Lifting the lid on public housing transfers – framing the policy context

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Background

- Locked into vicious circle of decline, public housing kept afloat only by cannibalising stock and deferral of essential works: mass transfers to CH increasingly seen as vital for system salvation
- Inspired partly by international switch from state to not-for-profit social housing models – e.g. in the Netherlands, UK and US
- Through 20 years of UK ‘stock transfers’ (1.4m homes) housing assocs overtook council housing in 2008
- Australian transfer experimentation since 1990s but new impetus from C/W Govt in 2009 – ’35% target’
- Just-published research, the first to review transfers in Australian context:
  - Considers lessons learned
  - Reflects on scope for scaled-up activity in future
  - Identifies obstacles needing to be overcome
Presentation outline

- Research methodology
- Scale/distribution of transfers – recent and prospective
- Transfer drivers and models
- Tenant involvement in transfers
- Financial/accounting considerations and barriers
- Transfer impacts
- Conclusions and next steps

Study funded by AHURI

Research team:
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- Kath Hulse (Swinburne University)
Research base

- National SHA survey:
  - Post-1995 completed transfers
  - Prospective transfers

- Case study work – 6 post-2009 transfers in NSW, Vic and Tas, involving all 3 main stakeholder groups:
  - State govt officials – both Housing and Treasury
  - Community housing ‘successor landlords’
  - Ex-public housing tenants & advocacy groups

- Limited contacts with Qld and SA state govt's to cover newly emerging transfer agendas
Defining ‘housing transfers’

- Public housing transfers are of two types:
  - ‘Management outsourcing’ = public housing management contractually delegated to CHP for ongoing social housing use. CHP may or may not become the ‘legal landlord’
  - ‘Asset transfers’ (or ‘title transfers’) = public housing asset ownership is transferred to a CHP for use as social housing

- Main interest: tenanted transfers – but research also covered SHI asset transfers to probe terms of transactions

- Excluded from our definition: public housing vacant and newly-built (pre-SHI) properties – hence, nil scores for WA and SA
## How many transfers so far? Public housing transfers in Australia to 2012

<table>
<thead>
<tr>
<th></th>
<th>ACT</th>
<th>NSW</th>
<th>Qld</th>
<th>Vic</th>
<th>WA</th>
<th>SA</th>
<th>National total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-2011 management outsourcing</td>
<td>200</td>
<td>7,900</td>
<td>200</td>
<td>1,400</td>
<td></td>
<td></td>
<td>9,500</td>
</tr>
<tr>
<td>Pre-2011 title transfers</td>
<td></td>
<td>400</td>
<td></td>
<td>600</td>
<td></td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>SHI transfers 2010-2012</td>
<td>100</td>
<td>6,000</td>
<td>2,600</td>
<td></td>
<td>1,300</td>
<td>600</td>
<td>10,800</td>
</tr>
<tr>
<td>Grand total</td>
<td>300</td>
<td>14,300</td>
<td>2,800</td>
<td>2,000</td>
<td>1,300</td>
<td>600</td>
<td>21,300</td>
</tr>
</tbody>
</table>

Notes: 1. National total also includes small number of SHI transfers in Tas. 2. ACT total includes 132 homes subsequently subject to title transfer

- Some recent transfer activity in most states but vast majority of tenanted transfer experience in NSW – programs ongoing since 1990s
- SHI transfers relatively large in number but no tenant consultation issues
- Overall scale of transfers v. limited – only 3% of all public housing (pre-SHI)
## How many transfers in the pipeline? Planned and/or proceeding schemes, 2013*

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Program/ completion date</th>
<th>Properties</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>QLD</td>
<td>Logan Renewal Initiative – 2013</td>
<td>Up to 5,000</td>
<td>Second stage tenders under assessment July 2013</td>
</tr>
<tr>
<td>QLD</td>
<td>Statewide transfer – by 2020</td>
<td>Approx 45,000</td>
<td>Framework not yet published</td>
</tr>
<tr>
<td>SA</td>
<td>Better places, stronger communities – by 2018</td>
<td>Up to 5,000</td>
<td>Initially 2 x 5-600 property packages</td>
</tr>
<tr>
<td>TAS</td>
<td>Better Housing Futures phase 2 – 2014</td>
<td>Up to 3,500**</td>
<td>Tenders for 3 property packages under assessment, July 2013</td>
</tr>
</tbody>
</table>

