



Briefing

Residential Construction and Covid-19			
Date:	23 April 2020	Security level:	In Confidence
Priority:	Medium	Report number:	BRF19/20040623

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Note this briefing provides you with information on the effect of Covid-19 on residential construction and our plan to respond. Forward to the Minister for Building and Construction for her information.	1 May 2020

Contact for discussion				
Name	Position	Telephone		1 st contact
Brad Ward	DCE Place-based Policy & Programmes	04 474 2184	s9(2)(a)	✓
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Other agencies consulted
Kāinga Ora, MBIE. Key issues have been discussed with a subgroup of the Construction Sector Accord steering group.

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

Residential Construction and Covid-19

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

Date: 23 April 2020

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Purpose and Context

1. The purpose of this paper is to:
 - a. Outline the features of New Zealand's residential construction sector, including those that make it vulnerable to a likely economic downturn, or demand-shock, caused by the Covid-19 crisis.
 - b. Identify those actions that are already underway or being explored as part of the Government's Covid-19 response programme, and which could contribute to addressing any issues that emerge in the residential construction sector.
 - c. Outline HUD's plan for monitoring the impact on the sector, and the advice that we will provide on further options to ensure the sector continues to build enough houses over the medium to long-term.
2. The focus of this paper is less on the immediate economic impact of the restrictions on construction activity associated with the lockdown and the transition to lower alert levels, and more about the impact that a potentially prolonged economic downturn (i.e. associated with global economic conditions, border restrictions, and disruption to key sectors like tourism) could have on residential construction and housing supply. However, the lockdown period will also be having an impact on the financial position of construction firms which will reduce their resilience to the ongoing economic challenge.
3. HUD has been contributing to the Construction Sector Accord Covid-19 Response Plan ('the CSA Response Plan'), in partnership with MBIE and the Construction Sector Accord Steering Group. The CSA Response Plan is focused on actions to:
 - Maintain a viable construction sector, especially during the Alert Level 4 period.
 - Plan for an accelerated post Covid-19 response.
 - Return to a high-performance construction sector.
4. Many of the actions arising from the CSA Response Plan apply to the construction sector more broadly — for example, supporting building regulatory compliance, and ensuring a smooth and safe return to construction sites as we move back to Alert Level 3.
5. However, the CSA Response Plan also suggests that actions need to focus specifically on maintaining the viability and performance of the residential construction sector, given its unique features and its out-sized importance to social and economic outcomes. The work outlined in this paper will contribute to that objective.

Executive summary

6. A viable and productive residential construction sector is critical to New Zealand and to the Government's overall wellbeing objectives, including:
 - as an essential component of ensuring all New Zealanders can live in affordable, warm, dry homes within thriving communities that provide them access to opportunities;
 - to deliver on the Government's build programme, including the construction of new public and transitional housing supply, and the retrofitting of existing public housing stock; and,
 - in its own right as a significant generator of employment and economic activity.

What could happen

7. The sector is particularly vulnerable to demand shocks in the economy. This was seen during the global financial crisis (GFC), when the supply of credit and effective demand for house-buying and house-building declined significantly, even as underlying demand for houses still increased with population growth. As a result, between 2008 and 2011 house-building declined by approximately 50 per cent and the residential construction sector lost approximately 25 to 30 per cent of its workforce. The medium- and high-density residential sector was particularly impacted.
8. The fragmented and small-scale nature of residential construction firms means the sector is 'quick to exit' but 'slow to return' in a demand shock, and it tends to lag general economic recovery. It took seven years for the construction sector to regain the same number of employees it had in 2007, and close to ten years post-GFC for the sector to get close to building enough houses to match underlying demand (using a crude aggregate measure). The social consequence of that accumulated under-supply of houses, and particularly the under-supply of affordable houses, is still being felt acutely.
9. While the drivers of the GFC were different to the current crisis, the resulting impact on the residential construction sector could be similar in effect: firms will be unsure about hiring and investing; banks will be cautious about lending; owners will be unsure about listing; home-buyers will be unsure about borrowing; and developers will be unsure about committing to new projects.

