



Briefing

Government Build Programme House Price Caps

Date:	13 June 2019	Security level:	In Confidence
Priority:	High	Report number:	BRF18/19060315

Action sought

	Action sought	Deadline
Hon Phil Twyford Minister of Housing and Urban Development	Agree to the recommendations and that they be reflected in Cabinet paper <i>Resetting the Government Build Programme</i> that is circulated for Ministerial consultation	17 June 2019
Hon Nanaia Mahuta Associate Minister of Housing and Urban Development	Note contents of report	None
Hon Jenny Salesa Associate Minister of Housing and Urban Development		

Contact for discussion

Name	Position	Telephone		1 st contact
Nick McNabb	Principal Policy Advisor, Housing System Performance	N/A	s 9(2)(a)	✓
Caleb Johnstone	Manager, Urban Performance	04 832 2572	s 9(2)(a)	

Other agencies consulted

None

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 MHUD:



Briefing

Government Build Programme House Price Caps

For: Hon Phil Twyford, Minister of Housing and Urban Development
Date: 13 June 2019
Priority: High
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Report number: BRF18/19060315.

Purpose

1. You asked for advice on what changes should be made to the KiwiBuild price caps for the reset Government Build Programme and how to provide flexibility for Kāinga Ora to reduce price caps over time.

Recommended actions

2. It is recommended that you:
 1. **Agree** to increase the price cap for Wellington City to \$550,000 for homes that are two bedrooms or larger *Agree/Disagree*
 2. **Agree** to seek delegated authority for you and the Minister of Finance to determine whether the higher price cap for Wellington City should be extended to elsewhere in the Greater Wellington region *Agree/Disagree*
 3. **Note** the Ministry of Housing and Urban Development could then provide advice to you and the Minister of Finance on extending the price cap elsewhere in the Greater Wellington region by end of November 2019 *Noted*
 4. **Agree** that subject to approval by yourself and the Minister of Finance that up to 10 per cent of the modest priced homes in a development procured by Kāinga Ora can be delivered above the price caps, principally to enable larger homes for larger and multi-generational families *Agree/Disagree*
 5. **Note** that delegating the ability to reduce the price caps agreed by Cabinet to Kāinga Ora is likely to be inflexible and add unneeded complexity *Noted*
 6. **Agree** that Kāinga Ora exercise operational discretion to set lower target price points for particular developments than the home price caps *Agree/Disagree*
 7. **Agree** that recommendations 1, 2, and 4 be reflected Cabinet paper *Agree/Disagree*
Resetting the Government Build Programme

8.

s 9(2)(f)(iv)

Agree/Disagree



Caleb Johnstone
Manager, Urban Performance

13/6/19

Hon Phil Twyford

**Minister of Housing and Urban
Development**

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Background

1. Home price caps will remain an important mechanism within the Government Build Programme to determine the outcomes sought from the underwrite and from making Crown owned land available for development.
2. The key objective of the cap is to provide a “stretch target” for developers to rethink the scope of their development and to deliver homes at lower prices. In return developers can get access to the underwrite and/or access to Crown land (including on a deferred settlement basis).
3. The home price caps for KiwiBuild were agreed by Cabinet in April 2018. The caps were initially calibrated to minimise the risk of crowding out private developments, and to focus on housing typologies, price points and buyer cohorts that are underserved by the market. We recommended targeting price points below the lower quartile of existing homes and medium and higher density homes that would make more efficient use of land and infrastructure.
4. Experience through the Land for Housing programme and market sounding led to increasing caps for Auckland and Queenstown above those set in the Labour Manifesto. In other areas the lower quartile price served as a reasonable proxy for underlying cost of delivering new homes. The current caps are:

	Auckland and Queenstown-Lakes	All other regions
Studio, 1 bedroom or 1 bedroom + study	\$500,000	\$500,000
2 bedrooms	\$600,000	
3 or more bedrooms	\$650,000	

Effectiveness of current caps and proposed changes

5. We have been able to test the caps through the KiwiBuild-supported developments. The caps seem to be working well in Auckland to bring down cost and encourage delivery of homes at price points that would not otherwise have been delivered. However, in other areas, and for larger four or five bedroom homes, the caps appear too much of a stretch and the development sector has not been able to deliver homes within them.
6. Looking forward, removing the tie to first home buyers through the reset and the shift towards a place-based approach means we may identify other areas where the caps are not well calibrated to underlying needs. s 9(2)(f)(iv)

Where the caps are too much of a stretch target

Higher cap for Wellington

7. In Wellington City developers have struggled to meet the \$500,000 cap other than with one-bedroom apartments. To date the KiwiBuild Unit has contracted 40 one-bedroom homes and 5 two-bedroom homes under the existing cap in Wellington City. It is unlikely that any meaningful volume of two- and three-bedroom apartments and townhouses can be procured at this price. These challenges reflect the higher build cost per square meter associated with medium and high-density dwellings. We recommend increasing the cap to \$550,000 to bring a wider range of developments within the cap.

