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PROGRESSIVE HOME OWNERSHIP – IMSB’s feedback for recent MBIE consultation with the Community Housing Sector

Introduction

This feedback responds to MBIE’s recent sector consultation on progressive home ownership/retained affordable housing (progressive/retained models) aiming - as we understand it - to inform advice to the Minister of Housing and Urban Development on the inclusion of progressive home ownership options in the government’s housing programme or promotion of progressive home ownership more generally.

Our feedback is supported by Community Housing Aotearoa and the Auckland Community Housing Network.

The Board strongly supports progressive/retained housing models, and any move toward increasing the availability of progressive/retained models in Auckland, and/or growing and nurturing the community housing sector. The Board sees progressive/retained models as a significant part of a more mature, better functioning future housing system in which Māori whanau are thriving.

In the Board’s opinion progressive/retained housing is a critical link for low to median income households between social housing or tenancy or more vulnerable circumstances to Auckland’s open market housing environment or other housing independence.

This aligns closely with the view expressed by Minister Twyford at the Auckland Māori Housing Summit in April.

IMSB FEEDBACK

Whanau outcomes through progressive/retained models

The Board supports progressive/retained models as products and services that offer real and new housing options to low and median income whanau in Auckland.

The Board considers that these models offer:

- a real chance to deliver whanau and *kainga* outcomes by reaching households in need and by providing housing and related services based on an inherent partnership with whanau;
- through best practice master-planning and urban planning (mixed typologies and integration), a chance to ensure whanau opportunities and experiences are equitable, sustaining, and satisfying;
- the means to promote positive experiences of safety, security, connection and culture;
- the chance to explore in more detail the possibility of a Māori housing provider of scale.

Income related housing options

The Board recommends that the government ensures that households and whanau earning below \$100K are able to access and choose housing options which match their incomes. This will require either:

- **vastly increased access to retained affordable housing models and products; and/or**
- **relative affordable housing available between \$250,000 and \$500,000 at highest.**
 - The Board promotes the first proposition and identifies that the second proposition is not realistic under current active models which operate on a no loss basis.

Thinking about the housing system

The Board considers that progressive/retained housing is part of a wider effective housing system and recommends that the government recognises that progressive/retained housing has a systemic rather than an isolated role in a functioning housing system.

- The Board therefore advises that investment in or promotion of progressive/retained models **must be matched** with investment and commitments to support and promote the state social housing provision by:
 - preventing future deferred maintenance;
 - ensuring HNZC is resourced to & in fact develops at pace with demand; and
 - permanently removing the HNZ dividend, in accordance with the Final Report of the Cross-Party Report on Homelessness (2016)
- The Board likewise supports relative affordable housing models as a part of a functioning housing system recognising it has a different niche and does not cater to low or median income households.

Progressive/retained models in context

The Board considers progressive/retained housing operates in context and the context provided should be optimal. In Auckland right now the AHP provides a blank canvas on which we can decide and implement a best practice urban planning approach to achieve the best outcomes possible.

- Like *kāinga*, progressive/retained housing should be an intrinsic to masterplanning and urban planning, informing design (e.g. Te Aranga principles), access, cultural reference and presence.
- The Board strongly supports integrated, mixed typology development as the key means to protect and promote community outcomes.
- In addition, the need to improve the community housing regulatory system is highlighted.

Additional supporting information

The Board provides the following to our feedback:

Issues

1. Progressive ownership models have the capacity to increase and provide real tangible options to low- to median-income whanau in Auckland which relative affordable models do not reach;
2. Relative affordable models are more efficient to implement commercially but fail to deliver whanau outcomes in terms of (inter alia) certainty of provision, appropriate price points, and an on-going relationship context in which whanau are supported to thrive; and
3. This is a live issue in Auckland as the Auckland Housing Programme (AHP) progresses, and the Board is keenly aware of
 - a. the promises and outcomes the government is working to;
 - b. current live opportunities to drive toward whanau and *kāinga* outcomes;
 - c. the high level of need for the AHP to achieve a step change in housing provision to deliver outcomes categorized as 'social';
 - d. the HLC reliance/promotion to date on the AXIS relative affordable model;
 - e. the blanket geographic exclusion of Auckland social housing tenants from Crown/HNZ social housing equity sharing products;
4. Development approaches, typologies, and tenure as a context for progressive/retained models.

Other entities are in a better position than the Board to identify or recommend ways in which the government can fund or use capital, equity or other value to achieve affordable housing, in particular retained affordable housing or progressive home ownership.

Context

Quality Affordable Housing for Māori is a strategic priority for the Board. The Board is leading the developing of a strategic action plan to improve housing outcomes for Māori in Auckland. The Board has undertaken a great deal of recent engagement and is well aware of a wide range of current activity and directions in relation to housing.

