

Housing Impact Fund

NZ Housing Foundation and New Ground Capital



NewGroundCapital

Capital Ideas For New Zealand



Who are the NZHF

- Housing Foundation is a Charitable Trust and registered community housing provider (CHP)
- Started over 13 years ago by philanthropists to build communities by helping households who want to help themselves
- Provides two core products to help people into affordable housing: Affordable Rental (rent to buy) and Affordable Equity (shared equity) as pathways to home ownership
- Provides development and construction project management services, and household management services to other CHPs
- HF measures its performance by the number of households affordably housed in safe, secure, stable housing

Housing Foundation purpose

... is to relieve
poverty in New
Zealand with
affordable
housing for low
income
households



... to achieve our
purpose we
require
empowered
communities and
innovative
housing solutions

What does the NZHF do?

	CORE OFFERINGS	DESCRIPTION	EXAMPLE
1	Pathway to Ownership Programme Affordable Equity (shared home equity)	Households buys between 65-80% share of the value of the house. NZHF retains remaining share	Christchurch (Hornby) Waimahia Inlet Denver Avenue West Auckland
2	Pathway to Ownership Programme Affordable Rental (rent to buy opportunity)	Household has right to fully buy or buy an affordable share of their home after 5 years	Waimahia Inlet Trent Street Avondale
3	Household Case Management Services	Financial Coaching	All developments
4	Property Development	From bare land to finished homes	Cambridge Terrace
5	Property Management Services		Waimahia Inlet

What experience does the NZHF bring?

Core Offering:

