NATIONAL REGULATORY SYSTEM
COMMUNITY HOUSING
A joint initiative of Commonwealth, State and Territory Governments

NRSCH Snapshot Report – 2019-2020

Financial Performance

During 2020 community housing providers (CHPs)have been faced with **unprecedented challenges** as a consequence of the COVID-19 pandemic. Some NRSCH jurisdictions amended operations with routine compliance assessments placed on hold to allow providers to **focus on priorities** arising from the pandemic.

This financial analysis is based on information submitted for the purposes of compliance activities in the **2019 financial year**. Due to timing differences between compliance activities of the NRSCH and the official reporting of financial results by community housing providers, financial results from the financial year 2019 have been used with historical comparisons against the preceding financial year 2018.

Registrars remain committed to increasing the **transparency of data** overtime, however, the significant impacts on business operations nationally have influenced the ability to provide timely and comprehensive reporting for 2019-2020.

The community housing sectors' financial performance improved and continues to be financially viable.

Tier 1 & Tier 2

registered community housing providers

Tier 1 & Tier 2 CHPs reported **increases in rent revenue** that continue to be driven by general inflation and growth in housing stock. There was a **positive growth in Operating EBITDA** since last financial year.

Table 1: Tier 1 & Tier 2 revenue snapshot FY18-FY19

	Rent Revenue	Total Grants	Operating EBITDA
FY18	$599,528,813	$1,111,627,439	$238,269,470
FY19	$679,911,789	$1,165,556,590	$272,844,440
% Change	13.4%	4.9%	14.5%
$ Change	$80,382,976	$53,929,151	$34,574,970

The **$222m increase in total housing debt** in FY19 largely reflects the approval of low cost loans issued by the National Housing Finance and Investment Corporation (NHFIC), through its affordable housing bond aggregator, to registered CHPS in New South Wales, Tasmania and South Australia. These loans will be used to acquire or construct new social and affordable housing or refinance existing housing debt.

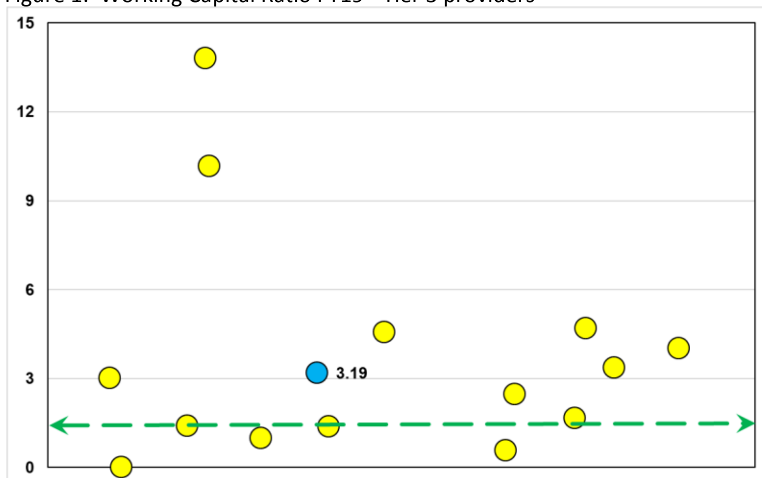
It is expected that the **value of housing assets will increase** in future years as NHFIC funded developments are completed. Other factors, such as asset revaluations, the number of project developments, level of debt, would need to be considered to determine trends in net assets.

Table 2: Tier 1 & Tier 2 asset snapshot FY18-FY19

	Housing assets-written down value	Total housing debt	Total Assets	Net Assets
FY18	$6,313,974,046	$695,075,633	$7,632,452,321	$2,629,794,275
FY19	$6,893,682,866	$917,037,613	$7,804,886,044	$2,414,410,402
% Change	9.2%	31.9%	2.3%	-8.2%
$ Change	$579,708,820	$221,961,980	$172,433,723	-$215,383,873

Tier 3 registered community housing providers

Figure 1: Working Capital Ratio FY19 - Tier 3 providers

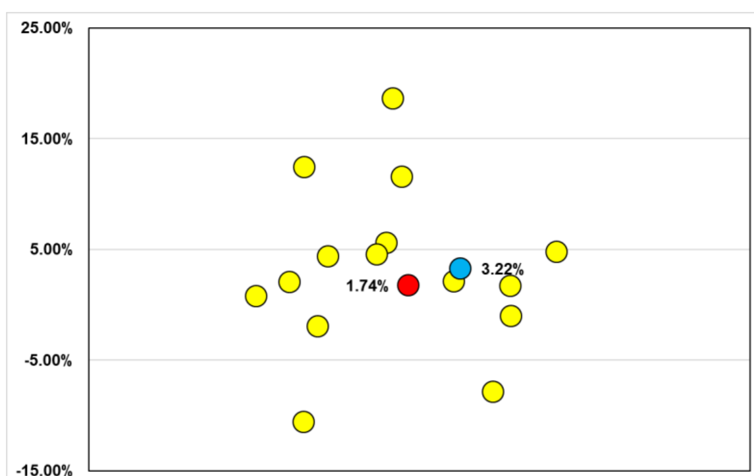


Most Tier 3 providers demonstrated sufficient liquidity to meet their short-term operating obligations.

Working capital ratios are key liquidity measures and indicate whether the provider has enough current assets (less restricted cash) to meet its short-term obligations when they fall due. The threshold for Tier 3 providers is >1.5 times. The median working capital ratio is 3.19 times for Tier 3 providers, indicating that most Tier 3 providers demonstrated sufficient liquidity to meet their short-term operating obligations.

