PowerHousing Australia

Collaborating for a better housing future

Submission

Review of the National Housing Finance and Investment Corporation Act 2018

January 2021

Executive summary

PowerHousing Australia welcomes the opportunity to provide feedback on the Review of the operation of the *National Housing Finance and Investment Corporation Act 2018* (the Review), including the policy developments that led to the establishment of the National Housing Finance and Investment Corporation (NHFIC).

Leading into the period of the development of the NHFIC Affordable Housing Bond Aggregator (AHBA) there was overwhelming evidence that Australia was in an affordable housing crisis which was being felt by many levels of the community, particularly for those most vulnerable and on the lowest incomes.

The challenges with affordable housing could have been much more significant with the onset of the COVID-19 pandemic if it were not for NHFIC.

NHFIC and the AHBA, were designed with absolutely no plausible consideration of a COVID-19 type crisis, but the Corporation is a significant tool in the Government's repertoire to help mitigate the impacts of COVID on housing which fortuitously has helped stabilise the housing market and create new housing outcomes for social, affordable and even first home buyers.

The review of the Corporation after the two-year mark of operation is timely in so much that it captures the significant impact that it has had on the Community Housing Provider (CHP) Sector and particularly PowerHousing Australia Members.

Over its two and a half years of operation it has achieved the following:

- **Provided** cheaper, longer term debt than had previously been available. This **low-cost, long-term government-backed affordable housing finance is a vital component to increasing supply of** additional social and affordable housing to meet market failure to cater for current and increasing demand.
- Created **over 100,000 new building trade engagements** for a period up to 3 months of work.

Continued strong support of the Commonwealth Government for NHFIC is key to:

- Creating **thousands of additional new social and affordable housing outcomes.**
- Building an **efficient and sustainable capital market for social and affordable housing.**
- Supporting a **new and secure asset class** with a mechanism for institutional investment.

Consideration should be given to:

- Continuation of government support via the Commonwealth Guarantaee and the future use of credit enhancements through credit wrapping, equity tranches and sub-debt tranches.
- NHIF could be re-directed to enable greater housing supply through providing more accessible funds that act as equity-like investment in projects. This could act as a significant catalyst for significant additional investment by CHPs in affordable housing.
- NHFIC could provide a funding framework to increase affordable home ownership through areas such as shared equity.

The development and operation of NHFIC has been a significant initiative of the Morrison Government which has bi-partisan and universal widespread support. NHFIC has achieved extraordinary success in delivering housing outcomes at low cost which is a commendable and measurable achievement that is documented by this submission. All of the initiatives to date, and those suggested for the future, increase jobs, economic participation and connection to community by increasing safe and secure housing for our tenants.

Current Economic and Market Challenges

Australia has an opportunity to stimulate the economy through the construction of affordable housing that will build a legacy of a job creation and a more resilient housing market that is better able to provide a safety net and a springboard for low to moderate income Australians.

An ongoing recovery plan must have housing construction at the heart.

The PowerHousing Australia CoreLogic Standard House Report, as, raised by Minister for Housing Michael Sukkar MP in Parliament in December 2020 show that there are 43 trades and subtrades that receive 3 hours to 3 months of work for every new house built.

Research from NHFIC itself also shows that for every $1 million in residential construction, 9 jobs are supported along with $2.9 million of industry output and consumption across the broader economy.

NHFIC will have a significant ongoing role in stabilising a functioning market for capital to support social and affordable housing. Whilst the housing market has been resilient throughout the pandemic there were 200,000 on the social housing waiting lists prior to 2020. With this demand not being met creates disequilibrium and a form of market failure when commercial investment doesn't respond to this increased demand. The unmet disequilibrium in social housing will also be impacted by the following factors of supply and demand.

Factors of supply and demand[1]:

- Housing indicators for the majority of COVID-19 reveal a relatively stable rental, sale and auction market, masking deeper macro issues;
- Annual housing completions at 30 June 2020 came in at 193,000, 33,000 homes above 36 year averages;
- The latest lending finance numbers are leading the wider economic resurgence that has seen Australia dip into and out of recession. Some of this result is on the back of NHFICs first home buyer supports;
- Building Approvals for the 12 months ending October 2020 saw 173,000 dwellings approved with some residual potential risk of non-activation due to uncertain economic challenges facing the country in the second half of FY2021 and FY2022;
- Australian housing appears to be holding up at 20-year average levels, but there are demand gaps such as the drop in Net Overseas Migration which will threaten jobs for builders, manufacturers, retailers and the broader economy;
- Foreign investment approvals decline and 95% drop in Net Overseas Migration which drove record new housing supply has collapsed by 300,000 people in FY2021 and is unlikely to return in the near future;
- Housing forecasts for FY2021 show 145-155,000 completions are expected over the year which will be a significant drop in activity;
- 43 trades and subtrades pick up work on every new build of a standard three-bedroom home – which equates to over 3 million less projected trade engagements across the 80,000 fewer homes built in FY2021 compared to FY2018;
- A wind down Jobkeeper and mortgage deferrals could impact residential values in unexpected ways and market equilibrium over the next 12 months has to be an outcome sought from monetary policy;

[1] https://www.linkedin.com/pulse/f2021-powerhousing-australia-corelogic-australian-affordable-proud/

- Community Housing can act as a 'shock absorber' to preserve jobs and tackle increasing demand for social and affordable housing.

The impact of the National Housing Finance and Investment Corporation (NHFIC) on the Community Housing Provider (CHP) Sector and the role of NHFIC in housing supply

The formation of NHFIC and the first two years of its operation has started to catalyse an efficient market for long-term capital to be invested into social and affordable housing.

