

[In Confidence]

Office of the Minister of Housing

Chair, Cabinet

Resetting the Government Build Programme

Proposal

1. This paper proposes we refocus the Government Build Programme on building homes across the spectrum of housing need: addressing homelessness, building new public homes, homes for renters and owner occupiers, tailored to the underlying demand and people's needs in an area.
2. To ensure that affordable housing is more widely available the paper also proposes that households are better supported through improved assistance for first home buyers and support for progressive homeownership schemes.

Executive Summary

3. The housing crisis is one of the most difficult long-term challenges New Zealand faces. It has been long in the making and is causing significant harm to the wellbeing of New Zealanders.
4. We are committed to ensuring that every New Zealander has a safe, warm, dry home to call their own regardless of tenure. However, significant change is needed to achieve this goal.
5. The Government's focus remains on intervening in a broken housing market in order to get more New Zealanders into homes. KiwiBuild was established to get first home buyers into homes, and this remains our objective. Building more affordable homes is a key part this approach, as is ensuring those homes are affordable for New Zealanders.
6. We need to change where we build, what we build and how we build it. Using a place based approach we will be better informed about the underlying need and demand in an area to ensure we build the right homes in the right place. This will enable us to build homes across the spectrum of need. Establishing Kāinga Ora to co-ordinate our programme will facilitate delivery of modest priced affordable homes at pace and scale and support adoption of offsite manufacturing and other innovative construction approaches.
7. In order to extend homeownership opportunities, the Government Build Programme will be complemented by improved assistance for first home buyers and greater support for progressive homeownership schemes.
8. This action sits alongside our other key programmes to get New Zealanders into homes. We are working to reduce homelessness, make life better for renters and address the fundamentals of land supply, development capacity and infrastructure provision through the Urban Growth Agenda. Together, this agenda of housing reform will see more New Zealanders able to access

warm, safe and affordable housing that is culturally and socially appropriate to improve overall wellbeing.

9. Our comprehensive programme makes clear that simply building homes is not enough. I propose we remove the 100,000 KiwiBuild target and establish a dashboard to track progress across the Government Build Programme and wider housing programme. Tracking our progress across a wider range of measures will help us make continuous improvements across our programme to address the housing crisis.

Context:

Our housing market has become increasingly unaffordable, affecting New Zealanders' wellbeing

10. We are committed to ensuring that every New Zealander has a safe, warm, dry home to call their own regardless of tenure. However, significant change is needed to achieve this goal.
11. The Ministry of Business Innovation and Employment estimated a nationwide shortage of around 70,000 homes as of 1 June 2017 (of which around 45,000 are estimated to be in Auckland). This shortage of supply relative to demand has contributed to a large growth in prices, as well as increasing rents. Between 2013 and 2018, house prices were rising over twice as fast as household incomes. Although prices are flattening and we are in a period of record wage growth, prices remain high and unaffordable in most of our urban centres.

This housing crisis is one of the most difficult long term problems facing New Zealand

12. Historically, there has been a key role for the state in expanding the opportunities for New Zealanders to own their own homes. Low interest rate mortgages through State Advances loans and the Department of Māori Affairs provided significant support for households to purchase their home, with capitalisation of the universal family benefit helping with a deposit.
13. In the 1990s, the assistance provided by the state fell away and New Zealand's rates of homeownership began a long-term decline. Homeownership rates have now fallen to the lowest levels in 60 years. House prices increased by 54 per cent between 2013 and 2018 while household incomes have risen by only 23 per cent¹. Homeownership rates are even lower for Māori and Pasifika and are falling rapidly.

¹ Sources: REINZ House price index and Stats NZ Household income and housing costs survey.

Too many New Zealanders are under stress from high rental costs driven by a lack of supply

14. The decline in homeownership means more people and whānau are renting. Competition for affordable and secure rental homes has increased. High rents mean people cannot save a deposit for a home.
15. Lower income households and those dependent on benefits are likely to face rents growing faster than income. The lack of affordable housing means there are fewer options for New Zealanders who struggle to access or afford housing in the private market. Housing costs for low income households have increased from 29 per cent of income in the late 1980's to over 50 per cent now. People on the margin of the rental market, on low-incomes or benefits, are at risk of homelessness. Unaffordable housing can be a contributor to mental distress. 67 per cent of those receiving the Emergency Housing Special Needs Grant (EH SNG) were in the private rental market three months earlier. The increase in the number of people on the Housing Register and the rising demand for EH SNGs are key indicators of the pressure on our rental market.
16. This has been strongly exacerbated by the reduction in the number of public homes under the previous Government. The previous Government's state house sell-off programme saw 7000 fewer state homes, and a net decrease in the number of public homes by 1500. Not only are these reductions adding to the shortage, they also represent the opportunity cost of what could have been built but has not. If the current policy of adding 1600 new public homes a year had been in place between 2008 and 2017, we would currently have over 14,000 extra public homes. That deficit means we are starting from well behind in helping the 12,311 households on the Housing Register in the quarter ending June 2019.
17. While we do not currently have an up to date estimate of homelessness across New Zealand, given the rising levels of demand for emergency housing and public housing over the last few years, it is expected that homelessness has increased. The 2013 Census estimated there were approximately 41,000 New Zealanders in severe housing deprivation².

Māori are significantly more likely to be homeless, on the Housing Register, or in public housing than the general population

18. Māori are over represented in areas of unmet housing needs and homelessness and have been particularly hard-hit by the housing crisis. Many Māori live in poor quality or unsuitable housing, and experience negative impacts on health, education and employment. Nearly 60 per cent of the households currently receiving EH SNGs are Māori.

² Only a small proportion of the 41,000 people were living rough; most were living temporarily in a crowded home out of necessity or in emergency or commercial accommodation.

19. The poor outcomes and system wide challenges for Māori are also reflected in the historic and contemporary claims being considered by the Waitangi Tribunal in its upcoming Housing Policy and Services Kaupapa Inquiry (WAI 2750). Through the Government Build Programme we will need to consider how to take account of the reoccurring themes identified by claimants.
20. Iwi and Māori also have significant land holdings that are underutilised. The opportunity to develop partnerships that achieve shared outcomes for Māori wellbeing requires system wide shifts including targeted kaupapa Māori approaches.

Pacific peoples are also significantly impacted across the housing continuum

21. Pacific peoples' place across the housing continuum is characterised by low levels of homeownership, high levels of living in rental accommodation, which is of poor quality and overcrowded, a reliance on public housing, and increasing rates of homelessness. The changes we make to the Government Build Programme present an opportunity to understand and respond to some of these challenges for Pacific peoples.


The market is not building affordable homes

22. The high cost of urban land, restrictions that limit intensification, lack of supporting infrastructure, and the relative lack of experienced medium density development capability in the development industry mean few homes have been built at lower price points in recent years. Where land costs are high, developers are incentivised to build fewer, larger homes and stage developments in a way to maintain high sales prices.
23. There are some homes being built in the lower quartile in Auckland, which are almost all apartments and townhouses. This has been helped by the Auckland Unitary plan, which has removed some restrictions on using land and infrastructure more efficiently in some areas leading to strong growth in consents for higher density dwellings (increasing as a share of total consents from 43 per cent in the year to March 2016 to 50 per cent to March 2019). However, the number of new dwellings priced at below the lower quartile price remains low for Auckland. Since January 2018 as few as 18 per cent of new builds were priced below the current lower quartile value for Auckland of \$670,000. The proposed National Policy Statement on Urban Development will require Auckland to go further and allow more development capacity.
24. The affordability of homes outside main centres is also challenging. The lower price of existing homes means new homes will appeal to a smaller group of buyers. New market supply will be limited. Supporting households into affordable homes may look different. This is further emphasised for iwi and Māori, where predominant land holdings are in smaller rural settings.

The Government has been taking action to address the housing crisis

25. In response to these issues, the Government has begun delivering a coordinated response to address the spectrum of housing issues New

Zealand faces, from homelessness through to expanding opportunities for homeownership.

26. We ended the sell-off of state houses and have now boosted the stock of public housing to support thousands of New Zealanders. Specifically we have:
 - 26.1. Delivered 2178 public housing places in 2018/19 – exceeding our target of 1,600 places per year. This delivery means that 2,000 more families have a place to call home this year – the biggest increase in the number of public houses in approximately 20 years. The Government now supports 69,317 public housing places and, by June 2022, we will have delivered a further 4,800 places. Registered Community Housing Providers are making a significant contribution to increasing public housing supply. They delivered 955 of the additional 2178 public houses.
 - 26.2. Provided funding through Budget 2019 to expand and strengthen the Housing First programme in areas of high demand and will deliver services for more than 2,700 people and whānau over the next few years.
 - 26.3. Provided \$283 million in Budget 2019 to fund and maintain over 2,800 Transitional Housing places through-out New Zealand. This will meet the operating costs of existing places and increase the supply of long-term Transitional Housing places in areas of highest need.
 - 26.4. Agreed further initiatives to prevent and reduce homelessness and reduce reliance on motels as emergency accommodation. These measures include supporting households to sustain their tenancy, more intensive case management for those at high risk of housing instability, and support services for all families and those with mental health needs in motels. This represents a critical first step towards achieving our vision that homelessness in New Zealand is prevented where possible, or is rare, brief and non-reoccurring. s 9(2)(f)(iv)

27. We have also passed the Healthy Homes Guarantee Act 2017, which enables minimum standards to be set to make rental homes warmer and drier. We have also banned letting fees, and a reform of the Residential Tenancies Act is underway to support the Government's goal of making life better for renters.
28. When we came to office, we stopped the sale of existing homes to non-resident speculators, closed tax loopholes and extended the bright line test.

