

8 February 2024

Alex Olsen

fyi-request-25231-a8b5badc@requests.fyi.org.nz

Dear Mr Olsen

Thank you for your email dated 19 December 2023 to Kāinga Ora – Homes and Communities, requesting the following information under the Official Information Act 1982 (the Act):

1. *Copies of all Cabinet papers, briefing papers and other significant advice documents held by Kainga Ora discussing the transfer of HNZC houses to Accessible Properties in Tauranga.*
2. *Copies of all Cabinet papers, briefing papers and other significant advice documents held by Kainga Ora discussing the possible transfer of HNZC houses in Christchurch to community housing providers.*
3. *Copies of all Cabinet papers, briefing papers and other significant advice documents held by Kainga Ora discussing the expected benefits or disadvantages of transferring HNZC houses in Tauranga and Christchurch to community housing providers.*

I am requesting documents written between 1 January 2014 and 31 December 2017.

I have consulted with relevant staff about your request and searched the Kāinga Ora records system for documents in scope. The following documents produced between 1 January 2014 to 31 December 2017 and held by Kāinga Ora were found to be in scope:

- 22/09/2016 - Social Housing Reform Programme –Tranche 2 of the HNZC transfer transactions
- 22/03/2017 - AH 17 027 - Housing New Zealand's involvement in the transfer of properties in Tauranga.

I have included copies of these documents in full with this response. It is important to note that although Housing New Zealand (as Kāinga Ora was known) contributed information and cooperated with the then Government's Social Housing Reform Programme, it was not tasked with administering or implementing the transfers of housing that were part of it.

Furthermore, although some Cabinet documents from 2014 to 2017 are held by Kāinga Ora in its document system, an assessment of these documents determined that they did not discuss the Tauranga transfer or proposed Christchurch transfer in any significant detail. For example, one Cabinet Social Policy Committee document from 2015, while comprising of six pages, only contained three short references to Tauranga, saying that:

- Cabinet noted feedback and agreed that regional consultation could proceed
- significant cultural sites require further advice from officials
- Joint Ministers should decide if market sounding should proceed.

For more information about the Tauranga transfer and proposed Christchurch transfer I would again recommend the Treasury's website, as well as the websites of the Ministry of Social Development and the Beehive:

- <https://www.treasury.govt.nz/publications/history-social-housing-transfers-april-2010-december-2017>
- https://www.treasury.govt.nz/publications/search?f%5B0%5D=issue_status%3A%21%282475%7C5527%29&issued_from=10&issued_to=7&search=Social%20Housing&sort_by=issue_date&sort_order=DESC
- <https://www.msd.govt.nz/about-msd-and-our-work/work-programmes/social-housing/cabinet-papers.html>
- https://www.beehive.govt.nz/search?f%5B0%5D=government_facet%3A6064&f%5B1%5D=portfolios%3A6098 .

Please note that Kāinga Ora proactively releases our responses to official information requests where possible. Our response to your request may be published at <https://kaingaora.govt.nz/publications/official-information-requests/> with your personal information removed.

Yours sincerely

A handwritten signature in blue ink that reads "Rachel Kelly". The signature is written in a cursive, flowing style.

Rachel Kelly
Manager Government Relations

AH 17 027

22 March 2017

Minister for Social Housing
Associate Minister for Social Housing

Housing New Zealand's involvement in the transfer of properties in Tauranga

You have asked for information about Housing New Zealand's role in the Tauranga transaction process and property transfer to Accessible Properties Limited (APL) which will take place on 31 March 2017.

Preparation for transfer

Housing New Zealand has taken an active role in preparation for the Treasury-led transfer of around 1,140 properties and tenancies to APL. As with the Tamaki transfer, Housing New Zealand's Tauranga Transfer team included staff from the business transition, communications, finance, legal, and human resources teams, as well as frontline staff at the Customer Services Centre and the regional office.

During 2016, the Treasury undertook a detailed property condition assessment to determine the condition of Housing New Zealand properties in Tauranga. Each property was scored on a scale of 1–5 (a score of 1.0 meant that all the components assessed are in a very good condition, and a score of 5.0 means all components within the entire property would have reached the end of their useful life and have been assessed as very poor). The average condition grade for Housing New Zealand's properties in Tauranga was 1.42.

This property condition assessment helped inform Treasury's procurement process to identify a Community Housing Provider (CHP). The property data was used for market sounding, expressions of interest, request for proposals, preferred bidder selection, and the transition of the properties and tenancies to APL. The transition phase for Housing New Zealand also included:

- the review of property titles
- input into the Treasury procurement panel interviews of bidders on the shortlist
- Transition Team evaluation of bidders' Request for Proposal submissions (together with the Ministry of Social Development (MSD) and Treasury)
- Transition Team evaluation and recommendation for the preferred bidder
- the transition of the properties and tenancies to APL.

Housing New Zealand utilised its close working relationship with MSD, as well as its experience with the Tāmaki Regeneration Company, to transfer properties to APL. The relationship with MSD has continued to grow during the Tauranga transfer process and

the two partner agencies are working closely to ensure APL is ready for the transfer on 31 March 2017.

Housing New Zealand business impacts

Housing New Zealand is managing the transfer impacts on its business, including changes to organisation structure, staff, maintenance contractors, asset development plans, financial reporting and tax obligations, legal, tenant and stakeholder relationships.

