

**To:** NHFICSecretariat@treasury.gov.au  
**Subject:** Submission to the NHFIC Review from a Group of CHP Chairs

**Attention: Mr Chris Leptos AM**

Dear Mr Leptos

Thank you for the opportunity to prepare and lodge this submission on behalf of a group of Chairs representing CHPs responsible for managing the tenancies of more than 80,000 people in social and affordable housing across Australia.

I very much appreciated the opportunity to talk with you and the Review Team during your on-line conversation with CHP representatives from CHIA on 15 December, and in the attached submission I have tried to address some of the issues you raised during that meeting, in addition to the issues that form the Terms of Reference for the Review.

Each of the CHP Board Chairs who are supporting this submission are doing so having read and contributed to the content and I would like to acknowledge their various and valuable contributions.

In the event that you or the Review Team have any questions that arise as a result of our submission we would be very please if there were opportunity to provide clarifications or contextual explanations you may require.

Whilst I have had the underpinning role in preparing this submission, you will undoubtedly recognise that many of the issues raised have originated from individual Chairs based on their first hand dealings with NHFIC. So to this end, if you require any clarifications or further discussions on specific issues, I will take the liberty of seeking input from the relevant Chair, where I am not in full possession of the facts concerned.

I look forward to seeing the report from the Review and wish you and the Review Team every success in undertaking this most important review.

Paul Howlett | Chair



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

## **Submission by Chairs from a Group of CHPs**

For some years, the peak industry bodies of the Community Housing Provider (CHP) sector have facilitated networking amongst directors of providers – chairs via CHIA and non-executive directors more broadly via PowerHousing.

At a recent meeting of chairs, it was agreed that a joint high-level submission be prepared from the chairs to help with the review process. That submission follows.

From the outset, we would acknowledge and understand:

- ✓ that the Review Team is very interested in grass-roots stories of the benefits and impacts for residents from NHFIC support of the sector, and
- ✓ some quantification of the real benefits that the sector is realising through channelling a significant portion of our debt raising through NHFIC.

However, we are of the view that detailed submissions from peak bodies, individuals, and collective groups, of CHPs will present much of the detailed information that the Review Team is seeking.

This submission is intended to add weight to those detailed submissions and to stress to the Review Team that the chairs, and their Boards, who are supporting this submission do so based on our intimate awareness of the benefits that NIFIC has brought to the sector and to voice our strong support for a continuation of that participation on the part of the Commonwealth Government through NHFIC.

## **Responding to the Terms of Reference**

This submission offers input, insights and suggestions relating to the following elements of the ToR –

### **1. *The impact of NHFIC on the CHP Sector***

Sections 1, 2, 3, 4, 8 and 9

### **2. *The role of NHFIC in housing supply***

Sections 2, 3, and 8

### **3. *The role of NHFIC in increasing home ownership***

Section 7

### **4. *The role of NHFIC research***

Section 8

### **5. *The governance and operation of NHFIC***

This element of the ToR is not specifically addressed, but are touched on in a number of sections that reflect on sector dealings with NHFIC.

## **A Summary Statement from the Chairs**

There is evidence of an increase in investor appetite for investment solutions such as social bonds to support affordable housing infrastructure. CHPs are committed to the success of NHFIC bonds as an attractive and stable investment class to ensure long term funding of housing projects. CHPs would like to see an increase in housing supply and are firmly convinced that NHFIC has, and can continue to, play a critical role in the achievement of this objective in the process stimulating wider institutional investment into the sector.

We are committed to continue our productive working relationship with NHFIC to better deliver on our mutual aspirations to increase the supply of housing and to encourage investment in the housing sector.

## **Key Points of our Submission**

1. NHFIC has done an excellent job thus far
2. The Government guarantee provides a low-cost and efficient intervention
3. This is stimulating a new asset class for institutional investors
4. But the NHFIC lending model must be stable and long-term
5. And for added surety, NHFIC lending should only be into a regulated market
6. Affordable Housing and housing affordability are not synonymous
7. Affordable Housing can be a precursor to market rent and home ownership
8. NHFIC is building the capacity of the CHP sector
9. And a key success indicator for NHFIC will become evident as roll-overs approach.