29. We have also appointed an Associate Minister of Housing (Māori housing) and established a Māori Housing Unit within the Ministry of Housing and Urban Development (Te Kāhui Kāinga Ora) to recognise the specific challenges iwi and Māori face in the housing crisis, and the opportunity to partner more strategically to form part of the solution. The work spans across the entire housing and urban development system to achieve Māori wellbeing outcomes, as well as targeted and specific kaupapa Māori approaches for different housing situations (e.g. homelessness).

We have made, and are making, wider reforms to our housing market

30. The Minister for the Environment has also announced a comprehensive overhaul of the Resource Management Act 1991 (RMA) to provide more certainty about how and where development can occur. The overhaul will also cut complexity and costs, better enable urban development and affordable housing, while also improving protection of the environment.
31. We are also making important shifts to the wider system now by introducing legislation to enable the funding and financing of infrastructure through special purpose vehicles and ensuring local authority plans make room for growth through the proposed National Policy Statement Urban Development.
32. The market is also changing, and our reforms are making a difference. Nationwide consents are up 5.8 per cent in the year to June 2019 and 13 per cent in Auckland. The number of consents issued to central government builders is at 40 year high at 2116 in the year to June 2019. Prices have flattened in Auckland with the QV House Price index down 2.7 per cent in the year to June 2019. The first home buyer share continues to increase.

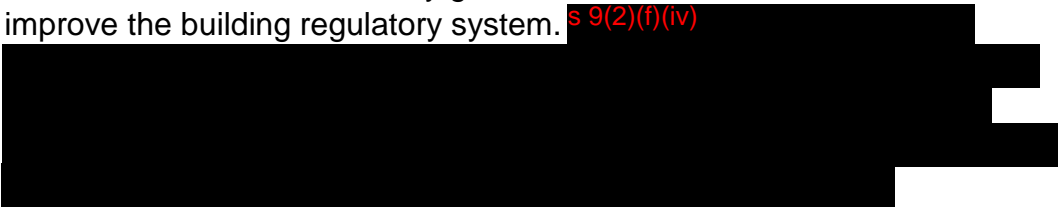
From 1 October 2019 there will be one agency to coordinate redevelopments and master planning

33. In addition to these actions, we are setting up longer-term shifts to change what we build, where and how we do it. These longer-term shifts are critical to supporting the market to deliver a greater volume of affordable homes. Fixing this long-term challenge will take time but we are putting key building blocks in place now:
- 33.1. We are establishing Kāinga Ora – Homes and Communities (Kāinga Ora) to be a Crown agency capable of coordinating integrated urban development that provides the appropriate mix of public, affordable and market housing.
- 33.2. We will introduce legislation later this year to give Kāinga Ora specified development powers to undertake complex development projects of all sizes with greater coordination, certainty and speed.

33.3. The legislation will also further describe the statutory requirements relating to Māori in the exercise of urban development powers by Kāinga Ora.

34. We are also working more closely with local government. We have entered into formal urban growth partnerships in Auckland and Hamilton and have work underway with other high growth councils relating to long term spatial planning to support better land use and enabling affordable housing.

We are doing the workforce planning to ensure we can deliver the housing we need

35. We are also working with the industry through the Construction Sector Accord to increase productivity, raise capability, improve resilience and restore confidence in the sector. A key government commitment in the Accord is to improve the building regulatory system. § 9(2)(f)(iv)
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36. In addition, through the Construction Skills Action Plan we will drive a rapid and sustainable shift that delivers the right people, at the right time, with the right skills, to meet New Zealand's current and future construction needs.

37. Previous work has provided conflicting views on the extent to which we have problems with construction costs in New Zealand. While land can make up a significant proportion of the cost of many homes, when developing at higher density and using land more efficiently the gains from reducing construction costs can become material. Accordingly, I have proposed to the Minister of Commerce that a market study into building materials be prioritised by the Commerce Commission.

Our housing reforms are significant and we are making progress but more work remains

38. Taken together, these actions represent the most significant set of housing reforms in decades. They are boosting the supply of public homes, improving life for renters, making it easier to build new homes, increasing supply, reducing speculation in the market, and boosting opportunities for first home buyers.
39. New Zealanders are seeing the benefits of these reforms in greater numbers of new public homes, warmer, safer housing for renters, the highest number of housing consents since the 1970s, house price rises more in line with wage increases, and first home buyers making up the largest proportion of sales in a decade.

40. However, while our overall agenda of housing reform is progressing well, KiwiBuild itself has not performed as we wanted. KiwiBuild is intended to get first home buyers into homes, and this remains the objective.
41. In the following sections, I propose we reset our approach to expanding opportunities for homeownership.

KiwiBuild has been a key part of our supply response

42. KiwiBuild was established to deliver 100,000 modest priced homes to be made available to first home buyers and other eligible purchasers³ over 10 years. Homes were intended to be inherently more affordable by virtue of modest design, efficient manufacture and efficient use of land and infrastructure.
43. KiwiBuild's primary interventions were aimed at encouraging the development sector to deliver at lower price points and higher levels of density by:
 - 43.1. Making Crown land and land acquired from the private sector available to developers, iwi and Māori organisations – including on a deferred settlement basis – on the condition a proportion of homes would be priced below affordable price points.
 - 43.2. Underwriting the sale of modest price homes, if required.
 - 43.3. Building at scale to drive down costs and promote more efficient building techniques through large scale projects, noting the time for these to scale up.

But it is not working as we had wanted and we need to change it

44. It is very clear that KiwiBuild in its current form is not delivering the changes we wanted.
45. Fundamentally the KiwiBuild programme has faced the same constraints and high construction costs faced by the market. The initial focus through buying off the plans and underwriting developments did not change the planning and consenting challenges faced by developers in bringing new housing to the market, as well as the price of land and infrastructure in which is a critical barrier to building affordable KiwiBuild homes. It has incentivised developers to build affordable homes but these still take time to consent, service and construct.
46. This overall approach to bringing new developments to market is helping in some areas and enabling us to develop stronger relationships with developers. For example, the innovative development in Panmure without any

³ An eligible purchaser must either be a person who has never owned a home before, or a previous homeowner who no longer owns a home and meets the asset test that applies to previous homeowners for the KiwiSaver HomeStart Grant. Eligible purchasers must also be a New Zealand resident, permanent resident or ordinarily resident, intend to own the home for three years, intend to reside in the premises as their principal place of residence and have income below the income cap.

private car parking might never have been able to secure sufficient pre-sales to proceed given uncertainty around its completion date but with the underwrite it is now under construction and proving popular with Auckland first home buyers.

47. KiwiBuild underwrote 25 of 42 apartments in NZ Living's @340 Onehunga development, which allowed construction to be accelerated by at least six months. KiwiBuild then purchased 19 homes at NZ Living's Mason Square development when they were under construction, with 10 complete, which freed up NZ Living's equity for the next round of building. The capital released from these first two deals, enabled NZ Living to begin the Fraser Ave development in Northcote. KiwiBuild has now underwritten 72 of the 102 homes in the Fraser Ave development. This has resulted in 144 homes, 97 of them KiwiBuild, that would otherwise not have been built or would have taken much longer to build.

Contracts with developers were not stringent enough

48. While some developments have been accelerated, the pressure to meet the 100,000 target over ten years also created perverse outcomes – not enough focus was given to building the right homes, in the right place, at the right price points.
49. Some of the early developments underwritten were not informed by an adequate understanding of first home buyer demand in those areas (e.g. Wanaka). We ended up underwriting developments in the wrong places, with the wrong types of homes, and at the wrong price for eligible buyers to buy all the homes.

KiwiBuild's design meant that the programme was only able to help some buyers

50. KiwiBuild is also unable to meet the needs of around 400,000 renting households that cannot afford to purchase a KiwiBuild home. Even with the accommodation supplement, around 180,000 of these households are considered "stressed" and spending more than 30 per cent of their income on rent.
51. The current programme effectively excludes larger families because it cannot deliver many homes with three or more bedrooms under the current price points.
52. For all of these issues, KiwiBuild has delivered a pipeline of 239 completed homes, with 556 currently under construction, 1,993 contracted and just over 8,000 in committed forecasts. Where supply is well matched to subscriber demand, we are seeing strong interest from eligible KiwiBuild purchasers, such as the recent Monark (Wellington) and Fraser Ave (Northcote) launches. However, if we subtract the homes from the early developments in Te Kauwhata, Wanaka and in Canterbury that have not gone well, the numbers fall to 190 completed, 534 under construction and the number of homes contracted falls to 1546 (see Table One below).

