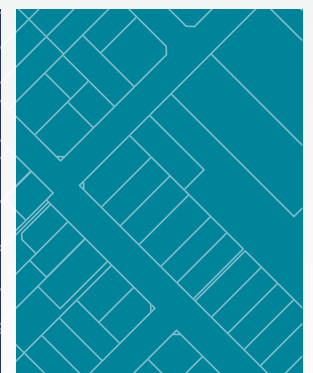
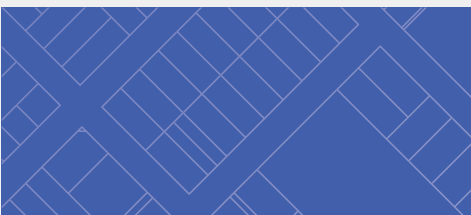


TRANSFER OF INVERCARGILL SOCIAL HOUSING

INFORMATION MEMORANDUM



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 - b) in evaluating or acting upon all or any part of this Information Memorandum; or
 - c) arising out of, or in connection with, any omission from, or any amendment, update of, or addition to, all or any part of this Information Memorandum; or
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INVERCARGILL



THE OPPORTUNITY

We are seeking new Providers to deliver social housing in Invercargill. The government currently owns and operates 371 properties in the region and we are keen to find Providers who can bring innovation to how tenants are supported and how properties are managed.

We intend to package the properties into one to three transactions and are keen to hear from you how many properties you would be interested in.

For each package of properties, government intends to agree a long-term contract (the “Outcome Agreement”) for services, and intends to sell or lease the associated properties to the Provider. This is a good opportunity for you to demonstrate how fresh thinking and a variety of expertise will bring positive change for Invercargill’s social housing tenants. This may be through:

- Different approaches for interacting with and supporting tenants.
- Enhancing links across social services to improve the results for tenants.
- Efficient management and maintenance of houses.
- Reconfiguring the portfolio of properties to better match the current and future needs of the community.

These transfer transaction(s) will suit a variety of potential Providers. You may be an existing Community Housing Provider (CHP) looking to expand your operations or you may be operating in a related sector and keen to demonstrate how your expertise can bring real benefits to social housing and tenants. You do not necessarily need to have an existing presence in Invercargill and you do not necessarily need to be able to provide all the services by yourself – you may choose to form a consortium, or sub-contract partners, to harness a range of skills.

KEY PORTFOLIO FACTS

371 PROPERTIES



BOOK VALUE IMPROVEMENTS (30 JUNE 2014) **\$30.2m**

BOOK VALUE LAND (30 JUNE 2014) **\$9.8m**

BOOK VALUE TOTAL (30 JUNE 2014) **\$40.0m**

FY14

\$3.8m REVENUE TENANT AND GOVERNMENT

\$2.5m HOUSING NEW ZEALAND OPERATING EXPENDITURE

\$0.4m HOUSING NEW ZEALAND CAPITAL EXPENDITURE

\$0.9m FREE CASH FLOW

The government has identified Invercargill as a region with solid social housing demand. We are looking for a long-term partner to deliver the region's social housing needs. Over coming years there will be more need for one bedroom properties and less need for larger properties. The government's future purchasing intentions can be found at: <https://www.msd.govt.nz/about-msd-and-our-work/work-programmes/social-housing/purchasing-intentions>.

The tenants and the properties

We intend to transfer the majority of Housing New Zealand's Invercargill portfolio in one to three transfer transactions. The number of properties within the transfer transaction(s) will be finalised following this market sounding exercise. Ministers have decided not to include the three properties subject to local iwi, Ngai Tahu, rights of first refusal, in the transaction(s). Options for these three properties will be discussed directly with the iwi with a focus on realising both the Crown's RFR obligations and the objectives of the Social Housing Reform Programme (SHRP).

In the Invercargill region 36% of tenants are single and 47% are aged over 50 and 75% of the properties are stand alone, single storied houses. The properties in the portfolio are relatively old, with all properties aged over 20 years and a quarter of the properties aged over 61 years.

The commercial proposition

We want a commercial and legal framework that enables government and the Providers to be clear on their responsibilities, how performance will be measured, how payments will be made and what happens if performance falls below expectations.

There are two key contracts that government intends to agree with the Provider to give effect to the transfer transaction:

- The Ministry of Social Development (MSD) will agree an Outcome Agreement for tenancy and property management services and pay for the services through an Agreed Rent per property. The tenant will pay a proportion of the Agreed Rent, based on their income, to the landlord and this is referred to as Income-Related Rent (IRR). The remainder of the Agreed Rent is paid by MSD through the Outcome Agreement as an Income-Related Rent Subsidy (IRRS).
- Housing New Zealand, through the Treasury's Transactions Unit, will agree a Sale and Purchase Agreement or a Lease Agreement that takes into account that the properties are for social housing purposes.

There may also be other contracts if required, such as a Transition Services Agreement with Housing New Zealand or a Direct Agreement with debt funders.

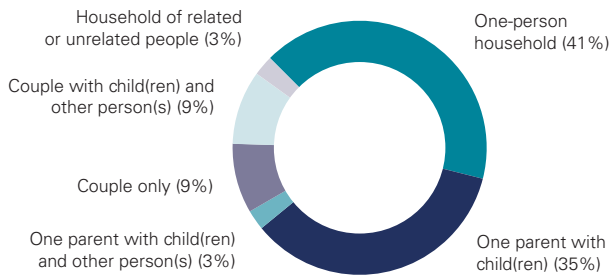
The commercial framework has been designed to reflect that we are looking for a Provider who is committed to the long term and we are interested in retaining flexibility to reconfigure the portfolio to match need. A few key points to note:

- **Payment:** The Provider will receive an indexed cash flow stream from government over the term of the Outcome Agreement (the IRRS).
- **Demand:** In general, as long as properties are available and required for social housing, the government will take vacancy risk.
- **Rent collection:** Tenants pay a portion of the revenue stream through IRR and the Provider will be responsible for collecting this. In some circumstances, the government can redirect the tenant's portion directly to the Provider.
- **Preserving social housing:** To maintain the supply and value of the government's investment in social housing, any properties that are sold will be transferred with an encumbrance that requires the properties to be used only for social housing purposes and the government will hold a second ranking mortgage. The encumbrance will be removed if the government no longer requires the property for social housing.
- **Bidder support:** We will provide a range of measures to support Bidders including a virtual data room during the transfer transaction so Bidders have access to property, tenant, financial and legal information. We will also provide independent property assessments and a template financial model to support the bidding process.

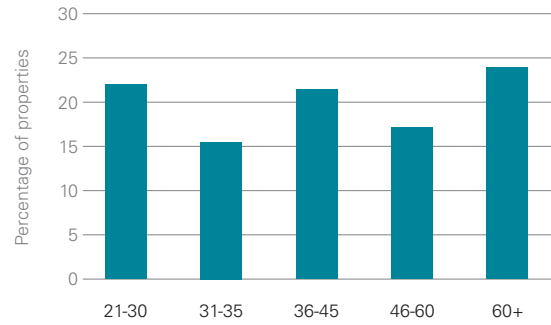
Status of the transfer transaction and next steps

We plan to commence this transfer transaction in late October 2015. Before we do, we want to hear from potential Bidders whether there is interest in the transfer transaction and whether our proposed commercial terms will deliver the outcomes we seek. This document describes the Invercargill transfer transaction and explains how Participants in this market sounding can provide responses to our questions.

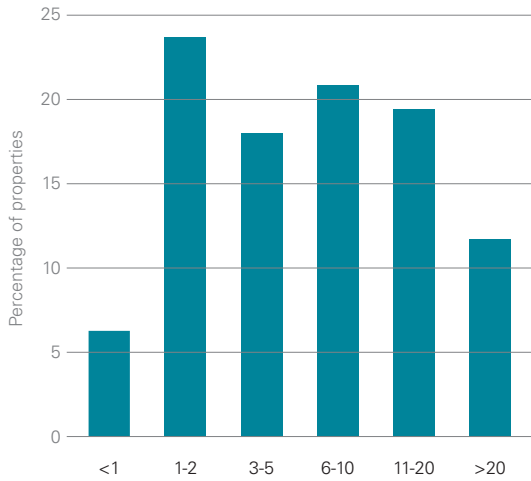
Household type



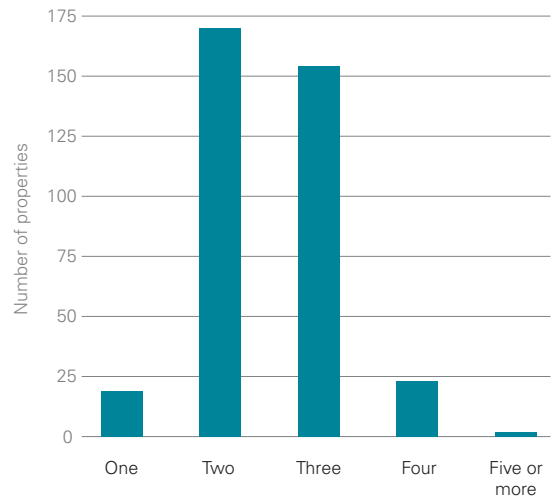
Property age (years)



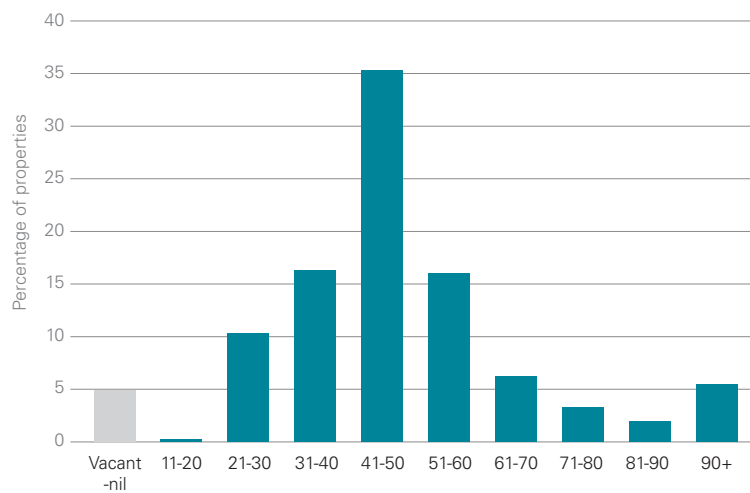
Tenancy length (years)



Number of bedrooms



Rent paid by tenant as % of market rent





PURPOSE OF THE MARKET SOUNDING

The government is running parallel market sounding exercises for potential social housing transfer transactions – one each in Tauranga and Invercargill. The purpose of market sounding is to:

- Test key aspects of the proposed transfer transactions before beginning a formal transaction process.
- Enable Bidders to be ready to respond once the process begins.

For the Invercargill market sounding we are keen to hear from parties that are interested in bidding for the proposed Invercargill transfer transaction(s).

The market sounding is independent of any transfer transaction process which may be conducted.

This Information Memorandum provides detail for Participants on the intended nature of the proposed Invercargill transfer transaction(s) to allow you to provide informed responses. You can provide us with your views by submitting a written response. A sample of Participants will be selected for response meetings. See page 30 for the questions we are asking and further detail on the process for market sounding.

This Information Memorandum first sets the context of social housing in New Zealand and the current reform programme. It then explains the commercial framework for transfer transaction(s) and outlines the transaction process. Finally it describes the portfolio in Invercargill that we are looking to transfer (indicative tenant, property and financial information) noting that this may be split between one to three separate transfer transactions.

We use the following definitions in this document (refer to the glossary at the back of this document for a full set of definitions):

- **Participant:** a party who provides a response through the market sounding.
 - **Bidder:** a party (or a consortium of parties) who submits a response during the formal transaction process.
 - **Provider:** the party who signs contracts with government at the end of the transfer transaction (will have been a Bidder). May be a single party or a consortium.
 - **Community Housing Provider (CHP):** a term defined by regulation (refer to Appendix 3). A CHP may be a Bidder (or a party within a Bidder) and eventually a Provider (or a party within a Provider).
 - **Social Housing:** a property where the tenant pays IRR and the government pays IRRS to the Provider.
 - **Transfer transaction:** the sale or lease of Housing New Zealand properties to a Provider, together with a long-term agreement between the Provider and MSD for tenancy and property services.
-

OVERVIEW OF SOCIAL HOUSING PROVISION IN NEW ZEALAND

New Zealand has a long history of governments providing low-cost housing for some of its citizens. The goals and priorities have changed over the decades, but in general this housing support has focused on those with low incomes.

In New Zealand housing support is provided to people in need in three main forms:

- 1. Social housing:** This is designed to help people who are unlikely to be able to secure or sustain a tenancy in the private rental market. Usually, this is because of a combination of low income and other factors. MSD determines a tenant's eligibility, and Housing New Zealand or a CHP provides a house at an Agreed Rent. A portion of the Agreed Rent is paid by the tenant based on their income as IRR. The remainder is paid by MSD as IRRS. About 62,000 households benefit from the IRRS, for which the government budgeted \$718 million in 2014/15.
- 2. Financial support:** Government provides eligible households with a cash Accommodation Supplement, which households use to help to pay rent to private landlords where they have arranged their own tenancy agreement. About 290,000 individuals receive the Accommodation Supplement, for which the government budgeted \$1.2 billion in 2014/15.
- 3. Outside central government:** The third sector and local government provide houses to those in need, funded through tenant rent, private donations, local government rates and other sources, including favourable tax treatment.

This market sounding exercise focuses on the first of these: social housing. In this document social housing refers only to housing that is eligible for IRRS. Currently Housing New Zealand, a government organisation, supplies around 62,000 social houses that receive IRRS and CHPs, non-government organisations, supply around 260 houses¹.

The key government agencies involved in social housing are:

Ministry of Social Development (MSD) is the point of contact for potential social housing tenants, CHPs and Housing New Zealand.

