



# Maximising growth potential of housing providers through title transfer



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# Executive summary

Sphere has been commissioned by the Community Housing Council of South Australia to conduct a financial modelling study of the growth potential of a 500 dwelling public housing portfolio. In particular, we have been asked to develop a financial model that allows comparison in terms of potential dwelling growth (or decline) of three scenarios where housing:

1. Is operated by a government housing authority.
2. Is operated under a management model with a community housing provider managing the stock without title transfer.
3. Is operated under a management model with a community housing provider managing the stock with different degrees of title transfer.

Sphere has built a financial model for this purpose. The model functions include:

- Estimating the surpluses generated by a 500 dwelling housing portfolio.
- Estimating potential debt and equity available to fund growth.
- Calculating growth potential.
- Testing sensitivities.

The scope of this study is to focus on the relationship between title transfer to community housing providers and the ability of social housing portfolios to grow. It has to be recognised, however, that title transfer can deliver other benefits to both providers and clients and that this has been the topic of a recent AHURI research paper - [Public housing transfers: past, present and prospective](#) authored by Hal Pawson, Vivienne Milligan, Ilan Wiesel and Kath Hulse – released in October 2013.

In terms of the assumptions used by the model, the starting point was Sphere's knowledge emanating from significant experience in providing financial advice to community housing providers across Australia. These initial assumptions were then tested and refined through consultation with South Australian community housing providers, peak bodies and officers from Housing SA and the South Australian Treasury to arrive at an agreed set of assumptions.

Currently, there is debate in South Australia about whether local council rate rebates will apply to tenants in housing transferred to community housing providers. For this reason all community housing provider scenarios have been modelled both for the case where rebates continue and for the case where the rebate regime ends. This is a very substantial issue. Our modelling estimates that without council rate rebates the surpluses available to the 500 dwelling portfolio in our study halves. In practice, this means a significant reduction of the portfolio's capacity to grow.

From the outset, it is important to point out that the first scenario (where the portfolio is managed by a government housing authority) requires little analysis. With the assumptions used in the modelling, if the portfolio was managed by a government housing authority, it is estimated that the portfolio would deliver an annual deficit. Consequently, no growth would be possible, and, in the absence of government subsidies, the portfolio would experience a small annual decline in dwellings. This is not surprising as it is consistent with the experience of housing authorities around Australia.

The study is therefore largely concerned with the scenarios where the portfolio is managed by a community housing provider. In these scenarios we have assumed that most tenants have access to Commonwealth Rent Assistance (CRA). We have also assumed that CRA payments flow in their entirety to the community housing

provider – as it is the case in most community housing settings across Australia. Our modelling shows that this additional income delivers portfolio surpluses which can then be used to borrow and grow.

Rather than dealing with Scenarios 2 and 3 separately, our approach has been to treat Scenario 2 (no title transfer) as a special case of Scenario 3 (some degree of title transfer). Our modelling has focused on exploring how potential dwelling growth varies as the percentage of properties in the portfolio which are owned by the community housing provider increases. Consequently, Scenario 2 simply assumes that this percentage is zero.

The conclusion of our study is that to maximise the growth potential of the portfolio, some degree of title transfer should occur – typically in the range of 10 to 20 per cent – equivalent to between 50 to 100 dwellings of the 500 dwellings in the original portfolio. This figure varies depending on the sensitivities tested and is able to deliver dwelling growth between 5 and 10 per cent of the original portfolio – up to 75 additional dwellings. The modelling also shows that if a provider chose to refurbish dwellings rather than deliver new dwellings, title transfer could deliver up to 174 refurbished dwellings out of the 500 dwelling portfolio.

In the case where there is no title transfer, our modelling estimates that dwelling growth is negligible – around 2 dwellings per annum largely dependent of the equity available to the community housing provider. This is because the community housing provider is only able to raise debt through accumulated cash reserves used as equity – essentially a deposit payment as security for a bank loan.

At the same time, our modelling also shows that higher levels of title transfer (above 26 percent) will not lead to higher growth under any of the sensitivities tested. This is because, in practice, borrowing is not only limited by the portfolio's capacity to provide security to banks but also by its ability to service debt through the surpluses generated by the operations of the housing portfolio.

The conclusion of our study is that the approach to the issue of title transfer should be pragmatic rather than ideological. Government policy on title transfer should not be a matter of “for or against” but a matter of how much title transfer is required to maximise dwelling growth and provide as many opportunities as possible to people in need of affordable housing.

# 1 Methodology

## 1.1 Approach

### 1.1.1 Definitions

Throughout this paper the following terms are used:

- **Original dwellings**: the dwellings in the housing portfolio before growth (i.e. the original 500 dwellings).
- **Growth dwellings**: additional dwelling leveraged from the original portfolio and funded through a mix of debt and equity.
- **Portfolio surplus**: The difference between operational revenues and costs. Surpluses can contribute to accumulated cash reserves but can also be used to service debt.
- **Loan to Value Ratio (LVR)**: The ratio between debt and the value of properties owned (i.e. the value of the properties with title). Banks set a maximum LVR hurdle to borrowers to ensure there is enough security in case of a default.
- **Interests Cover Ratio (ICR)**: A ratio used to determine how easily interest can be paid on outstanding debt. For a given period, the ICR is calculated by dividing earnings before interest and taxes (in the case of not-for profit housing providers this is equivalent to surpluses) by interest expenses of the same period. Banks set a minimum ICR hurdle to ensure debt can be serviced.

## 1.2 Model description

Sphere has built a financial model to explore the growth potential of a 500 dwelling public housing portfolio. In particular, the model quantifies the effect of title transfer to a community housing provider on growth potential. The model starts by calculating surpluses generated by the operations of the portfolio and then calculates the level of debt that can be raised in accordance with three prudential hurdles:

- **Maximum LVR** – as a mechanism to ensure banks have enough security in case of default.
- **Minimum ICR** – as a mechanism to ensure debt can be serviced with available surpluses.
- **Percentage of surplus available to service debt** – as a mechanism to ensure that some of the surpluses are kept by the housing provider.

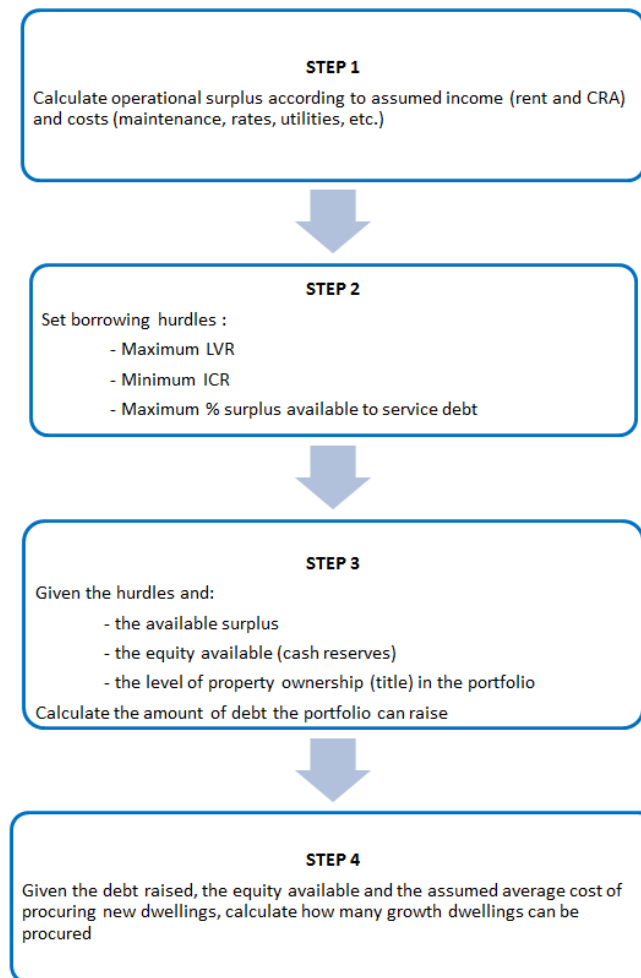
The model has been used to establish a Base Case with assumptions developed by Sphere in consultation with South Australian housing providers, peak bodies and officers from Housing SA and the South Australian Treasury.

The model has also been used to test sensitivities including:

- The effect of council rate rebates
- Variations to assumed costs and revenues
- Variations to debt settings.
- The effect of no cost to land when procuring growth dwellings.

Figure 1 summarises the methodology used by the model.

**Figure 1: Model methodology**



### 1.3 Base case assumptions

This section contains assumptions made under the Base Case.

#### 1.3.1 Housing portfolio assumptions

##### *Portfolio size*

Base Case Assumption: Original portfolio of **500** dwellings.

##### *Dwelling Value*

Base Case Assumption: Average value of **\$260,000** per dwelling.

##### *Replacement cost*

Base Case Assumption: Average dwelling replacement cost of **\$150,000** per dwelling. This value is used to calculate maintenance costs,

##### *Cash reserves*

Base Case Assumption: It has been assumed that the provider has **\$700,000** in cash reserves available (potentially) to provide as equity for growth.

