

Delivering Affordable Housing

Can non-government housing organisations supply affordable housing?

Introduction

There is an old joke about trampers and how we react to New Zealand's violently changing climate. Trampers dress "for yesterday"! We have to be careful not to treat the provision of affordable housing the same as trampers treat clothing!

We mustn't throw on yesterday's clothes. More market? Or more state subsidies? That's the extent of choice offered by the various political parties at the time of the recent election.¹

That choice sums up the dualistic approach to the provision of housing in New Zealand and keeps up the pretence that housing is like any other commodity! Now – that's dressing for yesterday's weather!

If ever there was a time to rethink the provision of affordable housing as tomorrow's clothing - of using housing to invest for future economic balance and social engagement – now is the time!

¹ This over-simplifies the options. But it makes the point that none of the political parties sought to introduce any firm community, supply-side measures in their housing policy proposals. For a summary of the options offered at the time of the September election - see **NZ Herald** (27th August 2005) reproduced in **Appendix 1**.

We will speak about a co-operative type of housing tenure. We will link a form of co-operative tenure with our proposal for a significant house-building programme. We will insist - as an absolutely necessary condition for any community-based approach to the solution - that a housing charter agreement be struck between the government & supply-side community housing organisations.

The policy objective of such a charter, is to modify the housing market by the year 2020 by creating a minimum of 10 percent (10%) of New Zealand's housing stock as third-sector, not-for-profit housing to be held in a form of co-operative tenure!

We'll put the case - that the ability of households to accumulate assets through sharing equity in such a co-operative approach to housing provision, will enhance economic balance, social engagement and lower housing costs.² It will be one of the best defences against whatever storms global trade threatens to hurl against us in the future!

We think it is the way to "dress for tomorrow's climate"!!

² In the United States wealth inequality dwarfs income inequality – and the situation is probably similar in New Zealand. See US asset poverty report – **Appendix 2**

A Need for New Investment by the Community

The logic that there is no alternative to the dualist private-market / state-subsidy approach to the delivery of affordable housing, means that people have to do the best they can for themselves - and Devil take the hind-most! That seriously undermines any sense of engagement with community because exclusion from the mortgage market means they have little choice but to rely increasingly on the state.

Market forces have made the private-sector housing-delivery system increasingly unaffordable for those left behind on low incomes! That, in turn, has increased pressure on state-subsidised, public rental housing. The result overall is a systemic failure to deliver affordable housing - and a society that lacks engagement and balance! Behind the advertising propaganda; about the efficiency of the market: and the political slogans; about socially-responsible action by the state housing agency, lies a painfully mediocre, last-century logic.³

The logic is old-fashioned, slow-witted and a cumbersome way of thinking! - It's yesterday's clothes! What makes community is complex. But it is very clear that the present lack of a suitable range of affordable housing, defeats the societal goal of a balanced and engaged community.⁴

³ Laissez-faire conservatism - in its crudest form, leaves housing to the private market and residual charitable aid to the 'deserving poor'. In New Zealand, the State has moderated this form of housing provision, by establishing since 1935 residual forms of State aid for those in poverty. Over the years this has resulted in three major forms of dwelling: namely - home ownership; public (or 'cost') renting; and private (or 'profit') renting. What is largely absent or underdeveloped is co-operative tenure, or so-called, "tenant-ownership"!

⁴ A definition of an engaged & balanced community is found in Auckland's District Plan, which states that housing must be..., "economically accessible, physically suitable to the users, and sited where it can maximize opportunities for employment and recreation". Auckland District Plan – Isthmus Section – Human Environment 6.2.3 – Housing (1999 – updated 14/07/04).

Investing for the Future

One of the growing ideas to enhance balance and engagement in community - is investment in the not-for-profit housing sector. The idea is to supply affordable housing to improve economic balance and social engagement. It means focusing our resources to develop forms of terminating co-operative tenure, or tenant-ownership, as the concept is called in some northern European societies.⁵

Those who look at the provision of affordable housing through the prism of market economics alone - would say, "That's not realistic!" But, we are speaking here about the needs of citizenship; about a kind of community self-belief to face the challenge posed by the need for balance and engagement in our society.

