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AFFORDABLE HOUSING FOR GENERATIONS

Building Better Homes, Towns and Cities National Science Challenge

Innovating Housing Futures: Case Study of the Nelson Housing Reserve Fund

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Report for Affordable Housing for Generations – Component E

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Glossary

Accomodation Supplement	A non-taxed government payment paid to people to assist with housing costs, which is tied to household incomes and area of residence. The payment is capped at a maximum.
Affordable Housing	Housing that meets the needs of low to moderate income households at a price that enables them to meet essential living costs and meet an acceptable standard of living.
Capital Grants	A finite, time-limited subsidy given by a government to an organisation to buy buildings, land, equipment, etc., to achieve specific objectives.
Community Housing Provider (CHP)	Not-for-profit organization with the objective of providing community rental housing, affordable rental housing or other affordbale tenure. CHPs often integrate housing provision with 'wrap-around' services to meet tenants' various needs. CHPs are registered with the Community Housing Regulatory Authority and must comply with regulatory performance standards relating to tenancy and property management, governance and organizational management.
Community Land Trust	An affordability retention mechanism to acquire and hold land for the benefit of the public / community, and provide secure affordable access to land and housing for community residents.
Housing Affordability	The cost of housing in owner occupation or in rentals relative to prevailing incomes.
Housing Innovation	A housing programme or policy new to the area adopting it. Including social (relations, processes) and technical innovations (materials, designs).
Housing Reserve Fund (HRF)	A fund established to receive dedicated public revenues, which have been set aside for housing matters, commonly to address housing unaffordability or special types of housing need.
Housing Trust Fund (HTF)	The most commonly used term to refer to Housing Reserve Funds in the United States and Canada.
Impact Investor	An investor that considers the broader aspects of their investment beyond pure financial gain (e.g., social or environmental concerns).
Income-Related Rent Subsidy (IRRS)	A government subsidy paid to Kāinga Ora and registered CHPs to cover the difference between rent paid by their public housing tenants and the market rent for the property.
Inclusionary Zoning	Local and regional planning tools applying to a specified area that require a percentage of new dwellings to be affordable by people with low to moderate incomes.
Intensification	An approach to transfer urban areas into more compact, higher density urban forms. Also known as densification.
Key Workers	Definition is location specific and linked to critical labour and skill needs of the local labour market. They can include public sector workers, health care workers, agricultural workers.
Philanthropic Funding	Funds provided to serve a charitable cause, by gift or donation. Typically, given to not-for-profit, charitable trusts.

Public Housing	Housing supplied to tenants eligible to receive the Income Related Rent Subsidy (IRRS). Public housing is supplied by Kāinga Ora and some registered CHPs.
Social Housing	Housing provided to people on low incomes or with particular needs, either by government agencies, councils or not-for-profit organizations, such as CHPs.
Suspensory Loans	Loan agreements where the first repayment is deferred until a predetermined date in the future. Most commonly offered by local or central government or philanthropic trusts to ease the repayment obligations of recipients. In some circumstances the suspensory loan is forgiven.
Value Uplift	Where land is re-zoned or other planning change is introduced that results in an increase in development yield for the developer. A portion of the increase in value is retained by the public entity and used for affordable or social housing.

Executive Summary

Nelson has consistently been identified as one of New Zealand's least affordable regions. In response to growing housing pressures, Nelson City Council has made solving housing unaffordability one of their top priorities. An important component of the Council's strategy has been the creation of a Housing Reserve Fund (HRF), a dedicated fund to support the delivery of social and affordable housing within the region. This report recounts the development of the HRF up to its Phase One deployment, with the release of almost $2 million of grant funding for affordable housing development. The pathway from creation to Phase One is covered with a focus on the HRF's purpose and key characteristics, how the Council navigated various challenges in creating the fund, stakeholders' expectations and how various stakeholders have engaged with the fund.

Internationally HRFs have been established to receive dedicated public funds to address housing unaffordability or special types of housing need, and retain long-term affordability. These funds are usually targeted toward low-moderate income households and key workers living in regions confronted with housing unaffordability. Local factors determine the type of governance and organisational structure adopted for HRFs. Common funding mechanisms used to disburse funds for the creation of affordable housing include grants, loans, reduced development contributions, co-funding and equity investment. A variety of funding sources to ensure the HRF remains sustainable over time are used, including funding from central and local government, private developers' contributions (e.g., through development levies, voluntary/negotiated contributions and inclusionary zoning or other value uplift mechanisms), taxes or levies, and with contributions of private households (e.g., through shared-ownership models). Many HRFs find that ensuring a sustainable funding stream to maintain the viability of the housing reserve is a major challenge.

Within the uncertain and comparatively limited scope for local government in housing matters, Nelson City Council's actions suggest a new form of engagement with housing. Nelson's HRF is expected to lead to direct funding of projects and partnering with local housing providers to generate affordable housing developments targeted to low- moderate-income households. The $12 million HRF became possible through the divestment of the Council's pensioner housing properties to Kāinga Ora, the state housing provider. The Council's decision to invest in the HRF seeks to ensure that equity released from the sale of their pensioner housing assets will continue to benefit the public.

Nelson's innovative approach is congruent with international trends to regard social and affordable housing as critical community infrastructure that should be supported by public investment, because of its inter-generational social and economic benefits. Nelson's use of the proceeds from the sale of their pensioner housing stock to create an HRF is a statement of intent that there remains an important role for local government to play in housing. This innovative approach is a partnership model where councils engage with housing providers and direct investment to supply affordable housing to help achieve local goals.

Establishing the HRF in Nelson has not been trivial. Key challenges have been the Council's limited in-house capacity for housing related policy and delivery, various complexities in defining the purpose, targeting and operational details of the HRF and the overarching national policy and funding parameters affecting housing development. Added local challenges for residential development are the region's topography and size, the cost of land, and planning rules determining what can be built on the land.

While there was clear support for the innovative aspects of the HRF, significant questions remain regarding how funding will be deployed and sustained. These are likely to determine not only the type of housing providers accessing the HRF and its on-going viability. Interviewees who were asked to reflect on the HRF noted that several issues prior to the release of funding in Phase One had been identified including:

- The time taken to implement the HRF.
- Targeting of the HRF.
- The choice of mechanisms for release of funding.
- Land issues.
- Challenges and opportunities of partnerships.
- The need for a sustainable funding stream for the HRF.

1. Introduction

Like many other comparative Western societies, Aotearoa New Zealand has seen a shift over the last three decades from public investment in housing. Over that time, a policy of sustained, long-term public investment in housing has been replaced by reliance on individual consumer-focused demand-side measures to address unaffordability, primarily the Accommodation Supplement, and for tenants eligible for public housing, the Income-Related Rent Subsidy (IRRS). Simultaneously, there developed a severe under-supply of affordable, functional housing and rising levels of homelessness (Amore *et al.,* 2020).

Over the last three decades the costs of both rental and owner-occupied housing have increased substantially (Goodyear *et al.,* 2021). Property investor-owned housing stock has increased by 191%, while owner-occupied housing stock grew only by 37% (Saville-Smith, 2021). Homeownership has declined to the extent that in 2018, 41% of children aged 0-14 years were living in rental housing.[1] With the rising numbers of property investor-owned stock, private rentals dominate in the rental sector, while at the same time there has been a steady decline in public rental housing (Johnson, 2018). These significant deficits in the housing system act as a brakeon regional economies, as well as fuelling persistent inequalities, revealing the adverse effects of unaffordable, poor condition and overcrowded housing on health and wellbeing (Howden-Chapman *et al.,* 2021; Perry, 2019; Saville-Smith (ed.), 2019; White *et al.,* 2021).

Reliance on the market and welfarism to manage housing supply, demand and need impeded acknowledgement of the urgency, depth and extent of housing problems (Barrett & Garrett-Walker, 2021). Yet at the same time it has become clear that transformational change is required if entrenched housing deficits are to be successfully addressed. While there have been a few long-standing initiatives to address local housing problems with local solutions, such as the district plan policies enabling the Queenstown Lakes Community Housing Trust, established by Queenstown Lakes District Council in 2007 (Figenshow and Saville-Smith, 2020), other innovations are also emerging in locations intent on involving key organisations in a community-wide response. Recently, the Ministry of Housing and Urban Development has adopted a place-based approach to transforming housing and urban systems.

In this report we focus on one local innovation, the Nelson City Council's development of a Housing Reserve Fund (HRF) to deliver social and affordable housing solutions. This report recounts the history of the development of Nelson City Council's HRF to its Phase One deployment, the release of almost $2 million of grant funding for affordable housing development. Accordingly, this report describes the many considerations and processes involved in designing and implementing the fund and the challenges and opportunities for the provision of affordable housing through a housing fund model.

[1] Customized census data, age cohort analysis, by Natalie Jackson.

The report is structured as follows. Section 2 describes the case study approach and explains the key concepts of 'affordable housing' and 'housing innovation' underpinning the case study. Section 3 explores the model of a Housing Reserve Fund as it is understood and delivered internationally. Section 4 describes the Nelson HRF, and the decisions and processes involved in its development. Section 5 comments on the main themes and issues emerging from interviews with key stakeholders. In conclusion, Section 6 summarises some of the challenges and opportunities in developing an affordable housing innovation.

