

HOUSING AUSTRALIA

Affordable Housing Bond Aggregator – Market update
7 February 2024

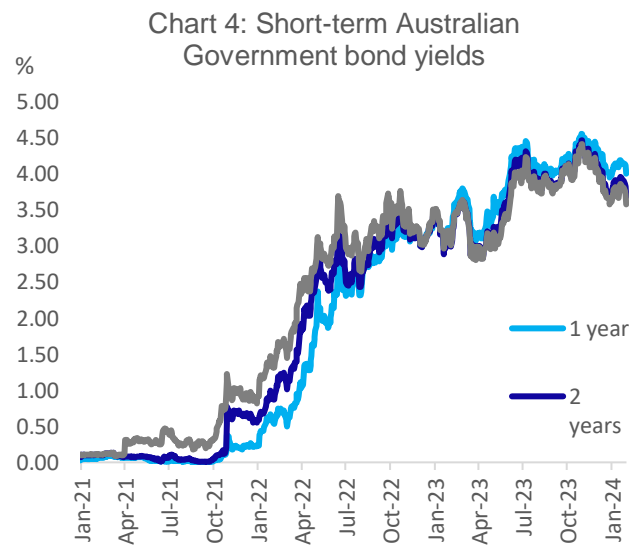
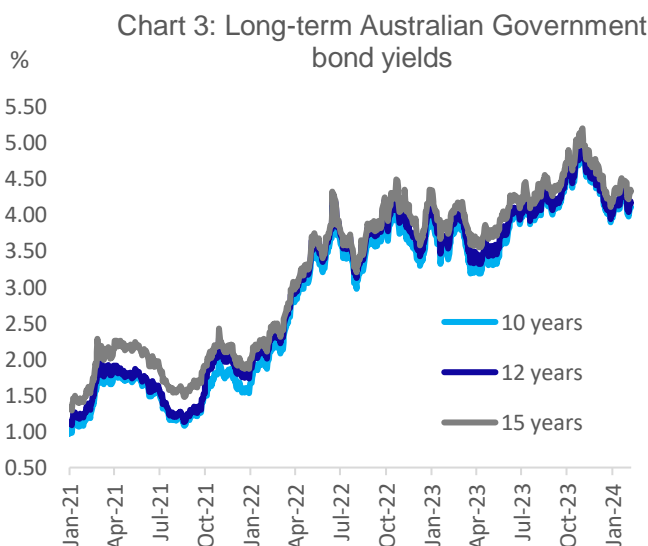
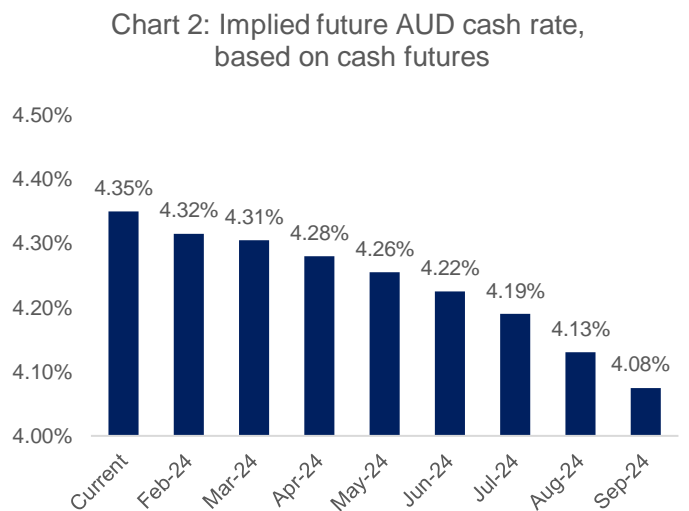
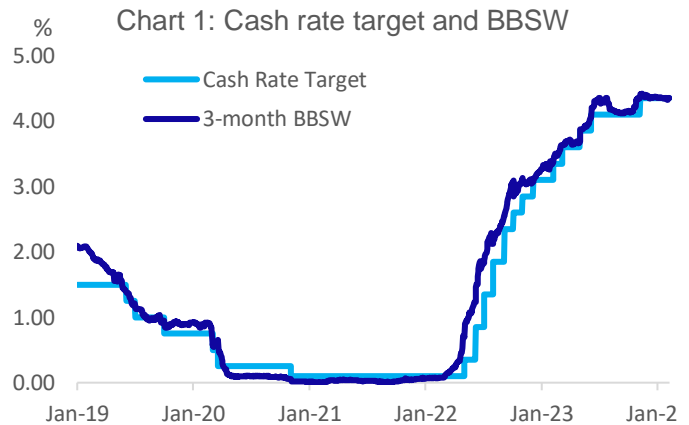


