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Australia's property industry

## Creating for Generations

Mr Mark Fitt  
Committee Secretary  
PO Box 6100, Parliament House  
Canberra, ACT, 2600

13 April 2018

Dear Mr Fitt

### **Inquiry into the National Housing Finance and Investment Corporation Bill 2018 and; the National Housing Finance and Investment Corporation (Consequential Amendments and Transitional Provisions) Bill 2018**

Thank you for the opportunity to provide comment on National Housing Finance and Investment Corporation Bill 2018 (NHFIC bill) and; the National Housing Finance and Investment Corporation (Consequential Amendments and Transitional Provisions) Bill 2018 (NHFIC consequential amendments bill).

The National Housing Finance and Investment Corporation (NHFIC) has the potential to address one of the key constraints on the supply of new housing: the timely provision of enabling infrastructure.

The concept of an infrastructure fund has been introduced in a number of states, which brings strong learnings when establishing a successful Federal Government equivalent. The Property Council would like to reiterate the following points to the Inquiry:

#### **1. Develop clear and detailed scale eligibility criteria**

Project proponents should have a clear understanding of the eligibility criteria to minimise risk of applications with little prospect of success impeding the efficient functioning of the NHFIC's assessment and approval processes.

Project eligibility should be extended to include a scale threshold for projects.

A matrix of factors and their corresponding weightings in the assessment process should form part of the publicly available tools available to project proponents. This could include tying project funding to minimum scale housing supply outcomes. For example, funding a new road project where the local government SPV partner has rezoned adjacent lots to allow development to commence in a timely way.

The recently released Infrastructure Australia Assessment Framework, with its associated templates and checklists, could provide a useful model to develop a similar tool for the NHIF and bond aggregator.

#### **2. Broaden the opportunity to partner**

The expanded list of Eligible Project Proponents to include special purpose vehicles to allow the underlying members to partner private sector is much welcomed. However, the direction of the

Investment Mandate unnecessarily limits these opportunities to partner, which may dampen the interest in leveraging NHFIC to unlock infrastructure bottle necks.

Notably:

- The restrictive definition of the purpose of special purpose vehicles to undertaking housing infrastructure enabling projects would limit land and housing developers from partnering with underlying eligible members.
- The consideration that the underlying eligible should have financial and/or management control of the Special Purpose Vehicles (SPVs).
- Limiting Eligible Project Proponents to SPVs at the exclusion of joint ventures (JVs)- currently one of the most common approaches adopted by the private sector when partnering with community housing providers and others to develop land and/ or housing.

Addressing these concerns to allow NHIF funding to flow on the basis of a partnership or consortium approach would magnify the impact and scale of the investments substantially and increase potential efficiencies and returns to the NHFIC more broadly.

### **3. Mandate ongoing reporting**

Ongoing reporting will be key to maintaining community support of the NHFIC. The NHFIC must be required to communicate its reasons for making a particular decision to provided finance, or not, to the entity making the financial proposal.

The Property Council would strongly urge the NHFIC be required to publish the details of each decision to make a grant, loan or investment under the NHIF within a set timeframe of the decision – for example three months.

Please find enclosed the Property Council's previous submissions to the draft Legislation to give effect to the National Housing Finance and Investment Corporation (NHFIC) and the draft National Housing and Investment Corporation Investment Mandate (the Investment Mandate).

The enclosed submissions were prepared with the support of the Property Council's Residential Development Council; residential developers committed to meeting Australia's housing needs and actively support policy choices that will improve housing outcomes.

If you would like any additional information, please contact Rebecca Douthwaite, Policy Manager, Housing & Planning on [REDACTED]

Sincerely

[REDACTED]  
Ken Morrison  
Chief Executive



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Via email: [REDACTED]

20 October 2017

To Whom It May Concern

## National Housing and Investment Corporation

The Property Council of Australia is pleased to provide a submission to the consultation on the establishment of the National Housing Finance and Investment Corporation as part of the Government's 2017-2018 Housing Affordability Budget measures.

The Property Council is the leading advocate for Australia's biggest industry - property. Our members are the largest residential developers that are committed to meeting Australia's housing needs and actively support policy choices that will improve housing outcomes by boosting supply, encouraging a more responsive housing market and establishing the right financial incentives.

We strongly support the Government's commitment to increase and accelerate the supply of housing where it is needed most. We support the new fund as a vehicle for seeding catalytic infrastructure needed to unlock development sites.

Strategic planning and timely provision of infrastructure is fundamental to supporting the supply of new dwellings – whether it be in greenfield or infill developments. Our members have a number of examples where significant developments that would deliver new housing have been held up due to inefficient infrastructure provision.

The concept of an infrastructure fund has been introduced in a number of states, which provides strong learnings when establishing a Federal Government equivalent:

- **a transparent application process** - which allows project proponents or consent authorities to seek additional funding towards critical infrastructure.
- **clear eligibility criteria** - which defines the scope of infrastructure to be provided, the scale of projects that can access the scheme, and outcomes to be achieved.
- **co-sponsorship** – which allows project proponents and consent authorities to partner on applications to ensure there is consistency with strategic plans.
- **independent assessment** – whereby the agency assessing applications publishes its reasons for project prioritisation to keep the market informed.
- **ongoing reporting** – to benchmark progress on the schemes success.

Please find attached detailed comments on the establishment of the National Housing Finance and Investment Corporation developed in consultation with the Property Council's Residential Development Council.

If you would any additional information on this submission, please contact Rebecca Douthwaite on [REDACTED] or [REDACTED] or myself on [REDACTED] or [REDACTED]

Regards,



Glenn Byres

Chief of Policy



# National Housing and Investment Corporation

## Consultation Paper

October 2017



## The National Housing and Investment Corporation

The Property Council strongly supports the Government's commitment to increase and accelerate the supply of housing through a new fund to seed catalytic infrastructure needed to unlock development sites.

