Community Housing Provider Capacity: A Research Report

–

Increasing the Supply of Social and Affordable Housing

24 November 2016

By Paul Minett

Strategic LIFT

Vision - Insight - Strategy - Alignment

CHP Capacity Research Report – Increasing the Supply of Social and Affordable Housing

24 November 2016

Table of Contents

Executive Summary

Community Housing Aotearoa (CHA) engaged Strategic Lift Ltd (SLL) to carry out a research project to better understand the funding and related needs and capabilities of Community Housing Providers (CHPs) in the context of meeting CHA's sector target of an increase of 12,000 units of CHP controlled housing capacity by 2020. Interviews were carried out with seven major Auckland-based CHPs.

The major finding is that absent anticipation of sufficient funding for even a low level of expansion, there is only a minimal pipeline of community housing projects. The 12,000 additional units by 2020 is a target that will not be met. Under current funding arrangements it is unlikely there would be more than 1,000 additional housing units delivered by 2020.

12,000 housing units will cost in the order of $6.6 Billion. The magnitude of this funding requirement has not previously been confronted (or if it has, it is not mentioned in the Our Place strategy document).

The additional 12,000 homes are CHA's assessment of housing need.

The report makes the following recommendations:

1. Review the goal and reset the target end-date in the context of progress to date, a reasonable ramping up period, and the New Zealand construction market;
2. Revise the Our Place plan with clarity around the magnitude of the funding challenge ($6.6 Billion if the target remains at 12,000 housing units, which at 50% equity would require a $3.3 Billion equity investment in the sector, which if delivered over 11 years would require an average of $300 million of equity per year);
3. Ensure it is clear to all that if there is no funding stream in place, there will be no significant delivery of housing: funding is a precondition;
4. Develop a strategy to deliver the required annual funding stream, allowing for equity and debt financing;
5. Maintain a database of the pipeline of CHP projects, at all stages of development.

CHPs can be reasonably expected to rise to the occasion and deliver the desired growth at the targeted level if there is a reliable stream of funding.

Introduction

Community Housing Aotearoa (CHA) engaged Strategic Lift Ltd (SLL) to carry out a research project to better understand the funding and related needs and capabilities of Community Housing Providers (CHPs) in the context of meeting CHA's sector targets for growth in CHP controlled housing capacity.

An interview guide was prepared and agreed. Seven interviews were completed. An initial impressions report was prepared. A further impressions presentation was prepared and presented to CHA Council. This is the written report.

CHA's sector strategy document, Our Place, sets a goal for the community housing sector to house an additional 35,000 people by 2020. Assuming a starting point of approximately 15,000 people housed by 2015, this would represent more than a three-fold increase in five years. Converted to housing units, this suggests an increase of 12,000 housing units between 2015 and 2020, added to a base of 5,000, a very significant increase indeed over a very short period of time.

CHA had established New Zealand Community Housing Funding Ltd (NZCHF) as a subsidiary to help provide property development debt-financing for CHPs. Setting aside the challenges of raising the $30 million intended for NZCHF to fund the development financing, it became abundantly clear that there was no pipeline of CHP projects requiring development financing.

If NZCHF was going to provide a product that would be of use to the CHPs, it would have to be different to the development financing product for which it had been formed. A key component of the research was to inform product development for NZCHF.

Disclaimer, and thanks

The findings and conclusions in this report are those of the author and do not necessarily represent the official position of Community Housing Aotearoa nor the Community Housing Providers interviewed. CHA and the CHPs are thanked for the time they gave for preparation, openness during interviews, and providing feedback on draft versions of the report. Any errors in interpretation of the information received are mine alone.
Paul Minett, Auckland, 24 November 2016.

Interview Guide

The final interview guide is included as Appendix 1.

The structure of the interview guide was intended to learn about the existing methods, aspirations and plans of each CHP, rather than engage in a speculative 'what if' process about how they might meet a target that they might not yet have signed up for.

After an introduction and setting the stage, and confirming confidentiality intentions, the respondent is asked to introduce the organisation. This question (as answered) generally automatically covered many of the questions later in the guide.

A set of questions about monthly internal financial and performance reporting was included in the initial guide to help understand how the CHP views operations. This set of questions was dropped once interviewing began as it became evident that a) people would usually describe this to some extent when answering other questions, and b) a discussion about monthly reporting would pull the interview down to a more operational rather than the desired strategic level.

The next section was about future planning. It was open-ended to avoid guiding a specific type of answer. "Do you have a picture in your mind of what the organisation will look like in five years' time?"

Having understood where they see themselves heading, the guide provided questions that would help understand how capable they would be of getting there.

The guide was used as a guide rather than as a rigid template. The order of covering certain topics didn't matter as much as getting a comprehensive impression of their capability of achieving their goals.

At the end of the guide, and applied as a specific template, was a list of potential dimensions for a shared equity product. Each respondent was asked their opinion about each of these dimensions and what the setting of each should be in such a product.

The Interviews

The interviews were carried out in early July 2016, with one exception that was carried out in mid-September. The following CHPs were interviewed:

1. Airedale
2. Emerge
3. Vision West
4. NZ Housing Foundation
5. CORT
6. Accessible Properties

7. Monte Cecilia

Each interview was approximately 2 hours in length. The interviews were audio recorded to help with checking written notes that were also taken.

The Findings

An overall impression of strong and professional, capable management and governance in all the organisations interviewed. No obvious internal shortcomings were exposed through the discussions.

