Cbus submission in response to the draft Bills and supporting explanatory materials released on 19 December in relation to the establishment of the Housing Australia Future Fund and the National Housing Supply and Affordability Council, and an Amendment Bill to support the new legislation.

Executive summary

The establishment of the HAFF is a welcomed and positive initiative to assist in addressing the shortfall in the supply of social and affordable housing.

Over the past few months members of our internal investment team have participated in a consultative group of investors and the National Housing Finance and Investment Corporation (NHFIC) in relation to the expected investment by institutional investors in the HAFF initiative. This work has predominantly focused the proposal that an institution would provide upfront funding (capital investment) as part of a funding arrangement to meet the Government's objective to support the construction of 30,000 new social and affordable dwellings in the first five years of the HAFF. It is with this insight and experience that we provide our feedback on the exposure drafts.

Our understanding of the key proposition is that investors who provide upfront capital would be repaid the amount invested, plus a promised return (interest) over an agreed period of time from the earnings of the HAFF. We have participated in discussions around funding structures and have noted the requirements of other investors when looking at all parts of the capital / funding stack that is required to deliver the new dwellings.

Our comments below go to the program design, and our view of the capacity of the legislation as drafted to meet the stated policy intention of attracting funding from institutional investors.

1. Ability to raise capital from external investors

We understand that under the Bills as drafted, disbursements from the HAFF will require formal government approval, with approval envisaged to occur as part of the annual budget process, and with a limit on the amount available annually.

Feedback

It is our view that no investor would provide capital upfront unless the source of full repayment over the term of that investment was clearly identified, was linked to the HAFF income and was available at the time expected. **Having to rely on annual government approval is likely to significantly impact the appetite of investors to provide upfront capital.**

To address this problem, the legislation should enable commitments for future periods to be available and / or some other form of contractual support provided to the entity that is used to raise (borrow) the funds from the institutional investors. Contractual arrangements are likely to require:

- Clear linkage back to the availability of the HAFF income and that income being sufficient over the agreed investment period to fully repay investors.
- Clear assurance that the borrowing entity has full recourse to the HAFF income and that there is no risk of legislative change of access to that income for funding that has already been contractually committed.

2. Amount of capital that can be raised from external investors

As currently drafted, there is a $500M annual cap on disbursement that can be made from the HAFF. This cap also includes other grants that are expected to be available and funded from income of the HAFF.

Feedback

Superannuation funds have an obligation to achieve an appropriate risk adjusted return for members, but we at Cbus also see the significant societal benefit of relieving the cost of housing pressures on many of those same members and other Australians who are struggling.

Based on the financial forecasts that Cbus sighted during the consultation process and the independently modelling we have undertaken, we believe that a limit of $500M per annum will limit the amount of capital that will be able to be raised from what is effectively the sale of the rights to that income, posing a risk to Government meeting its objective of funding 30,000 new dwellings in the first five years of the establishment of the HAFF.

We offer this feedback as an institutional investor with credentials in this space, and with a view to giving the scheme the best chance at success in fund raising to support new builds.

3. Other matters – extension of NHFIC (Housing Australia) liability cap and guarantee

We note that the proposed initiative for the construction of 30,000 new social and affordable dwellings over the first five years of the HAFF is likely to require NHFIC to also provide senior debt to Community Housing Providers (CHPs) as part of those projects. NHFIC currently has a cap on loans it can provide of $5.5B. As of 30 June 2022, NHFIC had provided loans of $3B.

We also note that NHFIC currently issues Government Guaranteed bonds to fund the loans it makes to CHPs. Comfort around the ongoing guarantee of NHFIC bond issuances is likely to be important to any lenders or investors either in debt or equity who also participate in the capital stack providing funding to CHPs, including those who borrow to develop housing associated with the HAFF.

Uncertainty over the ability of NHFIC to continue to raise funding using a Government Guarantee will increase rollover risk for other lenders and investors, and could again limit the appetite of those parties. We have seen the benefits and savings that have flowed through to the CHP sector from the bond aggregator model and note that the CHPs are well placed to not only meet the Government's objective of the first 30,000 to 40,000 new social and affordable dwellings under the HAFF proposal, but to expand their business-as-usual model which remains focused on growing supply to meet the clear shortfall in dwellings.

Feedback

We believe consideration should be given to increasing the NHFIC liability cap from $5.5B. If external investors / lenders are being sought to crowd in as outlined in the 2021 Review of NHFIC, we believe consideration should also be given to ensuring NHFIC is in a position to access funding using a Government Guarantee during the full proposed financing period for any projects it funds.