### 1.3.2 Operational assumptions

#### *Rent*

Base Case Assumption: Average of **\$100** per week for existing dwellings and **\$130** per week for growth dwellings. It has been assumed that existing dwellings charge rent at 25 percent of tenant income (as per public housing rules) whereas growth dwelling will also include tenants who pay rent as a proportion of market rent – thus the higher average rent. It is noted that the latter figure is conservative and will often be higher depending on the mix of tenants (affordable and social) in growth dwellings.

#### *Commonwealth Rent Assistance (CRA)*

Base Case Assumption: Average of **\$40** per week for both existing and growth dwellings – in the case where the housing portfolio is managed by a community housing provider. It is also assumed that CRA income is passed in its entirety to the community housing provider.

#### *Responsive maintenance*

Base Case Assumption: Average of **0.5 percent** of replacement costs for both existing and growth dwellings – **\$750** per annum (plus GST if the portfolio is managed by a government housing authority).

#### *Planned maintenance*

Base Case Assumption: Average of **1.0 percent** of replacement costs for both existing and growth dwellings – **\$1,500** per annum (plus GST if the portfolio is managed by a government housing authority). Whilst it is recognised that growth (new) dwelling would initially have lower planned maintenance cost, it is assumed that for new dwelling funds would be set aside for future expenditure. This level of maintenance expenditure is consistent with practice both in public housing authorities and community housing providers. However, it has to be recognised that this amount does not include the cost of (long term) dwelling replacement – additional funding would be required for this purpose.

#### *Water rates*

Base Case Assumption: Average of **\$300** per annum for both existing and growth dwellings.

#### *Sewer rates*

Base Case Assumption: Base Case Assumption: Average of **\$500** per annum for both existing and growth dwellings.

#### *Council rate*

Base Case Assumption: Average of **\$1,000** per annum for both existing and growth dwellings (for scenarios where no rebate is assumed) and **\$250** per annum (for scenarios where a rebate is assumed).

#### *Management fee*

Base Case Assumption: **\$1,500** per annum for both existing and growth dwellings (plus GST if the portfolio is managed by a government housing authority). This fee reflects the costs to the housing provider to deliver tenancy management services.

#### *Community development*

Base Case Assumption: **\$290** per annum for both existing dwellings (plus GST if the portfolio is managed by a government housing authority). For a portfolio of 500 dwellings this equates to **\$140,000** per annum for the provision of community development.

#### *Insurance*

Base Case Assumption: **\$400** per annum for both existing and growth dwellings.

#### *Vacancy rate*

Base Case Assumption: It has been assumed that on average **1.5 percent** of dwellings are vacant.

### *Bad debt rate*

Base Case Assumption: It has been assumed that on average **1.0 percent** of due rents are not paid or recovered.

### *National Rental Assistance Scheme*

Base Case Assumption: Under the Base Case it has been assumed that no NRAS is available for growth dwellings. For scenarios in the sensitivity analysis where NRAS subsidies are available an annual subsidy of \$10,350 per dwelling has been assumed.

## **1.3.3 Finance and prudential assumptions**

### *Interest rates*

Base Case Assumption: When borrowing to grow, it has been assumed that the housing provider will incur an interest rate of **6.5 percent**.

### *Loan Term*

Base Case Assumption: It has been assumed that loans will be repaid over **25** years. Consequently, it is also assumed that the housing provider has a management contract over the properties for 25 years – thus securitising the income from the portfolio.

### *Minimum interest cover ratio (ICR)*

Base Case Assumption: It has been assumed that banks will require a minimum ICR of **1.5** times.

### *Maximum Loan to value ratio (LVR)*

Base Case Assumption: It has been assumed that banks will require a maximum LVR of **30 percent**.

### *Percent of Cash Reserve Available for Equity Investment*

Base Case Assumption: It has been assumed that the Board of the housing provider would only make **50 percent** of cash reserves available for equity.

### *Percent of Surplus Available to Service Debt*

Base Case Assumption: It has been assumed that the Board of the housing provider would only make available **90 percent** of operational surpluses to service debt.

## **1.3.4 Procurement cost assumptions**

### *Cost of dwellings*

Base Case Assumption: It has been assumed that the cost of procuring a new dwelling is **\$250,000** (plus GST if the portfolio is managed by a government housing authority). This figure assumes procurement through development in a medium density setting.

## **1.4 Base Case estimated surplus**

### **1.4.1 Portfolio managed by a government housing authority**

The following tables show the estimated surpluses generated by the 500 dwelling housing portfolio using the above assumptions for the case where CRA is not available (as it would be the case if the portfolio was managed by a government housing authority).

**Figure 2** shows the Base Case estimates costs and revenues of the portfolio in the case where the portfolio is managed by a government housing authority. The absence of CRA revenue means that the scenario delivers a deficit.



**Figure 2: Portfolio managed by government housing authority - estimated portfolio costs and revenues**

Operations	%	Average Value	Annual Value
Rent		\$100.00pw	\$2,607,143
Commonwealth Rent Assistance		\$0.00pw	\$0
Maintenance - Responsive	0.50%	\$825pa	-\$412,500
Maintenance - Planned	1.00%	\$1,650pa	-\$825,000
Water Rates		\$300pa	-\$150,000
Sewer Rates		\$500pa	-\$250,000
Council Rates		\$1,000pa	-\$500,000
Management Fee		\$1,650pa	-\$825,000
Community Development		\$319pa	-\$159,500
Insurance		\$400pa	-\$200,000
Vacancy rate	1.50%	\$78pa	-\$39,107
Bad Debt Rate	1.00%	\$52pa	-\$26,071
Surplus		-\$1,560 pa	-\$780,036

Consequently, in the case where the portfolio is managed by a government housing authority, there would be no growth – in fact, without subsidies the portfolio would experience a small decline in dwellings each year. For this reason, the case where the portfolio is managed by a government housing authority is not included in the modelling presented in the rest of the paper – which is concerned with quantifying growth potential.

#### 1.4.2 Portfolio managed by a community housing provider

##### *Original portfolio*

**Figure 3** and **Figure 4** show the Base Case estimated costs and revenues of the original portfolio in the case where the portfolio is managed by a community housing provider – with and without council rate rebates. Both scenarios deliver a surplus. It is estimated that the absence of council rate rebates results in cutting the surplus by almost a half.

**Figure 3: Portfolio managed by community housing provider - estimated portfolio costs and revenues (with council rate rebates)**

Operations	%	Average Value	Annual Value
Rent		\$100.00pw	\$2,607,143
Commonwealth Rent Assistance		\$40.00pw	\$1,042,857
Maintenance - Responsive	0.50%	\$750pa	-\$375,000
Maintenance - Planned	1.00%	\$1,500pa	-\$750,000
Water Rates		\$300pa	-\$150,000
Sewer Rates		\$500pa	-\$250,000
Council Rates		\$250pa	-\$125,000
Management Fee		\$1,500pa	-\$750,000
Community Development		\$290pa	-\$145,000
Insurance		\$400pa	-\$200,000
Vacancy rate	1.50%	\$110pa	-\$54,750
Bad Debt Rate	1.00%	\$73pa	-\$36,500
Surplus		\$1,628 pa	\$813,750

**Figure 4: Portfolio managed by community housing provider - estimated portfolio costs and revenues (without council rate rebates)**

Operations	%	Average Value	Annual Value
Rent		\$100.00pw	\$2,607,143
Commonwealth Rent Assistance		\$40.00pw	\$1,042,857
Maintenance - Responsive	0.50%	\$750pa	-\$375,000
Maintenance - Planned	1.00%	\$1,500pa	-\$750,000
Water Rates		\$300pa	-\$150,000
Sewer Rates		\$500pa	-\$250,000
Council Rates		\$1,000pa	-\$500,000
Management Fee		\$1,500pa	-\$750,000
Community Development		\$290pa	-\$145,000
Insurance		\$400pa	-\$200,000
Vacancy rate	1.50%	\$110pa	-\$54,750
Bad Debt Rate	1.00%	\$73pa	-\$36,500
Surplus		\$878 pa	\$438,750

*Growth dwellings*

Figure 5 and Figure 6 show the Base Case estimated costs and revenues for growth dwellings leveraged from the original portfolio.

