MINISTRY OF HOUSING
AND URBAN DEVELOPMENT

Briefing

Resetting KiwiBuild within the Government's Build Programme – updated with further evidence			
Date:	7 May 2019	**Security level:**	Budget - Sensitive
Priority:	Medium	**Report number:**	BRF18/19050251

Action sought		
	Action sought	**Deadline**
Hon Phil Twyford **Minister of Housing and Urban Development**	Agree to the recommendations in this paper	10 May

Contact for discussion				
Name	**Position**	**Telephone**		**1st contact**
Nick McNabb	Principal Advisor	N/A	s 9(2)(a)	✓
Hilary Eade	General Manager, Urban Development Policy	(04) 831 6032		

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

Resetting KiwiBuild within the Government's Build Programme – updated with further evidence

For:	Hon Phil Twyford, Minister of Housing and Urban Development		
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Purpose

1. This report updates with further evidence our earlier advice setting out recommendations to reset KiwiBuild within the Government's Build Programme.

Executive summary

2. KiwiBuild was expected to build momentum over time, and pace and scale was never expected in the early years. KiwiBuild in its initial years is trying to shift a market to deliver more affordable housing ahead of other necessary elements being in place, such as an appropriate infrastructure funding regime, a number of large scale project developments approved and underway, and supportive urban planning regulations.

3. KiwiBuild has therefore faced early challenges. These reflect a set of trade-offs associated with its multiple objectives:

   a. **Delivering houses at pace and scale** and meeting the target of 100,000 modest priced homes.

   b. **Targeting Kiwibuild homes** to first home buyers

   c. **Managing the cost to the Crown** (including rapid recycling of the $2bn Kiwibuild working capital and leveraging private investment).

4. There are not enough first home buyers who are able and willing to buy KiwiBuild homes and the three-year occupation rule has deterred buyers. This means the programme cannot provide the certainty of demand required to give our development partners the confidence to invest in plant, machinery and people to improve productivity and deliver lower cost housing at pace. Additional fiscal support to help first home buyers to buy KiwiBuild homes in sufficient numbers is an option to attempt to expand the number of first home buyers, but this is costly and likely to require a multi-Budget approach. We will provide advice on further options to support first home buyers on 10 May.

5. Given these constraints we recommend a primary focus on supporting the delivery at pace and scale of modest priced homes through a Government Build Programme that expands what housing options can be procured, and reduces restrictions on who can buy homes. KiwiBuild would be one part of the wider Government Build Programme. The KiwiBuild underwrite and crown land (including with deferred settlement) would be made available for any modest priced homes delivered through the Government Build programme

6. Increasing the supply of modest priced homes irrespective of who lives in them will help the greatest number of renting households (including the growing number of stressed renters) by putting downward pressure on house prices and rents over time. While first preference to purchase most homes delivered under the Government Build Programme would still be given to first home buyers, homes should be made available on the open market if unsold to first home buyers. Although investors could end up purchasing many of these modest priced homes, this would improve rental affordability and availability and reduce rental stress.

Existing owners such as those looking to downsize may also purchase the homes, freeing up existing (possibly cheaper) homes for first home buyers.

7. Expanding the type and number of buyers the Government Build Programme transacts with can provide greater certainty of future demand to support industry transformation and encourage continued development in an already declining market. With the Auckland housing market slowing, this certainty of demand can mitigate the stalling of residential construction seen in previous cycles. This slowdown has in previous cycles been associated with a loss in development momentum and industry skills and capability, lasting for many years.

8. In supporting the delivery of pace and scale the Government Build Programme should also actively partner with providers of rental housing (subsidised and built to rent market housing) and progressive home ownership schemes. In some cases the Government Build Programme would agree at the outset of a development how many homes other housing providers (such as investors build to rent homes offered at market rates and community housing providers) would purchase and for what purpose. In other cases where developments are already contracted, the Government Build Programme may identify opportunities for housing providers to pre-purchase homes which remain available after first home buyers have exercised their preference.

9. The Affordable Housing Fund will enable the Government to partner with iwi and Maori organisations, community housing providers and local government to enable lower income households to live in Government Build Programme homes through progressive home ownership schemes and subsidised rentals. There is insufficient evidence that additional financial support is required to encourage investment in build to rent at market rates.

10. A more targeted approach that retained the focus solely on first home buyers would support delivery of fewer modest priced homes and to be implemented at scale, would require significant government support over and above the proposed $400 million Affordable Housing Fund.

Recommended actions

It is recommended that you:

1. **Note** that the early challenges faced by KiwiBuild reflect the inherent trade-offs between its multiple objectives of:
   a. **Delivering houses at pace and scale** and meeting the target of 100,000 modest priced homes;
   b. **Targeting Kiwibuild homes** to first home buyers;
   c. **Managing the cost to the Crown** (including rapid recycling of the $2bn Kiwibuild working capital and leveraging private investment). *Noted*

2. **Agree** to reset KiwiBuild within the Government Build Programme with a primary focus on supporting delivery of modest priced housing at pace and scale through active partnership with housing providers and reducing restrictions on who can buy Government Build Programme homes. *Agree/Disagree*

3. **Agree** that the Government Build Programme be primarily targeted on the markets with the largest underlying demand from buyers and renters at the existing regional KiwiBuild price points and where it is economic to build new housing at those price points. These markets are Auckland, Tauranga, Hamilton, Wellington, Nelson, and Queenstown. *Agree/Disagree*

4. **Agree** that Government Build Programme homes built for first home buyers that are not bought by them would be made available on the open market. *Agree/Disagree*

5. **Agree** that current restrictions on first home buyers, including the *Agree/Disagree*

requirement to reside in the property for three years, should be removed.