And in a market-dominated society like ours, a form of terminating co-operative tenure is a tool for engagement. Social housing - in the form we have at present in New Zealand – is not!! So measures to provide affordable housing are necessarily about better tailoring our housing policies, to realise community balance and engagement.⁶

⁵ A form of co-operative tenure, that allows not-for-profit housing providers to offer 'at cost' rental houses, while encouraging 'tenants' to gain an equity share. Participants pay **only once** for their housing. The Swedish expression for this type of tenure is, *bostadsrätt*.

⁵ It is no accident that a country like Sweden, comparable in many ways to NZ, but with extremely adverse climatic conditions has: far more social cohesion, a motivated and educated workforce, one of the highest standards of living in the OECD and also has one of the highest productivity rates. Amongst the strategies that have brought this about is the acknowledgement of the place of housing as a tool of positive social and economic development. Unlike what has happened in New Zealand, they have tailored their housing needs to the just and coherent development of their society. As an example, post WWII Sweden aimed to achieve a high and even standard of dwelling for everyone at affordable prices through a choice of tenure to suit household characteristics within a framework of tenure neutrality. That means equivalent households should spend the same proportion of income on housing regardless of form of tenure. The profile of the Swedish housing stock in the 1990s is distinguished by the existence of three tenure forms - home ownership (40% of households), co-operative tenant-ownership (15%) and rental tenancy in apartments (40%). See **Alan Davidson** Alternative Models of Housing - Housing Studies. pp.454 – 458 (1999).

A Housing Charter – the framework required

Our communities have resources. We have to use them more effectively. We need what I would call, a housing charter⁷ to focus on the provision of affordable housing - as a common policy objective with our government.

We strongly insist that a housing charter framework is a necessary condition for ensuring that a significant stock of not-for-profit houses in the community sector, can be built. For example, the charter could set as it's policy goal – that 10 percent (10%) of the total housing stock by the year 2020, be held in terminating co-operative tenure.

A sense of common cause shared with the community is lacking from HNZN's published NZ Housing Strategy. Civil society is deemed to have no independent role. Tacit assumptions are made that civil society is fragmented and insignificant as a source for the provision of housing. Rather than suggesting any realistic measures to help civil society overcome its obvious handicaps and shortcomings, the New Zealand Housing Strategy chooses to ignore the potential of civil society to make a contribution - by not taking the sector seriously!

A charter framework would help focus existing government and community resources in a fresh way – to enable non-government housing organisations (NGHOs) like ourselves, to make a serious contribution to supply affordable housing.

⁷ The right to adequate housing is not incorporated in NZ domestic law. We believe that the adoption of a Housing Charter will provide a new legislative framework to enable new forms of asset accumulation through housing policy to be put in place - to enhance living standards in NZ. The contracting parties declare that they accept as the aim of their policy - to be pursued by appropriate means, the attainment of the conditions in which these rights and principles may be effectively realised. See: pp.20-3 Joint Submission of Human Rights Foundation & Just Housing Trust, to Building the Future: towards a NZ Housing Strategy 30th June 2004.

Access to Resources

The community housing contribution involves settling the obvious issues of access – access to land; finance; building design and method; and the supply of labour.

Land – The appreciation in land values has been the most significant contributor to housing-cost increases over the last ten-year period.⁸ The government can take measures to ensure that the land component of community housing costs, is reduced. We will come back to this later.

Finance – Lending measures to support and underwrite the initial construction phase of community housing programmes. Such measures can expect an excellent return on investment for first-stage of community rental housing - and allow the housing providers to grow their building programmes to become financially self-sustaining. Again, we will come back to this theme later.

Design – House designs that are characteristically flexible in the use once built. We will explain, in our workshop sessions, examples of re-locatable and pod-house designs that can be ‘de-mounted’ with relative ease and moved cheaply, as needed. We give more detail in our workshop.

Building Methodology – Again in our workshop, we will demonstrate building methods that side-step the current shortage of building skills - yet do not compromise compliance with building standards.

Legal Protection – Measures to protect community resources must be seriously considered before any project starts spelling out in detail the meaning and responsibilities of each participant in a terminating co-operative tenure scheme. NGHOs need right-of-access to land and the right to retain whatever wealth they generate by their housing

⁸ Increasing Land cost as percentage of total house cost – a reprint from Housing Costs and Affordability in NZ by **DTZ Research** for CHРАНZ See **Appendix 3**

initiatives. The retained wealth must then be used to grow the community good.

