



Briefing

ESTABLISHING A GENERAL UNDERWRITE TO MAINTAIN HOUSING CONSTRUCTION – IMPLEMENTATION UPDATE			
To Minister	Hon Nicola Willis	Portfolio	Minister of Finance
To Minister	Hon Chris Bishop	Portfolio	Minister of Housing
Date	22/08/2024	Priority	Medium
Tracking number	HUD2024-005126		
ACTION SOUGHT			
Action sought	Seek decisions on detailed implementation matters to establish a time-limited residential development underwrite to maintain housing construction.		
Deadline	29/08/2024		
CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
Jessica Garland	Head of Land Acquisition and Development	s 9(2)(g)(ii)	✓
Jo Hogg	Deputy Chief Executive, System Delivery and Performance	s 9(2)(g)(ii)	
OTHER AGENCIES CONSULTED			
The Treasury New Zealand was consulted.			



RECOMMENDED ACTIONS						
It is recommended that you:						
1.	Note operational design work is underway for HUD to administer the time limited residential development underwrite to support construction sector downturn from the end of September 2024.				<i>Noted</i>	
Financial implications						
2.	Note that the Ministers of Finance and Housing have the delegated authority to make all necessary decisions in relation to the wind down of the KiwiBuild programme and Build Ready Development pathway, in order to move to a single underwriting programme, including approving the changes to appropriations in recommendation 6 below [ECO-24-MIN-0121 refers].				<i>Noted</i>	
3.	Out of Scope [Redacted]				<i>Agree/Disagree</i>	
4.	Note that funding is available from the Affordable Housing Fund Non-departmental Output Expense Appropriation to fund all costs associated with administering a residential development underwrite to maintain housing construction.				<i>Noted</i>	
5.	Approve the following fiscally neutral adjustment to provide for Departmental operating expenses associated with administering the residential development underwrite, with no impact on the operating balance and/or net debt:				<i>Approved/ Not approved</i>	
		\$m – increase/(decrease)				
		2024/25	2025/26	2026/27	2027/28	2028/29
Vote Housing and Urban Development Minister of Housing						
Multi-Category Expenses and Capital Expenditure: Managing the Housing and Urban Development Portfolio MCA Departmental Output Expenses: Management of		1.740	1.518	0.445	0.344	0.253



Housing Provision and Services (funded by revenue Crown)					
Non-departmental Output Expense: Affordable Housing Fund MYA	-	(2.340)	(1.960)	-	-

<p>6. Agree to the establishment of one (1) multi-year multi-category appropriation to cover both non-departmental inventory and operating expenses incurred in the provision of purchasing homes under the residential development underwrite; [RECOMMENDED]</p> <p>OR Agree to the establishment of two (2) multi-year appropriations for (i) non-departmental inventory and (ii) non-departmental operating expenses incurred in the provision of purchasing homes under the residential development underwrite.</p>	<p><i>Agree/Disagree</i></p> <p><i>Agree/Disagree</i></p>
<p>7. Note that approval for the exact title, scope, term, and funding of the appropriation(s) approved in recommendation 6 above will be sought in a separate joint Ministers' paper to be submitted before the 2024 October Baseline Update.</p>	<p><i>Noted</i></p>
<p>8. Agree that the proposed change to appropriations above be included in the 2024/25 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.</p>	<p><i>Agree/Disagree</i></p>
<p><i>Detailed operational design</i></p>	
<p>9. Agree the order of consideration for the prioritisation criteria for the residential development underwrite be as follows:</p> <ul style="list-style-type: none"> I. Net cost and risk to Crown (financial analysis including value for money). II. Project readiness including expected commencement date and staging. III. Volume and nature of supply, including number of bedrooms. IV. Location (including the degree of unmet housing need, projected population growth, household incomes, and proximity to amenities and transport). 	<p><i>Agree/Disagree</i></p>



Implementation		
10.	note HUD will continue to work with the office of the Minister of Housing on a press release announcing the residential development underwrite in early September 2024.	<i>Noted</i>
11.	note that following announcement of the residential development underwrite HUD will update its website with key information and undertake sector engagement prior to applications opening on 30 September 2024.	<i>Noted</i>

Jessica Garland
**Head of Land Acquisition
and Development**
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Hon Nicola Willis
Minister of Finance
..... / /

Hon Chris Bishop
Minister of Housing
..... / /



Purpose

1. This paper updates you and seeks decisions on implementing a general underwrite to maintain residential housing construction. It should be read in conjunction with the briefing Options for Ending the KiwiBuild Programme [HUD 2024-005127].
2. Making these decisions as soon as possible will allow Te Tūāpapa Kura Kāinga - the Ministry of Housing and Urban Development (HUD) to be ready to receive and assess applications from late September 2024. This timing is to ensure that underwrites provide the most support during the worst of the downturn with houses completed as buyer demand returns.

