



Final Report

Lessons of Defence Housing Australia for affordable housing provision

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ACRONYMS

AHURI	Australian Housing and Urban Research Institute Limited
AR	Annual Report
CSHA	Commonwealth State Housing Agreement
DHA	Defence Housing Authority or Defence Housing Australia
FaCSIA	Australian Government Department of Families, Community Services and Indigenous Affairs
HMC	Home Management Centre
NRAS	National Rental Affordability Scheme
PACMAN	Pay and Conditions Manual
SHA	State Housing Authority

EXECUTIVE SUMMARY

Encouraging private investment in affordable housing Australia has been recognised as a major challenge by researchers and policy-makers for some time and this has generated considerable work on possible models. One successful model of private investment in the large scale provision of rental housing has been that of Defence Housing Australia (DHA). In 2009, DHA had a portfolio of over 17,000 dwellings valued at over \$7 billion that were owned by a mix of public, private individual and institutional investors. Essentially the DHA has a number of functions, it:

- constructs housing
- buys housing
- sells housing (to dispose of it)
- sells housing to investors (called non-DHA housing in this report) and leases it back on long-term leases
- manages tenancies
- maintains houses (including essential maintenance for its leaseback properties)
- refurbishes housing
- relocates tenants.

The non-DHA properties are managed by the DHA for fixed periods typically up to 12 years and are on-leased to service personnel. The financial and operational parameters of this model has many features in common with intended directions for affordable housing signalled under recent national and state policies—especially plans to promote private ownership of affordable housing and to encourage larger scale housing managers, with a focus on the potential of the not-for-profit housing sector.

The aim of the project is very straightforward: ‘to determine the potential lessons of the DHA model for affordable housing provision’.

To address this aim, the study will consider the following specific research questions:

1. What are the characteristics of the rental housing investment and business models operated by the DHA and how have these developed and performed across market cycles?
2. What benchmarks can be established for key performance areas including returns to investors and asset and tenancy management?
3. What implications can be drawn from the DHA model for the emerging affordable rental housing sector?

The findings

The development and current practice of DHA has a number of lessons for the affordable housing sector. The first lessons relate to some broad policy issues. The first group are:

- Providing a rapid solution to significant housing need (like the current gap between the demand and supply of affordable housing in Australia) which requires an injection of capital and a flexible approach to program delivery.
- Minimising the difficulty of sustaining institutional investment in affordable housing.

The second group of lessons relates to how an affordable housing provider organises its assets. Relevant issues are that:

- Successful housing development requires scale.
- Large maintenance contracts will drive down average costs.
- Successful asset management will require significant trading of stock.
- Robust design guidelines will assist organisations to acquire and develop appropriate housing.

In relation to the operation of affordable housing providers, DHA exhibits good practice in terms of governance and staff management that may provide some useful lessons for affordable housing providers. The quantity and quality of reporting by the DHA provides an indication of the strategies an organisation can implement to help change the perception of key stakeholders about an organisation's performance. Given the misconceptions about the operation of the affordable housing sector, the DHA approach provides some obvious lessons about reporting strategies which the affordable housing sector could pursue.

The biggest lesson for the affordable housing sector is the potential of a sales and leaseback model to attract private investment into the sector. After some false starts, DHA has developed a sustainable model in the sales leaseback space that has created a product that provides advantages for both the DHA and investors. While the application of this model to the affordable housing sector is likely to require some type of government guarantee, this may not necessarily be expensive for government. It is suggested that a detailed feasibility study that includes some significant market research be undertaken to explore the viability of an affordable housing sales and leaseback product.

Finally, the DHA is the largest non-SHA affordable housing provider in Australia. However, until this project was instigated, it has really flown 'under the radar' in terms of affordable housing research and discussion of affordable housing practice in Australia. The affordable housing sector will be assisted by increasing the breadth and depth of the affordable housing network. The DHA should be invited and encouraged to increase their level of participation in this network.

1 INTRODUCTION

Encouraging private investment in affordable housing Australia has been recognised as a major challenge by researchers and policy-makers for some time and this has generated considerable work on possible models. A good overview of the issues and options can be found in the report of the Allen Consulting Group (2004). One successful model of private investment in the large scale provision of rental housing has been that of Defence Housing Australia (DHA). In 2009, DHA had a portfolio of over 17 000 dwellings valued at over \$7 billion that were owned by a mix of public, private individual and institutional investors. Essentially the DHA has a number of functions, it:

- constructs housing
- buys housing
- sells housing (to dispose of it)
- sells housing to investors (called non-DHA housing in this report) and leases it back on long-term leases
- manages tenancies
- maintains houses (including essential maintenance for its leaseback properties)
- refurbishes housing
- relocates tenants.

The non-DHA properties are managed by the DHA for fixed periods typically up to 12 years and are on-leased to service personnel. The financial and operational parameters of this model has many features in common with intended directions for affordable housing signalled under recent national and state policies—especially plans to promote private ownership of affordable housing and to encourage larger scale housing managers, with a focus on the potential of the not-for-profit housing sector.

In this context, this project responds to a direct and highly practical question in the AHURI research agenda (Theme 4: Affordable housing) to determine the potential lessons of the Defence Housing Australia model of rental housing supply and management for affordable housing provision.

The aim of the project is very straightforward: ‘to determine the potential lessons of the DHA model for affordable housing provision’.

To address this aim, the study will consider the following specific research questions:

1. What are the characteristics of the rental housing investment and business models operated by the DHA and how have these developed and performed across market cycles?
2. What benchmarks can be established for key performance areas including returns to investors and asset and tenancy management?
3. What implications can be drawn from the DHA model for the emerging affordable rental housing sector?

1.1 Methodology

The original methodology proposed for the study was based on undertaking a two-stage review of relevant documents pertaining to the DHA’s strategies, operations and performance, of potential relevance to the emerging affordable housing industry in

Australia. In the first stage, all potentially useful information was to be identified and the content appraised to provide an overview of the model. This information was to be collated by content area and presented to a reference group of affordable housing industry representatives who would advise the research team on useful areas for closer examination. The second stage of the review was to use this feedback to drill down into the selected areas of interest using document analysis and DHA staff interviews.

This original strategy was amended for two reasons. The first was that DHA was sensitive about releasing too much detailed information due to what they considered to be 'intellectual property issues'. The DHA is a government trading enterprise operating in a commercial market place and hence their perspective was different to government respondents in a traditional AHURI study. Second, and more importantly, during the early phase of the study a number of senior ex-DHA staff were identified who now hold senior positions in the affordable housing sector. The use of these respondents in the study enabled the two-stage process to be circumvented. The ex-DHA staff were able to identify potentially useful processes that could be further analysed.

These interviews with ex-DHA staff were combined with interviews of senior DHA staff which were held in the second half of 2009 and early in 2010. In total, interviews were held with two senior DHA staff and four ex-DHA staff working in the affordable housing sector. Interviews were not recorded, but detailed notes were taken. Most interviews featured two researchers to facilitate good note taking. The ex-DHA staff were contacted to check various details and were also provided with a copy of the draft report. An encouraging sign was the very similar reactions by the four ex-DHA staff to the draft report.

The study also involved a forensic review of DHA publications, especially their annual reports, to provide answers to the key research questions. The annual reports and detailed documentation on the DHA web site provided a rich set of data for the study.¹ It is considered that this change of research strategy, through the use of staff with experience in both sectors, has enriched the outcomes of the research project. In addition, a history of DHA was compiled to trace the evolution of government policy in relation to defence housing. The history was compiled from a review of Annual Reports, legislation, Ministerial statements and other documents.

1.2 Outline of the report

The report contains five chapters. Chapter two of the report provides a detailed history of DHA. Chapter three describes the current operations of the DHA. Chapter four presents the main findings of the study and suggests a series of potential lessons for the affordable housing sector. Chapter five provides a detailed review of potentially the most significant opportunity presented by DHA—the application of a sales and leaseback program for affordable housing. Chapter 6 presents the conclusions of the study.

¹ For example, the 2008–09 Annual report is 141 pages.

2 THE HISTORY OF DEFENCE HOUSING IN AUSTRALIA

2.1 Introduction

With a housing stock currently numbering around 17 000 units managed under a variety of tenures, Defence Housing Australia (DHA) is an innovative Australian Government business enterprise which provides good quality, affordable housing to Department of Defence families across Australia. It is the largest housing provider in Australia apart from the state public housing authorities. Its 'leaseback' program, now covering more than 60 per cent of its stock, involves mainly 'Mum and Dad' investors and offers a successful model of public/private housing partnerships with lessons for the affordable housing sector. This chapter contains a brief history of DHA designed to describe its context and achievements and explain the political, financial and institutional factors that have contributed to its development.

2.2 History of defence housing in Australia—an overview

Defence housing in Australia originated with the post-World War I federal legislation *War Service Homes Act* 1918 (AHC 1976, p.2), which was designed to help former servicemen who had fought in the Great War to acquire a home upon their return. Early attempts by the War Service Homes Commission to build houses on a large scale were unsuccessful. However, by the early 1920s the commission was working jointly with workers' housing boards in most states, building housing for ex-servicemen to be paid off by the returned servicemen living in them through low interest loans (AHC 1976, p.8).

In 1941, the *War Service Homes Act* was amended to include provision for servicemen who had fought in World War II, and in 1951 to include those who had served in Korea or Malaya. This great number of new ex-servicemen, combined with the general housing shortages of the post-war period, resulted in an enormous increase in demand for the commission's homes and 27 960 'unsatisfied applications' were recorded at 31 December 1949. The organisation had only managed to complete 3171 houses in the previous financial year (AHC 1976, p.14), suggesting it had a nine-year waiting list. In order to meet this demand, the commission linked into the Commonwealth State Housing Agreements during the 1950s.

Under this arrangement the States would build houses under their general public housing construction programs and a portion of these houses would be allocated to Service personnel, with the State owning and maintaining the houses and the Commonwealth being the tenant (Monaghan 1985, p.27).

It also helped that the Australian Government increased annual expenditure to the scheme from \$4 million in 1946–7 to \$50 million in 1950–51 to \$70 million in 1965–66 (AHC 1976, p.14, p.16).