*All proposed as management outsourcing only

**Not including 500 homes designated for transfer in BHF ‘pilot’ March 2013
## Transfer drivers (highly generalised) – Aus and UK compared

<table>
<thead>
<tr>
<th>Driver</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td><strong>UK</strong></td>
</tr>
<tr>
<td>Revenue maximisation</td>
<td>High</td>
</tr>
<tr>
<td>Leveraging private finance for new supply</td>
<td>High*</td>
</tr>
<tr>
<td>Enhanced governance/contestability</td>
<td>Moderate</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>Moderate</td>
</tr>
<tr>
<td>Tenancy service improvement</td>
<td>Moderate</td>
</tr>
<tr>
<td>Leveraging private finance for stock upgrade</td>
<td>Low</td>
</tr>
<tr>
<td>Tenant/community empowerment</td>
<td>Low</td>
</tr>
<tr>
<td>Enhanced long term asset management</td>
<td>Low</td>
</tr>
</tbody>
</table>

*for title transfers
UK housing transfer motivations

- Financial considerations the main driver – capacity of HAs to leverage private financing of overdue repairs and modernisation
- HA borrowing off govt balance sheet
- But ‘better governance’ aspirations also a factor:
  - housing management decision-making insulated from politics
  - motivated by longer-term perspective on most effective use of resources
  - management subject to commercial disciplines
- Community empowerment aspiration – esp. via smaller-scale transfers
- Arguably, more participative organisational culture offsets loss of electoral accountability
### Australian transfer models – as exemplified by case study programs

<table>
<thead>
<tr>
<th>Case study</th>
<th>Transfer type</th>
<th>Location</th>
<th>CHP(s)</th>
<th>Dwellings/tenancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. NSW Social Housing Initiative ‘vesting’</td>
<td>Asset transfer</td>
<td>State-wide</td>
<td>Various</td>
<td>6,000</td>
</tr>
<tr>
<td>2. Vic Asset Conversion Strategy</td>
<td>Asset transfer</td>
<td>Melbourne</td>
<td>Various</td>
<td>575</td>
</tr>
<tr>
<td>3. NSW Property Transfer Program (whole of area)</td>
<td>Management transfer</td>
<td>Blue Mountains</td>
<td>Wentworth Community Housing</td>
<td>425</td>
</tr>
<tr>
<td>4. NSW Property Transfer Program (CHP capacity building)</td>
<td>Management transfer</td>
<td>SW Sydney</td>
<td>St George Community Housing</td>
<td>580</td>
</tr>
<tr>
<td>5. Aboriginal Housing Victoria</td>
<td>Management transfer</td>
<td>State-wide</td>
<td>Aboriginal Housing Victoria</td>
<td>1,300</td>
</tr>
<tr>
<td>6. Tasmania – Clarendon Vale /Rokeby</td>
<td>Management transfer</td>
<td>Hobart periphery</td>
<td>MA Housing</td>
<td>500</td>
</tr>
</tbody>
</table>

Case study transfer models differ in terms of:

- Asset transfer vs management outsourcing
- Whole of area vs client group-specific
- Place management/renewal vs tenancy & property management
- Tenant empowerment vs ‘business as usual’
Transfer vehicles – UK experience

- In Australia general assumption that transfers go to existing CHPs
- Contrasts with UK experience where (except for some ‘estate level’ transfers to existing HAs) virtually all ‘area-wide’ transfers to newly-created entities:
  - Locally-focused
  - Largely run by former ‘housing department’ staff
  - Boards structured along ‘constituency’ lines – ‘stakeholder governance’ model
  - Enhanced tenant involvement also built in through other new participative structures

- Distinctions between:
  - ‘ALMOs’ versus transfer HAs
  - Unitary versus ‘group structures’
  - ‘Conventional’ versus co-operative-style membership structures
  - One stage or two stage transfer processes
Tenant involvement in transfers

