



## Briefing

KiwiBuild: sale of unsold homes to an expanded cohort			
Date:	31 July 2019	Security level:	In Confidence
Priority:	Medium	Report number:	BRF19/20070371

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Note options to sell unsold KiwiBuild homes to an expanded cohort.	12 August 2019

Contact for discussion			
Name	Position	Telephone	1 <sup>st</sup> contact
Helen O'Sullivan	Head of Delivery - KiwiBuild		s 9(2)(a) ✓
Brad Ward	Deputy Chief Executive, Place-based Policy & Programmes		

Other agencies consulted
N/A

### Minister's office to complete

<div><input type="checkbox"/> Noted</div> <div><input type="checkbox"/> Seen</div> <div><input type="checkbox"/> Approved</div> <div><input type="checkbox"/> Needs change</div> <div><input type="checkbox"/> Not seen by Minister</div> <div><input type="checkbox"/> Overtaken by events</div> <div><input type="checkbox"/> Declined</div> <div><input type="checkbox"/> Referred to (specify)</div> <div><hr/></div>	<div>Comments</div> <div></div>
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Date returned to MHUD:

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## Briefing

### KiwiBuild: sale of unsold homes to an expanded cohort

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

**Date:** 31 July 2019

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#### Purpose

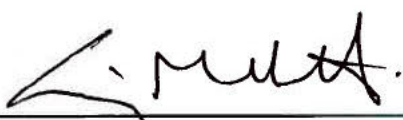
1. This briefing provides outlines options in respect of the inventory of homes owned (or expected to be owned shortly) by KiwiBuild which have been actively marketed to eligible KiwiBuild purchasers but which have not yet been sold.

#### Recommended actions

2. It is recommended that you:

1. <b>Note</b> that we have extensively tested the market for Eligible Purchasers in some KiwiBuild developments for considerable periods, in some case almost 12 months. Despite best endeavours to procure sales to Eligible Purchasers and some success, some homes (in Crown ownership or still owned by the Developer) remain available for sale.	<i>Noted</i>
2. <b>Note</b> that the definition of a KiwiBuild home is one that is offered "in the first instance" to Eligible Purchasers.	<i>Noted</i>
3. <b>Note</b> that there is no explicit Cabinet decision on how unsold KiwiBuild homes are sold to an expanded cohort.	<i>Noted</i>
4. <b>Note</b> that, in the absence of an expanded cohort, the Crown can expect to remain the owner of some KiwiBuild homes for longer and can expect to be required to buy additional homes over the next two months, slowing down our ability to recycle the KiwiBuild capital.	<i>Noted</i>
5. <b>Note</b> that the cohort to whom KiwiBuild homes may be made available is expected to be explicitly addressed in a Cabinet paper re-setting the KiwiBuild programme in the context of the Government Build Programme. The decisions taken in respect of the programme generally will also provide authority for the sale of unsold homes to an expanded cohort.	<i>Noted</i>

<p>6. <b>Note</b> that in the event that the above Cabinet paper is delayed, you may still wish to allow the KiwiBuild unit to open up certain KiwiBuild developments for purchase by the open market through an oral item.</p>	<p><i>Noted</i></p>
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 pp. Helen O'Sullivan  
 Head of KiwiBuild Delivery  
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Hon Dr Megan Woods  
 Minister of Housing  
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## Background

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3. Aide Memoire AMI18/19070113 (3 July 2019) outlined the KiwiBuild inventory and options for on-selling KiwiBuild homes. KiwiBuild homes are defined as those offered “in the first instance” to eligible KiwiBuild purchasers (CAB-18-MIN-0142 refers).
4. The ‘expanded cohort’ – that is, purchasers other than those defined as Eligible Purchasers (DEV-18-MIN-0131 refers) or the open market – was contemplated in the original KiwiBuild business case and in several briefings to Ministers as an option in the event that demand from Eligible Purchasers was insufficient to absorb all available homes.
5. The KiwiBuild ‘Buying Off the Plans Invitation to Participate’ on GETS, and the contracts with KiwiBuild developers all provide an option for developers to be able to seek to sell KiwiBuild homes to the expanded cohort after a specified marketing period has elapsed.
6. The marketing period varies by development and deal. The KiwiBuild Unit works to have all homes marketed for a number of months prior to completion to maximise the opportunity to sell homes while still under the ownership of the developer.
7. It was always expected that there would be variation in the time KiwiBuild homes take to sell. Indeed, the objective of the KiwiBuild underwrite is to act as a backstop purchaser of such homes, making it easier for developers to get finance and enabling them to move on to future developments more quickly. Overall, KiwiBuild sales are comparable to the private market – of the 144 sales and conditional sales as at 31 July 2019, the median time to conditional sale has been 46 days.
8. It was envisaged by Cabinet that KiwiBuild homes that have not sold to Eligible Purchasers would be made available for sale to the expanded cohort.
9. As outlined in the Appendix to this briefing, despite best efforts, we have some KiwiBuild homes that have been marketed to Eligible Purchasers for almost a year and many for more than four months. In some of these developments we have further KiwiBuild homes that will be completed over the next few months.

