



EXECUTIVE SUMMARY

Recent housing transfer experience in Australia: implications for affordable housing industry development

Inquiry into affordable housing industry capacity

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Inquiry panel members

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Khalid Ahmed	Formerly ACT Treasury, now in private practice
Hal Bisset	Private practice
David Cant	Brisbane Housing Company
Annette Gallard	Private practice
Cameron Gifford (Meeting 2)	Department of Social Services
Rebecca Pinkstone	Bridge Housing and Australasian Housing Institute
Phil Fagan-Schmidt (Meeting 1)	Housing SA
Iain Scott (Meeting 1)	Department of Social Services
Peter White (Meeting 2)	Department of Health and Human Services, Tasmania
Jenny Samms (Meeting 2)	Aboriginal Housing Victoria Limited
Tom Slookee (Meeting 2)	South Eastern Aboriginal Regional Management Service
Panel facilitator: Brian Elton	Elton Consulting

Executive summary

- Since the mid-2000s, Australian housing policy-makers have taken an interest in the transfer of public housing to community housing providers (CHPs), partly as a means of transforming a social housing system dominated by financially unsustainable public housing into a vibrant affordable housing industry. Until recently, however, such transfers have been mostly small in scale and experimental in nature.
 - Since 2013, three Australian states with relatively little prior experience of transfers have initiated ground-breaking transfer programs: Tasmania's Better Housing Futures (BHF), South Australia's Better Places, Stronger Communities (BPSC) and Queensland's Logan Renewal Initiative (LRI).
 - The BHF and BPSC programs initially focused the activities of successor CHPs on eliminating backlog maintenance and improving tenant services, with more ambitious estate renewal objectives coming later to the agenda. LRI, which from the outset linked an ambitious vision for estate renewal to a wider policy of public sector cutbacks, was subject to a drawn-out implementation process and terminated in 2016 by a successor state government.
 - The case study transfers consolidate some aspects of previous transfer practice, in particular: capturing Rent Assistance-enhanced revenues; the transfer of 'management' rather than freehold title; and the absence of a role for tenants.
 - The case study transfers also extend on previous practice, with larger parcels of properties and longer contractual terms, as well as (in Tasmania) incorporation of (part-portfolio) title transfer as a second stage action. However, questions about contract termination provisions, organisational and tenancy management obligations, and employment require further resolution.
 - Transfers via long-term contracts mark a development in affordable housing industry finance, whereby assured cash flows may be accepted as sufficient security for credit. Financial modelling indicates that transfers on this basis may be a viable means for addressing moderate maintenance backlogs, enhancing community development and modestly expanding affordable housing portfolios. Recent transfer experience has also helped clarify the proper accounting treatment of transfers by long-term contract, with the assets concerned appropriately recorded as 'disposals' on the public accounts.
 - While transfers have built capacity in CHPs, there may be other, more advantageous, ways for CHPs to upscale and develop their businesses.
 - A long-term plan to transform social housing provision, informed by better data on public housing finances, coordinated across both levels of government and with the industry, and sustained by strong national leadership and bipartisan support, is an urgent priority.
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Key findings

Public housing transfers and affordable housing industry development

Since the mid-1990s, but especially since around 2007, property transfers by Australian state and territory housing authorities have added significantly to the housing stock and capacity of community housing providers (CHPs). Latterly, there has been increasing interest among housing policy-makers in the prospect of further transfers, at a larger scale, as reflected by the 2009 Housing Ministers Conference target of community housing achieving a 35 per cent share of the social housing sector. This interest has been particularly motivated by the increasingly financially stressed and physically run-down condition of public housing, and by the perceived benefits of 'contestability' arising from a multi-provider social housing system. Crucial here are the revenue advantages afforded CHPs under current subsidy settings—in particular, CHP tenant eligibility for Commonwealth Rent Assistance (CRA) paid through the social security system, thus enabling CHPs to charge higher rents without reducing tenant net incomes. Until recently, however, public housing transfer programs have been relatively small in scale and experimental in nature (Pawson, Milligan et al. 2013).

Public housing transfers post-2012

Since 2012, three Australian states with little prior experience of transfers have commenced ground-breaking new transfer programs. Tasmania's Better Housing Futures (BHF), South Australia's Better Places, Stronger Communities (BPSC) and Queensland's Logan Renewal Initiative (LRI) are considered here as case studies on contemporary public housing transfer policy and practice.

