



Briefing

Implementing changes to enable Community Housing Providers to support delivery of the Public Housing Plan 2021-2024

Date:	16 March 2021	Security level:	In Confidence
Priority:	Medium	Report number:	BRF20/21010855

Action sought

	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Agree to the recommendations in this briefing.	23 March 2021

Contact for discussion

Name	Position	Telephone	1 st contact
Brad Ward	DCE Place-based Policy and Programmes	s 9(2)(a)	✓
Anne Shaw	DCE Housing Supply, Response and Partnerships	s 9(2)(a)	✓
Naomi Stephen-Smith	Manager, Market and Supply Responses	s 9(2)(a)	

Other agencies consulted

The Treasury, the Ministry of Social Development, the Department of the Prime Minister and Cabinet and Kāinga Ora – Homes and Communities

Minister's office to complete

- ☐ Noted
 - ☐ Seen
 - ☐ Approved
 - ☐ Needs change
 - ☐ Not seen by Minister
 - ☐ Overtaken by events
 - ☐ Declined
 - ☐ Referred to (specify)
-

Comments

Date returned to HUD:



Briefing

Implementing changes to enable Community Housing Providers to support delivery of the Public Housing Plan 2021-2024

For: Hon Dr Megan Woods, Minister of Housing

Date: 16 March 2021

Security level: In Confidence

Priority: Medium

Report number: BRF20/21010855

Purpose

1. This briefing responds to your requests for further information on:
 - a. the additionality criteria for the involvement of Community Housing Providers (CHPs) in the delivery of the Public Housing Plan 2021-2024 (PHP)
 - b. further information on how staged funding for CHPs could be implemented
 - c. an approach to progressively reduce the number of existing properties redirected into public housing
 - d. the role of leasing in delivering the PHP.

Executive summary

Additionality Criteria

2. You have been clear in your discussions with CHPs that you see their role in delivering the PHP being to complement state-led delivery. CHPs should focus on where they can bring additionality; i.e. new build public housing delivery over and above what Kāinga Ora – Homes and Communities (Kāinga Ora) would otherwise be able to deliver. We seek your agreement to a set of additionality criteria to provide guidance to CHPs about what additionality means, as follows:
 - a. Where a CHP is able to leverage land to progress development opportunities at pace and/or scale, including in areas where significant supply is needed.
 - b. In locations where Kāinga Ora has a limited presence, has no delivery intentions or delivery would be slower than that which can be provided by a CHP.
 - c. Where a CHP will target a particular cohort group (such as Māori families or Pacific families) and/or meet a certain need for individuals or households who would not otherwise be as well catered for through Kāinga Ora delivery (such as those with disabilities or multigenerational families).
3. Any proposal coming through from CHPs would need to meet at least one of the above criteria at the initial assessment phase to be progressed for further consideration. Te Tūāpapa Kura Kāinga – The Ministry of Housing and Urban Development (HUD)'s regular assessment and approval processes will continue to apply, including consideration of place-based need and delivery ranges set out in the PHP.

Early stage funding criteria and approval processes

4. You agreed that staged Operating Supplement (OS) funding could be made available in limited circumstances to support the delivery of new build public housing places by CHPs for the PHP. Where a CHP proposal has met at least one of the additionality criteria and staged funding is required for the project to proceed, the CHP can apply to HUD for a portion of the OS to be paid in early stage payments. In assessing an application, amongst other criteria, HUD will consider:
 - a. what other options for accessing upfront funding have been explored by the CHP
 - b. where funding has been approved, or is being sought, from other Crown sources
 - c. how the proposal aligns with the supply intentions in the PHP, place-based need, and other supply opportunities in the same location
 - d. how effectively the risks associated with providing early stage funding can be managed through contractual measures e.g. through encumbrances or other tools.
5. We seek your agreement for applications for early stage funding to be considered and approved by HUD, consistent with the existing funding approval delegations for public housing development opportunities. This would be a change from the current situation where approvals for upfront funding are considered and approved jointly by the Ministers of Housing and Finance. HUD will keep Ministers informed through regular reporting on the use of early stage funding.

Progressively reducing redirects

6. You asked for further advice on an approach to progressively reduce the number of existing properties redirected into public housing. The broader objectives of funding committed through Budget 2020 are to increase housing supply and support the economic recovery from COVID-19. While redirects can be delivered quickly and increase CHP holdings, they do not add new housing and remove existing homes from other parts of the market, exacerbating supply and affordability pressures.
7. We seek your agreement to the following approach which, based on recent delivery, will result in approximately 300 fewer redirects being delivered per year:

Type of redirect	Recommended approach
Housing stock from the private market	Stop from 1 October 2021
s 9(2)(f)(iv)	

8. There are a number of public housing places funded separately through programmes with a housing and support component such as Housing First, Rapid Rehousing, and Creating Positive Pathways. We propose that HUD continues to accept redirects for these programmes where there are no alternative public housing options. HUD will make changes to the way we report on delivery as these places will not contribute to the 6,000 places funded through the Budget 2020 housing supply initiative.

