



Social Housing Reform Programme

Market Information
and Feedback
Presentation for Potential
Market Participants
June 2015

Market information and feedback process

- We're in new territory for the Government – and for potential market participants
- We want to share our thinking – and seek feedback about the size, scope and process for proposed transactions as soon as possible
- We want to give potential participants as much information as we can as early as possible so they understand the emerging market and can prepare to participate
- Your feedback will inform further work on the transfer process

Market information and feedback process

This process is independent of:

- Regional consultation with iwi and hapū in Invercargill and Tauranga
- The MSD closed Request for Proposal (RFP) for an additional 300 Income Related Rent Subsidy (IRRS) places in the Auckland region
- Large scale redevelopments of housing stock in areas of high need such as Auckland being considered by the Government

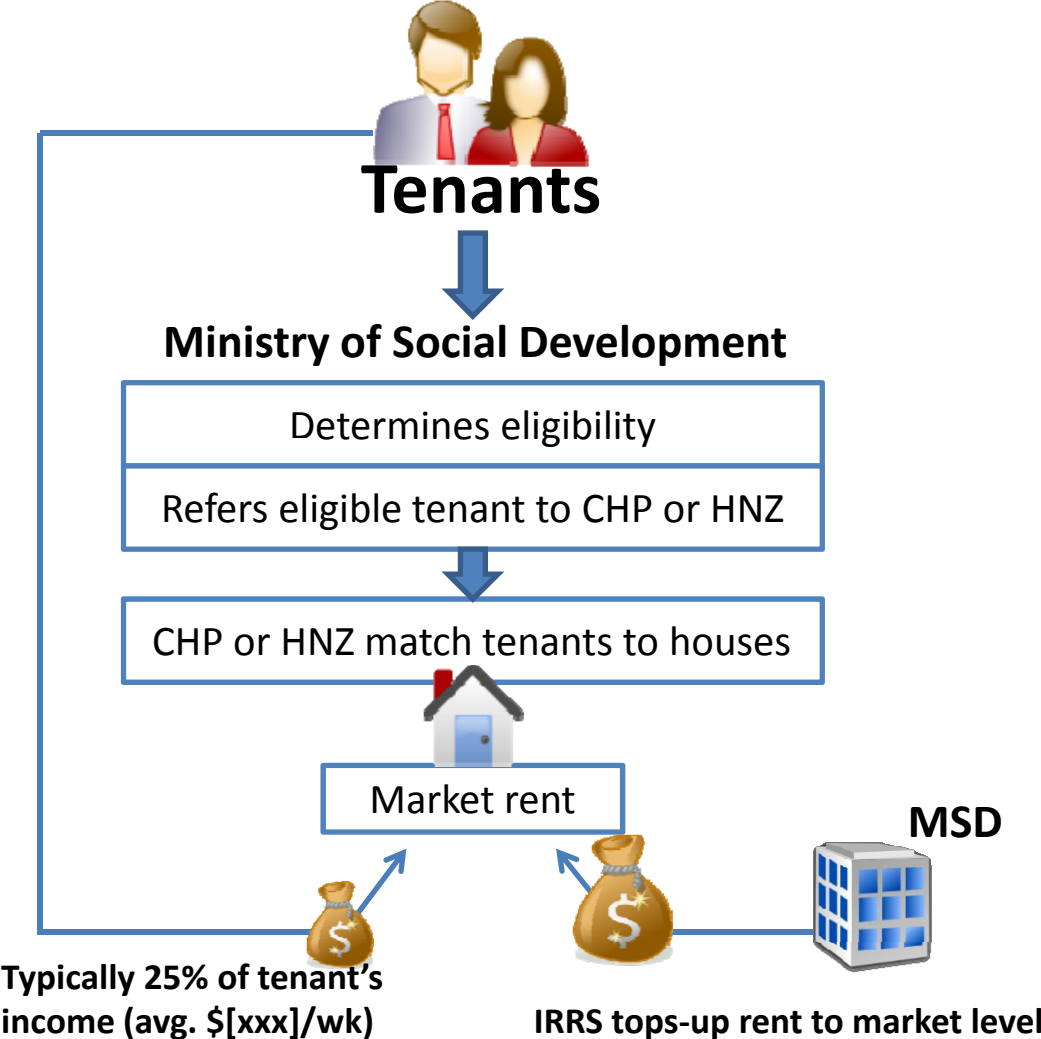
What do we want from these transactions?