2. The Case Study & Affordable Housing for Generations Research

This housing innovation case study is part of the Building Better Homes, Towns and Cities (BBHTC) National Science Challenge through the Affordable Housing for Generations (AHFG) Research Programme**.** The objective of this programme is to develop effective and practical approaches to alleviating the crisis of affordable housing and housing affordable to key workers through targeted research-based solutions, which will sustain people in their homes and communities over generations and contribute to thriving regions.

In this case study of one such model for affordable housing provision, an HRF, we look for promising and innovative practices for investing in and increasing the supply of affordable housing. Our aim is to generate knowledge of what works and what doesn't, as well as the factors involved in achieving success. We also ask whether, and under what circumstances, affordable housing innovation models devised overseas, such as the HRF model, might be applicable to and benefit New Zealand communities. We consider what the broader implications of the HRF are for local government, and whether this approach presents an innovative solution to local housing affordability issues.

The area covered by the case study is the territorial area of the Nelson City Council, a unitary authority with a population of 50,880 in the 2018 Census. Nelson has a particularly concentrated urban settlement pattern compared to its neighbouring councils, Tasman and Marlborough. The large majority of Nelson's population lives in its urban area, with Nelson's urban settlement joining the urban area of Richmond in Tasman District. The potential to expand Nelson's residential area is somewhat constrained by its relatively small size, a hilly topography and location close to the sea, which exposes both current and potential future residential development to sea-level rise.

Like the country as a whole, Nelson's population structure is ageing; consequently, future population growth will come from internal and international migration. These dual trends – increasing numbers of older residents and immigration – will place different pressures on the local housing system.

Through document analysis and stakeholder interviews we reviewed the timeline and process for establishing Nelson's HRF, the goals it seeks to achieve, challenges faced and opportunities revealed. During 2021, face-to-face interviews were conducted with stakeholders involved in the establishment of the HRF. Interviews were conducted with

Nelson City Council staff and two Councillors involved in establishing the HRF. As the HRF was funded through the purchase of Nelson City Council's pensioner housing stock by Kāinga Ora, several of their staff in Nelson were interviewed about this process and their activities for increasing affordable housing in the region. Additionally, representatives from the three Community Housing Providers (CHPs) active in Nelson were interviewed about their work and involvement with the fund. Follow-up communication was also conducted via online meetings and emails to follow the progress of the Fund. All interviews were completed before applications were sought for funding in Phase One of the HRF in October 2021. In all, 11 interviews were conducted, involving 14 participants.

The interviews were around 60 minutes in duration, with all interviewees responding to a set of questions about the nature and extent of housing issues in the region, the history and processes involved in developing solutions, as well as challenges, barriers and opportunities to addressing housing unaffordability. Specific questions relating to the individual experiences of participants and their organisations (where applicable) were also included. The interviews were conducted as extended conversations with participants able to guide the direction of the conversation within the framework of the set of questions. We used detailed notetaking rather than audio recording the interviews. Each interviewee was given the opportunity to review the notes taken during their interview and make any clarifications or corrections they felt necessary. All interview participants and their responses have been anonymised in this report.

The notes for each interview were firstly thematically analysed for emerging perspectives, issues and understandings. Secondly, the dynamic interrelation between different views and positions were considered. This process gave us a picture of the circumstances that led to the HRF emerging as a policy intervention and its potential impact on Nelson's housing affordability issues. Analysis was conducted in relation to the following questions:

1. What is affordable housing innovation in the Nelson context? How are affordable housing innovation models devised overseas or elsewhere in New Zealand, under what circumstances, and are they applicable to and could they benefit Nelson?
2. What are the challenges and barriers to affordable housing supply and how are those proposed to be overcome?
3. How can affordable housing be sustainably funded, and what does that mean in practice?
4. What is the potential for affordable housing provision through diversified tenure?
5. How can land use planning be harnessed for affordable housing?

Defining Affordability

In this case study we are mindful of the important distinction between 'affordble housing' and 'housing affordability'. For this distinction we are guided by the definitions used in the Affordable Housing for Generations Research Programme presented in Infobox 1.

There are multiple measures of affordability in use in New Zealand. However, the standard and internationally recognised measure of housing affordability is the percentage of a household's income that housing costs account for. It is generally accepted under this measure that housing is affordable if no more than 30% of gross household income is spent paying rent or servicing the mortgage and other non-discretionary costs associated with buying and operating a property, such as rates and insurances (Mitchell & Glaudel, 2017; New Zealand Productivity Commission, 2012).

> **Infobox 1: Defining Affordable Housing and Housing Affordability**
>
> **Affordable Housing** is housing that meets the needs of diverse households with low to moderate incomes at a price that enables them to meet other essential living costs and meet an acceptable standard of living.
>
> **Housing Affordability** refers to the cost of housing in owner occupation or in rentals relative to prevailing incomes. This ratio approach typically uses benchmarks such as averages, medians or percentile incomes and housing costs. Improved housing affordability measured through ratios of medians or averages may not indicate improvements in access to affordable housing for low- and moderate-income households.

In addition to household income, an equally critical aspect of affordability is the location of housing – i.e., whether housing is located close to where people want to be and need to travel. Households can attempt to solve housing unaffordability by seeking lower priced homes on the periphery of cities, however these locations often necessitate long and potentially expensive commutes to places of work (Li & Dodson, 2020). High transport costs can affect the ability of low- and moderate-income households to service their housing costs and may render their housing unaffordable (Mattingly & Morrissey, 2014). Research also shows that some lower income renters will go into housing stress in order to reside in job-rich locations (Hulse *et al.,* 2019).

In general, those who earn less have fewer housing choices. They are more likely to struggle to find affordable housing. Nevertheless even those on median incomes can struggle with housing affordability. The affordability of housing for 'key workers', many of whom earn around the median income, has come to the fore in considering the broader socio-economic consequences of severe housing unaffordability, with key workers' housing needs provided for in many of the HRFs operated overseas.

Defining Key Workers

There is no single definition for who constitutes a 'key worker' because it is location specific and linked to local housing and labour market characteristics. However, a common category of key worker is those with moderate incomes working within the public sector, such as nurses, emergency service workers, teachers, and community support workers. In some areas this definition of key workers is expanded to include any worker on low to moderate incomes with roles that provide services to a community that are considered essential for economic health and social wellbeing (e.g., farmworkers and workers in tourism).

Seeking affordable housing can be particularly challenging for key workers as their occupations can require proximity to their places of work. Consequently, some key workers choose to leave if they cannot find suitable housing and seek out more affordable regions or cities (Callaghan, 2020; O'Sullivan, 2020). Research in Australia has found that a lack of affordable housing has been a significant factor in workers leaving particular regions or leaving their professions (PwC Australia, 2019), while the availability of affordable housing in smaller centres is a key draw card for workers (Vij *et al.,* 2022).

Defining housing innovation

We consider the HRF to be a housing innovation. While HRFs are used elsewhere, as we discuss in Section 3, the introduction of the model to New Zealand seems to be novel. In this way, we follow Walker (1969) in defining a policy innovation as "a program or policy which is new to the states adopting it, no matter how old the program may be or how many other states may have adopted it" (Walker, 1969, p. 881).

The idea of 'social innovation' is pertinent to understanding how the HRF is innovative. Housing innovation is commonly understood in reference to technical innovations such as the use of new types of materials, construction techniques, or products. However, another critical characteristic of housing innovation is its emphasis on transforming social relationships and processes. Characterised by building connections across sectors and working towards shared objectives, social innovation involves a wide range of actors, some of which may not have interacted before. Social innovation differs from technological innovation in three main ways:

> "… it involves combinations or hybrids of existing elements rather than wholly new inventions; it requires cutting across organizational or disciplinary boundaries and; it generates compelling new social relationships between previously separate groups or individuals" (Raynor, 2019, p.1266).

These three characteristics – combining existing elements, cutting across boundaries, and new relationships – are particularly relevant to understanding the development of Nelson's HRF as an innovation.

The role and ability of councils to generate housing innovation has been at issue throughout at least the last two decades in Aotearoa/New Zealand. In 2008, an opportunity was introduced through new legislation for the adoption and operation of affordable housing mechanisms by councils. The *Affordable Housing: Enabling Territorial Authorities Act 2008* was intended to "enable a territorial authority, in consultation with its community, to require persons doing developments to facilitate the provision of affordable housing".[2] The Act gave territorial authorities powers to implement their affordable housing policies, including the ability to acquire land or money from a developer for the creation of affordable housing. Councils could also then give the land or money acquired to a body to use to provide affordable housing. This legislation offered a pathway towards the potential introduction of regional housing reserve funds, however it was a short-lived opportunity, as it was repealed on 6 August 2010, and its potential was not explored further.

[2] https://www.legislation.govt.nz/act/public/2008/0067/17.0/DLM1074781.html

McKinlay Douglas note that it is not surprising that there is little housing innovation by local authorities, because "innovation requires an environment in which people have a measure of discretion and encouragement to experiment" (McKinlay Douglas, 2004, p.47). The lack of a clear housing innovation pathway has resulted in Local Government New Zealand advocating for the introduction of legislation to fully enable councils to address regional housing unaffordability through value uplift and capture tools.[3]

3. What is a Housing Reserve Fund?

A Housing Reserve Fund (HRF) is a fund established to receive dedicated public revenues, which have been set aside for housing matters, commonly to address housing unaffordability or special types of housing need. These funds are often targeted toward low-income households or key workers living within regions specifically identified to have housing affordability issues. Such funds may complement or supplement various other forms of housing assistance typically provided by central government.

