The community housing industry
Maximising opportunities

13 May 2014

Australian Housing and Urban Research Institute

Views of Australia's leading community housing organisations

What the evidence tells us

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Informing Australia's housing and urban futures

Australian panel studies

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- **2011/12** structured survey followed by in-depth interviews with 14 leading community housing CEOs
- **2013/14** re-surveyed/re-interviewed current CEOs at same 14 orgs + another 6
- Selection of organisations based on
  - → Established orgs. with min. 3 year perspective
  - → Scale & functional complexity of business
  - → Representing geographical diversity
  - → Additional orgs. 2013 – selected to increase diversity of business models & extend national coverage
- **2011/12** findings published 2013
- **2013/14** findings later this year


Final Report

Peer Reviewed

Understanding leadership, strategy and organisational dynamics in the not-for-profit housing sector

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Survey design

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- On line survey
- Scaled questions
  - → Scoring from important to unimportant
- Scope
  - → Organisational values
  - → Strategic positioning
  - → Importance of change factors
  - → Adaptation to changes
  - → 3 pending strategic decisions
- Follow up interviews with each panel member
  - → Review survey results in light of collective view
  - → Understand org. responses
  - → Exemplify org. strategies

e.g. Strategic Positioning

3 years ago:	Focus on financial performance	< O O O O O O O O >	Focus on social return
Now:	Focus on financial performance	< O O O O O O O O >	Focus on social return
In 3 years' time:	Focus on financial performance	< O O O O O O O O >	Focus on social return

3 years ago:	Focused on specific localities	< O O O O O O O O >	Not limited to specific localities
Now:	Focused on specific localities	< O O O O O O O O >	Not limited to specific localities
In three years' time:	Focused on specific localities	< O O O O O O O O >	Not limited to specific localities

3 years ago:	Growing mainly through stock transfer from public housing	< O O O O O O O O >	Growing mainly through other processes e.g. merger, geographic expansion
Now:	Growing mainly through stock transfer from public housing	< O O O O O O O O >	Growing mainly through other processes e.g. merger, geographic expansion
In three years' time:	Growing mainly through stock transfer from public housing	< O O O O O O O O >	Growing mainly through other processes e.g. merger, geographic expansion

External context

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2008–11

- Strong national govt. investment plus state/local opportunities in some jurisdictions
- Post GFC market volatility & more stringent lending conditions
- Incentives to improve revenue
- Rent restructures to capture CRA
- First tranches of bank lending into sector

2012–14

- End govt. supply stimulus & less govt. capital
- Shift to public hsg. transfers as main growth driver
- Political changes & policy hiatus/flux impacting org. planning & development
- National regulation & NDIS initiatives
- Similar market & lending conditions, high price environment

Business metrics

2010/11 (14 orgs.)

	Total	**Average**
Assets	$2.5b	$175m
Liabilities	$607m	$43m
Rent revenue	$135m	$10m
Tenancies	22,000	1,571

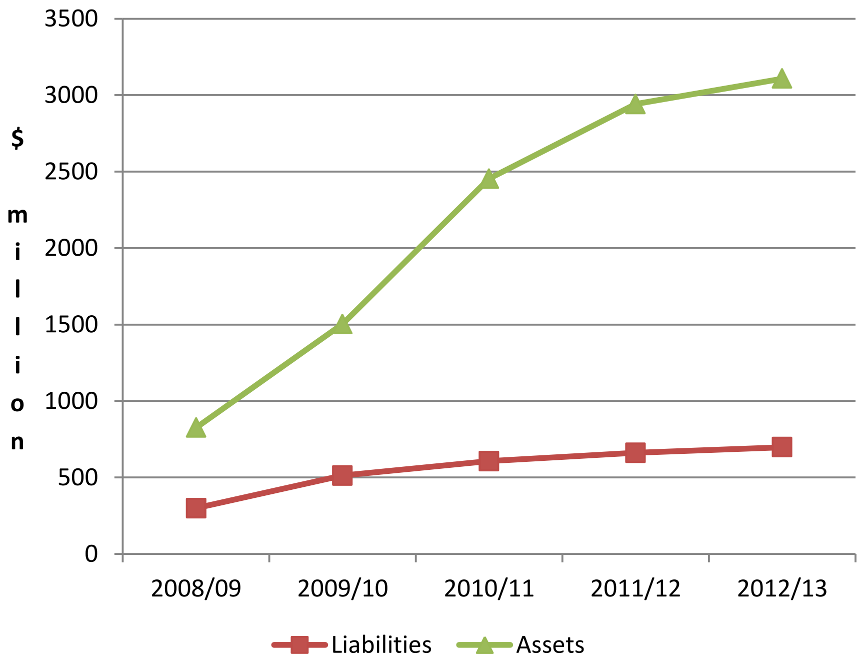
2010/11 (14 orgs.)