In 1947, the government abolished the office of War Service Homes Commissioner and reconstructed the commission as a body corporate known as the Director of War Service Homes within the Department of Works and Housing (AHC 1976, p.13). In 1950, the organisation was moved to the Department of Social Services, then in 1956 to the Department of National Development. In 1964, it was moved to the Commonwealth Department of Housing and then, in 1973, to the Department of Housing and Construction. Also in 1973, the *War Service Homes Act* was amended significantly to provide housing to defence personnel who were serving in peace time as well as returned ex-servicemen, and its name was changed to the *Defence Service*

Homes Act (AHC 1976, p.18). This was part of the Whitlam Government's policy to end conscription and instead encourage people to join the armed services by 'introducing conditions of service that would attract and retain regular servicemen in peace-time' (AHC 1976, p.19):

Because of the itinerant nature of his occupation, it was considered that a regular serviceman is at a disadvantage compared to other members of the community in acquiring a permanent home. The Government stated it regarded the measure an essential one in establishing an all volunteer force. (AHC 1976, p19)

In 1975, the organisation was moved into the Department of Urban and Regional Development, and the act amended again to rename it as the Australian Housing Corporation. After the defeat of the Whitlam Government in early 1976, the Liberal Government's Federal Parliamentary House of Representatives Standing Committee on Expenditure (Garland Committee 1978) investigated the scheme and raised doubts about its economy and efficiency, suggesting that it be dropped and that defence personnel 'be assisted financially and physically to find their own accommodation' (Monaghan 1985, pp.29–30). Defence protested strongly against this and the recommendations were not implemented. By the mid-1980s, Defence housing was being administered within the Department of Defence, but it was in a parlous state and at least two government reports were commissioned to investigate the problems.

J.V. Monaghan's *Task Force on Australian Public Service and Defence Housing Programs Report* noted briefly but bluntly that '13 700 units, representing 60 per cent of the stock ... [were] deficient' and offered a mainly economic analysis of the issues. The Task Force proposed setting up a statutory authority to provide defence housing (Monaghan, 1985, pp.xi–xii) and canvassed the various methods by which this might be done. It accepted that the housing needs of defence personnel were particularly problematic because the command structure required personnel to be moved to different locations around the country in frequent and short timeframes. Often these locations did not have suitable housing ready and appropriate for families, so if defence wished to recruit service personnel who were married, it was preferable that they provide family-appropriate housing for them.

Interestingly, the Task Force report discussed but discounted 'leasing' despite a submission from defence having favoured this approach. The Task Force considered that although leasing might enable defence to 'control its desired level of housing stock without having to finance the whole of the capital cost', it had no advantage over 'private rental arrangements'. However, the Task Force offered the compromise that:

no objection would be seen to joint venture arrangements with the private sector (1985, p.227).

In 1985, the Minister for Defence commissioned Sue Hamilton from the Office of the Status of Women to conduct a report into the problems encountered by defence families. Ms Hamilton's report, *Supporting Service Families* for the Office of the Status of Women and the Australian Defence Force was, by contrast to earlier studies, based on many interviews with defence families in their homes. It focused on the difficulties experienced by defence families and its list of minimum attributes required for defence housing is telling of some of the inadequacies: 'Adequate security', 'Fly screens', 'Fences high enough to enclose toddlers', 'Telephone sockets' and 'TV antennae'. Hamilton (1986, p20) commented that it was:

profoundly embarrassing that people were being asked to live under the conditions I was shown.

As a Minister for Defence, Bronwyn Bishop later admitted:

It was not unusual for defence families to live in unheated, uninsulated houses, to have to carry curtains and carpet pieces from one posting to the next, to endure houses without hot water or adequate storage ... [and] having to cut the grass that was growing through gaps in the floorboards ... (Bishop, 1998).

While there were no clear statistics on defence 'wastage', service personnel must have resented having their families living under such conditions and may have felt obliged to go back to civilian life in order to access normal housing opportunities. Hamilton (1986, pp.15–16) noted that many people had told her that 'issues related to family stability and family morale were influencing them to quit'.

Thus, the poor housing situation was understood to be contributing to an early loss of skilled personnel from the defence forces and the Hawke Government's move to improve the quality of housing available to defence personnel was probably justified as a matter of national security. The Federal Opposition (the Coalition of Liberal and National Parties, which generally advocates smaller government and less spending) fully supported the Federal Government in its establishment of the Defence Housing Authority (DHA). The initiative apparently worked. As early as 1998, a consultant's review stated:

The improvement in the quality and standard of housing since the establishment of the DHA has been very marked, and, as a result, morale, recruitment and retention of defence personnel has, on the views put to us, been positively improved (DHA AR 1998, p7).

By 2009, the DHA 'Chair and Managing Director's report' could proudly state that:

Housing is no longer a principal cause of members leaving the Services; indeed, housing is one of the headline attractions in defence recruitment (DHA AR 2009, p.5).

2.3 Early days of the DHA (Labor Government phase, 1988–1996)

2.3.1 Origins of the DHA

The Defence Housing Authority (as it was known until 2007) was created by the Hawke-Keating Labor Government on the initiative of Defence Minister Kim Beazley. It was established under the legislation the *Defence Housing Authority Act* 1987 as a response to widespread dissatisfaction with the standard of housing available to defence families. The first annual report of the DHA noted the findings of the Taskforce that a large proportion of defence housing was managed by public housing authorities across Australia and that many of these, in particular, were poorly maintained and/or inappropriately located (DHA AR 1988, p.4).

Perhaps because the established public service approach to defence housing provision in a wide variety of departmental contexts was seen to be inadequate, the government set up the DHA as a semi-independent statutory body. It was designed to be capable of developing innovative responses to address a complexity of housing tasks by being established as a:

separate legal entity, structured in such a way as to enable it to act commercially, to borrow in the domestic capital market and to trade in its housing stock. The financial flexibility afforded to the Authority, and its relative freedom from bureaucratic controls, will give it the capacity to solve the defence housing problems in innovative and entrepreneurial ways which have

not been possible under past arrangements... the Authority will be exploring ... joint venture arrangements with the private sector, leasing to augment the stock owned by the Authority and borrowings from the domestic capital market. (DHA AR 1988 p.4, p.5)

The DHA commenced operations on 1 January 1988 with a portfolio of some 23 000 housing units across Australia transferred from the Department of Defence. Commencing with assets with an estimated value of \$520 million, the DHA was promised \$750m funding over ten years. For this outlay, the government stated that it expected to see 6000 new houses and the upgrading of 2000 of the houses already held (DHA AR 1988, p.4). In order to facilitate the rapid achievement of these aims and maximise the capital available for building works, the government decided that the DHA need not initially pay company tax or dividends on profits (DHA AR 1989, p4).

About 14 200 houses out of the DHA's original portfolio of 23 000 were owned by the various states' public housing authorities and leased as defence housing under the recurrent five-year 'Commonwealth State Housing Agreements' (CSHA). Offloading these houses, often poorly located or in bad repair, was a major initial task of the DHA. At the end of the second financial year, the government was informed that there would be significant 'costs associated with renegotiating the Commonwealth State Housing Agreement' and agreed to increase its ten-year funding allocation to enable the DHA to buy its way out (AR 1989, p.4). By the time it lost government in 1996, the Labor Federal Government had provided around one billion dollars to the DHA—of which about half was in the original transfer of housing assets from defence. The change to a Liberal Government in 1996 heralded a new regime where the DHA was expected to rapidly become entirely self-funded (DHA AR 1996, p.10). The DHA estimated its assets at that time as nearly \$2.5 billion (DHA AR 1996, p.49), nearly five times its original hand-over just eight years previously.

2.3.2 Housing numbers, condition and tenure

The DHA's first annual report in 1988 identified three initial major tasks for the organisation: to build new housing, to upgrade housing units and to disengage from the states' public housing bodies (DHA AR 1989, p.4). Its early annual reports described both the DHA's successes in addressing these tasks and the systems that they were setting up to improve service delivery.

In the first six months, 432 houses were constructed to completion and 350 houses spot purchased (DHA AR 1988, p.7). During the second financial year, 780 houses were constructed. During the next three years, a total of 1231 houses were constructed and for three years after that the authority's construction projects averaged more than one thousand houses per annum. At the same time, over its first eight years, the authority purchased an average of 550 already built residences per annum. Despite such substantial acquisitions, the size of the DHA's housing portfolio overall had decreased slightly to 22 150 units by 1996. This was due to its active disposals program focused on selling housing stock thought to be either poorly located or incapable of repair.

A second priority in the initial years was to improve repairs and maintenance services. The critical strategy here was DHA's establishment of a 'regional network of housing management centres' (HMCs) across the nation enabling tenants to 'report problems direct to HMCs rather than through the military command structure' (DHA AR 1989, p.7). More than ten HMCs were established in the first two years, allowing for the introduction and refinement of systems of standardised repairs and maintenance and for the advertising of tenders and the appointment of local contractors (DHA AR,

1989, p.39). Just 18 months after the launch of the DHA, its 1989 annual report boasted that already 5000 houses had been 'improved' (DHA AR 1989, p.4). The HMCs had also established formal consultative arrangements with the Services and tenants as a critical aspect of the DHA's newly:

responsive, innovative and cost-effective ways of delivering housing services and programs (DHA AR 1989, p.7).

Their local knowledge would also help the DHA make appropriate spot purchases of housing in a wide variety of locations.

Negotiating its way out of the long standing agreements with state housing authorities was the third key task in the early years of the DHA. A description of the history of the CSHA involvement in defence housing was offered in the DHA Annual Report 1991 (p9) This explains that between 1950 and 1979 a series of agreements enabled the Australian Government to loan money to the states, which built houses and used rental income to slowly repay the loans. In the case of defence housing, the state governments leased housing built under this scheme back to the Australian Government, which then sublet them through defence to service personnel. However, the standard and location of the housing was inflexible and did not keep up with defence needs, while the state government was also disadvantaged by its uncertain access to housing leased to defence but no longer required or used by them. By 1991, the details of the deal to disengage the DHA housing portfolio from the CSHA had been negotiated, to be implemented over the next five years. Of the 14 200 CSHA houses within the DHA portfolio, about half would be acquired by the DHA to be upgraded and used by defence personnel (or sold), while the other half would be returned to the states to be made available for general public housing. The Annual Report stated that

In net terms, the Authority will gain around \$500 million for no outlay on the part of the Commonwealth (DHA, AR 1991, p5).

It was a diplomatic resolution to a difficult housing problem.

2.3.3 *Joint ventures*

The Task Force report of 1986 had recommended that the DHA focus on large-scale joint venture projects with private industry rather than small-scale leasing schemes (Monaghan 1985, p.227). Accordingly, the DHA's second Annual Report in 1989 announced that, 'subject to ministerial approval' it was planning to enter into joint venture arrangements with the private sector where very large land development and housing projects enable the integration of civilians and defence families. Further advantages envisaged in such projects were that:

the Authority will secure private sector expertise in overall design and marketing' and they would 'reduce its capital exposure and risk (DHA AR 1989, p.25)

while

sharing in the profits from the joint development of housing estates comprising a mix of civilian and military families (DHA AR 1993, p.8).