- One provider, and a one-size-fits-all approach, isn't getting the results we need. We want :
 - More social houses in the right locations and of the right type to meet needs
 - To increase the capability and capacity of the community housing provider sector
 - To encourage diversity, specialisation and innovation
 - Better asset and tenancy management by providers who understand, and can be more responsive to, the needs of their tenants and community

Key agencies involved in social housing

- **HNZ** – is, and will remain for the foreseeable future, the largest provider of social housing in NZ
- **MSD** – the purchaser of government-funded social housing. Contracts with, and pays the Income Related Rent Subsidy (IRRS), to community housing providers (CHPs) and HNZC. Assesses eligibility of applicants and manages the social housing register
- **MBIE** – The Community Housing Regulatory Authority (CHRA) within MBIE regulates CHPs, who must be registered with CHRA to receive the IRRS
- **Treasury** – will run the transfer process

How the system works



Next steps

- Invercargill and Tauranga are proposed as the initial regions for stock transfers
- Final decisions subject to consultation with iwi and hapū in these regions
- Decision expected in July
- Considering locations for second tranche of transactions



The proposed transfer process

- Not just about simply transferring houses
- The aim is to transfer properties to social housing providers that can both provide social housing and offer tenant and property management services on a sustainable basis
- Tenants will transfer with the properties – along with rent subsidies and tenancy terms and conditions

The proposed transfer process

We want the transfer process to:

- Provide certainty and predictability to the market
- Use an open tender process to test appetite from a range of bidders
- Minimise bid costs where possible
- Provide bidder support to recognise that a new market is being built
- Be familiar to the market and advisors
- Be replicable and easily scaled to different transaction size and complexity in later transfers

Size and scope of initial transactions

We expect the transactions to be:

- Large-scale rather than transfers of small number of properties
 - HNZ will continue small-scale sales of houses as part of business as usual
- Asset transfers rather than large-scale redevelopment opportunities
 - There may be some scope for reconfiguration and smaller-scale redevelopment over time to meet changing demand

Transaction structure

Key contract documents include:

- **A Transfer Agreement** between HNZC and a Provider.
- **An Outcome Agreement** between MSD and a Provider for the provision of social housing places.
- **A Tenancy Agreement between** each tenant and a Provider (under the Residential Tenancies Act 1986).
- **A Transition Services Agreement** between HNZC and a Provider
- **Other Contracts.** The Provider may enter other subcontracts to transfer the land and buildings and provide the services.

Transfer agreement

- A portfolio of properties will be either sold or leased to the successful bidder
- For either a sale or a lease, potential transactions will include protections to ensure that the properties remain as social housing unless the Government agrees otherwise.
- Lease may be either a standard lease or a lease of the land and sale of improvements
- Properties don't have to transfer to a registered CHP – but a registered CHP must be part of the consortium
- Only registered CHPs can receive the IRRS and provide tenancy management services

Transitional services agreement

- The purpose is to provide continuity of services to the tenant during the transition from one provider (HNZC) to another
- A standardised package of tenancy management and property maintenance services will be available to support the transition of the management of the portfolio (if required).
- Takes effect from day one of transfer, time bound (up to twelve months)
- This will be a costed package agreed between the CHP and HNZ.

Outcome agreement

- MSD can offer a range of contracting options:
 - spot through to capacity contracts, dependant on demand
- Under all options, providers must:
 - make properties available for the duration of the agreement
 - maintain agreed service levels to tenants
 - maintain properties to agreed standards
 - meet their obligations as a landlord
 - collect rent owed to them (MSD will redirect beneficiaries' rent)

Outcome agreement - Spot contracts

- Currently in use (can be viewed on MSD website)
- Short term contracts for the duration of a tenancy
- If a tenancy ends, the provider can offer the tenancy to MSD and MSD can offer another eligible tenant from the register
- The IRRS tops up the tenant contribution to market rent

Outcome Agreement – Capacity contracts

- Recent changes in legislation allows MSD to enter into tailored agreements with providers where appropriate
- This gives providers a guaranteed income stream for available properties and more flexible pricing for long term or fixed price tenancies
- The level of the IRRS under this type of contract may top up the tenant contribution to the rent negotiated under the contract

Outcome agreement – your feedback

- We want your feedback on what's proposed for capacity contracts
- At Market Sounding and EOI, the key terms of these agreements will be provided
- The types of agreements offered and their specific terms and conditions will be outlined by MSD at the RFP stage

Support for Bidders

- This is a new market, so bidder support is critical
- Support will include:
 - Detailed guidance on the process
 - Opportunity for one-on-one meetings with officials during RFP stage
 - Allowing appropriate time for bidder responses at each stage
 - Pre-prepared standardised draft contracts
 - Financial model templates to help bidders
 - Financial and portfolio information