6. **Agree** to expand the Government Build Programme to actively partner with: *Agree/Disagree*
    a. Iwi and Maori organisations, community housing providers and local government through progressive home ownership products and subsidised rentals
    b. Providers of build to rent rentals offered at market rents.
7. **Agree** that partners in recommendation 6 would have access to the Kiwibuild underwrite and Crown land on a deferred settlement basis. *Agree/Disagree*
8. **Note** that that Cabinet, as part of Budget 2019 decisions, agreed to ring-fence $400 million in operating funding from the KiwiBuild Housing Multi-Year Appropriation to support the KiwiBuild – Expansion of Delivery Approaches initiative and directed the Minister of Housing and Urban Development to report back to Cabinet by 30 June on the direction and implementation of this initiative. *Noted*
9. **Note** the Budget 2019 decisions allow KiwiBuild and the Government Build Programme to deliver: *Noted*
    a. affordable rental homes
    b. progressive home ownership programmes; and
    c. homes for first home buyers
10. **Note** the expansion in terms of affordable rentals would include both:
    a. Subsidised rentals (typically targeted at stressed renters) *Noted*
    b. Increased supply of rentals offered at market rates including delivered by institutional investors in build to rent
11. **Agree** that the June report back to Cabinet will address the design and delivery of an Affordable Housing Fund which seeks to provide targeted funding to community housing providers, iwi and Maori organisations, and local government and leverages private and philanthropic capital to enable provision of progressive home ownership and subsidised rentals *Agree/Disagree*
12. **Agree** that there is insufficient evidence at this time to support additional financial support for institutional investors of build to rent offered at market rates and the ring-fenced funding agreed in Budget 2019 is not available for this purpose. *Agree/Disagree*
13. **Note** that through our place based assessments of regional housing markets we will assess the need for new supply of rental housing, interest and potential for institutional investment in build to rent offered at market rates, and whether any further support is required to stimulate this new supply beyond the KiwiBuild underwrite and deferred settlement of land. *Noted*

Hilary Eade
General Manager, Urban Development
7 / 5 / 19

Hon Phil Twyford
Minister of Housing and Urban Development
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Background

1. This report updates with further evidence our earlier advice setting out recommendations to reset KiwiBuild within the Government Build Programme.

Context

Our housing markets are functioning poorly driving high costs and lack of choice

2. While there are many causes of the housing crisis, at a household level poor housing outcomes are driven by the cost of housing, limited choice and the household's income and other needs.

3. In many of our main urban centres, high housing costs and lack of choice for many households has been driven by population and income growth and a sustained lack of supply over time. In Auckland land makes up an average of 67% of the value of existing homes. In these main urban centres the combination of high land and building costs (combined with restrictive planning rules, at least until the current Auckland Unitary Plan became operative) mean too few new homes have been delivered at affordable price points.

4. The sustained increase in the cost of existing and new housing has constrained New Zealanders' housing choices. As a result, home ownership has declined, more households are renting and for longer, and high costs combined with increasing competition for rental homes has increased stress for lower income households and those with other complex needs. Increases in house prices, combined with declining rates of ownership, will worsen intergenerational equity.

5. Across higher cost markets, Figures 1 and 2 indicate for 2018 the relative price points at which new homes have been delivered and the type of homes that have been priced below the lower quartiles (note these figures remain imperfect and should be treated as indicative only[1]). Figure 1 below suggests a very small proportion of homes delivered at below the current median house price in Hamilton, Tauranga, Wellington and Nelson. Figure 2 suggests for Wellington and Auckland the lower quartile priced homes that were delivered were almost all apartments and townhouses. For Queenstown almost all new stand-alone housing priced below the lower quartile has been delivered in Lake Hayes.

[1] We have estimated the price of new housing supply by comparing Core Logic data between years and identifying those dwellings that were not included in the earlier year. This approach is likely to understate the absolute number of new dwellings. However, we don't know whether the new dwellings that we have missed are representative of new builds generally, or are more likely to be higher or lower valued. If those new dwellings that are missing from this measure are higher or lower priced the proportions will be biased. We are undertaking further work to identify a more robust measure of the value of new builds.

