2019

APRA Submission

NFP HOUSING: Public Policy, Risk and APRA's Proposed Capital Framework

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Contents

1.0. Background

It is internationally accepted that access to affordable housing finance is of critical importance, not only because the demand for housing is increasing, but also because housing contributes to the economy and community well-being.

Public social policy in Australia is focussed on creating a strong and growing community housing sector funded through private, public and community sources. Internationally these mixed funding arrangements are quite mature and at scale, within that mix, conventional bank loans play a significant part.

In the general housing market complexity and compounding risk have arisen from complicated finance deals and this hampers the ability of an organisation to respond swiftly to problems (Kay Vowles, James Tickell, & Miljevic, 2015, p. 9). The Not For Profit (NFP) or social housing sector have less complex financing arrangements resulting in lower compounding risk.

The proposed compliance requirements by APRA will potentially hamper the NFP sector's ability to access low cost funding.

UK experience suggests that many issues have occurred in risky non-social housing activities, due to lack of proper risk management and governance (Kay Vowles et al., 2015, p. 18). Moreover, the impact of post GFC credit restrictions and the resultant property market collapse threw up financial challenges which were not experienced in the traditional home ownership market (Kay Vowles et al., 2015, p. 24).

The Australian NFP social housing sector has a long tradition of providing affordable rental portfolios not subject to major impact by market volatility. This is because of the mission driven business model, the counterparty relationships with Government and the proportionate and longer-term capital mix that underpins their portfolio's.

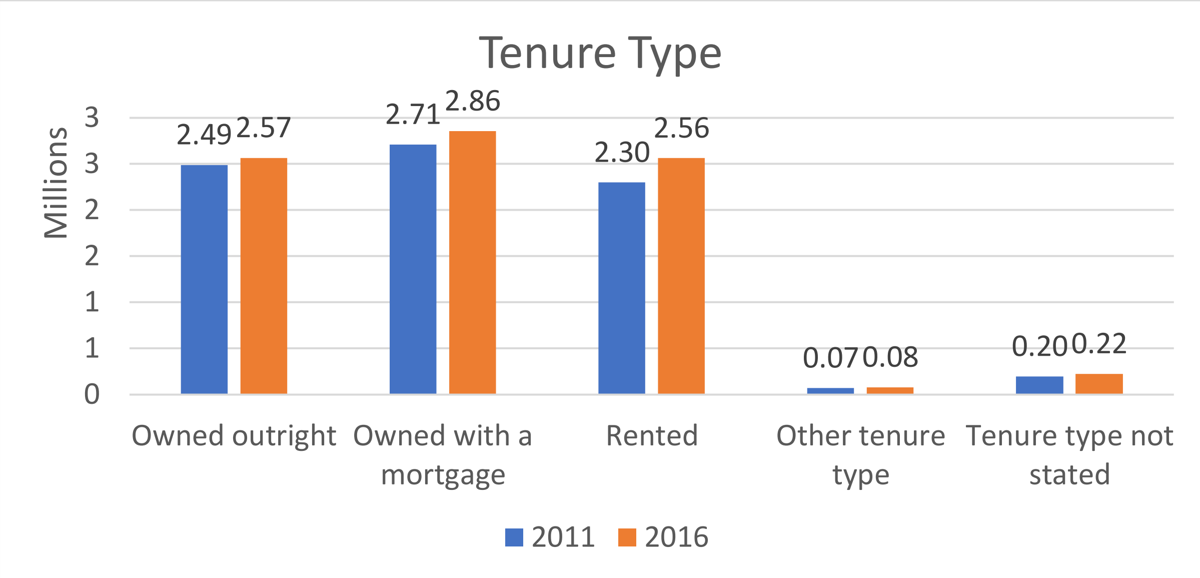
The following sections of the report discuss housing nationally and internationally, section one focuses on the significance of social housing and its scale, exposure to banks, investment levels etc, section two describes the implications of Basel III on the social housing sector, and section three highlights the levels of risks involved in the social housing sector and how it is different from commercial housing investment.

2.0. Social Housing Sectors

2.1. Australia

Australia has over 9 million households. The majority of households are home owners (67%). Of these 37% have mortgages while the other 30% have not (ABS 2017a).

Home ownership with a mortgage is gradually increasing.



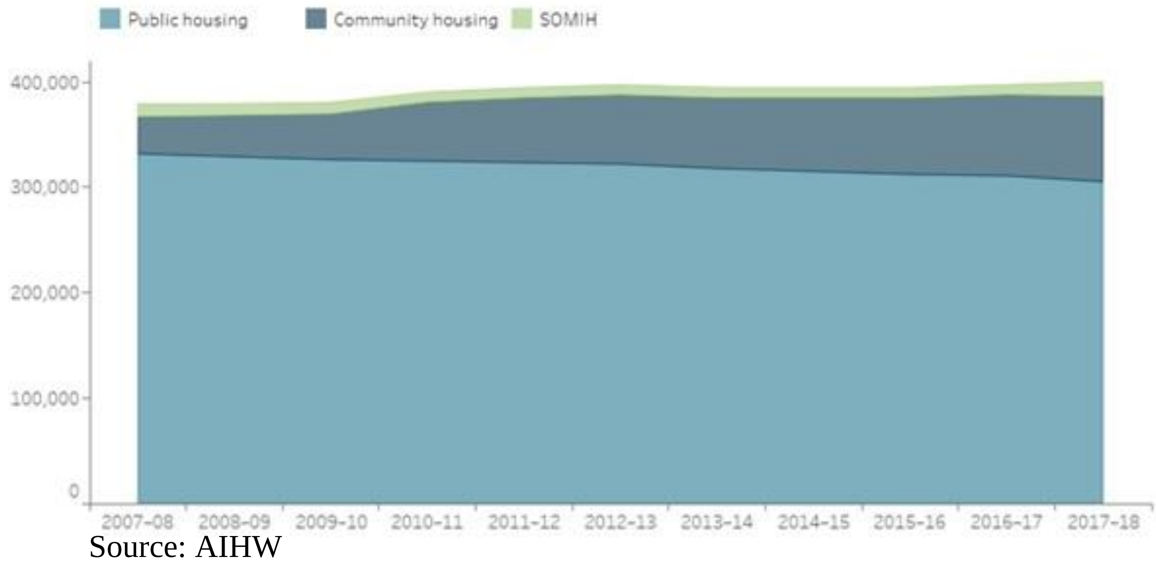
Sources: ABS

Social housing sector in Australia is 4.6 % with 420,000 units as at 2018 of which 77% is public housing, 19% is community housing and 4% is state owned and managed Indigenous housing (Productivity Commission Reports on Government Services, 1996-97 to 2017-18).

Across Australia, social housing has been in decline relative to the wider housing system (Martin, Pawson, & Van Den Nouwelant, 2016, p. 7). As Susilawati and Armitage (2010, p. 275) explain, the public sector has been reducing its financial commitment to the direct provision of public housing in Australia. Whilst the actual number of dwellings has grown during the last decade, this has been at a slower rate than the population growth (Martin et al., 2016, p. 3).

Within the social housing sector it has largely been the community housing sector that has driven growth. There are 293 not for profit sector Community Housing Providers (CHP) registered with National Regulatory System for Community Housing (NRSCH) which is the sector's regulator. There are 34 Tier One providers, 36 Tier Two providers and 223 Tier Three providers (NRSCH, 2019, p. 6). The 'Tier' classification is based on scale, complexity, performance, accountability and risk management practices with Tier One driving much of the sectors growth.