1 Pathway to Ownership
Affordable Equity

2 Pathway to Ownership
Affordable Rental

3 Property Development

4 Household Management
Services

5 Property Management
Services

561 homes built to date

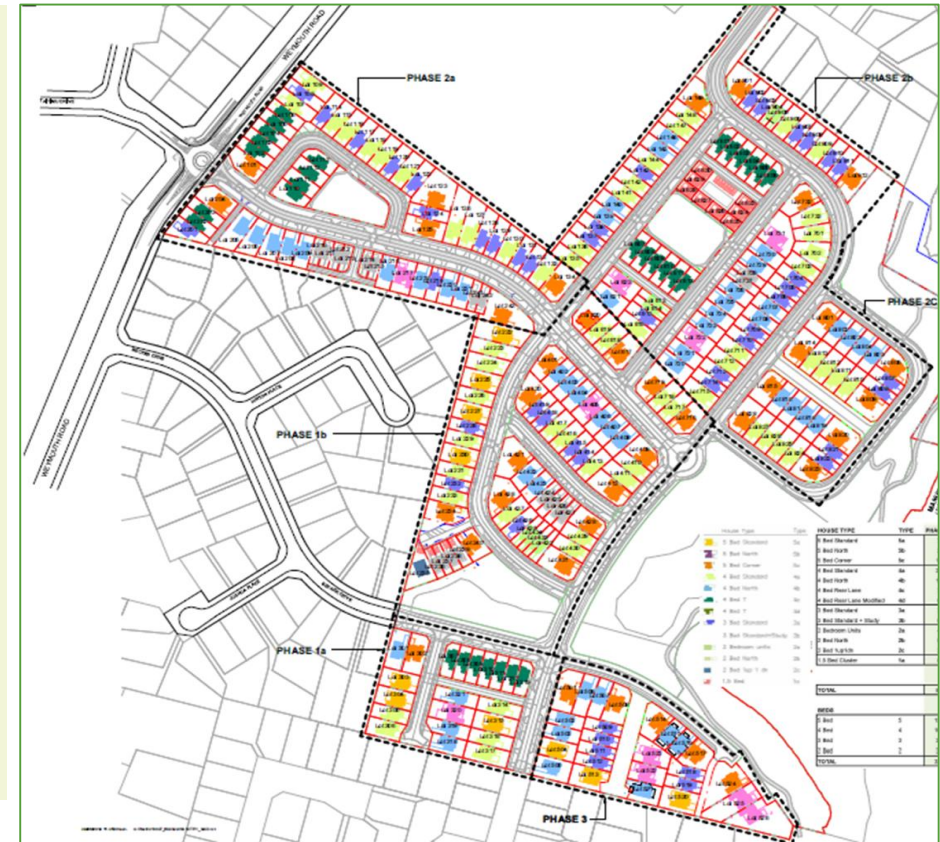
218 homes in process

134 Affordable Equity households

...and many more for other CHPs

**Housing Foundation has delivered 34 community
developments across NZ**

Waimahia Inlet (Weymouth, Auckland) Special Housing Area
295 houses + preschool
Half complete now
Completion late 2017



Developments Currently Underway
Hornby, Christchurch Awatea, Christchurch, Waimahia (above)
Auckland: Trent Street, Avondale, Hobsonville, Flat bush, Manukau

What are the issues we want to solve?

- incomes are not growing at the same rate as house and rental prices
- there is a lack of secure affordable housing options and secure tenure for people on low to medium low incomes
- the lack of “housing pathways” to move from renting to ownership for these households
- there is limited understanding and research about providing affordable housing (defining affordability*)
- there is a lack of appropriate housing choices for the diverse needs within the low income community such as older adults, key workers, first home buyers and others

*

affordability measured by family income not market averages (30% gross income channeled to debt)

Why does this matter?

- because security of tenure and home ownership in stable, safe, dry housing changes people's lives and society for the better
- because a 'housing first' approach delivers better fiscal, welfare, health, education and justice outcomes for the families and communities where it occurs
- because as New Zealanders we believe that everyone deserves a chance to have a place to call home
- because the relative costs and benefits to 'NZ inc' of leaving people where they are in inadequate homes versus giving them a 'hand up' to move along the housing continuum, are so compelling that acting on this information is the right thing to do, rationally, fiscally and morally

Where do we want to be?

OUR GOAL:

5,000

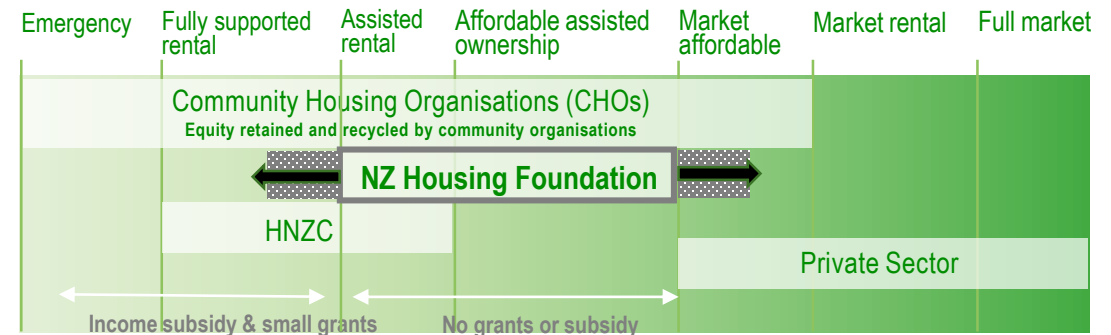
ELIGIBLE FAMILIES
HOUSED WITHIN

10
YEARS



- **Delivering real affordable housing outcomes** through public, private, community sector collaborations
- **Empowering communities** – with a cooperative and holistic approach
- **Providing a range of innovative & sustainable affordable housing solutions** – through new partnerships and a social investment strategy

To grow in breadth on the housing continuum to meet community housing needs



Who are New Ground Capital

Established in 2014 with the objective of developing solutions to some long standing challenges in the NZ capital markets.

We look for sectors within the economy that are lacking capital, and develop innovative solutions that are sufficiently compelling to attract investment capital. When considering investment returns we consider both financial returns and social dividends. Currently we have two specific areas of focus:

Residential Property

- Primarily focused on creating investment opportunities for institutional investors in residential housing.
- Providing innovative long term residential leases to families looking for security of tenure.
- Our first project is a 208 - 439 dwelling project at Hobsonville Point with NZ Super Fund & Ngai Tahu.
- We're currently developing 49 long term rental houses for the NZ Defence Force at Whenuapai.
- We're also planning 143 worker accommodation apartments in Queenstown.