Figure 1: The proportion of new homes delivered at different price points

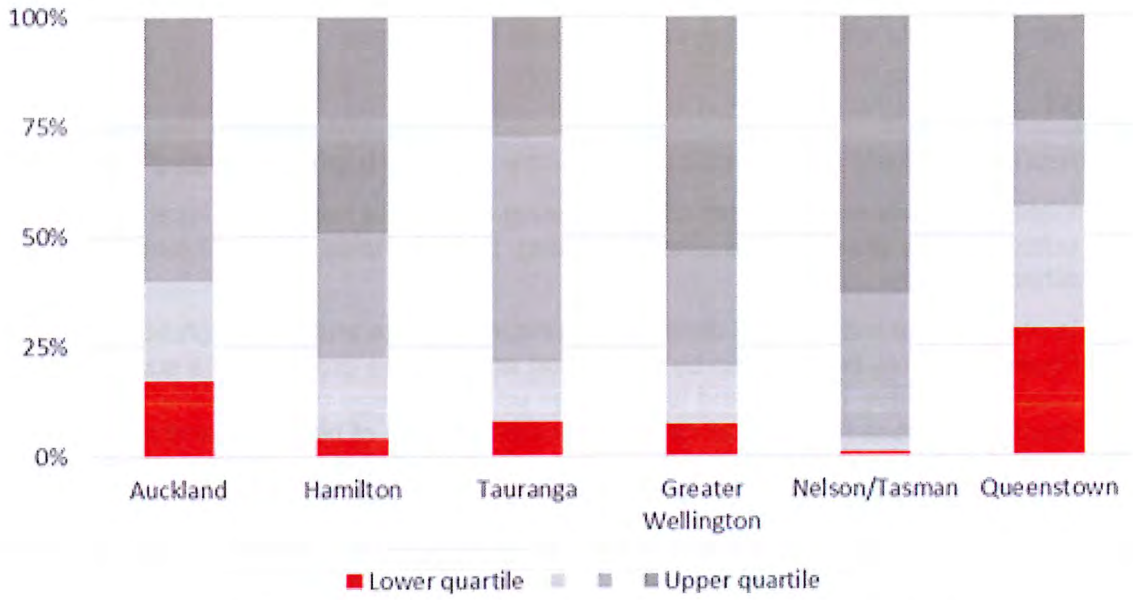
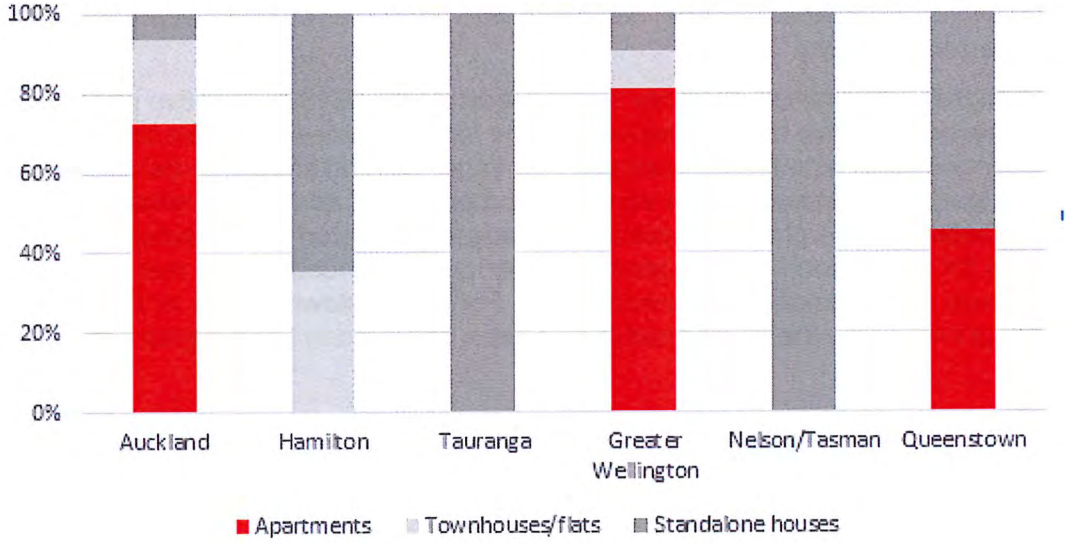


Figure 2: Type of new dwellings delivered below lower quartile prices



Successful reform will take time

6. KiwiBuild is a key part of the government's wider Housing and Urban Development work programme. The broader programme seeks to both shift the system over the longer term and invest now to meet household's needs and aspirations. For example:

   a. The Urban Growth Agenda is focused on shifts to the system to make room for growth (both up and out) to enable more affordable housing. This will take time given the complexity of the challenges and stakeholders; and

   b. Increased supply of public and transitional housing and investment in Housing First will support households with low incomes and complex needs.

7. As part of this wider programme, the government established KiwiBuild to deliver 100,000 modest priced affordable homes for first home buyers. Homes were intended to be inherently more affordable by virtue of modest design, efficient manufacture and efficient land and infrastructure use. To change the composition of housing developments Kiwibuild had two main levers:

a. incentivising developers to build at lower price points by underwriting the sale of modest priced homes and purchasing these homes if not bought by first home buyers; and

b. through Land for Housing and Large Scale Developments, making Crown land available to developers – including on a deferred settlement basis – on the condition that they deliver a certain proportion of homes below KiwiBuild price points and offer them to first home buyers.