What we are hearing

10. Reports emerging from the sector suggest these effects are already starting to manifest, although it will be some time before we have accurate information on their scale and nature.
11. To inform our further advice, we are initiating a market soundings exercise which will involve regularly checking in with key people involved in different sectors supporting residential construction in order to get on-the-ground real-time intelligence on the impact of Covid-19. This will include Kāinga Ora, banks, construction and development companies (including group home builders and larger developers, Registered Master Builders Association, The Property Council), iwi investors, community housing providers, local authorities, real estate companies, and economists. This intelligence will enable us to get a good gauge of the issues emerging, how the sector is responding, and what the likely impact of this will be over the next year or more.
12. The sector reacts rapidly to demand shocks compared with other sectors, with its fragmentation and low capitalisation providing little in the way of counter-cyclical resilience. In order to avoid any destructive long-term impacts similar to or worse than those seen during the GFC, we recommend the Government be prepared to take early action, and play a stronger role in supporting the residential sector to maintain its output through and beyond the crisis, should it be required.
13. Current advice and planned stimulus investment in infrastructure, regulatory streamlining, and increasing public housing supply is important, and will provide much-needed support to the sector. However, this approach alone may be insufficient. This is because it does not fully address a key factor worrying the sector leaders we have spoken to: a deterioration in

consumer and lender confidence as a result of the general economic uncertainty, including the global situation.

14. Therefore, a key part of any plan to keep house-building at levels sufficient to maintain supply and a viable industry, is to consider additional demand-side government support.

Our plan

15. Our immediate objective over the next two months is to reduce the exposure of the building and construction sector and its workers to the effects of an emerging demand shock, while acknowledging that we cannot yet know the severity of that shock. We have some immediate priorities – e.g. a large 2020 Budget bid on additional public housing and large-scale project support, and the initiatives arising from the Construction Sector Accord. This is in addition to Kāinga Ora's significant retrofit and repair programme.
16. Over the next month HUD and Kāinga Ora will engage with the sector to understand what housing developments currently under construction are potentially at risk (including within Kāinga Ora's own projects), and in what circumstances the Government could intervene to maintain jobs and housing supply. Interventions in the short-term could potentially include Kāinga Ora purchasing partially-built or unsold housing for use as public and transitional housing supply, provided it meets requirements. We will come back to you with advice on this before committing to any action.
17. Concurrent with this, we will be considering and providing advice on a fuller range of demand-focused options. This will include a mix of new options and improvements to existing mechanisms, based around the following channels:
 - Supporting **home-buyer demand** — for example, encouraging more households to 'stay in the market' through ownership products such as the first home grants, government-backed home loans, progressive home ownership schemes etc.
 - Mitigating **sales risk** for developers — for example, helping ensure there is a buyer for a house, or being prepared to purchase houses directly if willing buyers cannot be found.
 - Ensuring ongoing **access to development finance**, if new project viability is constrained by lenders increasing their risk margins due to the potential for further Covid-related disruptions to building activity, including to supply chains.
 - More explicit government support for **new rental supply**, including using Crown support to facilitate and leverage non-government investment (e.g. by institutional investors, iwi, community housing providers) in 'Build to Rent' projects.
18. Some of these channels may become more important under different economic scenarios. For example, we might first target increases to homebuyer support, but if a more pronounced demand-shock emerges and/or house prices fall a lot, then moderately cheaper interest rates or some deposit assistance may still not be enough to keep sufficient households in the market (or to keep banks lending to them), in which case more direct measures may be necessary to maintain sufficient supply.
19. HUD is currently preparing advice on all of these channels. Some initial advice on the Government Build Programme and home ownership support, and what settings you could change sooner, will be provided at the end of next week. Further options covering all channels will be provided by late May.
20. Alongside market sounding, we will be seeking to better understand:
 - How we can structure the options to ensure support for broader government objectives, such as building the right kind of affordable housing in the right places, and ensuring target groups (e.g. vulnerable renters, first home buyers) are benefiting.
 - How we can structure the options to maximise their impact while managing the fiscal cost and risk to the Crown (e.g. thinking about the cascade of support that has outright purchase by the Crown as a 'last option', how to leverage non-government finance, and

ensure the appropriate allocation of risk to keep developers and purchasers making good decisions).