Figure 01: Number of Social Housing by Social Housing Programme

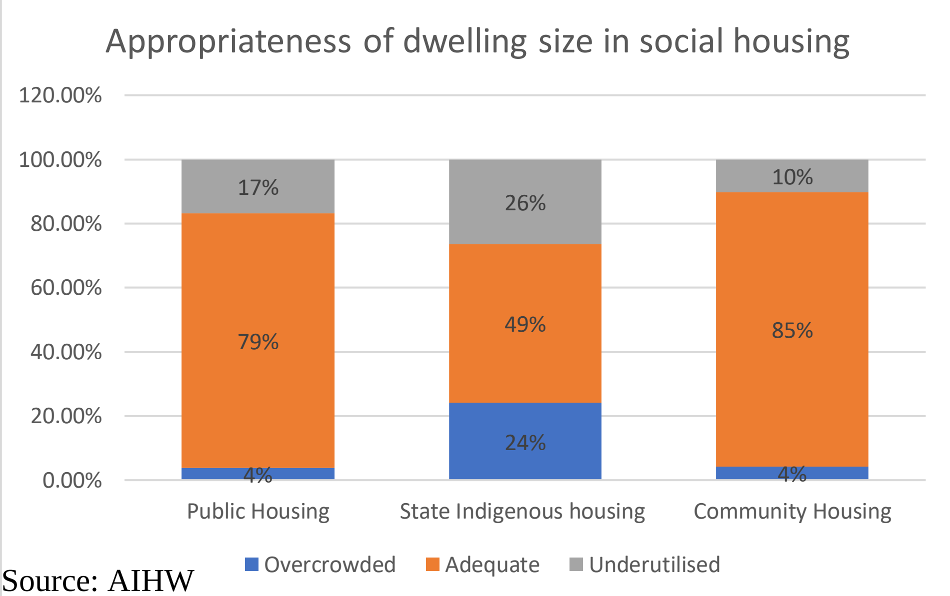


Source: AIHW

77% of community housing properties are held and operated by 34 Tier 1 providers. The Regulatory Code requires CHPs to be well-governed, financially viable and to perform in compliance with standards to deliver quality housing services (NRSCH, 2019, p. 9). Between 1 July 2018 and 30 June 2019, 150 scheduled compliance assessments covering half of the registered community housing providers were completed nationally and over 98% compliance rate has been recorded for all performance outcomes. Enforcement action may be taken where a provider demonstrates non-compliance with the National Law or the Code following a compliance assessment or investigation (Adoption of National Law) Act 2012 (NRSCH, 2019, p. 12).

The key measures for assessing the management of the community housing sector are derived from evidence provided for Tenant and Housing Services and Management Performance Outcomes. Key Performances Indicators include complaints management, eviction rates, rent arrears, occupancy rate and tenancy turnout times. 93.5% of providers met the threshold levels of tenant satisfaction with maintenance services (NRSCH, 2018, p. 32).Providers on the whole handle complaints effectively. This is evidenced by the fact that Registrars receive only a small number of complaints. Nationally, evictions represented 4.9% of total exits from community housing which is well below the 10% threshold (NRSCH, 2018, p. 36). Over 87% of all providers assessed met the threshold for rent outstanding which is set at less than or equal to 2.5% of total potential rental income (NRSCH, 2018, p. 38). 97% of the properties are occupied and tenancy turnaround tenantable is 32 days (NRSCH, 2018, p. 39).

Figure 02:



Source: AIHW

2.1.1. Level of Investments

Australian governments subsidise the housing sector both through cash transfers including rent assistance, grants for social housing and affordable housing, first home owner grants and through preferential tax treatments (Martin et al., 2016, p. 15). The National Housing and Homelessness Agreement (NHHA) commenced on 1 July 2018 to improve housing and homelessness outcomes for Australians. The objective of the NHHA is to improve access to affordable, safe and sustainable housing across the housing spectrum from crisis housing to home ownership. In 2017–18, the Australian and State and Territory governments total recurrent expenditure for social housing and specialist homelessness services was $5.0 billion. Of this, social housing-related costs accounted for $4.1 billion and $0.9 billion for specialist homelessness services ((AIHW), 2019).

2.2. England

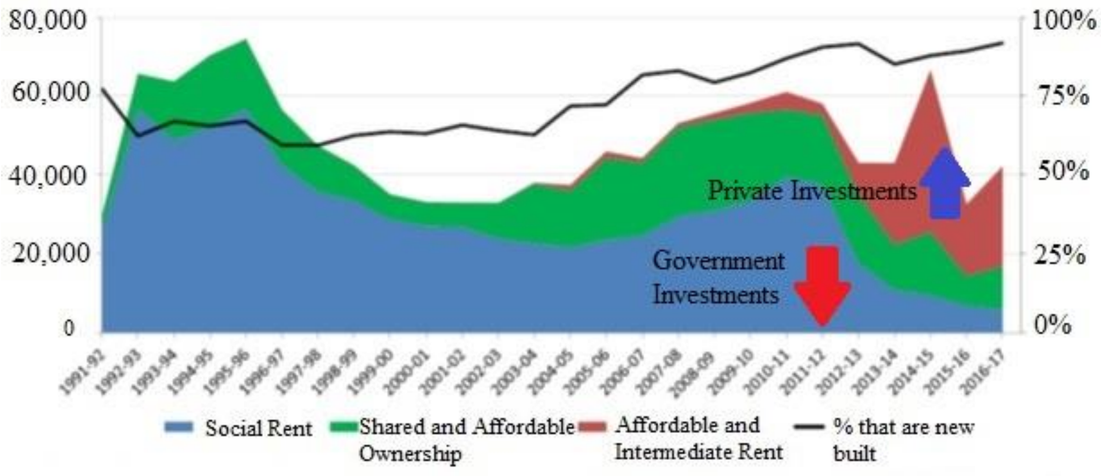
In England, over 1700 Housing Associations [HA] own 2.3 million social housing units, approximately 10 per cent of all housing in 2014/2015, of which two million (8.3%) were general needs rented properties, 117 000 (0.5%) were supported housing and 301 000 (1.2%) were rented properties for older people(Tang, Oxley, & Mekic, 2017, p. 412). In Britain, HAs are non-profit organisations or ‘third sector’ social housing providers strongly regulated by government agencies. They can receive development grants to construct and manage social housing which is let at below-market rent for low-income households including those with support needs (Tang et al., 2017, p. 412).

Each housing association in England is registered with the Homes and Communities Agency (HCA). The first driver to the social housing market was the introduction of ‘New Public Management’ in the late 1970s which aimed to instil private sector values and practices into public service provision, and to make public sector organisations much more commercial (Tang et al., 2017, p. 413). The second and the most notable driver was the 1988 Housing Act which introduced a mixed (private and public) funding regime. It helps to attract a substantial amount of funding from banks into the HA sector and facilitated the expansion of Large Scale Voluntary Transfer, by which council housing stock was transferred from local authorities to (usually) newly created HAs.

2.2.1. Level of Investment

Public funds for the social rent sector is gradually decreasing and the reduced investment has lowered the number of additional social rent homes being delivered from an average of 61,000 each year to 10,000 which is a 79% decline over the last 30 years (Chaloner, Colquhoun, & Pragnell, 2019, p. 4). However, the affordable and intermediate rent sctor has grown its contribution to meet the required level of housing starts.

Figure 03: Additional affordable homes provided in England each year by type (thousands) and share that are new build (per cent)



Source: Capital Economics

2.3. Scotland

The housing association sector is Scotland is small relative to England (128 associations compared to 1700) and many are tenant based and very localised (Williams, 2003). Recent estimates suggest that the housing system has an unmet need of around 8,000 households per annum. Achieving this target of new supply has been difficult due to the credit crisis and the UK fiscal crisis(Gibb, 2011, p. 357).