It is important to distinguish the type of reserve fund being considered in this report from those reserve funds that are intended only for the maintenance or upgrading of existing stock. Various types of housing providers often retain a fund for these purposes, but these are typically limited in size. Our interests are in HRFs intended for capital developments that sustain long-term affordability. These types of reserve funds have broader goals aimed at increasing the supply of affordable housing. Commonly, these funds are operationalised at a local or regional level, where a territorial authority has recognised special housing needs that are unmet by both market and central government.

Most HRFs receive ongoing revenue from dedicated sources of public funding (such as taxes or development levies), but can also be funded or supported through one-off sources, for example, through the sale of land, or philanthropic funding. HRFs are typically used as a catalyst for increasing the supply of affordable housing through various funding mechanisms, for example, providing capital grants or suspensory loans for new developments to eligible partners. Funds can be used to acquire land and make it available to not-for-profit housing developers and/or to reduce or waive development fees and charges to make affordable housing more feasible.

Internationally, there is relatively scant research into how HRFs are designed and operated (Beard, 2021). Thus, it is useful to briefly consider some examples to show their range of governance and organisational characteristics, as well as how they disburse funds and how they are sustained. The examples presented in Table 1 come from the United States, Canada, Scotland and Australia.

In the United States, HRFs are commonly referred to as Housing Trust Funds (HTFs) and there are over 40 states operating at least one and more than 750 cities[4] with an HTF in operation (Scally, 2012). HTFs emerged in the late-1960s in response to the growing

[3] https://www.lgnz.co.nz/news-and-media/2020-media-releases/local-government-votes-on-remits/
[4] https://housingtrustfundproject.org

shortage of affordable housing needed in low-income communities. As federal funding for housing declined dramatically in the 1980s, states' adoption of HTFs increased, funded by a range of sources, including legislative appropriations from general state revenues, real estate transfer taxes and recording fees, interest bearing real estate broker accounts, and state agency revenues and reserves (Scally, 2012). HTFs have remained popular as a locally operated flexible strategy for financing affordable housing.

In Canada, HRFs have been operating since at least 1991, although a recent study suggested HRFs have remained an uncommon approach to providing affordable rental housing in the country (Thomas, 2020). We found examples existing at a municipal level across British Columbia, including in the cities of Whistler, Kelowna, Coquitlam, Nelson and Vancouver. The funds provide affordable housing to low-income households. Access to the funding commonly requires developers to be, or partner with, non-profit housing societies. Most municipalities do not have the legislative authority to mandate inclusionary zoning, which has meant that many cities rely on voluntary and negotiated contributions from developers to HTFs to fund affordable housing developments. Requirements for developer contributions to eligible developments can be in dwellings, land or financial, and vary in their value, with many schemes requiring less than 10%.

Scotland's 'Housing to 2040' has set a target to deliver 100,000 affordable homes by 2031/32. It is possible that HRFs may constitute a part of the delivery of affordable housing in this strategy. The 'Affordable Housing Supply Programme' allows for a range of funding mechanisms to be considered, with the focus on enabling affordable housing providers. Aberdeenshire Council provide an early example of how an HRF might operate alongside central government funding to provide affordable housing options.

The only HRF we have identified operating in Australia that aligns with the definition used in this report is in Moreland, Victoria. There are past and current examples of various forms of inclusionary zoning active in parts of Australia, including mandatory requirements in South Australia and voluntary and incentive-based planning mechanisms in New South Wales. However, their impact on affordable housing supply outcomes has been modest (Gurran *et al.,* 2018). The apparent dearth of Australian housing reserve models may reflect the small number of inclusionary planning tools and voluntary incentives for developers as well as a patchy array of funding mechanisms for affordable housing (Gurran *et al.,* 2018; Randolph *et al.,* 2018).

Table 1: Examples of Housing Reserve Funds Elsewhere

Place	Description	Eligibility	Organisational structure	Funding stream
Austin, Texas, USA	Operating for over 20 years, the City of Austin's HFT was created in response to widening inequalities in the city associated with growing housing costs and a search for funding options beyond what was being provided by Government.	Access to affordable housing units is set at those households earning less than 60% the median family income. The City also funds non-profit organisations serving the needs of low to moderate income households to repair and maintain affordable housing.	Operates within the City council.	The HTF is not operated separately but is used as one of several funding sources to increase supply of affordable housing across the city (Hedman et al., 2018). The HTF was initially seed-funded with a $1 million (USD) (1.51m NZD) annual payment. Later, funding came from 40% of the City's property tax revenue. In 2016, this allocation was increased to 100% of the same tax revenue stream.
East King County, Washington State, USA[5]	The ARCH Housing Trust Fund, created in 1993, administers funds for members of ARCH (A Regional Coalition for Housing) in East King County. It was established to address a growing need for affordable housing that was not being met through other public or private avenues.	Low to moderate income individuals and families. Includes seniors, families, people with special housing needs and people transitioning from homelessness. Majority of funding goes to households earning up to 50% median household income. Funds both rental and ownership options. Funds are disbursed through funding rounds and contracts to developers including not-for-profit, for-profit, public housing and local government. Partnerships are encouraged. Uses covenants to preserve long-term affordability.	Region-wide partnership between East King County and 15 Cities. Member councils are involved in governance and operations. ARCH has a small group of staff that work in conjunction with staff of member councils. A community advisory board advises ARCH.	Funds from member councils are levied annually, and pooled. Public and private funding sources are leveraged. Surplus public land is used. Over its lifetime, the housing trust fund has leveraged $10 for every $1 of local funding.
Los Angeles, California, USA[6]	The City of Los Angeles Housing Impact Trust Fund was created in 2017 by the City to receive, retain and disburse monies from Affordable Housing Linkage Fee revenue. The purpose of the Fund	The Fund targets various levels of affordable housing (extremely low, very low, low, moderate, and workforce income households, including incomes up to 150% of Area Median Income).	Operates within the City Council.	The Affordable Housing Linkage Fee provides revenue for the Fund. This is a permanent and self-sustaining revenue stream. The fee is placed on certain new market-rate residential and commercial developments to generate local

[5] https://www.archhousing.org/housing-trust-fund

[6] https://housing.lacity.org/policy-data/program-development/affordable-housing-linkage-fee; https://planning.lacity.org/ordinances/docs/AffordableHousingLinkageFeeOrdinance/17-0274_ORD_185341_1-18-17.pdf

	is to "address the evolving and variable housing needs of the City".	Affordability levels are defined in Guidelines.		funding for affordable housing production and preservation.
Vancouver, Canada	The City of Vancouver has operated several HRFs to serve a variety of purposes. One of the longest running HRFs is the City's 2012 Affordable Housing Choices Policy that combines affordability and transportation criteria.	Funding is available to developers of sites located on arterial streets on the city's Frequent Transit Network, but must meet at least one affordability criteria: supply 100% rental housing, sell units 20% below market value, use a mechanism that ensures affordability over time (e.g., a resale covenant), use an innovative model (e.g., co-housing), or use a Community Land Trust (Thomas, 2020).	Operates within the City council.	Funding is allocated directly from the City budget.
Whistler, Canada	Provision of affordable housing in Whistler dates back to the 1960s. In 1975, the Resort Municipality of Whistler was created, with broad discretionary land use powers, leading to several affordable housing developments. The Whistler Valley Housing Society (WVHS), a non-profit group, was formed in 1983 to provide affordable housing to workers. (Dickinson *et al.,* 2009). However, to accelerate provision of affordable housing, the Municipality created the Whistler Housing Authority (WHA) in 1997. This independent municipally-owned corporation used the fund to develop affordable housing.[7]	Developers providing affordable rental and owner-occupied housing for key workers struggling with rising housing costs. Eligible households are assessed through various criteria, including: income, length of time living and working in the community, and family size. Priority is given to 'core service workers' such as emergency service and education workers (Sidhu, 2016). The WHA has used a variety of different covenants and conditions placed upon mortgage titles to ensure that the housing remains affordable over time.	The WHA is an independent municipally-owned corporation with a board of directors that includes community representative appointed by the Municipality.	The Employee Housing Service Charge bylaw was introduced in 1991 to support the development of employee housing. It operates through inclusionary zoning requiring all commercial, industrial and tourist accommodation developers to contribute to the affordable housing stock either directly or by providing cash-in-lieu to the Employee Restricted Housing Fund (ERHF). The WHA has leveraged the fund to secure bank loans to build rental housing and generate equity to fund future developments. The WHA also has income from rental units, which make up half of the stock (1082 units).[8] Recent cooling of development activity in the region has seen the fund dwindle. By 2021, the fund was dry, with the Municipality turning to debt-funding two new apartment buildings to provide affordable housing to the region (Dupuis, 2021).