8. The programme has also relied on:

a. providing development partners the confidence to invest in plant, machinery and people to improve productivity and deliver lower cost housing at pace;

b. addressing regulatory and infrastructure barriers that constrain land markets and add unnecessary costs and delays to the land and housing development process; and

c. there being sufficient buyers willing and able to purchase KiwiBuild homes at the prices delivered.

9. KiwiBuild faces challenges in each of these areas.

Kiwibuild has struggled initially and new challenges are emerging

10. Fundamentally the KiwiBuild programme faces the same constraints and high housing costs faced by the market (KiwiBuild - Operational Improvements, BRF 18/19 040237 refers). The initial focus through buying off the plans did not change the planning and consenting challenges faced by developers in bringing new housing to the market. Momentum in year one was always going to be a struggle due to most planned developments already being consented and well advanced, prior to the programme starting. We have been constrained in our ability to expand the supply of affordable housing in the short term as a result.

11. The KiwiBuild processes and constraints have been off-putting for prospective development partners and purchasers. There are also insufficient numbers of first home buyers willing and able to purchase 100,000 KiwiBuild homes. Many first home buyers who can afford a KiwiBuild home have been put off by the ballot, minimum occupation period, and mechanisms to claw back potential capital gains which are daunting to an inexperienced buying cohort.

12. While nationally there are over 160,000 households who might be able to service a mortgage for a KiwiBuild home, the number of actual purchasers will be significantly lower. Some won't meet the Kiwibuild criteria, others may prefer the flexibility of renting, or prefer to purchase other homes available on the market. While over 50,000 people have registered interest in Kiwibuild, just over 5,000 have provided additional information around their readiness to buy and preferences (admittedly in a period of only around 8 weeks). Of those that have responded, less than half are ready to purchase now and there remains a mismatch between buyer expectations of typology and prices compared what contracted Kiwibuild developments are currently delivering.

13. Targeting first home buyers only means that Kiwibuild is not able to support delivery of modest priced affordable homes for renters. Many households who could service a mortgage for a KiwiBuild home will continue to rent. A further 400,000 households can't afford to purchase a KiwiBuild home and will continue rent in the private market, almost half of whom are classified as "stressed".[2] Given that rents tend to increase in line with growth in median household income this has meant that households who are dependent on benefit income and the accommodation supplement have seen rents grow at a faster rate. In the decade to June 2017 the proportion of accommodation supplement recipients spending more

[2] Defined as spending more than 30 percent of gross household income on rent

than half of their income on rent increased from 40 per cent to 52 per cent. An increased supply of modest priced homes for rental would help put downward pressure on rents across the board.

14. On the supply side, KiwiBuild was always going to build momentum over time and is reliant on how it engages with the construction and development market, to support it to scale-up capacity and deliver at pace. If Kiwibuild remains targeted at first home buyers with the current restrictions, it can't provide the certainty of demand needed to support the sector to scale up and deliver at the pace intended, and developers will soon come to recognise this issue.

15. The housing market is also softening particularly in Auckland, risking a further boom-bust cycle and the stalling of residential construction, with a resulting loss of momentum and skills. These effects can be long lasting with the level of new dwelling consents in Auckland only now exceeding levels reached in 2005 (see figure 3 below). The construction sector has also seen loss of workforce over successive downward cycles (see figure 4).