Our submission follows articulating views and perspectives on these key points.

### **1. NHFIC has done an excellent job thus far**

Lending by NHFIC into the CHP sector was implemented rapidly and efficiently following formalisation of the entity. The first loans were executed within months of commencement and many others followed quickly – with many transactions running in parallel for NHFIC and the various borrowers.

The demonstrated capacity of NHFIC to assess the initial tranche by way of the creditworthiness of applicants, completion of documentation and the release of funds was remarkable in both its thoroughness and speed.

Notwithstanding that a number of the initial loans were for the purpose of re-financing existing debt facilities (i.e. replacing debt to previously certified entities holding accredited asset portfolios) that highly responsive capacity from NHFIC to facilitate new loans to the sector continues to manifest even as the loan arrangements become significantly more complex, involving green field projects and often with complex multi-party arrangements.

In spite of the flexibility on NHFIC's part, there have been some challenges for NHFIC and CHPs in States where NHFIC requirements and the State Housing Authority requirements have not matched, resulting in barriers to participate for CHPs, significant delays and additional cost. We would encourage all parties to proactively agree protocols with those remaining States and Territories to enable CHPs to apply NHFIC financing in those jurisdictions, and to do so without undue delay or cost.

The flexibility, supportive approach and the capacity on the part of NHFIC to work pro-actively with the sector is unsurpassed by prior experience with borrowings from traditional debt sources.

## **2. The Government guarantee provides a low-cost and efficient intervention**

The guarantee was provided to allow NHFIC to deliver very affordable lending to the CHP sector. The fact that commercial rates do not match the NHFIC rates does not indicate a market failure. Rather it indicates that mainstream lenders are operating in a different regime to NHFIC.

Commercial lenders have no guarantee, are restricted to shorter horizons, they price risk cautiously in sectors with which they are less familiar, they need to generate shareholder returns and they fund multiple corporate entities and classes of infrastructure.

In comparison, NHFIC's value is efficiency through the volume of institutional investment, backed by a Government guarantee into a single class of infrastructure.

Providing the CHP sector with low-cost and long-term finance enables the sector to do more (in both housing supply and value-added-services) for those in housing need than would be the case when the only alternative is market-based borrowing.

- ✓ NHFIC has successfully established a very strong platform for debt financing within the CHP sector and enabled the unlocking of equity and the reduction of interest burdens from CHP portfolios to fund additional housing. In the process, NHFIC has also opened greater opportunities for CHPs to engage with partners in new projects.
- ✓ The provision of the guarantee to NHFIC has resulted a significant reduction in the interest rates applicable to the sector and a very desirable extension to the term of funding.
- ✓ This, in turn, reduces the number and cost of re-financings, further improving the efficiency of the funding model and enabling additional housing to be provided.
- ✓ The guarantee is the lowest cost, most efficient form of intervention support that can be provided by government, allowing maximum benefit for minimum cost, but by no means the only tool. This is but one important tool in a toolbox of initiatives available to Government.
- ✓ Commonwealth Government guaranteed lending to the CHP sector by NHFIC, coupled with CHP sector tax benefits and NFP business models, has been demonstrated to help with bridging the affordability gap for affordable housing. Notwithstanding this contribution by NHFIC, an affordability gap persists today.

## **3. This is stimulating a new asset class for institutional investors**

The lending support from NHFIC into the CHP sector is demonstrating a level of confidence in the sector which is stimulating a quality long-term asset class that is stable and ideally suited for institutional investment. Such stimulation and support from NHFIC has the following added benefits –

- ✓ NHFIC is the cornerstone of a model that can be leveraged to allow the CHP sector to access institutional equity at scale;
- ✓ this stability provides the Australian financial markets with a level of surety on the quality of these long-term assets that can facilitate an extension of the investment from the financial sector into the CHP sector;

- ✓ through its bond issuances, NIFIC is facilitating an opportunity for ESG based impact investing for institutional funds into the CHP sector at scale; these funds would otherwise be hard to attract for the sector at the lower cost base delivered by NHFIC.