The Property Council also supports the establishment of an affordable housing bond aggregator to drive efficiencies and cost savings in community housing providers (CHPs) provision of affordable housing.

The establishment of the single entity, of the National Housing Investment Corporation (NHFIC), to manage and deliver these measures must recognise these commitments in the objectives.

As such, it is recommended that the objective for the NHFIC is refined to better reflect the Government's commitment to improve housing affordability for all Australians – not just affordable housing. Clearly stating an objective of improved housing affordability outcomes is necessary to underpin the investment mandate and inform the selection of infrastructure to unlock development.

### Structure & Governance

The Property Council supports the establishment of the National Housing Investment Corporation (NHFIC) as a corporate Commonwealth entity subject to an investment mandate.

The Clean Energy Investment Corporation (CEFC) can be considered as a corporate Commonwealth entity that is supported by industry and can provide a model for the establishment of the NHFIC to ensure that the objectives are delivered effectively:

- **Adequate funding to make an impact** - the five-year funding commitment of \$2 billion per year to enable investment in the clean energy sector.
- **Independent decision making** - empowering the Board with statutory responsibility for decision-making independent from government, based on commercial assessment.
- **Skilled Board** - a Board consisting of private sector professionals with experience in making significant investments to deliver to an investment mandate.

The Property Council recommends that these features be considered when establishing the NHFIC. The proposed 'one entity, two functions' structure for the NHFIC can effectively deliver to functions if:

- The separate business lines within the corporate entity are appropriately resourced to meet the investment mandate with respect to skills, operating costs and investment pools.
- The Board consists of experience investment professionals with expertise in residential property development and investment, as well as infrastructure funding and financing.
- The Board is independent from Government where there is no potential role for Government in decision making other than the provision of an Investment Mandate.

The Property Council assumes that the Minister responsible for selecting the Board and set out the investment mandate will be the Treasurer. Given that the National Housing Infrastructure Facility (NHIF) and the bond aggregator are designed for specific purposes, the investment mandate must appropriately specify the differing investment objectives and desired outcomes to be delivered by each business line.



The Property Council recommends that the structure is reviewed one-year post implementation to ensure it is functioning as intended.

### Resourcing

For both the NHIF and the bond aggregator business lines to deliver to their investment mandates, specific staffing expertise will be required.

The NHIF will require experienced professionals that understand housing markets and infrastructure funding and financing mechanisms. This expertise differs to that required by that of the Bond aggregator will assist in addressing the financing challenges of CHPs.

The Property Council would also question the self-funding objective of the NHFIC given the proposed type of infrastructure is required to unlock new housing supply does not necessarily lend itself to equity investment opportunities and any debt provided would have to be provided at a cost lower than what can be accessed by local governments from the private sector.

The Property Council recommends that the NHIF is resourced through a Federal government program of land and asset recycling. This approach to resourcing the NHIF is consistent with the 2017-2018 Federal Budget announcement as the package of measures to reduce the pressure on housing affordability through its commitment to:

- *establish an online Commonwealth land registry that will provide more detailed information about Commonwealth land to external parties in a mapped format, allowing and encouraging proposals for higher value land use, including housing development proposals.*
- *release suitable surplus Commonwealth land starting with 127 hectares of Defence land in Maribyrnong, which is less than 10 kilometres from the Melbourne CBD and could support up to 6,000 new homes.*

The concept of recycling capital across the balance sheet through land and asset disposal has been successfully deployed by the NSW Government to replenish a similar program – the Housing Acceleration Fund (HAF).

From an initial allocation of \$481 million, NSW has since rolled over \$950 million into the HAF – with a forecast future spend of an extra \$500 million – to progressively unlock more than 55,000 new homes through investment in infrastructure.

### Engagement

Given the diverse stakeholders that will actively involved in the work of the both the NHIF and the bond aggregator business lines, effectively engaging with stakeholder will be a paramount to the NHFIC's ability to deliver its objectives. It is also important to recognise that the stakeholders involved will have different areas of interest and expertise.

The Property Council recommends that separate industry advisory groups are set up to support the NHFIC Board and the two business lines on matters specific to these two distinct functions:

- **Housing-related Infrastructure Stakeholder Group** – an advisory group consisting of residential developers that can identify geographic areas experiencing particular supply



and affordability pressures. This group could also include representatives from respective state-based financing facilities and officials from local governments experiencing strong population growth.

- **Bond Aggregator Stakeholder Group**- an advisory group consisting of CHPs.

## The National Housing Infrastructure Facility

The Property Council strongly supports the NHIF and its potential to boost and unlock new housing supply through investment in housing-related infrastructure.

Residential developers contribute significantly to the funding and delivery of infrastructure necessary to unlock new housing development – whether it be in greenfield or infill locations. Soon-to-be released research commissioned by the Residential Development Council has found that on average government infrastructure charges and levies across the four fastest growing capital cities – Sydney, Melbourne, Brisbane and Perth – account for approximately 20% of the cost of a new home.

Even so, the Property Council is aware of a number of projects in geographic areas experiencing particular supply and affordability pressures that cannot proceed or face significant delay due to the lack of commitment to provide necessary infrastructure.

### Micro- City Deals

The Property Council supports good strategic planning and robust infrastructure investment to underpin the growth, productivity and liveability of our cities. We have also promoted the City Deal model utilised in the UK to bring a laser-like focus to the challenge of delivering economic growth in our cities and regions.

