# Submission on the Housing Legislative Package – Housing Australia Future Fund Bill, National Housing Supply and Affordability Council Bill, and Amendment Bill

ACACIA
CAPITAL PARTNERS

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## Introduction

Acacia Capital Partners Pty Limited (**Acacia**) is pleased to provide its response to the Housing Legislative Package – Housing Australia Future Fund Bill, National Housing Supply and Affordability Council Bill, and Amendment Bill (**Housing Legislative Package**).

We commend the Government for developing the Housing Accord and establishing the Housing Australia Future Fund (**the Fund**) to deliver additional supply of 10,000 Affordable and 20,000 Social Housing stock thereby relieving cost of living pressures for many Australians and supplementing the Housing efforts of the States, Territories and Local Governments.

Acacia acknowledges that this submission and/or its contents may be made public by the Government as part of the consultative process. Further, Acacia also acknowledges that the submission may be shared with the project team and relevant Ministers.

## Acacia

Acacia is an Australian based specialist investment manager established to cater to institutional investors including pension funds, insurance companies, sovereign wealth funds and Australian superannuation funds. The investment strategies of Acacia are focussed on Real Assets such as Housing for the dual goals of maximising investment returns and achieving set social and/or sustainability impact goals. The management of Acacia is highly experienced in real estate having deployed large scale capital across multiple sectors over two decades. The founder of Acacia, previously the Head of Australia for AXA Investment Managers (Real Assets) was responsible for AXA Investment Managers entering the Affordable Housing sector in Australia, forming a partnership with a leading community housing provider and establishing a programmatic funding partnership with National Housing Finance Investment Corporation (**NHFIC or Housing Australia**).

Acacia is currently establishing a long term Affordable and Social Housing investment vehicle which will be capitalised with institutional investor funding. The investment mandate strategies of the investment vehicle are in line with the Government's Housing objectives and Acacia intends to play a leadership role in marshalling institutional capital into the Affordable and Social Housing sector.

Acacia's recommendation in this submission is based on consultation with certain foreign and local institutional investors, and Acacia management's investment experience across the spectrum of Real Assets investment including in the Affordable and Social Housing sector.

## Current Landscape

The Australian Housing market is at a pivotal stage:

- States and Territories dominate the ownership Affordable and Social Housing stock in the country. Due to underinvestment by the States and Territories over decades Australia is facing a severe shortage of Affordable and Social Housing. Around 900,000 additional homes are required over the next 20 years and additional investment required on new and existing inventory is around $300 billion *(Statutory review of the operation of the NHFIC, Aug 2021).*

- Australians' dream of owning their own home is now becoming unattainable due to escalation of house prices in recent times. As a result, Australians will have to accept the concept of renting their homes for longer periods, like in other parts of the world. This development requires appropriate policy shifts from all levels of Government to address the new paradigm.

- Forecast supply of additional Housing stock over the medium term appears to be well short of the forecast increase in demand and this is expected to create further rental pressures, mostly burdening the vulnerable in society.

- Emerging higher inflationary and interest rate environment is expected to lead to a Housing market correction and create multiple challenges such as mortgage pressures and increased cost of delivery of new homes leading to even greater demand for rental properties.

- Investing in the Affordable and Social Housing sector is complex, regulated and currently offers sub-optimal investment returns, thereby making it difficult to attract large scale institutional investor capital. Therefore, the Government needs to address these issues within the Housing Legislative Package such that long term institutional capital will be attracted to the sector.

## Recommendations

### Housing Legislative Package:

Key observations of the Explanatory Materials are that:

- Disbursement from the Fund can be allocated towards a number of areas including COAG Reform Fund, direct grants and deployment by Housing Australia;
- Multiple Ministers are able to make annual submissions for application of disbursements;
- States and Territories are able to participate in the application of the disbursement from the Fund;
- Disbursements from the Fund are determined annually by the relevant Ministers based on advice from National Housing Supply and Affordability Council (**Council**);

- The Council provides advice and the relevant Minister should have regard to this advice in relation to disbursement from the Fund;
- Disbursements are subject to the Government's annual budget process;
- Housing Australia will have primary responsibility for delivering on the Government's commitment to deliver 30,000 new Affordable and Social homes over five years;
- Some of the intended disbursements are for purposes other than achieving the Housing target; and
- Via the Housing Accord, the Government expects to attract significant institutional investment into Affordable and Social Housing, an aspect not evident to date.

With the layers of approvals and multiple programmes it appears that it will have significant administrative inefficiencies and without clarity and limits around these issues there is the risk that the Government's Housing targets will not be achieved.

Acacia's key recommendations are as follows:

1. If Housing Australia is to have primary responsibility for delivering the additional housing then this should rank ahead of all other programmes in terms of disbursements. It could be addressed by introducing a floor for allocation of disbursement to Housing Australia or alternatively apply a cap on other disbursements.