Importantly, NHFIC is ensuring that the benefits of low-cost and long-term financing flow through to and are shared by the CHPs in new delivery structures, such as SPVs. However, some caution should be noted in that the security required by NHFIC (particularly the GSA) can restrain the sector and in particular restrain participation by other investors from the finance industry.

NHFIC's charter should not be to replicate the transactional behaviour of a commercial lender as NHFIC is operating in a public policy environment. And to this end we see clear evidence that as familiarity with the sector and the CHP borrowers grows, our dealings with NHFIC are becoming streamlined and highly productive, further reducing costs to all concerned. This trend has not been as obvious with prior repeat dealing with the major market lenders.

#### **4. But the NHFIC lending model must be stable and long-term**

Increasingly, CHPs are developing co-investment initiatives with institutions and superannuation funds. For these collaborative co-investment arrangements to continue, it is essential that investment partners see long-term stability in Commonwealth Government policy and practice in the NHFIC funding arrangements with CHPs.

For institutional investors to participate with the CHP sector a stable long term-model is required which matches the investment horizon of the likes of superannuation funds and other institutional investors with their long-term liabilities profile, accordingly –

- ✓ confidence in longevity and stability of the NHFIC funding model is essential for participation by the institutional sector;
- ✓ there must be confidence that the asset class represented by cashflow from CHP sector assets is of high credit quality, secure and has a long-term sustainable pipeline; and
- ✓ institutions need to be confident that this asset class is a viable investment option in the long-term.

NIFIC has worked successfully on co-ordinating funding with CHPs and most State Government agencies to ensure maximum value and efficiency can be provided by the CHP sector. State housing bodies need to maintain their confidence with NIFIC to ensure adequate and sustainable management of loan facilities and funding programs, including covenants and other performance requirements, to the benefit of the CHP sectors' ability to manage funding arrangements and demonstrate stability across the sector.

In our view, short-term chopping and changing of the NHFIC model will discourage institutions from engaging with the CHP sector, which in turn will undermine confidence in the stability of the asset class. A loss of confidence by the institutions will lead to increased costs and inefficiency of the funding models for the sector.

#### **5. And for added surety NHFIC lending by should only be into a regulated market**

Independent, external regulation, accreditation and audit will provide institutional investors with an additional layer of surety that the sectors in which they invest are stable and reliable. If we are to see the emerging affordable housing asset class grow and deliver social and economic benefits through stronger institutional investment, then NHFIC lending support must be conditional on loan recipients being appropriately regulated, accredited, and audited.

The CHP sector is subject to numerous layers of external regulation, accreditation, and audit, which combine to demonstrate to investors that the sector is well governed, regulated, professionally managed and stable. Key elements of this regulation and accountability for the CHP sector is to manage and support the wellbeing of the tenants including ensuring that in accepting a tenancy, new tenants are not in danger of financial stress.

The CHP sector is subject to a raft of regulatory and performance obligations that not only aim to ensure the solvency and stability of the providers, but also seek to ensure and monitor the performance of the providers and caring for their tenants and provide a level of confidence in the viability of the sector to other investors. These regulatory and performance obligations include –