	Total	**Average**
Assets	$4.2b	$210m
Liabilities	$899m	$45m
Rent revenue	$278m	$14m
Tenancies	38,000	1,898

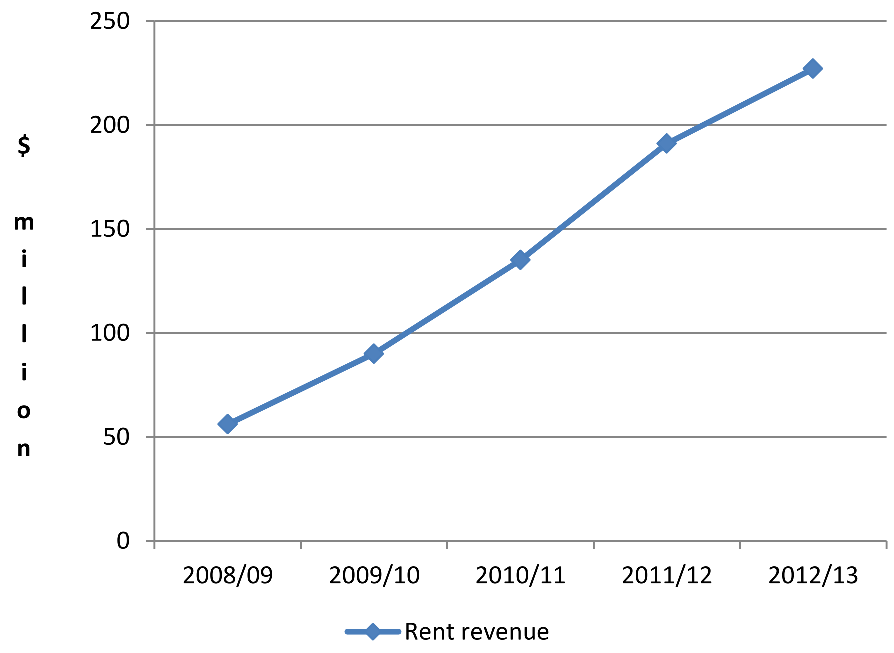
Source: Annual reports & financial statements, adjusted for comparability
NB: Tenancies (affordable/social) included in data may vary somewhat from organisation to organisation

Growth rates

Balance sheet (14 orgs.)



Rent revenue (14 orgs.)

