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Growing Community Housing challenges for government policy and community providers

A government goal that one fifth of New Zealand's social housing will be provided by community housing providers by 2020 received a setback in March 2015. One of New Zealand's largest community organisations, the Salvation Army, announced that it lacked the expertise, infrastructure and resources and was not sure the lives of tenants would be improved by its becoming a housing provider.

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Currently the government-owned Housing New Zealand owns or manages 68,700 rental units (Housing New Zealand, 2013), compared with about 5,000 in the community sector (Figenshow, 2014). Depending on whether the government also increases its housing stock, the government's goal, advocated by the minister of housing, Nick Smith, is for community organisations to increase their house numbers to 15,000, three times the current number. We believe this target and the project goals can be achieved only if the government decides to offer Housing New Zealand houses at less than 40% of their balance sheet valuation, and decides to provide community organisations with considerable discretion about how they manage their assets. This conclusion is based on the experience of Trust House Limited, based in Masterton, which bought 541 houses from the government in 1999 and has since been one of the largest providers of community housing. One of the authors of this article, Bernard Teahan, until recently chief executive of Trust House, negotiated this sale in 1999, and can reflect on 15 years of practical management of this community asset. The other author, Richard Norman, was involved in the founding of the Wellington Housing Trust, recently renamed Dwell. As an ordinary member of this trust, he has marvelled at the determination of that organisation's trustees and managers to navigate regularly changing government

policies on housing in order to build up a stock of 27 owned and 10 managed houses.¹ However, this trust has grown at the rate of less than one unit per year over its history and still depends on a government loan at zero interest in order to be financially sustainable.

Our analysis draws on fieldwork carried out between November 2013 and March 2014 by Ferne Cheetham and Jack Tolley, holders of summer scholarships supported by Trust House and Victoria University of Wellington.

Social housing: definition, key participants and recent changes

Social housing is provided for those who would not be able to house themselves sustainably in the mainstream market (Housing Shareholders' Advisory Group, 2010, p.11). Tenants have needs ranging from disability to disadvantage, often resulting in lack of employment or low-income work. Affordable housing is defined as that where 'a household spends no more than 30% of its gross income on housing costs, whether for rent or mortgage' (ibid., p.13). Social housing is usually rental accommodation, offered at a rate that is below market value. A market rent is defined as the rent 'a willing landlord might reasonably expect to receive and a willing tenant might reasonably expect to pay in comparison with rent levels for similar properties in similar areas'.²

In New Zealand, 'state housing', provided by the central government, began between 1905 and 1910, when 126 'workers' dwellings' were built in Wellington and Auckland (Schrader, 2005, p.16). More houses were built in the 1930s and particularly after the Second World War, when the state housing waiting list had 'swelled to over 30,000' (ibid., p.41). Central government dominance of social housing here contrasts with Britain and Australia, where governments have encouraged community and local government providers. Housing provided by the state primarily aims to assist those with high needs, while the rest of the social housing sector is expected to cater to a broader range of needs (Housing New Zealand, 2013, p.9). This includes niche providers who cater to people with specific disabilities or backgrounds.

Agenda for change

Choice, contestability, innovation and access to a wider pool of capital were given as reasons for a change in approach in the 2011 Budget. A Cabinet paper by the Offices of the Minister of Housing and the Minister of Finance proposed that third-party community housing providers supply 15,000–20,000 houses within 10–15 years. The Housing Shareholders' Advisory Group found that 'there is not enough state housing to satisfy demand', and often the 'housing stock is mismatched to demand'. Increases in Crown expenditure on social housing were seen as 'unsustainable', with spending almost doubling from 2001/02 to 2008/09 (Housing Shareholders' Advisory Group, 2010, p.31). A regulatory impact statement emphasised that the 'increasing

demand is likely to create fiscal pressures in the future that may be difficult to manage under the current state provider model' (Ministry of Business, Innovation and Employment, 2013, p.3).