Executive summary

3. Cabinet agreed in July 2024 to replace KiwiBuild and the Build Ready Development underwrites with a time limited single underwrite to mitigate the effects of the residential construction downturn on the sector.
4. The Minister of Finance and the Minister of Housing have delegated authority to make all necessary decisions in relation to the wind down of the KiwiBuild programme and Build Ready Development pathway, in order to move to a single underwriting programme, including approving changes to appropriations [ECO-24-MIN-0121 refers].
5. To support a September 2024 launch date, operational design work has commenced at pace. Decisions are needed now on:
 - establishment of a multi-year multi-category appropriation to cover both non-departmental inventory and operating expenses incurred in the provision of purchasing homes under the residential development underwrite
 - confirmation of a fiscally neutral transfer of \$4.300 million across years from the Non-Departmental Output Expense: Affordable Housing Fund MYA appropriation to Managing the Housing and Urban Development Portfolio multi-category Departmental Output Expenses appropriation, for HUD to administer the underwrite
 - proposed order of importance for the agreed prioritisation criteria for assessment.
6. This paper also sets out proposals regarding:
 - consideration of KiwiBuild legacy administration
 - a communications approach to launching the new underwrite
 - targeted engagement with key strategic stakeholders to identify and build a pipeline of high value opportunities.



Background

7. The Ministers of Finance and Housing have agreed to the following design parameters for the residential development underwrite [HUD2024-004928 refers]:

Objectives

8. The underwrite will have the primary objective of maximising housing supply, while minimising the costs and risk to the Crown. This means the underwrite will most likely have a focus on the main centres.
9. The supporting objective is to accelerate development of Crown owned land to reduce holding costs and support capital recycling where practical.

Eligibility and assessment criteria

10. Applicants must meet minimum eligibility criteria relating to their track record, ownership, or ability to own, the land and any required resource consents, demonstrated need for an underwrite, project size (minimum 30 homes), and willingness to provide a recent market valuation for their development.
11. Applications that meet minimum eligibility criteria are prioritised based on criteria related to net costs and risks to the Crown, project readiness, volume and nature of supply, and location.
12. The assessment of net cost and risk will consider several factors including:
 - the average price of the underwritten homes (the lower the better)
 - the proportion of homes in the development or stage that the Crown needs to underwrite (the lower the better)
 - the underwriting discount relative to market value
 - project staging
 - any offsetting Crown savings or revenues. This could include reduced holding costs and faster capital recycling on projects involving Government land, or the potential for the Crown to receive a share of any excess profit.

Administration and decision making

13. HUD will administer the new underwrite drawing on a mix of internal resources and expert consultants with the right skills and experience.
14. The Chief Executive of HUD will be responsible for approving all underwrites, via sub-delegations from Ministers.



Administrative arrangements

15. The funding required to establish the underwrite will be reprioritised from Build Ready Development (Affordable Housing Fund (AHF) appropriation) and KiwiBuild (Buying off the Plans Programme appropriation).
16. Build Ready Development was allocated \$192.000 million in funding for the purchase of triggered underwrites and \$42.000 million for the costs relating to the purchase of any properties [CPC-22-MIN-0017 and DEV-23-MIN-0045 refer]. Based on active contracts there is \$105.200 million available for transfer from the Affordable Housing Fund appropriation for underwrites and \$30.300 million available for transfer to cover the costs of operating the underwrite regarding the facilitation, acquisition and subsequent on-sale of any homes (including write-downs). Sufficient funding will be retained in the appropriation to administer legacy contracts under the now discontinued Build Ready Development pathway.

17. s 9(2)(f)(iii)

[Redacted content]

18. s 9(2)(f)(iii)

[Redacted content]

[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]

19. We recommend that consideration of the KiwiBuild legacy being transferred to HUD be deferred while the residential development underwrite is established. This will provide time to understand how the setting changes will affect the cost to administer the existing legacy contracts (including all wind-down costs) and how appropriations and administrative functions can be streamlined.
20. It will also allow for decisions on transferring KiwiBuild legacy functions to be made in conjunction with decisions on Kāinga Ora’s remit following receipt of Kāinga Ora’s turnaround plan.

