



Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Residential Development Underwrite (RDU)

Frequently Asked Questions (FAQ)

3 October 2024

This frequently asked questions document forms part of and should be read alongside the Residential Development Underwrite Information Document. If developers are unsure of the meaning of any terms, definitions can be found in the Terms and Conditions in the Appendix A of the Information Document.

1. What is an underwrite?

Developers often need to secure pre-sales on a proportion of houses in a development before they can access bank finance. This is particularly true for larger, medium to high-density developments such as apartments. Due to the housing market downturn and high interest rates, some developers are not able to achieve these presales from the market. An underwrite provides an assurance to financiers that allows them to lend development finance for the construction.

An underwrite is a commitment (subject to the terms of the underwrite being complied with) from the Crown to purchase houses, up to a specified number, if the developer is unable to sell some or any of them to the market after an agreed sales and marketing period.

The underwrite price will be set at a discount to the market value of the houses, to ensure developers are appropriately incentivised to sell underwritten houses to the market.

2. Is the Residential Development Underwrite (RDU) just for main centres?

The primary objective is to support housing supply with the least risk and lowest net cost to the Crown. As buyers are expected to return to the main centres (Auckland, Hamilton, Tauranga, Wellington, Christchurch) first, we expect developments in these locations will be able to demonstrate the least likelihood that the underwrites will triggered.

Successful developments will have good feasibility, a reasonable level of developer equity, produce housing at a price point where there is strong buyer demand and provide a reasonable underwrite discount to the Crown. Applications from the regions that can demonstrate these attributes will also be considered.

3. What process is used to determine the market value of the homes?

The market value of the houses is set by a registered valuation. Developers will provide a recent registered valuation. HUD will then have the developer's valuation peer reviewed and may commission its own valuation as part of our assessment process. In cases where there is a registered valuation from both HUD and the Developer, the lower of the valuations is used to set the market value of the houses.

4. What are the metrics to work out the underwrite discount percentage?

When proposing the underwrite discount percentage in an application, developers should consider evidenced funders requirements, the level of developer equity, the

overall development feasibility, and the risk of the underwrite being triggered.

5. Are there any deposits?

No fund will be paid to developers unless the houses are fully completed but remain unsold after an agreed sales and marketing period.

6. How long will I have to market the houses before I can trigger the RDU?

This will depend on the level of risk the development presents to the Crown. We will agree a time period and marketing plan with each successful applicant.

7. How is RDU different to KiwiBuild?

The RDU has no buyer restrictions and no price caps. This is intended to enable a wider pool of buyers, reducing the risk of underwrites being triggered.

8. Can developers who have an existing KiwiBuild or Build Ready Developments underwrite apply?

Developments that already have a Crown underwrite (such as KiwiBuild) are not eligible to receive the RDU for further stages of development.

9. Can developers who have multiple developments apply multiple times?

Yes, If developers make multiple applications, they need to be made in priority order, with the reasoning, for HUD to assess.

10. What prices of houses will the RDU support?

The assessment of risk and net cost will consider several factors including:

- the average price of the underwritten houses (the lower, the better)
- the proportion of houses in the development or stage that the Crown needs to underwrite (the lower, the better)
- the underwriting discount relative to market value (the higher the better, depending on the project).

This means developments offering more affordable housing, that need a lower percentage of underwrites and offer higher underwrite discounts, are more likely to be successful.

11. What happens to the houses if the underwrite is triggered – will any be used for social housing?

There are a range of options for houses in the event an underwrite is triggered and the Crown acquires the houses. These include market sales, on-sells to iwi or housing providers for affordable rentals or social housing. The specifics of the development, the local need and the market at the time, will determine the outcome.

12. Can not-for-profit housing organisations, iwi housing organisation or

Community Housing Providers apply for an underwrite?

The underwrite is for market sales only. There are no restrictions on who can apply.

13. My development is in the resource consent process, should I apply for the RDU?

The development is not currently eligible, you may apply once it has received resource consent.

14. Does the financial feasibility of my development need to be completed or reviewed by a Quantity Surveyor review?

HUD will place more confidence in financial feasibility models that have been reviewed or completed by an independent Quantity Surveyor.