The Social Housing Reform Act 2013

The Social Housing Reform (Housing Restructuring and Tenancy Matters Amendment) Act was passed in November 2013 and came into effect in April 2014. It promotes competition in the social housing market by formally recognising community housing providers. In his opening address when the bill was introduced, Nick Smith described the intention of the legislation: 'To implement a substantive shift in Government housing assistance from a State housing model to a social housing model.' The legislation set out a framework for third parties to 'manage risk, provide protections to providers, tenants and the government, and to ensure objectives are met'. There would be voluntary accreditation of providers eligible for income-related

rentals. House 'warrants of fitness' would set 'minimum standards for a range of house conditions for social housing' (Smith, 2013). These initiatives were to ensure the standard of housing offered was adequate and would protect taxpayer investment in community providers. Organisations which did not meet the new standards would not be supported by the government financially, nor would they be accredited, in effect a warning to potential tenants.

The income-related rent subsidy would allow tenants to pay no more than 25% of their income in rent, with the rest paid by the government. This was intended to remove the current inequity and create 'a level playing field between HNZ [Housing New Zealand] and non-

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government providers' (Ministry of Business Innovation and Employment, 2013).

The opposition Labour Party objected that the Act, 'instead of baking a bigger pie ... focuses on who is baking the pie, and how it is cut up' (Social Service Committee, 2013). 'It wants Housing New Zealand to operate only as a landlord, effectively, and not as a social agency', argued Green MP Holly Walker in the first reading debate in the House (Walker, 2013). While opposition parties supported the opening up of the social housing market to community providers, they were concerned that Housing New Zealand would be driven out of the market, at a cost to the tenant (ibid.). They also suggested that the Act was likely to reduce the prominence of the social support element of Housing New Zealand (ibid.; Twyford, 2013).

Housing New Zealand

Housing New Zealand's mission statement emphasises that the organisation is mostly

concerned with 'high-needs' clients. The challenges it faces include demand outstripping its ability to provide housing, the need to develop an effective framework to support 'successful' tenants' move out of state housing, growing segregation between state and private housing, and an increasing body of people not *quite* of high need that Housing New Zealand cannot support (Housing Shareholders' Advisory Group, 2010). The 2013 legislative changes are intended to alleviate many if not all of these challenges (Smith, 2013).

Trust House Limited

Background

Trust House Limited is a community enterprise based in Masterton, with

stores, a hydroelectricity scheme and a large housing portfolio. The governance body of the trust is made up of seven directors appointed by the shareholders (predominantly the Masterton Licensing Trust), at least two of whom must be 'outside' directors appointed for their commercial expertise. Today it still operates in the spirit of the 1947 legislation, although this is no longer required by law: as former chairman Brian Bourke put it in an interview, the trust has a responsibility to 'sell alcohol with care' (Bourke, 2013).

In 1985 Trust House began diversifying in order to use resources and skills built up over 40 years, and also to prepare for the likelihood that it would lose its limited

\$3 million annually in community grants. It has been a major funder of community infrastructure, including the Masterton swimming complex, Henley Lake, Rathkeale theatre and the Clareville hockey turfs.

In the financial year to March 2014, Trust House recorded sales of \$40 million, held assets of \$74 million, of which the housing estate was valued at \$52 million, and made an operational profit before one-off impairments and revaluations of \$2.3 million. This was a considerably lower profit than the average during the previous ten years, reflecting strong competition in the liquor and entertainment markets.

A housing estate valued at \$52 million ...