BHF involved four parcels of properties (about 500–1,100 dwellings each, with some vacant land for development), representing, in total, 35 per cent of Tasmania's public housing stock; these were transferred to four CHPs, three based interstate. BPSC involved transfer of two parcels (about 500–600 properties each) to two SA-based CHPs. These two programs proceeded through to management handovers in 2014 and 2015, and the respective state governments are, at this writing, progressing further transfer initiatives with more ambitious objectives. By contrast, LRI, which would have been the largest and most far-reaching transfer program yet undertaken in Australia (about 5,000 properties to a partnership of two interstate CHPs), has recently been terminated, along with other planned Queensland transfers, after protracted preparations, political controversy and a change of government.

Transfer objectives and models

Relative to the objectives and models of transfers identified in our 2013 research (Pawson, Milligan et al. 2013), the case study transfers examined here consolidated, extended and innovated in various ways.

All three programs embodied the objective of capturing CRA as the most important motivating factor. In South Australia (SA) and Tasmania, this enhanced revenue was directed to increased spending to address maintenance backlogs. More ambitiously, the Queensland Government aspired to leverage funding for large scale estate renewal and housing construction, which would have involved investment reportedly totalling \$800 million.

Building the capacity of the not-for-profit housing industry was an important secondary objective of each of the programs. Recognition of local industry capacity limitations was reflected in the initially modest objectives for renewal and growth adopted by the SA and Tasmanian governments.

The case study transfers also consolidated the model of transferring property management rights by lease or agency agreement, rather than freehold title. However, they also extended the model by transferring for longer periods (terms of 10 years for Tasmania, and 20 years for SA

and Queensland (as planned)). Competitive selection processes, without a role for tenants, also consolidated previous practice—although the openness to interstate providers represented a new development.

Transfer processes, terms and tenant implications

In all the case study states, the transfer selection, contracting and transition processes built capacity in government and housing providers, but were costly—most of all, of course, in Queensland, where the Logan transfer was aborted despite an extensive tendering process and a subsequent lengthy period of preparation for handover. In the two states where transfers progressed to completion, significant process issues were encountered—particularly in connection with Centrelink payments and the transfer of tenant credits and liabilities.

The transfer contracts contain notable provisions relating to:

- Government termination of contracts—raising questions of security.
- Backlog maintenance liabilities—subject to spending caps that mitigate risk for CHPs.
- CHP organisational management and tenancy management in accordance with social housing policies—raising questions as to the proper place for this level of regulation.

Large-scale transfers raise questions around the employment of public housing staff; however, BHF and BPSC largely avoided the issue through prior recruitment freezes and internal redeployments within the public service—approaches that could not be replicated in a larger-scale transaction or program. LRI would have required the successor CHP to employ ex-public housing staff—but with the project's cancellation, the associated organisational challenges and opportunities were not seen through to implementation.

None of the case study transfers sought to build the capacity or agency of tenants in the transfer process, but CHPs' post-transfer engagement with tenants and service improvement initiatives appear to have been well received.

Transfer finances, accounting and CHP asset bases

Financial modelling indicates that, through CRA-enhanced rent revenues, transfers of public housing to CHPs may be a viable way of achieving maintenance backlog reduction and, at the same time generating a modest revenue surplus to underpin other designated CHP activities. Employing social landlord income and expenditure assumptions derived from transfer tendering practice, this modelling focused on a number of '30-year business plan' scenarios for a notional 1,000 dwelling public housing transfer. These scenarios were compared with a 'continuing public housing management' base case.

Allowing for the elimination of a maintenance backlog averaging \$15,000 per dwelling, our transfer 'base case' generated an operational surplus over the business plan period sufficient to leverage construction of 113 new homes. Of these, 13 would be for market sale, 29 to replace obsolete transferred public housing, and 71 as additional affordable housing units. Alternatively, in the most favourable scenario—where strong government action facilitates access to cost-effective private finance (through a financial intermediary) and free land (through planning interventions)—it was estimated that leveraging could yield as many as 557 new homes. Of these, 77 would be for market sale, as well as 143 units to replace worn out public housing and 337 additional affordable dwellings.

However, any transfer contract commitment for a recipient CHP to carry out larger scale catch-up repairs and/or to undertake non-landlord activities (e.g. place making, housing advice and support) would quickly erode and eliminate this development capacity. And, even in the most favourable circumstances imaginable, the social housing financial regime would (over 30 years)

enable the successor landlord to replace only a very small proportion of the ageing transferred portfolio.