Information available at Market Sounding

| Purpose | Information for bidders |
|---|--|
| <p>Engage with potential market participants to understand their interest in a specific transaction or region</p> <p>Seek feedback on key elements of the proposed portfolio and tender process</p> <p>Feedback is used to refine portfolios and transaction design</p> | <p>An Information Memorandum for each transaction including:</p> <p>Financial information by region:</p> <ul style="list-style-type: none">- P & L statements-Balance sheet-Cash flow statement-Limited commentary for the previous two financial years <p>Tenant information by region:</p> <ul style="list-style-type: none">-High/medium needs-Age-Household make up <p>Property information by region</p> <ul style="list-style-type: none">-Base property metrics (land area, house size, bedrooms, age of property etc) |

Information available at EOI stage

| Process | Information for bidders |
|--|---|
| <p>Seek expressions of interest from the market</p> <p>Select a shortlist who will be invited to submit an RFP</p> | <p>An EOI document for each transaction including:</p> <p>Financial information portfolio:</p> <ul style="list-style-type: none">-P & L statements-Balance sheet-Cash flow statement-Limited commentary for the previous two financial years <p>Tenant information by portfolio (including HNZC's classification of the tenant, age, household make up)</p> <p>Property information by portfolio (land area, house size, bedrooms, age of property etc)</p> <p>Terms sheets for all key contractual documents</p> <p>Commercial structure of the transaction and risk allocation</p> |

Information available at RFP stage

| Process | Information |
|---|---|
| <p>RFP tender documents and supporting information issued to the shortlist</p> <p>Bi-lateral discussions with each bidder to ensure clarity on key elements of their proposal</p> <p>This stage ends with the RFP responses from bidders.</p> | <p>An RFP document for each transaction including:</p> <ul style="list-style-type: none">Individual property titlesFinancial report – base information by property (including rent, rates etc) prepared by professional advisors and able to be relied on by biddersTenant report – detailed report including tenancy agreement, rent, tenant detailsIndependent condition assessment (for each property)Draft contract documents |

What are we looking for from bids?

- A fair price plus the ability to provide the right level of service to tenants
- Criteria under development, but will cover both quality and price and may include:
 - tenancy and property management capability and approach
 - ability to complete any deferred maintenance
 - ability to assume full operational control of the portfolio in a timely manner
 - community links that achieve better outcomes for tenants
 - commercial and financial capability
 - at RFP, price

Pricing approach

- The Government will not set the price for transfers – bidders will determine this in their RFP responses
- We don't expect the purchase price to reflect the current values of the properties in HNZC's accounts
- We want fair and reasonable value for taxpayers –and transactions that are financially sustainable for providers

Bidder structure

We are expecting:

- CHPs will in some cases bid as a consortium
- Collaboration between private sector organisations, financiers and CHPs in developing bids

Bidder structure

Bidders must:

- Be a CHRA-registered CHP, or be in a consortium with one.
 - The IRRS can only be paid to a registered CHP
- Demonstrate that they can provide all of the services required

CHRA registration

- Providers can apply for CHRA registrations at <http://www.shu.govt.nz/chra-home>
- To register:
 - You must be a provider of either social or affordable rental housing
 - Your governing body must support the application
 - You must be able to meet CHRA's performance standards
- If you are already a CHRA-registered CHP, purchasing additional houses may initiate a review of your registration to ensure you meet the requirements for managing a larger portfolio

Your feedback is important

Specifically on:

- Contractual basis for transferring properties
 - sale or lease?
 - type and duration of lease?
- Transaction size
- Outcome agreement
 - views on the proposed approach to Outcome Agreements, in particular capacity contracts

Your feedback is important

- You can provide written feedback using the online template
- Send your feedback to marketinfo@treasury.govt.nz by **4pm Friday 3 July**

Transaction process - Indicative timeframes

- Decision on whether to proceed with initial transaction expected in July
- Any commercial process will be open and competitive and take 9 -12 months

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| Market Sounding | 6-8 Weeks | From Aug 2015 |
| Expressions of Interest | 6-8 Weeks | Sept/Oct 2015 |
| Request for Proposal | 12-14 Weeks | Dec 2015/Jan 2016 |
| Select preferred bidder & close | 4-10 Weeks | Mar/Apr 2016 |

For further information....

- To access discussion documents and feedback template
 - <http://www.treasury.govt.nz/statesector/socialhousing/marketinformation>
- Any questions or want to register for regular updates, email
 - marketinfo@treasury.govt.nz
- General information on the social housing reform programme
 - www.socialhousing.govt.nz