A glance at the balance sheet for Trust House in 2014 seems to indicate that this community organisation has benefited enormously from the political decision of the government in 1999 to sell it a portfolio of houses at \$10.4 million, which at the time was a sale price of 40% of the valuation placed on them by Quotable Value, the government's valuation agency. The reality, however, is that the profitability of a stock of former state houses is restricted by the amount of maintenance required and the expectation that a community provider will charge modest rentals and provide support for tenants whose housing options are very limited. The operational return on investment even at the purchase price of \$10.4 million has been very low. Trust House's annual reports for the years 2003–07 show segment results for the housing estate. The average annual cash profit after interest and operating expenses for these five years was \$1,093,000. But this was prior to capital expenditure, depreciation and loan repayments. The average annual capital expenditure was \$385,000, much of which was for maintenance (for example, the painting of a house). A reasonable estimate of annual depreciation would be \$500,000. For the years 2008–13 segment accounting was no longer required, but, to the knowledge of the authors, the results for these years would be similar.

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Wairarapa its prime community of interest, and satellite interests in Flaxmere (a suburb of Hastings) and Rimutaka. The charitable company in its present form was established in 1997 but its roots go back to the 1947 Masterton Licensing Trust Act, when electors voted to allow the sale of alcohol again after prohibiting it since 1908 (for the history of trust see Masterton Licensing Trust, 1997 and Trust House Community Enterprise, 2008). Elected trustees representing the community were to oversee the sale of alcohol 'in the interests of the public well-being'. The Act also provided authority to distribute profits to the community in support of their activities.³ The trust is a body corporate, independent of the state, and in its form modelled on North England's Carlisle State Management Scheme.⁴

Currently Trust House operates and manages 20 business units, from Wellington in the south to Hastings in the north. These include hotels, restaurants, bars and their associated gaming halls, community stores, bottle

monopoly benefit for selling alcohol in its Masterton-based area. This monopoly was indeed voted out in a local poll in 1995, enabling supermarkets and other major liquor sales outlets to compete. The community housing purchase in 1999 was a major diversification, and a result of a sales strategy of the then National government, initiated by the minister of housing, Murray McCully, and supported by the deputy prime minister and MP for Wairarapa, Wyatt Creech. The purchase of 541 state houses was a significant change in strategic direction for Trust House, which had no prior experience in housing, but did have considerable experience with the management of major property developments and support for community facilities. As part of its commercial operations, Trust House built and continues to manage the Solway Park complex, still Masterton's largest and most upmarket hotel and conference facility. Trust House currently employs around 290 people and has during the past ten years distributed approximately

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The housing portfolio in the context of the trust's activities overall shows as 70% of its assets, yet generates only 12% of its revenue and is managed by approximately 3% of total staff (a specialist group of four supported by corporate office functions).

Even at a 60% discount on official values in 1999, it has proved challenging to manage the portfolio at much more than break-even. Trust House has sold some houses largely to better equate supply with demand. Lack of growth is certainly in part a result of the housing being in a part of the country which has had little or no economic growth, or has reduced in population (particularly in Dannevirke); but the economics of managing a portfolio of houses is clearly a challenge even for a well-established community organisation.

On taking over ownership of the houses, Trust House adopted a policy of ensuring that rents remained in the lower quartile of rents, and of setting 'a clear line in the sand' to not permit rent arrears or property damage, while supporting tenants to go to Work and Income or budgeting services for help, and of responding quickly to maintenance calls (Whitehead, 2013). Community ownership has enabled Trust House to be quicker and more flexible about decisions about upgrades than could be expected from a large national organisation. Initially many of the houses had poor fencing, which was hazardous for families with young children. Trust House decided to provide the materials and specifications, and tenants built the fences themselves (Whitehead, 2013). It also provided curtains for insulation and privacy, and paved driveways. As stated in Trust House's history, *A Turbulent Decade*, 'the Housing Estate has been managed to local needs where rentals, upgrades and processes are tailored closely to local conditions' (Trust House Community Enterprise, 2008, p.29). Trust House has also maintained a very high occupancy rate, averaging in the range of 95–98%, a result of close management by the small team of specialists focusing on the housing portfolio.

