

VALUE UPLIFT, CAPTURE, RETENTION AND RECYCLING

> *Scott Figenshow and Paul Gilbert emphasise the importance of retention of affordability in the housing market, and the role community housing providers can play, in this article originally published in The Property Lawyer.*

Often, the affordable housing narrative just talks about bricks and mortar, focussed on the price that a working family can afford to pay for a house on day one. There has been very little discussion about what happens down the road – to the house, the public money invested, and to the situation of the family.

Today, we'd like to argue for the importance of retention of affordability in the debate. When we realise the importance of retention, a range of tools become available to see it succeed.

“ We'd like to argue for the importance of retention of affordability ”

What do we mean by retention? There are two aspects to retention – firstly, retaining the actual dwelling and, secondly, retaining capital in the dwelling so that the value uplift in the property is captured and re-used.

When one household no longer needs the assistance of affordability, that same home can be offered to another eligible family. This has been the main approach of successive governments, through HNZC and by local governments for offering pensioner housing stock.

There is an additional approach to retention – holding onto the dollar value of the public investment, and ensuring it moves from family to family as needs change. From our perspective, 'affordable' means that a family is paying around 30 percent of their gross income towards their rent or mortgage repayments.

“ Many are just one pay packet away from homelessness ”

Unfortunately, for an increasing number of Kiwis earning less than the median income – \$85,000 or lower – we are seeing upwards of 45 percent to 50 percent of their income spent on housing costs, leaving little left over to save. Many are just one pay packet away from homelessness. We can and must do better.

What role does the not-for-profit Community Housing Provider (CHP) play? We believe there is a strong track record where CHPs deliver retention of housing stock, as well as public investment dollars, by offering different programmes suited to different family and market needs.

When we use the term 'CHP', we specifically mean those providers set up to operate on a not-for-profit basis, who are registered with the government's Community Housing Regulatory Authority (CHRA), to ensure they meet key tests. This distinction is critical because our definition of success is not paying dividends to shareholders; it is growing thriving communities.

One of the core value propositions of the CHPs is to capture

and retain community value in the properties they work with. This is achieved by recycling capital (and, sometimes, the dwellings involved) to assist households seeking both affordable rental accommodation and progressive homeownership to meet their needs. No other central government, local government or private sector entity can do this.

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Māori housing providers have the same capability on Māori freehold land, and community land, following similar approaches. This is a critical point of difference and a unique value proposition. The value (capital and/or land and improvements) is captured forever, for the benefit of the community, and is recycled for the same purpose.

This is not an extractive model – it is all about delivering for the community, not for profit. Here's how it works across four key elements:

1. UPLIFT

When CHPs act as a development partner, they are able to participate actively in the value uplift that occurs when turning one house into four, or when programmes like linkage/inclusionary zoning confirm an agreed percentage of new homes are to be delivered as genuinely affordable housing.

For example, in development terms, this is about capturing some of the increased land value that occurs when there is a zone change or consent given by the local authority. That is the effective point at which to apply this very effective mechanism.

2. CAPTURE

The CHP acquires land, works with development partners, and turns it into houses. The value sits on the CHP trust/charitable company balance sheet, and can be tracked and reported on through CHRA reporting and Charities Act reporting. This works whether it is land value or capital grant, philanthropic investment, social capital investment or general market value appreciation.

Public. Transparent. Accountable.

3. RETENTION

As development turns into homes, the trust holds onto its shares in progressive homeownership – as families are able to buy more of the home, the trust receives cash in exchange. For rentals, the trust holds onto the development long-term, providing secure rental tenure, now and for future generations. As the properties increase in value and the trust pays down debt, it has greater balance sheet ability to take on new developments.

At Waimahia (see p.42), much of the CHP money that was used to develop the 295 homes has already been recycled a number of times. The same money has housed a number of different low-income families in a number of different locations, and will continue to be recycled forever.

'Secure Home' Programme Projects



COMPLETED 2013

Nerin Square, Lake Hayes Estate

Mixed tenure, Crown contributed \$1m, Land purchased from IZ contributions.



COMPLETED 2015

Suffolk Street, Arrowtown

Crown contributed \$1m, Council contributed land, Long term rentals, two units allocated for Senior Housing.