HNZ Staff

Housing New Zealand has facilitated opportunities for its Tauranga-based staff to interview for positions with APL. Five Housing New Zealand staff members have been recruited to APL. One staff member will be redundant as a result of the transfer.

Property Maintenance

Housing New Zealand has facilitated meetings for its maintenance contractor to engage with APL over the continued provision of property maintenance services. This approach has also ensured maintenance services for residual Housing New Zealand properties will continue.

Organisational capability and capacity

With the transfer for around 1,140 properties to APL, Housing New Zealand will be left with an unsustainable portfolio of around 235 properties and tenancies that will not be transferred. Properties that will not be part of the transfer include:

- 77 properties leased from private owners (Home Lease Programme), with lease expiries over the next 10 years
- 115 properties subject to right of first refusal (RFR). Treasury and Housing New Zealand are currently in negotiations with local Iwi
- 35 Community Group Housing (CGH) properties that will be retained by Housing New Zealand
- 6 isolated properties in Kati Kati that Housing New Zealand intends to divest.

The small number of residual properties severely limits the ability of Housing New Zealand to adequately provide services to tenants. Housing New Zealand is considering approaches on how to deal with these properties and may consider contracting with a provider to manage and/or lease the properties and services for any remaining tenants. That provider could be APL given it has the portfolio size to manage a sustainable service to tenants. Equally other community based organisations may wish to become a CHP and manage the services.

Housing New Zealand will also have a limited ability to fulfil its legislative obligations to support civil defence emergency in Tauranga. This responsibility could also be contracted to another CHP who may have the capability to provide accommodation in an emergency.

Housing New Zealand will have an on-going contractual relationship with the CHP who potentially manages its residual properties, or that provides other services for Housing New Zealand.

In addition to the management challenges of residual tenancies in Tauranga, Housing New Zealand will be unable to support MSD's future purchasing requirements in Tauranga, due to the transfer of most of the land suitable for potential redevelopment opportunities.

Communication with tenants

Housing New Zealand, as the landlord, has led communications to its tenants throughout the transfer process and will continue to meet its obligations under the Residential Tenancies Act (RTA) until the tenancies are transferred to APL. Housing New Zealand and Treasury collaborated around the initial communications prior to the undertaking of property condition assessments. When APL was selected as the preferred bidder, a plan was agreed between APL, Housing New Zealand, MSD and Treasury to guide tenant communications. This has included information advising tenants that:

- Accessible Properties is the preferred bidder for Tauranga properties and tenancies
- Accessible Properties will be the new landlord
- tenant rights under the RTA do not change
- eligibility for social housing will continue to be assessed and managed by MSD
- if tenants have any questions about Income-Related Rent, or have had a change of circumstances, they can call MSD on the specific phone number provided
- tenants should change their payment direction to APL to coincide with APL becoming the new landlord on 31 March 2017.

Tenants have been provided with contact details for Housing New Zealand, MSD, and APL, should they need additional information. Relevant information is also posted on Housing New Zealand, MSD, and APL's websites.

Letters have been sent to those tenants who are not included in the transfer including those living in HLP properties, CGH, and those subject to an RFR.



Charlie Mitchell
Director Business Transition

Housing New Zealand Corporation

COMMERCIAL: IN CONFIDENCE

Office of the Minister Responsible for HNZC
Office of the Minister for Social Housing

Chair
Cabinet Social Policy Committee

Social Housing Reform Programme - Tranche 2 of the HNZC transfer transactions

Proposal

1. This paper seeks Cabinet Social Policy Committee agreement for the Minister Responsible for HNZC and the Minister for Social Housing (Joint Ministers) to:
 - a. announce Christchurch as the next location for a transaction of Housing New Zealand Corporation (HNZC) stock to the community housing sector;
 - b. direct officials to commence engagement with Ngāti Toa Rangātira with a view to progressing transactions in Porirua and Lower Hutt; and
 - c. direct officials to investigate the potential for a transfer in Hamilton.
2. The paper also fulfils a commitment made by Joint Ministers to report back to Cabinet before further decisions on transfer transactions are announced.

Executive Summary

3. The intent of the Social Housing Reform Programme (SHRP) is to build a fair, efficient and effective social-housing market that will better support people in greatest need for the duration of that need. A key objective of the SHRP is that there is more diverse ownership or provision of social housing. The transfer of social housing provided by HNZC to alternate providers will help us meet this objective, through diversifying ownership of social housing.
4. Transactions will also contribute to achieving the other objectives of the SHRP. We need more developers, financiers and specialist service providers to get involved in order to increase the sector's capability and capacity. This capability and capacity will support the objective of more innovation and more responsiveness to social housing tenants and communities, and help ensure people who need housing support can access it and receive social services that meet their needs.
5. The transfer of social-housing properties from HNZC to the community housing sector is a key aspect of the SHRP – each transfer will kick-start additional sector growth, bring innovation, and support the provision of housing services that are

responsive to tenant needs. This is not just about taking over provision of existing places from HNZN, it will increase sector ability to add new supply and diversify service offerings. The first of these transactions aside from the transfer to Tāmaki Redevelopment Corporation is in Tauranga.