2. Housing Australia will be required to enter into long term arrangements in terms of its support for additional Affordability and Social Housing. Therefore, legislation needs to be amended to provide the market with certainty that Housing Australia will have necessary future funding to meet its ongoing obligations arising from long term support arrangements that it enters with investors. It should also be clarified in the legislation that the relevant Ministers' decision making processes and the Council's advice to the Ministers do not override such commitments of Housing Australia.

3. Clarity needed to remove the risk of monies allocated to the States and Territories are utilised to replace their current funding commitments under various Housing programmes.

4. The role of the Council needs to be limited to providing macro advice to the Ministers in terms of the Housing market. Its role should not extend to how the disbursements are, in particular Housing Australia's financing activities, undertaken.

5. Australia has committed to the Paris Agreement and the current Government has recently set an ambitious target towards Net Zero by 2050. Further, Residential buildings are a major contributor of the emissions. The explanatory materials do not discuss this as a criteria. The scope of deployment of the HAFF funding needs to ensure that the new supply of homes achieve high levels of sustainability outcomes.

## HAFF Investment Mandate:

If Acacia understands the intent of the Government correctly, it wants to preserve the initial $10 billion HAFF allocation and utilise the earnings from the investments to support achieving the Government's Housing Accord target.

Acacia commends the decision of the Government to appoint the Future Fund to manage the HAFF investment mandate as it is the most appropriate investment platform with skills and scale to invest the funds. The Future Funds is also an organisation without major conflicts compared to many investment management organisations.

Investment returns from asset classes are generally volatile and subject to investment cycles. Further, it is unlikely that the Fund's investments are expected to receive positive earnings at all times. There may be periods where whole, or parts, of the investments will suffer capital losses resulting in the reduction of the Fund value. Therefore, flexibility needs to be incorporated with source of funds and scale of annual disbursements to ensure the programme achieves the Housing target. This means in periods where the annual returns are higher than disbursement limit of $500 million then the remainder could be built up as a reserve for disbursement during periods of lower earnings than $500 million.

It is also important to ensure that the investment management strategy developed and implemented by the Future Fund is appropriate to achieve the twin goals of preservation and growth of value of the Fund investments as well as to produce steady and predictable earnings to support the Government's Housing Accord goals.

## NHFIC:

NHFIC provides long-term and low-cost construction and infrastructure finance, and grants to registered CHPs to support the provision of more Affordable and Social Housing. NHFIC also acts as an aggregator of loans to CHPs for bond issuance into the capital markets.

With the proposed expansion of its scope together with additional funding capacity via HAFF disbursements, it is important that NHFIC's charter is expanded to permit supporting investment structures beyond the traditional CHPs provided that those meet the criteria of increasing Affordable and Social Housing inventory. Otherwise, investment in the sector will become even more concentrated, complex and deter institutional investor participation.

Current NHFIC governance and operational powers largely vested with its Board. Although disbursement from the Fund appears to be subject to layers of approvals it is critical that NHFIC is empowered to administer the programme once the annual disbursement is determined. An efficient process will support meaningful innovation which is critical to marshal the required capital.

## Long Term Institutional Capital:

Support for Affordable and Social Housing via HAFF should be the catalyst for institutional capital playing a meaningful role in the pursuit of the Government's target. Like in certain other countries, Australia should use this once in a lifetime opportunity to provide the required settings for institutional investors assuming true real assets investment risks in the sector as opposed to enticing them via financially engineered, debt like, structures.

Institutional investors are active players in the Housing sector elsewhere in the world due to the investment landscape being conducive in those markets. In Australia, institutional investors to date have mainly focussed on investing in the traditional Real Assets sectors. However, the emergence of institutional investor interest in Alternate Real Assets is evident in recent times, particularly from offshore investors. With the right setting, the desired outcome of long term investment by the institutional investors at scale is therefore achievable.

## Deal Pipeline:

The total investment value of the target 30,000 Affordable and Social Housing portfolio will be in the order of $15 billion. This target cannot be achieved by Housing Australia solely focussed on supporting the CHP sector and institutional investors will need to play a crucial role.

It is important for the Government to collaborate with State and Territory governments and secure contribution of lands by State and Territory government is an important ingredient for success. However, market led projects sourced by CHPs and institutional investors are equally critical as they expedite delivery of additional Housing within the 5-year period set.

## Other Considerations:

Offshore investors have been active in the Australian Real Assets market over the past decade. Qualifying offshore investors benefit from concessional taxation (Managed Investment Trust) if invested in certain types of assets such as Office and Retail assets. However, investing in Housing assets attracts higher taxes under the existing regime. This disparity has been raised by the real estate industry with successive Governments to no avail. Compared to many of the Australian institutional investors, offshore investors are experienced with investing in broad spectrum of Housing investments in other markets and more importantly consider Housing as a core investment sector. If the Government is to achieve its target of 30,000 additional Housing stock then it is imperative that it addresses this issue urgently to attract great level of institutional investors into the Affordable and Social Housing sector.

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