In particular, the AHBA and the credit enhancement offered by government guarantee of the lending has provided a long term, efficient senior debt solution that was not previously available in the Australian market. Where a 3-5 year loan environment existed previously, today there is low cost, long term lending for CHPs out to 12 years who have an expanded investment horizon of over 20 years.

This has significantly reduced interest rate risk for community housing providers, increased confidence in multimillion dollar projects and provided additional capital to be invested. This will lead to more housing outcomes over time. It has also built confidence in investors and sparked consideration of other forms of investment in different parts of the capital stack.

This sort of market creation takes time to mature and realise compounding benefits and it is to be noted that NHFIC has not operated across a full economic cycle. Whilst disequilibrium and a form of market failure in unmet demand continues to exist in social and affordable housing (which was a driver for the development of NHFIC), it is important to consider that the NHFIC and government roles are as critical as ever. To tackle the absence of investment by commercial businesses in below market housing, evidence is required by bond markets of loan performance and stability. This will be demonstrated by CHPs repaying NHFIC and NHFIC repaying bondholders over time. This evidence will support the same low-return bond investors as has occurred for NHFIC bond offerings that enjoy the Commonwealth guarantee.

To build on this early platform and create a functioning market, NHFIC's role must be given certainty over, at least, the next 5-7 years including the AHBA guarantee. The trust and confidence that has been built up in this mechanism is then best placed to deliver even more housing and there can be a transition plan that changes the nature of government support for NHFIC over this medium-term horizon.

NHFIC and PowerHousing CHP's have delivered[2]:

Financed	**Outcomes**	**Reinvestment**	**Job creation**
$1.4b in low-cost finance (from total pool of $1.6b)	1,955 new homes (out of 2,300 new homes delivered by CHPs) 5,000+ additional people with safe and secure home	$170m interest saved reinvested by PowerHousing NFP CHP's (out of a total $199m in CHP interest savings)	84,000 new engagements of work for trades and assoc. construction industry (out of a total 100,000 engagements)

[2] Estimates based on NHFIC Social Bond Report 2019-20 and loans approved to the closing NHFIC Boardmeeting of 2020 https://www.nhfic.gov.au/

It is estimated that these $1.4b in funds have supported the development of 1,955 new homes, whilst also supporting 5,355 existing homes in refinancing and around $170m in interest saved across the following PowerHousing Members.

- AnglicareSA (SA)
- Argyle Community Housing (NSW)
- BlueCHP (NSW)
- Bridge Housing (NSW)
- Compass Housing (NSW)
- Evolve Housing (NSW)
- Foundation Housing (WA)
- Haven: Home, Safe (VIC)
- Housing Choices Tasmania (TAS)
- Housing First (VIC)
- Hume Community Housing (NSW)
- Junction Australia (SA)
- Mission Australia Housing (NSW)
- Pacific Link Housing (NSW)
- SGCH (NSW)
- UnitingSA (SA)
- Unity Housing (SA)
- Women's Housing Limited (VIC)

Case study – Scale delivery of housing solutions

- SGCH is a leading provider of affordable housing across the greater Sydney region that has worked closely with NHFIC
- $210 million financing of SGCH Sustainability closed in June 2020
- Supporting construction of 225 units and refinanced portfolio of 325 (total 530 units in this facility)
- Allowed SGCH to create a further $40m investment fund in parent company
- Will be used to leverage further homes (at least 135 new homes) over next 2 years
- In total would estimate this $210m NHFIC financing will lead to construction of 360 homes and support at least 665 homes

During the last bond issue, NHFIC announced a sizeable $45.7 million in the first construction loan funding to BlueCHP for the construction of at least 93 new dwellings in affordable housing projects at Lane Cove and Liverpool in Sydney. This was NHFIC's first construction loan with the sites acquired under the NSW government's Communities Plus program.

PowerHousing and its Members have developed large scale partnerships with corporate supporters to deliver housing in great numbers.

It is imperative to note, while NHFIC is not the complete solution, it provides a significant foundation for a long-term stable funding platform for the sector with a unique offering not previously delivered by the commercial banks – long-term fixed rate debt funding. Stability with this platform will provide sustainable growth of affordable housing.

NHFIC & Australian CHP's over next 2 – 3 years are positioned to deliver more homes and jobs:

Financed	Outcomes	Reinvestment	Job creation
$1.4b residual loan guarantee	2,300-3,500 new homes 4,500+ additional people with safe & secure home	$180m interest saved to be reinvested by NFP CHP's (PowerHousing CHPs estimated to save over $155m)	An additional 93,000 new periods of work for trades and assoc. construction industry

NHFIC Empowering lives: Case Study Tenant story

Housing affordability was keeping dad Sam and his wife up at night as they juggled finances and wondered how they would cope when their new baby arrived.

According to Sam, the family were already squeezed into a small unit in Fairfield and were facing overcrowding with the upcoming birth of their second child. "There were so little properties available. Everything in our price range was really run down, some properties were unliveable."

After six months of searching, they were ready to give up. "Our daughter was at crawling stage by now and it was getting stressful."

The couple contacted Hume when they saw a rental property advertised. They discovered they were eligible to apply for Affordable Housing based on their modest income. The 3-bedroom townhouse in Gallop Street, Warwick Farm was built by Hume Community Housing and was perfect.

"It was modern and not only better than anything we had seen – we could actually afford it," said Sam.

Replicable investment strategy: Case Study

Mission Australia Housing (MAH) participated in the NHFIC bond issue that settled on 30 June 2019 resulting in MAH receiving a $65m loan at an interest rate of 2.06% for a term of 12 years.

The NHFIC loan facility has been a 'game changer' in freeing-up additional capital, lowering interest expenses and, with a longer tenor, reducing the incidence of refinancing risk. The loan frees up Mission Australia Housing's capacity to deliver more housing and increased tenant support over the long term which will result in better outcomes for social and affordable housing residents.