**Figure 5: Portfolio managed by community housing provider - estimated average costs and revenues (with council rate rebates) for growth dwellings**

Operations	%	Average Value
Rent		\$130.00pw
Commonwealth Rent Assistance		\$40.00pw
NRAS	0.00%	\$10,350pa
Maintenance - Responsive	0.50%	\$750pa
Maintenance - Planned	0.01	\$1,500pa
Water Rates		\$300pa
Sewer Rates		\$500pa
Council Rates	On	\$250pa
Management Fee		\$1,500pa
Insurance		\$400pa
Vacancy rate	1.50%	\$133pa
Bad Debt Rate	1.00%	\$89pa
Surplus		\$3,443 pa

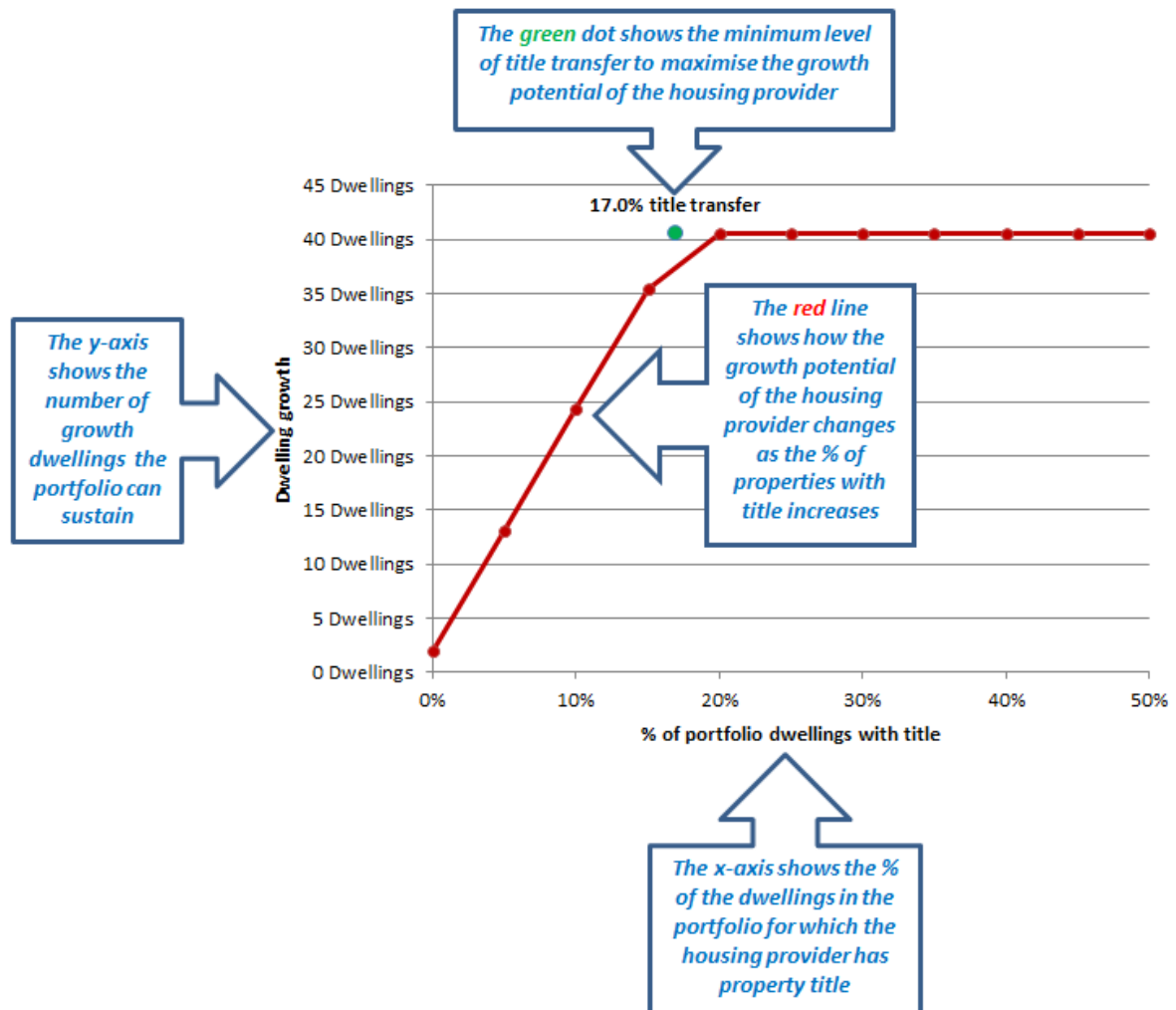
Figure 6: Portfolio managed by community housing provider - estimated average costs and revenues for growth dwellings (without council rate rebates)

Operations	%	Average Value
Rent		\$130.00pw
Commonwealth Rent Assistance		\$40.00pw
NRAS	0.00%	\$10,350pa
Maintenance - Responsive	0.50%	\$750pw
Maintenance - Planned	1.00%	\$1,500pw
Water Rates		\$300pa
Sewer Rates		\$500pa
Council Rates		\$1,000pa
Management Fee		\$1,500pa
Insurance		\$400pa
Vacancy rate	1.50%	\$133pa
Bad Debt Rate	1.00%	\$89pa
Surplus		\$2,693 pa

## 1.5 Modelling output

For each scenario tested, the model estimates the potential dwelling growth of the housing portfolio as the percentage of properties owned by the community housing provider increases. The results are then presented by a graph in a format shown in **Figure 7**.

**Figure 7: Sample model output**



Additionally, for each sensitivity tested a table has been provided with the following indicators for both the sensitivity and the Base Case:

- Minimum percent title transfer to maximise growth.
- Maximum Dwelling Growth.
- Maximum percent Dwelling Growth.

In Section 3, a table has been provided with the results for each sensitivity tested.

## 2 Analysis

### 2.1 Base Case

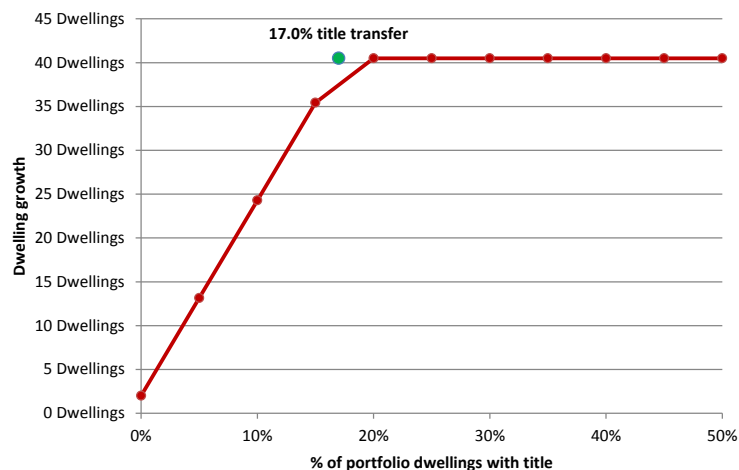
#### 2.1.1 Base case with council rate rebates

**Figure 8** shows the Base Case growth outcome for the case where council rate rebates are available. The summary results are:

- Minimum percent title transfer to maximise growth: 17 percent.
- Maximum Dwelling Growth: 41 dwellings – equivalent to a capital program of \$10.1 million<sup>1</sup>.
- Maximum percent Dwelling Growth: 8 percent

In the case where there was no title transfer, it is estimated that dwelling growth would be negligible – around 2 dwellings per annum largely dependent of the equity available to the community housing provider. This is because the community housing provider is only able to raise debt through accumulated cash reserves used as equity – essentially a deposit payment as security for a bank loan.

**Figure 8: Base Case analysis (with council rate rebates)**



#### 2.1.2 Base case without council rate rebates

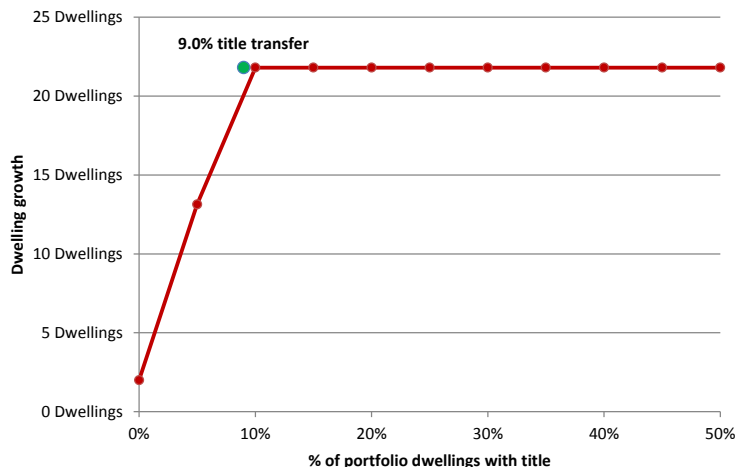
**Figure 9** shows the Base Case growth outcome for the case where council rate rebates are not available. The summary results are:

- Minimum percent title transfer to maximise growth: 9 percent.
- Maximum Dwelling Growth: 22 dwellings - equivalent to a capital program of \$5.4 million
- Maximum percent Dwelling Growth: 4 percent

Once again, in the case where there was no title transfer, it is estimated that dwelling growth would be negligible.

<sup>1</sup> This funding could be used for refurbishment and/or maintenance instead of growth dwellings

**Figure 9: Base Case analysis (without council rate rebates)**



## 2.2 Sensitivities

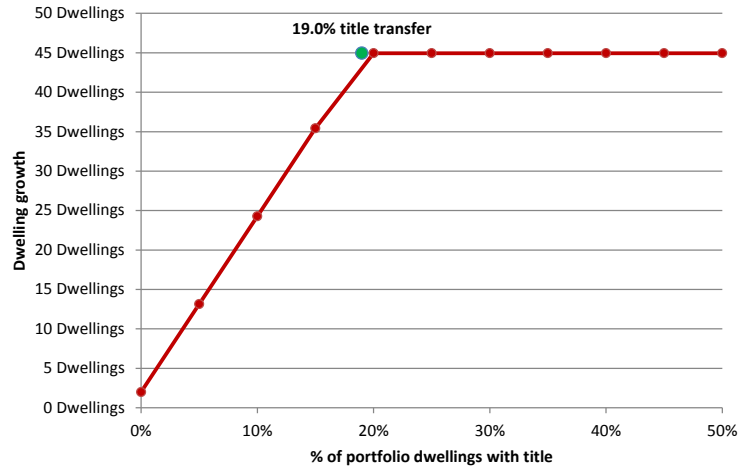
In this section, the analysis conducted for the Base case is repeated for the following sensitivities (analysed with and without council rate subsidies):

- Availability of National Rental Assistance Scheme subsidies for 20 percent of growth dwellings
- Costs are 10 percent lower
- Costs are 10 percent higher,
- Revenues are 10 percent lower.
- Revenues are 10 percent higher.
- Maximum LVR is 35 percent instead of 30 percent.
- Maximum LVR is 25 percent instead of 30 percent.
- Minimum ICR is 1.7 times rather than 1.5 times.
- Minimum ICR is 1.3 times rather than 1.5 times.
- Interest rate is 7.5 percent rather than 6.5 percent.
- Interest rate is 5.5 percent rather than 6.5 percent.
- No land cost in procuring growth dwellings.
- Average cost per dwelling is \$300,000 instead of \$250,000.
- Funding applied to \$50,000 refurbishments rather than dwelling growth.