- ✓ **the National Regulatory System for Community Housing (NRSCH)** – the NRSCH establishes a registration platform of performance measures which aim to demonstrate a well governed, professionally managed and viable community housing sector that meets the housing needs of tenants and provides assurance for government and investors;
- ✓ **the contracts with State Housing bodies** – on top of NRSCH compliance obligations, CHPs must comply with, manage and operate under multiple program delivery contracts required by the various State Housing authorities. Many of these contracts have covenants, performance requirements and reporting obligations which overlap some of the NRSCH obligations and NHFIC funding obligations – representing additional layers of performance scrutiny;
- ✓ **the ASIC obligations on all registered companies apply to CHPs** – this includes mandatory reporting and auditing of annual financial statements;
- ✓ **the ACNC has reporting requirements on registered charities** – in addition to ASIC obligations most CHPs that currently have dealings with NHFIC are defined as “Large Charities” under the guidelines set out by the ACNC. To maintain registration and charitable status, CHPs must meet ACNC obligations and are subject to ACNC scrutiny;
- ✓ **DSS requires homelessness service providers to be ASES accredited** – most major CHPs are involved in homelessness in one way or another, in addition to the provision and management of housing stock. The Commonwealth Government through DSS requires all entities working in homelessness to be accredited under the Australian Service Excellence Standards (ASES) scheme relating to the quality and efficacy of service delivery. Whilst this is a self-assessment submission, the independent audit of providers by the scheme auditor (BDO Australia) is a most detailed analysis of the accuracy of submissions.
- ✓ **NHFIC credit committee is very rigorous** – for those CHPs who have accessed, or are in the process of accessing, NHFIC lending, the rigor of the requirements to satisfy the Credit Committee are significant and drill-down to considerable depth into the solvency and stability of the borrowing entities – arguably in more depth than has been usually the case with commercial lenders and certainly in more detail than required under NRSCH;
- ✓ **And CHP are answerable to tenants** – all CHPs are required to undertake annual surveys of tenant satisfaction levels relating to the services the companies provide; survey results are reported to NRSCH, State Housing bodies and are aggregated by one of the peak industry bodies (CHIA). Feed-back from each of these entities allows CHPs to compare the performance views of their tenants against whole of sector benchmarks and provides public transparency on tenancy outcomes.

## **6. Affordable Housing and housing affordability are not synonymous**

The definition of affordable housing presented in the Issues Paper (The Housing Market in Australia page 4) is in reality a definition for “housing affordability”. This is not the definition commonly used for affordable housing across the CHP sector.

Affordable housing as a housing program that is commonly referred to across the sector broadly focuses on property which is owned by private and institutional investors and rented out at a subsidised rate based on market rental rates.

Affordable housing that is commonly referred to across the sector specifically excludes social and public housing – housing owned by, or provided on behalf of, state governments which is rented out at highly subsidised rates based on the income of tenants.

Affordable housing is part of a housing continuum spanning from homelessness through to full home ownership.

## **7. Affordable Housing can be a precursor to market rent and home ownership**

For the majority of CHPs, tenants in affordable housing are typically gainfully employed and in secure jobs who seek to live closer to where they work than might otherwise be possible were they to pay full market rent.

In signing-up tenants for affordable housing the tenant manager CHPs not only check prospective tenants in respect of their employment situation, but also ensure that in accepting a tenancy offer the prospective tenant will not expend so much of their regular income as to place them in jeopardy of falling into financial stress.

In the majority of instances, tenants in CHP-managed affordable housing, especially the younger cohort, are on the cusp of a full market rent tenancy and eventual progression to home ownership.

With targeted support and incentives this cohort can transition over time to home ownership.

Commonwealth Government supported investment in affordable housing can stimulate home ownership for a cohort that would ordinarily be excluded from home ownership.

Leveraging home ownership from affordable housing can be a least-cost transition option for the Commonwealth Government, and an easier and less risky transition for the aspirant home owners.

## **8. NHFIC is building the capacity of the CHP sector**

The CHP sector has already benefited from NHFIC involvement with the sector. And we are confident that further capacity and capability development will follow. Not only is NHFIC demanding a high degree of financial rigor on the part of participating CHPs but NHFIC is actively supporting new and innovative approaches from the sector to increase the supply of housing.

Capacity building examples include –

- ✓ the response requested from CHPs to the due diligence requirements of the NHFIC Credit Committee when seeking funds;

- ✓ the covenant and reporting obligations that NHFIC requires of borrowers to acquit their periodic obligations;
- ✓ the CHPs participating with NHFIC funding must develop and grow financial capacity, in the process building a capability for better, more flexible and more innovative financial management of the businesses;
- ✓ in partnering with CHPs to explore new and innovative approaches to facilitate housing supply, NHFIC is working outside the traditional framework of conventional lenders and supporting investment proposals that would not traditionally get off the ground<sup>1</sup> – individual examples of such initiatives will likely form part of individual submissions and are not appropriate for a joint submission such as this;
- ✓ the ability of NHFIC to provide construction finance without the fee imposts of commercial financiers has and will provide further affordable housing supply. This is important as the costs for supply are the same for the CHP sector as for any developer, but with CHPs obligated to lease affordable properties at below the market rate, the reduction in the cost of capital reduces the overall development costs significantly for the CHPs.