- Pre-transfer tenant/community consultation generally v. limited (unlike UK) – but AHV transfer an exception
- Dialogue constrained by:
  - short timescales
  - competitive model of successor landlord selection
- Individual tenant choice approach contrasts with collective choice model used in the UK
- Tenant decisions on tenancy transfer critically important to operational cost effectiveness (RA income)
- Resident understanding of transfer motivations often negligible
- ‘Individual choice’ model seen as compounding business risk and managerial inefficiency
UK transfer process

- LA must secure majority tenant support
  - must make convincing case for change
  - new landlord must be trusted entity
- Tenants vote on basis of ‘transfer prospectus’ – acquiring landlord commitments on:
  - future rents
  - stock improvement/new housebuilding
  - service enhancement
  - accountability/involvement
- Transfer – a commercial proposition involving
  - Portfolio valuation (accounting for estd investment needs)
  - Loan finance obtained by lender secured by equity and future income stream
  - LA capital receipt must extinguish housing debt
- Regulatory and lender sign off for 30-year business plan required
Financial and accounting considerations: Australian ‘management outsourcing’ transfers

- CHP becomes legal landlord of tenants ‘voluntarily’ opting to switch
- Transferring tenants’ RA entitlement ups potential landlord revenue by approx 50% (no impact on tenant net income)
- But revenue gain unlikely sufficient for long-term financial sustainability
- CHP retains all rent revenue but takes on all ongoing repairs & maintenance (responsive & cyclical) other than ‘structural repairs’
- Asset retained on state govt accounts but extra revenue can generate some limited extra CHP borrowing capacity (or ‘leverage’) if lease length sufficient
What case for title transfer?

- Title transfer remained C/W Govt preferred option under outgoing govt
- CHPs naturally favour title transfer as offering autonomy and ‘irreversibility’
- Title transfers can generate ‘financial payoff’ – leveraged private finance:
  - Secured against transferred asset; repaid through projected rental income stream
  - NSW ‘vesting’ to generate approx 20% leveraged additionality over 10 yrs
- Potentially, greater CHP independence via title transfers could also help:
  - Maximise entrepreneurialism and innovation
  - Bring more responsible, rational & efficient long term asset management planning
Financial and accounting barriers to title transfers – can the Berlin Wall be toppled?

- **But** title transfers impeded by major financial and accounting barriers
- State Govt incurs ‘budget loss’ because accounted value of assets booked as recurrent expenditure loss for year of transaction.
- Scale of booked loss reflects:
  - Expectation that title transfers at nil consideration
  - Method used to value public housing
- Differs fundamentally from UK transfer model where:
  - Council housing valued ‘as a business’ not a saleable asset, with outstanding upgrading needs fully accounted for
  - Acquiring HA pays transfer price funded through borrowing secured against future revenue stream
Australian transfer impacts

- Diversification of social housing system - esp in Tasmania
- Enhanced investment
  → Leveraged financing of additional supply
  → Public housing property upgrading
  → ...But investment impacts dampened by insignificance of title transfers
- Former public housing tenants possibly benefiting from:
  → ‘More responsive’ CHP tenancy services
  → CHP social/economic renewal programs
- Local transfer impacts difficult to evaluate because no clearly defined and published objectives
Conclusions and next steps

- Transfers widely seen as essential and inevitable prospect for unsustainable public housing - view that attention should be focused on ‘how can we?’ not ‘should we?’
- But not tenable to simply replicate transfer methods used to date – need for new process approaches – including on:
  - Tenant consultation/choice
  - Successor landlord selection
  - Staff transfer
- Major practical and financial obstacles also remain:
  - Need for C/W govt assurances on RA eligibility and no NAHA funding clawback
  - Detailed financial modelling needed to establish successor CHP funding viability – must factor in financial implications of (a) cost of bringing property up to reasonable standard; (b) rent policy and allocations policy assumptions
  - Given existingvaluations, asset transfers impeded by impact on state revenue budgets
- Even management outsourcing on large scale will call for political commitment not yet seen
Background reading


http://www.communities.gov.uk/archived/publications/housing/largescale