Being Auckland-based the Board maintains close observation of housing activities in Auckland including the Auckland Housing Programme (AHP), and the Board identifies the AHP as the single biggest opportunity to improve housing outcomes for Māori at scale. The Board highlights:

- this opportunity is critical and current; and
- progressive/retained affordable housing is a very important part of achieving change.

The Board strongly supports all measures to increase supply and availability of affordable housing, in particular affordable housing accessible to Māori whanau and households in Auckland.

The Board has also expressed support for *affordability* to be measured in a manner that is tied to household income, such as using the 'median multiple' approach. The Board accepts that a ratio of 1:5 (median house price: median household income) as a reasonable target for Auckland Council in light of the Auckland context, rather than the unrealistic gold standard of 1:3.

The Board therefore considers *affordability* measured in comparison to median price (i.e. relative affordability) not truly responsive to the realities communities and whanau face in Auckland today.

At the Auckland Māori Housing Summit the idea of a capital funding model was discussed that would be held by government and in which iwi and hapū could invest. Later in the day this was turned around by the suggestion that a capital fund could be established by iwi and hapū (collectively) in which the government could invest.

The Board considers the partnership between Crown and Māori requires new and innovative ideas to be shared and explored, and this could be among them as a means to promote progressive/retained models and build and innovate partnerships.

Data brief

In 2013 (TPK, 2013) around 1/3 – just over 50,000 - of Auckland Māori lived in households with an annual income under \$70K.

Around 1/6 or 25,000 Auckland Māori lived in households earning between \$70 - \$100K.

Just below 1/3 or around 40,000 Auckland Māori lived in households earning over \$100K.

Under current lending rules the deposit required for a \$500,000 house is \$125,000.

Over the last 10 years the home ownership rate has continued to drop sharply in Auckland. For Māori ownership has been in major decline between 1995 and 2010 prior to any cognisance of a crisis.

10 years ago and more recently lending rules allowed a 5% deposit, so the required deposit on a \$500,000 house was \$25,000.

DETAILED FEEDBACK

Progressive/retained housing v relative affordable housing

It is the Board's view that retained affordable/progressive home ownership models are the only affordable models that will provide and create new and better housing options for lower-income households in Auckland.

The Board emphasises that Māori whanau in Auckland are in dire need of housing options that match their incomes, and relative affordable housing at \$600,000 and above does not.

In the \$500,000 price range – if that is even possible – relative affordable housing may be accessible to an estimated 1/3 of Auckland Māori who live in households earning above \$100,000 annually, but this accessibility will be highly sensitive to factors including living cost, size of household, the degree of shared aspirations, employment security, and saving mechanisms, as well as housing stock and product availability.

The significant flaws in relative affordable housing generally – as affordability models, are that they:

1. tie affordability to house prices not incomes, making them meaningless for our most vulnerable households and in Auckland's case both low and median income households; and
2. promote a mainstream economic model based on a presumed preference for total asset ownership.

In our view progressive/retained models *are meaningful* for our most vulnerable households. Firstly, they avoid the pitfalls of promoting as affordable something that fundamentally is not (this is a

significant discursive issue with a relationship to colonisation, and was raised by Minister Mahuta at the April summit).

Secondly, progressive/retained models break down the total asset ownership economic model and introduce a basic and ethically-led sharing of capital, equity, and progress. This difference inter alia enhances alignment with Māori values and with the concept of *kāinga*.

Progressive home ownership/retained affordable housing offers substantive whanau wellbeing outcomes in particular for low-income whanau, long-term returns, and even the potential to retain land ownership which the Board considers a critical current issue with the AHP approach.

It is understood that Community Housing Aotearoa has evidence that shows investment in progressive/retained housing offers the highest return and best outcomes in state investment in housing. The Board recognises this as a valid investment proposal on the basis that social housing is a necessary rather than best investment, and single transaction sales may provide a short-term high return but result in permanent land privatisation or alienation with no future return.