The seven organisations collectively control about 2,370 housing units, comprising about 1,050 owned and 1,318 leased. These are located throughout the country. In the past year they have added about 84 new units. Within five years they hope to own about 5,750 units, about a five-fold increase over the 1,050 they currently own. It would be fair to say that they are relying heavily on circumstance to provide most of the growth: stock transfers or capital grants, and that the growth projection could be achieved very easily with a single stock transfer.

The main point is that, with exceptions, these organisations do not have a strong 'strategic intent' to expand their housing stock.

- They will respond to opportunities if they come up, particularly for capital grants and stock transfers.
- Some are currently dancing with investor/developers to find out if there is a model that works for them to participate in developments where they are the lead CHP and attract 25-year IRRS market rental contracts (but so far have found that these developments do not stack up, partly due to the cost of the wrap-around services that the CHPs provide (that push total operating costs too high), and also because the investors are wanting to transfer all risk to the CHPs).
- They are very minimally geared (low debt ratio) and very conservative about putting existing assets at risk.
- They generally are not expecting to see capital grants made available in the near future (though some were then made available in the weeks after the interviews), and while they had a pipeline of projects in the past, they have not really been seeking opportunities in the most recent times.
- They are all concerned about the cost of construction and question whether they will be able to stack up a project if they have to pay cash for the land, and regular price for the construction. Important issues include the development levies they have to pay to Council, and the delays caused by the consenting process.
- Because they have low expectations about expanding their stock in the near term, their people with development expertise have been redeployed into other roles for the time being. They have no obvious concerns about being able to ramp up if funds became available.
- In general, the staffing ratios for operations are such that they either have some spare capacity within their current complement, or would take on a small number of staff to make up their capacity if needed.
- They all clearly anticipate expanding with the same range of 'wrap around services' that they provide to tenants in their existing housing. They all provide a more intensive level of service than Housing New Zealand (and most mentioned this).

- This implies that they also anticipate only working with the same type of tenants in future as they have worked with in the past. There was no discussion about whether there is an endless quantity of demand from their type of tenant (it seemed to be a given).
- The costing model in use for project evaluation reflects an expectation that, with minimal invested capital, after 30 years of renting out the property the CHP will own the property outright (the cash-outflow for the asset is a blended principal and interest mortgage payment).
- There is an ideal 'size' for a social housing organisation and some of them have a view about what this size is. All have an idea that they will be more efficient and effective if they are larger.
- All are working towards more effective internal processes. Some are implementing software that is specific to their business.
- One, NZHF, is specifically working towards solving their own (and to some extent possibly others') funding needs through development of a funding stream to expand their shared equity products. Their goal is a $100 million fund that funds homes that become shared-equity homes and through the working of that system recycles the capital to produce about $30 million in new housing each year on a sustainable basis.

Strategic Discussion

It is not a surprise that funding is a big issue, together with the costs of land and construction. What became very clear in the course of the discussions is the extent to which the availability (or expectation) of capital grants drives activity. Or rather, that the non-availability (and non-expectation) is driving inactivity.

As one interviewee put it: 'with no government funding we are not sniffing opportunities out'. That is not to say that CHPs are not active, but there is a sense of fatigue (and futility?) when they talk about the different opportunities they have explored.

The main purpose of the research was to gain an impression of the intent and ability of the CHPs to expand their housing activity along the lines of the CHA Our Place strategy.

The Our Place plan seeks to expand housing provision by the sector from 15,000 people housed in 2015 to 50,000 people housed in 2020[1].

Assuming a similar average occupancy, and that in 2015 the sector had approximately 5,000 homes (so an average occupancy of 3.0 persons per home), by 2020 the sector would need to have in the order of 17,000 homes, an increase of 12,000 between 2015 and 2020. This would be an average of 2,400 homes per year, or an immediate annual spend of $1.32 Billion.

Since we know that the actual for 2016 is about 200 homes, the remaining four years would require both a massive ramping up of activity and spending in the order of $1.6 Billion per year. As the man said: "It just ain't gonna happen".

As presently drafted, the Our Place plan does not really draw any attention to the massive funding challenge required to achieve the quantum of the plan.

At $550,000 per housing unit (an arbitrary number used, assumed to be a mid-point for an average home that could house an average 3.0 occupancy, inevitably influenced by the cost of housing in Auckland), an additional 12,000 houses would cost in the order of $6.6 billion. (The recently announced $24.4 million 50% capital grants would deliver around 90 units, a miniscule contribution.)

It is worth considering how the existing stock of community housing came about. It is referred to in the My Place plan as being about 5,000 units with a value of $2.1 Billion, with debt of $0.5 Billion (a gearing ratio of about 24% and an average value of $420,000 per unit). This asset base will have been accumulated over a great number of years by organisations that saw themselves first providing a support service and then through circumstance expanded to ownership or rental of housing as a component of that support.

Some significant portion of the $2.1 Billion value of the portfolio will have come about through revaluation. The $1.6 Billion equity will have been built up almost entirely through donations, capital grants, and revaluations (the balance will be reinvestment of earnings). [Some part of the return on this equity will be being used to cross-subsidize other charitable activities of the owner-entities or their related organisations.]

[1] From http://www.communityhousing.org.nz/Downloads/Assets/2609/1/cha-full-2015-plan.pdf

An expansion of the asset-base by $6.6 Billion will require a significant additional equity contribution:

- At 25% debt (equal to existing gearing), $5.0 Billion equity would be needed
- At 50% debt (reflecting the capital grants model), $3.3 Billion equity would be needed
- At 60% debt (reflecting a prudential Loan Value Ratio at which banks might lend to property investors) $2.64 Billion equity would be needed

The strategic issue is the magnitude of the challenge. Attracting $6.6 Billion investment into the sector over 4 years, when the sector has previously attracted (say) $1 Billion over 25 years (assuming 50% of current value is attributed to revaluations) is a 'big hairy audacious goal' (BHAG) of 'Climbing Everest' proportions.

