

In Confidence

Office of the Minister of Finance

Office of the Minister of Housing

Chair, Cabinet Economic Development Committee

Using the Build Ready Developments pathway and the Land for Housing programme to respond to changing market conditions

Proposal

- 1 This paper outlines some initial tactical responses to support the continued delivery of affordable housing where it is most needed, in the context of shifting economic conditions and recent extreme weather events.
- 2 The paper seeks agreement to:
 - 2.1 allocate additional funding to the Build Ready Developments (BRD) pathway of the Affordable Housing Fund to advance build-ready opportunities at pace, and
 - 2.2 provide a mandate for the Land for Housing Programme (LfH) to finance early-stage costs, such as consenting and civil works, to better secure a long-term pipeline of developable land.

Relation to government priorities

- 3 Securing an ongoing pipeline of housing supply, supporting the construction sector, and delivering more affordable homes are all essential to the Government priority of improving housing affordability [CAB-20-MIN-0525].

Executive Summary

- 4 Ongoing new housing supply in many areas of high need is threatened by changing market conditions, such as shifting house prices, interest rates, construction costs and market sentiment. These conditions are also negatively impacting the residential development and construction sector, which plays a vital role in New Zealand's economy and wellbeing.
- 5 The scale of repair and rebuild work required following recent flooding events will dampen the risk of large-scale job losses. However, the risk of stalled new housing delivery remains high throughout New Zealand, particularly in regional locations of high housing need where development economics were already marginal. Existing housing shortfalls in flood- and cyclone-affected areas will be compounded by an influx of rebuild workers and displaced residents competing for a limited supply of rentals.

We are well placed to respond, and have already adjusted some of our programmes

- 6 We have a comprehensive range of funds and programmes which can provide baseline construction demand, and support an ongoing supply of affordable homes (public and private, to rent and own) where they are most needed. However, it's important that we continually review our fund and programme settings to mitigate, and respond to, the impact of changing market conditions.
- 7 We have already adjusted some settings in response to changing market conditions, including the successful changes to KiwiBuild price caps and risk tolerance settings and the launch of the BRD pathway. We consider some further changes are needed to support two immediate priorities:
 - 7.1 progressing build ready developments that would not otherwise go ahead at pace to address the most pressing housing needs; and
 - 7.2 supporting a pipeline of developable land, particularly in flood affected regions where it may not be possible to rebuild houses *in situ* and there is an insufficient supply of developable land.

More funding will allow the BRD pathway to scale up its support for construction of build-ready housing developments, including in flood-affected regions

- 8 The BRD pathway can offer presale or underwrite support 'off the plans' that enables developers to arrange finance with a third party and commence housing construction while the detailed arrangements for end use are worked through. End uses can include a flexible range of tenures – including affordable housing to rent and own, and public housing.
- 9 Market intelligence suggests that demand for the pathway will be high and failure to act now could have enduring consequences for the housing pipeline in areas of high need.
- 10 We are seeking agreement to allocate an additional \$159 million to the BRD pathway to allow the programme to immediately ramp up its activities in priority areas to respond to urgent needs. This would be comprised of \$59 million (non-recyclable) from the Affordable Housing Fund and \$100 million (recyclable) from the LfH appropriation.
- 11 BRD's clearing house process will ensure BRD's activities are coordinated within HUD and with those of Kāinga Ora (including the public housing build programme, KiwiBuild and the Kāinga Ora Land Programme). This will include identifying opportunities to secure public housing for Kāinga Ora or CHPs in places where there is high demand for public housing and there are gaps in Kāinga Ora's existing contracted delivery.