The Board identifies these key differences between the affordability models:

Retained affordable	Relative affordable
*Kāinga/whanau well-being outcome	
All transactions based on highest and best use value	Transaction at cost+ not at market value
Asset shared over time (various models), with Crown or other provider retaining some or all asset value or equity for sustainable re-use	Single sale and purchase transaction at less than market would otherwise pay for existing use
Relationship between provider and recipient*	Sale and purchase transaction
Multiple whanau supported over time*	Single recipient
Value gain to whanau over time through their own investment*	Value gain to single recipient through windfall
Financial literacy opportunities*	No on-going provision or relationship
Options for low income whanau*	Ballot (or entry criteria) can only be open to applicants with sufficient deposit or income
Based on sustained and repeated utilisation of value and equity over time	Based on sale at cost to build+ but not less
Works with whanau in light of their means*	Asserts an affordability target that is demonstrably <i>not</i> affordable for a large number of whanau
Catches and recycles equity gain for social/public good	Single recipient catches windfall from original under-value sale, and market gain as sole owner

Community housing providers – issues and discussion

The Board for some years has been exploring the potential for the establishment of a Māori housing provider of scale in Auckland. This could be a real game changer for housing for Māori in Auckland, and we see this conceptually as something that could be viably supported – at scale or to achieve

scale – through the AHP. This is also raised prominently in *He Whare Ahuru*, the National Māori Housing Strategy.

In Auckland today a range of community housing providers are successfully using progressive/retained products to support low-income whanau in their housing endeavours while protecting and growing their own investment in perpetuity.

This small group of providers represents what is a key market share in other mature housing systems globally. Along with iwi and hapū, and government, they maintain a ‘patient capital’ long-term view of opportunities and outcomes in accordance with their governance arrangements.

However, as the government is well aware the community needs certainty of policy, sustainability of funding mechanisms, and access to capital or other viable mechanisms to grow enough to meet the vastly growing demand for their products and services.

Capital is the key ingredient in supporting the necessary expansion of the community housing sector but the Board also calls on the government to actively explore innovative ways in which the vast amounts of latent value being realised through the AHP can be used to deliver opportunities directly to community housing providers.

You will be aware there are very few Māori housing providers operating nationally, and in Auckland there is an evident role for a Māori provider of regional scale. We have heard directly from a number of organisations who state an interest in registering, but say it is simply not viable to enter into that process or does not stack up in a cost-benefit sense.

Māori whanau suffer because of this, lacking opportunities that should be available in our market.

Relative affordable housing

Around 40,000 Auckland Māori live in households earning over \$100K, and as such may be able to purchase a house over \$500k as a whanau or collective subject to household living costs, saving capacity, credit, availability, and other factors. However it is noted that such houses are likely to be of poor quality with inherent social, safety, connectivity, and security risks in the current market all of which deteriorate rather than support *kāinga* outcomes.

Construction costs mean delivering relative affordable housing at under \$500,000 is very difficult. The Board identifies upcoming opportunities in the Auckland Housing Programme to investigate **mixed typology** and **intensive** development in the form of low rise apartments or townhouses, which in some cases could and indeed should achieve a meaningful relative affordable price point, especially where there is mixed tenure within one complex.

HLC is also providing affordable housing using a relative affordable model. We understand there is low immediate yield in unit numbers coming to market and limited long-term return on investment because this model can only benefit one whanau before the public investment is lost at first subsequent sale in an effective purchase subsidy.

At scale and in a market in which build cost could be sufficiently reduced to bring houses to the market at a cost that could be translated into a real affordable price point, this model may work well. However, at scale the relative affordable model must raise significant questions about highest and best value use based as it is on a single under-value sale.

Asset separation model

Separating the land value from the improvement value is another model that works effectively to reduce house price, enable ownership by lower-income whanau, and retain land ownership in the

long-term. In the Board's view this can be captured as a progressive/retained model with options for retention or land sale to the occupant down the track.

The Board has significant concerns about the level of Crown land sold in the Hobsonville development and likely to be sold in the course of the AHP. In short, the sale of public land is being used to (inter alia) remedy Housing New Zealand's on-going deferred maintenance over some decades and failure to keep pace with demand.

In Auckland and the AHP context the government can, through this model, retain ownership of the land while selling the improvements at cost+. The retention of the land protects the public value in perpetuity while offering a wide range of opportunities to supply affordable housing.

The asset separation model has been widely used including in Auckland and provides a particular benefit to parties like the Crown and iwi and hapū with a genuine long-term mandate and outlook.

This could form the basis for a both *retained* and *relative* affordable housing models. In terms of a relative model, asset separation can vastly reduce the cost price and viable sale price of a house, but this does imply leasing and on-going obligations on the Crown or other developer.

In terms of retained affordability, asset separation works even better. The cost and price reduction achieved through land retention enables a whole new class of retained affordable housing at a price point which can then be further shared or split between land-owner and purchaser in an even more sustainable way.

The Board therefore recommends government consider and decide upon using an asset separation model built into the AHP as part of KiwiBuild and potentially as part of the social housing development element of the AHP.

Community Housing Regulatory system

Finally on community housing and the progressive/retained models themselves, the Board considers it critical that the community housing regulatory system is revisited to ensure it is fit for purpose, efficient and user friendly for would be providers.

We understand the current registration is a significant burden on the types of organisations we see as the main targets – for example iwi and small targeted NGOs with high community stakes.