The loan facility, when compared to available commercial loans, will deliver estimated interest cost savings of $9m over 12-year term or $770k per annum as calculated below:

- NHFIC Interest: 2.06% * $65m = 1,339,000 p.a.
- Commercial Interest: 3.25% * $65m = 2,112,500 p.a.
- Annual Interest saving: $773,500
- 12-year interest saving: $9,282,000

In addition, the NHFIC loan provides significant further benefits including:

- Reduced administration costs and commercial fees estimated at $300k due to the longer tenor of the NHFIC loan resulting in less frequent refinancing.
- The longer tenor provides long-term long obligation certainty.

The NHFIC refinanced MAH's existing commercial borrowings and provided additional capacity to invest in development of further housing:

- In Kingswood in western Sydney the NHFIC loan supported delivery of a new 19 apartment social housing building development which was competed in Q3 2020 and is providing transitional, supported accommodation for women fleeing domestic violence. The photos below show the completed 19 apartment development and a view of the quality apartment interior fit-out.

- The NHFIC funding is also supporting MAH to deliver a 40-apartment social and affordable apartment building in Coffs Harbour, NSW. The apartment building is currently under construction and is scheduled for completion and tenanting in Q4 2021. Images of the building from the approved Development Application are shown below:

Helping to breathe new life into a resurging state economy: WA Case Study

From a West Australian perspective which as a state has struggled in its economic performance until recently, NHFIC has provided Foundation Housing with long term, stable and affordable finance. The refinancing of their $35 million debt facility for this CHP late in 2019 has created the following project opportunities;

- Development of two purpose-built SDA units, circa $1.2 million (directly funded from capital reserves generated from lower interest and deferred principal);
- DA on a $45 million development project, circa $350K (directly funded from interest savings);

In addition to the above, Foundation Housing in November secured a further $45 million from NHFIC for the establishment of an Affordable Housing Portfolio. The project involves Foundation Housing acquiring circa 120 completed apartments in well located precincts at a significant discount to market and valuation. With over 85 apartments under contracts, the first of the units will be available for rent in mid-January. The project is 100% funded through NHFIC with no support or contributions from the State Government. On settlement the portfolio will yield circa $15 million in direct equity for Foundation Housing.

The NHFIC team were nimble, supportive, diligent and clear in communicating their timeframes and milestones. Without NHFIC the project could not have progressed.

The WA economy will benefit from $45 million of capital being injected into the development market over the next three months. Circa 120 completed apartments in well positioned locations with access to great amenities and well-appointed public areas will be available for Key Workers and people on low to moderate incomes at affordable rental rates that are 75% below market. The project will incorporate a small (10) component of social housing.

The modelling indicates that Foundation Housing will be able to retire the core debt over 20 years while still retaining circa 60% equity (properties) within the portfolio. The income generated will also fund new disability and social housing projects over the coming years.

State and Federal coinvestment: NSW Social and Affordable Housing Fund strategy

In 2018 Compass was awarded a contract to deliver a significant number of social and affordable dwellings across NSW's Hunter and Central Coast regions.

National Housing Finance and Investment Corporation financing has enabled Compass to increase its holdings of social and affordable housing under this contract, with 330 new homes converted from leasehold to freehold. This means the social and affordable rental homes are able to remain permanently in the hands of Compass, guaranteeing their affordability over the longer term.

NHFIC support for this project demonstrates the power of cheaper and longer-term finance to increase the stock of social and affordable housing in regional Australia. As well as increasing the supply of social and affordable housing, NHFIC finance has meant other funds have been freed up, allowing Compass to take advantage of current market conditions and invest in even more dwellings.

NHFIC Finance Expansion

Low-cost, long-term government-backed affordable housing finance is a vital component to reducing the yield gap to ensure that Australia continues to supply and manage enough homes for population demand to provide additional social and affordable housing outcomes. Particularly where new housing outcomes are considered, it underpins construction industry jobs, state and federal budgets.

The AHBA managed by the NHFIC supports affordable housing tenants and further establishes the foundations of a new affordable housing investment asset class. The support of the Commonwealth is critical to investor confidence in this nascent market.

The engagement of superannuation funds into recent bond issues finally stems the tide of Australian investment funds that flow offshore to overseas affordable housing every year, rather than being invested in affordable housing projects that strengthen the Australian economy and community.

Commonwealth guarantee limit for NHFIC liabilities has been increased in the FY2021 Budget to $3 Billion to support further investment. The Australian Government Guarantee for NHFIC bonds can be further increased given success of this mechanism in getting long tenor and low-cost capital into this space to assist in the development of additional social and affordable housing to meet expected additional demand.

The NHFIC's National Housing Infrastructure Facility (NHIF) which provides finance for critical infrastructure to support new housing delivery, includes eligible projects such as site remediation works (e.g. the removal of hazardous waste or contamination), an often costly exercise for developers. However, the scope of eligible works to which the NHIF can be applied is tightly drawn and adds significant complexity for CHPs who may seek to use the NHIF. The NHIF mandate should be expanded to allow funds to be used to directly invest in affordable housing developed by CHPs. The NHIF could be re-directed to enable greater housing supply through providing more accessible funds that act as equity-like catalytic investment in CHP projects.

An additional positive step would be for the government to enable NHFIC to activate its capacity under the NHIF legislation for NHFIC to provide equity participation in affordable housing developments. This could significantly increase the capacity of the sector to borrow for, and invest in, affordable housing.

The financial capacity of the CHP sector through the provision of professional advisory services (via the Capacity Building Program) –including in relation to NHFIC applications, business planning, property development, risk management and financing.

