



ABN 11 090 448 918

National Office
Level 1, 114 Flinders Street
Melbourne Victoria 3000
Australia
Phone +61 3 9660 2300
Email information@ahuri.edu.au
Web www.ahuri.edu.au

5 February 2016

Committee Secretary
Senate Foreign Affairs, Defence and Trade References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

AHURI submission to the Senate Standing Committee on Foreign Affairs, Defence and Trade Inquiry into the Operations of Defence Housing Australia

On behalf of the Australian Housing and Urban Research Institute (AHURI) I am pleased to make a submission to the Inquiry into the Operations of Defence Housing Australia (DHA).

DHA's operations have not been a specific focus of extensive AHURI research to date. However, AHURI has conducted and published one research project examining the DHA model, in 2009 (AHURI Project 70575, available online at <http://www.ahuri.edu.au/publications/projects/p70575>).

This project noted that the DHA business model integrates a range of functions including housing construction and asset and tenancy management. The sales and leaseback program means DHA sell housing to private investors who then lease the property back for the DHA to manage. A fundamental feature of the DHA operating model is the guarantee of tenants on incomes that can sustain rents to fully cover the operational costs of property owners—a rent guarantee and a maintenance budget at end of lease.

The project further noted that, by 2009, DHA had become a successful model of private investment in the large scale provision of rental housing—DHA had amassed a portfolio of over 17 000 dwellings valued at over \$7 billion that were owned by a mix of public, individual and institutional investors.

The AHURI research sought to understand the business models that have underpinned the success of the DHA across the market cycle, the underlying returns to investors that drive private investment in DHA properties and the lessons of this model for the emerging affordable rental housing sector. The AHURI study involved a series of interviews with current DHA staff and staff in the affordable housing sector that previously worked for DHA. In addition, a detailed review of historical records dating from its establishment was undertaken in order to trace the history and development of current DHA practice. These records included DHA website, annual reports, Hansard, and government reports.

Success factors of the DHA model relevant to affordable housing

Sales and leaseback program

A key advantage of the sales and leaseback program was that it enabled the DHA to tap into private finance. The sales and leaseback program attracted risk averse 'mum and dad', private rental investors who could take advantage of the fact that DHA provided a rent guarantee and included a significant maintenance program at the end of the lease. These investors appeared to be willing to pay a premium to reduce these risks.

Efficient asset management

The large scale of the DHA operation was a critical factor in their success. This had enabled them to drive down average maintenance costs by tendering large maintenance contracts. This scale also meant they were able to trade stock to better fit the profile of their tenants. Robust design guidelines around the acquisition and development of appropriate housing allowed the lessons from previous developments to be applied in future acquisitions and were instrumental to the success of the DHA operation.

Governance and management

In the 2009 research, DHA exhibited good practice in terms of governance and management. The DHA had a comprehensive governance framework developed as the organisation moved from direct government provision to being a government business enterprise. They also provided high quality and regular reporting about their operations. DHA identified the requirement for good information for all stakeholders as particularly important given that the organisation was convincing investors to participate in its sales and leaseback program.

Implications

DHA has developed a sustainable model of sales and leaseback that has created a product that provides advantages for both the DHA and small and medium investors.

I would like to thank the committee for its consideration of our submission. If there is any way we can be of further assistance to the Inquiry, please contact me directly on 03 9660 2300.

Yours sincerely

Dr Ian Winter
Executive Director