



Briefing

Residential Construction Sector: Initial results from market intelligence gathering, Kāinga Ora activity and KiwiBuild settings

Date:	15 May 2020	Security level:	In Confidence
Priority:	High	Report number:	BRF19/20050656

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Note key themes from initial market intelligence Agree to targeted changes to KiwiBuild settings in response to COVID-19, including seeking Cabinet agreement where needed Forward a copy of this advice to the Minister of Finance for approval of KiwiBuild proposals and to the Minister for Social Development for information	22 May 2020
Hon Grant Robertson Minister of Finance	Approve KiwiBuild proposals for inclusion in a June Cabinet paper, noting further financial implications advice to come	
Hon Kris Faafoi Associate Minister (Public housing)	For information	

Contact for discussion				
Name	Position	Telephone		1 st contact
Brad Ward	Deputy Chief Executive, Place based Policy & Programmes	-	s9(2)(a)	✓
Claire Solon	Kaiaki, Place based Policy & Programmes	-	s9(2)(a)	
Susan Jacobs	Senior Policy Advisor, Market and System Settings	04 832 2420	-	

Other agencies consulted
Treasury, Kāinga Ora, Department of the Prime Minister and Cabinet and Ministry of Social Development

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) <hr/>
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Comments

Date returned to MHUD:

Briefing

Residential Construction Sector: Initial results from market intelligence gathering, Kāinga Ora activity and KiwiBuild settings

For:	Hon Dr Megan Woods, Minister of Housing, Hon Grant Robertson (Minister of Finance), Hon Kris Faafoi (Associate Minister of Public Housing)		
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Purpose

1. The purpose of this paper is to provide you with:
 - a. an update on the market intelligence we are gathering from construction sector leaders on current and projected COVID-19 impacts, to inform future decisions about any further government support needed to cushion the impact on the residential housing sector
 - b. information on specific housing developments potentially at risk and current Kāinga Ora responses
 - c. follow up advice on KiwiBuild settings, which we recommend Ministers adjust in order to support residential housing demand as part of the COVID-19 recovery
 - d. advice on undertaking roundtable events with residential construction sector players.

Executive summary

2. On 23 April we provided you with advice on supporting the residential construction sector [BRF19/20040623 refers] and followed this with advice on 1 May 2020 on targeted changes to KiwiBuild Settings due to COVID-19 [BRF19/20040631 refers].

Market intelligence and ongoing advice on the residential construction sector

3. Since then, the Ministry of Housing and Urban Development (HUD) and Kāinga Ora have started to gather market intelligence from the sector to inform future decisions about any further government support needed to cushion the impact of COVID-19 on residential housing demand. This briefing provides the first update on this work, which has predominantly been drawn from conversation with iwi development partners, selected key stakeholders, recent surveys and information from building intelligence companies.
4. Consistent themes include: decreased willingness from banks to lend for residential development, a strong interest from some buyers still at the affordable end of the new build market, and relative confidence about the next 3-6 months but considerable

uncertainty about the future pipeline of demand beyond that. Places linked to tourism (e.g. Queenstown) and Auckland seem to be seeing larger impacts.

At risk developments

5. [Redacted] s9(2)(g)(i)
6. Kāinga Ora and HUD will provide advice by 29 May 2020 on principles and a framework to guide decisions about government intervention to support private housing developments, also on potential tools for intervention.

Follow up advice on KiwiBuild settings

7. KiwiBuild effectiveness has been constrained by operating in a 'boom' market prior to COVID-19. In the market downturn expected as a result of COVID-19, there are opportunities to leverage KiwiBuild to achieve more affordable housing for New Zealanders. The changes proposed in this paper would support this.
8. [Redacted] s9(2)(g)(i)
9. You indicated that you wished to consider this advice further once you had received the market intelligence contained in this briefing and that you wish to keep the focus of KiwiBuild on home ownership [Redacted] s9(2)(g)(i). However, you also indicated interest in a range of temporary changes (to be reviewed after six months).
10. To reflect your feedback, we have:
 - a. outlined what the market intelligence tells us about these changes
 - b. updated our advice regarding on-selling KiwiBuild homes and expanding eligible buyer cohorts for these homes
11. If you agree with the revised recommendations in this briefing, we seek your approval to forward this briefing to the Minister of Finance for his approval. If you and the Minister of Finance agree with the updated recommendations, officials will prepare a Cabinet paper for your consideration by early June 2020.
12. The recommendations here will have funding implications for the remaining unallocated KiwiBuild funding. Officials will provide further advice alongside the proposed Cabinet paper. Note that the Treasury has included a comment in this briefing regarding the KiwiBuild settings and funding.