Table One: KiwiBuild Pipeline current and after proposed changes

	Current Pipeline	With changes proposed	Difference
Homes Sold to Eligible Buyers	139	139	No Change
Homes Contracted	1,993	1,546	(446)
Of which			
Completed	239	190	(49)
Under Construction	556	534	(22)
Committed Forecast	8,363	8,363	No Change

Some key operational changes have been made and will become standard through the reset

53. The Ministry of Housing and Urban Development (HUD) has learned a lot over the past year, streamlining processes and improving operational practices. Bedding in these operating improvements will mean that we receive better information on demand, including first home buyer data and data from would-be KiwiBuild buyers, helping to ensure alignment between the wants and capability of eligible purchasers and the homes commissioned through the Government Build Programme. We have also made the purchasing process for eligible purchasers as aligned to a 'normal' home purchase as possible (given the inherent limitations of any process where there are eligibility thresholds).
54. KiwiBuild contracts with developers are now structured to strongly incentivise developers to market homes effectively to eligible buyers, through:
 - 54.1. a better weighting of risk and reward sharing, where the risk assumed by the Crown in the form of the underwrite is repaid through achievement of Government objectives
 - 54.2. greater levels of discount from the market price where the Crown underwrite is triggered
 - 54.3. KiwiBuild underwriting smaller proportions of developments (that is, rather than simply seeking numbers, and in the absence of other strong policy reasons for doing so, underwriting just a sufficient value and volume in a development to get it underway, without the Crown taking on all of the financial risk)
 - 54.4. ensuring that there is a greater level of differentiation between KiwiBuild product and market product in the same development
 - 54.5. focusing on building ongoing relationships with credible developers who can provide a long-term pipeline of volume significant to have a material impact on the market

- 54.6. working with developers during the construction process to ensure KiwiBuild homes are marketed to eligible purchasers at the developer's cost in an effective and timely fashion.

Refocussing the Government Build Programme to be more effective and better respond to need

55. There is a clear role and need for the Government to intervene in a housing market that is failing New Zealanders.
56. There is a clear need for action in increasing the supply of affordable homes, secure rentals and public housing for those in need. There is also a need to look beyond just housing supply and provide greater assistance to buyers themselves, to help people who may currently be shut out of the market.
57. To this end, our refocussed programme will cover changing where we build, what we build and how we build, as well as providing progressive homeownership products to support more New Zealanders into homeownership.

Looking forward - we need to be sure that we are building the right home, in the right place, for the right price.

The right home, in the right place...

58. The Cabinet Priorities Committee noted that a more regional approach was required to help address the demand for housing across the housing continuum. This means the Government Build Programme must be informed by the underlying demand and housing need in an area. A targeted approach will deliver tailored development plan for specific areas, matched to a clearly identified need.
59. HUD has begun to progress a pilot of this approach in Hastings. HUD has worked with Hastings District Council, local iwi and other government agencies to understand the drivers of high housing need in Hastings for low-income households, and identify short and medium term responses at the central and local government level and by other players.

60. s 9(2)(f)(iv) [REDACTED]
- A key finding from the Hastings work has been how interconnected all of these issues are, and the need for a joined up, system-level response that supports local led delivery. These assessments will provide the government with clear information about the issues and opportunities facing housing and urban systems across New Zealand. This will ensure that the range of interventions we deploy, including the mix of housing delivered through the Government Build Programme, and

engagement and work with local authorities to plan for growth, are well-aligned and targeted to meet the different needs of different communities.

61. In the main centres of Auckland, Tauranga, Hamilton, Wellington and Queenstown there is likely to be strong demand from first home buyers for KiwiBuild homes. In these markets either the lower quartile price or the average price paid by first home buyers is comparable to the KiwiBuild price caps. However, in other places the Government Build Programme may look different with more public and transitional housing and fewer KiwiBuild homes. To follow the Hastings pilot I will also identify and prioritise future targeted assessments for other regions. The Housing Ministers are currently developing strategic criteria for selecting the next region to analyse.
62. To realise the opportunities for new housing by and for iwi and Māori, HUD, Te Puni Kōkiri and Housing New Zealand (HNZ) are working together to facilitate and develop robust partnerships between government agencies and iwi and Māori groups. The programme is focused on ensuring investments are matched to whānau-led housing projects that will lead to new housing supply. The majority of partnerships currently being explored are in regional towns, mixed-tenure on Māori owned land and smaller scale. They also require some capability/capacity building and co-ordination across multiple government products and services.
63. It is intended these projects be lifted into the broader place based activity planned in an area where there is geographic alignment.

... at the right price point

64. The KiwiBuild price caps have been effective “stretch targets” to get developers to redesign developments and to amend the mix of homes they build. Moving to long-term partnerships provides the scope to work with developers to develop a longer-term pipeline at prices below these price points. The price caps are largely appropriate and serving their purpose as intended so a broader change is not needed. With one exception outlined below, I propose to retain the current KiwiBuild price caps for typology and size.
65. The one change I am proposing is to increase the price cap for the Wellington Region to \$550,000 for homes that are three bedrooms or larger. The current \$500,000 target for Wellington Region appears too tight to support any volume of three-bedroom homes in medium and high density development in Wellington City and other parts of the region. There is strong evidence of a rapidly inflating market in Wellington that we need to respond to:
 - 65.1. House prices have increased by 50 per cent across the Wellington Region in the last 5 years.
 - 65.2. The lower quartile price currently stands at \$449,000 across the Wellington Region, and \$596,000 for Wellington City.

- 65.3. The most common purchase by first home buyers in the Wellington Region is for three bedroom homes at an average purchase price of \$550,000.
66. Given the variation in price across the Wellington Region, the current caps may continue to be suitable for some parts of the region. Accordingly, I propose that the higher cap apply across the whole region, with Kāinga Ora exercising discretion about where it applies the higher cap in practice.

KiwiBuild needs to be able to provide larger, family homes

67. I also propose that Cabinet provide flexibility for Kāinga Ora to deliver some affordable homes above the regional price caps. To date we have contracted 30 four-bedroom homes, or only 1.5 per cent of homes. It is unlikely that significant numbers will be possible under current caps. Rather than introduce new caps for larger homes, I propose that with approval from myself and the Minister of Finance that up to 10 per cent of the affordable homes in a development could be above the cap for homes that are four bedrooms or larger.
68. While building above the caps will mean these homes are more expensive than other KiwiBuild homes, this is reflective of the underlying cost to build and that the homes are larger. The additional support including progressive homeownership schemes will help ensure these homes can be affordable for larger and multigenerational families.
69. More generally, as the price caps are a maximum, Kāinga Ora would retain the operational flexibility and discretion to target lower price points for specific developments based on underlying costs and need. This would address the different needs across the different housing markets in areas like Queenstown Lakes.

How we will build homes

Kāinga Ora will coordinate the Government Build Programme

70. The development and construction of most of the Government Build Programme homes will involve Kāinga Ora as a land owner, getting land build-ready (e.g. existing HNZ land) or where we do not own all of the land as a partner with local government, iwi and Māori organisations and developers⁴.
71. Kāinga Ora will adopt a number of different approaches to do this, recognising that it needs to be smart about how it operates and partners with the private sector and how it leverages its unique levers.
72. In a general sense, Kāinga Ora will be able to 'enable' (e.g. use non-financial levers such as facilitating consenting for developments), 'catalyse' (e.g.

⁴ While Kāinga Ora will lead the development and construction of public and transitional housing, the Ministry of Housing and Urban Development continue to have a key role in directing and funding the delivery and build of public and transitional housing that will form part of the Government Build Programme.

underwrite projects) as well as ‘deliver’ housing, urban infrastructure and community spaces. Each of these approaches will involve different allocations of cost, risks and rewards between the private and public sectors. Many large/complex developments will involve elements of all three of the approaches above, throughout the development process.

73. Currently HNZ uses the land it owns to redevelop and increase total supply of housing. The focus has primarily been in Auckland until recently, but HNZ is now bringing on new supply across the country including large scale activity in Porirua.
74. HLC is responsible for leading the development of a number of regeneration projects on Housing New Zealand land in Auckland and Porirua, with its emphasis largely on delivery. HLC also focuses on the delivery of sites through its master-planning process and manages the selection of the developer.
75. As part of bringing this work together, Kāinga Ora developments will make use of Piritahi, which brings together five design, engineering and construction firms, selected from a competitive market bid, who collaborate to deliver builder ready superlots. This makes the delivery of infrastructure in a neighbourhood more efficient as Piritahi, rather than multiple developers operating on a piecemeal basis, completes the infrastructure as one exercise.
76. There is a significant amount of work to do before the land is build ready and construction starts. Kāinga Ora will help to speed up this process. Key steps include:
 - 76.1. Ensuring there is a “license to operate” through engagement with the community, including iwi and mana whenua
 - 76.2. Masterplanning of whole suburb–urban and infrastructure (hard and social)
 - 76.3. Neighbourhood Masterplanning
 - 76.4. Stage design
 - 76.5. Demolition and contamination removal/remediation, including land remediation where this is required
 - 76.6. Civil works to create superlots ready to build on with infrastructure (three waters, power, telecommunications, roading, footpaths, street lighting etc)
 - 76.7. Entering into development agreements with developers.
77. Delivery of homes will accelerate as projects progress, with much of the early effort focussing on land remediation, infrastructure and civil works, along with preparation (where relevant) for the relocation of existing HNZ tenants.