6. Transactions also support the overall Capital Recycling programme, which is helping the Government meet long-term fiscal objectives through active stewardship of government resources. The Crown capital released from transactions gives the Government more headroom for other capital expenditure to support key public services and investments, and maintain net debt targets.
7. Later this year HNZN will be presenting a proposal to the Minister Responsible for HNZN for large scale multi-year developments in Auckland, with a potential cost over three years of the order of \$1.6 billion. The capital proceeds from transactions enables the Government to consider more ambitious proposals than would otherwise be the case.
8. We are now considering a joint transfer with Horowhenua District Council of its 115 community housing properties with 249 HNZN properties. There has also been renewed interest in Invercargill, and we are investigating the recommencement of a transaction there.
9. The Tauranga transaction has stimulated interest in the social-housing market, with multiple CHPs making an investment in that procurement process and three high-quality RFP responses received. Negotiations with a preferred bidder are nearing completion. We intend, through subsequent transfers, to create larger providers of social-housing around the country, and expect them to make significant contributions to the development of a more capable and responsive market that can better meet tenant needs. A pipeline of transfer transactions is important to give the sector confidence that investing in our programme is the right choice to make, and that they will have the opportunity to grow if they do a good job.
10. Key lessons from the Tauranga transaction include:
 - a. There is a clear and sophisticated market for large scale transactions particularly where there is the opportunity to reconfigure/redevelop the portfolio being transacted.
 - b. Large scale transactions are an efficient way to drive rapid change in the composition of the community housing provider (CHP) sector. Participants can bring considerable innovation and resources to bear on social-housing and are eager to undertake redevelopment and add to housing supply.
 - c. HNZN has internalised the true cost of multiple risks in providing social-housing services (e.g., methamphetamine and insurance) and the transaction process is surfacing these and revealing the true cost of provision.
 - d. Purchasing flexibility for the Ministry of Social Development (MSD) in supply contracts without provider supply flexibility has a monetary cost.
11. Although the Tauranga transaction is still under negotiation with the Preferred Bidder, the parameters of that negotiation have positively exceeded our fair value expectations. We are confident that it will result in improved services for tenants and value for money for taxpayers. With this in mind, we intend to progress a second tranche of transactions (Tranche 2) to maintain the momentum generated by the Tauranga transaction. Momentum helps develop the social-housing

market, and thereby achieve the goals of the Government's Social Housing Reform Programme.

12. Eight areas were identified as potential candidates for Tranche 2 due to high levels of presenting market interest.¹ A ranking process based on our key priorities identified Porirua, Lower Hutt, Christchurch, and Hamilton as the most attractive of those locations. For each area, officials have subsequently:
 - a. undertaken a preliminary assessment of the iwi and hapū rights and interests in each location (based on information held by the Crown and HNZA),
 - b. engaged with local councils on a possible transfer (except for Christchurch),
 - c. assessed reconfiguration opportunities based on MSD's requirements, and
 - d. assessed the potential commercial viability and opportunity for redevelopment.
13. Christchurch is a clear sale-opportunity, with the potential for more than one provider in that market and a relatively-rapid sales-process (expected to conclude by September 2017). It is therefore attractive from the viewpoints both of developing the social-housing market and maintaining momentum in the transactions programme. We therefore propose that Christchurch should be the next location announced for a transfer transaction.
14. Compared with Christchurch, Porirua and Lower Hutt will offer greater opportunity for regeneration, but the existence of widespread rights of first refusal (RFRs) will complicate the commencement of a procurement process. Regeneration may also not be possible without additional subsidy being provided by the Crown (either increased IRRS payments or through lower transfer proceeds). In combination, transfers in Christchurch, Porirua and Lower Hutt will be pursued as Tranche 2.
15. We envisage a potential Hamilton transaction as being initiated after the above transactions have commenced. This allows preparatory work to be done for Hamilton, and for Ministers and officials to focus on ensuring the successful transactions in Christchurch, Porirua and Lower Hutt.

Background

16. The intent of the SHRP is to build a fair, efficient and effective social-housing market that will better support people in greatest need for the duration of that need. Our actions so far include:
 - a. making the Income-Related Rent Subsidy (IRRS) available to registered CHPs,
 - b. transferring the needs-assessment function to MSD, and
 - c. MSD purchasing additional social-housing places on behalf of the Crown.
17. These steps will allow us to flexibly purchase social-housing places from a wider range of housing providers, where and when we require them, for the duration of the tenant's need. It will also enable other parties to provide the capital required

¹ The long list of potential locations for Tranche 2 transfers included Auckland Region, Christchurch, Hawke's Bay Region (excluding Napier), Napier, Palmerston North, Waikato (especially Hamilton) and Wellington Region (especially Hutt Valley and Porirua).

to upgrade and expand the stock we need. A key objective of the SHRP is to encourage and develop more diverse ownership of social-housing. We also need more developers, financiers and specialist service providers to get involved.