The above objectives may be achieved where CHPs are granted a mere leasehold, as opposed to freehold, interest in transferred properties. This is because lenders consider 'long-lease' acquisitions of former public housing as potentially sufficient to underpin cash flow-based lending to reputable providers. For accounting purposes, 'long lease' is now being interpreted as including contracts of as little as 10-year duration. As confirmed through recent practice, proper accounting treatment of such transactions involves the asset concerned being recorded as a 'disposal' on the public accounts.

It must be emphasized that significant questions linger as to what, under current policy settings, transfers may be reasonably expected to deliver. In particular, there is no validated information about the true scale of dwelling condition impairment in transferred property portfolios, nor on the time needed for 'catch-up repair' programs to eliminate such problems. Moreover, the adequacy of modelled allowances for successor landlord expenditure on responsive repairs, cyclical maintenance and other matters remains to be authenticated by experience. Equally, there are important uncertainties about the quality of the contractual terms granted by state governments, particularly regarding the degree of security afforded to CHPs—and, hence, CHP creditors. Valid arguments for title transfer remain.

Policy development options

The case study transfers offer numerous lessons for the conduct of any future public housing transfers—most of these are of specific relevance to state government policy-makers and their CHP counterparts.

The step up in transfer parcel size and length of transfer period effected by BHF and BPSC may generally be considered the standard or starting point for transfers going forward.

The staged approach of the BHF and BPSC programs—whereby the CHP capacity was first tested by property improvement and tenant service improvement objectives, pending more ambitious objectives of estate renewal—is a sound one. By contrast, the failure of the Logan transfer may be attributed in part to poor staging.

BPSC's use of concurrent leases is a promising innovation. This cuts through the previous confusion about tenants' existing agreements, and makes clear that CHPs acquire a leasehold interest in the property while existing agreements remain on foot. In previous transfers, tenants could choose to sign a new agreement with the CHP; if they opted against, in some programs the CHP did not acquire a leasehold interest but managed the property as an agent (e.g. BHF, some NSW transfers); in others, tenants were threatened with mandatory relocation (Pawson, Milligan et al. 2013).

The process of transitioning properties and tenancies is technically demanding. Early collaborative engagement with tenants helps to identify problems and ameliorate concerns as they arise.

There is an issue regarding the degree of control reserved to state government in transfer contracts, particularly regarding transfer termination and CHPs' organisational management and tenancy management obligations.

Aspects of practice yet to be resolved include the question of the employment of ex-public housing staff. BHF and BPSC avoided the issue by means of recruitment freezes and redeployments, which cannot be replicated or sustained indefinitely. There are challenges and opportunities for CHPs in taking on ex-public housing staff.

Transferring leasehold, rather than freehold, interests in property portfolios has helped to avoid political controversy—but not altogether, as the LRI experience shows. Nor do long-term leases avoid the issue of state governments accounting for transfers as a disposal of the housing asset.

'Leasehold transfer' also appears potentially serviceable in providing the basis for securing loan finance, but there is a question as to whether the terms on which the case study transfers have been effected are sufficiently secure to serve as the basis for the leveraged growth of the affordable housing sector by CHPs.

There are more fundamental issues surrounding transfers that need resolution. In particular, the dearth of meaningful data on the financial and physical condition of the state and territory public housing systems makes it hard to specify the problem for which transfers are said (by some) to provide a solution.

Also essential is Australian Government leadership and full participation in the social housing reform process, to ensure that public investment in housing stock is protected, and that system revenues and subsidies are secure enough to support leveraged reinvestment and, ideally, growth.

A long-term plan to transform social housing provision is required, informed by better data on public housing finances, coordinated across both levels of government and with the industry, and sustained by strong national leadership and bipartisan support.

The study

The research is part of a wider AHURI Inquiry into Australian 'affordable housing industry capacity', and follows on from previous AHURI research into public housing transfers by Pawson, Milligan et al. (2013).

For each of the case study transfers/transfer programs we interviewed officers of the state government agency responsible for the transfer and of the State Treasury, as well as the successor CHPs and third party stakeholders (e.g. peak non-government housing organisations). We also conducted focus groups with tenants whose homes and tenancies were transferred under BHF and BPSC. We reviewed case study transfer documents, including the four BHF contracts and one of the BPSC contracts.

The financial modelling was commissioned from Sphere Company, which has previously modelled public housing transfer finances (Sphere Company 2010; 2013) and which has extensive consultancy and business planning experience with CHPs.

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