

**National Affordable Housing Consortium**

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Review of the operation of the *National Housing Finance & Investment Corporation Act 2018*

1. **About the National Affordable Housing Consortium [NAHC] Group:**

NAHC was established in 2008 as a not for profit company to provide affordable housing through community/industry partnerships. NAHC is a Tier 1 community housing organization nationally and NAHC *Victoria* is a registered provider in that State.

NAHC provides around 4,000 affordable homes across 3 States.

In addition to affordable rentals, NAHC provides affordable Shared Equity Home Ownership through its wholly owned subsidiary *BuyAssist Australia,* operating under an ACL. NAHC Victoria is also approved to deliver its first Rent to Buy-Shared Equity pilot.

At this stage NAHC has not accessed funds through NHFIC but is involved in detailed discussions around a large scale social housing new build portfolio and also creating innovative financing solutions to scale up our successful affordable Shared Equity Home Ownership program.

1. **Introductory Comments**

NAHC advocated for, and supports NHFIC and particularly its functions as the AHBA.

NAHC continues to advocate for a faster evolution of NHFIC’s roles, scale and operations as the fact remains that Australia’s social & affordable housing system is failing to meet need and failing to innovate to reflect changing economic and social circumstances.

This submission recognizes the positive contribution made by NHFIC and is based on an understanding that many of the improvements we are flagging herein are already being seriously thought through by NHFIC and its stakeholders.

***What is the central problem we are seeking to address?***

By whatever objective measure used, Australia needs to dramatically increase its supply of social and affordable housing to meet current and future needs. In recent years both the GFC and the COVID crisis have, in their own way, re-emphasized the importance of secure affordable homes for all Australians and the importance of housing to wellbeing, social outcomes, productivity and the wider economy.

At a political level, NHFIC is talked about as a ‘game changer’. There is no doubt about the importance of this national institutional reform, but to live up to that claim and achieve its purpose it will need to assist the sector to reverse the relative decline in the social housing system and begin making significant inroads into the backlog of needs.

* AHURI [2018] calculated that the current shortfall is 433,000 homes, with a further 36,000 a year required for the next 20 years to meet future need.
* Across Australia, over 35,000 NRAS affordable rental homes will exit the system over the next 5 years-shrinking the national portfolio of social and affordable housing by around 7%

The role and growth of the community housing sector has been bi-partisan policy for at least 25 years, and the sector has grown considerably from a small beginning, mostly via public housing asset or management transfers. However in terms of adding new stock the NSW CHIA report states that between 2012 and 2020 the sector added **2,700** new build in total. The CHIA Victoria report states that the sector added **1,033** new homes in total between 2010 and 2019. These numbers may have slowed the relative decline of the social and affordable housing system, but this continuing relative decline remains the most profound challenge facing the system.

Across Governments and the sector, and within the NHFIC there is an understanding that once the refinancing benefits are captured and CHP’s are at their maximum risk-adjusted leverage [given restricted cashflows and equity] that ***bond funded growth will slow unless*** stakeholders can evolve a new approach to attracting, managing and servicing large scale Bond finance.

At the time of this submission NHFIC had issued a total of $1.2B in loans since inception, $882m in the last year. This has delivered 1,000 new homes and refinanced 4,000 existing homes.

**NAHC’s Recommendations:**

1. The NHFIC Mandate should be enhanced and the NHFIC Strategic Plan should set out financing & housing targets alongside growth strategies that reflect its role in ending the decline in social and affordable housing and making inroads into unmet need
	1. The Plan should address how NHFIC can facilitate scaled financing now that refinancing opportunities and the CHO security pool have mostly been accommodated. This will require different financial product offerings and lending terms.
	2. NHFIC should stimulate interest via a public announcement that it wishes to allocate $5B over the next 3 years and this should link to the recommendations around scale, institutional involvement and the proposed HIF replacement in our recommendations below. For example setting out a goal in relation to third part equity and debt it wants

to attract to the sector and illustrating the partnering arrangements that it is encouraging