Figure 3: Auckland Building consents by typology

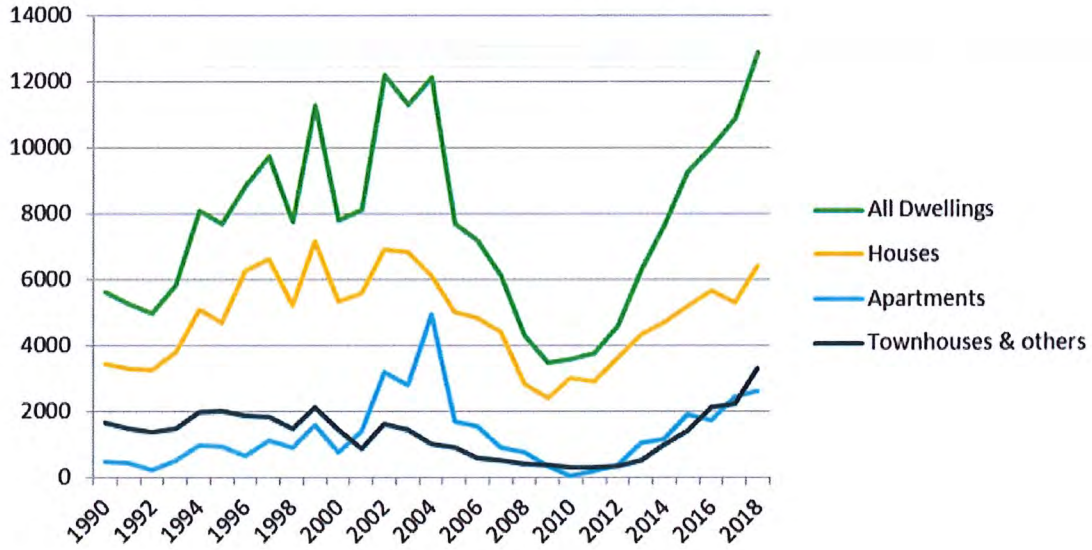
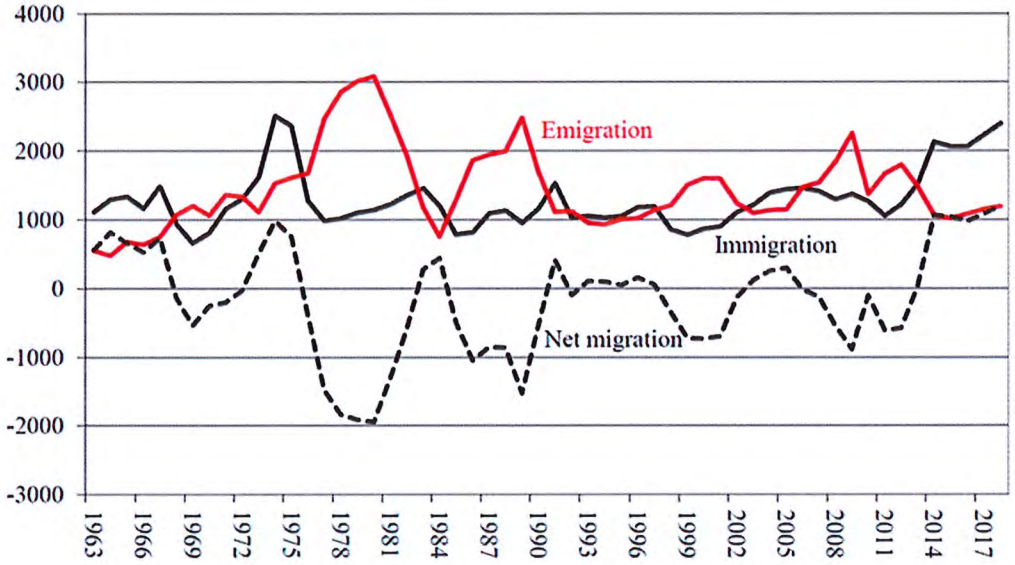


Figure 4: Migration of construction workers



Source: RBNZ Analytical note AN2018/08

16. Higher density developments are more susceptible to market downturns as they can't be phased or slowed down in the same way that 'greenfields' developments can. Increasing certainty of future demand through KiwiBuild could support the sector to maintain current

momentum (particularly for higher density development but also more generally), industry capacity and skills and support it to scale up over time. While Kiwibuild alone can't prevent any down cycle, it could be an important mitigant against a deep downward cycle.

Key trade-offs need to be made to ensure KiwiBuild meets its objectives

17. Kiwibuild is one intervention that aims to transform the construction and development sector to enable it to deliver more affordable homes. The challenges faced by KiwiBuild reflects trade-offs between three separate objectives:

    a. **Delivering houses at pace and scale** and meeting the target of 100,000 modest priced homes. Building momentum will take time but depends on supporting the sector to invest to scale up its capacity over time and enable it to deliver at greater pace.

    b. **Targeting Kiwibuild homes** to first home buyers

    c. **Managing the cost to the Crown** (including rapid recycling of the $2bn Kiwibuild working capital and leveraging private investment)

18. The three objectives can't all be met in full simultaneously, and trade-offs between them need to be made. The three broad approaches below set out key trade-offs between different combination of objectives (further expanded in Annex one):

    a. **developing at pace and scale while targeting first home buyers requires significant funding:** we know the number of renters who can afford and want to purchase Kiwibuild homes is limited and additional buyer support can be expensive. Buyer support can also put pressure on prices in supply constrained markets. The proposed Affordable Housing Fund will support some households into ownership through progressive home ownership, but significant expansion is costly on a per home basis;

    b. **developing at pace and scale and minimising cost of the programme requires less targeting**: relaxing the focus on first home buyers and allowing modest priced homes not purchased by first home buyers to be sold on the open market would increase the delivery of modest priced homes. While there is scope to enter upfront agreements with providers of progressive home ownership schemes and rentals (with funding through the Affordable Housing Fund), the majority of KiwiBuild homes will be built without a specific purchaser locked in requiring flexibility to sell on the open market if not purchased by first home buyers. Without this flexibility the Crown either ends up owning homes it can't sell that will tie up its capital, or will take an overly cautious approach to encouraging developers to build only homes to be sold to first home buyers. In each case the potential pace and scale are reduced to the point where KiwiBuild will struggle to provide sufficient volume in projects;

    c. **tightly targeting Kiwibuild homes and minimising the cost of the programme will constrain the potential pool of buyers and the potential impact of the programme:** targeting who lives in KiwiBuild homes limits the number of buyers and the level of demand that KiwiBuild can provide to the development and construction sector. This reduces incentive to invest and scale up delivery of modest priced homes.