It is interesting that these arguments correspond with the current push to increase social mix on public housing estates which appears to be driven by both social and economic factors.

By 1993, the DHA announced that it had numerous joint venture projects underway, for example at:

- 'Wattlegrove' near Moorebank with Delfin (Sydney, NSW—143 houses constructed).
- 'Holsworthy' and 'ANZAC' villages near Moorebank with Delfin (Sydney, NSW) (intending to develop around 1500 blocks—500 for defence and 1000 for the private sector).
- 'Cranebrook' near Penrith with Delfin—to develop land owned by the Civil Aviation Authority (Sydney, NSW).
- 'Streeton Views' at Macleod with Pioneer (VIC).
- 'Fairview Rise' at Ipswich with Mirvac (QLD).
- Leichhardt, Ipswich plan to refurbish housing in association with the Queensland Department of Housing Local Government Planning (QLD).

Yet, in the same report, the DHA had to admit that it had terminated an earlier agreement with Civic Constructions to build over 100 units at 'Moverly Green' in Randwick (about half destined for defence housing) and assumed control of the development, although this had been regarded earlier as its 'landmark' joint venture project (AR 1989, p.25). The termination resulted from severe financial problems of the private sector partner. It also reported that the DHA and Jennings had 'mutually agreed' to withdraw from a joint venture at Kellyville (Sydney, NSW) 'because the timing proposed by Sydney Water Board for providing services to the site involved unexpected delays' (DHA AR 1993, p.26).

In 1995, the DHA justified its involvement in these large projects, stating:

Joint ventures have produced nearly 900 attractive residential blocks on which the Authority has constructed dwellings for use by families, while the joint sector activities in the general market have produced profits and gains for the Authority of \$40 million. Under current planning, the Authority will ultimately acquire over 2200 dwellings from Joint venture arrangements (DHA AR 1995, p.27).

Yet, while some joint ventures were completed successfully, others continued to fail, and for a variety of reasons. The 1996 Annual Report noted the successful development of 143 houses for use by the DHA at Wattle Grove in Sydney's south west, described as the first and 'flagship' of the Authority's joint ventures (DHA AR, 1996, pp32-3), but noted a looming difficulty even there because of its proximity to Holsworthy as a possible site for Sydney's second airport. Worse, the co-venture between DHA and the Queensland Department of Public Works and Housing to refurbish housing in Ipswich had ground to a halt because an audit had:

found irregularities in tendering procedures and deficiencies in the quality of some of the work performed' resulting in the suspension of the project managers (DHA AR 1996, p.33).

In 1997, under the Liberal's strict new regime to turn a profit, the DHA stated that it was changing direction, despite its historical commitment to joint venture projects as one of its major strategies for satisfying the defence housing requirement.

Joint ventures for the purpose of land development have provided the Authority with less than 2 per cent of its total revenue and in terms of profitability, have been a relatively insignificant component of its overall operations. It is the Authority's current position that direct involvement in land development is not essential to achieve the objectives of having residential land available in the needed quantities and at the required times. All of the Authority's needs for developed lots can be met through direct procurement

arrangements or in certain cases, through a development agreement. The Authority has therefore pursued options for the withdrawal of its involvement in land development projects that it had entered into during earlier years as opportunities permit (DHA AR 1997 p.29).

2.3.4 Early resistance to leaseback

Early mentions of the DHA's leasing arrangements displayed a reluctance that dovetailed with the Task Force report of 1985 (DHA AR, 1990, p6; DHA AR, 1991, p18). These comments are surprising in retrospect, since the DHA's leaseback scheme is now considered its flagship housing scheme. However, in the early days, the DHA saw its main problem as trying to disentangle itself from the public housing it was leasing under the CSHA, which was, by and large, poorly located and poorly maintained. Perhaps it was feared that such problems would be associated with all leasing arrangements and that the DHA would not be able to maintain control and deliver appropriate standards when renting housing from others. One report indeed mentioned that leasing: 'inhibits the maintenance function through the need to consult with owners before carrying out repairs or improvements' (DHA AR 1993, p.8).

And while leasing saves on initial outlays of capital costs, it equally prevents any possibility of capital gains in the long term. Perhaps this understanding underlay the DHA's statement in 1993 that leasing was 'not as cost effective as ownership' (DHA AR 1993, p.8).

Also of concern was the relatively high cost associated with servicing small-scale leasing arrangements with individual owners which impose 'a costly administrative burden on the Authority' (DHA AR 1993, p.8).

While in 1993 the DHA was reporting on the 'increase in investor demand for long-term leases from the Authority' as 'strong in almost all regions with extremely high interest in the capital cities spilling over into regional centres', it was still actively withdrawing from its leasing arrangements. The reasoning was again that:

when the Authority is able to generate funds to acquire more of its own stock, it is demonstrably more cost effective to own rather than lease housing stock (DHA AR 1993, p.24).

It predicted that:

Given the Authority's recently restructured capital base, it is expected that all subsequent additions to the housing stock will be able to be met by way of ownership rather than leasing. However, existing commitments for leased houses under construction will be honoured during the new financial year (DHA AR 1993, p.8).

With the change of government in 1996, the DHA's 'ability to generate funds' took a nosedive. Consequently, a rearrangement and expansion of the leaseback program became a central strategic aim of the organisation.

2.3.5 Emphasis on customer service

The first annual report emphasised the importance of developing better consultative relationships with all its stakeholders (mentioned as the Defence Department, the Australian Defence Force, defence force personnel and their families, the National Consultative Group of Service Spouses and interested community groups). It reported on the establishment of a committee with representatives from all these groups, and emphasised the participation of a service spouses' representative on that committee.

Close consultation with the Service command structure, Service tenants and spouses and the wider community is a key strategy of the Authority (DHA AR 1990, p.32).

Post-occupancy evaluation surveys and telephone surveys were conducted (DHA AR 1990, p.33). The system of regional Housing Management Centres also established 'formal consultative arrangements with the Services and our tenants' (DHA AR 1989, p.7).

This deliberately decentralised management structure meant that programs could be responsive to local conditions and positive feedback from tenants. (DHA AR 1990, p.12)

In 1991, the DHA diversified its service provision by moving into offering home loans to defence force staff. The *Defence Force (Home Loans Assistance) Act* 1990 provided for generously subsidised loans to defence personnel to encourage them to buy their own homes. It was designed to attract and retain defence personnel, encourage home ownership as a cost effective alternative to rental subsidy and help with the reintegration of defence people back into the community when they returned to civilian employment. (DHAAR 1991, p57). This service has remained a small but successful component of the DHA's activities.

2.3.6 Corporate identity, governance and staff achievements

Since its founding, and partly because of its close association with the Federal Government as 'an instrumentality of government' (DHA AR 1996, p.15), the DHA has paid particular attention to the quality of its governance as well as high quality employment arrangements for its staff. These are both likely to have contributed to its success as an innovative housing organisation. Responsibility for decisions is taken by the Board of Directors, headed by an active Chair who works closely with the General Manager who, in turn, is backed by the organisation's staff located in numerous offices around the nation. The Board included representatives from the Department of Defence, high ranking officers from the army, navy and air force, and representatives from the real estate industry, the 'service spouses' and the Commonwealth Affirmative Action Agency (DHA AR 1996, p15).

There was an immediate high priority placed on the development of objectives and performance indicators (DHA AR 1988, p.12).

The organisation's head office was located in Canberra, but this was envisaged to be a relatively small organisation while the bulk of the work would be carried out by decentralised Housing Management Centres spread across the country (DHA AR 1988, p.10). After six months work in establishing the Authority, the first Annual Report noted a staff of 53 people. This had doubled by the second year to 129 and almost doubled again the following year to 232 people. By 1992, the organisation had reached its critical mass of 294 staff situated around the country and it remained around this size until 2001. Then staff numbers nearly doubled again as a result of the organisation taking on the labour-intensive work of managing defence force families' relocations. The annual reports consistently noted the good work being done by staff, the training programs put in place for them, and changing systems of rewards offered to them.

2.4 Liberal Government Phase II of the DHA—1996–2007

In 1996, the change of Federal Government from Labor to Liberal brought a new focus on 'small government' and 'economic rationalism', resulting in fundamental changes to the DHA's objectives, operations and management. As the DHA AR

reported in 1997, it was a transition from being 'a subsidised to a self-standing agency' (DHA AR 1997, p.4). Although the aim to provide defence force families with a decent standard of housing remained, the DHA's means of meeting its aims changed under a newly imposed regime of financial austerity and the introduction of major new tasks, such as organising the housing movements of defence personnel. The original 'ten year plan' was quickly wound up (two years early) with the promised Commonwealth funding of one billion dollars explained as having been already met

through a mix of interest bearing debt owed to the Commonwealth and equity injections, supplemented by retained profits (DHA AR 1996, p.10).

The DHA was now expected to pay off its 'debts' to the government as well as paying 'dividends' to its 'stakeholders', defined as the various federal Ministers to whom the organisation reported. In this watershed year, it was announced that 'the DHA has completed the primary task given to it':

The DHA reported in 1996 that in a little over eight years, 15 800 houses have been disposed of which were unsuitable because of locality or quality and 17 100 community standard houses have been purchased, constructed or leased.

During this period, the Authority succeeded in more than doubling the net value of its asset base—from \$807 million to \$1742 million—through valuation increases and retained profits, most of which resulted from the Authority's successful initiative in negotiating with state governments to wind up the Commonwealth State Housing Agreement (Services) under which most defence housing was previously provided (DHA AR 1996, p.10).

The founding Chair, John Graham, and the founding Managing Director, William Kirkby-Jones, both left the organisation within 12 months, and two of the four community members on the Board also completed their appointments. Graham's last report noted that the Authority's model of housing provision was being copied in the USA and Canada as a model of 'best practice':

It is a matter of pride for the Authority that its solution to the problem of housing mobile defence families has become accepted internationally as 'best practice' in the provision of defence housing, and it is noteworthy that the housing arrangements of both the US and Canadian Defence Departments are being restructured to reflect what has become to be known as 'The Australian Model'. (DHA AR 1996, p.12).

Staff numbers initially fell and there was a shift of emphasis from technical skills to business skills:

The transition from a highly skilled technical workforce to a workforce that focuses on client relations and business management skills, has been partly achieved (DHA AR 2001, p.17).

The original emphasis on operating decentralised Housing Management Centres in regions across the nation was reversed with the opening of the 'National Service and Support Centre' in Canberra to 'provide a focal point for inquiries on most aspects of the Authority's business' (DHA AR 2001).