Learning from success elsewhere – For example, the Swedes have created significant housing co-operatives where tenant-ownership made up approximately 14 percent (14%) of the total households (mid-1990s). This has contributed to the general cohesiveness of Swedish society. It is a possible goal we could set for ourselves in a New Zealand Housing Charter – to grow a sector of similar size and significance within the general stock of New Zealand households.

Co-operative housing – as a working definition: “An autonomous association of households united voluntarily to meet their common economic, social, spiritual, cultural needs and aspirations, through a jointly-owned and democratically controlled enterprise”.⁹

⁹ Based on the Statement of Cooperative Identity International Cooperative Alliance, adopted in Manchester (U.K.) 23rd September 1995. A further clarification of co-operative identity is found in the following UN’s statement: “*There is a sense of great opportunity and hope that a new world can be built, in which economic development and environmental protection as interdependent and mutually reinforcing components of sustainable development, can be realized through solidarity and co-operation within and between countries and through effective **partnerships** at all levels*” – from the preamble of the United Nations’ Istanbul Declaration on Housing. (14th June 1996).

A Housing Language for the Future

The current language of housing is dominated by for-profit market terms. The aspirations of many of us, are reflected in our speech about housing – we seek to use our house/s as a commodity to ‘trade-up’ in order to grow our wealth - or we speak about housing investments to secure our retirement income! Thus, when housing demand outstrips supply, we call the market, “strong” - and any movement towards equilibrium “sets alarm-bells ringing”!

Although the use-value of our house has always been tacitly recognised - if we as a community are to move towards equilibrium in housing supply - we must temper the dominant way we think and speak of “housing as a commodity”.

It means we have to employ not-for-profit housing terms such as these:

Community Land Bank

As we mentioned earlier, we believe the State has a role. That role is to take measures to cap at non-housing value, land designated for housing, by forming a land-bank to prevent speculative profiteering. The formation of a land bank provides opportunities for NGHOs to lease some of these sections as sites for not-for-profit, community rental houses - on condition of rent limitation.

The land bank could be augmented from other sources, including unused Local Authority, church, community, corporate and privately-owned land. It is necessary to somehow capture increasing land values for the benefit of the community, so that the initial investment creates affordable housing opportunities for successive generations.

At the same time, these steps need to avoid two of the disadvantages of State rental housing. The first is the inability of households to move on to ownership. Second, is the penalty inherent in “right-to-buy”

schemes, which confer advantages on the first-buyer at the expense of future generations of households.¹⁰

Revolving Building Fund for third-sector, supply-side housing providers

The greatest obstacle to NGHOs initiating action is our lack of an appropriate funding mechanism. Given the social and economic benefits in prospect, we believe that it is in the State's interest to tailor new forms of funding – delivered through an independent agency.

Such a fund would make available nil or low-interest 'seeding capital' to participant civil-society housing groups - on condition of rent limitation and with an understanding that repayments by the borrowing agency are only to be used to replenish the fund itself.

The current Housing Innovation Fund is not designed to do that. It merely offers an incentive for community housing organisations to become managers of social housing on behalf of the state - without enhancing economic balance and social engagement. It forces competing social housing providers into even more reliance on private-sector builders and holds no guarantee into the future of independent control of the process – either financial or methodological! It smacks of fiddling with the housing affordability issue!!

Whereas - a community revolving loan fund makes money available to grow a sustainable construction programme for the benefit of all households who choose to participate. Civil society housing providers would be constrained by the terms of their "deed of trust" agreed upon in negotiation with the state – i.e. to produce housing 'at cost' – housing which cannot be on-sold and privatised. The risk would be

¹⁰ We propose that ownership of the land remains permanently in trust, while the occupiers gain access to home – which are affordable now – and shared equity later connects them to the wider housing market. *“Joseph Rowntree, in setting up the Foundation that bears his name, foresaw that the land question would continue to be critical. He referred particularly to the need to consider “appropriation of the unearned increment” which is a telling phrase for a society where people in some areas are enriched not by their work but by increasing land values, to the detriment of those who are not yet owners”.* Ken Bartlett **Joseph Rowntree Foundation's Land Inquiry** (2002).

managed by establishing codes of practice and codes of conduct for the housing charter partner groups as a means of promoting “best practice”. Such rules would be based on the concept of cost-rental housing consistent with the not-for-profit sector’s economic practice.