- [Redacted] s9(2)(f)(iv)
13. [Redacted] s9(2)(f)(iv)
14. [Redacted] s9(2)(f)(iv)

Roundtable with sector leaders

15. You have previously mentioned that you would like to do a roundtable on residential construction with key sector players. To do this, we recommend that you hold two separate events over the coming weeks, with residential developers and group homebuilders and then with banks/lenders. If you wish to proceed, we will work with your office to organise these.

Next steps

16. By 22 May 2020, we will provide you with advice on one KiwiBuild development considered at imminent risk, and associated options.
17. By 29 May we will provide you with:
- a. updated market intelligence and data
 - b. advice on a range of potential options to support residential housing demand in light of COVID-19 (beyond what has already been announced through Budget 2020) including for example mechanisms targeted at developers versus mechanisms targeted at purchasers, potential impact, and funding implications. We will seek your agreement on which options or combination of options to pursue in more detail, under what circumstances
 - c. s9(2)(f)(iv)
18. By late May/early June, we will provide further analysis of the financial and funding implications for KiwiBuild, to be included in a June Cabinet paper.

Recommended actions

It is recommended that you:

1. **Note** key themes from the market intelligence, including: decreased willingness from banks to lend for residential development; a strong interest from some buyers still at the affordable end of the new build market; and relative confidence about the next 3-6 months but considerable uncertainty about the future pipeline of demand beyond that; and emerging regional differences Noted
2. **Note** that while Kāinga Ora is receiving more enquiries than usual regarding additional government support for private sector and KiwiBuild developments, only one development including KiwiBuild properties is regarded as at immediate risk, and officials will provide further advice on this development by 22 May 2020 Noted
3. **Note** that we anticipate being in a position to provide you with further information later this month about the key themes from Crown Infrastructure Partners' investigation of residential shovel ready projects, and potential next steps, if any Noted

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|---|----------------------------|----------------------------|
| 4. Note that the following recommendations are updated from the 1 May 2020 briefing titled Targeted Changes to KiwiBuild Settings due to COVID-19 [BRF19/20040631 refers], to reflect feedback from the Minister of Housing | | Noted |
| | <i>Minister of Finance</i> | <i>Minister of Housing</i> |
| 5. Note these targeted changes are proposed in response to COVID-19 and we recommend they be reviewed in six months as the nature and scale of the impact of COVID-19 on residential demand becomes clearer | Noted | Noted |
| 6. Note that the proposals outlined below are about helping to cushion some of the impact to the residential construction sector due to COVID-19 and leveraging this to provide more affordable housing, and mitigating the risk of the Crown holding properties that it cannot sell | Noted | Noted |
| 7. Note that as a number of the proposals in this paper will require Cabinet endorsement, officials will provide you with a Cabinet paper by early June for consideration, if you agree to the recommendations below | Noted | Noted |

Supporting residential housing demand and construction sector jobs

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|---|--------------------|--------------------|
| 8. Agree in the short-term that the Crown may take on a higher degree of risk by providing higher value underwrites with lower discounts, increasing the proportion of homes it underwrites within developments, and increasing the use of pre-purchase commitments (as opposed to requiring developers to try to sell the properties) | Agree/
Disagree | Agree/
Disagree |
| 9. Agree that the Land for Housing Programme may support developers with cashflow and feasibility by paying for upfront project works, including planning, consenting, earthworks and other land investment, that can then be capitalised into land value and recouped when the land is on-sold | Agree/
Disagree | Agree/
Disagree |

Expanding the eligible cohort (Cabinet decisions required)

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|--|--------------------|--------------------|
| 10. Agree to expand the definition of eligible KiwiBuild purchasers (currently limited to first home buyers and 'second chancers') to allow developers and Kāinga Ora to sell homes to people who already own a home and have to relocate (e.g. downsize or move cities due to COVID-19), so long as they meet the relevant income and residency requirements, and once the sale and purchase transactions are completed these people only own one home | Agree/
Disagree | Agree/
Disagree |
|--|--------------------|--------------------|

Implementing a hierarchy of alternative purchasers (Cabinet decisions required)