18. However, barriers inhibit the full development of a social-housing market. These barriers include a lack of spread and scale in the current social-housing market and low returns from social-housing provision. We need ways of overcoming these barriers to support alternative social-housing providers to grow, including new entrants. This growth needs to happen at a greater rate than the overall social-housing stock is growing at. The large scale transfer transactions we are discussing in this paper will facilitate the growth we need if the sector is going to be able to make a meaningful contribution to the challenges we face.
19. The Social Policy Committee agreed a delegations framework for SHRP transactions, which allows Joint Ministers (the Minister Responsible for HNZC and Minister for Social Housing) to approve the location of transfer transactions and to proceed to Regional Consultation. There is also flexibility in the delegations for us to approve changes to the commercial process and structure for future transactions. SOC Min (15) 14/3 refers.
20. There are two primary considerations in relation to decisions on the scale and pace of additional transfers of social-housing properties:
 - a. In his 2015 State of the Nation speech, the Prime Minister stated the Government would look to sell 1,000 - 2,000 HNZC properties over the following year (2016) for use as social-housing run by approved CHPs.
 - b. In December 2014, Cabinet agreed that HNZC would provide no less than 60,000 properties by 2017 (CAB Min (14) 39/22 refers).
21. The commitments were intended to demonstrate our deliberate approach to the transfer programme; to enable us to learn from our initial forays and confirm their viability and value before entering into a more ambitious stage of market development. The case for transfer transactions has been made, and we now intend to move forward with the programme.
22. HNZC is currently reforecasting the number of its properties in light of its construction and divestment programme. HNZC is only divesting properties in areas of lower demand and which cannot be used for emergency housing. We expect that HNZC will have more than 60,000 properties at the beginning of 2017, but these numbers may dip below 60,000 in late 2017 or early 2018 as properties are transacted, before increasing as developments come on stream. HNZC will remain a very large scale provider and the total number of emergency and social properties available, comprising social housing properties owned by HNZC and CHP in New Zealand will be increasing.
23. This paper fulfils the undertaking we made, also mentioned in the Prime Minister's speech, for Cabinet to review progress before any further decisions on transactions of HNZC stock are announced (to move beyond the initial commitments made).
24. The Crown has a policy of consulting with iwi and hapū before SHRP transactions are undertaken to ensure it understands their rights and interests in HNZC land before it is transferred to third parties. Progressing to a procurement process in a particular area will depend upon the outcome of consultation with local iwi and hapū.

25. Discussions have already occurred with Ngāi Tahu as part of the Invercargill transaction Regional Consultation, so it is possible to progress to Regional Consultation and Market Sounding in Christchurch without undertaking the preliminary discussions we intend to have with Ngāti Toa in respect of possible Porirua and Lower Hutt transfers. The intent will be to not include in the transfer any of the few HNZN properties in Christchurch that are subject to RFR (25 properties).
26. HNZN will continue its 'business-as-usual' activity of property/asset management and sales to tenants in areas identified for transfer until a contract is signed with the new provider. There will be no hold-up to this important activity as we undertake consultation, test the market, and complete transactions. In particular, for the locations shortlisted for Tranche 2, we also expect HNZN to have an enduring role that will enable it to continue developments after transfers are concluded. MSD can also contract for additional supply from CHPs independently of any transfer processes that may be occurring.

Lessons learnt from Tranche 1 transactions

27. The first transactions have stimulated interest in the wider social-housing market from domestic and international players, and there has been an investment from participants in the procurement process for Tauranga.
28. The first large-scale transaction is occurring in Tauranga, and will result in the transfer of 1,124 properties from HNZN to the provider. To date:
 - a. The viability of a transfer in Tauranga was originally tested via a Market Sounding, which commenced on 17 August 2015.
 - b. The commercial process was then started when the Expressions of Interest was released on 20 November 2015.
 - c. The Request for Proposal was released to three parties on 23 March 2016, and responses were received by 07 June 2016.
 - d. Following a detailed evaluation process, Accessible Properties was announced as the Preferred Bidder on 12 August 2016. Accessible Properties, owned by IHC New Zealand Inc., is New Zealand's largest non-government CHP.
29. Lessons learned from Tauranga include:
 - a. There is a market for large-scale social-housing transfers particularly where there is sufficient opportunity for reconfiguration and redevelopment. This was demonstrated in Tauranga where five high-quality Expressions of Interest were received and all of the RFP responses were of a high calibre. The minimum size of transfers to attract these institutional investors and large-scale providers is 1000 properties, although 2000 is more attractive to them. The Invercargill transfer did not reach this scale and the market response was limited.
 - b. Large-scale transactions provide an efficient way of driving rapid change in the composition of the CHP sector. As part of developing the transaction contract, MSD has had to be very clear about what it values and its service requirements. This clarity will assist MSD in negotiating a contract with HNZN. The transactions also provide a benchmark against which to measure the performance of HNZN and CHPs. Participants can bring

considerable resources to bear on social-housing and are eager to undertake redevelopment and add to housing supply.