- People apply to MSD for a social housing place and MSD assesses their needs and relative priority and refers them to CHPs or Housing New Zealand if they are eligible.
- In addition to places provided by Housing New Zealand, MSD contracts CHPs to provide social housing places and monitors the CHPs' performance. MSD refers tenants to CHPs and pays the CHP IRRS so that the CHP receives revenues equivalent to the Agreed Rent.

MSD is the sole government purchaser of social housing places from both Housing New Zealand and CHPs. It took on this role in 2014 and intends to improve how social housing supply matches demand. For example, MSD has more flexibility in how it contracts with CHPs, is improving the information available to the market, and is developing tools to better match tenants with CHPs. A key innovation is MSD's publication of its social housing purchasing intentions, which describe the current demand for social housing and likely future demand by region for the next two to three years.

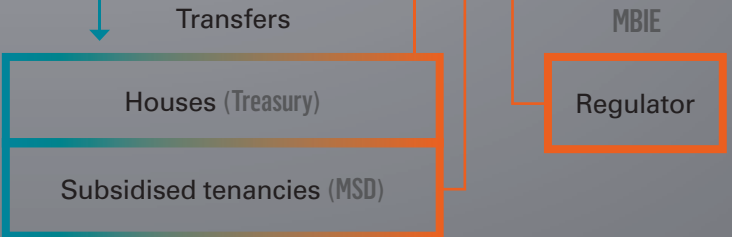
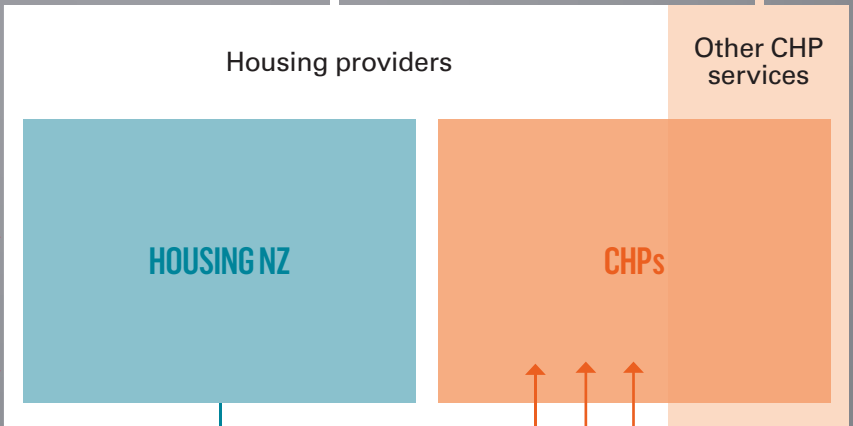
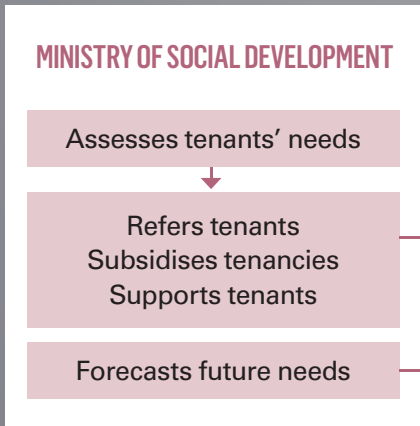
Housing New Zealand is the main provider of social houses in New Zealand. It is a Crown Entity and receives its revenue through both IRRS from MSD and IRR from tenants.

Community Housing Regulatory Authority (CHRA) within the **Ministry of Business Innovation and Employment (MBIE)** is the Regulator of CHPs. Each CHP must apply for registration from CHRA and then demonstrate it continues to meet the Regulator's performance standards.

Transactions Unit (TU) sits within the **Treasury**. It is responsible for designing and delivering the transfer transactions within the SHRP.

¹ These are the properties for which CHPs receive IRRS. In total CHPs supply approximately 5,000 social and affordable rental properties to people in need.

THE NEW SYSTEM



THE SOCIAL HOUSING REFORM PROGRAMME (SHRP)

There is a growing understanding that people who need help with housing often need help in other areas of their life, too. Providing a roof over their heads may not be enough to help them reach the level of independence they are capable of.

In 2010 the government broadly accepted the advice of the Housing Shareholders Advisory Group that outcomes for social housing tenants could be improved if their housing could be provided by a wider variety of providers than just Housing New Zealand. Among its recommendations were that MSD should assess tenant needs, that non-government providers should be eligible for the IRRS, and that capital or dwellings should be transferred to non-government providers.

The government has taken various policy and legislative steps under its SHRP to implement these and related changes. In December 2014 the government reaffirmed the policy direction and established the following objectives for the SHRP:

- Ensure people who need housing support can get it and receive social services that meet their needs.
 - Ensure social housing is the right design and size, and in the right place for people who need it.
 - Help social housing tenants to independence, as appropriate.
 - Encourage and develop more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities.
 - Increase affordable housing supply.
-

The SHRP is still in its early stages of implementation. Key elements of the reforms are:

- Making housing support available to more people. The government is making IRRS available to more people.
- MSD as the purchaser of social housing. The IRRS can be paid both to Housing New Zealand and to registered CHPs. MSD is helping to build this new market in social housing – for example, by publishing its current and future purchasing intentions by region, with tools that help to match tenants to CHPs, and with more flexible contracts.
- Better integrating tenants' housing with other services. Eligibility for social housing is now assessed by MSD rather than by Housing New Zealand, enabling a more holistic approach to the services that will help them to have better lives and/or achieve housing independence – such as budgeting, mental health services, etc. MSD already works with eight out of ten Housing New Zealand tenants because they receive a benefit or superannuation.
- Encouraging and enabling people to achieve housing independence when and if they are able. Tenancy reviews are considered on a case-by-case basis. A number of new offers are available to help with the move, such as financial help with the costs of shifting house and paying the bond, and reference letters for people who have been good tenants.
- Ensuring we have the right kind of housing in the right places to meet people's needs (for example, more one-bedroom places for the rising number of people living alone, and more places in high-demand areas like Auckland). This is being done through:
 - Housing New Zealand buying and selling houses in different parts of the country, and redeveloping stock where appropriate, to better match people's needs.
 - Enabling CHPs to build 890 new units with \$139 million of capital subsidies from the government.
 - Large-scale redevelopments such as the Tāmaki regeneration, which improve the quality of social housing and reduce housing pressure more generally by increasing the number of affordable and market houses.
 - Housing New Zealand's continuing programme of maintenance and improvement in its existing houses.
 - Requiring specific quality standards of the CHPs who provide social housing.
- Transferring some Housing New Zealand houses and tenancies to CHPs to encourage innovation and better combinations of housing and other services that meet people's needs. The first of these are being considered for about 2000 houses and tenancies in Tauranga and Invercargill. The current tenants' entitlement to social housing is protected, and the houses must be used for social housing unless the government agrees otherwise.

This Information Memorandum covers the Invercargill transfer transaction mentioned in the final point above.

WIDER SHRP PIPELINE OF TRANSACTIONS



Wider SHRP pipeline of transactions

A key part of the SHRP is a pipeline of transactions to grow the community housing sector and better align social housing supply with demand. These transactions will require a Provider to provide tenancy management and property management services (either directly or through sub-contractors), and will be one of the following:

- A. Transfer transactions:** Sale or lease of a portfolio of Housing New Zealand properties to a Provider.
- B. Developments:** Scale development of Housing New Zealand properties.
- C. New places:** Purchase of additional social housing places outside Housing New Zealand's current portfolio, as signalled by MSD's purchasing intentions, with the initial focus in Auckland.

The intention is to build a pipeline of transfer and development transactions with up to 8,000 properties transferred by 2017, including the Tamaki development.

The TU is currently considering the potential locations for future transfer transactions and intends to engage with communities later this year.

We are seeking responses on the first transfer transactions (category '**A**' above).

Other housing projects

The government has other projects, related to housing supply, which are not part of the SHRP. These include:

- MBIE identifying Crown land available in Auckland for development to help increase housing supply. Developments will be a mix of private, affordable and social.
 - Housing New Zealand continuing business-as-usual social housing developments and sales to reconfigure its own portfolio of properties.
 - Local councils seeking providers to support council housing. These properties are locally funded and do not receive IRRS.
-

Introduction to the transfer transactions

The government has announced that the initial transfer transactions will be in Invercargill and Tauranga. To assess the feasibility of the transfer transactions, the government conducted a programme of Market Information and Feedback, the results of which are reflected in this Information Memorandum.

In addition, Ministers and Cabinet have now considered the findings of the recently concluded iwi consultation process. Consultation confirmed Ngāti Ranginui has 115 Right of First Refusal (RFR) properties within the Tauranga proposed transaction area and Ngāi Tahu has three RFR properties within the Invercargill proposed transaction area.

These properties will be excluded from the transfer transactions. We are working directly with Ngāti Ranginui and Ngāi Tahu on how to include the properties within the SHRP. The discussions will focus on realising both the government's RFR obligations as well as the objectives of the SHRP.

The intention is for one transfer transaction in Tauranga and one to three smaller transfer transactions in Invercargill. We propose to seek Expressions of Interest (EOIs) for all transfer transactions in the final quarter of 2015 and to complete the transfer transactions in mid-2016. We intend to run all transfer transactions in Invercargill and Tauranga to the same timetable, however we are interested in your views on whether staggering timing might improve the process.

What we are looking for in the initial transfer transactions

The objectives for the Invercargill and Tauranga transfer transactions are consistent with the five SHRP objectives above and will inform the evaluation criteria. We recognise that the first transfer transactions will require learning and development for both the government and the potential Providers. The Invercargill and Tauranga transfer transactions will focus on ensuring people in need are supported, ensuring social housing supply matches demand, increasing the diversity of ownership of social housing and developing an efficient and effective transfer transaction methodology.

We are looking for Providers who can deliver the following:

- **Effective tenancy management** – We are interested in different approaches to being responsive to tenants and opportunities to tailor services to tenant needs, while still meeting the required standards.
- **Strong links between social housing and the local community and providing opportunities for improved pathways for tenants' independence** – We believe social housing should be an integral part of the wider support provided to households. To deliver real results for tenants we expect Providers to connect with local community services and bring innovation to how tenants can be supported to housing independence (for example, private rental, shared equity products or full home ownership), where appropriate.
- **Effective property management and portfolio management** – We want to test how properties could be upgraded to meet the required standards and how ongoing management of the properties over the long-term can be optimised to ensure tenants have a fit-for-purpose house. We also expect Providers to be considering the future needs in the region and developing proposals (during the term of the Outcome Agreement) for reconfiguring the portfolio of properties to better match supply with local need.

These three fundamental services all need to be delivered through reasonable value for taxpayers and a sustainable solution for social housing provision. This includes having a realistic plan for transitioning from Housing New Zealand to the new Provider and having an operating model and financial structure that is robust.

Through the first transfer transactions we will be building capability and taking lessons for the future pipeline of transfer transactions. This includes growing the capability and scale of CHPs, developing the understanding of social housing provision and developing the contractual documentation and transaction process. Looking forward, future transfer transactions will incorporate the lessons and will look for further opportunities to continue to focus on social outcomes.



COMMERCIAL STRUCTURE FOR THE TRANSFER TRANSACTIONS

Commercial principles overview

The proposed commercial framework is designed to accommodate either a sale or a lease and be equally applicable to both:

- Large scale transfer transactions, such as that proposed in Tauranga; or
- Smaller transfer transactions, as contemplated in Invercargill.

There may be differences in the complexities of the documentation depending on the nature and scale of the transfer transaction.

The main purpose of the commercial framework is to enable continued provision of social housing where demand exists. If a property is no longer required, MSD is able to exercise an option to release the property from the Outcome Agreement. This will enable a discussion between MSD and the Provider on opportunities to better match supply with demand e.g. reconfiguration opportunities or selling a property and reinvesting.

If a reconfiguration is agreed, it will be documented under separate contracts, including a new Outcome Agreement for the new property or properties.

In a sale, we expect the properties may be sold below book value because their sale price will reflect their use for social housing purposes. The government considers the difference between book value and the sale price as the government's initial capital investment in those properties (referred to as Initial Capital Investment). This Initial Capital Investment will be used to continually reinforce the government's social housing policy objectives (for example it may be reinvested where there is a reconfiguration of a property or properties).

Contractual Framework

Two key contracts will give effect to the final design of the commercial structure of the initial transfer transactions:

- The Sale and Purchase Agreement or the Lease Agreement (whichever is applicable).
- The Outcome Agreement.

Two further contracts may be required, depending on the transaction and Bidder:

- The Transition Services Agreement.
- The Direct Agreement.

The contracts will outline the terms of a sale or lease, the ongoing conditions placed on the successful Bidder and the government, escalation paths should those terms and conditions be breached and the interim arrangements under which Housing New Zealand could provide certain tenancy and property management services to the Provider while it develops its operational capability for the portfolio. The following sections outline the proposed contractual settings for the commercial structure.

Sale and Purchase Agreement / Lease Agreement

We are seeking your views on the preferred method of transfer; either through a sale or a lease. A lease refers to a ground lease, where the land is retained by the government and any building and improvements are sold to the Provider.

The contractual summaries of both a sale and a lease are contained in Appendix 4.

The government considers that a sale is more applicable in transfer transactions where the need for ongoing reconfiguration is significant and/or there is no strategic reason to retain ownership of the land. A lease will be preferred in situations where the need for reconfiguration is low, e.g. demand exceeds supply for all types of housing in the transfer transaction, and/or there is a strategic reason to retain ownership of the land.

MSD’s Outcome Agreement

The Outcome Agreement is the main contract within the commercial structure, and will form the basis of the long-term relationship between the government and the Provider. It will cover a portfolio of properties in a single region for a fixed term.

MSD’s thinking on the nature of this Outcome Agreement has evolved following feedback since the Discussion Document was issued as part of the Market Information and Feedback exercise. In particular, the notion of “capacity” and “spot” contracts has been replaced with the capacity purchasing approach outlined below.

It is intended that Providers will enter into an agreement to provide a designated number of places for social housing purposes, with MSD taking vacancy risk (under certain conditions). Initially all transferred properties will be included under the Outcome Agreement to ensure that tenants involved in a transfer transaction are protected and properties will continue to be used for social housing, unless the government agrees otherwise.