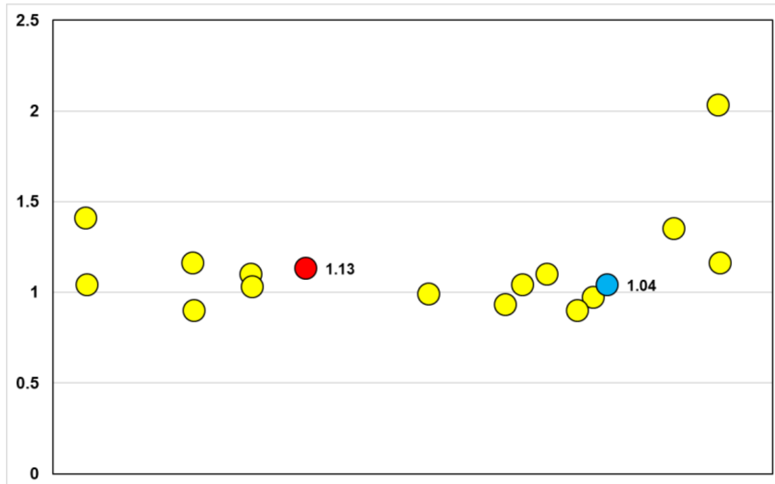
Figure 2: Operating EBITDA Margin FY19 - Tier 3

Most Tier 3 providers generate sufficient margins to achieve business goals



Operating EBITDA margin indicates the CHP's profitability as a percentage of operating revenue before depreciation and interest expense. The threshold for Tier 3 CHPs is between 0% - 5%. Median operating EBITDA margin was 3.22% for Tier 3 CHPs, indicating that most are generating sufficient margins to achieve business goals.

Figure 3: Operating Cash Flow Adequacy FY19 – Tier 3 providers

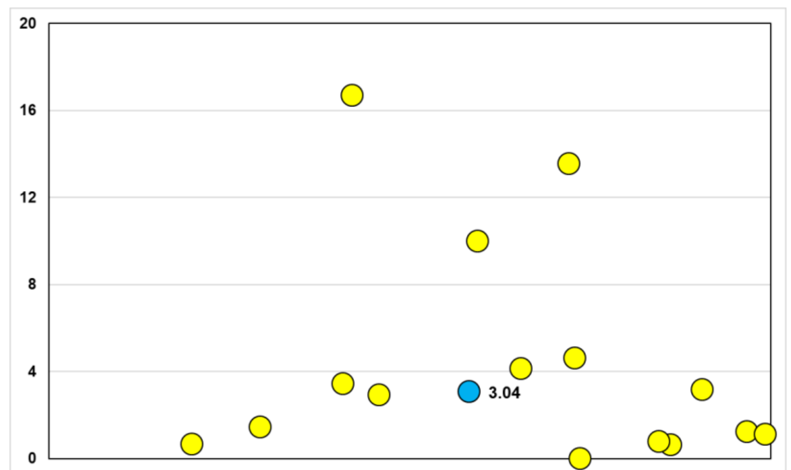


The majority of Tier 3s generate sufficient cash flow from operations to pay ongoing expenses

Operating Cash flow Adequacy Ratio is a key financial performance measure and indicates whether a CHP generates sufficient cash flow from its operations to achieve its business goals. The threshold for Tier 3 CHPs is >1.0 times.

The weighted average for cash flow adequacy was 1.13 times for Tier 3 CHPs. The median cash flow adequacy was 1.04 times. These results indicate that the majority of Tier 3 CHPs generate sufficient cash flow from operations to pay ongoing expenses.

Figure 3: Amended Quick Ratio FY19 – Tier 3 providers



Most Tier 3s have sufficient cash to withstand short term adverse events

Amended Quick Ratios are key short-term liquidity measures and indicate the CHP's ability to quickly meet its short-term liabilities. The threshold for Tier 3 CHPs is >1.2 times.
The Median Amended Quick Ratio for Tier 3 CHPs is 3.04 times, indicating that most have sufficient cash to withstand short term adverse events. Those below the threshold may need to consider risk mitigation strategies or access alternate funding options.

The year ahead

Registrars are currently awaiting the imminent arrival of FY20 results from CHPs. These typically are prepared 3-5 months after the end of the financial year and are impacted by the timeframes of Auditors, the timing of Annual General Meetings and, finally the timing and verification of Financial Performance Reports submitted to the NRSCH.

Individual results aside, Registrars and Analysts have identified several key issues and events that they expect will have a material impact on the sector:

- NHFIC has approved further loans to deliver additional social and affordable homes and to refinance debt, including the largest social bond issuance from an Australian provider[1]. It also announced a capacity building grant program to the value of $1.5m to assist providers to access NHFIC financing. As a result, the level of debt in the sector is expected to increase in line with the issuance. Given that a significant proportion of the debt is for construction activity, it is also expected that there will be a lag in any corresponding increase in net assets.

- The sector will see the further winding down of NRAS subsidies, which will impact on its income stream and tenant outcomes. Not for profit real estate agencies have been established to offset the loss of NRAS income.

- The response to the COVD-19 pandemic is the most significant event to affect CHPs during FY20 so far and it had the potential to effect viability. An initial concern was that CHP's rent revenue could have been threatened through an increase in unemployment. However CHPs report that rental income has remained stable, largely because of government initiatives, such as Job Keeper and Job Seeker. It is acknowledged this situation could change when these programs are wound back. Whilst the broader sector acknowledges COVID-19 poses limited risk to viability, uncertainties remain which make it difficult for CHPs to model precisely, the long-term impacts on their operations. Issues like potential rental increase freezes, and long-term maintenance performance could be affected by an inability to conduct maintenance inspections in the immediate future. These issues will continue to be monitored by Registrars.

[1] https://www.nhfic.gov.au/media-resources/media-releases/nhfic-finalises-largest-social-bond-from-an-australian-issuer/