



File No. 1718-0691

19 JAN 2018

Ms Lisa Owen  
The Nation  
[lisaowen@mediaworks.co.nz](mailto:lisaowen@mediaworks.co.nz)

Dear Ms Owen

Thank you for your email of 16 November 2017 requesting the following information under the Official Information Act 1982 (the Act):

*Any and all advice, reports, memorandums, and communication provided to the Minister on:*

- *the Kiwibuild policy*
- *the impacts of the Kiwibuild policy on the construction sector*
- *the impacts of the Kiwibuild policy on the construction workforce*
- *annual construction projections for the next 10 years*

*Any correspondence or reports by the Ministry as a result of consultation on the Kiwibuild policy with parties involved in the construction sector.*

*This should include any advice or reports offering assessments on how achievable the goals of Kiwibuild are, including but not limited to construction numbers, labour, costs and time frame. This should also include advice or information that is known by the Minister but which may not yet be written down. Please include a summary of this material.*

In response to your request, nine documents have been found within the scope of your request, of which seven are being released to you. They are summarised in the attached document schedule.

Please note that some information has been redacted as it falls outside the scope of your request, and some information has been withheld under the following sections of the Act:

- |            |  |
|------------|--|
| 9(2)(a)    | to protect the privacy of natural persons  |
| 9(2)(g)(i) | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty |
| 9(2)(j)    | to enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations   |

The remaining two documents within the scope of your request have been refused under section 18(d) of the Act as it is publicly available on the Ministry of Business, Innovation and Employment's website <http://www.mbie.govt.nz/about/who-we-are/our-publications/briefings-to-incoming-ministers/2017-BIMs>.

**Building, Resources & Markets**

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In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of my decision by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details are:

The Ombudsman  
Office of the Ombudsman  
PO Box 10152  
WELLINGTON 6143

0800 802 602  
[www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz)

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Murray Nash', written over a horizontal line.

Murray Nash  
Manager, KiwiBuild Establishment  
Housing and Urban Branch

## Documents Being Released

Ref #	Document Date	Document Title	Sections of the Act used
1	1 November 2017	Briefing: Capacity of the construction sector to undertake Kiwibuild	9(2)(a)
2	1 November 2017	Briefing: Implementing KiwiBuild	9(2)(a) 9(2)(g)(i)
3	6 November 2017	Briefing: Leveraging and enhancing the existing Crown Land Development Programme to contribute to KiwiBuild objectives	9(2)(a) 9(2)(j)
4	13 November 2017	Briefing: Stocktake of Auckland housing developments	9(2)(a)
5	16 November 2017	Briefing: Legislation to establish a national urban development authority and empower complex development projects	9(2)(a)
6	16 November 2017	Email: Oral PQ KiwiBuild	9(2)(a)
7		Slide Pack: Housing presentation for 11.30am 20 November 2017 meeting	

## Document Being Withheld

Ref #	Document Date	Document Title	Sections of the Act used
8	25 October 2017	Briefing to Incoming Minister	18(d)
9		Slide Pack: Housing – Delivering your housing programme	18(d)



## BRIEFING

### Capacity of the construction sector to undertake Kiwibuild

Date:	1 November 2017	Priority:	Urgent
Security classification:	In Confidence	Tracking number:	0645 17-18

#### Actions sought

Hon Phil Twyford  
Minister of Housing and Urban Development

Note the conclusions of this briefing on the increasing demand for construction occupations, and the potential shortfalls in the availability of key skills.

Note that officials will provide you with more detailed advice later this month on a set of options to grow and develop the construction workforce, and other potential options to alleviate capacity constraints.

Agree to circulate this briefing to your colleagues the Minister of Education, the Minister of Employment, the Minister of Social Development, and the Minister of Immigration.

Hon Jenny Salesa  
Associate Minister of Housing and Urban Development

Note this briefing.

#### Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Jeet Sheth	Manager, Construction & Housing Policy 1	04 896 5883	s 9(2)(a) ✓
Brett Parker	Senior Policy Advisor	04 896 5126	

#### The following departments/agencies have been consulted on this paper

Treasury, Ministry of Education, Tertiary Education Commission, Ministry of Social Development, Housing New Zealand.

Minister's office to complete:

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

Comments



## BRIEFING

### Capacity of the construction sector to undertake Kiwibuild

<b>Date:</b>	1 November 2017	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0645 17-18

#### Executive summary

You have requested a initial analysis of the capacity of the construction sector to deliver the Kiwibuild programme, including the implications for the construction labour force.

