



# Aide-memoire

<b>KiwiBuild: Further advice on unsold KiwiBuild homes</b>			
<b>Date:</b>	12 August 2019	<b>Security level:</b>	In Confidence
<b>Priority:</b>	Medium	<b>Report number:</b>	AMI19/20080137

<b>Information for Minister(s)</b>	
Hon Dr Megan Woods Minister of Housing	

<b>Contact for discussion</b>			
Name	Position	Telephone	1 <sup>st</sup> contact
Helen O'Sullivan	Head of Delivery – KiwiBuild		✓
Brad Ward	Deputy Chief Executive, Place-based Policy & Programmes		

<b>Other agencies consulted</b>
N/A

## Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's notes <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify)  <hr/>	<b>Comments</b>          
---	---

**Date returned to MHUD:**

---

# Aide-memoire

## KiwiBuild: Further advice on unsold KiwiBuild homes

**For:** Hon Dr Megan Woods, Minister of Housing

**Date:** 12 August 2019

**Security level:** In Confidence

**Priority:** Medium

**Report number:** AMI19/20080137

---

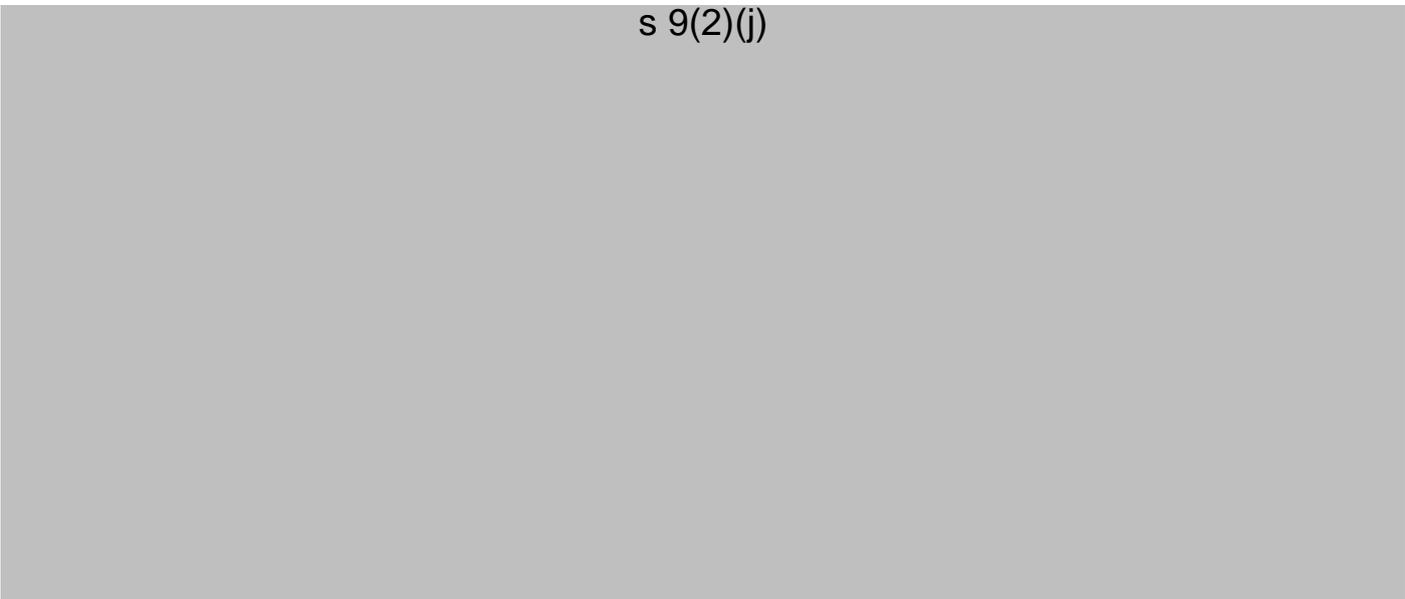
### Purpose

1. You have requested further advice on why KiwiBuild homes are not selling in Wanaka and Te Kauwhata, why selling unsold KiwiBuild homes to an open market is our preferred option, and the lessons learnt from these unsold homes.