- c. The Tauranga transfer is identifying risks and associated costs which have historically been internalised by HNZN. The agreed commercial model will price and provide solutions for these issues, which include:
- the cost to an owner of insuring for social-housing tenants (with particular emphasis on methamphetamine contamination and fire hazards);
 - dealing with building defects that HNZN has not resolved;
 - maintaining housing to a set standard for the life of the contract; and
 - interest rate risk on debt funding (affecting the cost of capital deployed).
- d. The current funding settings, which are based on market rent being sufficient to maintain a social-housing business, make transactions financially marginal. The extent to which the Government is seeking reconfiguration and redevelopment needs to be made as clear and accessible as possible as the financial viability of a transaction will be enhanced where there is potential for capital growth that can be realised by the provider.
- e. Early engagement with iwi and hapū with RFRs enables a better understanding of their aspirations and provides scope to incorporate shared objectives within the commercial structure.
- f. Purchasing flexibility for the Ministry of Social Development (MSD) in supply contracts without provider supply flexibility has a monetary cost.
- 30.** The potential for a pipeline of future transfer transactions was noted by market participants as an incentive to offset their upfront investment of resources in the Tauranga procurement. Commencing Tranche 2 by the end of this month will maintain and capitalise on this momentum and allow us to give visibility to a pipeline of future transactions.
- 31.** A commercial process was also commenced in Invercargill, but that transfer was put on hold due to the single qualifying respondent withdrawing from the procurement. Lessons learnt in Invercargill include clearly communicating the nature of the transaction early. We have recently received advice from officials that three parties have expressed interest in relation to Invercargill, and we have asked them to investigate the recommencement of a commercial process there in the near future.
- 32.** Transaction structure and processes also need to reflect the size and opportunity of the transaction and type of likely market participants. What was accepted by the market as appropriate for a large-sale transfer like Tauranga will not necessarily hold true for a smaller transaction. This learning has been applied to the smaller transaction currently being planned for Horowhenua and will be applied for any new process in Invercargill.
- 33.** Knowledge and expertise gained from the first tranche of transactions will help make future transfers a smoother process, with a better Crown understanding of

potential issues and preferred positions, as well as increased market capability and understanding of our objectives.

Locations selected for Tranche 2 transactions

- 34.** We consider that the most important factor for a successful transaction is the presence of market interest. Through undertaking a comprehensive Request for Information, officials were able to identify eight areas where there is strong market interest in future transactions.
- 35.** These eight locations were then ranked according to:
- a. Alignment with MSD's purchasing intentions and contracting framework.²
 - b. Understanding of iwi and hapū interests.
 - c. The potential for community-led regeneration.
 - d. The ability of the transfers to help maintain momentum of CHP development.
 - e. Opportunities to improve the utilisation of HNZC stock.
- 36.** Four locations were subsequently identified as the most attractive options for the next tranche of transactions. These locations areas are:
- a. Christchurch,
 - b. Hamilton,
 - c. Lower Hutt, and
 - d. Porirua.

The key characteristics of each of these locations are set out in the table appended to this paper. The table was prepared in consultation with the Office of Treaty Settlements (OTS), Te Puni Kōkiri (TPK), the Ministry of Business, Innovation and Employment (MBIE), MSD, and HNZC.

- 37.** As the locations were mainly selected on the basis of market interest, the considerations we have placed particular emphasis on were whether a scale transaction is likely to be commercially viable, and the extent to which we could maintain momentum for the transfers programme. Commercial viability included the current match of stock to tenant needs, as well as reconfiguration/redevelopment opportunities.
- 38.** After considering the advice from officials, we intend to announce Christchurch on 27 September as the next location for a transfer transaction. Christchurch has the potential for more than one provider in that market and a relatively-rapid sales-process (expected to conclude by September 2017). It is therefore attractive from the viewpoints both of developing the social-housing market and maintaining momentum in the transactions programme. Regional Consultation and Market Sounding in Christchurch would be initiated before the end of this month (a timeline is included below). Our intention is to progress one or more transfers of HNZC properties and tenancies in Christchurch as a sale, since introducing a leasing option may introduce unnecessary delay.
- 39.** The potential to improve outcomes for tenants and regenerate communities leads to our interest in Lower Hutt and Porirua. We will carefully assess the benefits

² In particular whether there is sufficient ongoing demand forecast by MSD for social housing to warrant the long term supply contracts required to make a transfer transaction viable.

and costs of undertaking regeneration before making any decisions on how transfers in those locations will shape up.

40. Whilst a transaction excluding RFR properties in Porirua and Lower Hutt could proceed, it would be challenging because RFR properties are located amongst the non-RFR properties. Discussions with Ngāti Toa Rangātira, the RFR holder, will focus on how the iwi can be involved in the transaction and the relationship of this with the iwi's goals, rights and interests, in particular RFRs. These discussions should be treated as commercially confidential until such time as a public announcement is made.
41. We envisage a potential Hamilton transaction as being initiated after the above transactions in Christchurch, Porirua and Lower Hutt have commenced. This allows preparatory work to be done for Hamilton, and for Ministers and officials to focus on ensuring the successful transactions in Christchurch, Porirua and Lower Hutt. A very high proportion of HNZA properties in Hamilton are subject to RFRs, so a transaction would likely commence on a bilateral basis with Waikato-Tainui.
42. Officials are working to identify the current fiscal costs of social-housing tenants in Christchurch, Hamilton, Lower Hutt, and Porirua. This will incorporate a wider consideration of cost to the Crown than just housing support. In particular it can be used to assess the benefits of regeneration of housing stock (as discussed below). This information will provide a platform to determine the baseline, monitor the outcome of transfers and also help shape the objectives of future transfers. It will integrate with wider work MSD is undertaking on its investment approach as part of the intended development of its role as an intelligent purchaser.