In addition, as is mentioned elsewhere in this paper, we consider that through this process the government should consider the role a Māori housing provider of scale could have in Auckland, the outcomes it could achieve, and the ways in which that could be supported to emerge.

We identify the current iteration of the regulatory system itself, in particular the registration process, as a real barrier to the government's progressive/retained housing aspirations. To grow and thrive the sector must be regulated in an efficient, responsive, and effective way.

Development approaches, typologies, and tenure

The Board considers that affordable housing should be understood in the context of a housing system that is working effectively. The Board highlights that the Auckland Housing Programme and KiwiBuild aspirations are of such a scale that a real impact could be made on the intrinsic operation of the Auckland housing system – an impact simply not possible through piece-meal or uncoordinated work.

Many parts will contribute to achieving that impact including

- intentional policy and outcomes led development approaches;

- careful planning of housing typologies to create mixed typologies; and
- deliberate planning to achieve mixed tenure.

We do not think the housing system in Auckland is currently working effectively. Many families are currently unable to find a home, many suffer from insecure tenure, and many are mitigating these and other housing problems with innovative but ultimately unsatisfactory, unsustainable or unhealthy solutions. These include over-crowding, utilisation of uninhabitable spaces, and sleeping and/or living in vehicles.

In a housing system that is working effectively, retained affordable/progressive ownership models have an important niche which is providing a link toward housing independence for working families *whose income is simply not sufficient to move from rental or inadequate housing into ownership.*

While the Board recognises that ownership of any sort is not necessarily the aspiration of every family, in terms of an ownership pathway these options are important.

Achieving the desired impact

The Board identifies a real area of risk as the contracting of HLC across the 5 remaining mega-sites of Crown land identified for housing.

In short the Board is concerned that government policy direction to the end user is not being clearly communicated through the chain to the end user, and that the outcomes expected by government are not necessarily clear in the development process.

Direction setting from the government to HNZA, and the contracting process from HNZA to HLC are both areas where actual policy direction and expectations are at risk of being muted or lost. This is critical because the Labour-led government clearly has different policy settings and expectations needing to be communicated and implemented, compared to the former government which oversaw this programme of work for 9 years.

For the most part these policy changes, and changes in expected outcomes, are of course significant.

Labour's election housing policy says that through KiwiBuild "standalone houses in Auckland will cost \$500,000 to \$600,000, with apartments and townhouses under \$500,000". Having seen these figures debated and discussed at great length in Auckland, the Board makes the following observations:

- achieving a purchase price of \$500,000 for a standalone house will require either;
 - undesirably small section and build size under relative affordable models; or
 - **progressive ownership or promotion of existing community housing models**
- **standalone housing must not be the driving outcome of KiwiBuild** or the AHP;
- the **government through the AHP must ensure housing typologies must be mixed and integrated** to set the scene for progressive/retained models to be as effective as possible;
- the **government through AHP must optimise the intensification enabled by the Unitary Plan**, to ensure the number of houses required to ease our market are supplied, that those houses are financially accessible to more of our population, and create the context in which the community housing sector can operate more effectively and efficiently;
- the **government through AHP must focus on achieving a low price point in the open market segment** of the AHP to avoid the risk of simply fueling the open market with high spec high price houses, to leverage this moment in time opportunity to achieve change through supply, and to place the open market supply within reach of whānau in the progressive/retained model housing.

Progressive home ownership/retained affordable housing provides a critical stepping-stone in a functioning market by supporting saving mechanisms for whanau to make future deposits and ownership achievable.

The effective functioning of the market around progressive home ownership is characterised by:

- social housing provided by the state which is:
 - adequate to efficiently provide the housing safety net required by New Zealand's human rights, Te Tiriti o Waitangi, and social welfare obligations;
 - in adequate supply to meet demand, including providing for the vast majority of what is currently referred to as 'emergency housing';
 - in adequate condition to sustain the health and wellbeing of tenants;
 - in locations that promote that wellbeing;
- housing and suburbs that reflect equality, diversity and community needs, and which – in light of Auckland's specific circumstances and future outlook – utilise the optimum level of intensification allowed under the Unitary Plan;
- house prices which are comparatively stable, controlled by both intensification and AHP open market supply which leverages intensification, methodologies, and typologies to deliver untethered supply in the sub-median segment of the market;
- incomes and income growth that relate in a functional way to house prices;

The Board's message is twofold here:

We strongly support progressive home ownership, but we also consider it needs to sit not in isolation but as part of a systemic approach and 'fix' to the housing system overall, and include innovative progressive approaches to treaty partnerships and the Crown's international and domestic obligations to citizens in regard to housing.