<p>11. Note unsold KiwiBuild homes can currently only be sold to people other than eligible purchasers with Cabinet approval or, if at the end of a development fewer than 15 per cent of KiwiBuild homes remain unsold within that development [CAB-19-MIN-0444]</p>	Noted	Noted
<p>12. Agree to seek Cabinet agreement to a hierarchy of alternative purchasers of KiwiBuild homes that would only apply once developers have made reasonable attempts to sell these homes to eligible purchasers (this would remove the current 15 per cent threshold for sales to other purchasers)</p>	Agree/ Disagree	Agree/ Disagree
<p>13. Agree that the alternative purchaser hierarchy comprise the following:</p>		
<p>a. Progressive Home Ownership and Community Housing Providers or Kāinga Ora, ahead of other purchasers; and</p>	Agree/ Disagree	Agree/ Disagree
<p>b. any other purchasers except investors</p>	Agree/ Disagree	Agree/ Disagree

Managing the risk of unsold properties

<p>14. Agree that for any houses that remain unsold after following the alternative purchaser hierarchy outlined in 13. above, up to 25 per cent can be sold on the open market across a development (this replaces the current threshold of 15 per cent outlined in 12. above)</p>	Agree /Disagree	Agree/ Disagree
<p>15. Agree to seek Cabinet agreement to delegate authority to the Minister of Finance and the Minister of Housing to allow for a higher percentage of KiwiBuild homes to be sold on the open market sales of KiwiBuild homes in a development, if more than 25 per cent of a development remains unsold</p>	Agree/ Disagree	Agree/ Disagree
<p>16. Agree those homes sold to other purchasers under options 14. and 15. above will not be counted as KiwiBuild homes</p>	Agree/ Disagree	Agree/ Disagree

s9(2)(f)(iv)			
17.	s9(2)(f)(iv)	Agree/ Disagree	Agree/ Disagree

	s9(2)(f)(iv)		
18.	s9(2)(f)(iv)	Noted	Noted
19.	s9(2)(f)(iv)	Noted	Noted
20.	s9(2)(f)(iv)	Noted	Noted
21.	s9(2)(f)(iv)	Noted	Noted
22.	s9(2)(f)(iv)	Agree/ Disagree	Agree/ Disagree

Financial recommendations (Cabinet decisions required)

23. Note that the KiwiBuild Programme was established in 2017 with a total funding envelope of \$2.1 billion comprising:

- a. \$100 million for the Urban Development Authority establishment (including administration of KiwiBuild and Kāinga Ora’s new statutory functions under the Urban Development Bill), of which \$50.004 remains unallocated; and
- b. \$2 billion to facilitate the delivery of KiwiBuild homes (including via the Land for Housing Programme and Buying off the Plans delivery channels), of which \$950 million remains unallocated.

Noted Noted

24. Note officials are preparing costed proposals to access the funding (including the remaining unallocated KiwiBuild appropriations) in order to:

Noted Noted

- a. ensure that HUD and Kāinga Ora are adequately resourced to meet next year's staffing and overhead costs
- b. provide for the Land for Housing Programme to acquire more land for development in partnership with iwi and private developers
- c. give effects to the recommendations in this paper

Next steps

25. **Note** that HUD and Kāinga Ora are continuing to monitor the situation for a Wellington KiwiBuild development considered to be at imminent risk and will provide you with a separate briefing by 22 May 2020

Noted

26. **Note** that at the end of May we will provide you with:

- a. updated market intelligence and data
- b. advice on a range of potential options to support residential housing demand in light of COVID-19 (beyond what has already been announced through Budget 2020) including for example mechanisms targeted at developers versus mechanisms targeted at purchasers, potential impact, and funding implications. We will seek your agreement on which options or combination of options to pursue in more detail, under what circumstances.

c. s9(2)(f)(iv)

Noted

Brad Ward
**Deputy Chief Executive, Placed-based
 Policy and Programmes**

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Hon Dr Megan Woods
Minister of Housing

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Hon Grant Robertson
Minister of Finance

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Background

19. On 23 April we provided you with advice on supporting the residential construction sector [BRF19/20040623 refers] and followed this with advice on 1 May 2020 on targeted changes to KiwiBuild Settings due to COVID-19 [BRF19/20040631 refers].
20. This paper builds on this previous advice and provides you with:
 - a. an update on the market intelligence exercise
 - b. information on specific developments potentially at risk and Kāinga Ora responses
 - c. follow up advice on KiwiBuild settings
 - d. advice on undertaking one or more roundtable events with sector players.

