New public housing projects built by the NSW Land & Housing Corporation are required to achieve a six-star NatHERS rating (*LAHC Design Standards 2014*).

- Housing built as part of the Social Housing Initiative of the Nation Building and Economic Stimulus Program was required to meet a six-star NatHERS rating. Grants under stages 1 and 2 of that program provided for 19,300 additional social housing dwellings between 2009 and 2011 (*AHURI 2012, Developing sustainable affordable housing: a project level analysis*).

According to Department of Industry data, a seven-star NatHERS-rated dwelling has a thermal load that is 25% lower than a six-star dwelling, depending on the climate zone the dwelling is located in. That lower thermal load translates into lower energy costs and higher comfort.

The CEFC Community Housing Program will require project proponents to build to a standard either a seven-star NatHERS rating or one star higher than the minimum building standard in the relevant state, whichever is higher.

3. Financing community housing

Community housing providers are playing a growing role in the housing system. Given the strong demand for community housing, there is emerging strong demand for private investment to support community housing providers' development and renewal programs.

But community housing providers have limited sources of revenue to fund new building and renewal developments, and have generally faced challenges sourcing private finance on appropriate terms. Long-term debt finance can help community housing providers to deliver housing and meet community needs.

FINANCING COMMUNITY HOUSING PROVIDERS

Community housing providers are not-for-profit non-government providers of social and affordable housing. While community housing models vary across the states, community housing providers usually receive some form of government assistance in the form of direct funding or transfers of land or management rights.

Community housing providers receive income from a number of sources:

- rental income (including Rent Assistance) – the majority of revenue
- management fees
- National Rental Affordability Scheme (NRAS) income from projects developed under that scheme
- services income such as the proposed NSW Social and Affordable Housing Fund services contracts.

Community housing tenants typically pay rent at 25-30% of gross household income, and are also eligible to apply for Rent Assistance, which is a rent supplement provided by the Australian Government and paid to people who receive a pension, allowance or benefit.

Taking into account rent payments from tenants and Rent Assistance, 92% of community housing tenants pay less than 80% of market rent.

Figure 11: Key sources of Australian Government funding for social housing

Commonwealth Rent Assistance (CRA) is a non-taxable income support supplement payable to individuals and families who rent accommodation in the private rental market and community housing. CRA rates are based on a customer's family situation and the amount of rent they pay. At 6 June 2014, 1,315,385 individuals and families were receiving CRA. In 2013-14 Australian Government expenditure on CRA was $3.95 billion. CRA is increased twice a year in response to changes to the cost of living as measured by the Consumer Price Index.

The National Rental Affordability Scheme (NRAS) is an Australian Government program to invest in affordable rental housing. The Scheme offers financial incentives to the business sector and community organisations to build and rent dwellings to low and moderate income households at a rate that is at least 20 per cent below the prevailing market rate. At 30 September 2014, more than 23,000 dwellings had been built and were tenanted or available for rent, but the Scheme was closed to new entrants in the 2014 Budget.

Source: Australian Government 2015

PRIVATE FINANCING FOR SOCIAL HOUSING TO DATE

Levels of private finance in most social housing developments in Australia are generally low, with loan facilities mostly at full market interest rates (*Productivity Commission, Report on Government Services 2015, vol. G, Housing and homelessness*). Lending has generally been short-term, which is mismatched with typically long-lived housing assets.

There are a number of barriers that impede private financing of social housing:

- While some mainstream and community banks have provided loans to community housing providers, **only larger housing providers have had the capacity to borrow**, and they have generally borrowed relatively small amounts compared to their net assets.
- While rents are stable and demand is strong, community housing providers have **relatively little control over revenue**, with rents limited by regulation and other sources of income dependent on government policy.
- While the balance sheets of some community housing providers have been boosted by housing stock transfers through title vesting, those transfers are accompanied by **strict conditions on how the assets can be dealt with** that may affect their perceived value as security.
- Commercial bank underwriting and reserve requirements differ based on whether lending to community housing providers is treated as property risk or cashflow lending.

The low levels of private finance in part reflect a lack of an ongoing framework for building new social and affordable housing. Initiatives such as the Social Housing Initiative of the Nation Building economic stimulus program and the National Rental Affordability Scheme provided a subsidy for only a limited period.

Figure 12: Transfer of title to community housing providers in New South Wales

In New South Wales, community housing providers manage around 31,000 dwellings. Under a program that began in 2009, title to around 6,000 properties has been transferred to community housing providers under tripartite deeds between the Department of Families and Community Services, community housing providers and lenders.

Apart from the 6,000 owned properties, most community housing is leased to community housing providers by the government. Many properties are on three-year leases, which can make it difficult to secure finance, despite the fact that leases are routinely renewed every three years. By comparison, Queensland and Tasmanian governments lease properties for 10 to 20-year terms.

