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12 June 2000

**Subject: Review of the Community Partnership Programme - Sale of Properties in the Wairarapa**

Dear Gerard

## **Introduction**

The Board requested a review of the sale of properties to Trust House in the Wairarapa in December 1998 and to comment on the following:

- whether the project has achieved it's original objectives
- the performance of the Trust under its covenant
- review the impact of the new income related rentals and assess if the tenants would have been in a different position had the sale not proceeded.

The information contained in this report is based on discussions with Bruce Riden (Legal Manager), Brian Donnelly (National Investment Manager), Graeme Middlemiss (Northern Regional Manager), Larry Mahn (Business Analyst Information), Brian Roche (ex CEO Housing New Zealand), Patrick Teehan (Trust House), and a review of the HNZ Board minutes and selected papers.

## **Summary**

The objective of the community partnership programme, as approved by the Board within the framework of the then SCI, was to provide appropriate community groups the opportunity to participate in the provision and/or management of accommodation for those in the greatest need. The sale of the properties enabled the testing of the proposition that customers in localised areas were able to have their housing needs met when HNZ no longer owns rental accommodation nor provides services directly to low income New Zealanders; in essence the concept of facilitation of access as opposed to direct ownership. It also provided for the better use of capital and resource by redeployment

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from an area of low demand to areas of high demand (i.e. Auckland). The sale of the properties to Trust House was targeted at achieving the above objectives and thereby achieving the requirements of the Statement of Corporate Intent.

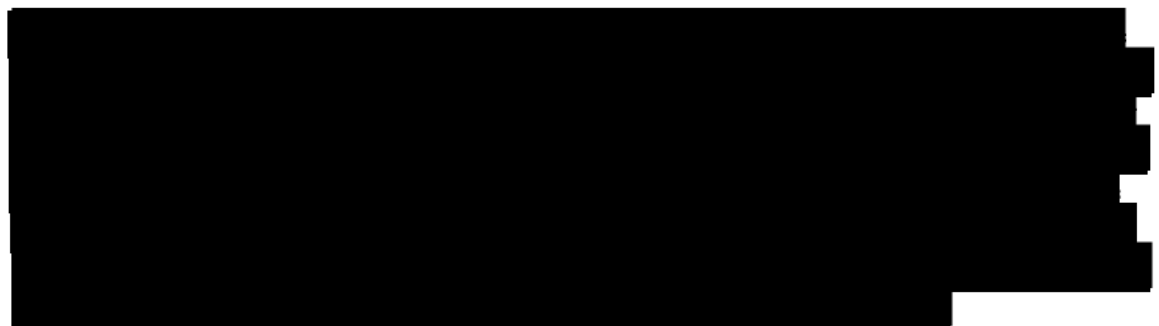
In our opinion the stated objective appears to have been achieved. Based on the monitoring performed by HNZ and feedback from the Trust regarding the results of satisfaction surveys run by Trust House it would appear that the transition to ownership and management by the Trust has been a success.

A property condition report was carried out at the time of transfer for each of the properties but we understand no formal review by HNZ of the overall property condition has since been carried out. The monthly reports produced by the Trust include comments on property condition and in line with the light handed monitoring considered necessary this has ensured HNZ is able to gain assurance that adequate maintenance is being performed. The satisfaction surveys would be expected to identify any major issues and to date these have not contained any negative feedback. To date no analysis has been performed on the level of maintenance spend compared to HNZ's experience.

s9(2)(ba)



s9(2)(b)(ii)



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## **1. Background to Community Partnerships**

The Statement of Corporate Intent (SCI) for the 1999 –2002 period states that Housing New Zealand (HNZ) is to act as a successful business delivering all housing related services in an efficient and contestable manor which delivers efficient tenancy, property and asset management services.

One of the stated responses documented in the SCI was for HNZ to explore and develop sustainable methods whereby the private sector can be involved in the management and ownership of suitable low-cost residential housing during the 4 years beginning 1999.

Community Partnerships were seen as one of the options for HNZ to transfer it's low income tenanted properties at a fair price, in areas of low demand to community based organisations. By selling off the properties HNZ could re-deploy that money into higher demand areas while still maintaining its social responsibility through a monitoring and facilitation role within the new community partnership formed.

The Asset Management Plan in 1998/99 identified Masterton as having a low level of unmet demand. Due to the property market conditions not providing a higher value in alternate use the private participation in low income rental housing was expected to continue. Hence Masterton represented a credible option as a low risk pilot scheme to test whether the then Government could meet customers housing needs in localised areas without HNZ having to own or provide services directly to low income New Zealanders.

## **2. Trust House**

Trust House in the Wairarapa was chosen because of its long standing relationship within the community, its financial credibility and its intention to pay fair value for the purchase of the houses. Trust House are a charitable company owned by The Masterton Licensing Trust, the Tararua Foundation and the Flaxmere Licensing Charitable Trust . They have developed an extensive network of hotels, restaurants and wholesale outlets, rest home, hospital, a store and management services in the Wairarapa.

