Challenging the Traditional Private Sector Residential Development and Building Company Model

Paper presented at 2009 Housing Researchers Conference, Sydney, 5-7 August 2009

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THE AUTHOR

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David Chandler has extensive experience in the Australian, US and Asian residential property markets. He was CEO of Pioneer Homes (in receivership 1994-5), principal of The Urban Partnership 1995 - 2003 specialising in residential subdivision, urban revitalisation and housing design. David has participated in affordable housing task forces and working groups. He is currently working on a large rental housing initiative aimed at establishing institutional investment in the Australian market.

David Chandler has managed large construction and development companies in Australia and overseas. He chaired a publicly listed company and a NSW Area Health Service. He has undertaken numerous distressed project and company workouts for various financial institutions. Together these experiences contribute to this paper which was first presented at the 4th Australian Housing Researchers Conference, Sydney August 2009.

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Caveat: The views expressed in this Issues Paper are those expressed by the author and do not necessarily represent those of City Futures Research Centre, University of New South Wales. Responsibility for all the ideas and information contained in the paper lies solely with the author.
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Synopsis

“Challenging the traditional business model of private sector residential development and building companies: Developing sustainable business models for the next 20 years.”

The Australian housing market is becoming less viable for many private sector businesses in the residential sector. Traditional industry structures and demarcation amongst its participants have led most companies down a road where they have increasingly been disenfranchised from their customers. Private research, mostly conducted by industry associations has often been skewed towards objectives that may have contributed to this situation.

The challenge for businesses across the Australian residential sector is to redefine and implement more sustainable business solutions that respond to the opportunities which are now evident in today’s market.

Australia’s largest invested asset class has not achieved an investment grade standing that could open up new and innovative supply solutions. The challenge confronting the sector is not simply the effects of the GFC, land access, home owner grants or interest rates. The housing take and customer dynamic has changed and the provider offer will need to adapt.

This paper examines the economic performances of some private sector housing suppliers and the mostly unrealised issues that need to be addressed. It will forecast considerable fallout amongst housing suppliers who fail to adapt. This will include public, not-for-profit and for-profit enterprises.

The paper will forecast a new breed of collaborative solutions-orientated providers who will employ new supply and procurement methods. It will suggest areas where research effort may usefully be directed, and some areas where evolving public policy initiatives may be more mindful of actions which could facilitate better housing outcomes.
Background

This paper has two purposes. First, to alert residential sector suppliers to the challenges of future supply and in that context, traditional business viability and second, to encourage the housing research community to support the private sector to better understand likely future markets.

The paper provides a challenge to two groups – those who have carriage of today’s residential building and development organisations and those who inform and commentate on the sector.

It is directed to the investors and boards of directors of the major companies:
- that have representations at the highest levels in their industry bodies;
- that set the agenda; and
- whose collective economic performances are evidence of failing business models.

It is further directed to researchers who could better target some of their effort towards providing information and ideas that will facilitate a more responsive mainstream housing supply. In so doing they may relieve challenges facing other elements of the industry.

While the prime challenge is to enable more viable private sector business strategies, opportunities exist to assess public and community housing providers, to benchmark both their performances and their sometimes less than engaging practices, with value for money and supply effectiveness being the main tests.

The proposition is that those who invest and those charged with business and industry direction setting, must create and stimulate more insightful engagement across the board using knowledge that may better shape successful future business strategies.

Government, banks and equity markets are the major investors in the residential sector. Holistic evaluation of each of the players is essential as the sector turns to the housing challenges facing Australia through to 2028 and beyond. The extrapolation of old assumptions and ‘business as usual’ will no longer work for many private, public and not-for-profit organisations. There will be rationalisation in the number of surviving organisations when these considerations are made.

In this context, there is very little independent research on the residential sector’s structure, economic performance, markets and importantly sub-markets. As a result, accepted measures, such as housing affordability indices and ‘rent versus buy’ comparators, remain unchallenged. That there is little information and no commentary at all on the structure of the sector, at a time when major housing investment decisions are being made, is of concern.