Circumstances where leasing is appropriate for CHPs

9. You agreed that CHPs can continue to deliver public housing places through leasing where CHPs cannot deliver via build-to-own models in places where Kāinga Ora faces significant delivery challenges. You requested further discussion on leasing opportunities for CHPs.
10. HUD's preference is generally to incentivise a build-to-own models. Changes have been made to the funding settings to support this. However, we consider that build-to-lease and direct leasing can be useful depending on the circumstances in particular regions.
11. For leasing to be considered, we recommend that it first meet at least one of the additionality criteria. Beyond this, leasing should be considered where early stage funding is

not sufficient to enable a build-to-own proposal and where a CHP or another provider is unable to otherwise deliver build-to-own models. There may also be circumstances where a unique opportunity is made possible through leasing arrangements and there is a good reason to consider that proposal.

Recommended actions

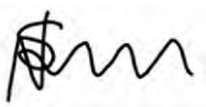
12. It is recommended that you:

1. **Agree** that HUD will require all proposals for new public housing supply from CHPs to meet at least one of the following additionality criteria as a part of the initial assessment process: *Agree / Disagree*
 - 1.1. Where a CHP is able to leverage land to progress development opportunities at pace and/or scale, including in areas where significant supply is needed.
 - 1.2. Where a CHP can deliver in locations where Kāinga Ora has a limited presence, has no delivery intentions or delivery would be slower than that which can be provided by a CHP.
 - 1.3. Where a CHP will target a particular cohort and/or meet a certain need for individuals or households who would not otherwise be as well catered for through public housing delivery.
2. **Agree** that any exceptional or innovative proposals that do not otherwise meet the additionality criteria will require approval by the Minister of Housing on an ad hoc basis. *Agree / Disagree*
3. **Note** that where a CHP proposal has met at least one of the additionality criteria, the CHP will be able to apply to HUD for a portion of the Operating Supplement to be paid in early stage payments with a number of other criteria also being considered. *Noted*
4.

s 9(2)(f)(iv)

Agree / Disagree
5. **Discuss** with the Minister of Finance an increase in net core Crown debt of up to \$55.0m over four years due to providing early stage funding for new build developments. *Agree / Disagree*

- | | | |
|-----|--|-------------------------|
| 6. | Agree that redirecting housing stock from the private market does not align with the objectives of funding committed for additional public housing places and will be stopped from 1 October 2021. | <i>Agree / Disagree</i> |
| 7. | <div style="background-color: #cccccc; padding: 2px 10px; display: inline-block;">s 9(2)(f)(iv)</div>
<div style="background-color: #cccccc; height: 15px; width: 500px; margin-bottom: 2px;"></div> <div style="background-color: #cccccc; height: 15px; width: 510px; margin-bottom: 2px;"></div> <div style="background-color: #cccccc; height: 15px; width: 510px; margin-bottom: 2px;"></div> <div style="background-color: #cccccc; height: 15px; width: 350px;"></div> | <i>Agree / Disagree</i> |
| 8. | Agree that some public housing places currently defined as redirects are outside the scope of this advice and should continue to be accepted where public housing places support priority programmes (such as Housing First, Rapid Rehousing and Creating Positive Pathways) and have separate IRRS funding. | <i>Agree / Disagree</i> |
| 9. | Note HUD will improve transparency in reporting on public housing delivery by reporting separately on the delivery of redirects to support priority programmes, as these places will not contribute to the 6,000 places funded through the Budget 2020 housing supply initiative. | <i>Noted</i> |
| 10. | Agree that new build leasing opportunities can be considered where CHPs are unable to otherwise deliver build-to-own models and where staged funding is not sufficient to enable a build-to-own proposal. | <i>Agree / Disagree</i> |
| 11. | Agree that both direct leasing and build-to-lease opportunities can be considered for funding. | <i>Agree / Disagree</i> |
| 12. | Agree that homes newly completed for the private market and then leased for public housing would not be considered through either direct leasing or build-to-lease. | <i>Agree / Disagree</i> |
| 13. | Agree that unique new build leasing opportunities can be considered where there is a good reason to do so. | <i>Agree / Disagree</i> |
| 14. | Refer a copy of this briefing to the Minister of Finance, for his information. | <i>Agree / Disagree</i> |