Financial implications

Non-Departmental Funding:

21. There are three cost categories associated with a general underwrite tool:



- Administration costs (managed as with all other programmes as part of general departmental expenditure).
 - Cost of purchasing homes if underwrites are triggered.
 - Costs associated with triggered homes, including holding costs and costs linked to the on-sale of homes.
22. A multi-category appropriation (MCA) would facilitate transparency through grouping programme costs and performance reporting. However, MCAs only allow for expenditure to be incurred in a single financial year. The challenge of an underwriting programme is that it is inherently difficult to predict the timing of any expenditure across financial years.¹
23. To overcome the limitations of an MCA and avoid ongoing administration associated with necessary repeat transfers between financial years, we recommend establishing a multi-year multi-category appropriation (MYMCA). The establishment of a MYMCA for underwrites will:
- reduce carry-overs of unspent appropriations and administration required under MCAs (e.g. expense transfers and baseline updates)
 - provide confidence to allow for entering multi-year contracts where contracting is required now for potential cost being incurred in future years
 - enable the consolidation of appropriations into outcome-focused and prioritised areas of spending, and
 - provide transparency of spending across purchasing of homes, holding costs and inventory-write downs.
24. Alternatively, funding could instead be appropriated into two new multi-year appropriations (MYA) (one for each of the bottom two categories above). This would allow for expenditure to be incurred on a more flexible basis across financial years.
25. Two MYA's could still afford transparency, and on balance is preferable to a single MCA. However, the development of performance metrics and reporting against these metrics would separately be required for each appropriation.
26. Note the underwrite is a time-bound programme intended to respond to a very specific set of market conditions. The purpose of creating this MYMCA is not to allow for transfers between categories, rather to ensure transparency of total spend. Restrictions on the transfer of funding between categories could be incorporated to prevent this occurring without formal approval.
27. Appropriations will be in place prior to the first recommendations for decisions being made.

¹ Uncertainty is driven by variability in construct timeframes, compounded by expenditure only being incurred if an underwritten property is triggered.



Departmental Funding:

28. To fund departmental administration costs of running the underwrite, we are requesting a fiscally neutral transfer of \$4.300 million (in total from 2023/24 to 2028/29) from the Affordable Housing Fund to Departmental output expenses.

The ordering of consideration of the assessment criteria

29. Detailed design work has weighted the agreed assessment criteria to improve the quality of the assessment of project proposals. It will ensure delivery of the most homes for the least net cost and risk to the Crown (all other things being equal).
30. Applications will be assessed, and an initial triage process will determine which proposals will progress to evaluation. This process will ensure that only those proposals that most align to the underwrite objectives will be prioritised for evaluation. Applications that proceed to full assessment will be scored and prioritised against the weighted criteria.
31. The order of prioritisation proposed, and indicative weightings is:
 1. Net cost and risk to Crown (financial analysis including value for money) (35%).
 2. Project readiness including expected commencement date and staging (25%).
 3. Volume and nature of supply, including number of bedrooms (20%).
 4. Location (including the degree of unmet housing need, projected population growth, household incomes and proximity to amenities and transport). (20%).
32. The proposed order represents value for money, will ensure that HUD can effectively prioritise applications and investment decisions are well targeted and developments can be progressed within reasonable timeframes.
33. An overview of the evaluation methodology, types of evidence considered against the criteria, and indicative scoring is attached in Annex A. Officials are refining the model with development scenarios to ensure it is robust and can meet the investment objectives for the underwrite.

Decision making

34. HUD and Treasury will continue to work through the process and instruments needed to delegate decision-making to the Chief Executive of HUD. This will be in place ahead of the first tranche of approvals, which we anticipate being in December following applications opening at the end of September.
35. We will keep Ministers informed of initial recommendations. These will provide an overview of the development opportunity, how it satisfies the assessment requirements and HUD's decision on the merit of proceeding with the underwrite.



Reporting

36. The Ministers of Finance and Housing will be updated regularly via weekly status reports on proposals received. We anticipate this reporting will include number of proposals being assessed, development opportunities, progress to delivery and Crown exposure. This reporting will clearly distinguish the new underwrite from any legacy KiwiBuild or Build Ready Development developments.

Communications

37. It is difficult to quantify the likely interest in the new underwrite and the resulting delivery. Some targeted in-confidence consultation was undertaken to inform the design parameters. Initial consultation with expert advisors has indicated there could be a lot of interest in the proposed residential underwrite so targeting the parameters needs to be very clear and transparent.
38. The proposed approach and timeline is:

MILESTONE	TIMEFRAME
Minister of Housing announces residential development underwrite (via press release)	Early September
HUD updates website with key information and application dates	Immediately following the announcement
Sector engagement through webinars and information on GETS: key development partners, banks, lenders and leading industry consultants.	Mid-September
Applications open	Monday 30 September

39. The strategic narrative developed to share with sector partners is attached for your information in Annex B.

Risks

Implementation risks

40. There is a risk that sector interest outweighs the capacity of HUD to manage and respond to interest. This will be managed and mitigated through clear communications



on the types of development that will be supported, a robust weighted assessment process, and an application process that encourages quality eligible proposals.