Such issues confront both researchers and those who set their investigation priorities. Publicly funded research is skewed towards social housing. While important, such a limited focus closes out more collaborative and holistic possibilities. This paper aims to stimulate those challenges.
A Snapshot of Private Sector Residential Performance

The 20,000 member strong HIA’s fifteenth Housing 100 report (2007/8) stated that “the total number of new starts in Australia increased by 3.1%, but starts by the nation’s top 100 builders fell by 5.7% from 56,332 to 53,098. The top 100 builders constructed 38,991 houses and 8,656 units and townhouses. Their market share declined from 38% in 2006/7 to 34% in 2007/8.” Perhaps this is an early sign of market disenfranchisement.

The largest builder by number was the Western Australian BGC accounting for 3,304 starts, comprising 2,585 detached dwellings and 719 units. Queensland’s Devine Group was 20th with 888 dwellings. The largest multi-unit builder was LU Simon Builders (1,259 starts), with Mirvac second at 948.

Surprisingly AV Jennings was absent from the top 20, although it is still the most recalled brand in the housing industry by some multiples over the nearest competitor (a claim made to the author by AVJ and informally confirmed by several competitors). Investa Group (formerly Clarendon Homes) completions were down from 1,306 in 2006/7 to 888 in 2007/8. The story of the last 10 years for some of Australia’s listed residential companies is shown below. Indicators for others are recorded at the nation’s offices of fair trading or on bank credit watch lists, but rarely exposed.

**Table 1: Share value performance - 10 years**

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Share value Jan ‘99</th>
<th>Peak Value 10 Years</th>
<th>Share value June ‘09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australand</td>
<td>~$1.20</td>
<td>~$2.37</td>
<td>~$0.46</td>
</tr>
<tr>
<td>Devine</td>
<td>~$0.62</td>
<td>~$1.46</td>
<td>~$0.44</td>
</tr>
<tr>
<td>Sunland</td>
<td>~$1.50</td>
<td>~$4.60</td>
<td>~$0.70</td>
</tr>
<tr>
<td>Mirvac</td>
<td>~$2.70</td>
<td>~$5.80</td>
<td>~$1.20</td>
</tr>
<tr>
<td>FKP</td>
<td>~$0.60</td>
<td>~$4.80</td>
<td>~$0.50</td>
</tr>
<tr>
<td>Jennings</td>
<td>~$0.40</td>
<td>~$2.30</td>
<td>~$0.28</td>
</tr>
</tbody>
</table>

*Commsec – adjusted for capital (Source – Commsec online)*

As the GFC recedes, the challenge for these and similarly scaled companies (both listed and non-listed) will be to identify more viable propositions to entertain investment capital than has been the case over the last 10 years.

The Australian Government’s National Housing Supply Council (NHSC) issued its first State of Supply Report (2008) in February 2009. This excellent initial document is reflective of the government’s desire to get critical demand and supply data into the market. Apart from some media commentators’ simply uplifting superficial information from the Report, largely in line with concurrent media releases, there has been little application of this information. Neither have questions relating to forward planning or background evidence supporting underlying business assumptions been asked of traded companies in the sector.
It is unlikely that many Australian housing executives or financiers have read the NHSC’s Report. My discussions with at least 6 major residential supply companies suggest intent to return to a ‘business as usual’ model post the GFC, with a focus on restoring margins and product rationalisation as core strategies. Few, if any, were able to articulate insight into important sector dynamics or to express any particular defensible competitive strategy. The industry remains product not solution orientated. Emerging opportunities which could be extrapolated from the NHSC Report are barely mentioned.

Apparent reluctance to consider non-traditional options is set in the context of substantial emerging and ongoing growth. Westpac bank estimates that the invested value of Australian residential stock now exceeds $2 trillion. The sector is allegedly the largest invested asset class in Australia. The NHSC Report estimates a current unmet demand totalling 85,000 dwellings and projects the need for 3,060,000 additional dwellings by 2028. Yet, there is no guarantee that a traditional response will satisfy the requirements of the emerging group of homebuyers and renters.