From 1980 to 2007 nearly all new general needs social housing was provided by Housing Associations (Gibb, 2011, p. 358). It is noted that Scotland has much higher grant rates per unit compared to England. If the grant rate was 60 per cent, associations would have to find the remaining 40 per cent in private loans which they would repay out of sub-market “affordable” rents along with meeting management and maintenance costs and a contribution to long-term repairs. The lower the proportion of public grant, the higher the private loan and the higher the required rent (Gibb, 2011, p. 358).

There have been no significant losses in the highly regulated UK sector. It should be noted that the UK sector has the benefit of both a government regulator and Government funded housing benefit to meet most eligible rent payments

2.4. Austria

Austria is a country with a 8.8 million population (2019) and 4.7 million in housing stock (2017). Social housing stock is 24% of the total stock by 2019 which is the second highest in Europe. Yearly social housing completion in 2017 was 16,600 units (Alice Pittini, Julien Dijol, Dara Turnbull, & Whelan, 2019). Austrian model is a form of risk-averse structured finance, which employs a variety of different sources within a well-regulated framework and consequently it reduces risks for investors and financing costs for providers of cost rent housing (Amann, Lawson, & Mundt, 2009, p. 14). Limited profit housing is procured and managed mainly by limited profit housing associations (LPHA) but also by municipal housing companies. Approximately 200 LPHA manage 24% of the total housing stock in Austria by 2019, primarily in major urban areas such as Viana and Linz, but also in small towns and villages.

Austria performs well in terms of quality and quantity when compared to the housing outcomes of other European systems, particularly in terms of housing cost, security of occupancy and habitable space (Czerny, 2004 in Amann et al., 2009, p. 14). Indeed, the general price level is relatively low; household expenditure on housing is only 20.6% representing much less of a burden than in other European countries (Czasny et al., 2008 in Amann et al., 2009, p. 14). Consequently, there is a very low proportion of households with rent arrears (2.4% opposed to 9.1%) and of households that see their living expenses as a heavy burden (14% as opposed to the EU25-average of 28%) (Czasny et al., 2008 in in Amann et al., 2009, p. 14).

Figure 04: Tranches of Struchered Financing for LPHA- Housing in Austria

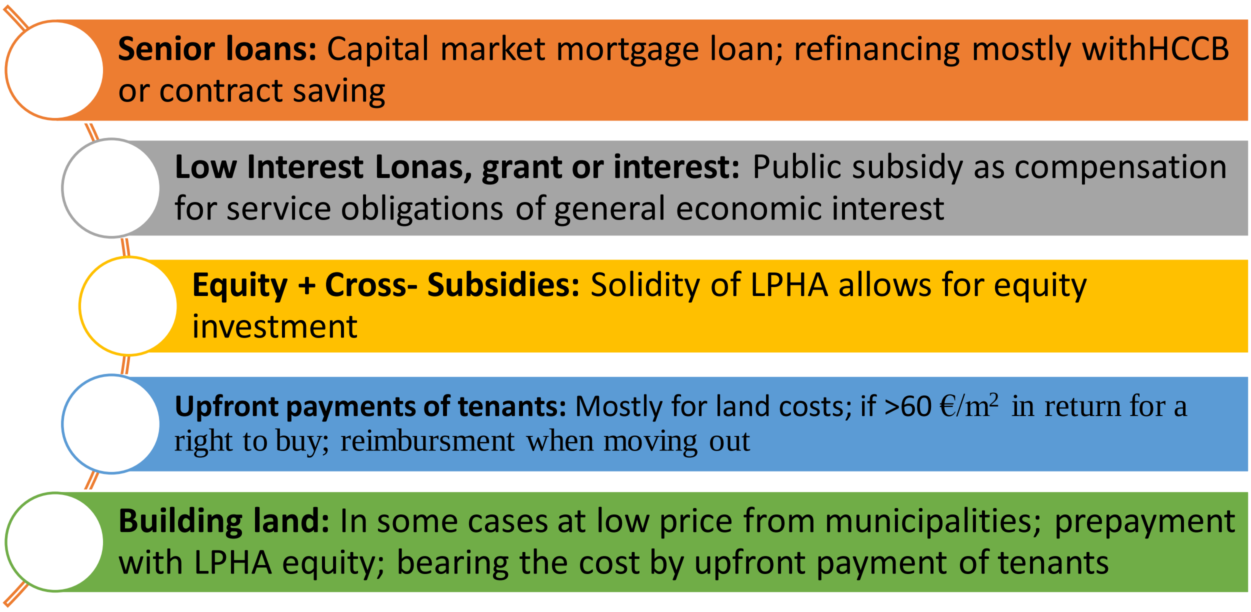


Table 01: Typical financing arrangements for LPH projects in Austria

Capital market loan: 20-30 years maturity, Euribor + 0-30 BP, fixed- or variable-rate interest	40-60%
Public loan: 30 years maturity, 1% fixed-rate interest	30-40%
Equity of developer, mostly for land purchase or construction financing (temporarily)	10-20%
Upfront payment of tenants	0-10%

(Amann et al., 2009, p. 15)

3.0. Implications of Basel III

The new capital rules require the banking sector to maintain higher capital levels and improve capital adequacy and liquidity. The rules will have profound impacts on the banking industry, potentially altering the profitability and investment strategies for domestic banking organizations and reassessing the allocation of capital (BCBS, 2016, p. 35; Rubin, Giczewski, & Olson, 2013, p. 1).

According to the Reserve Bank of Australia, the banking sector has provided above 60% of total loans to the housing sector. Given the significance of this source of capital to the industry, the regulatory capital changes under the directions of Basel III could impact the housing industry in numerous ways (Rubin et al., 2013) including

- Availability of credit for housing developments
- Higher cost of financing

There are many factors that contribute to the vulnerability of the banking sector in frequent crises including little high-quality capital, too few high-quality liquid assets and reliable funding sources (Yan, Hall, & Turner, 2012, p. 73). To secure the banking system and restore the global financial system stability, Basel III has been introduced. Basel III is an internationally accepted and overarching set of reforms developed by the Basel Committee on Banking Supervision (BCBS) to reinforce the regulation, supervision and risk management of the global banking system. Purpose of Basel III is to cover all risks including systemic risks of banks regardless of size, complexity and geographic location. It is a combination of firm specific approaches and macro prudential measures to address pro cyclicality and systemic risks (Aathira & Shanthi, 2013, p. 4).

One concern is that the property market in Australia, which contributes 13% to GDP and around 200 billion dollars to the economy, could suffer negative impacts if private sector credit growth and the housing sector credit growth are dampened.

Basel III has introduced new liquidity standards called Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Analysts agree that the combination of new liquidity regulations and the repayment of expiring UK special liquidity facilities will put pressure on the balance sheets of many of the major UK banks, and their European and global competitors. Some capital adequacy requirements have also been tightened. Credit Suisse estimate that overall changes in capital requirements may increase Risk Weighted Assets (RWA) for UK domestic banks by around one-third. Banks which are regarded as ‘too big to fail’ are likely to be subject to additional capital requirements which are yet to be announced. Moreover, Banks will have to hold a countercyclical buffer in common equity of up to 2.5% at the discretion of national regulators, with the intention of protecting the banking sector from periods of excess credit growth (Allen, Chan, Milne, & Thomas, 2012, p. 160). However, currently we are experiencing a decline in credit growth in Australia.

Some argue that the impact of Basel III on the real costs of bank credit will not be seriously adverse, and instead the impact could actually be favourable as a result of the pressure on banks to improve their efficiency due to higher capital requirements. (Allen et al., 2012, p. 162). However a recent working paper of the Basel committee accepts that there are opportunity costs of a "no-crisis" state of the world in terms of reduced lending and economic activity (BCBS, 2016, p. 6). Evidences extracted by them shows that in the long run, **UK spreads are increased directly by 9.4 basis points for a one percentage point increase in total capital requirements**. **Lending rates are increased by 19 basis points (bps) for a one percentage point increase in capital resources in Europe**. Moreover, an **increase in capital requirements by one percentage point forces banks to cut their lending in the long run by 1.4–3.5% or reduce credit growth by 1.2–4.6 percentage** points. The following figure 6 – overleaf, illustrates the costs and benefits of Basel III.

