

# THFC down under

14<sup>th</sup> September 2018



## Australian Government



Five years ago, just as we had completed the first EIB Affordable Housing bilateral loan, THFC were contacted out of the blue by the Australian Housing and Urban Research Institute (AHURI). We discovered that this group of academics have one of the most comprehensive research bases on affordable housing funding models in the world, and, back in 2013, they were keen to understand how the UK Affordable Housing Guarantee Scheme (AHGS) worked – even in its infancy.

What followed was a trip down under and a brain-storm with the CEO of THFC's Swiss counterpart: Peter Guertner, to create what was described then as "A mechanism to grow longer term, lower-cost institutional investment" in the Australian equivalent of housing associations: Community Housing Providers (CHPs).

Australia's CHPS are much more in their infancy than their UK equivalents (think L&Q, 40 years ago), yet affordability and provision of housing for the vulnerable and homeless are, if anything, a more acute issue than in the UK. CHPs are typically able to borrow at the moment on a 3 or 5 year basis from banks, so creating an equivalent to THFC has the capacity to mitigate both interest rate and refinance risk.

In 2013 the think tank initiative got a lot of Australian domestic coverage. We talked to superannuation funds (the equivalent of UK pension funds), Government and journalists. I was interviewed on national radio...and then the excitement died down. Australian Commonwealth and State politics have many checks and balances which often stymie policy initiatives. Even when Commonwealth and State politics align, the shorter life of Australian Parliaments mean that policy requiring legislation has to be developed at break-neck speed.

Roll the clock forward to 27 January 2017 and a visit to London by the then Federal Treasurer, Scott Morrison. Universally referred to in the press as 'ScoMo', Scott is now



the Australian Prime Minister, following a very recent and tumultuous leadership competition within the Australian ruling Liberal party.

Other than telling us that London's magnificent Australia House was used as the set for Gringotts Bank in the Harry Potter films, ScoMo made clear that he saw the benefit of establishing an Australian Bond Aggregator, similar to THFC and applying a Federal Guarantee to achieve AHF-like pricing for the bonds. In the intervening months THFC was engaged as an adviser to the Commonwealth Treasury, helping them fast-track the development of an aggregator.

In July 2018, the legislation required to form the imaginatively titled 'National Housing Finance and Investment Corporation' (NHFIC) completed its passage through the Commonwealth Parliament, achieving cross-party support in so doing. NHFIC has some of the features of Homes England and at the same time performs a function similar to THFC. Its two operations are:

- making loans, investments and grants for enabling infrastructure for housing that supports new housing, particularly affordable housing through the \$1 billion National Housing Infrastructure Facility; and
- providing cheaper and longer-term financing to registered CHPs through Australia's first national Affordable Housing Bond Aggregator.

The challenge is now to make a success of the NHFIC long-term funding stream. Like AHF in the UK, part of the early task is to set up appropriate marketing and credit appraisal functions to source and select suitable CHP participants. NHFIC is independent of Government, but at the same time has to comply with an investment mandate set out in primary legislation. Like the UK there are separate, state-based Registrars for CHPs. They perform some of the functions that we have come to expect from our own (economic) regulators, but common standards and homogeneous data collection have a way to go. The valuation industry also needs to develop an equivalent of our EUVSH methodology, and there remains a significant tension between state-based housing policy and Commonwealth wide initiatives.

CHPs broadly see the benefit of NHFIC and we expect the first transaction, predominantly to 'term out'/refinance existing bank debt before next March. To facilitate the launch of NHFIC, the Commonwealth has built in more user-flexibility to the construct (for instance an internally-funded line of credit) than we were able to, at the outset of THFC - 30 years ago.

However, like the AHGS, in an affordable housing market that is anything but affordable: *subsidised housing needs subsidy*. If CHPS are to scale up in Australia, they will require other forms of capital subsidy and to be able to develop their own homes (rather than the prevalent model of long term leases – similar to our own Housing PFI model). There is no doubt that the inception of NHFIC has raised the political awareness of the CHP sector. At the same time, if the sector is to have a sensible debate with State and Commonwealth about new forms of subsidy, it is



important that the CHPs both create a common narrative that includes an offer as well as an ask, and they come to the table and utilise NHFIC.

At THFC we will continue to facilitate the development of NHFIC where we can, but at the same time we will focus on matters close to home with the development of our own new bLEND model and the potential for AHGS mark 2. That said, the role THFC has played shows the scope for the development of services-related advisory work with like-minded Governments in the post-BREXIT world.

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