Wellington Housing Trust/Dwell Housing

The Wellington Housing Trust was formed in 1981, originally as the Mount Victoria Housing Trust. Like Trust House, it offers rental accommodation at lower than market value. This allows people on low incomes to have their housing needs met and still live in the central city. Currently the Wellington Housing Trust has 27 owned and 10 managed properties in Wellington city, all rented at '70% or less of market value' (Wellington Housing Trust, 2012a). It is governed by a board of trustees and employs staff members who carry out the day-to-day management and administration of the

tenants to be part of their community so they are not 'stigmatised on the basis of their housing choice or housing tenure' (Scholey, 2014).

Initially housing purchases by the Wellington Housing Trust were funded through the government's community housing improvement programme, which provided low-interest loans. Following the successful purchase, renovation and tenancy of two properties in Mt Victoria, the trust decided to expand and in 1982 set an ambitious goal of acquiring 50 houses over the next five years (Schrader, 2006, pp.11, 21). That target is only now, 30 years later, within reach. Recent

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housing portfolio. During 2014 it merged with Mahora House, a one-house trust, to form Dwell Housing Trust, with the intention of expanding services to the wider Wellington region.

The Wellington Housing Trust was created to address the gentrification of Mt Victoria, which was having the effect of pushing low-income tenants out of central city accommodation (Schrader, 2006, p.6). It was originally a co-operative, with members being tenants, supporters and local residents (ibid., p.11). The members appointed trustees who would manage the properties, including the purchasing and financing of new properties. The trust did not want to be 'merely' a landlord, but also provide social services, support and develop a community feeling for their tenants (ibid., p.28). The current director, Alison Cadman, sees housing as a fundamental human right and thinks it can be vital in helping people 'get back on their feet' (Cadman, 2014). Chairman Paul Scholey also sees a role of the trust as supporting

building has included two major projects in Newtown, with the aim of developing houses that are 'comfortable, inexpensive and healthy to live in' (Slocombe, 2012, p.14). In 2010 the trust built four homes on Adelaide Road, which were 'fitted with high standards of insulation, double glazing and energy efficient heat pumps' (ibid., p.16). It received a \$300,000 grant from Housing New Zealand to assist with funding the project, which was conditional on the trust 'owning the developed property for a period of 25 years following building completion and ... using the development in line with the purposes of the Trust' (Wellington Housing Trust, 2012a, p.21).

Following its merger with Mahora House, the renamed Dwell Housing Trust again aims to expand, having floated the ambitious goal of managing 500 houses.

Barriers and issues

Both Trust House and the Dwell Housing Trust are interested in increasing their housing numbers and taking part in

the government's target of a threefold expansion of the community housing sector. The current chief executive of Trust House believes it could comfortably manage 2,000 houses; Dwell aspires to run 500. However, the experiences of the two organisations demonstrate that the goal of a further 10,000 houses in community ownership within five years will remain political rhetoric unless the government decides to sell current houses at less than 40% of the value shown on the government's balance sheet. Given significant inflation in house prices since 1999, the discount, depending on the property market, might need to be significantly more than the 60% discount gained by Trust House.

Housing is one of the government's largest balance sheet 'assets', valued at \$17 billion, but that valuation reflects the extent to which house prices have inflated beyond the ability of those on low and middle incomes to afford to buy.

As noted, net returns from managing housing have been so limited that Trust House's only significant financial benefit has occurred when houses are sold. Growth has not been limited by lack of management capability or a sufficiently strong balance sheet to borrow funds. During a period of considerable upheaval in the liquor industry and loss of its former monopoly on sales, the trust has survived and grown. The gains for the trust, its community and tenants have been in its ability to respond flexibly to tenant needs, operating so far without income-related rentals, which currently seem to involve considerable bureaucratic scrutiny.