Figure 05:

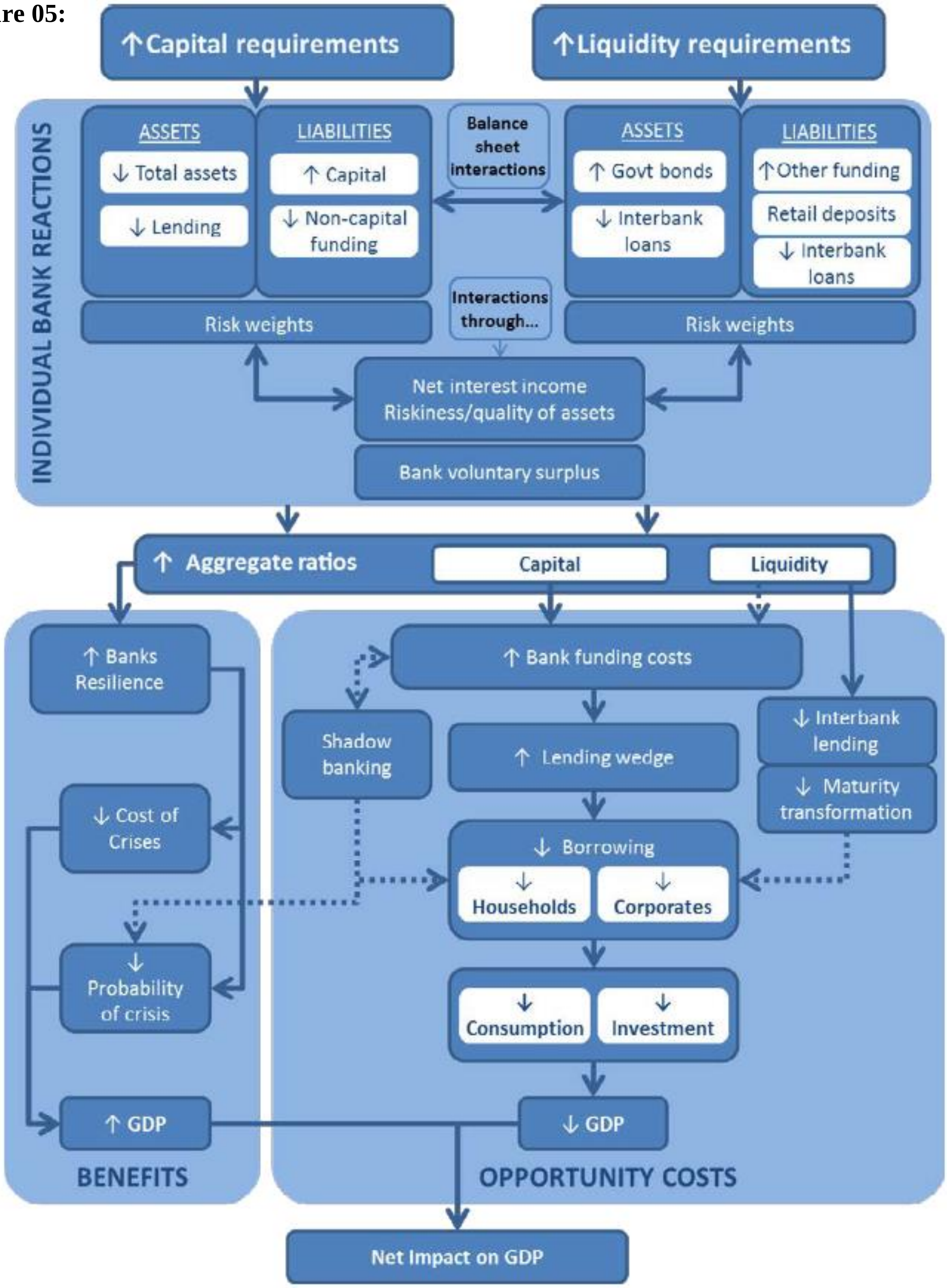

↑Capital requirements
↑Liquidity requirements
INDIVIDUAL BANK REACTIONS
ASSETS
↓ Total assets
↓ Lending
LIABILITIES
↑ Capital
↓ Non-capital funding
Balance sheet interactions
ASSETS
↑ Govt bonds
↓ Interbank loans
LIABILITIES
↑Other funding
Retail deposits
↓ Interbank loans
Risk weights
Interactions through...
Risk weights
Net interest income
Riskiness/quality of assets
Bank voluntary surplus
↑ Aggregate ratios
Capital
Liquidity
↑ Banks Resilience
↓ Cost of Crises
↓ Probability of crisis
↑ GDP
BENEFITS
↑ Bank funding costs
Shadow banking
↑ Lending wedge
↓ Interbank lending
↓ Maturity transformation
↓ Borrowing
↓ Households
↓ Corporates
↓ Consumption
↓ Investment
↓ GDP
OPPORTUNITY COSTS
Net Impact on GDP

Table: 02: Impact of Basel III

Variable	Basel III impact	Direction
Bank Lending	1.4% - 3.5%	Down
Credit Growth	1.2% - 2.6%	Down
Cost of Funding	0.19% -0.47%	Up
Probability of Crisis	4.6% - 1.9%	Down
Impact on GDP after 5 Years	0.1% to 0.2%	Up

Source: (BCBS, 2016)

A recent study of Australian mortgage market has found that there is a heterogeneous asymmetry effect in the interest rate pass-through for funding cost increases and decreases (Holland, Liu, Roca, & Salisu, 2019). Their findings confirm that Australian banks increase their mortgage rates more significantly to respond to market rate rises than decreasing the rates in response to rate cuts. Therefore, the impact of Basel III and Basel III Plus on the Australian mortgage lending market and the housing market as the most dependent market on banks will be significant and adverse.

Figure 06: Property market of Australia

Source: *Property Council of Australia*

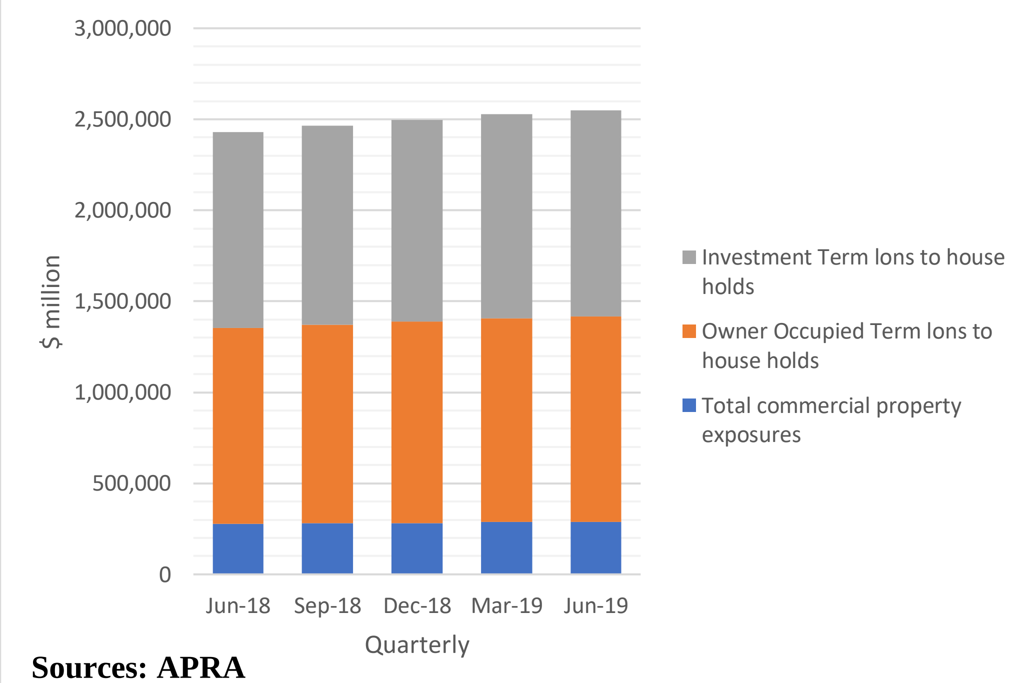
4.0. Levels of Risks Involved in the Social Housing Sector