A new financial model was developed in consultation with PowerHousing CHPs to provide a uniform framework that can be used to deliver historical and forecast financial information to NHFIC during the loan origination and management processes. The Microsoft Excel-based tool has been designed to accommodate common activities undertaken by the CHP sector and can accommodate an actual/forecast period of up to 30 years.

PowerHousing members are amongst the largest and most sophisticated participants in the community housing industry. They have benefited from NHFIC's provision of efficient senior debt which is allowing growth in capability to be matched by access to capital. Given the relative sophistication of PHA members, and the related transaction costs, most have not accessed the relatively modest NHFIC capacity building grants. Our members do recognise that a thriving industry requires a diverse range of participants and encourages initiatives that continue to build market capability.

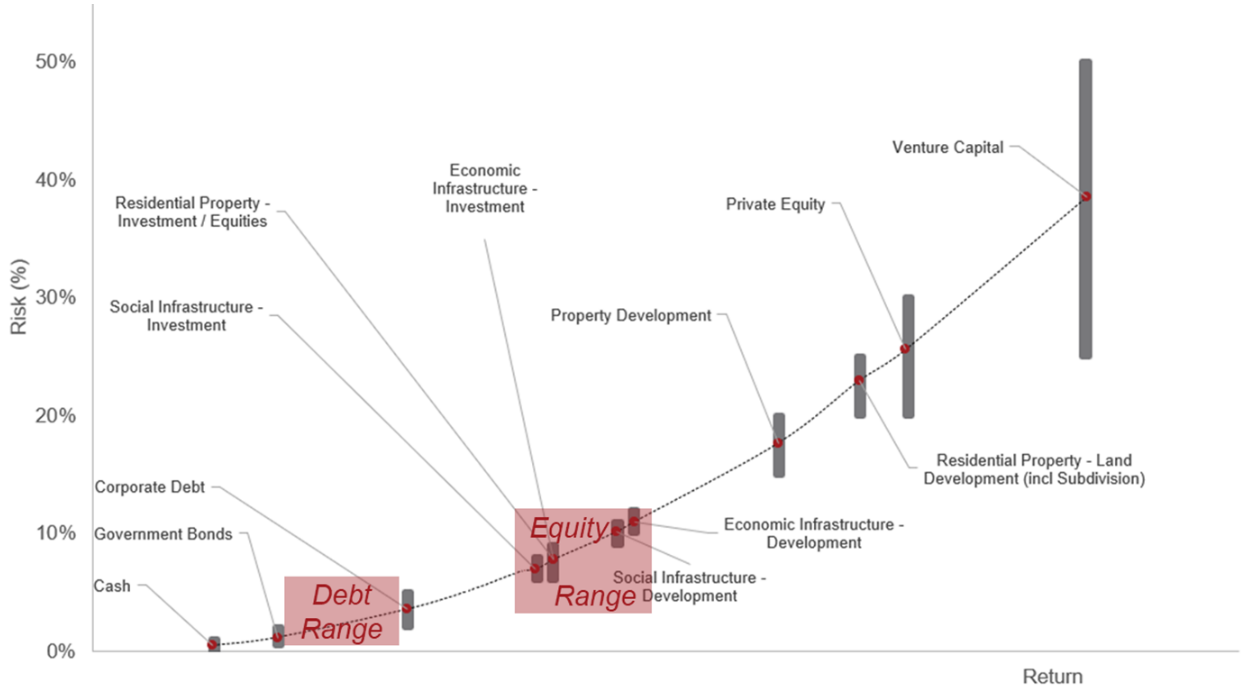
Building capability is around scale of contributions with at least an initial focus in the development and capacity building around scale CHP outcomes to see longer-term low cost lending outcomes. The ongoing achievements of NHFIC as an intermediary to the affordable housing outcomes that become more widely known have a strong base to work from which required scale outcomes. Ultimately one of the best forms of industry development is growth and this is being achieved certainly by PowerHousing Members in partnership with NHFIC.

The scale and prominence of CHP sector delivery of sub-market rental housing –including through partnerships with the private sector and institutional investors and improving the attractiveness of affordable housing as an asset class for private investment

In 2019, PowerHousing through its membership of the International Housing Partnership, considered the emergence of a global investment class for affordable housing. This work identified that amongst other factors, there is a significant weight of institutional capital seeking quality, scalable Environmental, Social and Governance (ESG) investments.

Social and affordable housing can be seen as a new, hybrid asset class, comprising elements of existing property, social infrastructure and economic infrastructure asset classes.

The economic fallout of COVID-19 has also driven a greater focus on reliable yield curve investments with low volatility and particularly those with Government support. These factors further enhance the desirability of social and affordable housing as an investment proposition.



Whilst our Sector and investment into it is stable and shown across the GFC and in COVID others such as superannuation which is a long-term investment have periods of negative returns that are expected to occur from time to time. Options such as ESG investment and CHP housing are being sought as a buffer to volatility (particularly pronounced in 2020) which is likely to be prolonged.

As the economy grapples with COVID-19, it is likely there will be greater appetite for those investment classes that can 'ride through recessions' and social housing investment has proven itself over the past 30 years. Despite the challenges of COVID-19, PowerHousing Australia's membership has shown stability across the first COVID quarter from March to May with arrears and bad debts being stable or improving.

Supporting renters in a model that is government-backed will place a long-term housing delivery base under the record decline in housing commencements and stimulate affordable housing and jobs.

There is potential for a longer-term fund arrangements to be established across jurisdictions and for a national approach to incentivise equity to co-invest in CHP social and affordable housing projects which are resilient to economic shock and provide stable return to superannuation members and institutional investors.