There is an urgent need to replace the current ad hoc and inequitable infrastructure charges levied by state and local governments with a more sustainable model for infrastructure funding that does not add to the cost of housing.

The Property Council recommends that the Government incentivise jurisdictions to review the processes underpinning the provision and charging of infrastructure for new housing – particularly in those jurisdictions that are experiencing significant rates of population growth.

Micro-city deals leveraging the NHIF could potentially incentivise this review and potentially could make way for a more sustainable model of infrastructure funding that does not add to the cost of housing.

To leverage the NHIF through a micro- city deal, the partner jurisdiction should be required to:

- Develop clear and transparent strategic plans for cities that commit to housing targets in line with population growth forecasts.
- Underpin them with a rolling pipeline of infrastructure projects essential to unlocking housing development.
- Commit to regular updates on infrastructure performance and delivery outcomes.





- Develop a transition path for a more sustainable model for infrastructure funding that does not add to the cost of housing.

### Key Design Features

Proposed Features	Commentary
<p><b>Total financing available</b></p> <p>The \$1 billion NHIF will provide up to:</p> <ul style="list-style-type: none"> <li>• \$600 million in lending;</li> <li>• \$225 million in equity investments;</li> <li>• \$175 million in grants.</li> </ul>	<p>Subject to comments below on project eligibility, \$1 billion through lending, equity and grants would not necessarily address the infrastructure impediments constraining housing supply to scale that would improve housing affordability outcomes.</p> <p>It is recommended that funding for the NHIF is tied to the Federal Government's announced program to dispose of surplus property for housing development and deploy funds raised through the NHIF. This will increase the total amount of financing available to fund the infrastructure constraints at scale necessary to improve housing outcomes.</p> <p>The NSW Government's Housing Acceleration Fund (HAF) provides strong learnings for a Federal Government equivalent:</p> <ul style="list-style-type: none"> <li>• Originally received \$481 million in 2012/13 – partly through the sale of government property assets and land to fund infrastructure needed to support housing.</li> <li>• The HAF has since received continuous funding to maintain support for a rolling series of investments in infrastructure – totally \$ 966 billion to date, with a forecast future spend of an extra \$500 million.</li> </ul> <p>The Property Council questions the role that equity investment will play given the potential infrastructure identified as eligible for funding and the limited scale of investment.</p>
<p><b>Eligible applicants</b></p> <p>Applications for financing under the NHIF will be accepted from a local governing body as defined by the Local Government (Financial Assistance) Act 1995 (subject to further consideration as outlined in Section 3.3). Applications from multiple LGs may also be accepted.</p>	<p>The Property Council recommends that the eligibility of applicants that can apply for financing should be expanded given the resourcing constraints faced by a number of local governments to prepare applications.</p> <p>Co-sponsorship would allow project proponents and consent authorities to partner on applications to ensure that these are consistent with strategic plans.</p> <p>Co-sponsorship would allow the applications to be prepared by the private sector to (i) demonstrate what infrastructure is committed to be funded by the developer through contributions (ii) identify where additional infrastructure constraints remain (iii) the additionality impacts of the NHIF financing.</p> <p>Co-sponsorship could require a 'demonstrated commitment to supply new housing' to make them eligible to apply such as a rezoning or an approval subject to infrastructure delivery.</p> <p>The NHIF must have a highly transparent application process and clear eligibility criteria that defines that scope of infrastructure</p>



	<p>provided, the scale of projects that can access the scheme, and the outcomes to be achieved.</p> <p>This includes an independent assessment process where the reasons for selecting or rejecting projects is published to keep the market informed.</p>
<p><b>Eligible projects</b></p> <p>The NHIF would give preference to 'greenfield' and 'urban infill' infrastructure projects that can demonstrate 'additionality' and which target those geographic areas experiencing particular supply and affordability pressures. Additionality in this context refers to projects that otherwise would not proceed or would face undue delay without NHIF assistance, and the extent to which NHIF assistance would accelerate or increase housing supply.</p> <p>Examples of housing-related infrastructure include:</p> <ul style="list-style-type: none"> <li>• new or upgraded infrastructure for services such as water, sewerage, electricity or transportation; and/or</li> <li>• site remediation works including the removal of hazardous waste or contamination.</li> </ul> <p>It is proposed that the NHIF will examine infrastructure proposals on a case by-case basis, using cost-benefit analysis. The NHIF is not intended to be used to refinance existing projects.</p>	<p>Firstly, the Property Council recommends that eligibility for projects should be based on a minimum number of new dwellings that potentially would be supplied to the market if infrastructure constraints were addressed.</p> <p>Basing eligibility on a set minimum number of new dwellings will ensure that the NHIF is not overwhelmed with applications that will not make a significant addition to the supply of new dwellings or improve housing affordability outcomes on scale:</p> <ul style="list-style-type: none"> <li>• The administrative and transactional cost to the number of dwellings delivered is reduced on a per dwelling basis.</li> <li>• Processing fewer, more scaled financing applications will ensure that the NHIF application and approvals process is timely and does not stall the advancement of projects.</li> </ul> <p>Clear and detailed criteria for projects will be essential to filter the number of projects submitted and set clear objectives so that stakeholders can largely self-assess their projects to determine if they are likely to be approved for financing, before committing resources.</p> <p>A matrix of factors and their corresponding weightings in the assessment process should form part of the publicly available tools available to project proponents.</p> <p>Otherwise, there is a risk that applications with little prospect of success could impede the efficient functioning of the NHIF's assessment and approval processes. The recently released Infrastructure Australia Assessment Framework, with its associated templates and checklists, could provide a useful model to develop a similar tool for the NHIF and bond aggregator.</p> <p>This should also include a definition and method of assessing 'additionality'. For example, any project that accelerates housing supply as a result of NHIF would be considered to have met the 'additionality requirement.</p> <p>Secondly, the desire to target geographic areas experiencing particular supply and affordability pressures must be identified to inform the market. This information is not currently available.</p> <p>The Property Council recommends that the National Housing Supply Council is reinstated and data produced (for example: supply projections and demand/ supply gap analysis) be used to determine which geographic areas should be prioritised for NHIF funding.</p>
<p><b>Quantum of funding for projects</b></p> <p>It is not anticipated that there would be an explicit minimum or maximum</p>	<p>The Property Council agrees that there should be no explicit minimum for the funding criteria.</p>