Figure 13: Long-term leases in the Logan Renewal Initiative

As part of the Logan Renewal Initiative, the Queensland Government has entered into a 20-year contract with a community housing provider to manage 4,900 social housing properties, renew and redevelop properties around Logan and increase the number of social and affordable dwellings by 800. The 20-year lease provides a higher level of security for lenders, leading to lower borrowing costs and increasing the number of dwellings that can be built or upgraded.

A number of strategies could increase the scope for private finance to fund new developments:

- **Active management** of housing organisations' **asset portfolios** could increase the scope to source private finance for new developments, though only larger community housing providers have the in-house finance and asset management expertise to manage significant portfolios.
- Some large community housing providers have established **specialised in-house project development teams** to provide services to smaller community housing organisations.
- Several organisations are examining whether there is scope for a new funding instrument such as an aggregated capital raising or **housing bond** to provide ongoing support for investment in community housing.

Figure 14: Community housing in the United Kingdom

Community housing in the United Kingdom has pursued a 'mixed funding' model since 1988, with capital grants used to leverage private finance for new housing. Between 1998 and 2008, £50 billion of private finance was raised, with £2 of private finance raised for every £1 of public money and 30,000 new dwellings built each year. The expansion of community housing was a result of large-scale transfers of housing from local authorities to community housing associations along with reforms to financing of the sector.

Source: Productivity Commission 2010, *Contribution of the not-for-profit sector*

4. The CEFC Community Housing Program

To promote energy efficient community housing and address the community housing industry's need for long-term finance, the CEFC has launched a $250 million financing program to build energy efficient community housing dwellings.

The CEFC Community Housing Program has a range of features designed to promote energy efficient community housing:

- **Energy efficient new dwellings**: CEFC financing will ensure that new dwellings are designed to higher energy efficiency standards, benefitting tenants by reducing their energy bills and lowering the carbon footprint of the properties.
- **Tenancy sustainability initiatives**: The CEFC will allocate a portion of its interest income to finance sustainability initiatives for tenants across a community housing provider's portfolio of existing dwellings, not just on new dwellings.
- **Flexible structure**: The CEFC will work with community housing providers to develop a financing structure that promotes the efficient financing of future projects.
- **Fixed rate loan**: The CEFC is a fixed rate lender and typical swap arrangements in a commercial bank loan would not apply. This also has the benefit of reducing refinancing fees.
- **Tenor**: The CEFC is able to provide longer-dated debt of up to 10 years, compared to typical tenors of 3-5 years currently offered by commercial banks.

The CEFC Community Housing Program will complement other government initiatives designed to promote social and affordable housing including the NSW Social and Affordable Housing Fund, the NSW Communities Plus program, the National Disability Insurance Scheme and RenewalSA's affordable housing program.

The CEFC's first transaction in community housing, financing SGCH to construct 200 new energy efficient dwellings, has prompted very strong interest from the community housing sector. (More detail is in the case study on p.16.)

The CEFC Community Housing Program is consistent with the CEFC's mandate to accelerate the flow of finance into energy efficiency projects and its focus on cities and the built environment.

CASE STUDY: CEFC LOAN TO SGCH

The Clean Energy Finance Corporation is providing a market-leading, scaleable financing program for energy efficiency in community housing.

SGCH is a not-for-profit community housing provider with 30 years' experience in providing housing assistance to those most in need. The largest community housing provider in New South Wales, SGCH houses over 8,300 people in 4,300 homes.

The CEFC is making long-term financing available to SGCH, a leading community housing provider, to incorporate energy-efficient initiatives into a number of new Sydney social and affordable housing projects during construction. In addition, CEFC finance will support a long-term plan to make ongoing sustainability improvements to SGCH's existing housing for the benefit of tenants.

The CEFC will lend SGCH up to $60 million to develop over 200 new high performing energy-efficient homes. SGCH will use the CEFC finance to improve energy efficiency, directly benefiting tenants through lower electricity bills. Initiatives made possible through the CEFC finance include improved insulation, window glazing, LED lighting, energy efficient appliances, smart meters and solar installations in SGCH's new and existing properties.

Properties built as part of the CEFC's financing program with SGCH will be built to a minimum seven-star NatHERS rating.

By comparison, new housing in New South Wales is required to meet the BASIX building standard, which requires a low level of energy efficiency.

In addition to core housing services, SGCH works in partnership with government agencies and support partners to provide a range of initiatives to improve the lives of tenants such as training, education, employment and community engagement opportunities.

As part of the project, SGCH will document the energy efficiency and green procurement opportunities that were considered and included in the building design to help with the ongoing management of its portfolio.

Contact the Clean Energy Finance Corporation

CLEAN ENERGY FINANCE CORPORATION
Suite 1702, 1 Bligh Street, Sydney NSW 2000

TELEPHONE
1300 00 2332
1300 00 CEFC

www.cleanenergyfinancecorp.com.au
contact@cleanenergyfinancecorp.com.au

CEFC
CLEAN ENERGY FINANCE CORPORATION