## Why sell to an expanded cohort?

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10. KiwiBuild homes that are owned by the Crown are incurring costs such as rates, power, maintenance body corporate fees, and marketing. While the commercials of most deals give KiwiBuild a margin between purchase price and sale price to cover holding and selling costs, holding homes reduces our ability to recycle capital and commit to further purchases.
11. It may take some time to identify sufficient KiwiBuild Eligible Purchasers to sell the balance of these homes, as we have extensively tested the market in these locations for eligible purchasers.
12. Selling these homes will free up the recyclable KiwiBuild fund, and bring additional affordable homes to market to meet accommodation demand, regardless of the nature of the purchaser.

## Why expand the cohort to the open market?

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13. Originally it was envisaged that an expanded cohort might be an extension of a KiwiBuild Eligible Purchaser such as public housing, long term rental, key workers (teachers, nurses etc), downsizing empty nesters, and/or community housing providers.
14. KiwiBuild homes are generally not suitable for Housing New Zealand as they are not designed and built to public housing standards (which are often larger than similar market based typologies, and meet different design requirements in terms of long term maintenance requirements etc.).
15. We have tested the market for community housing providers offering shared equity programmes. None have expressed interest in the homes we had available and indicated that should there be a match between their requirements and the homes, they would require a substantial discount s 9(2)(b)(ii) to make their model viable.



16. We consider it could be difficult to enforce restrictions on sales to key workers, downsizing empty nesters, long term rental etc. It raises questions of how we ensure buyers meet the criteria and whether there should be any restrictions on on-sale.
17. It would be possible to reduce the price of unsold KiwiBuild homes but still require sale to a KiwiBuild Eligible Purchaser. This would require the Crown to make a loss on the property (essentially a shortfall payment) and could reduce the value of the existing KiwiBuild homes in the development (reducing the equity of existing owners). It would also reduce the \$2B KiwiBuild fund which is intended to be recyclable.
18. We consider it is better to make unsold KiwiBuild homes available to the open market. This will allow them to be sold more quickly and they will still add to the housing supply regardless of who buys them.
19. It would be possible to limit sale to the open market to completed homes; however, this would result in the Crown becoming the owner of more homes than necessary. Developers cannot trigger the Crown buy back option until the home is completed and a Code Compliance Certificate (CCC) issued. However, in locations where we have extensively tested the market for Eligible Purchasers – such as Wanaka, Christchurch and Te Kauwhata – we believe that waiting until homes are completed before opening up the market to whom they can be sold will result in the Crown being obliged to purchase a greater number of homes than would otherwise be the case.

### **Which KiwiBuild homes to make available to an expanded cohort**

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20. Appendix A summarises the KiwiBuild developments where homes have been on the market for more than four months, and where we recommend opening up the cohort to whom they can be sold as early as possible. Currently there are up to 140 homes that meet this definition, including those in Christchurch where we have seen low take-up from Eligible Purchasers.

### **Timing of any decision to make homes available to an expanded cohort**

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21. In April 2018 Cabinet **“agreed** that MBIE will also develop options for a hierarchy of alternative purchasers ... and seek in-principle Cabinet approval to this approach” (CAB-18-MIN-0142 refers).
22. In June 2018 the Minister of Housing and Urban Development advised Cabinet that although there are a number of alternate buyer options available “... it will be of utmost importance to secure a buyer as soon as possible. This is because the Government and its development partners will incur holding costs for each day a property remains unsold, thereby reducing capital for further construction effort”. Cabinet **“noted** that the Minister of Housing and Urban Development has directed officials to report back on a potential hierarchy of alternate purchasers should an eligible purchaser not be found for a KiwiBuild home.” Cabinet did **“agree** that if no eligible purchaser wishes to buy a KiwiBuild home, that home can still be counted as a KiwiBuild home, provided it is sold below the relevant KiwiBuild price cap” (DEV-18-MIN-0131 refers).
23. There was no further report back. The advice of officials had been clearly outlined in a May 2018 briefing and favoured the open market over a hierarchy of alternate purchasers.
24. A Cabinet paper is currently being drafted which addresses resetting the KiwiBuild programme in the context of the Government Build Programme (“the Reset Cabinet Paper”), and it is expected that the authority to make KiwiBuild homes available to the expanded cohort will be canvassed in that paper. Consideration is also expected to be given to minimum occupation periods which may make smaller typologies (such as the studio and one bedroom apartments remaining available in some Auckland developments) more appealing to Eligible Purchasers.

25. The original Cabinet decisions on KiwiBuild contemplated sale of unsold properties to an expanded cohort, but there was no explicit Cabinet agreement that this would simply be the open market.
26. In the event that the Reset Cabinet Paper does not progress on the timetable currently envisaged, we recommend that you seek specific authority in the interim to authorise the KiwiBuild Unit to make KiwiBuild homes available to the open market where:
  - a. KiwiBuild homes remain unsold despite homes in the development or locale being marketed to Eligible Purchasers for at least four months;
  - b. The KiwiBuild Unit does not consider it reasonably likely that an Eligible Purchaser will be identified prior to the Crown needing to take ownership under the operation of the underwrite or through an outright purchase agreement.
27. In the event of a delay to the presentation of the Reset Cabinet Paper you may wish to consider doing this prior to the presentation of the Reset Cabinet Paper through an oral item.



## Appendices

s 9(2)(b)(ii)