The LfH programme could take a greater role in supporting development partners with early-stage costs to secure a pipeline of developable land

- 12 The BRD programme is designed to support developments that are relatively advanced in the development process (between resource consent and commencement of construction). However, for ongoing delivery of housing, it is also important that there is a pipeline of developable land coming through earlier in the process.
- 13 Through the LfH Programme, we acquire land and partner with the development sector to deliver a mix of public, affordable and market housing on that land. There are opportunities for LfH to speed up land development process in the face of changing market conditions and extreme weather events
- 14 To support this, we are seeking agreement for the LfH programme to finance or invest in early-stage costs like consents and civil works where development partners are unable to finance these costs themselves (or we do not yet have a development partner). We have already successfully piloted this approach using existing LfH funding as part of our initial Covid-19 response. These costs will be recovered when the land is on-sold to a developer.

We will need to be agile and coordinated as the situation continues to evolve

- 15 Across our funds and programmes, we need to continually adapt to changing economic conditions, as well as taking a coordinated approach to addressing what is needed to help recover from the impact of recent extreme weather events.

16 s 9(2)(f)(iv) [Redacted text block]

17 s 9(2)(f)(iv) [Redacted text block]

Background

We have been monitoring economic conditions, including the potential risk of a construction sector downturn and resulting job losses

- 18 The construction sector plays a vital role in New Zealand’s economy and wellbeing, employing over 10 percent of the workforce and producing around 6.7 percent of the country’s Gross Domestic Product. The sector is a critical part of our efforts to solve New Zealand’s housing crisis.

- 19 The last 15 months have seen increasing challenges to the residential construction and development sector. Despite historically high building consents, rising costs, declining house prices and difficulty securing presales have increased the risk that many consented housing developments will not proceed in a timely manner, if at all.
- 20 Prior to the recent extreme weather events, based on the experience following the Global Financial Crisis, officials expected that:
- 20.1 regions like Te Tai Tokerau, Bay of Plenty, Tairāwhiti, and Hawke's Bay with more marginal development economics would be disproportionately affected in such a downturn. These places are typically among the first to be affected and last to recover from economic shocks, and already have low rates of construction (relative to population) and more acute housing needs
- 20.2 main centres such as Auckland and Christchurch would be more resilient and recover faster from a downturn, though there would still likely be a slowdown.

Recent extreme weather events have altered the predicted trajectory of the sector

- 21 Cyclone Gabrielle and the Auckland Anniversary weekend floods have turned some of the previous predictions on their heads. Although the full effects of these events are still being assessed, we expect that:
- 21.1 **Securing presales will remain challenging throughout New Zealand.** Developers and new home builders are reporting that presales are down by up to 90 percent, with prospective purchasers less willing and able to commit to purchasing dwellings off the plans. We've also heard that developers are already beginning to shed staff, based on the uncertain pipeline of work ahead.
- 21.2 **However, the risk of widespread job losses will be dampened by the significant scale of repair and rebuild work.** Contractors across most sub-sectors (e.g. civil works, finishing trades, building construction) will now have a greater range of new projects and repair work to choose from, but may need to travel to do so. The Government has already introduced a new visa to bring in specialist workers from overseas to fill anticipated short-term skills shortages.
- 21.3 **Poor development economics will likely persist, particularly in regional locations where development economics were already marginal.** Many of these locations, including Te Tai Tokerau, Tairāwhiti and Hawke's Bay, have also suffered significant cyclone damage.
- 21.4 **In cyclone-impacted areas, displaced residents and incoming residential, commercial and infrastructure rebuild workers will place upwards pressure on rents** and crowd some lower income

households out of the private rental market (as we saw in post-earthquake Christchurch).

We are well placed to respond, but we need to act now to support an ongoing supply of land and housing where it is most needed

We have a number of tools at our disposal to support housing outcomes

- 22 Government collectively administers a comprehensive range of funds and programmes that have been developed in response to specific challenges and opportunities in our housing system. These initiatives target a range of cohorts and involve varying degrees of risk and cost to Government. They are focused on four broad categories of activities:
- 22.1 acquiring and/or selling land for housing and urban development (e.g. Kāinga Ora Land Programme, LfH, Kāinga Ora Large Scale Projects),
 - 22.2 funding infrastructure to enable housing intensification (e.g. Infrastructure Acceleration Fund),
 - 22.3 providing grants or subsidies to incentivise development of public, affordable, transitional and Māori housing (e.g. Whai Kāinga Whai Oranga, public housing, Affordable Rental Pathway), and
 - 22.4 de-risking affordable housing developments by underwriting or pre-purchasing properties 'off the plans' (e.g. KiwiBuild, BRD).
- 23 Collectively, these initiatives support demand for construction services and delivery of the affordable housing needed in most market contexts. The effectiveness of these initiatives varies by places and market cycles¹. They also have different cost and risk profiles.