### 2.2.1 National Rental Assistance Scheme (NRAS)

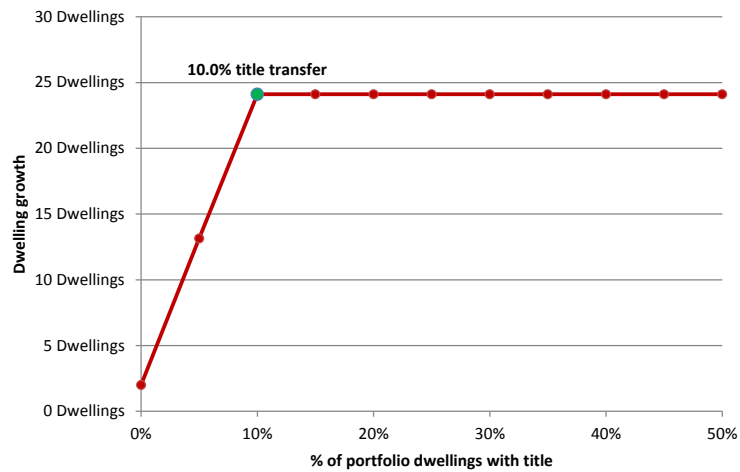
For this sensitivity it has been assumed that 20 percent of growth dwelling have NRAS subsidies.

**Figure 10: NRAS sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	19%	17%
Maximum Dwelling Growth	45 Dwellings	41 Dwellings
Maximum % Dwelling Growth	9.0%	8.1%

**Figure 11: NRAS sensitivity analysis (without council rate rebates)**



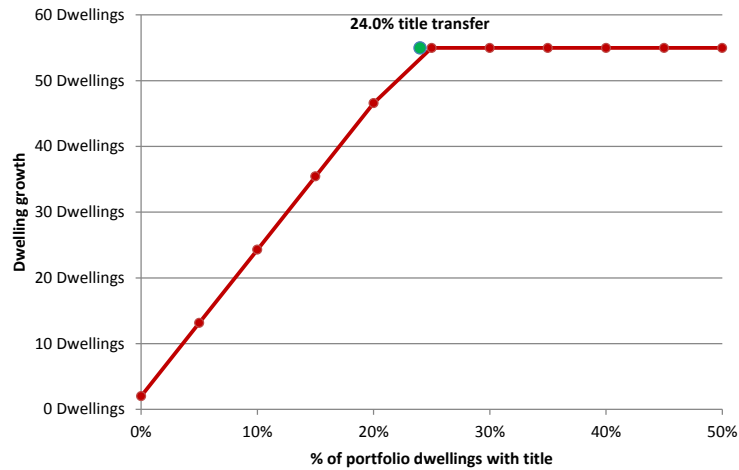
Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	10%	9%
Maximum Dwelling Growth	24 Dwellings	22 Dwellings
Maximum % Dwelling Growth	4.8%	4.4%

## 2.2.2 Cost variations

### Lower costs

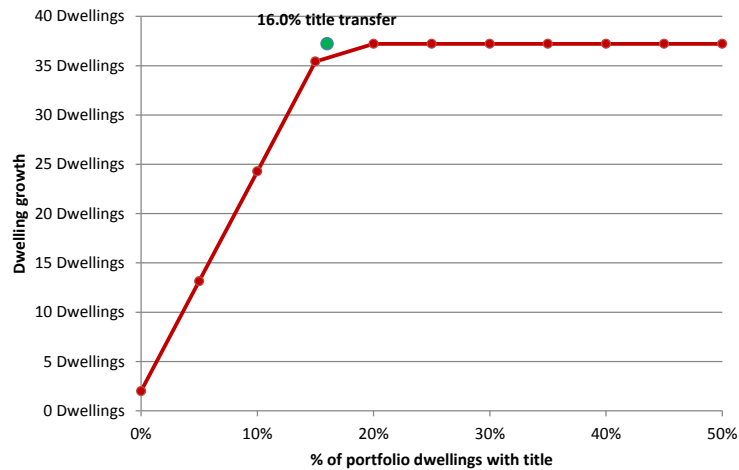
For this sensitivity it has been assumed that operational costs are **10 percent** lower than the Base Case.

**Figure 12: Lower costs sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	24%	17%
Maximum Dwelling Growth	55 Dwellings	41 Dwellings
Maximum % Dwelling Growth	11.0%	8.1%

**Figure 13: Lower costs sensitivity analysis (without council rate rebates)**



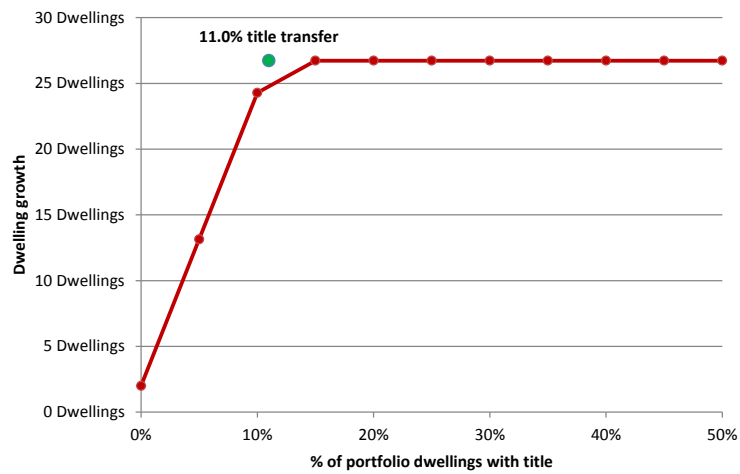
Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	16%	9%
Maximum Dwelling Growth	37 Dwellings	22 Dwellings
Maximum % Dwelling Growth	7.4%	4.4%



### Higher Costs

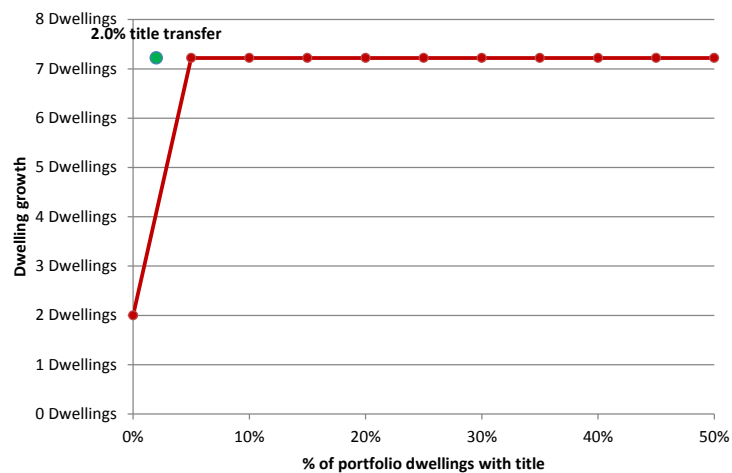
For this sensitivity it has been assumed that operational costs are **10 percent** higher than the Base Case.