Social Impact

- A focus on emergency services, social enterprise and community housing.
- Enabling investors to support these vital social infrastructure sectors through the investment of capital in exchange for a moderate target return linked to the government bond yield.

New Ground people

We have a team of four executive directors supported by two additional non-executive directors and a further 4 people with whom we have formal advisory relationships (including our Property Advisory Board members).

Our people have backgrounds in finance, law, funds management, construction, property development and economics.



Greg Horton
Chair*



Roy Thompson
Managing
Director*



Pierre de Weck
Senior Advisor



Shamubeel Eaquad
Economist &
Advisor



Jonathan
Holden
COO / Director*



Brian Collins
Director*



Matt Heal
Executive
Director*



Mike Newland
Ex CEO
Mansons
Advisor

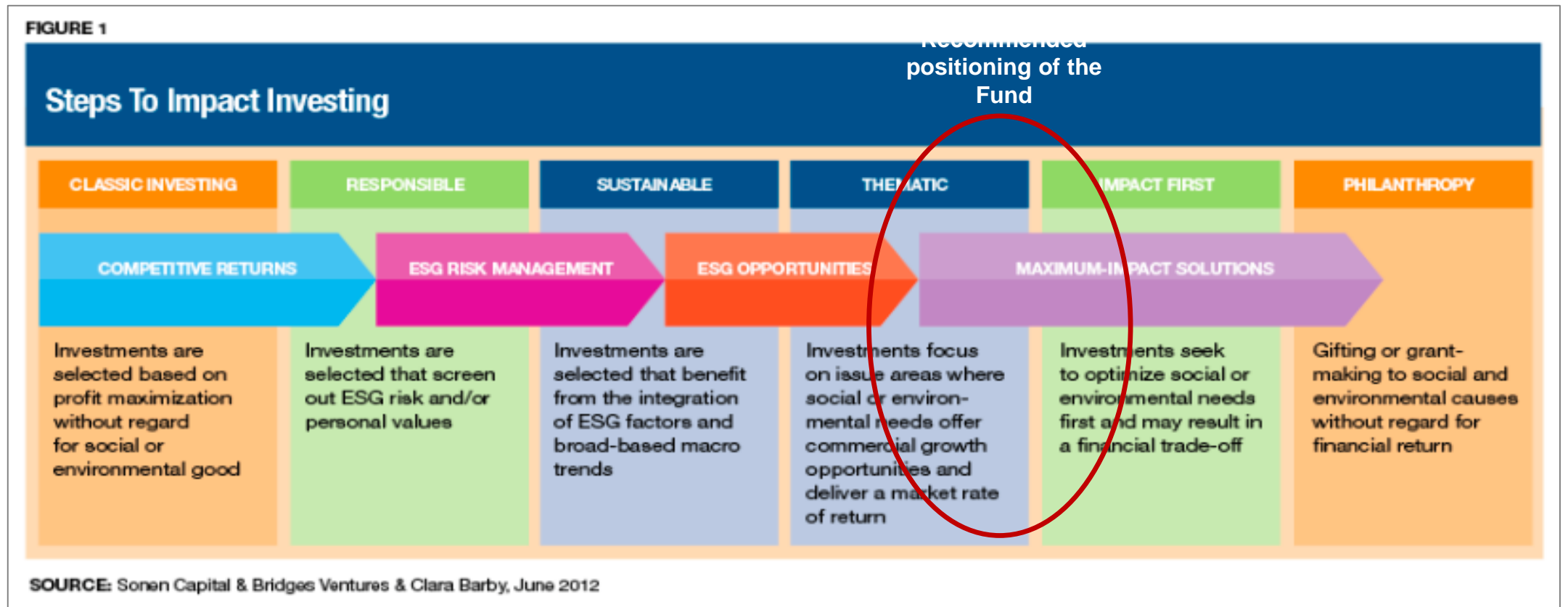


Joy Marslin
Consultant
Social Impact

* Board Members

What is an “Impact” investment?