- The potential scale of demand-side support required under different scenarios, in order to maintain house-building at pre-crisis levels, or at least consistent with expectations of underlying demand (i.e. the demand from households for a house to live in).

21. The corollary of Government playing a more active role in the market, even if temporarily, is that it can better use its leverage and purchasing power to support the broader housing and urban outcomes that it wants to achieve. For example, as well as targeting the construction of more affordable housing in the right places, it could also support the sector to improve housing quality (including sustainability and emissions reduction) and investment in quality- and productivity-enhancing innovation (e.g. pre-fabrication and off-site manufacturing). We will be working closely with MBIE on this, including on opportunities to improve the performance of the building regulatory system.
22. With demand uncertainty already emerging, the sector is looking for assurance that the Government understands the risks and is exploring options to address these if required. Some proactive communication of this — for example through the Construction Sector Accord mechanism — may be useful to provide some confidence to the sector so that fewer firms make short-term employment or other decisions that may affect their medium-term capacity to deliver.

Recommended actions

It is recommended that you:

- 1) **Note** that the residential construction sector is particularly vulnerable to demand shocks, and the planned additional investment in infrastructure and public housing may be insufficient to maintain adequate housing supply and a viable residential construction sector. *Noted*
- 2) **Note** that addressing any emerging demand risk may require additional government investment in directly or indirectly supporting house-building across the country. *Noted*
- 3) **Note** that the scale and nature of what is required will depend on which scenario emerges, and will vary by place. *Noted*
- 4) **Note** that HUD's immediate focus will be on:
 - a) Understanding what is happening in the sector using real-time market soundings gathered from key stakeholders and partners
 - b) Progressing the s9(2)(f)(iv) , and the initiatives arising from the Construction Sector Accord
 - c) Exploring a short-term role for Kāinga Ora to support jobs in the sector and meet housing need, through purchasing some uncompleted or stalled housing developments for public and transitional housing supply
 - d) Short-term changes that can be made to the Government Build Programme and home ownership settings (with advice due on this at the end of next week) *Noted*
- 5) **Note** that HUD will also provide advice by late May on a fuller range of demand-focused options to: *Noted*

- a) Support home-buyer demand
- b) Mitigate development sales risk
- c) Ensure ongoing access to development finance
- d) Increase support for new rental supply, including 'Build to Rent'

6) **Forward** this briefing to the Minister for Building and Construction, for her information.

Noted

Hon Dr Megan Woods
Minister of Housing

..... / /

Brad Ward
**DCE Place-based Policy &
Programmes**

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The nature and scale of emerging issues

The residential construction sector is critical to New Zealand's economic and social wellbeing

23. A viable and productive residential construction sector is critical to New Zealand and to the Government's overall wellbeing objectives, including:
- as an essential component of ensuring all New Zealanders can live in affordable, warm, dry homes within thriving communities that provide them access to opportunity;
 - to deliver on the Government's build programme, including the construction of new affordable, public and transitional housing supply, and the retrofitting of existing public housing stock; and,
 - in its own right as a generator of employment and economic activity.

The sector's large workforce, and strong multiplier effect means it can provide significant economic stimulus