COMPLETED 2016

Shotover Country

Developer contributed land, QLCHT spent \$2m on subdivision work, 44 houses built in 2016 by three building firms, Mixed tenures including 11 rentals.



COMPLETED 2017

Riverside, Wanaka

Developer contributed land, six into Shared Ownership and five into rentals.



COMPLETED 2016

Northlake, Wanaka

Developer contributed land, two into rentals.



COMPLETED 2019

Cherwell Lane, Queenstown

Developer contributed land, six into Secure Homes.

4. RECYCLING

Whether by recycling and reusing the actual homes or the capital, a social enterprise is operating. The capital is being used and reused forever to deliver better social outcomes.

“ The capital is being used and reused forever ”

The CHP relies on financial support from a broad range of people, organisations and sources. Funds come from philanthropic gifts, direct government grants and the CHP's own operations. Investment into operations and any surplus income is reinvested back into the housing system to support the charitable work. Once capital funding is invested into the system, it is retained and recycled forever. This provides an ongoing funding source, allowing CHPs to deliver more housing outcomes for more households. As a result, the CHP is able to provide lasting, positive social outcomes.

CHPs put profit and people side by side.

Why are these four elements good for the Crown? In terms of pure property-related outcomes, the dollars invested today can be used again and again – which means that, in future years, Crown subsidy investments can go further – and it is possible to do more with the same level of investment. No other system setting achieves this benefit.

However, on the occasion of the first Wellbeing Budget in 2019, it would be remiss not to also mention the overwhelming body of empirical evidence that clearly and irrefutably indicates the direct link between safe, stable, secure housing and better health outcomes, better education attendance and achievement, better mental health and social cohesion, and overall improved quality of life. All of these very significant social impacts combine to deliver reductions in the net long-term fiscal liability of the Crown.

“ The CHP sector delivers hard-to-quantify but incredibly important social outcomes ”

The CHP sector delivers hard-to-quantify but incredibly important social outcomes, including benefits associated with the prevention of many social detriments linked to poor standards of housing.

While arguably well-run, council housing providers and Housing New Zealand can offer a great service but they have not demonstrated a track record of combining the features of uplift, capture, retention and recycling. No other organisation can offer this. It is an essential element of our housing system, we believe, and one that activates the best features of CHPs:

- **Not for profit, income tax exempt**

This is about a legal structure of trusts and charitable companies whose purpose and objects are focussed on reinvestment of value, surplus and profits into the delivery of more social and affordable housing – a virtuous cycle. By contrast, Housing New Zealand Corporation (HZNC) is required to pay tax and dividends to the Crown, and local authorities have a cumbersome process of running their housing portfolios on a break-even basis.

- **Legal entity reflective of local, regional needs and capacity**

CHPs have a management-and-governance-structure, focussed on the public purpose, informed by commercial discipline, yet focussed on social investment at the local level. They maintain a structure that operates with local roots, offering place-based solutions.

- **Partnerships that play to strengths**

CHPs can't do it all themselves. Structured partnerships and contractual relationships with developers and builders see to the construction of homes, allowing those parties to take risks appropriate to those roles, and exit the project once occupied. The CHP remains as the long-term operator and owner, a steward for current and future generations.

- **A safe, secure place for public investment**

CHPs manage both additional housing supply and recycle value from both public and private investment. These trusts, when working at scale in a community, are equally effective at turning a dollar of today's value uplift and public investment into two and three dollars over time.

A healthy housing system has clear and distinct roles for each of the three pillars of society:

1. **Public:** government as investor;
2. **Private:** building company and developers;
3. **Third Sector:** the not-for-profit sector – long-term stewards of public investment and private sector delivery, operating for the benefit of future generations.

What are the ways we can scale up these essential features for permanent recognition in NZ's housing system?

- **Special Housing Areas**

Auckland went down the road of Special Housing Areas, delivering a very significant and effective supply pipeline of affordable housing opportunities for the brief period they were in place – before Auckland councillors voted those provisions out as part of the Unitary Plan.

- **Inclusionary Zoning**

The reintroduction of Inclusionary zoning across the whole of New Zealand would be a very good start. To date, only Queenstown has taken the leap (see p.71 and previous page), and they now have a thriving third sector through the Secure Home programme.

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