Consultation Paper – National Housing Finance and Investment Corporation – UDIA National Submission – October 2017

INTRODUCTION

The Urban Development Institute of Australia (UDIA) is the peak industry body representing the property development industry throughout Australia, acting on behalf of over 2,100 member companies across the country from a variety of fields and professions in the development industry. Established at a state level in 1963, the Institute evolved to become a national body with a number of state-based divisions in 1970.

UDIA aims to secure the economic success and future of the development industry in Australia, recognising that national prosperity is dependent on our success in housing our communities and building/rebuilding cities for future generations.

Over the past year, UDIA has focussed its advocacy on addressing housing affordability through new and innovative solutions.

UDIA welcomes the opportunity to provide this submission to the National Housing Finance and Investment Corporation – Consultation Paper (September 2017).

We support the proposed investment into increasing housing supply in Australia. UDIA analysis has shown that a lack of housing supply has been critical to Australia's housing affordability crisis, particularly in Sydney – which is now the world's second least affordable city to buy a house, where it takes the average person 8 years to save for a deposit.

UDIA supports the development of more affordable housing through lower priced market housing and Affordable Housing products. We caution, that the development of the community housing sector cannot come at the expense of making market housing less affordable for the broader community.

It is crucial to recognise local government plays a small role in provision of enabling infrastructure, in New South Wales it is limited to stormwater and roads. State Government 'buy in' is critical for regional infrastructure to enable housing development to occur. The delivery of much of the enabling infrastructure is managed by developers through works in kind agreements and voluntary planning agreements in NSW, partnerships with the private sector are more likely to deliver rapid results.

While we welcome the additional Federal Government involvement in delivering local infrastructure, we note the $1 billion commitment to the National Housing Infrastructure Facility (NHIF) is a relatively small amount of the total required. UDIA can see the potential for the Federal Government to encourage state and local governments to commit funding alongside the NHIF and to take greater leadership by promoting:

- The development of an Urban Development Program for metropolitan areas,
- Review planning schemes to allow additional infill development, and
- Integrated small-scale developments incorporating social/affordable housing.

We see the key focus of the NHIF to support infrastructure projects to catalyse supply and promote housing affordability, and the pursuit of these objectives should not slow the supply of new housing.

The remainder of the submission provides responses for each section of the consultation paper. UDIA would welcome the opportunity to continue to participate in the development of the National Housing Finance and Investment Corporation.

Please don't hesitate to contact UDIA National to discuss this submission as follows:

Steven Mann – Chief Executive Officer
URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (NATIONAL)
Level 11
66 King Street
SYDNEY NSW 2000
T: 02 9262 1214
E: udia@udia.com.au

Section 2. National Housing Finance Investment Corporation

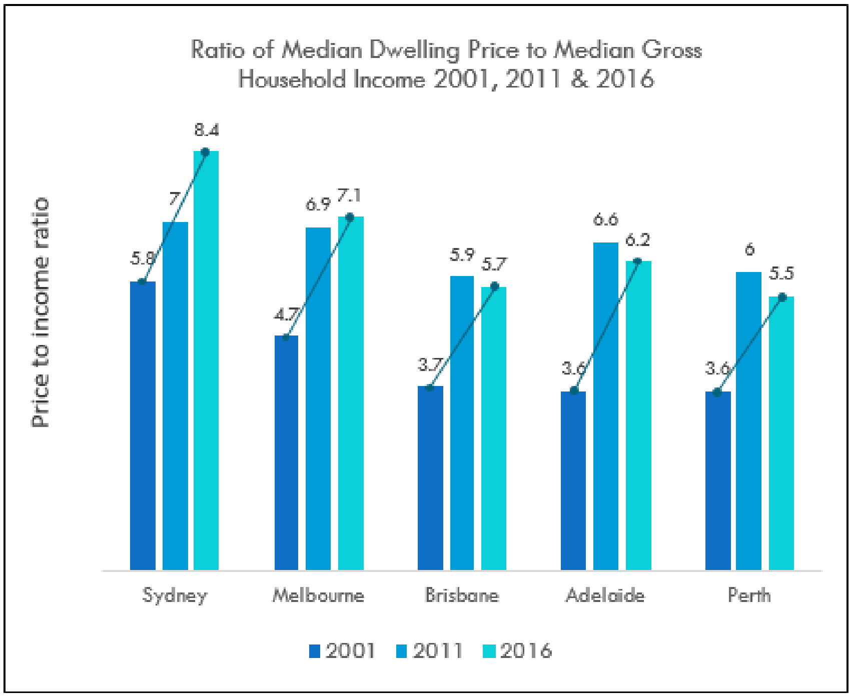
The UDIA supports the objective of the National Housing Finance Investment Corporation (NHFIC) to:

- Being credible in financial markets and ensuring its investment decisions are soundly based
- Addressing financial constraints by providing innovative and tailored finance
- Operating in conjunction with state and territory governments.

We recognise the objective of the organisation is to improve affordable housing outcomes for Australians. It is important to differentiate between housing affordability and affordable housing. Housing affordability refers to the relationship between expenditure on housing and household income. This is different to 'affordable housing' which refers to a social housing product targeted toward those on very low, low or moderate incomes.

The focus of the NHFIC seems to be skewed toward the bond aggregator and the community housing sector, thereby targeting affordable housing – even though the National Housing Infrastructure Facility (NHIF) should have a broader focus on housing affordability and unlocking market housing.

Australia's housing affordability crisis is not limited to those on low incomes. The Demographia International Housing Affordability Survey (which benchmarks Australian cities against cities from across the US, Canada, UK, China, Ireland, New Zealand and Singapore) considers any housing market with a median multiple house price to the median wage of 5.1 or higher as 'severely unaffordable'. On this basis all of Australia's capital cities have been ranked as severely unaffordable over the last 7 years, as shown in the table below.



Source: Core Logic

In 2017 Demographia survey ranked, Sydney has the second least affordable housing market in the world (trailing only Hong Kong) and seven other Australian localities were also ranked in the top 20 least affordable markets.

Section 2: Issues for Consideration

1. Structure — The proposed 'one entity, two functions' structure for the NHFIC, including how the NHIF and bond aggregator functions can be designed to ensure that they are delivered effectively

We consider the structure can work to achieve complementary goals of unlocking infrastructure to deliver housing supply to help address housing affordability, in addition to unlocking institutional investment into affordable housing. As long as each aspect of the business is focussed on delivering its respective objectives the structure will be suitable.

We have concerns establishing another government finance corporation, we recommend further consideration is given to the potential of an existing government entity to administer the scheme.

2. 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?

The Governance structure is similar to Urban Growth NSW, where industry is used to working with structures led by Independent Boards.

We consider the relevant expertise required includes financing, engineering and property development expertise to best understand both the affordable housing side of the business through the bond aggregator and unlocking housing supply through infrastructure.

We question the requirement for competitive neutrality for the NHFIC, especially where it is supposed to be investing in areas where there currently is not an investment market, such as affordable housing bonds and local infrastructure. We would also recommend returns are re-invested in infrastructure or additional affordable housing.

Guidelines as to the types of circumstances where Government may direct the NHFIC to invest in a particular project would add to transparency, to ensure funds are being best allocated.

3. Resourcing — Whether 30 staff members split across the NHIF and bond aggregator is likely to be sufficient; the potential outsourcing of some NHFIC functions; and whether the self-funding objective for the NHFIC is attainable and if so, over what timeframe?

UDIA recommends there is an efficient cost structure, we consider it is possible to be self-financing, as long as there is sufficient rigour to ensuring staffing costs are efficient. We recommend resources and funding should be aligned with a clearly articulated methodology to identify and prioritise infrastructure and affordable housing need.

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

NHFIC needs to have a consistent dialogue with community housing providers, local government, state government, and industry to understand the infrastructure backlog requirements. We recommend an initial and rolling calls for proposals would assist the NFIC engage stakeholders and it would also add transparency to the system.

We also recommend the creation of a working groups of key stakeholders inclusive of:

- Local Government;
- Develop Industry Groups; and
- Representatives from the Community Housing Sector.

Section 3. National Housing Infrastructure Facility (NHIF)

UDIA welcomes increased funding to address impediments Local Governments face in building infrastructure to unlock housing supply.