* 1. NHFIC should test the market for a 20-30 year Bond
1. NHFIC, the Sector and States should design and agree 3-4 year forward funding / rolling supply pipelines linked to State Budget cycles to seek to align NHFIC Financing with State Subsidies and provide greater co-ordination and certainty
2. NHFIC should play an active role within the Review of the National Regulatory System for Community Housing and seek a proper national system that better aligns Financial & Regulatory frameworks to increase the effectiveness of the system and provide greater clarity and confidence.
	1. Whilst in an agency sense, NHFIC advice around an effective NRSCH should aim to make its own lending terms better, NHFIC should engage with other Institutions interested in playing a role in the sector and facilitate input from the Finance sector into the NRSCH as part of its Strategic Plan to attract such partners into the system
	2. This role should also focus on effective reporting between NHFIC and NRSCH
3. NHIF should be replaced by an Annual Allocation of funds to NHFIC determined through the Governments Budget.
	1. The purpose of an ***Affordable Housing Catalyst Fund* i**s to drive wider systems reforms, attract institutional and larger private sector involvement in partnering CHO’s and building the affordable housing system beyond State social housing programs.
	2. The funds would be provided as Grants or as a deferred [no coupon] equity investment. Notionally each $100m of loans would trigger $20m in grant/equity for eligible affordable housing programs. For example an annual AHCF allocation of $250m would be linked to $1.25B in Loans delivering over 3,500 affordable homes a year. The funds could be used by CHO’s flexibly to deliver the agreed outcomes
4. NHFIC should explore how it could use the Government Guarantee to stimulate and accelerate up front Institutional Capital to meet equity or debt gaps in major projects or a pipeline of projects and whether its Mandate may need adjusting to facilitate action in this area.
5. NHFIC should actively encourage innovative responses across the housing need continuum and its Mandate should reflect a Policy mission to support innovation that addresses market failure and / or stimulates market reform in favour of affordable housing. This includes Shared Equity Home Ownership, Rent to Buy, Co-Housing and Build to Rent mixed income housing. Its approach to risk and funding terms should reflect this aspect of its mission.
6. NHFIC should discuss with the sector how its approach and structuring of the FHLDS 15% guarantee could be adapted and adjusted into a useful tool for Registered CHO’s, in particular in risk sharing and in innovations like Shared Equity or Rent to Buy.
7. Community Housing Industry Development should be led by the sectors Industry Body, CHIA and operated through an approved and Commonwealth funded Industry Development Plan overseen by an Industry Development Panel including CHO’s, Financiers, Industry & Academic experts, alongside NHFIC and the NRSCH Regulator as lead Government agencies.
8. NHFICs role in Research should be regularly reviewed to assess the actual impact its makes. Research should be selected only where and if NHFIC is the best placed agency to commission/undertake it and where there is a clear plan for its commercialization or measurement of its impact.
9. **Some Focusing Statements Questions**

NHFIC has been created to facilitate large scale finance for social and affordable housing, yet its current loans, with the exception of the SGH project finance facility, are small-retail or project scale. What is required to scale up?

NHFIC’s relationship is with Registered CHO’s, but the subsidy gap is largely met through States. How do we achieve a forward planning pipeline between NHFIC, the States and CHO’s to enhance scale and provide greater co-ordination, co-planning and certainty?

Apart from the reduced interest costs due to the Government Guarantee and Bond Structure the loans are largely indistinguishable from prior Bank lending in terms of security, terms and process. What impact could we see if NHFIC adopted an approach that properly recognized the reduced risk in the sector?

NHFIC is not designed as a sole financier and there is some implied underlying notion that it can assist to create conditions for the development of this asset class and for the participation of other Institutions. However, NHFIC has the competitive edge through the Guarantee and has been dominant in its requirements around priority security for loans. Whilst it is true that other Institutions are now showing a keen interest in investment or lending into the sector and into wider Build to Rent projects, it is not clear how we might achieve the wider goal of a broader institutional footprint and what Mandate can the Government provide to NHFIC to encourage third party debt and, particularly, equity finance.

***NHFIC can assist to complete an institutional reform agenda for the sector***

The four pillars of a successful institutional framework for social and affordable housing delivery are:

* Long term and reliable **subsidy** arrangements tailored to different customer need segments. The Commonwealth could adjust the NHIF to provide a catalyst to leveraging further investment [see below].
* Effective **National Regulation** focused on three areas: Governance: Risk: Client Outcomes: NHFIC could be an active participant in the current NRSCH review to ensure that the Regulatory system aligns to the Financing arrangements and adequately addresses key risks. This would help by reducing NHFIC’s reliance on its current approach to security and unnecessary contract terms. This can also free up space for third party institutions to play an active role.
* Community housing sector **industry development** / capacity grants. This should be led by the sectors Industry Body, CHIA and operated through an approved and Commonwealth funded Industry Development Plan overseen by an Industry Development Panel including CHO’s, Financiers, Industry & Academic experts. Individual grants are not the best way to proceed as Legal & Technical resources are better commissioned and owned by the sector rather than purchased at ‘retail’ cost multiple times.
* **Finance**. NHFIC is the right instrument but needs to be much more flexible and innovative, including in supporting new types of supply across the housing continuum of need like Shared Equity Home Ownership, Rent to Buy and co-operative co-housing. It should develop long term financing frameworks and pipelines with States and be able to form business alliances with other Institutions to maximize debt / equity and co-investment for the sector. It needs to move beyond small scale project finance and utilize its position as a catalyst for further system change. Its Mandate needs updating to enable NHFIC Board and Executive action along these lines

1. **Issues Paper Key Areas**
* **AHBA**

**Impact on CHP access to finance – including whether NHFIC has generated a more efficient source of funds, reduced refinancing risks and reduced borrowing costs**

Borrowing costs have been reduced hence the CHO savings reflected in NHFIC Annual Report.