78. Kāinga Ora will build on the long-term partnerships with builders, developers, community housing providers, local government, and iwi currently in place across HLC, HNZ and the KiwiBuild Unit. The multi-year contracts within these partnerships do and will continue to provide our partners with the confidence to invest in people and plant and to support wider workforce development programmes, such as Mana in Mahi – Strength in Work.
79. Kāinga Ora is also uniquely placed to support the adoption of offsite manufacturing. Kāinga Ora facilitating the introduction of offsite manufacturing offers the potential to transform how we build houses, resulting in lower cost and better quality; increased capacity and speed; and importantly, a positive contribution to Government's other objectives such as the environment, regional economic development and skills.
80. Kāinga Ora can support the adoption of offsite manufacturing because of its scale and potential to offer more stable, longer term demand to offsite manufacturers – which is critical to unlocking these benefits because it enables repeatability across the design, manufacturing, assembly, finishing and consenting stages.
81. Moreover, having Kāinga Ora actively facilitating offsite manufacturing adoption, where it makes sense, is more likely to ensure that the cost and other benefits that offsite manufacturing promises pass through to home buyers in the form of more affordable housing and are not captured by developers through higher land prices.
82. Alongside offsite manufacturing, there are a number of innovative, 'high-tech' building products being used in the construction of HNZ properties that Kāinga Ora will be able to utilise. These products are helping to improve the speed and quality of construction. For example, HNZ currently has a range of product adoption projects underway, including use of cross-laminated timber (CLT) in new public houses. Use of CLT enables homes to be built faster and offers tenants health benefits through better thermal performance than conventional building products and processes. It is safe from an assembly perspective and performs well in fires and earthquakes. Other product adoptions include the use of panelised constructions (now mainstream), use of volumetric, modular pods, as well as innovations in foundation systems, fire protection systems and energy divestment. KiwiBuild has shortlisted a number of component manufacturers. Many of these proposals would have regional economic development benefits/implications.
83. Long-term development partnerships with iwi and Māori will be a special focus. The Kāinga Ora – Homes and Communities Bill places an explicit requirement on Kāinga Ora to operate in a way that provides for meaningful and early engagement with iwi and Māori. This will require collaboration and effective partnerships between Te Kahui Kāinga Ora (within the Ministry of Housing and Urban Development, at a strategic level) Kāinga Ora (at an operational level) and iwi or hapū groups, post settlement governance entities,

Māori land trusts and incorporations and urban Māori authorities to enable participation in development projects.

84. In future, the advantages the Crown can bring in getting sites build ready will be one way of extracting a social dividend from developers in the form of requirements for more public housing, more affordable homes and greater presence of progressive homeownership schemes and options such as build to rent. I intend to work with investors in build to rent, community housing providers and philanthropic investors to identify opportunities to start to realise this social dividend.
85. To ensure that Kāinga Ora developments produce the right homes, in the right places, at the right price points (or other tenure options) for the location, our approach will be informed by the market analytics and data tools we have developed which we will continue to refine.

Extending Homeownership Opportunities

86. I also propose we increase the financial support available to enable people to realise their homeownership aspirations. Increasing the supply of modest priced homes through KiwiBuild will help to put downward pressure on prices and rents in the medium to longer term, however, affordability may remain a challenge for many households. There is a clear role for Government intervention to increase the support we provide New Zealanders to get them into homes, alongside the changes we are making to supply. Annex One sets out the changes proposed below in the context of the overall government spending on housing.
87. In the past, low interest rate mortgages through State Advances loans and capitalisation of the universal family benefit provided a strong pathway to homeownership for many New Zealanders. Given low interest rates and the fact that banks treat Working for Families tax credits as income to lend against, these models will not work in today's housing market. Different approaches are needed.
88. Support for first home buyers typically comes in the form of assistance with raising a deposit or with servicing a mortgage. Raising a deposit is a common barrier for many households who could afford to service a mortgage on a first home. Many renters face challenges both saving a deposit and in meeting the costs of servicing a mortgage and other costs of homeownership. I recommend as part of the Government Build Programme we increase funding available to help both of these groups.
89. To address the deposit barrier I propose we make a number of changes to the current HomeStart and Welcome Home Loan settings to take effect from 1 October 2019. The impact will be to reduce the current disadvantage for multiple borrowers and to ensure that households who have been saving consistently through KiwiSaver for at least three years and can service the required mortgage can put together the minimum deposit for a KiwiBuild priced home. To achieve this, I propose that we:

- 89.1. **Allow HomeStart grants to be paid to all buyers where there are three or more buyers.** There is currently a cap to the amount of grant that can be paid for each home purchase. This is equivalent to twice the maximum available grant for an individual – or \$10,000 for an existing home and \$20,000 for a new home. This unfairly disadvantages multiple borrowers such as intergenerational buyers, including, in particular, Māori and Pasifika families. This change would apply to both new builds and existing homes. This will cost around \$1.4 million over the next four years.
- 89.2. **Reduce the Welcome Home Loan Deposit requirement from 10 per cent to 5 per cent for existing homes and new builds.** This would bring the approach into line with the approach taken by retail banks. The cost of this will be up to \$4 million over the next four years and will fit within the existing appropriation.
- 89.3. **Reduce the deposit requirement for HomeStart grants for existing homes and new builds.** Currently purchasers must demonstrate they have a 10 per cent deposit to get access to the HomeStart grant. This can include the amount of the grant and funds the buyer withdraws from KiwiSaver. Most people receiving a HomeStart grant for a new build will have a 5 per cent deposit from the grant and their KiwiSaver withdrawal alone, and banks will almost always require a 5 per cent deposit. I propose to reduce the requirement to 5 per cent to align with the deposit requirement for Welcome Home Loans. This will cost up to \$17.3 million over the next four years due to likely increased uptake.
90. I am also initiating targeted engagement with banks and the development sector to make the process of buying a home simpler, including looking at how we can align our support for first home buyers. As a first step, I propose we combine the HomeStart Grant and Welcome Home Loan scheme together under a single “First Home” scheme. I intend to look at how the First Home Grant, First Home Loan, and KiwiSaver withdrawal might be aligned or simplified with a single front door. I will also work with banks to improve their awareness of KiwiBuild and Crown home ownership products so they can support their customers to better navigate the first home buying process. Improving how the process works for first home buyers is one example of how the reset is an ongoing process.
91. Together these changes will cost \$22.6 million over the next four years. The changes to First Home Loans can be funded from within the existing appropriation. I am also proposing that the changes to the First Home Grant are funded from the significant underspend within the appropriation. I note this is inconsistent with the Fiscal Management Approach and not supported by Treasury, but that Cabinet retains the discretion to approve this approach to reprioritisation. I do not consider there to be other opportunities to reprioritise funding within the Ministry of Housing and Urban Development to meet these costs.

Expanding opportunities for homeownership through progressive homeownership

92. I am also proposing that we support more New Zealanders into homeownership by increasing support for innovative ownership schemes. Labour, New Zealand First and the Green Party are committed to increasing homeownership, and recognise that some families will need more assistance via progressive homeownership schemes to get there. Labour and the Green Party are committed to progressive homeownership through the Confidence and Supply agreement.
93. As house prices have increased, households who would once have purchased a home have been priced out of homeownership. Households who can service some but not all of a mortgage to buy a home are more likely to be families with children, one person households, and Māori and Pacific peoples. Given the gap between house prices and what is affordable to these households, many will not be in a position to purchase a home in the future.
94. Progressive homeownership schemes can help these households by sharing the cost of a mortgage and address both the deposit barrier and mortgage servicing. In this way progressive homeownership can operate as a modern day version of the State Advances scheme.
95. These innovative arrangements are already offered in small numbers through community housing providers as well as a small trial through Te Puni Kōkiri that is targeted to iwi and Māori (an overview of existing schemes and how a government scheme might fit is set out in Annex Two). These provide new avenues for homeownership for households who would otherwise be shut out of the market. Progressive homeownership can take a number of forms including:
 - 95.1. Shared equity or ownership where a household owns part of the property and a third party owns the rest. The household may not pay rent to the shared owner but may share capital gains. Over time with income and house price growth the household can buy the house outright through a commercial mortgage. Examples include the New Zealand Housing Foundation's Shared Ownership Product and Habitat for Humanity's Progressive Home Ownership model.
 - 95.2. Rent to Buy, where a household rents a new home from a third party, and may be charged discounted rent to enable them to save a deposit. The household may have the right to purchase the home either outright or through a shared equity scheme. Examples include the New Zealand Housing Foundation's Rent to Own (HomeSaver) scheme.
96. Some community housing providers also combine progressive homeownership schemes with financial coaching, to prepare the household to take on a commercial mortgage. The services can be important in increasing the number of households who are ready for homeownership.