Timing and commercial considerations for Tranche 2

43. The draft target timeline for a transfer transaction for Christchurch is set out below based from a 27 September 2016 announcement. Each stage in the process is dependent on the successful conclusion of the previous stage and any delays will cascade through subsequent stages. The timeframe is heavily reliant on the outcome of consultation and iwi consultation being resolved. A delay in either of these stages could cause longer delays to the overall timeframe.
44. Christchurch transfer timeline:
 - a. Announcement of intention to carry out a transfer transaction – 27 September 2016
 - b. Regional Consultation and Market Sounding – complete by end-November 2016
 - c. Expressions of Interest Stage – up to three bidders announced end-February 2017
 - d. Request for Proposals Stage – preferred bidder announced mid-June 2017
 - e. Contracts signed with successful bidder – end-August 2017
 - f. Transition from HNZA to new provider – completed November 2017.
45. Lower Hutt and Porirua may require a longer timeframe depending on the extent to which regeneration is included at the outset, or to market-test transaction specific parameters. Each will also be timed from a later start date due to the need for preliminary discussions with Ngāti Toa Rangātira to be concluded. We will consider timing post-discussion.

46. The timing of any announcement in respect of Hamilton is uncertain. We expect that once initiated, a Hamilton transaction may be taken through to completion sooner than some Tranche 2 locations as it may progress immediately from preliminary discussions with Waikato-Tainui to a bilateral commercial negotiation.
47. As mentioned above, there are possibilities for further developing or adapting the commercial structure used in Tauranga to better meet the circumstances of specific locations, tenant cohorts, market characteristics and portfolios of properties during Tranche 2. These include:
 - a. the possibility of introducing leases (rather than sale),
 - b. contracting for innovative solutions for specific cohorts (such as older people), and
 - c. accommodating smaller CHPs within a larger transaction.

In order to support diversity in the sector, it will be important for the pipeline of transfer transactions to offer a range of opportunities. Scale is important to attract new participants, but access to smaller portfolios or niche provision may be of interest to others in the sector.

48. Specialist property advisors will also provide reports on the redevelopment potential of the stock in the locations identified (these have already been received for Christchurch, Lower Hutt and Porirua). This can allow for redevelopment to feature more heavily in the final selection of portfolios and commercial processes that ensue (if desired). It will also be open to MSD to seek to use the transaction process to help meet any current or anticipated shortfall in stock.
49. The opportunity for urban regeneration to drive better outcomes for tenants, and reduce long-term fiscal costs, has been identified for large parts of the HNZN portfolios in Lower Hutt and Porirua. There is a high concentration of aged stock that is in need of renewal, and a significant mismatch of current supply with demand in both locations. However, there is limited commercial prospect for widespread redevelopment. Outside of a few sites, undertaking regeneration of the social-housing stock will likely require additional funding or for properties to be transferred at a significant discount as redevelopment will require asset write-downs.
50. Officials will continue to investigate opportunities for regeneration, and fiscal or OBEGAL impacts will be considered as part of any recommendation to proceed with a transfer.
51. In Tauranga we required RFP respondents to outline how they would reconfigure the stock to better meet MSD's requirements, including reducing overcrowding, as well as how they could meet MSD's 2015 Purchasing Intentions for the Tauranga District [approximately 40 additional one-bedroom places, 20 two-bedroom places, and ten larger places (more than four bedrooms)]. This could become a greater focus for Tranche 2 transfers.
52. We may seek multiple providers to be operating in large locations, or establish a smaller number of providers with greater scale. A larger number of providers will increase opportunities for:
 - a. MSD to benchmark providers,
 - b. competition between providers to retain or increase market share (promoting innovation and cost efficiencies), and

- c. risk management should a provider fail.
53. The feedback in the Tauranga transaction is that a portfolio of 1,000 properties is at the bottom end of the scale in terms of attracting institutional investors and large scale providers. We therefore intend to test transactions of up to 2,500 properties in Christchurch and possibly in Lower Hutt. This will allow us to gauge whether the additional size generates an even stronger market response, while still allowing for multiple scale providers in each location.
54. However, the exact size and number of transfers in each location will be determined through:
- a. financial modelling to ensure that where a split of a portfolio is proposed it is sustainable for both the new provider(s) and HNZN; and
 - b. Market Sounding to confirm the viability of a proposed transfer-transaction, and how smaller scale or niche provision might be accommodated within it.
55. We want officials to continue investigating the feasibility of different options and testing them during Market Sounding for each new transaction. We will notify Ministers before any public announcements are made in respect of Lower Hutt, Porirua or Hamilton. Those locations should be treated as commercially confidential until such time as a public announcement is made. We will seek Cabinet agreement before commencing a commercial process where significant fiscal or OBEGAL implications are likely to result from a transfer.

Tranche 2 transactions will support fiscal objectives

56. Transactions also support the overall Capital Recycling programme, which is helping the Government meet long-term fiscal objectives through active stewardship of government resources. The Crown capital released from transactions gives the Government more headroom to support other capital expenditure to support key public services and investments, and maintain net debt targets.

Consultation

57. The advice was prepared in consultation with the OTS, TPK, MBIE, MSD, HNZN and DPMC.

Financial Implications

58. No direct financial implications result from the decisions in this paper. Depending on how many transfer transactions are run concurrently, a relatively minor increase in operational delivery capacity may need to be funded for the Crown and HNZN. MSD's ability to deliver additional transfer transactions is linked to the funding it will be seeking shortly under its Intelligent Purchaser business case.
59. Undertaking significant regeneration as a part of a transfer transaction may come with a fiscal cost, or have an impact on OBEGAL, but decisions on this are yet to be made and will be subject to Cabinet oversight and authorisation.
60. The capital proceeds from large-scale transactions provide an opportunity for significant additional capital spending, including for social housing, while maintaining our fiscal strategy. Later this year HNZN will be presenting a proposal to the Minister Responsible for HNZN for large scale multi-year developments in Auckland, with a potential cost over three years of the order of

\$1.6 billion. The capital proceeds from transactions enables the Government to consider more ambitious proposals than would otherwise be the case.