2.4.1 Reviews and audits

The DHA was the subject of a number of high level reviews under the Howard Government. The DHA AR 1997 reported that the organisation was the subject of an inquiry concerning its governance arrangements by Richard Humphrey AO, Managing Director of the Australian Stock Exchange. The aim of the review was revealed in its concluding comments as reported in the DHA's AR of 1998.

The review concluded that:

It would not be cost-effective to sell the Defence Housing Authority because of the significant capital loss the Government would incur. Private investment can be utilised by way of the ongoing sale and leaseback program where this is appropriate. (DHA AR 1998, p.6)

The outcome was to highlight the role of the DHA as a government business enterprise. The leaseback was seen as an important initiative and as having a lot of potential for expansion. The major potential achievements were seen as economic ones, especially paying off debt.

From 2000, DHA was given new responsibilities, such as relocating defence staff to make for smoother moves, and cleaning houses between tenancies (from 2000). By 2009, approximately 30 000 ADF relocations were being organised each year for members and their families. (DHA AR 2009, p.ix).

The adoption of these new tasks led to a radical increase in DHA staff numbers. From a stable staff base of around 290 positions throughout the 1990s, the DHA increased its staff numbers to 499 in 2001. By the end of the decade, staff numbers had moved up to around 700.

2.4.2 Housing tenures—buying, selling, leaseback

In the highlights of the 1996 Annual Report the role of leasebacks was significant:

A major program was launched to provide a greater proportion of the defence housing stock through private sector investment (DHA AR 1996, p.8).

With the Liberal Government emphasis on being economically self-sufficient and paying back 'debt' after 1996, DHA expanded its buy and leaseback program.

The DHA focused on identifying the most cost-effective means of providing housing and moved away from direct involvement in housing design, construction and land development, which it no longer recognised as one of its core responsibilities. It has also reduced its reliance on borrowing, and has concentrated on increasing the involvement of individual investors through its 'sale and leaseback' initiative.

The 1997 Chairman's review provides a good summary of the leaseback program:

The most significant feature of the year has been the success of the sale and leaseback program which was introduced both to fund the Authority's operations and to repay a substantial amount of debt which the Authority accumulated over its first eight years of operation. The resultant widespread divestment to the private sector that has been achieved through the program has been in conformity with the Government's policies for the involvement of the private sector in public sector activities. The target for the year of 500 sales was exceeded, with actual sales of almost 900 dwellings. The majority of sales were in inner suburbs of Sydney, Brisbane and Melbourne. The program realised \$163.9 million ... We expect that the sale and leaseback program will provide funds for capital expenditure requirements during the next two to three years, thus providing funds for areas where there is no alternative to ownership. In addition, the Authority has a continuing obligation to meet essential maintenance of all of the housing managed, which is in excess of 21 000 units (DHA AR, 1997, p.3).

There was one joint venture land development project in Sydney underway in 2001. Another in Ipswich, Queensland, was closed down because of poor performance.

The DHA did attract some institutional investment through an investment of Westpac. This contribution was documented in the Chairman's and Managing Director's report in the 2007 AR (p6):

In December 2006, DHA sold \$121.9 million of residential property to Westpac Funds Management Limited (WFML) on a leaseback basis. This is the second landmark transaction involving a large-scale investment in DHA properties by an institutional investor. It follows the initial sale of \$98.2 million to WFML in April 2006. This innovative approach opens up new business opportunities and provides DHA with access to a new segment of the investor market.²

Although institutional investment provides an additional source of capital for DHA, the investment opportunities provided to individuals through the Sale and Leaseback Program will continue to be DHA's primary source of capital.

Westpac subsequently withdrew from the investment, and the DHA has been unable to attract further institutional investment, although this situation may change in the future.³ Westpac offloaded its entire portfolio in mid-2009. The statement from the bank issued at the time of the sale indicated that, as a result of changed market conditions, Westpac had decided not to pursue its strategy of building a residential portfolio as part of its Funds Management business.

2.4.3 Governance and staff

The Annual Report of 2000 reported on the commissioning of an independent review on governance of DHA. As a result, by 2001, the Board had put in place a Charter for it and the Audit Committee's operations, a Code of Conduct for Directors, and an assessment process for determining performance of Directors and the Board (AR 2000, p.5).

2.4.4 2006 legislative amendments and their effects

In May 2006, the Federal Parliament passed the *Defence Housing Authority Amendment Bill 2006*, the key provisions of which commenced on 23 November 2006.

Some of the impetus for the changes to the Act was the result of an earlier review of governance of statutory authorities undertaken by John Uhrig (Commonwealth of Australia, 2003). The Federal Government flagged its intention to examine statutory authorities and office holders in its 2001 election platform. In 2002, the Prime Minister, the Hon. John Howard, appointed Mr John Uhrig AC, a well-known and respected businessman, to review the governance practices of statutory authorities and office holders, particularly those agencies that impact on the business community. The objective of the review was to identify issues concerning existing governance arrangements, and to provide policy options for government to gain the best from statutory authorities and office holders and their accountability frameworks.

In addition to the recommendations intended for the government in dealing with statutory authorities, the Uhrig Report also included a set of guidance principles for getting the best from boards of statutory authorities. The Uhrig guidelines recommend that:

² The Westpac strategy was to hold the properties in a residential property investment fund. The fund was open to all investors, but was specifically designed to suit self-managed superannuation funds which had a medium to long-term investment horizon.

³ A newspaper report, '*Westpac to sell off Defence housing*' is contained in Appendix 1.

1. Board size should be developed taking into consideration factors such as an entity's size, complexity, risk of operations and the needs of the board.
2. Committees are a useful mechanism for the board to enhance its effectiveness through further detailed oversight and supervision of the management of risks that are critical to the success of the entity. Committees should only be used for this purpose.
3. In getting the best from boards, appropriately experienced directors are critical to good governance.
4. Representational appointments to boards have the potential to place the success of the entity at risk.
5. Responsible Ministers should issue appointment letters detailing government expectations of directors.
6. Maximum board service periods allow for a structured rotation of directors.
7. All boards should have orientation programs and directors should have the opportunity for ongoing professional development.
8. Annual assessments of the board need to occur to ensure government gets the best from the board.

These recommendations were influential in changing the governance arrangements of DHA.

The new act changed the name of the organisation to 'Defence Housing Australia' and, among other things:

- Confirmed that the primary function of DHA is to provide housing and housing-related services to defence and its members.
- Broadened DHA's functions to allow it to provide housing and housing-related services to other Australian Government agencies.
- Broadened DHA's powers to allow it to provide services that are ancillary to housing services.
- Established a smaller, more commercially focused board with greater freedom to act.
- Established an advisory committee to assist the DHA Board to better meet the operational requirements of defence.
- Removed DHA's exemption from Commonwealth taxation.
- Retained DHA's exemption from state and territory taxation, but required it to make tax equivalent payments to the Commonwealth.⁴
- Removed outdated provisions in the Act (DHA AR 2007, pp.67–68).

2.5 Mission statements

The DHA commenced with a mission that remained unchanged for its first decade. This was to:

provide defence personnel and their families with good housing consistent with community standards and which will contribute positively to their quality of life. In achieving this mission, the Authority shall meet defence operational needs,

⁴ An early example of cooperative Federalism.

follow sound commercial principles and be a responsive and innovative organisation (DHA AR 1988, p.5).

The initial eight-year phase of the DHA focused on both material and organisational development. It succeeded in disposing of thousands of units of poor quality housing in inappropriate locations largely supplied by the CSHA, while building, buying and leasing thousands of good quality units of housing in useful locations. It developed an Australia-wide network of decentralised Housing Management Centres which offered local management services and employed local tradespeople to deliver maintenance, repairs and upgrading as well as using local knowledge to make spot purchases. Its persistent plans to construct mass housing in large projects with joint venture partners was not often successful, while its intention to minimise leasing individual units from small-scale investors increased, despite attempts to downplay this strategy. There was a strong governance structure of highly skilled directors imposed by legislation and a stable mission statement. The initial strong emphasis on consultation with stakeholders from both the Department of defence and the tenant families was developed into ever more sophisticated procedures for client feedback. There was a continued recognition of the importance of the staff's contribution and their ongoing training.

After being stable for ten years, in 1998 the Mission statement read more briefly:

To provide good quality housing to defence personnel and their families as requested by the Department of Defence, in all locations as required.

In 1999, the Mission statement changed again to read, until 2004:

To deliver total housing services that meet defence operational and client needs through a strong customer and business focus.

From 2005–2009, the Mission statement has changed each year and generally become longer. This change is probably a sign of some internal instability.

In 2005, the DHA Mission Statement read:

To deliver total housing and relocation services that meet defence operational and client needs through a strong customer and business focus. Meeting the operational needs of the Australian Defence Force (ADF) requires the Defence Housing Authority (DHA) to provide cost-effective housing and relocation services to ADF members and their families, at a standard that supports the Department of Defence in the recruitment and retention of highly trained personnel. Considerable flexibility is required to meet the changing housing requirements of the Department of Defence in a shifting residential investment market. (DHA AR 2005, p.6).

In 2006:

To deliver total housing services that meet defence operational and client needs through a strong customer and business focus.

Meeting the operational needs of the Australian Defence Force (ADF) requires the Defence Housing Authority (DHA) to provide cost-effective housing and relocation services to ADF members and their families, at a standard that supports the Department of Defence (defence) in the recruitment and retention of highly-trained personnel (DHA AR 2006, p.vi).

In 2007:

To deliver total housing and relocation services that meet defence operational and client needs through a strong customer and business focus.

Meeting the operational needs of the Australian Defence Force (ADF) requires the Defence Housing Authority (DHA) to provide cost-effective housing and relocation services to ADF members and their families, at a standard that supports the Department of Defence in the recruitment and retention of highly trained personnel. Considerable flexibility is required to meet the changing housing requirements of the Department of Defence in a shifting residential investment market (DHA AR 2007, p.2).

In 2008:

To deliver total housing and relocation services that meet defence operational and client needs through a strong customer and business focus.

The mission requires DHA to provide cost effective housing where and when it is required, at a standard that supports defence in the recruitment and retention of its highly trained personnel. Considerable flexibility is required to meet the changing housing requirements of a mobile defence force in a dynamic residential investment market (DHA AR 2008, p.2).

And, in 2009:

To deliver total housing and relocation services that meet defence operational and client needs through a strong customer and business focus.