Update on market intelligence exercise

21. The Ministry of Housing and Urban Development (HUD) and Kāinga Ora are gathering market intelligence from the sector to provide regular updates on the scale of the COVID-19 impact and how the sector is responding.
22. This will inform advice on potential Government intervention to support residential construction in light of COVID-19, which we will provide at the end of May. Ongoing market intelligence will help us advise on:
 - a. the potential scale of demand-side support required, in order to cushion the impact of COVID-19 on residential housing construction (noting that there was significant unmet underlying housing demand prior to COVID-19, which has accumulated since the last construction sector turndown due to the Global Financial Crisis).
 - b. how we can target and structure support options, so they align with broader government objectives, such as housing affordability.
 - c. how we can structure options to maximise their impact while managing the fiscal cost and risk to the Crown.
23. The end of May is likely to still be too early to make robust decisions to put in place any large-scale support for residential housing demand (beyond that announced in Budget 2020 and in addition to any KiwiBuild setting changes you decide to make).
24. Our 29 May advice will cover a range of potential options (for example mechanisms targeted at developers versus mechanisms targeted at purchasers) and their potential impact. We will seek your agreement on which options or combination of options to pursue in more detail, under what circumstances. We will also advise on funding implications.
25. For this first update, market intelligence has predominantly been drawn from conversations with a selection of key stakeholders¹, recent surveys completed by industry groups and information from building intelligence companies. This has provided us with largely anecdotal evidence at this stage.

¹ Kāinga Ora, construction and development companies (including group home builders and larger developers, Registered Master Builders Association, Certified Builders New Zealand, the Property Council), banks, iwi investors/developers, community housing providers, selected local authorities, REINZ and real-estate firms, and non-bank economists. We will also contact non-bank lenders.

26. Over time, our best view of the impact will come from continuing to gather market intelligence and complementing it with quantitative data, for example building consents and mortgage approvals data. From this we will be able to build a picture of which types of developments and regions are experiencing delays and lower completions/increased cancellations. The information drawn from conversations and surveys will likely help us understand root causes (for example, funding, capacity, demand). It is likely to be some months before we see clear trends in the data, due to the long timeframes for building, and natural volatility.
27. Over the coming weeks/months, we expect to have more information on the following:
- a. **Overall property and rental market indicators** (prices, sales/tenancies, listings, buyer types etc.) These will help inform the impact of the demand picture on construction. These indicators are available between weekly and monthly and will be available from the 29 May update.
 - b. **Value of building work put in place** will begin to provide a view of impact of delays as well as changes to construction costs. Data covering the March quarter will be available in a month. June quarter data is scheduled for release in September.
 - c. **New home completions** data is being developed. This will be across the country and broken down by typology, size, types of buyer and value. Over time, it can be combined with consents data to improve our view of trends affecting construction and demand.
 - d. Further information on the status of **Community Housing Provider developments**
 - e. We are investigating the availability of data on **impacts on trades**, such as architects and engineers, and on building material trade, and construction material manufacture.
 - f. **Total lending for residential and commercial property development**, which will come from RBNZ's Assets – Loans by Purpose data series. This will identify changes in total lending but not whether that is driven by bank or developer behaviour. April data will be available in mid-June.
 - g. Data from **first home support products**, such as Kiwisaver withdrawals, First Home Grants, First Home Loans and KiwiBuild sales, which will help inform the view of demand.
28. MBIE's National Construction Pipeline Report for 2020 is also being commissioned. It includes national and regional breakdowns of actual and forecast residential building, non-residential building and infrastructure activity. The release date is still to be confirmed. Several of the key assumptions of previous reports (for example, economic indicators and household formation) will be disrupted by COVID-19 and may increase uncertainty of forecasts.

Initial results

29. This section summarises the findings from these conversations and surveys and outlines what we know about what is currently happening on the ground and what may happen in future.
30. One consistent theme that we are hearing is that it is very early days in terms of being able to quantify the economic impacts of COVID-19, particularly as a number of our conversations took place prior to a clear date for the move to Level 2 (and some before level 3). In particular, we are hearing that we are not likely to see the true impacts of COVID-19 on residential housing demand until after the end of the extended wage subsidy scheme in August, when unemployment and income levels will become clearer.

31. Other consistent themes include:

- a. decreased willingness from banks to lend for residential development (particularly to new clients) or to prospective home purchasers (despite changes to the Loan to Value Ratio rules)
- b. a clear sense of strong interest from some buyers still at the affordable end of the new build market (although potentially more investors than first home buyers)
- c. relative confidence about the next 3-6 months (i.e. completing projects that are already underway), but considerable uncertainty about the future pipeline of demand beyond that
- d. potential regional variation – places linked to tourism (e.g. Queenstown) and Auckland seem to be seeing larger impacts.

