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To whom it may concern

**NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION**

Thank you for the opportunity to provide a submission on the Consultation Paper.

Please find enclosed a Council officer submission made on behalf of the City of Port Phillip. Whilst this submission has not been formally endorsed by Council, it is aligned to Council's adopted affordable housing strategy - *In Our Backyard: Growing Affordable Housing in Port Phillip 2015-25*. Fostering innovative models to achieve affordable housing and promoting international best practice and innovation is an important policy of the strategy.

For any further enquiries on this submission, please contact Gary Spivak, Housing Development Officer on 9209 6752 or [gspivak@portphillip.vic.gov.au](mailto:gspivak@portphillip.vic.gov.au)

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Claire Miles'.

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**OFFICER SUBMISSION - CITY OF PORT PHILLIP**

**NATIONAL HOUSING FINANCE & INVESTMENT  
CORPORATION CONSULTATION PAPER**

**October 2017**

## 1. Background

The City of Port Phillip welcomes the opportunity to make a submission to the Commonwealth Government on this important affordable housing finance initiative.

Given the scale of the housing affordability problem facing many parts of Australia, the combined actions of all levels of government and other sectors will be required. In this regard, the City welcomes the Commonwealth Government's initiative to establish the National Housing Finance and Investment Corporation.

The City of Port Phillip is a national local government leader in supporting affordable housing. This role, undertaken over the last 32 years, is widely acknowledged to be an exemplar in the way local government supports affordable housing. Key achievements of this role have been:

- Development of Australia's largest local government community housing program between 1985 and 2006, with 310 units. This includes Council's pioneering role in developing community housing in air space over Council car parks and community facilities.
- A 31 year partnership with Port Phillip Housing Association Ltd, initially to manage Council housing, and since 2005 to develop and own community housing under the Port Phillip Housing Trust (PPHT), which PPHA has grown to 408 managed units.

In April 2016 Council adopted a 10 year affordable housing strategy, *In Our Backyard- Growing Affordable Housing in Port Phillip 2015 - 2025*.

This strategy is focussed on the following policy initiatives:

- Policy 1** - Enabling community housing projects developed by local community housing organisations on a pipeline of up to 5,000 m<sup>2</sup> of donated Council land (packaged with supporting cash contributions).
- Policy 2** - Inclusion of community housing as a component of private development on other Council property that is divested.
- Policy 3** - Facilitation of opportunities to increase affordable housing yield and diversity on existing social housing sites through transfer, redevelopment, or sale and reinvestment.
- Policy 4** - Facilitating Port Phillip Housing Association to leverage existing, underutilised Port Phillip Housing Trust assets to deliver an increased supply of community housing.
- Policy 5** - Advocating for planning mechanisms that lead to private sector delivery of new affordable housing units.
- Policy 6** - Facilitating the delivery of affordable housing projects by other organisations.
- Policy 7** - Fostering the development of innovative models to achieve a broader spectrum of affordable housing products.

Under Policy 7, Action 7.1 seeks to continue to research global best practices and innovations in achieving affordable housing, and disseminate knowledge throughout the affordable housing sector.

The full strategy can be found at:

[http://www.portphillip.vic.gov.au/m/In Our Backyard - draft for adoption April 2016 V2 - 7 April 2015\(1\).pdf](http://www.portphillip.vic.gov.au/m/In_Our_Backyard_-_draft_for_adoption_April_2016_V2_-_7_April_2015(1).pdf)

## 2. Comments on the proposed National Housing Finance and Investment Corporation

The City congratulates the Commonwealth Government on initiating the establishment of the NHFIC dedicated to improving housing affordability, and specifically its two business lines comprising:

- An affordable housing bond aggregator (BA) to drive efficiencies and cost savings in the provision of affordable housing by Community Housing Providers (CHPs).
- A \$1 billion National Housing Infrastructure Facility (NHIF) tailored to financing local government to provide infrastructure that unlocks new affordable housing supply.