From the date of the Outcome Agreement, MSD will have an option to release up to a maximum number of properties from the Outcome Agreement each year² if it decides a property no longer meets specific social housing needs. As an indication, the

current expectation is that the maximum annual number will be approximately 5% of the original portfolio.

This can occur for two purposes:

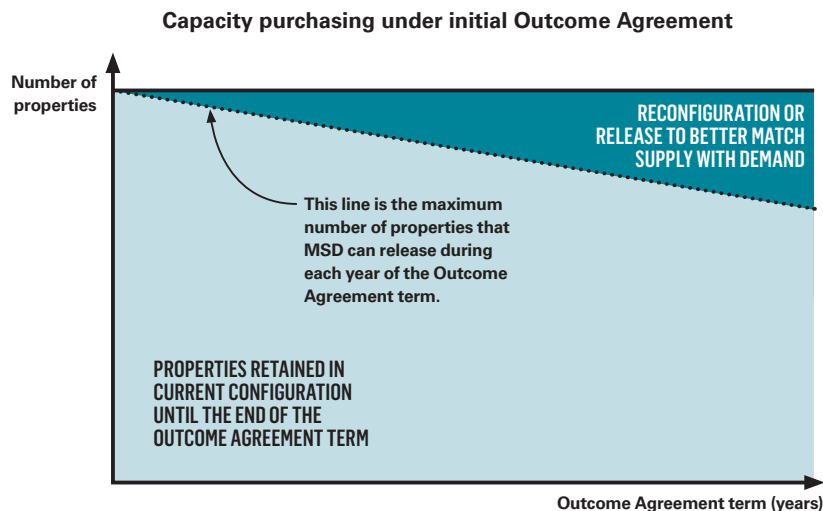
1. A reconfiguration of those properties into alternative social housing types; or
2. An exit of those properties from social housing.

A representation of this is visualised below.

MSD’s purchasing intentions³ in that particular region will inform MSD’s decisions on which types of properties are more likely to be released from the Outcome Agreement and what types of outcomes MSD would look for in a discussion with a Provider on reconfiguration options for released properties.

This mechanism is equally applicable to areas of growing need as well as where demand is reducing. In some regions the release of properties for reconfiguration may not reduce the overall volume of places purchased.

If MSD chooses not to exercise its option in any year, the properties covered by the option will continue to be purchased. The option does not accrue into future years if it is not exercised.



² This means that at the end of its term the Outcome Agreement may cover all of the original portfolio or a portion of the portfolio, depending on MSD’s needs.

³ <https://www.msdl.govt.nz/about-msd-and-our-work/work-programmes/social-housing/purchasing-intentions/>

Release of a Property

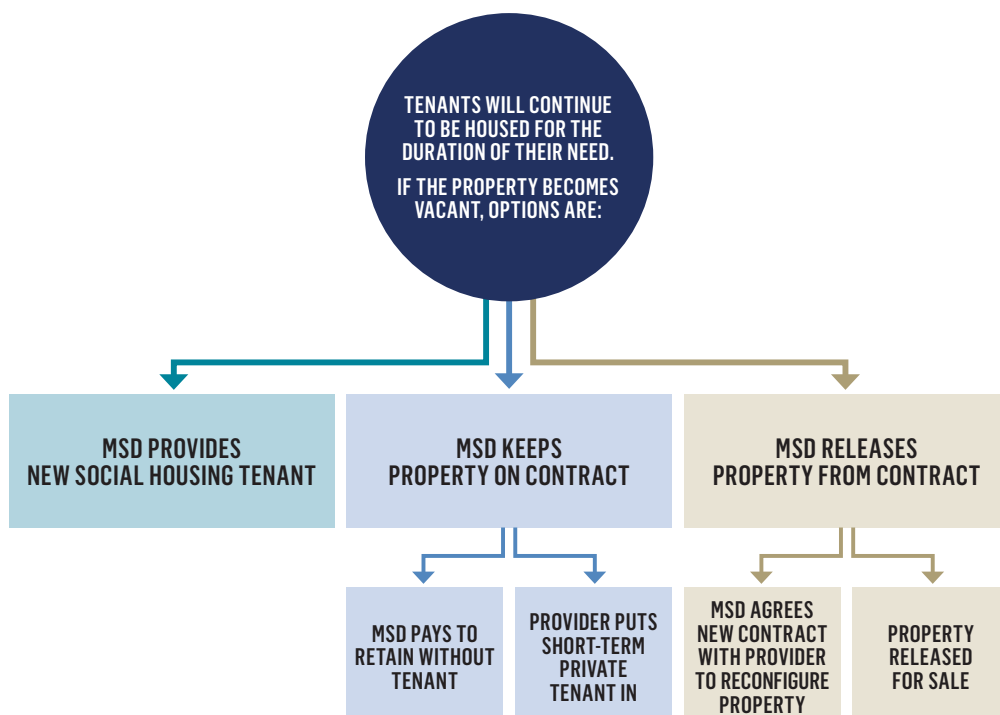
When a property becomes vacant MSD can choose to:

1. Provide a new tenant to the Provider to place in the property and pay the Agreed Rent.
2. Retain the property but leave it vacant and pay the Agreed Rent (provided that it remains available at all times for MSD’s immediate use, for example to re-house an existing tenant).
3. Retain the property but ask the Provider to use reasonable efforts to find a Market Rent tenant for a maximum of 12 months. If the Provider is successful in securing a tenant, MSD’s obligation to pay the full Agreed Rent is reduced by the amount of rent the Provider is scheduled to receive. The Provider’s obligation to keep the property available is absolved for the term of that rental agreement. MSD revisits its position at the end of 12 months.
4. If MSD does not pursue any of these options above and it is decided the property does not meet its needs, it can elect to permanently release the property from the Outcome Agreement, subject to the maximum annual number.

If MSD decides to permanently release a property, it can either:

1. Discuss reconfiguration options for the property or properties with the Provider and enter a new Outcome Agreement for them. This might include releasing and directly reconfiguring existing properties or selling some properties and using the proceeds to help pay for the reconfiguration.
2. Allow the Provider to use the property to support housing independence or sell the property in the private market. In this circumstance the government is most likely to recover a share of the capital proceeds from the sale. See “Capital proceeds sharing mechanism” section below.

The options are outlined in the following diagram.



Capital proceeds sharing mechanism

Upon release of the properties the government will share the capital proceeds with the Provider, reflecting its Initial Capital Investment at the point of transfer. We are seeking views from the market as part of market sounding on the amount of this sharing. Nevertheless, we expect to follow the following principles:

- It is important that the Provider is suitably incentivised to work with MSD to reconfigure the portfolio where that is preferred.
- However it is also recognised that in a sale the Provider's share of the capital proceeds should leave it in broadly the same position as if the property was not released.

To help incentivise reconfiguration the government is considering an approach whereby:

- In a reconfiguration, the government may be willing to recycle all of its Initial Capital Investment into the provision of new social housing supply on terms to be agreed at the time.
- Where reconfiguration is not pursued, the government may seek to recover its Initial Capital Investment in the property.

Other Terms and Conditions

A summary of some of the key terms of the Outcome Agreement is below. Further details of the terms and conditions of each of the key contracts is also contained in Appendix 4.

Vacancy risk

The government (through MSD) will pay IRRS to the CHP for all properties that are "available" for tenancy, even if they are not tenanted. Where a property becomes vacant (and therefore IRR falls to \$0) then IRRS increases to the Agreed Rent. Equally, where tenant income changes and IRR changes, then IRRS adjusts so that the CHP continues to receive the Agreed Rent.

Indexation

The amount paid under the Outcome Agreement will initially be set by reference to Market Rent that is currently paid to Housing New Zealand. Bidders

will be able to bid to either receive Market Rent as reassessed each year, or to agree a tailored indexation mechanism that will reset to Market Rent periodically (an indexation period of five years is proposed).

Availability of properties

MSD will pay IRRS for properties that are available for tenancy. It will not pay where properties have been released or are deemed unavailable as defined in the Outcome Agreement. There will be an additional fixed financial charge (\$100 per day per unavailable property), except in the circumstances outlined below, which is MSD's pre-estimate of the additional cost to rehouse a tenant on a short term basis.

Unavailable for maintenance

The Provider will be permitted to have up to 10% of the properties unavailable at any one time, to enable the Provider to carry out maintenance of those properties. While these properties are unavailable, no payment will be made to the Provider by MSD for those properties but there will be no additional charges imposed by MSD.

Other KPIs

The Outcome Agreement will refer to tenancy and property management requirements set out in the Residential Tenancies Act 1986, Housing Improvement Regulations 1947, and MSD's operational guidelines which are currently being developed.

Outcome Agreement term and expiry

We are seeking responses from Participants on the preferred term of the Outcome Agreement and renewal options. The government is considering an initial 10 year Outcome Agreement with a right to continue for rolling one year extensions on the same terms as the original Outcome Agreement. The rolling one year extensions will cease when either a new Outcome Agreement is mutually agreed or MSD chooses not to renew, in which case all remaining properties will be released.

Investment in improving property condition

It is expected that a number of properties across the portfolio will require investment to meet the property condition agreed in the Outcome Agreement. Providers will be given a 'honeymoon period' to enable them to remedy any deficiencies in property condition (currently expected to be between 3-5 years) after which failure to meet the contractual requirements may see the properties deemed unavailable.

Maintaining the government's social housing value and supply

It is intended that, under a sale, the government's capital and policy objectives will be protected by the use of an encumbrance and a mortgage registered against the title of each property transferred to a Provider. The encumbrance will require that the relevant property is used only for social housing purposes. The mortgage will secure the government's Initial Capital Investment and will rank behind any mortgage taken by a Provider (up to an agreed priority amount).

Provider Failure

The Outcome Agreement will provide for a range of steps that will occur before it is terminated. Persistent breaches will lead to a regime of increased monitoring and a remediation plan. MSD also has rights of step-in under certain conditions. Providers and financiers will be provided with the opportunity to step-in and/or replace a key party with the government's consent (not to be unreasonably withheld). Ultimately if those intermediary steps are not successful there would be a termination of the Outcome Agreement. In the event of full Provider failure (for example, insolvency), MSD will be entitled to terminate the Outcome Agreement.

Termination

Termination of the Outcome Agreement before the end date may occur if there is material Provider failure (performance or financial) and an acceptable replacement cannot be found or the government terminates the Outcome Agreement at its discretion. We are seeking feedback on what rights you and your financiers require, in terms of potentially recovering value of your investment, upon a termination for each of the scenarios above.

Support for Providers to transition into full service

It is anticipated that the Provider may require a period of time in which to develop its capability for managing the tenancies and properties included in the transfer. To facilitate this period of transition and provide an equivalent level of service to tenants, Housing New Zealand can maintain day-to-day responsibility for certain activities on behalf of the Provider under a Transition Service Agreement.

Transition services could include both tenancy and property management services. However they would exclude activities with long-term impact on tenancies and the property portfolio, such as property reconfiguration and upgrades. The Provider would be responsible for certain key decisions, such as selecting eligible applicants for placement in vacant properties. Transition services will provide service continuity and, where practical, leverage Housing New Zealand's business-as-usual standards, policies and practices. Housing New Zealand would act as a sub-contractor to the Provider and charge the Provider a fee for the transition services.

Transition services will be at the Provider's option and would be available for up to 12 months from the date of the agreement. We are interested in your views on the transition services option.

Direct Agreement with debt funders

In transfer transactions where the size and complexity warrants it, the government will enter into a Direct Agreement with debt funders of the Provider. The Direct Agreement will govern the relationship between those debt funders and the government including on termination (refer to Appendix 4).

A high level risk allocation matrix summarising the commercial framework is included in Appendix 1.

REGISTRATION AND REGULATION OF CHPs

Bidders wishing to bid successfully for Housing New Zealand properties must either be a registered CHP, become a registered CHP, or structure their bid to include a registered CHP. IRRS can only be paid to a registered CHP or Housing New Zealand.

Registration of CHPs is governed by the Housing Restructuring and Tenancy Matters Act 1992 and the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014.

The Community Housing Regulatory Authority (CHRA – ‘the Regulator’) assesses applications for registration, and monitors ongoing compliance with legislation and regulations.

Appendix 3 outlines the application process for registration of a new CHP. It also outlines the change reports⁴ that will be required of any registered CHP that participates in the transfer transaction.

The CHP registration application process and the RFP evaluation process are separate and distinct processes (which will be subject to strict information barrier protocols). However for the convenience of Bidders, the RFP response requirements will be designed to provide most of the information that the Regulator requires for CHP registration. If they wish, Bidders can submit their RFP response together with their application to the Regulator.

⁴ Available at www.shu.govt.nz/chra-home/ra-forms

TRANSACTION PROCESS AND EVALUATION

The process for the first transfer transactions has been designed to reduce bid costs where possible and provide Bidders with support, recognising that a new market is being developed. Better services for social housing tenants is a primary objective for our programme.

We heard a variety of views on the transaction process through the Market Information and Feedback process – some parties wanted to see a faster process and others wanted a slower process. We have decided to continue with a two stage process because we see this as the most efficient way to allow any party to compete, while reducing bidding costs.

The two-stage tender process will allow any Bidder to respond to the Expression of Interest (EOI) and we will create a short-list of Bidders who will be asked to submit detailed proposals through a Request for Proposal (RFP). This process ensures only capable Bidders will be required to invest their resources in developing a detailed RFP response. Only Bidders that have participated in the EOI will be eligible to participate in the RFP.

One-on-one meetings will be held with Bidders between RFP release and RFP submission to clarify the government's requirements. A probity advisor will be present at these sessions to ensure that information flows are appropriate. Following evaluation of the RFP proposals, a Preferred Bidder will be selected. The government will work with the Preferred Bidder to refine the proposed solution and finalise contracts with the Provider. The table below provides an overview of the purpose and requirements of each step.