32. The table below outlines our key findings.

Themes	Key findings and commentary
Short term certainty (next 2-3 months)	<ul style="list-style-type: none"> • One of the key issues in the sector is certainty both over the short and medium term. Our building sources are reporting that most projects which were already under construction are proceeding and builders are reasonably confident for the next few months. • As of 8 May, Pacifecon, a building intelligence company which tracks larger-scale projects, reports that they saw 767 new pipeline projects (planning stage) reported over 1-30 April, with a total value \$5,647m (229 of these were residential). This is a similar number to March 2020, and to April 2019. • However, Pacifecon also reports that in April all regions had seen a reduction in the numbers and value of construction starting, with Auckland being the most affected (approximately half the number and value compared to March). This is likely to be due significantly to the Level 4 lockdown. • We have also heard from Auckland Council that there has been a substantial drop in activity, including building consents at about 70% of normal volume and resource consents at between 70-80% of normal volume. On the other hand, Pacifecon have claimed that some councils (such as Hutt City Council) are reporting higher numbers of building consents being processed than the same time last year. • One large iwi developer notes nervousness about committing to projects that don't provide either an immediate or short-term return. • The Property Council of New Zealand, which did a survey amongst its larger developers (25 firms) in mid-late April representing \$3.4 bn of projects in the planning phase (i.e. pre-construction), found that 60% are now considered uncertain and only 40% likely. Broken down, 70% of commercial/ industrial projects are considered uncertain, for residential it is approximately 50% classified uncertain and 50% likely.
Medium-term certainty (beyond the next three months)	<ul style="list-style-type: none"> • It is still early days to have much of a sense of the ongoing impact beyond the immediate pipeline. That said, while there is still positivity in the sector, we are consistently hearing concern that the 'order-book' of future projects is drying up. • For the financial year beginning 1 July 2020, one of New Zealand's largest residential builders is looking at about 70% volume compared to previous expectations, with some impact on price. We are also hearing that some developers (including a large iwi developer) are reviewing, or pausing, projects where possible until they can form a view on future demand and whether initial assumptions still stack up.

	<ul style="list-style-type: none"> • As of 8 May, Pacifecon reports that about 330 construction projects (both residential and non-residential) at either the planning or tendering stage were postponing, put on hold or cancelling as a result of COVID-19. Broken down, 275 projects have had their start date postponed, 18 projects have been put on hold, 39 commenced projects will finish later than expected and 1 project has been cancelled. However, we are unsure how many of these projects were facing problems before COVID-19. • BNZ has released their construction sector outlook on 12 May and are not expecting to see construction back to current levels until 2024, emphasising that the recovery will be long. • Medium term confidence also seems to be particularly affecting small-medium sized players. New Zealand Certified Builders, who undertook a survey of their members, found that around 30% have been affected by future work being cancelled or put on hold.
Problems with access to developer finance	<ul style="list-style-type: none"> • We are hearing that bank lending is becoming more conservative as banks reassess their risk exposure and prioritise allocation of capital. There is a perception that banks are reviewing, pausing or withdrawing funding on development projects where the lending facility is not already committed. Small-scale developers appear to be particularly affected. • We have heard of banks requiring greater unconditional presales before advancing funding (up to 80-100%), and valuing properties at a lower rate than previously agreed, to take into account the risk of falling values. This is especially for off the plan developments. Some banks are requiring a higher proportion of developments to be turnkey (providing bank funding only on completion, not in stages through the development). • Master Builders have also had a rush of applications for its guarantee for medium density developments which is likely to be driven by banks requiring greater certainty that projects will be completed if the builder fails. • Banks are also requiring evidence of ongoing employment/income from buyers, such as letters from employers. • Despite relaxation of LVR rules, the Reserve Bank advises that they are not expecting to see a high level of bank lending to first home buyers with low equity. This is consistent with stakeholder reports on bank behaviour.
Consumer confidence	<ul style="list-style-type: none"> • There are a range of views from the sector on consumer confidence. • On one hand we are hearing that there is concern about job security, and reductions in Kiwisaver balances. One iwi in particular note that developers are cautious and concerned about demand. We have also heard that Māori housing providers have concerns about the impact COVID-19 will have on KiwiSaver balances. • On the other hand, we are hearing that some consumers are seeing low interest rates as an opportunity to invest, particularly at the affordable end of the market. Group homebuilders for example have reported a steady level of people visiting show homes, a higher proportion of which appear to be investors. • There does seem to be initial regional variation. A survey of real estate agents found that in Central Otago Lakes (including Queenstown and Wanaka) a net 85% of respondents see buyers having the upper hand in negotiations.
Medium- and higher-density development	<ul style="list-style-type: none"> • We are hearing that banks are becoming even more risk averse in the apartment sector given the longer delivery timeframes and uncertain economic climate. This is a continuation of a pre-Covid trend, driven for example by issues in the Australian financial sector. • A large developer has seen 5 sales of 60 high end apartments fall over because of COVID – 19 and we have heard from another major developer that only around 60-70 % of presales are still going through