This initiative is welcomed as it:

- Highlights the return of a significant role for the Commonwealth Government in supporting community housing.
- Represents international best practice and innovation to enable CHPs access to the wholesale bond market.
- Provides an additional source of finance that will complement and augment the roles of state housing authorities and local government in supporting the growth of community housing supply.
- Addresses the two key constraints facing the growth of community housing: access to land and financing of new projects.

The establishment of a BA and NHIF will complement the various funding and finance programs that are being established under the Victorian Government's *Homes for Victorians* policy (2017), in particular the:

- \$1 billion *Social Housing Growth Fund*
- \$1 billion community housing loan guarantee (\$1 billion over 6 years) and \$100 loan facility
- Additional funding for the *Victorian Property Fund* (\$100 million over 4 years).

It also will complement the affordable housing programs that are being rolled out under the implementation of Council's *In Our Backyard* strategy, in particular:

- The contribution of a pipeline of Council land or air space of up to 5,000 m<sup>2</sup> (valued at \$25 million in 2015) for development by local community housing organisations.
- The contribution of \$5 million in supporting cash over the 10 years to 2025 (\$500,000 per year), to be packaged with the land to facilitate project delivery.

Finance and funding from the BA and NHIF should not be seen as an alternative to State and local government finance and funding, and should be provided in combination with these sources through a 'pooled' funding approach to procuring community housing projects. The involvement of all three levels of government will be required to address the scale of the housing affordability crisis facing many Australians.

This funding approach is commonly used in the US where finance, subsidy and grant funding is combined from a number of sources including the Federal, State and local government, and the community, philanthropic and private sectors.

### Bond Aggregator

Enabling CHPs access to wholesale bond finance through aggregating the lending requirements of multiple CHPs is supported. In particular, this would provide a benefit where it delivers the target 0.9 to 1.4 percentage point reduction in interest rates.

The consultation paper indicates that bond finance will target 'Tier 1' and 'Tier 2' CHPs. The definitions appear to align with Victorian Registered Housing Associations and larger Housing Providers, and appears to be an appropriate means to mitigate risk.

It is unclear if BA finance is intended to be channelled through local government that provides land or provided direct to CHPs. It is suggested that BA finance not be contingent on NHIF land opportunities from local government and the two mechanisms be separate while complimentary. This is because local government land is only one source of land for community housing, and the level of local government involvement across Australia in supporting community housing is varied.

The 10 year debt terms may be too short, and the bond terms should be reviewed in consultation with the community housing sector.

Loans should be provided for new construction, not just for 'take-out' or 'turn-key' finance as suggested in the consultation paper. This would be more likely to leverage community housing development on local government land / air space, which is the development model favoured by local government. Contrary to the suggestion in the consultation paper, construction by community housing organisations does not carry a higher risk as CHPs in Victorian tend to limit project gearing to 25% loan to value ratios, and maintain conservative levels of debt, in contrast to the private sector.

In a pooled funding/finance approach, security for loans would need to be subordinate to State grant and bank finance security arrangements, to be complimentary.

A government guarantee may be required in the initial stage of the BA to attract the interest of the wholesale bond market, given that it is unfamiliar with lending to the community housing sector.

The suggestion in the consultation paper for targeting the BA at private developers providing a proportion of dwellings for affordable housing or key worker housing (eg. under Inclusionary Zoning) is considered to have merit. This is because this sector needs to be incentivised to deliver affordable housing, given the breadth of the affordable housing problem, and the inability for the problem to be solved through increasing the level of social (public and community) housing alone.

It is recommended that any provision of BA finance to the private sector:

- **Occurs only if there is a clear and simple mechanism to maintain housing affordability in perpetuity.** This would be the case if ownership of dwellings was to be transferred by developers to CHPs for rental housing or Community Land Trust housing, ie. perpetually affordable home ownership, which is a sector that will emerge in Australia over the next 10 years - refer to: <http://imap.vic.gov.au/uploads/Strategy%20Documents/The%20Australian%20CLT%20Manual%2020130409.pdf>
- **Be considered in conjunction with investigation of a complimentary tax incentive** that targets private developers who provide affordable housing. This pairing of incentives occurs in the US where private developers, who receive Housing (Revenue) Bonds for providing affordable housing, also receive the Low Income Housing Tax Credit - refer to: <https://www.huduser.gov/portal/datasets/lihtc.html>

### National Housing Infrastructure Facility

Local Government is a large land owner. Some of this land is currently underutilised as it comprises vacant land or air space over at-grade car parks or single level community facility buildings. These sites are often well located to shops, public transport and community services, especially in capital cities.