We need to make continued refinements to maximise the impact of these tools

- 24 To act countercyclically, we may need to emphasise and tweak different tools as the context changes. Cabinet has previously agreed [CAB minute CPC-22-SUB-0017 refers] that our chief countercyclical objectives are to:
- 24.1 increase the supply of public, transitional and affordable housing (to rent and to own) where it is needed most
 - 24.2 help cushion the impact on the construction sector by supporting some construction demand

¹ For example, KiwiBuild underwrites work better in a falling market, and in areas where there is likely to be good demand from first home buyers for these houses once they are built (e.g. main urban areas). In contrast, subsidised programmes (e.g. Whai Kāinga Whai Oranga) are more likely to be needed in regional locations where there is a significant gap between the cost of building a new home and the amount low-to-moderate income households can afford to pay.

- 24.3 support the Government's broader objectives and priorities for housing and urban development.
- 25 In areas impacted by recent extreme weather events, the Government is already providing temporary housing assistance to displaced households. This is a critical immediate priority. However, we also need to act quickly to support permanent housing supply in the current changing market conditions.
- 26 We have already acted in response to these changing conditions, including recent changes to KiwiBuild price caps and risk tolerance settings to ensure the initiative could continue to be effective in a changing market. KiwiBuild can be particularly effective in major centres like Auckland, where there is a sizable pool of first home buyers. s 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
- 27 We consider some further changes are needed to two other programmes to better support two immediate priorities:
- 27.1 progressing build ready developments at pace to address the most pressing medium-term housing needs in vulnerable places; and
- 27.2 supporting an ongoing pipeline of developable land, particularly in flood-affected areas.
- 28 Given the long timeframes for housing development and construction, it will be up to 18 months before actions we take now can lead to the first new, permanent housing where it is needed. But it will take much longer if we leave it to the market, given current market conditions and issues around access to finance.

Addressing the most pressing medium-term housing needs by advancing build-ready sites at pace

- 29 We propose that the BRD pathway continue to support at-risk developments in regions of high need where market conditions are threatening the delivery of new housing supply. We intend for the pathway to focus on regions that have experienced the impacts of recent severe weather events.
- 30 BRD, established by Cabinet last year [CAB minutes CPC-22-MIN-0017 and CBC-22-MIN-0042 refer], has two key functions:
- 30.1 a **clearinghouse process** to receive and assess approaches from developers wishing to sell land or seek government support to progress developments that are unlikely to be built without government assistance. It also refers proposals that meet relevant criteria to either an existing government land programme or consideration for a repurchase or underwrite decision
- 30.2 a **fast-track investment process** under which the Crown may commit to pre-purchasing (or underwriting the sale of) suitable homes "off the plans". This means developers wanting to develop their own land can

meet their financiers' presale requirements, and commence construction while the detailed arrangements to finalise the dwellings' end-use (e.g. as public housing, affordable rentals or first homes) are being worked through with other government funds and programmes.

31 s 9(2)(j) [redacted]
[redacted]
[redacted]
[redacted]
[redacted]

Funding for the BRD pathway will soon be exhausted

32 It is important that the BRD pathway can scale up as soon as possible. This will enable us to intervene at the time when we expect an economic downturn and the impacts of extreme weather events to significantly affect our ability to deliver new housing supply, particularly affordable housing, when and where it is most needed.

33 It will also provide an opportunity to offer some certainty of continued Government investment to the sector, at a time when many developers and new home builders are facing an uncertain pipeline of work.