24. The construction sector is a significant generator of employment and economic activity: in 2019 around 10 per cent of New Zealand's workforce, or 228,000 FTEs, were employed in construction and construction-related services. In a 2011 report for the Construction Strategy Group, PWC calculated that the construction sector has the second-highest multiplier impact of any sector in the economy (behind the capital-intensive electricity, gas, water and waste sector), with each \$1 of investment generating \$3 in economic activity.¹ The same report noted that investment in construction also has a *faster impact* than other sectors given its large labour share of production — i.e. investment circulates quickly in the economy through construction workers spending their wages.
25. In terms of employment, the residential construction sub-sector is estimated to be as large as the 'vertical' and 'horizontal' (or network infrastructure) sub-sectors combined. Because the residential sub-sector has a lower capital to labour ratio than vertical or horizontal construction (which are more capital intensive), it would in turn generate a much faster transmission of stimulus into the economy than those sub-sectors. The sector also employs a relatively young workforce and higher levels of Māori and Pasifika.
26. However, the sector is also highly fragmented, made up of many sole traders and small-scale firms. At February 2019, the core residential construction sector (i.e. the house builders) had a ratio of 1.4 employees per firm, with around 85 per cent of firms employing 5 or fewer people. A 2016 Westpac report on the sector noted that although there about 200,000 companies operating in Australia, only 10 per cent build only one house per year compared to 32% in New Zealand². It is also highly dependent on the use of small-scale sub-contractors for large parts of the construction task. For example, in 2019 the Building Completion Services (painting, plastering etc.) and Building Installation Services (plumbers, electricians etc.) employed around 57,000 people across 25,000 firms.

The sector is particularly vulnerable to economic downturns

27. The residential sector is particularly vulnerable to demand-shocks and has a history of pronounced boom-bust cycles³ where activity, capacity and skills exit quickly but return

¹ PWC (2011), *Valuing the role of Construction in the New Zealand Economy*, Report for Construction Strategy Group.

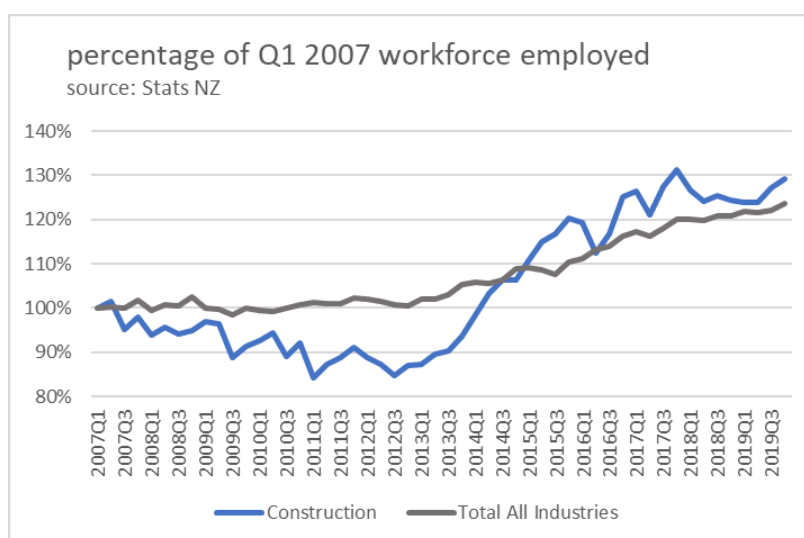
² Westpac (2016) *Industry Insight: Residential Building*.

³ The sector has long been seen as caught in a kind of vicious cycle whereby its small-scale and fragmentation make it more vulnerable to the boom-bust cycle, which means it tends to have a short-term focus — neglecting to invest in building scale, skills and productivity-enhancing innovation, plant and machinery — which again increases its vulnerability. As a result, the sector experiences much more pronounced boom-bust cycles than other sectors in the economy.

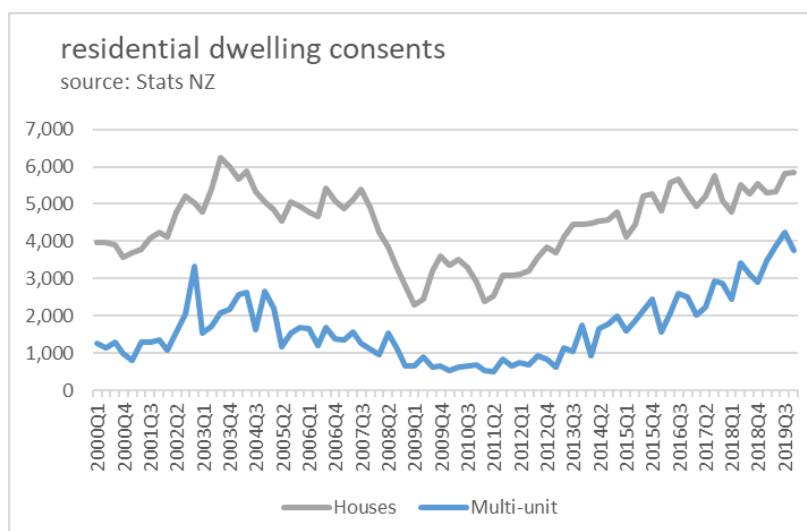
slowly. This means even when the general economy recovers from a shock, house-building activity usually lags demand for many years.⁴

