



Submission on the Review of the Operation of the National Housing Finance and Investment Corporation Act 2018 Issues Paper

January 2021

Thank you for the opportunity to participate in the consultation on the Review of the Operation of the National Housing Finance and Investment Corporation Act 2018 Issues Paper.

The National Affordable Housing Providers Ltd (NAHP) is a representative peak body whose purpose is to represent NRAS Approved Participants' collective interests in our constitutional objective to deliver affordable housing across Australia. Our members hold responsibility for over 50% of all NRAS delivery. NAHP members are a mix of not for profit housing organisations, commercial and ASX listed entities, representing the broad interests of companies engaged in providing private, affordable housing in Australia, including NRAS and other State and Federal Government initiatives.

Our brief comments focus primarily on government-backed guarantee and the emerging evidence base, with some commentary on complementary reforms that would enhance the effectiveness of the bond aggregator.

Government guarantee

The government guarantee that underpins the bond aggregator is critical to the bond aggregator's current and ongoing success. One of the obstacles to attracting investment in affordable housing is the often-tenuous nature of government-backed housing initiatives; investors fear the programs will change or terminate when government housing priorities change. Through the provision of the guarantee, the Government backing of the bond aggregator provides the essential certainty required by investors into this new financing space. Like other government-backed bonds, it assures investors that their investment in affordable housing is secure, increasing its attractiveness as an asset class. Institutional investors also want to invest at a scale that is only achievable at a national level. The bond aggregator provides the appropriate vehicle to aggregate financing demand to meet that requirement and works effectively in conjunction with the guarantee to encourage large scale investment in affordable housing. Therefore, an extension of the Government's commitment to the guarantee beyond 2023 is warranted to ensure a reliable stream of financing is available to grow affordable housing.

Building an evidence base

The growth of affordable housing relies on accessing reliable and reasonably priced financing. The success of the National Housing Finance and Investment Corporation (NHFIC), specifically the bond aggregator, has contributed to building a concrete evidence basis for the growth of affordable housing. Through NHFIC's achievements, investors have a more informed understanding of affordable housing's value as a viable asset class. This awareness builds an appetite for investment from institutional investors and encourages other financial entities to participate in this sector. Further, policymakers' access to the growing evidence base made through NHFIC's activities will help support appropriate strategic policy decisions on affordable housing.

Complimentary reforms

1. NAHP believes that access to NHFIC financing should be expanded to include non-CHP affordable housing providers. NAHP believes that entities wishing to access financing through the bond aggregator should be assessed on their ability and capacity to deliver affordable housing rather than on their governance structure, i.e. assess applicants based on the proposition.

As a result of the National Rental Affordability Scheme (NRAS) and other State-based affordable housing initiatives, there have emerged experienced, capable, affordable housing providers who may not be community housing providers (CHP). They have the expertise and track record for delivering affordable housing products; NRAS alone has delivered over 34,000 new affordable housing dwellings. NAHP believes that bond aggregator financing eligibility should allow other qualified entities (non-profit and for profit) to participate.

NAHP acknowledges that one of the perceived benefits of restricting participation to CHPs is their regulation under the National Regulatory System for Community Housing (NRSCH), notwithstanding a Affordable Housing Working Group's recommendation to strengthen this regulatory regime. As the AHWG report noted, "An effective regulatory regime will give potential investors confidence that the CHPs accessing finance through the bond aggregator are well-governed, capable of meeting their debt obligations and that financial and operational risks are appropriately managed"¹.

NAHP agrees that regulation provides needed investor assurances. However, other participants in the affordable housing arena are similarly regulated under other regimes. As incorporated entities, affordable housing providers are regulated by the Australian Securities and Investment Corporation (ASIC). Aged care providers, another group of existing affordable housing providers for the elderly, are regulated under a regulatory and quality control framework. Rather than have non-CHP bond aggregator participants engage with the NRSCH, NAHP recommends a reciprocal recognition of other regulatory regimes that would provide the necessary investor assurances without duplicating regulatory requirements on participants.

2. The initial 2017 Treasury consultation paper that established NHFIC noted that the bond aggregator alone would not address the funding gap and complementary reforms must be implemented in order to address this issue. The Affordable Housing Working Group report made their top recommendation that the Commonwealth and State and Territory governments progress initiatives to close the funding gap.² NAHP continues to support this view strongly.

The scale of the demand and the shortfall in low cost housing is significant; it needs a commitment from both the Commonwealth and the States and Territories to provide a financially adequate ongoing subsidy. An adequate financial subsidy is necessary for NHFIC to maximise its potential to address the lack of sufficient affordable housing.

The Commonwealth is uniquely positioned to provide a subsidy through the tax system and can make its contribution by re-introducing a tax-based incentive, such as a rebatable tax offset or a tax credit similar to the US Low Income Housing Tax credit (LIHTC). The LIHTC provides a credit based on the cost of development and construction (excluding land) and the units' location. The

¹ Council on Federal Financial Relations, *Supporting the implementation of an affordable housing bond aggregator*, Affordable Housing Working Group Report to Heads of Treasuries, September 2017, page 20.

² Ibid, page 2

investor receives a credit against their tax liability in exchange for capital contributions made to finance the development of an approved affordable housing project, i.e. investors reduce their income tax by \$1 for every dollar of LIHTC credit. While investors receive the credits for 10 years, they must continue to rent their dwellings to qualified low/moderate income tenants and meet compliance requirements for at least 15 years, with some US jurisdictions increasing this period to 30 years.

States and Territories could meet their subsidy obligation by providing land, land tax and rates abatement, planning enhancements or concessions, and grant funding to eligible entities.

The Federal government must address the funding gap; without a solution, the bond aggregator will not achieve its full potential. A robust and uncomplicated subsidy regime would address the funding gap, increase institutional investors' participation, and stimulate more affordable rental housing construction.

Please contact NAHP's Project Officer Carol Croce (contactus@nahpl.org.au) if you have any questions or require further information.

Kind regards,

A handwritten signature in black ink, appearing to be 'David Somerville', written in a cursive style.

David Somerville
NAHP Chairperson