The draft timeline for the transfer transactions has been set to allow Bidders sufficient time to respond, and to allow government time to take legislation through Parliament. The government introduced the Social Housing Reform (Transaction Mandate) Bill to the House of Representatives on 1 July 2015, and expects it will pass through all stages of the legislative process and be enacted by late February 2016. Select Committee consideration is likely to occur between late August 2015 and early February 2016.

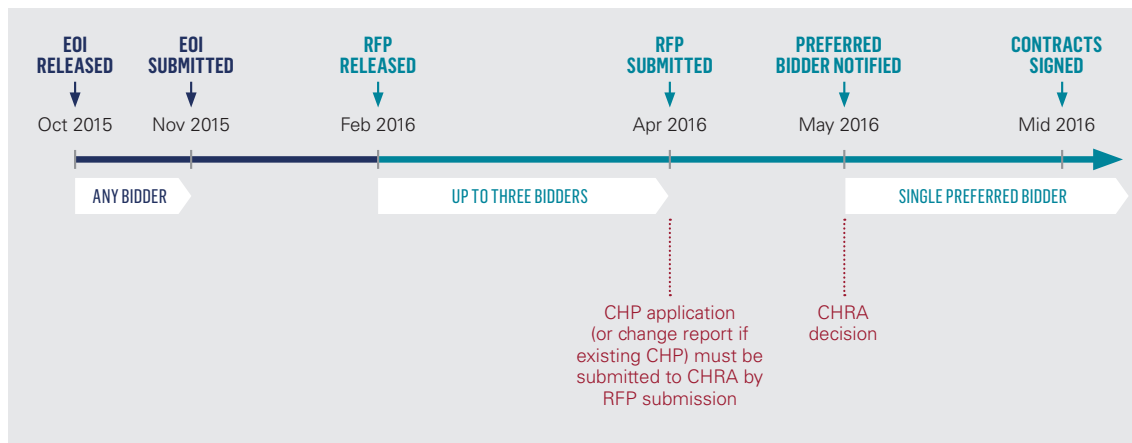
	EOI	RFP
Purpose	To assess a range of Bidders and identify the ones most capable of going through the transfer transaction process and delivering the full suite of services.	To identify the Bidder best able to provide the required services, for reasonable value for the government.
Participants	Any Bidder can respond.	Those short-listed at EOI are invited to respond. Likely to be up to three Bidders. A single Bidder identified at RFP will be invited to finalise contracts with the government.
Response requirements	High level written response from Bidders on their capability and proposed approach. Limits to page numbers will be strictly adhered to.	Detailed written response explaining solutions. Accompanied by a template financial model used to submit the price response.



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Transaction stages and indicative timeframe



Bidder considerations

Each Bidder will be expected to be capable of delivering tenancy and property management services at the scale of the proposed transfer transaction - either as a single party (with or without sub-contractors) or as a consortium of parties that bring different skills.

The Outcome Agreement with MSD must be signed by a registered CHP and the IRRS payment can only be paid to a registered CHP.

The Sale and Purchase Agreement or the Lease Agreement with Housing New Zealand for the properties does not need to be signed by a registered CHP. In the case of a sale, the titles can transfer to any party within the Provider.

This means that:

- If you are intending to bid as a single party you must be a registered CHP.
- If you are intending to bid as a consortium you need to have at least one registered CHP within your consortium. The CHP will receive the main revenue flow from government (IRRS) and will be accountable to MSD and the Regulator for the performance of any sub-contractors or consortium members.

Evaluation

EOI and RFP responses will be scored against weighted criteria by a panel, who will receive specialist advice to inform their scoring. Ministers will be informed of the panel's decisions but will not have a role in the decisions. A probity advisor will be present at the evaluation panel meetings.

The evaluation criteria are being developed and agreed across government agencies. It is intended that there will be a mix of compliance criteria (pass/fail) and evaluated criteria (scored). The final criteria will be provided at EOI and RFP stages respectively, but the intention is to assess responses against the categories outlined below.

We aim to improve outcomes for tenants through the transfer transactions. For the first transfer transactions we are intending to focus on outputs that have a strong link to tenant outcomes until there is information to be able to evaluate (and contract for) the ability to deliver social outcomes. In later transfer transactions we hope to be able to evaluate on Bidders' track record delivering measurable changes in outcomes.

Categories	Examples of what the evaluation may include	
	EOI	RFP
Overview	<p>Overview of Bidder</p> <p>Goals of Bidder in relation to social housing outcomes</p>	<p>Updates on EOI material</p> <p>Certainty of registering as a CHP</p>
Tenancy capability and approach	<p>Capability of Bidder and key staff in delivering tenancy services at the scale of the transfer transaction</p>	<p>Updates on EOI material</p> <p>Strategy and approach to delivering tenancy services e.g. resourcing levels</p>
Property capability and approach	<p>Capability of Bidder and key staff in delivering property management services at the scale of the transfer transaction</p>	<p>Updates on EOI material</p> <p>Strategy and approach to maintenance e.g. programming, interface with tenants, resourcing levels</p>
Ability of Bidders to efficiently remedy any deficiencies in property condition	<p>Strategy and approach to upgrading properties to remedy any deficiencies in property condition</p>	<p>Capital investment and maintenance plan e.g. capital expenditure profile, timeline, project management</p> <p>Capability to deliver</p>
Ability of Bidders to assume full operational control of the portfolio in a timely manner	<p>Strategy and approach to manage the transition from Housing New Zealand to Provider</p>	<p>Strength and timing of transition plan e.g. resourcing levels</p> <p>Description of key risks/issues and proposed mitigating actions</p>
Community links that achieve better outcomes for tenants	<p>Breadth of links with local community organisations</p> <p>Ability to facilitate access to services that can help provide further support for tenants to overcome barriers to achieving successful outcomes</p>	<p>Plan for integrating tenancy services with other community service offerings</p> <p>Ability to support tenants on pathways to independence</p>
Commercial and financial capability	<p>Financial strength of Bidder and, if relevant, each party within a Bidder</p> <p>Commercial strength of Bidder</p>	<p>Structure of Bidder, including internal risk allocation if a consortium</p> <p>Governance</p> <p>Updates on financial strength of each party within a Bidder to deliver on their responsibilities</p> <p>Strength of finance solution (if relevant)</p> <p>Track record managing contracts and relationships</p>
Price	<p>Not evaluated</p>	<p>Net present value of net cashflows</p>

Bidder support

These are large transactions in the context of New Zealand's social housing sector, so the intention is to offer as much support as possible to potential Bidders to help them develop their bids. This is seen as important for achieving successful transfer transaction outcomes. We are interested in your views on the Bidder support measures outlined below.

Elements of supporting material will include:

- Detailed guidance on the transfer transaction process (issued within EOI and RFP documentation) to help make it clear to Bidders what is required at each tender stage.
- The opportunity to have confidential, one-on-one meetings with officials and their advisors during the RFP phase to clarify the RFP requirements.
- Appropriate response times at EOI (approximately 4 weeks) and RFP (approximately 8-10 weeks) phases.
- Pre-prepared, standardised draft contracts.
- Diligence material to support the preparation of bids, including a property condition report.
- Template financial model to help Bidders calculate their price.

Diligence Material

Information on the properties to be transferred and the current tenants will be made available to Bidders. This will be provided by Housing New Zealand and finance, legal and property professionals. The level of detail in the information provided will increase as the process progresses.

- **Market Sounding:** Regional level data is provided in this Information Memorandum to support Participants to understand the transfer transactions and assess appropriate parties to partner with to respond to the EOIs. The metrics are across property, tenant and financial data.
- **EOI:** Transaction level data will be provided. The same metrics will be provided as in this Information Memorandum but updated and tailored to the specific portfolio(s) of properties intended to be transferred.

- **RFP:** A virtual data room will be established with detailed legal, financial, tenant and property information, to allow the short-listed Bidders to prepare detailed bids and pricing. The aim is that Bidders will be able to rely on this information, as far as possible. Included in the data room will be:

- Key tenant and property metric information including IRRS and IRR paid for each property.
- Independent reports from legal, financial and property condition advisors.
- Key documents such as Certificates of Title.

Key tenant and property information

The detailed property and tenant metrics to be provided with the RFP diligence material will be determined based on market feedback and data availability within appropriate privacy constraints.

Legal Report

An independent legal advisor will be commissioned to provide Bidders at the RFP stage with an exceptions-based report on:

- Property titles to identify any issues that impact on the ability to transfer the titles to the successful Bidder.
- A review of Housing New Zealand's template tenancy agreements.

A copy of each tenancy agreement will be provided to the successful Bidder on financial close of the transfer transaction(s).

Financial Report

A report based on the past three years' financial information covering key financial metrics including profit and loss, balance sheet and cash flow information (to the extent this can be derived from Housing New Zealand data). The historical financial statements will cover the three previous financial years to 30 June 2015. This will be accompanied by base information on a per property basis (where available).

Property Condition Report

A property condition report on each property in the portfolio being transferred will be provided at RFP. The report will include aggregated portfolio-level information based on an interior and exterior property survey by suitably qualified, independent assessors. It is intended to provide:

- A description of the current condition of the property.
- A detailed description of any work required to bring the property to an appropriate standard.
- Forecast cyclical maintenance costs for the properties.

Bidders will not have an opportunity to conduct their own inspections of the properties during the transfer transaction process.

Template financial model

The government's commercial advisor will provide a template financial model to Bidders at RFP stage.

The purpose of the template financial model is to create a standard form to capture the required bid back items (including price) to ensure bids are evaluated on a consistent basis.

Bidders will be able to make changes as required (except to the standard bid forms) including for example to evaluate their own financing structures. Bidders could also choose to develop their own financial model but will still be required to populate the standard bid forms in the workbook provided.

The template financial model will be a relatively simple integrated workbook produced in Microsoft Excel 2013. It will include input sheet(s), calculations and key outputs including annual financial statements as well as the required standard bid forms.

QUESTIONS AND INSTRUCTIONS

Market sounding questions

The topics for market sounding responses are outlined below. The government values the responses, however it is entirely up to the Participant if they prefer not to comment on certain topics.

Topic	Question
Invercargill transaction scale	The Crown is considering whether to sell the Invercargill properties in 1, 2 or 3 separate transactions. What is your preference? Would you be able to participate in more than one transaction simultaneously?
Bidding approach	Do you expect to bid on your own, with sub-contractors or to partner with other parties to bid? If the third option, how far advanced are you in identifying potential partners?
Timetable / process	What is your view on the length of the response period for the EOI? Should EOIs be issued together or staggered? Do you think the RFP timetable provides sufficient time for Bidders to submit a quality bid?
Bidder support	What is your view on the level of Bidder support that will be available? What further due diligence material will you require (if any)?
Sale vs lease	As outlined in the Commercial Structure section of the Information Memorandum (IM), the government is considering whether to transfer the properties as a sale or as a lease. What is your preference and why?
Option to release properties from contract	As outlined in the Commercial Structure section of the IM, MSD will have an option to release a certain number of properties from the Outcome Agreement for sale or reconfiguration. Does this option provide the right balance between certainty and flexibility? Do you have any concerns about the indicative maximum number of properties that may be released each year?
Capital proceeds sharing	To the extent a property is released for sale during the term of the Outcome Agreement (as described on page 20), the government expects to share the proceeds with the Provider. What is your view on how the proceeds should be shared?

Topic	Question
Maintaining the Crown's Social Housing value and supply	<p>If the transfer occurs as a sale rather than a lease, the government is considering placing an encumbrance on the title to maintain the supply of social housing unless it chooses to release a property.</p> <p>What are your views on this approach? Do you expect it will impact your ability to raise finance?</p> <hr/> <p>The government is considering taking security as a second ranking mortgage to maintain the value of its capital investment.</p> <p>What are your views on this approach? Do you expect it will impact your ability to raise finance?</p>
Termination of Outcome Agreement	<p>What rights do you and your financiers require to recover the value of your investment upon a termination for Provider default or if the government terminates at its discretion?</p>
Outcome Agreement term and expiry	<p>The government is considering an initial 10 year Outcome Agreement term with the rights to extend for rolling one year periods unless a new Outcome Agreement is agreed, or if not, the properties will be released.</p> <p>What are your views on the term, and how would a longer term Outcome Agreement impact your bid? What do you think should happen at the expiry of the Outcome Agreement? Please consider in the context of both a sale and a lease.</p> <hr/> <p>How should proceeds be shared for properties that are released at expiry of the Outcome Agreement?</p>
Payments	<p>It is important to the government that there is not a longer term de-linking of the payment stream from Market Rent (an indexation period of five years is proposed). Is your preference for a Market Rent or indexation mechanism?</p> <p>If the latter, how should Market Rent resets of Agreed Rent be accommodated in the structure to minimise the impact on price?</p>
Transition	<p>Are you likely to use transition services provided by Housing New Zealand?</p> <p>What period should transition services be provided for?</p>
Other responses	<p>Do you have any other comments on the terms of the contracts that have been presented in the IM?</p>

Instructions

We encourage anyone considering bidding in the initial transfer transactions to take the opportunity during market sounding to provide us with your views. Responses provided through this process will be used to refine the transfer transactions in Invercargill and Tauranga before we formally bring them to market.

We are seeking written responses to the questions in this Information Memorandum and will also be selecting a small representative sample of Participants to be invited for face-to-face meetings. If you are keen to provide your views the key points to note are:

- You need to register on the Government Electronic Tenders Service (GETS) to be a Participant in the market sounding.
- We are running separate but parallel market soundings for the Invercargill and Tauranga transfer transactions. If you are interested in participating in both, you will need to subscribe to each GETS notice separately.
- If you have registered on GETS by 1 September 2015 then you will be considered for a face-to-face meeting.
- Participating in the market sounding is not a requirement for participating in the initial transfer transactions.
- Clarification questions on the Information Memorandum close on 18 September (4pm). Clarification questions asked during the market sounding will be released on GETS periodically.