The fund would provide equity investments into social and affordable housing projects, with a market-return being earned commensurate with the risk profile of the asset class. Together with already available debt finance, this will be able to be leveraged to provide a significant impact. The fund would be administered through an appointed fund manager. It is envisaged that NHFIC may be an appropriate custodian of the funds and would either act as the fund manager or appoint appropriate fund managers on its behalf.

A reasonable fund size would facilitate, through levered funding, a total investment in housing of up to $4 billion, delivering up to 9,000 properties at a precedent cost of $450,000 per dwelling on average subject to local geography.

It is acknowledged that in Australia, the social and affordable housing asset class is still developing, and whilst there are a number of positive signs of investor appetite (such as the level of interest in the NHFIC bond issuances) the Federal Government could take an active role in maturing the asset class via NHFIC which will leverage other policy or funding commitments.

The support could take two forms:

- Investment to assist in the development and establishment of a fund and the appointment of a fund manager, and
- A small initial fund investment to provide initial liquidity for the fund. It is expected that the fund manager would then seek matched funding, to multiply the total fund value.

This Government investment is proposed as a commercial investment, with the $200 million invested for a term. Once the fund has been established, and a track record of projects established which facilitates sufficient institutional investment, the Commonwealth would be able to exit the fund.

It is anticipated that this term would be five to seven years, allowing for establishment of sufficient projects. Initial examination of the fund concept demonstrates viability to support a stable investment return.

CHPs would take a lead role in identifying and progressing projects which access the fund. CHPs would assemble projects, including matching subsidy to outcomes using levers such as concessional land access, planning gains, tax concessions and (if and where available) revenue enhancement or support from Government.

CHPs would arrange senior debt, most likely through NHFIC loans or banks, to form part of the capital structure alongside equity from the fund.

As a second stage, State Governments could be encouraged, through engagement from CHPs and representative bodies, to contribute land or facilitate land access (including on concessional terms where beneficial outcomes to the State may be demonstrated).

While there are a variety of vital options to support the health and welfare of Australians today, there is a need to work through the options for supporting the growing housing needs for those with uncertain housing futures and to also structure for new-build economic activity.

Case Study for Institutional Investment – Specialist Disability Accommodation

The vast bulk of younger people in residential aged care are NDIS participants: 3,788 of them in 1,416 facilities across Australia. Whilst there has been some impact on these cases who all have individual plans, the majority of which are yet to receive Specialist Disability Accommodation. So far some 980 new or refurbished SDA dwellings have been created with more than 4000 dwellings enrolled in the scheme. When fully exercised the housing scheme payments are expected to cost $750 million annually, with just 20 per cent of that being paid out so far[3].

There are also strong numbers of SDA eligible people that are yet to receive this type of housing, which could equate to 3-5,000 homes to be constructed as an estimated total with 43 trades and subtrades activated in every new build.

Activating the demand - particularly for those younger people currently residing in or at risk of ending up in aged care - is of immediate need and the identification of this demand is critical in the short to medium term, particularly as we seek to stimulate the construction industry.

[3] https://www.afr.com/property/residential/powerbrokers-make-impact-in-disability-accommodation-20200817-p55miz

Role of NHFIC in Increasing Home Ownership

Housing is required social infrastructure– it provides one of the fundamental requirements for Australians – which is shelter. At its most acute, homelessness costs on society are estimated to exceed the costs of actually providing housing solutions.

There are 25 million people in Australia living in over ten million homes: as renters, owner-occupiers with mortgages, and mortgage-free home-owners. The COVID-19 crisis has highlighted the uncertainty and pressure mounting for renters, investors and owner-occupiers and growing demand for social and affordable housing provision in Australia.

The residential property in which an individual or household lives has become more than just a home in the COVID-19 environment. A home has emerged as the first principle of stability if individuals (and therefore communities) are to be resilient in the face of ongoing economic and social challenges with one simple policy in the large part keeping the housing market stable – JobKeeper.

If in 2020 you are a renter living in one of the 2.8 million rental properties in Australia the financial constraints can be challenging and confronting. This is particularly the case for casual employees and the unemployed, a disproportionate amount of whom are renters. It is also a challenge for part time and full-time workers. There is a big question mark over whether rent and living costs will be able to be covered in the immediate future economic environment. It is also possible that lower income renters will be forced to move to cheaper accommodation, further away from jobs, compounding the risks of long-term unemployment.

The housing market in early to mid-2021 will be uncertain for renters (and lessors), owner-occupiers and the senior market segment, with an increase in demand for affordable and social housing as a result. There will be a longer-term challenge in stabilising the housing position for many of these people beyond JobKeeper.

Planning for what will be an uncertain and unprecedented change in the housing market, rental conditions, and wage fragmentation is tough but a stabilisation of housing for all Australians will be needed to prevent a secondary level of impact of market instability that could seriously decimate conditions for:

- Owner Occupiers: House prices/negative equity and capacity to pay loans;
- Investors/Renters: Rental viability/rental provision for all needs across the spectrum in locations close to jobs;
- New build jobs: New Housing supply and jobs availability.

What is clear is that there will be a growth in those needing affordable housing. This is the case as there is a significant counter cyclical growth in land sales and building approvals at the present time which is not correlated to macro rising incomes.

Where people's income growth remains stagnant or in decline through a loss of job their capacity to pay current rent levels will fall. Tackling affordable housing demand needs to consider options for additional home ownership which NHFIC could support:

HomeKeeper to HomeBuyer Guarantee

- Provide options for supporting future new home purchase options through a HomeBuyer Guarantee for those HomeKeeper renters to eventually go into affordable home ownership;
- HomeBuyer Guarantee tenant eligibility would apply to HomeKeeper tenants to a limited three years of affordable rent after which they must vacate or pay market rent.
- Up to the end of the third year they are eligible for a HomeBuyer Guarantee which would be based on the NHFIC first home buyer scheme, but will only be offered to those renting without a principal place of residence or other residential investment;

- Across the three years the tenant is incentivised to buy a new home with a HomeBuyer guarantee and for many people this will be their chance to get back into home ownership particularly those that fell on hard times early in the COVID-19 crisis;
- A HomeBuyer Guarantee would be developed and administered by NHFIC;
- A shared equity option could also be considered here.