**Figure 14: Higher costs sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	11%	17%
Maximum Dwelling Growth	27 Dwellings	41 Dwellings
Maximum % Dwelling Growth	5.3%	8.1%

**Figure 15: Higher costs sensitivity analysis (without council rate rebates)**



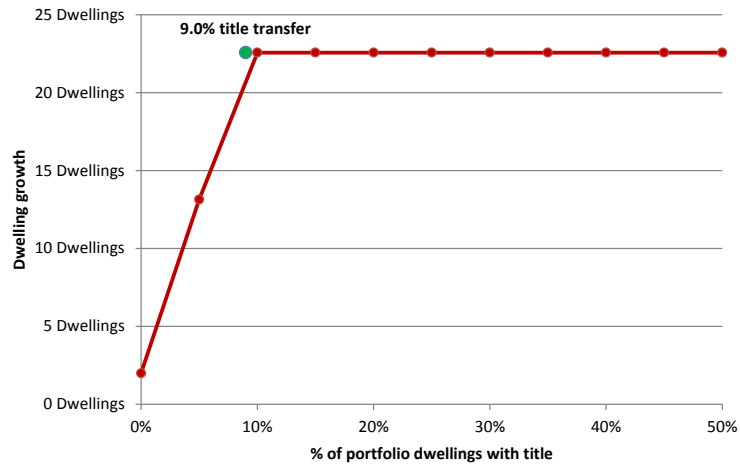
Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	2%	9%
Maximum Dwelling Growth	7 Dwellings	22 Dwellings
Maximum % Dwelling Growth	1.4%	4.4%

### 2.2.3 Revenue variations

#### Lower revenues

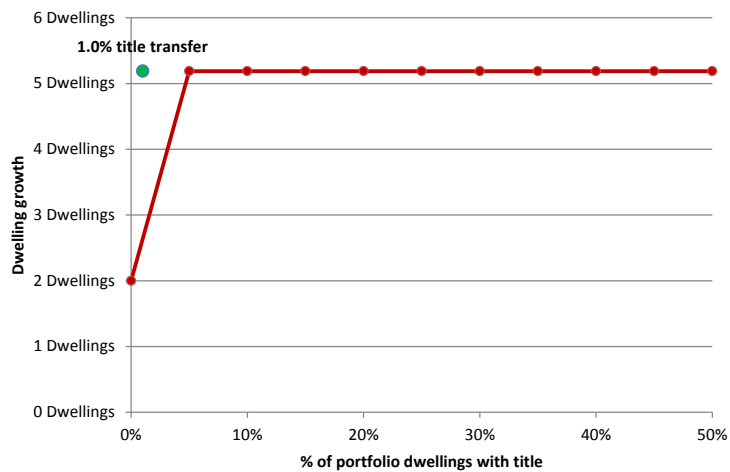
For this sensitivity it has been assumed that operation revenues (rent and CRA) are **10 percent** lower than the Base Case.

Figure 16: Lower revenues sensitivity analysis (with council rate rebates)



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	9%	17%
Maximum Dwelling Growth	23 Dwellings	41 Dwellings
Maximum % Dwelling Growth	4.5%	8.1%

Figure 17: Lower revenues sensitivity analysis (without council rate rebates)

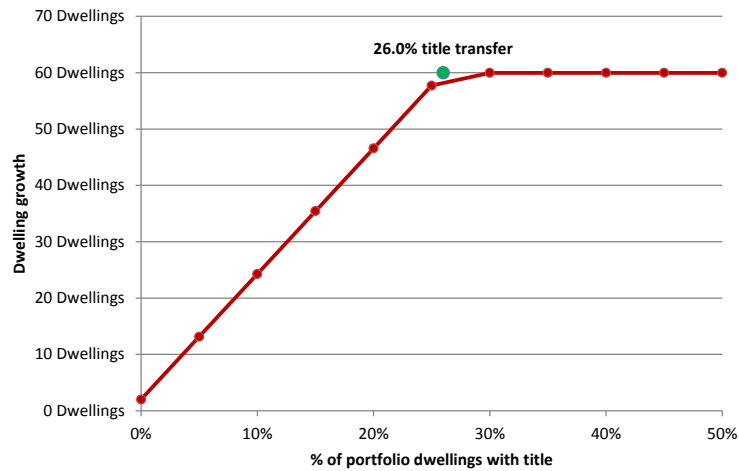


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	1%	9%
Maximum Dwelling Growth	5 Dwellings	22 Dwellings
Maximum % Dwelling Growth	1.0%	4.4%

### Higher revenues

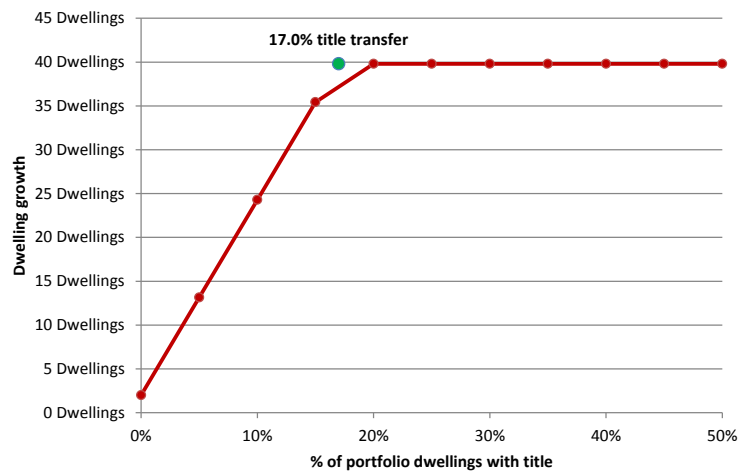
For this sensitivity it has been assumed that operation revenues (rent and CRA) are **10 percent** higher than the Base Case.

**Figure 18: Higher revenues sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	26%	17%
Maximum Dwelling Growth	60 Dwellings	41 Dwellings
Maximum % Dwelling Growth	12.0%	8.1%

**Figure 19: Higher revenues sensitivity analysis (without council rate rebates)**



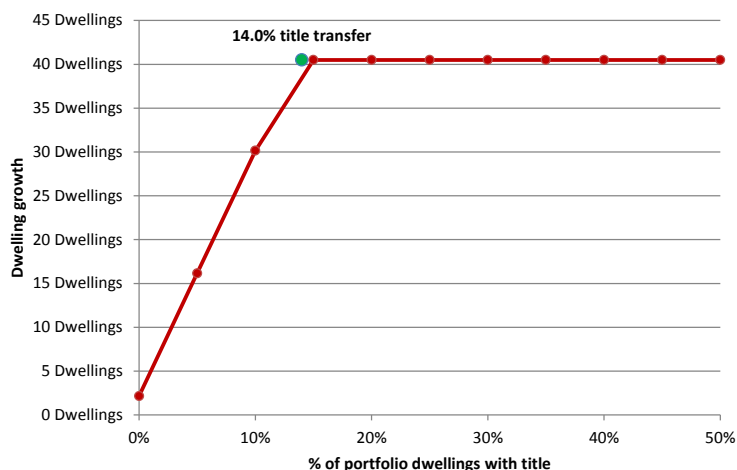
Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	17%	9%
Maximum Dwelling Growth	40 Dwellings	22 Dwellings
Maximum % Dwelling Growth	8.0%	4.4%

## 2.2.4 Variations in financial assumptions

### Higher LVR

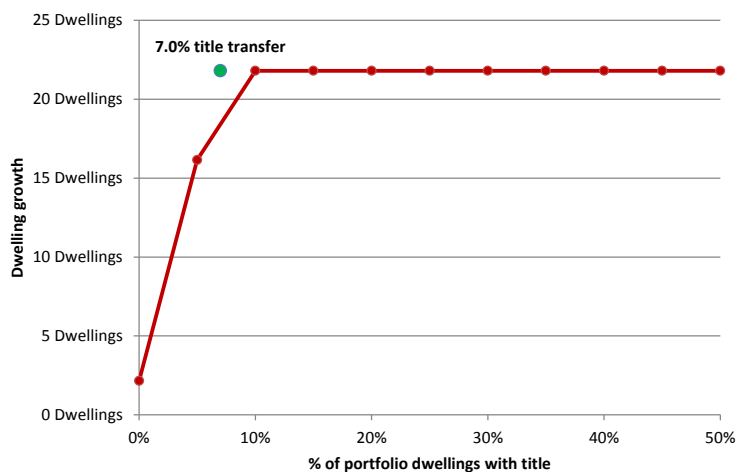
For this sensitivity it has been assumed that the maximum LVR required by lenders is **35 percent** compared to 30 percent in the Base Case.

Figure 20: Higher LVR sensitivity analysis (with council rate rebates)



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	14%	17%
Maximum Dwelling Growth	41 Dwellings	41 Dwellings
Maximum % Dwelling Growth	8.1%	8.1%

Figure 21: Higher LVR sensitivity analysis (without council rate rebates)

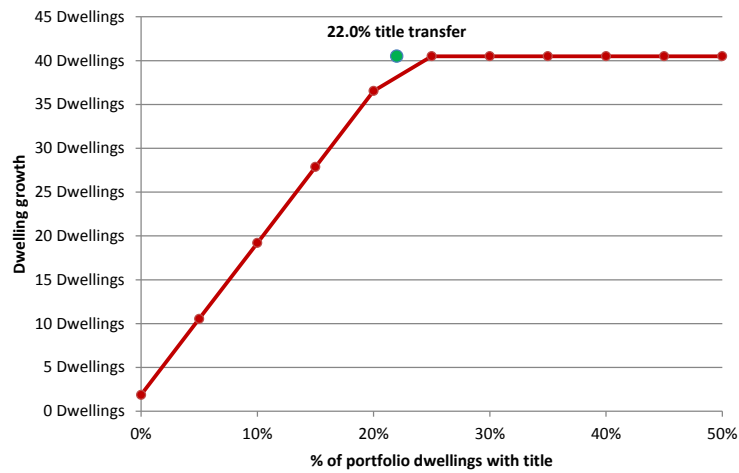


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	7%	9%
Maximum Dwelling Growth	22 Dwellings	22 Dwellings
Maximum % Dwelling Growth	4.4%	4.4%

### Lower LVR

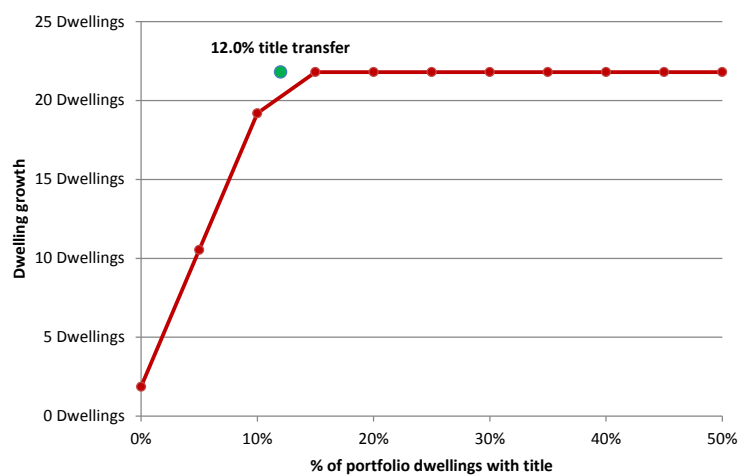
For this sensitivity it has been assumed that the maximum LVR required by lenders is **25 percent** compared to 30 percent in the Base Case.