<p>funding criteria but the scale of the project should justify the NHIF's costs.</p>	<p>Rather the scale of the projects should be based on a minimum number of dwellings that potentially would be unlocked.</p>
<p><b>Financing terms</b></p> <p>The NHIF is expected to provide finance from January 2019 (allowing time for the NHFIC to be established) and will be open to applications from 1 July 2018 until 30 June 2023.</p> <p>Applications for financing will be accepted at any time and will be considered on a merit basis.</p> <p>Repayment timeframes for NHIF finance are to be finalised following the consultation period.</p>	<p>Financing terms should be based on the type of infrastructure provided and be subject to how cashflow would be generated.</p> <p>This will also depend on whether the definition of 'eligible applicants' is expanded to include a consortium of investors and developers.</p>
<p><b>Tailored finance</b></p> <p>Finance would be tailored to assist in making projects viable. Tailoring may be available in a range of forms including loan tenor, repayment holidays, subordination in debt structures and interest rate margins.</p> <p>Applications seeking a blend of financing options will also be possible.</p> <p>It is proposed that NHIF payments to LGs be made through state and territory governments (subject to further consideration as outlined in Section 3.3).</p>	<p>The Property Council supports tailored finance options noting that any financing arrangement should prioritise the desired outcome of financing arrangement: to accelerate the supply of new dwellings to improve affordability.</p> <p>As such, the range of financing options include more attractive terms than those options already available to local governments. This would indicate that loan terms must be flexible and long term.</p>

### Early Feedback

*Fund infrastructure for new housing developments conditional on a certain proportion of the new housing being set aside for affordable and/or key worker housing.*

The Property Council does not support funding for infrastructure being wholly conditional on the inclusion of housing being set aside for affordable and/ or key worker housing as the objective of the NHFIC to "accelerate the supply of housing where it is needed most".

The supply of new homes is the critical factor in influencing prices and therefore improving housing affordability outcomes for Australians must focus on accelerating this supply across the board.

The NHIF could consider more providing more favorable financing terms, or prioritise the allocation of the grants available, for developments that include affordable and/ or keyworker housing.



This would require a concise definition of 'affordable housing' that recognises private-sector led initiatives to improve the accessibility of housing and provides a clear guide as what would be considered 'affordable' or 'keyworker' housing for financing eligibility.

*Case study: Developer led housing affordability initiatives*

- *'100 homes for first home buyers in 100 days' initiative in NSW - affordable house and land packages around \$650k in three major residential developments in Sydney, 50 per cent prioritised for first home buyers – this offer was oversubscribed with over 120 lots sold to first home buyers.*
- *'50 in 50 days' in Queensland, with a strong focus on house and land packages under \$450k.*
- *'200 Homes in 100 days under \$500k' in Victoria across four communities.*
- *Pipeline of more than 2,500 townhouses in the key growth corridors of Australia's major capital cities. This style of housing addresses the 'missing middle', playing an important role in improving affordability through well designed, smaller homes in close proximity to parks and open space.*

The support of the Build-to-Rent sector through the NHIF is strongly supported. Please review the Property Council's submission to the *Draft Legislation on the Affordable Housing Managed Investment Trusts* for further comments on the role of Government to assist this sector.

*Explore other potential innovative financing and partnership arrangements.*

The Property Council strongly supports the need to allow co-sponsorship arrangements to partner on applications to ensure that there is satisfaction that it is consistent with strategic plans.

As recognised in the Consultation paper, "in some jurisdictions local governments can be responsible for very little of the direct provision of housing infrastructure, while private developers and state and territory governments (or their corporations) may be largely responsible." In most jurisdictions local governments are not the primary funders of developers of residential infrastructure, however they do set requirements and quality objectives for projects.

In those jurisdictions where local governments do not have primary responsibility, a better model would be to allow co-sponsorship with developers. The risk otherwise is that key target local government areas miss out on eligibility for NHIF funding entirely.

In setting the criteria for funding, consideration must also be given to the specific barriers to the delivery of new housing. It is not only physical barriers that cause infrastructure bottlenecks but often local governments' resourcing to process infrastructure projects and the efficient co-ordination between local governments, developers, authorities and state governments that can all be involved in significant infrastructure projects.

Co-sponsorship could also be extended to partnerships between developers and CHPs for certain projects.



#### *Case Study: Infrastructure Agreement*

*At our major masterplanned community, Elara, at Marsden Park, Stockland is creating more than 4,000 homes, in close proximity to major employment centres, schools and community facilities.*

*To fast track the supply of 4,000 new homes, a developer is completing works on behalf of the Council to bring forward key infrastructure. A Precinct Acceleration Protocol (PAP) is in place governing the delivery of sewer and water infrastructure, reflecting the fast pace of growth in this key centre of Sydney.*

*The PAP is a commercial agreement between developer and Sydney Water, where the developer delivers sewer and water infrastructure on behalf of the government. The agreement includes a mechanism for the developer to be reimbursed as lots are connected. This arrangement has the following benefits:*

- Communities can be connected to key infrastructure at locations where housing is being developed faster than anticipated;*
- Aids government's cashflow, as where funding is not yet allocated to an area, as developers forward-fund the works and are reimbursed in instalments;*
- Payments are linked to clear delivery KPIs, providing government with quality control;*
- Creates efficiencies, as developers are already actively building and can take on the role of project managing infrastructure design and delivery, with consultant secondments into government agencies as appropriate.*

Allowing NHIF funding to flow on the basis of a partnership and consortium approach would magnify the impact and scale of these investments substantially and increase potential efficiencies and returns to the NHFIC more broadly.