Step-Equity

A mechanism to allow people to buy their way into a terminating co-operative house. It means a period of renting (say - approximately five years) from a community housing provider and qualifies such households to full-membership of a terminating housing co-operative. Then the household becomes eligible for **housing credits**.

It means that households unable to take a single large step towards home-ownership by the usual mortgage loan path, can choose this intermediate, smaller-step pathway-to-equity via these community housing credits and thus avoid having to pay twice for their housing.

Shared-Equity

The concept that families do not own their own home absolutely - but that some other person or institution takes an ownership stake – usually for benign reasons and as a step-equity mechanism.

Housing Resource Centres

Housing production factories, which run an enabling support infrastructure for not-for-profit, community housing providers.

Equity Farm

An Equity Farm is the concept of providing community rental housing on leased land at the same income-related rate as the State offers its rental housing tenants. As well as meeting the immediate housing need of families who are unable to enter either the normal rental market or the home-ownership market, community housing can be set up to give tenants an equity share or ‘housing credit’ that they can use towards their future long-term housing choice. Assuming the lower cost structure of a community-based, not-for-profit **equity farm**, there are comparative advantage in terms of disposable income, to

households moving from 'for-profit' market rents to community-based not-for-profit rental housing, with rentals equivalent to State rental rates. The overall cost of providing such equity farms is recouped from the new rents and saving by the State by capping the Accommodation Supplement rental subsidy into the future.

Cost-rental Housing

A form of co-operative tenure that allows 'not-for-profit' housing providers to offer 'at-cost' rental houses. This encourages shared-equity - or a form of terminating co-operative housing which is a transfer of wealth – in economic terms it's a transfer of wealth from the 'landlord' (the housing co-operative organisers) - to the 'tenant' (the co-operative housing tenant household).

Although they may choose to remain technically tenants, they enjoy the same rights of ownership of the fabric of the house as would a private house owner - in proportion to their equity-share. It means that at a certain stage they cease paying rent and become responsible for maintenance and rates and a small administration fee to the community housing group.

Community Housing Producers

Professional community-based utility enterprises, who provide not-for-profit housing.

Measures to Deliver the Housing

a. Establishing Housing Resource Centres

We propose formation of resource centres wherever there is a serious housing need. Existing housing resource centres - such as CHAANZ's factory in Glen Innes, Auckland - can 'stair-case' other centres as required elsewhere. The centre/s provide products that help to significantly reduce the cost of house production.

The products of such centres to be:

- **pre-finished, pre-painted, slot-together housing panels.** These panels are a low-cost alternative that allows for on-site assembly of durable, plywood-clad, light-timber-framed dwellings.
- **training of new workers.** The building-skill shortage is addressed by introducing a controlled, factory-based construction process for the panel components; enables learning-on-the-job; and the shell of a dwelling is assembled on-site relatively quickly. The shell construction provides a platform and opportunities to learn finishing-skills from competent community trades-people.
- **building services.** A design and siting service to co-ordinate building operations and manage construction of the dwellings.
- **windows & doors.** Wooden windows and doors using cabash technology. Treated pinus radiata windows and doors dramatically lower costs.¹¹
- **staircases.**
- **kitchen bench tops.**
- **community development & consultation service.** For civil society not-for-profit institutions wishing to enter the programme.

¹¹ There is a world-wide market to be developed in such affordable joinery.

(It is important to note, that in choosing an appropriate building material for all the above products, our choice has been narrowed to exclusively using the readily-available supply of pinus radiata timber and plywood products.