28. The global financial crisis (GFC) provides a recent case-study, where employment in the sector dropped 25-30 per cent between 2008 and 2011, and house-building activity declined by about 50 per cent. The construction of medium- and high-density typologies (the housing more likely to be considered affordable in our larger urban areas, given its lower land component, and which supports transport, climate change and other objectives) declined disproportionately over that time.
29. It took seven years for the construction sector to regain the same number of employees it had in 2007, and close to ten years post-GFC for the sector to get close to building enough houses to match underlying demand (using a crude aggregate measure).
30. This supply shortfall, combined with a structural shortage of affordable houses built up over the preceding decades of inadequate housing and urban growth policy, precipitated the housing crisis that is still being felt acutely by many New Zealand households.

Employment in construction is more volatile than other sectors:



Building volumes can drop rapidly and grow slowly:



⁴ Grimes, A. & Hyland, S. (2013), *Housing Markets and the GFC: The Complex Dynamics of a Credit Shock*, Motu Economic and Public Policy Research

31. The drivers of the GFC were different to the current crisis, originating from issues inherent in the financial system rather than the real economy, but the net effect on the residential construction sector is likely to be similar in effect, if not magnitude, given its vulnerability to changes in consumer confidence and availability of bank finance.
32. Treasury describes the Covid-19 pandemic as a rare event that will have profound impacts on economic and financial systems globally and in New Zealand, suggesting that the global economic shock could be worse than the GFC. While it is not yet clear what exact economic conditions will emerge post-lockdown, we do know that the residential construction sector's response can be more pronounced and prolonged than that of the general economy. Even a moderate downturn could have an unhelpful impact on housing supply at a time when the country is still dealing with structural problems in the housing system.

s9(2)(g)(i)

33. s9(2)(g)(i)

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• s9(2)(g)(i)

Any decline in residential construction activity would be from a historic peak

34. For each of the past four years building consents for over 30,000 dwellings were issued across New Zealand, and are at record levels. Consents for 37,700 new dwellings were issued in the year to January 2020, with a combined value of almost \$14 billion. Over the five-year period to February 2019, the construction sector averaged an annual growth rate of 4.5 per cent for enterprises and 6.1 per cent for employees, more than double the growth rate for all industries combined.⁵
35. An experimental estimate provided to HUD by Statistics New Zealand reports there could be around 27,000 houses currently under construction across New Zealand (with a combined value of \$11.5 billion), half of which are in Auckland. This estimate is based on a manipulation of building consent and completion data and will include projects that are still in the post-consent 'planning' stage, as well as those with on-site construction activity actually occurring. Those projects at the pre-construction stage, even where building consents are issued, are likely more susceptible to delay or cancellation as a result of a demand shock in the economy.
36. Given this, even a supply impact half that of the GFC could reduce new housing by around 7,000 houses per year. This would worsen the housing and related social outcomes that New Zealand is already experiencing, even as the general economy begins to recover. These outcomes would play out differently in different places, but most places could be affected in some way.⁶

Anecdotal evidence of impacts or concerns is beginning to emerge from the sector

37. Some of the anticipated consequences for the sector of an economic downturn are already beginning to emerge, based on early anecdotal reports and discussions with sector stakeholders, including Kāinga Ora and members of the Construction Sector Accord. For example:

⁵ Statistics New Zealand (2019) *Construction industry at the top of the ladder for business counts growth*, Media Release

⁶ We do not know yet what impact the Covid-19 crisis and its disproportional impact on some sectors will have on population dynamics – e.g. internal migration, where returning New Zealanders will settle — and what this means for changes in the spatial allocation of underlying housing demand.