Refocusing KiwiBuild

We recommend a hybrid approach with a primary focus on supporting delivery at pace and scale

19. Given the trade-offs across the programme we recommend an approach that predominantly focuses on delivering at pace and scale and relaxes the targeting of who can live in the homes delivered. Under this approach Kiwibuild would become part of a wider Government Build Programme that would deliver modest priced affordable homes to a broader range of households including owner occupiers and renters and would:

    a. **Contribute to the wellbeing of a broader range of households including renters.** Increasing the supply of modest priced homes can place the greatest downward pressure on house prices and rents, increase choice, and reduce pressure for all

renters. Lower rents can also help renters save a deposit for a home, and lower prices can increase purchase affordability for all potential buyers including first home buyers. This would benefit the large number of renters who can't afford to purchase a Kiwibuild home, or don't want to. How this recommended approach will improve affordability and choice for different households is set out in Annex two.

b. **Provide development partners with the confidence to invest and smooth the boom bust construction cycle by increasing certainty of future demand.** Increasing the volume of modest priced homes depends crucially on sector investment in innovation and skills to both scale-up delivery and to reduce build costs. A slow-down in housing demand creates significant risk that this investment does not occur and the sector loses capacity.

20. Within the Government Build Programme, the government has choices about what constitutes a Kiwibuild home, for example just those homes where the government provides support for first home buyers to purchase them, or all homes government facilitates below the Kiwibuild price points.

With more active partnering with housing providers

21. In supporting delivery at pace and scale the Government Build Programme can also actively partner with providers of rental housing and progressive home ownership schemes. The Government Build Programme would agree with providers at the outset of a development the number of homes they would purchase and for what purpose. The Kiwibuild tools mentioned in paragraph 7 – the underwrite and making Crown land available on a deferred settlement basis – would be available to enable homes to be delivered at modest prices. Partners could include Community Housing Providers, iwi and Maori organisations and local government who would purchase homes to enable lower income households to live in the modest priced homes, and with institutional investors in build-to-rent who would offer homes for rent at market rates. In terms of additional financial support to enable lower income households to live in these homes we recommend that:

a. Funding ring-fenced as part of budget 2019 for the Kiwibuild – Expansion of Delivery Approaches initiative make targeted support available to **CHPs, iwi and Maori organisations, and local government** to offer progressive home ownership schemes and subsidised rentals. This approach would leverage philanthropic and private investment. However, scalability remains limited given cost per household and limited provider capacity.

b. At this time there is insufficient evidence to support additional financial assistance for institutional investors of **build-to-rent**. The build-to-rent market is in its infancy in New Zealand, and will take some time to build volume. Previous market soundings suggested key challenges were access to land, scale and the yield gap between commercial and residential investment. Anecdotally we are seeing downward movement in commercial yields and investors may be willing to accept lower yields from residential investment. Any government support that might be contemplated in future would need to be in return for clear public policy outcomes in terms of better outcomes for tenants.

Even with these changes it will take time to scale up delivery of Government Build Programme homes

22. Over time this approach will provide the greatest increase in modest priced homes and increase choice and improve affordability across the housing continuum. Expanding the pool of potential owners who may purchase and live in Government Build Programme homes enables greater certainty of demand to enable the sector to scale up and deliver at pace.

23. A key implication of this approach is that increasing the supply of modest priced homes for rental will rely on selling homes not purchased by first home buyers to the open market, including owner occupiers (downsizers, up-sizers) and smaller investors.

24. KiwiBuild and the Government Build Programme will remain just one part of the Government's initiatives to improve housing affordability and choice. While Government can make land available for development, and influence developer incentives to develop at

higher densities to lower prices, wider reforms such as the Urban Growth Agenda remain critical to addressing deeper structural issues driving the high price of housing.

What this means for the 100,000 target

25. Even with the recommended changes, delivering 100,000 modest priced homes remains ambitious and there is a significant risk it won't be met. Retaining the target could be an effective way of ensuring a focus on the innovation and system shifts required to deliver greater volumes of modest priced homes.

26. However the target is not itself a meaningful measure of progress towards solving the identified problem - that is, the issue of unaffordable housing for ownership and rental. A focus on the target in isolation may also encourage counter-productive behaviours, such as the Crown continuing to intervene in the market after intervention is no longer necessary, and crowding out of private initiatives.

27. Whether the target is retained or not, we recommend the development and tracking of a broader range of metrics to track progress towards more affordable housing in key areas. This will help guide decision-making about the need for government to support supply over time and, as the market delivers more modest priced homes to meet demand, KiwiBuild can pull back.

An alternative approach that retains a focus on homes for first home buyers

28. A more targeted approach that retains the focus on first home buyers, and avoids sale on the open market, will result in the delivery of fewer modest priced homes with a smaller impact on prices and rents. Additional funding to support more buyers into home ownership could be provided, but this would need to be significant if scale is to be achieved.