[7] https://whistlerhousing.ca/pages/about
[8] https://cdn.shopify.com/s/files/1/1211/9038/files/Employee_Restricted_Housing_Inventory_List-_Master_05-01-2021.pdf?v=1620947502

Aberdeenshire, Scotland[9]	Aberdeenshire Council set up the Affordable Housing Reserve Fund to bridge the gap between total development costs and the limitations of existing funding streams for developments that include affordable housing. The Council has previously provided other forms of funding to support building affordable homes across Aberdeenshire.	The Council states that all projects are subject to eligibility tests to ensure best value. Funding is awarded when it is considered that without the HRF's 'gap funding' an affordable housing development would not be able to otherwise proceed.	Operates within the Council.	Two primary levies are identified by the Council as contributing capital to the fund: (1) The 2nd Homes Council Tax, a charge on second homes (owned but not occupied as main residence); (2) Developer obligations, an inclusionary zoning rule that also allows for 'cash-in-lieu' contributions to the fund.
Moreland, Australia[10]	In 1994 the Moreland Council set aside $1.5 million in a fund to contribute towards joint venture projects identified as providing affordable housing. In succeeding years, funds were spent on land purchases and contributions towards the development costs of dwellings, including partnership projects with housing associations.	Published available eligibility criteria for joint venture projects were not found.	The fund was previously operated by the Council. In 2018 the Council created Moreland Affordable Housing Ltd (MAH), a not-for-profit company, to partner with organisations to generate affordable housing. MAH is operated by a Board of Trustees and an Executive Officer.	There was no on-going funding stream allocated and between 2014-2018 the fund appears to have become inoperative for a time. However, in 2018, the Council resolved that the trust would be granted a recurring revenue stream through receiving 50% of the proceeds of the Council's sale of abandoned vehicles.

[9] https://www.aberdeenshire.gov.uk/media/21913/aberdeenshirelocalhousingstrategy2018-2023.pdf
[10] https://mah.org.au/

Advantages and Disadvantages

These examples illustrate several themes in the development of a successful affordable housing model using an HRF:

1. Local solutions are created that attend to the housing needs of residents and the local economy and social environment. Context-specific factors determine the type of organisational structure, funding mechanisms and sustainable revenue streams adopted.
2. Investment in and provision of affordable housing has a strong focus on low- and moderate- income households, including key workers that are critical for the local economy.
3. HRFs tend to fill critical gaps in the funding and provision of social and affordable housing, since they focus on housing needs that are not well resourced by central government or philanthropic sources, nor met by the private sector.
4. Retention of affordability for households over time is achieved through various mechanisms, generally covenants and conditions placed on re-sale.
5. Mechanisms to disburse funds for the creation of affordable housing include grants, loans, reduced development contributions and equity investment.
6. A variety of revenue sources to ensure the HRF remains sustainable over time are evident, including funding from central and local government, private developers' contributions (e.g., through development levies, voluntary/negotiated contributions and inclusionary zoning or other value uplift mechanisms), taxes or levies, and with contributions of private households (e.g., through shared-ownership models).
7. Several examples combine the use of an HRF to fund affordbale housing, with the creation of a community land trust, as an affordability retention mechanism.
8. Ensuring a sustainable funding stream to maintain the viability of the HRF is a major challenge.

The creation of an HRF specifically for growing the supply of affordable housing has several advantages. It creates a mandate for action by systemically shifting affordable housing funding discussions away from budget allocations negotiated year-by-year, to a clear on-going commitment of dedicated public revenues. A fund also establishes a clear role for local authorities in contributing to and supporting the provision of affordable housing, which can be employed both strategically and flexibly to identify and target funding priorities. In contrast, an infrastructure fund targeted at making more land available for development or by allowing greater intensification of existing urban space may generate additional supply of housing but does not guarantee any improvements in affordability (Gurran *et al.,* 2021).

By creating a specific revenue stream outside of general local authority budgeting, an HRF can be more responsive to the emergence of unique opportunities as well as address the specific needs that exist in different communities and locations. For instance, an HRF can be utilised to help identify and attend to the most critical housing needs of each community – including anything from establishing long-term affordable rental properties for low-income families to supporting pathways toward homeownership, from funding new developments to revitalising neighbourhoods, or addressing the needs of groups with specialised housing needs.

Another advantage of an HRF is its use to leverage funds from other sources, particularly central government, but also from private sources, that would not otherwise come into the community (Policy Link, 2005). In this way, HRF funds can be deployed strategically to 'plug a gap' in funding from other sources. Gap funding can ensure that an affordable housing development materialises and 'gets across the line' where it may have otherwise failed.

Studies also point out that HRFs have wider economic benefits, since in itself housing construction stimulates other sectors of the local economy, while affordable housing provision enables households to spend more of their income locally on non-housing goods and services (Policy Link, 2005).

A major potential challenge for HRFs is the vulnerability of revenue streams. HRFs are rarely self-sustaining, meaning they require ongoing sources of sufficient funding. Many HRFs are funded, at least in part, through levies paid by developers, a form of value uplift where the increase in land value caused by public actions is directed to community benefit. The City of Los Angeles Linkage Fee is an example (Table 1). These 'cash-in-lieu' payments can be used to increase the supply of affordable housing to communities in times of market demand and development activity.

Some have argued that HRF reliance on developer contributions exposes these funds to housing market shocks that may increase the need for emergency and affordable rental housing while simultaneously drying up a primary source of funding – developer paid levies (Scally, 2012). The drying up of Whistler's HRF in recent years can be seen as an example of this problem, where slowing developer activities has reduced available funding while the need for more affordable housing has remained. Arguably, well-designed inclusionary zoning policies with value uplift requirements should feature a 'self-levelling' mechanism, so that in a subdued market they do not burden developers. The challenge is to deliver a policy that is consistent over time (so that people understand the requirements and plan for them) but also flexible enough to respond to changing needs and market conditions (Gurran *et al*., 2018).

4. Nelson's Housing Reserve Fund

The formation of Nelson's HRF began around 2018, with the Council's recognition that the region was facing significant and increasing housing unaffordability.

Over the years housing unaffordability in Nelson has grown. Since it was first published in 2004, the Massey Home Affordability Index has consistently identified Nelson as one of New Zealand's least affordable regions. The Ministry of Social Development's (MSD) Housing Register, which records those households not in public housing, but currently eligible, reveals that the numbers of those on the register have more than doubled since 2017 for both Nelson and the adjacent Tasman region. However, more recently Tasman's waiting list has plateaued at around 150 people, while Nelson's has continued to accelerate to 294 by March, 2022.[11] The unmet housing need in both regions is likely greater than identified by the Housing Register. A recent analysis of Nelson's housing unaffordability shows that 4,570 (65%) of private renter Nelson households in 2021 could not afford median rents and an estimated 5,750 (82%) of private renter households were unable to enter owner occupation, even at the lower quartile house price (Mitchell & Saville-Smith, 2022).

Infobox 2: Availability of Public and Social Housing in Nelson

- The waiting list for public housing has doubled in Nelson since 2018, from 111 to 212. As of March 2022, there were 294 people on the list.
- By June 2021, Kāinga Ora had a total of 569 units in the Nelson region ranging from one-bedroom to five-bedroom properties.
- Nelson City Council's community housing portfolio consisted of 142 units, with nine complexes providing 49 bedsits, 50 single and 43 double bedroom units for people aged 65 and over (Nelson City Council, 2017).
- Three CHPs operating in Nelson, providing for a variety of housing needs, have around 80 properties.

The 2020 Nelson – Tasman Monitoring Report for Urban Development Capacity identifies that demand continues to outstrip supply in both regions, with building consents falling behind household growth in Nelson. Together both councils have prepared the *Nelson – Tasman Future Development Strategy* to identify and evaluate potential future residential development options to ensure sufficient development capacity in both regions, in the longer-term. However the development strategy is silent on whether the new supply would or should meet any housing affordability objectives.

In considering the HRF, the Council's focus was on both the social and economic outcomes of diminishing housing affordability. Council identified a critical gap emerging between the 'high end' price point mostly pursued by private developers and the struggles of working families to access affordable rentals, while homeownership was increasingly out of reach. Council reported hearing from businesses struggling to recruit new employees due to the shortage of affordable housing in Nelson. The high cost of housing across Nelson was hampering the ability of key workers to find appropriate, affordable housing, reasonably

[11] https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/housing-register.html#LatestresultsndashnbspMarch20221

close to their places of employment. Significant challenges in recruiting and retaining needed workers in Nelson-Tasman, due to unaffordable housing, is identified in the recent joint regional economic report.[12] Housing affordability for key workers in Nelson and Tasman is certainly not a new problem; its social and economic impacts on those regions through interaction with shifting labour markets has previously been noted in housing research (Motu Project Team, 2006).

Beyond the affordability gaps between median household incomes and house prices/rents, there is also under-supply of public housing by Kāinga Ora and limited availability of social and affordable housing provided by CHPs. As shown in Infobox 2, the demand for social and affordable housing has grown rapidly in Nelson in recent years. The Council's pensioner housing waitlist as well as the MSD's Housing Register have reached record highs in the region.

The three local CHPs, Nelson Tasman Housing Trust (NTHT), Habitat for Humanity Nelson, and Abbeyfield, are intensely interested in the potential of the HRF to support the development of affordable housing in Nelson. All three CHPs report demand for their housing is greater than what they can supply. The CHPs were established as community responses to the growing unaffordability of housing in Nelson and the adjacent Tasman region and, as a consequence, provide a range of affordable housing options in both areas. Although there is some crossover, each CHP has distinct activities and orientations toward particular segments of the Nelson community. NTHT, established in 2004, provides both affordable rentals and public rentals through the IRRS.[13] Habitat, operating in the region since the 1990s, focuses on providing progressive home ownership. Abbeyfield provides affordable supported shared rental housing for older people. It currently houses around 40 seniors in three properties. Abbeyfield believes there is scope for operating up to four more houses based on their current waiting lists.