Moving forward we see the potential for NHFIC adding further value to the sector and building additional capacity within the sector in areas such as –

- ✓ promulgation of uniform metrics for financial stress testing by CHPs, which in turn will further build the confidence of institutional investors in the capacity and stability of the sector; and
- ✓ facilitation of collaborations between Tier 1, Tier 2 and Tier 3 providers such that Tier 2 and Tier 3 providers can readily participate in NHFIC lending with the systems and asset backing of the partnering Tier 1 CHPs; and
- ✓ facilitation of equity aggregation arrangements, particularly from the likes of the philanthropic sector, where smaller targeted investments of equity can be aggregated and leveraged with NHFIC lending to expand the capital on which new affordable housing assets can be delivered; and
- ✓ expanding the research activities and coverage of NHFIC to examine and understand impediments, gaps and blockages that perpetuate housing un-affordability so that solutions and cost-effective interventions can be developed and implemented, possibly as demonstration projects in the first instance, then rolled-out more broadly.

Notwithstanding the benefits recognised by the sector from the disciplines of our dealings with NHFIC, it will be important in the longer-term that a balance is maintained between the requirements placed by NHFIC on the sector and the alternative obligations that would apply from the commercial sector, such that dealing with NHFIC does not become more cumbersome than what might be the case with the alternative options.

## **9. And a key success indicator for NHFIC will become evident as roll-overs approach**

A question asked by the Review team targeted the issue of measures of success and a timeframe for such measures.

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<sup>1</sup> On face value it might appear that NHFIC is underwriting loans with a higher risk profile than is the case for conventional market lenders. But this is not the case as NHFIC benefits from a high-level of Commonwealth Government support, the guarantee and a lower cost of capital. Arguably, NHFIC also has a superior knowledge and understanding of the CHP sector than conventional market lenders.



In terms of a key measure of success in the area of increasing supply, it should be noted that thus far we have seen two areas where support for increased supply is evident, namely –

- initial loans from NHFIC focused on re-financing existing debt facilities with conventional lenders, in the process this reduced the cost of borrowing for the participating CHPs and afforded them opportunity to deploy those savings into investigation and stimulation of new affordable housing projects and ventures – thereby commencing the process for additional supply;
- subsequent lending from NHFIC has seen many loans targeting direct support for new construction projects where additional supply of affordable housing will come on-stream as the projects mature.

But by far the most significant measure of success will be roll-over or re-financing of the current tranche of bonds that provide today's loan funds as this will indicate that NHFIC has, and will continue to, help bridge the affordability gap. To this end answers to the following questions will provide indicators of success –

- ✓ will the demand for NHFIC bonds persist?
- ✓ will the guarantee continue to deliver financial benefit in future bond issuances?
- ✓ will the CHP sector be proposing partial debt repayment as a means of extending credit?
- ✓ will we find investment strategies and opportunities to utilise further lending from NHFIC that go beyond just CHP asset and cash flow underwriting?
- ✓ will we see a significant increase in housing supply?

**In conclusion**, there is evidence of an increase in investor appetite for investment solutions such as social bonds to support affordable housing infrastructure. CHPs are committed to the success of NHFIC bonds as an attractive and stable investment class to ensure long term funding of housing projects. CHPs would like to see an increase in housing supply and are firmly convinced that NHFIC has played, and can continue to play, a critical role in the achievement of this objective – and in the process stimulating wider institutional investment into the sector.

We are committed to continue our productive working relationship with NHFIC to better deliver on our mutual aspirations to increase the supply of housing and to encourage investment in the housing sector.

**The Chairs supporting this submission**, this submission is supported by the group of Chairs listed below. The Chairs represent a wide range of CHPs, delivering housing services in most jurisdictions across the country and representing both small and large providers. As evidenced from the statistics from the collective group, not all of the companies of the supporting Chairs have accessed NHFIC funding at this stage, but all are fully supportive of the Commonwealth Government’s leadership in establishing and facilitating the excellent work thus far of NHFIC.