29. There are a number of ways to increase the number of first home buyers purchasing modest priced homes as part of the recommended reset, including deposit subsidies or progressive home ownership schemes, such as shared equity or rent to buy. These work by helping buyers with accumulating a deposit or in servicing their mortgage:

    a. **Helping with deposits** is generally simpler and cheaper and raising a deposit appears to be the most common barrier facing potential first home buyers. The existing HomeStart grants paid out $86.5m to 12,117 households in 2018 (an average of $7,103). However in constrained markets deposit support can put upwards pressure on house prices and can become less effective over time. Take up of Home Start is significantly higher in regional areas and Christchurch where house prices are lower and the subsidy makes a greater contribution to a deposit.

    b. An approach that **capitalised the Working for Families Tax Credits** would help overcome the deposit barrier. But it would also reduce household's income available to service a mortgage and therefore the amount that could be borrowed, and risks increasing financial pressure on households in the future.

    c. **Progressive home ownership** schemes can work better for middle income households – like those receiving Working for Families Credits, as they help with both deposit barrier and mortgage serviceability. However they require a lot of capital and can be complex. For example delivering 5,000 homes under a 30% shared equity scheme would require around $800m of capital.[3]

30. The proposed Affordable Housing Fund will enable a modest number of renters into ownership through progressive home ownership schemes. We will provide separate advice on options to support home ownership by 10 May.

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[3] Assuming house price of $550,000

We recommend the following design features:

31. To reset KiwiBuild as part of the Government Build Programme to deliver modest priced affordable homes to a broader range of households including owner occupiers and renters we recommend the following:

    a. **Retain current price points** to keep the focus on increasing the supply of modestly-priced homes that the market has tended not to deliver. (Note: further review and testing is needed around the suitability of at least one regional market where earthquake risks combine with limited land area to increase construction costs to a point where a change may need to be considered). Over time as industry transformation takes effect these price points might be reduced further.

    b. **Target the Government Build Programme to the markets with the largest underlying demand** from buyers and renters at existing price points and where it is economic to build new housing. These markets are, Auckland, Tauranga, Hamilton, Wellington, Nelson, and Queenstown.

    c. **To increase housing choice and affordability for renters and owners, homes that are not bought by first home buyers should be sold on the open market**. Homes should still be offered exclusively to first home buyers for period of time, after which homes not taken up by first home buyers are sold on the open market, including to landlords or those looking to move to smaller homes. Existing eligibility criteria for first home buyers should be retained for the exclusive offer period.

    d. **Current restrictions on first home buyers should be removed** – the three-year requirement has been a key deterrent for first-home buyers to date.

    e. **Expand the Government Build Programme to actively partner** with:

        i. Iwi and Maori organisations, CHPs and local government through progressive home ownership products and subsidised rentals;

        ii. Providers of build to rent secure tenure rentals.

    f. **The Affordable Housing Fund provides targeted funding to leverage the private and philanthropic capital** to enable provision of progressive home ownership schemes, subsidised rentals.

32. This approach provides the best opportunity to make a meaningful difference to affordable supply in markets where this is needed. It also helps ensure a base load of volume for the construction and development sectors as the sectors slow, and to provide impetus to programmes to achieve transformation of the construction sector.

Other relevant work to support New Zealander's housing needs and aspirations

33. This approach doesn't solve the challenges we have in many parts of New Zealand where it is not economic to build modest priced new homes as existing housing is significantly cheaper. This highlights that our approach to meeting New Zealander's housing needs and aspirations needs to be highly place-based, reflecting the unique demographic, economic and housing market conditions of the place. Given this, we are also recommending a place-based approach, based on local needs and partnering with local government and iwi around solutions.

34. This place based approach will also include the supply of public and transitional housing which alongside supporting delivery of modest priced homes for ownership and rental makes up the Government Build Programme.

Annexes

35. Annex A: KiwiBuild – there are key trade-offs that need to be made to meet its objectives

36. Annex B Government Build Programme Recommended approach

Annex A: Key Trade-offs across the KiwiBuild Programme

KiwiBuild - there are key trade-offs that need to be made to meet its objectives

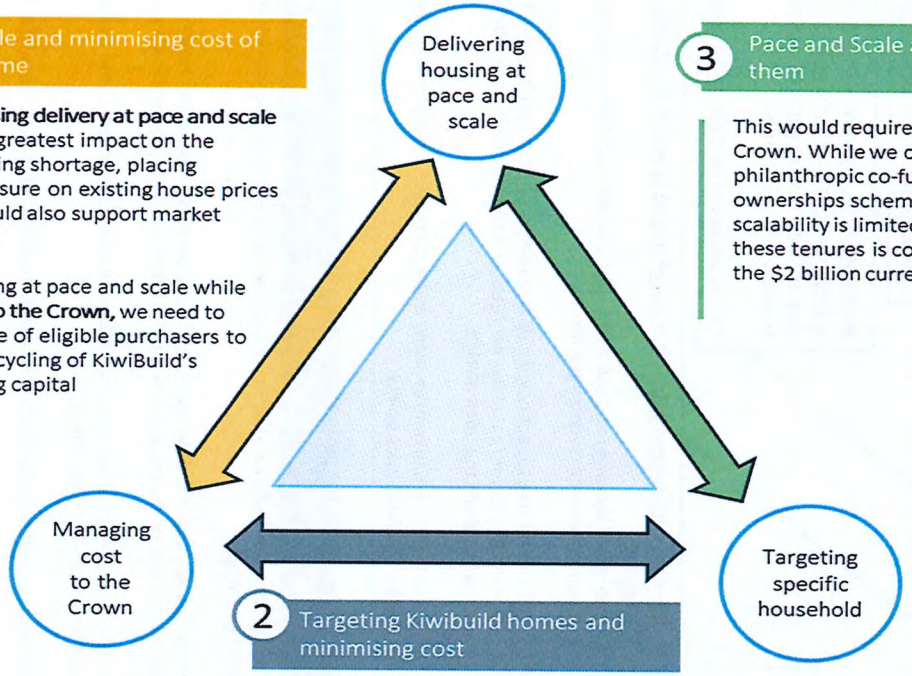
Delivering housing at pace and scale	Managing the cost to the Crown	Targeting KiwiBuild homes to first home buyers