Divestment of Pensioner Housing

The story of the creation of the HRF cannot be separated from the history of the divestment of the Council's pensioner housing stock, since sale proceeds from divestment provided a fund that could potentially be used for a housing purpose. Many of the issues evident in consideration of selling off the stock, and public responses to that idea, raised questions about how to increase the supply of affordable housing, and, if the fund were to be used for that purpose, who should benefit.

The decision to divest Council housing stock should be understood within broader national policy and legislative contexts. Councils' provision of housing for older people with little income and few or no assets was a partnership between central and local government established in the 1960s. Central government provided low-interest loans and grants for

[12] See Nelson-Tasman Regional Skills Leadership Group https://www.mbie.govt.nz/dmsdocument/19350-nelson-tasman-local-insights-report-march-2022

[13] The IRRS sets rents for low-income tenants at 25 per cent of their income, with the Government providing the balance of the rent to the housing provider up to an agreed market rent. Currently, the subsidy is available to eligible tenants housed by Kāinga Ora and registered CHPs.

council-built housing, although this ceased in 1991 (McKinlay Douglas, 2004). Like many local bodies, Nelson benefitted from this funding.

Over the years, the pensioner housing stock was intended to be self-funding through the rental revenue collected. However, like many councils with portfolios of social housing, a common motivation to divest Nelson Council's ageing housing stock has been impending upgrade and renewal costs expected over the coming decades to meet Government's strengthened healthy homes regulations, [14] as well ongoing maintenance requirements, which have been deferred. As a result, the stock has gradually deteriorated and become less able to meet the health and safety needs of older residents, as well as the community's changing expectations around the size, design and quality of seniors' housing. Many units are bedsits and lack accessible features. The ongoing investment required to bring the stock up to modern standards posed significant contingent liability and was raised as a future risk for Council that needed to be dealt with in the Long Term Plan. In 2019, the Council estimated that it would cost $20 million over the next 20-25 years to do needed maintenance, upgrade and modernise the stock and to meet the healthy homes standards. The Council considered that the work could not be done without additional funding (Nelson City Council, 2019).

Further to pressing needs for stock improvements, a critical policy impacting on the Council's decisions about its pensioner housing stock has been the IRRS. The targeting of the IRRS, only available to eligible tenants housed by Kāinga Ora and registered CHPs, excludes the tenants of council-owned social housing from the subsidy. Council members across the country have voiced their dissatisfaction with this policy, claiming it creates a "two-tier system within social housing" (Te Ora, 2021). This discrepancy has prompted some councils to divest their stock to registered CHPs or Kāinga Ora. For example, in 2016 Christchurch created a CHP, Ōtautahi Community Housing Trust, to lease and administer their social housing portfolio – although Christchurch City Council retains responsibility for major maintenance, insurance and capital development. Hamilton City Council sold its pensioner housing stock to Accessible Properties in 2015 and Horowhenua District Council sold its pensioner portfolio of 115 housing units to Compassion Housing in 2017. Both Accessible Properties and Compassion Housing are CHPs. In Tauranga, plans are well underway to sell seven of the council's senior housing villages to Kāinga Ora, with at least some of proceeds of the sale earmarked for deposit into an HRF (Tauranga City Council, 2021). Wellington City Council has begun a process of divesting its affordable housing stock and will likely create a CHP to take over management of its social housing stock.[15] Ashburton District Council is currently considering the sale of their Elderly Persons Housing portfolio – potentially to Kāinga Ora – and have noted Nelson City Council's HRF as a potential option for the district (Ashburton District Council, 2021).

[14] The healthy homes standards became law in 2019 and introduced specific and minimum standards for heating, insulation, ventilation, moisture ingress and drainage, and draught stopping in rental properties.
[15] See https://www.stuff.co.nz/life-style/homed/housing-affordability/129127818/wellington-council-loosens-grip-on-troubled-social-housing-portfolio

Another push factor towards divestment has been the Council's concern about the "inequity for other ratepayers, in effect, subsidising tenants in community housing through rates" (Nelson City Council, 2019). This framing of equity for ratepayers is a traditional and long-standing one among councils arguing "… that core social assistance spending is a responsibility of the taxpayer, not the ratepayer" and that "… services that are akin to income redistribution (if social housing is such a service) should be funded by the taxpayer not the ratepayer" (McKinlay Douglas, 2004, p.47). Following on from this position is a widespread view among councils that if the provision of pensioner or other social housing incurs expenditure from rates (i.e., it is not self-funding through rental income), then it is a 'subsidy' to those tenants. In essence, the 'equity' issue was that with the rapidly growing demand for affordable housing in the region, the council saw it as inequitable for low-income owner-occupier ratepayers, particularly older owner-occupiers, to be, as council perceived it, 'cross-subsidising' council tenants' rents and the costs of upgrading.

When the plan to sell the stock to another provider was released for public consultation, some tenants expressed disquiet, stating they were fearful they might need to find somewhere else to live (Bohny & Jones, 2019). A particular concern arose from a Council statement saying the sale would likely involve a 'reassessment' of current tenants' housing needs. This reassessment would likely be in relation to eligibility to receive the IRRS. The tenants dismissed the Council's reassurance that they would be able to remain in their homes as an "empty promise", since they believed the eventual buyer would likely intend to demolish their homes to redevelop the land (*ibid*).

The sale of the pensioner housing stock went to open tender, with the Council seeking proposals for purchase of the stock. With NTHT having already been managing the Council's pensioner stock, the Trust was a potential purchaser. CHPs would also be able to access the IRRS for eligible tenants. Council indicated that CHPs were interested in purchasing the stock. However, in the media, the local CHPs expressed an awkwardness in submitting a proposal if they were to be competing with Kāinga Ora for the housing (Bohny & Jones, 2019). The CHPs felt a competition between themselves and a government agency would be unproductive.

In November 2020, a year after public consultation on the divestment, Council confirmed that Kāinga Ora would purchase its pensioner housing stock. Council indicated they were attracted to the price and package that Kāinga Ora proposed – including tenant security, stock upgrades, and the potential to increase stock through intensification.

The Council stated it favoured the sale to Kāinga Ora, believing that it offered existing tenants the most assurance of stability and security in their home. In contrast, council tenants had previously expressed concerns that a transfer to Kāinga Ora likely would change their living environment, from a housing complex solely for an older age group to one with a more diverse range of ages and households living in the same complex. Tenants were also concerned that their tenure was no longer secure. Several expressed feeling unsafe in a potentially new and unknown environment. Certainly, eligibility for public housing is based on serious housing need as assessed by MSD, using the criteria for the Housing Register.[16] Applicants must have a very high level of housing need to access public housing, and simply being over the age of 65 is not an eligibility criterion. It is conceivable that in future, eligible people under the age of 65 will be housed in the former Council stock taken over by Kāinga Ora, and that older people seeking affordable rentals will not be eligible for that housing.

The Memorandum of Understanding (MoU) signed between the Council and Kāinga Ora at the time of the sale includes a clause that future tenant placements would 'bear in mind' compatibility within existing communities, although this provision seems to place minimal obligation on Kāinga Ora. However, a joint statement from the council and Kāinga Ora clarified that there would be rent 'top ups' for any tenant that did not qualify for the IRRS, and existing tenants' access to community housing would be retained. [17]

Another perceived benefit of the sale from the Council's viewpoint was that Kāinga Ora was formed in 2019 with an expanded mandate in comparison to the former state housing provider Housing New Zealand. As the Government attempted to ramp up the supply of affordable housing, the generation of housing more broadly, not only for public rental, became a central concern of the newly formed agency. This new mandate aligned well with the Council's wish to increase housing supply through intensification, with the pensioner housing sites being a prime opportunity. While Kāinga Ora stated that the intensification of the sites was not an immediate intention upon purchasing the stock, the recent acceleration of housing demand and increasing unaffordability has led them to consider this a more pressing task. Kāinga Ora stated that, given the shortage of housing, all their sites in the region are being considered for redevelopment, as many of their properties consist of older state housing stock on large sections that could be intensified by building new, smaller homes.

Furthermore, Kāinga Ora's expanded powers for urban development under the Specified Development Project (SDP) legislation and its growing presence in the region have made a partnership approach a potential pathway for advancing and enhancing housing supply through a more streamlined process. In a separate initiative, the Council is considering the sale of land in Nelson's city centre to Kāinga Ora for re-development, with a proportion of the new dwellings to be social and affordable housing (Bohny, 2021a). There continues to be close discussion between the Council and Kāinga Ora about potential sites for intensification and using the infrastructure fund to catalyse this process.

Decision to create the HRF

With an awareness of the pressing nature of housing unaffordability, the Council considered various options for using the money from the sale of its pensioner housing to stimulate affordable housing supply. Ultimately, the decision was made to direct the proceeds from the sale to create a fund reserved for the provision of affordable housing. The idea of an HRF was first presented for public feedback in a 2018 discussion document in the Long-Term

[16] https://www.workandincome.govt.nz/housing/find-a-house/who-can-get-public-housing.html
[17] https://our.nelson.govt.nz/media-releases-2/nelson-city-council-transfers-community-housing-to-kainga-ora-for-19-8m/

Plan. In June 2019, after public consultation, the Council approved the divestment of its portfolio of pensioner housing and a proportion of the sale of the pensioner housing stock was allocated to create a new 'Housing Reserve Fund'.

