National Affordable Housing Providers Ltd.

Submission on the National Housing Finance and Investment Corporation consultation paper

October 2017

Thank you for the opportunity to comment on the Treasury consultation paper on the National Housing Finance and Investment Corporation. We also appreciated the opportunity to participate in the Canberra Roundtable and discuss issues raised in the consultation paper.

The National Affordable Housing Providers Ltd (NAHP) is a representative peak body whose purpose is to represent the collective interests of NRAS Approved Participants, in the Constitutional Objective of assisting in the delivery of affordable housing across Australia. Our members hold responsibility for over 50% of all NRAS delivery. NAHP members are a mix of not for profit housing organisations, commercial and ASX listed entities, representing the broad interests of companies engaged in the field of providing private affordable housing in Australia, including NRAS and other State and Federal Government initiatives.

Our brief comments will primarily focus on eligibility considerations for the National Housing Infrastructure Facility and the bond aggregator, with some comments on complimentary reforms we believe must be implemented in order for the bond aggregator to be successful.

National Housing Infrastructure Facility (NHIF)

The consultation paper discusses the NHIF in terms of helping to increase 'new housing supply' generally without any proposed priority or specification directed towards the supply of new *affordable* housing. NAHP supports targeting the allocation of NHIF funds to projects that will better enable the development of affordable housing. At a minimum, any project that receives NHIF funding should be required to have an affordable housing component as part of its project. Targeting NIF funds in this manner would complement other Government affordable housing initiatives and would be in keeping with the objectives of the Government's 'Comprehensive Housing Affordability Plan for all Australians' announced in the 2017-18 Budget.

National Housing Finance and Investment Corporation /bond aggregator

Section 4, Question 1 asks if there could be benefits to expanding the eligibility criteria to include other stakeholders involved in the provision of affordable housing. NAHP believes that entities wishing to access financing through the bond aggregator should be assessed on their ability and capacity to deliver affordable housing rather than be assessed on their governance structure, i.e. assess applicants on the basis of the proposition.

As a result of the National Rental Affordability Scheme (NRAS) and other State-based affordable housing initiatives, there have emerged experienced, capable affordable housing providers who may not be community housing providers (CHP). They have the expertise and track record for delivering affordable housing products; NRAS alone has delivered over 34,000 new affordable housing dwellings. NAHP believes that eligibility for the bond aggregator should not be limited to CHPs and should allow other qualified entities (non-profit and for profit) to participate

NAHP acknowledges that one of the perceived benefits of restricting participation to CHPs is their regulation under the National Regulatory System for Community Housing (NRSCH) notwithstanding a recommendation by the Affordable Housing Working Group to strengthen this regulatory regime. As the AHWG report noted, " An effective regulatory regime will give potential investors confidence that the CHPs accessing finance through the bond aggregator are well governed, capable of meeting their debt obligations and that financial and operational risks are appropriately managed"[1].

NAHP agrees that regulation provides needed investor assurances. However, other participants in the affordable housing arena are similarly regulated under other regimes. As incorporated entities, affordable housing providers are regulated by the Australian Securities and Investment Corporation (ASIC). Aged care providers, another group of existing affordable housing providers for the elderly, are regulated under a regulatory and quality control framework. Rather than have non-CHP bond aggregator participants engage with the NRSCH, NAHP recommends that there be a reciprocal recognition of other regulatory regimes which would provide the necessary investor assurances without duplicating regulatory requirements on participants.

There are aspects of community housing regulation that are not relevant to the delivery of affordable housing, such as community engagement, and tenant and support services. While these are necessary components for regulating the broad remit of CHP activities, it is not necessary for regulating the delivery of affordable housing.

Complimentary reforms

Several places in the consultation paper note that the bond aggregator alone will not address the funding gap and that other complimentary reforms must be implemented in order to address this issue. The Affordable Housing Working Group report made their top recommendation that the Commonwealth and State and Territory governments progress initiatives aimed at closing the funding gap.[2] NAHP strongly supports this view.

Research indicates that just to meet the current demand for social housing and maintaining it at 4.3% of total housing stock will require construction of over 6,000 new dwellings per year for the next 38 years, representing a 54% increase in current social housing stock. This does not include the backlog of needed housing for low income households that is estimated to be between 186,000 and 271,000 dwellings.

The scale of the demand and the shortfall in low cost housing is significant; it will need a commitment from both the Commonwealth and the States and Territories to provide a financially adequate ongoing subsidy. An adequate financial subsidy will be required to justify the infrastructure investment of the NHIF and the bond aggregator.

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[1] Council on Federal Financial Relations, *Supporting the implementation of an affordable housing bond aggregator*, Affordable Housing Working Group Report to Heads of Treasuries, September 2017, page 20.
[2] Ibid, page 2

The Commonwealth is uniquely positioned to provide a subsidy through the tax system and can make its contribution by re-introducing a tax based incentive, such as a rebatable tax offset or a tax credit similar to the US Low Income Housing Tax credit (LIHTC). The LIHTC provides a credit based on the cost of development and construction (excluding land) and the location of the units. The investor receives a credit against their tax liability in exchange for capital contributions made to finance the development of an approved affordable housing project, i.e. investors reduce their income tax by $1 for every dollar of LIHTC credit. While investors receive the credits for 10 years, they must continue to rent their dwellings to qualified low/moderate income tenants and meet compliance requirements for at least 15 years, with some US jurisdictions increasing this period to 30 years.

States and Territories could meet their subsidy obligation through provision of land, land tax and rates abatement, planning enhancements or concessions, and grant funding to eligible entities.

The funding gap has to be successful addressed; without a solution, the bond aggregator and the other Government affordable housing initiatives will not financially stack up. Institutional investors will only be attracted to the bond aggregator if there is a robust and uncomplicated subsidy regime in place that will not only address the funding gap but will stimulate affordable rental housing construction.