Summary of market sounding dates

GETS registration opened	17 August
Information Memorandum published	31 August
GETS registration close off for eligibility for face to face meetings	1 September
Face to face meetings	7 September – 18 September

Clarification questions on market sounding close	18 September (4pm)
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Close off for written responses	25 September (4pm)
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End of market sounding	25 September
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How to submit written responses

You can provide written responses to the questions in this Information Memorandum by completing the response form provided on GETS. Responses are limited to eight pages and 5MB.

Written responses for either transfer transaction close on 25 September (4pm).

The process for verbal response

A sample of Participants who register through GETS by 1 September 2015 will be invited for face-to-face meetings with government officials and advisors. No additional information will be provided to Participants who are invited to a face-to-face meeting – the intention is that the Participants will do most of the talking in the sessions.

The meetings will be:

- Up to one hour each
- Held in venues, yet to be determined during 7-18 September 2015.
- Attended by the probity advisor

Participants will be selected to provide a representative sample of the types of interested parties for each region (e.g. CHPs, banks, equity investors). If you are invited to participate in a face-to-face meeting you are also welcome to provide a written response.

Probity

A probity advisor will be at all face-to-face meetings and will support government officials to follow the probity principles applicable to the market sounding, namely:

- The same information will be given to all Participants who register for market sounding.
- Any supplementary information to be provided by the government in relation to this market sounding will be provided to all Participants including those who attend one-on-one meetings and those who make written submissions.
- The specific questions set out in the Information Memorandum will be asked of all Participants in market sounding for both written responses and verbal responses.
- Minutes of all meetings with Participants will be taken.
- No indication of approval or endorsement or behaviour which might indicate approval or endorsement is able to be given by government officials who attend meetings or in response to any written submission.

If you have any probity concerns you may contact the probity advisor:

*Peter Castle, Commercial Barrister
(04) 947 9595
Peter.castle@cliftonchambers.co.nz*

Communication

All enquiries regarding the transfer transactions in Invercargill and Tauranga must be directed by communication through GETS. Respondents must not directly or indirectly approach any representative of the government, or any other person (including the Restricted Parties outlined below), to solicit information concerning any aspect of the potential transfer transactions in Invercargill and Tauranga.

The government will not be bound by any statement made by any other person.

Where a Participant has an existing contract with the government, Participants must not use business-as-usual contacts to lobby the government, solicit information or discuss aspects of the potential transfer transactions.

Ethics

Participants must not attempt to influence or provide any form of personal inducement, reward or benefit to any representative of the government in relation to the potential transfer transactions.

The government reserves the right to require additional declarations, or other evidence from a participant, or any other person, to ensure probity of the market sounding process.

A Participant who attempts to do anything prohibited as outlined above may be disqualified from participating further in the process for the potential transfer transactions.

Participants are expected to disclose any actual, potential, or perceived conflicts of interest between it and any government official or employee or contractor of a government Department or entity involved in the transfer transactions in any written submission and at the outset of any face-to-face meeting conducted as part of this market sounding.

Restricted Parties

- CBRE.
- Peter Castle - Barrister.
- Housing New Zealand.
- KPMG.
- Ministry of Business, Innovation and Employment.
- Ministry of Social Development.
- Minter Ellison Rudd Watts.
- The Treasury.



APPENDIX 1

RISK ALLOCATION SUMMARY TABLE

The following table summarises the proposed risk allocation between the government and the Provider as outlined in the terms of the contracts in Appendix 4.

Risk	Government	Provider	Shared
REVENUE RISKS			
Market demand/vacancy risk	Y		
Availability of properties risk		Y	
Market rental movement			Y
Agreed Rent sufficient to cover costs		Y	
Unavailability due to maintenance (outside of agreed period)		Y	
IRR bad debt/collection success		Y	
TENANCY SERVICES RISKS			
Tenant change in eligibility	Y		
Volume of tenant engagement/requests		Y	
Changes in tenant mix driving changes in services required		Y	
Rent collection costs		Y	
Cost escalation (labour, materials)		Y	
PROPERTY CONDITION AND MAINTENANCE RISKS			
Existing property condition		Y	
Construction costs for property upgrades		Y	
Consenting for upgrade works		Y	
Property condition requirements		Y	
Maintenance programming		Y	
Vandalism and tenant damage		Y	
Cost escalation (labour, materials)		Y	
Insurance premium risk		Y	
OTHER RISKS			
Change in law			Y
Capability of partner parties and associated management costs		Y	
Insolvency of sub-contractors		Y	
Tax		Y	

APPENDIX 2

INVERCARGILL REGION PORTFOLIO OVERVIEW

Portfolio overview

We are looking to sell or lease the majority of Housing New Zealand's 368 properties in Invercargill through a single transaction or by dividing the portfolio into two or three transactions. The portfolio is located across Invercargill City.

- Nearly half the properties were built in the 1980s and 1970s.
- The majority of properties have two or three bedrooms and are single storied.

The tenants for the Invercargill portfolio provide a stable customer base with 75% of tenants in place for more than three years, and over a quarter for more than ten years.

- The current tenants are mostly single people.
- The largest ethnic group is European.
- Currently two thirds of tenants are paying less than half of the market rent through the IRR.

The next section provides more detail for the entire housing portfolio for Invercargill. Some of these properties may be excluded from the transaction.

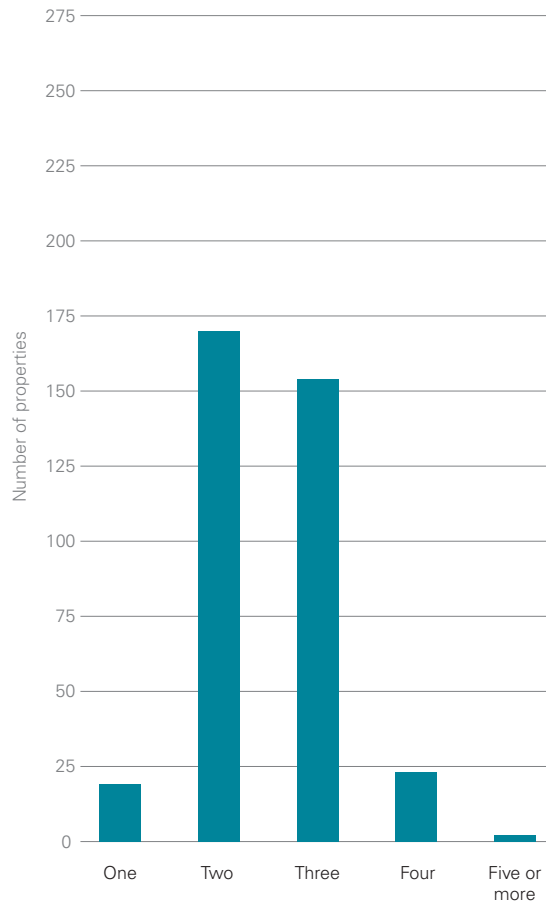
Notes on data

All data presented in this overview covers Housing New Zealand's operations in the Invercargill region. The properties transacted may be a sub-set of this.

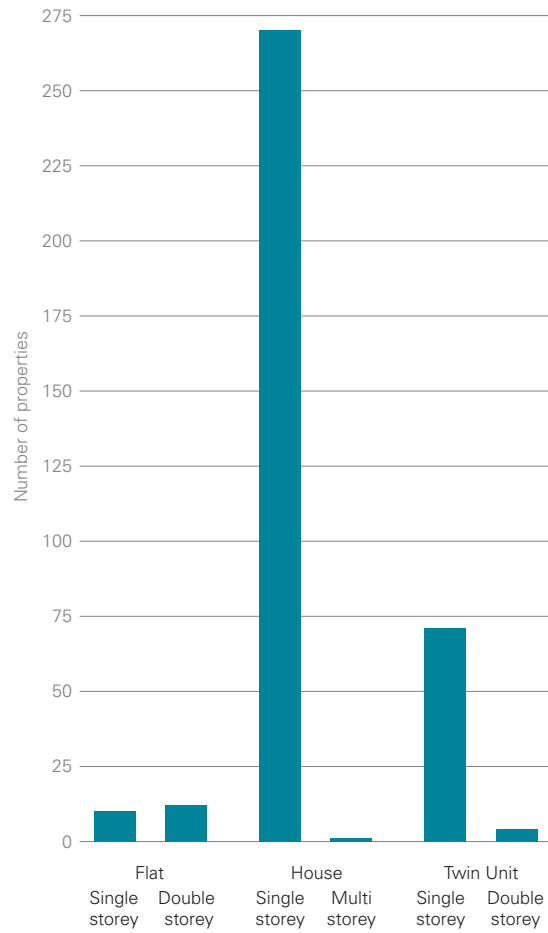
Data is indicative only. Transaction level data at 30 June 2015 will be provided at EOI stage.

The property and tenant data presented here was either extracted from the Housing New Zealand data warehouse on 30 June 2015 or provided by MSD. The data has not been audited.

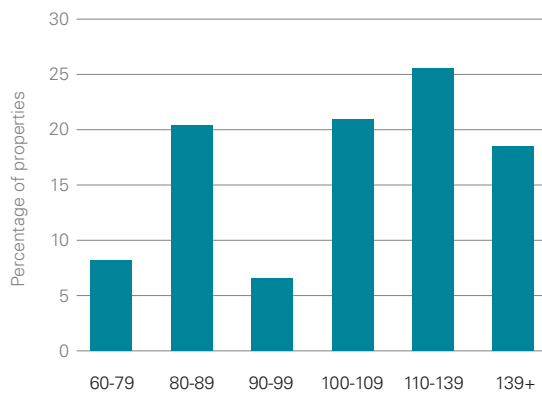
Number of bedrooms



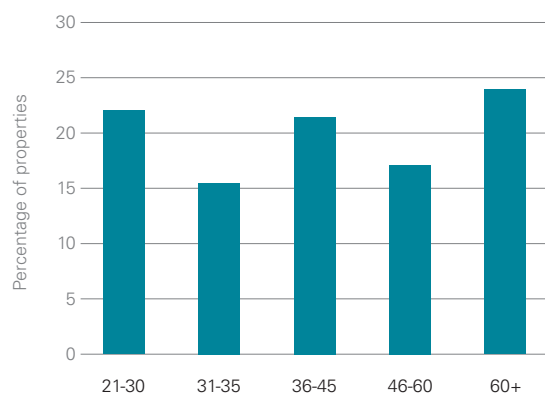
Property type



Floor area (m²)

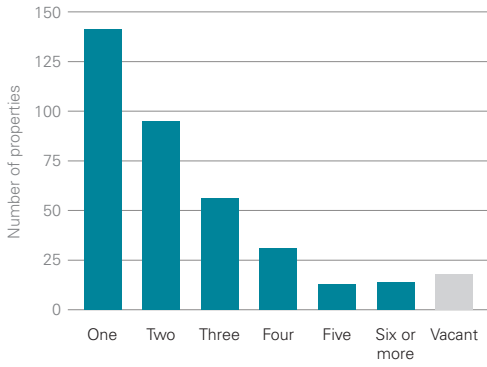


Property age (years)

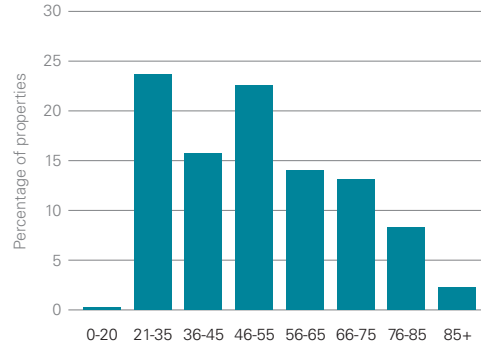


Tenant overview

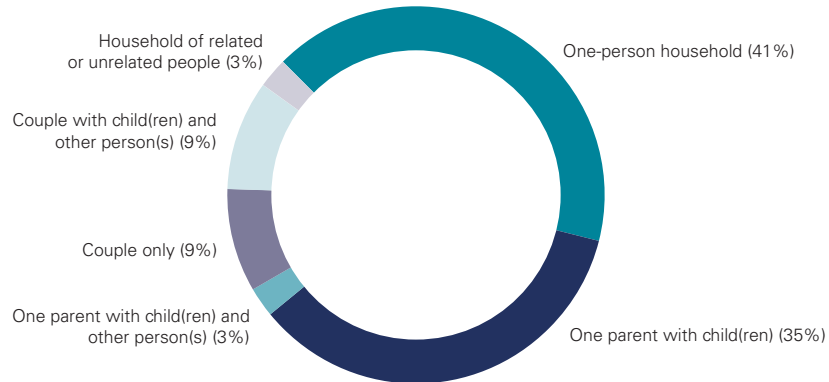
Number of occupants



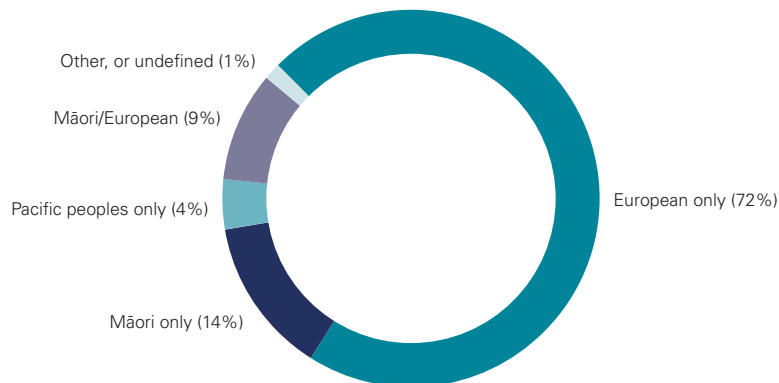
Age of primary tenant

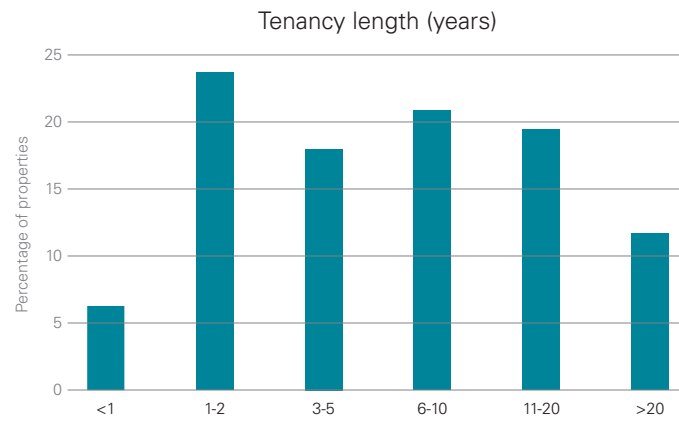


Household type



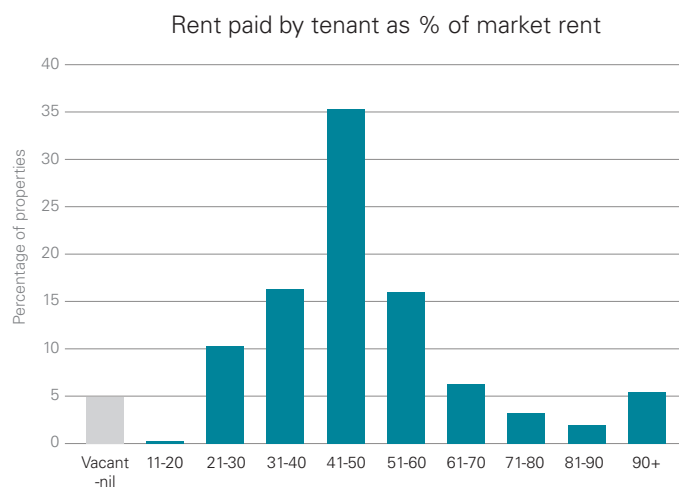
Portfolio by ethnicity





Duration of need				
Bedrooms	Short-term	Medium-term	Long-term	Total
1	0	n/a	15	15
2	22	44	103	169
3	39	72	43	154
4	9	11	n/a	20
5+	n/a	0	n/a	0
	19.5%	35.4%	44.9%	

Short, Medium and Long-term are relative terms not specifically defined.