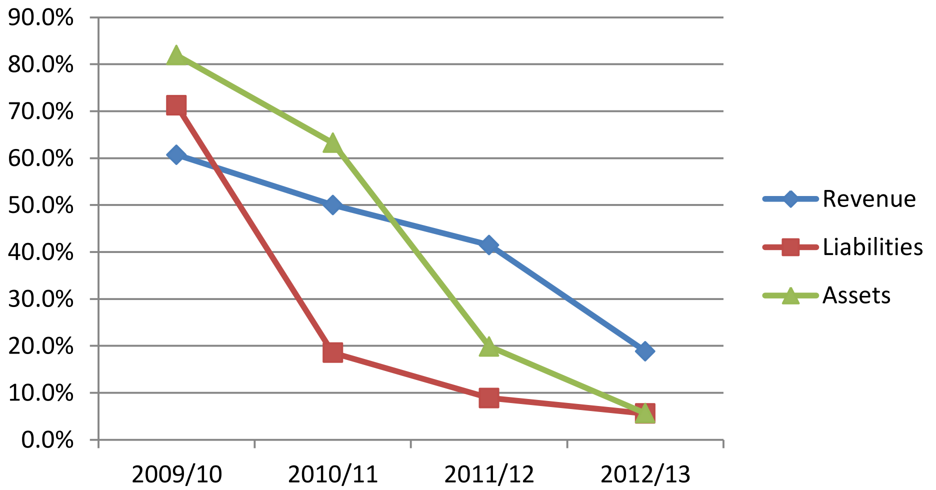


Growth rates

Cont…

- 2008–11: period of rapid growth (from low-base)
  - → Assets, borrowings & rent revenue expanded
  - → Scaling up of tenancies managed
- 2012–14: period of consolidation
  - → Balance sheets tapering for most
  - → Continuing revenue growth at lower rate
  - → More modest increases in tenancies managed

Annual rate of change in business metrics (14 orgs.)



Findings
Influence of org. values/mission

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- Values largely unchanged 2011–13 surveys
- Strong social ethos but increasingly commercial discipline
- Business decisions concern best means to achieve social outcomes
- Business development geared to growing social benefits, especially housing for low incomes
- Most orgs. striving for greater independence to control destiny & protect core business
  - → But priority & intensity of entrepreneurship in response to this driver varies
  - → State differences also significant (e.g. extent of asset control by orgs).

Findings
Strategic positioning

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Survey Wave 1

- Broadening service remit
  - Range of incomes
  - Different rent products
- Geographical expansion
  - Moves into multiple communities & across jurisdictions
- Developing new housing
- Moves by some into mixed tenure developments
  - incl. asset sales to investors, home buyers

Survey Wave 2

- Deepening/widening of 2011 trends
- More focus on add-on services for tenants
  - Tenant engagement/mentoring
  - Connecting tenants to education, training, jobs
  - Wellbeing initiatives
  - Place & home making
  - Some tenant enterprise initiatives
- More development partnering, joint ventures

Findings

Adaptation to change, orgs

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Wave 1

- Strengthening boards to support commercial orientation
- New layer of executive management
  - → CFOs, COOs, Development Managers
- Adding in house development capacity
- Managing accountability to regulator & lenders
- Building organisational culture

Wave 2

- Significant investment in IT
- Separation of commercial business
  - → Risk & regulatory drivers
- Greater emphasis on commercial discipline/business knowledge
- Developing competencies
  - → Financial/ risk management
  - → Specialist staff
  - → Service improvement
  - → More experienced boards
- More partnering & alliance building
- Managing intra-sector tendering/competition

Findings

Adaptation to change, business strategies

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Wave 1

- Growth largely govt. driven
- Enthusiastic organisational responses to SHI, NRAS opportunities
- First flowering of self-initiated growth

Wave 2

- Revenue seeking intensified
  - → Real estate services
  - → Development/consultancy services
- Working own assets & surpluses to develop business
- De-risking NRAS
- More active pursuit of new sources of govt/private funding
- Downsizing development capacity for some
- Restructuring maintenance services

CEOs on business drivers

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- ‘It is definitely not a business that is sustainable with just social housing. You have to have affordable housing—middle income—in the mix’
- ‘I’m happy ... If I have to have 70% of people who are not homeless housed in my housing, to get 30% who are or could be, that’s 30% more than I would’ve got’
- ‘The biggest challenge is to continue developing at a sustainable level. If we spend our reserves too quickly we wouldn’t be able to drive bargains with government’