8. We recommend the higher cap apply to Wellington City from announcement of the reset. We need to further assess the housing markets in the Greater Wellington region before advising whether a cap of \$500,000 remains appropriate. We recommend you seek delegated authority with the Minister of Finance to confirm any subsequent extension of the higher cap to other parts of Greater Wellington.

Delivering larger homes

9. To date delivery of four and five bedroom homes has also been a challenge for developers within existing price caps. This may limit the Build Programme's ability to facilitate affordable housing choices for extended and multi-generational families. Rather than set a higher cap for larger homes, we recommend providing Kāinga Ora with limited flexibility to procure homes above the price caps (see paras 19-21 below). Options such as dual-key homes¹ on separate titles may also provide a potential solution by combining otherwise separate homes. The new funding for community housing providers to provide progressive home ownership and subsidised rentals may also support affordable housing options for these households as the cap would not apply to these homes.

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

Shoulder areas

11. In some cases, an area may fall within a local authority but form part of a functional urban area of a different city. Pokeno is the only example we are aware of, which forms part of Auckland's functional urban area but sits within the Waikato district. Consequently, the cap that applies in Pokeno (\$500,000) is significantly below the price of new housing in the area. We do not expect to be able to support any developments in that area given the current high cost of land. This also means that first home buyers are unlikely to be able to access Home Start grants for new homes in Pokeno.
12. However, leaving shoulder areas such as Pokeno under the \$500,000 price cap will not affect the Build Programme's overall pace and scale in the short term. We do not recommend extending the current local authority boundaries to address shoulder areas such as Pokeno at this time.

s 9(2)(f)(iv)

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14.

15. Your office has also suggested that Kāinga Ora should set region-specific price caps that are lower than those set by Cabinet and informed by the place-based plans. An example could be the Queenstown Lakes District where satellite towns are covered by the higher cap for Queenstown. Given the cap reflects an upper limit, we would recommend that Kāinga Ora use its operational discretion to target lower price points for developments and would take

¹ This could include attached dwellings with interlocking doors that can function as a single dwelling but are on separate titles. Dual key homes can also be on single titles.

this approach outside of Queenstown. For this reason, we do not consider there to be a need to set lower caps within specific Districts or any other local authority area.

16. If the Board of Kāinga Ora were to set formal caps that are lower than those agreed by Cabinet and communicates these to the market, the caps are likely to be inflexible over time. The Board may be reluctant to reduce the cap if it perceives difficulty in subsequently raising it. In practice the Board may leave formal caps unchanged.

Introducing some flexibility to procure homes above the price caps

17. Cabinet previously decided against delegating authority to increase caps to Joint Ministers, wanting to maintain visibility over the level price caps. Given that housing markets and underling costs can be dynamic and change over time, some flexibility would be desirable. Rather than delegating full authority over the caps to Joint Ministers, flexibility could be provided through:
 - a. setting price caps relative to a house price index
 - b. allowing Kāinga Ora to procure a small proportion of above the cap homes within a supported development with approval from Joint Ministers.
18. Setting price caps relative to indices such as the Real Estate Institute of New Zealand house price index would enable the caps to move with the general market. However, we do not recommend this approach. Using a national level index would mean that changes to caps would not reflect regional differences over time. Using regional price indexes would lead to significant variation in caps across the country.
19. More importantly, the caps should reflect the underlying development economics of new builds rather than the movement in the cost of existing housing which will be made up of different typologies and locations. Although changes in the price of existing homes will affect the underlying demand for new homes and have an indirect effect on the development economics for a specific site, the cost to supply new homes is likely to behave differently to value of existing homes over time.
20. We believe a more workable approach would be for Cabinet to delegate some flexibility for Joint Ministers to approve a small proportion of proportion of modest priced homes to be delivered above the caps. This would enable Kāinga Ora to procure homes that are above the caps but are not market priced homes that developers would otherwise have delivered. An example would be larger four or five bedroom homes that cannot be delivered under the \$650,000 price cap in Auckland. It would also offer Kāinga Ora flexibility to take up opportunities to meet the underlying need identified through the place-based assessments.
21. s 9(2)(f)(iv)