Indicative Financial overview

Notes on Financial data

The indicative financial information presented is based on the actual and forecast pro-forma financial summaries of Housing New Zealand properties based in Invercargill in FY13, FY14 and FY15. Indirect costs have been allocated based on the proportion of the regional portfolio considered for the transaction and do not include Housing New Zealand national head office costs. This information has not been audited.

Pro-forma financial forecast data for FY2015 is at the following dates:

- Revenue and expenses: actual to 30 May 2015 with a forecast to 30 June 2015.
- Properties: book value as at 30 June 2014.
- Outstanding tenant-related debt: as at 1 February 2015.

Summary financial performance

NZ\$000s	FY13A	FY14A	FY15F
Income	3,616	3,760	3,793
Direct Expenses	(1,915)	(2,145)	(1,900)
Gross margin	1,702	1,615	1,893
Indirect expenses	(380)	(357)	(336)
EBITDA	1,321	1,258	1,557
Less: Capital expenditure	(381)	(382)	n/a
Free cash flow	939	876	n/a
Number of properties	371	371	371
Vacancy rates (%)	4.6%	3.8%	2.6%
Rent per property (\$/property)	9,748	10,135	10,224
Income growth (%)	n/a	4.0%	0.9%
Gross margin %	47.1%	43.0%	49.9%
Indirect expense %	10.5%	9.5%	8.9%
EBITDA %	36.5%	33.5%	41.0%
FCF as a % of EBITDA	71.1%	69.6%	n/a

Income increased by 4.0% in FY14 and is forecast to increase by a further 0.9% in FY15.

Direct expenses increased by 12.0% in FY14 driven mainly by higher repairs and maintenance costs.

Indirect expenses trended downward from \$380,000 in FY13 to \$336,000 in FY15.

FCF decreased from \$939,000 in FY13 to \$876,000 in FY14.

Summary of direct expenses

NZ\$000s	FY13A	FY14A	FY15F
Repairs and maintenance	1,189	1,438	1,218
Rates	559	562	563
Insurance	90	92	98
Bad debt	19	11	19
Other	57	42	1
Total direct expenses	1,915	2,145	1,900
R&M as % of income	32.9%	38.2%	32.1%
Rates as % of income	15.5%	15.0%	14.9%
Direct expenses as % of income	52.9%	57.0%	50.1%
Direct expenses per property (\$/property)	5,161	5,782	5,122

Direct expenses are forecast to remain relatively consistent over the period from FY13 to FY15. The only significant movement was an increase of \$230,000 in FY14 that was driven by an increase in repairs and maintenance costs of \$249,000 (or 21.0%).

Rates, insurance and bad debt expenses remained flat over the period.

Summary of indirect expenses

NZ\$000s	FY13A	FY14A	FY15F
Personnel	120	117	89
Property services operating costs	70	71	84
Call centre	61	57	45
Office accommodation costs	31	28	33
Management	30	23	29
Other indirect expenses	69	61	56
Total indirect expenses	380	357	336
Indirect expenses as % of income	10.5%	9.5%	8.9%
Indirect expenses per property (\$/property)	1,025	962	906

Indirect expenses have decreased throughout the period by 24,000 in FY14 and 21,000 in FY15.

In FY14, the decrease was driven by lower tenancy management and call centre costs.

The FY15 forecast decrease reflects a decrease in personnel costs (\$28,000) and call centre costs (\$12,000) and a \$13,000 increase in property services operating costs.

Summary balance sheet

NZ\$000s		Jun-14	May-15
PP&E	Land	9,574	9,802
	Buildings (improvements)	29,857	30,196
Total PP&E		39,431	39,998
Debt	Rent	3	4
	Damage	7	7
Total debt		9	11
Net assets		39,441	40,009

Net assets remained relatively flat over the period between June 2014 and May 2015, increasing from \$39.4m to \$40.0m.

Property, plant and equipment (PP&E) increased by 1.4% due to an increase in land and building valuations by \$228,000 and \$339,000 respectively over the same period.

Rent and damage debt also remained relatively flat and had little effect on net assets over the period.

APPENDIX 3

REGISTRATION AND REGULATION OF CHPS

Eligibility for registration

To become a registered CHP, an applicant must have, as one of its objectives, the provision of social rental housing and/or affordable rental housing and must meet the following eligibility criteria:

- The applicant must be a community housing provider.
- The applicant must not be a local authority, a council-controlled organisation, or a subsidiary of a local authority or council-controlled organisation unless the subsidiary is operating at arm's length from the local authority or council-controlled organisation.
- The applicant's governing body must, after having reviewed the performance standards, support the application for registration.
- The Regulator must be satisfied that the applicant has the capacity to meet the performance standards.

The performance standards relate to Governance, Management, Financial Viability, Tenancy Management, and Property and Asset Management and can be found at www.shu.govt.nz/chra-home/chra-performance-standards-and-guidelines/.

The performance standards apply to the operation of a registered CHP as a whole. This means if being a social landlord is not the CHP's core business, and is not separated out into its own operating structure, the Regulator will have an interest in how other parts of the business may affect the delivery of social housing. For example, the Regulator will want assurance that the raising of finance to fund another activity will not impact negatively on the financial viability of the Provider, putting social housing delivery at risk. Regulation applies to all of a registered provider's social and affordable rental housing, not only those properties with an IRRS tenant.

Using other parties to deliver services

A registered Provider cannot delegate accountability for meeting the eligibility criteria and performance standards to another party, even if that party is also a registered provider.

However, a registered Provider can contract out tenancy management and/or property management services, but must have the operational substance internally to manage contracts and service delivery in accordance with the performance standards. In practice, this means the registered Provider must:

- Have its own policies and procedures for meeting the performance standards.
- Ensure any contracts are actively managed by suitably skilled staff within the registered Provider to ensure compliance with its own policies and procedures.
- Respond to any problems with contracted parties that could result in failure to meet the performance standards.
- Comply with all applicable New Zealand legislation.

A registered CHP that contracts out services may change its supplier of those contracted services. To ensure registration is retained, the registered CHP must have a suitable transition plan and ensure any new contracts continue to deliver services in accordance with the performance standards. A change report will need to be submitted to the Regulator regarding the change of contracted supplier.

Application process and information requirements for new CHP registrations

Applications for registration of a new CHP should be submitted, at the latest, at the same time as Bidders submit an RFP response.

Applications for registration are a separate process to the RFP process. They will be dealt with in parallel to evaluation of the RFP, but are a separate and distinct process, and involve different personnel. Throughout the application process, there will be no interaction between the Regulator and the TU and MSD officials in relation to evaluation of the RFP.

The application forms and process can be found at <http://www.shu.govt.nz/chra-home/ra-information-sheets/how-to-apply-for-registration/>. The Regulator recommends that applicants start preparing applications well before EOI stage as the required policies and procedures can take some time to develop.

The guidance issued by the Regulator at <http://www.shu.govt.nz/chra-home/chra-performance-standards-and-guidelines/> sets out examples of documentation that can be used to demonstrate capacity to meet the performance standards.

Part of the Regulator's assessment will be to consider whether suitable business planning has been completed for taking on the properties for which the applicant is bidding. A large proportion of the information required for the application will also be covered by the RFP response requirements, so we recommend (and indeed would prefer) you provide a copy of your RFP response as part of your application to avoid duplication of paperwork.

If an applicant intends to contract out some of the tenancy and/or property management services, the Regulator will need to see a heads of terms with the contracted parties, as part of the application. This means that registration may not be confirmed until after Preferred Bidder appointment, which will be conditional on confirmation of registration.

If the Regulator identifies any gaps in an application that prevents registration, the applicant will be informed and additional information will be requested. For example, if it is not clear how an applicant plans to recruit suitably qualified staff, or the proposed process is inadequate, the Regulator will ask for more information on recruitment processes.

Information requirements for existing registered CHPs

If a Bidder is or (if a consortium) contains an already registered CHP, the CHP does not need to reapply for registration. However, for the purposes of the RFP responses, the TU and MSD will need information about a bidding CHP's ability to continue to meet the performance standards once it is operating the additional tenancies for which it is bidding.

To achieve this, the bidding CHP will be asked to submit a change report⁵ and a copy of its RFP response to the Regulator at the same time as the RFP response is submitted to the TU to enable the Regulator to consider this change. It is expected that the RFP response would outline current capacity gaps which may prevent the CHP from continuing to meet performance standards when operating a larger portfolio, and the plan for addressing these gaps.

The Regulator will use its previous assessment of the CHP, any subsequent monitoring of the CHP, and the information in the RFP response to assess whether there are any potential gaps in the CHP's capacity to continue to meet the Regulator's performance standards that are not adequately addressed. The Regulator will discuss any gaps with the Bidder and provide an additional opportunity to the CHP to demonstrate how the gaps will be addressed before providing written notification to the Bidder of the Regulator's view of the change report.

⁵ Available at www.shu.govt.nz/chra-home/ra-forms

Regulator considerations if Provider uses Housing New Zealand transition services

Should the Provider enter into a transition services agreement with Housing New Zealand, the registered CHP will be directly accountable for ensuring that the eligibility criteria and performance standards are being met for the services delivered by Housing New Zealand. The registered CHP must actively manage the contract with Housing New Zealand and, if asked, provide the Regulator with evidence that Housing New Zealand services are being delivered in accordance with the performance standards.

The MSD Outcome Agreement will require the Provider to meet certain milestones to ensure that they are ready to assume full responsibility for service delivery when the transition services contract expires. If the Provider fails to meet any milestone, MSD will issue either a default notice or a warning notice (depending on the seriousness of the breach), and inform the Regulator. It will be MSD's responsibility to ensure the Provider remedies the breach of the Outcome Agreement.

The Regulator's response to notification from MSD will be to seek information from the registered CHP about how it will meet the requirements of registration once the transition services contract expires. If the Regulator is concerned that the Provider will not be able to meet registration requirements, it will advise MSD and the Provider that there is a likelihood of suspension once the transition services agreement ends.

The Provider will need to take steps to address the Regulator's concerns. If the Regulator's concerns are not addressed by the time the transition services agreement ends, the Regulator will begin the suspension or revocation process.

Reassessment and monitoring of registrations

Monitoring begins as soon as the CHP is registered. The Regulator can request any information at any time for monitoring purposes.

As a minimum, registered CHPs are required to submit annual reports so that the Regulator can assess at least annually whether the CHP continues to meet the eligibility criteria and performance standards.

In addition to the annual assessment, the Regulator may initiate an assessment against the eligibility criteria and performance standards at any other time. The main reasons the Regulator may initiate this assessment are:

- A complaint is received from any person/entity alleging that the Provider has failed or is failing to meet the eligibility criteria or performance standards.
- A failure or potential failure to meet the eligibility criteria or performance standards is identified during monitoring activity.
- A change in circumstances such as a change in governance arrangements, an amendment to their constitution, an increase in portfolio size or a change in a contracted provider.
- Notification from MSD that the Provider has been issued with a default notice or warning notice to remedy a breach of the Outcome Agreement, or that the Outcome Agreement has been terminated.

More detail can be found at <http://www.shu.govt.nz/chra-home/our-policies-and-procedures/>.

Whether to investigate a complaint or carry out an assessment is at the Regulator's discretion. The Regulator will work closely with MSD in considering the need to request information or carry out an assessment. Where minor issues are identified, the Provider will be given opportunities to address them before any further action is taken.

If, after completing an assessment, the Regulator considers that the Provider is not meeting the performance standards, the suspension or revocation process will begin (see below).

In the case of a breach of the MSD contract, MSD will inform the Regulator. The Regulator will consider the information and decide whether to assess if the CHP continues to meet the Regulator's performance standards and eligibility criteria.

Suspension and revocation

If the Regulator intends to suspend or revoke registration, the Provider will receive 14 days' written notice, and an opportunity to be heard or address the Regulator's concerns.