In terms of the investment continuum from classic full market returns to full philanthropy, an ‘Impact First’ fund puts the social outcomes first with investors accepting that in achieving these social outcomes, they have traded off some financial return.



How does Social Impact investing work?

Usually investors seek to gain full market returns from any particular investment. However with an impact investment, investors seek to make some type of social impact, while still earning some level of financial return on their capital (as distinct from a donation).

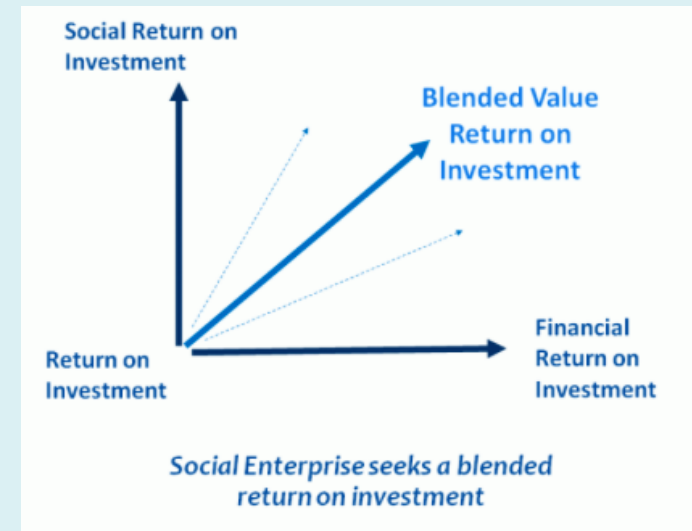
Perhaps the most critical element in the design of an impact fund is determining the level of trade off between social and financial returns.

There are two main financial levers that can be adjusted to transfer value from investors to low income households:

- 1. Accepting a below-market rental yield**
- 2. Accepting below-market long term capital appreciation**