There have been significant barriers to unlocking infrastructure, which has added to housing costs across the country. The NHIF will work in partnership with Local Government to accelerate infrastructure projects including 'micro-city deals'. Unfortunately, Local Governments do not have the expertise, experience or ability to deliver infrastructure, let alone housing. Further, where Local Government provides some infrastructure, it is often delivered by the developer through a Works in Kind Agreement, but there is other infrastructure provided by the State and other agencies that Local Government has no power or direction over. It is critical that the NHIF is delivered as a partnership through developers, council, state, and federal governments.

As, local government has access to low cost finance through their relationship with state governments, we are concerned there may not be buy-in for financing alone. We recommend a partnership approach would be the best way to get the traction needed, which would include developers, Community Housing Providers and other stakeholders.

Section 3: Issues for Consideration

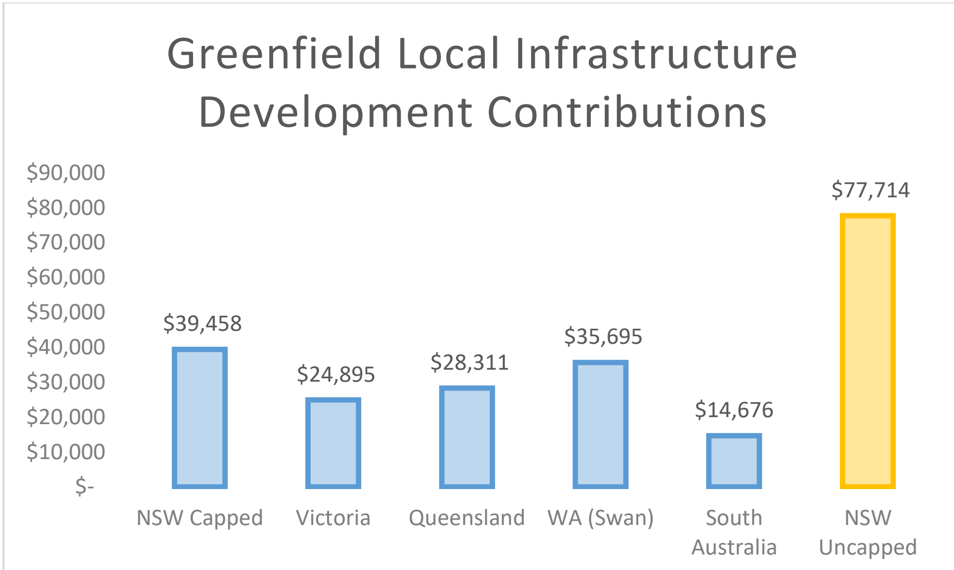
1. Infrastructure — Noting the examples identified in Table 4, what types of infrastructure do LGs fund, deliver and own? What types of infrastructure could be prioritised to address infrastructure bottlenecks?

Local Government generally has responsibility for delivering local roads, stormwater, open space and community facilities.

In NSW, this is often funded by section 94 contributions and VPAs – section 94 contributions were uncapped as part of the NSW Government's housing affordability package in June 2017, and can now be upward of $100,000 per lot in some Greenfield areas. This is slowing development and the release of new housing.