Financial risks

41. Crown risk is managed by robust due diligence, following transparent processes, relevant statutes, sound commercial principles and by providing competent oversight. Developers will be required to provide transparent and full disclosure of details relating to the proposed project to support robust due diligence by the Crown.

Legacy Kiwibuild and Build Ready Development projects

42. We have provided you with separate advice on the formal closure of the Buying off the plans underwrite programme (known as KiwiBuild), and targeted changes to KiwiBuild settings to support its wind down, and reduce the costs and risks associated with managing legacy KiwiBuild underwrites [HUD2024-005127 refers].

Consultation

43. Treasury has been consulted on the financial recommendations, detailed design and implementation approach outlined in this paper.

Next steps

44. We will update you regularly on implementation planning and work with the Minister of Housing's office on communications and timings for the press release.
45. Detailed operational design work will continue. This will include a stress-testing the assessment weightings, proposed approach for acquisition, management, and disposal of homes should an underwrite be triggered (drawing on existing approaches).



Annex A: Overview of evaluation methodology

Prioritisation criteria and indicative weighting	Evidence considered
Net cost and risk to the crown (35%)	Development feasibility. Underwriting discount relative to market value (at the time of application). The proportion of homes in the development or stage to be underwritten. Average price of underwritten homes (underwrite value). Volume of presales achieved (if any). Any offset enabling Crown savings or enhancing revenues. Marketing programme.
Project Readiness (25%)	Development finance progression. Development commencement date. Last home delivery dates (from date of assessment and for the stage underwrites are being applied for). Developer has suitable capability and capacity within their organisation (or contracted in) to successfully undertake the development. Some progress to contract or arrange external contractors (external resourcing). HUD / panel confidence level in development programme.
Volume and nature of supply (20%)	How many dwellings/units are there in the total development. Typology schedule: What is the dominant typology of the dwellings. Evidence of market demand for the typology. Type of housing (e.g. apartments or stand-alone dwellings).
Location (20%)	Current undersupply of housing. Population growth. Evidenced future decline in housing development. Purchaser capacity - household incomes. Proximity to amenities and transport.



Annex B: Draft Strategic Narrative – Government housing priorities and residential development underwrite

HOUSING PRIORITIES				
1. Going for Housing Growth	2.Improvements to rental market	3.Building and Construction changes	4.Delivering better social housing	5.Reform of the RMA

General Underwrite (August 2024)

DRAFT: Strategic Narrative – Government housing priorities and the Residential Development Underwrite

STRATEGIC NARRATIVE	Government priority (background messages)	<p>The Residential Development Underwrite (RDU) is a new, time-limited Government initiative help the residential construction sector return from the effects of the downturn. It will help maintain capacity in the sector, grow housing supply and support developments that are ready to go, but are waiting for improved economic conditions.</p> <p>The RDU is a cost-effective way to get more houses built, which contributes to the Governments housing priorities. This underwrite will encourage more building activity by the residential construction sector, financed by banks and other lenders. It will keep supply moving while the Government gets its other measures in place to make it easier and quicker to build new homes.</p>
	What issue is the underwrite tool solving?	<p>New Zealand’s fundamental housing problem is a lack of supply. The residential construction sector is particularly prone to economic downturns and can take a long time to recover when sector capacity is lost.</p> <p>The current downturn has stalled pre-sales of homes in new developments, meaning many developers have down-tooled. New housing supply can take more than 18 months to deliver. This means building activity is needed now for there to be new housing supply as the economy recovers. The RDU will support developers to secure finance, meaning construction</p>

		<p>of new homes can begin. We are forecasting buyer demand to return, which will mean the underwrites are not called upon.</p> <p>On 15 August, the Reserve Bank lowered the Official Cash Rate by 25 basis points and released its latest Monetary Policy Statement (MPS). It notes that a substantial decline in residential investment is underway and is expected to continue until the beginning of 2025. High interest rates and subdued house price growth are contributing to a decline in residential construction activity, consistent with the decline in dwelling consents since mid-2022.</p> <p>The Reserve Bank’s commentary reinforces the need for an underwrite to support construction activity over the coming year, with the underwritten homes being completed against the backdrop of rising prices (reducing the underwriting risk). The RDU is a short-term intervention until the impacts of the downturn lessen.</p> <p>The RDU supports housing delivery in the short-term while further housing and urban system priorities, including Going for Housing Growth, Delivering Better Social Housing, reform of the Building Act, and RMA reform are developed and implemented.</p>
	<p>Ministry priority (high level message)</p>	<p>The Ministry of Housing and Urban Development, is delivering the RDU with a strong focus on value for money through two clear objectives:</p> <ul style="list-style-type: none"> - Primary: maximising overall housing supply (for the least cost and risk); and - Secondary: accelerating development on Government owned land. <p>Developers can sell the homes to any buyer.</p>