The genesis of this project was an underlying idea that in order to meet the challenge of expanding the supply of housing, the CHPs need to have certain skillsets for achieving expansion, mainly involving property development and portfolio management.

Put plainly, **the main finding of the project is without a realistic and significant supply of funds there is no point carrying these property development and portfolio management skillsets in anywhere near the magnitude required to meet the goal**.

The BHAG is the funding of the plan. With funding in place, the housing will follow.

First, fix the funding

The point is not that the "50,000 people housed by 2020" goal is incorrect in any way, (though it does seem unrealistic at this point), just that the Our Place plan doesn't draw attention to just how big the related funding challenge is. In fact, it doesn't mention at all the quantum of the funding challenge.

By not drawing attention to the magnitude of the funding challenge, there is a strategic risk that the sector doesn't address the challenge in the right way. Using the Climbing Everest metaphor again, it could be like setting a target of climbing a high mountain and doing almost all the training on low altitude terrain, because no one appreciated there would be issues associated with altitude.

It is recommended that CHA revisit the underlying goal, because with a normal development timeline, by late 2016, all the initial plans would need to be in place (in the pipeline) for homes that would be developed by 2020. The results of this project suggest there is almost no pipeline; and for a pipeline to be developed there would need to be a reliable flow of funding, of which a significant part would need to be equity in nature.

It is for CHA and its members to decide the level of urgency needed, and to push the target date out accordingly. Having done so, a funding strategy can be developed. It will be important to not understate the nature of the challenge.

A couple of simple calculations can be made to characterize the nature of the challenge. In the following graphs, the additional 15,000 homes are added at a constant rate over 14 years (Figure 1) and at a growing rate starting at the 200 homes that were added in 2015/16 and adding 20.5% each year (Figure 2). Equity values change over time due to an inflation rate built into the model of 2%.