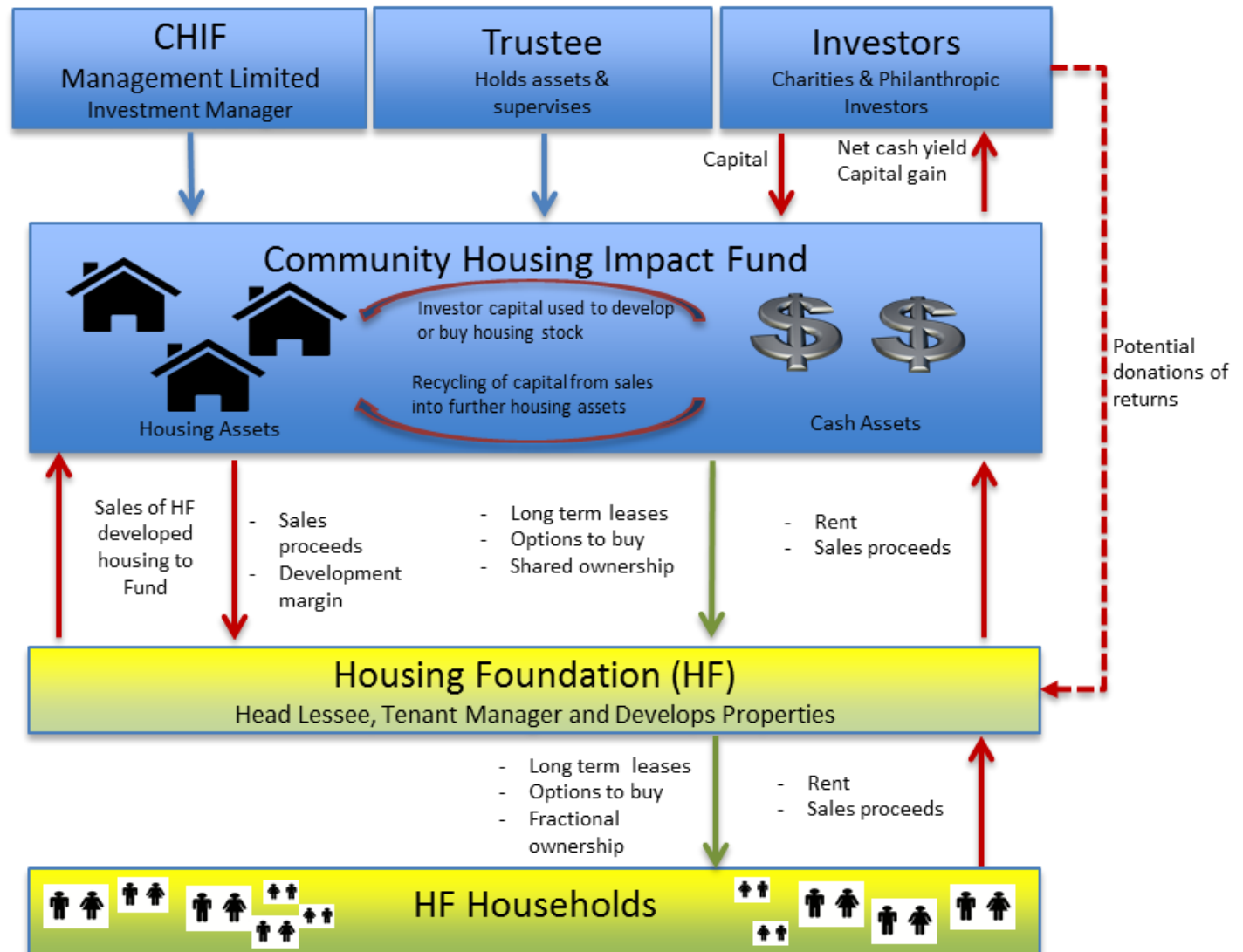
By adjusting these two levers an investor can still protect capital value while in some scenarios imparting significant value to a CHP and/or client households

The key element in the design of the Fund is the level of trade off between social returns against the level of financial returns.



How have we structured the Housing Impact Fund?

- This diagram outlines how the Housing Impact Fund integrates with the Housing Foundation purpose
- The Housing Foundation will use investor capital to develop housing for their products
- Investors receive a return based on the rentals received and future house value movement – both at below-market levels



The fund's investment strategy

The Fund operates by investing in housing assets and providing access to this housing primarily through either Affordable Rental (AR) or Affordable Equity (AE) products as currently offered by the Housing Foundation.

For **Affordable Rental** products the Fund will:

- Lease the housing to the HF as Head Lessee who in turn sublets to an HF household.
- Receive the rental income and pay the outgoings for that property less a tenant fee deducted by HF in recognition of the services HF provides.
- Grant the HF (and in turn to the Lessee) the option to buy the house at the then market price less 25% of any gain in market value.

For **Affordable Equity** products the Fund will:

- Co-own the house with the household homeowner
- Grant the household the option to buy the remaining equity in the house at the prevailing market price
- The householder otherwise bears the full costs of ownership including a fee payable to the HF in administering and managing the joint ownership arrangements

How is the fund structured and managed?

The Fund will be structured as a Unit Trust under the supervision of a Trustee and managed by the Investment Manager.

Who can invest?

The Fund will be restricted to wholesale and eligible investors.

We may open the Fund to retail investors in time.

Tax

The Fund will seek to attain Portfolio Investment Entity (PIE) status, and as such will not be directly taxed in its own right but Investors will be taxed at their Prescribed Investor Rate (PIR).

This allows tax exempt entities or investors on low tax rates to pay no or low tax.

We expect that returns from both net rental income and gains on the sale of properties will be taxable.

Gains on the sales of properties are not always taxable but because the Fund will generally have the intention of selling the property (to a household through options to buy and shared ownership schemes) we expect that gains will generally be subject to tax at the Investor's PIR.

The numbers ...

