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A Way Forward for Stock Transfers

This paper compiles the views of Community Housing Organisations (CHOs) as expressed through meetings of the Auckland Community Housing Providers Network (ACHPN), the Community Housing Aotearoa (CHA) Growth and Development Sector Solution Group, and through initial consultation with Te Matapihi. It is a snapshot of views to date, subject to further dialogue.

Introduction

New Zealand has the opportunity to measurably improve the lives of its citizens by partnering with Community Housing Organisations (CHOs) to transform existing state housing into dynamic mixed-tenure and mixed-income communities. This will assist HNZC in their portfolio re-alignment objectives to better assist “people in the greatest need for the duration of their need”. Together, HNZC and CHOs have the local knowledge and relationships required to best understand the housing and related needs of the communities they serve. In addition, CHOs are able to leverage private and philanthropic capital to achieve results unattainable by government alone. Experience in New Zealandⁱ and overseas indicates that the holistic, locally focused services provided by CHOs result in improved educational, economic and health outcomes.

CHA and Te Matapihi are aware of a number of members and Iwi engaged in direct negotiations with HNZC on stock transfers and strongly support the continuation of such discussions. This paper seeks to promote a way forward, accelerating both these negotiations and the actual stock transfers.

Stock Transfers- why they haven't worked so far

To date, despite Ministerial direction to HNZC, no stock transfer to a Community Housing Organisation has occurred through the current reforms. This is due to several factors:

- HNZC has a structural conflict of interest in that its current program of “Asset Sales” follows its board requirement to deliver maximum dividends to the Crown;
- The Housing Reform goals of a transfer of 20% of HNZC stock to the CHO sector by 2020 requires a value proposition based on the ongoing delivery of social and affordable housing resulting in a much lower rate of return;
- No CHO can pay the current market values in high-cost areas and keep rents below market-the deals simply don't stack up on commercial terms;

- No clear terms of reference for negotiations between CHOs and HNZN have been provided, resulting in years of discussion on various segments of the stock- and deals that simply don't get over the line.

A Way Forward for Stock Transfers: Independent negotiating partner

The above factors set the table for a new process to be established between government and the Community Housing sector to achieve the benefits as set out in "Home and Housed- A Vision for Social Housing in New Zealand" (April 2010). A new independent negotiating partner not constrained by the requirements imposed on HNZN is needed.

To be clear, this independent negotiating partner will need to implement a process for two types of transfers; State Housing Stock and Community Group Housing. The stock held by Territorial Local Authorities is an additional issue to be considered separately. The initial focus should be the transfer of existing HNZN State Housing Stock and its operational systems to CHO's Registered with the Community Housing Regulatory Authority. We describe these types of stock as:

- State Housing Stock: HNZN Social/Affordable Stock that is not consistent with current needs or is ripe for redevelopment, reconfiguration or upgrade. The process for transfer may include direct negotiations with one or more CHOs currently operating within that geographic area, and in some cases may benefit from a facilitated approach where a set of organisations collaborate to provide a mixed-tenure, mixed service model response.
- Community Group Housing Stock: Community Group Housing Stock is a service provided by HNZN. The service provides rental homes for government-funded (e.g. Ministry of Health, District Health Board, or Child, Youth and Family) groups or organisations that provide residential community services. The community group providing the services has a lease for the property from HNZN and pays a market rent. The community group is then responsible for placing clients under its services contract into the home and providing the services required under the contract.

From our perspective, the State Housing Stock transfers can meaningfully contribute toward the government's goal of 20% of social and affordable housing stock held by CHOs by 2020. The approximately 1,500 Community Group Homes occupy a unique niche on the housing continuum. They are tied to service contracts, do not provide the tenant with security of tenure, are not available for rent on the open market and are therefore differentiated from social and affordable housing. Whether they can, or should, move into this space is a matter for further discussion.

The new process needs to set a clear and transparent pathway for Stock Transfers. A coordinated approach that meets local community needs and is aligned with stakeholder interests is required.

We are concerned that if only Community Group Housing stock transfers occur, that the box for 'stock transfers' will have been ticked. While there are significant benefits for both tenants and the sector for doing this, it won't lead to significant sector growth or the delivery of new supply- which is what the State Housing Stock transfers can help us achieve through smart redevelopment.

The Sector's proposal:

- 1) Agree a set of Principles;**
- 2) Agree a set of Objectives;**
- 3) Appoint a new Independent Negotiating Partner;**
- 4) Adopt a funding model.**

Step 1: The Principles

- A Tenant Charter: tenant interests are protected, ongoing affordability is assured, and quality of housing is improved. Tenant consultation is embedded in the process;
- Government Investment is protected by transfer to Registered non-profit organisations that will preserve, reinvest and recycle the investment- as stipulated by their charters;
- Strategic stock configuration decisions are handled independently of HNZC to ensure they are fit for purpose, meeting local market, social, and affordability needs.