4.1. Australia

4.1.1. Housing Market Exposure in Australia

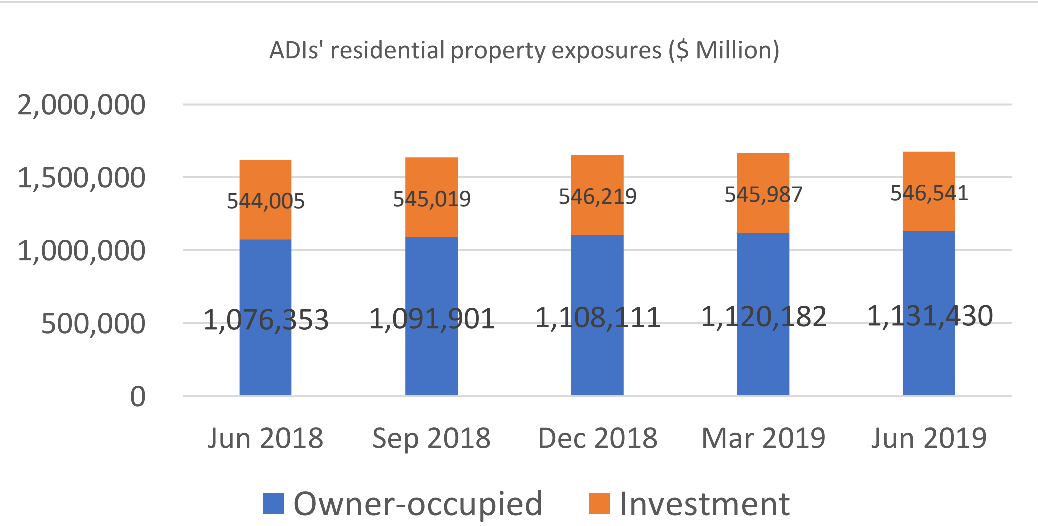
Since borrowers have increased their housing-related debt, Australian banks and other lenders have become more exposed to housing. 58% ($ 3.4 trillion) of the Australian banking sector loan book relates to properties of which 34% for owner-occupied housing, and 16% for investment housing.

Figure 07: Real Estate Property exposure in Australia



Sources: APRA

Figure 08: Residential Property Exposure in Australia



Sources: APRA

Figure 09:

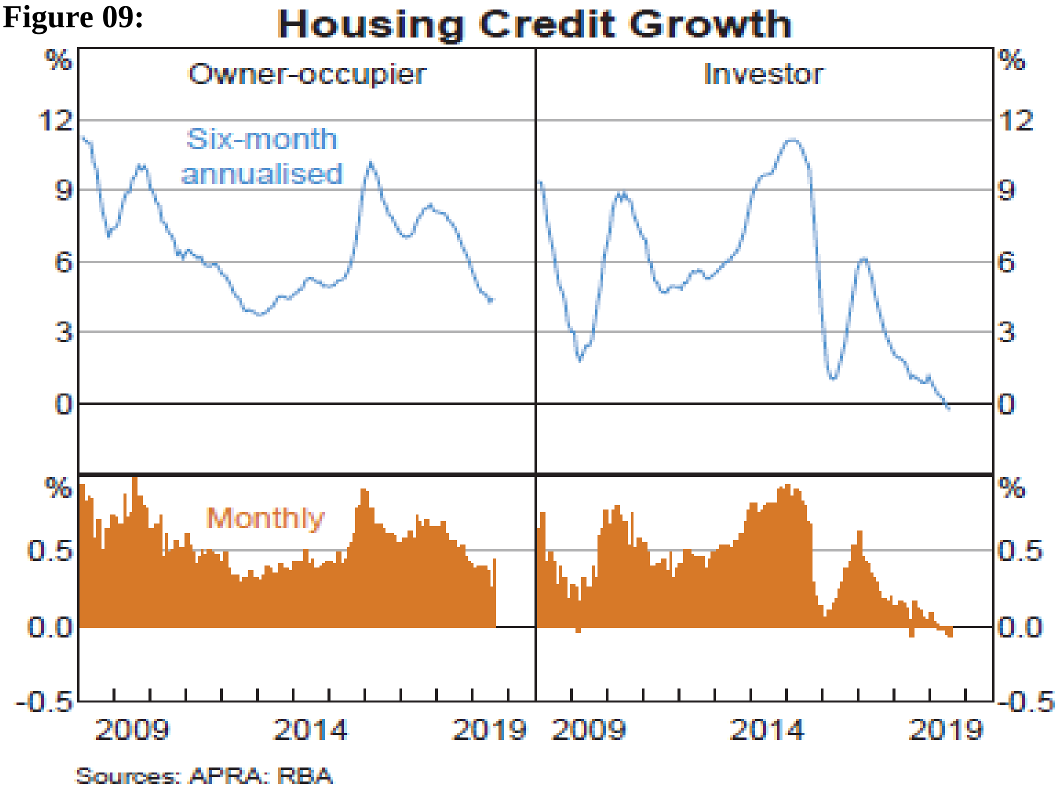
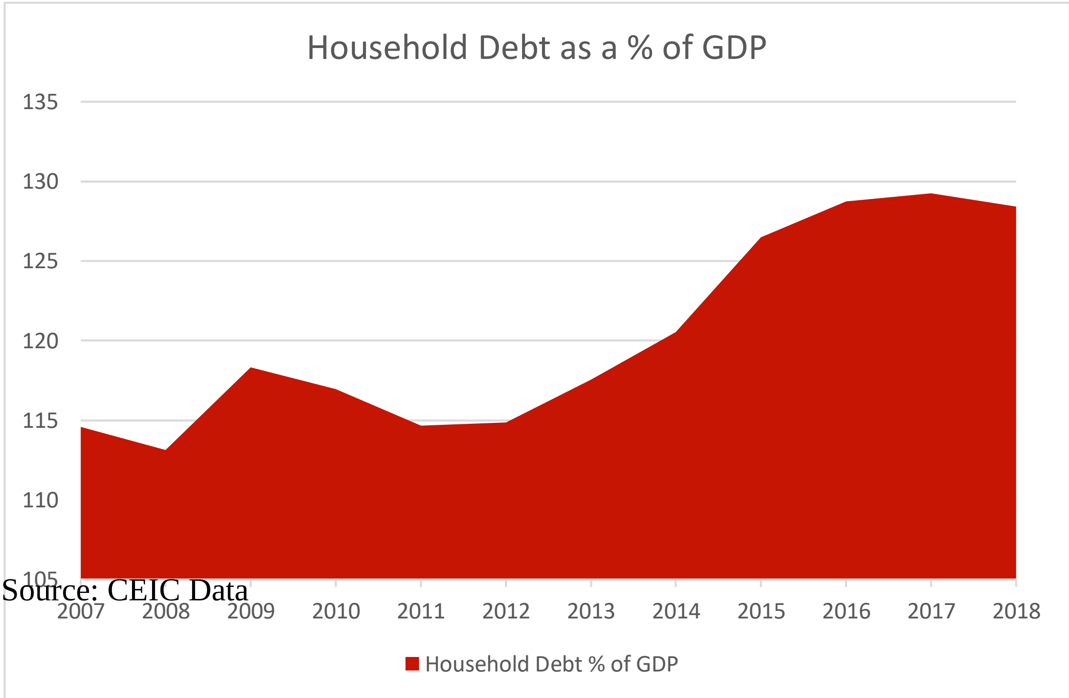
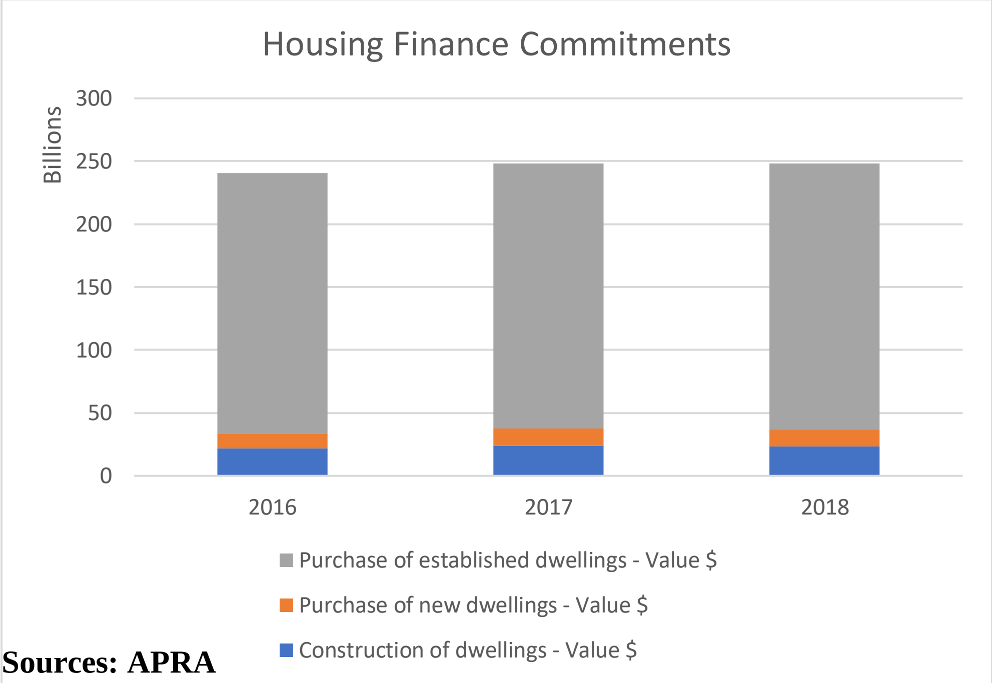


