

HOUSING AUSTRALIA

Affordable Housing Bond Aggregator – Market update

1 March 2024



Housing Australia

Market commentary

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35% on 6 February 2024 (Chart 1). Next meeting is on 19 March. The February Minutes confirmed that the Board considered the options to raise the cash rate target by 0.25% or holding the cash rate target steady, noting the risk of inflation not returning to the Board's target within a reasonable timeframe had eased. Current pricing in the cash futures market indicates no further increases in the cash rate are expected, while pricing a chance that the RBA may reduce the cash rate in the second half of 2024 (Chart 2).

The Monthly CPI Indicator rose 3.4% in the year to January. That was below the consensus estimate for a 3.6% outcome. Employment rose by just 0.5k in January after a fall of 62.7k in December. The unemployment rate increased to 4.1% and the participation rate was flat at 66.8%. Wages rose by 0.9% in Q4 and 4.2% annually. Private sector wages growth was 0.9% while public sector wages growth was 1.3%. The key driver of growth in the public sector component was newly implemented enterprise agreements for essential workers linked to NSW and Qld state wage policy outcomes.

Long term bond yields, which determine Housing Australia's cost of funding and the interest rates we can offer the community housing sector have increased month-on-month (Chart 3). The 10-year Government bond yield is currently 4.12%. As of 1 March 2024, we estimate Housing Australia's 10-year cost of borrowing to be 4.59%. The Housing Australia premium is approximately 47 basis points above the 10-year Government Bond yield.

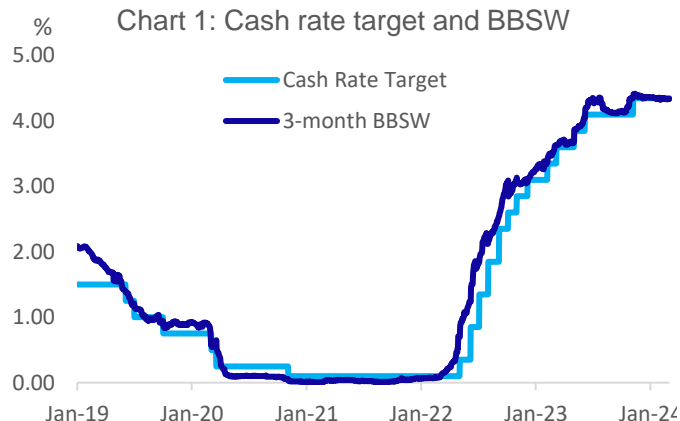


Chart 2: Implied future AUD cash rate, based on cash futures

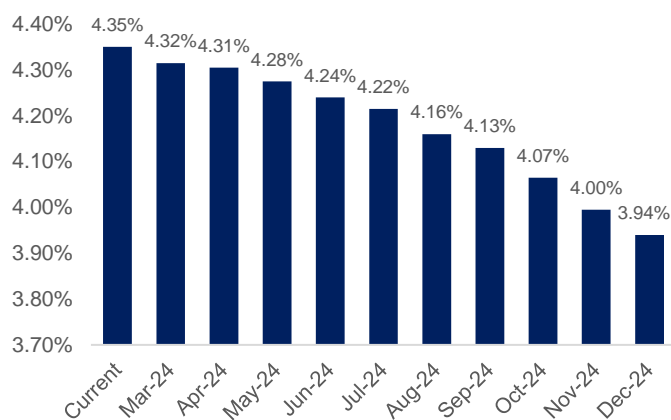


Chart 3: Long-term Australian Government bond yields

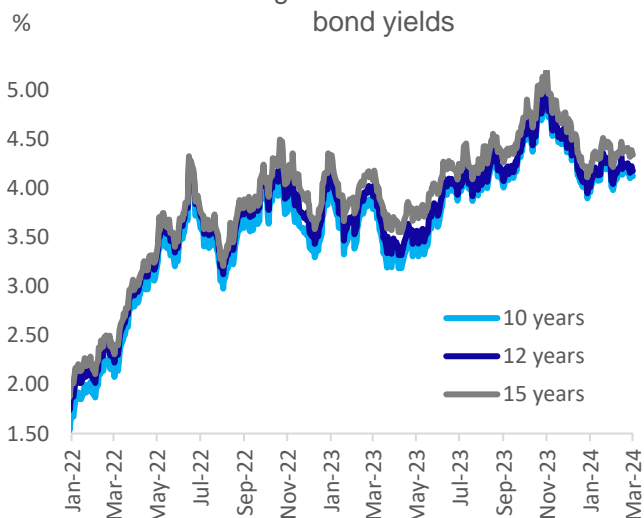
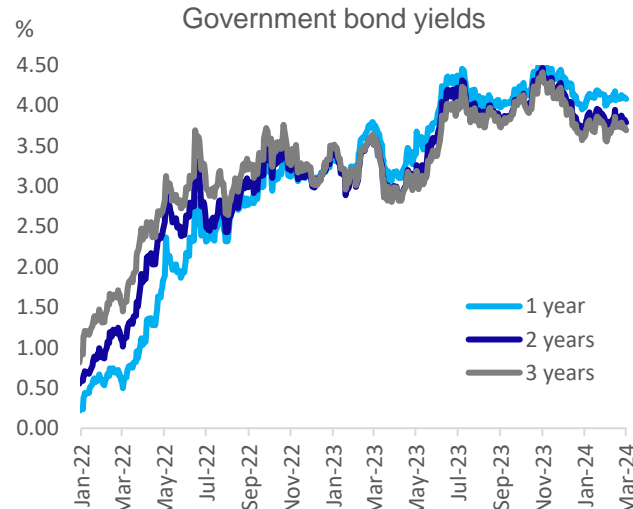


Chart 4: Short-term Australian Government bond yields



The following table shows the estimated cost of long-term fixed and floating rate funding for Housing Australia as of 1 March 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 | 4.59% | 4.68% | 4.89% |
| Floating rate cost of funds (3M BBSW plus) | 0.36% | 0.37% | 0.52% |
| 3-month BBSW | 4.34% | 4.34% | 4.34% |

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.

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