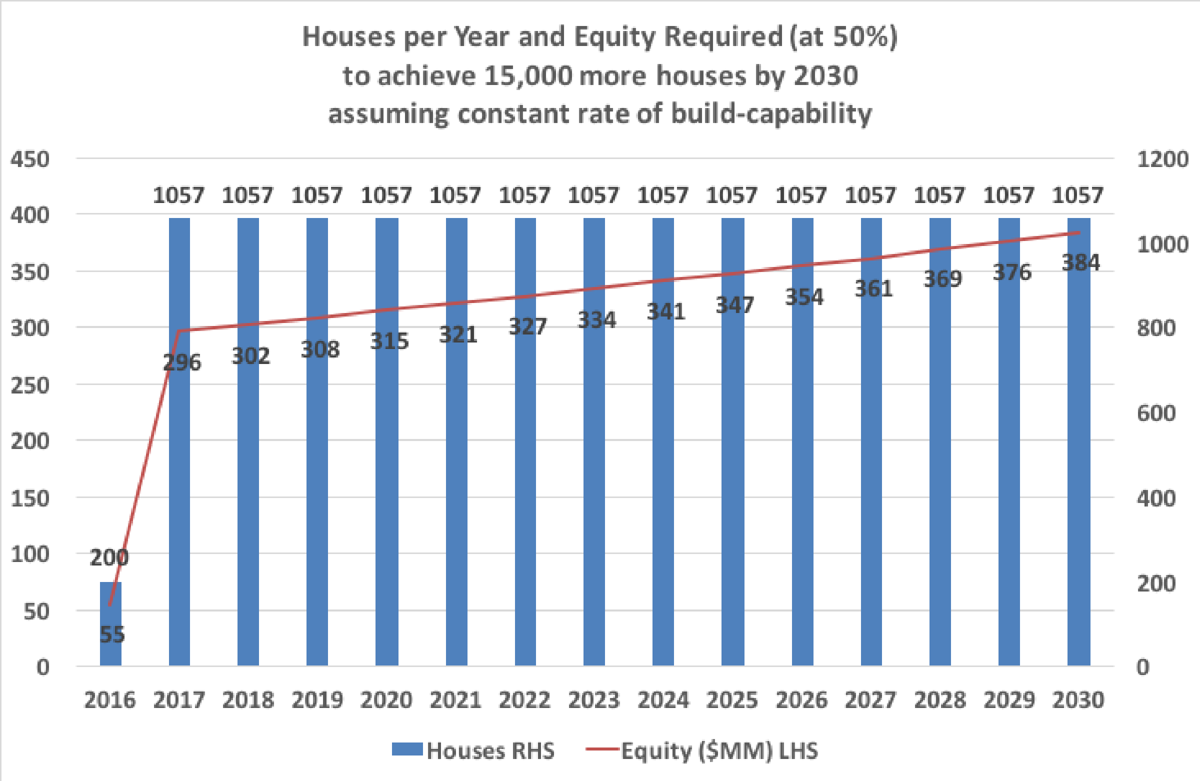

Figure 1: Houses and equity required each year, constant

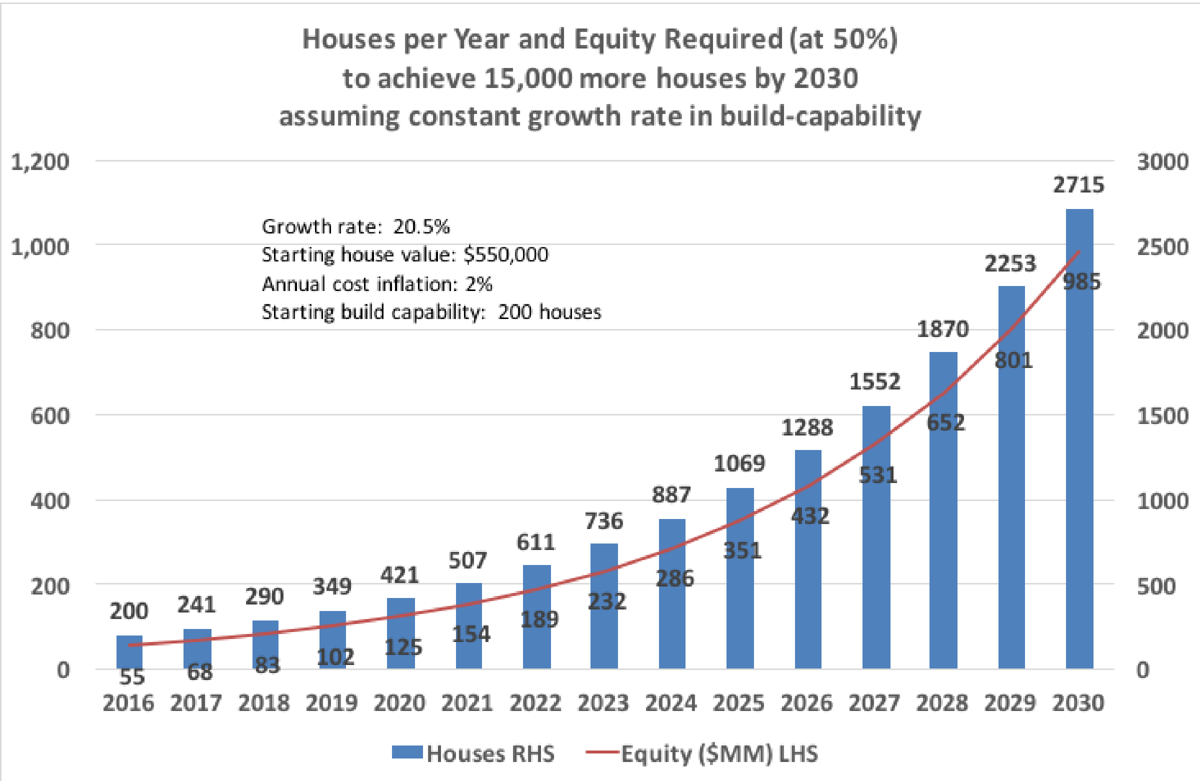

Figure 2: Houses and equity required each year, 20.5% growth rate

In thinking strategically about the goal, some expectation also needs to be set about the pattern of achievement. While it might make sense to think that the best indicator of ‘capacity to build’ (and therefore fund) for the coming year is the amount built (and therefore funded) in the current year plus a little growth (as in Figure 2), it might not be consistent with the intention of the plan for the next 1,000 homes to take 3.5 years to fund and build (even though with the current planning and construction timeframes that is probably how long they would take even if funding was immediately available unless the resource consents have already been obtained).

Given the current housing shortage, it is likely the sector would rather see a greater level of activity in the early years of the plan, making a pattern like the one in Figure 1 the more likely desirable target, perhaps recognizing there will be a short-term growth curve, but certainly expecting delivery of about 1,100 homes per year through the next 15 years.

For arguments sake, let's assume Figure 1 is an acceptable pattern of achievement. The BHAG can therefore be restated to say that for the coming 15 years we need to attract in the order of $600 Million per year of investment into the sector, and that some portion of that amount, probably in the order of $300 Million per year, needs to be in the nature of equity. At 50% gearing the commercial banks seem willing to lend to the sector for the balance of the investment.

This supply of funding is a prerequisite to achieving the level of housing supply, and the availability of funding in this magnitude is a prerequisite to CHPs (or others) making the plans needed to deliver the housing.

It is suggested that if CHA could engineer delivery of a stream of funding of this magnitude, the CHPs could rise to the occasion with projects to deliver the housing.

Attracting $600 Million per Year

This section is predicated on the assumption that it is agreed that a funding stream of this magnitude: $600 Million investment per year, say $300 Million equity per year, is required. The exact amount can be altered, but the thinking should be similar.

Firstly, the NZCHF $30 million development funding does not form part of this goal. It could be used to facilitate spending of the larger sum, and is much more likely to be needed if the larger sum exists.

A critical first step is to socialize the idea that the goal is a funding stream of this magnitude. Talking about it helps to make it feel real. It is also a prerequisite for getting the people around the table to think through the strategic issues associated with getting there.

It could be helpful to break the total down into some component pieces. Some ideas include:

- Existing plans (for example, the NZHF Fund, envisaged at $100 Million, will probably deliver $30 - $50 Million per year of actual construction activity, on a sustainable basis because their modus operandi is to sell a share to the occupier, and therefore recycle the funds. This could therefore represent 5 – 10% of the total goal).
- Housing New Zealand
- Private institutions
- Leveraging existing CHP balance sheets
    - Selling down equity on a property by property basis
    - Sale and lease-back with option to buy-back
    - Other?
- IRRS Contracts

- CHA via new NZCHF products
- Etc.