### Background

2. As outlined in earlier advice (AMI18/19070113 and BRF19/20070371) there are some KiwiBuild homes we now consider are unlikely to sell to eligible KiwiBuild purchasers in the near term and we consider they should be sold to an expanded cohort (open market).
3. The Buying off the Plans (BoTP) initiative provides financial certainty to property developers by underwriting the sale (and at times the direct purchase) of KiwiBuild homes.
4. A combination of factors, including imperfect matching of supply to Eligible Purchaser demand, contracts which were not structured to sufficiently incentivise developers to sell prior to triggering the underwrite, and the lack of access to a wide cohort have resulted in the Crown owning (or being about to own) a number of homes.
5. The financial risk for the Crown of the BoTP initiative is significantly reduced by the ability of the Crown to sell any unsold KiwiBuild homes to an expanded cohort or on the open market. Contracts with KiwiBuild developers all include a clause allowing the Crown (after a specified period) to allow the developer to market to an expanded cohort (defined as the open market) or at a lower price (with the Crown liable for any shortfall payment). We do not feel that the use of the latter tool is appropriate at this stage.

s 9(2)(j)





**Why sell to the open market?**

18. It would be possible for the Crown to wait indefinitely for an eligible KiwiBuild purchaser, but we are incurring costs for rates, electricity, garden maintenance, and in some cases marketing and body corporate costs. As the underwrite is triggered on more homes it will also tie up more KiwiBuild capital that could be put to more productive use.

19. Generally KiwiBuild homes are not suitable for Housing New Zealand as they are not built to public housing design standards and may not be in the best location to match demand for public housing.
20. We have tested the market with community housing providers, but they have not expressed an interest in the stock in the locations in which we are currently holding it. Additionally we are advised that significant discounts on current purchase prices would be required to make their models viable.
21. The homes could be offered to some form of slightly expanded cohort, such as key workers (e.g. teachers and nurses) and/or retirees / 'empty nesters' who are downsizing. Enforcing restrictions on the sale to such cohorts could be difficult and will require additional policy work. We may also need to consider restrictions on on-sale and the cohort would still be quite limited compared to the open market. The objective of releasing the equity may still not be achieved with the limited cohort.
22. It would be possible to seek to sell the homes to eligible KiwiBuild purchasers at a lower cost and for the Crown to make a shortfall payment to cover the difference between the price paid by the purchaser and the contracted underwrite price. However if successful it would mean the Crown would incur a capital cost (realised loss) against the KiwiBuild appropriation and could devalue other (KiwiBuild) homes in the development already sold to Eligible Purchasers.
23. 

s 9(2)(j), s 9(2)(f)(iv)
24. Eligible Purchasers may not always absorb all KiwiBuild homes in a development, for reasons which are not related to the attractiveness of the homes for occupancy or purchase. These may be around ability to purchase, or as simple as the timing of life circumstances which mean that the small group which qualify as eligible purchasers are not currently ready to buy; or, in that particular location, the homes are attractive to a group of purchasers or occupiers who do not meet the relatively narrow definition of an Eligible Purchaser. Selling these homes to the open market allows the KiwiBuild equity to be recycled (or not called on) while still providing affordable supply to the market.

## Lessons learnt

25. The KiwiBuild Unit have made a number of operational improvements as a result of the lessons learnt from involvement in the above developments.
26. The KiwiBuild Unit now assesses development proposals in a more stringent way to ensure a better balance of risk and incentives between the Crown and developers, and option pricing that ensures the developer is incentivised to maximise sales to end purchasers. This is particularly important where there may be a softening of the housing market and a buffer is required to cover holding and selling costs. However, where not all stock has been absorbed by Eligible Purchasers, not expanding the cohort means that the developers have no option but to put the dwellings to the Crown. This enforces a discounted price on the developer, which may impact negatively on our ability to negotiate with developers in future.
27. Better demand information is being drawn from KiwiBuild's register of interested buyers. Information captured now includes where buyers are at in their purchase process, how much they have to spend, the area and type of home they are wanting, and if they have a suitable deposit. This is used to guide decisions and target developments that will match regions, areas, home type, and budget in greatest demand. Essentially we are taking a much more 'place based' approach to underwriting proposals to achieve a better match with demand.
28. We analyse the proposed KiwiBuild product to a much greater degree against other options for first home buyers, including competing existing and new homes, as well as the

attractiveness of the proposed location (public transport, schools etc) to KiwiBuild Eligible Purchasers.

29. KiwiBuild now has better access to market information providing intelligence on how development proposals sit relative to the market on both the demand and supply side.
30. The removal of short term targets also removes the potential for volume to be unduly prioritised.
31. We are providing better documentation of reasons for decision making and more substantive briefings for Ministerial approval of potential KiwiBuild developments.
32. We therefore consider we have applied the lessons from the unsold KiwiBuild homes to significantly improve our procedures, risk assessment and deal structuring to better guide future activity.