Report:

Financial Viability of Community Housing Providers in Western Australia

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Executive Summary

The community housing sector in Western Australia is characterised by a small number of tenancies managed by a large number of providers. Typically, these small providers have relatively high costs and charge relatively low rents resulting in small margins.

This paper examines the viability of these providers, ie. their long term ability to generate the funds they need to attain their objectives. The paper demonstrates that it is unlikely that high costs are caused by a lack of cost effectiveness in the sector. Comparisons between housing providers, with other studies and with Homeswest suggest that factors such as the types of tenants housed and the location and age of the tenancies managed are more important factors.

In spite of the small average size of providers, the paper also presents evidence for economies of scale in community housing, with per property operating costs falling with the number of properties managed. There are also strong negative correlations between organisational size on the one hand and staff time and administration costs on the other. Additionally, economies of scale may occur in risk management.

Nevertheless, small margins do mean that relatively minor changes in factors such as headlease fees, local government and water rates and the number of high risk tenancies can have a disproportionate effect on the viability of providers. As a consequence, community housing providers cannot rely on a singular focus on growth but need to assess the costs and benefits of each additional property and are forced to spend considerable time and energy negotiating with Homeswest and local government.

The main obstacle to community housing providers becoming viable is the lack of expansion possibilities due to the lack of suitable public programs and difficulties accessing private finance. The only solutions is for small organisations to build a portfolio of properties headleased from the Ministry of Housing under the CHP, CDHP or CAP programs. Even though little security of tenure is attached to these programs, they do offer small providers an opportunity to generate surpluses, which can be invested in equity or through the JVHP.

Providers can aim to achieve financial viability through changes in tenant mix, changes in organisation structure or changes in stock. Changes in tenant mix refers to increasing rental income and decreasing operating costs through appropriate tenant selection. Changes in organisational structure refers to setting up an administrative structure that provides the tasks related to tenancy, property and asset management efficiently and effectively. Finally, changes in stock refers to increasing the number of properties managed by the organisation in order to exploit economies of scale in administration costs, property management time and risk management.

It is beyond doubt that property numbers are one of the most important factors affecting the viability of the sector. However, while growth remains an important viability strategy for community housing providers, they should not pursue growth at all costs. Instead, providers should aim to increase the number and proportion of fully and partly owned stock, initially using surpluses generated by headleased properties. From a perspective of financial viability, growth should be focused on low cost, low risk and high income tenancies. However, providers will need to ensure that they do not over-focus on financial viability to the extent that they do not provide sufficient housing to their target group.

1. Introduction

The Western Australian community housing sector has a vision of providing an independent alternative to social housing provision by the government. While realising this vision requires meeting many conditions, few of them are more basic than financial viability.

This paper explores the concept of financial viability, its relevance to community housing providers in WA, and the impact outside influences are likely to have on the viability of these organisations. It integrates a number of papers that have been published in whole or in part and in various forms over the past eighteen months, altered where necessary to create a consistent set of assumptions.

After a short overview of community housing in Western Australia and an overview of the assumptions, the report starts by examining the concept of viability, the various ways in which it can be defined, and the level at which viability is likely to occur. It then models the impact of internal factors like tenant mix and cost structure on viability. Next, it looks at the impact of external factors like structural development grants, lease fees and local government rates. Finally, the report compares the model's findings with case studies of 11 community housing providers, Homeswest guidelines and findings from other reports.

2. Community Housing in Western Australia[1]

Community housing is not-for profit rental housing provision and management which offers affordable and secure tenure to low income households. Community housing:

- is responsive to local housing needs;
- emphasises interaction between housing and the community; and
- is responsive to tenants needs; and, provides opportunities for tenants participation in the management of housing.

There are just over 3000 community housing dwellings spread across the Western Australia, these are provided by a wide range of non-government and local government organisations. Figure 2.1 provides an outline of the involvement of different provider types in the provision of community housing and demonstrates the significant role local government plays in community housing: it accounts for 23% of community housing stock in Western Australia.

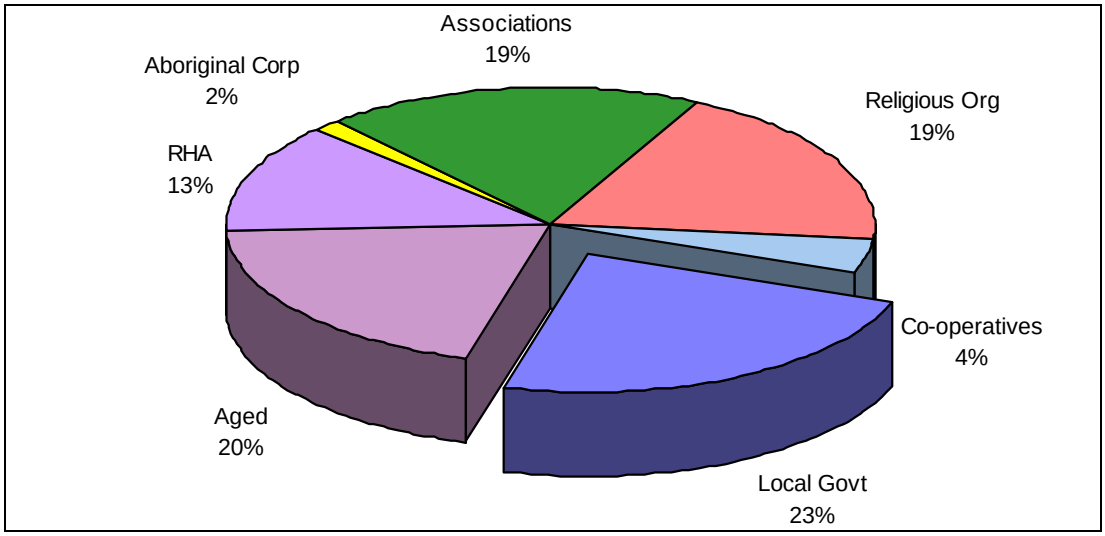

Figure 2.1:Community Housing Stock by Provider Type
Source: Ministry of Housing, Community Housing Database, July 1999

Community housing providers respond to identified local housing needs, in particular to those needs which can not be met within in the private housing market. Figure 2.2 provides an outline of the level of provision by target group and demonstrates that seniors account for 47% of community housing stock, followed by people with disabilities (23%).

[1] This section was written by Paul Pendergast as part of Karel Eringa and Paul Pendergast, *Viability and Local Government Rates*, CHCWA Discussion Paper, Community Housing Coalition of WA, November 1999.

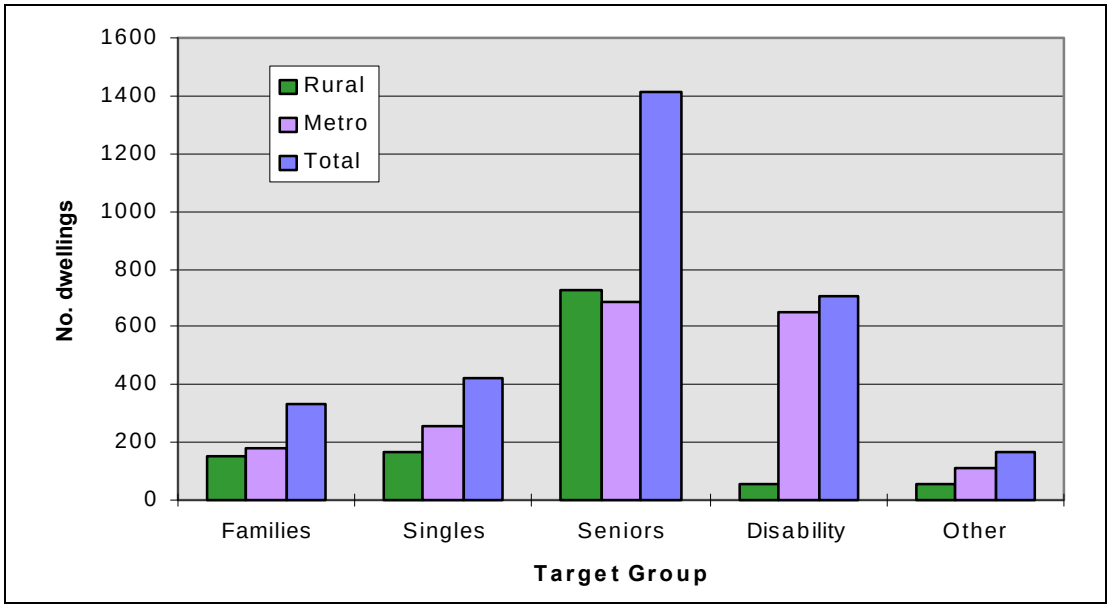

Figure 2.2: Community Housing Stock by Target Group
Source: Ministry of Housing, Community Housing Database, July 1999

Community housing in Western Australia is characterised by a large number of small scale providers and a small number of medium to large providers. The promotion of financial viability has become an increasingly important issue for community housing providers.

Consolidation has been promoted via the establishment of Regional Housing Associations and other providers with an ability to take a regional approach to addressing a range of identified housing needs. These larger organisations are expected, through greater economies of scale, to achieve financial viability and contribute resources toward their own growth eg via involvement in the Joint Venture Housing Program. Nevertheless, Figure 2.3 shows that 93% of providers manage less than 35 properties, while only four providers (1.7%) manage more than 90.

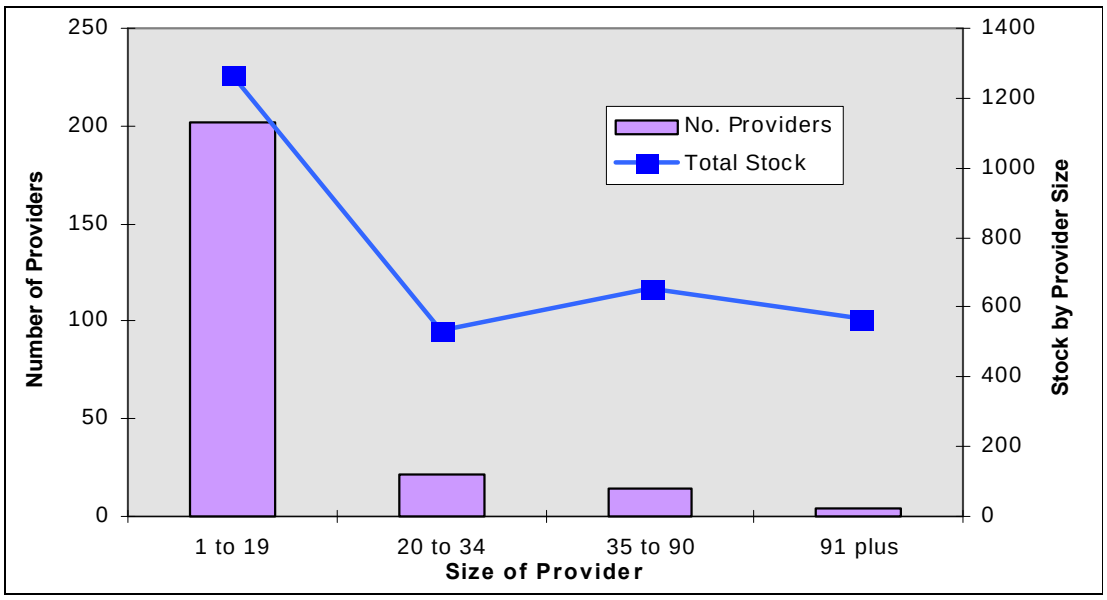

Figure 2.3: Community Housing Stock by Size of Provider
Source: Ministry of Housing, Community Housing Database, July 1999

3. Assumptions

Unless stated otherwise, all of the figures in the report relate to a theoretical community housing provider called TCHP. Before proceeding, it should be stated that all community housing providers are unique. Each provider has a different tenant mix and therefore faces different costs and a different average rent. This implies that none of the conclusions reached below can be applied to any individual provider without first adjusting the assumptions to that provider's particular situation.

A detailed description of the assumptions used has been included in Table A1; all figures are based on either Homeswest guidelines[2] or historical averages for seven Regional Housing Associations. TCHP's financial situation can be summarised as follows:

- TCHP manages only properties it either owns or with M3 / M4 headleases;
- where comparisons over time are made, inflation is assumed to be 0;
- rents are $90.00 per property per week;
- TCHP manages 20 tenancies, with average construction costs of $75,000 and average land value of $40,000;
- TCHP manages 20% high risk tenants with 15.0% vacancies and bad debts and 80% low risk tenants with 2.0% vacancies and bad debts, producing an average vacancies and bad debts rate of 4.6% of rental income;
- day to day maintenance costs are 0.70% of property replacement costs on high risk tenancies and 0.45% on low risk tenancies, producing an average of 0.5% (the Homeswest guideline);
- TCHP sets aside an additional 1.3% of construction costs for cyclical maintenance on owned properties and 1.0% on headleased properties, where Homeswest contributes the remaining 0.3%;
- annual insurance costs are $180 per property;
- annual local government rates and strata fees average $500 per property;
- annual water and sewerage rates average $500 per property, on which TCHP receives the statutory 50% concession available to charitable organisations;
- average management time per property is 39 minutes at SACS Level 5 ($19.38 per hour plus 15% oncosts); and
- administration costs consist of a variable component of $150 per property per year (the Homeswest guideline)[3] and a fixed component of $10,000 (including audit costs, office rent, bank fees, Centrepay administration fee and legal costs).

Finally, TCHP employs administration staff at SACS Level 4.3 ($16.69 per hour plus 15% oncosts at 4 hours per week increasing by 3 minutes for each property managed), financial staff at SACS 6.3 ($21.03 per hour plus 15% oncosts at 4 hours per week increasing by 3 minutes for each property managed) and infrastructure development staff (0.8 FTE, also at SACS 6.3).

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[2] Ministry of Housing, *Operational Guidelines for Community Housing in Western Australia*, Ministry of Housing, 15 March 1999.

[3] These costs include all office costs, telephone, fax, stationery, printing, postage and photocopying expenses, travel costs, staff training and resources and meeting expenses.

4. What is Viability?[4]

Financial viability can be defined as an organisation's long term ability to generate the funds needed to attain its goals. Viability[5] is usually regarded to imply identifying and exploiting economies of scale in the organisation's operations, creating access to outside finance.

This definition goes some way towards clearing up the confusion over the status of government grants in determining an organisation's financial viability: because of the ever-changing nature of government policies, most grants cannot be considered secure in the long run. Since financial viability does refer to the long run, it cannot take into account outside grants, unless they are backed up by long term contracts between the organisation and the provider of the grant.

For community housing organisations, financial viability implies that income covers costs. It will be clear from the above that income should be regarded to consist only of rental revenue and excludes government grants. Long term government subsidies, however, can be included as income. Notable examples of such subsidies are explicit subsidies provided to tenants as rental assistance, as well as implicit subsidies provided through favourable terms in head lease and joint venture contracts.

Costs, on the other hand, can be divided into:

a) operating costs, including:
   1. tenancy management costs (collecting rents, administration, vacancies, bad debts),
   2. property management costs (repairs, maintenance), and
   3. asset management (insurance, local government rates and charges)

b) infrastructure development costs, and

c) expansion costs

The assumptions detailed above put TCHP's marginal tenancy management costs at $23.68, marginal property management costs at $21.63 and marginal asset management costs at $17.88 per property per week, producing total average operating costs of $63.20 per property per week. Expressed as a proportion of asset value, marginal tenancy management costs are 1.1%, property management costs 1.0% and asset management costs 0.8% of asset value, putting average operating costs at 2.9% of asset value.

Three corresponding levels of financial viability can be defined:

1. *basic financial viability*, where income covers operating costs,
2. *static financial viability*, where income covers both operating costs and infrastructure development costs, and
3. *dynamic financial viability*, where income covers operating costs, infrastructure development costs and expansion costs

4a) basic financial viability

A community housing organisation that operates below basic financial viability cannot guarantee its own long term survival, since its rental income does not cover its operating costs. In the short run, when it is not possible to increase the number of tenancies managed, such a provider has three options. The first is to continually spend time and

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[4] A previous version of this section was published as part of Karel Eringa, "Financial Viability and Community Housing Organisations" in *Building Communities*, Vol.1, No.3, Community Housing Coalition of WA, 1999.

[5] The terms 'viability' and 'financial viability' are used as synonyms throughout this paper.

resources securing a succession of government grants. Since grant applications are not guaranteed to succeed, this strategy cannot be regarded as viable.

The second option for a community housing provider operating below basic financial viability is to continually attempt to cut operating costs. Since existing efficiency incentives mean that many providers operate at very low costs (see section 11), this will often take the form of economising on maintenance and repair work. In turn, this will result in dwellings deteriorating and maintenance costs escalating to the point where they become unmanageable.

The final option is to increase the average rent. However, this can also be problematic because under Homeswest policies rents for all headleased properties are tied to tenant income. This means that most community housing providers will only be able to increase their rents by focusing on tenants with relatively high incomes. However, for many community housing providers this is impossible because of their organisational aim to house low income tenants.

Nevertheless, Table A2 shows that TCHP satisfies the criteria for basic financial viability. At 20 properties, the organisation's total rental revenue of $93,600 exceeds its total operating costs of $84,752, the sum of tenancy management costs, property management costs, asset management costs and fixed costs, by $8,848. The same table shows that the minimum number of tenancies TCHP needs to attain basic financial viability is 14.[6]

Overall, TCHP has a total annual income of $133,600 and total annual costs of $122,479, producing a surplus for expansion of $11,121. However, the organisation does not meet the criteria for either static or dynamic financial viability. This is because financial viability does not take into account the annual grant from Homeswest.

It should be noted that while the surplus of rent over operating costs is insufficient to finance all infrastructure development, TCHP could decide to use this surplus to finance expansion. In the short term the organisation could use its Homeswest grant to plan its future growth. However, since this income is not permanent, in the long run this would mean unplanned expansion. If the organisation wishes to be able to do more than just meet its operating costs, it will need to look at strategies to become financially viable in the static sense.

4b) static financial viability

As mentioned above, static financial viability implies meeting both operating and infrastructure development costs from its rental income. TCHP can therefore attempt to attain static viability in one of only two ways: either by reducing costs or by increasing rental income. If we assume that TCHP operates cost effectively, it can only reduce costs by lowering standards, which is clearly not desirable. Rental income, on the other hand, can be raised either by increasing the average rent, and or by increasing the total number of tenancies.

[6] It is assumed in this section and the remainder of this paper that average rent, average operation costs and property values remain constant regardless of the number of properties managed. This is not strictly true, since it appears that there are significant economies of scale in community housing, reducing average operating costs for larger providers (see Sections 10 and 12).

1) increasing average rent

If TCHP wishes to attain static financial viability without increasing its stock, it needs to increase its average weekly rent to a level where rental income covers both operating and infrastructure development costs - from $90.00 to $117.77 (Table A2).

As argued in Section a), the only way for TCHP to raise its average rent is by choosing to house higher income tenants. Specifically, it would need to house substantial numbers of tenants for whom maximum weekly rents are higher than $117.77: couples on disability or aged pensions, and couples with two or more children on standard Centrelink benefits. It can be concluded that TCHP only has limited potential to raise its average rent through changing its tenant mix.

2) increasing the total number of tenancies

If TCHP cannot change either its rents or its tenant mix, it will need to expand in order to reach a state of static financial viability. Table A2 shows that TCHP reaches static viability when it manages 41 properties. Annual rental income at this level ($191,880) just outstrips annual operating and infrastructure development costs ($191,495).

4c) dynamic financial viability

A community housing organisation that is financially viable in the static sense can meet all of its operating and infrastructure development costs, but it does not necessarily have funds to grow. However, any extra income can be used for growth. Moreover, growth tends to reinforce itself: the greater an organisation's surplus income, the more it will be able to invest in additional stock. As stock increases, so do surplus income and the organisation's capacity to borrow. Finally, overhead costs will usually decrease relative to total stock, producing economies of scale.

A community housing organisation that can meet all of its operational and infrastructure development costs as well as allocating funds to growth has reached a state of dynamic financial viability. It is independent of government funds for its operational and infrastructure development costs. Nevertheless, since community housing cannot provide rates of return comparable to other investment, the organisation will always depend on some form of government involvement to meet its expansion costs.

However, the exact point at which an organisation becomes dynamically viable is open to interpretation, since even minimum annual surpluses will accumulate, allowing organisations to expand in the long run. However, for the purposes of this paper we will assume that this minimum expansion rate is one property of average value per year. This growth rate is selected because it allows the organisation to increase its stock each year without any external grants or loans.

Given the assumptions, dynamic financial viability occurs when TCHP produces an annual surplus of $115,000 - the sum of land value ($40,000) and construction costs ($75,000) for an average property. Table A2 indicates that TCHP needs a minimum of 124 tenancies to produce this surplus; the associated rental income is $580,320, while operation and infrastructure development costs total $464,272.

5. Viability and High Risk Tenants

Community housing providers have very little control over many of the factors that determine the level at which they become viable. For instance, maintenance costs and the maximum possible rent are determined by Homeswest guidelines, while local government rates are set by individual local governments. This section examines one key cost determinant over which community housing providers can exert some degree of control: the number of high risk tenants housed by the provider.

For the purposes of modelling the impact of housing high risk tenants on viability, we have assumed that TCHP only houses two types of tenants: high and low risk tenants. As established in Section 3, rental income and costs for both groups are identical, apart from day to day maintenance (0.45% of construction costs for low and 0.70% for high risk tenants) and vacancies and bad debts (15.0% of rental income for high and 2.0% of rental income for low risk tenants).

Tables A3 and A4 show that the number of tenancies required for both static and dynamic viability increases with the proportion of high risk tenants. Furthermore, the impact of each additional high risk tenant becomes greater as the number of high risk tenants managed increases.

For instance, the number of tenancies required for static viability rises from 37 to 41 as the proportion of high risk tenants increases from 0% to 20%, an additional 4 properties. However, when the proportion of high risk tenants increases from 80% to 100%, the number of tenancies required for static viability rises by 13, from 62 to 75 (Table A3).

The situation with respect to dynamic viability is similar, if more pronounced. Here, raising the proportion of high risk tenants from 0% to 20% results in the number of properties increasing by 13, from 111 to 124. When this proportion increases from 80% to 100%, however, the number of tenancies required grows by 39, from 188 to 227 (Table A4).

It may be tempting to conclude that since each additional high risk tenant has an increasingly detrimental impact on the viability of community housing providers, such tenants should be avoided altogether. However, most community housing providers aim to provide housing options for people who cannot find suitable accommodation elsewhere, often for the very reason that they are, for one reason or another, considered high risk tenants. Not housing high risk tenants would, therefore, often be contrary to the objects of the community housing provider.

Nevertheless, community housing providers have to balance the need to meet their objectives with the need to become viable. Put differently, community housing providers face a choice between either housing more high risk tenants immediately or housing fewer to concentrate on becoming viable, which will increase the number of high risk tenants they can house in the future. However, this choice is made less stark by the fact that the impact of high risk tenants on viability is relatively small at moderate proportions.

6. Viability and Structural Development Grants[7]

Regional Housing Associations (RHAs) in Western Australia have been receiving infrastructure development grants from the Ministry of Housing. The intention of these grants is to assist these organisations in becoming viable by allowing them to accumulate stock in a strategic manner. Currently, the grants are for three years, usually at $40,000 in the first year of operation, falling to $30,000 in the second and third years.

The grant structure was designed at a time when little information was available on the costs faced by RHAs. However, as newly established RHAs are expanding their operations, their long term cost structures are becoming clearer. The purpose of this study is to use this information to a) reassess the required level and timing of the structural development grants, and b) indicate how different growth strategies would impact on this.

Tables A5, A6 and A7 illustrate TCHP's income and costs at different growth levels, assuming that the organisation faces start-up costs of $10,000 in the initial year. All three tables assume that 5 tenancies are secured in start-up year, after which the number of tenancies increases by 5 (Table A5), 10 (Table A6) and 15 (Table A7) annually. To put these figures in perspective: there are currently six newly established RHAs while up to 80 tenancies are allocated under the CHP each year.[8] When CDHP properties are left out of consideration, the new RHAs appear to be growing at between five and ten properties per year.

Figure 4 (below) shows that funding required in the start-up year is $60,000. At the lowest growth rate of 5 properties per year, funding required falls gradually and ends when static financial viability is reached, in Year 8. Total development funding over the eight years is $230,000 at this growth rate(Table A5). At a growth rate of 10 tenancies per year, however, annual funding falls more rapidly and ends four years earlier, reducing total development funding to $135,000 (Table A6). Finally, at the highest growth rate, annual funding falls most rapidly. Static viability occurs and funding ends in Year 3, with total development funding at $100,000 (Table A7).

Three main conclusions can be drawn. Firstly, current infrastructure funding for newly established RHAs appears to be too low, particularly for the initial year. Moreover, at current growth rates (around five properties per year), it takes around eight years for a new RHA to attain financial viability. Infrastructure funding commitments will therefore need to be extended for at least additional five years beyond the current three years, albeit at a lower level in later years.

Secondly, Government can reduce the time needed for RHAs to reach viability to three years by increasing the average annual allocation of properties on peppercorn headleases to each RHA to 15. This will also reduce the total amount of infrastructure development funding required from $230,000 to $100,000.

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[7] A previous edition of this section was published as Karel Eringa, *Viability, Grants and Regional Housing Associations*, CHCWA Discussion Paper, Community Housing Coalition of WA, January 2000.

[8] Not all of these are allocated to RHAs.

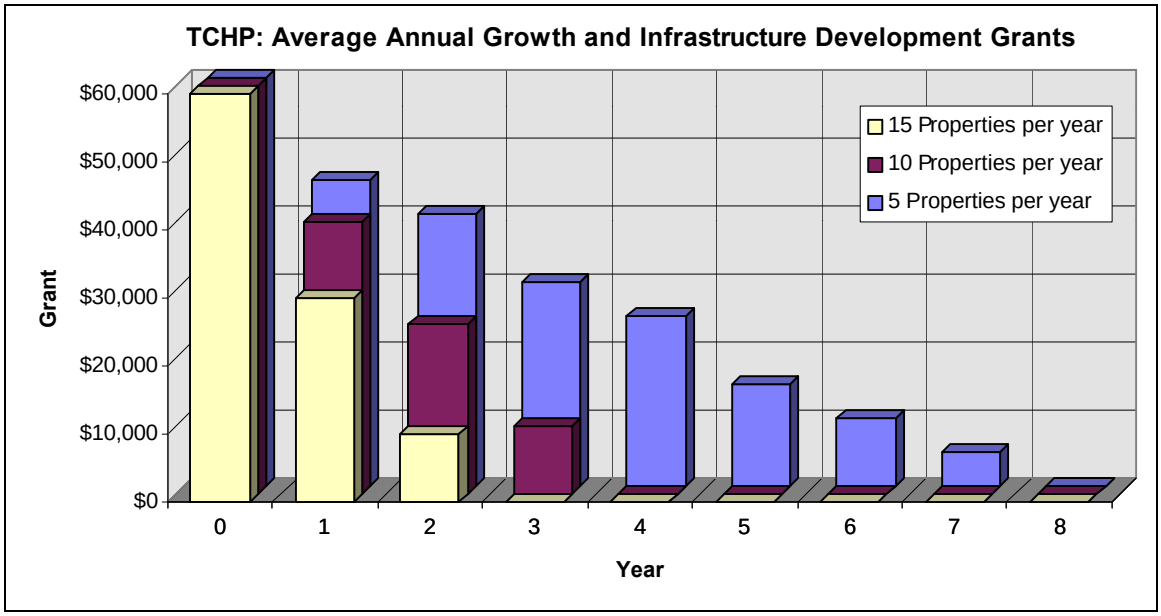

Figure 6.1: Infrastructure Development Grants and RHA Growth

Finally, the above conclusions depend on M4 headleases continuing to be granted on a peppercorn basis. Current policy is for lease fees to be introduced after three years or from the time the organisation manages 25 properties or more. If this policy is implemented consistently, it can be shown that RHAs will continue to depend on infrastructure development grants significantly longer.

Even if peppercorn lease fees are granted indefinitely, current levels of new CHP stock are insufficient to substantially increase growth levels of all six newly established RHAs. However, Government has the potential to speed up the growth of new RHAs by eliminating lease fees on CDHP properties, thus increasing the available number of properties that contribute to viability by 135 annually. See section 7 for a more detailed discussion on the impact of lease fees on viability.

7. Viability and Lease Fees[9]

Community housing providers often list lease fees as one of the major impediments to attaining financial viability. If this is true, lease fees are in direct conflict with the Ministry of Housing (MoH)'s stated aim of stimulating the independence and viability of the community housing sector in Western Australia. This section investigates the impact of lease fees on both static and dynamic viability for TCHP.