It would be useful to identify the critical issues associated with attracting funds to the sector, and work through how they might be resolved. The following is a partial list of issues:

- Returns: expected and available, particularly on the equity portion, from rental streams that have high wrap-around service cost implications
- Sourcing alternative funds for the high wrap-around services
- Housing tenure and security on non-owned land
- Quantifying the social return on discounted rents and secure housing and assigning it to providers of funds
- Access to land that is already vested in the community, and how to do it at other than market prices, and retain it for the community
- Appropriate levels of gearing for the sector
- The role and influence of trustees for the CHPs and how to ensure prudence does not prevent progress
- The role of and potential sources of guarantees or other forms of security

This work should be done with some haste, because we are in an interesting low-interest environment. Securing long-term money at low rates, and matching that money to reliable cash-flows, has potential to enhance the sector.

Does NZCHF have a role?

Introduction

CHA has recognized the funding issue, and has made an initial step towards helping resolve it through the establishment of NZCHF. However, NZCHF was carefully purposed as a provider of property development debt-finance for CHPs.

Recognizing the strategic issues raised by this report, there might be a place for a sector-owned funding vehicle that can lead the charge to attract $600 Million per year (or some significant part of it) to the sector.

The question is, should NZCHF be repurposed to carry out this role?

A shared equity product

As part of this research project, CHPs were asked to comment on the potential dimensions of a shared-equity product, in which a fund (potentially NZCHF) would purchase 50% equity in CHP-owned property. The Fund would be recorded as a co-owner, listed on each title. In this way the funds provided would be for a CHP similar in nature to a 50% capital grant, subject to the terms of the equity relationship instead of the terms of the capital grant.

The important product development elements we were seeking to discover were:

- the CHP's expectations regarding such a fund, and the extent to which the fund should be entitled to an equity return on an annual basis (dividend) (answer: to some extent);
- the extent to which the fund should be exposed to gains or losses in the capital value of the property (answer: to some extent);

- if there should be a 'term' attached to the ownership by the fund (in other words, if it should have a 'repayment date') (answer: no); and
- other dimensions such as how big the ownership share should be; and so on.

The conceptual idea behind the overall line of questioning is whether a shared equity product could be created (perhaps by NZCHF) that would attract funding from investors that if available would be taken up by CHPs. There is still a step required before speaking to investors: having given CHPs the opportunity to comment on all the dimensions, it is now necessary to present them with a defined product that incorporates their feedback and find out if they would use it.

Such a product could be of interest to the Government as an investment alternative to (or alongside) making capital grants: as an investment it would be on the Government balance sheet, while as a capital grant it is on the income statement. It could be of interest to other investors with a long-term perspective, especially if it has a dividend attached and the social return can be attributed to the investors.

An initial straw-man product is outlined in Figure 3. The full answers to the dimension by dimension discussion is attached as Appendix 2.

Shared Equity Product for New Houses (Fund co-owns houses with CHPs, 50/50)

- New stock
- No term
- CHP some skin in game (say 10%)
- Any debt share attributable to CHP, not Fund (master agreement)
- Fund receives a rent share (fixed % of funds invested, say 3%)
- CHP must maintain maintenance fund
- CHP criteria for who lives in house
- Enable occupant to purchase house on shared equity basis (continuum)
- Allow CHP to buy fund out at valuation any time
- Affordable rental and IRRS
- Rules on selling, but favour CHP flexibility
- Rules of engagement between CHP and Fund: high level, simple
- Fund is exposed to capital gains and losses

Figure 3: Straw Man Shared Equity Product

Discussion

It is proposed that CHA should have a role in attracting $600 Million per year (say $300 Million equity) to the sector. CHA should choose the best method for playing this role, but it is an urgent role that is needed if the Our Place plan is to succeed.

NZCHF as currently constituted and governed is not the entity to play this role. However, it could be re-purposed.

We have defined a shared-equity product that we think could be of interest to CHPs. This product could be offered by NZCHF as the basis of a fund. CHA would need to decide to do this and define a clear path for how it fits with the $600 Million per year target: what share of the total NZCHF would be tasked with sourcing, and what amount of equity NZCHF should itself be endowed with to achieve the aspirations set for it.

For NZCHF to establish such a fund, perhaps through sale of preferred shares, it is likely that the Board would need strengthening with skills associated with attracting such a level of capital.

With or without NZCHF, CHA should develop strategies for attracting $600 Million per year. The defined shared-equity product could be developed in collaboration with existing financial intermediaries, with NZCHF or CHA representing the needs of the CHPs.

Validate and Crowdfund

As an initial position, CHA (itself or through NZCHF) could carry out the validation of the shared-equity product with CHPs, and if valid, NZCHF (with a change to its constitution) could 'start small' by (for example) equity crowd-funding an initial tranche of funds through sale of preferred shares.

Initial discussions with PledgeMe, a crowd-funding platform, have been promising to a level of $2 million, which if successful could be repeated on an annual basis. This would build on the known interest in the community driven by the public debate over the Auckland Unitary Plan.

If matched with philanthropic contributions of a further $2 million, and perhaps a further match from a city council of a further $2 million, such a campaign could deliver $12 Million worth of building – say 22 housing units, assuming the $6 Million from the fund represented a 50% equity position.

Regulations allow sourcing up to $2 Million of crowd-funded equity per year, so success with this strategy in the first year could lead to an annual campaign.

To be worth doing, CHA or NZCHF would need to develop a plan that linked the initial 'small start' to the goal that CHA sets for NZCHF to play as part of the suggested $600 Million per year of total funding.