The Modern Dilemma: Own or Rent, City or Suburban Fringe

Home ownership achievement remains the prime housing objective amongst consumers, the housing industry and government – the “Great Australian Dream”. However, the NHSC reported home ownership for the 25 – 39 year old group fell from 65% in 1981 to 57% in 2006. Over the same period the rate fell from 61% to just over 50% for the 25 – 34 year old group. The widening housing gap in this context is shown below. There may be more to these trends than just house prices.

The priorities of today’s housing customers to invest in skills, to follow employment opportunities both domestically and internationally, to pay off education debt, to consider alternate wealth creation options, later household formation or saving a deposit are now important overlays.

This is not to say that there is evidence of a long term decline in the home ownership objective – it is more about priorities and need. It will be interesting to see the GFC effects on home ownership and wealth amongst the >60 year cohort in the next census. There already seem to be early signs of lifestyle changes.
adjustments for this submarket which may be unable to recover from losses to savings and contracting income opportunities.

All of these issues are absent from most private sector builder and developer business plans.

The NHSC’s 2008 Report indicates that semi-detached, townhouses, flats or apartments now make up 23.4% of total stock in Australia. By 2028 over 68% of households are expected to comprise single parent, couples without children or single person households. There is little commentary on the continuing stock / household size mismatch. But, former Treasurer Costello’s encouraging pre-election comments to industry association representatives (Costello: 2006) about entitlement to larger houses and much higher standards assertion that “Australia’s domestic house building industry is as efficient as it has ever been” seem somewhat at odds with need and is hardly a sufficient basis on which to build a business plan in a new financial era.

Mr Costello went on to say that “what we have is a land affordability problem... in which land prices have outstripped house building prices by huge multiples”. This, together with his further comment that urban consolidation really meant “packing more people into existing services”, does not really reflect underlying realities and known future trends.

The NHSC has not made projections about the likely trends in the mix of inner urban versus outer urban stock to 2028, or the types and numbers of stock that will be needed. There is some commentary on the estimated land supply reserves described as Broadhectare (Greenfield) land and Redevelopment areas yielding 1,203,000 and 591,000 dwellings respectively from a table projecting supply over <2 years to >10 years. A similar approach is taken to forecasting new completions to 2028 as steadily increasing from 153,000 dwellings in 2008 to 169,000 in 2028.

Future reports may be bolder in forecasting likely stock need, location and value. Investors and commentators may benefit from more user friendly presentation of such information in the future. Researchers should be able to utilise this valuable market knowledge to help organisations with their strategic and business planning today. From a whole-of-sector perspective, emphasising the potential of structural change will be essential.

If the current share of medium and higher density stock (23.4%) was simply applied to the projected number of total new housing to 2028 (3,060,000), then 716,040 new dwellings of this type – generating an investment exceeding $250 billion - would be required. The changing shift to smaller household size, estimated to occur between 2008 (5,323,000) and 2028 (7,813,000) i.e. +46%, may have further bearing on the forecast. Access to, and more efficient use of, existing social infrastructure; i.e. packing more people into existing services may also be a factor shaping land use and budget policy.

The Rental Sector

Rental is another challenging subject in the Australian housing context. Any policy aimed at expanding the supply of private rental stock has almost been seen as a relinquishment of commitment to supporting the home ownership aspiration. But rental does not challenge home ownership achievement. It is a compatible supply that offers flexibility and tenure choice over the housing life cycle.

The Australian Government has recognised the importance of both private and not-for-profit rental as critical supply. In this context; more than an essential
tenure option for those who have not yet arrived at a home purchase readiness or an important adjunct to housing “key workers” close to employment centres, it is equally one relieving pressure on an already stretched social housing rental platform. Future research might usefully estimate the impact of expanded moderately priced rental stock on the availability of lower cost rental stock to low and very low income households. This may overcome some of the resistance to early interventions which should in turn stimulate the beginnings of institutional investment in this sector.