As discussed in section 4, in the absence of lease fees TCHP attains static viability at 41 properties and dynamic viability at 124 properties. While at first glance it may be assumed that the introduction of lease fees will increase these numbers, in practice this is not necessarily the case. The reason for this is that Homeswest operates a number of different types of leases, the most common of which are M3 and M4.[10]

Under the M3 arrangement, community housing providers pay $22 per week per income eligible tenant (ie. not per property). In return, Homeswest provides a number of services, including structural repairs, water rates, local government rates, strata fees, land taxes and building insurance. Under the M4 arrangement, on the other hand, community housing providers do not pay a lease fee. However, in return the providers bear the full costs of local government rates, water rates, strata fees and land taxes.

For the purposes of modelling, it has been assumed that the M3 arrangement reduces local government rates, water rates and strata fees payable by TCHP from $750 to $0 per year. Furthermore, since currently around 60% of community housing properties have single tenants and the remaining 40% couples, the average lease fee per property is around $30.80 per week.

Table A8 shows that under the M3 arrangement, the number of tenancies required for static financial viability increases to 105, compared to 41 under M4. The number of tenancies required for dynamic viability increases from 124 under M4 to 317 under M3 (Table A9).

These large increases occur because the current lease fee structure pushes the sum of lease fees and average operating costs to $79.58 per property per week, leaving a margin of only $10.42 at an average weekly rent of $90.00. In practice, the margin will depend on the specific situation of each family. For instance, for a single person living alone, weekly operating costs are $48.78 and the applicable lease fee is $22, producing total weekly costs of $70.78. However, the maximum possible rent for a single person on standard Centrelink benefits is only $56.27 per week, producing a significant operating loss for this type of tenancy.[11]

On the other hand, while weekly operating costs for a couple with four children are identical to those for singles, the applicable lease fee is $44, producing total weekly costs of $92.78. However, the maximum possible rent if this family receives standard Centrelink benefits is $109.64 per week, which means that this type of tenancy yields a significant operating margin.

Another way of looking at these figures is to calculate the average value of the services provided by Homeswest under the M3 and M4 arrangements. This is $3.61 per property

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[9] A previous edition of this section was published as Karel Eringa, *The Case Against Lease Fees*, CHCWA Discussion Paper, Community Housing Coalition of WA, December 1999.

[10] A third common lease arrangement, the CHP headlease, is similar to the M4 arrangement in that no lease fee is payable. The main differences between the M4 and CHP arrangements are that under M4, Homeswest bears the costs of building insurance but not for white ant control while under CHP the situation is reversed. For the purposes of modelling, we will assume that these factors cancel each other out, and that M4 and CHP leases are interchangeable. See section 9 for a more detailed discussion of the different types of headleases.

[11] Rents for single youths are even lower ($33.79 per week), causing an operating loss for this type of tenancy even if lease fees are zero and even if Homeswest bears the costs of local government rates, water rates and strata fees. This explains the low proportion of youths housed by community housing providers.

per week for M4 leases, $8.41 for M3 leases if the property is exempt from local government rates and $18.03 for M3 leases if the property is subject to full rates (apart from the statutory 50% exemption from water rates).

This implies that lease fees below these amounts are preferable than a situation in which Homeswest charges no lease fees but provides no services. It also implies that, M4 leases are preferable to M3 leases unless M3 lease fees are reduced to below $14.42 per *property* for properties subject to full rates and below $4.81 per *property* for properties that are exempt from local government rates.

All providers with M3 leases, including those who are rates exempt, will become more viable if the M3 lease fee is reduced to zero and Homeswest still carries the costs of local government rates, land taxes, water rates, strata fees and land taxes. Finally, average M3 lease fees over $41.22 push the operating costs of these properties above rents, meaning these properties reduce TCHP's viability.

The impact of lease fees can be appreciated further by examining more closely the situation of a provider managing 105 M3 tenancies. As stated above, at the current lease fee structure, this provider would be able to meet both its operating and infrastructure development costs, but not have any funds for expansion. If, however, M3 lease fees were reduced to zero, the same provider would have an annual sum of $168,168 available for expansion. Finally, if all leases were changed to M4, this surplus would be $89,418.

In conclusion, government has the potential to make a considerable impact on the viability of the community housing sector by changing its policy on lease fees. From one perspective, reducing lease fees dramatically enhances the potential of individual providers to become financially viable. From another perspective, eliminating lease fees increases the potential of providers to finance their own growth, and therefore the amount of stock available to the sector and its tenants.

8. Viability and Local Government Rates[12]

Since the Bindi Bindi case, several community housing providers in Western Australia have been pursuing exemptions from local government rates and charges in their quest to become financially viable more quickly. While it is beyond doubt that rates exemptions will have some positive impact on the viability of these organisations, the extent of this impact is unclear. This section aims to give some indication of the potential impact of rates exemptions on the viability of the average community housing provider.

As discussed in section 4, TCHP reach static viability at 41 properties if no exemptions from local government rates are obtained. Table A10 shows that this falls to 35 when TCHP receives a 50% concession on all of its properties, and to 30 when all properties are fully rates exempt. Table A11 indicates that the situation with regard to dynamic viability is very similar, with full rates exemptions on all properties reducing the number of properties required to 91 properties, compared to 124 without concessions.

The impact of rates on viability can be appreciated further by examining more closely the situation of a housing provider managing 41 tenancies. As stated above, at full rates TCHP would be able to meet all operating and infrastructure development costs but not have any funds for expansion. However, with full rates exemptions on all properties, TCHP has an annual surplus of $30,750 available to invest in additional community housing stock.

In conclusion, both local and state government have the potential to make a significant contribution to community housing by reducing or eliminating rates and charges to providers. As with lease fees, reducing rates enhances the potential of individual providers to become financially viable, and increases their scope to finance new stock.

[12] A previous version of this section was published as part of Karel Eringa and Paul Pendergast, *Viability and Local Government Rates*, CHCWA Discussion Paper, Community Housing Coalition of WA, November 1999.

9. Viability and Funding Programs

Different funding programs have different lease and ownership arrangements. This produces different outcomes for community housing providers regarding two issues related to viability: security of tenure and lease fees. This section looks at four major funding programs and assesses their likely impact on viability.

a) Community Housing Program (CHP)

The CHP allocates funds to community groups and local government authorities "for the purchase or construction of rental housing for people on low to moderate incomes".[13] Although Homeswest encourages capital contributions from participating providers, it is possible to access CHP funds without any such contribution. However, organisations applying without a capital contribution are usually given a lease agreement, which can be changed or suspended at 60 days notice. Organisations providing a capital contribution receive a legal agreement providing significantly greater security of tenure.

Five different leases can be negotiated under the CHP; the most common lease is termed the CHP lease. Under this lease, community housing providers pay a peppercorn lease fee, retain all rental revenues and are responsible for managing the properties. Homeswest remains responsible for maintaining essential fixtures and structural maintenance as well as white ant control.

This means that all CHP properties have the potential to benefit providers, since they allow for substantial margins. Where a legal agreement exists, CHP properties provide sufficient security of tenure to contribute to viability. However, CHP properties on leases cannot be regarded as contributing to viability because of the lack of security of tenure.

b) Community Disability Housing Program (CDHP)

Under the CDHP, Homeswest leases properties to community organisations and government agencies for low-income people with disabilities. People being housed are required to "have adequate support arrangements in place"[14] to help sustain independent living. Four different leases can be negotiated under this program; the most common ones are M3 and M4.

Under the M3 arrangement, organisations pay a lease fee to Homeswest of $22 per eligible tenant per week. In return, Homeswest is responsible for all local government and water authority rates, as well as strata levies, building insurance, maintenance of essential fixtures and structural repairs. The M4 lease is a peppercorn arrangement where Homeswest is only responsible for building insurance, strata company levies and maintenance of essential fixtures and structural repairs.

Neither arrangement brings with it security of tenure through a legal agreement, and therefore neither has the potential to contribute to the viability of community housing providers. However, M4 leases have the potential to benefit providers in the short run, since they allow for substantial margins. M3 leases can also benefit providers in the short run, but their impact depends on the specific costs, rent, lease fees and number of tenants associated with each tenancy - see section 7 for a more detailed discussion of the impact of lease fees on viability.

c) Joint Venture Housing Program (JVHP)

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[13] Homeswest, *Community Housing Programs Policy Manual*, December 1999, p.26.
[14] Homeswest, *Community Housing Programs Policy Manual*, December 1999, p.39.

The JVHP is the only program that always brings with it security of tenure through a legal agreement. This program aims to provide rental housing for people on low incomes by encouraging community organisations and local government authorities to contribute land, cash and/or in-kind services, while the Ministry of Housing finances the construction costs of the housing. "Each of the parties (MOH and the organisation or local authority) has a financial equity in the housing project".[15] Participating organisations manage and maintain the properties.

The fact that the JVHP requires equity contributions from participating organisations means that the program's capacity to contribute to their viability is limited at best. The reason for this is that organisations that have not reached the point of static viability do not, by definition, have any surplus income that can be used to acquire the equity required to participate in the program.

However, there are two options for organisations with no surpluses that want to access the JVHP: a) finding free or very cheap land, and b) borrowing money to acquire land. It will be obvious that very little free or very cheap land is available. Nevertheless, some community organisations have been successful in finding local authorities or religious bodies willing to donate land.

Borrowing money also has its limitations. Since the average rent is $90.00 and average operating costs are $66.81 per property per week,[16] average finance costs are limited to $23.19 of asset value ($1,206.03 per year). This would be sufficient deposit for a $12,874 commercial loan (repayable over 25 years at 8.0% interest) to purchase some land.[17] For developing community housing organisations, financially viable Joint Venture proposals are therefore limited to high income properties on low cost land.

d) Crisis Accommodation Program (CAP)

Under the CAP, the Ministry of Housing channels Commonwealth funds to community organisations "for capital works for accommodation for people who are homeless and in crisis".[18] The organisations are required to provide support services to their tenants. In most cases this support is subsidised through the Supported Accommodation Assistance Program (SAAP) administered by the Department of Family & Children's Services.

The CAP does not have the potential to contribute to the viability of community housing providers. This is partly because the program works through a system of leases and therefore does not offer security of tenure, and partly because income depends on a system of government grants, which are liable to change over time. Finally, CAP properties may or may not have short term benefits to providers, since it requires support to low income tenants with high needs and often a high level of arrears and bad debts. This means that short term benefits of CAP properties are highly dependent on government funding.

e) Viability and Funding Programs: Conclusions

None of the major community housing funding programs unambiguously increases the viability of individual providers. The CDHP and CAP programs operate on lease systems and lack security of tenure. Both of these programs also suffer from uncertainties regarding, respectively, lease fees and support funding.

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[15] Homeswest, *Community Housing Programs Policy Manual*, December 1999, p.52.
[16] Costs have been adjusted for the fact that Homeswest does not provide a contribution to cyclical maintenance under the JVHP. See also section 10 f).
[17] Assuming that land is the only contribution of the organisation.
[18] Homeswest, *Community Housing Programs Policy Manual*, December 1999, p.11.

The CHP only offers a legal agreement when organisations provide equity, leaving headleased properties unable to contribute to viability. Finally, while the JVHP does offer security of tenure, access to this program is severely limited for organisations that have not yet reached at least static viability.

It will be obvious that in order to achieve viability, community housing providers need to manage tenancies that are secure in the long run. The only way to achieve this is to obtain part equity in CHP or JVHP properties. However, a catch-22 situation arises because in order to obtain this equity, organisations first need to generate surpluses, which they can only do if they are already viable.

For individual providers, there is only one way out of this vicious circle. Newly established organisations must concentrate on obtaining properties on CHP peppercorn leases as well as locating free or very cheap land and capital to invest in the JVHP. Once the organisation has a sufficient number of these properties to start generating surpluses, it must shift its focus towards obtaining equity in CHP or JVHP properties to ensure its long term viability.

One final note regards Homeswest's stated policy of requiring organisations participating in the CHP, CDHP and CAP to return all surpluses within three months of the end of the financial year.[19] Arrangements under the JVHP are more flexible, but organisations are still required to consult with the Ministry before they can use their surpluses.[20] If this policy is implemented strictly, community housing providers will not be able to use their surpluses to purchase equity. Since this prevents them from obtaining security of tenure under any of the programs, this policy effectively makes it impossible for community housing providers to become viable using any of the major funding programs.

[19] Homeswest, *Community Housing Programs Policy Manual*, December 1999, pp.25 (policy no.A42), 38 (policy no.B42) and 51 (policy no.C42).
[20] Homeswest, *Community Housing Programs Policy Manual*, December 1999, p.63 (policy no.D35)

10. Cost Effectiveness I: Regional Housing Associations

There is no doubt that the level of operations at which community housing providers become viable is influenced by external factors such as lease fees, local government rates and the maximum possible rent. However, the impact of these external factors depends to a large extent on the level of internal factors, such as management and maintenance costs. This means that the conclusions reached in the previous sections become moot if the assumptions do not reflect cost effectiveness.

In theory, TCHP's cost effectiveness can be established in three distinct ways: comparing its costs with existing community housing providers, with commercial operators, and with the public sector (ie. Homeswest). Unfortunately, apart from measurement difficulties and limited research, all three methods have some inherent problems.

Firstly, comparing TCHP with existing community housing providers is problematic because each provider houses different types of tenants in different locations. This means that each provider will face a different cost structure and a different rental income. Furthermore, there is no guarantee that all or any of the existing community housing providers operate cost effectively. This method can therefore only give an indication of how closely TCHP's cost structure resembles that of existing providers.

Comparing TCHP with commercial operators is problematic for similar reasons. Commercial operators aim to maximise profits and therefore focus on low risk, high income tenants. Additionally, they minimise costs by limiting contact time with tenants as much as possible. Community housing providers, on the other hand, focus on tenants who cannot be housed elsewhere and offer tenant support and participation in the management of their housing. This means that, generally speaking, TCHP will have higher costs and lower rents than commercial operators. Costs reported by commercial operators therefore only gives an indication of the lower limit of the costs faced by community housing providers.

Finally, comparing TCHP with the public sector is problematic because of the very different scale of operations: Homeswest manages more than ten times the properties managed by the entire Western Australian community housing sector. This larger scale of operations has allowed for significant cost savings due to economies of scale resulting from staff specialisation and risk reductions. Again, this method can only provide an indication of the lower limit of the costs faced by community housing providers.

With these inherent difficulties in mind, this section compares TCHP's cost structure with those of seven of the eight Regional Housing Associations in West Australia. Section 11 examines four housing collectives, while section 12 looks at Homeswest and research on housing providers elsewhere.

10a) Case Study 1: Community Housing Provider 1[21]

CHP1 was established in 1995 and became a Regional Housing Association in 1995. CHP1 houses a range of people in rural areas in WA. The organisation currently manages 67 properties: 27 leased from Homeswest under CHP, 36 under CDHP and 4 under CAP. Where possible, assumptions regarding have been based on the organisation's Profit and Loss Statement for the 1999 - 2000 financial year.

Assumptions

[21] This section is based on Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, October 2000.

The resulting cost structure is summarised in the columns marked Actuals in Table A12. However, these actuals distort CHP1's underlying financial situation. In order to present a more realistic picture, the assumptions were adjusted as follows:

1. Salaries were calculated by activity rather than by worker, ie.: all infrastructure development work was valued at SACS Level 6, property management at SACS 4 and administrative work at SACS 3.
2. Staff time was split between infrastructure development, administration and property management according to discussions with CHP1 staff:
   - Housing Officer (0.8 FTE): 50% infrastructure development and 50% property management;
   - Administration / Housing Officer (0.7 FTE): 75% property management and 25% administration; and
   - Administration Officer (0.8 FTE): 75% property management and 25% administration.
3. Property Management time was split according to discussions with CHP1 staff between CHP (50.2% of staff time), CDHP (38.5%) and CAP (11.3%) properties.
4. Administration time was split between fixed and variable components on the assumption that administration time increases by 20% if stock doubles. On this basis, fixed administration time was calculated to be 11 hours and 12 minutes per week, putting variable administration time at 2.6 minutes per property per week.
5. Administration costs other than staff time ($23,817) were split as follows:
   - fixed administration costs were put at 80% of the amounts listed for audit & accounting, storage unit, rent, post / print / stationery, training, motor vehicle, plant & equipment, B.O.M. costs, insurance and sundries plus 20% of the amounts listed for travel, phone and professional indemnity ($16,560 per year); and
   - the remaining amounts ($7,257 or $126.21 per property per year) were assigned to variable administration costs.
6. Cyclical maintenance provisions for CHP ($225 per property per year), CDHP ($250) and CAP ($238) were based on discussions with CHP1 staff to compensate for abnormal higher than usual provisions in 1999 - 2000.
7. Rents, local government rates and water rates were based on the actual amounts currently charged for each tenancy.
8. CHP1 received an ILP grant from the Health Department in 1999 - 2000, with a component of $31,000 for operating costs.

Current Viability

The assumptions outlined above produces the cost structure for CHP1 summarised in Table 10.1, expressed both as a dollar value and as a proportion of asset value. This table also summarises the findings of a previous viability study for CHP1 conducted in September 1999[22] as well as operating costs for TCHP.

[22] See Karel Eringa, *Financial Viability of WA Community Housing Providers*, Community Housing Coalition of WA Draft Report, September 1999 for full details on this study.

Costs and Income	CHP1 2000		CHP1 1999		TCHP	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$19.85	*0.8%*	$15.59	*0.7%*	$23.68	*1.1%*
Property Management Costs	$32.12	*1.3%*	$38.46	*1.8%*	$21.63	*1.0%*
Asset Management Costs	$13.98	*0.6%*	$12.88	*0.6%*	$17.88	*0.8%*
Average Operating Costs	**$65.96**	***2.7%***	**$66.94**	***3.2%***	**$63.20**	***2.9%***
Rent	$80.52	*3.3%*	$85.00	*4.0%*	$90.00	*4.1%*
Margin	**$14.56**	***0.6%***	**$18.06**	***0.9%***	**$26.80**	***1.2%***

Table 10.1: Cost Outline for CHP1

From Table 10.1 it is clear that CHP1's marginal operating costs are similar to those of TCHP, with a slight fall occurring between the two studies. However, while CHP1's operating costs are similar to those of TCHP, the operating margin is much lower ($14.56 compared to $26.80 per property per week), due to the low average rent. Furthermore, the average rent as well as the operating margin have fallen over the past year.

The organisation's property management costs are relatively high, due to high maintenance costs. This is explained by the fact that most of CHP1's properties were originally spot purchased and are now ageing, and partly because relatively large distances between properties producing high transportation costs and time charges for maintenance contractors. However, property management costs have fallen substantially over the last year.

CHP1's tenancy and asset management costs, on the other hand, remain substantially lower than those for TCHP despite slight increases for both costs. Tenancy management costs are low due to a combination of very low vacancies and bad debts (an average of 1.49% of rental income across the organisation), low variable administration costs ($126.21 per property per year) and low administration time (an average of 2.6 minutes per property per week). Finally, asset management costs are low because of CHP1's successful pursuit of concessions on local government and water rates.

Some further insights can be gleaned from the comparison of costs associated with the various programs: Table 10.2 (below).

Costs and Income	CHP		CDHP		CAP	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$18.23	*0.8%*	$19.50	*0.8%*	$34.01	*1.4%*
Property Management Costs	$27.08	*1.1%*	$35.45	*1.5%*	$36.18	*1.5%*
Asset Management Costs	$14.36	*0.6%*	$13.46	*0.6%*	$16.14	*0.7%*
Average Operating Costs	**$59.67**	***2.5%***	**$68.41**	***2.8%***	**$86.33**	***3.6%***
Rent	$64.21	*2.7%*	$89.03	*3.7%*	$122.50	*5.1%*
Margin	**$4.53**	***0.2%***	**$20.62**	***0.9%***	**$36.17**	***1.5%***

Table 10.2: Cost Outline for CHP1 by Program

Table 10.2 shows that both operating costs and rents vary substantially between the three programs. The organisation's CHP properties are characterised by low costs and low rents, resulting in a small operating margin ($4.53 per property per week).

Operating costs for CDHP properties are higher than those for CHP properties, due to the fact that all CDHP properties require gardening, while a substantial proportion of CHP tenants either provide gardening services or have no gardens. However, higher costs for CDHP properties are compensated by even higher rents, producing a much larger operating margin for these properties ($20.62 per property per week).

Finally, for CAP properties all cost components are high, due to the types of tenants housed. However, this is again more than compensated for by the rents these tenants pay, resulting in the largest operating margin ($36.17 per property per week). It should, however, be noted that CHP1 currently only manages 4 CAP tenancies, so these figures may be inaccurate.

Current Viability

Table A12 gives an overview of cash flows for each type of property and the organisation as a whole. If the ILP grant is included and no allowance is made for general administration or infrastructure development costs, the 27 CHP properties generate a surplus of $6,367 per year. This is $69,596 for the 36 CDHP units and $7,523 for the 4 CAP units.

When the ILP grant is deducted and fixed costs and infrastructure development costs are added, a surplus of $6,342 remains for the organisation as a whole. In other words, despite the fact that rents are lower and fixed costs slightly higher than for TCHP, CHP1 appears to have reached static financial viability. However, the organisation has not yet reached dynamic financial viability.

Strategies for Dynamic Viability

Assuming a constant tenancy mix and cost structure, CHP1 could attain dynamic financial viability by:

a) raising its average rent from its current level of $80.52 to $115.08 per unit per week;

b) increasing its stock to 219 properties (ie. 88 CHP, 118 CDHP and 13 CAP); or

c) reducing its operating costs from $65.96 to $31.39 per unit per week.

Combinations of these strategies are also possible, for instance if the organisation could raise its average rent to the level of TCHP ($90.00 per unit per week), the number of properties required for dynamic viability falls to 137. However, it is beyond the scope of this paper to describe all the possible combinations of rents, costs and properties that produce dynamic viability for CHP1.

Impact of Lease Fees

All of these conclusions change if lease fees are introduced on CHP1's CDHP properties, as Homeswest is currently considering. Table A12 shows that if all of the organisation's CDHP properties were transferred from M4 to M3 leases, this would cost CHP1 $51,480 in lease fees. However, the impact of the M3 leases is mitigated by the fact that Homeswest is responsible for local government and water rates under M3, a saving to CHP1 of $21,419. The net loss of transferring all CDHP properties to M3 leases would therefore be $30,061.

This increase in costs would have a serious impact on CHP1's viability. Table A12 shows that the organisation falls from a state of ***static*** viability to one where it would require an additional 14 properties to attain ***basic*** viability. In other words, the introduction of M3 leases on CHP1's CDHP properties means that the organisation slides from a situation where it has a small surplus available for expansion each year to one where it becomes dependent on government funding to meet its operating costs.

The final column of Table A12 shows the impact of transferring CHP1's CDHP properties to a new (M6) lease on the organisation's viability. Under this arrangement, CHP1 proposes to continue meeting all costs it currently carries under the M4 arrangement, as well as maintenance of essential structures and fixtures. This would require an increase

in the cyclical maintenance provision for these properties from $250 to $390 per property per year. In addition, the organisation will pay an administration fee of $1.50 per *tenant* per week to Homeswest.

It can be seen that while CHP1's costs increase by $8,550 under this proposal, it retains basic viability if all CDHP properties are transferred to M6. The number of properties required for static viability increases to 71, significantly less than the 138 required under the M3 arrangement. It should be noted that an M6 lease with a fee of less than $0.70 per *property* per week would allow CHP1 to retain static viability.

One final remark is that whether CHP1's CDHP properties continue to be leased under the M4 arrangement or are transferred to M3 or M6, the current situation does highlight the fact that headleases are inherently unstable and subject to change of conditions at the behest of the lessor. The only way to avoid this degree of uncertainty and obtain security of tenure is to obtain part or full equity in current and future properties.

Conclusions

CHP1 has attained static but not yet dynamic financial viability, producing an underlying surplus of $6,342 for expansion each year. Analysis of the organisation's cost structure shows that CHP1 operates all types of tenancies at a significant margin.

However, the three programs have very different operating margins, with CHP properties generating the lowest rents at the lowest costs, producing the lowest margin. CDHP and CAP properties have both higher costs and higher rents, resulting in higher margins. However, the findings for CAP properties may not be significant due to the small number managed by CHP1, while the margin for CDHP properties declines drastically if M3 leases are introduced.

It was demonstrated that CHP1 could attain dynamic financial viability by lowering costs, increasing rents or obtaining more tenancies. While all of these methods have their advantages and drawbacks, it appears that a carefully selected combination of strategies would be most appropriate.

With regard to the proposed introduction of M3 leases on CHP1's CDHP properties, it was shown that this would result in the organisation sliding from a state of static viability to one where it needs to expand in order to attain basic viability. Moreover, the number of properties required for any form of viability increased substantially.

The proposed M6 lease, on the other hand, allowed the organisation to remain within striking distance of static viability whilst at the same time paying Homeswest $1.50 per *tenant* per week for administration costs. It was also shown that CHP1 would retain static viability if this administration fee were reduced to $0.70 per *property* per week or less. Nevertheless, the best way for CHP1 to ensure that it will continue to be able to operate its properties at a positive margin is to obtain full or part equity in its current and any future properties.

10b) Case Study 2: Community Housing Provider 2[23]

CHP2 started life in 1997. Its primary focus is to provide secure and affordable rental housing for people on low to moderate incomes within the Perth Metropolitan area. CHP2 currently manages 30 properties under CHP head leases.

Assumptions

[23] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, November 2000.

Table A13 (attached) gives an overview of the assumptions used in this study. Where possible, assumptions regarding the operating costs of these tenancies have been based on CHP2's audited Profit and Loss Statement for the 1999-2000 financial year. However, rents, insurance and local government and water rates were based on actuals as at the time of writing.

In addition, before extrapolating for the year as a whole, the following adjustments were made to the actual figures:

1. Staff time was split between infrastructure development, administration and property management according to discussions with CHP2 staff:
   - Executive Officer (1.0 FTE): 60.0% infrastructure development, 20.0% applications and 20.0% administration;
   - Property Manager (0.5 FTE): 48.0% administration, 32.0% tenancy management and 20.0% applications; and
   - Finance Officer (0.2 FTE): 100.0% administration.
2. Infrastructure development work was valued at SACS Level 6, all other work at SACS Level 5.
3. Administration time was split between fixed and variable on the assumption that time would increase by 20% with a 100% increase in stock. This put the fixed component at 20.08 hours per week, and the variable component at 5.02 hours per property per week.
4. Tenancy management and variable administration time were allocated to high and low risk tenancies according to discussions with CHP6 staff (70.0% and 30.0% respectively).
5. After adjusting for a one-off cost of 9,090.75 in consultants / audit fees, administration costs were split between a fixed and a variable component according to the following:
   - the fixed component was put at 80% of the amounts listed for advertising, consultants / audit fees, couriers, equipment maintenance, library, meeting expenses, membership fees / subscriptions, office insurance, office rent / expenses, sundries, training / conferences and travel / vehicle maintenance expenses plus 20% of the amounts listed for bank charges, Centrepay direct deduction, consumables, photocopying, postage, printing and stationery ($11,871); and
   - the remaining amount ($8,449) was assigned to variable administration costs or $512.38 per property per week.
6. The amounts listed for bad debts and provision for doubtful debts were adjusted for the fact that they refer to an 18 month period.
7. CHP2 received an infrastructure development grant of $40,000 from Homeswest and extraordinary income of $15,983.72 during 1999/2000. The organisation also received some other income (interest and uncategorised income). However, neither grants nor other income contribute to the organisation's viability because both types of income are inherently unpredictable.

Current Viability

Table A13 summarises CHP2's cost and income, as well as indicating what its costs would have been with various proportions of high risk tenants. The table shows that CHP2 has a high proportion of high risk tenants (currently 33%) and a relatively high average rent ($99.45 per property per week). The latter is due to the high proportion of large families housed by CHP2, while the former reflects the high proportion of high risk tenants on the organisation's waiting list.

CHP2's high risk tenants pay, on average, higher rents than its low risk tenants ($119.93 and $89.21 respectively). However, they also bring with them higher tenancy management costs ($50.81 compared to $14.37), due to differences in four main areas. Firstly, vacancies and bad debts for CHP2's high risk tenants are 20.1% of rental income, compared to 1.0% for its low risk tenants.

Secondly, property management time and administration time for high risk tenancies is 48.0 minutes per week, compared to 10.3 minutes for low risk tenancies. This yields an average property management time of 22.8 minutes per week across the organisation, compared to 39 for TCHP.

Thirdly, property management costs for CHP2's high risk tenants are $512.38 per property per year, compared to $512.38 for low risk tenants. The average across the organisation is $512.38 per property per year, compared to $150 for TCHP.

Finally, local government and water rates are higher for CHP2's high risk tenancies: $735.62 compared to $558.20 for its low risk tenancies. This is due to the fact that many of the high risk tenancies are large families, requiring larger properties which face higher rates.

Table 10.3 illustrates that in spite of very different underlying costs, CHP2's tenancy management costs are very similar to those for TCHP: $26.51 compared to $23.68. Asset management costs are also similar ($16.49 compared to $17.88). However, property management costs are slightly higher ($29.47 compared to $21.63), even though they are almost identical as a proportion of property replacement costs.