HomeShare – Owner Occupier Shared Equity Safeguard for Existing Owner Occupiers

- The number of Australians that are not currently paying their loans is around 10% of all mortgages which may open the opportunity for a shared equity option to take pressure off homeowners particularly those at the beginning of their housing ownership journey;
- With 193,000 home completions expected at the end of June, and forecasts as low as only 110,000 homes commenced in F2021, there is a potentially need for those picking up the keys to have short to long term options of support;
- 488,000 deferred mortgages today may see elevated levels of deferral beyond the wind down of JobKeeper. There are numbers of Australians that may need ongoing temporary support or an option such as a shared equity to be available for a 3-5 year timeframe;
- There are also numbers of Australians that despite COVID-19 would like to get into a new home and can look to take a 60-80 per cent stake in a home through shared equity;
- Shared Equity Home Ownership is a form of supported home ownership that in some countries is considered a viable and affordable alternative to full home ownership. Here in Australia the equity to support an affordable home purchase is largely provided by state governments;
- Shared equity home ownership should be more widely available within Australia as a fourth housing option led by the Commonwealth Government;
- By investing 20% equity in each property, a government structured entity (potentially NHFIC) enables people to preserve home ownership with a lower level of debt than would otherwise have been possible and a level of debt that the private sector can potentially finance;
- The benefit to government is that for a 20% equity position, they achieve a full ongoing housing outcome for a chosen percentage of deferred loans. The government entity does not have ownership costs (maintenance, rates etc) as these are the responsibility of the majority homeowner. While the government entity does not receive an income on its equity position, it does have an asset that is realised up to, at or after 10 years when the majority homeowner refinances or sells based on their financial position at that time. The estimated cost per home is around $500 to stabilise per year.

CHP Affordable Housing Shared Equity

- CHP's have stock they could sell to current or future tenants on a shared equity basis where the CHP retains a 20% equity ownership and the tenant (now owner) raises the finance to acquire 80% of the property;
- This transitions affordable tenants to home ownership and enables the CHP to acquire (have constructed) four properties for every 5 properties sold. After a 10-year period the CHP would recover its equity position from the five properties enabling it to build another property to use to meet demand for social and affordable housing;
- Shared equity home ownership program could enable a Community Housing Provider and or equity providers to provide or retain 15% to 40% equity in a home purchased or already owned by the CHP, in partnership with a home purchaser who has 0% to 5% deposit;

- The remainder of funds are provided through a standard mortgage, under standard National Consumer Credit Protection frameworks. The Community Sector Banking shared equity program entitled *Unpack for Good* has been developed in conjunction with PowerHousing Members as an affordable alternative housing option;
- Each CHP determines the eligibility criteria for their participants as well as terms and conditions for the charitable provision of the equity for a 10-year period;
- While this approach maintains the balance sheet value of the CHP, as all CHPs are NFP organisations they do not have the financial excesses to forgo income on 20% of their properties and a government income subsidy for this 20% equity contribution for 10 years creates five housing outcomes for the rental cost of one property;
- Indicative financial modelling indicates that a finance subsidy of $1.6kpa for each new property added for social and affordable housing for 10 years will create a permanent increase in supply and an additional property for every four properties subsidised at the 10-year mark;
- No additional subsidy is required after the initial 10-year period in relation to these properties (excluding CRA);
- With COVID-19 as the context, the concept seeks to consider the options that are arising in the market which would see a federal and state partnership focus on increased access to this type of housing. We have seen shared equity programs run with the assistance of the state government in parts of Australia and internationally with positive results and will present shared equity options to the burgeoning need arising in the housing market.

Role of NHFIC Research

A real challenge today is that the data shows no clear signs of a downturn in F2020 and any numbers that will indicate an issue for FY2021/FY2022 years won't be published by ABS and others for at least 3-6 months.

Housing supply peaked at 230,000 homes constructed in 2018 with around 70,000 homes delivered above long-term activity levels, which is now coming off. The peak in supply was not forecast, and the current drop-off in activity could result in an equally unpredictable trough driven lower by COVID-19. The impact will strip away jobs, taxation revenues that underpin government budgets and vital supply that stabilises housing prices.

Building activity in Australia is heading for the largest decline in our country's history with homes approved were originally set to drop from 230,000 dwellings commenced in 2016 to estimates of around 110-130,000 in F2021[4] which is set for reforecast to around 140,000 to145,000 homes delivered.

> *Two of the nation's largest builders, Simonds Group and Metricon, estimated in the July 2020 CoreLogic PowerHousing Australia Standard House Report that every new standard three bedroom house in Australia creates work for around 43 trades and subtrades. Losing 100-130,000 homes out of the housing construction pipeline will create a massive ripple through the entire economy if not halted.*

Understanding and then balancing a new market equilibrium, with property stimulus, that feeds into longer term new build programs is tricky to get right. It requires

There is expectation of a pickup in FY2021 forecasts of 15-25,000 dwellings per month on the back of HomeBuilder in F2021 (pulling through some of the substantial pipeline of approvals), but beyond this the

[4] https://www.linkedin.com/pulse/f2021-powerhousing-australia-corelogic-australian-affordable-proud/

drivers for market housing delivery are harder to see. Stimulating the new home building market makes considerable sense as it can restore confidence and activity in the Australian economy.

