

## **Sale of the Wairarapa state rental portfolio to Trust House in 1999**

In March 1999 the Wairarapa state rental portfolio of 541 properties was sold to Trust House Limited. The properties were located in Masterton, Carterton, Greytown, Featherston, Martinborough, Ekatahuna, Pahiatua, Woodville, and Dannevirke. At the time of the sale it was considered unnecessary for the Corporation to provide state housing in Wairarapa, as there was a relatively low level of unmet housing need. The Corporation continues to own several Community Group Housing properties in the region.

Trust House was formed in 1998 to operate the business enterprises owned by the Masterton Licensing Trust. The Masterton Licensing Trust currently has a 75 percent ownership share in Trust House, while the remainder is owned by the Tararua Foundation, the Rimutaka Licensing Trust, the Flaxmere Licensing Trust, the Masterton Licensing Charitable Trust, and Trust House Foundation.

The sale price of \$11.5 million was in line with the net book value of \$10.2 million and an independent market valuation by Darroch Limited of \$8.7 million to \$12.7 million. The

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The sale agreement included a covenant preventing the sale of more than 10 properties a year for a 5-year period, excluding sales to tenants. The agreement also recorded Trust House's intention to honour existing tenancy agreements, provide rental accommodation for those in need, provide ownership opportunities to tenants, and honour tenure protection in place for over-55s and those living in modified properties. In addition, the Corporation provided Trust House with all relevant information held on the properties being transferred.

In December 1998 both the Corporation and Trust House wrote to the tenants affected by the sale, and made a commitment that tenants affected by the sale would not experience reduced services. Following the sale the Corporation performed a monitoring role to ensure that a high percentage of low income families and priority customers were being housed. Trust House also employed two Corporation staff, which helped to ensure tenancy management continuity.

Trust House currently owns 517 rental properties and has an overall asset base of around \$100 million. The Trust provides a 24/7 emergency maintenance service and has spent \$7 million on improvements since 2000. It has occupancy rates of around 97-99 percent and charges lower quartile market rents. Trust House tenants may apply for the Accommodation Supplement to help them with the cost of their housing. However, the sale to Trust House occurred prior to the introduction of income-related rents in 2000, and its tenants are not eligible for an income-related rent.

The key success factor for the stock transfer was that Trust House was an established third sector organisation with significant commercial and business capability. A review following the sale identified a number of other success factors, including:

- the scale of the transfer, which provided critical mass for a viable business
- providing flexibility within the sale agreement for movements in the portfolio during the sale process
- providing for social objectives in the sale agreement, and including clauses that allowed the Corporation to undertake due diligence
- establishing 'ground rules', ensuring that key people at each organisation were involved from the start of the process, and clearly defining roles and responsibilities

- business continuity considerations, such as learning the Corporation's business prior to the transfer, defining when the Corporation will stop letting maintenance work, and following through on commitments such as home-buy offers
- communicating to staff and tenants in a timely and effective manner, and following up written communications with visits to at risk tenants
- making additional Corporation staff available to provide temporary additional support.

It was also noted that once a transfer is announced the Corporation has a strong political obligation to proceed, which effectively weakens its bargaining position unless the terms of the transfer have already been agreed.