National Housing Conference 2015

Moving from Talk to Action: Institutional investment in affordable housing
What attracts the UK institutions to this sector?

- Bond like index linked investments with solid fundamentals
- Cash flows are quasi government
- Robust regulatory environment
- Consistent level of government support over a long period of time
- Good sector policies including inclusionary zoning
- Stable long term cashflows
- Appropriate housing subsidies and rent setting policies with indexed rents matching indexed pension liabilities
- Deals that are scaleable and replicable
What defines borrowers of scale and capacity?

- Experienced management at board and C suite level
- Proven financial and risk management skills
- Development expertise
- Good systems to manage large numbers of tenants
- Strong balance sheets and proven cash flows
Who are the borrowers accessing the institutional market in the UK?

- Registered Housing Providers able to service debts and deliver new supply.
- Largest own and manage over 100,000 properties
- At least 5 of the biggest providers would be in the FTSE 250 if listed
- About 40 carry credit ratings, some higher than banks
Do these characteristics exist in the Australian market?

- A national regulatory regime
- Australia has 4th largest superannuation market in the world.
- Superannuation funds seeking diversification into alternative asset classes
- Cashflows are similar to the UK but rent setting mechanisms differ
- We can generate investments with indexed linked characteristics
- Don’t have good government policy or consistent level of government engagement
- Don’t have borrowers of scale and substance
What are the key differences between these markets?

- CHPs lack scale. Without scale providers have limited capacity to deliver to demand;

- Governments do not appear to be supportive of the sector.
Why is this?

- Do governments trust the capacity of the CHP sector?
- CHPs have financial and management capacity to manage significant portfolios but, ….
- Governments appear reluctant to transfer to CHPs therefore, ….
- CHPs are struggling to grow.
- Why are governments reluctant to spread their risk by providing the CHP sector with the impetus to grow and succeed?
- Without government support CHPs have limited access to capital.
- CHPs have no access to equity markets; organic growth is slow due to low level of cashflow generated by the sector.
What needs to change?

- The CHP sector is highly fragmented. Over 25 Tier 1 providers nationally and 16 in NSW alone
- CHPs need to help themselves. Some entities need to merge
- What is really required is maybe 3 to 5 at scale State
- Government support has been fragmented and inconsistent
- Changes of government at State level has stalled policy development
- Need clear policy framework to provide confidence to private sector
- Need commitment from governments to CHPs; - Guarantees, stock transfers, grants or subsidies
What could the future look like?

- CHPs without scale are leaving market open to institutional backed entities and the for profit sector.
- These entities have scale and capacity and CHPs could find themselves rapidly marginalised.
- Scale CHP will provide a stronger voice with government to argue more persuasively for stock transfers and government support.
- In turn this will provide greater financial capacity and substance.
- Access to financing will improve.
- Over time entities will emerge that have the capacity to access the institutional market.
What are the elements of a successful market?

- Government policy
- Inclusionary zoning
- Government support through grants, interest rate subsidies or guarantees
- Stock transfers