MASTER BUILDERS
AUSTRALIA

26 October 2017

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

Dear David,

Master Builders Australia (Master Builders) is pleased to provide feedback to the Consultation Paper on the National Housing Finance and Investment Corporation (NHIFC), the National Housing Infrastructure Facility (NHIF) and the affordable housing bond aggregator (BA).

Master Builders is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations. Over 127 years the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.

The building and construction industry:

- Consists of over 340,000 business entities, of which approximately 97% are considered small businesses (fewer than 20 employees);
- Employs over 1 million people (around 1 in every 10 workers) representing the third largest employing industry behind retail and health services;
- Represents over 8% of GDP, the second largest sector within the economy;
- Trains more than half of the total number of trades based apprentices every year, being well over 50,000 apprentices;
- Performs building work each year to a value of approximately $200 billion; and
- The cumulative building and construction task over the next decade will require work done to the value of $2.6 trillion and for the number of people employed in the industry to rise by 300,000 to 1.3 million.

Master Builders commends the Government for its focus on the critical issue of housing affordability and supporting measures announced as part of the 2017 Federal Budget.

We welcome the implementation of the $1 billion NHIF to boost the supply of new housing and reduce the cost of providing new land for residential construction.

We also welcome the implementation of the NHIFC to oversee the NHIF and the affordable housing bond aggregator, as a *"corporate commonwealth entity with an independent Board."*

More detail on specific areas of reform, which have been informed through a comprehensive consultation process with key industry stakeholders, and supported by a robust and universally accepted modelling framework are outlined in the subsequent attachments.

In response to the Consultation Paper, in summary, Master Builders recommends the following:

The National Housing Finance and Investment Corporation (NHIFC)

- Master Builders supports the establishment of the NHIFC and its proposed mandate to manage the operations of the BA and the NHIF.

- Master Builders supports Recommendation 1 of the *Establishment of an Australian Affordable Housing Bond Aggregator report,* in full: *"Government should commence work to establish the Bond Aggregator (BA) as part of the NHIFC, noting that Community Housing Providers (CHPs) are likely to be the primary agents to maintain and expand the stock of affordable housing."* In addition, we recommend that the NHIFC work with community housing providers to speed-up access to credit through the BA.

- Master Builders supports recommendation 8 of the *Establishment of an Australian Affordable Housing Bond Aggregator report,* in full. Given the growing number of households on the waiting list for public housing, which is currently estimated at over 190,000, it is important that the NHIFC is established as intended on 1 July 2018 and should aim to issue its inaugural bond by the end of calendar year 2018.

The National Housing Infrastructure Facility

- Master Builders considers the implementation of the $1 billion NHIF as a reasonable and adequate response to the recommendations of the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016).*

- However, there are a number of additional items which have not been addressed in the Consultation Paper which should be considered before making a decision on the structure of the NHIF.

- Specifically, the findings of the *National Housing Finance and Investment Corporation: Consultation Paper* notes total funding under the NHIF to be split into:
    - $600 million in lending,
    - $225 million in equity investment, and
    - $175 million in grants

- Given that a number of projects to unlock new housing supply may not generate direct revenue, Master Builders recommends a more detailed review be undertaken into the allocation of funding under the three financing streams noted above. Specifically, a review of the type of projects which may be eligible for the different forms of financing and whether this matches up to projects identified as priorities to address chokepoints in supply – in line with the original mandate of the NHIF.

- There are a number of other issues which are not directly covered in the Consultation Paper, which are also worth considering in the final assessment of the NHIF, including:

    - How do the lending and equity finance components support projects which may not have a revenue stream?
    - Given that some States have a credit rating which is comparable or better than that of the Federal Government, how would the lending finance component of the NHIF endeavour to service these markets?
    - Is there an example of a project which acts to unlock new housing supply which is also eligible for Federal equity in the underlying asset?
    - How do the different financing streams support the Federal Government's ability set supply targets and place conditions around funding to local governments?
    - Given it is not possible for the Federal Government to provide funding directly to local governments, how would the NHIF interact with relevant State agencies?
    - Local governments are often not the ones who provide the amenity infrastructure to new housing developments. How would the NHIF engage with the private sector on PPP developments, or where private developers are responsible for providing amenity infrastructure?
    - Often developer charges and council fees are passed onto new home buyers to recoup developments costs. How would the Federal Government ensure these charges are equally adjusted in cases where Federal funding is used to develop this infrastructure?