97. I see a clear case for greater government support of these schemes reflecting the state's historic role in supporting homeownership schemes.
98. This will not be an overnight fix. In the medium to long term these approaches can play an important role in helping to address the housing crisis. Building a role for Government in their delivery, and supporting those that provide them to scale up and expand the number of people they can help is a key way to increase the number of New Zealanders into homeownership.
99. As an initial step, through Budget 2019, Cabinet agreed that \$400 million in operating funding from the "KiwiBuild Housing" Multi-Year Appropriation be set aside to support the delivery of affordable rental homes and homes to be sold through progressive homeownership programmes. I propose establishing a progressive homeownership fund to support these schemes.
100. I propose tasking HUD to work with the community housing sector, iwi and Māori organisations and financial institutions, to identify opportunities and products that can be funded. I envisage this taking the form of a call for proposals from organisations who would want to partner with the Government to deliver these products.
101. I am also recommending we also consider establishing direct government provision of these innovative homeownership products. I propose that HUD develop a scheme to allow direct provision of these products to households. This will also allow us to ensure access to these products in areas of the country that may not be covered by an existing programme.
102. To maintain the fiscal neutrality of the money set aside in the "KiwiBuild Housing" appropriation any funding provided to community housing providers, iwi or Māori organisations, and financial institutions, or directly to households will need to be recovered within ten years. This means we will need to focus our support at those households who are on the cusp of homeownership. This will increase the likelihood that funding will be recovered within ten years and can be treated as fiscally neutral under the fiscal management approach.
103. My expectation is the funding could support between 2,500-4,000 households into homeownership. The number of households supported will depend on how we target the fund including household income and the amount we are willing to offer per household. Consideration may also be given to enabling more balanced delivery of support for Māori and Pacific households who are considerably less likely to be homeowners.
104. Table Two sets out indicative scenarios of how a 15 per cent shared equity contribution could improve mortgage serviceability for households in different parts of the country. It assumes that mortgage servicing costs are below 30 per cent of household income (this would not include other costs such as rates and maintenance) and no rent is charged on the equity share. Over time with income growth the household would be able to buy out the shared equity partner by increasing their borrowing.

Table Two: Indicative shared equity examples

	Auckland and Queenstown Lakes	Rest of Country
KiwiBuild Cap 3 Bedroom	\$650,000	\$500,000
5 per cent deposit	\$32,500	\$25,000
95 per cent mortgage required	\$617,500	\$475,000
Approximate household income to service	\$135,000	\$105,000
Mortgage with 15 per cent shared equity	\$520,000	\$400,000
Approximate household income to service	\$110,000	\$90,000

105. I propose that our approach is co-designed with the community housing sector, iwi and Māori organisations and other potential investors to ensure that the support for existing products and a new direct Crown scheme are complementary and not in conflict. I recommend officials test this approach with the sector and that I report back to Cabinet by the end of this year outlining the key target cohorts, a high level approach and design features, including a call for proposals and process to establish a direct scheme.

The cost of operating a progressive homeownership scheme

106. Approaches to deliver progressive homeownership schemes could happen through two main channels: direct to households and through concessionary loans to partner organisations such as community housing providers, iwi and Māori organisations. The proportion of funding delivered through each channel would be decided through a co-design process.
107. My intention is the funding will be recycled to the Crown within at least 10 years. The New Zealand Housing Foundation indicates that the capital it invests through its Shared Ownership scheme is recycled every five years.
108. As part of my report back on target cohort, high level approach and design, I will confirm the ongoing funding for the fund and how this will be funded. This will include opportunities for reprioritisation.
109. Information on the number of households who have accessed a progressive homeownership scheme in New Zealand is not held centrally. We estimate that there are over 1000 households that are either currently in a progressive homeownership programme or now own their home with the assistance of these schemes.
110. The proposed changes will work alongside 'Sorted Kāinga Ora' and other whānau financial capability initiatives which work with whānau to ready them for homeownership and to take advantage of the deposit subsidies available. We also look to learn lessons from Te Ara Mauwhare/Pathways to Home Ownership, in which Te Puni Kōkiri is working with rōpū Māori to trial innovative approaches to assist whānau Māori into homeownership.

111. Providers, including those for the recently announced Pacific financial capability initiatives will work with Pacific households to ready them for homeownership and take advantage of the home ownership support available.

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

Facilitating institutional investment in the rental market

113. As well as supporting innovation in progressive homeownership, in the medium to longer-term the Government Build Programme provides the opportunity to support the growth of institutional investment in the rental sector. Institutional investors with long-term investment intentions, such as superannuation funds, can be attracted to the stable rental yield from large-scale rental portfolios. Institutional investors can also offer longer-term secure tenure rentals at market rates.

114. The build-to-rent market is in its infancy in New Zealand and will take some time to build volume. However, there are already build-to-rent developments underway in our large-scale projects, including by iwi and Māori Organisations. For example, in 2015 one development begun on Crown land at Hobsonville Point involved the New Zealand Superannuation Fund and Ngāi Tahu. The work will include a specific focus on expanding partnerships with iwi and Māori organisations to support more whānau into homes.

115. To the extent investors in build to rent are committing to deliver affordable homes for long term secure rental, the Government Build Programme could make Crown land available, including on deferred settlement, on the same basis as other developments. Under the current Land for Housing programme build to rent could provide for improved security of tenure for the market priced homes that are delivered alongside public and KiwiBuild homes. Build to rent could play a similar role in the large-scale projects.

116. Given homes are rented at affordable market rents and based on a commercial model, I do not see a case for further government support to make institutional investment viable, such as guaranteeing commercial returns.

117. As noted in paragraph 84 I intend to work with investors of build-to-rent and partners to identify opportunities within the Government Build Programme and will bring proposals to Cabinet in future.

Divesting Unsold Properties

118. As part of resetting our approach to the Government Build Programme, I am proposing we divest ourselves of certain properties acquired under the underwrite from the early days of the programme. As mentioned above, some developments early in the programme were not matched well to need, and the result was that they have not attracted sufficient interest from eligible buyers

to absorb all current and contracted stock. This is not good enough, as our decision to reset the Government Build Programme makes clear.

119. In some cases, the Crown owns these homes, either through the operation of the underwrite or outright purchase, or can expect to do so in the near term. Some of these developments are only part way through and if we retain the current limited range of eligible purchasers we may own significantly more. These developments are:

119.1. Northlake Wanaka: KiwiBuild has underwritten 211 homes. The relevant price caps are those for Queenstown-Lakes District and are out of step with average incomes for the area. Seven out of ten completed KiwiBuild homes have been sold, with another 20 under construction now and on the market.

119.2. Lakeside Te Kauwhata: KiwiBuild has underwritten 175 homes. While none have yet been completed, KiwiBuild homes initially balloted October 2018 and have been on the market since with no sales. There have been sales to other buyers, just not to eligible purchasers.

119.3. Canterbury – KiwiBuild has underwritten 75 homes in various locations. Only seven homes have been sold, with a further 68 available on the market. The Crown owns or will soon own 13 of these.

120. While the Crown could wait indefinitely for an KiwiBuild eligible purchaser, we would still be incurring rates, electricity, maintenance and in some cases marketing and body corporate costs. As the underwrite is triggered for more homes this will tie up our capital. The homes are not generally suitable for HNZ as they have not been built to the public housing design standard and community housing providers have not expressed interest.
121. I am proposing that we decide now that the completed and future homes, in the developments noted in para 119 above, be sold on the open market and no longer be called KiwiBuild homes. To ensure these homes can be sold without loss, I am proposing that the current restrictions on buyers are removed.
122. For more recent and future developments improved demand analysis and market testing should reduce the risk we need to divest a large number of homes. But it would be unrealistic for us to expect there to be eligible buyers for every KiwiBuild home in future. Any development carries some risk and we may find we cannot sell some homes. At the same time to ensure developers remain incentivised to deliver products for first home buyers and other eligible purchasers I do not propose allowing any home to be simply sold on the open market if an eligible buyer cannot be found.
123. To maintain the right incentives for developers I propose that Kāinga Ora be able to sell KiwiBuild homes to other buyers where fewer than 15 per cent of the KiwiBuild homes within a development remain on the market and unsold to eligible purchasers. Where more than 15 per cent of the KiwiBuild homes

remain on the market, Cabinet should approve any sale on the open market to other buyers.

Eligibility Criteria

124. Looking again at who can buy KiwiBuild homes can also ensure we better match supply to demand. Eligible purchasers have always extended beyond first home buyers to include other purchasers who have previously owned a home and are in a similar position as a first home buyer ("second chancers").
125. More work needs to be done to communicate to second chancers that they are eligible to buy KiwiBuild homes. Currently there is an asset test which prohibits a former home owner with assets worth up to 20 per cent of the relevant regional First Home price cap for existing homes from being eligible.
126. This asset test has been difficult to interpret and prohibits a large number of people from buying homes through the scheme. Therefore I recommend removing it.
127. An asset test would remain in place for First Home grants, as households with assets greater than 20 per cent of the relevant home price cap do not require deposit support.
128. In addition to enabling more households to become home owners, this would also provide more flexibility for households to continue to own through a change in circumstances. In particular, it is important that KiwiBuild eligibility rules do not prevent workers from being able to move to those parts of the country where the demand for their skills is greatest. For example, a teacher who is selling a house in a provincial town in order to take up a job opportunity in Auckland, where there is a shortage of qualified, experienced teachers, will likely find themselves in a very similar position to a first-home buyer given the high house prices in Auckland. Removing the asset test would enable support for households in this circumstance.

