



Aide-memoire

KiwiBuild – Operational improvements, to date and planned, and the move to a ‘virtual’ Housing and Urban Development Authority (HUDA)

Date:	12 April 2019	Security level:	In Confidence
Priority:	High	Report number:	BRF18/19 040237

Information for Minister(s)

Hon Phil Twyford
Minister of Housing and Urban Development

Contact for discussion

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Helen O’Sullivan	Head of KiwiBuild Delivery	09 928 2348	s 9(2)(a)	✓
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Other agencies consulted

N/A

Minister’s office to complete

- Noted
- Seen
- See Minister’s notes
- Needs change
- Overtaken by events
- Declined
- Referred to (specify)

Comments

Date returned to MHUD:



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For: Hon Phil Twyford, Minister for Housing and Urban Development

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Purpose

1. This aide memoire provides an overview of:
 - a. Implementation challenges experienced in the initial stages of the KiwiBuild programme
 - b. Operational improvements that have already been implemented to address some of these challenges
 - c. Further operational improvements that are being pursued within the context of establishing the ‘virtual’ Housing and Urban Development Authority (HUDA).

Market context

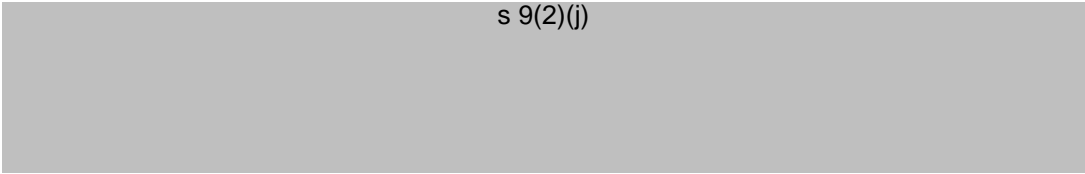
2. New Zealand’s housing market functions poorly, generating some of the least affordable housing in the world, especially relative to income.
3. High entry cost to home ownership has forced more would be home owners into the rental market, placing upwards pressure on rents and displacing lower income households onto the social housing register.
4. The downstream societal impacts of high housing costs are significant and include lost productivity for those who can afford a mortgage but devote an excessive proportion of their income to servicing it, through to poor educational and health outcomes for those forced to live in transient, poor quality or unsuitable accommodation.
5. The housing market is inextricably linked with the state of the construction and development sector, and the consenting and planning regimes under which those industries operate. The current state of these sectors has taken decades to evolve to their current situation, and it will take time to fully implement the system shifts required to comprehensively address the range of constraints to delivering affordable housing at pace and scale.

The objectives of KiwiBuild

6. As an ambitious large scale intervention in a poorly functioning market, KiwiBuild was intended, among other things, to:
 - a. Incentivise a capacity constrained market to divert its capacity and capability away from high end expensive homes, to a focus on delivering a greater proportion of modest, affordable homes
 - b. Encourage the market to make better use of scarce urban land and concentrate a greater proportion of population growth around existing infrastructure, through 'density done well' around key transport nodes and sites of key amenity
 - c. Provide the scale and certainty of demand required to support investment in the plant, machinery and people needed to lift the construction sector's productivity, and ultimately deliver cheaper houses faster
 - d. Smooth out the 'boom / bust' nature of the construction and development markets that leads to high cost and loss of capability (demand can dry up overnight, while supply lines are three to five years long).
7. These objectives remain sound.

Implementation has not been without its challenges

8. The key delivery challenges for KiwiBuild have included:
 - a. A focus on short-term targets (numbers of homes) at the expense of securing the broader outcomes the programme seeks to achieve (a lower average cost of new builds in target areas; increasing participation in the market by first home buyers; and increasing home ownership rates)
 - b. Spreading its resources too thinly by attempting to do too much too quickly in a brand new environment, with little in the way of existing support structures to call on
 - c. Planning rules and a lack of support for medium-density solutions in the building consent framework mean that project timeframes are long. Re-designing projects to focus on smaller more affordable homes takes a long time. Combined with the focus on Year One volumes, the number and quality of projects available in the short-term was low resulting in a number of poor-quality deals
 - d. Changing the things that make New Zealand's construction and development sector inefficient will take time. We have been focused too much on the short-term looking for volume, and not sufficiently on the long term system shifts we need to make to address the root causes of high construction and development costs
 - e. Too few eligible purchasers willing and able to purchase KiwiBuild homes at the prices and in the places KiwiBuild is able to deliver them in the short-to-medium term.