These objectives can't all be met in full and some mix is required, suggesting three broad approaches.

1 Pace and Scale and minimising cost of the programme

Facilitating **housing delivery at pace and scale** would have the greatest impact on the underlying housing shortage, placing downwards pressure on existing house prices and rents. It would also support market transformation.

To deliver housing at pace and scale while **managing cost to the Crown,** we need to expand the range of eligible purchasers to support rapid recycling of KiwiBuild's $2billion working capital



2 Targeting Kiwibuild homes and minimising cost

Targeting specific households while **minimising cost to the Crown** would limit our ability to rapidly recycle capital to deliver a pipeline of development at pace and scale.

3 Pace and Scale and while targeting who lives in them

This would require substantial subsidy from the Crown. While we can leverage some private and philanthropic co-funding in progressive-home-ownerships schemes and sub-market rentals , their scalability is limited . Direct Government provision of these tenures is costly and would significantly exceed the $2 billion currently allocated to KiwiBuild.

Recommendation

We propose a hybrid approach with primary focus **on supporting housing delivery at pace and scale** by extending KiwiBuild to a broader range of households and housing providers.

....while also

- offering many homes exclusively to first-home buyers in the first instance
- supporting some lower income families into owning homes and others into low cost rentals by providing some financial support to providers of progressive home-ownership and and sub-market rentals

Annex two: Government Build Programme Recommended Approach

- Facilitate delivery of new housing at pace and scale that is inherently more affordable and remove restrictions on who can own homes, and partner with community housing providers, Iwi, local government and institutional investors in build to rent.
- Increasing the supply of modest priced homes irrespective of who lives in them will help the greatest number of households, including first home buyers, by putting downward pressure of house prices and rents. Government has choices around what is then a branded a Kiwibuild home.
- Improving certainty of future demand provides development partners with the confidence to invest in plant, machinery, and people the sector needs to scale up, improve its efficiency and ultimately deliver lower cost housing.
- To deliver at pace and scale the Government needs to be able to sell homes not purchased by first home buyers on the open market
- Developments facilitated through the Government Build Programme, particularly the large scale developments, would also deliver market rate housing and some will deliver public and transitional housing

How homes can be targeted to different households

Owner Occupiers: can buy homes not bought by First Home Buyers to live in them, potentially enabling households to downsize and free up existing housing

Households who can service a mortgage for a modest priced home at Kiwibuild price points:
Given first preference to purchase homes so they don't need to compete with other buyers.

Can access **Home Start** deposit support and **welcome home loans**

Stressed renters and public housing tenants
Affordable Housing Fund will enable CHPs, iwi and local government to purchase homes and offer as subsidised rentals to low income households.

Stressed renters will benefit from general downward pressure on rents from increased supply of new modest priced affordable homes. Public Housing tenants may see improved choices to transition to private rentals.

Renters who cannot afford a modest priced home at Kiwibuild price points but are not stressed:
Affordable Housing Fund will enable CHPs, iwi and Local Government to purchase homes and offer progressive home ownership schemes

Will also be able to rent new modest priced homes from Institutional investors who purchase or develop homes for rent at market rates, and from investors who purchase homes not bought by first home buyers on the open market.

Outside main urban centres many could purchase an existing house as these are priced significantly below KiwiBuild price points

How Government facilitates delivery of inherently more affordable homes

By leveraging the Government's landholdings and balance sheet to change the composition of housing developments and to support a pipeline of longer term developments, through:

- Land for Housing and Large Scale Developments making **crown land** available to developers (including CHPs, Iwi, local government institutional investors of build to rent) and on the condition that they deliver a certain proportion of homes at Kiwibuild price points or below.
- Incentivising developers to build at or below KiwiBuild price points by **underwriting** the sale of the modest priced homes and purchasing these if they cannot be sold to first home buyers

Across the programme the Government can **partner with institutional investors in build to rent, and CHPs, Iwi and local government** in two key ways:

- For developments on crown land, making land available for modest priced homes for rental or progressive home ownership
- Identifying a portfolio of homes across the development pipeline for purchase where these are not bought by First Home Buyers – i.e. pre-sale of homes after these have been contracted but not completed.

In addition CHPs, Iwi and Local Government may identify their own land for development with funding through the Affordable Housing Fund making the development feasible.