Human Rights

61. None

Legislative Implications

62. None

Regulatory Impact Analysis

63. Not applicable

Gender Implications

64. None

Disability Perspective

65. None

Publicity

66. The intent is to go to Regional Consultation and Market Sounding in Christchurch will be announced by the Minister Responsible for HNZC on 27 September at a speech at the NZCID Social Housing Funding Forum.
67. The size of the HNZC portfolio in Christchurch - over 5,000 properties - allows us to commit to one or more transfers there, with the potential for HNZC to retain a sustainable presence. This will be noted in the announcement on 27 September, but the size of HNZC's retained portfolio will only be confirmed once Market Sounding has been completed.
68. Reference will also be made in general terms to the Government exploring options for other transactions, without referring specifically to Porirua, Lower Hutt or Hamilton, given the further work that needs to be done before these options can be firmed up.
69. The need for discussions with iwi to occur before any other locations are publicly announced currently precludes more explicit definition of the future pipeline. Public announcements in respect of the identity of each of the other locations discussed in this paper can only be made once discussions with affected RFR holders have been satisfactorily concluded.
70. Any announcement to recommence a commercial process in Invercargill would need to occur before 20 November 2016 in order to allow for a truncated procurement process under Government Rules of Sourcing (as market testing has already occurred).

Recommendations

71. The Minister Responsible for HNZC and Minister for Social Housing (Joint Ministers) recommend that the Social Policy Committee:
1. **note** Cabinet agreed to the objectives of the SHRP in December 2014, and agreed the commitments the Government would make over the

next few years [CAB Min (14) 39/22], limiting the sale of HNZN properties over 2016 to 2,000 properties, and that HNZN would provide no less than 60,000 properties by 2017,

2. **note** that the proposed additional transactions are consistent with the Government's commitments made in respect of the timeframe and volume of HNZN properties to be transferred to the community housing sector,
3. **note** that key lessons learnt from initial transfer transactions include that:
 - a. there is a clear and sophisticated market for large scale transactions,
 - b. large scale transactions are an efficient way to drive rapid change in the sector,
 - c. HNZN has internalised the cost of multiple risks in providing social-housing services,
 - d. long-term contracts for certainty of funding will be required,
 - e. tenant and community engagement helps build support for transfers,
 - f. there are advantages if multiple parties are interested in social-housing provision in an area.
4. **note** that large-scale transactions align with the Government's capital recycling objectives, allowing us to fund significant new capital projects while maintaining our fiscal strategy,
5. **note** that development of a pipeline of transactions generates momentum in developing the social-housing market, and thereby in achieving the goals of the Government's Social Housing Reform Programme,
6. **agree** to continue the programme of transfers of HNZN properties and tenancies to the community housing sector, in order to build a more diverse and responsive market that better meets tenant needs and provides value for money for taxpayers,
7. **note** that the Minister Responsible for HNZN and Minister for Social Housing are authorised to act as Joint Ministers [SOC Min (15) 14/3],
8. **note** that the Crown has a policy of consulting with iwi and hapū before transfer transactions are undertaken to ensure it understands their rights and interests in HNZN land before it is transferred to third parties,
9. **invite** Joint Ministers to:
 - a. announce Christchurch as the next location for a transaction of HNZN stock to the community housing sector in order to maintain programme momentum,
 - b. direct officials to commence engagement with Ngāti Toa Rangātira with a view to progressing transactions in Porirua and Lower Hutt,

- c. direct officials to commence engagement with Waikato-Tainui, once RFR negotiations have concluded in Tauranga, with a view to progressing a transaction in Hamilton,
 - d. report back to Cabinet if any recommended transaction will have significant fiscal costs or OBEGAL impact as a result of its intended commercial structure and objectives,
10. **note** that the size of the HNZC portfolio in Christchurch - over 5,000 properties - allows us to commit to one or more transfers there, with the potential for HNZC to retain a sustainable presence,
 11. **note** that officials are currently investigating the potential to recommence a transaction of HNZC properties and tenancies in Invercargill,
 12. **note** that intentions in respect of transfers of HNZC properties in Lower Hutt, Porirua, and Hamilton should be treated as commercially confidential until public announcements are made,
 13. **note** that Joint Ministers will report back to Cabinet before any public announcements are made in respect of any transfers of HNZC properties in Lower Hutt, Porirua, or Hamilton.