34 BRD was launched in late 2022 with up to \$65 million available for underwrite and prepurchase commitments and \$10 million for expenses including write downs and holding costs, with the portion available for commitments now almost fully allocated across six projects. Ministers have approved \$59.4 million of underwrites and pre-purchases, which will unlock 107 homes in Manurewa, Ngāruawāhia, Hastings, Levin, Waikanae and Lower Hutt.

35 Officials continue to receive registrations of interest from developers. A further two to three developments could be supported (based on a calculation that not all underwrites will be triggered) before funding is exhausted. Delivery of some of the homes is intended for the end of 2023.

There is funding available in the Affordable Housing Fund and Land for Housing appropriations that could be allocated to the BRD pathway

36 We are seeking Cabinet's agreement to allocate \$59 million of non-recyclable funding from the Affordable Housing Fund towards the BRD pathway. s 9(2)(f) [redacted]
[redacted] (iv)
[redacted]

37 We are also seeking Cabinet's agreement to allocate \$100 million of recyclable funding from the LfH Programme to the BRD Pathway. s [redacted]
[redacted] 9(2)
[redacted]

² Of the initial \$300 million non-recyclable funding: \$150 million has been allocated to the Affordable Rental Pathway, \$75 million to the Build Ready Development Pathway, s 9(2)(f)(iv) [redacted]
[redacted]
[redacted]

s 9(2)(j)

- 38 This additional \$159 million in funding is a proportionate measure to allow the BRD to scale up its activities with more prepurchase agreements and underwrites to keep developments moving.
- 39 The scale of delivery that can be achieved with the additional funding for BRD will depend on a range of factors, including the types and locations of homes, and the type and degree of support that is required. Given that context, we conservatively estimate that we could initially unlock 185 homes. In time, up to double this number of homes may be able to be supported, based on the recyclable nature of the funds. These funds will ultimately be returned to the Crown, either after 10 years or at the conclusion of the BRD programme.
- 40 As a rough estimate, the additional funding will initially support the equivalent of 740 full-time residential development and construction jobs for one year.

The additional funding will allow a more strategic approach to geographic targeting and market warming

- 41 With the additional \$159 million, officials will have more capacity to be proactive in soliciting proposals, particularly from regions impacted by extreme weather events. Officials intend to run a four-to-six-week sector engagement before we open the call for applications, to ensure an optimal mix of projects that align with our objectives.
- 42 There will be no geographic restrictions on applications, though the focus on priority locations will be made clear to applicants. Once launched, officials will consider relative housing need when triaging proposals.
- 43 It is too early to tell whether the additional funding for BRD will be sufficient. However, more active promotion of the central clearing house will provide a better gauge of how many developers require support, and the types of housing that their developments could deliver.
- 44 It is expected the additional funding will be required out to 2025/26. This is due to the lead time between when an underwrite or prepurchase deal is finalised and when the development is completed and the onsale is finalised. For example, a deal struck in early 2024 may take 18 months to complete and onsell, enabling the funding commitment to be recycled back to the BRD pathway in the Affordable Housing Fund.

The BRD clearinghouse plays an important role in coordinating BRD's activities with other government funds and programmes in places, including public housing

- 45 It is critical that our different funds and programmes are aligned and complement each other. The clearing house process agreed when BRD was established provides a mechanism to ensure BRD's activities are coordinated within HUD (including LfH) and with those of Kāinga Ora (including the public housing build programme, KiwiBuild and the Kāinga Ora Land Programme).

This will be even more important if BRD is to scale up its activities with the additional funding.

- 46 The clearing house process is based on timely and open communication between the agencies and a 'One Government' approach to supporting appropriate developments. It can:
 - 46.1 designate the most appropriate agency to take the lead on further interaction with the development (note that a decline from one agency does not preclude the other agency from considering a proposal)
 - 46.2 check potential BRD proposals against the Kāinga Ora Public Housing and KiwiBuild opportunity lists to reduce assessment duplication and provide information on other planned housing supply in the area of a potential development
 - 46.3 enable a combined approach between the different teams to support overall delivery (for instance, when a KiwiBuild underwrite alone may not unlock a development due to a lack of pre-sales on the portion of open market of homes).