	<ul style="list-style-type: none"> • One the other hand, one Auckland developer considers that terraces/townhouses are likely to be the strongest typology coming out of COVID-19. This density fits with the KiwiBuild model.
Regional differences	<ul style="list-style-type: none"> • While it is likely too early to see concrete regional differences, we have been hearing that areas that have a strong reliance on tourism are facing larger negative impacts. • A New Zealand Certified Builders survey of their members (primarily small-medium builders) found that members in Queenstown, Wanaka, Arrowtown etc are looking for work outside the local region, but that the remainder of the South Island, and the North Island except Auckland are reporting solid pipelines for the next six months. Queenstown Lakes District Council commissioned a report from Infometrics, which estimates that there will be a 27% reduction in residential construction in Queenstown compared to 19% for New Zealand as a whole. • We are hearing positive sentiment in Hawke's Bay, due to a range of factors, including strong construction demand from the horticulture, manufacturing and health sectors, and low reliance on international tourism.

Specific developments potentially at risk

33. As part of gathering intelligence on the outlook for residential construction, the Minister of Housing has asked for information about specific developments which are potentially at risk.

Public and transitional housing projects

34. Across Kāinga Ora public and transitional housing projects, no developments are considered to be at high risk as a result of COVID-19 impacts on build partners. There will be delays associated with COVID-19, and Kāinga Ora will advise on these as part of regular reporting.

35. At this stage HUD has not been advised of any Community Housing Provider projects which are at immediate risk of not proceeding due to COVID-19. CHPs will be providing more information to HUD over the next two weeks. HUD will advise on delays as part of regular reporting.

Buy-ins for public/transitional housing from private developers due to COVID-19 impacts

36. Kāinga Ora is not able to provide specific numbers of properties which have been purchased from private developers for use as public or transitional housing, as a result of COVID-related approaches from private developers.

37. In general, Kāinga Ora purchases only a very small proportion of properties from private developers which are offered for public housing or transitional housing purposes. This is because most are unsuitable for public/transitional housing in terms of either location, typology, design, concentration within a neighbourhood, or price.

Private sector and KiwiBuild developments

38. Since COVID-19 impacts began to be felt internationally in February 2020, Kāinga Ora has seen an increase in the number of developers asking about assistance for private sector developments, or seeking to sell land parcels. Kāinga Ora is receiving around three to five enquiries a day. Some of these parties have also explored other options, but many have not.

39. [Redacted] s9(2)(g)(i)

[Redacted]

41. [Redacted] s9(2)(g)(i)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

45. Kāinga Ora and HUD will provide advice by 29 May 2020 on principles and a framework to guide decisions about government intervention to support private housing developments. s9(2)(f)(iv)

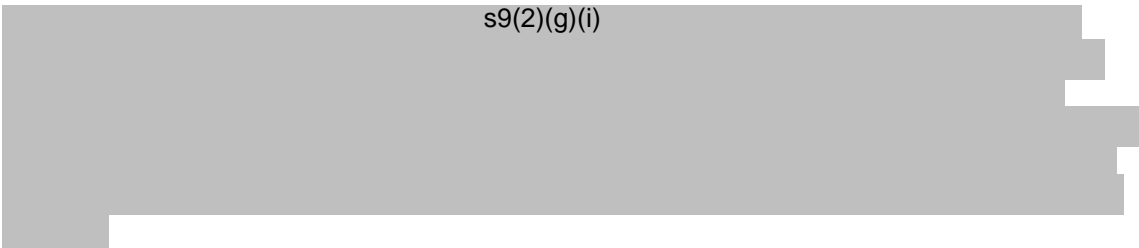
[Redacted]

46. This advice will also cover tools for intervention including:

- any further proposed changes to existing tools such as KiwiBuild (beyond what is proposed in this advice)
- any new tools needed, and options for those.