Naomi Stephen-Smith
Manager, Market and Supply Responses

16/03/2021

Hon Dr Megan Woods
Minister of Housing

..... / /

Background

13. You released the Public Housing Plan 2021-2024 (the PHP) on 21 January 2021. The PHP provides information about the location and number of an additional 8,000 public and transitional housing places that will be delivered by June 2024. It focuses on building new houses with Kāinga Ora leading the delivery.
14. Implementation will take a deliberate, place-based approach informed by the Māori and Iwi Housing Innovation Framework for Action (MAIHI), requiring collaboration with our partners in the community to develop and deliver joined-up local solutions where the need for public housing and other housing responses is urgent. MAIHI promotes kaupapa Māori and whānau-centred approaches to enable delivery by Māori, with Māori, for Māori.
15. In our advice from late 2020 [BRF20/21110794 and BRF20/21110801 refer], you agreed to the following to support delivery of the PHP:
 - a. the Operating Supplement (OS) cap be increased from 90 to 100 percent of market rent outside the main centres
 - b. HUD, in certain circumstances, has the discretion to approve a percentage of OS over and above the OS cap where satisfied that priority new supply would be delivered
 - c. HUD has the discretion to approve the OS for Kāinga Ora new supply in Auckland where satisfied that priority new supply would be delivered
 - d. that CHPs would focus on delivery in locations where CHPs can complement Kāinga Ora delivery, in key locations where significant additional supply is needed, or for specific cohort groups
 - e. to replace the existing market rent maxima with rent setting guidance
 - f. to allow for staged operating funding to be provided, where necessary
 - g. that CHPs can continue to deliver public housing places through leasing where CHPs cannot deliver via build-to-own models in places where Kāinga Ora faces significant delivery challenges.
16. You requested further advice on how to progressively reduce the number of redirects used to deliver public housing, and the circumstances for which CHPs can continue to deliver public housing places through leasing arrangements.

The role of CHPs in delivering additionality

17. As you indicated to CHPs in your engagement with them on 26 January, CHPs' contribution to the PHP will be to complement Kāinga Ora's delivery by focussing on demonstrable additionality, over and above what the Government would otherwise be able to deliver. To provide certainty both to guide HUD's investment decisions and help CHPs focus their efforts, we will provide guidance about what demonstrating additionality means.
18. In practice, we see these criteria being integrated as part of the initial assessment process when a CHP approaches HUD with a development opportunity. When the CHP submits the initial information on a proposal to HUD for consideration, they would need to demonstrate compatibility with at least one of the additionality criteria before the proposal can proceed through the formal application process for funding.
19. The following sets out the criteria we propose to use to define additionality:
 - a. **Where a CHP is able to leverage land to progress development opportunities at pace and/or scale, including in areas where significant supply is needed.**

This could include, for example where CHPs have existing land holdings therefore providing clear additionality to what would otherwise be delivered. Land holdings could include whenua Māori and investment opportunities for Māori CHPs, and iwi and Māori housing providers. Delivery under this criteria could be considered in main

urban locations where significant supply is needed and we want to deliver at pace and scale, as well as in the regional centres and smaller towns.

While we will still consider CHP delivery in the main urban locations, this is likely to be at a much lower level than currently. This will affect some of the large CHPs e.g. CORT, Ōtautahi Community Housing Trust, and Accessible Properties, who have delivered significant numbers of new build public housing places in Auckland and Christchurch in recent years.

Place-based examples of how this criteria would apply

Opportunity A1 – leasing opportunity in Auckland

A CHP has a leasing opportunity in South Auckland for 25 new build 2 and 3 bedroom units. HUD's initial assessment is that while the opportunity is able to be delivered within existing settings, it will fail to meet the additionality criteria, unless it provides for a target cohort. Kainga Ora is well placed to deliver units of a similar size in the same location. HUD would not progress with the opportunity as currently presented.

Opportunity A2 – build-to-own opportunity in Auckland

A CHP has land in South Auckland for 12 new build places, half of which will be larger 4 and 5 bedroom homes. The CHP has a focus on supporting Pacific families. The CHP needs to borrow to finance the development and is looking for a 25 year contract with HUD.

HUD considers this opportunity meets the additionality criteria relating to land and target cohort and is worth progressing. HUD could consider providing some early stage funding if the CHP cannot access the full amount required from other sources.

b. In locations where Kāinga Ora has a limited presence, or has no or slower delivery intentions.

This could include, for example, where Kāinga Ora does not have an office and is not intending to commence delivery; where Kāinga Ora has land but does not find it economic to progress with a build; or where Kāinga Ora has plans to deliver but not until towards the end of the PHP period.

The value add of CHPs in this type of delivery is that they may be able to leverage existing local networks and relationships that allow them to deliver in a key location and/or much sooner than Kāinga Ora is able to deliver. This would include areas where Māori CHPs operate and are able to bring forward proposals potentially involving whenua Māori and utilising existing community networks. We would mainly envisage this occurring in the regional centres and smaller towns.