#### *Potential Implications for Value Uplift*

Any value uplift as a result of new housing development, including the necessary infrastructure provision to unlock this development, is already captured by through existing land valuation based taxes – including council rates, land tax, stamp duty, property and car parking levies.

Any uplift from housing development will be captured directly by the local government through council rates. It is assumed that this uplift in rates will be used to repay the financial obligations under the NHIF financing mechanism.

Infrastructure Australia clearly notes that there are 'good' and 'bad' value capture mechanisms. Any well-designed value capture model would resolve the burdensome regime of infrastructure charges and taxes levied by local and state governments and be coupled with significant rezoning and coordinated land use planning to intensify development.

NHIF does not have the remit or authority to resolve current infrastructure charging regime or command coordinated land use planning. As such, any attempt to include a value capture mechanism while providing to debt or equity financing will be counterproductive to the objective of improving housing affordability outcomes as it is an additional tax on new housing.



### Types of Infrastructure

The Property Council agrees that the types of infrastructure eligible for funding should be broad to reflect the different infrastructure challenges experienced across the country.

The scope of infrastructure potential could exclude soft infrastructure that doesn't necessarily impede on the supply of new dwellings.

Rather, the focus of the NHIF should be on the minimum number of dwellings to make projects eligible to apply for NHIF. This criterion should be clearly noted in the design of the NHIF.

### Design Features

For the NHIF to be successful, the following design features should be incorporated:

- **a transparent application process** - which allows project proponents or consent authorities to seek additional funding towards critical infrastructure.
- **clear eligibility criteria** - which defines the scope of infrastructure to be provided, the minimum scale of projects that can access the scheme, and outcomes to be achieved. This should include the defined geographic areas (identified by the reinstated National Housing Supply Council) that are experiencing particular supply and affordability pressures.
- **co-sponsorship** – which allows project proponents and consent authorities to partner on applications to ensure there is satisfaction it is consistent with strategic plans.
- **independent assessment** – whereby the Board assessing applications publishes its reasons for project prioritisation to keep the market informed. Clarity on to how the cost-benefit analysis will be performed is required as to whether the proposed assessment is based solely on the number of marginal dwelling sites released, divided by the capital requested, subject to the timeframe (payback period) and meeting a minimum scale test.
- **ongoing reporting** – to benchmark progress on the schemes success.

### Financing Options/ Financing Arrangements/ Complementarity

Any financing options made available under the NHIF must heed to the objective of the fund: to accelerate the supply of housing. Any option provided must be sufficiently flexible and more attractive terms than those options already available to local governments.

The NHIF is more likely to be successful if 'eligible applicants' are expanded to include developers that are able to co-sponsor applications with consent authorities. Co-sponsorship could also be extended to partnerships between developers and CHPs for certain projects.

If the NHIF is extends to the eligibility of applicants to include co-sponsored applications with developers or a consortium approach, then financing options must be linked to the ability of the overall project to repay the loan when the project is cashflow positive.

Co-sponsorship between the developer and the consent authority would allow the NHIF to position itself in a way that compliments existing the state/ territory financing schemes (and other infrastructure taxes and charges that have been levied on the developer).



### Metrics

The reinstatement of the National Housing Supply Council will assist in assessing housing supply and affordability pressures for example: supply projections and demand/ supply gap analysis. Other metrics could include:

- The number of potential new dwellings to be unlocked.
- Development approval times.
- The gap between the number of dwellings approved and housing targets identified in state/ territory strategic plans.
- The value of infrastructure already funded by the developer through the myriad of infrastructure taxes and charges.
- The proximity of proposed new developments to existing transportation, employment hubs and amenity (to address the missing middle).

### Affordable Housing

The NHIF should focus on accelerating the supply of housing based on a minimum number of dwellings to improve housing outcomes. The inclusion of affordable housing or Key worker housing should not be a criteria for funding under the NHIF.

Facilitating the supply of affordable housing, including for key workers could be achieved by providing more favorable financing terms, or prioritise the allocation of the grants available, for developments that include affordable and/ or keyworker housing.

### Value Uplift

The NHIF should not factor uplift and associated value capture schemes into its investment schemes as any uplift is already captured by land valuation based taxes levied by state and local governments.

The use of value capture mechanisms can only be considered when there is coordinated land use planning to intensify development and the burden of the myriad of infrastructure taxes and charges is resolved. As this beyond the remit of the NHIF, any consideration of value capture mechanisms is strongly rejected.

### Conclusion

We strongly support the Government's commitment to increase and accelerate the supply of housing where its needed most. We support the new fund as a vehicle for seeding catalytic infrastructure needed to unlock development sites.

Strategic planning and timely provision of infrastructure is fundamental to supporting the supply of new dwellings – whether it be in greenfield or infill developments. Our members have a number of examples where significant developments, delivering new housing have been held up due to inefficient infrastructure provision.

For the NHIF to be successful there must be clarity and transparency regarding project eligibility and selection criteria:

- **a transparent application process**- which allows project proponents or consent authorities to seek additional funding towards critical infrastructure.