129. This would result in the following buyers being eligible for a KiwiBuild home:

Table Three: Eligible Buyers under the reset

Eligibility test	First Home Buyer	Second Chancer
Home ownership	Never owned before	May have owned before, does not own now
Asset test	No asset test	
NZ Residency requirement	New Zealand resident, permanent resident or ordinarily resident,	
Occupation requirement	Intend to reside as principal place of residence: - 3 years for 2 bed & above - 1 year studio & 1 bed	
Income	Below caps of: - \$120,000 pay for a single applicant - \$180,000 for more than one applicant	

Restrictions on Buyers

130. Eligible purchasers must commit to living in a KiwiBuild home for three years and must sign a deed to this effect. This has deterred some potential buyers, particularly for one bedroom and studio apartments where buyers want to retain the flexibility to sell and purchase another home should their circumstances change. For example, a young couple may be reluctant to purchase a studio or apartment if they want to retain the flexibility to purchase a larger home if they have a family. While the Crown can provide approval for people to sell their home or to rent their home if the owner requests it, this has not yet occurred and the basis on which approval would be granted is yet to be tested in practice.

131. I consider it is important to retain some occupation requirements to ensure that homes are bought by people who intend to live in them. However, I have had consistent feedback about the problems with the restriction for one bedroom and studio apartments and I propose we set the restriction on the studio and one bedroom typologies to twelve months after settlement, while leaving it unchanged for the remainder.

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



Other technical amendments

133. When the First Home Grant was first introduced, it was agreed that first home buyers could access the higher new build grant for:
 - 133.1. A vacant residential section on which a new dwelling will be built.
 - 133.2. A house and land package purchased off the plans (including terraced houses, flats, and town houses).
 - 133.3. A new apartment purchased off the plans.
 - 133.4. A completed newly built dwelling, defined as a dwelling of any type that received its building code compliance certificate less than six months before the date of the first home buyer's application.
134. There are some KiwiBuild properties that had a building code compliance certificate issued more than six months ago. Under the existing definition, these homes are no longer new builds. This presents two issues for people wanting to use the First Home Grant to buy of these homes:
 - 134.1. As the homes are now considered existing homes, first home buyers can only receive up to \$10,000 rather than the up to \$20,000 that is available for new builds.
 - 134.2. As the price cap for existing homes is lower than for new builds (as an indication \$600,000 as opposed to \$650,000 in Auckland and Queenstown Lakes), first home buyers may not be eligible for the \$10,000 available for existing homes.
135. I propose to amend the definition of a completed newly built dwelling to be where the building code compliance certificate was issued no more than 12 months ago, enabling first home buyers of these unsold KiwiBuild properties to access the First Home Grant.

Measuring our Progress

136. The target set when the KiwiBuild programme was launched, was to deliver 100,000 modest priced homes to be available to first home buyers. The programme has led to an increase in the supply of affordable homes.
137. However, the target itself created unintended behaviours where not enough focus was given to building homes matched with a clear understanding of the demand in specific locations, typologies and price points.
138. As such I suggest that the Government Build Programme have a clear objective of helping people into affordable homes and that there be a set of indicators which track movement in:
 - 138.1. key outputs such as the supply of public and affordable homes

138.2. increased momentum through movement in building and resource consents granted.

139. HUD is developing a housing system dashboard that is intended to be a single platform for some of the key measures in the housing system. My intention is the dashboard will be updated and produced monthly and is a means of tracking aspects of the current housing situation, the Government outputs in response, and the results of those. My intention is to release the dashboard by mid October 2019. A draft of the proposed dashboard is set out in Annex Three.

Technical change to appropriations for establishment of Kāinga Ora

140. With the introduction of the Kāinga Ora – Homes and Communities Bill, the nature of the work towards establishing the new entity will soon shift from policy advice to broader establishment activity, which requires a new appropriation in order for the Ministry of Housing and Urban Development to undertake this activity.
141. In December 2017, Cabinet noted that \$100 million would be notionally ringfenced in the KiwiBuild appropriation for the establishment of the Urban Development Authority (now Kāinga Ora) [CAB-17-MIN-0547 refers].
142. Decisions made to date have appropriated \$49.996 million including \$46.797 million over two years to operate the KiwiBuild Unit (including subject matter experts in negotiating deals) of the original \$100 million.
143. This paper proposes to reallocate \$3.1 million of the KiwiBuild Unit funding for 2019/20 to a new appropriation to establish Kāinga Ora with no impact on the operating balance or net core Crown debt.

Consultation

144. This paper has been prepared by the Ministry of Housing and Urban Development. The following agencies have been consulted: The Treasury, the Ministry for the Environment, the Ministry of Transport, Te Puni Kōkiri, the Ministry of Business, Innovation and Employment, the Ministry of Social Development, the Ministry for Pacific Peoples, the New Zealand Police, the Ministry of Health, the Ministry of Justice, the Department of Corrections, Oranga Tamariki, Housing New Zealand, HLC, and Land Information New Zealand. The Department of Prime Minister and Cabinet was informed.

Treasury Comment

145. This paper proposes using \$20 million of possible underspend in the 2019/20 fiscal year to fund increases in the forecasts period and outyear appropriations for First Home Grants, which the Treasury does not support. There are two reasons for this:
- 145.1. The First Home Grants appropriation is a benefit or related expenses appropriation (BORE), which recognises that it is more likely to be sensitive to external factors and therefore has a greater level of

uncertainty around the actual spend in any given year. Demand-driven appropriations of this nature include some buffer to manage the risk of incurring expenses without Parliamentary approval. As the current fiscal year has only recently commenced and there is a high degree of uncertainty around demand we believe it is too risky to move amounts from the appropriation into subsequent years.

145.2. Although the proposed transfer may be fiscally neutral over the forecasts period, there will be an on-going cost to the Crown as the increase in expenses from the policy change continues beyond 2023/24.

146. Using a BORE in this way reinforces the precedent, set by the healthy home standards and previous amendments to home deposit grants, to fund housing policy decisions in a way that is inconsistent with the Fiscal Management Approach (FMA). Applying the FMA would require a reprioritisation of expenditure or for the cost of the changes to come from the Between Budget Contingency established through Budget 2019 or a pre-commitment against Budget 2020.

Financial Implications

147. Through Budget 2019, Cabinet agreed that \$400 million in operating funding from the “KiwiBuild Housing” Multi-Year Appropriation be set aside to support the delivery of affordable submarket rental homes and homes to be sold through progressive homeownership programmes. I am proposing this funding be used to support the expansion of progressive homeownership schemes currently on offer and for the direct provision of a progressive homeownership scheme by the Crown. Using the ringfenced funding in this way requires funding to be recycled to the Crown within ten years.

148. Establishing and operating the progressive homeownership fund will require funding. These costs will be dependent on design and how the fund is delivered, as will any concessionary costs associated with the fund. I will report back by the end of this year confirming how these costs will be met including opportunities for reprioritisation.

149. I propose the changes to the First Home Grant and First Home Loan are funded from reprioritisation within the existing appropriations. I note Treasury does not support the reprioritisation within the First Home Grant appropriation, but that Cabinet has the flexibility to do so.

Legislative Implications

150. There are no legislative implications from this paper.

Impact Analysis

151. A regulatory impact analysis is not required for this paper.


Human Rights

152. There are no inconsistencies with the *Bill of Rights Act 1990* or the *Human Rights Act 1993*.

Gender Implications

153. Improving the supply of affordable housing and public and transitional housing will improve housing choice for all New Zealanders, but in particular will support greater participation and access to opportunity for women.

Disability Perspective

154. Improving the supply of affordable housing and public and transitional housing could improve housing choice for all New Zealanders. Over time this will reduce the degree of difficulty experienced by disabled people in accessing suitable housing. s 9(2)(f)(iv)
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Publicity

155. A comprehensive communications and stakeholder plan will be developed for the announcement of these changes.

Proactive Release

156. This paper will be proactively released in whole subject to redaction as appropriate under the *Official Information Act 1982* following announcement of the changes recommended in this paper.

Recommendations

The Minister of Housing recommends that Cabinet:

1. **Note** that we are intervening in a broken housing market to get more New Zealanders into warm, safe dry affordable homes.
2. **Note** that we have made significant progress in the short-term but we still face significant challenges in meeting the needs of our most vulnerable households and shifting the system to be more sustainable.
3. **Agree** that the Government Build Programme be reset to:
 - 3.1. increase the supply of affordable housing across the spectrum of housing need including for homeownership, secure rentals, and public housing; and
 - 3.2. to make affordable housing more widely available through additional support to households.

The right home in the right place....

4. **Note** that the Government Build Programme must be better informed by the underlying demand and housing need in an area and may involve a different mix of public, affordable and market housing across the country.
5. **Agree** that the key areas of focus for KiwiBuild homes will be in the main centres including Auckland, Tauranga, Hamilton, Wellington and Queenstown where KiwiBuild price caps are comparable with the lower quartile price and or the average price paid by first home buyers.
6. **Note** that the Ministry of Housing and Urban Development is developing a place-based approach which will over time inform and ensure our interventions, including the Government Build Programme is well targeted underlying demand and need.

....at the right price point

7. **Note** that the existing KiwiBuild price caps have been an effective stretch target to get developers to redesign developments to amend the mix and price points of homes they build.
8. **Agree** that the current KiwiBuild price caps apply to the affordable homes delivered through the Government Build Programme.
9. **Agree** to increase the price cap for Wellington Region to \$550,000 for homes that are three bedrooms or larger.
10. **Delegate** authority to the Minister of Finance and the Minister of Housing to approve up to 10 per cent of the affordable homes in a development procured by Kāinga Ora or the Ministry of Housing and Urban Development that are four bedrooms or above be delivered above the price caps.
11. **Note** that Kāinga Ora and Ministry of Housing and Urban Development will exercise operational discretion to set lower target price points for particular developments than the home price caps referenced in recommendations 9 and 10.