**Figure 22: Lower LVR sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	22%	17%
Maximum Dwelling Growth	41 Dwellings	41 Dwellings
Maximum % Dwelling Growth	8.1%	8.1%

**Figure 23: Lower LVR sensitivity analysis (without council rate rebates)**

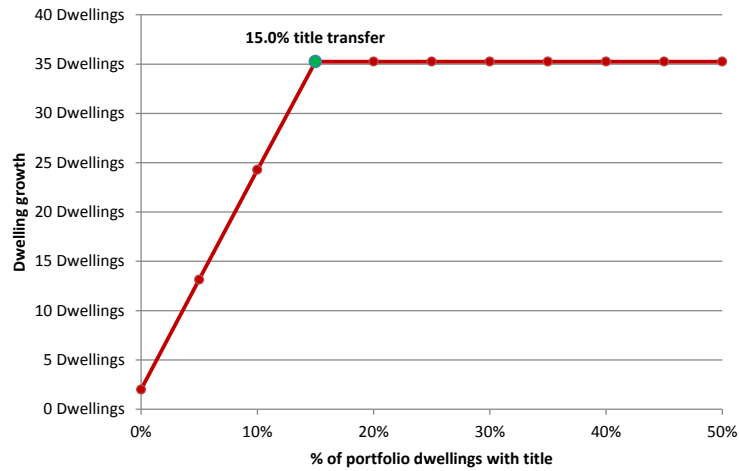


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	12%	9%
Maximum Dwelling Growth	22 Dwellings	22 Dwellings
Maximum % Dwelling Growth	4.4%	4.4%

### Higher ICR

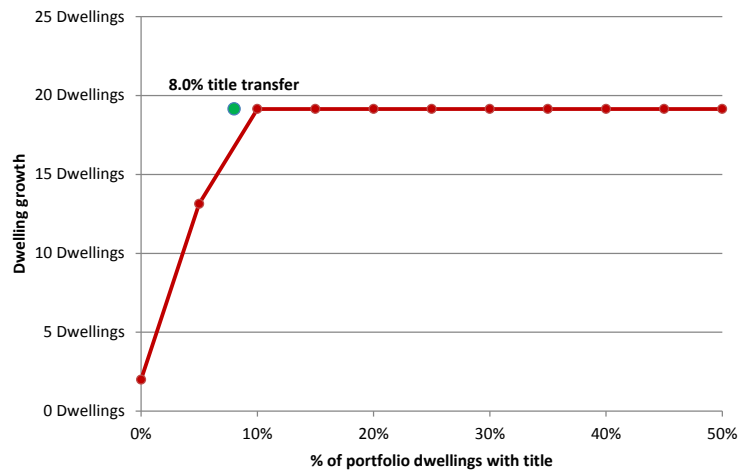
For this sensitivity it has been assumed that the minimum ICR required by lenders is 1.7 times compared to 1.5 times in the Base Case.

**Figure 24: Higher ICR sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	15%	17%
Maximum Dwelling Growth	35 Dwellings	41 Dwellings
Maximum % Dwelling Growth	7.0%	8.1%

**Figure 25: Higher ICR sensitivity analysis (without council rate rebates)**

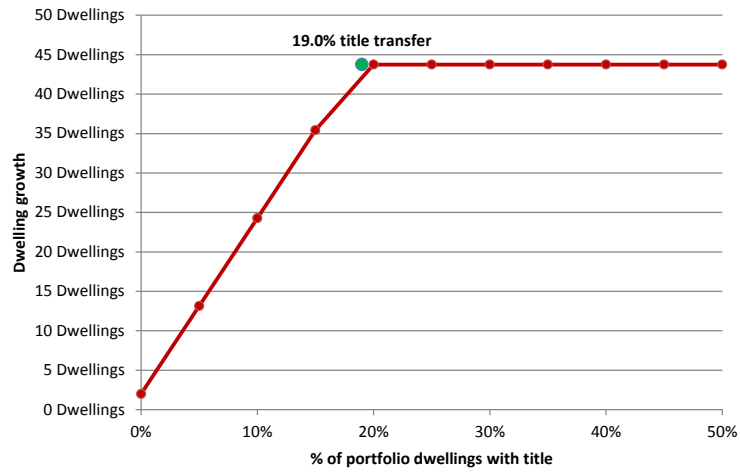


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	8%	9%
Maximum Dwelling Growth	19 Dwellings	22 Dwellings
Maximum % Dwelling Growth	3.8%	4.4%

### Lower ICR

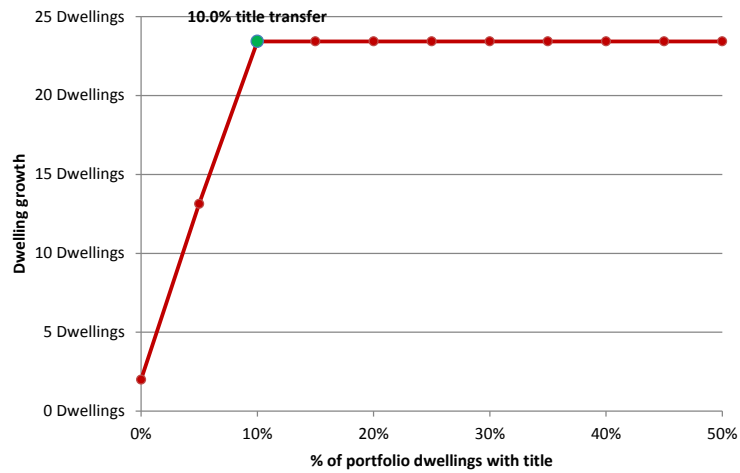
For this sensitivity it has been assumed that the minimum ICR required by lenders is **1.3** times compared to 1.5 times in the Base Case.

**Figure 26: Lower ICR sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	19%	17%
Maximum Dwelling Growth	44 Dwellings	41 Dwellings
Maximum % Dwelling Growth	8.7%	8.1%

**Figure 27: Lower ICR sensitivity analysis (without council rate rebates)**

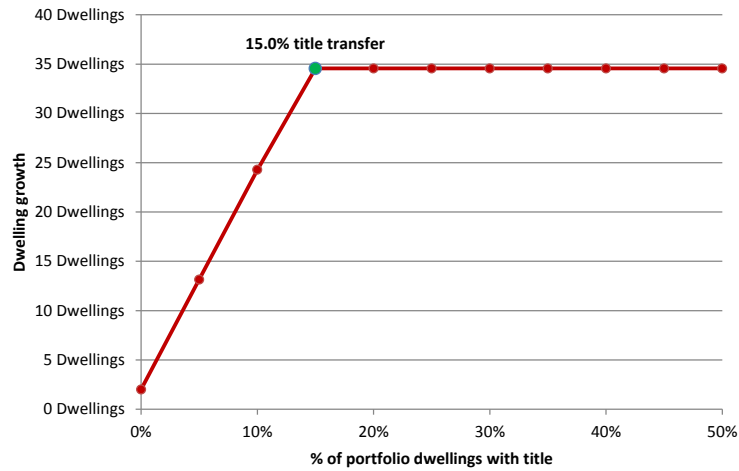


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	10%	9%
Maximum Dwelling Growth	23 Dwellings	22 Dwellings
Maximum % Dwelling Growth	4.7%	4.4%

### Higher interest rates

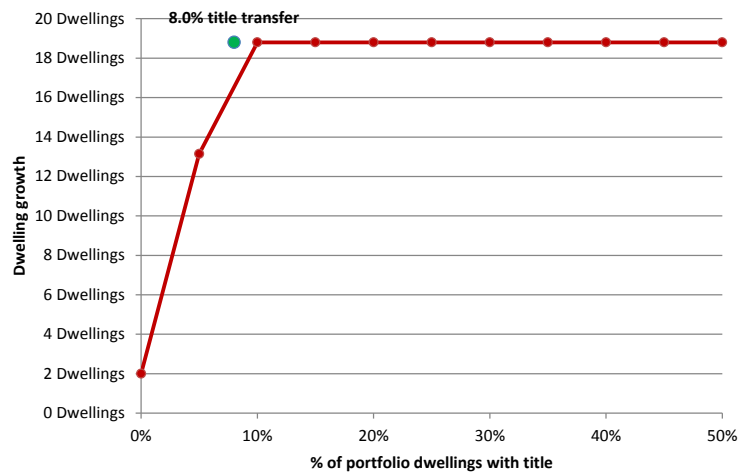
For this sensitivity it has been assumed that the interest rates required by lenders is **7.5 percent** p.a. compared to 6.5 percent p.a. in the Base Case.