Whereas government strategies so far have not been at the expense of helping new home owners enter the market, or to the disadvantage of expanding stocks of public and community or not-for-profit supplies, the unrealised objective of establishing a new asset class for large scaled private rental institutional investment is yet to be achieved. Although AHURI has led much of the debate that has shaped this initiative and developed a credible insight into investor attitudes, the lack of traction with these investors is disappointing.

The NHSC (2009) has provided commentary on the relative economics confronting the future supply of new rental stock. Public and private rental tenure represented 29.3% or 1,649,000 of the occupied dwellings in 2006. Private rental represented 21.7% of all tenures or 74% of all rental stock. Despite the Australian Government’s strategic commitment to foster the expansion of private rental stock supply through the National Rental Affordability Scheme (NRAS), NHSC discourse was largely confined to unsatisfactory returns driven by traditional developer delivery models and interests. There was little in the Report pointing to the scale that this asset class may achieve through to 2028, although this would be important opportunity information for institutional investment interests.

Recent research from the UK’s York University cited the benefits of institutionally invested Private Rental Stock (PRS) in delivering value for money, professional management and a better deal for renters. This compared more than favourably with the ‘cottage industry’ alternative supply where cost, efficiency and tenure uncertainty for both existing and new stock were less certain (University of York, Feb. 2007). (Cottage industry investors would typically own fewer than 5 dwellings).

A similar level of supply inefficiency and uncertainty is present in Australia. Added to this is a substantial reduction of new supplies resulting from GFC effects on the industry. The cost and rental viability for small investor new stock, largely targeted at the aspirational purchaser, is increasingly problematic.

The expansion prospects for ‘cottage industry’ inner urban private rental stock in Australia look bleak. The increasing cost of new supplies, higher equity requirements by lenders, the value volatility and the often illiquid nature of these assets when compared to alternate investment choices add new pressures.

The ABS shows the penetration of rental as tenure in higher density stock (Landcom – market research 2007). As in other major cities around the world, 60% of Australia’s higher density stock is rented. This would be useful information to businesses that may in time turn an eye to the future and support a defensible, viable role in tomorrow’s rental housing sector. It will certainly help to explain the difficulty of achieving sufficient cottage industry investor pre-sales for traditional high density strata developments.

Some informal concern has been expressed to the writer that NRAS only requires a 10 year commitment to rental. The point seems to be lost that this well targeted initiative is aimed at facilitating the beginnings of scaled institutional investment in Australia. While the R-REIT model is mature overseas, it will be a new Australian asset class. If the returns and performance of the asset class can be established then it would be reasonable to expect the Australian market could support 100,000 units of stock or over $40 billion invested by 2020 and growing. It would not matter if there were stock churn in
the process as this would provide a pipeline of more affordable owner stock. Detailed financial modelling indicates that an AusR-REIT sector would be viable and offer attractive ongoing growth into the future. The sector offers significant capability building and collaboration potential for community housing providers.

**Future Prospects**

The acute present and forecast shortage of new private rental stock is known. Communication of the opportunity, demonstrating the viability of the asset class and showing the way to new delivery solutions should now be a priority challenge for the sector.

The NHSC may also have drawn on wider data inputs such as AHURI’s research titled “Sustainability fair shares: the Australian housing system and intergenerational sustainability” (Yates et al. 2008), which forecast that “Over the next 40 years, the total number of households in the private rental market in Australia is projected to increase by 80% (from 1.8 million in 2006 to 3.3 million by 2045)."

Irrespective of this, if the current rental penetration rate of 21.7% private renters and 5.1% of social housing renters is to be maintained through to 2028, over 664,000 new private and 156,000 new public rental dwellings will be required, a total new investment exceeding $280 billion. This is certainly an important scalar to explain the institutional investment potential in Australia and evidence that this supply will be beyond the capabilities of the ‘cottage industry’.

