National Housing and Investment Finance Corporation

Q Shelter - Response to Consultation Paper

September 2017

Q Shelter welcomes the Australian Government's intention to establish the National Housing Finance Corporation (NHFIC) as a central part of its plan for housing affordability. We welcome the acknowledgement of the critical role of housing in the social and economic wellbeing of Australians, and the impact that the lack of affordable housing is having on a significant number of households. . We also strongly endorse the role of community housing providers as being uniquely placed to deliver much needed growth in affordable housing supply.

About Q Shelter

Q Shelter is a long established peak body, representing both housing and homelessness organisations in Queensland. Our members include a majority of registered community housing providers (CHPs) in Queensland, including all Tier 1 providers and 90% of Tier 2 providers. We have representatives in 12 regions across the State and strong partnerships with local government, other peak bodies and agencies such as the Property Council, Real Estate Institute Queensland, QCOSS, the Local Government Association of Qld and CHPs for Qld.

We are funded by the Department of Housing and Public Works in a capacity building role to the community housing and homelessness sectors, and over the past 3 years have worked intensively with CHPs to build capacity to register under the National Regulatory System Community Housing (NRSCH). Our recent focus has been to work in a strategic alliance with the Queensland Department of Housing and Public Works to examine the drivers for, and barriers to, growth for CHPs in Queensland. This work has included examination of key jurisdictional policy settings including rent policies, and terms of lease agreements on government owned property, including insurance and maintenance responsibilities. We participate in the Housing Ministerial Council, where stakeholders are currently engaged in commissioning work to define 'affordable housing'.

Through all this work we have developed an in depth understanding of the community housing sector in Queensland, its strengths and capabilities, and barriers to growth.

We also work closely with other state and territory community housing representative organisations, and have applied to become an associate member of the national community housing peak body, the Community Housing Industry Association (CHIA). We are also a member of national Shelter and work with state based Shelter organisations.

The Queensland context

CHPs in Queensland have considerable scale and expertise. Tier 1 and Tier 2 CHPs between them own or manage around 12,000 dwellings[1], including 4,000 affordable dwellings (NRAS and other affordable). Approximately 200 units were in development in 2016, with a further pipeline now expected as part of the Queensland Housing Strategy 2017-2027. There are three Tier 1 providers

[1] Q Shelter survey of Tier 1 and Tier 2 providers, September 2016

whose portfolios are Queensland based, including the first CHP in Australia to obtain a credit rating (Brisbane Housing Company). Another four Tier 1s operate in Queensland but have larger portfolios in other States. Queensland also has a number of regionally based Tier 2 providers who are well placed to contribute to urban regeneration and revitalisation of regional centres, including City Deals. Overall Queensland has the second largest number of registered CHPs, after New South Wales.

At the same time, the scale of the housing affordability issue in Queensland is evidenced in the recent AHURI report[2], showing that a total of 381,300 households are in housing need – either unable to access market housing or requiring housing assistance to avoid housing stress in the private rental market. This is the largest number of households in any state across Australia. Queensland is a state of varying housing markets, with high levels of population growth projected for South East Queensland (an increase of 1.9 million people over the next 25 years), and with growing regional centres with distinct housing affordability issues.

Q Shelter supports the development of diversified affordable housing options, to provide choice and opportunities for households suited to their needs, and to remove disincentives to remain in social housing. Community housing providers are well placed to deliver innovative, mixed tenure, affordable housing developments that offer this kind of diversity.

Section 2: National Housing Finance and Investment Corporation

Q2	**Governance** — The proposed NHFIC governance structure, including: the role of the independent board; what issues may be reflected in the investment mandate; and the potential role of the Government in decision making?

Q Shelter supports the inclusion of community housing experts on the Board of the NHFIC. Most importantly, this should include direct experience both of the governance/operation of a large CHP. Also of value would be the inclusion of someone with experience of regulation.

We strongly support the NHFIC recruiting its own staff and developing in house expertise in the community housing sector, to ensure that the CHP business and service model are well understood.

Q4	**Engagement** — How can the NHFIC effectively engage with stakeholders across Australia to ensure that viable projects are identified?

As acknowledged in the EY report[3], the funding gap to make projects commercially viable remains the sector's primary concern. It is therefore critical that the NHFIC engage with all stakeholders, and state and local governments, to ensure that funding is made available in a manner that supports the efficient delivery of social and affordable housing to those on low to moderate incomes at a state and regional level.

[2] AHURI *Modelling Housing Need in Australia to 2025,* August 17
[3] Ernst and Young *Establishment of an Australian affordable housing bond aggregator,* September 17

The National Housing and Homelessness Agreement (NHHA) negotiations provide an important opportunity for state and territory governments to commit to increased investment into social and affordable housing, as well as other measures such as planning and tax concessions and inclusionary zoning. The growth of Managed Investment Trusts presents another opportunity to bridge the 'yield gap'. Also, Q Shelter's recent work on rent settings has underlined the need to review the current tax concessions in relation to proportion of market rent charged.

