



# Amendments to the Housing Australia Investment Mandate Direction

Proponent: Acacia Capital Partners (“Acacia”)

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## Introduction

On behalf of Acacia, I am very happy to participate in the consultation process regarding exposure draft amendments to Housing Australia Investment Mandate Direction and accompanying explanatory statement. Whilst it does not have all of the details of the implementation and administration of the funding programmes, it is pleasing to see that the government is proposing that Housing Australia has management autonomy. Efficiency, timeliness and clarity of process are key success factors of the Investment Mandate.

We wholeheartedly support and congratulate the government’s leadership in addressing the market failure and resultant housing crisis through establishing the Housing Australia Future Fund (“HAFF”) and the Housing Accord (the “Accord”) with a combined target of 40,000 Social and Affordable homes being funded within five years. Without Housing Australia’s support and initiatives such as HAFF and the Accord, meaningful private investment into the sector would not be possible.

Acacia is a purpose driven business which is a leading Impact Investment Manager solely dedicated to attracting large scale institutional capital to investments which deliver positive social and environmental outcomes directly addressing the major challenges faced by society. We acknowledge that safe, sustainable and affordable housing forms the foundation for a sustainable economy and a more equitable, vibrant society. Given the current housing crisis and the positive impact that can be achieved by increasing housing supply for those most vulnerable, Acacia’s immediate priority is to invest in large scale Social and Affordable housing projects in partnership with local and offshore institutional investors.

To date very limited private sector capital has come into this sector. Together, with Housing Australia, our CHP partners and various levels of government, we want to be a leader in contributing to the creation of a new asset class driven by sophisticated institutional investors. Therefore, we need to ensure that there is clarity and certainty regarding potential funding partnerships.

Acacia has secured multiple high quality and suitable Social and Affordable Housing projects and it looks forward to presenting these to Housing Australia for it to consider supporting alongside Acacia’s institutional equity investors and major bank debt provider.



## Process & Potential Funding Terms

One of the stated objectives of Housing Australia is to attract private capital to help address the significant shortage of Social and Affordable Housing via schemes such as HAFF and the Accord. This objective acknowledges the fact that solving Australia's crisis is a task which governments and the CHP sector cannot solve alone.

Private sector capital generally flows to sectors and investment opportunities that offer the best risk adjusted returns. In this context, Social and Affordable Housing investment also has the challenge of competing with general residential Build to Sell (BTS) as well as Build to Rent (BTR) investment opportunities. All of this in the context of higher interest rates and higher construction costs. In order to attract private capital, the process associated with funding support needs more certainty regarding the potential terms of loans, grants and availability payments prior to a funding request being made by an applicant in order to address these challenges.

The process of corraling private capital into any real estate development takes time, is iterative, can be expensive and requires multiple layers of commercial negotiations with multiple stakeholders and ultimately approvals. Sourcing appropriate projects, achieving development approvals, structuring the deal and negotiating commercial terms to make the transaction commercially viable can take substantial time, be costly and often has uncertainty of an acceptable outcome for much of the process. Knowing what support is possible from HAFF and the Accord is critical in structuring a deal that is acceptable to equity and debt capital as well as securing these investments and funding commitments prior to making a considered submission to Housing Australia.

Furthermore, it is most likely any submission made to Housing Australia is not going to be perfect and readily acceptable in the first instance. Feedback and engagement between the proponent and Housing Australia will be required in order to better understand and refine the funding proposal. The timeliness and efficiency of this refinement process will be critical to ensure project timelines are met and thus securing the require capital to complete the transaction.

### **In this regard, Acacia suggests that Housing Australia clarifies and communicates information such as the following to proponents seeking HAFF or the Accord funding at the outset:**

- Details of funding submission details, application criteria, engagement processes and Housing Australia response times;
- Indicative pricing and key terms (tenure, LVR, ICR, security, amortisation requirements, debt costs such as interest, margin, fees etc) of construction, short term and long term operational phase loans;
- Indicative terms of Availability Payments (eg maximum term, how amounts are calculated and agreed, how is the rate of annual escalation determined);
- Ability to combine debt funding from Housing Australia and other sources such as commercial banks – how will such inter-creditor issues be dealt with;
- Obligations of the recipient of the funding (eg. how long is the requirement to offer dwellings as Social or Affordable housing, any lease terms required, tenant criteria etc);
- Conditions associated with accessing ABHA funding parallel with HAFF/Accord funding;



- Ability to combine debt funding from Housing Australia and other sources such as commercial banks;
- Clarity on whether potential funding for Affordable housing projects, or projects with a mix of Social and Affordable housing will come from HAFF or the Accord and whether there is any difference in process or how projects will be assessed;
- Guidance on how regional projects will be assessed versus metropolitan city projects given the different feasibility dynamics; and
- Identify priority locations and associated tenant cohorts that proponents can specifically target.

### **HAFF / NHAF Construction Compliant**

The Investment Mandate proposes that in order to be eligible to receive funding from Housing Australia, the project must be HAFF/NHAF construction compliant, which is defined as being: “the standards in the National Construction Code (NCC) in relation to energy efficiency (including that the housing has an energy efficient rating of 7-stars or more as certified under the Nationwide House Energy Rating Scheme); and – the standards in the NCC relating to livable housing design will be met”.

#### **Clarification / suggestions:**

- *Confirmation of the 7 star NatHERS requirement.*

The NCC states a minimum requirement of 7 stars NatHERS across an entire apartment development, subject to a minimum of 6 stars. Confirmation is sought that this is the intent of the wording in the exposure draft amendments rather than it stipulating that each individual unit must achieve a minimum of 7 stars.

- *Housing Australia to consider exceptions to 100% of units complying with the HAFF / NHAF construction requirements that are within existing approved development schemes. In particular, to accept a portion of units within a large scale project that do not quite achieve the livable housing design standard.*

Desirable projects which have been secured with development approval in place, private capital committed and a strategy to deliver social and affordable housing in place may not yet have 100% of units designed to comply with HAFF/NHAF construction requirements. It is potential that the re-designs required to achieve this will take substantial time and could result in a reduction in the total number of units. This could put at risk the investor capital committed to the project.

In a large-scale project of 100s of units there may be some units for which it is difficult to achieve the design standards. Subject to a minimum threshold of units across the project achieving the standard, if a proponent is attempting to make an entire large-scale project of 100s of units available for Social and Affordable Housing, there should be some flexibility in accepting a portion of the units that do not meet the design standards.



## Conclusion

Resolving the housing crisis for those most in need is one of the most pressing social issues currently facing Australia. Acacia strongly believes in the power of leveraging private capital to make the world a better place and that it will play a critical role in addressing the housing crisis. Together, through collaborative partnerships with CHPs, governments and Housing Australia, we can achieve our common objectives. However, it will require all stakeholders to commit to providing certainty, transparency and being efficient.

HAFF and the Accord are transformative initiatives and we look forward to seeing them catalyse a significant response from the sector and help solve the housing crisis.

Yours sincerely,

**Kumar Kalyanakumar**  
**Chief Executive Officer, Co-Founder**  
**Acacia Capital Partners**