Overall, CHP2's average operating costs are $72.47 per property per week, compared to $63.20 for TCHP. Combined with higher rents for CHP2 this produces a very similar operating margin ($26.98 compared to $26.80). However, average operating costs for high risk properties are more than double those for low risk properties ($99.04 compared to $59.19), producing operating margins of $30.02 for low risk properties and $20.89 for high risk properties.

Costs and Income	**Low Risk**		**High Risk**		**EMCHA**		**TCHP**	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$14.37	*0.4%*	$50.81	*1.6%*	$26.51	*0.8%*	$23.68	*1.1%*
Property Management Costs	$29.47	*0.9%*	$29.47	*0.9%*	$29.47	*0.9%*	$21.63	*1.0%*
Asset Management Costs	$15.35	*0.5%*	$18.77	*0.6%*	$16.49	*0.5%*	$17.88	*0.8%*
Average Operating Costs	**$59.19**	***1.8%***	**$99.04**	***3.1%***	**$72.47**	***2.2%***	**$63.20**	***2.9%***
Rent	$89.21	*2.8%*	$119.93	*3.7%*	$99.45	*3.1%*	$90.00	*4.1%*
Margin	**$30.02**	***0.9%***	**$20.89**	***0.6%***	**$26.98**	***0.8%***	**$26.80**	***1.2%***

Table 10.3: Cost Outline for CHP2

The large difference in both operating costs and rents between high and low risk tenancies means that the single most important factor in determining the number of properties at which CHP2 becomes viable is the proportion of high risk tenancies. Table A13 illustrates that CHP2 requires 60 tenancies to attain static viability if it only increases its high risk tenancies, but only 51 tenancies if it focuses on increasing its low risk tenancies. Finally, with its current proportion of high risk tenancies CHP2 requires 53 tenancies for static viability.

Conclusion

In summary, CHP2's operating costs for high risk tenancies are more than double those of low risk tenancies. The high proportion of high risk tenants make CHP2's operating costs higher than those of TCHP, but the impact of operating costs on viability is offset by CHP2's higher rents. Nevertheless, the proportion of high risk tenants is the single most important factor in determining the level at which the organisation becomes viable. Finally, no conclusions can be drawn regarding the cost effectiveness of either CHP2 or TCHP due to CHP2's unique cost structure.

10c) Case Study 3: Community Housing Provider 3[24]

CHP3 is a generic housing provider aiming to house a wide range of individuals and families within the Perth Metropolitan area. The organisation was established in 1998 and started managing its first properties in early 1999. Currently it manages nine properties: one leased under the CDHP and eight under the CHP program.

The small size and short history of the organisation presented some practical difficulties in conducting this case study. Firstly, CHP3 has no track record with regard to maintenance of its properties. However, the organisation uses guidelines of 0.5% and 1.0% of construction costs for day to day and cyclical maintenance respectively.

Equally importantly, CHP3's short history made it impossible to predict how administration costs and time will increase with the number of properties. In order to address this problem, property management costs were assumed to be at the higher level of CHP3's closest sister organisation, CHP2 (6.5% of rental income), leaving $13,611 for fixed administration costs. With regard to administration time, the variable component was assumed to be 3 minutes per property per week, leaving 6 hours and 39 minutes as the base administration time.

Finally, in order to be able to estimate the impact of lease fees, it was assumed that CHP3's tenants consist of a mix of 60% singles and 40% couples, producing an average lease fee of $30.80 per property per week. All other costs as well as property management time were averaged from the organisation's regular Finance Reports and are listed in Table A14. The organisation's costs and income are summarised and compared to those for TCHP in Table 10.4 (below).

Costs and Income	**CHP3**		**TCHP**	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$33.97	*1.5%*	$23.68	*1.1%*
Property Management Costs	$21.63	*1.0%*	$21.63	*1.0%*
Asset Management Costs	$14.59	*0.7%*	$17.88	*0.8%*
Average Operating Costs	**$70.19**	***3.2%***	**$63.20**	***2.9%***
Rent	$75.00	*3.4%*	$90.00	*4.1%*
Margin	**$4.81**	***0.2%***	**$26.80**	***1.2%***

Table 10.4: Cost Outline for CHP3

The table illustrates that CHP3's tenancy management costs are substantially higher than those for TCHP. From Table A14 it can be seen that this is due to high property management time (67 compared to 39 minutes per property per week), high vacancies and bad debts (10.9% compared to 4.6% of rental income) and high property management costs (6.5% compared to 3.2% of rental income). On the other hand,

[24] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, March 2000.

CHP3's asset management costs are lower than those for TCHP, due to a high level of exemptions from local government rates.

Identical property management costs[25] imply that CHP3's average operating costs are higher than those for TCHP. Combined with significantly lower rents, this means CHP3's margin is very close to zero. Table A14 indicates that this has some severe consequences for the organisation's viability: at the current costs and rent, CHP3 requires 79 properties for basic viability, 190 for static viability and 650 for dynamic viability. It should be noted that these numbers can be drastically reduced with increases in the average rent. For instance, the organisation could achieve basic viability with its current number of properties by increasing its average weekly rent to $112.

One final conclusion that can be glanced from Table A14 is that with current costs and rent, CHP3 can only sustain a very limited number of properties on the M3 lease. Once the proportion of properties with lease fees increases over 10%, the organisation's average operating costs rise above its current rent, making it impossible to achieve any level of viability.

In conclusion, CHP3 performs relatively well with regard to asset management costs and relatively poorly with respect to tenancy management time and costs. Average operating costs are slightly lower than those for TCHP, although this involves making a number of assumptions that need to be tested as the organisation grows and develops a track record on maintenance and administration costs. However, the single most important factor inhibiting the organisation's viability is its low average rent.

d) Case Study 4: Community Housing Provider 4[26]

CHP4 was formed in 1986, to expand the range of housing options available within the Perth Metropolitan area. At present, the organisation manages a total of 117 tenancies, including 28 in two lodging houses (LHB and LHC) and 18 in one large complex (LHA). Of the remaining 71 tenancies, 51 are held under M3 (ILP) leases[27] and 20 under M4 (mostly CHP)[28] leases.

Assumptions

Table A15 gives an overview of the assumptions used in this study. All assumptions are based on data relating to the 1998-99 financial year, as detailed in the audited Financial Report for that year, internal Profit and Loss Statements and an internal report detailing administration and maintenance costs. A significant problem arises here, in that the various data sources are incomplete, not consistent with each other, and in some cases internally inconsistent.[29] In order to deal with these problems the available data has been interpreted according to common sense and discussions with CHP4 staff. The assumptions should therefore be seen as 'best guesses' which need to be revisited when more reliable data becomes available. This implies that all conclusions reached in this study are approximations only.

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[25] It should be repeated that this is based on CHP3's guidelines, which are not based on experience but only preliminary estimates.

[26] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, March 2000.

[27] CHP4 has negotiated lower lease fees for properties on which it receives exemptions from local government or water rates (see below).

[28] This category includes three tenancies funded by a 'youth project'. No lease fees are payable on CHP and youth properties, while lease fees are payable ILP properties.

[29] The most significant problem is an unexplained item of $323,734 marked 'Unappropriated Profit' in the Financial Report. This is most likely a combination of accumulated cyclical maintenance, provisions for staff leave entitlements, a provision for the replacement of white goods and surpluses.

One undisputed fact is that all staff were paid an hourly rate of $18.82, increased by 15% oncosts (mainly superannuation and workers' compensation). Administration costs were $25,143, plus $19,132 to employ an administrative worker at 17 hours per week. CHP4 also employs an infrastructure development worker at 21 hours per week.

For as far as possible, costs and income were allocated to ILP, CHP and the three larger complexes. All other costs were based on actual expenses and, where necessary, averaged over the number of tenancies for each program,[30] with the following exceptions:

- administrative and infrastructure development costs were assigned solely to ILP and CHP;
- rents for the various types of properties were based on the sum of rents received and vacancies and bad debts recorded;
- in the absence of data on construction costs for the various types of properties, these were based on Homeswest guidelines;
- land values were based on typical land values for these types of properties in the Perth Metropolitan area;
- property management time was calculated from staff numbers: in 1998-99 CHP4 employed a caretaker at LHC (26 hours per week), a caretaker at LHB (10 hours per week), two ILP housing workers (75 hours per week), a housing worker for CHP and youth properties (15 hours per week) and a manager for LHA (22.5 hours per week);
- since maintenance data proved extremely unreliable, both day to day (0.5% of property replacement costs) and cyclical maintenance (0.5% of property replacement costs for leased properties and 1.0% for owned properties) were based on discussions with staff;
- no data was available for insurance and local government and water rates at LHB and both were set at the levels for LHC; and
- data on property insurance at LHA was considered unreliable and equated to insurance for ILP properties.

Grants related to ILP properties totalled $35,236 in 1998-1999, and the organisation also received grants for general purposes ($4,500). Other income (interest, memberships and sundry income) was $13,938. However, neither grants nor other income contribute to the organisation's viability; the former because of the problems with government grants described above and the latter because it mainly consists of interest on unexplained surpluses which cannot be regarded as sustainable in the long run.

Finally, the average lease fee for ILP properties ($20.38 per *property* per week) was lower than the lease fee under Homeswest's M3 arrangement ($22 per *tenant* per week). This is due to the fact that CHP4 have negotiated lower lease fees for properties on which it receives exemptions from local government and water rates.

[30] The number of M4 leases increased by 6 while the number of M3 leases increased by 4 for the year. In order to calculate costs and income it was assumed that these properties were obtained at regular intervals, producing an average number of 17 CHP and 49 ILP properties for the year.

Costs and Income

The assumptions detailed above produce the following cost outline for CHP4 (Table 10.5) expressed both as a dollar value and as a proportion of asset value:

Costs and Income per property per week	CHP		ILP		LHA		LHB		LHC		Total	
Tenancy Management Costs	$26.35	*1.2%*	$48.52	*2.2%*	$39.25	*3.0%*	$37.87	*2.9%*	$52.10	*4.0%*	$43.29	*2.4%*
Property Management Costs	$14.42	*0.7%*	$14.42	*0.7%*	$11.01	*0.9%*	$11.01	*0.9%*	$11.01	*0.9%*	$13.02	*0.7%*
Asset Management Costs	$9.65	*0.4%*	$2.59	*0.1%*	$12.57	*1.0%*	$4.00	*0.3%*	$4.00	*0.3%*	$5.62	*0.3%*
Average Operating Costs (excl lease fees)	*$50.43*	*2.3%*	*$65.53*	*3.0%*	*$62.83*	*4.9%*	*$52.89*	*4.1%*	*$67.12*	*5.2%*	*$61.93*	*3.4%*
Lease Fees	$0.00	*0.0%*	$20.38	*0.9%*	$0.00	*0.0%*	$0.00	*0.0%*	$0.00	*0.0%*	$8.92	*0.5%*
Average Operating Costs	**$50.43**	***2.3%***	**$85.91**	***3.9%***	**$62.83**	***4.9%***	**$52.89**	***4.1%***	**$67.12**	***5.2%***	**$70.85**	***3.9%***
Rent	*$86.18*	*3.9%*	*$78.67*	*3.6%*	*$61.29*	*4.7%*	*$56.33*	*4.4%*	*$60.56*	*4.7%*	$72.11	*3.9%*
Margin	**$35.75**	***1.6%***	**-$7.24**	***-0.3%***	**-$1.54**	***-0.1%***	**$3.44**	***0.3%***	**-$6.55**	***-0.5%***	**$1.27**	***0.1%***

Table 10.5: Cost Outline for CHP4

These figures can be put into context by comparing them with TCHP's costs for M4 and M3 leases (Table 10.6).

Costs and Income per property per week	*M4*			*M3*		
Tenancy Management Costs	$23.68	*1.1%*	of asset value	$23.68	*1.1%*	of asset value
Property Management Costs	$21.63	*1.0%*	of asset value	$21.63	*1.0%*	of asset value
Asset Management Costs	$17.88	*0.8%*	of asset value	$3.46	*0.2%*	of asset value
Average Operating Costs (excl lease fees)	*$63.20*	*2.9%*	*of asset value*	*$48.78*	*2.2%*	*of asset value*
Lease Fees	$0.00	*0.0%*	of asset value	$30.80	1.4%	of asset value
Average Operating Costs	**$63.20**	***2.9%***	**of asset value**	**$79.58**	**3.6%**	**of asset value**
Rent	$90.00	*4.1%*	of asset value	$90.00	4.1%	of asset value
Margin	**$26.80**	***1.2%***	**of asset value**	**$10.42**	***0.5%***	**of asset value**

Table 10.6: Cost Outline for TCHP

It can be seen that operating costs for CHP4's CHP properties compare favourably with those for TCHP's M4 properties. This is mainly due to substantially lower asset management costs, resulting from rates exemptions on a sizeable number of CHP4's properties. Tenancy management costs are slightly higher than for TCHP, while property management costs are lower. This results in a profit margin of $35.75 per property per week on CHP4's M4 properties.

The situation with respect to ILP properties, on the other hand, is much less satisfactory because tenancy management costs for these properties are far higher (2.2% compared to 1.1% of asset value). This is due mainly to extremely high property management time for these properties (92 compared to 39 minutes per property per week), exacerbated by high vacancies and bad debts (10.2% compared to 4.6% of rental income). When lease fees are included, CHP4 makes an operating loss of $7.24 per property per week or 0.3% of asset value on ILP properties.

Both LHA and LHC suffer from similar problems, with high management time and low average rents resulting in operating losses. In addition, at $61.29, average rents at LHA are low, given the fact that this development consists of two and three bedroom units for long term accommodation. On the other hand, less management time (60 minutes per property per week) at LHB results in a small per unit profit ($3.44 per unit per week), in spite of low rents. Finally, it should be noted that CHP4's fixed costs ($44,275) are substantially higher than those for TCHP ($19,023).

Viability

Table A15 gives an overview of cash flows for each type of property. If government grants are included and no allowance is made for general administration or infrastructure development costs, CHP4's 20 CHP properties generate an annual operating surplus of $41,683. Under the same assumptions, the 51 ILP properties produce a surplus of $16,038, although this would have been a loss of $19,198 without the grant of $35,236. After administration and infrastructure development costs are deducted, a surplus of $3,750 remains for the two programs combined.

LHA and LHC both produce losses ($1,444 and $6,134 respectively) even if no proportion of general administration and infrastructure development costs is included.[31] Finally, LHB generates a small operating surplus ($1,790), again noting that general administration and infrastructure development costs were not included. For the organisation as a whole, this creates an operating loss of $2,038 for 1998-99, falling to a loss of $55,713 if grants are excluded.

In order to establish when viability occurs, two additional assumptions need to be made:

1. LHC is due to be demolished. Costs and income relating to this lodging house have been excluded; and
2. it is assumed that growth will occur in individual ILP or CHP properties, rather than larger scale developments. Therefore, the operating loss for LHA has been added to and the surplus for LHB deducted from CHP4's fixed costs.

With these assumptions in mind, the first strategy available to CHP4 is to increase rents on its existing properties (excluding LHC). If CHP4 wishes to follow this path, Table A15 indicates the organisation needs to raise its average rent from its current level of $74.32 to $79.81 per property per week in order to attain basic viability. The corresponding average rents for static and dynamic viability are $84.40 and $89.91 respectively. It should be noted that average rents would increase to $79.09 by increasing rents at LHA to the level of CHP properties ($86.18).

The second strategy is to increase the number of properties the organisation manages. Table A15 indicates that the exact number of properties required for the various forms of viability depends on whether CHP4 increases the number of CHP or ILP properties. If the organisation obtains no further ILP properties, it requires a total of 34 CHP properties to reach basic viability, 47 for static viability and 109 for dynamic viability. However, if CHP4 decides to grow in such a way that the proportions of CHP and ILP properties are left stable at 28% and 72% of program stock, these numbers increase to 174, 267 and 721 respectively. Finally, it is not possible for CHP4 to become viable by only increasing ILP stock, as each additional ILP property adds to the organisation's operational deficit.

The third strategy for CHP4 to reach viability is to reduce costs. It should be noted that it is beyond the scope of this study to verify whether any cost savings can be made in practice. For instance, while vacancies and bad debts for ILP properties seem relatively high, this may be due to specific circumstances relating to specific tenants or programs. Reducing these costs may require increasing management time, resulting in an overall increase in costs.

Nevertheless, Tables 10.5 and 10.6 indicate a number of areas in which costs are relatively high compared to TCHP. The most significant area in which this occurs is tenancy management costs for ILP properties, LHA and, to a lesser extent, LHB. The underlying figures indicate that this is due largely to extremely high property management time and, for ILP properties and LHA, high vacancies and bad debts. Reducing either management time or vacancies and bad debts (or both) could turn the deficits on ILP properties and LHA into surpluses, and increase the operating surplus for LHB.

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[31] The operating loss for LHA would have been even greater if actual maintenance costs had been used rather than Homeswest standards, due to large abnormal expenses in this particular year.

For instance, CHP4 could attain basic viability with its current properties by reducing tenancy management costs on ILP properties by $9.91 to $38.61 per property per week (1.7% of asset value). This could be achieved by reducing property management time on these properties from 92 to 64 minutes. The organisation could attain static viability by further reducing management time on these properties to 40 minutes - approximately the level for TCHP. This would produce a saving of $18.69 per property per week reducing tenancy management costs to 1.3% of asset value, which is still higher than tenancy management costs for both CHP4's CHP properties and those for the TCHP.

Finally, CHP4 could attain viability through a combination of strategies. This has two advantages. Firstly, combining cost reductions with rent increases and organisational growth is potentially the fastest route to viability. Secondly, it replaces the single focus of the other strategies with a broader aim of organisational development, which could be managed in a way that most suits CHP4. However, it is beyond the scope of this paper to describe all the possible combinations that produce viability.

Conclusions

One of the most serious problems CHP4 faces is the absence of dependable data regarding its expenses, which makes it impossible to draw any reliable conclusions regarding the organisation's viability. However, from the available data it is safe to say that CHP4 has not yet attained any form of viability.

The analysis of the organisation's cost structure shows that the only type of properties that produce significant surpluses are CHP properties, although LHB also produces a small surplus. ILP properties, on the other hand, produce a significant operating deficit, which turns into a surplus when grants were included. Finally, both LHA and LHC produce operating deficits.

The comparison with TCHP proved enlightening, highlighting that the surpluses on CHP properties result from significant savings in asset management costs, due largely to exemptions from local government and water rates. For the other types of properties, however, deficits are caused by high tenancy management costs, produced by high property management time and high vacancies and bad debts.

Finally, it was shown that CHP4 could attain financial viability by lowering costs, increasing rents (particularly at LHA) or obtaining more CHP properties. While all of these methods have their advantages and drawbacks, it appears that a carefully selected combination of strategies could be most appropriate.

10e) Case Study 5: Community Housing Provider 5[32]

CHP5 is a rural Regional Housing Provider which was established in early 1997. The organisation currently manages 45 properties, including 9 on which it holds Deed of Trust, 6 leased under the CHP, 12 under the CDHP and a lodging house consisting of 18 units. CHP5 employs three part time staff, including the caretaker of the boarding house.

[32] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, May 2000.

Assumptions

Table A16 (attached) gives an overview of the assumptions used in this study. Where possible, the assumptions were based on CHP5's Profit and Loss Statement for July 1999 - February 2000. However, assumptions regarding three factors were based on discussions with CHP5 staff:

- estimates for construction costs and land values; and
- local government and water rates ($1,020 per property per year).

In order to present a more realistic picture, the actual figures were adjusted as follows:

1. All salaries were moved to the top end of the relevant SACS award level, ie. the boarding house manager from level 2.1 to level 2.3, Executive Officer from level 6.2 to level 6.3 and property manager from level 4.3 to level 4.4.
2. Staff time was split between infrastructure development, administration and property management of the boarding house and other properties according to discussions with CHP5 staff:
   - Boarding house manager (28 hours per week): property management (boarding house);
   - Property manager (22.5 hours per week): 15 hours property management (other tenancies) and 7.5 hours administration; and
   - Executive Officer (30 hours per week): 20 hours infrastructure development, 7.5 hours property management (other tenancies) and 2.5 hours property management (boarding house).
3. The Executive Officer's time was valued according to the tasks performed, ie. at level 6.3 for infrastructure development work, level 4.4 for property management work (general properties) and level 2.3 for property management (boarding house).
4. Average administration time per property was calculated by assuming a base administration time of 5 hours for the organisation. The remaining time was split between the boarding house and other tenancies according to the number of tenancies. This left administration time of 3.3 minutes per property per week for other tenancies.
5. Administration costs were adjusted for abnormally high training costs ($2,843 expended compared to $800 budgeted) and split as follows:
   - fixed administration costs were put at 80% of the amounts listed for office insurance, office expenses, repairs & maintenance, office requisites, rent, plant hire, subscriptions, 2nd phone line, consulting & legal and audit & accounting costs plus 20% of the amounts listed for bank charges, petty cash, postage, photocopying, fax, sundries, office phone, mobile, training and travelling costs plus 100% of contract work;
   - the remaining amounts were assigned to variable administration costs (property management costs) and expressed as a proportion of rental income; and
   - these amounts were split between the boarding house and other tenancies according to the number of tenancies.
6. CHP5 has applied for an infrastructure development grant of $30,000 and also receives some other income (interest, refunds, contractual income).

Finally, it was assumed that the organisation will continue to pay peppercorn (zero) fees on its M3 leases and that all future growth will occur in ILP or CHP properties. In other words, the boarding house will not be extended and CHP5 will not build any additional boarding houses. This implies that all costs and income related to the boarding house can be regarded as fixed.

Current Viability

These assumptions produce the cost structure relating to CDHP, CHP and Deed of Trust properties outlined in Table 10.7.

Costs and Income	CHP5		TCHP	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$30.56	*1.4%*	$23.68	*1.1%*
Property Management Costs	$22.00	*1.0%*	$21.63	*1.0%*
Asset Management Costs	$23.50	*1.1%*	$17.88	*0.8%*
Average Operating Costs	**$76.05**	***3.4%***	**$63.20**	***2.9%***
Rent	$96.98	*4.4%*	$90.00	*4.1%*
Margin	**$20.93**	***0.9%***	**$26.80**	***1.2%***

Table 10.7: Cost Outline for CHP5

It will be clear that CHP5 has higher costs than TCHP in all areas. Table A16 shows that tenancy management costs are higher due to relatively high property management time (50 compared to 39 minutes per property per week) and property management costs (9.5% compared to 3.2% of rental income). Asset management costs are higher due to the fact that the organisation does not receive any concessions on water rates. As a result, even though CHP5's average rent is higher, its operating margin is still lower than that of TCHP ($20.93 compared to $26.80 per property per week).

However, the negative effects of the smaller margin on the organisation's viability is ameliorated by the fact that CHP5's fixed costs are lower than those of TCHP ($13,956 compared to $19,023 per year). Additionally, the organisation receives a small annual surplus from the boarding house ($6,063 per year). As a result, Table A16 shows that CHP5 has already attained basic viability and is well on its way to static financial viability.

Strategies for Viability

As with all community housing providers, there are four potential strategies for CHP5 to attain static and dynamic viability. The first is to increase rents on its existing properties (once again excluding the boarding house). Table A16 shows that CHP5 needs to raise its average from $96.98 to $99.25 per property per week in order to attain static viability. The corresponding average rent for dynamic viability is $181.16.

The second strategy is to continue with the current level of rents, but to increase the number of properties the organisation manages. The table indicates that CHP5 needs a total of 30 (ie. an additional 3) properties for static viability and 136 for dynamic viability.

The third strategy for CHP5 to reach viability is to reduce costs. As with CHP4, it should be noted that it is beyond the scope of this study to verify whether any cost savings can be made in practice. However, as stated above, there appears to be scope for some savings in property management costs and time. For instance, if CHP5 were to reduce its administration costs to the level of TCHP ($150 per property per year), it could reduce the number of tenancies required for static viability from 30 to 24.

The final strategy is a combination of the other three. As with CHP4, a carefully chosen combination of strategies is likely to be the fastest and most balanced way of achieving viability. However, it is beyond the scope of this paper to describe all the possible combinations that produce viability.

Lease Fees and Rates

The conclusions above assume that CHP5 continues to be exempt Homeswest lease fees on all of its tenancies, but pays full local government and water rates. Table A16 shows that despite the fact that under the M3 lease Homeswest takes over the responsibility for local government and water rates, lease fees have a substantial impact on CHP5's viability. For instance, the number of tenancies required for static viability increases from 30 to 40 if the organisation has to pay full lease fees on its M3 leases.

On the other hand, Table A16 indicates that concessions on local government and water rates have a very positive impact. For instance, a 25% across the board concession would make CHP5 statically viable with its current number of properties. Full exemptions would reduce the number of tenancies needed for dynamic viability from 136 to 70.

Conclusions

Before proceeding with the conclusions from this study it should be stressed that these can only be as valid as the underlying data. Because of CHP5's relatively short existence and the lack of any previous comparable studies, many of the underlying figures are not known with any degree of certainty. Therefore, the conclusions below are indications only, and should be revisited when the organisation establishes a more extensive track record.

Having said this, from the available data it is safe to say that CHP5 has attained basic financial viability. This is true even if full lease fees are charged on all CDHP properties. Static viability occurs when the organisation adds around 3 properties to its existing stock, although this figure jumps to 13 if the M3 lease is introduced to its CDHP properties.

More detailed analysis shows that the boarding house produces a small annual surplus, and that the organisation runs its Deed of Trust, CDHP and CHP tenancies at a margin of $20.93 per property per week, or 0.9% of asset value. The main outstanding features in the cost structure are relatively high property management costs and time, but relatively low fixed costs.

It was demonstrated that CHP5 could attain static and dynamic viability by lowering costs, increasing rents or obtaining more tenancies. While all of these methods have their advantages and drawbacks, it appears that a carefully selected combination of strategies is most appropriate. Finally, introducing full lease fees on CHP5's CDHP properties could severely hamper the organisation's quest for viability. On the other hand, concessions on local government and water rates could be very beneficial.

10f) Case Study 6: Community Housing Provider 6[33]

CHP6 is a Regional Housing Association with the aim of providing a generic community housing service within the Perth Metropolitan area. The organisation was incorporated in August 1997 and currently manages 43 tenancies. These include 2 properties on which CHP6 holds Deed of Trust as well as 15 leased under CHP, 21 under CDHP and 5 under CAP, all of which have thus far been subject to a peppercorn (zero) fee. Finally, the organisation employs two full time and one part time staff.

[33] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, June 2000.

Assumptions

Table A17 (attached) gives an overview of the assumptions used in this study. Where possible, assumptions regarding the operating costs of these tenancies have been based on various financial statements, most notably CHP6's Profit and Loss Statement for 1999 - 2000. However, assumptions regarding two factors were based on discussions with CHP6 staff:

- split of day to day maintenance costs between CHP, Deed of Trust and CAP properties; and
- vacancies and bad debts.

In addition, the following adjustments were made to the actual figures:

1. All salaries were moved to the top end of the relevant SACS award level and increased with 13.0% oncosts (mainly superannuation and workers compensation).
2. Staff time was split between infrastructure development, administration and property management according to discussions with CHP6 staff:
   - Executive Officer (1.0 FTE): 95% infrastructure development and 5% administration;
   - Property Manager (1.0 FTE): 5% organisational development, 90% property management and 5% administration; and
   - Administration Officer (0.8 FTE): 100% administration.
3. Property Management time was split according to discussions with CHP6 staff between CHP / Deed of Trust (15%), CDHP (65%) and CAP (20%).
4. Infrastructure development work was valued at SACS 6.3, property management at SACS 5.3 and administrative work at SACS 3.3.
5. Administration time was split between fixed and variable according to discussions with CHP6 staff. Variable administration time was calculated to be 8.7 minutes per unit per week on the basis of an average of one day spent on each additional tenancy per year. This left fixed administration time of 27 hours and 33 minutes per week.
6. Administration costs were split as follows:
   - fixed administration costs were put at 80% of the amounts listed for advertising, audit fees, committee expenses, conference costs, electricity, insurance, motor vehicle lease, motor vehicle expenses, printing and stationery, rent, subscriptions and sundry expenses plus 20% of the amounts listed for bank charges, Centrelink fees, consumables, telephone, tenant liability, travelling expenses and water consumption ($29,665); and
   - the remaining amounts ($16,606) were assigned to variable administration costs (property management costs) or 8.0% of rental income.
7. CHP6 received two grants during 1999-2000: an infrastructure development grant of $33,000 from the Homeswest and an ILP grant of $36,072 from the Health Department. The organisation also receives some other income (interest, refunds, contractual income). However, neither grants nor other income contribute to the organisation's viability because both types of income are inherently unpredictable.