47 s 9(2)(f)(iv) [Redacted]

Impact on the delivery of public housing in the regions

48 The Public Housing Plan focuses on building new public housing, with Kāinga Ora leading delivery complemented by Community Housing Providers (CHPs), Māori and iwi. While the programme is not designed to support construction sector capacity, it can play an important role in signalling an ongoing pipeline of work. While there has been a focus on regional delivery, it has been challenging in some areas to date. Annex 1 sets out the public housing pipeline for delivery by June 2024.

49 s 9(2)(f)(iv) [Redacted]

50 BRD can support public housing delivery momentum without competing with Kāinga Ora, particularly in regional areas where Kāinga Ora does not have a presence or there has been under-delivery in public housing to date. This would include liaison between HUD and Kāinga Ora on opportunities to

secure public housing in build ready developments where it is most needed, and where it could support or complement land acquisitions (both future and those already in the pipeline).

- 51 The clearing house process will also ensure that BRD remains a conduit to complement and support delivery of public housing, rather than compete with public housing delivery, within agreed public housing delivery and funding settings.

Using the LfH programme to support an ongoing pipeline of build-ready land by investing in recoverable upfront consenting and infrastructure costs

Our land programmes can support a pipeline of land for future housing

- 52 In addition to supporting build-ready developments, Government will also need to provide support earlier in the land development process to ensure an adequate supply of land for future house building. This is particularly important for cyclone recovery, as in many cases it will not be possible to rebuild houses on their existing sites.
- 53 Providing additional support at this early stage of the process will help to further mitigate some of the current uncertainty in the market, providing a clearer pipeline of development for our iwi and private development partners, particularly as securing finance is becoming more difficult.
- 54 The LfH Programme can play a key role in facilitating this. It acquires land from, and works in partnership with, private developers and iwi to develop a mix of public, affordable and market housing.

Supporting development partners with early-stage costs can accelerate delivery

- 55 Under its default development model, LfH on-sells land to its development partners (on a deferred settlement basis). Partners are required to use their own financing or funding to develop that land in accordance with certain minimum requirements (relating to the pace, density and mix of housing) agreed by the Ministers of Finance and Housing.
- 56 This means development partners generally need to pay for upfront land development costs such as consenting, civil earthworks and infrastructure. Many developers will not be able to access finance to meet these costs in the current economic climate, which puts the longer-term pipeline of build-ready land at risk.

- 57 s 9(2)(j)
[Redacted text]

The LfH Programme has trialled the financing of early stage costs to bring on developments at pace, and it should be expanded to support delivery of housing where it is needed

58 This approach was successfully trialled as part of the COVID-19 response agreed to by Cabinet. The Ministers of Finance and Housing were delegated authority to approve up to \$50 million to pay for preliminary works. s [redacted]
 [redacted] 9(2)
 [redacted] (j)
 [redacted]
 [redacted]
 [redacted]
 [redacted]

59 We are seeking Cabinet approval to expand the use of this mechanism beyond the current \$50 million programme. These investments will be made from the existing LfH appropriations. No additional funding is required at this stage, though expanded use of up-front investment will accelerate the rate at which the appropriation is drawn down. The costs of the up-front investment are to be recovered by the Crown when the land is on-sold.

60 We are seeking agreement for the Ministers of Housing and Finance to approve allocations between up-front investments and land acquisitions within the LfH appropriations as needed, and to make necessary technical appropriations, in response to needs and opportunities. These decisions would be made on a project-by-project basis in accordance with the programme’s objectives, already agreed by Cabinet.