Figure 10: Household Debt as a Percentage of GDP



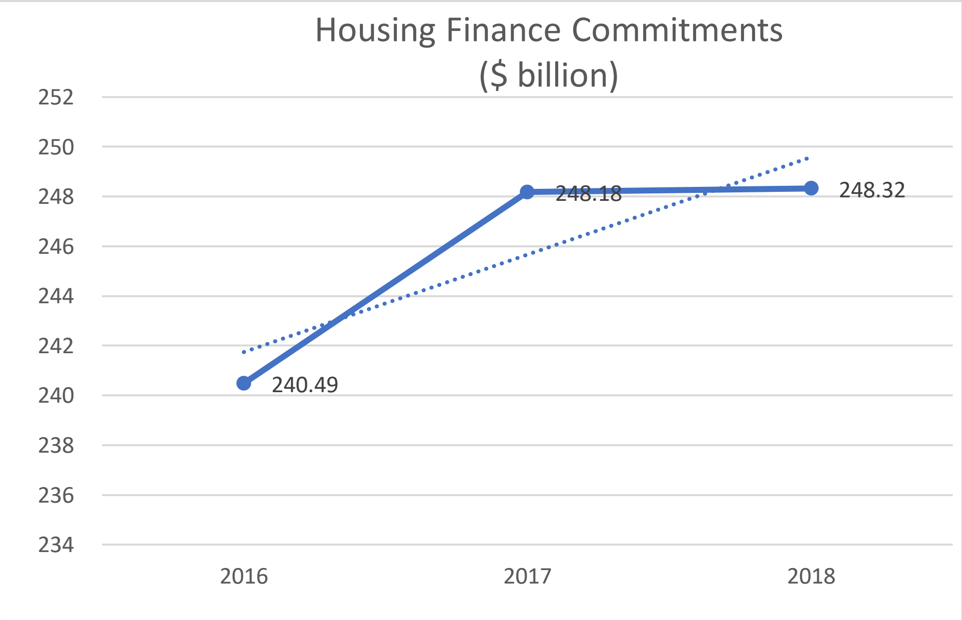
Source: CEIC Data

Figure 11: Housing Finance Portfolio



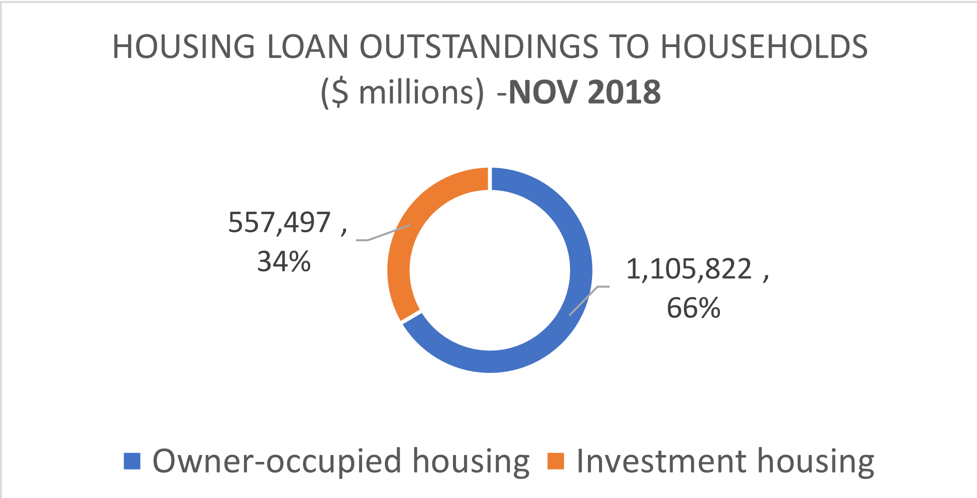
Sources: APRA

Figure 12: Housing Finance Trend



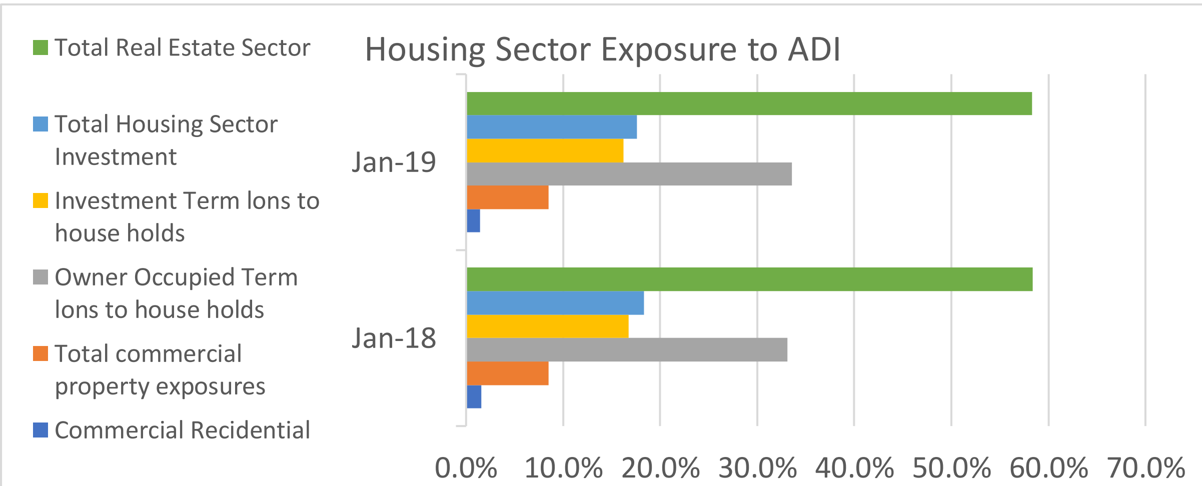
Sources: APRA

Figure 13: Housing Debt Stock



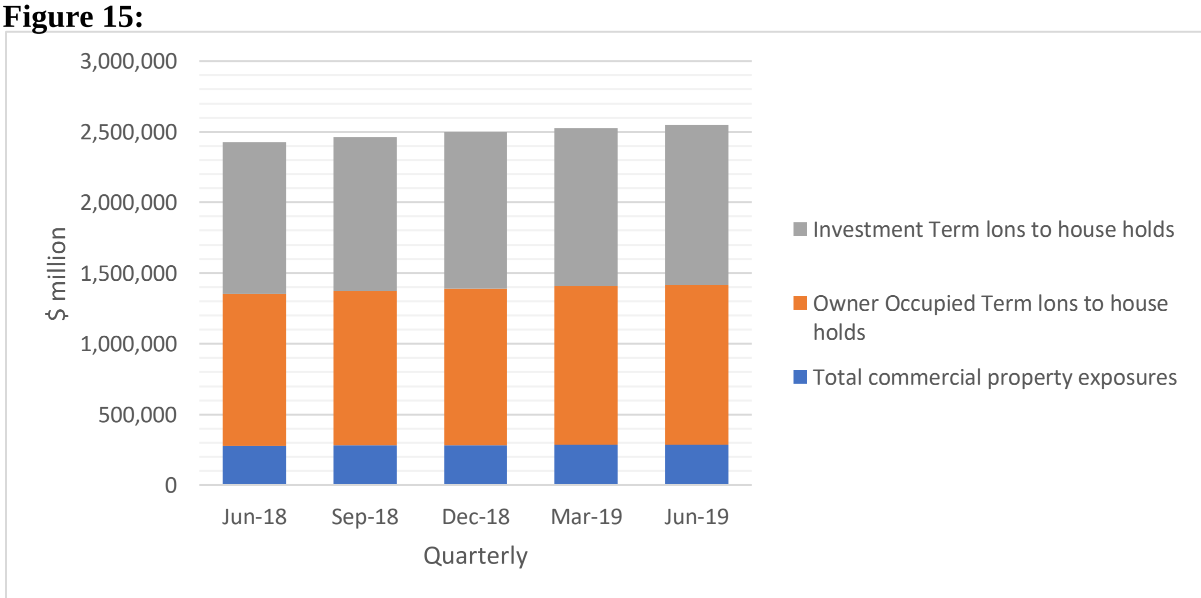
Sources: APRA

Figure 14: Housing Sector Exposure to All Deposit Taking Institutions Australia



Sources: APRA

Figure 15:



4.1.2. Exposure of Social Housing in Australia is safe

As discussed in section 2.1. The growth in the Australian social housing market is driven by the Community housing sector. Section 2 and beyond discussed the Tiered National Regulatory System and and why social housing is different from commercial housing and provided evidence and statistics to identify the sector as stable and lower risk class. Risk can be easily priced with low risk rates lying only 30-50 basis points above the rate at which banks lend to each other. (Berry, Whitehead, Williams, & Yates, 2004). The financial viability of the community housing sector is considered sound, with shadow credit ratings of Moody's A2 to Aa2. Further the exposure is only 0.03% having just above $1billion private debt in social housing (EY, 2017). Therefore, we argue that social housing sector in Australia is a different risk profile and should be treated separately in national policy domain.

4.2. England

Researchers have highlighted the hybrid nature of the dual institutional logics and emphasised the difficulties and tensions involved in combining 'commercial' and 'social' orientations. However study of Gruis and Nieboer's (2007) including five European countries revealed that government regulations **do not** allow landlords in the social housing sector to behave like commercial enterprises (Tang et al., 2017, p. 414).

Governments in the UK have been developing new mechanisms to attract more long-term private finance, especially institutional investments from insurance companies and pension funds, into the social housing sector. In England, the Department for Communities and Local Government (DCLG) introduced the Affordable Housing Guarantee scheme in September 2012 whereby the DCLG provides a guarantee to support debt raised by HAs to develop additional new affordable homes (Tang et al., 2017, p. 414). This is an extra cushion for the social housing sector which improve the credit quality significantly and so that the government bond rating can be attributed apparently. Large HAs, particularly super-large HAs owning more than 50 000 units, have high credit ratings from Aa2 to A1(Tang et al., 2017, p. 415).