We believe that any third-sector, supply-side housing group should, as a matter of principle, set out to use such materials and add-value to them, to reduce our nation's so-called 'timber mountain'.)

b. Implement Building Programmes

The first step is to define and protect the community benefit by ensuring that there exist the necessary legal measures before housing activity begins:

- Whanau, hapu and other community group entities – that is, any civil-society group - must have an established ownership-title to 'their' land or have a written contractual arrangement with the land-owner/s for at least, a medium-term access-lease to the land which is to be used for housing sites.
- The minimum useful term for such access leases is 15 years. An understanding that there should be an annual right-of-renewal of the lease thereafter. That period represents the time needed for a 'starter-house' scheme to work. At the ending of the period such houses could be relocated and the land returned to its original state if the lease is terminated by the land-owner.
- Community groups would dialogue with the housing resource centre management to formulate local projects.
- In this dialogue, priority would be about risk-managing and focus on enabling low-income families to escape from dependency on welfare and 'rental traps'.¹²

Community groups opting to support the process would use and develop their existing institutional capacity to help the participating families to achieve shared equity without giving away ownership of community resources.

¹² It is not a 'make-work' scheme for the elite.

c. Establishing Equity Farms

Participating groups seeking benefit for their member households would have some choice in the way they would implement their project – but whatever they seek to gain - an essential element in the process is the establishment of what we call an, equity farm in the first instance.¹³

The equity farm is a mechanism that allows the participant households to negotiate finance to build a ‘village’ using a basic-house cluster concept,¹⁴ in which families aspire to control the fabric of their dwelling on community land, within say - about six years.¹⁵

At that point, it may be possible for them to choose to ‘de-mount’ the house and move it onto their own land. Or the organizing group could bring another family into the house and ‘pay-out’ the original family, using their housing credits. Community credits would necessarily be linked to responsibility to provide a permanent dwelling-place for the original household.

This approach is best suited for rural land held in community ownership, but variations of this process, worked out over longer periods of time and depending on the terms of the land-leasing arrangements, could work for a similar result. For example our Trust is currently attempting to permanently house one of the families renting a Just Housing Trust ‘starter house’ in Waitakere City.¹⁶

Community-housing groups thus have creative options for equity development. The wealth created - the community share - rightly belongs to the people who created it rather than any individual family participating in the scheme. They have the use of the community

¹³ This involves a communal approach by the participants, to negotiate the building of a village cluster. In rural situations around Marae, this might well involve up-grading existing sewerage schemes to include group-sewerage for the village.

¹⁴ For an example of the one-design basic house see **Appendix 5**

¹⁵ A critical path diagram to show the pattern of steps to equity for the tenant-owners – see **Appendix 4.**

¹⁶ The Just Housing Trust is at present negotiating with CHAANZ as the builders and whanau members with urban title to share their land as a building site for their family members who currently occupy a Just Housing Trust rental house.

share in-so-far as they occupy a non-market, utility house, sited on land that does not belong to them.¹⁷

Financial Workings of the Proposal

The providers of these utility houses negotiate for low or nil-interest finance from the government, for up to 100 percent of first-stage building costs in order to achieve the following:

- ‘seed’ the formation of regional revolving building funds which will enable participating groups to grow their building operations.
- the housing resource centres would plan and manage the building of dwellings as required.
- families would repay their singular proportion of the loan through rent using their income from wages and benefit entitlements. This would also ‘top up’ the revolving building fund.
- after six years (approximately) households could be in a position to choose to:
 - i. stay put. (except, perhaps in places like Auckland where the cost of land is very high.)
 - ii. ‘de-mount’ the dwelling and reassemble it (with additions as appropriate) on their own land.
 - iii. choose to build a house on their own land, using the ‘equity share’ in the fabric of the dwelling they have been renting from the community, as a deposit while another family move into the original house.¹⁸

¹⁷ It would be our preference that families in such programmes use the approximately \$60,000 community-share, to build a larger house on their own land. The community’s money makes it a shared-equity dwelling. If the family want to sell the house they can, but the community must be treated as a stakeholder. Both equity holders get the return for their investment, also gaining a share of the value of improvements.

¹⁸ If the house should be trashed, they receive the value less the repairs.

Programmes are risk-managed so that it is not possible for the houses to be taken by 'housing-for-profit' interests. Wherever possible, the housing remains permanently within New Zealand's utility housing stock. The ownership of the community-share remains with the regional housing group and the local community housing group partners. The purpose is to use the equity to expand further community building programmes.

Technical aspects of the Proposal

The building programme would be supervised by community housing professionals from the regional resource centre, co-operating with the local housing providers.