The mission requires DHA to provide cost-effective housing that facilitates the movement of ADF personnel in response to defence posting requirements and at a standard that supports defence in the recruitment and retention of highly-trained personnel. In this regard, the mobility of members and their families contributes to the operational capability of the ADF defence housing requirements can change and DHA must be able to adapt its portfolio as required. DHA is active in the very dynamic residential housing market where it develops land, constructs and acquires houses, and finances its operations via its Sale and Leaseback program. It needs to be flexible and from time-to-time may need to invest in housing where commercial returns may not be available (DHA AR 2009, p.2).

3 CURRENT OPERATIONS OF DHA

The aim of this chapter is to describe the current operations of the DHA, focusing on the elements of DHA activities that are likely to be most relevant for affordable housing providers.

Table 1 below summarises some recent operations of DHA. The DHA generates significant earnings and, across the 2002–2008 period, DHA paid dividends to government of about \$75 million per annum.

The table shows that the DHA makes a reasonable profit on its operations. For example, in 2008–09, its return on equity was 7.3 per cent (DHA AR 2009, p.58). The profit is based on two main elements. The first is the gains it makes from the disposal of its own investment properties which are surplus to requirements (as a result of capital appreciation). In 2008–09, this gain was about 60 per cent of its operating surplus before income tax. The second is the surplus it makes on its activities, particularly its sales and leaseback program. While not large by commercial standards, compared to the very poor returns generated by SHAs (Hall & Berry 2004), the DHA is making some returns from the operation of its rental program.

3.1 The governance framework

The Board of the DHA has nine members⁵:

- A Chairman appointed by the Shareholder Ministers.
- Four directors with expertise in residential property, real estate, building, social planning or finance.
- Three directors nominated respectively by the Chief of the Defence Force and the Secretaries of the Departments of Defence and Finance and Deregulation (these directors have special expertise about the needs of clients).
- The Managing Director of DHA (also the Chief Executive Officer) appointed by the Board and who is the only Executive Director.

In other words, the DHA has a mix of skills that reflect the range of activities undertaken by the DHA. During 2008–09, the DHA Board met seven times indicating clearly that the Board is not involved with day-to-day management issues.

Table 1: Operations and financial data for DHA showing some key benchmarks:

2002–03 to 2007–08

	<i>03</i>	<i>2003–04</i>	<i>2004–05</i>	<i>2005–06</i>	<i>2006–07</i>	<i>2007–08</i>
EBIT	\$81m	\$74m	\$82m	\$110m	\$109m	\$99m
Annual dividend (inc. tax)	\$67m	\$81m	\$71m	\$77m	\$79m	\$76m
Total managed stock	17 311	16 756	16 824	16 875	17 005	17 393
Acquisitions	539	489	451	460	482	421
Constructions	420	620	520	510	508	658
Leased (not including SLB)	230	1063	515	343	307	221
Sale of surplus stock (SSS)	573	468	412	327	241	165

⁵ This material is taken directly from the 2009 Annual Report (pp.70–71).

Revenue generated from SSS	\$136m	\$111m	\$109m	\$69m	\$68m	\$42m
Sale & Leaseback (props) (SLB)	1061	891	699	844	761	634
Revenue generated from SLB	\$338m	\$323m	\$247m	\$354m	\$316m	\$265m
Contracted maintenance to DHA houses	\$34m	\$32m	\$30m	\$32m	\$34m	\$31m
Maintenance per property (rounded to nearest 50)	1950	1900	1750	1900	1950	1750
Number of relocations	32 256	30 378	30 809	32 130	33 073	34 608
Total staff	779	781	687	689	697	697

Source: DHA 2008 Annual Report, p.62.

The Board also has three committees. These are the:

- Board Audit Committee.
- Board Nomination and Remuneration Committee.
- Property Committee.

The Board Audit Committee is required to meet at least quarterly and reports to the full Board on its activities at least twice a year. During 2008–09, five meetings of the Committee were held.

The key functions of the *Board Audit Committee* are to:

- Improve the effectiveness and efficiency of DHA's internal control framework.
- Ensure DHA has appropriate risk identification and management practices in place.
- Improve the objectivity and reliability of significant financial reporting.
- Ensure DHA has adequate procedures on matters of audit independence.
- Assist the Board to comply with all governance and other obligations.

The key functions of the *Nomination and Remuneration Committee* are to:

- Advise Ministers on the skills and experience necessary for new directors.
- Oversee and provide advice to the Managing Director on executive remuneration and overall remuneration strategies.
- Assist the Board in relation to the review of the Managing Director's performance and remuneration.
- Ensure the provision of appropriate induction and continuing education programs for directors.

During 2008–09, the Nomination and Remuneration Committee met twice.

The key functions of the *Property Committee* are to:

- Review management proposals in relation to major property transactions.

- Review Board submissions to ensure that they contain all necessary information for the Board to make fully informed decisions.
- Assist in developing a standard format for Board reporting.

The Property Committee meets at least quarterly and on an ad hoc basis. During 2008–09, it met six times. The Committee acts in an advisory capacity to the Board on major property transactions.

In terms of other governance issues, the Board had a Charter in place to help provide guidance on its own behaviour and the Audit Committee's operations. It also had a Code of Conduct for Directors and an assessment process for determining performance of Directors and the Board (see Chapter two).

Part of the job of the Board is also to sign off on the Statement of Corporate Intent. This document (see, for example, the DHA Annual Report of 2009 which is a reasonably short document that provides a brief background on the nature of the DHA, its mission and values, and then provides details on DHA priorities for the following year, including details of its capital development program and its performance targets for the next year.

DHA Advisory Committee

The revisions to the *DHA Act* in 2006 established an advisory committee of six members. The advisory committee consists of the National Convenor of Defence Families Australia, together with representatives of the Royal Australian Navy, the Australian Army, the Royal Australian Air Force and DHA. The advisory committee is chaired by one of the two Board members with a background in defence. The function of the advisory committee is to give advice and information to DHA about the performance of DHA's functions, either on its own initiative or at the request of DHA. The role of the Advisory Committee highlights the need for organisations to make sure that they have good feedback mechanisms coming from the tenancy elements of their business.

3.2 Reporting

The reporting of the DHA is comprehensive and is undertaken through a number of processes. It has a comprehensive web site (see Figure 3.1)⁶ as well as a very detailed Annual Report. Through both these avenues it provides detailed information on its performance against its performance targets.

Included in its performance reporting is detailed information from a number of surveys it conducts among its two key stakeholders, namely its tenants and its investors in the sale and lease program.

The survey results it reports in its annual report include:

- Customer satisfaction with newly acquired and constructed DHA accommodation.
- Customer satisfaction with DHA's maintenance services.
- Lessor's satisfaction with DHA's management of leased properties.

For example, the 2008–09 annual report is 141 pages long, with 50 pages of notes to accounts. It provides an excellent description of the activities of the organisation.

⁶ A site map of the DHA website is shown in Appendix 3.

3.3 Sales and leaseback

3.3.1 How tenancies work

The type of property that a defence serviceperson is eligible to occupy depends on their family status and size and their rank. If they are single they may be eligible for a DHA property in some locations if one is available (since 2001). Many single service people live on-base in barracks style accommodation.

As you achieve a higher rank in the defence service you are eligible for a better quality of property (there is a five level scale). You also pay more for a better quality of property. The size of the property depends on the number of your dependants. The approach used to calculate your bedroom entitlement is similar to the approach used by most SHAs.

The occupant pays a contribution towards their housing costs. The remaining costs are paid by the Department of Defence. For example, a corporal with dependants would pay \$153 a week for a two-bedroom home (PACMAN, 2009; Annex 7A1). With ten year's service, the corporal would be earning about \$77 000 per annum which means that the household would be paying about 10–13 per cent of their income in rent. This clearly involves a significant subsidy for the household, but this subsidy is seen as part of the remuneration package.

Service personnel sign a tenancies agreement and establish their own water and electricity accounts etc. If they have any maintenance issues with their property they contact a DHA service centre.

If they fall behind in their rent, tenancies managers at DHA have the benefit of being able to contact their employer (who is also subsidising their rent) to seek assistance in making good any rent arrears.

The DHA receives payments from defence (and some other government agencies such as the Australian Customs Service) of more than \$0.5 billion per annum to provide housing and relocation services.

3.3.2 How sales and leaseback works

With sales and leaseback, an investor can purchase a DHA property on the condition that they lease the property to DHA for a period of between six and twelve years (usually a nine plus three-year lease). They are paid market rent during this period (reviewed annually by independent valuers) and rent is guaranteed (even if the property is vacant). The investor is charged a management fee of 16.5 per cent of rental income, but this fee includes routine maintenance. Note that the normal professional management fee charged by real estate agents in the private rental market is in the range of 7–8 per cent, also that the fee is less for strata properties. At the end of the lease, DHA repaints the house and provides new floor coverings. The investor pays rates and other landlord outgoings.

The leases also incorporate a minimum rental guarantee, which means that the weekly rent cannot drop below the starting rent.

There is some talk in the market (see Appendix 2) that the DHA is able to charge a premium on the sales prices of their sale and leaseback properties because of the long leases that are attached to the dwellings. If this is the case, the DHA is able to charge premium prices on both the sales and management. This probably indicates the attractiveness to investors of the government guarantee, the regular rental reviews and the upgrades to the property at the end of the lease period.

3.3.3 Marketing

The current sales and leaseback marketing strategies of the DHA are listed below.

Websites

DHA websites provide information on its sales and leasing programs as follows:

www.invest.dha.gov.au

This website is dedicated to the promotion of the SLB program. It outlines leasing arrangements; provides a description, photographs, floor plan and a location map for each property listed for sale; and provides a number of tools and additional information resources. Prospective investors can register to receive property alerts, newsletters and other promotional material via email.

www.dha.gov.au

DHA's core website has a dedicated section for private investors to source information about DHA's leasing programs. It provides information about private leasing arrangements and includes a list of current requirements by region. Private owners can offer their property to DHA by completing and submitting an online questionnaire. Information about the SLB program is provided with a link to www.invest.dha.gov.au.

Advertising

Testimonial and case study advertising of investors' experiences was a key tool in promoting the SLB program in 2008–09. Mainstream media, including press, radio and online advertising were the most common channels used resulting in improved brand awareness and an increase in 'hits' on DHA websites. The SLB program enjoyed significant media attention throughout the period as the security of DHA's lease terms was recognised in comparison to other investments.

Publications covering the program included *The Australian*, *Your Investment Property* magazine and *Money* magazine.⁷

Information sessions

During 2008–09 DHA, hosted 'boot camp' information sessions for prospective investors in most capital cities and many regional centres throughout Australia. Remote areas of South Australia, Western Australia and Queensland, where mining activity is prevalent, were also visited. The sessions provide an overview of DHA and the SLB program, the benefits of the DHA lease and the type and location of properties available for sale. Formal and informal question and answer sessions are a vital part of this marketing strategy.