Suspension means that a Provider can continue to receive IRRS for tenants it already has, but cannot take on any new tenants paying an income-related rent. If the Provider does not satisfy the Regulator that it meets the eligibility criteria and performance standards within a specified period (up to 12 months, depending on the nature of the breach) of suspension, or any further period that the Regulator may determine, registration will be revoked.

The effect of revocation is that the Provider is no longer eligible to contract with MSD to house tenants paying an income-related rent. All existing tenants who pay income-related rent must be given 90 days' notice and will be able to reapply for the social housing register.

The Regulator may revoke the registration of a CHP whether or not that registration has been suspended first. Any decision to suspend or revoke registration will be made in consultation with MSD to ensure that the impact on tenants is minimised.

Note

The information provided in this document on CHP registration and regulation adds to the guidance already provided on the CHRA website <http://www.shu.govt.nz/chra-home/>. Irrespective of this guidance, the final decision on CHP registration sits with the Regulator based on their overall assessment of the applicant.

APPENDIX 4

OVERVIEW OF CONTRACTS

This section provides a short overview of the two key contracts (being the Outcome Agreement and the Sale and Purchase Agreement or the lease Agreement) and the two potential additional contracts for the transfer transaction.

1. **OUTCOME AGREEMENT**
2. **SALE AND PURCHASE AGREEMENT**
3. **LEASE AGREEMENT**
4. **TRANSITION AGREEMENT**
5. **DIRECT DEED**

Potential Bidders should note that not all the features outlined in this section will necessarily apply to all proposed transfer transactions. We expect to provide further detail at EOI stage.

OUTCOME AGREEMENT

Introduction: The Outcome Agreement is the main contract of the commercial structure, and will form the basis of the long-term relationship the government has with the Provider. The Outcome Agreement will be for a fixed term and cover a portfolio of properties in a single region. It is intended to be more comprehensive than MSD's current spot contract, because it is anticipated to be a long term contract offering certainty of income for Providers.

MSD's role: MSD's role is to purchase social housing places.

Provider's role: The Provider is responsible for the provision of all property or tenancy management services. For example:

- There is no increase in the payment from MSD to the Provider for the provision of wrap-around services;
- The Provider assumes the risk of property damage;
- The Provider assumes the risk of a tenant's rent arrears (however, Providers still receive IRRS from MSD if the tenant remains eligible for IRRS).

Contracted properties: For the transfer transactions in Tauranga and Invercargill, the Outcome Agreement may specify that, as at the date of transfer, the entire pool of properties are to be contracted for a fixed duration, during which time those properties must be exclusively available for MSD to place tenants in (subject to MSD's right to release contracted properties – refer to "Commercial structure for the transfer transactions" section).

Term & Expiry: We are seeking responses from market sounding Participants on the preferred term of the Outcome Agreement and renewal options. The government is considering an initial 10 year Outcome Agreement with a right to continue for rolling one year extensions on the same terms as the original contract. The rolling one year

extensions will cease when 1) a new Outcome Agreement is mutually agreed or 2) MSD chooses not to renew, in which case all of the properties would be released.

Vacancy risk: MSD bears the vacancy risk in the sense that when a contracted property becomes vacant (for example, because the existing tenancy has ended or the existing tenant's needs for social housing have changed), MSD will refer a number of people with social housing needs to the Provider from which the Provider must promptly secure a new tenant for the contracted property at the Agreed Rent.

Availability of properties: MSD will pay IRRS for properties that are available for tenancy. Specifically;

- IRRS will only stop being paid for a dwelling where:
 - The property has been released; or
 - The property is unavailable after a certain period between tenants; or
 - The property does not meet minimum standards at any point during the Outcome Agreement after the honeymoon period; or
 - If the Provider's status as a Class 1 registered CHP is suspended and the property is vacant.
- If a dwelling is not available when it should be, then the CHP receives no IRRS and will have an additional fixed financial charge (\$100 per day per unavailable property) which is MSD's pre-estimate of the additional cost to rehouse a tenant on a short term basis.
- There will not be direct financial deductions for minor poor performance against tenancy management KPIs however these could, if serious enough, lead to other sanctions, including ultimately step-in and/or termination.
- Where a property becomes vacant (and therefore IRR falls to \$0) then IRRS increases to the Agreed Rent. Equally, where a tenant income

changes and IRR changes, then IRRS adjusts to the agreed rent.

Agreed Rent for a Property: The Outcome Agreement will set out the Agreed Rent a Provider will receive per property. This may not be the same as a Market Rent (that is a rent set by reference to market rent benchmarks and movements for a similar property in the same market).

The initial Agreed Rent for each property will be set using the rent paid to Housing New Zealand at the time of the transfer of the property to the Provider (this information will be provided at RFP stage).

Having agreed an initial Agreed Rent for each of the contracted properties, the Outcome Agreement will include an agreed mechanism for how that rent (and therefore the amount of IRRS payable by MSD in respect of that property) can be adjusted over time. MSD is able to consider a range of approaches for adjusting the rent including annual indexation and periodic Market Rent reviews. In exchange for the agreed rent review mechanism, the Provider is likely to be required to waive its right under the Residential Tenancies Act to review the Market Rent of the property every six months in situations where the Agreed Rent is based on indexation rates which may differ from a Market Rent. Payment of the total Agreed Rent will generally come from two sources; IRR, payable by the tenant, and IRRS payable by MSD.

Payment of IRRS: IRRS will be paid by MSD to the Provider in consideration for the provision of the contracted properties exclusively for social housing tenants referred by MSD and the performance by the Provider of its other obligations under the Outcome Agreement.

Payment of IRR: The Provider will be responsible for collecting payment of the IRR from the tenant. In relation to certain social housing tenants who are receiving a benefit, MSD may be able to redirect an amount equal to the tenant's IRR directly to the Provider. This redirection of benefit is an arrangement that exists between MSD and the individual. MSD can

make no commitment to the Provider as to whether or not MSD will redirect benefit payments of any individual tenant to pay the IRR.

The contracted properties: If the Provider wishes to substitute properties on a like-for-like basis into, and out of, the contracted pool of properties, for example to enable reconfiguration, maintenance (subject to tenant requirements) or if the Provider wishes to continue the tenancy of a tenant who is no longer eligible for IRRS, such substitution may occur with MSD's approval.

Having agreed the pool of contracted properties that are exclusively available for social housing tenants referred by MSD, the Provider will be permitted to make up to 10% of the properties unavailable at any one time, to enable the Provider to carry out maintenance and/or redevelopment of those properties. While these properties are unavailable, no payment will be made to the Provider by MSD for those properties but there will be no additional charges imposed by MSD.

Tenancy management and property quality standards: The Outcome Agreement will set out the requirements for tenancy management services and property condition.

Sale or alternative use of contracted property: The Provider will not transfer its interest in, or change the use of, any of the contracted properties without MSD's prior approval.

Separation between the CHP and the property owner: Where the Provider comprises more than one entity, with a split between the person who provides tenancy services and the person who acquires the property from Housing New Zealand (for example in the case of a bid made by a consortium), those parties will be required to be jointly and severally liable for the performance of all of the Provider's obligations under the Outcome Agreement. MSD expects that in the event that one of the members of the Provider consortium fails to perform its obligations, the consortium parties will assume the responsibility for resolving this failure.

Investment in property condition: The Outcome Agreement sets out the contractual property requirements which all properties must meet to be considered available for IRRS payment. It is expected that a number of properties across the portfolio will require investment to satisfy those

requirements. We intend to have property condition assessments reports for the RFP stage that identify gaps. The Provider will be required to make all properties compliant with the Outcome Agreement requirements within an agreed period currently expected to be up to 3-5 years. During this agreed period a waiver on compliance with the contractual property requirements will be given based on the Provider's property investment plan provided at the RFP submission.

If, following the agreed period, the Provider fails to comply with the contractual property requirements, the properties will be deemed unavailable and IRRS will not be paid and the fixed financial charge may apply.

The Provider's property investment plan may offer improvements beyond the minimum contractual property requirements. These will be evaluated within the RFP and may be included as part of the Outcome Agreement contractual obligations which the Provider will have to comply with.

Improvements to the properties: It is not expected that there will be any increase in the Agreed Rent payable as a result of the Provider delivering their property investment plan. Any further improvements made to the property will not increase the Agreed Rent unless MSD has agreed to those improvements and to the increase in Agreed Rent for that property.

Tenant allocation to social housing places: Providers choose the tenant for placement in their properties from the referral lists provided by MSD when a vacancy arises. There is discretion within the list but there is also an absolute obligation on the Provider to place a tenant in the property, if one is available, within a specified period.

The transfer transaction properties have sitting tenants. The tenancies associated with the properties will transfer with the properties. When there is a vacancy Providers can, within limits, specify preferences of client type for that property from which the MSD system will generate a referral list. Providers will have the discretion to work through the list to make a tenancy offer that best matches tenant with the property. Further lists can be requested if required. However, there is an absolute requirement to select a tenant, when a tenant is available, within a specified period.

If new tenants are not in the property within 25 working days of the first referral list being

generated MSD will not continue to pay IRRS until an eligible tenant has moved into the property. Providers need to work with the tenant to ensure the tenant moves into the property within the required timeframes.

Maintaining the government's Social Housing value and supply: Under a sale, it is intended that the government's capital and policy objectives will be protected by the use of an encumbrance and a mortgage registered against the title of each property transferred to a Provider.

The encumbrance will require that the relevant property is used only for social housing purposes. It will be first ranking (i.e., it will be registered before any mortgage taken by a financier).

The government's mortgage will secure the Initial Capital Investment given to the Provider by the government in agreeing to a sale of each property at a discount to book value. The mortgage will be on terms generally applicable to mortgages (including giving the government a power of sale) and will be registered on the title to each property. It will rank behind any mortgage granted to a debt funder (whose mortgage cover will be capped at an agreed priority amount). The government will enter into suitable priority arrangements (including a Direct Agreement) with debt funders if required.

Development of Provider capability: It is anticipated that the Provider may require a period of time to develop the capability to perform all of its obligations under the Outcome Agreement. The Transition Services Agreement is intended to enable the Provider to deliver tenancy management and property management services for a limited period of time during which the Provider must develop this capability, for example, development by the Provider of:

- Its own financial management systems and property and tenant database;
- The capability to interact with MSD's systems; and
- The capability to perform tenancy management and property management to the required standard.

It is anticipated that during the transition period, the Provider will be required to complete certain milestones to satisfy MSD of the Provider's

capability to assume complete operational control of the properties and the tenancies.

Change of law: The intention is that the Outcome Agreement will include change in law terms similar to those in the government's standard Public Private Partnerships (PPP) contract.

Insurance: Providers will be expected to hold insurance over the properties. The parameters for this will be set out in more detail at RFP stage, but it is expected that Providers will generally make their own decisions on the level and nature of that insurance.

Breach and remediation: The Outcome Agreement will provide for a range of steps that will occur before the Outcome Agreement is terminated.

Following a minor breach by the Provider, MSD will be entitled to issue a default notice requiring remedy of that breach.

More serious, or persistent, breaches will lead to a regime of increased monitoring and a remediation plan, ultimately followed by MSD step-in (at MSD's option) and termination. These breaches will entitle MSD to serve a warning notice on the Provider.

On receipt of a warning notice, the Provider will be required to either:

- (i) Produce a rectification programme in order to remedy the relevant default to MSD's reasonable satisfaction; or
- (ii) If that default cannot be remedied at all, the Provider will be required to implement measures to ensure that the effect of the default is minimised.

If the Provider does not comply with the terms of the warning notice generally, MSD will have the ability to terminate the Outcome Agreement.

In the event of full Provider failure (for example, insolvency), MSD will be entitled to terminate the Outcome Agreement.

Step-in rights: In certain circumstances in which MSD has grounds to consider that there is a risk to tenants or to properties or the Provider ceases to be a registered Class 1 social landlord, MSD may have the ability to step in, on a temporary basis, to assume management or control of some or all of the services being provided by the Provider. If MSD exercises its step-in rights, MSD can deduct

the cost to MSD of doing so from the amounts otherwise payable by MSD to the Provider under the Outcome Agreement. Providers and financiers will be provided the opportunity to step-in and/or replace a key party with the government's consent (not to be unreasonably withheld).

Termination during contract: Termination of the Outcome Agreement before the end date may occur if:

- a) There is material Provider failure (performance or financial) and an acceptable replacement cannot be found.
- b) Government wishes to do so at its discretion.

Provider failure

On termination of the Outcome Agreement, for more complex transfer transactions, there will be a process (set out in the Direct Agreement with debt funders) to find an alternative Provider who can assume the failed Provider's role under the Outcome Agreement. If that process is not successful in finding an alternative Provider the Outcome Agreement will terminate. We are seeking your feedback on the rights that you and your financiers will require in terms of potentially recovering value of your investment in this circumstance.

Termination at the government's discretion

The government may have the right to terminate at its discretion. Again, we are seeking your feedback on the rights that you and your financiers will require in terms of potentially recovering value of your investment in this circumstance.

SALE AND PURCHASE AGREEMENT

Introduction: The Agreement for Sale and Purchase documents the transfer of Housing New Zealand's properties to a purchaser.

Properties included in each transfer transaction:

For the transfer transactions in Tauranga and Invercargill, the RFP will identify the portfolio of properties being transferred. Each property will be sold subject to any existing tenancy and an encumbrance requiring that the property is only used for social housing purposes or such other purposes as may be approved by the government.

Specific clauses to address portfolio nature of transfer transaction:

The Agreement for Sale and Purchase contains standard terms that you would expect in the conveyance of a property.

However, given that the transfer transaction is for the sale of a portfolio of properties, the Agreement for Sale and Purchase will also contain some clauses tailored to reflect this. These include:

- Housing New Zealand may decide (at its discretion) to replace a property, for example, if a property is damaged or destroyed prior to settlement. Where this occurs, the purchase price will be amended to reflect any difference in value between the replaced property and the replacement property; and
- If prior to settlement, Housing New Zealand becomes aware of an impediment that may prevent the title to a property being transferred, Housing New Zealand has the option to either try and deal with the impediment, cancel the contract in respect of any affected property or substitute in a replacement property. An example of an impediment is a third party consent that is required before the title to a property can be transferred.