The divestment process culminated in the 142 pensioner housing units being sold at a market valuation of $19.8 million, with the transfer of ownership to Kāinga Ora to be completed by February 2021. While the sale generated almost $20 million, the conditions of the sale meant that just over half of proceeds, $12 million, went to forming the HRF. From the proceeds of the purchase, certain sums were allocated for other purposes. A $1.5 million Housing Innovation Fund (HIF) suspensory loan would be repaid and an additional sum set aside for deferred maintenance, and bringing the properties up to the healthy homes standard. A further $5 million was put into a capped fund for further intensification to be completed within a set timeframe. An additional sum was set aside to provide rent top-ups for the small number of existing tenants who might not meet the eligibility criteria for the IRRS.

Design and Implementation of the HRF

Council has spent considerable time deliberating over details of the HRF, including its purpose and scope, governance arrangements and how it would be operated. The Council chose to retain governance and operation of the HRF, rather than creating a separate entity for that purpose. Initial work on the fund was undertaken by the Council's Strategy team, with implementation and administration of the fund later shifting to the City Development team. Governance of the fund sits with elected councillors and decisions are made about the fund by councillors on the basis of reports prepared by staff.

Establishing the fund required work on clarifying its purpose and scope, targeting and eligibility criteria, mechanisms for disbursing funds and how to ensure its long-term operation. An early point of contention was the requirement, stated in Council consultation documents, for the fund to be "enduring". This wording has led to uncertainty around the types of mechanisms that would be used to disburse the funds, such as whether grants or loans would be favoured, since these would have different implications for replenishing the fund.

Once its establishment was made public in late 2020, there was growing pressure, particularly from local CHPs, to release funding from the HRF for the creation of affordable housing. During 2021, as the release of funding continued to be pushed back, the CHPs argued that the potential value and impact of the fund was draining away, as land values continued to increase. This sense of urgency was echoed by other community organisations (Bohny, 2021c; Bohny, 2021d).

The Council's City Development team considered the benefits and risks of releasing some money from the HRF, before the objectives, processes and criteria had been fully settled. The Council initially expressed a desire to take the time needed to 'get it right' before implementing the fund. However, in October 2021, Council agreed there was a good argument to fast-track the release of some funds. The Council recognised there was a risk of disagreement about eligibility criteria, but that those risks were partially mitigated by stakeholder engagement and outweighed by the benefits of attending to the community's immediate housing need and the opportunity to "road-test" the proposed objectives of the Fund (Nelson City Council, 2021a).

These deliberations culminated in the 'Phase One' release of funds. To guide the operation of Phase One and the HRF as whole, the Council identified a vision and four principles. The Vision for the fund is:

> *Council provides a stewardship role to increase and enhance the value of the Housing Reserve as a fund that enables the delivery of sustainable, quality and affordable homes for the Nelson community over generations.*

The principles are:

1. The Reserve increases access to safe, warm, dry affordable homes for the Nelson community.
2. The Reserve will be operated so it can continue delivering affordable housing to future generations.
3. The Reserve prioritises collaboration with capable, experienced partners.
4. The Reserve provides a flexible framework which is responsive to and encourages innovation from partners.

The Phase One call for proposals in October 2021 involved $2 million in capital grants. The Council indicated that this initial amount was not a "hard cap," and more grant funding could be made available if there were enough worthy applications (Bohny, 2021b). After assessing applications for funding, in April 2022, the Council announced $1.85m in funding would be released towards two projects, one led by NTHT and the other led by Habitat (Bohny, 2022). NTHT were awarded $850,000 to support development of five affordable rental homes (one four-bedroom and four two-bedroom units) in Tāhunanui. Habitat was awarded $1 million to support development of 14 dwellings in Stoke (two affordable social rentals and 12 made available through Habitat's rent-to-buy progressive homeownership programme). Both CHPs expect that this funding will enable them to leverage further funding from other entities such as philanthropic trusts and central government.

This first release of funds from Nelson's HRF has served to clarify several policy matters:

- Affordability has been defined in the evaluation criteria of the Phase One documentation, as housing for "low-moderate income households that is provided at the cost of no more than 30% of the household's income" (Nelson City Council, 2021b).
- The concept of the HRF as 'enduring' has also been clarified for Phase One, with enduring referring to the affordability of dwellings built. The criteria state that the grants will enable partners to "deliver an enduring supply of affordable housing in Whakatū Nelson" and that "*enduring* in this context means housing … that is retained for affordable housing over its natural lifetime (50 Years)" (Nelson City Council, 2021b). By outlining that the long-term impacts of building affordable housing will be

considered, this statement seems to resolve the uncertainty about whether capital grants from the fund could be considered ‘enduring’.

- The types of providers able to access the fund, including the potential role of private developers. Phase One funding has excluded private developers and individuals. The eligibility criteria for Phase One was relatively narrow, requesting only proposals from “Community Housing Providers registered with the Community Housing Regulatory Authority and/or local iwi trusts”, with a “local presence” and “well-positioned to deliver new affordable housing in Whakatū Nelson” (Nelson City Council, 2021b).

As for the future release of funding from the HRF, the Council has stated that more work is needed before additional applications will be sought, with an intended second round of funding to be announced later in 2022. Before that happens, there is likely to be further policy work associated with the HRF on key aspects of the fund’s structure, targeting and sustainability, including consideration of whether it will be reshaped or follow an approach similar to that taken in Phase One. In particular, the following areas for review are apparent:

- The HRF’s funding mechanisms. While Phase One focused on one funding mechanism, capital grants, other funding mechanisms are possible, as shown in HRF examples overseas, including low-interest or suspensory loans and provision of land for lease to not-for-profit housing providers.
- Refinements to definitions of affordability, and whether specific housing types and price-points will be preferred.
- Targeting the HRF to areas of housing need outside of those provided for by others (e.g., Kāinga Ora).
- Requirements to ensure that the affordability of housing developed with support from the HRF is maintained over time.
- Whether private developers will be able to access the fund, either alone or in partnership with a not-for-profit entity.
- Whether the fund will allow developments to include a mix of affordable and market-rate housing. At present it appears that this would be unlikely to fit the fund’s intent, which may deter for-profit developers.
- Governance of the fund. At present the fund is governed by councillors, however it has been indicated that in future external parties may be included when the HRF is fully operational.
- Ensuring sustainability for the fund, including the timeframes in which returns are expected. It is documented that the HRF is intended to be “enduring”, but what this means in practice remains unclear. While Phase One has recognised that houses built using the HRF will have long-term benefits for the community, there is currently no plan for ensuring an on-going revenue stream into the HRF, thus keeping it operational once the existing $12m is disbursed.

5. Key Themes and Issues

In this section, we present the key themes and issues interviewees raised about the HRF, and the extent to which it is seen as a housing innovation.

Across the interviews, the HRF was seen as innovative. One CHP called the fund "ground-breaking", suggesting that Nelson could be a leader nationally, by showing how an HRF could work. Another CHP commented favourably on the establishment of the HRF, saying "in the current environment it's hard to imagine any other council doing what they have done."

Depending on how the HRF is implemented, CHPs see the fund as being innovative, not only in terms of enabling affordability, but also by supporting diverse tenures, a range of housing typologies and technical building innovation. They believe that achieving all those elements through the HRF would increase the number of affordable homes. Echoing the desire to support innovation, one council officer talked about wanting the fund to be designed and implemented with enough flexibility to encourage rather than stifle innovation, and to be open to different ideas on how the fund could be used.

While there was clear support for the innovative aspects of the HRF, interviewees also identified several issues prior to the release of funding in Phase One. The key issues were:

- The time taken to implement the HRF.
- Targeting the HRF.
- Mechanisms for release of funds.
- Land issues.
- Challenges and opportunities of partnerships.
- A sustainable funding stream for the HRF.

Time taken to implement the HRF

The creation of the HRF has been a lengthy process, especially when the time taken to divest the Council's pensioner housing stock is also accounted for. Divestment took three years to complete. Subsequent work on the HRF's design and implementation took over a year, culminating in the decision taken to release a portion of funding early, before all policy work was completed, through Phase One.

An impression among some stakeholders was that, subsequent to the announcement that there would be an HRF, there was little detailed information released about the fund, with communication about it being sporadic. Some interviewees considered there was a lack of clarity in policy and objectives. This gave the impression that progress in designing the fund was slow. As one CHP commented, "You can't disagree with the principles of the reserve fund, but where is the detail? It is unclear how the fund is going to work." Another interviewee considered there were "mixed messages" about the fund's target group, the methods for releasing funds, and who would be eligible to apply to the fund, including the potential role of private developers.

While the three CHPs considered they had good working relationships with the Council, they expressed frustration at what they saw as lack of progress with the fund, especially during a time of rapidly inflating land values, which increased the risk that the fund's capital value would be eroded the longer deployment was delayed. The CHPs commented that the perceived lack of progress and little specificity regarding the fund made it difficult for them to anticipate and plan for future development opportunities and funding partnerships. In attempts to obtain more information and clarity about the HRF, the CHPs regularly communicated with the Council, including preparing a joint document on their position regarding the HRF, with suggestions for how the fund could operate.

City councillors and staff were acutely aware of interest in the HRF, not only from CHPs, but also from the wider community. They wanted to progress the fund to implementation, especially considering the increasing housing need in the area. They acknowledged there was a lot to learn in creating the fund. One councillor commented that establishing the fund was a bigger task than expected. Housing involves multiple organisations with differing responsibilities, as well as land planning issues that require consideration. This has made developing a fund for affordable housing more complex and requiring more resources than Council had anticipated. There was also the need to take time to obtain broad agreement on and support for the HRF in the community.