47. Kāinga Ora has identified that one KiwiBuild development (in Wellington) may require support through an underwrite. Significant delays prior to COVID-19 meant that the developers need to secure finance now with potential financiers imposing additional requirements given the financial context. This would be an underwrite for the non-KiwiBuild homes in the development which would be sold to non-KiwiBuild buyers in the first instance. HUD will provide you with separate advice on the issues by 22 May 2020. It will be important to avoid creating undue precedent risk for other developments.

Private sector residential housing proposals through the CIP process

13.  s9(2)(g)(i)
14. HUD and Kāinga Ora are working with CIP to further identify the key themes from these private residential projects to inform our market intelligence and work on any future options to support the residential construction sector.
48. CIP is preparing a report on its proposals for Minister Jones and Minister Twyford, due to them Monday next week. We will provide you with advice next week on this full report and a more comprehensive update on the specific private residential projects received by CIP and any next steps later this month.

Follow up advice on KiwiBuild settings (proposed temporary changes)

26.  s9(2)(f)(iv)
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|  |  |
|  |  |

	s9(2)(f)(iv)
s9(2)(f)(iv)	s9(2)(f)(iv)
	s9(2)(f)(iv)

27. You indicated that you would consider this advice further once you had received the market intelligence contained in this briefing, in particular with regard to making any changes to the level of underwrite for Buying off the Plans. In discussion you indicated that you wish to keep the focus of KiwiBuild on home ownership and so are not supportive of selling any remaining unsold properties to investors. You indicated an interest in temporary changes (to be reviewed after six months) in the following areas:
- a. expanding the buyer cohort so that it supports people that have been, or will be, impacted by Covid-19
 - b. s9(2)(f)(iv)
 - c. s9(2)(f)(iv)
 - d. expanding the buyer cascade to allow sales to CHPs and PHO providers
 - e. you would consider raising the current 15% threshold at which unsold KiwiBuild homes within a development can go to the open market without requiring Cabinet approval and amending this delegation from Cabinet to joint Ministers.

28. We have provided further advice based on the market intelligence summarised in this paper and to reflect our initial discussion with you. The table below compares our initial analysis of COVID-19 impacts with more recent market intelligence specifically related to KiwiBuild.

Initial analysis	Updated KiwiBuild market intelligence
Increased likelihood of existing KiwiBuild underwrites being triggered as the number of eligible and willing buyers decrease	Mixed evidence as short-term demand appears to have held up, with potentially a greater proportion of investors in the market. Some KiwiBuild developments have continued to be sold throughout the lockdown. There is no sign of systemic issues in terms of planned settlements falling through due to COVID-19. We expect demand to drop or shift, for example should people have to relocate or downsize as a result of economic impacts of COVID-19 beyond lock-down and emergency support measures.
Increased difficulty accessing bank finance leading to	Confirmed, as banks are increasingly conservative in their lending. In response we are already seeing developers and their

developers seeking a greater proportion of underwrites, outright purchases and open-market sales	financiers seeking a greater proportion of outright purchase commitments (up to 100% as opposed to 30% to 60% envisaged in the KiwiBuild business case) or backstop underwrites from the Crown to offset this. Some developments in the pipeline could be potentially at risk if access to finance cannot be ensured.
Reduced productivity due to COVID-19 disruptions and increased holdings costs due to delays and when houses fail to sell	Lock-down has delayed construction and increased costs contributing to some projects at risk of failing. It has not yet resulted in a significant disruption to the delivery and settlements on existing KiwiBuild houses, or more underwrites being triggered than usual. However, the longer-term outlook remains uncertain.

29. Market intelligence confirms the need to:
- a. consider supporting the sector to address increasing difficulty in accessing finance and continue the much-needed supply of affordable housing
 - b. provide more flexibility (for example in eligibility criteria) to meet households' needs to alleviate the impacts of COVID-19, reduce potential holding costs for developers, and reduce the potential scale of the risk of the Crown owning more KiwiBuild homes
 - c. proactively mitigate the holding costs to the Crown of potentially owning more KiwiBuild homes and any risks that funding cannot be recycled through sales.
30. To reflect your feedback on investors, we recommend amending the current 15 per cent threshold at which unsold KiwiBuild homes within a development can go to the open market without requiring Cabinet approval as follows:
- a. increasing the threshold to 25 per cent
 - b. amending this delegation from Cabinet to joint Ministers (of Housing and Finance).
31. Accordingly, we have revised our recommendations as follows:
- a. to exclude investors from the 'cascade' of alternative buyers
 - b. added three recommendations around the open market sale threshold for unsold homes, currently 15 per cent with a proposal to raise that to 25 per cent.
32. If you agree with the revised recommendations 8-17 in this briefing, we seek your approval to forward this briefing to the Minister of Finance for his approval. If you and the Minister of Finance agree with the updated recommendations, officials will prepare a Cabinet paper for your consideration by early June 2020.