Step 2: The Objectives

- The government's goal of growing the Community Housing sector to provide 20% of the social and affordable housing stock by 2020, thereby increasing consumer choice, is met;
- Housing New Zealand Corporation's portfolio realignment goals are advanced;
- The process and methods for stock transfers are open, public, and transparent;
- Clearly set parameters that foster project/property-specific commercial negotiations are universally applied;
- Best practice is applied- we learn from NZ's own success in this area and from the experiences of other countries;
- Transfers are well planned, well executed, meet the agreed principles, and are consistent with a long term asset management strategy;
- Transfers are structured to add value and diversity to a community, recognizing government's core responsibility to meet the needs of our most vulnerable people, rather than as a way of shifting responsibility;
- Deferred maintenance is dealt with through a planned approach and proper investment as evidenced by long term asset management plans for revitalisation, reconfiguration and recycling of the stock;
- Public investment receives the best social return, utilising the CHO's non-profit balance sheet to retain and recycle the value over and over to benefit future generations.

Step 3: Appoint a new Independent Negotiating Partner: Stock Holding Co.

We propose the establishment of a new independent Stock Holding Company to facilitate the transfer of HNZN stock and experience.

The Stock Holding Company would:

- Be empowered to transfer stock on commercially reasonable terms, even when the resulting value is lower than current book value;
- Use a restricted cash flow valuation recognizing the continued use of the stock as social and affordable housing;
- Apply discounts to value based on the investment required to bring the stock up to modern standards of accessibility, safety and comfort;
- Absorb the difference between the stock transfer value and book value received from HNZN;
- Not be subject to the inherent conflicts of interest faced by HNZN, which will be able to focus on its core responsibilities of tenancy and asset management for those most in need;
- Independently identify stock for transfer based on the Objectives;
- Facilitate the transfer of HNZN staff and operational systems to accompany the stock when appropriate.

The independent Stock Holding Company should adopt a regional approach that will meet the multiple needs of local families, HNZN, TLAs, CHOs and the community. Iwi as Treaty partners often hold first rights of refusal for HNZN properties in their role and are thus able, either through the Iwi leaders' forum or as individual Iwi, to make independent submissions in relation to the asset transfer issues and opportunities as they see them. Through an open and transparent process, a Stock Transfer Plan would be developed taking into consideration all stakeholder rights and interests, existing neighbourhood concerns, housing needs (by size, type and tenure), available resources and appropriate timeframes for implementation.

Step 4: Adopt a Funding Model

The independent Stock Holding Company will be tasked with confirming the funding model for transfers. We think that model will include:

- A newly shaped IRRS- contracted to the project for the long term, filling the gap between a market rent and the household's ability to pay;
- Vendor finance- depending on the specific requirements of the transfer, tools that address the difference in the capital cost of the property and its cashflow ability for debt service;
- CHO investment- through debt supported by cashflow after expenses, or other capital.

This funding model must be flexible and adaptable. It will need to be robust enough to analyse significant estate transfers destined for community renewal and regeneration, yet simple enough to efficiently manage a one-off Community Group Home transfer. Valuation amounts and finance

structures need to address transfers that will involve complex demolition and redevelopment projects as well as the straightforward continued operation of existing homes.

Going Forward

We all agree and share the view that Stock Transfers should occur. To date, the “how” has been the barrier. This proposal attempts to provide a clear path ahead, based on sound principles and objectives. More input is required from stakeholders to fully establish this path. The interests and rights of HNZN tenants and staff, Community Group Housing clients, Local Authorities, Iwi, and other parties must be solicited and addressed. The impacts and benefits of Stock Transfers are broad and cannot solely be determined through commercial transactions between HNZN and CHOs.

We believe that this new way forward can result in a community centred revitalization offering multiple benefits to all stakeholders:

- Families would have new housing opportunities that best match their needs (including services, form of tenure and size of homes) within their community;
- The Stock Holding Company would have identified partners to undertake an orderly transfer of existing staff and stock with agreed upon timeframes and outcomes;
- Housing New Zealand Corporation would meet its portfolio realignment goals and not be placed in a conflicted position of negotiating the transfer values;
- Community Housing Organisations would unlock and leverage the underlying value of existing stock, while maintaining community ownership of the property received;
- Government’s goals of providing increased housing choices and competition to benefit consumers will be realised;
- We will move closer to achieving “All New Zealanders, well housed”.

It is Time for Action

There is currently an alignment of factors favouring the adoption of the proposed new approach:

- Housing pressures are evident in communities throughout the country that cannot be resolved through the traditional state housing model. Homeownership rates are in decline as home prices have risen and rental housing supply is not meeting the added demand;
- Housing New Zealand Corporation needs to reconfigure and realign its portfolio to match changing needs and demographics. In many instances, HNZN concedes it does not have the right product in the right market. In addition, past priorities have left it with a concentration of seriously deteriorated ageing or ill-configured stock in numerous markets. It now recognises that it needs assistance to re-align its portfolios and/or to bring these up to an acceptable standard within mixed tenure communities;
- Community Housing Organisations have the demonstrated ability to develop, own and manage housing. They can reconfigure and redevelop HNZN stock into community assets providing a range of housing opportunities appropriate to households at different points in

their lives. Families would have access to different tenures within the same neighbourhood, thereby maintaining and strengthening communities;

- The Housing Minister has stated the goal of growing the Community Housing sector to provide 20% of social and affordable housing by 2020. While capital funding is constrained, the value locked into HNZC stock can be unleashed by the Community Housing sector.

ⁱ “Affordable, Planned Housing: A Residents’ Perspective” by New Zealand Housing Foundation, CityScope Consultants and the Tindall Foundation reports significantly improved quality of life outcomes for families living in mixed tenure, community housing developments.