Social and affordable housing can act as a shock absorber to fill the primary gap in market demand. The pipeline needs to be primed in the next six months as a drop in delivery becomes evident in FY2022.

The critical element here is to see the right data informing the future critical decisions to be made with NHFIC well positioned to support any research.

Conclusion

PowerHousing is encouraged by the Federal Government’s view that every budget will feature housing. We absolutely agree that the next budget is an opportunity for a renewed federal focus on housing in the time of the COVID-19 crisis. Housing can help lead the economic recovery, and targeted co-investment by the Federal Government into affordable housing developed by Community Housing Providers can ensure a legacy of a more resilient housing system.

Housing can help lead the economic recovery, and targeted co-investment by the Federal Government into affordable housing developed by Community Housing Providers through NHFIC can ensure a legacy of a more resilient housing system.

The COVID-19 pandemic changes the dynamic of the private new home building sector in Australia. The capacity for supply to meet housing demand is unknown. The demand for social housing does exist, though, and supply of this housing can be achieved. There are over a million ‘workers’ who can be project managers, or subcontractors (tradies), builders (most of them small business), that then stimulate manufacturers, suppliers, and retail businesses.

A stable housing equilibrium is supported by providing short term measures for current renters and owner occupiers and supporting the additional demand in social and particularly affordable housing. Meeting this additional demand through CHP development partnerships with NHFIC will deliver the social and economic shock absorber that will be needed over the next three years in the stabilisation and early recovery phases.

Again the development of NHFIC with its Bond Aggregator and other first home buyer supports has been well timed to tackle the crisis and the stability of housing into the market has underpinned the rapid economic improvement in conditions.

Whilst this immediate stabilisation has been needed the underlying demand for social and affordable housing has grown through this period with our NHFIC loans reducing this impact,

The PowerHousing membership is committed to providing expertise, resources and continued collaboration with the government and Housing Minister to create affordable housing solutions. In the same time of this review of two years PowerHousing is working toward securing additional equity flow into affordable housing delivery with NHFIC primed to support these investments.

Considering a wide range of government-backed options to close the yield gap, such as those practiced and successful in the US and , extending the NHFIC AHBA Guarantee, broadening the NHIF mandate into equity, will better enable CHPs to continue to deliver quality social housing. A federal build rate target underpinned also by NHFIC research that maintains jobs with a partnering role with CHPs will enable development to keep up with demand.

- NHFIC and particularly the AHBA were designed with no plausible consideration of a COVID-19 type crisis, but the Corporation is a recession busting tool of government which fortuitously has played a role in stabilising the housing market.
- There is much more for NHFIC to do in social and affordable housing particularly around the pandemic adding to the ranks of the 200,000 pre-covid national waiting list.
- Whilst originally the timing for this review was several years further into the operation of NHFIC when milestones would have been easier to reach, it is extraordinary the NHFIC has achieved what it has in its short time of operation.
- Prior to its inception PowerHousing Members had worked collaboratively to develop the Affordable Housing Bond Aggregator. These efforts aimed to generate a more efficient source of funds, reduced refinancing risks, and reduced borrowing costs.
- Pre NHFIC opening its doors in 2018, PowerHousing through its work of the PWC Aggregated finance model provided formative concepts for the design and development of the aggregator.
- PowerHousing Members worked collaboratively to detail the PwC Aggregated finance model concepts through our Treasury Working Group
- PowerHousing also encouraged the passing of the legislation just over two years ago.
- Our engagement with the AHBA has seen almost $1.4b in low cost, long term lending provided for the delivery of social and affordable housing outcomes.
- In particular, the AHBA and the government guarantee of the lending has provided a long term, efficient senior debt solution that was not previously available in the Australian market. This has reduced risk for community housing providers and provided additional capital to be invested. This will lead to more housing outcomes over time. It has also built confidence from investors and sparked consideration of other forms of investment in different parts of the capital stack.
- This sort of market creation takes time. To build on this early platform and create a functioning market, NHFIC's role must be given certainty over at least the next 5 - 7 years including the AHBA guarantee. The trust and confidence that has been built up in this mechanism is then best placed to deliver and there can be a transition plan that changes the nature of government support for NHFIC over that horizon.
- The important point is that while NHFIC is not a silver bullet, it provides the foundation for a long-term stable funding platform for the sector with a unique offering that cannot be delivered by the commercial banks – long term fixed rate debt funding. We need stability with this platform so that we can build additional institutional funding capability around NHFIC that provides flexibility for the sector to deliver on the task that confronts us.

On refinancing and then new delivery:

- With political pressure mounting there is a push from the Government to see new additional dwellings being support by NHFIC and any federal mechanism
- Refinancing was always the first step and then growth of new housing outcomes to follow
- PowerHousing and its Members have developed large scale partnerships with corporate supporters to deliver housing in great numbers.
- Across the two years, 18 out of 35 PowerHousing Members have accessed the NHFIC Bond Aggregator with almost $1.4b out of $1.6b in bonds going to those CHP Members.
- It is estimated that these funds have supported the development of around 1,955 new homes, whilst also supporting 5,355 existing homes in refinancing and around $170m in interest saved.
- Powerhousing members have a ready-made pipeline of 3-5,000 lots which can be activated in the immediate term. Our partners in the residential construction industry have access to a far greater number beyond this count and are ready to activate to meet additional demand and support the construction jobs that will be badly needed.

Whilst formative work is under development and for consideration and market sounding, we think and are advised by international experts with 30 plus years of global investment into environmental, social and governance impact funds, there is strong investor appetite to co-invest alongside government into affordable housing.