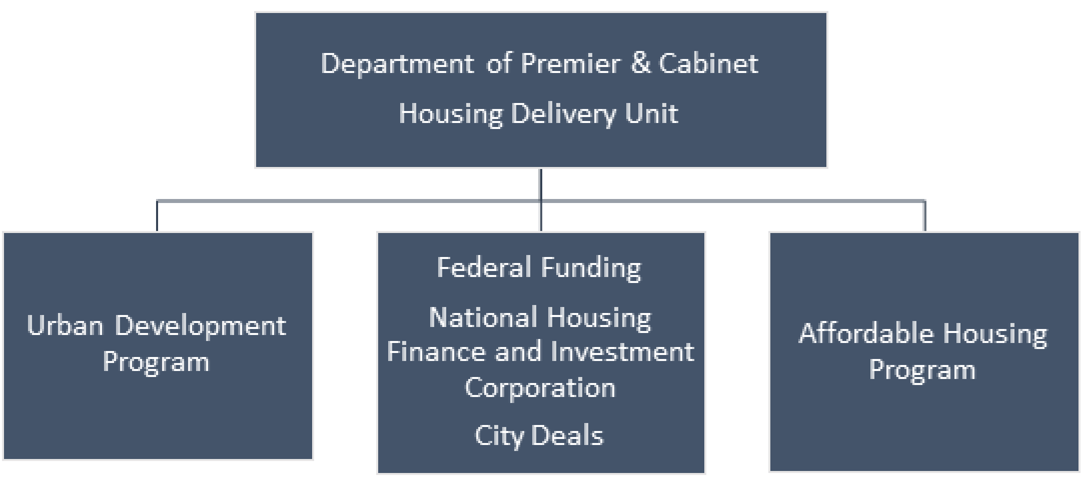
Often, initial infrastructure is delivered by developers through voluntary planning agreements and works in kind agreements – as some LGA's refuse to borrow money to fund enabling infrastructure. Therefore, in sites with fragmented land ownership developments cannot occur on a scale to deliver enabling infrastructure through Works in Kind Agreements.

In Queensland, contributions are capped at $28,311 and incorporates water supply, sewerage, transport, stormwater management, parks and land for community facilities.



Apart from local infrastructure, Local Government is not well-placed to direct other critical enabling infrastructure such as electricity, water, and significant transportation infrastructure. These state infrastructure items are delivered in an uncoordinated manner by state government and utility providers and are also usually present in addition to local infrastructure backlogs.

Infrastructure backlogs in Australia's least affordable city are exacerbated by the lack of an urban development program in NSW, or Sydney. The UDIA NSW Paper (attached), *Making Housing More Affordable*, suggested the structure below.



Without buy-in from state governments to deliver the other enabling infrastructure, it means critical catalytic infrastructure will not be delivered: water, sewage, and electricity. Therefore, we recommend the NHIF be given the flexibility to invest in water, sewage, and electricity projects where there is sufficient need.

We would also consider it appropriate to require a state urban development program is in place, as a condition of funding under the NHIF, to ensure appropriate housing outcomes are delivered and supply is unlocked.

2. Design features — Are the design features appropriate, including the considerations that the NHIF could take into account when assessing projects?

Key Design Feature	**UDIA Comment**
Total financing available	We are supportive of providing $1 billion for housing infrastructure. As local government is responsible for delivering local roads and stormwater infrastructure primarily as catalytic infrastructure, it is challenging to see how an equity investment in this type of infrastructure could be developed as opposed to a loan. Although if the type of projects was expanded to water, sewage, and energy infrastructure it may be easier to develop equity investments.
Eligible applicants	Applicants are limited to a local government body, as much local infrastructure is delivered through works in kind agreements, we would recommend individual developers should be able to apply where they are delivering large scale catalytic infrastructure that will service or unlock a precinct in partnership with local government.
Quantum of funding for projects	We support not having an explicit minimum or maximum funding criteria, but consider there should be clear guidelines of how the NHIF would consider an appropriate scale to justify costs. We recognise $1 billion is a small amount to spread across cities with housing affordability issues. In terms of defining appropriate scale, we recommend consideration is given to the target of increasing housing supply and the timeframe of housing delivery. 'Shovel ready' projects would provide the fastest delivery of new housing.
Financing terms	Financing terms should support the timely provision of infrastructure and much the likely path of development once supply is unlocked.
Tailored financing	We support tailoring financing to unlock as much critical housing supply as possible.

We consider the NHFIC should investigate how the funding could be additionally leveraged with other government programs, possibly through matching funding or in partnership with industry.

3. Financing options — Are the types of tailoring potentially available under the NHIF's three types of finance sufficiently flexible?

The financing structure may be difficult for local government to repay by matching future rate revenue, in some jurisdictions, such as NSW local rates are capped and pegged. In NSW, this means that growth in rate revenue does not match the growth in population as a result of new development – therefore, financing options needs to account for the inability for council revenue to rise as a result of new development.