The marketing messages for investors are clear:

1. It's a low risk investment. The rent is guaranteed from the time you settle on the property and is based on market valuations that are reviewed annually. The rent is guaranteed by Government.
2. Investors do not have the normal landlord experience of dealing with tenants and real estate agents—it makes property investment easy!
3. The tenants are disciplined and reliable. And even if they are not, you get your house repainted and new floor coverings at the end of the lease.
4. You are doing your bit for your country.⁸

⁷ Two newspaper stories describing the Sales and Leaseback program are contained in Appendix 2.

These are important messages. Previous research on rental investors has shown that rental investors are often discouraged by what they see as risks of rent arrears and the time required dealing with real estate agents and/or tenants (e.g. see Seelig et al. 2009).

3.4 Conclusions

The emergence of DHA as a provider of housing services to defence personnel demonstrates the relationship between housing and the workforce. The DHA is essentially providing 'keyworker'⁹ housing for defence personnel.

The approach to the provision of housing by DHA mirrors the broader attitudes to the role of government displayed in the second half of the twentieth century. The early history was based on direct government provision, moving to government provision via joint ventures followed by the attraction of external investment. The change in status from an arm of government to a government business enterprise provided opportunities for the DHA to adopt more innovative approaches to the provision of housing. It also allowed the organisation to respond more quickly to business opportunities—for example, decisions to purchase land could be made without needing to obtain Ministerial approval. Finally, it enabled the organisation to employ staff with considerable experience in the private property sector. These staff would have been unlikely to work for a public sector organisation.

DHA's attempts to attract institutional investment mirror recent government attempts to attract institutional investment into rental accommodation. Unfortunately, the role of institutional investment has not been able to be maintained and the current investors in DHA housing broadly reflects the investment patterns in the broader private rental market, with a dominance of single property investors.¹⁰

DHA housing has many parallels with affordable housing. As mentioned, the housing subsidy provided by government reflects the importance of keyworkers. The subsidy is based on payments from an agency that is external to the housing provider. However, the occupants of housing (defence service personnel) operate in a much more regulated environment. This has advantages and disadvantages from a tenancy management perspective. On the positive side, the labour market arrangements places downward pressure on rent arrears; on the negative side, the frequent moves of tenants are likely to lead to increased costs.

Now that the history and current operations of DHA have been described, the next chapter attempts to generate some potential lessons for affordable housing providers based on the operations of DHA.

⁸ A good summary of the pluses and minuses of investing in the Sales and Leaseback program is contained in the two newspaper articles reproduced in Appendix 2.

⁹ A *keyworker* is a term that originated in the UK. It refers to a public sector employee who is considered to provide an essential service. Keyworker housing is housing that is subsidised to support the participation of keyworkers in the labour force in a particular region.

¹⁰ The newspaper article shown in Appendix 2 reports that 75 per cent of DHA investors only own one property.

4 STUDY FINDINGS

This chapter provides some potential lessons for the provision of affordable housing derived from DHA activities. The findings are based on the review of activities in DHA available from a range of documentation, especially their annual reports, as well as interviews with existing DHA staff and ex-staff members working in the affordable housing sector.

4.1 Policy issues

On a broad policy level, the DHA demonstrates two major lessons. The first is that it is possible for affordable housing providers to scale up if they are adequately capitalised. The success of the DHA in its first ten years clearly demonstrates that a capitalised affordable housing provider with a clear mission can make a significant contribution to servicing housing need.

The second major policy lesson is that it is very difficult to sustain institutional investment in affordable housing. For example, after a protracted effort to attract institutional investment, when the investment environment changed, the investor (Westpac) sold down its investment.

4.2 Asset issues

At an organisational level, there are a number of lessons about the creation and maintenance of assets. The first involves the issue of scale. The DHA develops some of its own stock (see Table 1)—approximately 500–600 dwellings per annum. At this scale, the DHA has the opportunity to be an efficient developer of stock. Although the affordable housing sector is starting to generate some significant development expertise (see Milligan et al., 2009), a challenge for the sector is to develop at a sufficient scale so that it can maintain and improve its development capacity. Only a handful of existing affordable housing developers in Australia are operating at the same scale as DHA. In order to achieve a similar scale, smaller affordable housing providers will need to undertake joint ventures or collaborate with fellow affordable housing providers to reach this desired scale.

In the maintenance of its portfolio, the DHA uses large scale maintenance contracts to drive down its average costs. This same strategy has been adopted by most SHAs as well as larger affordable housing providers. This strategy has the advantage of both lowering per dwelling maintenance costs and also providing some more certainty about likely maintenance costs (see Table 1).

Another asset issue that is highlighted by the history of the DHA is that if you have stock that is not appropriate for your clients, the best strategy is to sell it and/or redevelop it. Many affordable housing providers are likely to receive (or indeed have received) stock transferred from SHAs as part of the national strategy to transfer a significant amount of public housing stock to the community housing sector. It is important that in cases where this stock is not appropriate for their clients, housing providers have the opportunity to sell and/or redevelop stock and replace it with more appropriate stock.

On a related issue, a significant element of the DHAs asset strategy is the sale of stock. Table 1 shows that it sells between 2 per cent and 3 per cent of its stock every year. The focus is on removing older stock from its portfolio. A similar strategy should be adopted by affordable housing providers. For this reason it is important that transfers of stock from the public sector acknowledges that transferred stock may need to be sold in the medium term. This requires that contracts between SHA and

housing providers be flexible enough to allow this to occur and that stock be designed in such a way that it is attractive to the private market at the time of the sale (e.g. in regards to location, parking provision etc.).

On design issues, the DHA did find some difficulty with some early joint venture projects where the stock provided did not prove to be appropriate for their client group. This led to considerable additional costs for the DHA. In order to avoid this problem in the future, the DHA developed a comprehensive set of housing design guidelines that it has continued to update. The guidelines are available on the DHA website and contain a set of mandatory standards as well as a set of preferred design approaches. The guidelines are quite detailed and run to about 40 pages. They specify space requirements, materials and have an additional set of regional criteria.

The development of similar design guidelines would also be useful for affordable housing providers. The development manager for City West has developed a precise set of design guidelines that have been developed over time as the organisation gained more experience as an affordable housing developer.¹¹ Greater collaboration between existing affordable housing developers in Australia about the pros and cons of different design approaches would assist in the development of a robust set of design guidelines for an affordable housing provider. A current AHURI project which is examining the sustainability of Australia's affordable housing projects (Project 70617) may assist this process.

4.3 Business cycles

A feature of the recent operations of the DHA is the way that it can tune its business depending on the state of the business cycle. Unlike private sector developers, it has no sales risk—it has a guaranteed customer base from the Department of Defence. This allows downturns in the business cycle to be used as an opportunity to purchase land and obtain better prices for its building contracts. Moreover, in the recent Australian Government response to the Global Financial Crisis, the DHA was awarded significant sums to build housing stock as part of the Federal Government's Nation Building program. The marketing of the sales and leaseback highlighted the guaranteed returns and, for some investors, signing up with the DHA was a move to 'safety' in uncertain times.

Probably the bigger risk for the DHA is at the top of the business cycle when there is likely to be considerable competition for skilled labour and when building and development companies have many alternative opportunities.

4.4 Governance

In a recent report to NSW Housing (Phibbs & Ziller 2010), the importance of good governance for the growing community housing sector was underlined. This study was by no means an evaluation of the governance capacity of DHA. Nevertheless, its governance framework, as a Government Business Enterprise, is comprehensive and may help to provide a point of reference for affordable housing providers. Of particular interest might be the detailed governance processes outlined in Chapter 3.

4.5 Reporting

The DHA's detailed reporting provides good information for all stakeholders. It is particularly important given that the organisation is trying to convince investors to participate in its sales and leaseback program. The gap between the level of annual reporting by the DHA and the typical Australian affordable housing organisation

¹¹ Derek Bevington, Development Manager City West Housing, personal comment.

highlights room for improvement in the affordable housing sector, particularly in the reporting of survey data.

4.6 Sales and leaseback

As mentioned in Chapter 3, the intention of the Sales and Leaseback program is to reduce the capital requirements of the organisation by getting investors to purchase dwellings and lease them back to the organisation through a long lease. The DHA owns only about 20 per cent of its properties (DHA AR 2009, p.58).

The scheme has ultimately proved to be successful, but it had a number of false starts before it became successful. It is clear that the marketing message is very important and that the scheme is only right for a certain type of investor, particularly given the long lease times. However, even in its best year, DHA was only able to sell about 1300 houses in the sales and leaseback program (in 1999–2000). The lesson from the program, however, is that it can generate sales in a number of different operating environments and, if applied consistently, can build up a considerable program of stock. For these reasons, it is considered that the Sales and Leaseback program is worthy of further analysis in this report. Consequently, a detailed review of the potential of the sales and leaseback model to be adopted by the affordable housing sector is undertaken in the next chapter.

4.7 Other process issues

There were some expectations at the start of the project that some of the systems used by the DHA, particularly its IT systems, could have some application in the affordable housing sector. More detailed investigation revealed that this was not the case, largely because of the relatively complicated process of tenant qualification and rent payments that are associated with the Defence Service Housing.

One issue that was clear was that the size of the DHA meant that economies of specialisation were available to it that were not available to many affordable housing organisations. The issue of development has already been mentioned. A similar issue applies to Human Resources. The DHA has a specialist HR team and has developed a range of HR strategies relating to staff recruitment and development. By way of contrast, most affordable housing organisations do not have a specialist HR person, with the HR often undertaken by the CEO or other senior executive. This situation will be rectified in affordable housing organisations through either increasing scale or, if they use strategies to access this HR function, via strategies like job-sharing. The lesson for the affordable housing sector is that the use of specialist staff will generate more effective outcomes for their organisations.

4.8 The network

When examining the factors behind the successful growth of the affordable housing sector in many countries, academics and other authors often refer to the notion of the network (e.g. see Gilmour 2009a; 2009b). That is, affordable housing organisations have been able to grow not only as a result of their own capacity, but also because of the way they have been able to access a network of resources. The phenomenon is well described by Gilmour (2009b, p.4):

For the networked environment in which non-profit providers operate, an alternative approach is to consider the capacity of the sector as a whole rather than that of individual organisations ... this is termed network capacity. Depending on how the sector is conceptualised, different actors could be identified as relevant such as consultants, banks, trade bodies and community organisations. The rationale for developing a more inclusive list is that each

actor contributes towards the sector's capacity ... This broader definition of capacity, moving beyond the capacity of individual organisations, has become accepted by many non-government organisations.