The Australian housing market is not confronted with a demand shortage. Population growth forecasts, housing type and tenure, income projections and emerging urban settlement priorities create an opportunistic market setting. The conversation with the private housing market would seem more productively directed towards shaping housing solutions more orientated to need and household capacity to pay, rather than allowing aspirational product expectations to confront government with bridging the cost of the supply gap.

Post-war housing in Australia had its origins in meeting need. It succeeded with a model that ably housed millions of Australians (the Baby Boomers) as their wealth and aspirations rose. This model has survived for 50 years but it is now in need of refreshing. The underlying needs, capacity to pay and aspirations of today’s households (including the Baby Boomers) are potentially readjusting to the reality of living within one’s means. The same issues will affect generation ‘X’ and ‘Y’ as they adopt more sustainable living priorities.

What is clear is that a ‘business as usual’ model will not create sustainable investment returns or value for investors in most of today’s residential builders or developers. Timely, informative, independent and well packaged research delivered to the key decision makers has never been more important. The challenge for industry associations will be to accept that one solution will not fit all, interest rates and land supply are only part of the picture and that many of their members will not make it to the other side.
Demarcations amongst the Participants

A major challenge for the housing sector is to source available data presented in more universally meaningful ways. This may then drive a narrowing of the gap between the sub-market sectors (i.e. ‘not’ and ‘for’ profit) as both recognise their specific validities and potential compatibilities. Similar policy settings will appeal to both groups. Both operate, for example, in common planning and governance legislation. Both suffer from the differing jurisdictional challenges of local, state and national regulations. They deal with similar financial markets for debt and equity issues. Both will increasingly be challenged to support future business cases with better market evidence and economic rationale.

The NHSC Report places considerable emphasis on the challenges confronting low and very low income households. This is perhaps an understandable bias given the neglect of housing as a core policy area for the past decade. However as a result, discussions surrounding housing affordability have tended to adopt an essentially social housing context. The Report’s consistent tone has this bias, reinforcing the perceived delineations as to where these challenges reside rather than putting the case in a more opportunistic context.

The NHSC reports that social housing stock fell from 400,000 dwellings in 1996 to 390,000 in 2008. It recorded that in every State capital rental vacancy rates had fallen below 3% since 2005. It was estimated that by 2006 there was a rental stock shortfall of 250,000 dwellings for low and very low income households. It stated that in 2005-06, 400,000 private rental households were suffering housing stress and that of these, 150,000 had rents exceeding 50% of their gross household income.

The meanings of ‘affordable’ and ‘social’ housing have become synonymous, again reinforcing the perception that this was not private sector space.

The demarcation picture in reality looks like that shown in Figure 2 while the supply gap widens.

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**Figure 2: Demarcation and Supply Gap**

- Social housing Sector
- PPP type players
- Mainstream builders and developers – for profit
- Private rental market and real estate sector
- Academic Research
- Private market research
There has always been competition across the housing sector for the scarce resources to achieve balanced supplies whereby all Australians may enjoy a level of housing adequacy. The contest over best intervention and efficiency rages. What seems to get lost is that the failure to solve one side of the equation has a direct impact on the other.

Measures of affordability are principally presented as a percentage of income spent on housing – nominally 30% - for both purchase and rental. An issue with some of the data is that home purchase affordability only covers those with mortgages, and rent versus buy marketing does not compare the total cost of these alternatives.

Following extensive discussions with stakeholders across the housing sector I believe that depending on proponent perspective, differing priority is assigned to affordability resolution. These views included:

- Subsidisation of infrastructure to make land more affordable;
- Increased First Home Owner grants and Stamp Duty relief;
- Expansion funding for public and community housing;
- Dealing with fears that any public funding should be the sole domain of the social and not-for-profit sector as the only efficient and lasting solution;
- Lifting incentives to increase private rental supply;
- Lower interest rates;
- Widening of affordable housing levies or alternatively, forced inclusionary planning consents;
- Unifying differing State legislation to control allocation of housing benefits and management, thus lessening burdensome administrative requirements;
- Reviewing taxation rules for not-for profits in areas where there may be opportunity to widen sector collaboration with for-profit suppliers;
- Achieving nationally consistent planning and tenancy legislation to encourage market entry by larger nationally able suppliers;
- Overcoming push back by some States who do not agree to share the costs to implement priority initiatives with the Commonwealth;
- Overcoming the lack of credible affordability indices and comparators which provide real pictures of the relative cost of alternative tenure options;
- Monitoring the expanding range of dubious financial products being driven by commissioned investment advisors or mortgage brokers into schemes such as shared equity, reverse mortgages, negative gearing and most recently leveraged NRAS products;
- Overcoming institutional R-REIT investment inertia due to a lack of proven returns and risk management options which satisfy their investment criteria;
- Validating the effectiveness of existing housing stimulus interventions such as negative gearing and capital gains.

There is a need to develop a credible comparator for the rent-buy conversation.
The diversity of these and other passionately held views suggest that groups advocating for their constituencies are likely to have few common objectives.

The result has been demarcation between proponents and solutions. The most obvious example is the lack of integration of ‘market’ and ‘assisted stock supplies’, which stand as testimony to the current barriers of collaborative engagement.

There are only a few truly integrated assisted and market driven supplies. The most notable is the Merchant development at Docklands in Melbourne, a collaborative involving Melbourne Affordable Housing and Lend Lease. The project incorporates market and affordable dwellings in a common strata plan, shared entry, lifts and building management. I am unaware of any other similar models.

For the most part structured demarcation maintains barriers to collaboration and access to solutions which could benefit from the diverse attributes that parties have to offer. These structured demarcations have tended to define areas of research endeavour. There have been some exceptions mostly sponsored by AHURI, but these outputs are often either not known or used in private sector business planning. Without a substantial and immediate reorientation of these barriers, the critical investments needed to meet housing demand and tenure choice between now and 2028 will remain out of reach for many households.

A Growing Number of Potential Housing Customers are Disenfranchised

While Australia’s larger house builders and developers until now have been able to get by with business models that responded to narrow customer bandwidths, the market dynamics going forward may not entertain this indifference. Major changes which will disrupt traditional models will include:

- An increasing dependency by builders to undertake housing contracts on other people’s land. On many occasions such houses are in existing urban areas, but equally they are on other developer’s retail lots. The days of land banking stocks for one’s own contracts is increasingly unsustainable.

- Most builder house designs look the same. Even small builders can emulate larger builder offerings, with the main differential being price and margin. The entry barrier amongst suppliers of detached dwellings is low, and there is little brand value as a result. AV Jennings is an example. For the larger builders there are the increasing brand pressures from unhappy customers able to ‘blog’ a firm having a poor run in terms of customer satisfaction.

- Most of the former large scale project home builders are scaling down their businesses to focus on improved performance, customer satisfaction and margins. This means fewer housing choices in the range often by as much as 50%. In turn increased competition from more agile smaller builders able to cope with client customization has an advantage. The big guys are getting smaller. The rate of design for new smarter housing models has slowed.

- Increasing inner urban infill development is lowering the share of market available to thinly capitalized house builders and land developers. The sector calls for new stock designs and often different building techniques. The projects have a longer delivery time, tie up more capital and require significant presales or developer equity for the build phase. Fewer players will occupy this sector. Larger firms are constantly exploring options for improved capital efficiency. Some have sought to set up complex investment and related party
schemes which are now having difficulty in attracting both debt and equity.

- Generally builders and developer business models focus on getting the contract completed and through the warranty period as fast as possible. Developments are undertaken with short term horizons on aspects such as energy consumption and sustainability. Most developments achieve a “just comply” outcome. Customers would like, and in future will demand, more.

- Most customer disenfranchisement comes from simply not being able to access a housing solution that combines where they want to live for the cost they can afford to pay. Here the rental versus owner tenure option will increasingly come into play.