The residential construction sector appears to be reaching its capacity limits, as indicated by plateauing levels of new dwelling consents, including in Auckland. Most residential building firms are small and so have limited capacity to produce bespoke detached dwellings.

The increased demand for construction labour is leading to the labour cost index for the sector trending significantly above the all-industries average. Recent surveys of the sector have consistently reported substantial difficulties by employers in attracting skilled staff, and there are concerns about the quality of supervision of restricted building work.

Other key capacity constraints include rising prices for construction materials, and the reported tightening availability of finance. Capacity utilisation (that is, whether builders can increase production without raising their unit costs) is reported to be at peak levels.

The rise in costs, wages and capacity utilisation is contributing to increased residential construction output prices, which have risen 28 per cent from 2010 to 2017, well above the 11 per cent all-industries average.

The phased implementation of Kiwibuild will increase the supply of dwellings, from the current forecast peak of 34,500 in 2020 to 40,400 in 2020, rising to 44,600 dwellings in 2022. Kiwibuild will therefore increase the national demand for construction-related occupations. Without intervention, by 2020 the total national shortfall of demand over supply could amount to over 46,000 workers (8 per cent of the construction-related occupations workforce), before declining to a shortfall of 33,000 workers in 2022 (6 per cent of the workforce).

Construction apprenticeship sign-ups and completions are both rising, with a total of 11,000 apprenticeships in progress as at mid-2017. There has also been an increased trend of work visas approved for people with construction-related occupations, rising to 11,900 during the year ended 30 June 2017.

A series of specific policy initiatives have been applied to increase the capacity of the construction sector. These include Job Fairs in Australia, targeted immigration changes following the Christchurch earthquake, grants for apprentices, and workforce engagement. The Ministry of Business, Innovation and Employment will lead the drafting of a follow-up cross-agency briefing, providing advice on a set of policy options to grow and develop the construction workforce. This advice will specifically consider the *Kiwibuild Visa* and *Dole for Apprenticeships* policies. Advice will also be provided on other options to alleviate capacity constraints.

## Recommendations

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It is recommended that you:

- 1) **Note** that there is a historically high amount of construction investment being put in place, and a series of measures indicate the sector is close to its capacity limits

*Noted*

- 2) **Note** the conclusions of this briefing on the increasing demand for construction occupations, and the potential shortfalls in the availability of skilled workers

*Noted*

- 3) **Note** that the Ministry of Business, Innovation and Employment will provide you with further detailed advice later this month on a set of policy options to grow and develop the construction workforce, and other options to alleviate capacity constraints

*Noted*

- 4) **Agree** to provide a copy of this briefing to your colleagues the Minister of Education, the Minister of Employment, the Minister of Social Development, and the Minister of Immigration, for their information.

*Agree / Disagree / Discuss*

Jo Doyle  
**General Manager, Construction and Housing Markets**  
Building, Resources and Markets

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RELEASED UNDER THE OFFICIAL INFORMATION ACT

## **Purpose**

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1. You have requested a initial analysis of the capacity of the construction sector to deliver the Kiwibuild programme. This briefing presents an overview of the capacity constraints affecting the sector, and the projected implications for the construction labour force of phasing in Kiwibuild. Previous and current policies supporting construction workforce development are outlined.