Recommendations and Next Steps

This report has explored the issues associated with achieving the Our Place goal of housing 50,000 people by 2020, and the readiness of the CHPs to deliver.

The first recommendation is to review the goal in light of the passage of time and reset the end date. There are nowhere near sufficient housing units in the pipeline for the additional 12,000 that would be required for the goal of 50,000 to be achieved by 2020. CHA and its members need to decide the level of urgency that they wish to attach to the revised goal, allowing for ramping up, and also in the context of New Zealand's construction market.

The second recommendation is to recognize, and bring forward very clearly in the revised Our Place plan, the significant magnitude of the funding challenge. 12,000 houses will require spending in the order of $6.6 Billion. At 50% equity, the sector that currently has $1.6 Billion in equity would need to grow its equity by $3.3 Billion, or three-fold.

The third recommendation is to make sure it is clear to all involved there needs to be a reliable stream of funding able to be anticipated before the sector will take on the people needed to drive the growth. No funding stream in place, no significant growth.

The fourth recommendation is to socialize the need for funding at the $6.6 Billion level, over whatever period CHA chooses to target, and to convene discussions with appropriate individuals and agencies to develop a sound strategy for achieving the annual flow of funds required to achieve the target.

Since it is most likely the funding supply will build over time, it is important CHPs are kept clearly advised of developments. The fifth recommendation is for CHA to maintain a database of the pipeline of projects, and report regularly the 'readiness' of the CHPs to deliver to the target.

The role of NZCHF in carrying out these recommendations will depend on the level CHA feels it is necessary to have a sector-owned vehicle participating in achieving the strategy. NZCHF could be kept active by pursuing development of a shared equity product as described, and crowd-funding as described, mainly as a way of learning what could work and establishing a track record. As such, CHA would be predetermining some aspects of the outcome of its strategy development process and should proceed with caution.

Appendix 1: Interview Guide

Thanks for agreeing to meet with us.

For some time now, CHA has been aware of the need to find out what the key strategic issues are that need to be addressed for the CHPs and the wider community housing sector to deliver more social and affordable houses. Through Our Place, we have set a goal as a sector, to increase the supply of housing to an additional 15,000 by 2030.

To understand this better, CHA has commissioned this research. Through this research, we are interested in getting a deeper understanding of how CHPs work: what you are trying to achieve, what success looks like for you, how you are funded, things like that. I am hoping to meet with at least half a dozen Auckland CHPs in the first phase, and perhaps more in a later phase.

While I am chair of NZCHF, I am doing this as a strategic project for CHA. My background is in business strategy, and I have a consultancy called Strategic Lift. So what I am doing is collecting impressions of how CHPs see the world, and some of it will be following a prepared script, and some of it will probably go off script. It is important not to assume that we already know things, and part of it might be me asking what seem like dumb questions. If I ask you for some information that you think you have already provided to CHA and don't want to go over again, please just say.

I think Hope arranged for us to take two hours. Is that okay? (any constraints?)

I would like to record the conversation on my phone so that I do not need to take full notes – is that okay with you?

Regarding confidentiality, my intention is to write a summary report for CHA that doesn't identify my impressions of any specific CHPs. However, if you would like me to prepare a page of comments based on my impressions I will be happy to do that. Would you like to review the draft report? At end of (or during) the interview please say if there is anything you would like to keep more specifically confidential.

Before we start, do you have any questions?

To start us off, could you introduce your organisation to me?
(record what they say in the order they say it)

- When it started?
- What it is set up to do?
- What are the dimensions of the organisation today?
    - What are the wrap-around services
    - Number of customers, (of different categories?),
    - Number of staff,
    - Governance structure
    - number of properties, owned, leased, from whom, tenure
    - annual revenues,
    - etc.
- How has the organisation changed over the past twelve months (if at all)
- What has to be true for you to say the organisation has had a great year?

Monthly reporting

- Top give me an idea of how the business works, do you mind showing me what you get from your accountant in terms of monthly accounting reports? (the most recent month-end will do)
    - How do you use these?
    - Who sees them?
    - When are they usually ready?
    - Are they the main way you know how things are going, or do you have some other source of useful information? What is it?
- Can we talk through the key headings?
    - What goes into each of the revenue categories?
    - What are the main types of costs?
    - Can we identify the cost of your wrap-around services?
    - Do you have separate tenancy managers, or do the wrap-around-service-staff provide that activity?
    - Are you getting IRRS? How do you get rent on your houses? What % of market rent do you charge?
    - Does your housing revenue pay for your wrap-around services, or are they paid for separately?

- Or, if you make a positive cash-flow from your houses, what happens to it?
- The fixed assets, does that include your houses?
  - Are they in here at cost?
  - Is there anything major (asset) other than the houses?
  - (If not already obtained) How many houses are there, owned, leased, and what is the tenure, cost, etc.
  - Do you record your house lease obligations (if any)?
- How about the liabilities?
  - Are the long-term liabilities the mortgages on the houses?
  - Do you have borrowing against individual houses, or is it against the total stock?
  - Please describe your usual funding arrangements for houses that you own. Do you have a spreadsheet that you use for making the investment decision? What are the key factors?
  - Are there suspensory loans, and are these on the balance sheet? When do they get forgiven?
- (Calculate the difference between the housing asset and the long-term liabilities) That looks as if you have about $XX equity in your houses, does that sound about right? (Work through if the market value is different to cost, what the true equity would be, but check about what barriers there would be to selling the houses.)