Place-based example of how this criteria would apply

Opportunity B – large scale direct leasing in Whangārei

A CHP has approached HUD with an opportunity to partner with a developer on a large direct leasing opportunity for 50 units in Whangārei, Northland. The CHP is looking to achieve a level of scale for its operations in this location. Kainga Ora is aware of the project and in principle has no issue with the proposed development due to the significant demand in Whangārei. The developer is also offering to build and lease a further 9 units to the CHP and to have some form of transfer of ownership of these units at the end of the 10 year term – to build the CHPs balance sheet.

HUD considers this opportunity meets the additionality criteria relating to location (having considered other opportunities to meet housing need) and is worth progressing.

- c. **Where a CHP will target a particular cohort and/or meet a certain need for individuals or households who would not otherwise be as well catered for through Kāinga Ora delivery.**

These CHPs have greater flexibility to deliver bespoke solutions best suited to the communities they serve, thus optimising tenants' abilities to retain secure tenure.

This could include, for example, delivery for Māori, Pacific peoples, multigenerational families, older people, those in severe housing deprivation, those with disabilities or other specific housing requirements. This could include delivery for these groups in the main urban locations as well as in regional locations.

Place-based example of how this criteria would apply

Opportunity C – build-to-own development in regional town

A recently registered Kaupapa Māori CHP focussed on delivering tailored housing solutions for Māori is interested in purchasing land and expanding in Northland in a location where Kāinga Ora has no pipeline of new supply. The CHP is looking to access some funding to support initial feasibility studies on the development from another Crown source such as Te Puni Kōkiri for a 20 unit development.

HUD considers this opportunity meets the additionality criteria relating to the target cohort and is worth progressing. HUD could consider providing some early stage funding if required to get the development over the line.

20. There may also be some other limited circumstances where an opportunity could be considered, for example, an innovative delivery model s 9(2)(j), or a key partnership opportunity in a key location. Where HUD is made aware of an opportunity in this category, we recommend that such opportunities be brought to the Minister of Housing for a decision on an ad hoc basis.

Place-based example of this would apply

Opportunity D – New build for short and long term supply

A CHP and developer has a new build opportunity for 30 units in Central Auckland where the CHP will have ownership of the units delivered. The proposal is to enter an initial 3-7 year contract for transitional housing. At the end of this period an option is to convert this supply to long-term public housing.

HUD would likely advise that this opportunity meets the additionality criteria as innovative housing delivery/a key partnership opportunity to support short term transitional housing supply targets while providing flexibility for longer term public housing requirements.

If this was a leasing opportunity, it would be more likely fail to meet the innovative delivery/key partnership criteria as there is less certainty around the longer term opportunity for a partnership with the CHP and Kāinga Ora is well placed to deliver public housing in this location.

21. If a proposal is progressed to the draft and the formal application stage, decisions will then be made as per the usual approval processes including considering other existing and planned developments in a region and wider contextual information will still be applied.
22. We envisage that there may be a need to refine the additionality criteria over time as we get better information about how delivery is progressing in the various regions, and the need, opportunities and challenges that are arising. We will report back to you should we propose to alter the additionality criteria to ensure that any changes are consistent with your view of the role for CHPs in delivering the PHP.