Hon Bill English
Minister Responsible for HNZC

Hon Paula Bennett
Minister for Social Housing

Date:

Date:

Table: Key characteristics of locations identified for Tranche 2 transfers of tenancies and properties from HNZN to the community housing sector

	Christchurch	Hamilton	Lower Hutt	Porirua (including Tawa)
Number of HNZN properties excluding community group houses	5,612	2,833	3,443	2,797
Avg. age of housing stock	43 years	38 years	58 years	51 years
Social housing register	403 (expected to be met from existing developments)	166	78	117
Demand for social housing	Stable	Increasing	Increasing	Increasing
No. of HNZN properties subject to a Right of First Refusal (RFR)	25	2,088	2,522 (2 iwi + 1 hapū)	1,750
No. of HNZN properties not subject to an RFR	5,587	745	911	1,047
MSD's preference for shape of the local market	<ul style="list-style-type: none"> Three large CHP's (one of these being HNZN). 	<ul style="list-style-type: none"> At least two large CHPs (one of these being HNZN). 	<ul style="list-style-type: none"> Three large CHP's established across Porirua and Lower Hutt (one of these being HNZN). 	<ul style="list-style-type: none"> Three large CHP's established across Porirua and Lower Hutt (one of these being HNZN).
Iwi interests	Ngāi Tahu holds RFRs over 25 properties.	Tainui has an area-wide RFR over Hamilton. There is no exemption from the RFR for social housing or other public purposes and this is likely to mean any transaction would be on a bilateral basis with the RFR holder, Tainui.	There are two iwi and one hapū with RFRs over HNZN properties. The main RFR holder is Ngāti Toa Rangātira, which holds RFRs over 1,687 properties. All of the RFRs include exemptions which allow the transfer of properties if it assists the Crown's social objectives in relation to housing. Taranaki Whānui ki Te Upoko o Te Ika and Te Atiawa jointly hold RFRs over 835 properties. A further iwi that is yet to settle, Ngāti Rangatahi, claims interests in part of the Lower Hutt area.	One iwi holds all RFRs (Ngāti Toa Rangātira). All of the RFRs include exemptions which allow the transfer of properties if it assists the Crown's social objectives in relation to housing. We understand HNZN has a constructive relationship with Ngāti Toa Rangātira which may assist with RFR discussions.
Engagement with Council	Christchurch City Council (CCC) has not been engaged on the possibility of a social-housing transaction due to a potential conflict of interest arising from their establishment of a CHP. Once a decision is made to progress with a transaction in Christchurch, officials intend to engage with CCC. The Council or a subsidiary may be interested in participating as a bidder.	Officials have engaged with Hamilton City Council (HCC), which is supportive of a social-housing transaction. The Council recently sold its pensioner housing stock, and understands the merits of such a transaction. The Council views Tainui as a natural partner, and expressed a desire to be kept informed of developments for any social-housing transaction in the region. However, it has not expressed a preference for a hands-on partnership role.	Officials have engaged with Lower Hutt City Council (LHCC). LHCC expressed a variety of concerns but was interested in the opportunities a social-housing transaction might provide to contend with these issues. Some of these concerns include the concentration of social-housing, vacant properties, and LHCC's overall growth strategy (increasing housing supply).	Officials have engaged with the Porirua City Council (PCC) on a potential Porirua transaction. PCC is interested in working in partnership with the Crown, expressing a desire to see the transaction target redevelopment and reconfiguration opportunities, as well as managing its changing population.
Reconfiguration requirement	Low to Medium: <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units HNZN has spent considerable funds upgrading the stock. 	Significant: <ul style="list-style-type: none"> shift from 3 bedrooms to smaller and larger units. 	Significant: <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units existing stock needs upgrading due to age and condition (oldest stock in the national portfolio) high concentration of social-housing stock in certain areas. 	Significant: <ul style="list-style-type: none"> shift from 3 bedrooms to smaller units existing stock needs upgrading due to age and condition high concentration of social-housing stock in certain areas.
Potential commercial viability of redevelopment	Likely to be commercially viable.	Under investigation but expected to be the most viable of the four areas	Under investigation but expected to be better than Porirua	Challenging without considerable subsidy: <ul style="list-style-type: none"> market dynamics need to change materially before it becomes economic to materially redevelop and recycle capital from most of the existing stock attractiveness of Porirua may have the potential to improve over the medium term.
Key objectives for a transaction	<ul style="list-style-type: none"> Maintain momentum in social-housing transfer programme Some opportunity for reconfiguration Possibility of transaction that includes scope for parties to identify innovative solutions for particular cohorts such as elderly. 	Reconfiguration and redevelopment to: <ul style="list-style-type: none"> Increase both social and affordable housing supply improve quality of stock and reduce concentration of social-housing in certain areas. 	<ul style="list-style-type: none"> Reconfiguration and redevelopment to improve quality of stock and reduce concentration of social-housing in certain areas. 	<ul style="list-style-type: none"> Reconfiguration and redevelopment to improve quality of stock and reduce concentration of social-housing in certain areas.

Table: Key characteristics of locations identified for Tranche 2 transfers of tenancies and properties from HNZN to the community housing sector

	Christchurch	Hamilton	Lower Hutt	Porirua (including Tawa)
Key challenges to a transaction	<ul style="list-style-type: none"> Ensuring transaction is attractive to market participants where opportunities for redevelopment are more limited. 	<ul style="list-style-type: none"> Reaching agreement with RFR holder. 	<ul style="list-style-type: none"> Reaching agreement with iwi given multiple RFR holders with overlapping interests Some risk as to whether redevelopment is commercially viable. The Government could create incentives for redevelopment. 	<ul style="list-style-type: none"> Reaching agreement with RFR holder on how the properties are dealt with Risk associated with commercial viability of redevelopment due to Porirua being a low demand/low capital growth area. The Government could create incentives for redevelopment.

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