Current Viability

The assumptions outlined above produces the following cost structure for CHP6, expressed both as a dollar value and as a proportion of asset value in Table 10.8.

Costs and Income	CHP6		TCHP	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$32.06	*1.4%*	$23.68	*1.1%*
Property Management Costs	$19.01	*0.9%*	$21.63	*1.0%*
Asset Management Costs	$15.00	*0.7%*	$17.88	*0.8%*
Average Operating Costs	**$66.07**	***3.0%***	**$63.20**	***2.9%***
Rent	$93.34	*4.2%*	$90.00	*4.1%*
Margin	**$27.27**	***1.2%***	**$26.80**	***1.2%***

Table 10.8: Cost Outline for CHP6

From this table it can be seen that while CHP6 has higher tenancy management costs than TCHP, both its property and asset management are lower, producing similar overall average operating costs. However, due to a higher average rent, CHP6's margin is higher than that of TCHP. By contrast, CHP6's fixed costs are more than twice those for TCHP ($54,908 compared to $19,023).

Costs and Income	CHP6		Deed of Trust		CHP		CDHP		CAP	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$32.06	1.4%	$18.22	0.8%	$18.22	0.8%	$37.81	1.7%	$54.06	2.4%
Property Management Costs	$19.01	0.9%	$17.73	0.8%	$17.73	0.8%	$17.73	0.8%	$32.59	1.5%
Asset Management Costs	$15.00	0.7%	$17.92	0.8%	$14.84	0.7%	$14.84	0.7%	$14.84	0.7%
Average Operating Costs	**$66.07**	**3.0%**	**$53.87**	**2.4%**	**$50.78**	**2.3%**	**$70.37**	**3.2%**	**$101.49**	**4.6%**
Rent	$93.34	4.2%	$105.00	4.7%	$83.53	3.8%	$88.72	4.0%	$137.51	6.2%
Margin	**$27.27**	**1.2%**	**$51.13**	**2.3%**	**$32.75**	**1.5%**	**$18.35**	**0.8%**	**$36.02**	**1.6%**

Table 10.9: Cost Outline for CHP6 by Program

Table 10.9 shows that CHP6's operating costs vary substantially between the various programs, from a low of $50.78 per unit per week for CHP properties to a high of $101.49 for CAP properties. The table also shows that these differences occur mainly because of differences in tenancy management costs between programs, exacerbated by substantially higher property management costs for CAP properties. Further analysis of the figures in Table A17 suggests that the major underlying factor is different tenants requiring different amounts of management time (an average of 18 minutes per unit per week for CHP and Deed of Trust units compared to 63 minutes for CDHP and 81 for CAP) and, in the case of CAP, producing higher day to day maintenance costs.

On the other hand, high average rents for CAP and low rents for CHP units mean that CHP6 operates the former with a slightly higher margin ($36.02 compared to $32.75 per unit per week). Finally, the table shows that margins are highest for the properties with a Deed of Trust and lowest for CDHP units ($51.13 and $18.35 per unit per week respectively). Operating margins appear to depend much more on average rents than on average operating costs.

Current Viability

Table A17 gives an overview of cash flows for each type of property and the organisation as a whole. If government grants are included and no allowance is made for general administration or infrastructure development costs, the 2 Deed of Trust properties generate a surplus of $5,073 per year. This is $25,546 for the 15 CHP units, $51,995 for the 21 CDHP units and $9,366 for the 5 CAP units.

However, after grants are deducted and fixed costs are added, a deficit of $30,143 remains for the organisation as a whole. In other words, in spite of its relatively high operating margin, CHP6 has not yet reached static financial viability, although Table A17

indicates that it has attained basic viability. This paradox is a direct consequence of the fact that the organisation's fixed (administrative) costs are relatively high, as indicated in Table 10.8.

Strategies for Viability

CHP6 can implement the usual array of strategies in order to attain first static and then dynamic financial viability: increase rents, increase the number of tenancies, reduce costs, or a combination of all three. Table A17 indicates that if CHP6 wishes to pursue the first strategy, it needs to raise its average rent $93.34 to $111.36 per unit per week in order to attain static viability. The average rent for dynamic viability is $162.79.

The second strategy is to continue with the current level of rents, but increase the number of tenancies the organisation manages. The number of tenancies required for the various forms of viability depends on the specific growth strategy. For instance, if CHP6 obtains no further CDHP or CAP tenancies, static viability occurs at 40 and dynamic viability at 107 CHP / Deed of Trust properties (ie. an additional 25 and 92 units respectively).

Similarly, if CHP6 focuses on CDHP stock, it requires a total of 65 CDHP units for static viability and a total of 185 for dynamic viability. If the organisation focuses on CAP stock, these figures are 28 and 89 respectively. Finally, if CHP6 grows in such a way that the number of properties managed remain at their current proportions (ie. 4.7% Deed of Trust, 34.9% CHP, 48.8% CDHP and 11.6% CAP), the organisation needs a total of 72 units for static viability and 153 for dynamic viability.

The third strategy for CHP6 to reach viability is to reduce costs. While it is beyond the scope of this study to verify whether any cost savings can be made in practice, one way in which CHP6 could attain static viability by reducing fixed costs from $54,908 to $24,765 per year, around the level of fixed costs for TCHP.

Finally, CHP6 could attain viability through a combination of strategies. As with CHP4 and CHP5, a carefully chosen combination of strategies is likely to be the fastest and most balanced way of achieving viability. However, it is beyond the scope of this paper to describe all the possible combinations that produce viability.

Conclusions

CHP6 has attained basic but not yet static financial viability. Analysis of the organisation's cost structure shows that CHP6 operates all types of tenancies at a significant margin, and that margins depends more on rents than on operating costs. However, the margins for two programs are unlikely to be sustainable in the long term. Firstly, the CAP margin hinges on CHP6 being able to maintain its current high level of rents for these properties. Secondly, the CDHP margin depends on Homeswest not introducing lease fees on these tenancies.

increasing rents or obtaining more tenancies. While all of these methods have their advantages and drawbacks, it appears that a carefully selected combination of strategies is most appropriate. However, the organisation could substantially reduce the number of properties required for both static and dynamic viability by bringing its fixed administrative costs more in line with those for TCHP.

10g) Case Study 7: Community Housing Provider 7[34]

CHP7 is a Regional Housing Provider in rural WA. The organisation was established in 1998 and started managing its first properties in July 1999. Currently CHP7 employs two part time staff and manages 20 properties. All of these are leased under the M4 arrangement at peppercorn (zero) fees, although Homeswest may change the leases on the organisation's CDHP units to M3 ($22 per tenant per week) with 90 days notice

Assumptions

Table A18 (attached) gives an overview of the assumptions used in this study. CHP7 currently manages 20 tenancies: 2 under the CDHP and 18 under the CHP. The short history of the organisation presented some practical difficulties in conducting this study. Where possible, assumptions regarding the operating costs of these tenancies were based on CHP7's Financial Reports to 29 May 2000. However, in the absence of historical data the assumptions for three items were obtained differently:

- the Homeswest guideline of 1.0% of property replacement costs for was used for cyclical maintenance while all actual maintenance expenditure was attributed to day to day maintenance;
- in the absence of reliable data, vacancies and bad debts were based on those for TCHP (4.6% of rental income); and
- administration time was split between fixed and variable components on the assumption that variable administration time is in line with TCHP (6 minutes per unit per week).

The resulting cost structure is summarised in the column marked Actuals (YTD) in Table A18. However, for a variety of reasons, these actuals distort CHP7's long term financial situation. In order to present a more realistic picture, the assumptions were extrapolated for the year as a whole and adjusted as follows:

1. All salaries were moved to the top end of the relevant SACS award level and increased with 11.0% oncosts (mainly superannuation and workers compensation). Specifically, infrastructure development work was valued at SACS 6.3, property management at SACS 5.3 and administrative work at SACS 3.3.
2. Staff time was split between infrastructure development, administration and property management according to discussions with CHP7 staff:
   - Development Worker (0.8 FTE): 20% infrastructure development, 70% property management and 10% administration; and
   - Administration Worker (0.4 FTE): 15% infrastructure development, 15% property management and 70% administration.

   This produced a total of 8.25 hours per week for infrastructure development and 13.5 hours for administration time, while property management time was 23.25 hours (at an average of 70 minutes per unit) per week.
3. Administration costs were split between fixed and variable components as follows:
   - fixed administration costs were put at 80% of the amounts listed for administration for development, audit, bank charges, contingencies, training and travel plus 20% of the amounts listed for administration for housing, bank charges, other expenses housing and water consumption ($8,269.81); and
   - the remaining amounts ($3,396.87) were assigned to variable administration costs (property management costs) and expressed as a proportion (6.9%) of rental income.

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[34] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing*

4. CHP7 receives exemptions from land taxes on all properties but does not receive the statutory 50% concession for charities on its water rates. This puts its rates at $595.00 per property per year, including rubbish ($130 per year) and water rates ($500 per year).
5. CHP7 received an infrastructure development grant of $40,000 from Homeswest as well as other income of $602.52 per year (interest, memberships, etc).

Current Viability

These assumptions produce the following cost structure for CHP7 (Table 10.10).

Costs and Income	CHP7		TCHP	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$37.80	*1.7%*	$23.68	*1.1%*
Property Management Costs	$23.71	*1.1%*	$21.63	*1.0%*
Asset Management Costs	$15.05	*0.7%*	$17.88	*0.8%*
Average Operating Costs	**$76.56**	***3.5%***	**$63.20**	***2.9%***
Rent	$96.20	*4.3%*	$90.00	*4.1%*
Margin	**$19.64**	***0.9%***	**$26.80**	***1.2%***

Table 10.10: Cost Outline for CHP7

The table shows that CHP7 has higher property management costs and lower asset management costs than TCHP. However, the main feature is tenancy management costs, which are substantially higher than those for TCHP. Further analysis of Table A18 suggests that this is due mainly to high property management time (an average of 70 minutes per unit per week, compared to 39 minutes for TCHP).

Overall, CHP7 has significantly higher average operating costs than TCHP ($76.56 compared to $63.20 per unit per week) and very similar fixed costs ($18,623 compared to $19,023 per year). Finally, although higher rents partially compensate for these higher costs, CHP7's operating margin is still below that of TCHP ($19.64 compared to $26.80 per unit per week).

Viability

The column marked Adjusted in Table A18 gives an overview of CHP7's cash flow. The organisation generates a substantial annual surplus ($32,383), if grant and other income is included. However, conversations with staff suggest that the organisation's current low level staff time devoted to infrastructure development is unsustainable in the long run. If infrastructure development staff is increased to the level of TCHP (0.8 FTE), the annual surplus falls to $5,975 including the grant income.

Additionally, in the longer term Homeswest will impose its standard M3 lease fee ($22 per *tenant* per week) on CHP7's two CDHP properties. Assuming that the organisation houses 60% singles and 40% couples, this will mean additional costs of $3,203. However, since Homeswest is liable for local government and water rates under the M3 arrangement, operating costs only rise by $2,013 per year. This reduces the organisation's annual surplus to $3,961.

Providers in WA, CHCWA Internal Research Paper, July 2000.

Finally, regardless of the assumptions regarding infrastructure development staff time and lease fees, CHP7 satisfies the criteria for basic financial viability with its current stock. However, it has not yet attained static or dynamic viability.

Strategies for Viability

Generally speaking, community housing providers have four ways of achieving financial viability: raising rents, increasing the number of properties, reducing costs or a combination of all three. In order to give an indication of the extent to which CHP7 can implement these strategies in order to attain first static and then dynamic financial viability, three assumptions need to be made:

1. Infrastructure development staff is increased to 0.8 FTE.
2. All costs related to tenancy management, property management and asset management increase with either the number of properties or rental income, as defined above.
3. Both average rent and fixed costs remain constant as the organisation grows.

With these assumptions in mind, the first strategy available to CHP7 is to increase rents on its existing properties. If the organisation wishes to follow this path, Table A18 (attached) indicates it needs to raise its average rent from $96.20 to $129.50 per unit per week in order to attain static viability. The corresponding rent for dynamic viability is $240.07. However, if Homeswest introduces lease fees on CHP7's CDHP properties, these figures increase to $131.43 and $242.01 per unit per week respectively.

The second strategy is to continue with the current level of rents, but increase the number of tenancies the organisation manages. In this case, the number of tenancies required for the various forms of viability depends on its growth strategy. For instance, if CHP7 obtains no further CDHP tenancies, static viability occurs at 54 and dynamic viability at 167 properties. However, if CHP7 continues with its current proportion of CDHP properties and Homeswest charges its standard M3 lease fees, CHP7 requires 60 properties for static and 185 for dynamic viability.

The third strategy for CHP7 to reach viability is to reduce costs. While it is impossible to assess which, if any, cost savings can be made in practice, the organisation could decrease the number of properties required for static viability to 33 by reducing its operating costs to the level of TCHP ($63.20 per unit per week).

Finally, CHP7 could attain viability through a combination of strategies. This has two advantages. Firstly, combining cost reductions with rent increases and organisational growth is potentially the fastest route to viability. Secondly, it replaces the single focus of the other strategies with a broader aim of organisational development, which could be managed in a way that most suits the organisation.

Conclusion

CHP7 has attained basic but not yet static financial viability. Due mainly to higher tenancy management costs caused in turn by relatively high property management time, the organisation's operating costs exceed those of TCHP. However, the impact of higher tenancy management costs on the organisation's viability is reduced by the combination of relatively low asset management costs due to exemptions from land taxes and a higher average rent.

The study also highlighted the fact that the organisation's operating costs are likely to increase considerably when Homeswest introduces M3 lease fees on the organisation's CDHP properties. Finally, it was shown that CHP7 could attain financial viability by lowering costs, increasing rents or obtaining more tenancies. While all of these methods

have their advantages and drawbacks, it appears that a carefully selected combination of strategies is most appropriate.

10h) Regional Housing Associations: Conclusions

Figure 10.1 gives an overview of average operating costs and rents of the seven RHAs examined in this report. The figure shows that all but one of the RHAs have higher average operating costs than TCHP. However, the RHAs also differ from one another, with different cost structures, different average rents and different margins. For instance, CHP3 and CHP4 have not yet reached basic viability, while CHP1 has attained static viability. All seven organisations have positive operating margins, although these vary from $3.85 for CHP3 to $26.98 for CHP2.

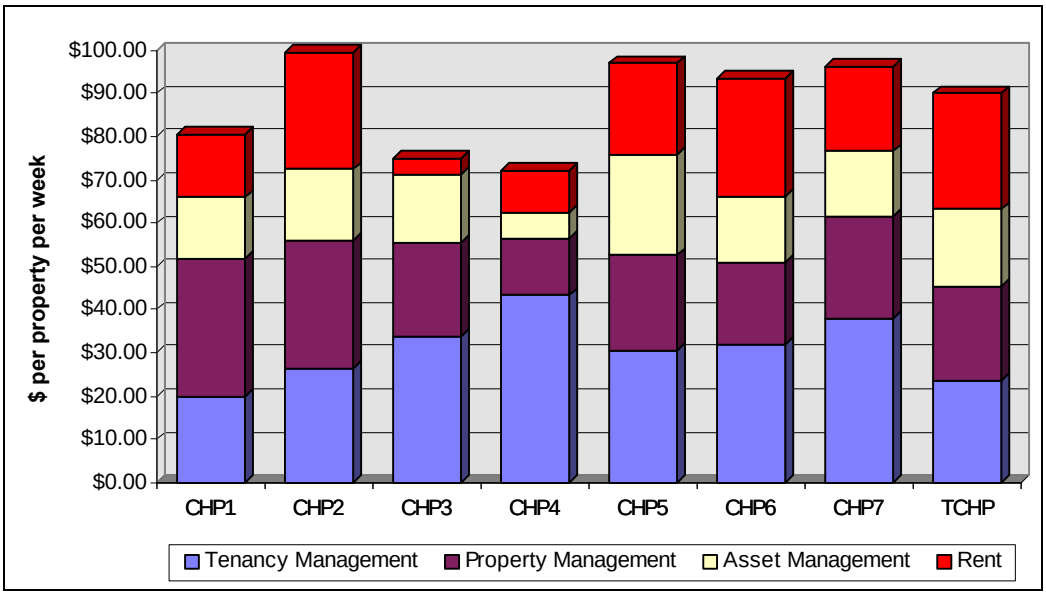

Figure 10.1: Comparative Costs and Rents of 7 RHAs

Cost structures also differ widely between the various organisations. Tenancy management costs range from $19.85 to $43.29, property management costs from $21.63 to $32.12, and asset management costs from $17.88 to $6.27. Nor are the differences consistent between organisations. For instance, CHP1 has the lowest tenancy management costs ($19.85), but also the highest property management costs ($32.12). CHP4 has both the lowest property and asset management costs ($21.63 and $15.55 respectively), but the highest tenancy management costs ($33.97).

Economies of Scale

In spite of these differences in cost structures, there are several significant relationships between RHA cost structures. The first, and most important, of these is a strong negative correlation between average operating costs and the number of properties managed by an RHA. The least squares regression analysis summarised in Figure 10.2 shows that the best-fit line has a slope of -0.2422, intercept of 80.116 and a coefficient of determination (R^2) of 0.6579.[35]

[35] All of the regression analyses presented in this section include figures obtained from viability studies for CHP1 and CHP2 conducted in 1999, as well as the figures for the current year.

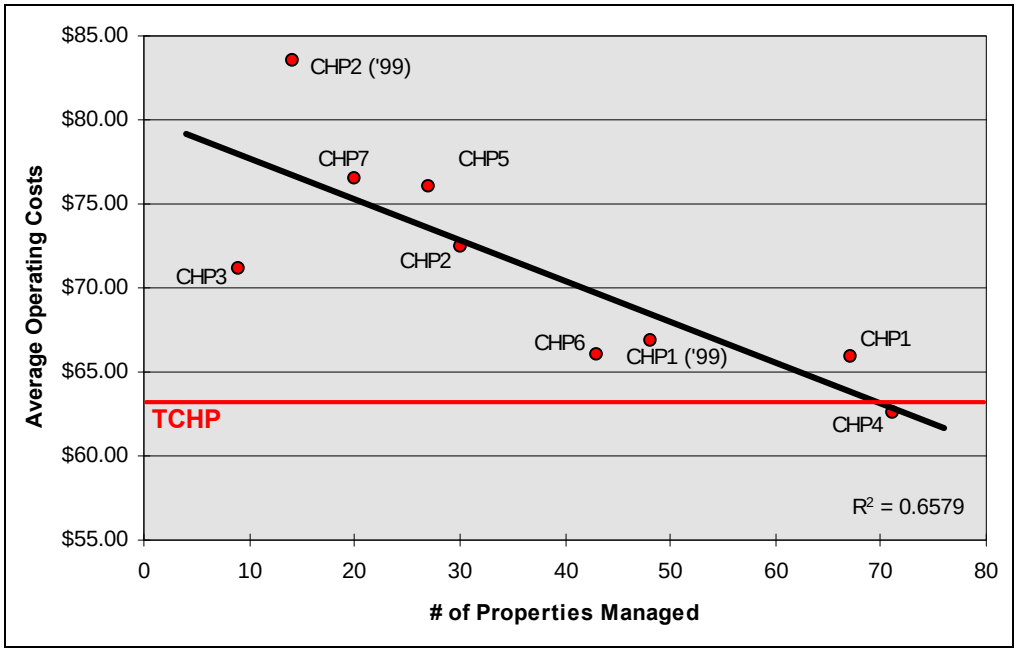

Figure 10.2: Average Operating Costs and Properties Managed in 7 RHAs

In other words, since 65.8% of an RHA's average operating costs can be explained by its size, there are significant economies of scale in community housing. Operating costs fall by an average 24.2¢ for each extra property from a base cost of $80.12 per property per week to a predicted $63.16 for an RHA managing 70 properties.

One of the underlying causes of the relationship between average costs and organisational size is that staff time per property tends to fall with organisational growth, as evidenced by the strong negative correlation between the number of properties managed and RHA staff time highlighted in Figure 10.3. The best fit curve here explains 73.2% of the relationship.[36]

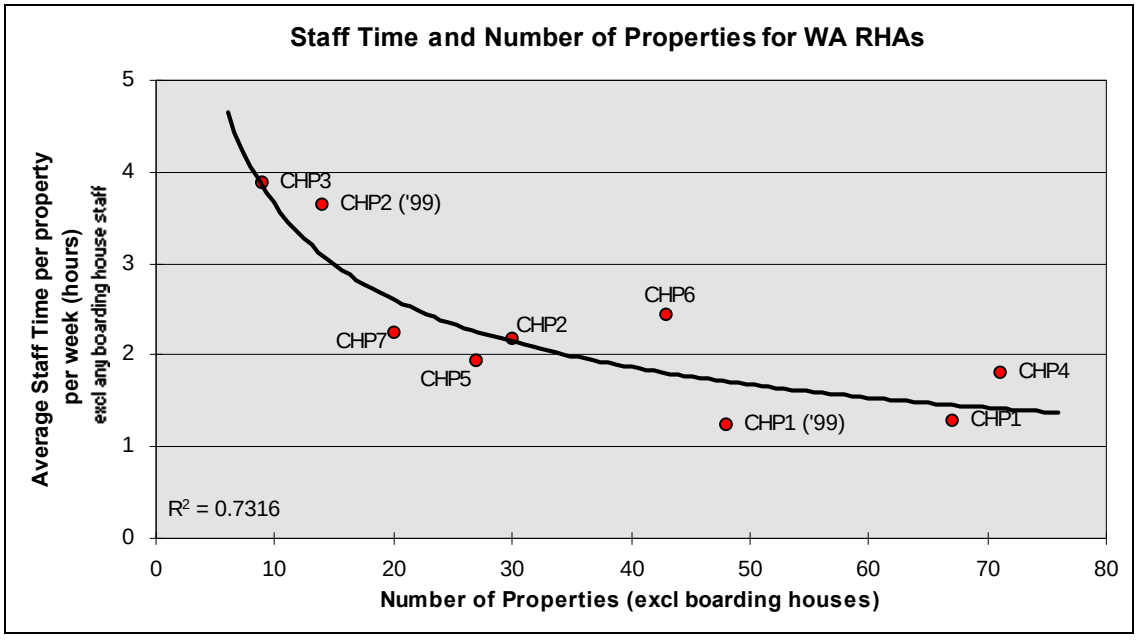

Figure 10.3: Number of Properties and Staff Time in 7 RHAs

Figure 10.4 demonstrates the second cause of the relationship between average costs and organisational size: decreasing administration costs: the best fit curve here explains 66.2% of the relationship.[37] Interestingly, the observed relationship is very similar to the Homeswest guideline of $150 per property per year when combined with the RHAs' average fixed administration costs of $16,576 per year. This curve is also depicted on Figure 10.4.

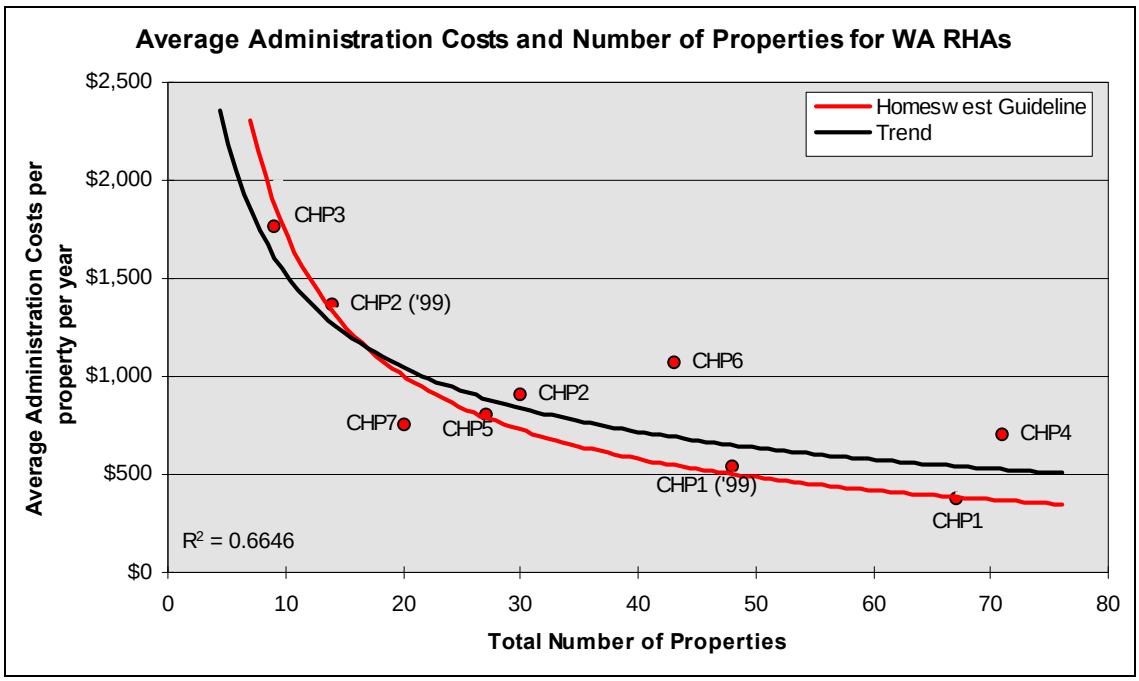

Figure 10.4: Number of Properties and Administration Costs in 7 RHAs

Economies of scale related to vacancies and bad debts form the third and final cause of the relationship between average costs and organisational size, and result from reduced risk related to greater numbers. This is because the impact of any one high risk tenant's rental arrears or property damage on the organisation as a whole falls as the number of tenancies managed increases. Since it is statistically unlikely that larger numbers of high risk tenants will default at the same time, a larger organisation is, at least in principle, more viable than a smaller organisation with the same proportion of high risk tenants. However, there is insufficient data to quantify this relationship.

These results need to be confirmed by time series analysis of the seven RHAs as well as the RHA not examined in this report. However, there is a strong suggestion that growth is a good strategy to increase the viability of community housing providers in general and RHAs in particular.

Operating Costs and Rent

Another important relationship is the one between average operating costs and average rents. The least squares regression analysis summarised in Figure 10.5 shows that the best-fit line here has a slope of 1.6006, intercept of 56.079 and a coefficient of determination (R^2) of 0.6700. This means that 67.0% of an RHA's rent can be explained by its average operating costs. Average rent rises by $1.60 for every $1 increase in operating costs.

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[36] The equation for the curve is $y = 660.67x^{-0.4807}$, where x is the number of properties (excluding any boarding houses) and y is staff time (excluding any boarding house staff).

[37] The equation for the curve is $y = 5343.3x^{-0.543}$, where x is the number of properties and y is administration costs.

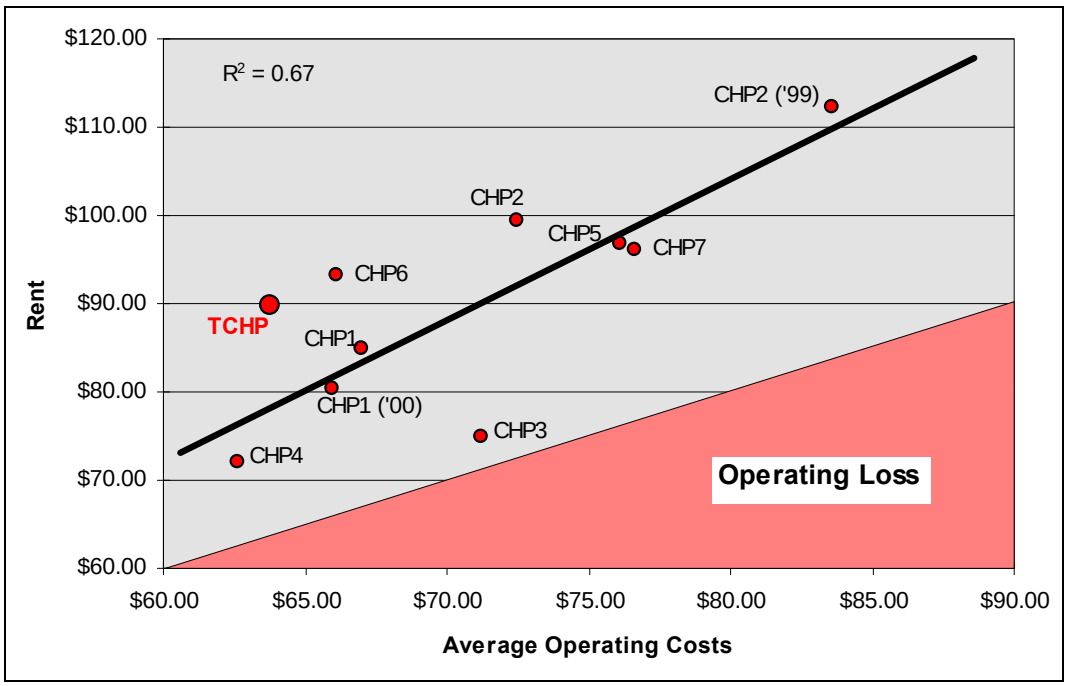

Figure 10.5: Average Rent and Average Operating Costs in 7 RHAs

There are three possible explanations for this positive relationship. The first is that organisations that operate at higher cost simply compensate by charging higher rents. However, given that all of the RHAs set their rents according to Homeswest policies as a proportion of tenants' income, this explanation does not hold.

