

# DHA under pressure to sell property

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The \$2.4 billion Defence Housing Australia is under increasing pressure to sell property and cut costs to free up capital for its owner, the federal government, following the shock departure of its managing director.

While the government insists there are no plans to privatise DHA, sources said the accommodation provider would be subject to increased cost-cutting and a possible review of its model.

Its managing director, Peter Howman, left the business last week prompting Australia's Chief of Defence Air Chief Marshal Mark Binskin to warn the Turnbull government not to tamper with the accommodation provider.

DHA has been taking on more risk in recent years as it seeks to compete with the private sector. Last financial year it purchased \$123 million worth of development land which is about \$73 million more than its budget allows.

Industry sources said that DHA had become increasingly competitive with private sector developers but government and political demands meant any losses on any DHA projects would be magnified, crimping the extent of its competitiveness.

The federal government has \$2.4 billion in equity tied up with DHA. In fiscal 2015, DHA provided a \$54.6 million dividend to the government based on a 60 per cent payout of net profit after tax.

At the same time the Department of Defence spent \$838 million on housing for its personnel in fiscal 2015, up from \$821 million in fiscal 2014.

The federal government also provides a \$509 million unsecured loan to DHA with a weighted average interest rate of 5.4 per cent.

Some expect that DHA will now be pushed to sell development sites and/or contract out more work to private sector developers. KordaMentha has been

reviewing DHA business model.

As of June this year, DHA managed 18,872 properties across Australia worth about \$10 billion. At that time it owned 3573 properties or 19 per cent of the total portfolio.

In its annual report the association noted that it was looking to sell large tranches of the investment stock.

"We continue to liaise with financial institutions who have expressed interest in bulk acquisition of our properties under leaseback arrangements."

DHA also has joint ventures with several developers including the Morgan Stanley-owned Investa Property Group in Darwin and listed developer Peet at Warners Lake in Brisbane.

In an exclusive interview with *The Australian Financial Review*, DHA's chief operating officer Madeline Dermatossian said the business was transforming its funding base to continue expanding and meet the sensitive military accommodation requirements.