**Figure 28: Higher interest rates sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	15%	17%
Maximum Dwelling Growth	35 Dwellings	41 Dwellings
Maximum % Dwelling Growth	6.9%	8.1%

**Figure 29: Higher interest rates sensitivity analysis (without council rate rebates)**



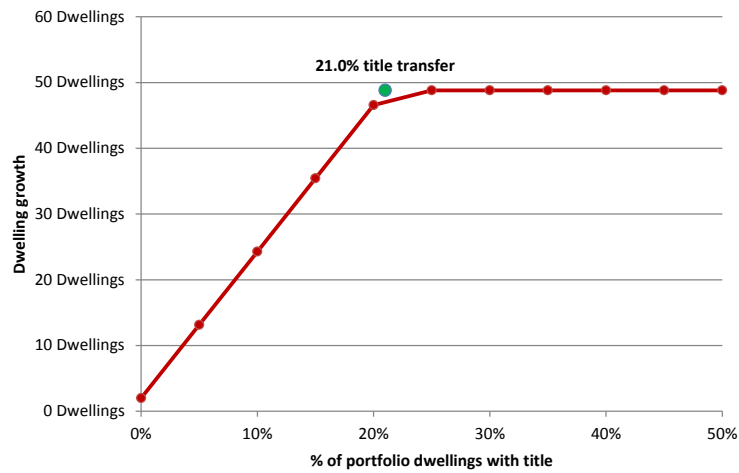
Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	8%	9%
Maximum Dwelling Growth	19 Dwellings	22 Dwellings
Maximum % Dwelling Growth	3.8%	4.4%



### Lower interest rates

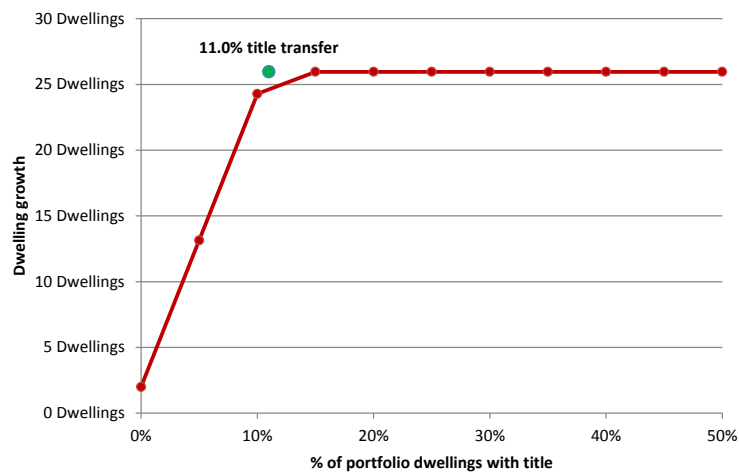
For this sensitivity it has been assumed that the interest rates required by lenders is **5.5 percent** p.a. compared to 6.5 percent p.a. in the Base Case.

**Figure 30: Lower interest rates sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	21%	17%
Maximum Dwelling Growth	49 Dwellings	41 Dwellings
Maximum % Dwelling Growth	9.8%	8.1%

**Figure 31: Lower interest rates sensitivity analysis (without council rate rebates)**

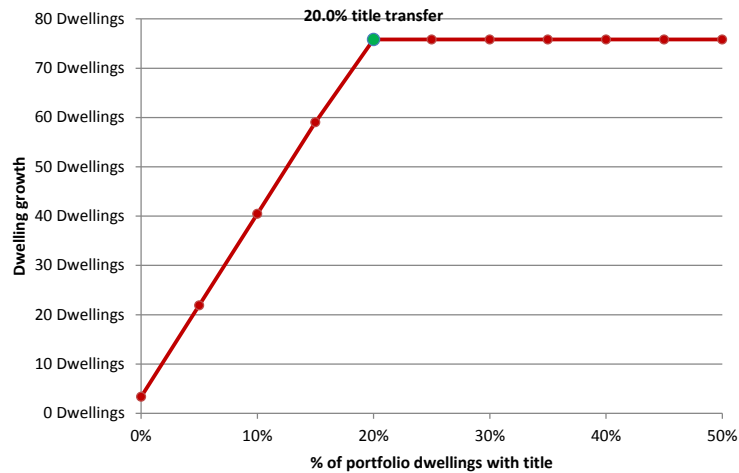


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	11%	9%
Maximum Dwelling Growth	26 Dwellings	22 Dwellings
Maximum % Dwelling Growth	5.2%	4.4%

### 2.2.5 No land cost

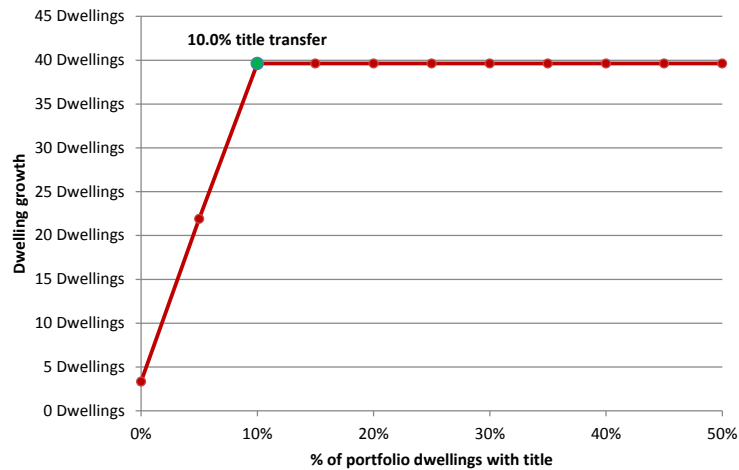
For this sensitivity it has been assumed that in procuring growth dwellings the provider only has to meet construction costs of \$150,000 per dwelling compared to \$250,000 in the Base Case (including land value).

**Figure 32: No land cost sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	20%	17%
Maximum Dwelling Growth	76 Dwellings	41 Dwellings
Maximum % Dwelling Growth	15.2%	8.1%

**Figure 33: No land cost sensitivity analysis (without council rate rebates)**

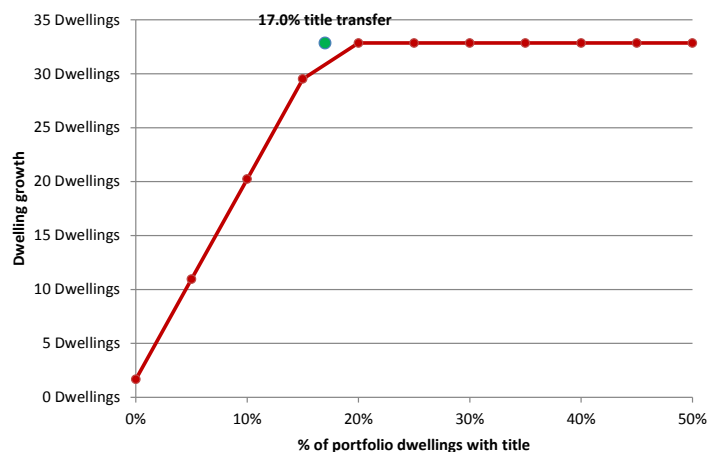


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	10%	9%
Maximum Dwelling Growth	40 Dwellings	22 Dwellings
Maximum % Dwelling Growth	7.9%	4.4%

### 2.2.6 Higher cost of new dwellings

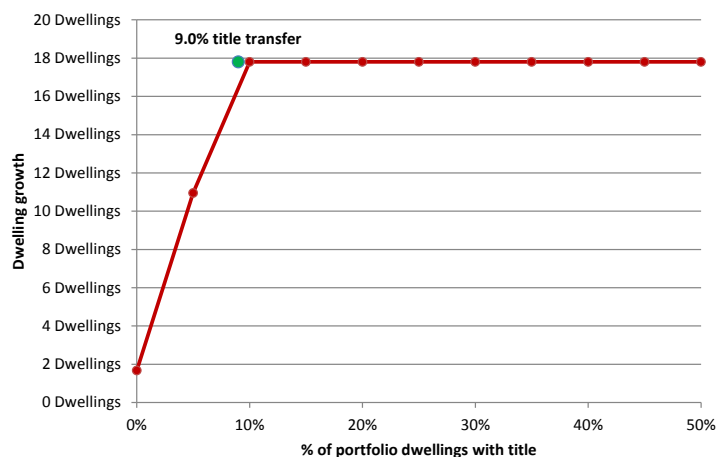
For this sensitivity it has been assumed that the cost of procuring growth dwellings to the provider will be \$300,000 per dwelling compared to \$250,000 in the Base Case.