## **Construction performance is a key part of housing affordability**

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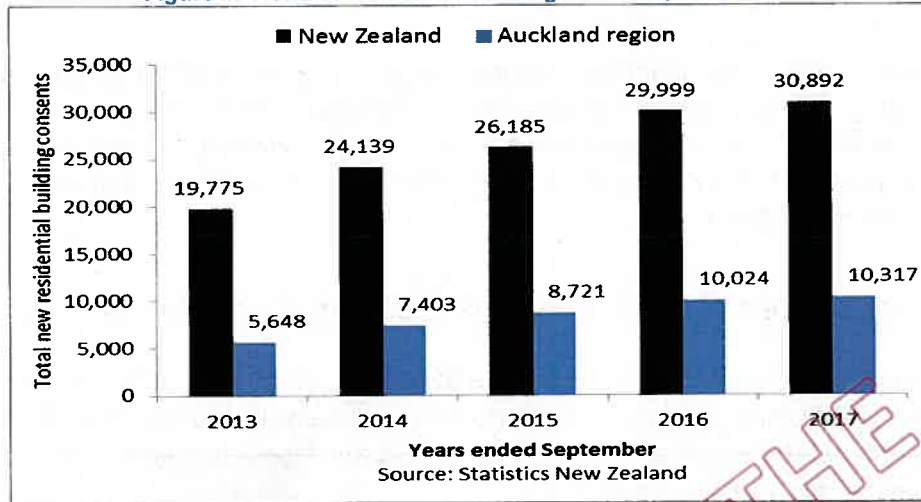
2. Construction markets are important because they are a critical driver of the price and quality of housing. If construction markets are performing optimally, the construction component of the price of a new house reflects the cost of product and labour inputs, incorporating a reasonable margin for the builder.
3. In New Zealand the key characteristics of this market are the fragmented nature of the sector, low labour productivity, low skills, and lack of competition in the supply of building materials and amongst large construction firms.
4. Capacity constraints and poor productivity performance has been fuelled by a pronounced boom-bust problem, with construction cycles greater in amplitude than those in the general economy. This means it takes time to gear up the sector to deliver more housing following a down-cycle, and the lack of confidence in the duration of an up-cycle limits sector investment in developing scale, innovation, productivity and skills. This dynamic also flows through to associated services such as inspection and consenting by councils. Constraints in service delivery can impose significant time costs and delays on building projects, and tend to discourage innovation in building products and techniques.
5. There are also concerns that churn and fragmentation in the sector leads to poor allocation of risk and lessens incentives for quality building. This has not been helped by a building regulatory system that — because of issues such as leaky homes and earthquakes — has evolved to be more rules based and risk averse.

## **Capacity constraints in construction are apparent**

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6. Construction investment has significantly increased since the trough in 2010, and is forecast to rise further over the years to 2022 (see Appendix 1). However, the residential construction sector appears to be reaching its capacity limits, as indicated by plateauing levels of new dwelling consents, including in Auckland (Figure 1). The current delivery of 30,892 dwelling consents is largely based on bespoke detached dwellings, which are built by a fragmented sector of about 4,035 building companies.

Figure 1: Trend of residential building consents, 2013 - 2017

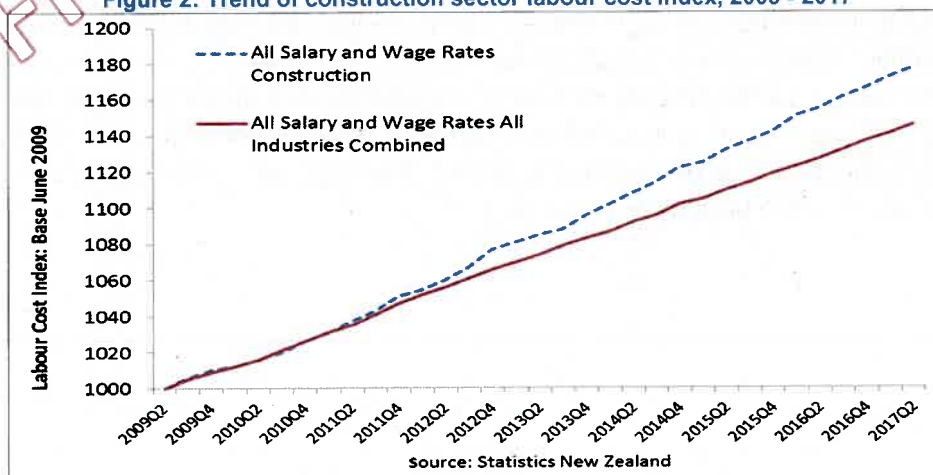


- Analysis of building consent data shows that 25 large firms each construct more than 100 dwellings a year – about 24 per cent of total dwellings consented. At the other end of the scale, 3,100 small builders each construct 1 to 5 detached houses a year, or 26 per cent of total dwellings (BRANZ, 2017).
- The rise in apartment developments in Auckland is stimulating interest from large firms in the commercial building sector (apartment consents in the Auckland region rose from 498 in the year ended September 2013, to 2,309 in the year ended September 2017).