The companies chaired by the supporters of this submission collectively have the following operational statistics from the CHP sector –

- ✓ responsibility for tenancy management of over 80,000 tenants;
- ✓ these tenants are housed in 41,500 properties in the social and affordable sectors;
- ✓ of these properties, over 8,400 are in the affordable housing market;
- ✓ the companies have a combined asset base of around \$4.2 billion, and
- ✓ collectively they have current borrowings from NHFIC amounting to \$825 million.

Paul Howlett	Evolve Housing Limited
Craig Lee	BlueCHP Limited
Kwesi Addo	Compass Housing Services Co Ltd
Judith Woodland	EACH Housing
Leigh Garrett	Unity Housing Company
Mark Turner	Bridge Housing
Ray Brown	CentaCare Evolve Housing
Valery Mosley	Womens Housing Limited
Debra Mika	Women’s Property Initiatives
Nirmal Hansra	Link Housing Limited
Diana D’Ambra	City West Housing
Damien Tangey	Haven; Home, Safe
Heather McCallum	Housing Choices Australia
David Ligovich	Foundation Housing
Robyn Hordern	North Coast Community Housing
Gordon Sutherland	Coast2Bay Housing Group
Robert Vine	Hume Community Housing

### Organisations Represented by the Chairs Supporting this Submission<sup>1</sup>

CHP	Jurisdictional Coverage	Social Properties Managed	Affordable Properties Managed	Total Tennant Base	Turnover \$ mill	Assets Owned \$ mill	NHFIC Borrowing \$ mill
Evolve Housing Limited	NSW, Vic, Tas, WA	2,641	1,413	8,419	\$62.24	\$231.98	\$70.00 <sup>2</sup>
BlueCHP Limited	NSW, Qld	370	385	1,574	\$22.00	\$312.79	\$70.00 <sup>3</sup>
Compass Housing Services Co Ltd	NSW, QLD & NZ <sup>4</sup>	5,188	1,015	16,709	\$80.00	\$384.00	\$184.3
EACH Housing	Vic	70	0	143	\$1.40	\$9.50	\$0
Unity Housing Company	SA	2,930	270	4,700	\$32.00	\$270.00	\$38.00
Women's Property Initiatives	VIC	114	119	450 <sup>5</sup>	\$3.88	\$35.00	\$0
Link Housing Limited	NSW	3,070	847 <sup>6</sup>	6,000	\$52.56	\$143.76	\$0
Bridge Housing	NSW	3,193	370	5,600	\$59.00	\$389.00	\$75.00
Centacare Evolve Housing	Tas	1,539	468	5,017	\$16.4	\$165.26	\$0
City West Housing	NSW	nil	894	1,633	\$40.30	\$664.00	\$0
Haven; Home Safe	Vic	886	1,041	3,572	\$41.34	\$355.00	\$65.00
Foundation Housing	WA	1,723	431	3,200	\$20.51	\$175.61	\$80.00
North Coast Community Housing	NSW	927	45	1,863	\$13.30	\$20.10	\$0
Coast2Bay Housing Group	Qld	466	494	3,266	\$11.48	\$21.79	\$15.00 <sup>7</sup>
Hume Community Housing	NSW	3,637	597	9,000	\$65.00	\$103.00	\$35.00
Housing Choices Australia	NSW, VIC, Tas, SA, WA	6,426 <sup>8</sup>			\$76.21	\$941.30	\$72.00

**Notes:** 1. The above corporate data is as per audited accounts at 30 June 2020.

2. Evolve Housing has further approved (but undrawn) NIFIC loans amounting up to an additional \$75mill as at 30 December 2020.

3. BlueCHP also maintains a \$45.7m Construction Facility limit with NHFIC.

4. Compass operates a wholly owned subsidiary in New Zealand, for which NHFIC funds are not used. It is included here for greater background, but the NZ properties have not been included in the numbers above.

5. The number of tenants housed by WPI varies depending on the number of clients seeking refuge at any time.

6. Link Housing affordable housing includes 291 disability housing.
7. Coast2Bay Housing Group has agreed a \$150m capital pipeline with the Queensland Government and an EOI for lending from NHFIC has been lodged for one in the first tranche of projects – but is yet to be approved or confirmed.
8. Housing Choices manages a combined total of 6,426 social and affordable properties