This NHIF will forward fund projects that may otherwise be provided through works in kind agreements or by local government through development contribution schemes. It may assist, particularly in fragmented sites, for developers to be able to access NHIF (in partnership with government) to accelerate works on neighbouring sites to unlock more supply.

4. Metrics — What metrics could enable assessment of infrastructure bottlenecks and housing supply and affordability pressures?

We recommend government inform if there are any preferred types of sites or locations which could be more advantageous for attaining funding. This might include:

- Consolidation of irregular or isolated brownfield sties
- Sites requiring remediation;
- Greenfield sites which have new or upgraded infrastructure to be completed soon, that would otherwise be ready to handle an increase in population to the area, apart from local infrastructure.

We consider a pre-requisite to any assessment of local infrastructure bottlenecks would be an urban development program that shows what enabling state infrastructure is to be delivered and coordinates the delivery of this infrastructure. Where, the supporting catalytic state infrastructure is delayed, it would not be reasonable to provide local infrastructure, to accelerate this infrastructure state owned corporations and developers could be included as parties to a 'micro-city deal'.

An infrastructure prioritization model can be developed to best assess where bottlenecks are what investment would provide the most amount of new housing to alleviate housing affordability pressures. This model should assess each infrastructure proposal based on metrics measuring proposals by the delivery of dwellings over time, as well as dwellings per dollar. This will ensure that the effectiveness of the $1 billion is maximised.

5. 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)? In addition, what could a partnership with LGs involving a NHIF equity injection look like? Are there further opportunities for aligning the interests of investors and other stakeholders to create incentives for co-investment to accelerate housing developments? Given the long lead times associated with the infrastructure construction, what are the appropriate repayment timeframes (on the loans and equity)?
We recommend the NHIF should expand 'eligible applicants' to include a consortium of investors, state government, developers, land owners, CHPs, and other stakeholders to provide better planned outcomes for the community.

As discussed, where there is a mismatch between state and local infrastructure, a consortium would be able to develop a coordinated approach, backed by an equity investment by government, could accelerate the process of land release.

Developers in partnership with CHPs may be able to offer alternative products to meet the needs of the community such as market housing, Build-to-Rent, affordable housing to release larger quantities of supply than if there was not industry buy in as part of a 'micro-city deal'.

As local infrastructure is often delivered by developers through works in kind agreements, it would make sense that developers that have an interest in releasing an area are involved in the negotiation of funding and it could provide additional opportunities to identify all the potential projects that could maximise the release of land.

The appropriate repayment timeframes would depend on the individual project and should be negotiated throughout.

6. Complementarity — Given existing state and territory lending facilities, how can the NHIF position itself so that it complements the state and territory financing schemes and private sector finance options?
State Government currently provides supporting to local government through various loan schemes that provide discounted lending. In NSW, some local councils refuse to borrow to build local infrastructure, therefore, we believe adding an equity or grant component combined with a loan would likely help incentivise the delivery of infrastructure.

In developing a site, while local infrastructure is important, it is also important to provide regional and state infrastructure such as public transport, roads, and utilities connections. When catalysing projects we recommend there is a commitment from state government to provide supporting state and regional infrastructure through schemes.

UDIA considers the best way to ensure the scheme complements existing schemes and private sector options is to work in partnership with local government, state government, and industry to determine the requirements for each project that can unlock housing. An Urban Development Program is critical to unlocking housing and ensuring the scheme best complements other funding.

7. 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?
UDIA considers the focus for the NHIF should be to expand the supply of market housing to relieve housing affordability projects, by unlocking supply that would otherwise be unavailable.

The key consideration for financing under the NHIF is additionality, to support projects that would not have otherwise been viable. If affordable housing product were to be included Government would need to provide additional incentives, likely in the form of grants to make the project viable once more.

8. Value uplift — How should the NHIF factor value uplift and associated value capture schemes into its investment decisions?
As above, UDIA considers the focus for the NHIF should be to expand the supply of market housing to relieve housing affordability projects. It is not currently viable or possible to develop the site, if it were viable development would have occurred. The aim of the loans is to catalyse projects, so capturing value may serve to delay projects and the level of affordability.

Further, often the areas have already been identified as growth areas, therefore the uplift has already occurred and been captured by the initial land owner – including a value capture scheme would likely cause delays. The key focus for the NHIF should be delivering additional supply of housing to make housing more affordable for Australians.

