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Affordable housing: Bond aggregator good, but money still needed, industry says

Could affordable housing now take off? Labor has thrown its support behind the Coalition plan to promote institutional funding in the sector. **Ben Rushton**

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by Michael Bleby

Governments will still have to subsidise affordable housing development in order to create a market that allows institutional investors to fund the industry.

The opposition Labor Party has supported Treasurer Scott Morrison's planned bond aggregator model that would match institutional funders with the growing community housing industry.
This ensured bipartisan support for the notion, but government would still have to fund the shortfall between the bonds that can be repaid with affordable rents and the initial cost of providing these new dwellings, community housing advocates said.

"There has to be a subsidised pipeline of development," said Carrie Hamilton, a former Macquarie property banker and now consultant to the affordable housing industry. "That's the tricky thing. The aggregator by itself won't spin straw into bricks and mortar. It will need a robust government investment program sitting behind it for credibility."

Investors also required bipartisan support for the funding to ensure the program would last, Ms Hamilton said.

"It's not something they want to take a punt on if the policy might be reversed."

National Shelter executive director Adrian Pisarski also said governments – whether federal, state or local – would have to commit money to housing development.

Financial gap

"It [the bond aggregator] won't meet the supply shortage of social housing or the financial gap that only governments can meet with direct investment," Mr Pisarski said.

The property industry on Friday welcomed Labor's support for an Affordable Housing Finance Corporation – likely to be announced in next month's budget – that would help create an affordable rental sector that currently does not exist in Australia. It would create a stable, sustained pool of funding that community housing providers – currently able to tap only short-term loan facilities – could draw upon.
"We are pleased that the bond aggregator idea, which has already been mooted by the Treasurer, is being embraced by the Opposition," Property Council of Australia chief executive Ken Morrison said. "This appears to be an area of common ground where government can move quickly to provide a new source of low-cost, reliable financing for community housing organisations."

The Urban Development Institute of Australia was pleased that it wasn't a tax.

"Importantly, this bond aggregator strategy to stimulate investment in social and key-worker housing doesn't put more taxes on the production of new housing," UDIA president Michael Corcoran said.

Good step

Industry super fund Cbus said the notion was a good step towards getting institutional investment

"Cbus is actively looking to invest in this area but to do so prudently we need the right policy settings," chief executive David Atkin said. "A scheme backed by the commonwealth government at least initially is a good place to start."

The Housing Industry Association supported the idea, but said tax concessions were also needed for institutional investors, either on the profit they made from the rental streams, or on any profit that came from trading in the resulting bonds. Housing providers would also need tax breaks to make it easier to build and operate the developments, said Kristin Brookfield, the HIA's chief executive for industry policy.

Ms Hamilton agreed current negative gearing tax breaks meant private developers could pay more for sites than community housing providers.

But she said this new asset class would not constitute a property play that counted on a capital gain for institutional investors, but rather a long-term income stream.

"It's not meant to fit into the property allocation of their portfolio," she said. "It's not going to meet those gains. Instead, it is a wonderful hedge of fixed, stable income."

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