	Scenario 1	Scenario 2
HPI Index	6.40%	2.00%
Cash Yield*	1.53%	1.53%
Capital Gain	8.25%	2.58%
Total Return	9.78%	4.11%

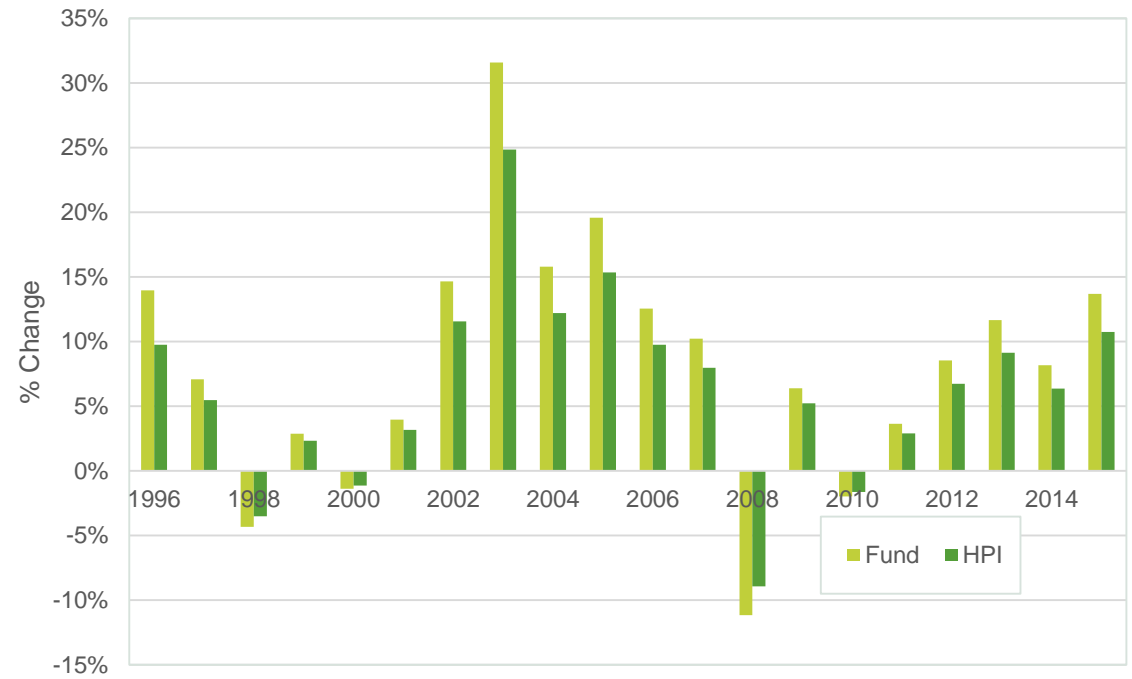
* Assuming 25% affordable equity; 55% affordable rental, 20% market rental and management fee of 0.45%

Comparative numbers ...

Bank	5 yr deposit p.a.	Rental Location	Rental yield p.a.
ANZ	3.60%	Henderson	3.80%
ASB	3.55%	Avondale	3.90%
BNZ	3.60%	Tauranga	3.70%
WPT	3.40%	Riccarton	5.00%
RaboDirect	3.80%	Queenstown	4.30%
KiwiBank	3.60%	Timaru	6.40%

Source: Interest.co.nz 4 October 16

House Price Index vs Expected Fund Performance
1995 - 2015



The chart above shows historic house price appreciation over the past 20 years against a simulation of how we would have expected the fund to perform.

Composition of the fund and leverage will impact the financial returns. The Manager will work to achieve a mix that reports both a cash yield and capital return that is market linked minus the affordability methodology.

What is optimal?