Process for how and when CHPs can receive early stage operating funding

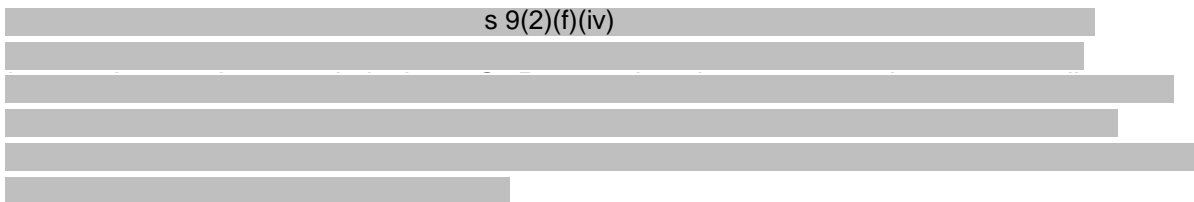
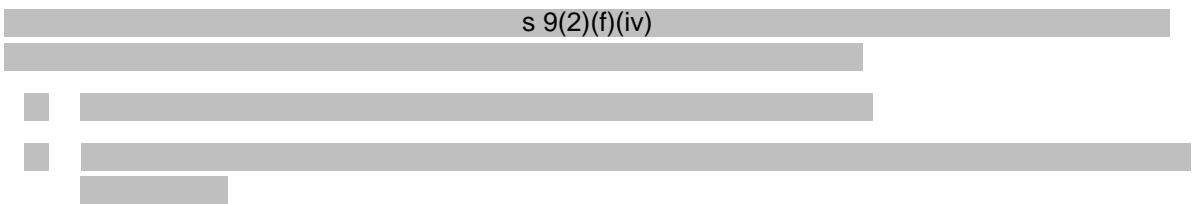
23. You have agreed that HUD can offer early stage OS funding to CHPs in limited circumstances where investment is considered high value to support delivering the public housing funded in Budget 2020 [BRF20/21110801 refers].
24. Where a CHP proposal has met at least one of the additionality criteria, and early stage funding is required for the project to proceed, the CHP will be able to apply to HUD for a portion of the OS to be paid in early stage payments. Our view is that early stage funding will be particularly helpful for enabling proposals considered to be high value to proceed where the CHP has been able to access a portion of the development capital required but needs a top up to get over the line.
25. In assessing an application, amongst other criteria, HUD will consider:
 - a. What other options for accessing finance have been explored by the CHP
 - b. Where funding has been approved, or is being sought, from other Crown sources
 - c. How the proposal aligns with the supply intentions in the PHP, place-based need, and other supply opportunities
 - d. How effectively any risks associated with providing early stage funding can be managed through contractual measures.
26. Simply meeting these criteria would not guarantee that a proposal receives staged funding. HUD's standard process for considering and approving IRRS and OS funding for CHP developments would still apply. This would enable HUD to approve paying a portion of the OS under a tailored agreement in one or more lump sum payments when milestones are reached during the planning and construction stage.
27. HUD will apply a cap on the portion of the OS which can be provided at an early stage for each application. Our costings to estimate the increase in net core Crown debt are based on an assumption of an average of 50% of the OS being made available, so we propose to use this as the general cap.
28. Implementing staged funding will require HUD to assess and mitigate risk as funding will be paid before a housing asset is completed. In the past, this has often been achieved via establishing encumbrances on projects to secure the Crown's investment. There has been some resistance from CHPs to this approach in the past, but it could be used again. Where delivery is occurring in locations where CHPs have smaller balance sheets and/or where whenua Māori is involved, some thought will need to be given to how this risk can be mitigated in an appropriate way.

There are options for the level of approval needed for early stage operating funding

29. Currently, proposals for staged operating funding are jointly approved by the Minister of Housing and the Minister of Finance. This has been practical for the extremely low number of applications involving staged funding. We expect to receive a much higher number of proposals with the changes to funding settings.

30.  s 9(2)(f)(iv)




31.  s 9(2)(f)(iv)
32.  s 9(2)(f)(iv)
33. In addition, if the total amount of early stage funding sought across all projects exceeded the impact on net core Crown debt indicated, we will report back to you for further direction on whether and how to progress with any future applications.

Impact on net core Crown debt

34. Providing early stage payments changes the timing of payments but does not change the overall whole of life cost to the Crown of a development. However, it does affect net core Crown debt as it involves paying out expenditure that would normally be spread across the life of a contract (often 25 years) before or during the development of a new build project.
35. We estimate that up to \$55 million of early stage funding would be paid to CHPs up to June 2024, with a corresponding increase in net core Crown debt. Treasury has advised Cabinet approval is required for this change. However, given the relatively small scale of the increase in net core Crown debt, you have indicated that you will discuss the impact on net core Crown debt with the Minister of Finance. Supporting information can be provided for the discussion, if needed.
36. If the total amount of early stage funding sought across all projects is reaching the estimated \$55 million, we will report back to you for further direction on whether and how to progress with any future applications.

Progressively reducing the number of redirects in delivering the PHP

37. Redirects are broadly CHP housing places that do not come through HUD's new supply programme. They are largely delivered when existing houses (mainly affordable rentals) are converted to IRRS funded public housing places. Redirects were seen as a way to build capacity and an asset base for CHPs when IRRS was initially extended to CHPs in 2014/15. While recent CHP public housing delivery has been characterised by a large number of redirects, CHPs have needed time to ramp up their delivery of new builds and now have a strong new build pipeline over the next few years.
38. In December 2020 you noted HUD's intention to progressively reduce the number of redirects delivered, and that further work was needed to develop an implementation approach [BRF20/21110794 refers]. This advice on an implementation approach does not cover Kāinga Ora buy-ins, or transfers of housing stock from councils to Kāinga Ora, as this is not within the scope of this paper and should be considered separately.
39. Our recommended approach to reducing redirects takes account of the various types of CHP redirects set out in the following table.