The challenge confronting builders and developers with aspirations to grow their businesses, to attract new investment capital and deliver robust shareholder value creation, will be to develop a market proposition that matches the greatest client need and financial capacity. This prospect is bleak while the proprietors and investors of such businesses are not informed and their planning continues without the critical information to identify the greatest opportunities. While industry associations have read the NHSC’s Report and provided their membership with some selected references, generally few people in the sector, particularly those who control capital, are familiar with it.

Of the 3,060,000 new dwellings forecast by 2028, over 2,900,000 should be provided by the private sector if the social housing sector were to maintain around 5.1% of the supply. It is unlikely that the non profit sector will achieve new supply levels even approaching 10% of overall market. But, given that average annual disposable household income before housing cost in 2005–06 was $62,400 pa, some new housing options will need to emerge. Now is the time for private sector builders and developers to re-evaluate their business models and to imagine these may not be simple linear extensions of times past. The new point of difference may be solutions driven supply versus the old product driven model.

The same situation confronts almost every industry, be it telecommunications, energy production, automobile manufacture, medicine or banking. Significant adaptations must be made to stay viable and to compete. Housing research must draw these parallels if it wishes to play a credible role in the sector’s reshaping.

A Restructured and Shrinking Market Place – for Some

The writing would seem to be on the wall. Over 20,000 builders and developers continuing to contest a reshaping housing market will not be viable. The 2007/08 HIA Top 100 survey showed market share had already declined by 3.1% to 53,098 dwellings. There were an average of 1466 completions amongst the top 20 and an average of 296 completions for the remaining 80. Five of the top 20 builders achieved their place using a franchise model. Only one builder/developer (Meriton) is known to commence large scaled projects without the need for pre-committed sales. Meriton is not listed in the top 20 HIA builders for 2007/08 (HIA 2009).

There is also rationalisation occurring in the not-for-profit arena. Consolidation or “clubbing” is occurring as the investment needed to procure and manage larger portfolios occurs. This will in time provide some contrast with the performance of supply in the traditional public housing sector. Perhaps a useful
measure of stock supply capability may be the inclusion of the public and not-for-profits in the HIA’s Top 100 list when these performances register.

What is certain is change. Testing for viable new supply models such as the Federal Government’s NRAS initiative will be important. The potential elegance of this model has yet to be realized. These and direct initiatives to expand the community housing provider space will at least create options. But, on all sides there are pockets attempting to defend the status quo. This may work for a while, but the emerging unsatisfied demand pressures will eventually sweep away the recalcitrant or those unable to change.

So for the Future…

In future years, the NHSC will have had both time and increasing capacity to broaden its initial findings. Key areas that will be of interest to private sector residential businesses may be:

- Putting metrics on the size and investment inputs which will be required to deliver the quantum and type of stock to 2028.
- Unbiased data sets on affordability and rent versus buy comparators
- Measures and suggestions for the ensuring that the production yield and dwelling size on surplus government land for infill locations will optimise housing policy outcomes;
- Calibration of the potential benefits of directing government interventions such as NRAS to achieve scaled private rental supplies in the mainstream market in order to relieve pressure on access to lower cost rental for low income households and achieve greater integration of this stock;
- Taking steps to ensure there is a distinction between the use of “social housing” and “affordable housing” in research and sector reporting;
- A more detailed insight into the macro-economic structure and capacity of the housing market with analysis of public, not-for-profit and private sector productivity, cost and effectiveness;
- Providing better insight into environmental sustainability requirements, costs and benefits. This commentary will need to adopt wider urban system perspectives if future planning and supply responses are to make a difference.

These are all areas rich in potential for a research community that now needs to be challenged to embrace a more holistic perspective. The housing challenges ahead will require more investment than the public purse can subscribe. The private sector can contribute much more, but old business models and ‘business as usual’ will need to change. So will the return to share holder performances of the last 10 years.

The role in meeting the demand to house Australians will be predominantly met by the private sector. That is the reality. The challenge is to convert the discussion about the ‘supply problem’ into one that paints the ‘supply opportunity’. Figure 3 identifies this supply opportunity.
This paper has attempted to engage with a wider variety of issues in the research conversation than is currently occurring. There is no challenge to the thoughtfulness or intent of much of the work which is undertaken in the areas of social housing and the housing needs of low income households. But a challenge to its narrow focus is now made.

