About the New Zealand Housing Foundation

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The New Zealand Housing Foundation (HF) is a Charitable Trust operating as a social enterprise. It assists moderate income households to lift themselves out of the rental poverty trap and towards independent home ownership.

With the support of the Tindall Foundation, HF has operated for over 15 years across Aotearoa New Zealand, supporting the development of the community housing sector, assisting in community development and placemaking, buying and developing land, building houses and operating two core products: Homesaver (affordable rent to buy) and Shared Ownership. HF builds approximately 150 new affordable houses per annum. HF is a registered Community Housing Provider, regulated by the Community Housing Regulatory Authority.

Community Housing Providers serve as guardians or owners for over 13,000 homes across New Zealand, housing more than 32,000 Kiwis. There are 20 Providers in Auckland including HF, and a wider network of 90 Providers across Aotearoa.

Community Housing Providers have built more new retained affordable houses than Housing New Zealand and Kiwibuild combined, for 10 out of the last 10 years. Yet, there is currently no State sponsored capital grants funding programme or policy to support or engage the spare un-utilised capacity available in this network.

HF has been asked to write for *The Property Lawyer* to discuss its aims and current initiatives.

Finding innovative solutions to the housing affordability issue

Housing, housing, housing. The noise and rhetoric continue. As does the crisis. Unfortunately, the supply of sustainable housing solutions is simply not keeping up with all the talk.

Issue 19-2 of *The Property Lawyer* covered the key public sector players operating in the housing space. As a contrast, this article looks at the third sector: not the private market or the public sector, but the Community Housing sector. Specifically, it points out the unique role and value proposition of 'for purpose' (ie not for financial profit) players in the housing market and specifically, details the innovation and products they deliver, such as rent to buy and shared ownership.

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Paul Majurey, Barrister & Solicitor and Chair of some leading examples of innovative solutions in this space, recently offered an opinion piece "*The will and the way to solve housing affordability*" [1] which was published in the National Business Review and detailed key elements of a successful collaborative partnership approach to this national catastrophe. In his piece, Paul highlighted the importance of aligning the interests of the partners in delivering a large scale (295 homes) successful mixed tenure development in South Auckland. The Waimahia Inlet community has been a raging success by every measure and clearly demonstrates what is possible when Mana Whenua, Community Housing Providers and local and central Government gather together around a common purpose.

The Waimahia inlet community is a living thriving case study of a better way of doing things. 70% of the homes are in Community Housing programmes, dominated by rent to buy and shared ownership products. In the first of a series of articles we will discuss how these two products work.

Shared ownership

Shared home ownership is a well established way of helping bridge the gap between low incomes and high housing prices.

Shared equity or shared ownership can only work, sustainably and at scale, if it is a joint ownership arrangement with both parties working together with shared interests: like assisting the household to move towards independent home ownership and sharing the risks and rewards. The legal format used to deliver a true shared ownership product is tenancy in common, with another agreement off to the side that covers off the mutual commitments made to each other as parties and partners in the journey towards independence. Shared ownership, community style, is not a second mortgage and is not about the shared ownership partner being motivated by margin or making money.

Shared home ownership has been working and operating in New Zealand for many years, mostly with families helping other members of their family to get into their first home.

Shared home ownership is best thought about in terms of what the arrangements might look like if you were a first home buyer and you got some help from your

parents by buying the house together. Often, we need to provide some financial capability assistance and advice on what a mortgage is and how it works. Intergenerational renters frequently don't understand the mechanics, roles and responsibilities of these products. We do a lot of teaching and explaining, working through real examples with weekly budgets and scenarios.

We also need to figure out the details of how much of the house each party owns. Our preference when assisting working low income families, is that they take a majority interest, say 60% share in the house, from day one, so they feel in control and behave as the owners from day one.

We also need to agree the details from the beginning about the value of the house (achieved through an independent current market valuation), who lives in the house, how and when shares in the house can be bought and sold, and on what terms. An example of this might be that the value of the house might go up or it might go down, so we agree how the two joint owners of the house treat any gains or losses during the period of the agreement. All these aspects are documented in a plain-English drafted Property Sharing Agreement.

As a developer, HF uses some covenants and encumbrances to ensure that communities have the greatest possible chance of long-term success and these include controls on resale, owner occupation (compulsory), fences and other matters that are conducive to engagement and active participation in the neighbourhood.