Types of CHP Redirects

Type	Description and rationale	Number of places, 1 July – 31 Dec 2020
WITHIN SCOPE OF ADVICE – CHANGES PROPOSED		
Existing housing from the private market	Properties provided by CHPs through lease arrangements with private landlords This can be used to bring on public housing supply quickly but doesn't increase housing supply overall and removes stock from the private market.	149
s 9(2)(f)(iv)	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
OUTSIDE SCOPE OF ADVICE – NO CHANGE PROPOSED (see paragraphs 56-57)		
Places for programmes with IRRS appropriations	Housing First Principles of the programme include providing housing quickly and consumer choice. Private market housing is used where there are no existing or new build public housing available. IRRS funding was appropriated through Housing First Programme in Budgets 2018 and 2019.	202
	Rapid Rehousing This follows the same principles of Housing First, with housing and support services for those with low to medium support needs. IRRS is funded through the Aotearoa Homelessness Action Plan.	64
	Creating Positive Pathways (CPP) Existing houses are used where there is no existing or new build public housing available. CPP relies on clients being housed without delays in the community of their choice. CPP was funded in Budget 2018.	19
	Other services There are a small number of other services with IRRS funding delivered through other agencies, such as the Ministry of Health. No places have been delivered yet, but we anticipate 20 places by June 2021, and up to 100 places over four years.	Not yet started

40. Properties transferred between Kāinga Ora and CHPs (which are currently counted as CHP redirects) are not included in the table as the stock was already used for public housing prior to the transfer (e.g. the 894 properties in Porirua transferred from Kāinga Ora to Te Āhuru Mōwai in 2020). These types of transfers do not impact the total number of public housing places overall, do not remove stock from the private market, and were already receiving IRRS funding.
41. Leased new builds are not included either, as these places generally come through HUD's new supply programme and are discussed in the leasing section of this paper.

Approach for reducing CHP redirects

42. The broader objectives of funding committed through Budget 2020 are to increase housing supply and support the economic recovery from COVID-19. While redirects can be delivered quickly and increase CHP asset holdings, they remove existing affordable or other houses from the market, which can exacerbate supply and affordability pressures. Continued use of redirects in delivering the PHP reduces the funding available for new build supply.
43. We recommend the following approach is applied from 1 October 2021:

Type of redirect	Recommended approach
Housing stock from the private market	Stop from 1 October 2021
s 9(2)(f)(iv)	
Places for services and programmes with IRRS appropriations (e.g. Housing First, Rapid Rehousing, Creating Positive Pathways)	Outside scope of advice – no change proposed (see paragraphs 56-57)

Stopping redirects of housing stock from the private market from 1 October 2021

44. We recommend no longer accepting any redirected housing stock from the private market from 1 October 2021. Stopping redirects will have the biggest impact, will be straightforward for HUD to administer and will provide the sector with certainty around the government's purchasing intentions.
45. We considered bringing the date further forward, for example to 1 July 2021, but do not recommend this as it does not allow sufficient time to engage with the sector. The recommended date provides the sector with approximately six months' notice before the change takes effect.
46. Another option would be to align the date with Budget 2020 funding, and stop this type of redirect from 1 July 2022. However, it would mean the change would not take effect for 15 months and would reduce the impact of the change.
47. We considered whether there would be merit in taking steps to reduce the number of redirects already within CHP portfolios, which would decrease the overall portion of redirects within the public housing stock over time at a quicker rate. This would need to occur as tenancies end so that tenants are not displaced. Our view is that managing down the overall number of redirects could be considered where the provider lease expires and either the tenancy ends, or the tenant can be provided with suitable alternative public housing.
48. There are a few risks from stopping redirects of housing stock from the private market entirely:
 - a. It could lead to short term supply gaps in some locations where there is no established new supply pipeline, or the pipeline is not sufficient to meet supply intentions. This risk can be mitigated as the changes you approved to funding settings to support providers to deliver new build supply are implemented and take effect.

HUD could consider bringing rent setting changes intended for Budget 2020 delivery forward where this might help to address supply gaps and can be achieved within the annual budget.

- b. There may be a few locations where it takes longer to establish a new supply pipeline and redirecting houses from the private market is the only option for delivering public housing supply in the short term. Should this be the case HUD would report back to you on place-based need, steps that have been taken to establish a new build pipeline and advice on an approach. For example, this could involve setting a cap per provider on the number of redirects that will be accepted. Redirects and the cap would remain in place until a pipeline is developed and new build delivery is underway.
 - c. Redirects not accepted by HUD may be diverted to transitional housing at a greater cost due to the support services that are provided. HUD can mitigate this through our approach to deliver transitional housing places.
49. Subject to your agreement to this approach, HUD would retain the option of considering exceptions on a case by case basis after 1 October 2021 in very limited circumstances; for example, a short term arrangement to redirect properties from the private market to enable a redevelopment on CHP land.
50. Few CHPs deliver a significant number of redirects from the private market, but those that do could respond negatively to this change. This can be managed through appropriate communications to the sector and a six-month lead in time for implementation. CHPs will then have the opportunity to adapt their operating models as necessary and mitigate their potential risks.

s 9(2)(f)(iv)

51.