The conventional source of private finance for the social housing sector has been long-term bank loans with very low margins. As of March 2014, 78 per cent of the HA sector's debt was attributable to bank loans, reflecting the historical significance of bank finance to the sector (Tang et al., 2017, p. 415). These borrowings have been supported by HCA grants to allow the sustainability of low-cost housing construction. However, since the Global Financial Crisis, banks have been less able to lend cheaply or for long periods particularly after the new Basel III regulation that forces them to hold extra capital for long-term debts (Milligan, Yates, Weisel, & Pawson, 2013, p. 19). Bank loans have become a less attractive source of finance, being smaller in size, more short-term (now typically 5 years rather than the traditional 20 years), more expensive, more constrained and accompanied by more stringent conditions. In contrast, bonds offered many advantages over bank lending, stemming from better loan to value ratios, low risk, very few covenants and minimal governance (Tang et al., 2017, p. 418).

Therefore, HAs in the UK have begun to shift towards capital market bond financing for longer term financing, and bonds have become the main form of institutional investment in social housing (Tang et al., 2017, p. 415). Given the stable income stream of HAs and their social housing assets, together with implicit government support, HAs have raised over 60 per cent of private finance by issuing fixed rate bonds in 2012 (Tang et al., 2017, p. 422). The guarantees improve the borrowing conditions of HAs and institutional investors as it reduces the perceived risk by bond investors and thereby moderate their required yield. Recently, guarantees have become an important feature of the UK social housing finance system, and HAs have increasingly addressed their borrowing needs directly via institutional investors (Tang et al., 2017, p. 414).

In Australia the development of a strong, growing and diverse source of debt finance from the Banking Sector is an essential component of the growing maturity and scale of the sector, with a further long term goal to enhance the role of NHFIC alongside the emergence of Superannuation investment in Build to Rent with an inclusion of affordable housing

With the increased replacement of HCA grants and bank loans by institutional investment, it seems likely that this investment may have had effects on HAs' role as a social housing provider (Tang et al., 2017, p. 416). For those institutional investors who were active in the HA sector, the surveyed investors often cited government support to protect credit quality and social housing assets as one of the key investment drivers. **In particular, the lack of any losses to investors through the financial crisis has reinforced investors' views that the sector is a valuable source of diversification of credit risk.** The sector also provided secured cash flow because of the underlying inflation-linked rental income which gave the confidence that HAs could pay the coupons (Tang et al., 2017, p. 418). This was especially attractive to pension funds which are known to invest in long-term low risk assets due to alignment to pension plan liabilities, the good return-risk-ratio, inflation hedging (particularly where returns are indexed linked), steady long-term secured income streams, and good portfolio diversification opportunities.