- the key cash-flow generator, whatever the nature of the community housing project, is to start with the concept of an equity farm as basic.
- all compliance technicalities would be dealt with by experienced professional workers.
- local paid building groups would be trained to assemble dwellings at both the equity-farm level and at a secondary stage when permanent dwellings are required.
- families could exercise several options as detailed previously – the preferred result would be the development of the concept of shared-equity that reflects both the aspiration of most New Zealanders to own and control their homes and it offers them a practical pathway towards achieving that goal.

The Benefits

Land Costs

Rather than using land purchased outright, NGHOs would negotiate with land-owners (Government, LAs, churches, community groups and individuals) for the medium-term use of their land. The leased land is then used to site 'starter houses'. This removes the purchase cost of land from the cost of providing utility houses.

Building-skills

Production by newly-trained community housing workers avoids the current 'supply bottle-neck' resulting from the building-trade skills shortage. The adoption of an appropriate building construction method enables rapid training of workers in factory-controlled production environment and leads to on-site cost savings and other efficiencies.

Investment

The starter houses would generate a cash-flow which finances the construction of more 'starter houses'. We estimate a 15-house project is sufficient to reach a critical size to become a self-funding expanding stock of not-for-profit rental houses. Those houses in turn would be let to households who currently lie in the 'for-profit' rental housing sector and are dependent on the AS subsidy.

The houses would be let at the same rent rates as State houses – that is, 25 percent of the household income. Such households would enjoy an increase in their disposable income after rent - while in the longer term the state caps the cost of the Accommodation Supplement.¹⁹

¹⁹ There are further benefits here to all New Zealand households from on-going rental cash flows and a growing pool of co-operative houses.

Dressing for Tomorrow's Climate

NGHOs like ourselves - committed to the provision of not-for-profit housing - can deliver inexpensively-produced houses which can be sited on leased sections. After initial funding, in the form of low or nil-interest loans to cover establishment costs, the costs are recouped from the ensuing rental income-stream and savings on a capped Accommodation Supplement.

We began with a warning about dressing for tomorrow's climate. Global trade increases the need for New Zealanders to develop a high-wage and participatory society. Vibrant, resourceful economies and socially engaged communities, require investment in the sectors that result in increased productivity.

A significant 'cost-rental' sector within New Zealand's housing stock - provided by the type of housing co-operatives about which we have spoken - will put downward-pressure on the current speculative trend in the house-finance sector. That trend only benefits the mainly overseas-owned finance agencies. The creation of a significant co-operative sector will increase the amount of resources available to invest in more productive enterprises.

Our focus has been on the needs of citizenship and about the kind of self-belief we need for our society to take on the challenge posed by economic and social climate changes and how we could meet those challenges by a housing charter which:

- avoids increasing the housing-debt burden in our community;
- lowers the cost-structure in the provision of new housing;
- and secures the right to affordable housing for those who currently miss out on the benefits of for-profit market housing and public rental subsidies;

- puts in place measures that meet the immediate housing needs of families-with-children, while giving such families an equity boost.²⁰

Conclusion

We have proposed that NGHOs, in the first instance, produce inexpensive houses sited on leased sections. As the scheme matures the NGHOs could use their income to purchase land for further community housing use.

The practicality of our proposals depends upon the prior establishment of a housing charter - endorsed by both government and community - which sets as a policy objective the creation of a significant growing stock of affordable houses by the year 2020.

The creation, in a sustainable way, of a significant co-operative housing sector will reduce the cost of housing for the average household - whatever the economic climate and the conditions of trade hold for us into the future.

The intellectual capital for the infrastructure for such a programme, has been researched adequately as you will would see if you attend our workshop session. The necessary 'products' have been developed. The programme can start almost immediately.

We believe NGHOs can supply a purpose-design for every dwelling site and prevent social housing being separated out from the general housing stock; by avoiding targeting through means-testing and thus avoid the production of stigmatized housing.

To answer to the question with which we began these remarks - 'yes' - NGHOs like us, can supply affordable housing! Returning to the tramper's image we used at the beginning to describe our purpose – let's not make a poor choice of clothing for our conditions.

Let's dress for tomorrow's climate! BF

²⁰ A boost of up to \$60,000 within a period of six years.