Section 4. Affordable Housing Bond Aggregator

Section 4: Issues for Consideration

1. 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?
We consider funding form the affordable housing bond aggregator could be provided to developers who are constructing affordable housing as part of their developments.

In Australia, the emerging Build-to-Rent sector could provide a balance of affordable and market dwellings, whereby lower cost financing could accelerate affordable housing and increase the cost of the market.

2. 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?

The bond aggregator should be involved in supporting additional affordable housing stock. The CHP sector has experience delivering new affordable and community housing stock, including in partnerships with the development industry, we would recommend this is recognised and supported by the bond aggregator. To achieve this, we recommend take out finance on completion to own affordable housing will provide the development of additional dwellings be supported. This minimises the risk to government of providing construction finance directly to CHPs if projects fail. In addition, this removes much of the complexity for the organisation that is associated with construction finance.

By limiting loans to housing maintenance and turn-key purchases, the bond aggregator would be used to provide maintenance to stock generally transferred to the sector by State and Territory Governments, or refinancing existing loans.

The UDIA considers the commitment to proceed with the Bond Aggregator Model and provide low-cost long-term debt to the Community Housing Sector through Housing Bonds represents an opportunity to provide affordable housing on government land.

If bonds could be targeted at improvements to government land, turning under-utilized government land into income producing affordable housing with an enormous social benefit. We see a significant expansion in the quantity of additional affordable housing projects. For example, some LGAs own 'at grade' car parks that could be redeveloped, replacing the carparking whilst delivering affordable housing close to facilities, services and transport would provide significant benefits to the community. CHPs and Local Government should be encouraged to invest in sites together to expand stock, supported by the affordable housing bond aggregator.

3. 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?
We recommend collateralised against other assets for refinancing existing debt only. For new projects it should provide property specific mortgage finance only.

4. Complementarity — How could the Government ensure that the bond aggregator complements and partners with existing private and public-sector investment into CHPs?

Government currently provides a range of investment into CHPs including rental assistance, asset transfers to catalyse the growth of the CHP Sector. Providing lower cost finance will also assist to catalyse the CHP Sector by promoting new construction projects that will help foster maturity in the sector. Assisting the development of a viable community housing sector that can partner with the private sector will help grow the amount of community housing.

We recommend working with State Governments to develop an affordable housing development program on state and local government owned land with contestability in securing financing through the bond aggregator to ensure the best projects are financed.

5. Bond issuance — Could affordable housing bond issuance be expanded to the offshore market or the retail bonds market? What are the potential benefits and costs?
The Ernst & Young report – Establishment of an Australian Affordable Housing Bond Aggregator (21 September 2017) more than adequately deals with this topic.

6. Bond issuance size — What is the likely preferred issuance size for large-scale institutional investors?
The Ernst & Young report – Establishment of an Australian Affordable Housing Bond Aggregator (21 September 2017) more than adequately deals with this topic.

7. Contracting out functions — Are there potential benefits from contracting out bond issuance and back-office functions? What are the potential costs?
Government Land Organisations such as Landccom, DHA, and VicUrban have experience in the development industry, we recommend working with these organisations to understand infrastructure delivery requirements.

8. 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?
UDIA considers a government guarantee on bonds to be fundamental to secure investment into affordable housing. UDIA has been advocating for institutional investment into housing and affordable housing since the early 2000's and a government guarantee is critical to secure the institutional investment required.

We would consider a guarantee on bonds issued would reduce the basis points for interest rates, and provide a guarantee to the investment industry.

The lack of a Government Bond Guarantee may directly impact the capacity for the market to price bonds issued by the NHFIC at an appropriate discount to the bank sector for lending facilities. The

NHFIC is strongly encouraged to model the impacts of the Government Guarantee upon the lending facility and alignment with the State objectives of the initiatives.

Please don't hesitate to contact UDIA National to discuss this submission as follows:

Steven Mann – Chief Executive Officer
URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (NATIONAL)
Level 11
66 King Street
SYDNEY NSW 2000
T: 02 9262 1214
E: udia@udia.com.au