The second potential cause hinges on the assumption that large families are more expensive to manage than small ones, and that smaller organisations focus on large families in order to maximise their rental revenue. If these assumptions are true, smaller organisations would have both higher rents and higher costs due to a larger proportion of large families. However, further research, particularly into the relationship between family size and operating costs, is required to test these assumptions.

The third and most plausible cause is that high risk tenants have a greater than proportional impact on the costs of smaller organisations due to statistical reasons. The only way in which smaller organisations can compensate for these higher costs is by increasing the proportion of high income tenants in order to increase rental income. Again, the assumptions underlying this hypothesis need to be tested with further research.

Whatever the cause of the positive relationship between average rents and average operating costs, it does explain the lack of a connection between organisational size and operating margins. In effect, organisations that operate at higher cost compensate with higher average rents.

This leads to four tentative conclusions:

1. There is no evidence that the assumptions underlying TCHP do not reflect cost effectiveness as only one out of seven RHAs examined has lower average operating costs.
2. RHAs have different cost structures and operate at different levels of viability but all have positive operating margins.
3. There are significant economies of scale in community housing.
4. These economies of scale result because both management time and administration costs decrease with organisational size.

11. Cost Effectiveness II: Housing Collectives

Housing collectives are managed by their tenants. This unique structure allows means that housing collectives have no staff costs for property management, administration or infrastructure development. On the other hand, unlike many other community housing providers, most housing collectives do not have charitable status. As a result they are not eligible for the statutory 50% concession on water rates that RHAs receive.

In this section, each housing collective's cost structure will be compared with that of a typical housing collective (THC), rather than TCHP. The cost structure for THC is derived from that of TCHP by assuming a zero wage rate and no concessions on water or local government rates.

This results in significantly lower tenancy management costs ($7.02 compared to $23.68 per unit per week), higher asset management costs ($22.69 v $17.88) and identical property management costs ($7.02 for headleased properties and $25.24 for owned properties). Overall, THC's average operating costs ($51.35) are substantially lower than those for TCHP ($63.20 for headleased properties and $66.81 for owned properties).

11a) Case Study 8: Housing Collective 1[38]

HC1 started life in 1998 and consists of nine tenancies. All of these are leased from Homeswest with CHP peppercorn leases. Administration costs are lower than for other housing collectives because in addition to management time, tenants provide office space to the organisation at no charge.

The assumptions underlying the study are listed in Table A19. Due to HC1's short history, most assumptions were based on actual expenses up to 12 April 2000 and extrapolated to obtain an annual value. These will need no further explanation. However,

- figures for maintenance were adjusted for the fact that maintenance figures for the year were higher than usual;
- HC1 pays its tenants a total of $700 per year for water consumption to compensate for watering common areas. This has been included with grounds maintenance under ongoing maintenance; and
- figures on average amounts of time spent on property management, administration, finance and infrastructure development are estimates obtained from HC1 members.

Costs and Income	**HC1**		**THC**	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$4.64	*0.2%*	$7.02	*0.3%*
Property Management Costs	$20.93	*0.9%*	$21.63	*1.0%*
Asset Management Costs	$25.12	*1.1%*	$22.69	*1.0%*
Average Operating Costs	**$50.69**	***2.3%***	**$51.35**	***2.3%***
Rent	$80.21	*3.6%*	$90.00	*4.1%*
Margin	**$29.52**	***1.3%***	**$38.65**	***1.7%***

Table 11.1: Cost Outline for HC1

[38] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, April 2000.

The organisation's costs and income are summarised and compared to those for the typical housing collective (THC) in Table 11.1 (above). This table indicates that HC1's tenancy and property management costs are slightly lower than those for THC, while asset management costs are higher due to the fact that HC1 is located in an area where local government rates are relatively high. Overall, the organisation's average operating costs are similar to those for THC, but lower rents result in a lower margin ($29.52 compared to $38.65 per unit per week).

Table A19 indicates that the combination of a relatively large margin and low fixed costs means that HC1 reached basic and static viability at only 2 tenancies. Currently, the organisation produces a substantial annual surplus (around $11,751), which can be used for expansion. However, the surplus is not large enough to make HC1 financially viable in the dynamic sense; this occurs at 77 tenancies.

It can be concluded that HC1 has lower tenancy management costs but higher asset management costs than THC, resulting in almost identical average operating costs. Significantly lower rents leave HC1 with a smaller operating margin than THC, but this margin is still higher than that of any of the RHAs examined in section 10.

b) Case Study 9: Housing Collective 2[39]

HC2 is a housing collective in rural WA. The organisation was established in 1992 and received its first six units in late 1993. Two further units were added in late 1996, bringing the collective to its current size of eight units. All of these are leased from Homeswest with CHP peppercorn leases. The organisation's members also run a small office.

Assumptions

Table A20 (attached) gives an overview of the assumptions used in this study. The basis for all assumptions are the income and expenditure statement and balance sheet for the financial years 1994/95, 95/96, 96/97 and 97/98.[40] More specifically, four year averages were used to obtain most assumptions. However, actual figures for 1997/98 were preferred over historical averages for:

- rental income, since HC2 follows Homeswest rent to income policy;
- auditors fees, council and water rates, because of continuous increases over time in these items; and
- property insurance, because a significant fall occurred in 1997/98 due to a change in policy.

Secondly, either two or three year averages were used to obtain the assumptions for conference fees, electricity, management expenses, subscriptions, telephone costs and trailer license. This is to allow for the fact that these items showed significant anomalies in the initial one or two years.

Thirdly, one-off items listed separately were allocated as follows:

- bins for recycling, deadlocks upgrade and security screens upgrade were allocated to general maintenance;
- fencing upgrade and fencing & gate upgrade were allocated to grounds maintenance;

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[39] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, April 2000.

[40] This study will be adjusted when data for the 98/99 financial year become available.

- carpet replacement and hot water system upgrade were allocated to cyclical maintenance; and
- conference telephone, computer, lawn mower, mulcher, office building, phone lines new units, speaker phone, trailer and whipper snipper were considered capital expenses and therefore considered irrelevant to the long term viability of the organisation.

Finally, major maintenance expenses were based on average increase in the organisation's cyclical maintenance provision for the last two years, increased with actual cyclical maintenance expenditure over that period. General, grounds and equipment maintenance were combined into one item, day to day maintenance.

Costs and Income

The assumptions above produce the following cost and income outline for HC2 (Table 11.2) expressed both as a dollar value and a proportion of asset value.

Costs and Income	**HC2**		**THC**	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$3.08	*0.1%*	$7.02	*0.3%*
Property Management Costs	$27.44	*1.2%*	$21.63	*1.0%*
Asset Management Costs	$22.62	*1.0%*	$22.69	*1.0%*
Average Operating Costs	**$53.14**	***2.4%***	**$51.35**	***2.3%***
Rent	$66.28	*3.0%*	$90.00	*4.1%*
Margin	**$13.13**	***0.6%***	**$38.65**	***1.7%***

Table 11.2: Cost Outline for HC2

Table 11.2 indicates that lower tenancy management costs combined with higher property management costs and almost identical asset management costs mean that HC2's average operating costs are slightly higher than those for THC ($53.14 compared to $51.35 per unit per week). Analysis of Table A20 reveals that this is due to the fact that the organisation's cyclical maintenance costs are relatively high, but its vacancies and bad debts are very low.

Next, because of its high proportion of single occupants, HC2 has significantly lower rents than THC ($66.28 compared to $90.00 per unit per week), resulting in a significantly lower operating margin. Finally, HC2 has low fixed costs ($1,028 per year).

Table A20 indicates that despite the lower operating margin, low fixed costs mean that HC2 has attained static financial viability. Moreover, the organisation produces a significant annual surplus (around $4,436) that can be used for expansion or upgrades. However, the surplus is not nearly large enough to make HC2 financially viable in the dynamic sense.

Conclusions

HC2 has similar operating costs to THC and extremely low fixed costs. However, a low average rent results in a smaller margin. Nevertheless, HC2 satisfies the criteria for static financial viability, also producing a small surplus for expansion. However, the relatively low margin does mean that dynamic viability will not occur until the organisation either raises rents to an unrealistically high level or grows to 170 units.

11c) Case Study 10: Housing Collective 3[41]

HC3 is a housing collective in metropolitan Perth The collective consists of 14 units and a community hall, on all of which the organisation holds a Deed of Trust. Families of various sizes and with a range of incomes are housed in 4 one bedroom, 4 two bedroom, 5 three bedroom and 1 four bedroom units.

Table A21 (attached) gives an overview of the assumptions regarding costs and income used. The basis for all assumptions are the income and expenditure statement and balance sheet for the financial years 1997/98, 98/99 and 99/00. More specifically, three year averages were used to obtain most assumptions, with some exceptions. First, the following items were ignored:

- *Water Consumption*, since this is tenants' responsibility;
- the item marked *Insurance Claim* in the 1998/99 financial year, since it refers to one off income; and
- the items marked *Capital Equipment Purchase, Upgrade* and *Computer*, because these are capital expenses and therefore not relevant to the organisation's operating costs.

Secondly, 1999/2000 actuals were preferred to historical averages for:

- *Bank Charges*, because of the historical increase in this item;
- *Membership Fees*, to reflect the fact that FOHCOL membership fees increased substantially in the last year; and
- *Phone/Fax*, to account for the fact that the higher 1998/99 figure included one-off (installation) costs.

Finally, cyclical maintenance was put at $19,080 on the basis of discussions with HC3's treasurer. Ongoing and grounds maintenance were combined into one item, day to day maintenance.

Costs and Income

Nearly all of HC3's income is rent ($49,621 out of $54,104). Fees for membership, the communal washing machine and the communal hall (a total of $1,102) also contribute to the organisation's viability. However, other income sources (interest, membership fund - other and sundries) cannot be regarded as reliable in the long run and therefore do not change the organisation's viability.

Members make substantial in kind contributions towards HC3's management in three main areas: infrastructure development, tenancy management and property management. Without these contributions management costs would likely increase substantially above rents. Therefore, it is essential for the long term health of the organisation that HC3 ensures that members will be able to continue their contributions at an adequate level in the long run.

These assumptions produce the following cost and income outline for HC3 (Table 11.3) expressed both as a dollar value and a proportion of asset value.

[41] The data on which this section is based is taken from Karel Eringa, *Viability of Community Housing Providers in WA*, CHCWA Internal Research Paper, September 2000.

Costs and Income	HC3		THC	
	per unit per week	*% asset value*	*per unit per week*	*% asset value*
Tenancy Management Costs	$4.01	*0.1%*	$7.02	*0.3%*
Property Management Costs	$32.17	*1.0%*	$25.24	*1.1%*
Asset Management Costs	$20.99	*0.7%*	$22.69	*1.0%*
Average Operating Costs	**$57.18**	***1.8%***	**$54.96**	***2.5%***
Rent	$69.67	*2.2%*	$90.00	*4.1%*
Margin	**$12.49**	***0.4%***	**$35.04**	***1.6%***

Table 11.3: Cost Structure of HC3

Two main conclusions can be drawn from Table 1. Firstly, both costs and income are lower than those for THC when expressed as a proportion of asset value. This is mainly due to significantly higher land values in HC3's area.

More importantly, however, HC3's tenancy management and asset management costs are lower, but property management costs are higher than those for THC when expressed as a dollar value. Table A21 indicates that the latter is due to slightly higher cyclical maintenance costs (1.7% compared to 1.3% of property replacement costs). The difference reflects a maintenance provision for HC3's community hall.

Overall, the HC3's average operating costs are very similar to those of THC ($57.18 and $54.96 per unit per week respectively). On the other hand, due to its tenant mix HC3 has significantly lower rents than THC ($69.67 compared to $90.00 per unit per week). As a result, HC3 has a significantly lower operating margin than THC ($12.49 compared to $35.04 per unit per week).

Despite the lower operating margin, low fixed costs ($2,926 per year) mean that HC3 has attained static viability. In other words, if members continue to provide work time for administration and property management on a voluntary basis, the organisation will continue to produce a modest structural annual surplus (around $6,169), which can be used for expansion or upgrades. However, the surplus is not nearly large enough to allow HC3 to expand rapidly and the organisation has not reached dynamic viability.

Conclusions

HC3 is characterised by low average rents and low operating costs due to substantial in kind contributions from its members. This results in a modest operating margin and, combined with relatively low fixed costs, the organisation has attained static financial viability and also generates a small surplus for expansion.

However, the relatively low margin does mean that dynamic viability will not occur until the organisation either raises rents to an unrealistically high level ($283.18 per unit per week) or grows to 289 units. This implies that HC3 will be unable to grow significantly unless it is able to increase its operating margin.

11d) Housing Cooperatives: Conclusions

The four housing collectives examined in this report all have similar operating costs to the typical housing collective (THC). In contrast to the RHAs, they have very similar cost structures to each other, although HC3 has higher property management costs. This reflects the fact that HC3 holds its properties under deed of trust rather than headleases.

Equally importantly, all housing collectives have significantly lower costs than any of the RHAs. Average operating costs at the collective with the highest costs, HC3, are $20.99 - less than the $62.58 reported by the RHA with the lowest costs, CHP4. In addition, housing collectives consistently have lower fixed costs than RHAs.

Given the viability of the cooperative model, it is surprising that the number of housing collectives in WA remains small. Although not all social housing tenants have the disposition to be a productive member of a housing collective, the model can be a cost effective way of housing appropriate groups of tenants. Both Homeswest and the RHAs should therefore investigate the possibility of managing existing or new tenancies as housing cooperatives.

12. Cost Effectiveness III: Homeswest and Interstate Providers

This section compares the findings on the cost effectiveness of TCHP with both the public sector and interstate providers. As indicated in Section 10, comparison with Homeswest is difficult because of the different scales on which public and community housing operate in Western Australia. The comparison with interstate providers has similar difficulties, with the added problem that the studies examined in this report all use different methodologies.

12a) Homeswest[42]

Homeswest is the rental accommodation division of the Ministry of Housing, managing approximately 36,000 tenancies across Western Australia. Rental operations are spread among nine regional offices, 17 branch offices and a central office. Given the theoretical problems mentioned above, we will not attempt to provide an in-depth, quantitative analysis of Homeswest's structure. Rather, we will compare TCHP's costs with existing Homeswest data and focus on those factors where major discrepancies occur.

To start with, there are several costs over which there will be little disagreement. For instance, all of TCHP's salaries are based on the appropriate Social And Community Services (SACS) Award levels, increased with superannuation, leave loading and relief staff costs as determined by Government policies. In addition, TCHP's cost structure includes a number of assumptions that are based on Homeswest guidelines.[43] These are:

- day to day maintenance costs (0.5% of construction costs),
- cyclical maintenance (1.0% of construction costs on leased properties), and
- property management costs ($150 per property per year), including all office costs, telephone, fax, stationery, printing, postage and photocopying expenses, travel costs, staff training, resources and meeting expenses.

Next, TCHP's cost structure includes several factors over which community housing providers have little or no control. These are:

- the average weekly rent ($90.00), which is based on Homeswest guidelines for maximum rents that can be charged to tenants depending on their income,[44]
- construction costs ($75,000) are an average of Homeswest standard costs (including landscaping costs and architects' fees) for appropriate dwellings for the tenants housed,
- land values of ($40,000) are an average of current land prices in different areas for blocks associated with the different types of dwellings,
- vacancies and bad debts for high risk tenants (15.0%) and low risk tenants (2.0%) are based on historical data,

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[42] This section is based on Karel Eringa, *Property Management Time in WA Regional Housing Associations*, CHCWA Discussion Paper, Community Housing Coalition of WA, January 2000.

[43] As specified in Ministry of Housing, *Operational Guidelines for Community Housing in Western Australia*, March 1999.

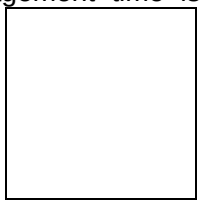
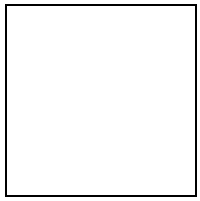
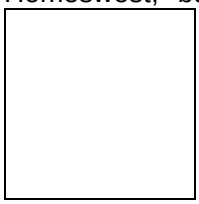
[44] As pointed out above, community housing providers do have some control over their rental income through the types of tenants they elect to house. However, this control is severely limited by the types of tenants on a provider's waiting list as well as regulations relating specific tenants to the provider's stock. Additionally, most providers have organisational aims which oblige them to focus on low income tenants.

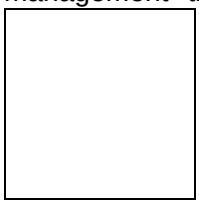
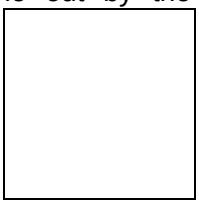
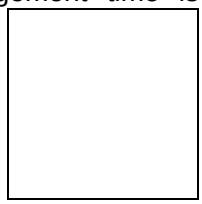
- insurance costs ($180 per property per year) as well as local government rates, water rates and strata fees ($750 per property per year) are based on typical charges for these items in Western Australia, and
- financial and administration staff time are based on historical data.

Finally, the proportion of high risk tenants (20% for TCHP) is, in principle, a strategic decision by community housing providers. However, given the fact that high risk tenants form a large proportion of providers' waiting list and target groups, the proportion of high risk tenants housed by community housing providers will inevitably be higher than those housed by commercial operators.

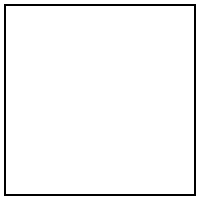
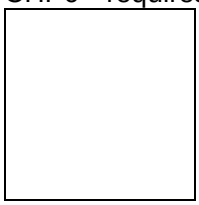
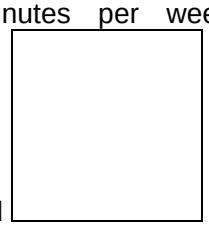
This leaves two factors that are open for discussion. The first is fixed administration costs, which includes audit costs, bank charges and fees, Centrepay administration charges, and legal and other costs associated with the Residential Tenancies Act. Given the differences in cost structures for different community housing providers, these costs will be different for each provider. We have opted for a very conservative estimate of $10,000 for these costs. However, it should be noted that even large changes to this assumption will not significantly alter the conclusions reached in this paper.

The second factor is the amount of time necessary to effectively manage a tenancy. This has been a hotly contested issue between Homeswest and the community housing sector for some time, and is of major significance for the conclusions reached above. The remainder of this section will therefore explore the issue of property management time in Homeswest and a key type of community housing provider, the Regional Housing Association (RHA).

There is some common ground. Both sides acknowledge the fact that in practice Property Managers in RHAs manage fewer properties than Homeswest Accommodation Managers. Accommodation Managers average between 200 and 500 properties.[45] This means that property management time is between 5 and 12 minutes per week in Homeswest, but between  and  with an average of  minutes per week in the RHAs examined above.

In addition, Homeswest agrees that different tenants require different amounts of management time. This is borne out by the data: average management time is  minutes for CHP,  minutes for CDHP and  minutes for CAP properties. Within organisations the differences can be even greater:

[45] These figures do not include the Supported Housing Assistance Program, which requires much more property management time.

CHP6 requires  minutes per week to manage its CHP, but  minutes for CDHP and  minutes for CAP.

However, the parties differ on their assessment of the causes underlying this difference. Homeswest claims that the difference is due mainly to diseconomies of scale related to the small size of RHAs, exaggerated in some cases by poor management. RHAs, on the other hand, maintain that Property Managers have wider responsibilities than their Homeswest equivalents, and that RHAs are regarded as a 'houser of last resort' and therefore manage a larger proportion of high risk tenants. Finally, RHAs claim that property management time will be higher because of the emphasis on tenant support and participation.

In order to examine the issue more closely, it is necessary first to identify the tasks associated with managing social housing tenancies. These include:

1. tenancy management
2. property management
3. maintenance management
4. rent management and rent arrears monitoring
5. rental subsidy assessment
6. inspecting properties
7. managing vacancies and bad debts
8. processing applications and assessing applicant eligibility
9. matching available properties with waiting lists
10. assisting customers with enquiries
11. legal duties
12. maintaining records of properties and vacancies
13. general administration and financial records
14. compliance

In RHAs, all of these tasks are performed wholly or partly by Property Managers, with the exception of maintaining financial records (Table 12.1). Property Managers are usually assisted by administrative staff on items 10, 12 and 13, and share legal duties (item 11) with Strategic Development Officers. However, due to the limited number of staff, all other tasks are generally the sole responsibility of Property Managers.

Homeswest, on the other hand, manages a far greater number of properties than any individual RHA or even the entire community housing sector.[46] This allows for economies of scale in the form of staff specialisation: property management tasks are performed by a number of different staff in various sections. Although specific job descriptions change, Table 12.1 gives an indication of how the responsibilities for the various tasks are distributed within Homeswest.

Item # → / ↓Position Responsible	1	2	3	4	5	6	7	8	9	10	11	12	13	14
RHA Administrative Staff										◗		◗	●	
RHA Strategic Dev Officer											●			
RHA Property Manager	●	●	●	●	●	●	●	●	●	●	◗	●	◗	●
Accommodation Manager	●	●	◗	●	●	●	◗			◗		◗		●
Applications Officer								●						
Allocations Officer									●					
Maintenance Manager			●											
Legal Officer							●				●			
Customer Service Officer			◗		◗					●				
Other Staff												●	●	

Table 12.1: Responsibilities of Property / Accommodation Managers in RHAs and MOH

●: Major Part of Responsibility; ◗: Minor Part of Responsibility

Sources: Homeswest 1998 *Job Task Manual for Customer Service Officers* and Homeswest 1998 *Job Task Manual for Applications Officers and Allocations Officers*.

Table 12.1 shows that RHA Property Managers and Homeswest Accommodation Managers have six tasks in common: tenancy management, property management, rent management and rent arrears monitoring, rental subsidy assessment, inspecting properties and compliance issues. However, Table 12.1 also identifies eight tasks on

[46] The community housing sector as a whole manages around 3,000 properties - less than 10% of the number of properties Homeswest manages. This is split between over 200 providers; the largest RHA in WA, City Housing, is less than 0.5% the size of Homeswest.

which Property Managers spend considerably more time than their Homeswest equivalents.[47]

Homeswest Accommodation Managers spend no time on two tasks that are the sole responsibility of Property Managers in RHAs: processing applications and assessing applicant eligibility and matching available properties with waiting lists. Additionally, Accommodation Managers spend no time on two tasks for which Property Managers have some degree of responsibility: legal duties and general administration and financial records. They are assisted by other staff on two tasks that are the sole responsibility of RHA Property Managers: maintenance management and managing vacancies and bad debts. Finally, Accommodation Managers and Property Managers receive different levels of assistance from other staff responsibility for maintaining records of properties and vacancies and assisting customers with enquiries.

All in all, Homeswest Accommodation Managers and RHA Property Managers have very different responsibilities. However, the differences run even deeper than the table suggests, because different activities require different amounts of time in the two types of organisations. For instance, Homeswest Accommodation Managers spend a significant amount of their time on compliance; the same is not true of RHA Property Managers.

No reliable data exists on the amounts of time spent by Accommodation Managers in Homeswest and Property Managers in RHAs. Furthermore, given the different requirements of individual tenants it is doubtful whether a quantitative study could be conducted in a meaningful way. However, a qualitative analysis of the factors mentioned above is possible.

Poor Management Practices

There is no doubt that some poor management has occurred in some RHAs. However, extremely small margins and limited outside funding possibilities mean that RHAs are under considerable pressure to work as efficiently as possible. The fact that average property management time and marginal property management costs are remarkably consistent across all RHAs, regardless of their size, age and whether or not they receive strategic development grants, indicates that there is at least a trend towards efficiency. Overall, it is unlikely that much of the difference is due to poor management practices.

Economies of Scale

Economies of scale, on the other hand, can be used to explain a substantial part of the difference in management time. Although a full study of economies of scale in the social housing sector is beyond the scope of this paper, they appear to result mainly from staff specialisation and vacancies and bad debts.

Compared to Homeswest, RHAs suffer from diseconomies of scale because they manage too few properties to allow for any degree of staff specialisation comparable to Homeswest. Additionally, at current growth rates, economies of scale from specialisation are likely to be limited for many years to come. Nevertheless, as was demonstrated in Section 10, there do appear to be significant economies of scale in the community housing sector.

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[47] In addition to the tasks identified, both Homeswest and RHAs have mechanisms in place through which tenants can appeal decisions affecting them. Within Homeswest "officers other than the Accommodation Manager" are involved in this process, while within RHAs the Strategic Development Officer usually manages this process. Since this process is difficult to model effectively, we will leave appeals out of consideration in the following. This will, to some extent, underestimate the amount of time involved in property management.

Inherent Differences between Community Housing and Homeswest

It will need no further explanation that at least one of the 'inherent' differences mentioned above arises due to economies of scale. This refers to the fact that Property Managers have wider responsibilities than Homeswest Accommodation Managers: as RHAs grow, staff specialisation will occur, narrowing the responsibilities of Property Managers.

The second 'inherent' difference, a larger proportion of high risk tenants, remains to be proven statistically. However, whether or not RHAs carry proportionally more high risk tenancies than Homeswest, organisational growth will produce economies of scale in the management of these tenancies.

The final difference mentioned above, however, does appear to be at least partly inherent: RHAs do operate from a philosophy of higher tenant support and participation. While this undoubtedly has benefits for both tenants and organisations, the other side of the coin of tenant participation is that it inevitably increases average property management time. Nevertheless, the evidence presented in Section 10 does suggest that there are some economies of scale with regard to property management time.

It can be concluded that it is impossible to compare operating costs in Homeswest with those in RHAs due to inherent differences between the organisations and the way in which they manage their properties. This is particularly obvious in the area of property management time, where the officers in question spend different amounts of time on different duties. However, at least part of the difference in management time is due to economies of scale and is likely to diminish as RHAs grow.

12b) Other Research

So far, the evidence regarding TCHP's cost effectiveness is ambiguous. On the one hand, Section 10 suggests that there is no single cost structure for existing community housing providers. On the other hand, comparisons with Homeswest standards and guidelines suggest that there are no significant problem with any of the assumptions except, perhaps, the amount of property management time.

It is helpful to compare TCHP's cost structure with other research. In order to make TCHP comparable to other studies, we will assume that TCHP is responsible for the full cyclical maintenance costs (ie. 1.3% of construction costs). Table 12.2 compares TCHP's cost structure with other research.

	TCHP	**Ecumenical Housing I**	**Ecumenical Housing II**	**NCHF**	**Hal Bisset**	**Wood & Watson**
Costs:	*% of asset value*	*% of asset value*	*% of asset value*	*% of asset value*	*% of asset value*	*% of asset value*
Tenancy Management	1.1%	0.9%	0.8%	1.8%	1.2%	1.3%
Property Management	1.1%	1.1%	0.7%	1.5%	1.5%	2.0%
Asset Management	0.8%	1.1%	0.6%	0.7%	0.8%	0.9%
Average Operating	**3.0%**	**3.1%**	**2.1%**	**4.0%**	**3.5%**	**4.3%**

Table 12.2: Operating Costs in Community Housing: Six Studies

Ecumenical Housing I

The most detailed and influential study to date[48] is Ecumenical Housing, *National Housing Policy: Reform and Social Justice* (Melbourne, January 1997). This study was based on a review of "the work of the Industry Commission, the 1994-95 Annual Report on the operations of the 1989 Housing Assistance Act, financial reports of the State Housing Authorities and discussions with Commonwealth and State officials" (p.124).

Table 12.2 shows that this study produced a cost structure very similar to TCHP: tenancy and property management costs are lower while property management costs are higher, producing slightly lower marginal operating costs.

Ecumenical Housing II

A second study by Ecumenical Housing, *Private funding models for church community housing* (Melbourne, April 1999) focused on community housing providers operated by religious organisations. This study found significantly lower operating costs than both this report and Ecumenical Housing I, at 2.1% of asset value.

However, these figures are not applicable to non-religious community housing providers, because it assumes from shire rates exemptions and low insurance premiums only available to religious organisations. In addition, maintenance costs are well below Homeswest guidelines. If standard figures for these three items are included, operating costs rise to around 2.9% of asset value.

NCHF

The third study is National Community Housing Forum, *The impact on and sustainability of community housing under the proposed reforms to housing assistance* (August 1996). The purpose of this paper was to identify the likely impact of reforms to housing assistance on the provision and growth of community housing.

This study yielded substantially higher operating costs, at 4.0% of asset value. Interestingly, asset management costs were lower, but tenancy and property management costs were much higher in this study than both TCHP and Ecumenical Housing I.