- How far into the future do you plan?
- Do you have a picture in your mind of what the organisation will look like in five years time? What are the dimensions that you think of as you describe that? (prefer what comes off the top of the head. If interviewee brings out a ‘strategic plan’, discuss how it was put together and the level of commitment to it)
  - What are the wrap-around services
  - Number of customers, (of different categories?), and how big the ‘market’ of these people is – is it limitless?
  - Number of staff,
  - Governance structure

    - number of properties, owned, leased, from whom, tenure (any long-term leases?)
    - annual revenues,
    - etc.
- Do you have an organisation structure that you can share with me, or sketch out for me? Will this look much different in five years? How, why?
- Do others in the organisation share your picture of the 5-year future? Are there any points of contention?
- What are the main challenges that you need to resolve to get to your 5-year future picture?

When we talked about your 5-year future picture, you said (perhaps) that you intend to have XX more houses. We talked (perhaps) about the pattern of development of those houses over the five years. (Or, ask these questions now).

- As you think about having more houses, do you think of them as houses you own, or houses you lease? Why? Why not?
- When I asked about the challenges you need to resolve to get to your 5-year future picture, you mentioned (didn't mention) funding for the houses that you would own as a challenge. Why is that? Can you talk a little more about it?
- (we do not want to put words in their mouths here, but we want to find out how much of an issue funding is in the context of other issues they are facing).
- You mentioned capital grants as being an important factor (or, you mentioned having more equity as being an important factor) – to what extent is your 5-year picture constrained by the availability of capital or equity?
- If there were a fund available that could provide you with as much capital or equity as you needed, how would your 5-year picture change, if at all?
- (How quickly could you grow if there was no capital constraint?)
- If there was such a fund available, what would be the important dimensions, or rules, for you, around how such a fund would operate?
    - If it were a capital grant, what would be the important terms?
        - How long
        - How much, compared with the cost of building the house?

    - Should it pay a return to the provider?
    - Should there be any conditions on it?
    - What are you used to here?
  - How about if it was someone else providing equity that they wanted to be able to get back some time in the future, say on some event happening, or after a fixed amount of time – like a shared equity product - what would be the important terms (for you) around something like that?
    - How long
    - How much, compared with the cost of building the house?
    - Should it pay a return to the provider?
    - Should there be any conditions on it?
    - What are you used to here?
    - Review the list of items on the last page.

If these funds were available, and it changed your 5-year picture, how would you go for structuring and staffing the organisation? What new positions would you need, and how easy would it be to fill them? (For example, if they are going to develop lots of houses, have they thought about needing someone with skills to specify and purchase the houses?)

What impact would that expansion have on your wrap-around services? Would all the new houses attract the same proportionate cost that the existing services do? How would you fund the added cost of wrap-around services?

Are there any other strategic issues that we have not discussed that you would like to raise?

Wrap up.

That has brought me to the end of my questions. Is there anything that you thought I might ask about that I haven't? Is there anything additional that you would like to tell me?

Is there anything you have said that you would like me to keep particularly confidential? Would you like to see the draft report?

Dimensions for Shared Equity Product

Dimension	Values (record and if firm or flexible, and how important)
Must it be for new stock?	
Should it have a 'term'? If so what minimum number of years?	
Should there be a limit (max or min) on the share of ownership by the provider?	
Should the co-owner be entitled to an annual return? Some share of the net rents, or a fixed percentage? Would this be different for (say) IRRS houses compared to (say) affordable housing? Why, why not, how much, etc.	
Should there be a minimum on the share of ownership (not debt) of the CHP? (Skin in the game)?	
Should there be rules about who can live in the house?	
Should there be some objective around the occupant moving along the housing continuum?	
Should there be a right for the occupant to become a part and then a full owner?	
Should there be any limitations on the style of home or the location of the homes?	
Should there be a provision for the CHP to increase its share of ownership in the house, and how should this work?	
Should there be a limitation on the CHP preventing it selling the house except to the occupant, and if so how should this work?	
How should the co-owners make decisions about the jointly owned properties?	
Should there be an annual fee per house? Why, what for, how much?	
Who should insure and maintain the house?	
If at some point the house was sold, how should the proceeds be distributed? Should the equity provider be exposed to losses?	

Appendix 2: Comments on Shared Equity Product Dimensions

1. **Must it be for new stock?**

- Supports the claim that 'we need more stock', but ideally would not be cast in concrete – open to the 'what if's'
- Preferable if it is new or nearly new, but not essential (issue is years of remaining life)
- Yes, or we will just be moving more people onto the waiting list
- Wouldn't matter, but must be good quality for ownership (insulation, double glazing, etc.)
- Yes

2. **Should it have a 'term'? If so what minimum number of years?**

- Term should be long enough – it cannot cause the CHP to have to be 'out' of the house
- Align to government commitments (ie IRRS contract)
- Yes, if tied to 25 year contract, so recycle the capital. Line it up with the contract.
- Pressure on the CHP to be financially sustainable.
- No
- If it has a term it becomes 'debt', so No.

3. **Should there be a limit (max or min) on the share of ownership by the provider?**

- It should be on a case by case basis – trusts will have different needs
- Case by case, not sure why the 'fund' could not own the whole lot.
- No limit
- Depends who funds it, what their objectives are: trustworthiness, social conscience, no reason for Fund to not have 80% - agreement is important
- Yes, H/H min 60% from day 1, but under review. Affordability makes it hard.