61 s 9(2)(f)(iv) [redacted]
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 [redacted]

Risks

| Risk | Mitigation |
|---|---|
| Overstimulating demand for construction services, particularly in places where the sector already has little spare capacity | There are inherent tradeoffs between managing other demands on the sector and meeting acute housing needs. Investment decisions under the BRD pathway will consider local construction sector capacity. |
| Underestimating the slowdown of development and construction activity | We are continuing to engage with the sector and monitor key indicators, and will provide further advice if we consider changes or additional interventions are needed |
| Delivery of new housing in cyclone-impacted areas takes away limited construction sector resources from cyclone repair work | Investment decisions made by joint Ministers will be informed by the latest data and information on the state of the sector, including considering how to balance the competing workforce demands for cyclone repairs and for |

| | |
|---|--|
| | new housing delivery. This will involve consultation with DPMC's Cyclone Recovery Unit, as appropriate. |
| The Land for Housing programme is unable to recover costs associated with financing upfront consenting and infrastructure costs | This risk is considered low, given that the Crown retains title to the land while these works (which should increase the value of the land) are being undertaken, and the money is advanced in progress based instalments s 9(2)(j) |
| Market confusion between the Land for Housing programme and the Kāinga Ora Land Programme, and the KiwiBuild underwrite and the BRD pathway | The clearing house function will help ensure that potential developments are directed to the most appropriate programme. s 9(2)(f)(iv) |
| The Land for Housing programme acquires flood-prone land | Natural hazards, including flooding, are typically considered as part of site due diligence before recommendations go to Ministers on acquisitions. As part of the due diligence process, any sites with flooding issues that could not be mitigated would not progress to acquisition. Note that the assumptions that go into these assessments are provided by councils. |

Next steps

We will continue to review policy settings in response to economic headwinds, and to support recovery from recent extreme weather events

62 s 9(2)(f)(iv)

63 s 9(2)(f)(iv)

64 s 9(2)(f)(iv)

Implementation

- 65 The BRD pathway is already operational. Additional funding would allow officials to seek new and relevant proposals and continue to provide further support, with a focus on quality proposals in priority locations.
- 66 Once confirmed, the LfH programme will operationalise its expanded mandate within standard operating procedures, including Ministerial approval of development agreements.

Financial Implications

- 67 The proposed allocation to the BRD pathway utilises existing appropriations. Re-allocation of funding is expedient to respond to the challenges presented by changing market conditions and extreme weather events. The \$100 million recyclable component from LfH is intended to be recycled within the BRD programme and will not be transferred back to the LfH appropriation.
- 68 Based on experience to date, we anticipate that around \$32 million of the additional \$59 million non-recyclable funding from the Affordable Housing Fund will need to be used for operating expenses such as holding costs, write downs and shortfall payments, leaving \$27 million available for pre-purchases or underwrites on a recyclable basis (in addition to the \$100 million recyclable funding from LfH), with the intention to on-sell these properties to Community Housing Providers and other partners. We are seeking delegated authority to allocate funding depending on opportunities and needs.
- 69 The proposed expansion of early-stage investment through the LfH programme would not require additional capital funding. Payments would be able to be drawn down through a Fiscally Neutral Adjustment from the Land for Housing Programme appropriation to the capital Land for Housing – Developer Loans appropriation. This would be recouped through the sale of land and at such a time the sales proceeds would be used to top up the Land for Housing Programme appropriation. Technical appropriations would need to be established for the fair value loss on these investments, and this will be approved by the Ministers of Finance and Housing when approving Development Agreements for individual sites. Expanded use of these payments will accelerate the rate at which the appropriation is drawn down.

Legislative Implications

- 70 This paper does not have any direct legislative implications.

Impact Analysis

Regulatory Impact Statement

- 71 The impact analysis requirements do not apply.

Climate Implications of Policy Assessment

- 72 The residential development and construction sector is a known contributor to New Zealand's greenhouse gas emissions. The activities supported through the Land for Housing and Build Ready Developments programmes will have associated embodied and operational emissions. However, both programmes also give Government the ability to support urban development and construction approaches that support our climate objectives, particularly higher density developments that make more efficient use of land and infrastructure and support more sustainable transport use through proximity to public transit, employment, and amenities. These programmes also provide opportunities to build homes and developments that are more resilient to the impacts of climate change, including flooding.