- **clear eligibility criteria** - which defines the scope of infrastructure to be provided, the scale of projects that can access the scheme, and outcomes to be achieved.
- **co-sponsorship** – which allows project proponents and consent authorities to partner on applications to ensure there is satisfaction it is consistent with strategic plans.
- **independent assessment** – whereby the agency assessing applications publishes its reasons for project prioritisation to keep the market informed.
- **ongoing reporting** – to benchmark progress on the schemes success.

## The Affordable Housing Bond Aggregator

The Property Council supports the Affordable Housing Bond Aggregator to provide a new source of low-cost, reliable financing for community housing organisations.

Given that the objective of the NHFIC is to “increase and accelerate the supply of housing where it is needed most” then consideration needs to be given to who is best-placed to provide this at scale. Funding needs to be provided to those who own the affordable housing assets, that is mortgage finance at wholesale rates. Partnerships or consortia between CHPs and the private sector would provide an opportunity to build the financial capability of CHPs – a need identified in the discussion paper and a means of offsetting some potential risk to government.

CHP-private sector partnerships have the potential to leverage finance and increase supply at a much greater scale than CHPs alone. Each party could then apply their expertise in the construction, funding and subsequent management phases to help ensure the NHFIC is self-sustaining in its funding over the long term.





## ABOUT THE PROPERTY COUNCIL

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Property is the nation's biggest industry – representing one-ninth of Australia's GDP and employing more than 1.1 million Australians.

Our members are the nation's major investors, owners, managers and developers of properties of all asset classes. They create landmark projects, environments and communities where people can live, work, shop and play.

The property industry shapes the future of our cities and has a deep long-term interest in seeing them prosper as productive and sustainable places.

That is why the Property Council has commissioned research and championed ideas to improve the performance of cities including:

- producing regular scorecards and recommendations on the best ways to improve the performance of planning systems in the states and territories
- quantifying the rising burden from stamp duty, and recommending reforms to the tax system that would eliminate a high hurdle to home ownership, as well as drag on the economy
- crafting a framework for the application of national competition policy style principles to fix housing markets and planning systems
- studying the fees, charges and infrastructure taxes that progressively add to the cost of new housing in Australia
- exploring new models to bring institutional scale capital into the affordable rental market
- using City Deals as a vehicle to engender economic growth, improve strategic planning and infrastructure choices, and boost housing supply.

All these reports and more can be obtained via [www.propertycouncil.com.au](http://www.propertycouncil.com.au) or contacting:

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Australia's property industry  
**Creating for Generations**

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Mr David Crawford  
Manager, Housing Unit,  
Social Policy Division,  
The Treasury,  
Langton Cres Parkes  
ACT 2600

Via email: [REDACTED]

12 March 2018

Dear Mr Crawford

## **National Housing Finance and Investment Corporation Investment Mandate Direction 2018**

Thank you for the opportunity to provide comment on the direction of the Investment Mandate to guide the National Housing and Investment Corporation (the Investment Mandate). The direction of the Investment Mandate will be vital to ensuring the success of the National Housing Finance and Investment Corporation (NHIFC) to improve housing outcomes for Australians.

The Property Council welcomed the expanded list of Eligible Project Proponents to include special purpose vehicles to allow the private sector to partner with underlying members to increase the supply of new dwellings.

The direction of the Investment Mandate, however, unnecessarily limits these opportunities to partner, which may dampen the interest in leveraging NHIFC to unlock infrastructure bottle necks.

Notably:

- The restrictive definition of the purpose of special purpose vehicles to *undertaking housing infrastructure enabling projects* would limit land and housing developers from partnering with underlying eligible members.
- The consideration that the underlying eligible should have financial and/or management control of the Special Purpose Vehicles (SPVs).
- Limiting Eligible Project Proponents to SPVs at the exclusion of joint ventures (JVs)- currently one of the most common approaches adopted by the private sector when partnering with community housing providers and others to develop land and/ or housing.

Addressing these concerns to allow NHIF funding to flow on the basis of a partnership and consortium approach would magnify the impact and scale of the investments substantially and increase potential efficiencies and returns to the NHIFC more broadly.

Please find attached detailed comments on the direction of the Investment Mandate developed in consultation with the Property Council's Residential Development Council. The main recommendations are as follows over page.

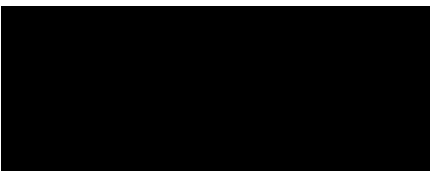


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1. The Investment Mandate is reviewed one-year post-implementation to ensure that it has delivering the differing investment objectives.
2. Remove reference to a commercial approach when making financing decisions from the Investment Mandate.
3. Remove the cap on grant funding until there is a better understanding how grant funding, debt and equity financed infrastructure proposals overlap and/ interact.
4. Limit the eligibility for Affordable Housing Bond Aggregator loans to Tier 1 and 2 Community Housing Providers.
5. Expand the list of Eligible Project Proponents to include joint ventures (JVs) to reflect the current approach taken by the private sector when partnering to develop land and/ or housing.
6. Amend the definition of special purpose vehicle (SPV) to read as *an entity is a special purpose vehicle if it has the purpose of undertaking land and/or housing development projects.*
7. Broaden the evaluation criteria for special purpose vehicle (SPV) proposals to consider co-sponsorship by underlying eligible members that do not have financial or management control of the SPV.
8. Introduce a scale threshold to the eligibility criteria for projects to minimise administrative and evaluation delays.
9. Remove the provision of capacity building services from the Investment Mandate.
10. Reduce the reporting timeframe to 3 months from 6 months for each decision to make a grant, loan or investment under the NHIF.
11. Introduce maximum timeframes for the processing of applications to give certainty to proponents.