9. The practical issues that have arisen from this include:
- a. Deals were entered into which, while they appeared to achieve volume targets, had unrealistic delivery timeframes
 - b.  s 9(2)(j)
 - c. While the programme generated a significant level of consumer interest which translated into a highly engaged, high value database of 'qualified leads', this resource was not 'mined' for further information to guide KiwiBuild's underwriting (investment) decisions or target marketing. Difficulties sourcing and accessing property and consumer data further limited the market analysis (of both supply and demand) carried out on early deals
 - d. Lack of focus on the buyer experience in the sales process, driven by:
 - i. An assumption that demand would be excessive and need to be managed (leading to the cumbersome ballot process, balloting properties too early in their development cycle, contracts that assumed developers could await a buyer from the Crown at little or no marketing cost)
 - ii. Eligibility requirements that dictated a qualification process based on buyers evidencing considerable amounts of highly personal information to prove eligibility – proof of income, residency, home buyer status, a sworn statement (in front of a Justice of the Peace) as to accuracy of the information, proof of finance from a registered bank and a six month expiry date on eligibility (driven by the need to update compliance with income thresholds)
 - e. A requirement that owners live in the property for at least three years from purchase, attested to by a Deed of Covenant which the Crown is entitled to lodge on the title of the home.
 - i. Buyers are resistant, particularly a younger cohort buying smaller homes, aware that their short-term plans might change (forming and un-forming relationships, having children, life changes leading to a need to move within or between cities or countries)
 - ii. Significant engagement is required with banks to explain the meaning of the Deed of Covenant. Even when acceptance is achieved at senior level, further direct engagement at local level is often required to get funding arrangement across the line.
10. As a consequence, we have completed homes now owned by the Crown, which we have not been able to sell to the first home buyer cohort.

We have already made some changes to address the initial operational challenges

11. A number of operational changes have already been implemented to address lessons from the start-up phase. These include:
- a. Commercial review of deals has become much more stringent:
 - i. The underwrite operational policy has been re-written to ensure a focus on high quality deals and better balancing of risks and incentives between the Crown and developers

- ii. Option pricing now generally encourages developers to market and sell, as triggering the underwrite significantly reduces their profitability
 - iii. Development Managers are coached to 'think like a bank' in terms of assessing quality of deals
 - iv. Legal documents have been re-written to require developers to market and sell more effectively, rather than just wait for the Crown to deliver purchasers.
- b. The buying process has been simplified for purchasers:
- i. Balloting has been removed as the primary method of sale; direct sales are now the primary method of sale
 - ii. The requirement to provide proof of finance has been removed from the pre-qualification process
 - iii. Purchasers engaging with the developer and / or their sales agent can sign a sale & purchase agreement conditional on demonstrating their eligibility (previously they had to arrive pre-qualified to be able to buy, and our processing centre doesn't work weekends – when most home sales occur)
 - iv. Some work done with banks on understanding the covenant; more is required, as each local region requires top down and bottom up education
 - v. A new consumer focused website went live on 9th April, providing better information on the programme, eligibility, and access to information on available properties
- c. Focus has moved away from small, high touch, low yield developers who require close monitoring, to larger, long term players with whom we want to do multiple transactions over multiple years
- d. Our demand side information is steadily being enhanced:
- i. More in-depth information has been sought from database registrants on their readiness, capability and wants. Over a four to six week period, over 4,500 people have provided us with details, and we have not yet emailed the entire database. All new registrants are now providing this information, and the launch of the new website will provide an opportunity to backfill data for many of the remainder
 - ii. Greater understanding of the demand profile will enable us to target developer product to match regions, areas, typologies and budget in greatest demand
 - iii. Over time we will also do more work on the trade-offs buyers are prepared to make between price, property size, and proximity to amenity
- e. Better access to market information has provided us with dashboards of data on where proposed deals sit relative to the market on both the supply and demand side
- f. We have strengthened the internal control function to provide better data and reporting on key metrics has been established after a 'first principles' review of data (ongoing for some data fields). This requires ongoing work but a good baseline is in place and is steadily being enhanced.