Funding implications

33. The Cabinet paper will seek agreement to meet the costs of these proposals from the \$950 million currently unallocated within the \$2 billion KiwiBuild appropriations. Officials will provide you with further advice on the impact for the Cabinet paper.
34. In relation to the proposals involving underwrites, Ministers would still be asked to agree commercial terms on a case-by-case basis.
35. We also recommend you note the additional funding requirement for HUD and Kāinga Ora to continue to operate the KiwiBuild programme beyond 2020/21, which will be met through unallocated funding with the current envelope. Officials are currently costing these items and will provide our final advice alongside the proposed Cabinet paper.

s9(2)(f)(iv)

36. s9(2)(f)(iv)

37. s9(2)(f)(iv)

38. s9(2)(f)(iv)

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41. s9(2)(f)(iv)

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43. s9(2)(f)(iv)

s9(2)(f)(iv)

44. s9(2)(f)(iv)

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45. s9(2)(f)(iv)
46. s9(2)(f)(iv)

Roundtable with sector leaders

47. You have previously mentioned that you would like to do a roundtable on residential construction with key sector players. To do this, we recommend that you hold two separate events, firstly with residential developers and group homebuilders, and secondly with banks/lenders.
48. The residential developers and group homebuilder's roundtable could focus on hearing what their top priorities are, including for any government support and ideas on how to design such support. You could also test the initial market intelligence outlined above. We suggest that you consider doing this roundtable in the next 2-4 weeks, to provide the sector with some confidence that the government is listening to their views.
49. The banks/lenders roundtable could focus on understanding bank appetites and practices for construction lending, and what would they need from government. You could also test what you have heard from the first-roundtable with this group.
50. If you wish to proceed, we will work with your office to organise these.

Next steps

51. Next steps are outlined below:

At risk developments

52. By 22 May 2020, HUD and Kāinga Ora will provide you with a separate briefing on the Wellington KiwiBuild development considered to be at imminent risk. HUD and Kāinga Ora will also continue to monitor the situation.

KiwiBuild settings

53. We will provide a Cabinet paper by early June seeking approval of the proposed temporary changes to KiwiBuild policy and operational settings discussed in this paper. Alongside this paper we will provide further advice on funding and financial implications. The Cabinet paper will also include proposals to fund the continuing operations of KiwiBuild programme beyond 2020/21 as well as the proposed changes within the \$2.1 billion KiwiBuild envelope.

Options to support residential housing demand

54. You will receive a further update on market intelligence on 29 May 2020, including any further construction sector data available at that point.
55. Ongoing market intelligence and data will help us advise on:
- a. the potential scale of demand-side support required, in order to cushion the impact of COVID 19 on residential housing construction (noting that there was

significant unmet underlying housing demand prior to COVID-19, which has accumulated since the last construction sector turndown due to the Global Financial Crisis)

- b. how we can target and structure support options, so they align with broader government objectives, such as housing affordability
- c. how we can structure options to maximise their impact while managing the fiscal cost and risk to the Crown.

56. The end of May is likely to still be too early to make robust decisions to put in place any large-scale support for residential housing demand (beyond that announced in Budget 2020 and the KiwiBuild changes proposed in this briefing). Our 29 May advice will cover a range of potential options to support residential housing demand in light of COVID-19 (for example, mechanisms targeted at developers versus mechanisms targeted at purchasers) and their potential impact. We will seek your agreement on which options or combination of options to pursue in more detail, under what circumstances. We will also advise on funding implications.

57. Any significant additional government interventions to support residential housing demand will require additional funding. Our end of May advice will include indications of potential funding required, depending on scale. Our advice will feed into the Wave 3 recovery process being run by Treasury and the Minister of Finance, alongside advice on s9(2)(f)(iv). Timeframes for Wave 3 processes and decisions are still being confirmed.

s9(2)(f)(iv)

58. Further advice on this will be included in our 29 May advice.

Annexes

s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

| [Redacted]

• s9(2)(f)(iv) [Redacted]

• s9(2)(f)(iv) [Redacted]

s9(2)(f)(iv)

• s9(2)(f)(iv) [Redacted]

o s9(2)(f)(iv) [Redacted]

o s9(2)(f)(iv) [Redacted]

o s9(2)(f)(iv) [Redacted]

o s9(2)(f)(iv) [Redacted]

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