- Some developers have reported that financiers are now charging a significant Covid-19 risk-premium on development loans, and that some firms in the sector are already preparing to lay off staff.
 - Kāinga Ora is reporting that some larger, better-capitalised builders are cautiously optimistic, but it is also getting calls from some build partners asking what support initiatives might be being considered, given they are already under stress due to very tight margins and financing costs. These are firms that are already engaged by Kāinga Ora to build not just public housing, but also affordable or market homes on Kāinga Ora's land. s9(2)(g)(i)
 - Community Housing Providers have started to indicate that they are concerned about bank financing, particularly as more traditional sources of revenue (e.g. charitable donations, Op Shop revenue etc.) are impacted.
 - The Property Council of New Zealand has claimed that revenue problems being faced by large commercial landlords during the lockdown may flow on to reduced investment by them in new development projects.
 - We have taken some soundings from some group home builders and all are currently reporting strong financial positions. While they have enough work for now, the situation beyond the next six months is more uncertain. This is unsurprising as these firms will have more resilience than other parts of the sector, with those undertaking medium- and high-density developments more exposed to a downturn. We are hearing that banks are now requiring at least 80 percent of pre-sales before they will lend.
 - Pacifiecon, a building intelligence company which tracks larger-scale projects, reports that already about 300 construction projects (both residential and non-residential) at either the planning or tendering stage were postponing or cancelling as a result of Covid-19 — i.e. beyond just any delay associated with the lockdown period. This number has jumped by 100 in the last 2 weeks.⁷
38. Our sector contacts are, in general, pleased with the decisions made by the Government around their ability to operate in Alert Level 3 and are gearing up to 'hit the ground running'. However, there is also some concern that this could be impacted by delay costs (weather damage, vandalism), loss of pre-sales, supply chain disruption and other cost increases, including the increased finance risk premium associated with uncertainty about ongoing Covid-related disruption.
39. As construction firms prepare to return to building sites for Alert Level 3, they will also be contacting clients to reconfirm their ability to continue to pay for the contracted work. Monitoring this will provide one early indicator of the potential impact on the sector.

What work is underway, and what more is required?

40. The decision by a developer or investor to take up a development opportunity (the 'stop/go decision') is made based on a calculation of the different risk factors that influence supply and demand, and their effect on the hurdle rate for investment (i.e. the target risk-adjusted profit margin, or total revenue minus total cost).
41. Factors that influence supply include: regulatory settings, costs, and timeframes (i.e. building consents, resource consents etc.); the availability and price of materials and skilled labour; the availability and price of land and infrastructure; the perceived level of regulatory, development and market risk; and the availability and cost of development finance.

⁷ Pacifiecon, Covid-19 Update, 21 April 2020

42. Factors that influence effective demand⁸ include: underlying demand, the ability of prospective purchasers to save a deposit (their capitalisation); the availability and cost of credit (interest rates and lending constraints); income and job security; and future house price expectations (i.e. the expected return relative to other investments).
43. Ensuring New Zealand residential construction doesn't experience a significant decline in construction activity, and a lengthy recovery period, will require the Government to be prepared to support the sector on both sides of the supply and demand equation.
44. Advice tendered to date, some of which has already been publicly signalled, focuses predominantly on the 'supply side' of the equation, de-risking and facilitating development opportunities for the sector through:
- Increased and accelerated infrastructure investment, some of which will be targeted at supporting urban growth.
 - Accelerated investment in Kāinga Ora-led large-scale urban development projects, incl. for growth-related infrastructure.
 - Streamlined regulatory planning mechanisms, through the Urban Development Bill and Resource Management Act.
45. These actions are important, and will provide much-needed support to the sector, but even with the considerable quantum of stimulus proposed they are unlikely to fully address the risks facing the sector without commensurate action on the 'demand side'. This is because:
- The 'horizontal' construction (i.e. infrastructure) sector is less employment-intensive than the residential sector, representing a fifth of construction sector employment overall.
 - The residential development and construction sectors, due to risk and access to finance, could be unwilling or unable to invest or partner in projects that might otherwise benefit from the more certain infrastructure and regulatory environment provided by the proposed government actions.
 - The residential sector (given its fragmented nature, small-scale and under-capitalised firms) could quickly lose capability and capacity before effective demand returns sufficient to take advantage of the stimulatory infrastructure and other projects coming on stream.
46. HUD and Kāinga Ora already have some 'demand-side' policy and investment activity underway, including decisions for Ministers on:
- Increased investment in public housing supply, which will provide some stimulus to the construction sector through Kāinga Ora's build partners.
 - Advice on adjusting the Government Build Programme and home ownership support settings.
 - s9(2)(f)(iv)
47. The first is a component of the proposed economic stimulus package, while advice on the second two elements is due to be provided to you end of next week.