*Demand for construction labour is leading to rising labour costs for the sector*

- The following section focuses on construction labour costs and information on skill shortfalls. Appendix 2 summarises the trends for materials prices, access to finance, and capacity utilisation & investment in expansion.
- Since 2011 there has been a marked rise in employment in the construction industry, and growth in salary and wage rates compared to 'all industries'. Employment has grown an overall 46 per cent, from a trough of 161,700 in 2011Q1 to 235,300 people as at 2017Q2 (Statistics New Zealand). The increasing demand for workers has led to the labour cost index for the construction sector rising faster than the 'all industries' average (Figure 2).

Figure 2: Trend of construction sector labour cost index, 2009 - 2017





11. Recent surveys of the construction sector have consistently reported difficulties by employers in attracting skilled staff:

- *2017 AECOM Sentiment: Infrastructure and Buildings Construction Survey* (346 sector leaders) found that 44 per cent of respondents identified 'Skills and Materials Shortages' as a significant industry challenge.
- *2017 Hays Construction and New Zealand Institute of Building Salary Guide* (350 employers) found that over 75 per cent of respondents reported it was 'hard/very difficult' to recruit construction managers, project managers, and site managers; and 53 per cent of employers had increased salaries by between 3 to 10 per cent in their recent review.
- *Statistics New Zealand Business Operations Survey 2016* (4,569 construction firms) found that 58 per cent had 'hard-to-fill' vacancies.

*Additional demand may place pressure on the LBP scheme and raises concerns about quality*

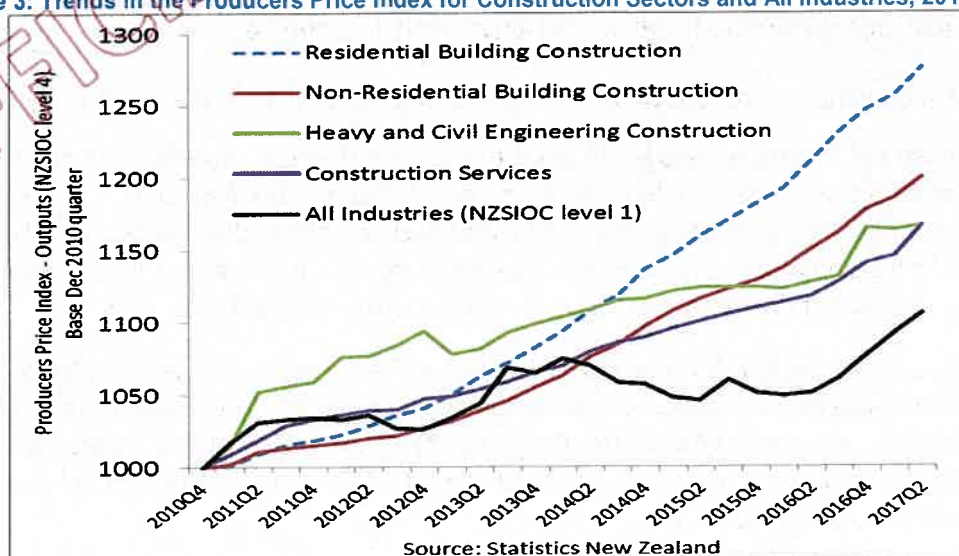
12. Building work that is critical to a residential building's structural soundness or weathertightness is restricted, and must be carried out or supervised by a Licensed Building Practitioner (LBP). There are indications that LBPs are already stretched thin in some parts of the country, including Auckland. It is becoming more difficult to attract or train new LBPs, partly due to workforce demographics (e.g. at the time of the 2013 Census 39 per cent of project builders were over 45 years of age).

13. An increase in demand for housing will place particular pressure on the LBP scheme. This pressure has the potential to give rise to increased risks with regard to building quality, due to a shortfall of skilled LBPs required to supervise an increased number of workers.

*Residential construction costs have increased by more than the all-industries average*

14. The trend from 2010Q4 to 2017Q2 shows a 28 per cent increase in the residential building construction output price index, followed by a 20 per cent rise for non-residential building, and a 17 per cent rise for both heavy and civil engineering and construction services. These indexed price rises are considerably above the average indexed rise for 'all industries' of 11 per cent over the same period (Figure 3).