- [Redacted]
 - [Redacted]
- [Redacted]
 - [Redacted]
- [Redacted]
 - [Redacted]
 - [Redacted]
- [Redacted]
 - [Redacted]
 - [Redacted]

52.

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

53.

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

- [Redacted]
- [Redacted]
- [Redacted]

54. 
55. 

HUD considers some redirects are outside the scope of this approach because they have no impact on Budget 2020 funding for additional public housing places

56. HUD proposes to continue to accept redirected properties that are used for programmes that have IRRS funding appropriated separately. This includes Housing First, Rapid Rehousing, Creating Positive Pathways and other services funded through the Aotearoa Homelessness Action Plan. The reasons for this include:
 - a. not allowing redirects would cause delays to housing clients and significantly reduce the effectiveness of these programmes
 - b. as the IRRS component is funded separately from the Budget 2020 initiative for public housing supply, these places will not count as delivery towards the 6,000 additional places.
57. HUD will make changes on how we publicly report redirects against PHP delivery to improve transparency in our reporting. From 1 July 2021 we will report on programme redirects separately to public housing places delivered through Budget 2020 funding.

Impact and next steps

58. We estimate that if you agree to stop redirects from the private market there would be a reduction of approximately 300 redirects each year. This is based on recent delivery as there is no pipeline of redirect supply. This is the minimum reduction we can expect as it does not take account of a reduction relative to recent delivery in the number of redirects of existing CHP stock. There may be opportunity to further reduce the number of redirects through the work being completed on sitting tenant redirects.
59. Based on the new supply pipeline, HUD is confident that reducing redirects will not impact on providers' ability to deliver 6,000 additional public housing places by June 2024.
60. Subject to your agreement to the approach for redirects, HUD will work with the sector to inform providers of the approach along with the changes you recently approved to funding settings to help overcome challenges CHPs face in delivering new build housing:
 - a. removing rent maxima so CHPs can receive a true market rent
 - b. increasing the percentage of OS available outside the main centres
 - c. enabling the OS to be provided in early stage payments for some new build developments.

Circumstances where leasing is appropriate for CHPs

61. CHPs have more actively sought leasing opportunities and these have made up almost half of CHP new build delivery since 2017. In addition, some CHPs have setup business models focusing solely on leasing models, such as Compass Housing.
62. A lack of capital is likely a contributor to this increase in leasing, although we understand some CHPs prefer leasing for a range of reasons, such as to avoid refurbishment costs. We anticipate that making early stage funding available is likely to reduce CHPs' focus on leasing.

63. Leasing of new builds primarily comes in one of two ways:
- Build-to-lease – where a CHP leases new builds from a private developer/investor. Leases generally involve a pre-lease arrangement at the design stage, meaning the CHP can influence the design of the public houses.
 - Direct leasing – where HUD leases from the private developer/investor and then subleases to a CHP. These projects are completed ahead of the sublease arrangement between HUD and the CHP.
64. Leasing uses developers' skills and resources to deliver at pace, without requiring a CHP to secure finance. Developers can find this attractive due to the long-term security of the lease. However, there are disadvantages in that leased properties:
- do not lock in public housing in perpetuity (unless there is a right to purchase or renew)
 - may create gaps in supply or logistical issues if still tenanted as contracts end
 - do not grow CHPs' assets, which could otherwise be used to bring on further supply.
65. There are a few variations on the leasing model, and the pros and cons of each of the different leasing models are set out in the table below.

Type	Pros	Cons
Build-to-lease	<ul style="list-style-type: none"> Contracts with CHPs can be cancelled if there is no demand for public housing in a specific location. Less complex for HUD as it is not party to the lease and the CHP bears the financial risk. 	<ul style="list-style-type: none"> It is shorter term supply than direct leasing, normally 10 to 15 years. It can be riskier for CHPs as it involves additional contracts and agreements. It is unlikely to incentivise regional investment due to risk of the investor being stuck with a property in a slow housing market at the end of the term.
Direct Leasing	<ul style="list-style-type: none"> It is longer term supply than build-to-lease, normally 15 to 25 years. Reduces risks to developers as contracting directly with HUD, which delivers housing where it would not otherwise been possible. Developments are at a larger scale than other projects. Direct leasing partners are well resourced and can bring significant capital to direct leasing projects. Brings on substantial development experience that helps mitigate delivery risk on larger projects. 	<ul style="list-style-type: none"> Higher cost than build-to-lease, as more favourable OS settings needed to attract capital investment at scale. More complex than other funding models, requiring developers or investors to be of a higher standard. Financial risk is borne by the Crown as the head lease of properties. A number of CHPs are reluctant to sign a sub-lease for the full length of the lease.