⁸ The term 'effective demand' is used specifically to capture the demand for housing as an investment or asset (even from owner-occupiers), which varies according to economic conditions and consumer confidence. In contrast, 'underlying demand' refers to demand for housing as a service (i.e. for shelter) which is driven by factors such as population growth, demographic change, and household formation preferences.

48. This advice should provide the foundations of a comprehensive 'demand side' response. However, we may need to be prepared to scale up and supplement these interventions at relatively short notice if the more pessimistic of Treasury's economic scenarios begins to emerge.
49. In particular, we note that:
- Kāinga Ora's public housing construction activity represents around six per cent of total annual residential construction activity, and so even a doubling of that activity will only have a marginal effect on demand for construction capacity.
 - The potential quantum of demand support that might be needed to maintain construction activity and housing supply in a pronounced demand shock likely outstrips the current allocations of funding for the KiwiBuild underwrite and other existing mechanisms.

Our Plan

Our immediate response

50. Our immediate objective over the next two months is to reduce the exposure of the building and construction sector and its workers to the effects of an emerging demand shock, while acknowledging that we cannot yet know the severity of that shock. We have some immediate priorities, e.g. t s9(2)(f)(iv), and the initiatives arising from the Construction Sector Accord.
51. Over the next month we intend to work with Kāinga Ora to engage with the sector and understand what housing developments currently under construction are s9(2)(f)(iv), and in what circumstances the Government could intervene to keep people employed on site. Interventions in the short-term could potentially include Kāinga Ora purchasing partially-built or unsold housing for use as public and transitional housing supply, provided it meets Kāinga Ora's requirements for location, typology and price. We will come back to you with advice on this before making any commitments.

We are working to improve the information flow from the sector

52. At the moment many of the reports we are receiving are ad-hoc or difficult to verify as we lack the wider context. To better inform our further advice we are initiating a market soundings exercise. This will involve regular check-ins and establishing proactive information-sharing protocols with key stakeholders involved in or supporting residential construction, to get on-the-ground real-time intelligence on the impact of the Covid-19 and any resulting demand shock.
53. The stakeholders will include: banks, Kāinga Ora, construction and development companies (including group home builders and larger developers, Registered Master Builders Association, The Property Council), iwi investors, community housing providers, local authorities, REINZ and real-estate firms, and non-bank economists.
54. This intelligence will enable us to get a good gauge of the issues emerging, how the sector is responding, and what the likely impact of this will be over the next year or more. It should tell us, for example, the approach banks are taking to development finance, changes in home-buyer demand, volumes of building consents and inspections, and whether other investors are spying counter-cyclical opportunities. Over the next few months we will check in at least fortnightly and use these market soundings as a way of helping to identify the need for timely Government intervention.

