

Excerpt from Briefing HUD2023-003323: Maintaining Construction Momentum dated 7 December 2023

We recommend moving to a single, more flexible underwriting tool

18. Underwrites are particularly useful during a construction downturn where developers may struggle to secure all the pre-sales needed to access finance and commence construction. This means underwriting some dwelling sales can unlock delivery of many more homes.
19. The Government currently has two programmes that offer sales underwrites, KiwiBuild 'Buying off the Plans' (Kāinga Ora) and Build Ready Developments (HUD).
20. Underwrites (technically a guarantee under the Public Finance Act) are a Crown commitment to purchase a dwelling at a pre-agreed (discounted) price if the developer is unable to sell the dwelling, once completed. Alternatively, the Crown can pay a "shortfall payment" (i.e., the difference between the pre-agreed price and what someone else is prepared to pay). Note there is potential to rebrand the underwrite as a form of development sales support – we can provide further advice on this, and it would be important to ensure that with any branding change we'd work with the development community and their financiers to understand that this is an equivalent product to a form of underwrite.
21. Capital funding is required to purchase homes where underwrites are triggered. This capital is largely recovered when homes are on-sold with only a temporary impact on debt, and can be recycled to support further underwrites or returned to the Crown as underwrites expire. A small amount of operating funding is required to meet holding costs and to cover any potential loss on sale. To date, no losses have been incurred and all capital has been retained.
22. In the current environment, we recommend moving to a single, more flexible underwriting tool, supported by the policy changes outlined in the table below.

	Existing settings		Proposed focus for new underwriting tool
	KiwiBuild	Build Ready Developments	
Tools available	Dwelling sales underwrite.	Dwelling sales underwrite (can also prepurchase homes for on-sale to Kāinga Ora or community organisations as public or affordable housing)	Predominantly underwriting dwelling sales, with flexibility to underwrite section sales if needed to address a shortage of build ready sections.
Price points	KiwiBuild price caps differ by location and number of bedrooms, but are generally set around lower quartile new build prices.	No hard price caps, but the development must include some public or affordable homes (i.e. under the relevant KiwiBuild price caps for the region).	Supporting delivery of modest homes on the open market, typically priced below the median value of a new build home.
Eligible purchasers	First home buyers or 'second chancers' who meet income thresholds and minimum ownership periods.	No restrictions, except for any KiwiBuild homes included in the development.	Homes can be sold to any buyer.
Stage of pipeline	No explicit restrictions.	'Build ready' – i.e., the developer must already have resource consent for the development and be ready to start construction within 6-12 months.	Developments that can bring forward housing supply over the next 18-24 months, but with flexibility to intervene earlier in the pipeline (e.g., prior to resource consent) where there are few build-ready development opportunities.
Project selection priorities	Experienced developers delivering homes that provide value for money, in accordance with Kāinga Ora design guidelines, and in areas of high demand and high amenity. (Note, 85% of KiwiBuild homes are in Auckland).	Developments that have stalled due to the changing market conditions, with a particular focus on regional areas with high unmet housing needs.	Places where underwrites can have the greatest impact, including places with high population growth and/or housing needs, maximising density along transport corridors and unlocking public and affordable housing in mixed developments.

23. These changes will better support housing supply by underwriting a broader range of projects and stages of development (both build ready and pre-consent), increase the range of households and tenures supported, and reduce underwriting risks.

The level of impact will depend on the scale of investment

24. Using existing funding, we estimate we could underwrite at least 1,600 homes and support ^{§ 9(2)(g)(i)} associated construction sector jobs. This will also unlock more houses, and therefore jobs, given we propose only underwriting a proportion of the development. We are confident there will be high demand for Government underwrites in main centers, but finding viable developments in places with marginal or poor development economics will be more difficult. Expanding the underwriting criteria (currently restricted to KiwiBuild) as proposed will help and in costing this we have assumed that 20% of homes can be delivered in these places. Further testing is required to confirm this 80/20 split.
25. Further information on how costs and risks of underwrites differ across places is attached as Annex A.
26. Doubling the underwrites to ^{§ 9(2)(g)(i)} homes would require an additional \$230 million in recyclable funding and \$11.2 million of operating funding, requiring further Budget funding.