FINANCIAL REVIEW

States hold back community housing sector

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A Community housing such as this Queens Road, Melbourne project is seen as a solution to the demand for affordable dwellings. **Photo: Jesse Marlow**

Michael Bleby

The development of a large-scale, professionally managed community housing sector that offers stable and consistent returns to lenders is held back by the failure of state governments to transfer title deeds of stock, as well as a lack of skills and scale in the nascent community sector itself.

Already seen as the Holy Grail that could lessen Australia's shortage of affordable housing – especially if super funds invest in it – community housing puts public housing stock in the hands of professional, non-profit-making managers who make an operating surplus that they can plough back into the maintenance of existing stock and investment in new dwellings.

The industry is growing. In 2003 it managed 7 per cent of Australia's social housing and by the end of this year the figure is likely to be 18 per cent, or about 77,000 dwellings.

With declining real budgets for public housing and a growing need – stoked by social changes such as ever-greater numbers of single-person households – state governments are battling to cope with the demand for public housing, and are falling behind in maintaining their dwellings. Nationally, the number of public housing units fell to less than 327,000 in 2010, from 360,000 just three years earlier.

“It’s got so critical that most states have got large portfolios of housing, many dwellings of which have a pretty substantial [maintenance backlog] or are getting significant backlogs,” says Carol Croce, the executive director of the Community Housing Federation of Australia, an industry body for the community housing sector.

While changes are under way – state governments agreed in 2009 to transfer up to 35 per cent of their stock to community housing by June this year – the sector bemoans the slow pace of transfer and also the way in which it is usually done. Between 1995 and 2012, for example, nearly three-quarters of the 21,000 dwelling transfers were management outsourcing only, rather than full ownership transfer.

The industry itself is small.

“If there was a silver bullet somebody would have found it,” says Rowan Dowland, the head of development at community bank bankmecu.

Sector claims better management

The community housing sector says its advantage lies in better management and being able to leverage the property to secure bank and other financing. Management alone, however, limits the sector to exploiting the – admittedly steady – cash flow that comes from these properties, reducing their ability to raise capital to invest in maintenance and new dwellings.

“If they’re going to leverage and operate in the commercial business sense of putting more housing on the ground, they can certainly borrow up to the cash flow they’re getting, but it’s more limited than what they can do if they actually have title of the property,” Julie Cross, the executive officer of PowerHousing Australia, an industry association of 27 community housing associations, says.

“The frustration is how much housing you can get out because the need is so great.”

When it works, it works well, however. In 2008, provider Community Housing Ltd took ownership of a block of 64 apartments opposite Albert Park Lake in Melbourne.

CHL financed the property to add a further 16 units with a book value of $3.5 million to the $17.5 million site. It also upgraded the facilities. Still, state governments are reluctant.

“Transferring title to them is unlikely to result in the best outcome for tenants,”Peter White, the director of Housing Tasmania, says. “Social housing cash flows are limited by the rental subsidies provided to tenants. Therefore, irrespective of the value of security, organisations will find their capacity to borrow against that asset is restricted by the interest coverage ratio that the banks will stipulate in any lending agreement.”

Small industry

The industry remains small. Bankmecu, which pioneered lending to the sector and made its first loan in June 2006, has current lending over $100 million and a cap – due to its size – of $150 million. Under its 2013 sustainability strategy Westpac Bank, which has committed $2 billion to the social and affordable housing industry, had invested $650 million as of September.

Investec recently said it would finance an affordable housing development in Adelaide.

"It's going to be a huge market," Carrie Hamilton, of consultancy Housing Action Network, says.

"But the commercial banks have been a bit put off by the stop-start nature of state government policy."

That's not all that puts lenders off, however. The single largest constraint on growth is the lack of scale of many of the community housing providers, Rowan Dowland says.

"The industry probably doesn't want to hear it, but consolidation will give greater capacity within the organisations themselves to manage larger housing portfolios, to employ more sophisticated management teams, to invest more heavily in more technology and systems," Rowan Dowland tells *The Australian Financial Review*.

Tasmania's Peter White agrees. "To operate at scale, organisations should be responsible for portfolios of at least 1000 dwellings," he says. "In some situations it may be beneficial to support niche providers that specialise in providing a particular service."

PowerHousing Australia's members meet that threshold, but Julie Cross agrees that consolidation is likely.

"You will continue to see aggregation and I would certainly think boards of the organisations would review that as a possible strategy," she says.

Carrie Hamilton says there are between 15 and 20 organisations in Australia with loan facilities of between $50 million and $75 million, cumulatively accounting for about $1 billion in commercial debt. Most of the housing providers borrow on short terms, typically between three and five years, putting them under refinancing risk.

While state government has concerns about the hit to their balance sheet of handing over the housing assets on their books, the transfer of title could also be a double-edged sword for the community housing providers, Rowan Dowland says.

"Title transfer of stock could be a positive, but it could also present a significant liability for the community housing provider if the stock requires a significant investment in maintenance," he says.

Some tweaking may be needed, but community housing can work. The sector is a good risk, Carol Croce says.

"We've got this secure cash flow," she says. "We've got low arrears, low turnover and a big vacancy list."