Figure 34: Higher cost of new dwellings sensitivity analysis (with council rate rebates)



Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	17%	17%
Maximum Dwelling Growth	33 Dwellings	41 Dwellings
Maximum % Dwelling Growth	6.6%	8.1%

Figure 35: Higher cost of new dwellings sensitivity analysis (without council rate rebates)

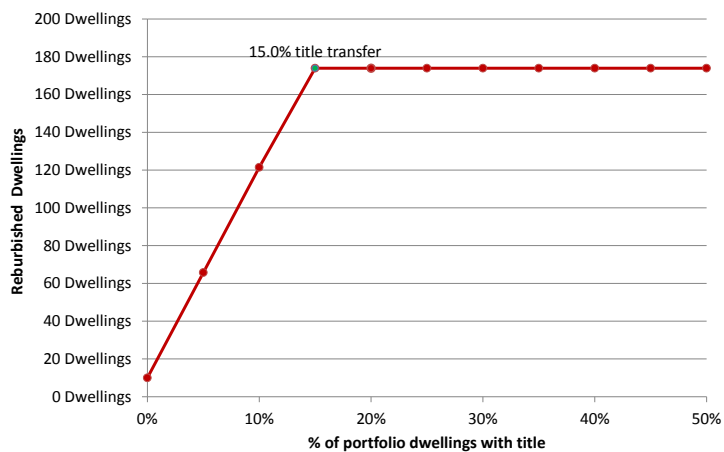


Outcome	This sensitivity	Base case
Minimum % title transfer to maximise growth	9%	9%
Maximum Dwelling Growth	18 Dwellings	22 Dwellings
Maximum % Dwelling Growth	3.6%	4.4%

### 2.2.7 Funding applied to dwelling refurbishments

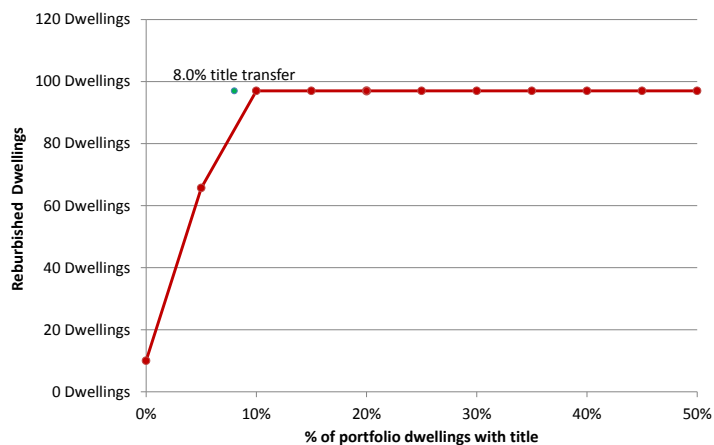
For this sensitivity it has been assumed that funding leveraged is applied to refurbishments rather than new dwellings - at a cost of \$50,000 per dwelling. Under this scenario, refurbished dwellings are assumed to generate no additional income.

**Figure 36: Dwelling refurbishment sensitivity analysis (with council rate rebates)**



Outcome	This sensitivity
Minimum % title transfer to maximise growth	15%
Maximum Dwellings Rebuilt	174 Dwellings
Maximum % Dwellings Rebuilt	34.8%

**Figure 37: Dwelling refurbishment sensitivity analysis (without council rate rebates)**



Outcome	This sensitivity
Minimum % title transfer to maximise growth	8%
Maximum Dwellings Rebuilt	97 Dwellings
Maximum % Dwellings Rebuilt	19.4%

### 3 Conclusion

Figure 38 summarises the analysis of the sensitivities tested – sorted from highest to lowest dwelling growth outcomes. It shows that:

- Growth potential highly benefits from some degree title transfer.
- The required level of title transfer to maximise dwelling growth typically ranges between 10 and 20 percent (equivalent to 50 to 100 dwellings out of the 500 original dwellings).
- Growth potential typically ranges between 5 to 10 percent of the original portfolio – up to 75 growth dwellings.
- As it would be expected, not having to pay for land in procuring growth dwellings delivers the best result.
- Council rate rebates are critical – without rebates growth potential almost halves.
- Without CRA – as is the case if the portfolio is managed by a government housing authority - there is no growth because the portfolio delivers a deficit rather than a surplus.
- Whilst title transfer is required to maximise growth potential, at some point in each sensitivity tested, potential dwelling growth levels out as the percentage of title transfer continues to increase. This is because the minimum ICR hurdle limits the level of debt that can be raised – i.e. higher debt based on higher levels of security to the bank would lead to a debt level which cannot be serviced with the surpluses delivered by the portfolio.
- The highest level of title transfer to maximise dwelling growth in the sensitivities tested was 26 percent (equivalent to 130 dwellings from the original 500 dwellings).
- Instead of delivering additional dwellings, funding leveraged from the portfolio could also be used to refurbish up to 174 dwellings - from the original 500 dwellings.

Figure 38: Summary of sensitivities tested

Sensitivity	Council Rate Rebate?	Minimum % Title Transfer to Maximise Growth	Number of Properties Title Transferred	Maximum Dwelling Growth	Maximum % Dwelling Growth
No land cost	Yes	20%	100 Dwellings	76 Dwellings	15%
Operational revenues 10% higher	Yes	26%	130 Dwellings	60 Dwellings	12%
Operational costs 10% lower	Yes	24%	120 Dwellings	55 Dwellings	11%
Lower Interest Rate: Interest Rate 5.5% pa rather than 6.5%	Yes	21%	105 Dwellings	49 Dwellings	10%
20% of growth dwellings have NRAS licenses	Yes	19%	95 Dwellings	45 Dwellings	9%
Lower ICR: Minimum Interest Cover Ratio 1.3 times rather than 1.5 times	Yes	19%	95 Dwellings	44 Dwellings	9%
<b>Base Case</b>	<b>Yes</b>	<b>17%</b>	<b>85 Dwellings</b>	<b>41 Dwellings</b>	<b>8%</b>
Higher LVR: Maximum LVR 35% rather than 30%	Yes	14%	70 Dwellings	41 Dwellings	8%
Lower LVR: Maximum LVR 25% rather than 30%	Yes	22%	110 Dwellings	41 Dwellings	8%
No land cost	No	10%	50 Dwellings	40 Dwellings	8%
Operational revenues 10% higher	No	17%	85 Dwellings	40 Dwellings	8%
Higher ICR: Minimum Interest Cover Ratio 1.7 times rather than 1.5 times	Yes	15%	75 Dwellings	35 Dwellings	7%
Higher Interest Rate: Interest Rate 7.5% pa rather than 6.5%	Yes	15%	75 Dwellings	35 Dwellings	7%
New Dwellings cost \$300,000 rather than \$250,000	Yes	17%	85 Dwellings	33 Dwellings	7%
Operational costs 10% higher	Yes	11%	55 Dwellings	27 Dwellings	5%
Lower Interest Rate: Interest Rate 5.5% pa rather than 6.5%	No	11%	55 Dwellings	26 Dwellings	5%
20% of growth dwellings have NRAS licenses	No	10%	50 Dwellings	24 Dwellings	5%
Operational revenues 10% lower	Yes	9%	45 Dwellings	23 Dwellings	5%
Lower ICR: Minimum Interest Cover Ratio 1.3 times rather than 1.5 times	No	10%	50 Dwellings	23 Dwellings	5%
<b>Base Case</b>	<b>No</b>	<b>9%</b>	<b>45 Dwellings</b>	<b>22 Dwellings</b>	<b>4%</b>
Operational costs 10% lower	No	16%	80 Dwellings	22 Dwellings	4%
Higher LVR: Maximum LVR 35% rather than 30%	No	7%	35 Dwellings	22 Dwellings	4%
Lower LVR: Maximum LVR 25% rather than 30%	No	12%	60 Dwellings	22 Dwellings	4%
Higher ICR: Minimum Interest Cover Ratio 1.7 times rather than 1.5 times	No	8%	40 Dwellings	19 Dwellings	4%
Higher Interest Rate: Interest Rate 7.5% pa rather than 6.5%	No	8%	40 Dwellings	19 Dwellings	4%
New Dwellings cost \$300,000 rather than \$250,000	No	9%	45 Dwellings	18 Dwellings	4%
Operational costs 10% higher	No	2%	10 Dwellings	7 Dwellings	1%
Operational revenues 10% lower	No	1%	5 Dwellings	5 Dwellings	1%
No CRA	Yes	0%	0 Dwellings	0 Dwellings	0%
No CRA	No	0%	0 Dwellings	0 Dwellings	0%

From our analysis, the following can be concluded:

- Housing portfolios managed by a government housing authority are unlikely to experience growth without additional government support.
- Housing portfolios managed by community housing providers without title transfer will only deliver negligible dwelling growth.
- Housing portfolios managed by community housing providers with title transfer can deliver significant growth (typically between 5 and 10 percent) with title transfer levels to maximise growth ranging between 10 and 20 percent.

Consequently, our view is that the approach to the issue of title transfer should be pragmatic rather than ideological. Transferring title to community housing organisations for a proportion of the properties they manage will lead to dwelling growth to meet the increasing need for affordable housing in South Australia. The issue for government policy should not be framed as “supporting or opposing” title transfer. The key issue should be the degree of title transfer required to maximise the growth potential of individual portfolios which in turn will maximise the housing opportunities provided to people in need of affordable housing.

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