12. We have also started integrating the KiwiBuild and Homes Land Community (HLC) teams to move the focus of our deal pipeline on to the Crown estate, and to achieve more joined up thinking from the Crown in the development space:

a. Given a small development and construction market, the Crown's three development entities (Housing New Zealand's (HNZ) Asset Development Group; HLC, and KiwiBuild) are dealing with essentially the same developers and builders

b. s 9(2)(g)(i)

c. Initially we have assigned a member of the KiwiBuild Development Team to each of the HLC projects to 'embed' them in the project to develop and administer each precinct. The KiwiBuild Development Manager (responsible for the KiwiBuild underwrite) and the HLC Precinct Manager (responsible for land sales negotiation) will be expected to work collectively to identify where KiwiBuild is appropriate and over time, to work towards negotiating the sale, KiwiBuild numbers and underwrite elements as a combined package

d. Combined legal documentation that aligns and combines these tasks while not changing the process too much for existing partners will be developed over the next three months.

We will make further operational improvements as we integrate KiwiBuild into the 'virtual HUDA'

13. In advance of the legislation establishing the HUDA, we are working to establish a 'virtual HUDA'. From 13 May, HLC and KiwiBuild will be working together as an Urban Development Group, with parts of Housing New Zealand's Asset Development Group progressively joining that process as we work towards the establishment of the entity on 1 October 2019.

14. We have a number of 'enabling' projects planned for KiwiBuild, HLC and HNZ to work on together, namely:

a. Dedicated consent processing at Auckland Council:

i. This will see KiwiBuild pay Auckland Council a retainer to reserve a certain level of consent processing resource reserved for its projects, to be allocated and prioritised by KiwiBuild

ii. Cost recovery will operate with KiwiBuild developers, with KiwiBuild effectively picking up the difference for any unused processing capacity; resulting from consents not arriving exactly as expected

iii. We have discussed this concept with Auckland Council and they are receptive to the proposal

iv. Work to implement this proposal is underway now

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

c.

- d. Tapping into the capability of HNZ to better monitor quality and compliance on the many KiwiBuild sites now operating around the country
 - e. Leveraging off the capability of HNZ where Homestar is used by the developer, to reduce the costs of using the tool (testing of the data at least in low density models indicates that the cost impost of the core product is not excessive; however there is room to improve in the cost of assessment)
 - f. KiwiBuild will also gain significant support from the marketing facilities currently operated by HLC – for example, information centres in Hobsonville Point, Mangere, Tamaki, Owairaka, Porirua - where KiwiBuild information and contact points will be available through cross training of the existing staff.
15. As we bring together the operating units, further integration will allow for combined procurement panels between HLC, KiwiBuild and where appropriate HNZ (noting that HNZ has specific requirements for the construction of social housing), looking towards long term capacity based contracts with significant capable players. It should become possible to negotiate deals for sale of land, KiwiBuild volumes, KiwiBuild underwrites and (in some cases) social housing purchase as one piece.
16. Work to address the long term systemic settings issues – around resource and building consenting timeframes, support for the medium density consenting sector, questions of liability, enabling infrastructure and other initiatives will continue elsewhere within HUD, but with input from the real life experiences of the KiwiBuild programme continue to inform and shape those initiatives.
17. Work will also continue on KiwiBuild's OSM Invitation to Pitch, with a combined team including HNZ and HLC meaning that wider opportunities to influence this sector and procure outcomes becomes available.