



## Senate Economics Legislation Committee

Inquiry and report into:

the National Housing Finance and Investment Corporation Bill 2018

the National Housing Finance and Investment Corporation (Consequential Amendments and Transitional Provisions) Bill 2018

SGCH Submission

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## Contact details

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## Overview of SGCH Group

SGCH is the largest community housing provider in NSW, providing a place to call home for more than 8,900 people in 4,700 properties across the Sydney metropolitan region. We develop and manage sustainable, safe and affordable homes and work in partnership to create vibrant, inclusive communities.

Our vision is great places for everyone. Our business is people and places. We develop and manage sustainable, safe and affordable homes and work in partnership to create vibrant, inclusive communities.

SGCH applies commercial principles to the pursuit of our purpose of connecting people to opportunity and collaboratively shaping great places through sustainable, safe and affordable housing.

The group comprises three Tier 1 entities registered under the National Regulatory System for Community Housing: St George Community Housing Limited and two wholly owned subsidiaries, SGCH Portfolio Limited and SGCH Sustainability Limited.

SGCH is currently delivering on a development pipeline of 802 affordable housing dwellings, of which 149 have already been completed. SGCH has an ongoing partnership with Clean Energy Finance Corporation, Commonwealth Bank of Australia and Westpac through which SGCH currently has more than \$280m of committed financing to help us deliver on this substantive program.

### NSW Social Housing Management Transfer

In October 2017, the Department of Family and Community Services (FACS) announced the outcome of the Social Housing Management Transfer Program to transfer the management of around 14,000 social housing properties in four FACS districts across NSW to the community housing sector.

SGCH has been announced as the successful community housing provider to be awarded Service Package 9 – North Sydney which includes social housing properties in North Sydney, Hunters Hill, Lane Cove and Willoughby local government areas. This means we will be working with FACS and tenants to transfer the management of around 1,400 existing tenancies to SGCH and we will take over the coordination of the social housing system in these areas, providing tenant support coordination as well as property and tenancy management.

The current timeframe for the transfer of these properties is proposed for Quarter 2, 2019. Following this transfer, the number of properties managed by SGCH will be well in excess of 6,100 properties.

## **NHFIC Bill and Draft Investment Mandate**

Affordable housing is critical infrastructure that is the backbone of strong communities and a vibrant economy. The National Housing Finance and Investment Corporation (NHFIC) has the potential to be a significant pillar of the affordable housing market, working alongside other initiatives, incentives and programs to increase the delivery and long-term operation of affordable housing in Australia.

As one of the largest community housing providers (CHPs) in NSW and nationally, SGCH Group manages 4,700 homes and has a development pipeline of 802 affordable housing dwellings which will be funded, in part, by more than \$280m of committed financing from our financing partners CEFC, CBA and Westpac. Based on our experience establishing these financing facilities, we see that with the right policy settings, the NHFIC has the potential to offer a significant and complimentary form of financing for organisations like SGCH.

Since the federal budget announcements back in May 2017, we have been encouraged by the level of consultation that has taken place to date on the establishment of the NHFIC and the housing affordability measures more broadly. As such, we wish to recognise the work being led by Federal Treasury and look forward to our ongoing participation in the consultation process as we enter the implementation phase for the NHFIC.

The following presents our feedback on the key features of the Affordable Housing Bond Aggregator (AHBA) and the National Housing Infrastructure Facility (NHIF).

### **Government guarantee**

We welcome the inclusion of a guarantee by the Commonwealth, particularly in relation to the AHBA bond issuances. Our view has always been that a government guarantee is essential until a track record is established and bonds offer better liquidity to investors. A government guarantee will also establish confidence in the asset class and the importance of this sector to government (a key rating consideration), enhance pricing and allow time for resolution of (currently fragmented and complex) regulatory and contractual issues across jurisdictions and programs.

### **Funding the yield gap**

Ultimately, the ongoing success of recurrent tranches of funding offered by the AHBA rests on federal and state government commitments to additional, recurrent revenue to close the yield gap inherent in the provision of (particularly) social and affordable housing.

Until such times as a long term, sustainable solution to funding the yield gap is in place, we would seek the Commonwealth to maintain the government guarantee and offer loan concessions (as envisaged in the Bill) so that the Commonwealth can support the CHP sector in bridging the yield gap to the extent possible through this lever.

### **Security for loans**

The security arrangements for loans under both the AHBA and the NHIF ultimately impacts on whether this form of funding can be complimentary to existing and future private and public-sector investment into the CHP sector.

Our experience has been that negotiating security for loans (as they relate to inter-creditor arrangements and tripartite deeds which tend to vary by program / initiatives) can be complex

and often results in significant time and cost implications for all the stakeholders involved. As such, we would seek the Commonwealth to use this opportunity to work with the State Governments and CHPs to discuss and agree on how security arrangements with the NHFIC can be streamlined.

### **Cost and scale**

In order to best facilitate the provision of additional social and affordable housing stock and increase the scale of the community housing sector, our view is that the main objective of the AHBA should be to provide financing which is cost efficient, at scale and replicable.

In meeting these objects and with a view to ensuring complementarity to existing forms of finance, our preference would be to see reasonable minimum loan sizes under the AHBA (to ensure cost efficiencies for NHFIC and ultimately CHPs) and exclusion of the use of AHBA funds for construction finance. Our view is that construction finance best sits with the banking sector given this matches their existing capability and capacity in providing this form of finance. The AHBA cannot be all things to everyone – the risk is that the AHBA becomes an inefficient financing vehicle as it tries to cater to a wide variety of demands.

### **Investment Mandate**

We are supportive of the draft Investment Mandate in its current form and the Commonwealth's approach to maintaining flexibility for the NHFIC Board to consider the specifics around how both functions under the NHFIC should operate.

The CHP sector is complex, with each organisation having differing risk profiles depending on factors such as the jurisdictions they operate in, contracts / programs committed to and whether they manage, own or lease their dwellings. This, combined with the fact that this is a new asset class in Australia, means that flexibility should be afforded to the NHFIC Board in how they manage the investment criteria. A detailed Investment Mandate with specific criteria will only constrain the NHFIC and the CHP sector if changes are required to go through a parliamentary process.

### **Next steps**

As highlighted earlier, we have been encouraged by the level of consultation that has taken place to date and look forward to our ongoing participation as we enter the implementation phase for the NHFIC.

As we approach NHFIC's intended operational commencement of 1 July 2018, we would ask the Senate Economics Legislation Committee to ensure that the parliamentary process does not delay the implementation of this much needed reform. The ability for both the NHFIC and the CHP sector to work through any operational details is constrained by the operational commencement of the NHFIC. We look forward to ensuring the benefits of the NHFIC can be utilised as soon as possible, to improve housing affordability for those in our society with the greatest need.