Hal Bisset

Hal Bisset in the *Graduate Certificate in Housing Management and Policy* (Australian Housing and Urban Research Institute and Centre for Urban and Social Research, Swinburne University of Technology, 1997) is not a full scale study of operating costs in community housing. However, this document is of interest because it notes that "experience suggests the following costs for various cost centres expressed as a percentage of the property value: administration - 1%, maintenance - 1.5%, property costs - 0.8%, vacancy/bad debts - 0.2%". This produces operating costs of 3.5% of asset value.

[48] The results from this study are used in two reports by the Community Housing Federation of Australia: CHFA, *Submission to Senate Inquiry on Housing Assistance*, May 1997, and Sean McNelis, *Market rents and community housing*, CHFA, 1997

Wood & Watson

Gavin Wood and Richard Watson ("The User Cost-of-Capital, Taxation and the Marginal Supply of Private Rental Housing: Evidence from Microdata", Murdoch University, 2000) present operating costs for private landlords. The study finds that costs vary with property value as well as the marginal tax rates of landlords: higher tax brackets and higher property prices are associated with lower costs. The figures presented in Table 12.2 are the mean costs for each category for all landlords.

The results of this study are not entirely comparable with the other studies, since insurance has been included with maintenance, and management costs include brokerage fees. With this in mind, the study produces tenancy and asset management costs comparable to the other studies and TCHP, but considerably higher maintenance costs, producing the highest operating costs of all studies considered.[49]

Although it is interesting that this suggests that contrary to popular opinion, operating costs in the private sector are higher than those in community housing. However, since maintenance costs are hard to estimate and vary considerably between properties,[50] further research is needed to confirm this conclusion.

Tenants Advice Service (TAS)

No exhaustive studies into the operating costs of professional private housing managers, ie. real estate agencies, appear to have been conducted. However, the WA Tenants Advice Service has done a survey on the average number of properties managed by property managers in five real estate agencies[51] in Perth ("Research into the number of properties managed by property managers in the private real estate sector in Perth", TAS unpublished research paper, 1999).

While the number of respondents is by no means large enough to be statistically significant, the outcomes of the study are interesting. All respondents reported numbers of properties per property managers between 113 and 133 properties, at an average of 123. This equates to property management time of between 17 and 20 minutes per week.

In summary, three out of four relevant studies examined found operating costs in the community housing sector to be higher than those for TCHP, between 3.1% and 4.0% of asset value. The only study that found lower operating costs (2.1% of asset value) was based on religious based organisations (Ecumenical Housing II) and is not directly comparable to the current study. Finally, the only study on the private rental market found considerably higher operating costs, mainly due to higher maintenance costs. However, the results of this study are inconclusive due to uncertainty about maintenance costs.

12c) Homeswest and Interstate Providers: Conclusions

While the data presented in Sections 10, 11 and 12 does not allow for any definite conclusions regarding the cost-effectiveness of TCHP, it does allow for some tentative points to be made:

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[49] The study finds that operating costs vary from an average of 2.9% in the lowest decile to 6.8% in the highest. Within this, tenancy management costs and maintenance costs make up 0.7% and 1.4% respectively in the lowest decile, and 2.0% and 3.9% in the highest. Asset management costs vary little and are 0.9% for all deciles.

[50] See Wood & Watson, 2000, Table 1, p.17.

[51] Position descriptions for these property managers vary, some being closer in nature to Homeswest Accommodation Managers and some closer to RHA Property Managers.

- The RHAs examined had very different cost structures both from each other and from TCHP. However, TCHP had lower overall operating costs than all but one of these providers.
- There is strong evidence for economies of scale in community housing.
- Housing cooperatives have lower property management costs than RHAs.
- Existing studies indicate that operating costs for not-for-profit housing providers in Australia are between 3.1% and 4.0% of asset value, placing TCHP's operating costs at the low end of the spectrum.
- The only study that found significantly lower operating costs than TCHP was based on housing providers linked to religious organisations, who face significantly lower asset management costs unavailable to other community housing providers.
- Comparisons with Homeswest proved difficult due to inherent differences between the community and public sectors, although the main contentious issue related to tenancy management time. Differences between the two sectors could be partly explained by economies of scale, and partly by inherent differences in tenancy support and participation.
- Average operating costs in the private rental market appear to be higher than those for TCHP, mainly due to higher maintenance costs. However, no conclusions can be drawn until further research has been completed.

Put together, these points suggest that while every community housing provider is different, TCHP's cost structure represents the extreme low end of the spectrum for agencies in Western Australia. Moreover, its costs are consistently lower than those found by other studies, with the exception of those faced by religious organisations.

It can be concluded that operating costs depend at least to some extent on external factors like location, age of properties and lease fees, while the most important internal factor appears to be economies of scale. This means that there is scope for cost savings in the Western Australian community housing sector through growth, although this is limited to some extent by external factors. Finally, some of the current guidelines, particularly regarding property management time and administration costs, appear to be unrealistically low.

13. Towards Viability: Conclusions and Recommendations

The financial viability of community housing providers in Western Australia depends on a number of factors. Providers have some degree of control over some of these factors, including tenant mix, number of properties managed, proportion of properties leased from Homeswest and administrative structure of the organisation.

In addition, there are a number of factors influencing viability over which providers have no control. These include local government policies regarding rates concessions, Homeswest policies on lease fees and rent assessment, and the willingness of banks to lend money for expansion.

However, more careful analysis suggests that there are four elements that underlie all other factors, and can be seen as the key determinants of both current and future financial viability of community housing providers. They are, in order of importance: location, tenant mix, existing stock and organisational structure.

1. Location

The physical location of the community housing provider and its properties is the single most important determinant of its viability. This is because location is a major determinant of both rental income and operating costs. More specifically, location:

- determines market rent for all types of dwellings, and therefore also the maximum possible rent under the Homeswest rent to income policy;
- is a major determining factor for asset management costs, since it determines both insurance premiums and the likelihood that concessions on local government rates can be obtained;
- influences property management costs, because average wage rates and travel costs for repair people are higher in certain (eg. country) areas; and
- affects tenancy management costs through its impact on office rents and travel costs related to property management.

In addition, location also determines the land prices a provider needs to pay in order to expand. Since construction costs are similar around Western Australia, location is a key determinant of the amount of surplus an organisation needs to generate in order to purchase a given number of properties. In other words, location is a major determinant of the point at which a provider attains dynamic financial viability.

While community housing providers have very little control over the area in which they operate, it can be argued that they do have some degree of control over the location of their properties. In practice, however, this control is limited by the fact that most providers lease most of their properties from Homeswest. In addition, a provider's objectives may limit the organisation to providing housing in certain areas. Overall, control over location is severely limited, but its impact is far-reaching.

2. Tenant Mix

The second most important determinant of viability is the types of people a provider houses. This refers both to established tenants and people on the waiting list. More specifically:

- a provider's average rent is determined by the proportion of singles, couples, families with children, pensioners and youths;
- the proportion of high risk tenants affects:
  - tenancy management costs through its impact on vacancies and bad debts,

- property management costs through its impact on maintenance costs, and
- asset management costs through its impact on insurance premiums.

Unlike location, providers have some degree of control over the types of tenants they choose to house. However, the degree of control is limited by the fact that most providers list specific target groups in their objectives. Since these are usually people who cannot access the private rental market because their incomes are too low or because they are deemed to be high risk, most providers will have to face a choice between housing people in their target group and working towards financial viability.

3. Existing Stock

The third determinant of viability is the type, condition and number of properties a provider manages. Firstly, the condition and age of the stock is a major determinant of maintenance costs, and therefore of property management costs. Secondly, the type of property managed is a major factor in determining the possible mix of tenants, and therefore the provider's rental income.

Thirdly, the proportion of headleased stock has both a short term and a long term impact on a provider's viability. The short term impact lies in the costs of the headlease fees payable to the owner of the property. The long term impact refers to the lack of security of tenure associated with headleased stock, since the use of these properties remains in the hands of the owner.

Fourthly, and most significantly, the number of existing stock determines the extent to which providers can exploit economies of scale. This report has demonstrated that economies of scale are significant and occur in administration costs, property management time and risk management.

In addition, since larger organisations usually have more extensive track records, it will be easier for them to obtain external funds for expansion, particularly commercial loans. In other words, the combination of lower operating costs and a more credible track record means that larger providers have greater opportunities for expansion, and are therefore more dynamically viable than smaller ones.

4. Organisational Structure

The fourth and final determinant of viability is the structure of the organisation. This report has highlighted substantial differences in the cost structures of the various community housing providers examined. Where organisations are of similar sizes, these differences occur as a result of differences in organisational structures.

However, the evidence suggests that this factor is much less significant than the previous three, in that the differences in overall operating costs are much smaller than the differences in the individual components. In other words, pressures towards cost effectiveness produce a similar bottom line in organisations of very different natures.

Strategies for Viability

Since location is beyond their control, these four determinants suggest three clear options available to community housing providers who wish to attain any form of financial viability: changes in tenant mix, changes in organisation structure and changes in stock.

Changes in tenant mix refers to increasing rental income and decreasing operating costs through appropriate tenant selection. However, it should be repeated that this strategy can be problematic, because many providers aim to house people that cannot access the private rental market because of their low income or perceived high risk.

Changes in organisational structure refers to setting up an administrative structure that provides the tasks related to tenancy, property and asset management efficiently and effectively. However, since every organisation has different aims, functions and a different target group, different organisations will require different organisational structures. Generally speaking, this implies that community housing providers should aim to minimise costs within their particular framework, ie. to operate cost-effectively.

Changes in stock refers to increasing the number of properties managed by the organisation in order to exploit economies of scale in administration costs, property management time and risk management. However, providers should ensure that any additional stock is carefully selected for its impact on tenant mix and organisational structure, keeping a close eye on the proportion of headleased stock.

It is beyond doubt that property numbers are one of the most important factors affecting the viability of the sector. However, as section 2 points out, 98% of 242 community housing providers in Western Australia manage 90 or fewer tenancies. Given current growth rates and the fact that the entire community housing sector consists of just over 3000 properties it would be unrealistic to expect many of these providers to reach viability in the short term through growth.

This means that while growth remains an important viability strategy for community housing providers, they should not pursue growth at all costs. Instead, providers need to examine the costs and benefits of each individual property. There will inevitably be certain properties which will not yield a net benefit to a particular organisation, due to an adverse combination of lease fees, local government rates and risk.

More specifically, providers should aim to increase the number and proportion of fully and partly owned stock, initially using surpluses generated by headleased properties. From a perspective of financial viability, growth should be focused on low cost, low risk and high income tenancies.

At the same time, providers will need to ensure that they do not over-focus on financial viability to the extent that they do not provide sufficient housing to their target group. In practice this means that providers are faced with the need to balance their social objective of housing low income or high risk tenants with the detrimental effects on viability these tenants can pose.

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Attached Tables:

A1. TCHP Assumptions
A2. TCHP Viability Levels
A3. Static Viability and High Risk Tenants
A4. Dynamic Viability and High Risk Tenants
A5. Infrastructure Development Grants at Slow Growth
A6. Infrastructure Development Grants at Medium Growth
A7. Infrastructure Development Grants at Fast Growth
A8. Static Viability and Lease Fees
A9. Dynamic Viability and Lease Fees
A10. Static Viability and Local Government Rates
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A12. Cost Structure of CHP1
A13. Cost Structure of CHP2
A14. Cost Structure of CHP3
A15. Cost Structure of CHP4
A16. Cost Structure of CHP5
A17. Cost Structure of CHP6
A18. Cost Structure of CHP7
A19. Cost Structure of HC1
A20. Cost Structure of HC2
A21. Cost Structure of HC3

Table A1
TCHP Assumptions

	Year	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Average Weekly Rent		$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00	$90.00
Inflation		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Start-up Costs		$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Average Property Construction / Replacement Costs		$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000
Average Land Value		$40,000	$42,600	$45,369	$48,318	$51,459	$54,803	$58,366	$62,159	$66,200	$70,503	$75,085
Land Value Appreciation Rate		6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
SACS 6.3 hourly rate		$21.03	$21.03	$21.03	$21.03	$21.03	$21.03	$21.03	$21.03	$21.03	$21.03	$21.03
SACS 5.3 hourly rate		$19.38	$19.38	$19.38	$19.38	$19.38	$19.38	$19.38	$19.38	$19.38	$19.38	$19.38
SACS 4.3 hourly rate		$16.69	$16.69	$16.69	$16.69	$16.69	$16.69	$16.69	$16.69	$16.69	$16.69	$16.69
Salary Oncosts		15%										
Development Worker employed at		0.8	FTE									
Cyclical Maintenance carried by Homeswest under M3 and M4		*0.3%*										
Cyclical Maintenance carried by provider under M3 and M4		1.0%										
Cyclical Maintenance and Pest Control		1.3%	of construction/replacement costs									
Day to Day Maintenance		0.5%	being	0.45%	on low and	0.70%	on high risk properties					
Vacancies and Bad Debts - High Risk Tenants		*15.0%*										
Vacancies and Bad Debts - Low Risk Tenants		*2.0%*										
Average Proportion of High Risk Tenants		20%	*80%*									
Vacancies and Bad Debts		4.6%	of rental income									
Average Annual Insurance per property		$180	$180.00	$180.00	$180.00	$180.00	$180.00	$180.00	$180.00	$180.00	$180.00	$180.00
Local Government and Water Rates - M4		$750	@	50%	concession on water rates @		$500	and	0%	concession on shire rates		
Local Government and Water Rates - M3		$0										
Average Annual Local Government Rates and Water Authority Rates		$750	$750.00	$750.00	$750.00	$750.00	$750.00	$750.00	$750.00	$750.00	$750.00	$750.00
Average Management Time per property per week		39	minutes	*39*								
Properties Managed by 1 Full Time Manager		*58*	*0*	*58*								
Fixed Administrative Staff Time (hours)		4	*240.0*	*minutes*								
Administrative Staff Time per extra property (hours)		0.05	*3*	*minutes*								
Fixed Financial Staff Time (hours)		4	*240.0*	*minutes*								
Financial Staff Time per extra property (hours)		0.05	*3*	*minutes*								
Audit costs, Bank charges and fees, Legal and Other costs		$10,000	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00	$10,000.00
Annual Property Management Costs per property		$150	$150.00	$150.00	$150.00	$150.00	$150.00	$150.00	$150.00	$150.00	$150.00	$150.00
Dynamic Viability defined as an annual surplus of		$115,000	over and above static viability									

Table A2
TCHP Viability Levels

			Viability	
	Standard	*Basic*	*Static*	*Dynamic*
Tenancies Managed	**20**	**14**	**41**	**124**
Cash Flow				
Income				
Rent	$93,600	$65,520	$191,880	$580,320
Strategic Development Grant	$40,000	$40,000	$40,000	$40,000
Total Income	**$133,600**	**$105,520**	**$231,880**	**$620,320**
Expenditure				
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$15,068	$10,548	$30,890	$93,422
Cyclical Maintenance and Pest Control	$15,000	$10,500	$30,750	$93,000
Day to Day Maintenance	$7,500	$5,250	$15,375	$46,500
Vacancies and Bad Debts	$4,306	$3,014	$8,826	$26,695
Rates	$15,000	$10,500	$30,750	$93,000
Insurance	$3,600	$2,520	$7,380	$22,320
Lease Fees	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$4,990	$4,691	$6,038	$10,180
Financial Staff Salaries & Oncosts	$6,288	$5,911	$7,608	$12,827
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$3,000.00	$2,100	$6,150	$18,600
Total Expenditure	**$122,479**	**$102,761**	**$191,495**	**$464,272**
Surplus				
Unadjusted	*$11,121*	*$2,759*	*$40,385*	*$156,048*
Adjusted for Basic Viability	**$8,848**	**$487**	**$38,112**	**$153,775**
Adjusted for Static Viability	**-$28,879**	**-$37,241**	**$385**	**$116,048**
Adjusted for Dynamic Viability	**-$143,879**	**-$152,241**	**-$114,615**	**$1,048**
Marginal Weekly Operating Costs per property	**$63.20**	**$63.20**	**$63.20**	**$63.20**

Table A3
Static Viability and High Risk Tenants

	Proportion of High Risk Tenants					
	0%	*20%*	*40%*	*60%*	*80%*	*100%*
Tenancies Managed	**37**	**41**	**46**	**53**	**62**	**75**
Cash Flow						
Income						
Rent	$173,160	$191,880	$215,280	$248,040	$290,160	$351,000
Strategic Development Grant	$0	$0	$0	$0	$0	$0
Total Income	**$173,160**	**$191,880**	**$215,280**	**$248,040**	**$290,160**	**$351,000**
Expenditure						
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$27,876	$30,890	$34,657	$39,930	$46,711	$56,505
Cyclical Maintenance and Pest Control	$27,750	$30,750	$34,500	$39,750	$46,500	$56,250
Day to Day Maintenance	$12,488	$15,375	$18,975	$23,850	$30,225	$39,375
Vacancies and Bad Debts	$3,463	$8,826	$15,500	$24,308	$35,980	$52,650
Rates	$27,750	$30,750	$34,500	$39,750	$46,500	$56,250
Insurance	$6,660	$7,380	$8,280	$9,540	$11,160	$13,500
Lease Fees	$0	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$5,839	$6,038	$6,288	$6,637	$7,086	$7,735
Financial Staff Salaries & Oncosts	$7,357	$7,608	$7,923	$8,363	$8,929	$9,746
Audit costs, Bank charges and fees, Legal and Other co	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$5,550	$6,150	$6,900	$7,950	$9,300	$11,250
Total Expenditure	**$172,460**	**$191,495**	**$215,250**	**$247,806**	**$290,119**	**$350,989**
Surplus	**$700**	**$385**	**$30**	**$234**	**$41**	**$11**
Marginal Weekly Operating Costs per property	**$60.14**	**$63.20**	**$66.26**	**$69.32**	**$72.38**	**$75.44**

Table A4
Dynamic Viability and High Risk Tenants

	Proportion of High Risk Tenants					
	0%	*20%*	*40%*	*60%*	*80%*	*100%*
Tenancies Managed	**111**	**124**	**140**	**160**	**188**	**227**
Cash Flow						
Income						
Rent	$519,480	$580,320	$655,200	$748,800	$879,840	$1,062,360
Strategic Development Grant	$0	$0	$0	$0	$0	$0
Total Income	**$519,480**	**$580,320**	**$655,200**	**$748,800**	**$879,840**	**$1,062,360**
Expenditure						
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$83,628	$93,422	$105,477	$120,545	$141,640	$171,023
Cyclical Maintenance and Pest Control	$83,250	$93,000	$105,000	$120,000	$141,000	$170,250
Day to Day Maintenance	$37,463	$46,500	$57,750	$72,000	$91,650	$119,175
Vacancies and Bad Debts	$10,390	$26,695	$47,174	$73,382	$109,100	$159,354
Rates	$83,250	$93,000	$105,000	$120,000	$141,000	$170,250
Insurance	$19,980	$22,320	$25,200	$28,800	$33,840	$40,860
Lease Fees	$0	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$9,532	$10,180	$10,979	$11,977	$13,374	$15,321
Financial Staff Salaries & Oncosts	$12,010	$12,827	$13,833	$15,091	$16,852	$19,304
Audit costs, Bank charges and fees, Legal and Other co	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$16,650	$18,600	$21,000	$24,000	$28,200	$34,050
Total Expenditure	**$403,879**	**$464,272**	**$539,141**	**$633,523**	**$764,384**	**$947,314**
Surplus	**$115,601**	**$116,048**	**$116,059**	**$115,277**	**$115,456**	**$115,046**
Marginal Weekly Operating Costs per property	**$60.14**	**$63.20**	**$66.26**	**$69.32**	**$72.38**	**$75.45**

Table A5
Infrastructure Development Grants at Slow Growth

	Year 0	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	*Year 9*	*Year 10*
Tenancies Managed	**5**	**10**	**15**	**20**	**25**	**30**	**35**	**40**	**45**	**50**	**55**
Cash Flow											
Income											
Rent	$23,400	$46,800	$70,200	$93,600	$117,000	$140,400	$163,800	$187,200	$210,600	$234,000	$257,400
Infrastructure Development Grant	$60,000	$45,000	$40,000	$30,000	$25,000	$15,000	$10,000	$5,000	$0	$0	$0
Total Income	**$83,400**	**$91,800**	**$110,200**	**$123,600**	**$142,000**	**$155,400**	**$173,800**	**$192,200**	**$210,600**	**$234,000**	**$257,400**
Expenditure											
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$3,767	$7,534	$11,301	$15,068	$18,835	$22,602	$26,369	$30,136	$33,903	$37,670	$41,437
Cyclical Maintenance and Pest Control	$3,750	$7,500	$11,250	$15,000	$18,750	$22,500	$26,250	$30,000	$33,750	$37,500	$41,250
Day to Day Maintenance	$1,875	$3,750	$5,625	$7,500	$9,375	$11,250	$13,125	$15,000	$16,875	$18,750	$20,625
Vacancies and Bad Debts	$1,076	$2,153	$3,229	$4,306	$5,382	$6,458	$7,535	$8,611	$9,688	$10,764	$11,840
Rates	$3,750	$7,500	$11,250	$15,000	$18,750	$22,500	$26,250	$30,000	$33,750	$37,500	$41,250
Insurance	$900	$1,800	$2,700	$3,600	$4,500	$5,400	$6,300	$7,200	$8,100	$9,000	$9,900
Lease Fees	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$4,242	$4,491	$4,741	$4,990	$5,240	$5,489	$5,739	$5,989	$6,238	$6,488	$6,737
Financial Staff Salaries & Oncosts	$5,345	$5,659	$5,974	$6,288	$6,602	$6,917	$7,231	$7,545	$7,860	$8,174	$8,489
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$750	$1,500	$2,250	$3,000	$3,750	$4,500	$5,250	$6,000	$6,750	$7,500	$8,250
Start-up Costs	$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Expenditure	**$83,182**	**$89,615**	**$106,047**	**$122,479**	**$138,912**	**$155,344**	**$171,776**	**$188,209**	**$204,641**	**$221,073**	**$237,506**
Surplus	**$218**	**$2,185**	**$4,153**	**$1,121**	**$3,088**	**$56**	**$2,024**	**$3,991**	**$5,959**	**$12,927**	**$19,894**
Total Grants	**$230,000**										
Marginal Weekly Operating Costs per property	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**

Table A6
Infrastructure Development Grants at Medium Growth

	Year 0	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	*Year 9*	*Year 10*
Tenancies Managed	**5**	**15**	**25**	**35**	**45**	**55**	**65**	**75**	**85**	**95**	**105**
Cash Flow											
Income											
Rent	$23,400	$70,200	$117,000	$163,800	$210,600	$257,400	$304,200	$351,000	$397,800	$444,600	$491,400
Infrastructure Development Grant	$60,000	$40,000	$25,000	$10,000	$0	$0	$0	$0	$0	$0	$0
Total Income	**$83,400**	**$110,200**	**$142,000**	**$173,800**	**$210,600**	**$257,400**	**$304,200**	**$351,000**	**$397,800**	**$444,600**	**$491,400**
Expenditure											
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$3,767	$11,301	$18,835	$26,369	$33,903	$41,437	$48,971	$56,505	$64,039	$71,574	$79,108
Cyclical Maintenance and Pest Control	$3,750	$11,250	$18,750	$26,250	$33,750	$41,250	$48,750	$56,250	$63,750	$71,250	$78,750
Day to Day Maintenance	$1,875	$5,625	$9,375	$13,125	$16,875	$20,625	$24,375	$28,125	$31,875	$35,625	$39,375
Vacancies and Bad Debts	$1,076	$3,229	$5,382	$7,535	$9,688	$11,840	$13,993	$16,146	$18,299	$20,452	$22,604
Rates	$3,750	$11,250	$18,750	$26,250	$33,750	$41,250	$48,750	$56,250	$63,750	$71,250	$78,750
Insurance	$900	$2,700	$4,500	$6,300	$8,100	$9,900	$11,700	$13,500	$15,300	$17,100	$18,900
Lease Fees	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$4,242	$4,741	$5,240	$5,739	$6,238	$6,737	$7,236	$7,735	$8,234	$8,733	$9,232
Financial Staff Salaries & Oncosts	$5,345	$5,974	$6,602	$7,231	$7,860	$8,489	$9,117	$9,746	$10,375	$11,004	$11,633
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$750	$2,250	$3,750	$5,250	$6,750	$8,250	$9,750	$11,250	$12,750	$14,250	$15,750
Start-up Costs	$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Expenditure	**$83,182**	**$106,047**	**$138,912**	**$171,776**	**$204,641**	**$237,506**	**$270,371**	**$303,235**	**$336,100**	**$368,965**	**$401,829**
Surplus	**$218**	**$4,153**	**$3,088**	**$2,024**	**$5,959**	**$19,894**	**$33,829**	**$47,765**	**$61,700**	**$75,635**	**$89,571**
Total Grants	**$135,000**										
Marginal Weekly Operating Costs per property	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**

Table A7
Infrastructure Development Grants at Fast Growth

	Year 0	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	*Year 9*	*Year 10*
Tenancies Managed	**5**	**20**	**35**	**50**	**65**	**80**	**95**	**110**	**125**	**140**	**155**
Cash Flow											
Income											
Rent	$23,400	$93,600	$163,800	$234,000	$304,200	$374,400	$444,600	$514,800	$585,000	$655,200	$725,400
Infrastructure Development Grant	$60,000	$30,000	$10,000	$0	$0	$0	$0	$0	$0	$0	$0
Total Income	**$83,400**	**$123,600**	**$173,800**	**$234,000**	**$304,200**	**$374,400**	**$444,600**	**$514,800**	**$585,000**	**$655,200**	**$725,400**
Expenditure											
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$3,767	$15,068	$26,369	$37,670	$48,971	$60,272	$71,574	$82,875	$94,176	$105,477	$116,778
Cyclical Maintenance and Pest Control	$3,750	$15,000	$26,250	$37,500	$48,750	$60,000	$71,250	$82,500	$93,750	$105,000	$116,250
Day to Day Maintenance	$1,875	$7,500	$13,125	$18,750	$24,375	$30,000	$35,625	$41,250	$46,875	$52,500	$58,125
Vacancies and Bad Debts	$1,076	$4,306	$7,535	$10,764	$13,993	$17,222	$20,452	$23,681	$26,910	$30,139	$33,368
Rates	$3,750	$15,000	$26,250	$37,500	$48,750	$60,000	$71,250	$82,500	$93,750	$105,000	$116,250
Insurance	$900	$3,600	$6,300	$9,000	$11,700	$14,400	$17,100	$19,800	$22,500	$25,200	$27,900
Lease Fees	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$4,242	$4,990	$5,739	$6,488	$7,236	$7,985	$8,733	$9,482	$10,230	$10,979	$11,728
Financial Staff Salaries & Oncosts	$5,345	$6,288	$7,231	$8,174	$9,117	$10,061	$11,004	$11,947	$12,890	$13,833	$14,777
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$750	$3,000	$5,250	$7,500	$9,750	$12,000	$14,250	$16,500	$18,750	$21,000	$23,250
Start-up Costs	$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Expenditure	**$83,182**	**$122,479**	**$171,776**	**$221,073**	**$270,371**	**$319,668**	**$368,965**	**$418,262**	**$467,559**	**$516,856**	**$566,153**
Surplus	**$218**	**$1,121**	**$2,024**	**$12,927**	**$33,829**	**$54,732**	**$75,635**	**$96,538**	**$117,441**	**$138,344**	**$159,247**
Total Grants	**$100,000**										
Marginal Weekly Operating Costs per property	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**	**$63.20**

Table A8
Static Viability and Lease Fees

		M3 Lease Fee per property				
	M4	*$0.00*	*$14.42*	*$25.00*	*$30.80*	*$41.20*
Tenancies Managed	**41**	**27**	**41**	**68**	**105**	**50,174**
Cash Flow						
Income						
Rent	$191,880	$126,360	$191,880	$318,240	$491,400	$234,814,320
Infrastructure Development Grant	$0	$0	$0	$0	$0	$0
Total Income	**$191,880**	**$126,360**	**$191,880**	**$318,240**	**$491,400**	**$234,814,320**
Expenditure						
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$30,890	$20,342	$30,890	$51,232	$79,108	$37,801,373
Cyclical Maintenance and Pest Control	$30,750	$20,250	$30,750	$51,000	$78,750	$37,630,500
Day to Day Maintenance	$15,375	$10,125	$15,375	$25,500	$39,375	$18,815,250
Vacancies and Bad Debts	$8,826	$5,813	$8,826	$14,639	$22,604	$10,801,459
Rates	$30,750	$0	$0	$0	$0	$0
Insurance	$7,380	$4,860	$7,380	$12,240	$18,900	$9,031,320
Lease Fees	$0	$0	$30,750	$88,400	$168,168	$107,492,778
Administrative Staff Salaries & Oncosts	$6,038	$5,340	$6,038	$7,386	$9,232	$2,507,894
Financial Staff Salaries & Oncosts	$7,608	$6,728	$7,608	$9,306	$11,633	$3,159,919
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$6,150	$4,050	$6,150	$10,200	$15,750	$7,526,100
Total Expenditure	**$191,495**	**$125,235**	**$191,495**	**$317,630**	**$491,247**	**$234,814,319**
Surplus	**$385**	**$1,125**	**$385**	**$610**	**$153**	**$1**
Marginal Weekly Operating Costs per property	**$63.20**	**$48.78**	**$63.20**	**$73.78**	**$79.58**	**$89.98**