If you would like any additional information, please contact Rebecca Douthwaite on [REDACTED]

Yours sincerely



Ken Morrison  
**Chief Executive**



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# **National Housing Finance and Investment Corporation**

## **Investment Mandate Direction 2018**

March 2018



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## Part 2 – Activities and allocation of funds

### Division 1 – The Corporation's activities

The Property Council supports the engagement of the NHFIC in two activities to support investment in Australian housing:

- the establishment and operation of an Affordable Housing Bond Aggregator (AHBA) to provide finance to registered community housing providers; and
- the establishment and operation of the National Housing Infrastructure Facility (NHIF) to provide grants and finance to support the creation of housing-related infrastructure.

The Investment Mandate must reflect the proposed 'one entity, two functions' structure of the NHFIC by appropriately specifying the differing investment objectives and desired outcomes to be delivered by each of the above activities.

The Property Council recommends that the Investment Mandate is reviewed one-year post-implementation to ensure that it is delivering the differing investment objectives.

#### **Recommendation:**

**The Investment Mandate is reviewed one-year post-implementation to ensure that it has delivering the differing investment objectives.**

The Property Council notes that the Investment Mandate requires NHFIC undertake a commercial approach when making financing decisions.

The Property Council is concerned that the 'commercial approach' will be understood as achieving commercial returns at the expense of accelerating new housing supply. A focus on commercial returns will not incentivise eligible proponents to bring forward projects sooner than otherwise planned.

The NHFIC, particularly as it relates to the NHIF, instead should be seeking to provide financing on more attractive terms that encourages eligible proponents to bring forward the development of new dwellings sooner than they otherwise would have done.

In recognition that more attractive financing terms will be needed to incentivise proponents, reference to a 'commercial approach' should be removed from the Investment mandate.

#### **Recommendation:**

**The Investment Mandate removes reference to a 'commercial approach' when making financing decisions.**

The Property Council does not support the proposal for the NHFIC to enter into contracts for capacity building services to be included in the Investment Mandate. Capacity building services extend beyond the above defined two activities of the NHFIC.

Capacity building services should be provided through AusIndustry as this is part of their core business deliverables (and budget) using existing infrastructure and networks to provide registered community housing providers with access to experienced business advisors.



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## Division 2 – Allocation and repayment of Funds - AHBA

The Property Council supports the initial allocation of \$150 million to a reserve until a bond issuance (wholesale) can be made.

The Property Council would also seek to clarify the total allocation of money appropriated for the AHBA by Parliament prior to the first loan repayment by the NHFIC on 30 June 2023.

## Division 3 – Allocation and maintenance of funds – NHIF and capacity building

The Property Council strongly supports the committed \$1 billion over five years to the NHIF for the NHFIC to make loans, investments and grants to housing-related infrastructure projects.

The Property Council supports the requirement to maintain the value of the funds it has used to provide infrastructure loans and to make investments.

The Property Council supports the minimum target value of the permanent fund understanding that the Permanent Fund consists of current infrastructure investments and loans under the NHIF, plus the total sum of funds appropriated for the NHFIC, less the funds in the AHBA initial reserve, infrastructure grants and capacity building grants made up to that time.

The Property Council does not support the \$173.5 million cap on grants available for infrastructure funding given that 'unlocking' infrastructure is unlikely to lend itself to pure equity or debt or arrangements directly.

It has been suggested that a blend of financing and funding may be required – which would increase demand for grant funding from the NHIF.

The Property Council recommends that the cap is removed until there is a better understanding of how grant funded infrastructure and debt and equity financed infrastructure proposals overlap and/or interact.

### **Recommendation:**

**Remove the cap on grant funding until there is a better understanding how grant funding, debt and equity financed infrastructure proposals overlap and/ interact.**

## Part 3 – The Affordable Housing Bond Aggregator

The Property Council supports the Investment mandate explicitly providing a government guarantee for issued bonds as this will provide investor confidence and deliver enhanced pricing advantages for CHPs.

Given this guarantee, the Property Council suggests limiting the eligibility for loans to Tier 1 and 2 CHPs. These CHPs are more likely to have ongoing development at a certain scale as well as organisational capacity to apply for loans.

The Property Council also supports the implementation of an investment risk evaluation process to assess the risks associated with AHBA.



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**Recommendation:**

**Limit the eligibility for Affordable Housing Bond Aggregator loans to Tier 1 and 2 Community Housing Providers.**

## Part 4 – The National Housing Infrastructure Facility

### Eligible Project Proponents

The Property Council welcomes and strongly supports the expanded list of eligible project proponents to include special purpose vehicles, local government investment corporations and utility providers.

The Property Council has clarified that the objective of this expanded list is to allow the private sector to partner with underlying eligible members to apply for funding and/or financing.

This not clear in the current drafting of the Investment Mandate.

The current drafting of the Investment Mandate unnecessarily limits the opportunities for the private sector to partner with the underlying eligible members.

Notably:

**Limiting Eligible Project Proponents to special purpose vehicles (SPVs) at the exclusion of joint ventures (JVs)- currently one of the most common approaches adopted by the private sector when partnering with community housing providers and others to develop land and/ or housing.**

The Property Council recommends that Eligible Project Proponents is expanded to include JVs to minimise administrative costs on the eligible members. Including JVs would better reflect the current approach undertaken by the private sector and underlying members to partner for the development land and/ or housing.