Figure 3: Trends in the Producers Price Index for Construction Sectors and All Industries, 2010 - 2017



## KiwiBuild will increase the peak demand for new dwellings

15. The *National Construction Pipeline Report 2017* projects a rise in new residential dwellings to 34,500 in 2019 and 2020, up 15 per cent from the 2016 level of 30,063 consents. This level of supply will still be insufficient to meet the demand estimated by Auckland Council (i.e. 14,000 dwellings each year), or to meet the additional supply targeted by KiwiBuild. The phasing of KiwiBuild, and the additional supply required in Auckland, would require a total of 44,600 new dwellings in 2022 (Figure 4).

Figure 4: New Zealand actual and projected new dwellings, 1970 - 2022

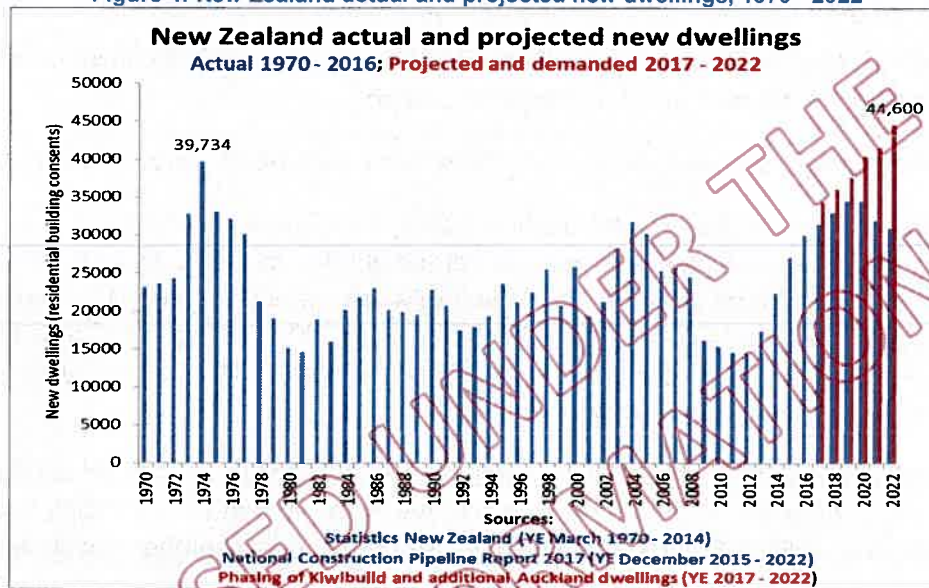


Figure 4: Data/Year	2016	2017	2018	2019	2020	2021	2022
Pipeline projected NZ dwelling consents	30,063 (actual)	31,500	33,000	34,500	34,500	32,000	31,000
Additional dwellings demanded in Auckland	3,900	2,900	2,100	1,200	900	1,500	1,600
Indicative phasing of KiwiBuild dwellings	-	-	1,000	2,000	5,000	8,000	12,000
<b>TOTAL DEMAND</b>	<b>34,000</b>	<b>34,400</b>	<b>36,100</b>	<b>37,700</b>	<b>40,400</b>	<b>41,500</b>	<b>44,600</b>

## Demand for construction occupations will increase

*Employment in construction occupations is not limited to employment in the construction industry*

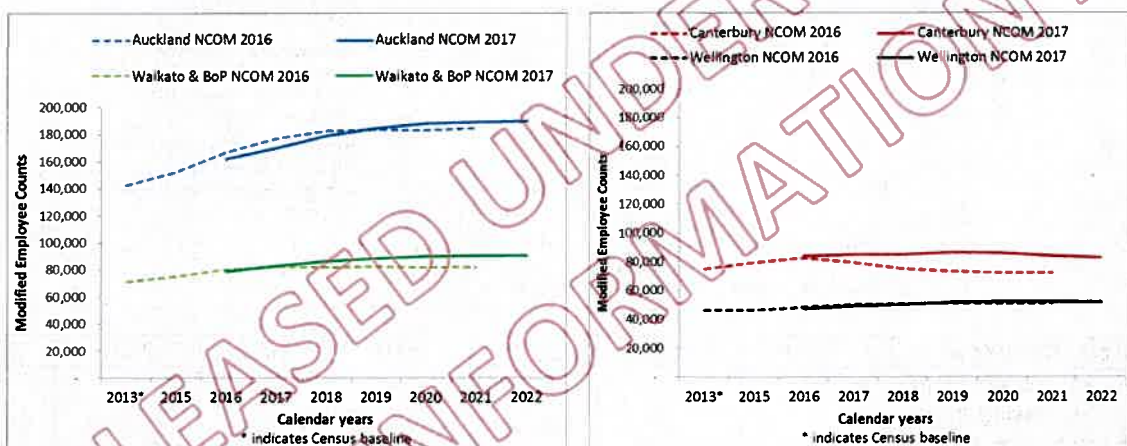
16. The Ministry of Business, Innovation and Employment (MBIE) regularly produces forecasts of demand for occupations (e.g. the *Short-term Employment Forecasts 2017 – 2020*, and the *Occupation Outlook* web application). The emphasis on occupations is because New Zealand's training and immigration systems are based on qualifications for individuals, who can and do move between the different industries which demand their skills.
17. For the past two years MBIE has published national and regional projections for 62 construction-related occupations. The occupations projections are drawn from the National Construction Occupations Model (NCOM). The NCOM is based on the investment forecasts stated in the *National Construction Pipeline Report 2017*, and on the mix of occupations recorded in the 2013 Census.