Social housing has some extra risks such as having to deal with non-paying social tenants who are most likely unemployed or economically inactive. However a study with investors agreed that having the HA between the investor and the tenant could reduce such risk (Tang et al., 2017, p. 420). HCA has issued guidelines to HAs highlighting the different risks associated with index-linked finance and HAs need to consult the regulator when considering index-linked funding for social housing (Tang et al., 2017, p. 421).

4.3. Scotland

Initially, the Scottish Government implemented counter-cyclical policies to sustain investment and overcome the consequences of the global financial crisis in 2008-2009. Later, the government reduced spending and moved away from counter-cyclical expansions. The Scottish Government is arguing that the key feature of the pre-crisis model – deep capital grants to housing associations – can no longer apply. Instead, government will encourage successful initiatives such as council house building and shared equity alongside innovative intermediate or mid-market rent projects.

There are positive innovations such as the creative use of loan guarantees and the National Housing Trust model specifically represents something completely new in a UK context (Gibb, 2011, p. 365). Several of the smaller scale innovations are also valuable – proposals to allow recycling of grant from sale receipts to reinvest in new association supply, the government scheme to provide development finance for infrastructure costs, targeted local tax revenues from empty homes and the clear engagement with the private sector institutions to play a wider role in affordable housing(Gibb, 2011, p. 365).

4.4. Austria

LPHA are both self-audited and publicly regulated. The Peak body of LPHA audits and regulates individual associations and represents them in negotiations with the government, whilst regional governments also act as external supervisors. This arrangement improves the creditworthiness and, importantly, the credit rating of the sector. This contributes to the structured financing goal of reducing the costs of capital and reducing risk for capital market financial contributors (Amann et al., 2009, p. 15).

Counter-cyclical Keynesian fiscal policy was practised in Austria for much longer than in other Western welfare states which helps to explain why supply-side subsidies towards the construction and renovation of buildings were preferred to a major shift towards demand-side housing benefits (Amann et al., 2009, p. 15). In Austria, demand- side subsidies to low-income households function as a public guarantee for continuous rental incomes of the LPHA. Cost rents ensure that expenditure on demand assistance is both stable and contained. Affordable rents, secured by demand assistance when needed, ensure that vacancy rates and rent arrears in the LPHA housing stock are extremely low (Amann et al., 2009, p. 15).

In Austria, borrowing conditions are very favourable for LPHA being as low as the Euribor rate plus 0-30 basis points (Amann et al., 2009, p. 16). Limited Profit Housing Associations are considered low-risk borrowers for several reasons. Firstly, co-financing by housing subsidies ensures a favourable loan-to-value ratio and represents a very low-risk to investors. Secondly, public bodies act as external supervisors tightly controlling the financial situation of the LPHA. Furthermore, there is a strong market for affordable rental housing leading to minimal vacancy rates (Amann et al., 2009, p. 16). Further, their considerable size and strong asset base and their ownership constellations improve the creditworthiness. Bringing these aspects together, private investors consider limited profit affordable rental housing a fundamentally low-risk asset. Grants and subordinate public loans provide sound collateral for the commercial loans taken out by the LPHA, removing the need for government funded guarantees. This financial support, sound control and supervision guarantee the very favourable conditions for LPHA at the capital market (Amann et al., 2009, p. 16).

To enable the commercial banks to deliver the cheapest possible finance, a special financing vehicle was designed in the early 1990s, the "Wohnbaubanken" – housing banks. Today, all major banks have established housing banks that issue tax-privileged housing construction convertible bonds (HCCB), which enjoy preferential public treatment in two ways. Firstly, a capital income tax relief is granted for the first 4% of returns. Therefore, HCCB can be issued below the market rate as the yield after taxes stays competitive, saving mortgage borrowers around 0.75% in interest costs (Ball 2005 in (Amann et al., 2009, p. 16). Secondly, another incentive to the demand side of the market has been designed by considering an HCCB purchase as a deductible expense when assessing income tax. In addition to these privileges, a tight legal framework for the operation field of housing banks was created: money raised through the issuance of HCCBs has to be allocated towards new approved housing construction programmes, which are eligible for additional object-side subsidies by the provinces, i.e.

mainly in LPHA housing. Further, funds raised must be assigned to Austrian-based construction projects within a period of three years. This has created healthy competition between banks for the LPHA with the best credit history, channelling funds towards projects that the public considers worth funding (Amann et al., 2009, p. 16).

The Austrian model of structured financing can be considered as an advanced financing system that effectively obtains moderate rents, security against rent volatility, secure returns for the property owner and moderates demands on state expenditure (Amann et al., 2009, p. 17)

5.0. Rational for NFP Housing Exemption

When we apply the credit constraints and risk management practices, we should clearly identify the risk profiles of each commercial logic housing activities and social logic housing activities. Commercial housing can be demarcated from the social housing by the following criteria (Manzi & Morrison, 2018, p. 1931).

1. Increased reliance on property sale income as a proportion of turnover as no grants and reliefs are not available to commercial housing.
2. Increased exposure to risk as commercial activities are subject to cyclical changes
3. Change the socio-economic composition of their residents (Income level, expenditure levels etc).

Investors in housing participating a research were keen to argue that there was no inherent contradiction between social and commercial logics as they are ‘not mutually exclusive. (Manzi & Morrison, 2018, p. 1937).Therefore, it may not be equitable to apply the same conditions of APRA or Basel III to the social housing sector NFP companies whose risk profile is significantly lower.

Given the fiscal pressure on governments, the grants given to the sector has been reduced. Increasingly, HAs have become hybrid organisations facing a double commitment to implement social tasks as providers of low-income housing and to undertake business-style strategies as entrepreneurs. In addition to their core social housing business, HAs in England own 161 000 leasehold properties and a further 88 000 non-social housing dwellings which include student accommodation, key worker housing, open market and intermediate renting and residential care homes (Tang et al., 2017, p. 413). HAs need to develop a portfolio of commercial activity to fund their core businesses. At the same time, they are committed to a social responsibility to existing and future tenants. Therefore they are obliged to protect their assets from unnecessary risks (Manzi & Morrison, 2018, p. 1929; Tang et al., 2017, p. 414).

There is an opportunity cost of revising the way social organisations responds to affordability pressures experienced by a wide spectrum of residents. HAs' senior managers suggest a collective consensus about the importance of retaining a strong social purpose (Manzi & Morrison, 2018, p. 1937).

The NFP social housing sector has comprehensive risk management policies to mitigate their risks. However, if APRA proposes that the sectors activities fall under 'other residential mortgages, then risks associated with the availability, cost and terms of funding will increase and Community Housing will face increased difficulties in meeting the rising social housing demand which will create further pressure on public policy outcomes and costs, from health to education to homelessness.

6.0. Appendices

Appendix I

Community Housing Tenancy and Investment Data

NRSCH annual report (2018-19) the sector can be summarised as follows:

- Tier 1 – Approximately 11%
- Tier 2 – Approximately 12%
- Tier 3 – Approximately 77%
- Providers manage about 78,000 dwellings
- Based on surveys returned 88% are happy with T1&2 providers
- Occupancy rates over 97%
- Less than 2.5% had rental arrears
- Tenant satisfaction was greater than the benchmark 75%
- Almost ¾ had financial returns greater than those benchmarked
- Consumer satisfaction were greater than those benchmarks
- No Tier 1 or Tier 2 providers sought de-registration due to non-compliance
- 97% of the properties are occupied and tenancy turnaround tenantable is 32 days

NRAS Survey:

- 40% of funding was from sources outside the 4 major banks
- 84% of tenants had been in the same dwelling for over 5 years
- 92% indicated a high level of security in NRAS tenancy

7.0. References

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