The Wellington Housing Trust has grown very slowly over its 33 years of existence and today owns only 27 houses, and is dependent for financial viability on a no-interest government loan. The trust had a modest trading profit of \$38,716 for the June 2014 year, while benefiting from

an interest-free loan from Housing New Zealand of \$1,826,579 (at 30 June 2014). If the interest rate for even the most secure low-cost mortgages was applied, the trust would clearly not be financially sustainable.

Income-related rents for community housing

Extending income-related rent (IRR) subsidies for community housing is attractive, at least on the face of it. Without doubt, tenants with a low income, such as a single-income beneficiary, stand to gain. To take an example: if the rent for their home is assessed at \$150 per week, a single-income beneficiary eligible for IRR would pay about \$70 per week. The government would subsidise the other

\$80. If IRR did not apply and instead the accommodation supplement was payable, it is likely that the government subsidy would be around \$55, thus requiring the tenant to pay \$25 more. In the context of the individual's total income, this is a sizable difference.

The benefit to community housing providers, however, is more problematical. In the example above they receive no benefit. There is, of course, the benefit of a happier tenant under less financial stress, which given their community care objectives, is significant. But, as highlighted in this article, community housing providers are under financial performance constraints. To ease these pressures they will wish to lift rents closer to market rates. An additional \$10 per week, to say \$160, as in the example above, over a number of tenants will improve their profitability. But the cost of such an increase will impose an additional fiscal burden on the government (via a higher

subsidy) and governments will no doubt be keen to limit such burdens. How they might achieve this objective is uncertain. But if the financial constraints imposed by governments become inhibiting, one of the key benefits of local community flexibility – namely, to be able to relate to individual needs – will be under pressure.

Conclusion

Will, then, the new legislation and rules achieve the desired threefold increase in community housing? The answer to that revolves around a complex equation about the point at which the government chooses to provide support for housing.

The policy changes of the 2013 legislation reflect the government's efforts to reduce deficits and review assets. Housing is one of the government's largest balance sheet 'assets', valued at \$17 billion, but that valuation reflects the extent to which house prices have inflated beyond the ability of those on low and middle incomes to afford to buy. Such house price inflation in effect creates the pressure for social development subsidies such as income-related rentals.

The extension of income-related rents to community providers, while desirable, will not enable the sector to take on the risk of long-term returns from properties whose real value is almost certainly less than the 40% of the official valuation at which Trust House bought houses in 1999. Existing and new community housing operators are right to be wary in their consideration of the government's invitation to be involved in social housing. These providers will be involved in significant capital investment for long-term delivery of housing – and if house price inflation continues, providers will face the same equation as Trust House or the government, of increasingly valuable balance sheets which are not real cash, while subsidised rentals place providers at risk of future changes of government policy.

Having a more diverse group of social housing providers can, as the Trust House experience has shown, result in more customised local provision. For this to happen, the government needs to tackle this issue with the approach taken

to the establishment of state-owned enterprises in the 1980s, where assets were transferred as realistic valuations to new entities which were given freedom to manage. The freedom to manage in the housing sector requires a balance between business and community goals, but this is the type of balance which Trust House has been managing since the late 1940s, and is a 'social enterprise' model which seeks to combine the best of business-like processes and community goals.

If the government is seriously to expect community organisations to be a major part of the provision of housing, it needs to budget for its major support on the basis of a write-down of the value of its over-inflated housing asset, which can make it possible for community organisations to do as Trust House has for the past 15 years – find flexible, community-focused, innovative ways of providing social housing. Without such political willingness to negotiate

realistic prices that enable community organisations to operate professionally and for the long term, this policy is likely to be either rhetoric without action, or lead to small community organisations overextending themselves.

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- 1 See Dwell Housing Trust 2014 annual report at www.dwell.org.nz.
- 2 <http://tenancy.govt.nz/market-rent>.
- 3 Section 307 of the Sale and Supply of Alcohol Act 2012, which provides the present enabling authority, is a mirror of the original Act.
- 4 For a detailed study of this unique scheme see Seabury (2007).