DTP VIEWS

Spring 2017

Commercialisation in the housing sector – nothing new but the return must be worth the effort

– Andy Roskell, Managing Director, DTP

Recently I read an article in The Guardian entitled "Housing associations are critically important, but have lost their way". It took the tact that too many housing associations have focused on being developers (and the profit) and as result have lost sight of their mission to provide good homes at genuinely affordable price. (https://www.theguardian.com/housing-network/2017/apr/24/housing-associations-crisis-commercialisation)

But let's not forget this diversification and commercialisation has been with us for a long time. I remember this being topical in the 90's, more recently the global financial crisis and the rent reductions have seen associations taking a more entrepreneurial outlook in respect of new ventures and there has been a marked increase in the appointment of commercial directors and along with this the recruitment of board members from commercial backgrounds.

The rationale for diversification is clear and well founded, as there are a number of drivers for this. The most obvious of these is the desire to generate revenue to fund social activities. Some of the larger associations have cited their move towards a wider range of activities as a response to the inability of some local authorities to provide services and community support in areas where they have housing stock.

Small to medium associations have largely used diversified activities to generate subsidy for their housing business and to provide additional funding which can fund new housing provision. Inevitably, the success of such activity across the sector has been mixed. There are certainly some excellent examples, but equally there are a number of examples where it is clear that the pursuit of these activities has required a significant investment of resources, with little evidence of a significant return on the investment of time, money and resources, or an assessment of the opportunity cost of pursuing these. All of this would be deeply embedded in the practices of a purely commercial company, but for many organisations in this sector the desire and the demand to drive out commercial returns on deployed investment can often be obscured by social objectives and priorities.

What needs to be recognised is that successful commercial activities require commercial acumen, commercial skills and experience and a lot of time, money and resources. If the return is tangible then the investment is clearly worthwhile, but the danger of pursuing activities with less clear outcomes is the impact that these efforts can have on core business, which can be diluted through the spread of available resources.

Associations must always remember what they are here to do and most importantly how any activity will contribute to the corporate strategy, key objectives and the delivery of the mission/vision that has been established. It is clear that the HCA has recognised the uneven outputs from these activities and has raised concerns about the levels of returns and the exposures to risk and the IDA approach is now looking to explore any signs of weakness.

HCA chair Julian Ashby, in a recent article, has noted that the levels of return achieved by associations' core business can often be significantly greater than those achieved by so called diversified, commercial activities. This reveals the levels of risk associated with such ventures and suggests that more thought, planning and skills need to be brought to bear, before commitments are made to non-core, resource draining, commercial activities.

Clearly, all of the skills and necessary experience that is required to make a success of such activities can be easily outsourced, but the management and governance framework for the association must be able to sustain, monitor and effectively manage these activities, well after the advisors have moved on. The regulator will expect the board of management to fully understand these aspects of the business and all of the risks that are inherent. Effective mitigations will also need to be well established and they must be practical and fully achievable. None of the foregoing should in any way discourage the exploration of diversification and the pursuit of commercial returns, it should simply raise the priority of fully appraising the investment against the real prospect of securing a return that is worth the effort and the risk exposures that may be involved.