Table A9
Dynamic Viability and Lease Fees

		M3 Lease Fee per property				
	M4	*$0.00*	*$14.42*	*$25.00*	*$30.80*	*$41.20*
Tenancies Managed	**124**	**81**	**124**	**204**	**317**	**151,847**
Cash Flow						
Income						
Rent	$580,320	$379,080	$580,320	$954,720	$1,483,560	$710,643,960
Infrastructure Development Grant	$0	$0	$0	$0	$0	$0
Total Income	**$580,320**	**$379,080**	**$580,320**	**$954,720**	**$1,483,560**	**$710,643,960**
Expenditure						
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$93,422	$61,026	$93,422	$153,695	$238,830	$114,402,382
Cyclical Maintenance and Pest Control	$93,000	$60,750	$93,000	$153,000	$237,750	$113,885,250
Day to Day Maintenance	$46,500	$30,375	$46,500	$76,500	$118,875	$56,942,625
Vacancies and Bad Debts	$26,695	$17,438	$26,695	$43,917	$68,244	$32,689,622
Rates	$93,000	$0	$0	$0	$0	$0
Insurance	$22,320	$14,580	$22,320	$36,720	$57,060	$27,332,460
Lease Fees	$0	$0	$93,000	$265,200	$507,707	$325,317,013
Fixed Administrative Staff Salaries & Oncosts	*$3,992*	*$3,992*	*$3,992*	*$3,992*	*$3,992*	*$3,992*
Variable Administrative Staff Salaries & Oncosts	*$6,188*	*$4,042*	*$6,188*	*$10,180*	*$15,820*	*$7,577,827*
Administrative Staff Salaries & Oncosts	$10,180	$8,035	$10,180	$14,173	$19,812	$7,581,820
Fixed Financial Staff Salaries & Oncosts	*$5,030*	*$5,030*	*$5,030*	*$5,030*	*$5,030*	*$5,030*
Variable Financial Staff Salaries & Oncosts	*$7,797*	*$5,093*	*$7,797*	*$12,827*	*$19,933*	*$9,547,980*
Financial Staff Salaries & Oncosts	$12,827	$10,124	$12,827	$17,858	$24,963	$9,553,010
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$18,600	$12,150	$18,600	$30,600	$47,550	$22,777,050
Total Expenditure	**$464,272**	**$262,204**	**$464,272**	**$839,390**	**$1,368,518**	**$710,528,959**
Surplus	**$116,048**	**$116,876**	**$116,048**	**$115,330**	**$115,042**	**$115,001**
Marginal Weekly Operating Costs per property	**$63.20**	**$48.78**	**$63.20**	**$73.78**	**$79.58**	**$89.98**

Table A10
Static Viability and Local Government Rates

	Local Government Rates Exemption				
	100%	*75%*	*50%*	*25%*	*0%*
Tenancies Managed	**30**	**33**	**35**	**38**	**41**
Cash Flow					
Income					
Rent	$140,400	$154,440	$163,800	$177,840	$191,880
Infrastructure Development Grant	$0	$0	$0	$0	$0
Total Income	**$140,400**	**$154,440**	**$163,800**	**$177,840**	**$191,880**
Expenditure					
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$22,602	$24,862	$26,369	$28,629	$30,890
Cyclical Maintenance and Pest Control	$22,500	$24,750	$26,250	$28,500	$30,750
Day to Day Maintenance	$11,250	$12,375	$13,125	$14,250	$15,375
Vacancies and Bad Debts	$6,458	$7,104	$7,535	$8,181	$8,826
Rates	$7,500	$12,375	$17,500	$23,750	$30,750
Insurance	$5,400	$5,940	$6,300	$6,840	$7,380
Lease Fees	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$5,489	$5,639	$5,739	$5,889	$6,038
Financial Staff Salaries & Oncosts	$6,917	$7,105	$7,231	$7,420	$7,608
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$4,500	$4,950	$5,250	$5,700	$6,150
Total Expenditure	**$140,344**	**$152,829**	**$163,026**	**$176,886**	**$191,495**
Surplus	**$56**	**$1,611**	**$774**	**$954**	**$385**
Marginal Weekly Operating Costs per property	**$53.59**	**$55.99**	**$58.39**	**$60.80**	**$63.20**

Table A11
Dynamic Viability and Local Government Rates

	Local Government Rates Exemption				
	100%	*75%*	*50%*	*25%*	*0%*
Tenancies Managed	**91**	**98**	**105**	**114**	**124**
Cash Flow					
Income					
Rent	$425,880	$458,640	$491,400	$533,520	$580,320
Infrastructure Development Grant	$0	$0	$0	$0	$0
Total Income	**$425,880**	**$458,640**	**$491,400**	**$533,520**	**$580,320**
Expenditure					
Development Worker Salary & Oncosts	$37,727	$37,727	$37,727	$37,727	$37,727
Property Management Staff Salary & Oncosts	$68,560	$73,834	$79,108	$85,888	$93,422
Cyclical Maintenance and Pest Control	$68,250	$73,500	$78,750	$85,500	$93,000
Day to Day Maintenance	$34,125	$36,750	$39,375	$42,750	$46,500
Vacancies and Bad Debts	$19,590	$21,097	$22,604	$24,542	$26,695
Rates	$22,750	$36,750	$52,500	$71,250	$93,000
Insurance	$16,380	$17,640	$18,900	$20,520	$22,320
Lease Fees	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$8,534	$8,883	$9,232	$9,681	$10,180
Financial Staff Salaries & Oncosts	$10,752	$11,192	$11,633	$12,199	$12,827
Audit costs, Bank charges and fees, Legal and Other costs	$10,000	$10,000	$10,000	$10,000	$10,000
Property Management Costs	$13,650	$14,700	$15,750	$17,100	$18,600
Total Expenditure	**$310,319**	**$342,074**	**$375,579**	**$417,157**	**$464,272**
Surplus	**$115,561**	**$116,566**	**$115,821**	**$116,363**	**$116,048**
Marginal Weekly Operating Costs per property	**$53.59**	**$55.99**	**$58.39**	**$60.80**	**$63.20**

Table A12
Cost Structure of CHP1

CHP1 Viability Study	CHP	CDHP	CAP	All	Impact of M3 Lease	Impact of M6 Lease
Number of Properties	**27**	**36**	**4**	**67**	**67**	**67**
Proportion of Properties	40.3%	53.7%	6.0%	100.0%	0.0%	0.0%
Expenditure						
Development Worker Salary & Oncosts				$19,043	$19,043	$19,043
Property Management Staff Salary & Oncosts	$20,738	$27,004	$6,089	$53,831	$53,831	$53,831
Cyclical Maintenance	$6,075	$9,000	$950	$16,025	$16,025	$21,065
Day to Day Maintenance	$27,000	$43,200	$4,800	$75,000	$75,000	$75,000
Garden Service	$4,944	$14,163	$1,775	$20,883	$20,883	$20,883
Vacancies and Bad Debts	$360	$3,512	$319	$4,192	$4,192	$4,192
Shire and Water Rates and Strata Fees	$18,749	$21,419	$3,147	$43,316	$21,896	$43,316
Property Insurance	$1,418	$3,780	$210	$5,408	$5,408	$5,408
Lease Fees	$0	$0	$0	$0	$51,480	$3,510
Fixed Administrative Staff Salaries & Oncosts	$0	$0	$0	$10,543	$10,543	$10,543
Variable Administrative Staff Salaries & Oncosts	$1,086	$1,448	$161	$2,694	$2,694	$2,694
Administrative Staff Salaries & Oncosts	$1,086	$1,448	$161	$13,237	$13,237	$13,237
Fixed Administration, Office and Other Costs	$0	$0	$0	$16,560	$16,560	$16,560
Variable Administration, Office and Other Costs	$3,408	$4,544	$505	$8,456	$8,456	$8,456
Administration, Office and Other Costs	$3,408	$4,544	$505	$25,016	$25,016	$25,016
Total Expenditure	**$83,778**	**$128,070**	**$17,957**	**$275,949**	**$306,010**	**$284,499**
Income						
Rent	$90,145	$166,667	$25,480	$282,291	$282,291	$282,291
Grant	$0	$31,000	$0	$31,000	$31,000	$31,000
Total Income	**$90,145**	**$197,667**	**$25,480**	**$313,291**	**$313,291**	**$313,291**
Surplus						
Unadjusted	$6,367	$69,596	$7,523	$37,342	$7,281	$28,792
Adjusted for Basic Viability				$25,385	-$4,676	$16,835
Adjusted for Static Viability				**$6,342**	**-$23,719**	**-$2,208**
Adjusted for Dynamic Viability				-$118,658	-$148,719	-$127,208
Viability						
Minimum Rent for Basic Viability					$82.37	
Minimum Dwellings for Basic Viability					**81**	
Minimum Rent for Static Viability					$87.83	$81.66
Minimum Dwellings for Static Viability					**138**	**71**
Minimum Rent for Dynamic Viability				$115.08	$123.71	$117.54
Minimum Dwellings for Dynamic Viability				**219**	**512**	**261**

Table A12 (Cont.)
Cost Structure of CHP1

Assumptions

SACS 6.3 hourly rate	$21.03							
SACS 4.1 hourly rate	$15.59							
SACS 3.3 hourly rate	$15.59							
Salary Oncosts (Superannuation, Liability, PI, Workers Comp)	16.1%							
Infrastructure Development Work	$15	hours per week, valued @ SACS 6.3						
Property Management Work - CHP	$22	hours per week, valued @ SACS 4.1						
Property Management Work - CDHP	$29	hours per week, valued @ SACS 4.1						
Property Management Work - CAP	$6	hours per week, valued @ SACS 4.1						
Property Management Work - Total	$57	hours per week, valued @ SACS 4.1						
Administrative and Finance Work	$14	hours per week, valued @ SACS 3.3						

	5/10/00	*1/7/99*	*Increase*	*Avg 99-00*
CHP Properties	27	15	12	21
CDHP Properties	36	31	5	33.5
CAP Properties	4	2	2	3
Total Properties	67	48	19	57.5

Average Land Value per property	$30,000							
Average Construction Costs per property	$95,000							
Cyclical Maintenance Provision - CHP	0.24%	of property replacement costs @					$225	pppy
Cyclical Maintenance Provision - CDHP	0.26%	of property replacement costs @					$250	pppy
Cyclical Maintenance Provision - CAP	0.25%	of property replacement costs @					$238	pppy
Cyclical Maintenance Provision - Average	0.25%	of property replacement costs @					$239	pppy
Day to Day Maintenance - CHP	1.05%	of property replacement costs @					$1,000	pppy
Day to Day Maintenance - CDHP	1.26%	of property replacement costs @					$1,200	pppy
Day to Day Maintenance - CAP	1.26%	of property replacement costs @					$1,200	pppy
Day to Day Maintenance - Average	1.18%	of property replacement costs @					$1,119	pppy
Garden Service - CHP	$183.12	per property per year						
Garden Service - CDHP	$393.42	per property per year						
Garden Service - CAP	$443.87	per property per year						
Garden Service - Average	$311.69	per property per year						
Average Weekly Rent - CHP	$64.21							
Average Weekly Rent - CDHP	$89.03							
Average Weekly Rent - CAP	$122.50							
Average Weekly Rent	$80.52							
Vacancies and Bad Debts - CHP	0.40%	of rental income						
Vacancies and Bad Debts - CDHP	2.11%	of rental income						
Vacancies and Bad Debts - CAP	1.25%	of rental income						
Vacancies and Bad Debts - Average	1.49%	of rental income						
Management Time per property per week - CHP	49.0	minutes per property or				46.0	properties per f/t manager	
Management Time per property per week - CDHP	47.8	minutes per property or				47.1	properties per f/t manager	
Management Time per property per week - CAP	97.0	minutes per property or				23.2	properties per f/t manager	
Management Time per property per week - Total	51.2	minutes per property or				43.9	properties per f/t manager	
Local Govt, Water Rates and Strata Fees - CHP	$694.42			Property Insurance - CHP		$52.50	pppy	
Local Govt, Water Rates and Strata Fees - CDHP	$594.99			Property Insurance - CDHP		$105.00	pppy	
Local Govt, Water Rates and Strata Fees - CAP	$786.75			Property Insurance - CAP		$52.50	pppy	
Local Govt, Water Rates and Strata Fees - Average	$646.50			Property Insurance - Avg		$80.71	pppy	
Variable Administration, Office and Other Costs	$126.21	per property per year @			$7,257			
Fixed Administrative Salaries and Oncosts py	$10,543		11	hours and		12	minutes per week	
Variable Administrative Salaries and Oncosts pppy	$40.22		2.6	minutes pppw				
Fixed Administration, Office and Other Costs	$16,560	@	$16,560	per year				
Current Lease Fee	$0.00							
Average Official M3 Lease Fee ($22/tenant) per property	$27.50	@	75%	singles and		25%	couples	
Average M6 Lease Fee ($1.50/tenant) per property	$1.88	@	75%	singles and		25%	couples	
Viability-neutral M3 Lease Fee @ Current % of Singles	$9.15							
Proportion of CDHP Properties	53.7%							
Grant - ILP	$31,000							
* Defined as an annual surplus of	$125,000	after all expenses for static viability have been met						

Table A13
Cost Structure of CHP2

	Actuals	Adjusted 1/7/99 - 30/6/00			Growth Strategies		
	All	Low Risk	High Risk	All	Low Risk	High Risk	Mix
(Average) Number of Dwellings	**16.5**	**20**	**10**	**30**	**20**	**10**	**30**
Proportion of Properties	*100.0%*	*66.7%*	*33.3%*	*100.0%*			
Expenditure							
Development Worker Salary & Oncosts	$46,021	$0	$0	$27,613	$27,613	$27,613	$27,613
Applications Staff Salary & Oncosts	$0	$0	$0	$12,636	$12,636	$12,636	$12,636
Property Management Staff Salary & Oncosts	$21,976	$2,110	$4,923	$7,032	$2,110	$4,923	$7,032
Cyclical Maintenance Provision	$11,910	$20,558	$10,279	$30,836	$20,558	$10,279	$30,836
Day to Day Maintenance	$15,134	$10,089	$5,045	$15,134	$10,089	$5,045	$15,134
Vacancies and Bad Debts	$965	$928	$12,512	$13,440	$928	$12,512	$13,440
Shire and Water Rates and Strata Fees	$13,385	$11,164	$7,356	$18,520	$11,164	$7,356	$18,520
Property Insurance	$1,804	$4,804	$2,402	$7,206	$4,804	$2,402	$7,206
Administrative Staff Salaries & Oncosts	$9,818	$1,655	$3,861	$27,580	$23,719	$25,925	$27,580
Administration, Office and Other Costs	$29,411	$10,248	$5,124	$27,243	$11,256	-$14,229	$27,243
Total Expenditure	**$151,913**	**$61,555**	**$51,502**	**$187,241**	**$124,876**	**$94,462**	**$187,241**
Income							
Rent	$101,569	$92,778	$62,365	$155,143	$92,778	$62,365	$155,143
Grant	$40,000	$0	$0	$40,000	$40,000	$40,000	$40,000
Other Income	$16,133	$0	$0	$16,133	$16,133	$16,133	$16,133
Total Income	**$157,702**	**$92,778**	**$62,365**	**$211,276**	**$148,911**	**$118,498**	**$211,276**
Surplus							
Unadjusted	$5,788	$31,224	$10,863	$24,035	$24,035	$24,035	$24,035
Adjusted for Basic Viability				-$4,485	-$4,485	-$4,485	-$4,485
Adjusted for Static Viability				**-$32,098**	**-$32,098**	**-$32,098**	**-$32,098**
Adjusted for Dynamic Viability				-$199,885	-$199,885	-$199,885	-$199,885
Viability							
Minimum Rent for Basic Viability				$102.33	$93.52	$128.56	$102.33
Minimum Dwellings for Basic Viability				**34**	**33**	**35**	**34**
Minimum Rent for Static Viability				$120.03	$120.07	$181.66	$120.03
Minimum Dwellings for Static Viability				**53**	**51**	**60**	**53**
Minimum Rent for Dynamic Viability				$227.58	$281.41	$504.33	$227.58
Minimum Dwellings for Dynamic Viability				**173**	**159**	**215**	**173**

Assumptions	**Low Risk**	**High Risk**	**Total**		
SACS 6.2 hourly rate			$20.48		
SACS 5.1 hourly rate			$18.34		
SACS 4.1 hourly rate			$15.59		
Salary Oncosts (Superannuation, Liability, PI, Workers Comp)			15.2%		
Infrastructure Development Work			22.5	hours per week, valued @ SACS 6	
Applications Work			11.5	hours per week, valued @ SACS 5	
Tenancy Management Work	1.9	4.5	6.4	hours per week, valued @ SACS 5	
Tenancy Management Time pppw	5.8	26.9	12.8	minutes or 176 properties per f/t manager	
Administration Work - Variable Component	1.5	3.5	5.0	hours per week, valued @ SACS 5	
Administration Work - Fixed Component	0.0	0.0	20.1	hours per week, valued @ SACS 5	
Administration Work - Total	0.0	0.0	25.1	hours per week, valued @ SACS 5	
Admininistration Time pppw	4.5	21.1	10.0	minutes	
Properties Managed - 1/7/2000	20	10	30		
Properties Managed - 1/7/1999			9		
Properties Managed - Increase 1999/2000			21		
Properties Managed - Average 1999/2000			16.5		
Average Weekly Rent	$89.21	$119.93	$99.45		
Average Land Value per property	$65,000	$65,000	$65,000		
Average Property Replacement Cost	$102,788	$102,788	$102,788		
Cyclical Maintenance Provision	1.00%	1.00%	1.00%	of property replacement costs	
Day to Day Maintenance Costs	0.49%	0.49%	0.49%	of property replacement costs	
Vacancies and Bad Debts	1.0%	20.1%	8.7%	of rental income (=1% vacancy rate + 0%/7% bad debts)	
Local Govt, Water Rates and Strata Fees	$558.20	$735.62	$617.34	per property per year	
Insurance	$240.20	$240.20	$240.20	per property per year	
Variable Administration, Office and Other Costs	$512.38	$512.38	$512.38	per property per year @ $8,449	
Fixed Administration, Office and Other Costs			$11,871		
Infrastructure Development Grant			$40,000		
Other Income			$16,133		

Table A14
Cost Structure of CHP3

CHP3 Viability Study	**Current**	**% of Properties with Lease Fees**			
Proportion of Properties with Lease Fees	*0%*	*5%*	*10%*	*15%*	*20%*
# Dwellings	**9**	**9**	**9**	**9**	**9**
Average Land Value per Property	$40,000	$40,000	$40,000	$40,000	$40,000
Average Property Replacement Cost	$75,000	$75,000	$75,000	$75,000	$75,000
Average Value of Dwelling	$115,000	$115,000	$115,000	$115,000	$115,000
Expenditure					
Development Worker Salary & Oncosts	$27,765	$27,765	$27,765	$27,765	$27,765
Property Management Staff Salary & Oncosts	$9,406	$9,406	$9,406	$9,406	$9,406
Cyclical Maintenance	$6,750	$6,750	$6,750	$6,750	$6,750
Day to Day Maintenance	$3,375	$3,375	$3,375	$3,375	$3,375
Vacancies and Bad Debts	$3,816	$3,816	$3,816	$3,816	$3,816
Rates	$4,050	$4,050	$4,050	$4,050	$4,050
Property Insurance	$2,777	$2,777	$2,777	$2,777	$2,777
Lease Fees	$0	$721	$1,441	$2,162	$2,883
Administrative Staff Salaries & Oncosts	$6,508	$6,508	$6,508	$6,508	$6,508
Financial Staff Salaries & Oncosts	$0	$0	$0	$0	$0
Administration, Office and Other Costs	$15,892	$15,892	$15,892	$15,892	$15,892
Total Expenditure	**$80,339**	**$81,059**	**$81,780**	**$82,501**	**$83,222**
Income					
Rent	$35,100	$35,100	$35,100	$35,100	$35,100
Grant	$40,000	$40,000	$40,000	$40,000	$40,000
Total Income	**$75,100**	**$75,100**	**$75,100**	**$75,100**	**$75,100**
Surplus					
Unadjusted	-5,239	-5,959	-6,680	-7,401	-8,122
Adjusted for Basic Viability	-17,474	-18,195	-18,916	-19,636	-20,357
Adjusted for Static Viability	-45,239	-45,959	-46,680	-47,401	-48,122
Adjusted for Dynamic Viability	-160,239	-160,959	-161,680	-162,401	-163,122
Viability					
Minimum Rent for Basic Viability	$112	$114	$115	$117	$118
Minimum Dwellings for Basic Viability	**$79**	**$117**	**$220**	**$2,024**	**-**
Minimum Rent for Static Viability	$172	$173	$175	$176	$178
Minimum Dwellings for Static Viability	**$190**	**$280**	**$529**	**$4,872**	**-**
Minimum Rent for Dynamic Viability	$417	$419	$420	$422	$424
Minimum Dwellings for Dynamic Viability	**$650**	**$957**	**$1,809**	**$16,670**	**-**

Assumptions

Salary Oncosts	11%	
Development Worker employed at	0.67	0
Cyclical Maintenance on leased properties	1.0%	0
Cyclical Maintenance on owned properties	1.3%	of construction/replacement costs
Day to Day Maintenance	0.5%	of construction/replacement costs
Vacancies and Bad Debts	10.9%	of rental income
Average Weekly Rent	$75.00	
Properties Managed by 1 Manager	34	
Average Weekly Property Management Time	67	minutes
Average Annual Local Government and Water Rates	$450	
Average Annual Insurance	$309	
Property Management Costs	6.5%	of rental income
Fixed Administrative Salaries and Oncosts	$6,113	
Administrative Salaries and Oncosts per extra property	$43.86	*3 minutes*
Fixed Financial Salaries and Oncosts	$0.00	
Financial Salaries and Oncosts per extra property	$0.00	
Fixed Administration, Office and Other Costs	$13,611	
Average CDHP Lease Fee	$30.80	
Proportion of CDHP Properties	11%	
Strategic Development Grant	$40,000	

Table A15
Cost Structure of CHP4

CHP4 Viability Study	Programs			Lodging Houses				Changes in:		
	CHP	ILP	Total Programs	LHA	LHB	LHC	Total	CHP	ILP	Stable Proportion
# Dwellings	20	51	71	18	10	18	117	20	51	71
Average Land Value per Property	$40,000	$40,000	$40,000	$10,000	$10,000	$10,000	$28,205	$40,000	$40,000	$40,000
Average Property Replacement Cost	$75,000	$75,000	$75,000	$57,270	$57,270	$57,270	$27,679	$75,000	$75,000	$75,000
Average Value of Dwelling	$115,000	$115,000	$115,000	$67,270	$67,270	$67,270	$55,884	$115,000	$115,000	$115,000
Expenditure										
Development Worker Salary & Oncosts	$0	$0	$23,634	$0	$0	$0	$23,634	$23,634	$23,634	$23,634
Property Management Staff Salary & Oncosts	$19,861	$87,853	$107,714	$25,322	$11,254	$29,261	$173,552	$19,861	$87,853	$107,714
Cyclical Maintenance	$7,500	$19,125	$26,625	$5,154	$2,863	$5,154	$39,797	$7,500	$19,125	$26,625
Day to Day Maintenance	$7,500	$19,125	$26,625	$5,154	$2,863	$5,154	$39,797	$7,500	$19,125	$26,625
Vacancies and Bad Debts	$2,338	$21,247	$23,586	$6,250	$5,858	$13,605	$49,299	$2,338	$21,247	$23,586
Rates	$6,129	$796	$6,925	$9,631	$1,173	$2,112	$19,841	$6,129	$796	$6,925
Insurance	$3,909	$6,060	$9,969	$2,139	$908	$1,634	$14,650	$3,909	$6,060	$9,969
Lease Fees	$0	$54,054	$54,054	$0	$0	$0	$54,054	$0	$54,054	$54,054
Administrative Staff Salaries & Oncosts	$0	$0	$19,132	$0	$0	$0	$19,132	$19,132	$19,132	$19,132
Financial Staff Salaries & Oncosts	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Fixed Administration, Office and Other Costs	$0	$0	$25,143	$0	$0	$0	$25,143	$24,797	$24,797	$24,797
Property Management Costs	$5,205	$19,571	$24,776	$5,162	$2,581	$5,899	$38,418	$5,205	$19,571	$24,776
Total Expenditure	**$52,442**	**$227,831**	**$348,183**	**$58,813**	**$27,302**	**$62,820**	**$497,317**	**$120,006**	**$295,395**	**$347,637**
Income										
Rent	$89,625	$208,633	$298,258	$57,368	$29,292	$56,687	$441,605	$89,625	$208,633	$298,258
Grants	$4,500	$35,236	$39,736	$0	$0	$0	$39,736	$39,736	$39,736	$39,736
Other Income	$0	$0	$13,938	$0	$0	$0	$13,938	$13,938	$13,938	$13,938
Total Income	**$94,125**	**$243,869**	**$351,933**	**$57,368**	**$29,292**	**$56,687**	**$495,279**	**$143,299**	**$262,308**	**$351,933**
Surplus										
Unadjusted	$41,683	$16,038	$3,750	-$1,444	$1,790	-$6,134	-$2,038	$23,293	-$33,087	$4,096
Adjusted for Basic Viability	$37,183	-$19,198	-$26,290				-$32,079	-$6,747	-$63,128	-$25,945
Adjusted for Static Viability	$37,183	-$19,198	-$49,925				-$55,713	-$30,381	-$86,762	-$49,579
Adjusted for Dynamic Viability	-$77,817	-$134,198	-$104,925				-$170,713	-$145,381	-$201,762	-$104,579
Viability**										
Minimum Rent for Basic Viability										$79.81
Minimum Dwellings for Basic Viability								**34**	**-17**	**174**
Minimum Rent for Static Viability										$84.40
Minimum Dwellings for Static Viability								**47**	**-80**	**267**
Minimum Rent for Dynamic Viability										$89.91
Minimum Dwellings for Dynamic Viability								**109**	**-386**	**721**

Table A15 (Cont.)
Cost Structure of CHP4

Assumptions

Salary - Hourly Rate	$18.82				
Salary Oncosts	15%				
Development Worker employed at	0.56	FTE at	21	hours per week	
Fixed Administrative Salaries and Oncosts	$19,132	at	17	hours per week	
Administrative Salaries and Oncosts per extra property	$0	at	0	hours per week	
Fixed Financial Salaries and Oncosts	$0	at	0	hours per week	
Financial Salaries and Oncosts per extra property	$0	at	0	hours per week	
Fixed Administration, Office and Other Costs	$25,143	makes	*$44,275*	*total fixed costs*	
Grants - CHP	$4,500				
Grants - ILP	$35,236				
Other Income	$13,938				

	average 98/99	*increase 98/99*	*current*
Number of Units - CHP	17	6	20
Number of Units - ILP	49	4	51
Number of Units - LHA	18	0	18
Number of Units - LHB	10	0	10
Number of Units - LHC	18	0	18
Total Number of Units	*112*	*10*	*117*