We are developing a fuller range of options

55. Concurrent with this, we will be considering and providing advice on a fuller range of demand-focused options. This will include a mix of new options and improvements to existing mechanisms, based around the following channels:
- Supporting **home-buyer demand** — for example, encouraging more households to ‘stay in the market’ through ownership products such as grants, government-backed home loans, progressive home ownership etc.
 - Mitigating **sales risk** for developers — for example, being prepared to purchase some houses directly if willing buyers cannot be found.
 - Ensuring ongoing **access to development finance**, if new project viability is constrained by lenders increasing their risk margins due to the potential for further Covid-related disruptions to building activity, including to supply chains.
 - More explicit government support for **new rental supply**, including using Crown support to facilitate and leverage non-government investment (e.g. by institutional investors, iwi, community housing providers) in ‘Build to Rent’ projects.
56. Some of these channels may become more important under different economic scenarios. For example, we might first target increases to homebuyer support, but if a more pronounced demand-shock emerges and/or house prices fall a lot, then moderately cheaper interest rates or some deposit assistance may still not be enough to keep sufficient households in the market (or to keep banks lending to them), in which case more direct measures may become a more necessary focus in order to maintain sufficient housing supply.
57. Further options covering all channels will be provided by late May, following the initial advice net week on the Government Build Programme and home ownership support, and what settings you could change sooner.
58. As part of providing our further advice we will use the sector intelligence we have been gathering via the market soundings (outlined in paragraphs 52 – 54 above) and seek to understand:
- How we can structure the options to ensure support for broader government objectives, such as building the right kind of affordable housing in the right places, and ensuring target groups (e.g. vulnerable renters, first home buyers) are benefiting.
 - How we can structure the options to maximise their impact while managing the fiscal cost and risk to the Crown (e.g. thinking about the cascade of support that has outright purchase by the Crown as a ‘last option’, how to leverage non-government finance, and ensure the appropriate allocation of risk to keep developers and purchasers making good decisions).
 - The potential scale of demand-side support required under different scenarios, in order to maintain house-building at pre-crisis levels, or at least consistent with expectations of underlying demand (i.e. the demand from households for a house to live in).
59. With demand uncertainty already emerging, the sector is looking for assurance that the Government understands the risks and is exploring options to address these if required. Some proactive communication of this — for example through the Construction Sector Accord mechanism — may be useful to provide some confidence to the sector so that fewer firms make short-term employment or other decisions that may affect their medium-term capacity to deliver.

The challenge also provides opportunity

60. The corollary of Government playing a more active role in the market, even if temporarily, is that it can better use its leverage and purchasing power to support the broader housing and urban outcomes that it wants to achieve. In particular, focusing on just maintaining aggregate

supply will be insufficient to ensure affordable, low-cost housing is built to benefit a broader range of groups, people and households.

61. In addition, as well as targeting the construction of more affordable housing, increased government investment could also support the sector to improve housing quality (including sustainability and emissions reduction) and investment in quality- and productivity-enhancing innovation (e.g. pre-fabrication and off-site manufacturing).
62. This work will sit alongside related work progressing in the Building and Construction portfolio, which will also contribute to improving housing and urban development outcomes. HUD will continue to engage with MBIE on this work, given it provides the opportunity to address some long-standing barriers to more responsive housing supply and urban development. This work currently includes:
 - Accelerating regulatory change through:
 - A bill, ready for introduction, proposing changes to the Building Act to better allow for Modern Methods of Construction (MMC), introduce a product certification scheme, and makes changes to the building levy.
 - Proposed changes to the Construction Contracts Act, to provide more certainty and support for subcontractors around protections of their retentions.
 - More efficient and effective building consenting. In the context of proposed amendments to the Resource Management Act to enable fast tracking of some projects, MBIE, HUD, Treasury and DIA have committed to report to joint Ministers by the end of May 2020 on options to streamline the building consenting process and associated risk sharing.
 - Shifting the sector to more sustainable construction methods (reducing waste, greener materials, associated training requirements etc) and 'building for climate change'.
63. In addition, we will need to stay well connected with:
 - The work that DIA is undertaking on the impacts of Covid-19 on the local government sector, given the impact that residential development activity has on the demand for local authority services and investment.
 - Work underway by the Ministry of Education and Tertiary Education Commission with the Construction Sector Accord Steering Group on workforce support and training.