66. You previously agreed that CHPs can continue to deliver public housing places through leasing where CHPs cannot deliver via build-to-own models in places where Kāinga Ora faces significant delivery challenges and requested further advice on how this would work.
67. Build-to-lease and direct leasing can be useful models depending on the circumstances in particular regions and recommend that they both remain as options for leasing. For leasing to be considered, we recommend that it must first meet at least one of the additionality criteria (as set out in paragraph 19). Beyond this initial criteria, leasing could be considered:
- where staged funding is not sufficient to enable a build-to-own proposal and

- b. where a CHP or another provider is unable to otherwise deliver build-to-own models.
- 68. Simply meeting these criteria would not guarantee that a leasing proposal would either be approved or move on to the application stage. Consideration will need to be given to the regional needs and pipeline for public housing, as well as other existing approval criteria. If a leasing proposal does progress to the application stage, standard approval processes and consideration by HUD's internal assessment panels would still apply.
- 69. While not commonplace, we consider that leasing of recently completed homes where a CHP has not previously engaged with the developer to lease these properties for public housing should not be considered for funding. This does not align with the objectives for Budget 2020 delivery and adds little additional value. It can bring on public housing stock quickly, but it removes private market stock which exacerbates supply shortages.
- 70. There may be circumstances where a unique opportunity is made possible through leasing arrangements and there is a good reason to consider that proposal. For example, this could include:
 - a. where an iwi or a church wants to make land available for public housing but will not sell the land to a CHP
 - b. in a location where long-term demand for public housing is uncertain and leasing could provide necessary flexibility for CHPs interested in delivering in that location.
- 71. We recommend that HUD retains the option to consider and approve these kinds of unique opportunities through leasing arrangements.

We intend to explore build-to-lease-to-own models

- 72. Build-to-lease-to-own models would see CHPs take ownership of leased properties for public housing after the lease period ends. Such models are being developed by some CHPs. The ACC and CORT limited partnership with CORT as the provider and asset manager and ACC as the lender, provides another potential model. ACC provided a \$50 million convertible loan, which is ultimately held in equal shares by ACC and CORT. As a party to the Limited Partnership, CORT benefits through sharing any capital uplift over the term of convertible loan.
- 73. HUD will commence work to develop a replicable model that CHPs could use for leasing opportunities that would still ensure that assets are retained for public housing at the end of the lease. We will provide you with advice on how this model could work later in 2021.

Risks

- 74. We anticipate some CHPs raising concerns with the additionality criteria in that it may restrict delivery in some locations, particularly Auckland and Christchurch, if other additionality criteria cannot be met. Not all CHPs will have access to land to leverage in their delivery, and may not be well placed to deliver to a particular cohort and/or meet a certain need for individuals or households who would not otherwise be as well catered for through Kāinga Ora public housing delivery.
 - 75. There are risks associated with offering early stage funding that will need to be mitigated. HUD has used tools like encumbrances in the past, however these may not be appropriate for all development opportunities as we deliver the PHP. HUD will develop options for managing the risks associated with early stage funding for use where required.
 - 76. We anticipate that some CHPs will have concerns with the potential reduction or stopping of redirects. Redirects play a significant role in some CHPs models; s 9(2)(f)(iv)
- Identified risks are discussed in the redirects section of the paper.

Communications

77. As a result of the various changes for the CHP sector, we will develop a range of communications material to provide clarity over the next two months. This will include information on changes such as:
 - a. rent guidance parameters and process
 - b. staged funding requirements, providing direction on when and where such funding would be supported by the Crown
 - c. redirect and leasing criteria, supplemented with locational information around the CHP complementary role to the state led delivery
78. To help CHPs focus their efforts and understand HUD's approach to investment decisions, guidance will also be provided of the sector's role in delivering the PHP and how they can demonstrate a development opportunity meets the additionality criteria.
79. Where appropriate, we will work with Community Housing Aotearoa and Te Matapihi to refine the material to be provided to CHPs, particularly around any changes agreed to redirects.

Consultation

80. The Treasury, the Ministry of Social Development, the Department of the Prime Minister and Cabinet and Kāinga Ora were consulted on this paper.

Next steps

81. HUD will be providing you with further advice on the following areas:
 - a. redirect situations where an existing CHP tenant is assessed as being eligible and the place is converted to public housing by April 2021
 - b. register of CHP land in April 2021
 - c. [REDACTED] s 9(2)(f)(iv) [REDACTED]
[REDACTED]
 - d. [REDACTED]
 - e. update on PHP implementation in June 2021
 - f. [REDACTED]
[REDACTED]
 - g. [REDACTED]