**Recommendation:**

**Expand the list of Eligible Project Proponents to include joint ventures to reflect the current approach taken by the private sector when partnering to develop land and/ or housing.**

**The restrictive definition of the purpose of SPVs to undertaking housing infrastructure enabling projects would limit land and housing developers from partnering with underling eligible members.**

The Property Council recommends that the definition of special purpose vehicle is amended to better reflect that the objective: allowing property developers to partner with underlying eligible members to apply for funding and/or financing from the NHIF to develop new housing by unlocking enabling infrastructure. The proposed amendment is over page.



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From:

*(2)(a)(i) an entity is a special purpose vehicle if it has the purpose of undertaking housing infrastructure enabling projects.*

To read:

*(2)(a)(i) an entity is a special purpose vehicle if it has the purpose of undertaking land and/or housing development projects.*

**Recommendation:**

**Amend the definition of special purpose vehicle (SPV) to read as *an entity is a special purpose vehicle if it has the purpose of undertaking land and/or housing development projects.***

**The consideration that the underlying eligible should have financial and/or management control of the Special Purpose Vehicles (SPVs).**

In addition, when considering whether to finance an SPV “based on a holistic assessment of prescribed matters”, the NHFIC should broaden the evaluation to include co-sponsorship arrangements where the underlying member does not have significant financial or management control of the SPV.

This approach would ensure that the underlying eligible members actively support the need for the specified housing enabling infrastructure project – without needing to necessarily take on the risk of financing or management.

This would better reflect the commercial realities of SPVs between developers and CHPs and utility providers, where the developer is more likely to have a majority control, but actively involve a CHP or utility provider without financial or management control.

**Recommendation:**

**Broaden the evaluation criteria for special purpose vehicle (SPV) proposals to consider co-sponsorship by underlying eligible members that do not have financial or management control of the SPV.**

It is important to note that the financing will only have value to the SPV if the NFIC terms and requirements provide lower loan application hurdles than private sector financing – noting that group/corporate loans do not have restrictions on eligibility.

Addressing these concerns to allow NHIF funding to flow on the basis of a partnership and consortium approach would magnify the impact and scale of the investments substantially and increase potential efficiencies and returns to the NHFIC more broadly.

## Eligible Projects

The Property Council supports the project eligibility criteria. However, section (a) citing examples of critical infrastructure must be supported by supplementary criteria to filter the number of projects submitted and set clear objectives so that stakeholders can largely self-assess their projects to determine if they are likely to be approved for financing, before committing resources.





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A matrix of factors and their corresponding weightings in the assessment process should form part of the publicly available tools available to project proponents. This should be extended to include tying project funding to housing supply outcomes. For example, funding a new road project where the local government SPV partner has rezoned adjacent lots to allow development to commence in a timely way.

Otherwise, there is a risk that applications with little prospect of success could impede the efficient functioning of the NHFIC's assessment and approval processes. The recently released Infrastructure Australia Assessment Framework, with its associated templates and checklists, could provide a useful model to develop a similar tool for the NHIF and bond aggregator.

Project eligibility should be extended to include a scale threshold for projects.

Basing eligibility on a scale threshold will ensure that the NHIF is not overwhelmed with applications that will not make a significant addition to the supply of new dwellings or improve housing affordability outcomes on scale:

- The administrative and transactional cost to the number of dwellings delivered is reduced on a per dwelling basis.
- Processing fewer, more scaled financing applications will ensure that the NHIF application and approvals process is timely and does not stall the advancement of projects

**Recommendation:**

**Introduce a scale threshold to the eligibility criteria for projects to minimise administrative and evaluation delays.**

## Part 5 – Capacity building activities

The Property Council does not support the purchase of capacity building services. This is significantly beyond the scope of the two activities identified to support investment in Australian housing: to establish the AHBA and the NHIF.

The need to improve the operational and institutional capacity of community housing providers is recognised with the CHP industry<sup>1</sup>. However, capacity building services should be provided through existing programs. To do otherwise would risk duplication with other government agencies and further reduce the administrative capacity of the NHFIC to assess applications.

As recommended in the previous section, eligibility to apply should be limited to tier 1 and 2 CHPs that have the operational and institutional capacity to apply for and manage responsibly financing issued under the NHFIC.

**Recommendation:**

**Remove the provision of capacity building services from the Investment Mandate.**

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<sup>1</sup> AHURI. 2017. Ready for Growth? Inquiry into Australia's affordable housing industry capacity.  
[https://www.ahuri.edu.au/\\_data/assets/pdf\\_file/0016/12832/Ready-for-growth-Inquiry-into-Australias-affordable-housing-industry-capacity-Visual-Report.pdf](https://www.ahuri.edu.au/_data/assets/pdf_file/0016/12832/Ready-for-growth-Inquiry-into-Australias-affordable-housing-industry-capacity-Visual-Report.pdf)



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## Part 6 – Governance

The Property Council supports Section 31 require the NHFIC to communicate its reasons for making a particular decision to provided finance, or not, to the entity making the financial proposal.

The Property Council supports Section 32 requiring guidance to assist potential applications, given the additional parameters recommended above such as a minimum number of dwellings for eligible projects.

The Property Council strongly supports the publishing of details of each decision to make a grant, loan or investment under the NHIF. The Property Council, however, does recommend that the timeframe of six months is reduced to three months of the decision.

### **Recommendation:**

**Reduce the reporting timeframe to 3 months from 6 months for each decision to make a grant, loan or investment under the NHIF.**

In addition, the Property Council recommends that timeframes are given for the processing of applications under the NHIF for advancement of the approvals process with a set maximum limit. This will provide certainty to the sector and limit holding costs.

### **Recommendation:**

**Introduce maximum timeframes for the processing of applications to give certainty to proponents.**

## Property Council Contacts

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