Trust House were interested in the purchase of government housing as it was an opportunity to reinvest in the infrastructure of the region outside of their normal area of operation. This would be in line with prior purchases such as the Eketahuna Store and a Wairarapa Rest Home.

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With increased assets s9(2)(ba) the transaction gave them the ability to distribute increased grants to the community. The rent collected minus the maintenance costs and debt servicing incurred could be returned to the local community via grants rather than collected and retained by central government.

### 3. The Trust House Transaction

The Trust House transaction was approved in the December 1998 HNZ Board meeting as per the minutes. The actual agreement/possession day was 3 months later in March 1999 as per the sale and purchase agreement.

The agreement stated that 587 houses in the Wairarapa were to be sold for \$11.5 million based on a valuation of \$8.7m to \$12.7m. s9(2)(ba)

In December 1998 HNZ Board minutes there was a resolution to ensure that the rights of the tenants were protected following the sale, and legal opinion be obtained outlining the means by which tenants existing rights were protected.

### 4. Protection of Tenant Interest

To avoid complications as to the rights and obligations of both parties post sale regarding the SCI, HNZ included special conditions by way of intentions to the sale and purchase agreement. Clause 16 of the agreement states:

- (a) The purchaser acknowledges HNZ's social responsibility obligations, namely to be a responsive member of the community, to take account of local interests in maintaining and planning rental developments and to operate in a manner that maintains a positive public image.
- (b) The purchaser intends to honour tenancy agreements and to facilitate access to rental accommodation to those in need.

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- (c) Consistent with social needs, the purchaser will enable tenants to purchase individual properties.
- (d) The purchaser covenants with the vendor that it will not sell any more than ten properties per year excluding those sold to the tenants, for 5 years.

In addition, both HNZ and Trust House made commitments to the tenants that there would be no reduction in services or quality after the transfer. Prior to the sale to Trust House tenants under HNZ enjoyed the benefits that were in line with their tenancy agreements. These included:

- opportunities to purchase their rental properties i.e. Home Buy Scheme
- gaining accommodation based on greatest needs and income
- access to special needs facilities
- 55+ Scheme

The 55+ Scheme was continued as a condition of the sale. A Home Buy Scheme was implemented although this was not pursued vigorously by the Trust and to date only two houses have been sold. There have been no significant rental increases other than those increases to cover capital expenditure on extra amenities such as log burners.

Trust House furthered its credibility to HNZ as a Community Partnership organisation in October 1999 when a survey of tenants in the Wairarapa was performed with a 25% response rate. The reports indicated a positive feedback for Trust House as a new owner with no negative feedback received.

## **5. Monitoring**

HNZ, as charged by the Crown, has an ongoing obligation to ensure that they have a continued role in the housing sector in the area. To achieve this HNZ monitored the contract through Peter McKenna (Area Manager Manawatu/Wanganui). Recently Peter's access facilitation role has been replaced by a dedicated Access Facilitator based in Wellington who also covers the Wairarapa. The monitoring, along with ensuring compliance with the core contractual terms regarding maintenance and service levels, covered the conditions stated in Clause 16 as referred to in the previous section. Points (a) to (c) relate to access facilitation and hence are part of the ongoing role of HNZ in the area to monitor directly through the involvement of Peter McKenna seeking feedback from the region. Point (d) is monitored through both the regular monthly reports from the Trust and

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s9(2)(ba)

Monthly reports are received from Bernard Teehan (the CEO of the Trust). These reports responded to the specific requirements as set by HNZ. Information included housing conditions, number of vacancies, percentage of applicants with income less than \$500, lettings to applicants with a net income of less than \$500, reasons for vacancies and where these tenants have gone. This was in accordance with the SCI and was seen as an effective monitoring control by HNZ .

HNZ facilitated the transition period and remained on sight for the first month providing 24 hour phone assistance and advice. Monthly visits occurred for 6 months after the signing of the sale but since September 1999 it was agreed that given the success of the transition and the nature of the issues arising that meetings occur only when required by either party to discuss current issues or negative trends. Continued monitoring remains in force with monthly reports still being sent to Peter McKenna.

According to Patrick Teehan of Trust House tenants have gained from their new landlords in addition to the contractual obligations. All tenants receive bi-monthly newsletters commenting on what is happening within the community, access to local grants and also competitions.

Trust House have installed around 20-30 log burners in houses that required more heat. Arrangements can be entered with Trust House and tenants for extra facilities they require in houses. Trust House regain the cost of extras through increasing rentals with the approval of the tenants.

Customer satisfaction surveys were sent out in the Wairarapa (19<sup>th</sup> May 1999) to compare performance between the Trust and HNZ pre-sale. We understand from Patrick Teehan there has been no negative feedback to date.

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**6. Impact of IRR**

s9(2)(b)(ii) [Redacted]

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s9(2)(b)(ii)



Yours sincerely



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