Market commentary

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35% on 6 February 2024 (Chart 1). The RBA Board retained a tightening bias with the Statement noting that, “the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks, and a further increase in interest rates cannot be ruled out.” Current pricing in the cash futures market indicates no further increases in the cash rate are expected and the market is pricing a chance the RBA may reduce the cash rate in the second half of 2024 (Chart 2).

Bond yields have decreased from the prior month. Headline CPI rose by 0.6% in Q4 2023, below the 0.8% market forecast. The annual rate dropped from 5.4% to 4.1%. The trimmed mean CPI rose by 0.8%, the annual rate fell from a revised 5.1% to 4.2%. The RBA’s updated its forecasts – Headline inflation in Q4 2024 is forecast to decline to 3.2% (from 3.5% previously). Underlying inflation is forecast to fall 3.1% (from 3.3%). The unemployment rate is expected to end the year at 4.3%. The softer forecast for GDP growth reflects a weaker outlook for household consumption in the near term.

Long term bond yields, which determine Housing Australia’s cost of funding and the interest rates we can offer the community housing sector have decreased month-on-month (Chart 3). The 10-year Government bond yield is currently 4.09%. As of 7 February 2024, we estimate Housing Australia’s 10-year cost of borrowing to be 4.53%. The Housing Australia premium is approximately 44 basis points above the 10-year Government Bond yield.



The following table shows the estimated cost of long-term fixed and floating rate funding for Housing Australia as of 7 February 2024. The interest rates that Housing Australia can offer registered Community Housing Providers (CHPs) for lending to established properties typically ranges from 0.65% to 1.00% above Housing Australia's funding cost (excluding establishment fees) depending on the nature and terms of the loan. Higher margins apply for construction lending.

Housing Australia's estimated AHBA cost of funds	10 years	12 years	15 years
Fixed rate cost of funds	4.53%	4.65%	4.87%
Floating rate cost of funds (3M BBSW plus)	0.34%	0.37%	0.52%
3-month BBSW	4.35%	4.35%	4.35%

CHPs interested in AHBA finance should speak to their Housing Australia Relationship Manager for information on the relevant margin applicable to their project.

Note

The source of all market data in this report is Bloomberg.

Disclaimer

Whilst Housing Australia makes every effort to ensure that material in this report is accurate and up to date, such material in no way constitutes the provision of professional, legal or financial advice. Housing Australia does not guarantee, nor does it accept, any legal liability whatsoever arising from or connected to, the accuracy, reliability, currency or completeness of any material contained in this report.

The information in this report is provided to you in good faith on an "as is" and "as available" basis. Housing Australia does not make any representation or warranty of any kind, whether express or implied, as to the reliability of the information.

Housing Australia does not represent or warrant that there will be no delays, failures, errors or omissions or loss of transmitted information, that no viruses or other contaminating or destructive properties will be transmitted, or that no damage will occur to your computer system. You must take your own precautions to ensure that the process which you employ for accessing the information in this report does not expose you to the risk of viruses, malicious computer code or other forms of interference that may damage your computer system or any other computer system.

Housing Australia does not accept responsibility for any loss or damage, however caused (including through negligence), which you may directly or indirectly suffer in connection with your use of, attempted use of, or inability to use the information contained in this report. Nor does Housing Australia accept any responsibility for any such loss that arises from your use of or reliance on information accessed on or through this report.