Average Weekly Rent - CHP	$86.18					
Average Weekly Rent - ILP	$78.67					
Average Weekly Rent - LHA	$61.29					
Average Weekly Rent - LHB	$56.33					
Average Weekly Rent - LHC	$60.56					
Average Weekly Rent	*$72.11*					
Average Construction Costs per unit - CHP / ILP	$75,000					
Average Construction Costs per unit - LHA / LHB / LHC	$57,270					
Average Land Value per unit - CHP / ILP	$40,000					
Average Land Value per unit - LHA, LHB, LHC	$10,000					
Units Managed by 1 Full Time Manager - CHP	43	@	53	minutes per unit - staff time	15	hours per week
Units Managed by 1 Full Time Manager - ILP	25	@	92	minutes per unit - staff time	75	hours per week
Units Managed by 1 Full Time Manager - LHA	30	@	75	minutes per unit - staff time	22.5	hours per week
Units Managed by 1 Full Time Manager - LHB	38	@	60	minutes per unit - staff time	10	hours per week
Units Managed by 1 Full Time Manager - LHC	26	@	87	minutes per unit - staff time	26	hours per week
Cyclical Maintenance on leased properties	0.5%	of construction/replacement costs				
Cyclical Maintenance on owned properties	1.0%	of construction/replacement costs				
Day to Day Maintenance	0.5%	of construction/replacement costs				
Vacancies and Bad Debts - CHP	2.6%	of rental income				
Vacancies and Bad Debts - ILP	10.2%	of rental income				
Vacancies and Bad Debts - LHA	10.9%	of rental income				
Vacancies and Bad Debts - LHB	20.0%	of rental income				
Vacancies and Bad Debts - LHC	24.0%	of rental income				
Average Annual Rates and Charges - CHP	$306					
Average Annual Rates and Charges - ILP	$16					
Average Annual Rates and Charges - LHA	$535					
Average Annual Rates and Charges - LHB	$117					
Average Annual Rates and Charges - LHC	$117					
Average Annual Insurance - CHP	$195					
Average Annual Insurance - ILP	$119					
Average Annual Insurance - LHA	$119					
Average Annual Insurance - LHB	$91					
Average Annual Insurance - LHC	$91					
Average Lease Fee per unit per week - CHP / LHA / LHB / LHC	$0.00					
Average Lease Fee per unit per week - ILP	$20.38					
Property Management Costs - CHP	5.8%	of rental income				
Property Management Costs - ILP	9.4%	of rental income				
Property Management Costs - LHA	9.0%	of rental income				
Property Management Costs - LHB	8.8%	of rental income				
Property Management Costs - LHC	10.4%	of rental income				

Table A16
Cost Structure of CHP5

	Boarding House	Programs	Total	Total (Adjusted)	% of Properties on Lease Fees					% of Rates Exemptions				
					0%	25%	50%	75%	100%	0%	25%	50%	75%	100%
# Dwellings	18	27	45	27	27	27	27	27	27	27	27	27	27	27
Average Land Value per Property	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000
Average Property Replacement Cost	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000	$75,000
Average Value of Dwelling	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000	$115,000
Expenditure														
Development Worker Salary & Oncosts	$0	$0	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679	$24,679
Property Management Staff Salary & Oncosts	$24,906	$23,403	$48,310	$23,403	$23,403	$23,403	$23,403	$23,403	$23,403	$23,403	$23,403	$23,403	$23,403	$23,403
Cyclical Maintenance	$0	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000	$22,000
Day to Day Maintenance	$0	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882	$8,882
Vacancies and Bad Debts	$9,220	$5,000	$14,220	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000
Rates, Strata Fees and Water Consumption	$0	$27,540	$27,540	$27,540	$27,540	$20,655	$13,770	$6,885	$0	$27,540	$20,655	$13,770	$6,885	$0
Property Insurance	$0	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448	$5,448
Lease Fees	$0	$0	$0	$0	$0	$10,989	$21,978	$32,967	$43,956	$0	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$1,040	$6,671	$7,711	$6,671	$6,671	$6,671	$6,671	$6,671	$6,671	$6,671	$6,671	$6,671	$6,671	$6,671
Administration, Office and Other Costs	$14,092	$21,786	$35,877	$21,786	$21,786	$21,786	$21,786	$21,786	$21,786	$21,786	$21,786	$21,786	$21,786	$21,786
Total Expenditure	**$49,258**	**$120,729**	**$194,667**	**$145,408**	**$145,408**	**$149,512**	**$153,616**	**$157,720**	**$161,824**	**$145,408**	**$136,523**	**$131,638**	**$124,753**	**$117,866**
Income														
Rent	$55,321	$136,161	$191,483	$136,161	$136,161	$136,161	$136,161	$136,161	$136,161	$136,161	$136,161	$136,161	$136,161	$136,161
Boarding House Surplus	$0	$0	$0	$6,063	$6,063	$6,063	$6,063	$6,063	$6,063	$6,063	$6,063	$6,063	$6,063	$6,063
Grant	$0	$0	$30,000	$30,000	$20,000	$30,000	$20,000	$30,000	$20,000	$30,000	$30,000	$30,000	$20,000	$30,000
Total Income	**$55,321**	**$136,161**	**$191,483**	**$172,224**	**$162,224**	**$172,224**	**$162,224**	**$172,224**	**$162,224**	**$172,224**	**$162,224**	**$172,224**	**$162,224**	**$172,224**
Surplus														
Unadjusted	$6,063	$15,432	-$3,184	$26,816	$16,816	$22,712	$8,608	$14,504	$400	$26,816	$23,701	$40,586	$37,471	$54,356
Adjusted for Basic Viability	$6,063	$15,432	-$8,505	$21,495	$21,495	$17,391	$13,287	$9,183	$5,079	$21,495	$28,380	$35,265	$42,150	$49,035
Adjusted for Static Viability	$6,063	$15,432	-$33,184	-$3,184	-$3,184	-$7,288	-$11,392	-$15,496	-$19,600	-$3,184	$3,701	$10,586	$17,471	$24,356
Adjusted for Dynamic Viability	-$106,937	-$99,506	-$146,184	-$118,184	-$118,184	-$122,288	-$126,392	-$130,496	-$134,600	-$118,184	-$111,299	-$104,414	-$97,529	-$90,644
Operating Costs per property per week	$52.63	$85.99	$72.64	$85.99	$85.99	$88.97	$91.84	$94.70	$97.56	$85.99	$87.09	$76.18	$71.28	$66.37
Average Operating Costs per property per week	$45.27	$76.05	$63.72	$76.05	$76.05	$78.97	$81.90	$84.82	$87.74	$76.05	$71.15	$66.24	$61.34	$56.43
Viability														
Minimum Rent for Basic Viability				$81.67	$81.67	$84.59	$87.52	$90.44	$93.36	$81.67	$76.77	$71.86	$66.96	$62.06
Minimum Dwellings for Basic Viability				**8**	**8**	**9**	**11**	**13**	**17**	**8**	**6**	**5**	**5**	**4**
Minimum Rent for Static Viability				$99.25	$99.25	$102.17	$105.10	$108.02	$110.94	$99.25	$94.35	$89.44	$84.54	$79.63
Minimum Dwellings for Static Viability				**30**	**30**	**35**	**42**	**52**	**68**	**30**	**25**	**21**	**18**	**16**
Minimum Rent for Dynamic Viability				$181.16	$181.16	$184.08	$187.00	$189.93	$192.85	$181.16	$176.25	$171.35	$166.45	$161.54
Minimum Dwellings for Dynamic Viability				**136**	**136**	**156**	**169**	**234**	**306**	**136**	**110**	**93**	**80**	**70**

Table A16 (Cont.)
Cost Structure of CHP5

Assumptions

SACS 6.3 hourly rate	$20.63						
SACS 4.4 hourly rate	$17.39						
SACS 2.3 hourly rate	$13.66						
Salary Oncosts	15%						
Infrastructure Development Work	0.53	16		20	hours per week		
	May 2000	*July 1999*	*Increase*	*Average*			
CHP Properties	6	0	6	*3*	13%		
Deed of Trust Properties	9	9	0	*9*	20%		
CDHP Properties	12	6	6	*9*	27%		
Total Properties	*27*	*15*	*12*	*21*	60%		
Boarding House Tenancies	18	18	0	18	40%		
Average Land Value per property	$40,000						
Average Construction Costs per property	$75,000						
Cyclical Maintenance on other properties	1.1%	of construction/replacement costs @				$815	per property per year
Cyclical Maintenance on M3 properties	0.4%	of construction/replacement costs @				$329	per property per year
Day to Day Maintenance	0.4%	of construction/replacement costs @				$329	per property per year
Average Weekly Rent - other properties	$96.98						
Average Weekly Rent - Boarding House	$59.10						
Vacancies and Bad Debts - other properties	3.7%	of rental income @		$5,000	per year		
Vacancies and Bad Debts - Boarding House	16.7%	of rental income					
Properties Managed by 1 Manager - other properties	45						
Average Weekly Management Time per property - other	50	minutes					
Properties Managed by 1 Manager - Boarding House	22						
Average Weekly Management Time per property - Yanget	102	minutes					
Average Annual Local Government and Water Rates	$1,020						
Average Annual Insurance	$202						
Property Management Costs	9.5%	of rental income or		########			
Property Management Costs - Boarding House	14.8%	of rental income or		$5,463			
Annual Fixed Administrative Salaries and Oncosts	$5,111	*5*	*hours and*	*0*	*minutes per week*		
Annual Administrative Salaries and Oncosts per extra property	$57.79	*3.3*	*minutes per week*				
Annual Administrative Salaries and Oncosts - Boarding House	$1,040	*1*	*hours and*	*0*	*minutes per week*		
Fixed Financial Salaries and Oncosts	$0.00	*0*	*hours and*	*0*	*minutes*		
Financial Salaries and Oncosts per extra property	$0.00	*0*	*minutes*				
Fixed Administration, Office and Other Costs - other properties	$8,845.56						
Fixed Administration, Office and Other Costs - Boarding House	$5,897.04						
Average Official M3 Lease Fee	$31.31	at	58%	singles and	42%	couples	
Proportion of M3 Properties	44%						
Strategic Development Grant	$30,000						
* Defined as an annual surplus of	$115,000	after all expenses for static viability have been met					

Table A17
Cost Structure of CHP6

	Adjusted 1/7/99 - 30/6/00					Growth Strategies			
	Deed	CHP	CDHP	CAP	All	CHP	CDHP	CAP	Mix
# Dwellings	**2**	**15**	**21**	**5**	**43**	**15**	**21**	**5**	**43**
Proportion of Properties	*4.7%*	*34.9%*	*48.8%*	*11.6%*	*100.0%*				
Expenditure									
Development Worker Salary & Oncosts					$46,344	$46,344	$46,344	$46,344	$46,344
Property Management Staff Salary & Oncosts	$678	$5,088	$24,988	$7,689	$38,443	$5,088	$24,988	$7,689	$38,443
Cyclical Maintenance	$1,200	$9,000	$12,600	$3,000	$25,800	$9,000	$12,600	$3,000	$25,800
Day to Day Maintenance	$643	$4,826	$6,756	$5,474	$16,704	$4,826	$6,756	$5,474	$16,704
Vacancies and Bad Debts	$428	$1,955	$5,813	$2,860	$10,955	$1,955	$5,813	$2,860	$10,955
Shire and Water Rates and Strata Fees	$1,461	$10,958	$15,341	$3,653	$31,412	$10,958	$15,341	$3,653	$31,412
Property Insurance	$403	$618	$865	$206	$2,136	$618	$865	$206	$2,136
Administrative Staff Salaries & Oncosts	$264	$1,982	$2,775	$661	$30,926	$27,226	$28,019	$25,904	$30,926
Administration, Office and Other Costs	$869	$5,184	$7,708	$2,845	$46,271	$374	-$2,617	-$18,145	$46,271
Total Expenditure	**$5,847**	**$39,610**	**$76,846**	**$26,387**	**$248,992**	**$106,388**	**$136,113**	**$76,985**	**$248,992**
Income									
Rent	$10,920	$65,156	$96,881	$35,753	$208,710	$65,156	$96,881	$35,753	$208,710
Grant	$0	$0	$31,960	$0	$71,960	$0	$31,960	$0	$71,960
Other Income	$0	$0	$0	$0	$10,139	$0	$0	$0	$10,139
Total Income	**$10,920**	**$65,156**	**$128,841**	**$35,753**	**$290,809**	**$65,156**	**$128,841**	**$35,753**	**$290,809**
Surplus									
Unadjusted	$5,073	$25,546	$51,995	$9,366	$41,817	-$41,232	-$9,272	-$41,232	$41,817
Adjusted for Basic Viability	$5,073	$25,546	$20,035	$9,366	$16,202	$5,113	$5,113	$5,113	$16,202
Adjusted for Static Viability	$5,073	$25,546	$20,035	$9,366	-$30,143	-$41,232	-$41,232	-$41,232	-$30,143
Adjusted for Dynamic Viability	-$109,927	-$69,454	-$94,965	-$105,634	-$145,143	-$136,232	-$136,232	-$136,232	-$145,143
Viability									
Minimum Rent for Basic Viability					$90.63				
Minimum Dwellings for Basic Viability					**39**				
Minimum Rent for Static Viability					$111.36				$111.36
Minimum Dwellings for Static Viability					**72**	**40**	**65**	**28**	**72**
Minimum Rent for Dynamic Viability					$162.79				$162.79
Minimum Dwellings for Dynamic Viability					**153**	**107**	**165**	**69**	**153**

Table A17 (Cont.)
Cost Structure of CHP6

Assumptions

SACS 6.3 hourly rate	$21.03					
SACS 5.3 hourly rate	$19.38					
SACS 3.3 hourly rate	$15.59					
Salary Oncosts (Superannuation, Liability, PI, Workers Comp)	13.0%					
Infrastructure Development Work	1.0	*FTE @*	37.5	hours per week, valued @ SACS 6.3		
Property Management Work - CHP/Deed	*0.1*	*FTE @*	*5.1*	*hours per week, valued @ SACS 5.3*		
Property Management Work - CDHP	*0.6*	*FTE @*	*21.9*	*hours per week, valued @ SACS 5.3*		
Property Management Work - CAP	*0.2*	*FTE @*	*6.8*	*hours per week, valued @ SACS 5.3*		
Property Management Work - Total	0.9	FTE @	33.8	hours per week, valued @ SACS 5.3		
Administrative and Finance Work	0.9	FTE @	33.8	hours per week, valued @ SACS 3.3		

	30/06/2000	*31/03/2000*	*30/06/1999*	*Avg 30/6/00*	*Avg -31/3/00*	*Avg 1998-99*
Deed of Trust Properties	2	2	2	2.0	2.0	2.0
CHP Properties	15	15	15	14.8	15.0	3.8
CDHP Properties	21	21	15	18.4	17.8	15.0
CAP Properties	5	5	2	3.4	2.9	0.6
Total Properties	**43**	**43**	**34**	**38.6**	**37.7**	**21.3**

Average Land Value per property	$40,000				
Average Construction Costs per property	$75,000				
Cyclical Maintenance Provision	**0.8%**	**of construction/replacement costs @**	**$600**	**pppy**	
Day to Day Maintenance - CHP/Deed/CAP	0.4%	of construction/replacement costs @	$4,302.05		
Day to Day Maintenance - CDHP	0.4%	of construction/replacement costs @	$4,302.05	up to 31/3/00	
Day to Day Maintenance - CAP	1.5%	of construction/replacement costs @	$2,399.64	up to 31/3/01	
Day to Day Maintenance - Total	**0.5%**	**of construction/replacement costs @**	**$11,003.74**	**up to 31/3/00**	

Average Weekly Rent - Deed	$105.00				
Average Weekly Rent - CHP	$83.53				
Average Weekly Rent - CDHP	$88.72				
Average Weekly Rent - CAP	$137.51				
Average Weekly Rent	**$93.34**				
Vacancies and Bad Debts - CHP/Deed	3.0%	of rental income			
Vacancies and Bad Debts - CDHP	6.0%	of rental income			
Vacancies and Bad Debts - CAP	8.0%	of rental income			
Vacancies and Bad Debts - Total	**5.2%**	**of rental income**			
Management Time per property per week - CHP/Deed	18	minutes per property or	126	properties per f/t manager	
Management Time per property per week - CDHP	63	minutes per property or	36	properties per f/t manager	
Management Time per property per week - CAP	81	minutes per property or	28	properties per f/t manager	
Management Time per property per week - Total	**47**	**minutes per property or**	**48**	**properties per f/t manager**	

Average Rates and Strata Fees - Total	$730.50	based on current rate of concessions			
Average Property Insurance - Deed	$201.54	per property per year			
Average Property Insurance - CHP/CDHP/CAP	$41.18	per property per year			
Average Property Insurance - Total	$49.68	per property per year			
Property Management Costs	8.0%	of rental income or	$16,606		
Annual Fixed Administrative Salaries and Oncosts	$25,243	*27 hours and*	*33*	*minutes per week*	
Annual Administrative Salaries and Oncosts per extra property	$132.16	*8.7 minutes pppw*			
Fixed Administration, Office and Other Costs	$29,665				
Current Lease Fee	$0.00				
Average Official M3 Lease Fee	$25.30	@	85%	singles and	15% couples
Proportion of M3 Properties	49%				
Grant - Strategic Development	$40,000				
Grant - ILP	$31,960				
* Defined as an annual surplus of	$115,000	after all expenses for static viability have been met			

Table A18
Cost Structure of CHP7

	Actuals (YTD)	Adjusted	With 0.8 FTE Development Worker	With Lease Fees on CDHP Properties
	1/7/99 to 31/3/00	*1/7/99 to 30/6/00*	*1/7/99 to 30/6/01*	*1/7/99 to 30/6/02*
(Average) Number of Dwellings	**7.6**	**20**	**20**	**20**
Proportion of CDHP Properties	*10%*	*10%*	*10%*	*10%*
Expenditure				
Development Worker Salary & Oncosts	$6,461	$10,017	$36,426	$36,426
Property Management Staff Salary & Oncosts	$7,280	$26,019	$26,019	$26,019
Cyclical Maintenance	$4,278	$15,000	$15,000	$15,000
Day to Day Maintenance	$2,755	$9,659	$9,659	$9,659
Vacancies and Bad Debts	$0	$4,602	$4,602	$4,602
Rates, Strata Fees and Water Consumption	$3,394	$11,900	$11,900	$10,710
Property Insurance	$3,751	$3,751	$3,751	$3,751
Lease Fees	$0	$0	$0	$3,203
Administrative Staff Salaries & Oncosts	$8,981	$17,154	$17,154	$17,154
Administration, Office and Other Costs	$10,942	$15,165	$15,165	$15,165
Total Expenditure	**$47,842**	**$136,267**	**$134,676**	**$136,689**
Income				
Rent	$28,534	$100,048	$100,048	$100,048
Grant	$30,027	$40,000	$40,000	$40,000
Other Income	$452	$603	$603	$603
Total Income	**$59,014**	**$140,651**	**$140,651**	**$140,651**
Surplus				
Unadjusted		$32,383	$5,975	$3,961
Adjusted for Basic Viability		$1,798	$1,798	-$215
Adjusted for Static Viability		-$8,219	-$34,628	-$36,641
Adjusted for Dynamic Viability		-$123,219	-$149,628	-$151,641
Viability				
Minimum Rent for Basic Viability		$94.47	$94.47	$96.41
Minimum Dwellings for Basic Viability		**19**	**19**	**21**
Minimum Rent for Static Viability		$104.10	$129.50	$131.43
Minimum Dwellings for Static Viability		**29**	**54**	**60**
Minimum Rent for Dynamic Viability		$214.68	$240.07	$242.01
Minimum Dwellings for Dynamic Viability		**141**	**167**	**183**

Table A18 (Cont.)
Cost Structure of CHP7

Assumptions								
SACS 6.1 hourly rate	$19.54			SACS 6.3 hourly rate	$21.03			
				SACS 5.3 hourly rate	$19.38			
SACS 3.1 hourly rate	$14.15			SACS 3.3 hourly rate	$15.59			
Salary Oncosts (Superannuation, Liability, PI, Workers Comp)	11.0%							
Infrastructure Development Work	0.22	FTE @	8.3	hours per week, valued @ SACS 6.3				
Property Management Work	0.62	FTE @	23.3	hours per week, valued @ SACS 5.3				
Administrative and Finance Work	0.36	FTE @	13.5	hours per week, valued @ SACS 3.3				
	21/06/2000	*31/3/2000*	*1/7/1999*	*Avg -31/3*	*Avg -29/5*			
CHP Properties	18	8	3	5.4	8.5			
CDHP Properties	2	2	0	1.2	1.3			
Total Properties	**20**	**10**	**3**	**7.6**	**9.9**			
Average Land Value per property	$40,000							
Average Construction Costs per property	$75,000							
Cyclical Maintenance Provision	1.0%	of construction/replacement costs (Homeswest guideline)						
Day to Day Maintenance	0.6%	of construction/replacement costs @	$2,754.81					
Average Weekly Rent - CHP	$96.44							
Average Weekly Rent - CDHP	$95.00							
Average Weekly Rent	$96.20							
Vacancies and Bad Debts	4.6%	*of rental income (TCHP)*						
Properties Managed by 1 Manager	32							
Average Weekly Management Time per property	70	minutes						
Average Local Government and Water Rates	$595.00	based on water rates @ $500, and rubbish rates @ $95 and exemption from all other rates						
Average Property Insurance	$187.53	per property per year						
Property Management Costs	6.9%	of rental income or	$3,396.87	@	$3,099.07			
Annual Fixed Administrative Salaries and Oncosts	$10,353	*11 hours and*			*30 minutes per week*			
Annual Administrative Salaries and Oncosts per extra property	$90.03	*6 minutes per week (TCHP)*						
Fixed Administration, Office and Other Costs	$8,269.81	@	$7,544.78	up to 29/5/00				
Average Official M3 Lease Fee	$30.80	at	60%	singles and	40%	couples		
Proportion of M3 Properties	10%							
Other Income	$602.52	at	$549.70	up to 29/5/00				
Grants	$40,000							
* Defined as an annual surplus of	$115,000	after all expenses for static viability have been met						

Table A19
Cost Structure of HC1

HC1 Viability Study	YTD Actual	99/00 Adjusted	Actual Time Waged	Standard Time Waged
# Dwellings	**9**	**9**	**9**	**9**
Expenditure				
Development Worker Salary & Oncosts	$0	$0	$14,808	$14,808
Property Management Staff Salary & Oncosts	$0	$0	$5,677	$6,642
Cyclical Maintenance	$7,180	$4,878	$4,878	$4,878
Day to Day Maintenance	$3,857	$4,918	$4,918	$4,918
Vacancies and Bad Debts	$0	$540	$540	$540
Rates	$10,677	$10,677	$10,677	$10,677
Property Insurance	$1,080	$1,080	$1,080	$1,080
Lease Fees	$0	$0	$0	$0
Administrative Staff Salaries & Oncosts	$0	$0	$1,949	$1,949
Financial Staff Salaries & Oncosts	$0	$0	$2,271	$2,271
Administration, Office and Other Costs	$3,499	$3,695	$3,695	$3,695
Total Expenditure	**$26,293**	**$25,789**	**$50,493**	**$51,458**
Income				
Rent	$30,545	$37,540	$37,540	$37,540
Other	$341	$434	$434	$434
Total Income	**$30,886**	**$37,974**	**$37,974**	**$37,974**
Surplus				
Unadjusted	$4,593	$12,186	-$12,519	-$13,484
Adjusted for Basic Viability		$11,751	$1,854	$889
Adjusted for Static Viability		$11,751	-$12,953	-$13,918
Adjusted for Dynamic Viability		-$103,249	-$127,953	-$128,918
Operating Costs		*$2,865*	*$3,965*	*$4,072*
per week		***$55.10***	***$76.25***	***$78.31***
Average Operating Costs		*$2,636*	*$3,372*	*$3,480*
per week		***$50.69***	***$64.85***	***$66.92***
Viability				
Minimum Rent for Basic Viability		$55.10	$76.25	$78.31
Minimum Dwellings for Basic Viability		**2**	**7**	**8**
Minimum Rent for Static Viability		$55.10	$107.89	$109.95
Minimum Dwellings for Static Viability		**2**	**26**	**30**
Minimum Rent for Dynamic Viability		$304.39	$357.18	$359.24
Minimum Dwellings for Dynamic Viability		**77**	**170**	**196**

Assumptions

Average Weekly Rent per unit	$80.21	Average Land Value			$38,889
Inannas House Hourly Rate	$0.00	Average Construction Costs			$77,778
SACS 6.3 Hourly Rate	$20.63				
SACS 5.3 Hourly Rate	$18.99				
SACS 4.3 Hourly Rate	$16.30				
Salary Oncosts	15%				
Infrastructure Development Work	0.3	FTE @	12	hours per week	
Cyclical Maintenance on leased properties	0.70%	of construction/replacement costs			
Day to Day Maintenance	0.70%	of construction/replacement costs			
Vacancies and Bad Debts	1.44%	of rental income			
Properties Managed by 1 Full Time Manager	68				
Average Weekly Property Management Time	33	minutes:			
Average Annual Local Government and Water Rates	$1,186				
Average Annual Insurance	$120				
Property Management Costs	4.3%	of rental income			
Fixed Administrative Salaries and Oncosts	$0.00	*1 hour and*		*33 minutes (secretary)*	
Administrative Salaries and Oncosts per extra property	$0.00	*3 minutes*			
Fixed Financial Salaries and Oncosts	$0.00	*1 hour and*		*33 minutes (treasurer)*	
Financial Salaries and Oncosts per extra property	$0.00	*3 minutes*			
Fixed Administration, Office and Other Costs	$2,064				
Other Income	$434				
Dynamic Viability defined as a surplus of	$115,000	after all expenses for static viability have been met			

Table A20
Cost Structure of HC2

HC2 Viability Study	*Adjusted 99/00*	
Number of Dwellings	**8**	
Expenditure		
Strategic Development Worker Salaries and Oncosts	$0	
Other Salaries and Oncosts	$0	
Cyclical Maintenance	$9,040	
Day to Day Maintenance	$2,375	
Vacancies and Bad Debts	$138	
Rates	$8,466	
Property Insurance	$944	
Fixed Administration, Office and Other Costs	*$1,028*	
Variable Administration, Office and Other Costs	*$1,145*	
Administration, Office and Other Costs	$2,173	
Total Expenditure	**$23,136**	
Income		
Rent	$27,572	
Other	$2,161	
Total Income	**$29,733**	
Surplus		
Unadjusted	$6,597	
Adjusted for Basic Viability	$4,436	
Adjusted for Static Viability	**$4,436**	
Adjusted for Dynamic Viability	-$110,564	
Average Operating Costs per unit per year	$2,892	
Average Operating Costs per unit per week	$55.61	
Average Operating Costs per unit per year	**$2,763**	
Average Operating Costs per unit per week	**$53.14**	
Viability		
Minimum Rent for Basic Viability	$55.61	
Minimum Dwellings for Basic Viability	2	
Minimum Rent for Static Viability	**$55.61**	
Minimum Dwellings for Static Viability	**2**	
Minimum Rent for Dynamic Viability	$332.06	
Minimum Dwellings for Dynamic Viability	170	
Assumptions		
Number of Units	8	
Replacement Costs	$75,000	per unit
Land Value	$40,000	per unit
Cyclical Maintenance	1.5%	of construction/replacement costs
General and Grounds Maintenance	0.4%	of construction/replacement costs
Vacancies and Bad Debts	0.5%	of rental income
Average Weekly Rent per unit	$66.28	
Annual Local Government, Sewerage and Water Rates per unit	$1,058.27	
Annual Insurance per unit	$118.00	
Property Management Costs	4.2%	
Weekly Operating Costs per unit	$52.81	*$2,746.25 per year*
Fixed Administration, Office and Other Costs	$1,027.89	
Other Income	$2,161.01	
Dynamic viability defined as a surplus of	$115,000	

Table A21
Cost Structure of HC3

HC3 Viability Study					
Number of Dwellings	**14**				
Income					
Rent	$49,621				
Other Reliable Income	$1,102				
Other Unreliable Income	$3,381				
Total Income	**$54,104**				
Expenditure					
Infrastructure Development Costs	$0				
Cyclical Maintenance	$19,080				
Ongoing and Grounds Maintenance	$4,342				
Vacancies and Bad Debts	$496				
Rates	$13,436				
Property Insurance	$1,847				
Fixed Administration, Office and Other Costs	*$2,926*				
Variable Administration, Office and Other Costs	*$2,425*				
Administration, Office and Other Costs	$5,352				
Total Expenditure	**$44,553**				
Surplus					
Unadjusted	$9,550				
Adjusted for Basic Viability	$6,169				
Adjusted for Static Viability	**$6,169**				
Adjusted for Dynamic Viability	-$155,431				
Viability					
Minimum Rent for Basic Viability	$61.20				
Minimum Dwellings for Basic Viability	6				
Minimum Rent for Static Viability	**$61.20**				
Minimum Dwellings for Static Viability	**6**				
Minimum Rent for Dynamic Viability	$283.18				
Minimum Dwellings for Dynamic Viability	289				
Assumptions					
Number of Units	14				
Replacement Costs	$81,600	per unit @	$1,530,000		
Land Value	$80,000	per unit @	$1,200,000		
Average Rent	$68.16	per unit per week			
Other Reliable Income	$1.51	per unit per week @	$1,101.97	per year	
Other Unreliable Income	$3,380.87				
Cyclical Maintenance	1.7%	of construction/replacement costs @		$19,080	per year
Ongoing and Grounds Maintenance	0.4%	of construction/replacement costs @		$4,342	per year
Vacancies and Bad Debts	1.0%	of rental income			
Annual Land and Water Rates per unit	$959.75				
Annual Insurance per unit	$131.93				
Property Management Costs					
Fixed Administration, Office and Other Costs	$2,926.26	per year			
Dynamic viability defined as a surplus of	$161,600	after all expenses for static viability have been met			