18. Employment in construction-related occupations (estimated at 515,000 employees for 2016) is greater than employment in the construction industry (estimated at 235,300 people for the June 2017 quarter), because many workers with construction skills are employed in other industries. A 2011 study by the Department of Labour confirmed that construction workers tend to flow in and out of the construction industry as market conditions change. This study is now being updated to cover the period to 2015.

*Demand for construction-related occupations will increase to 2022, even without Kiwibuild*

19. Across New Zealand, demand for employment in construction-related occupations is projected to increase by 11 per cent between 2016 and 2022 (this projection does not factor in Kiwibuild). This represents 56,000 employees to a total of 571,300. A comparison with the 2016 NCOM projections shows that Auckland and Waikato/Bay of Plenty occupations demand will further increase to 2022. Canterbury demand will be sustained until 2020, before starting to slowly reduce from 2021 (Figure 5).

Figure 5: National Construction Occupations Model - regional demand to 2022



20. **Auckland** has the largest construction workforce requirements in New Zealand, requiring just over 190,000 construction-related employees by 2022. Overall employment levels are expected to increase by 18 per cent between 2016 and 2022, i.e. by just over 28,000 employees. Occupations in the region that are expected to experience the largest levels of growth over the period include plumbers (32 per cent), project builders (27 per cent), and carpenters and joiners (27 per cent).

### Kiwibuild will increase the demand for workers

21. MBIE has applied the NCOM to estimate the additional demand for construction-related occupations which could result from a phased implementation of Kiwibuild, from 2018 to 2022. The limit to 2022 is because this is the forecasting extent of the current *National Construction Pipeline Report 2017*, on which the NCOM is based.
22. MBIE has estimated the future supply of trained construction workers, drawing on trends published by the Ministry of Education on apprenticeships, industry training and tertiary education completions to 2016. This data is combined with the trend of work visas for NCOM-linked occupations, to give an indication of total domestic and international supply.

The supply projections also allow for an expected annual retirement rate of the 2013 stock of people employed in construction occupations.

23. The resulting comparison indicates there is already a substantial shortfall of about 30,000 construction-related workers, or 3 per cent of total demand. This result is consistent with sector surveys, and reports of difficulties in recruiting skilled labour. The phased implementation of Kiwibuild from 2018 will tend to increase demand over supply. By 2020 the total national shortfall of demand over supply could amount to about 46,000 workers (8 per cent of demand), before declining to 33,000 in 2022 (Figure 6).