Conditions: It is anticipated that the Agreement for Sale and Purchase will be conditional on a number of factors. It is likely that the conditions will include:

- Registration of the Provider (or a party within the Provider) as a Class 1 social landlord;
- Entry into the Outcome Agreement;
- Entry into a Transition Services Agreement with Housing New Zealand (if applicable); and
- The Provider obtaining consent for the Overseas Investment Office (where applicable).

Purchase price: The purchase price will be determined by Bidders in their RFP responses and any subsequent negotiations with the government.

Tenancies: As noted above, the properties will be sold subject to all existing tenancies. These will be listed in a schedule to the Agreement for Sale and Purchase. In the time period between signing of the Agreement and the settlement date, Housing New Zealand will be free to enter into any new tenancy and approve any assignment, subletting, renewal, surrender or variation of any tenancy without needing to obtain the purchaser's consent. The purchaser is not entitled to approach any tenant or occupant of any property prior to settlement taking place.

The benefit of any arrears of rent or any other amount owing at the settlement date will be transferred to the purchaser, i.e., the purchaser will have the right to recover such arrears from the relevant tenant following the settlement date without having to account to Housing New Zealand for those amounts.

Chattels: The sale of the properties includes the sale of any chattels owned by Housing New Zealand that are situated in a property as at the settlement date.

Settlement process: The settlement process will be similar to a settlement process involving any commercial or residential properties.

Warranties: Housing New Zealand will not be giving any warranties relating to the condition of the premises or the validity or enforceability of any tenancy. The purchaser will be given access to an assessment of the condition of each property as part of the supporting material being provided by the government.

LEASE AGREEMENT

Introduction: The Lease Agreement documents the relationship between Housing New Zealand and the Provider where it has been decided that the transfer transaction will proceed by way of lease rather than by sale. The lease will proceed on the basis that the land is being retained by Housing New Zealand and any buildings and improvements (including any relevant chattels) are being sold to the Provider. It is proposed that each successful purchaser will enter into one ground lease that covers all the properties to be included in a transfer transaction.

On day one, the lessor will be Housing New Zealand. Housing New Zealand will have the right to assign its interest in the Lease.

Properties included in each transfer transaction:

For the transfer transactions in Tauranga and Invercargill, the RFP will identify the portfolio of properties being transferred by way of the Lease. Each Lease will act as a concurrent lease as it will be granted subject to any existing tenancy. The effect of this is that the lessee under the Lease takes on Housing New Zealand's rights and obligations (as landlord) under the existing social housing tenancies.

Term of the Lease: The term of the Lease will match the term of the Outcome Agreement (including renewals).

Rent: The lessee will be required to pay rent upfront or over time.

Restrictions on dealings with the land: The lessee will only be allowed to use the land for the provision of social housing. Where the lessee wishes to transfer its interests in the land, this will be subject to the lessor's prior consent. The lessee will only be entitled to assign or sublease the Lease if the lessee can satisfy the following conditions:

- It provides evidence that the assignee/subtenant is a Class 1 social landlord.
- It proves to the reasonable satisfaction of the lessor that the assignee/subtenant is respectable, reasonable and has the financial resources to meet the lessee's commitments.
- It provides evidence that the assignee/subtenant has entered into an Outcome Agreement and Transition Services Agreement (where applicable).

Subletting to a residential tenant in accordance with the permitted use does not require the lessor's consent.

Maintenance and repair: As the Lease is a lease of land only, the lessee is responsible for all maintenance and repair of any improvements on the land including as required to comply with any property condition requirements contained in the Outcome Agreement.

Termination: The Lease will contain usual rights to terminate the Lease for non-payment of rent or for breach of any other term of the Lease.

Reinstatement obligations on expiry: On expiry or termination of the Lease, the lessee is required to leave on the land all buildings and improvements, including any that were sold to the lessee on the grant of the Lease and any new improvements constructed by the lessee throughout the term of the Lease.

Chattels: All lessee owned chattels are to remain in the properties upon expiry/termination of the Lease. Ownership of the chattels will vest in the lessor.

Outgoings: As with a typical Lease, the lessee is responsible for paying all outgoing in relation to the land. This includes all rates and insurance premiums and any repair and maintenance costs of any buildings or improvements on the land.

Damage or destruction: If any building or improvement on the land is destroyed or damaged, the lessee is required to reinstate the improvements.

There is no ability for the Lease to be terminated on any damage or destruction caused to the land, buildings or improvements or if the lessee is prevented from accessing the land, for example, if the land is within a "red zone" following a natural disaster.

Release of properties under the Outcome Agreement: As noted in the short report for the Outcome Agreement, MSD has the right to release properties contracted under the Outcome Agreement.

If MSD permanently releases properties from the list of contracted properties, this will result in a partial surrender of the Lease for those properties.

Where MSD temporarily releases a vacant property from the pool of contracted properties, the permitted use for the Lease will be deemed to be amended for the relevant period (up to a maximum of 12 months) to allow the property to be used for non-social housing purposes. Upon the expiry of the relevant period, the permitted use will revert back to social housing.

Registration and mortgagee's consent: It is expected that the Lease will be registered and that the lessee may grant a mortgage over its leasehold title.

TRANSITION SERVICES AGREEMENT

Introduction: It is anticipated that the Provider will require a period of time in which to develop its capability to perform all of its obligations in respect of the tenants and the properties.

It is important that the Provider is given sufficient time to develop this capability, and that during this period of transition, tenants continue to receive an equivalent level of service and the properties continue to be maintained to an equivalent standard as was the case when the properties were owned by Housing New Zealand.

Once the Provider is able to demonstrate that it has sufficient capability, the Provider can assume full operational control of the tenancies and the properties and implement any service improvements it has agreed to.

The expectation is that under the Transition Services Agreement, while Housing New Zealand will have transferred an interest in the properties to the Provider and the Provider's CHP will have entered into the Outcome Agreement with MSD, Housing New Zealand will have responsibility to provide the transition services on behalf of the Provider, as described in the Transition Services Agreement.

The transition services: The transition services that it is anticipated that Housing New Zealand will provide are:

- Tenancy management services; and
- Limited property maintenance services (such as emergency repairs and mowing lawns).

The Transition Services Agreement will include service descriptions and service levels. These will be the same as, or similar to, the equivalent Housing New Zealand services and service standards for the relevant services.

If the Provider has agreed to meet other service standards, for example under the Outcome Agreement, it is anticipated that these service standards will not become operative during the provision of transition services because of the impracticality of Housing New Zealand providing differentiated services or service levels for different properties or tenancies.

The transition services will not include:

- New tenant placement: The decision as to which new tenant to place in a property from the list supplied by MSD will be a Provider decision. Housing New Zealand may provide services to the Provider to assist in the mechanics of the placement process once the Provider has made its tenant selection.
- Property/portfolio redevelopment: Housing New Zealand will not undertake any long-term or strategic portfolio management of the properties. That will be a matter for the Provider.

Duration: The period for which the transition services are to be provided is something that will be explored during the Market Sounding, EOI and RFP stages to find an appropriate balance between ensuring a seamless transition of services to tenants and empowering the Provider to assume full operational control. It is anticipated that the duration would be for no more than 12 months.

Payment: The Provider will pay Housing New Zealand an agreed fee for the provision of the transition services. The Provider will also be responsible for meeting the costs incurred by Housing New Zealand on the Provider's behalf such as maintenance.

DIRECT AGREEMENT

Introduction: In transfer transactions where the size and complexity warrants it, the government will enter into a Direct Agreement with debt funders of the Provider. The Direct Agreement will govern the relationship between the funders and the government.

Government capital investment: The government will have the right to recover from the Provider the amount of the government's capital investment. The mechanism for calculating this amount will be set out in other transfer transaction documents, but the priority of the government's recovery will be addressed in the Direct Agreement.

Priority arrangements: The Direct Agreement will set out the relative priorities of the mortgages granted in favour of the funders and the government. It will provide that the funders' mortgage ranks first in respect of the amount of the funders' debt. The Direct Agreement will prohibit the funder from making any additional lending to the Provider without the government's prior approval and will prohibit the funder from assigning its debt or its mortgage without the government's prior approval. The government's mortgage will rank second for the amount of its investment.

Step-in and Termination of Outcome

Agreement: As outlined in the Outcome Agreement there are circumstances in which the government will have the right to step-in and ultimately terminate the Outcome Agreement.

In the event of the total failure of a Provider, the debt funders and the government will be required to work through a process for replacement of the Provider (for example, by transferring the properties, the Outcome Agreement and the Provider's debt to a suitable new Provider). Failing that the termination mechanics outlined in the Outcome Agreement will apply.

Enforcement mechanics: The Direct Agreement will regulate the circumstances in which both the debt funders and the government can enforce their respective mortgages. The debt funders will have the right to replace a Provider at any time, subject to government consent. This allows debt funders to replace a Provider who is encountering difficulties.



GLOSSARY

Agreed Rent	The amount the Provider receives for a property. This may be based on a Market Rent calculation or another mechanism agreed between the Provider and MSD. The tenant pays a proportion of the Agreed Rent (IRR) and the remainder of the Agreed Rent is paid by MSD through the Outcome Agreement (IRRS).
Bidder	A party or consortium that participates in a transfer transaction by submitting a response at EOI and RFP.
CHP	Community Housing Provider. Community Housing Providers provide social and affordable rental housing. Community Housing Providers are registered by the Ministry of Business, Innovation and Employment (MBIE), and thereby become eligible to receive the Income-Related Rent Subsidy.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Encumbrance	A restriction registered on the title of a property that requires the property to only be used for social housing or as otherwise approved by the government.
EOI	Expression of Interest. The first formal stage in the transfer transaction process.
Financier	Equity provider and/or debt funder.
GETS	Government Electronic Tenders Service.
Housing need	Households lacking their own housing, or are living in housing which is inadequate, unsuitable or unaffordable and who are unable to meet their housing needs (housing requirements) without assistance.
Housing register	A list of clients who have been assessed as eligible for social housing and subsidised rents who are waiting to be referred to Providers to be matched with a suitable property when it becomes available.
IM	Information Memorandum. This document.
Initial Capital Investment	The difference between the book value of properties transferred and the sale price agreed for them in the transfer transaction.
IRR	Income-Related Rent. Eligible social housing tenants can access government subsidised rents based on their circumstances. MSD will calculate the rate of subsidised rent, called Income-Related Rent (IRR) for tenants. MSD will let the housing Provider know the rate of the calculated Income-Related Rent.
IRRS	Income-Related Rent Subsidy. Housing providers are reimbursed for subsidised rents. The amount they are reimbursed is the difference between the calculated rate of the Income-Related Rent and the agreed rent; this is called the Income-Related Rent Subsidy.

Lease Agreement	The contract signed between the Provider and the government to the extent the transfer occurs by way of ground lease rather than sale.
Market Rent	The market rent refers to the way in which the total rent for a property is set by reference to external arm's length market rent benchmarks and movements for a similar property in the same area and market.
Needs Criteria	The criteria used by MSD to determine the housing need of households based on their household composition, housing circumstances and housing history. They are: affordability, adequacy, suitability, accessibility and sustainability.
Outcome Agreement	The contract signed between the CHP and MSD for the provision of social housing services.
Participant	A party that participates in the market sounding by providing a written and/or verbal response.
Preferred Bidder	The party or consortium selected through the RFP process to finalise their solution and contracts with the government.
Provider	The party who signs contracts with government at the end of the transfer transaction (will have been a Bidder). May be a single party or a consortium
Regulator	Community Housing Regulatory Authority.
Reviewable tenancies	Tenants on-going eligibility for continued social housing. Through tenancy reviews, people's housing need can be assessed to determine whether they still need social housing, and if so, whether their current house is still suitable. If they no longer need social housing, they will be helped into alternative accommodation.
RFP	Request for Proposal. The second formal stage in the transfer transaction process. Only those that participated at EOI are eligible to participate at RFP. Up to three Bidders will be invited to participate at RFP.
RFR	Right of First Refusal.
Sale and Purchase Agreement	The contract signed between the Provider and the government to sell the properties.
SHRP	Social Housing Reform Programme.
Social Allocation System	A priority rating is generated by Northgate based on the Social Allocation System (SAS). The SAS is the criteria that determines housing need and determines the priority ranking or social housing.

Tenancies	<p>A term used to describe tenants, for example:</p> <ul style="list-style-type: none"> • Two families live in two separate houses on Jones Street, South Auckland. Both of these families have tenancies with Housing New Zealand. • A couple and another couple are both tenants on the Tenancy Agreement. These couples have a tenancy with the housing Provider.
Tenant	<p>A person (or persons) who have signed a Tenancy Agreement. Also known as the 'signatories' or 'people on the tenancy'. If a partner has signed the tenancy agreement then they are considered to be a tenant.</p>
Tenant transfers	<p>Transfers may be initiated by tenants or by the housing Provider.</p> <p>Tenant initiated transfers include where the tenant requests a transfer to another property, for example, reasons could include wanting to move closer to family, employment reasons, or they need additional bedrooms. A new assessment is required to be completed in this situation, priority established and the tenant placed on the waitlist.</p> <p>Housing Provider business initiated transfers include where the property is required to be vacated due to a business need, for example, lease expiry, Earthquake prone building, or re-development. New assessment of the tenant's housing needs will be required in some situations.</p>
Transfer transactions	<p>Transactions where Housing New Zealand properties will be transferred to a Provider through either a sale or a lease.</p>
Transition Services Agreement	<p>A contract setting out the transition services that Housing New Zealand may supply to a Provider.</p>
TU	<p>Transactions Unit sits within the Treasury. It is responsible for designing and delivering the transfer transactions within the SHRP.</p>
Wider SHRP pipeline of transactions	<p>A stream within the SHRP aimed at growing CHP provision of social housing. There are three types of transactions:</p> <ul style="list-style-type: none"> A. Transfer transactions. B. Development. C. New places.