Affordable Rental Model Target Property Price and Rent

		Rent										
		300	325	350	375	400	425	450	475	500	525	550
Price	450,000	0.34%	0.74%	1.14%	1.54%	1.94%	2.34%	2.74%	3.14%	3.54%	3.94%	4.34%
	475,000	0.16%	0.54%	0.92%	1.30%	1.67%	2.05%	2.43%	2.81%	3.19%	3.57%	3.95%
	500,000	-0.01%	0.35%	0.71%	1.07%	1.43%	1.79%	2.15%	2.51%	2.87%	3.23%	3.59%
	525,000	-0.16%	0.18%	0.53%	0.87%	1.21%	1.55%	1.90%	2.24%	2.58%	2.93%	3.27%
	550,000	-0.30%	0.03%	0.36%	0.68%	1.01%	1.34%	1.67%	1.99%	2.32%	2.65%	2.98%
	575,000	-0.42%	-0.11%	0.20%	0.52%	0.83%	1.14%	1.46%	1.77%	2.08%	2.39%	2.71%
	600,000	-0.54%	-0.24%	0.06%	0.36%	0.66%	0.96%	1.26%	1.56%	1.86%	2.16%	2.46%
	625,000	-0.64%	-0.36%	-0.07%	0.22%	0.51%	0.80%	1.08%	1.37%	1.66%	1.95%	2.24%
	650,000	-0.74%	-0.46%	-0.19%	0.09%	0.37%	0.64%	0.92%	1.20%	1.47%	1.75%	2.03%
	675,000	-0.83%	-0.56%	-0.30%	-0.03%	0.24%	0.50%	0.77%	1.04%	1.30%	1.57%	1.84%
	700,000	-0.92%	-0.66%	-0.40%	-0.14%	0.11%	0.37%	0.63%	0.88%	1.14%	1.40%	1.66%
	725,000	-0.99%	-0.75%	-0.50%	-0.25%	0.00%	0.25%	0.50%	0.74%	0.99%	1.24%	1.49%
	750,000	-1.07%	-0.83%	-0.59%	-0.35%	-0.11%	0.13%	0.37%	0.61%	0.85%	1.09%	1.33%

What does this mean for an investor?

- The opportunity to be part of the solution
 - ... by providing low income families an opportunity to move up the housing continuum and reduce the *downward* flow to social and emergency housing
 - ... by providing scale to a tested and successful community business model run by the HF
- An investment in a high-demand residential property investment
- Achieving social outcomes while retaining ownership of your investment asset and receiving a financial (socially impacted) return

Why a fund?	What to be aware of:
Retain ownership of your investment	Limited liquidity
Investor protection through a structured product	Social returns will impact financial returns
Professional management and governance	Single sector residential property investment
Reporting and administration	Capital volatility

Market sounding feedback

Institutional Church/Iwi/community:

- Long term community development and sustainable social impact, values and impact alignment

Corporate:

- Long term safe harbour for capital and acceptable ethical capital return on investment
- Broadening of diversification of portfolio by asset class

Philanthropic Entity:

- Social impact and belief in the need for the work of the HF
- Development of their organisational brand by association with HF outcomes requiring best in class social impact measures and reporting

Philanthropic HNW individual:

- Social impact and belief in the need for the work of the HF
- Development of their personal brand by association with HF outcomes requiring best in class social impact measures and reporting
- I am prepared to take a less than market return because I know my money is being used effectively and is delivering real housing outcomes that build better communities.

How can you help?

- The community housing sector is supported by charitable services (CHPs) but scale is the significant problem given the sheer size and rapid ongoing growth of the need. We need to work together to raise awareness of capital constraints and the important and distinct role of CHPs
- HF got started with support from a range of respected funders such as the Tindall Foundation, Councils and Government, all of whom know well what we do and support it. Lets not give up hope of Government funding but lets not rely or depend on it either
- To grow the breadth and depth on the housing continuum and achieve our goals we all require patient capital. This fund is about accessing such capital. New capital. Talk to funders about this model – the sooner we can make Impact Investment normal the better and the sooner we will be able to open this type of fund to other CHPs
- HF focus is about stopping people getting to the edge by giving them a hand up, not a hand out. We help people who want to help themselves, be a part of a community, and to lift themselves up through hard work to make their lives and those of their children better

Questions?