Since the HRF was not originally planned as part of the sale of the pensioner housing stock, its implementation has unexpectedly contributed to the workload for council staff. The Council's City Development team have had multiple high priority and time constrained projects related to urban development to work on alongside developing the HRF – including a city centre spatial plan, the housing and business capacity assessment required under the NPS-UD, an application to the Government's infrastructure acceleration fund, and starting the future development strategy. These priorities meant that there was only slow progress on the HRF during the first half of 2021. The work on the HRF also coincided with the COVID-19 pandemic disruption, which has caused additional delays. To support the increasing workload around housing and urban development, new funding was made available in 2021 to create a 'Strategic Housing Advisor' role for the purposes of accelerating work on the HRF, among other housing matters.

Targeting the HRF

To implement the HRF vision of enabling the supply of sustainable, quality and affordable housing for Nelson, the Council has had to identify who would benefit from the fund. As part of these deliberations, affordability needed to be defined. There was little detail in the initial documents released for public consultation on the creation of a Housing Reserve as to what was meant by affordability in relation to the HRF, the groups in need of affordable housing that would benefit from the fund and how the fund would operationalise affordability.

Prior to the release of documentation for Phase One, there was speculation among some stakeholders about the groups that would be targeted by the HRF. Abbeyfield noted that unaffordable housing is a huge problem for older people in the region and that unaffordability is increasing for this group, since older people with few or no resources have very little housing choice. Accordingly, Abbeyfield expressed concern that the sale of the Council's pensioner housing to Kāinga Ora might reduce the amount of housing available to and suitable for older people. Therefore, they wanted to see the HRF enable building affordable housing for older residents.

Both NTHT and Habitat identified a range of individuals and households that could potentially benefit for the HRF. In addition to those on very low-incomes, groups suggested as potentially benefitting from the fund include: at-risk young people; those needing affordable rentals who do not qualify for public housing but who cannot pay market rents; and people who cannot afford to buy a home but would be able to sustain a mortgage through some sort of progressive homeownership (such as rent-to-buy or shared equity). One CHP suggested that the Council should consider a "broad spectrum" of solutions to the city's housing affordability problems, to provide not only affordable rentals, but a variety of pathways towards greater housing affordability through offering a range of tenures.

As noted above, the release of Phase One of the HRF somewhat clarified the concept of affordability, including who the fund would target. Low-moderate income households would be targeted, and affordable housing was defined as housing costs of no more than 30% of a low-moderate income household's income.

Funding mechanisms

The Council conducted discussions with around a dozen philanthropic and other organisations to gauge the benefits and limitations of different mechanisms for releasing funds, such as grants or loans. The Council was aware that grants were a preferred option of CHPs, however there was a concern expressed by other interviewees that grants could dilute the fund quickly, overall resulting in fewer houses built through the fund.

Furthermore, grants would not provide future income for the HRF through repayments, as would be possible through issuing loans. The requirement for the HRF to generate "enduring" benefits, as stated in Council consultation documents, has provoked questions about how fund recipients would satisfy such a condition. In conjunction with the notion of enduring benefits, was the initial intention that the fund would recoup money through revolving its funds, thus enabling further investments to be made that would increase the numbers of affordable housing. This early documentation regarding the HRF seemed to imply the release of funding would favour a loan mechanism.

CHPs expressed concerns over whether the HRF's mechanisms for releasing funds might prioritise one group in housing need over another, or one type of housing, or tenure, over another. There was also a concern that some housing providers could be potentially favoured over others or that the chosen funding mechanisms could even preclude some not-for-profit providers from accessing the HRF altogether. This was a particular issue for CHPs providing rentals, who felt that their role in providing affordable housing through the fund may be diminished if there was an emphasis on the fund money being recycled into new housing developments. This would be particularly hard to achieve with the low returns from affordable rental property.

One CHP considered that support from the HRF could have a significant impact in increasing affordable rentals, as it would fill a funding gap for CHPs, rather than duplicating other, limited funding sources available to them. Over the last few years the dominant funding source for new CHP housing has been the IRRS targeted to households needing public housing, not households needing affordable housing that fall outside of public housing eligibillty criteria. That same CHP suggested that building affordable rental housing would deliver ongoing, and therefore *enduring*, benefits to the region, through maintaining rental affordability in the long-term. Other interviewees noted that forms of affordable housing developments such as shared equity or rent-for-buy programmes also have very few funding options, and those solutions could benefit from the HRF.

The CHPs had differing views on the HRF being released as loans. Two CHPs commented that they would be unlikely to access the HRF if it were released solely as loan financing, since they already have well established relationships with lenders and considerable equity in their properties. At the least, the CHPs agreed that access to low-interest or suspensory loans through the HRF as part of a mix of funding mechanisms would be suitable.

All the CHPs emphasised that what they require foremost is access to upfront capital funding, preferably in the form of grants to allow them to finance new builds. One CHP said that they saw the most potential in the HRF providing capital grants or some type of suspensory loan, which could partially fund a build, and which also could be used as a catalyst to raise more funding, in the form of grants and loans from additional funding sources.

Land issues

As noted in Section 2, Nelson's settlement is concentrated in its urban area, which is contiguous with Richmond in Tasman District. Furthermore, the constraints of Nelson's small size and hilly topography bounded by the sea add complexity to decision-making about whether land is suitable for residential development and intensification. Up to now almost all of Nelson's residential development has been in greenfield sites, however, greenfield land is at a premium, and options for re-development of existing sites and intensification have become critical. These significant constraints, and the need for planning solutions, have been recognised in Nelson's Intensification Action Plan[18] as well as work undertaken on the new Whakamahere Whakatū Nelson Plan, which will include regulations to enable intensification in both greenfield areas and brownfield areas identified for intensification.

Some interviewees were interested in how the HRF would address on-going land issues affecting developers of affordable housing, who are faced with three significant challenges: the constraints of local topography, the cost of land, and planning rules determining what can be built on the land. The three CHPs have encountered challenges, including a dearth of suitable sized sites, the degree of intensification allowed, and the processes around obtaining consent for development where the design, number of dwellings proposed or

[18] http://www.nelson.govt.nz/assets/City-Development/19453-NCC-Intensification-Action-Plan-Nov20-PRINT-inhouse.pdf

other details, are not permitted as of right on a lot. Having to go through a full resource consenting process to obtain permission to undertake development, which requires public notification, a hearing and might require going to the Environment Court, means considerable expenditure with no guarantee of success.

Another hurdle identified by CHPs is private land covenants imposed, not by council planning regulations, but by developers. Some covenants prohibit public and social housing, thus reducing the amount of land potentially available for affordable housing. Moreover, it is common for covenants to allow only one dwelling per site or to place restrictions on dwelling design, typology, construction materials and minimum size requirements, which constrain opportunities for building affordable and social housing (Fredrickson, 2018).

The difficulties in finding suitable land can significantly affect the viability of an affordable housing development. As one CHP commented, “it means that we can’t build in many places or do a comprehensive plan – so many sites don’t work for us.” These difficulties have led some interviewees to think that the provision of land for affordable housing and retention in public or community ownership, e.g., in the form of a land trust, could be a solution. This model might also fulfil a goal that the fund is “enduring” since the land asset could continue to provide affordable housing for future generations. The councillors interviewed confirmed that a land trust was a possible option for the HRF. However, they believed that this model would likely be problematic for some CHPs, as equity in land ownership is a predominant mechanism used to leverage further funding. Some CHPs interviewed would consider leasing land for development, although the financial viability of a leased site would depend on the cost of the lease and the length of the lease term. While land ownership confers advantages, using leased land could work as part of a CHP’s wider affordable housing portfolio.

Partnerships

Some interviewees were interested in how the HRF would foster partnerships as a way of increasing the fund’s impact. Partnerships to develop affordable housing were suggested with central government agencies (such as Kāinga Ora and the Ministry of Housing and Urban Development), CHPs, philanthropic funders, councils (including the neighbouring Tasman District), private developers and iwi.

One interviewee suggested that the HRF could partner with other funders to leverage matching funding for approved affordable housing projects. The projects funded by Phase One demonstrate the added value the HRF can provide, since the CHPs had already secured partial, but insufficient, funding. The HRF’s provision of ‘top-up’ funding has played a crucial role in progressing these projects, allowing the fund to have a broader impact than if it were only used to fully fund developments.

One CHP suggested that partnerships could be wider than housing, by including organisations involved in skills development and technical innovation. Another CHP suggested that the governance of the HRF should be based on a partnership model, expanding the governance group from councillors as it is currently, to include community representatives.

Under consideration in the design of the HRF were the types of providers able to access the fund, including the potential role of private developers. However, the role of for-profit developers as active partners does not seem possible at present. The eligibility criteria for Phase One invited only proposals from local CHPs and/or local iwi trusts and specifically excluded private developers and individuals from applying. (Nelson City Council, 2021b). Also unclear at present is the role of iwi in relation to the HRF. Iwi of the three regions at the top of the South Island have developed *Te Tau Ihu Intergenerational Strategy* with other stakeholders including the three councils. This strategy includes actions to deliver affordable housing.[19]

Sustaining the HRF

The conundrum of how to sustain the HRF, so that it can continue to fund affordable housing development in the long-term was raised by all interviewees. Councillors, staff, CHPs and other interviewees were concerned that the fund should not be "frittered away" or "drip fed" into a number of small initiatives with limited impact. All three CHPs saw the need to deploy Nelson's HRF strategically and with careful planning, emphasising that $12 million would quickly disappear when trying to provide affordable housing, especially as land prices continue to rise. One CHP noted, "Council has got a huge opportunity with the fund. The challenge is how to leverage it and grow it in a lot of ways."