Figure 6: Demand and supply for construction-related occupations, 2016 - 2022

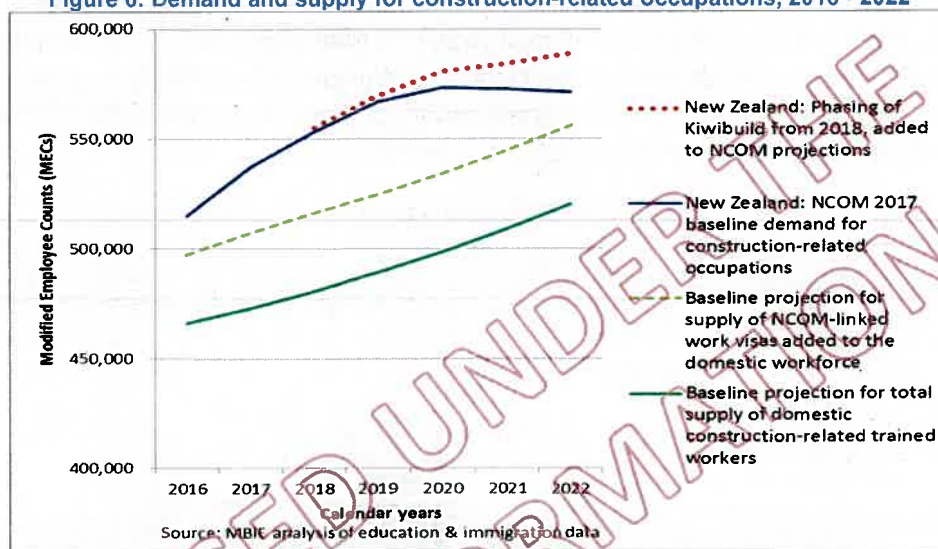


Figure 6: Data/Year	2016	2017	2018	2019	2020	2021	2022
Total demand including Kiwibuild phasing from 2018 (ref Figure 4)	-	-	555,000	570,000	580,600	584,300	589,000
NCOM 2017 total national demand for construction-related occupations	515,200	537,300	553,500	567,000	573,300	572,600	571,300
Baseline projection of total supply of construction occupations	497,400	507,200	516,500	525,000	534,400	544,800	556,000
Supply shortfall relative to total demand	17,800	30,100	38,500	45,000	46,200	39,500	33,000
Shortfall as a proportion of total national demand	3%	6%	7%	8%	8%	7%	6%

*Skills shortages are acute for some regions and occupations*

24. Reports from construction sector groups indicate that skills shortfalls are becoming acute in Auckland, Hamilton and Tauranga, Wellington and Queenstown. Christchurch no longer appears to have a shortfall of residential building workers, due to the steady completion of the rebuild (particularly as housing supply is now exceeding demand in the city).
25. MBIE has estimated supply projections for several key construction occupations. This indicates there will be increasing shortfalls in the national supply of project builders (i.e. LBPs), plumbers, truck drivers, and motor mechanics (including diesel mechanics).

Conversely, current trends in the training and migration of carpenters and electricians indicate that the national supply of these trades could soon meet projected demand.

26. At this time we cannot provide sound regional-level projections of the supply of construction-related occupations, due to limitations in the available data on education and training completions and the destinations of work visa holders.
27. Given the construction labour and other constraints affecting the conventional supply of residential housing (i.e. bespoke detached dwellings) then the Kiwibuild targets could be more quickly and cost-effectively achieved by significant purchases of prefab/manufactured housing (MH). At this time MBIE does not have sound information on the likely level of customer demand to purchase MH products, either new or for resale.

## **Projection risks**

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28. The current projections for the supply of housing (in the National Construction Pipeline Report) and the demand for construction-related occupations are based on external expert judgements, and assume that existing trends in construction growth and labour demand continue to at least 2022.
29. The projections do not model the potential impact of a downturn ('bust') in construction investment during the forecast period. Experience indicates a downturn has substantial negative impacts on residential construction and the demand for labour.
30. Importantly, the estimated additional demand for labour is based on the existing mix of construction occupations which applied in the residential building sector as at the 2013 Census. At this stage no assumptions have been included as to how the possible extensive use of prefab/MH could affect the demand for occupations, because MBIE does not yet have sound information on the labour needs of large-scale MH production. Similarly, at this stage no assumption has been made as to how Kiwibuild could introduce scale efficiencies and productivity improvements in the building of new dwellings. Officials will refine the modelling of the impact of Kiwibuild, as more details on the design of the programme are finalised.