The establishment of a NHIF has the potential to help unlock the contribution of local government land in Australia for the development of community housing. This is because it will incentivise local government to contribute land for community housing purposes. This may be particularly beneficial in the case of municipalities that are reluctant to contribute land or air space because it may be needed in the future for another purpose, especially if there is an initial cost to upgrade or provide infrastructure.

The following infrastructure is considered suitable for funding, particularly in an urban context to 'unlock' access to local government land:

- **Upgrading of external electrical services** required to enable higher density residential development, eg. upgrading or providing a new electrical sub-station (noting that this is not a local government infrastructure, but can be an impediment to the development of local government land for community housing).
- **Remediation of contaminated local government land.** This cost is typically borne by either local government or CHPs, and can sometimes be a significant cost impediment to project viability.
- **Public transport upgrades** which directly services the needs of and benefits nearby community housing residents, given that many community housing residents cannot afford to own and operate cars. This could include upgrading tram stops to be universally accessible (with ramps and raised platforms). This opportunity applies particularly where the Council land is located in an activity centre that is serviced by public transport.
- **Upgrading of community facilities,** which enables the development of community housing in the air space over these facilities while they are being upgraded. For example, the City of Port Phillip developed community housing over the Liardet Community Centre in 2004 at the same time as this centre was due for major upgrading (refer to the 'Liardet' project example on page 12 of the *In Our Backyard* strategy).
- **Provision of replacement public car parking under newly developed community housing,** where the costs may be material, eg. basement car parking. This will incentivise municipalities preferring to use the air space development model (refer to the 'Woodstock' and 'Kyme Place' project examples on pages 11 and 12 of the *In Our Backyard* strategy).

For example, the City of Port Phillip is facilitating the development of a community housing development (up to 50 units over 5 - 6 levels) over a replacement 42 car space basement public car park, that adjoins Balaclava Station in the Carlisle Street Activity Centre. This car parking is estimated to cost up to \$2.3 million. Financing such infrastructure would encourage a larger number of local governments to consider contributing larger sized car park assets for dual community housing and public car parking use.

The City would be happy to provide further information on how local government can achieve community housing air space development, should this be useful for future engagement with local government under the NHIF.

It is suggested that the NHIF be a revolving fund which uses interest earnings from investment of the funds to provide for local government infrastructure, thereby preserving the amount of funds for ongoing use. This model will be used by the Victorian Government for its *Social Housing Growth Fund*, and will preserve the NHIF in a sustainable manner in perpetuity.

### Summary position

The City of Port Phillip is supportive of the proposed Bond Aggregator and National Housing Infrastructure Facility as it:

- Will support the growth of community housing by providing access to an additional source of finance.
- Will help incentivise local government to unlock the supply of its land for the development of community housing.
- Will address the major constraints facing the growth the community housing sector: access to land and finance.

Suggested areas for change to the proposed NHFIC are:

*Bond Aggregator*

- BA finance should complement and augment other sources of funding and finance, not replace them.
- BA finance should also be used for construction costs, not just 'take-out' or 'turn-key' finance.
- There is merit in also targeting private developers who provide perpetually affordable housing, to broaden the benefit of the BA and more effectively address the housing affordability problem.

*National Housing Infrastructure Facility*

- In addition to the examples of local government infrastructure outlined in the consultation paper, the NHIF could also be used to:
  - enable community housing air space development by funding the upgrading of community facilities while concurrently developing community housing over these facilities
  - funding the provision of replacement public car parking where community housing is built over public car parks.
- That the NHIF be a revolving fund that uses interest earnings to pay for infrastructure, so as to preserve the fund in a sustainable manner.

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