Population Implications

- 73 These proposals are likely to positively impact those groups that are currently renting and/or unable to buy a home. The BRD Pathway includes an assessment criterion that will reward projects in areas where housing need is greater. The measures proposed in this paper should benefit:
- 73.1 Māori and Pacific people, who are less likely to own their own home. In 2018, the proportion of Māori and Pacific people living in owner-occupied homes were 47.2 percent and 35.1 percent respectively, compared to the total population figure of 64.3 percent. Government is also taking other measures to improve housing for Māori and Pacific, including through Whai Kāinga Whai Oranga, Progressive Home Ownership, and our public housing build programme.
 - 73.2 Younger people, where declining home ownership rates have been sharper.
 - 73.3 Disabled people, particularly those with accessibility needs, who often experience more difficulty finding a home. The proposals will increase the supply of affordable housing for ownership and rent. Kāinga Ora has targets around building new public homes to accessibility standards and KiwiBuild includes settings to support delivery of homes with accessibility features.
 - 73.4 Women, who are currently overrepresented on the public housing register and in the emergency housing system. Housing stress is particularly acute for sole parents, who are overwhelmingly women (84 percent at Census 2018) and are particularly at risk of poor outcomes in the rental and housing markets due to the cost of raising children compared to the income from a single job or benefit. Sole parents will typically be competing with dual-parent (and potentially dual-income) families for similar-sized homes (depending on the number and age of children). According to StatsNZ, eighteen percent of sole parents stated that they did not have enough money to meet every day needs in 2020. This compared with only 5.2 percent of partnered parents and 6.2 percent of those who were not a parent to a dependent child.

Human Rights

74 There is no inconsistency with the Bill of Rights or Human Rights Acts.

Consultation

75 Consultation has occurred with The Treasury, the Department of Prime Minister and Cabinet, Kāinga Ora-Homes and Communities, and the Ministry of Business, Innovation and Employment. Advice from officials has also been informed by insights from regular engagements with a range of sector participants and experts.

Communications

76 We intend to announce the additional funding for the BRD pathway after officials have run a market warming process, subject to direction from the Minister of Housing.

77 Key details will also be made available on the HUD website.

Proactive Release

78 The Minister of Housing intends to proactively release this paper at, or around, the time that further public announcements are made.

Recommendations

The Ministers recommend that the Committee:

- 1 **note** that Government has been monitoring, and responding to, changing economic conditions and the potential risk of a construction sector downturn, particularly in regions with more marginal development economics
- 2 **note** that recent severe weather events will dampen the risk of widespread job losses in the construction sector, but the risk of stalled housing delivery, particularly of affordable housing, remains high, particularly outside of the major cities
- 3 **agree** that two key priorities are to progress build ready developments at pace to address the most pressing housing needs, and to support a pipeline of developable land, particularly in flood affected regions

Using the Build Ready Developments pathway to respond to pressing housing needs

- 4 **note** the Build Ready Developments pathway is particularly well-placed to respond to the most pressing medium-term housing needs in priority regions by advancing build-ready sites at pace, particularly in the period before insurance funded rebuilds commence
- 5 **agree** that the Build Ready Developments pathway continue its focus on regions of highest housing need where market conditions are threatening the

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delivery of new housing supply, but with an increased, non-exclusive emphasis on opportunities to support recovery from extreme weather events

- 6 **note** that the initial funding allocated to the Build Ready Developments pathway is almost fully committed and further funding is needed to scale up