In public consultation about the HRF, references to "enduring" and "sustainable" suggested a continuing subsidisation of the fund from Council sources or through releasing money from the fund as loans (both of which are funding streams used overseas to replenish HRFs). With Phase One funding being released through grants, questions remain as to how the HRF will attract further funding to maintain its viability in the long-term. Interviewees made several suggestions about ways to create and sustain a funding stream for Nelson's HRF:

- Council using its ability to access low interest loans to then provide loans to affordable housing developments at a below-market interest rate.
- Using the HRF to co-fund projects that can attract matching or part funding from other sources such as banks, government funding or philanthropic trusts. One interviewee suggested that the HRF could be used strategically to identify potential opportunities that would become viable with top-up funding from the HRF. Another interviewee suggested that the Council establish a partnership with another funder, such as central government or a philanthropic trust, to leverage ongoing funding.
- Create an impact investing model by involving local investors interested in social investment in the HRF. This is often called 'patient capital', where the investor invests for the long-term with no expectation of a quick return. Typically, those investors focus on mission-driven investments that have significant social and community benefits. A New Zealand example of the use of impact investing is Community Finance, an impact investment platform. [20]

[19] See https://www.tetauihu.nz/#te-rakau-taumatua-place
[20] See https://communityfinance.co.nz/

- The Council becomes an impact investor itself, by providing equity funding where it would retain some equity in the affordable housing development in return for providing funding.
- Value uplift strategies. Inclusionary zoning, one of various value uplift strategies used to fund HRFs overseas, has been raised as one way of establishing on-going funding for the HRF by CHPs.
- Establish a land trust to retain land affordability.

6. Conclusions

Many regions and cities in countries with which Aotearoa/New Zealand compares itself, are considering how to use innovation to improve housing affordability. The Nelson Housing Reserve Fund is an example of new ways of thinking and acting to increase affordable housing. It is the only example of an HRF in this country and currently one of only a limited number of local models initiated by councils to address problems of housing unaffordability and housing need.

Councils operate in an environment of public policy, planning and funding settings that affect local housing markets. Those settings drive much of what can be actually done, as well as the pace, scale and impact of development. The challenge for the Council has been to negotiate a new position for local government in addressing local housing needs. In essence, Nelson’s HRF is an innovative adaption to a prevailing policy environment directed by central government that has in the last few decades led local authorities away from direct engagement with housing provision.

Nelson’s creation of a fund for affordable housing signals an important return to engagement in the development of housing more directly by local government and a break with the expectation that housing is not a core responsibility for councils. The use of council funds is a recognition that local housing needs have not been adequately met by either the private market or central government, and that a different approach is required. The HRF offers the potential to address housing for key workers in the local economy, as well as unaffordable rents affecting increasing numbers of Nelson’s residents, from young people to senior residents. There is evidence that other councils are taking note of Nelson’s HRF and considering whether they too might achieve local social and economic objectives through attention to affordable housing.

Creating the HRF is new ground for the Council that has presented both challenges and opportunities for housing innovation. Developing a new approach requires considerable time and resourcing. At the outset there were no specialist housing staff within the Council to work on designing and implementing the HRF, which was a larger and more complex task than originally envisaged. Criticisms were made about a lack of clear communication on the fund’s purpose, policies and objectives, indicating a need to manage the wide range of key stakeholder and general community expectations. Recognising the lack of in-house capacity and capability as a limiting factor has led to an increase in staff resources to design, refine and deliver the HRF.

The mix of mechanisms that the HRF might use to release funding has been a key point of interest, as the chosen mechanisms affect the ability of housing providers to access funding, the amount and type of affordable housing that are likely to be delivered for the Nelson community, as well as the durability of the HRF over time. Local CHPs are well placed to deliver affordable housing, yet the capital funding sources available to them from central government, commercial lenders and private philanthropic sources are very limited. It is therefore unsurprising that the CHPs interviewed were vitally concerned about the mechanisms used to release funds from the HRF and whether those mechanisms would support a range of affordable typologies, tenures and target groups.

There is research evidence about the cost-effectiveness and public benefits of different approaches to creating social and affordable housing (Thomas, 2020). One of the most powerful levers is land planning policies that provide land through land banking or a trust, or require land, mainly through value uplift tools, to be allocated for social and affordable housing (Gurran *et al.,* 2018; Randolph *et al.,* 2018). Land levers such as these reduce the land costs associated with residential developments in unaffordable locations. Another effective lever is public investment through capital funding, either through grants, low-cost loans or equity funding. Land policies and public investment have been found to be the most cost-effective levers, not only for providers of social and affordable housing, but also for the funder because they directly contribute funding to affordable housing, rather than diverting funds to repayment of expensive borrowing. Land policies and public investment also enable more investment to be directed to future affordable housing developments (Lawson *et al.,* 2022).

One of the most critical questions remaining is the HRF's long-term sustainability. Sustainability is partly tied up with decisions about the types of mechanisms that will be used to release funds (e.g., the relative costs and benefits of grants or loans). But it is a bigger question; it is about securing an on-going and durable revenue stream for the HRF so that it can increase affordable housing supply. Currently the HRF does not have clear means of securing ongoing revenue, notwithstanding the stated requirement for it to be an "enduring" fund.

While the impact of the HRF can be beneficial in the short-term through provision of some affordable housing stock, a dearth of revenue coming in to replenish the HRF will be a limiting factor for its long-term operation and success (Scally, 2012). Also, depending on how the reserve is funded, it can take time to accrue enough capital to effect significant change (Ellery, 2019). Overseas examples show that those HRFs lacking a viable revenue stream tend to diminish as external contributions dry up, often due to changing political priorities. Conversely, long-running HRFs have secure ongoing income, often from multiple sources. Revenue streams are commonly tied to local or central government funding, and forms of inclusionary zoning or value uplift. The combination of an HRF with value uplift tools has demonstrated the most impact in generating affordable housing, although planning tools and enablers need to be present for the operation of value uplift, and impacts are more significant in high value markets with a lot of housing development (Beard, 2021; Lawson & Ruonavaara, 2020).

A key opportunity presented by HRFs is in enabling partenships. Often councils play influential facilitating roles through HRFs to bring together key organisations involved in the generation of affordable housing. While councils operate within national-level public policy and funding settings that drive much of what can be viably done, they also determine key aspects of local housing markets through their ability to set land use planning frameworks and control residential development. For example, Nelson's shift to encouraging intensification is important in that it can be used in conjunction with the HRF to enable affordable housing development. The HRF is also an opportunity to encourage the residential building sector to deliver different housing typologies, housing technologies and design that result in higher quality dwellings that are more responsive to specialised housing needs.

There may also be opportunities for the two adjacent councils, Nelson City and Tasman District, to maximise the HRF's reach and benefits, since the urban areas straddling the two councils constitute intertwined housing and employment markets, albeit bringing into play different district plans. Any major differences or contradictions in the treatment of residential development in the two district plans could significantly affect incentives and disincentives for increasing affordable housing. The CHPs, central government agencies, private developers, iwi and others with strong interests in affordable housing all work across both council areas, and the two councils already conduct joint strategic planning, so it would be a logical step to include consideration of opportunities presented by the HRF in future joint planning. There are overseas examples of regional-level HRFs, such as the ARCH Housing Trust Fund in Washington State (see Table 1).

Another critical oportunity presented by the HRF is that it can be targeted to provision of social and affordable housing that is not funded from other sources, nor met by the private housing market. In that way the HRF does not duplicate resources, but is able to operate in a complementary way, including enabling worthy affordable housing development that would otherwise struggle to be realised.

Finally, Nelson has chosen to develop the HRF incrementally. Instead of completing the design of all aspects of the HRF before releasing funds, it is in effect testing policy and processes by the release of Phase One funding. This staged release is responsive to housing unaffordability pressures, while providing an opportunity to review impacts of the first tranche, including its targeting and funding mechanisms. A review will also provide a space in which to consider other matters raised in this case study, such as the most appropriate governance structure for the HRF, land planning innovations and securing the fund's sustainability. Furthermore, a review is an opportunity for more engagement with key stakeholders and the wider community about the fund.

In summary, Nelson's innovative HRF approach is congruent with international trends to regard social and affordable housing as critical community infrastructure that should be supported by public investment, because of the inter-generational social and economic benefits it confers. International evidence shows:

> "Addressing homelessness, reducing housing stress, and boosting security of tenure all produce social dividends for households across generations, services and sectors of the economy. It reduces the burden on the health system, welfare and prison system. Industry benefits in job creation, skills formation and retention, design and construction professions, promoting stability in the productive economy" (Lawson *et al.,* 2022:16).

Nelson's use of the proceeds from the sale of their pensioner housing stock to create an HRF is a statement of intent that there remains an important role for local government to play in housing. This innovative approach is a partnership model where councils engage with housing providers, other stakeholders and direct investment to supply affordable housing to help achieve local goals.

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