4. **Should the co-owner be entitled to an annual return? Some share of the net rents, or a fixed percentage? Would this be different for (say) IRRS houses compared to (say) affordable housing? Why, why not, how much, etc**

- Yes, some level to make it attractive to funders. Needs some smart modeling. Different levels 'depends'.
- Yes, a social investment return. No reason for different levels of return unless there are different levels of risk. IRRS reduces risk so perhaps yes.
- Is the government not getting a social return? 25 year term will deliver an equity return.
- It is a no-margin business so how would an equity return be paid?
- The building is half depreciated after 25 years, and there is an issue of reducing maintenance or services to be able to pay the return (like HNZ does)
- Not philosophically opposed to the Fund making a return
- Initially reaction 'No', but open do discuss.

5. **Should there be a minimum on the share of ownership (not debt) of the CHP? (Skin in the game)?**

- Yes, probably provided by the CHP's banking partner
- Reasonable expectation that the CHP has some skin in the game to make it 'not too easy'. Say 25%.
- Relative to size of CHP. Depends on the aim of the product: to grow small CHPs or cause consolidation – might require good reporting systems, perhaps even specify them, for reliable outcome data
- No reason for this. Working capital of the CHP will be impacted.
- Ambivalent, whatever works.

6. **Should there be rules about who can live in the house?**

- Should be the criteria of the CHP, though could also see it being broadened
- If it is an IRRS house we have limited choice. Might be advantageous to allow a mix of different tenants, for example some private rentals.
- Mixed tenure, create community
- Eligible to be on Social Housing Register. Affordable rental need should be addressed as well.
- Yes, definitely. Intended eligible HH by way of CHP criteria.

7. **Should there be some objective around the occupant moving along the housing continuum?**

- It would be great to have it as an 'enabler', but having it as an objective should not force it to happen
- This is important. The continuum is (should be?) about 'housing independence' rather than ownership.
- Lack of focus on affordable can't get flow from assisted to ownership
- Yes, dependence to independence.
- Absolutely, by way of social contract – some explicit terms in existing contract.

8. **Should there be a right for the occupant to become a part and then a full owner?**

- Absolutely
- A place for that, it is a good idea
- Yes, would be a good thing. Supports idea of investing in kids.
- Yes, but when we have 300+ properties, or a log jam occurs because sale reduces properties for new people coming through
- Yes

9. **Should there be any limitations on the style of home or the location of the homes?**

- Not big executive homes, but well designed, innovative features, making smaller homes okay
- This should be continually reviewed to ensure housing and locations fit need, perhaps sourced from MSD intentions documents.
- Also need a range of choices as a provider
- Travel costs to get to work – is Karaka affordable? Must have options – must be affordable

- Current building code, more eco-friendly. Not high density, not in favour of high rises for social housing.
- Yes – design. Ie not luxury (no ensuites), keep it affordable, no frills, but must be healthy.

10. Should there be a provision for the CHP to increase its share of ownership in the house, and how should this work?

- Yes, this is really good, CHPs might borrow to increase their share
- Should be there, based on value at the time
- Especially for smaller providers, helps them grow and build their balance sheets
- Provision, yes, but not a requirement
- Sure

11. Should there be a limitation on the CHP preventing it selling the house except to the occupant, and if so how should this work?

- The current model (with SHU) requires such a sale to result in a reinvestment in equivalent properties. This should not be limited to excluding the occupant.
- CHP should have the ability to sell, keep the CHP in control
- Example of community land trusts – rules on selling – price rise set formula – redeploy the ownership into a new property
- Yes – first right type of mechanism offer the HH

12. How should the co-owners make decisions about the jointly owned properties?

- Occasional meetings and really good relationships
- At a high level, for example long-term reconfiguration plans. Have to make sure value is retained – for example so that the CHP does the long-term maintenance.
- There should be standard rules about housing condition assessment and how shortcomings are dealt with
- Comes down to governance structures – look after asset first. In tension with bottom line.
- Jointly and collaboratively
- Moral issue – let the CHP do its thing. Maintain control of their own vision and direction.

13. Should there be an annual fee per house? Why, what for, how much?

- Too low a level of detail
- Yes
- We could share our spreadsheet model to show what would be available

14. Who should insure and maintain the house?

- CHP responsibility
- On the CHP
- CHP
- CHP

15. If at some point the house was sold, how should the proceeds be distributed? Should the equity provider be exposed to losses?

- Depends on the objectives of the fund holders – so perhaps split to make it attractive for investors – would expect equity provider to be exposed to losses and benefit from gains.
- In proportion to ownership – need a mechanism to recognize enhancements that the CHP might have done – could index the value growth for the Fund, that way the CHP gains or loses if they have not done the upkeep, or if they have done enhancements
- Yes, Fund should be exposed to losses on the basis of the market
- If entitled to the gain, then should be entitled to share loss. Meth problem is important here.
- Who decides to sell? -should take loss if forcing sale.
- Issue if CHP is not performing
- Surely they take a risk if it is equity?
- Yes – by definition expose to losses

Other comments

- Existing shared equity product for occupants requires them to have $70 – 80 K annual household income before they can qualify – need to have something that a household can engage with even at a $40 K annual household income
- If occupant can become a part owner, can this apply to houses that have IRRS contracts attached to them? How would that work?
- Some bottom lines might be appropriate: the circumstances of the tenant, asset and income limits
- How do we deal with 'outs' if the entity doesn't perform? Ie substitute another CHP? Insist on sale? Also if CHP loses CHP status.
- One way to do this is to separate building ownership from land ownership.
- There are existing software tools that all funded by the Fund could be expected to use for reporting outcomes.
- There is a concern that such a product might not be available for the smaller CHPS – must make sure they have access and it is not all gobbled up by the large ones