Expanded mandate for the Land for Housing programme

- 7 **note** that our land programmes will play a critical role to ensure an ongoing supply of developable land in priority regions
- 8 **note** that with changing market conditions developers face significant barriers accessing finance for early costs like consents and infrastructure, particularly in some priority regions where development economics are poor
- 9 **note** that in April 2020 the Land for Housing programme was allocated \$50 million towards early-stage costs like infrastructure and civil earthworks, resulting in developer loans, which successfully accelerated the delivery of hundreds of homes, including public homes and KiwiBuild homes
- 10 **agree** that the use of this mechanism now be expanded in order to provide additional financing for these early-stage costs, in the form of either loans to development partners, or by the Crown directly contracting these activities
- 11 **agree** the Minister of Finance and Minister of Housing be given authority to allocate existing Land for Housing funding towards additional loans as needed
- 12 **note** that these costs will be recovered when land is on-sold to delivery partners
- 13 **note** that the Minister of Finance has the authority to create any necessary technical fair value loss appropriations for these loans as needed
- 14 **agree** that regions facing constrained land supply for new housing, including flood-affected regions, will be a priority for this investment, though no geographic restrictions will be placed on the use of this mechanism

Financial recommendations

- 15 **agree** to allocate \$59 million of non-recyclable funding to the Build Ready Developments pathway within the Affordable Housing Fund appropriation and for any funding not allocated to operating costs like holding costs, write downs, or shortfall payments to be recycled within the Affordable Housing Fund MYA.
- 16 **note** if you agree to recommendation 15 then any funding used for prepurchase or triggered underwrites will be recycled within the Affordable Housing Fund MYA.

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- 17 **agree** to delegate authority to the Minister of Housing and Minister of Finance to allocate this new funding between underwrites, pre-purchase agreements, or other costs like write downs or shortfall payments, as required
- 18 **agree** to allocate \$100 million of recyclable funding from the Land for Housing appropriation to the Build Ready Developments pathway as a fiscally neutral adjustment, to be recyclable within the Build Ready Developments pathway in the Affordable Housing Fund MYA:

| | <i>\$m – increase/(decrease)</i> | | |
|---|----------------------------------|---------------------------|-------------------------------|
| Vote Housing and Urban Development Minister of Housing | 2022/23 | 2023/24 to 2025/26 | 2026/27 & outyears |
| Non-Departmental Output Expenses: | | | |
| Affordable Housing Fund MYA | - | 100.000 | - |
| Land for Housing Programme MYA | - | (100.000) | - |

- 19 **note** that the indicative funding profile for this transfer in the recommendation above is as follows:

| | <i>\$m – increase/(decrease)</i> | | | | |
|------------------------------------|----------------------------------|---------|---------|---------|---------|
| Indicative annual spending profile | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
| | - | 10.000 | 45.000 | 45.000 | - |

- 20 **note** that recommendation 15 above, means you agree to acquire inventory which will be recognised as an expense and therefore requires an appropriation once on-sold to third parties, which will be offset by proceeds on sales from third parties
- 21 **note** the indicative profile of sale proceeds for the on-selling of the proposed underwritten properties are as follows, with a corresponding impact on the operating balance and net debt:

| | <i>\$m – increase/(decrease)</i> | | | | |
|---|----------------------------------|----------------|----------------|----------------|----------------|
| Vote Housing and Urban Development Minister of Housing | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
| Non-Tax Revenue: | | | | | |
| Sale of Developments Underwritten | - | 12.700 | 57.150 | 57.150 | - |

IN CONFIDENCE

- 22 **approve** the following changes to appropriations to provide for recommendation 18, with a corresponding impact on the operating balance and net core Crown debt:

| | <i>\$m – increase/(decrease)</i> | | | | |
|---|----------------------------------|-----------------------|-----------------------|-----------------------|--------------------------------------|
| <i>Vote Housing and Urban Development Minister of Housing</i> | <i>2022/23</i> | <i>2023/24</i> | <i>2024/25</i> | <i>2025/26</i> | <i>2026/27 & outyears</i> |
| Multi-Category Expenses and Capital Expenditure: | | | | | |
| Non-departmental Other Expense | | | | | |
| Housing Programme Fair Value Impairment Loss and Inventory Disposal MCA | | | | | |
| Sale of Developments Underwritten – Costs | - | 12.700 | 57.150 | 57.150 | - |

- 23 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply

Next steps

- 24 **note** officials will continue to monitor key indicators and engage with the sector, and will advise Ministers of recommended actions or additional funding requirements as the situation develops.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Minister of Housing