- Master Builders would welcome the opportunity to talk further with the Housing Unit Team to develop responses to these additional questions.

- Detailed research into the potential benefits of investment under the NHIF is found in the attachments (A and B). In short, this research found that investments made under the NHIF could support the construction of an additional 100,000 new houses in the next five years if implemented immediately and targeted at the most critical chokepoints in the housing market.

- Master Builders recommends that funding under the NHIF address the policy reform priorities outlined in this research (attachments A and B), and prioritise reforms which will have the greatest potential impact in terms of boosting future housing supply.

- Given failure in previous programs such as the National Affordable Housing Agreement (NAHA) to boost housing supply, Master Builders recommends any funding to be allocated to State or local governments be subject to conditional arrangements which ensure Federal funding is achieving its intended outcomes – in this case to increase the supply of new housing in areas which need it most. New housing supply targets set and agreed upon at the time of transaction would be the most the prudent and simple measure.

- The NHIFC may also seek to use other possible metrics as conditions for funding, including but not limited to: a requirement to reduce the waiting list for community/public housing, distribution targets, density targets for inner city areas, house price growth targets, land affordability targets, greater reporting transparency around infrastructure and council fees for both revenue and expenditure. Master Builders would welcome the opportunity to work with the Housing Unit Team at Treasury to develop these metrics.

Affordable Housing Bond Aggregator

- Master Builders supports the implementation of a Bond Aggregator (BA) to be administered under the NHIFC, and to provide *"cheaper and longer-term finance for community and affordable housing providers"* in accordance with the initial recommendations in the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing,* and Recommendation 4 of the *Establishment of an Australian Affordable Housing Bond Aggregator report* (the BA Consultation Paper).

- To appeal to the widest possible audience of consumers it is important for the BA to issue wholesale bonds, consistent with recommendation 2 of the Consultation Paper.

- Master Builders also supports the implementation of a pass-through model, noting the effectiveness of this approach overseas, consistent with Recommendation 3 of the Consultation Paper.

- The preferred financial arrangement would be for the BA to not be subject to a Government guarantee. There is a risk that such a guarantee could encourage adverse lending behaviours by the BA. The analysis in the Consultation Paper also notes *"that there is sufficient sector debt (approx. $1 billion) to supply market demand."*

- Master Builders acknowledges that without a guarantee the *"BAs strong credit may be a function of robust and strict lending criteria"* which could limit the number of loans and the scope of community housing providers able to access funding under the BA.

- Master Builders therefore agrees that a standalone BA *"may not be successful"* and may result in *"onerous credit policies which disincentives CHP participation."* However, it is recommended that subsequent research into the viability of a standalone BA be undertaken before a decision is made as to whether the BA will receive a Government guarantee.

- Subsequently, it is recommended that if a Government Guarantee is provided, that lending behaviour is monitored adequately to ensure adverse lending practises do not emerge.

- Given the poor outcomes of the National Affordable Housing Agreement (NAHA) as noted in the Productivity Commission Report on Government Services (2017), Master Builders

Recommends that new funding to support the affordable housing sector be conditional on new affordable housing supply targets and that any existing funding under the NAHA be redirected under the BA.

- Master Builders recommends that funding allocated under the BA is prioritised to projects which directly boost the supply of housing and land for new affordable housing developments as recommended by the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016)*, noting *"that the major barrier to the supply of affordable housing is the financing gap."*

- Master Builders recommends that funding is targeted at projects which most effectively close the 'financing gap' as defined in the *Affordable Housing Working Group Report: Innovative Financing Models to Improve the Supply of Affordable Housing (2016),* noting *"that no innovative financing model will close this (financing) gap and a sustained increase in the investment by governments is required to stimulate affordable housing production… and investment."*

In addition to the recommendations relating to the Consultation Paper above, Master Builders recommends that an additional paper be developed to outline how affordable and community housing stocks are managed over the long term. It is important that the BA supports an absolute increase in the stock of affordable and community housing, and that this stock remain as community / affordable housing stock over the long term. If not managed properly, affordable housing may become unaffordable if subject to market dynamics.

Please refer to the report attachments in support of this letter for more information on the potential benefits of implementing the NHIF and the NHIFC.

We welcome the opportunity to meet with you to discuss any of the recommendations outlined above, or the findings of the attached reports in more detail.

Yours sincerely

Denita Wawn
Chief Executive Officer