COMMON EQUITY NSW SUBMISSION
TO TREASURY NHFIC INVESTMENT MANDATE DIRECTION

9 March 2018

Mr David Crawford
Manager – Housing Unit
Social Policy Division
The Treasury
CANBERRA ACT 2600

Dear David

Common Equity NSW (hereafter referred to as CENSW) is pleased to provide feedback on the exposure draft and explanatory statement for the Investment Mandate Direction.

About CENSW

CENSW is a provider and developer of affordable housing across NSW managing in excess of 500 properties. We promote co-operative housing models to empower people to build strong communities and better outcomes through affordable housing solutions perfectly suited for seniors, people with a disability, older single women, key workers, marginalised groups and people on low incomes.

5 key requirements for Community Housing Providers (CHP's) to successfully engage with NHFIC:

1. Better than market pricing
2. Nil or low levels of security
3. Loan terms and tenor must add certainty
4. Eligible organisations must include SPV's
5. Mixed developments must permit a variety of tenures, equity and incomes

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1. Pricing

The draft Investment Mandate Direction requires NHFIC to:

- Cover its operating costs;
- Charge a risk margin relative to risk;
- Retain capital; and
- Consider providing dividends.

These requirements are identical to those of any Australian Commercial Financier and based upon our understanding of the approach being taken to establish NHFIC. There is a risk that NHFIC may not be able to deliver a lower cost of finance. If that is the case, the opportunity to increase supply or improve housing outcomes through this aspect will not be realised.

Recommendation:
In order to add value to the CHP sector, NHFIC must provide loans at substantially lower interest rates than Commercial Financiers.

2. Security

Under section 17 of the draft Investment Mandate Direction there is a requirement for NHFIC to seek security for any loan at least commensurate with existing security arrangements with Commercial Financiers.

While it is the intention for NHFIC (via the Bond Aggregator) to raise money on different terms than would be normally available to registered CHPs, a requirement to provide security commensurate with Commercial Financiers is inconsistent with the intent for NHFIC to support efficient lending to the registered CHP sector. It does not differentiate NHFIC from any Australian Commercial Financier and will substantially constrain CHPs from using its capacity to expand the supply of affordable housing.

There are two significant challenges NHFIC must take account of regarding the issue of security:

- Typically, many of the assets of a CHP are restricted in favour of State and Territory governments. This may take the form of a mortgage, interest on title or fixed or floating charge over CHP assets. NHFIC, the CHP and any current lenders to CHP's would need to negotiate any further sharing of security over existing assets with the respective State or Territory Governments.

- The class of property assets (occupied by lower income households and those experiencing disadvantage) is such that no lender would actually seek to exercise its rights as mortgagee and dispose of assets due to the publicity that would arise in doing so. As a consequence, CHP assets might be regarded as having a low and unrealisable value.

The whole principle of NHFIC lending to the registered CHP sector, is that the sector is highly regulated under the National Regulatory Scheme for Community Housing (NRSCH) (or their equivalents in Victoria and Western Australia), and are subject to constant oversight by housing regulators. The need to provide security in favour of NHFIC on top of existing governance and risk management requirements represents a major threshold issue for the sector.

Recommendation:

-In order to provide value, improve access and efficiency, and not constrain the capacity of registered CHPs, security should not be required, or at the very least be limited only to the purchase of new assets.

3. Loan terms and tenor

We understand that Treasury is considering the issue of 10-year bonds via the aggregator model in order for NHFIC to provide finance to the sector with similar tenor. This approach is strongly supported and we believe this will be very attractive to the CHP sector. Given the nature of revenue streams from below market tenancies, fixing the interest rates and requiring loan repayments from CHP's based on interest only will enhance the viability and certainty for projects.

Recommendations:

-In order to provide value to the CHP sector, NHFIC must provide loans with minimum 10-year tenor on a fixed, interest only basis.

-Building up a portfolio of funded projects via the proposed initial reserve of funds to NHFIC ahead of the first bond issue is also essential.

4. Eligible Organisations

Section 16 of the Draft Investment Mandate Direction indicates loans can only be made to registered CHPs on an individual basis, whilst the National Housing Infrastructure Facility (Section 22) enables loans, investments and grants to be available to Special Purpose Vehicles (SPVs).

It is common practice in the property development industry for organisations to form SPV's or co-operatives around specific projects particularly if they are large or complex. It is anticipated that CHPs may wish to pursue this pathway also for NHFIC financed projects as a way to pool skills and resources and to enable efficient project delivery.

It is therefore likely that an individual SPV borrower may not in its own right be a registered CHP but is made up of a partnership or co-operative of registered CHPs. Confirmation of this capacity honours the spirit and intent of NHFIC without ruling out a common development pathway mechanism.

Recommendation:

-NHFIC loans should be made to registered CHP and/or SPV's or similar structures controlled by registered CHP's, even though the borrowing entity in its own right my not be a registered CHP.

5. **Mixed Developments**

CHPs undertake a range of housing and property related activities in support of their objects towards affordable housing outcomes. Often this includes innovative projects that involve mixed developments as a way of delivering more affordable housing. The capacity to maximise affordable housing through cross-subsidies, economies of scale and meeting the requirements of land owners means that mixed developments are an innovative way of delivering more affordable housing.

Projects that incorporate affordable housing as part of larger developments is a fundamental provision covered by State Environmental Planning Policies (SEPP's) such as the NSW Affordable Rental Housing SEPP.

To remove any element of doubt, clarity is required in relation to Section 19 (a) to ensure mixed developments (including those that incorporate shared or mixed equity, different ownership forms or different types of tenure as additional pathways to affordable housing) are permissible.

Recommendation:

-Mixed developments incorporating shared or mixed equity, different ownership forms and different types of tenure as innovative pathways to enable additional affordable housing must be expressly permitted under the Investment Mandate.

CENSW applauds the work of Government and Treasury in supporting affordable housing through the establishment of NHFIC. We look forward to your continuing engagement with the CHP sector to ensure that NHFIC is successful in achieving its objects.

Yours sincerely,

James Brown
Chief Executive Officer

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