Kāinga Ora will co-ordinate and deliver the Government Build Programme

12. **Note** that Kāinga Ora will adopt a number of approaches to co-ordinate and deliver the Government Build Programme:
 - 12.1. in its capacity as landowner
 - 12.2. through getting land build ready or,
 - 12.3. where it does not own all the land as a partner with others.
13. **Note** that Kāinga Ora will develop long term partnerships with builders, developers, the community housing sector, local government and iwi.

14. **Note** that I intend to work with institutional investors, the community housing sector, iwi and philanthropic investors to identify opportunities to deliver a social dividend by supporting the supply of affordable rentals in return for land made available as part of the Government Build Programme.

Extending home buyer support

15. **Note** in the past the Government has played an important role in supporting people into homeownership through low interest mortgages and capitalisation of the universal family tax credit.
16. **Note** I intend to consider a range of different ways to improve the buyer experience for first home buyers including bringing together government products and working with banks and developers to improve the understanding of KiwiBuild and Crown support products so they can better inform their customers.
17. **Agree** that the current government support products be brought together under a First Home brand through:

17.1. renaming the KiwiSaver HomeStart Grant, the First Home Grant

17.2. renaming the Welcome Home Loan, the First Home Loan

18. **Agree** to establish the following new appropriation to give effect to the policy decision in recommendation 17.1 above.

Vote	Appropriation Minister	Title	Type	Scope
Housing and Urban Development	Minister of Housing	First Home Grants	Benefit or Related Expense	This appropriation is limited to First Home Grants for people who meet the required eligibility criteria.

19. **Approve** the following fiscally neutral adjustment to give effect to the policy decision in recommendation 17.1 above, with no impact on the operating balance and/or net core Crown debt:

	\$m – increase/(decrease)				
Vote Housing and Urban Development Minister of Housing	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Benefits or Related Expenses:					
KiwiSaver HomeStart Grants	(70.746)	(106.120)	(106.120)	(106.120)	(106.120)
First Home Grants	70.746	106.120	106.120	106.120	106.120

20. **Note** that no change to Non-departmental Output Expense: Housing New Zealand Corporation Support Services appropriation is necessary to give effect to the policy decision in recommendation 17.2 above.
21. **Agree** that the First Home Grant be paid to all buyers who are eligible for the grant where there are three or more buyers by removing the current cap of \$10,000 for an existing home and \$20,000 for a new home.
22. **Agree** that to enable households who have been saving in KiwiSaver for three years to meet the minimum deposit requirement that the following changes are made to the First Home Grant and First Home Loan:
- 22.1. reduce the First Home Grant deposit requirement from 10 per cent to 5 per cent for new and existing homes
- 22.2. reduce the deposit requirement for the First Home Loan from 10 per cent to 5 per cent for new and existing homes.
23. **Note** that the cost of the policy decisions in recommendations 21 and 22.1 above is \$18.700 million over five years.
24. **Note** that a \$20 million underspend in the Benefits or Related Expenses: First Home Grants appropriation is projected in 2019/20 that could be repurposed to fund the cost of the policy decisions in recommendations 21 and 22.1.
25. **Note** that while the Fiscal Management Approach requires that changes to policy settings underpinning Benefits or Related Expense appropriations be funded from the Budget or the Between Budget Contingency, Cabinet has discretion to decide otherwise.
26. **Agree** to repurpose the underspend to fund the costs of the policy decisions in recommendations 21 and 22.1 above rather than draw from the Between Budget Contingency established through Budget 2019 or pre-commit against Budget 2020.
27. **Approve** the following changes in appropriation to reflect the repurposing of the projected underspend to fund the cost of the policy changes in recommendations 21 and 22.1 above with a corresponding impact on the operating balance and net core Crown debt.

	\$m – increase/(decrease)				
Vote Housing and Urban Development Minister of Housing	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Benefits or Related Expenses: First Home Grant	(16.100)	3.600	3.900	4.200	4.400

28. **Note** that underspends in the Benefits or Related Expenses: First Home Grants appropriation are also projected in future years but are unlikely to be

available to reprioritise given expected revisions to the forecast at the Half Year Economic and Fiscal Update.

29. **Note** that the cost of the policy decision in recommendation 22.2 can be absorbed within the current Non-departmental Output Expense: Housing New Zealand Corporate Support Services appropriation.

Expanding opportunities for homeownership through progressive homeownership

30. **Note** that as part of Budget 2019 Cabinet agreed that \$400 million in operating funding from the KiwiBuild Housing Multi Year appropriation be set aside to support the delivery of affordable rental homes and homes to be sold through progressive homeownership programmes.
31. **Agree** that the funding set aside in Budget 2019 be made available through a progressive homeownership fund:
- 31.1. to support the expansion of progressive homeownership schemes currently offered by community housing providers, iwi and Māori organisations and financial institutions; and
 - 31.2. for the direct provision of progressive homeownership schemes by the Crown.
32. **Agree** that the progressive homeownership fund will be designed in a way that ensures that funds are recycled to the Crown within ten years so that spending is fiscally neutral under the fiscal management approach.
33. **Note** that a progressive homeownership fund will require operating funding and that these costs remain uncertain and dependent on final scheme design.
34. **Direct** the Minister of Housing to report back to Cabinet by the end of this year setting out:
- 34.1. target households for the progressive homeownership fund
 - 34.2. the high level approach and design features including
 - 34.2.1. the process for a call for proposals from community housing providers, iwi and Māori organisation and financial institutions to deliver progressive homeownership schemes
 - 34.2.2. the process to establish a Crown shared equity scheme
 - 34.3. the establishment, administrative and other operating costs for the and how these will be funded.
 - 34.4. with the Minister for Pacific Peoples how this fund could improve homeownership for pacific peoples.

35. **Agree** that the Ministry of Housing and Urban Development commence targeted engagement with potential providers and investors to inform the report back in recommendation 34.

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

Divesting unsold properties

37. **Note** that as part of resetting the Government Build Programme we need to divest ourselves of certain properties that we underwrote in the early days of the programme for which sufficient eligible purchasers have not been identified.

38. **Note** that we have improved our demand analysis, made a number of changes to the terms of the underwrite and improvements to the way in which the programme operationalises the underwrites entered into that will ensure a better match of KiwiBuild supply to eligible purchaser demand.

39. **Agree** that the completed and future homes in the following developments can be sold on the open market to any buyer without restriction on the buyer:

39.1. Northlake in Wanaka where KiwiBuild has underwritten 211 homes.

39.2. Lakeside in Te Kauwhata where KiwiBuild has underwritten 175 homes.

39.3. Canterbury, where KiwiBuild has underwritten 75 homes across 12 locations.

40. **Agree** that homes that can now be sold on the open market listed in recommendation 39 above should not be counted as KiwiBuild Homes

41. **Note** that even with the best analysis some homes will not be purchased by eligible purchasers.

42. **Agree** that Kāinga Ora and the Ministry of Housing and Urban Development be enabled, or provide approval for developers, to sell KiwiBuild homes to other buyers where fewer than 15 per cent of the KiwiBuild homes within a development remain on the market and unsold to eligible purchasers.

43. **Agree** that the sale to other buyers of more than 15 per cent of the KiwiBuild homes within a development require approval from Cabinet.

44. **Agree** that homes approved for sale on the open market through recommendations 42 and 43 that buyer restrictions are removed, and the homes should not be counted as KiwiBuild homes.

Widening the pool of Buyers

- 45. **Note** that while previous homeowners are included within the group of eligible purchasers who can purchase a KiwiBuild home the criteria is not well understood and the asset test may exclude many potential buyers.
- 46. **Agree** to remove the asset test that applies to previous homeowners from the criteria for persons to be eligible to purchase a KiwiBuild home.
- 47. **Note** that the three-year occupation requirement for KiwiBuild homes has deterred some potential buyers for one bedroom and studio homes.
- 48. **Agree** that to be eligible to purchase a one bedroom or studio KiwiBuild home a person must intend to occupy the home for at least twelve months.
- 49. **s 9(2)(f)(iv)** [REDACTED]

Other technical amendments

- 50. **Note** that Cabinet previously agreed that one of the definitions for a completed newly built dwelling was defined as a dwelling of any type that received its building code compliance certificate less than six months before the date of the first home buyer's application.
- 51. **Agree** to amend the definition of a completed newly built dwelling described in recommendation 50 to be any type of dwelling that received its building code compliance certificate less than twelve months before the date of the first home buyer's application.

Measuring our progress

- 52. **Note** that while the KiwiBuild programme has led to an increase in the supply of affordable homes, the target of 100,000 homes itself has created unintended behaviours where not enough focus was given to underlying demand in specific locations or of typologies and price points.
- 53. **Agree** to remove the target of 100,000 KiwiBuild homes.
- 54. **Note** the Ministry of Housing and Urban Development has developed a dashboard of indicators to track our progress in assisting more New Zealanders into affordable homes including:
 - 54.1. key outputs such as the supply of public and affordable homes
 - 54.2. increased momentum through movement in building and resource consents granted.

55. **Note** that the dashboard will be a public facing set of indicators and will be updated on a monthly basis from mid October 2019.

