



National Housing Finance and Investment Corporation

Draft Investment Mandate

SGCH Submission
8 March 2018



Overview of SGCH Group

SGCH is the largest community housing provider in NSW, providing a place to call home for more than 8,900 people in 4,700 properties across the Sydney metropolitan region. We develop and manage sustainable, safe and affordable homes and work in partnership to create vibrant, inclusive communities.

Our vision is great places for everyone. Our business is people and places. We develop and manage sustainable, safe and affordable homes and work in partnership to create vibrant, inclusive communities.

SGCH applies commercial principles to the pursuit of our purpose of connecting people to opportunity and collaboratively shaping great places through sustainable, safe and affordable housing.

The group comprises three Tier 1 entities registered under the National Regulatory System for Community Housing: St George Community Housing Limited and two wholly owned subsidiaries, SGCH Portfolio Limited and SGCH Sustainability Limited.

SGCH is currently delivering on a development pipeline of 802 affordable housing dwellings, of which 149 have already been completed. SGCH has an ongoing partnership with Clean Energy Finance Corporation, Westpac and Commonwealth Bank of Australia through which SGCH currently has more than \$240m of committed financing to help us deliver on this substantive program.

Contact details

For further information or questions about this submission, please contact:

Scott Langford

Group CEO

SGCH

Scott.Langford@sgch.com.au

Tak Onishi

Head of Strategic Finance

SGCH

Tak.Onishi@sgch.com.au

NHFIC Draft Investment Mandate

SGCH welcomes the Australian Government's commitment to establishing the National Housing Finance and Investment Corporation (NHFIC) and the opportunity to participate in the ongoing consultation process around the Affordable Housing Bond Aggregator (AHBA) and the National Housing Infrastructure Facility (NHIF).

Further, we are broadly supportive of the draft Investment Mandate in its current form and the Government's approach to maintaining flexibility for the NHFIC Board to consider the specifics around how both functions under the NHFIC should operate.

In order to best facilitate the provision of additional social and affordable housing stock and increase the scale of the community housing sector, our view is that the main objective of the AHBA should be to provide financing which is cost efficient, at scale and replicable.

With this in mind and as we move closer to the commencement of NHFIC operations, our feedback below is aimed at ensuring the objectives of the AHBA are met and anticipate any barriers to SGCH's involvement in the early stages of both the AHBA and the NHIF.

AHBA initial reserve (Item 11)

As highlighted in the explanatory statement, our understanding is that the \$150 million reserve which may be allocated to NHFIC is to be used as a warehousing facility for CHPs between bond issuances.

In our view, we do not see the requirement for the AHBA to maintain any other capital reserves. As such, we question whether the use of this money for a warehousing facility should be specified in the Investment Mandate. To the extent that investors require some form of debt service reserve, this should be passed down to each Community Housing Provider (CHP), particularly where reserve requirements may differ for each CHP (varying risk profiles) to ensure there is no cross subsidisation of costs in this regard.

Security for loans (Item 17 & 24)

The draft Investment Mandate requires NHFIC to seek security from CHPs which is at least commensurate with existing security arrangement with Commercial Financiers. However, the existence of the Government guarantee and loan concessions envisaged in item 24(2) clearly outline the Government's intention to provide strong support to the CHP sector and assist in bridging the yield gap to the extent possible through this lever.

From a financing perspective, we see Government as being in a position to provide support in the areas of pricing, tenor and security. In our experience, the missing piece of the puzzle to getting a number of deals across the line in this sector has been the ability to structure in a subordinated / mezzanine debt layer with the appropriate balance of pricing, tenor and security.

As such, we would ask that the aspect of security be further considered as an area for concession or as a minimum, not restrict the NHFIC from considering this as a form of concession at this stage (particularly given the complexities around the national regulatory frame work and tri-partite security arrangements involving State governments).

Our participation in the AHBA and NHIF hinges on the ability of these sources of finance to complement our existing forms of finance and in particular, how the AHBA and the NHIF will operate in a financing vehicle with multiple secured creditors. We would welcome further consultation / clarification around this issue of security and what form the security may take, noting:

- examples of bond issuances where security has not been required for investment grade issuers
- underlying security can be protected by imposing financial and other covenants without taking out formal security such as mortgage over properties

Notwithstanding the above, if NHFIC requires formal security over CHP assets, we would encourage early consultation with CHPs, banks and State governments to ensure broad agreement has been reached ahead of 1 July 2018 on how security arrangements and related documents (e.g. inter-creditor arrangements, tripartite deeds etc.) would operate.

Next steps

In recognising the advantages to providing flexibility for the NHFIC Board around operational details, a consultation process around the key requirements and anticipated terms (including financial covenants) in the lead up to NHFIC operations will be key to ensuring a timely take-up of the financing on offer. This will be essential from an SGCH perspective (and likely many other CHPs) to ensure:

- necessary forward planning and financial assessment can be undertaken
- this time now is used constructively to resolve issues such as how security for loans would operate (which has the potential to cause significant delays to our participation)

SGCH would be pleased to contribute to the ongoing consultation process as you plan for operational commencement.