Refinancing risk remains, although the longer the Term of the Bond-the greater the certainty for the funded projects. Testing the market for a 20-30 year Bond would be a good next step

NHFIC process is not much different to Banks. It is interesting to note that our Board [NAHC] proceeded in 2019 with a $45m loan for its JV SPV for social housing via a Bank, even though the interest rate was higher. This was due to the unnecessarily conservative NHFIC criteria for security, interest cover and low LVR and potential rigidity in funding a non-registered housing SPV even where it is fully owned by 2 registered CHO’s.

As a heavily regulated sector with a low risk profile, almost endless demand and active government engagement in programs and contract management, it is completely baffling to have a Government backed entity with a social policy mission unable to even meet the ‘best terms’ in the fully commercial banking world. This must change and the NHFIC Mandate needs to reflect the low risk reality of lending to Registered CHO’s. This will also make room for other Equity and Debt providers to play a complementary role.

**Impact on scale and prominence of CHP sector delivery of sub-market rental housing- including through partnerships with the private sector and institutional investors**

With unmet need for 433,000 social and affordable homes [AHURI] and a growth in need of around 36,000 new homes a year, at the current rate of CHP growth, with NHFIC and all other sources, Australia will not meet current or future needs and the system will continue to decline and fail.

The arrival of NHFIC has not been planned around a strategy for scale or for wider attraction of capital from the private sector. This needs to change and NHFIC’s Mandate should require such a Strategy and set targets for growth and the attraction of third party capital.

Two such initiative might be:

* Inviting Institutions to put in co-proposals with Registered Providers where NHFIC debt is one component and is granted on adjusted terms like enabling private investors to take first security
* Setting out indicative Term Sheet parameters for other partnership innovations, for example a Developer / CHO partnership for a [non State funded] Build to Rent, where a minimum % is affordable housing but it is owned by a third party Institution and head-leased for the agreed term to the CHO

We have also made the case that sending the right signals to the wider market can also generate new interest and new partnerships. For example if the Government were to publically announce [or enable NHFIC to announce] that it wanted to allocate $5B over the next 3 years and is open to large scale and pipeline industry / CHO proposals, we believe this would ‘make it worthwhile’ for larger entities & institutions to engage.

* **Capacity Building Program Grants**

Community housing sector **industry development** / capacity grants. This should be led by the sectors Industry Body, CHIA and operated through an approved and Commonwealth funded Industry Development Plan overseen by an Industry Development Panel including Financiers, Industry & Academic experts. Individual grants are not the best way to proceed as Legal & Technical resources are better commissioned and owned by the sector rather than purchased at ‘retail’ cost multiple times.

* **NHIF**

**The impact of NHIF on improving the attractiveness of affordable housing as an asset class for private investment**

This Fund has performed poorly, I believe this fund and its scope were determined pre NHFIC? If so that would partially explain its ‘poor fit’ and complexity.

Fundamentally the need is for a source of funds to make affordable housing projects viable. This would complement low cost, long term finance.

Any supporting fund should be simplified and be largely focused on building the system beyond just supporting CHO’s as part of State social housing systems. The approach we outline below is consistent with purpose of NHFIC to build a market based social system that leverages Institutional, Industry and private investment through the regulated CHO sector.

We propose NHIF is reformed and re-purposed.

**NHFICS role in facilitating additional investment in housing, including social & affordable housing**

We recommend that NHFIC is provided with an annual allocation through the normal budget process of an ***‘Affordable Housing Catalyst Fund. [AHCF]*** ” accessible to **CHO led** / Industry partnership initiatives where NHFIC are providing the Debt Finance/Bond Funds.

Specifically the AHCF would drive the creation of larger CHO / Industry / Institutional partnerships outside of the State system. This would enable a supply of affordable housing / key worker housing to be integrated into private developments and would also stimulate Build to Rent projects.

Our view is that for each $100m of NHFIC funding $20m should be provided from the AHCF. The aim is to keep it simple but to open up a more dynamic market beyond traditional State social housing programs.