Q Shelter also supports the establishment of state based consultation mechanisms – whether this is achieved through a committee, advisory group etc, or other means – to involve stakeholders who understand the local housing markets and housing needs as well as opportunities for complementary investment. Key stakeholders would include peak industry bodies, state and local government representatives.

Section 3: The National Housing Infrastructure Facility

Q5	**Financing Arrangements** – Could the NHIF expand 'eligible applicants to include a consortium of investors, such as institutional investors, social impact investors, CHPs and other stakeholders (for example, state and territory governments)?

Q Shelter supports the inclusion of CHPs as eligible applicants, where they may form part of a consortium to deliver social and affordable housing as part of a redevelopment scheme or precinct based renewal, in partnership with state and/or local government and private developers.

Indeed, CHPs should be included in consortia where affordable or social housing is being developed, to ensure that properties are appropriately targeted and managed. It is also a means for government to support the growth of the sector, which in turn contributes to creating the capacity and volume required to support the effective operation of the Bond Aggregator, and to produce affordable housing at scale.

Q7	**Affordable Housing** – Should the NHIF also focus on facilitating the supply of affordable housing, including for key workers? If so, what is the most effective way to achieve this objective?

Q Shelter supports the use of NHIF funds for affordable housing, including for key workers. Our review of rental affordability shows a significant range of working incomes are priced out of the private rental market in large parts of the State, in particular single income households, and that these households would be well served by a range of rental housing products priced at varying discounts to market rent (or higher income based rents).

Funding criteria should include the extent to which sustained, longer term affordable housing outcomes are achieved.

Section 4: The affordable housing bond aggregator

Q1	**Eligibility** – It is currently envisaged that the bond aggregator will only provide loans to Tier 1 and Tier 2 CHPs. Could there be benefits to expanding the eligibility criteria to include other stakeholders involved in the provision of affordable housing?

Q Shelter supports eligibility being limited to CHPs registered under the NRSCH, with States not currently operating under this framework being brought into it. CHPs are required to demonstrate governance, risk and financial capability through registration and compliance under the NRSCH, which provide assurance to investors of the robustness and capability of the organisation. If the regulations (or their application) are judged to be insufficiently sophisticated for the scale and volume of investment through the bond aggregator, the national scheme should be reformed in line with the forthcoming recommendations from the NSW Federation of Housing Associations[4].

Specifically, the regulatory framework should contain a clear definition of social and affordable housing, and should be inclusive of all social and affordable housing providers. Existing barriers, for example the current 'wind up clause' eligibility criterion, should be addressed.

We believe that eligibility should be extended to any registered CHP, including Tier 3 CHPs, since there are substantial NGOs who may currently operate a small (funded) housing portfolio and have been assessed as a Tier 3 provider but who may be in a position, on their own or in a consortium with government and non-government partners, to deliver new affordable or social housing supply at scale. Such organisations would in any case be reassessed as a Tier 1 or Tier 2 provider at the point of commitment.

Whilst we recognise the lower costs of lending in larger tranches, resulting in lower borrowing costs to CHPs, Q Shelter would like smaller CHPS, for example regional Tier 2s, who may have restricted access to other sources of debt finance, to be considered in future phases, once the bond aggregator is established.

Q2	**Purpose of loans** — The bond aggregator's loans are expected to be primarily used for funding housing maintenance and turn-key purchases. Do stakeholders agree with this focus? Is there scope for the bond aggregator to provide construction finance or should the bond aggregator be prevented from providing such finance?

It is desirable that bond aggregator loan finance can be used as flexibly as possible. With the appropriate security in place for the bond aggregator loans it would be the hope that these funds can be used not only for maintenance and turnkey purchases but also provide development finance. This obviates the need for additional administration associated with stage payments etc. This use of a corporate facility for internally managed development already exists for well capitalised CHPs. Given that the corporate facility is adequately secured, this loan purpose should not impact on the cost of funds.

[4] To be published in November 2017

Q3	**Security for loans** — What forms of security should CHPs be asked to provide to access bond aggregator loans? Are there any circumstances where such loans could be unsecured? If security is provided, to what extent should it be collateralised against other assets owned or operated by the CHP? What forms of financial covenants from CHPs should exist alongside any security? If a CHP has multiple secured creditors, how should the security in favour of the bond aggregator rank?

CHPs should be able to provide security on owned assets, or leased assets, where leases are of a sufficient term to align with repayments. Around half of all CHP managed properties in Queensland are leased from the state government, so the use of these assets for security is an important element underpinning CHPs' ability to produce increased housing supply.

Q8	**Government guarantee** — How would a potential Government guarantee on NHFIC bond issuances impact the NHFIC's ability to raise and price funds? What are the risks associated with applying a guarantee and how could those risks be mitigated?

A government guarantee would increase investor confidence in a new asset class, and is therefore seen as an important factor in achieving the predicted lower cost of borrowing relative to already existing sources of debt finance.

However, other ways of reducing investor risk, including a strengthened national regulatory system, and increasing CHP assets by way of property title transfers, would provide increased confidence to investors, and over time may reduce the need for a government guarantee.