Shared ownership is a form of funding that prioritises the progress of the first home buyer towards ownership, above the interests of the funder getting a full market return. We do not charge interest on the part of the house that we fund as a Community Housing Provider. Consequently, as many of you may already know, affordable housing costs money to deliver. If there is not a subsidy somewhere in the system, these products don't get delivered. Let me repeat this very important statement of fact: shared ownership and affordable housing outcomes, cost money. The reason we invest in them is because of the long-term savings and return to NZ, measured through investment with health, education, mental health, and reduced burden of long-term fiscal liability to the Crown, documented with research.

The social return of helping a family move out of the rental poverty trap is the biggest measure of success for shared home ownership. Shared home ownership is not delivered by the market because it is not about making money; it is about assisting low income households into independent ownership. It is about reversing the alarming trend of declining home ownership and all the social woes that are directly attributable to such a decline.

You might think of this model as a family arrangement. Once the first child has bought Mum and Dad's share in the house off them, Mum and Dad can then recycle and reinvest that same money to help the next family member in need, to do the same thing. This is how Community Housing Providers retain and recycle their capital. Think of HF as a 'Mum and Dad' who are available to help households who have nowhere else to go.

Houses and shares of houses are always transacted at the (as then) current market valuation. Unlike the Government scheme, there is no hidden subsidy or one-off cash windfall for a lucky lottery-winning household.

Affordable rent to ownership

Affordable rental programmes have been operating in New Zealand for many years. Many have not worked or have failed to improve household circumstances because the provider was motivated by profit more than social impact. Rent to own schemes got a bad name in the past because of some people ruining a good idea by making it all about financial profit.

We call our programme 'Homesaver' because it is a better description of what the household is actually doing. They are paying an affordable rent (based on 30% of gross household income), which allows them to save a deposit to begin their journey towards independent home ownership. In essence, Homesaver is designed to prepare households to be mortgage ready.

They are renting (affordably) and saving for their first home. The rental agreement is simply a standard RTA agreement. As with the shared ownership product, we also have another agreement with the household off to the side, that sets out the terms of the Homesaver programme and what we will do for each other as we work through the 5-year arrangement.

A successful programme gives a low-income household stability, security and assistance, so they can get their affairs in order and prepare themselves for a successful pathway towards independent home ownership.

HF's Homesaver product has been operating with hundreds of households in NZ over the past 12 years and provides a 5 year rental agreement, with an option to purchase the home after the 5 year mark.

Households with the motivation to move towards independent home ownership are provided with budgeting and financial capability assistance. The focus is helping to get rid of debt and increase savings. It is about goal setting, stopping unhelpful spending habits and setting families up for success. We do this by way of a social contract – an agreement with the household we are assisting.

A big motivational incentive for Homesaver households is that if they meet their obligations under the agreement (saving, reducing debt and looking after their home), then at the end of the 5 year rental agreement they have earned the right to carry 25% of any value uplift that has occurred in their home into their shared ownership agreement, to be applied as part of their deposit.

Successful rent-to-ownership programmes measure their impact and success by the number of households who successfully transition from rental tenure towards ownership tenure. They do not measure their success by maximising rental yields.

HF delivers these pathway products to help people move along the housing needs continuum in the most desirable direction. We are helping them to move away from emergency and social housing and high levels of Government taxpayer funded subsidy, and towards independence. These products provide a helping hand up for those families who are motivated to help themselves and build a better future. ■

1. *https://www.nzhf.org/recent-news/106-the-way-to-solve-housing-affordability*

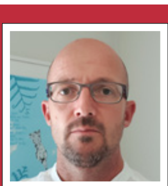
Subsequent articles will address key questions such as:

- Valuation of land to drive better community outcomes.
- Capital capture retention and recycling – why does this matter?
- What is a mixed community and why does it matter?
- What is the housing needs continuum and how does tenure impact on the housing crisis?

Further information

- You can find out more about the New Zealand Housing Foundation at: *www.nzhf.org/*
- You can find out more about Community Housing Aotearoa (the peak body for community housing in New Zealand) at: *www.communityhousing.org.nz/*

CONTRIBUTING AUTHOR



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