There are two options for the provision of the AHCF. The first is a straight forward grant linked to the debt facility to the CHO, the second is a deferred [no interest] proportional equity holding by NHFIC to be redeemed at end of term, say in 15-25 years when debt is largely paid down.

* **Government Guarantee**

**Impact on CHP’s, Commonwealth finances and the functioning of private capital markets**

The Guarantee is a profoundly powerful tool that provides support at multiple levels, including in sharing risk, reducing the price of capital, providing confidence and supporting policy outcomes.

On its own, it channels private funds into Bond instruments, so it is raising market funds, however it is not yet a catalyst for the direct flow of capital funds into the sector, particularly as equity. This links back to our view about the need for a NHFIC Strategy to look at ways these powerful tools can be used more broadly.

For example Institutions involved in funding Infrastructure have the capital resources to blend equity and debt at scale and employ a range of financial instruments to maximize up front capital to meet requirements over 30-40 terms. A NHFIC strategy for attracting such funds as direct investors in affordable housing has potential to see a much bigger scale of activity for each $1B in Government Guaranteed funds.

* **NHFIC role in increasing home ownership**

We support NHFIC having a role across the continuum of housing need, not just rental housing, however we believe its purpose should be around affordable housing and system reform, which is not achieved by the FHLDS.

FHLDS can be best understood within the context of the COVID crisis / economic crisis, but we hope it doesn’t become a ‘’replacement therapy’ for much needed policy reform within affordable home ownership

Whilst there is no doubt about the popularity of the FHLDS, many would argue that it is more about supporting the Banks by taking on what would be the LMI at-risk component; and for developers by holding up prices by bringing forward sales in a period where prices were expected to fall.

There are other parts of our housing system that need a shove in the right direction- a bit of market making- to provide new products and services. In some countries the housing and housing finance system has evolved beyond the narrow twin track of “renter or buyer”.

This evolution is driven by social and economic change. Let me mention a few that require housing and finance change:-

* Few people are now in lifetime jobs, many are in casual or part time work. Income fluctuations over lifecycles reflect this
* Steady relationships start later and change more frequently
* There are more single people with single incomes, but our houses are getting bigger and home lending is not adequately responding
* People may live together but don’t share finances / mortgage commitments
* Many older non home owners live in poverty, particularly women over 55

What does all this mean for the type of housing we provide, the tenure of housing and the nature of mortgage finance & investment finance? What does it mean when our economic and social life is so fluid but our housing system is so rigid?

Across the world reforms of products and services have already delivered Shared Equity Home Ownership, Rent to Buy, Shared Ownership, Co-Housing, Sell Back to Rent, Build to Rent, Land-Lease, Tiny Homes and others.

***NHFICs Mandate should enhance its role in innovation and housing and finance system reform with a focus on new affordable housing markets and products***

As a provider of a successful affordable Shared Equity Home Ownership program, we are working with NHFIC to look at scaling up and working with a range of Tier 1 CHO”s to take our program national. Beyond financing the CHO ‘equity holding’, NHFIC’s Mandate should enable it to provide mortgage funds to support Shared Equity and Rent to Buy initiatives. This would complement the Credit Unions and Banks already part funding the program and get it to a scale where it becomes an established part of the housing market.

If NHFIC can provide Guarantee’s, rather than funds, to approved banks for 15% risk cover, why can’t it do the same for CHO’s operating Shared Equity, Rent to Buy or in other innovations *to complement* its traditional loan function.

* **The Role of NHFIC research**

Its too early to see whether this role adds real value, as the housing and housing finance space is not short of research capability, even our small group is linked to major R&D, including funding 5 PH’ds in Build to Rent subjects. One thing Australia does not lack is Housing Research and Policy Papers.

It is the transfer and application of research that seems to fall short

If it NHFIC continues to progress Research, then we believe it should be highly targeted and lead to a real prospect of practical change. For example:

* What do we need to know and are we the right people to find out
* What difference would it make
* Would it be readily implementable? Can we implement it? Can we get the market to adopt it.
* **Governance & Operations**

NHFIC seems to be well run.

Not sure if each financing deal still requires Board Approval, but I would rather hope that good delegations within a clear policy frame would help speed things up.

I would be challenging the Board around the Strategic Items covered in this submission, all within an enhanced Mandate from Government of course.

I would conclude by re-iterating our support for NHFIC and ask that it increases its scale and urgency in light of unmet needs and market failure.

My team and I are available for any follow up at your convenience.

Thank you for this opportunity to submit.

With Regards

Mike Myers

NAHC Group Managing Director.