CEOs on capacity issues

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- ‘Given the complexity of our business we’ve had to become very financially astute … we’ve increased our finance area in terms of capacity & capability’.
- ‘Organisations can’t just stand still—if you do you die. However to really progress they need control of their business. This is the paradox—we have shown what we can do but we have not been unshackled. Even if we succeed in getting transfers this may not work because of contractual constraints & interference in operations.’
- ‘We could triple or quadruple our output … what we do now, without any backward step’ [with access to land & development capital]
- ‘Our present asset & revenue base is maxed out in terms of debt servicing … future capacity to leverage depends on external factors’

Findings

Outlook next 3 years

- Focus on public housing transfers & what they can achieve
  - → For some: to enhance client/community outcomes
  - → Others: interested if accompanied by redevelopment opportunities
  - → Several: sceptical about current offer terms & business/org. impacts
- Moving into specialised development/supply
  - → e.g. hsg for older tenants, disability hsg, regional key worker hsg
- Expectations of attracting private equity
  - → Joint & separate efforts to achieve
  - → Unrealistic without more govt. support?
- Showing interest in activating tenant pathways
  - → Including offering home ownership products
- Growing cost pressures will force business changes
- Impacts of national regulation & welfare/housing policy reforms?

CEOs on sustainability, growth & govt. policy

- ‘[Developing submarket rental housing] is our raison d’etre. But at present we have approximately a 60:40 split of social to affordable & that needs to be the other way round. If people don’t do that they’ll go broke’

- ‘Without government capital funding, housing associations will bust their guts to get growth but it won’t be growth in housing for people who need it the most—it will be for the people who can pay 74.9% of market rent. There needs to be incentives for community housing providers to house … people on the lowest incomes’

- ‘The light bulb has gone on that our business model for growth involved capital funding from govt. & this doesn’t exist & may not exist … for a long time… & we need to look at creating a new business model for growth’

Conclusions

Organisational changes since 2011

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- Orgs. remain strongly socially focussed but have different opportunities/constraints
  - → Shared purpose: primacy of assisting low incomes
- Clear evidence of greater commercial orientation
- Much more independent & capable orgs. than 3 years ago, though state differences remain
- Have been resourceful & innovative in face of govt. retraction/less certainty
- Different identities emerging
  - → Real estate service & a charity, community housing sector leader, not-for-profit housing developer-manager, housing industry member, social enterprise, integrated housing services provider, broader NFP, profit-for-purpose
- Anchorage in civil society appears weak for most

Conclusions

Business changes since 2011

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- More diversified but remain housing centred
  - → Social housing, affordable rentals, mixed tenure are core products
  - → Diversification geared to achieving scale economies, cross subsidy, reducing political/policy risk
- Entering new markets ongoing priority for most
  - → What are the implications for community ties? Partnering & alliances emerging as one strategy for addressing this
- A range of business types emerging
  - → Developer/managers & housing managers at scale two key groupings
  - → Historical & jurisdictional factors & internal leadership drive these choices
- Increasingly having to look to financial cocktails
  - → Complex mix of philanthropy, different levels & agencies of govt., private finance, own investments
  - → Variable success so far
  - → Efficiency & cost issues remain in absence of structured financing mechanism

Summing up industry status

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- Leading CHOs robust & successful so far
- Operate sustainable businesses but not optimal
  - → Rates of return/profitability insufficient to generate growth
    - Requires rent & subsidy reform; more active asset restructuring
  - → Development pipelines shallow for most (beyond NRAS)
    - Factors: restricted working capital, access to land, leverage capacity
  - → Costs rising; economies of scale not yet achieved
    - Mergers & shared services may result
    - Don't have control of older assets that need to be traded
  - → Inefficiencies/processes adding to costs
    - e.g. competitive tendering, fragmented fund raising, no industry strategic growth plan, govts. often unresponsive to proposals
  - → Underutilised capacity
- Given above & weak policy support, growth & managing the social/commercial balancing act will be ongoing challenges

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