These commitments will provide settings for a sustainable housing market, provide homes within financial reach of more Australians, and secure Australian jobs as we head to an unpredictable housing delivery trough. PowerHousing looks forward to the final release of Budget 2020-21 with the knowledge that it has the capacity to significantly impact the provision of housing for Australians nationwide.

CHPs are seeking to be partners of the Government, bringing capability and access to capital, to support recovery and create a better housing system for all Australian's. As this crisis has illuminated for everyone in the community – when the world is in crisis, there is no place like home.

PowerHousing Australia and its Membership

PowerHousing facilitates a national network of 35 Tier 1 and scale growth regulated Community Housing Providers (CHPs) who develop and manage affordable housing across Australia. In 2019 alone our Members:

- Raised $1 billion in debt facilities
- Managed 72,000 dwellings providing safe, quality and affordable homes
- Housed120,000 plus people across the nation
- Stewarded $22 billion in efficiently-managed social and affordable housing.

PowerHousing works to address affordable housing need through sharing and building on best practice in housing and community development, collaborating to mobilise collective resources, and providing an independent and influential collective voice for the biggest and most financially mature CHPs in the country.

PowerHousing provides networking for our Members through quarterly exchanges, the Annual Member Exchange and the International Housing Partnership, which involves the US, UK, Canada and is associated with New Zealand. Based in Canberra, we are located to promote the capacity of Members and represent their policy positions to the Federal Government and other stakeholders.

PowerHousing also partners with corporate affiliates and associates across national and international construction, development, finance, IT, HR and related sectors.

PowerHousing Australia’s CHP Members work on a profit-for-purpose model; they acquire, develop and manage affordable and social housing dwellings throughout Australia, and any profits are directly reinvested back into affordable and social housing, repeating the process to house as many Australians in need as possible. Our members bring capability and capital to partnerships with developers, sector partners, government including local councils, and often focuses on particularly vulnerable groups such as people affected by domestic and family violence, those needing employment and training, those living with disabilities and the elderly. As demonstrated with the landmark Ivanhoe Estate redevelopment project in Sydney, our CHPs are successfully partnering with large-scale developers to increase the supply of social and affordable housing.

The work of our Members is supported by government initiatives at both state and federal level through enablers such as the National Housing Finance and Investment Corporation (NHFIC), on which PowerHousing CFO Members and affiliates worked to evolve into a successful piece of legislation in concert with Treasury. The Affordable Housing Bond Aggregator (AHBA) and National Housing Infrastructure Facility (NHIF) have opened up new funding and delivery options for our Members. Government is increasingly transferring aged public housing assets to CHPs to continue delivering social housing efficiently and with excellent levels of tenant satisfaction.

Our members stand ready to partner with Government and the private sector to contribute to the social and economic recovery from COVID-19, and create a legacy of a more resilient housing system through increased affordable housing.

For further queries, please contact:

Nicholas Proud
Chief Executive Officer
PowerHousing Australia
nproud@powerhousing.com.au

PowerHousing Australia
PO Box 77 Deakin West, ACT 2600
(02) 6210 5040
www.powerhousingaustralia.com.au

Appendix One – NHFIC Timeline

NHFIC Rollout Milestones: In just under 30 months, NHFIC was shaped to deliver long-term, low-cost, Government- backed investment focused on supporting our sector. Today around $1.36b of long tenor government backed low-cost finance has been taken up by PowerHousing Members with the cheaper finance enabling CHPs to direct more funds towards creating additional housing supply and providing services to support tenants.

To further detail our Members access to this type of finance there are some key outcomes across the milestones.

TIMELINE

Dec 2016-Mar 2017 – PowerHousing shares our PwC Aggregated Capital report with federal Treasury and Treasurer's office – presents sector capacity to support an AHBA

May 2017 – AHBA announced in Federal Budget

Jun 2017 – 29 PowerHousing CEOs engaged in a closed meeting at Parliament House with Treasurer Morrison to discuss AHBA & PHA

Jun 2017-May 2018 – PowerHousing Treasury Working Group engage with Treasury as they develop Investment Mandate Direction

Jun 27, 2018 –NHFIC legislation passed through both houses of Federal Parliament

Jul 1 2018 – NHFIC opens its doors

Aug 2018 – PowerHousing Director David Cant announced as a Director of NHFIC

Jan-Feb 2019 – PowerHousing members secure first NHFIC loans

Mar 2019 – $315m first bond issue - initial bond issue which was four times oversubscribed with Community housing providers benefitting from cheaper financing with $315 million bond issue borrowed at rates between 150 and 200 basis points below their then current rates for 10-year, interest-only loans from. As this initial stage intended this allowed providers to refinance existing facilities at a cheaper rate and to benefit from longer-term funding than they would have otherwise received.

Sept 2019 – $315m second bond issue the second bond issue of $315 million was raised by the bond was loaned to community housing providers (CHPs) to support the financing of over 2000 properties across Victoria, NSW, Queensland, Western Australia, and South Australia, including supporting the supply of more than 360 new social and affordable dwellings. The second NHFIC bond passed on the benefits of strong investor demand by providing a fixed rate of 2.07 per cent for 10½ year interest-only loans to the CHPs, which provided subsidised housing. This is estimated to save those CHPs supported by NHFIC's bond around $50m in interest payments over the next 10 years. This second bond again see the Australian industry super funds Cbus and UniSuper support the bonds.

June 2020 – By 3rd bond issue about $1.4b in low cost funds secured by PowerHousing members - NHFIC finalised its third bond for $562 million – making this the largest social bond from an Australian issuer.

The funds raised from the bond will support ten CHPs across NSW, SA, Tasmania and Victoria, financing 2,736 properties including 775 new dwellings. In total, NHFIC's third bond is expected to save the participating CHPs more than $80 million in interest payments over the 12-year term of the loans.