The DHA should be seen as part of the affordable housing network. Clearly, the movement of staff between DHA and the remainder of the affordable housing sector is evidence of their connections in this network. More could be done to try to encourage deepening this relationship. Some strategies may include:

- Inviting DHA staff to speak at housing conferences and seminars.
- Inviting DHA staff to join professional associations, such as the Australasian Housing Institute.
- Advertising staff vacancies across the DHA and affordable housing sectors.
- Inviting DHA alumni now working in the affordable housing sector back to the DHA to report on their experiences.

4.9 Conclusion

There are a number of important lessons for the provision of affordable housing that are evident from the operations of DHA, Australia's largest provider of affordable housing outside State Housing Authorities.

The lessons, described in this chapter, range from an approach to the management of assets, through governance frameworks, approaches to reporting and the sales and leaseback program. This report identifies these lessons—the benefits from these lessons are likely to be maximised if DHA becomes part of the broader affordable housing network in Australia.

Of all the lessons described in this chapter, it is considered that the one with perhaps the greatest potential to generate the largest benefit for the affordable housing sector is the sales and leaseback program. The next chapter discusses the potential of this program to be 'adopted' by the broader affordable housing sector.

5 SALES AND LEASEBACK—AN OPTION FOR AFFORDABLE HOUSING?

Each of the four senior ex-DHA staff who now work in the affordable housing sector raised the issue of the potential of the DHA sales and leaseback model as a housing provision model for the affordable housing sector. This chapter analyses the pros and cons of the sales and leaseback program and then reach a conclusion about whether such a program could be feasible in the affordable housing sector.

The attraction of such a program for the affordable housing sector is obvious—the sector, with the possible exception of Victoria, is very short of capital (Milligan et al., 2009). The provision of stock on a sale and leaseback model would enable the sector to ‘scale up’ without the need for additional capital or taking on significant debt. Using the DHA construction model would also enable the sector to develop stock that is suited to long-term tenancies. Or, in other words, stock would be developed by affordable housing developers for the sale and leaseback program.

This chapter examines the likely barriers to such a model and whether these barriers can be overcome.

5.1 Barriers to a sales and leaseback program for the affordable housing sector

5.1.1 Market rent

The first barrier is that the investor requires a market rent payment, but the affordable housing provider will be charging their tenants only a proportion of market rents. (usually 74.9% to maintain their tax free status). This would mean that even the most efficient affordable housing provider would be running each of their tenancies at a loss and hence would require a subsidy to break even.

The most obvious form of subsidy would be the National Rental Affordability Scheme (NRAS. The level of subsidy in NRAS (\$9140 per annum in 2010) would mean that affordable housing providers return a small recurrent surplus as long as houses were constructed in low and moderate costs regions (and avoid high costs areas like the inner suburbs of large cities).

The other potential source of revenue to make up the difference between the subsidised rent and the market rent is the use of the development margin. The development margin is the difference between the costs of development and revenues and is the profit margin of the for-profit developer. Assuming a market value of \$350 000, a development margin of 20 per cent would cover the gap between market and affordable rents over a ten-year lease.

5.1.2 Would investors be attracted to properties with affordable housing tenants?

This is a difficult question to answer. The disciplined nature of defence personnel (in the eyes of the investor) and the patriotic element of assisting defence personnel provide a marketing opportunity for DHA. However, the ‘keyworker’ rhetoric might work just as well in the eyes of investors—helping nurses, policeman, etc., live near their workplace. Certainly the ethical investment market has been growing in Australia in recent years. This question could be answered by some thorough market research.

5.1.3 Who would provide the guarantee of rental payments?

A key element of the DHA scheme is the explicit government guarantee provided to investors. They are guaranteed rental payments from the beginning to the end of the lease, whether or not the property is tenanted.¹²

It would be very difficult (and foolish) for an individual affordable housing provider to provide such a guarantee and unlikely to be valued by potential investors. A possible mechanism would be for governments to guarantee the rental payments to investors. Affordable housing organisations could be charged a guarantee fee for this policy (this would act like an insurance pool). In order to encourage providers to minimise arrears, the providers could be responsible for say the first 15 per cent of rent arrears in any year for any tenancy.¹³ The government would provide the remaining arrears through its guarantee fund. Based on the low vacancy rates among affordable housing providers and the low levels of rent arrears, the operation of a guarantee scheme would be relatively cheap for government.¹⁴

5.1.4 There may be a lack of potential investors. Is it worth implementing such a scheme for a reasonably small number of properties?

Again, this is a difficult question to answer, and one that would require some detailed market research. Nevertheless, recent developments would probably make the operators of the DHA sales and leaseback scheme more optimistic. Alternative investment opportunities to private rental investment in Australia include the stock market and/or superannuation. The recent patchy¹⁵ performance of the stock market and the Federal Government rules on limiting contributions to super for many income earners to \$25 000 per annum (after June 2012) may limit the attractiveness of these two investment options. At the same time, current indications are that the housing market is likely to experience significant increases in dwelling prices and rents, given the increasing gap between the demand for housing and the supply (see, for example, the second report of the National Supply Council).

The other lesson from DHA is that, even with a reasonably small annual program, over time a sizeable stock of sales and leaseback properties is built up. The marketing costs also get smaller as some existing investors purchase additional properties and word-of-mouth from existing investors helps to attract new investors into the program.

5.1.5 Isn't it too expensive to service an investor with only one property?

It is true that the costs of servicing an investor with one property are substantial. The investor has to be guided through a marketing process (see below), understand the unique arrangements of the sales and leaseback product, sign a lease, and then manage the tenancy process. However, the emergence of e-commerce has reduced the average cost of such a business relationship. Much of the communication can be done through web-based information and through email.

The marketing costs of such a scheme are also reasonable. The marketing strategies (described in Chapter 3) are comprehensive, but not expensive. They highlight a niche marketing approach.

¹² With some exceptions, for example, if the property is not habitable because the investor has not maintained the property.

¹³ So if the annual rent for an investor was \$10 000 in a year the affordable housing provider would be liable for the first \$1500 of any arrears.

¹⁴ The guarantee could be priced according to the arrears performance of a provider.

¹⁵ Given the current performance of Australian superannuation funds, the median age of AHURI researchers could increase to substantially more than the historical trend.

5.1.6 *Wouldn't it just attract investors already operating in the market?*

The anecdotal evidence is that many DHA investors are new to the rental market. They are attracted by the unique features of the program. Nevertheless, even if this were the case, there would still be some public benefits of the program as a result of increasing supply to the most vulnerable sections of the community as well as providing the specialist management expertise of not-for-profit tenancy managers.

5.2 Conclusion

It would appear feasible for a sales and leaseback program to operate in the affordable housing space if some type of government guarantee was available. The government guarantee, given the current and likely future supply of affordable housing in Australian cities, is unlikely to generate large risks for government and could be partly funded through a guarantee scheme with affordable housing providers. An advantage of such a program is that it would attract private capital into the lower rent end of the private rental market—a market that traditional private investors often avoid (Seelig et al. 2009).

In terms of implementation of the model, a potential strategy would be to undertake a full feasibility study of an affordable housing sales and leaseback program (possibly in conjunction with DHA) and, if the results of that study are positive, to undertake a pilot study in one state.

If the feasibility model suggests that the program should be pursued, at least two options are available. The first is for individual state governments to pursue their own program. This increases the risks for government because the guarantee pool is smaller. However, the recurrent costs of the program are reasonably small. A state government program could be launched with a small number of staff (about 5–10 staff depending on the size of the program) plus a marketing budget of say \$150 000.

The second option might be to undertake a national program. Given the expertise within DHA, it may make sense to explore the feasibility of DHA expanding its sales and leaseback program into the affordable housing space. This would be possible under the existing Defence Housing Australia Act as long as the investors were in receipt of a government subsidy to provide affordable housing and the program did not grow too large.¹⁶ The addition of affordable housing investors would provide some portfolio benefits for DHA, in that the affordable housing elements of the program would provide additional dwelling and location choice for potential investors.¹⁷ It would also reduce the entry price for investment given the likely focus of the affordable housing program on smaller dwellings. An additional benefit of combining the programs is that it would also allow access to an existing pool of DHA investors who may be interested in diversifying their portfolios.

¹⁶ Section 6 of the *Defence Housing Australia Act* enables the DHA to provide services to other Government Departments or people with a contract to provide goods or services to other Departments where the Minister authorises it and the provision of non-Defence services does not exceed 25 per cent of its gross revenue.

¹⁷ The DHA's existing sales and leaseback program has a region/outlying suburbs bias with a predominance of separate dwellings/townhouses.

6 CONCLUSION

DHA is an organisation that has achieved a lot in a reasonably short space of time. It provides affordable housing for a large group of keyworker defence personnel. It manages over 17 000 properties worth over \$7 billion, and has generated high satisfaction levels with its tenants and other key stakeholders.

The development and current practice of DHA has a number of lessons for the affordable housing sector. The first lessons relate to some broad policy issues. The first group are:

- Providing a rapid solution to significant housing need (like the current gap between the demand and supply of affordable housing in Australia) which requires an injection of capital and a flexible approach to program delivery.
- Minimising the difficulty of sustaining institutional investment in affordable housing.

The second group of lessons relates to how an affordable housing provider organises its assets. Relevant issues are that:

- Successful housing development requires scale.
- Large maintenance contracts will drive down average costs.
- Successful asset management will require significant trading of stock.
- Robust design guidelines will assist organisations to acquire and develop appropriate housing.

In relation to the operation of affordable housing providers, DHA exhibits good practice in terms of governance and staff management that may provide some useful lessons for affordable housing providers. The quantity and quality of reporting by the DHA provides an indication of the strategies an organisation can implement to help change the perception of key stakeholders about an organisation's performance. Given the misconceptions about the operation of the affordable housing sector, the DHA approach provides some obvious lessons about reporting strategies which the affordable housing sector could pursue.

The biggest lesson for the affordable housing sector is the potential of a sales and leaseback model to attract private investment into the sector. After some false starts, DHA has developed a sustainable model in the sales leaseback space that has created a product that provides advantages for both the DHA and investors. While the application of this model to the affordable housing sector is likely to require some type of government guarantee, this may not necessarily be expensive for government. It is suggested that a detailed feasibility study that includes some significant market research be undertaken to explore the viability of an affordable housing sales and leaseback product.

Finally, the DHA is the largest non-SHA affordable housing provider in Australia. However, until this project was instigated, it has really flown 'under the radar' in terms of affordable housing research and discussion of affordable housing practice in Australia. The affordable housing sector will be assisted by increasing the breadth and depth of the affordable housing network. The DHA should be invited and encouraged to increase their level of participation in this network.