Technical change to appropriations for establishment of Kāinga Ora – Homes and Communities

56. **Note** that the nature of the work towards establishing Kāinga Ora – Homes and Communities will soon shift from providing policy advice to broader establishment activity and a new appropriation is required for the Ministry of Housing and Urban Development to undertake this activity.

57. **Agree** to establish the following new appropriation:

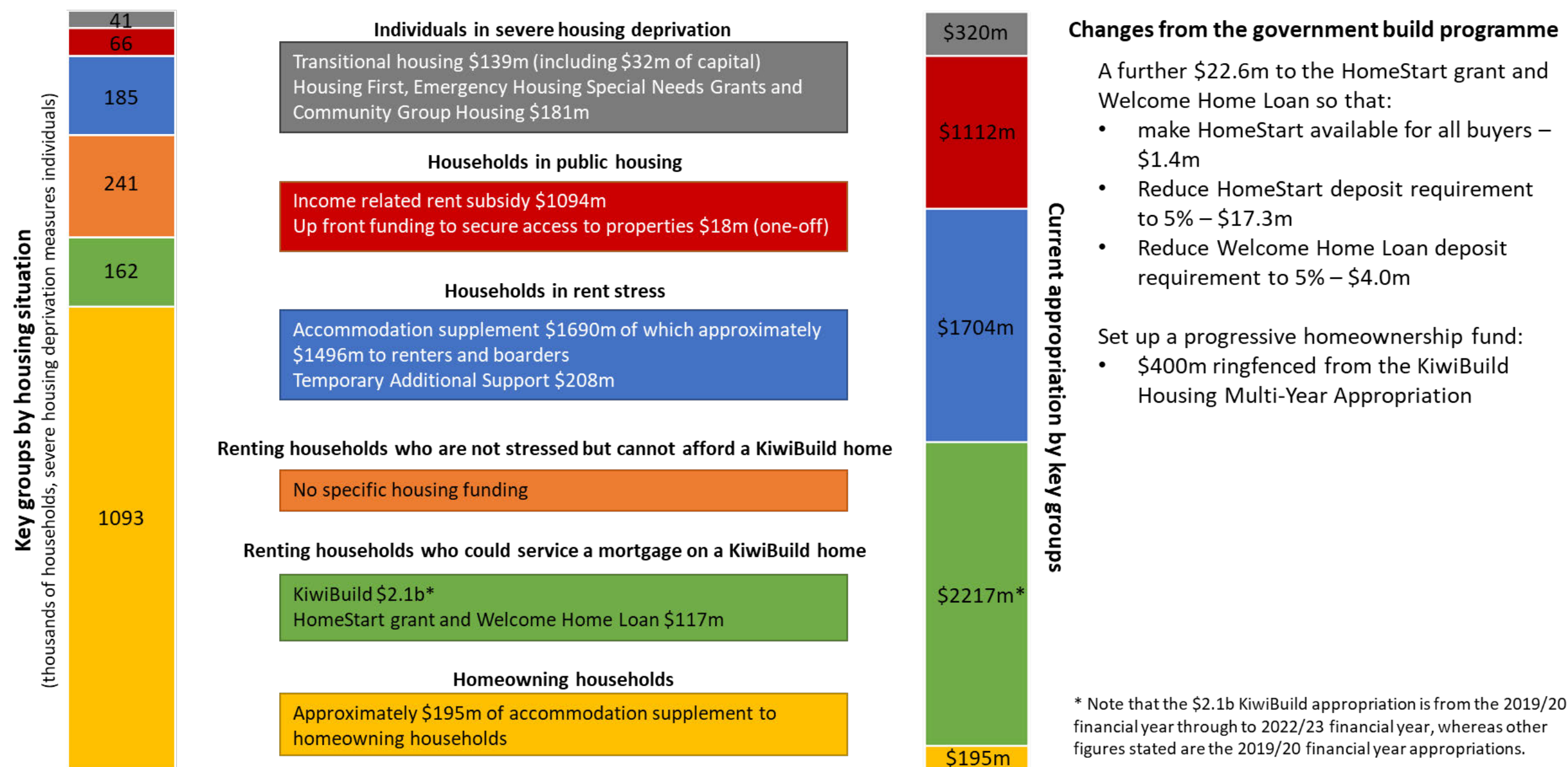
Vote	Appropriation Minister	Title	Type	Scope
Housing and Urban Development	Minister of Housing and Urban Development	Establishment of Kāinga-Ora – Homes and Communities	Departmental Output Expense	This appropriation is limited to the establishment of the new housing and urban development authority: Kāinga Ora – Homes and Communities.

58. **Approve** the following fiscally neutral adjustment to provide for the cost to establish the new housing and urban development authority, Kāinga Ora – Homes and Communities, with no impact on the operating balance and net core Crown debt.

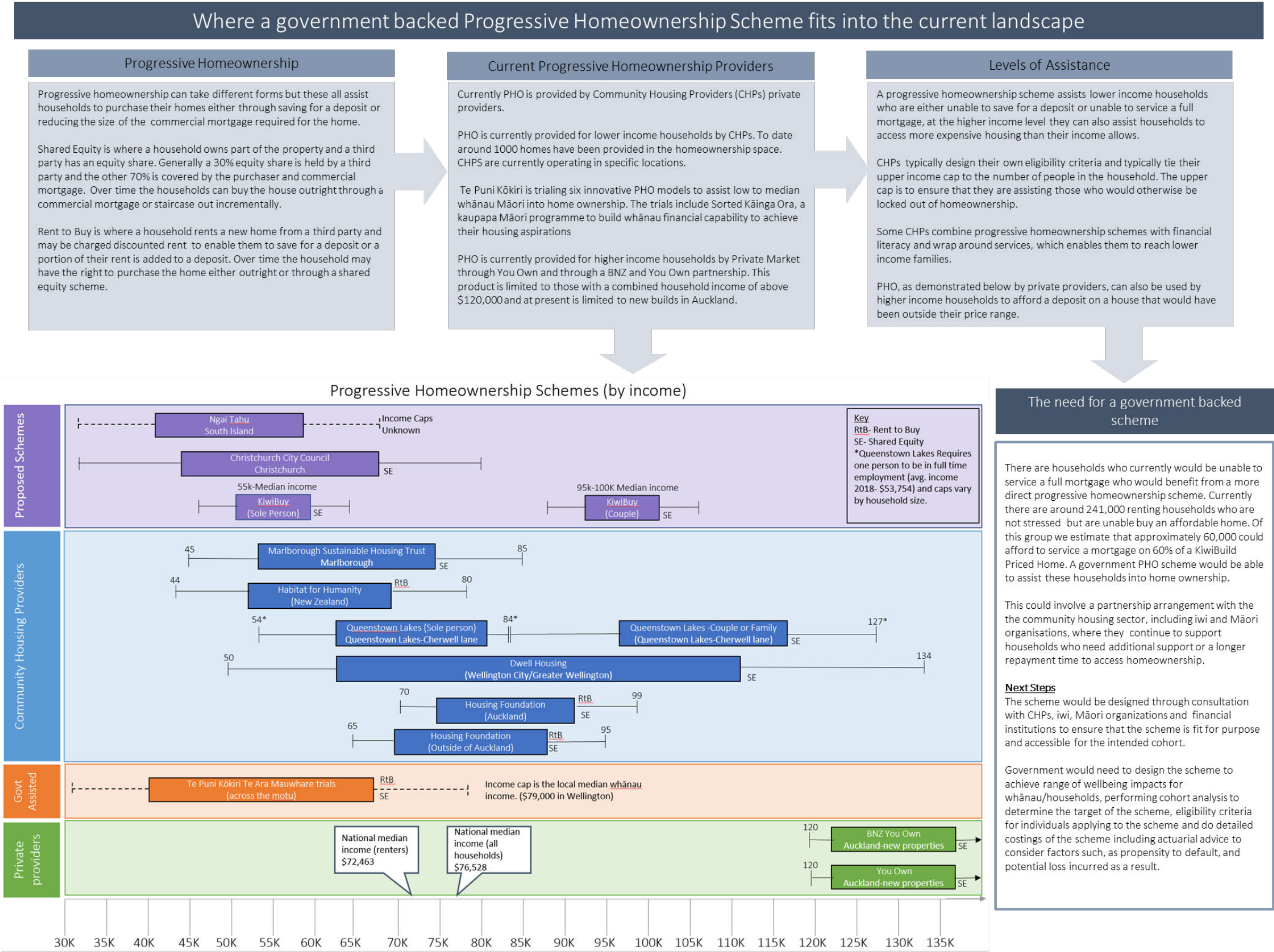
	\$m – increase/(decrease)				
Vote Housing and Urban Development Minister of Housing	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Departmental Output Expenses: KiwiBuild Unit (funded by revenue Crown)	(3.100)	-	-	-	-
Establishment of Kāinga Ora – Homes and Communities (funded by revenue Crown)	3.100	-	-	-	-

59. **Agree** that the proposed changes to appropriations proposed in recommendations 19, 27 and 58 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Government spend in housing



Annex Two: Current landscape of progressive homeownership schemes



Housing System Dashboard - draft - in confidence

Jun-19

Situation

What people are experiencing

Outputs

What the Government is doing

Results

How we've helped people