While the Housing NHSC’s provides sufficient insight about future demand to suggest expanded supply side opportunity, the scale metrics and business value of the future market is not clearly articulated. It must now be.

Any claim that there is no need to intervene for the top 50% of the market and that the focus should be totally directed to the bottom 50%, is an oversimplification of the issues. The market does not work that simply. The private rental and home owner market accounts for over 94% of all housing supplies. The risk facing the private sector is that they will be trapped in the shrinking supply space and by failing to adapt, and be unable to make a successful contribution to areas of growing demand.

The way forward will be through new partnerships and restructuring of the supply chain. There will be new and productive collaborations between the ‘for-profit’ and ‘not for-profit’ sectors – for some. Others will be so bogged down in less effective models or resistant to any change that they will move from being part of the problem to not being part of the future.

Profit is, however, the hub of the Australian economy. It is what is needed to mobilise capital and to invest. Private sector engagement will be critical to achieving the scale of supply that will take pressure off comparatively shrinking public housing stocks. Public subscription alone will not be able to expand to fill this space, but leveraging some public investment to facilitate better private sector supply outcomes is valid and necessary.

To foster this transition, the current research conversation will need to broaden.
Conclusion

The objective of this paper was first to bring the economic and supply performance of the private building and development sector into the context of forecast housing supply challenges through to 2028 and beyond. The second objective was to put the case that the housing research community could usefully move past the bias in their current efforts and make a stronger case for the private sector to better understand the likely future market.

This said the paper has laid out the following propositions:

- There is no case for a ‘business as usual’ model for any of the players, be they public housing, ‘not-for-profit’ or ‘for profit’ organisations;
- The economic and production outputs of all parties have failed to meet demand or to deliver acceptable investment returns. The challenge for investors is to call for more credible, evidence-based business plans;
- There will be a need for new business collaborations across the supply spectrum, including between ‘for profit’ and ‘not-for-profit’ organisations;
- Public investment will be needed to leverage outcomes that will not be possible from the social housing sector - such as NRAS helping to establish an AusR-REIT sector to deliver scaled new supplies of private rental dwellings;
- There will be a contraction in the number of players in the sector as product rationalization and margin enhancements alone prove not to be a plan. The successful providers of the future will be ‘solutions’ not ‘product’ focused;
- Smaller more affordable stock will be the key to achieving best use of existing inner urban land and responding to the challenges of more sustainable living;
- There are emerging structural changes to the housing market. Some of these can be extrapolated from data in the NHSC report, some will come from future analysis of the affects of the GFC on capital markets, others from home owner lending and investment finance;
- The gate keepers of the status quo will only stand in the way of the necessary structural changes to future supply models for so long. The enormity of the demand pressures will force blockages from the system where these stand in the way of achieving essential housing outcomes;
- Relief of pressure on social housing and stock for low and very low income households will be aided by rapid and significant supplies of new private rental stock;
- The role of research is critical to ensure that unbiased evidence is provided to key decision makers. The packaging and dissemination of this research will need to be specifically targeted to ensure meaningful receipt by those in the most influential position to act upon it;
- Some research projections will need to be bold, but these can be conditioned to the extent they are a ‘work in progress’

The Australia residential sector has a unique opportunity to make a huge housing difference. The current political setting and clear demand pressures have aligned to make this possible. The challenges outlined in this paper go to presenting these pressures not as problems but as opportunities. However, a more engaging and collaborative approach will be required with the private sector to make this difference. Perfect solutions will not always be possible. There will need to be some give and take.
Glossary

ABS  Australian Bureau of Statistics
AHURI  Australian Housing and Urban Research Institute
AusR-REIT  Australian Residential Real Estate Investment Trust
HIA  Housing Industry Association Ltd.
NHSC  National Housing Supply Council
NRAS  National Rental Affordability Scheme
R-REIT  Residential Real Estate Investment Trust

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