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APPENDIX 1: NEWSPAPER ARTICLE REPORTING THE FATE OF THE WESTPAC INVESTMENT IN DEFENCE HOUSING

Westpac to sell off Defence housing

Katherine Jimenez, *The Australian*, Canberra, ACT, 17 July 2009, p22.

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WESTPAC Funds Management has given up on its ambition of creating Australia's first residential property trust and instead will offload its entire Defence housing portfolio in piecemeal, estimated to be worth more than \$240 million.

In a letter to its premium financial services clients, Westpac said that 'after careful consideration, one of Westpac's managed funds has decided to sell its portfolio of quality residential properties' and wanted to put the opportunity to its high-end customers before 'it reaches the general market'.

It said the properties were all leased to Defence Housing Australia for up to eight years and were located in inner- and middle-ring metropolitan suburbs and regional centres across Australia.

Westpac acquired its first major Defence housing portfolio in 2006, with plans to launch a residential property trust, and had been gradually building up the portfolio. There is speculation Westpac may have attempted to sell the whole portfolio in one tranche prior to offering it to its most affluent clients.

A Westpac spokeswoman yesterday confirmed its funds management arm was selling its Defence housing portfolio to its most affluent customers.

'It was originally bought with aspirations of the funds management arm pursuing a residential funds management portfolio [but] market conditions have subsequently changed ... and they've decided that the strategy is no longer appropriate and hence the reason for them making the decision to put them on the market,' she said.

In the letter to its high-end clients, Westpac said it owned more than 480 quality residential homes and apartments throughout Australia in suburbs such as Sydney's Five Dock, Epping and Lane Cove, that had tenancy agreements with the DHA.

The average price of the properties on offer is about \$500 000.

Colliers International has been appointed sole agent.

Credit: Katherine Jimenez.

APPENDIX 2: NEWSPAPER ARTICLES ABOUT THE SALES AND LEASEBACK PROGRAM OF DHA

'Buying family time is an investment'

Anonymous, *The Canberra Times*, Canberra, ACT, 28 July 2009.

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After purchasing a Defence Housing Australia (DHA) investment property in 2006, Greg now wishes he had bought one 10 years ago.

'My wife and I are busy people. We have four-year-old twin boys, so life gets pretty hectic,' he said.

'Buying a DHA property was about setting up an investment that we didn't have to worry about. We needed something that was pretty much going to look after itself.' As a mortgage broker, Greg is aware of many investment opportunities in the market. 'What attracted us most to DHA is the fact that it is a sound investment. It's really a no-brainer when you've got rent paid by a Government Business Enterprise. Our DHA property offers certainty, unlike our other investment properties and shares. We know that the rent is going to arrive every month for the entire term of our lease. We will never have to find new tenants or worry about the property becoming vacant and the associated costs.

'DHA will also recarpet and repaint our property at the end of the lease, this really appealed to us.' Greg and his wife are not new to investing. In addition to their DHA property, they own three residential investment properties. All the properties are located in South Australia.

'With our other investment properties we've had to invest a lot of time dealing with bad tenants, real estate agents and managing maintenance.

'The great thing about our DHA property is that there is almost nothing we have to worry about. In fact, the only real decision we've made so far was buying the property itself.' Greg and his wife are looking at buying another investment property in the Northern Territory to diversify their portfolio.

'I'd be more comfortable buying a property interstate if it was a DHA property because it would take the worry out of living so far away from the investment.' Based on his experience, Greg is now encouraging his parents to invest with DHA.

'My parents are selling their family home of 45 years and are looking to invest in something that has a safe income and a good return. As retirees, they've already owned investment properties and had their fair share of problems with tenants and agents over the years. They've seen our experience with DHA and now they also want something hassle-free.'

'When Defence is the best form of attack' [COVER STORY]

Kate Robertson, Sunday Age, Melbourne, Vic, 23 August 2009, p4.

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Looking for a secure investment? Defence Force housing might be right for you, reports Kate Robertson.

In a highly competitive investor and first home owner market, Australia's Defence housing is proving to be a viable and worthwhile option for jittery property investors.

Tony Winterbottom, Defence Housing Australia's general manager sales and marketing, says demand surged at the start of the year with investors seeking refuge in a 'safe' investment. With cash-flow concerns high on people's agendas, the DHA's 100 per cent occupancy guarantee is tempting a broader range of investors.

Defence Housing Australia manages 17 500 properties occupied by service personnel and their families around Australia. Each year it replaces about 1000 houses, with some of those sold with long-term leases, at market rent, to fund the building program.

There are 100 000 buyers registered with DHA and their profile over the past 14 years has been that of "mum and dad" investors, aged 35-55, who are making their first investment or adding to a conservative investment portfolio. A quarter of the owners have more than one property.

But Mr Winterbottom says the recent financial climate has changed the demographic. 'We have started to get a high net wealth investor or savvy investor because they have experienced volatility in other asset classes.' More first home buyers are also becoming involved, either with or without parental support. 'They can't afford to buy into the market but they can afford to invest and plan to move in in 10 to 15 years.'

DHA Housing has changed radically since the postwar days of identical housing built in clusters, says Mr Winterbottom. Now the homes are built to contemporary designs and are 'salt and peppered' throughout the suburbs. DHA has 1700 properties in Victoria, with houses for sale in Point Cook, in Melbourne's west, and the northern border region of Wodonga. Under the Nation Building Economic Stimulus Plan, work began in June on 13 houses in Sale, with another 23 to be built in Point Cook and regional Victoria.

The properties are sold with a nine- to 12-year lease back to Defence, with three-year options to renew. Mr Winterbottom says the sale price is determined by a market valuation and the rents are reviewed annually. Property management fees of 16.5 per cent apply, much higher than those of a standard agent, but include maintenance and most repairs.

'We have a very transparent program, we show all the fees and charges, whereas real estate agents can only estimate costs, they don't know if you're going to need a new oven or if it will be fully tenanted,' Mr Winterbottom says. 'What you see is what you get and a lot of people who are making investments want a certainty of costs.'

Owners who wish to sell their DHA property must do so with the lease intact. 'We need those houses to house people if we allow people to break a lease it means we have to find a house for a family,' Mr Winterbottom says. However, he denies the lease is a major restriction for those wanting to sell, with 30 per cent of the housing market being investors.

'The seller who tries to sell out mid-lease ... as long as they are willing to price it to sell, they will sell it. The only way they will be in trouble is if they are over-ambitious with the price.

'Our properties suit someone who wants a set-and-forget investment. They can move overseas and they don't need to know about it. They can live in Perth and buy in Townsville and be confident the property manager will look after it.'

Peter Hay, managing director of Hay Property Group, is effusive about DHA. He frequently recommends DHA properties as part of an investment portfolio and has several clients who bought properties years ago in Point Lonsdale and Point Cook with the aim of using them as a holiday house when the lease expires. Selling before the lease expires is not an issue, he says, as the DHA benefits continue to appeal to other investors in the market or owner-occupiers who have the foresight to buy and wait until the lease expires before moving in.

With cash flow being 'king' at the moment, Mr Hay says he would be hard pressed to recommend a better property investment. 'You don't have a vacancy in 10 years, the rents are adjusted annually, you get a new home with depreciation benefit for tax.'

Other bonuses, according to Mr Hay, are that DHA houses are built to a higher standard than some in the general market and the property management is excellent with the well-maintained houses and gardens being refurbished at the end of the lease. 'If you offer an alternative, exactly the same property next door and put it out to rent, how is it going to look in five or 10 years?'

The key is to be clear on what your objectives are, he says: if you are after a good rental yield, then a strong regional economy like Wodonga is ideal, but if you want capital growth, look to Point Cook.

Not everyone is a DHA fan. Chris Hood, principal of Stockdale & Leggo Wodonga, has sold a few of the 300 DHA properties in the region over the years and has some concerns about them as an investment.

He says the houses are sometimes priced at a premium, but his major issue is the management fee of 16.5 per cent, compared to a real estate agent fee of 7 to 8 per cent. He says the fee reduces the gross return to around 4.4 per cent, less than the market average of 6.5 per cent. That the fee covers most property maintenance is not such a plus since the properties are relatively new, he adds. The long lease can also be an issue if people need to sell before it ends, Mr Wood says. On the open market, if an owner wishes to sell a property with a lease they can sometimes 'buy' the tenant out. But that is not an option with a DHA property, which reduces the pool of potential buyers to investors only.

'I have just sold [a DHA property] for some people who have had it for nine years ... they were very happy with it. But would I buy one? At those sorts of returns I couldn't I wouldn't want to.'

What to consider:

PROS

- One-hundred per cent occupancy
- all-inclusive management fee
- secure investment
- long-term lease.

CONS

- high management fee
- lower net returns
- can be in lower capital growth areas
- restrictions of long-term lease.

APPENDIX 3: SITE MAP OF DHA WEBSITE

Defence Housing Australia - Site Map

<http://www.invest.dha.gov.au/dha/home/sitemap.sok>

The screenshot displays the Defence Housing Australia website. At the top left is the logo for Defence Housing Australia, and at the top right is the 'invest' logo with the tagline 'WITH CONFIDENCE'. A navigation bar below the logos contains links for Home, For sale, Tools, Info, Events, and Contact DHA. The main content area is titled 'Site map' and features a tree view of the website's structure. To the right of the site map is an email contact form titled 'Email sales consultant' with fields for recipient, subject, title, first name, last name, state, email address, phone number, and message, along with a 'Send' button.

Defence Housing AUSTRALIA

invest
WITH CONFIDENCE

Home For sale Tools Info Events Contact DHA

Site map

- Home
 - Info
 - About DHA
 - Lease Benefits
 - Testimonials
 - Frequently Asked Questions
 - News
 - Land tax
 - Depreciation
 - Taxation
 - Overseas investors
 - Glossary of real estate terms
 - Events
 - Send Event to a Friend
 - Privacy Statement
 - Links to other websites
 - Cookies
 - Security of information
 - Collection of personal information
 - For Sale
 - Map Search
 - Detailed Search
 - Disclaimer
 - Tools
 - Loan Repayments
 - Income Tax
 - Split Loan
 - Loan Comparison
 - Borrowing Power
 - Budget Planner
 - Lump Sum Repayments
 - Savings
 - Stamp Duty
 - Term Deposit
 - Extra Repayments
 - Site Map
 - Contact DHA

Email sales consultant

To: Defence Housing Australia

Email subject:

Your title:

Your first name:

Your last name:

Your state:

Your email address:

Your phone number:

Your message:

Send

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