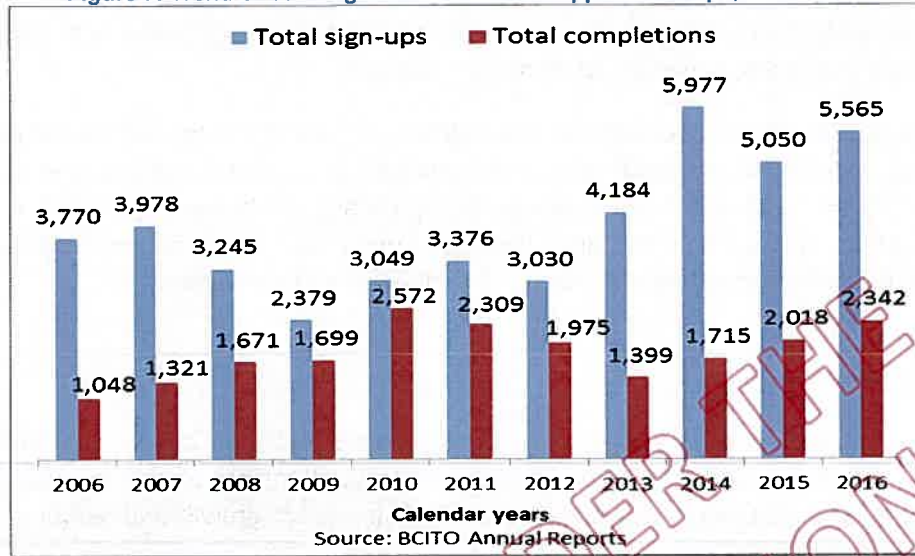
## **Construction apprenticeships and migration are rising**

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31. Industry Training Organisations (ITOs) are funded by the Tertiary Education Commission (TEC) to co-ordinate and support training activities for particular industries, including promoting and administering apprenticeships. The Building and Construction Industry Training Organisation (BCITO) is responsible for key trades serving the residential building sector.
32. The BCITO has reported significant recent rises in apprenticeship sign-ups and completions, which experience peaks and troughs in line with the boom-bust cycle of the construction industry. Sign-ups rose from a trough of 2,379 in 2009, to 5,565 in 2016. The rise in completions to 2,342 in 2016 is expected to increase in 2017 and outyears, as the increased sign-ups from 2014 to 2016 complete their apprenticeships. BCITO has reported a total of 11,000 apprenticeships in progress as at mid-2017 (Figure 7).
33. Ministry of Education data on apprenticeship completions indicates that of the BCITO apprentices who started in 2013, 48 per cent had completed their qualifications in three years

(i.e. by end 2015), and 57 per cent had completed in four years (by end 2016). TEC can provide advice on the reasons for the variable completion rates recorded for the ITOs.

Figure 7: Trend of building and construction apprenticeships, 2006 - 2016



There has been a sustained increase in construction-related work visas

34. MBIE collects information on the occupations of work visa applications where the visa is granted in respect of a vacancy. This means, for example, that working holiday visa occupations are not captured, although some will work in the construction industry in New Zealand. It also means that people in non-construction occupations, but working in the construction industry, are not easily classified as such.
35. A fine-grained means of tracking approved work visas for construction-related occupations is to examine the trend of the published data for each of the 62 occupations used for the NCOM. This shows a rapid rise in approved work visas for the NCOM-linked occupations from 2011/12 to 2013/14 (driven by demand from Canterbury employers for skilled workers to help repair earthquake damage), and a further rise to 11,900 in 2016/17, making up just over 5 per cent of total approved work visas (Figure 8).

Figure 8: Trend of construction-related work visas, 2011/12 - 2016/17



36. This information includes the number of temporary visas which have been approved. Temporary visas can be granted for as little as a few days or up to five years, and workers may be granted more than one visa in a 12 month period. Finally, published data on the number of people with approved work visas could understate the actual numbers of temporary migrants employed in construction occupations, because it does not include people working while on student visas, working holiday visas, or (illegally) on visitor visas. It also does not include people granted resident visas each year on the basis of construction-related jobs.

## **Current policies in respect of the construction sector**

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37. TEC funds an extensive set of programmes for trades apprenticeships and industry training, and current immigration settings enable access to New Zealand by skilled workers. With the exception of the *Sector Workforce Engagement Programme* (discussed further below), there are currently no additional programmes specifically intended for the construction sector.
38. The 'Got a Trade – Got it Made' promotional campaign to attract additional apprentices is supported by all the ITOs, and so is not construction-specific. The *Māori and Pasifika Trades Training* (MPTT) funded by TEC tends to emphasise building and construction skills, but this is not a specific requirement for the programme.

*Specific policy initiatives have previously been used for construction.*

39. Policy levers which have recently been applied to increase the capacity of the construction sector include:
- a. Job Fairs in Australia: Over 5,700 Australian job seekers attended the 2015 Job Fair series hosted by New Zealand Government. While the turnout was positive, the long-term effect of the Job Fairs has been difficult to track due to a lack of data measuring Australian migration to New Zealand as a result of the fairs.
  - b. Targeted Immigration changes: Following the Christchurch earthquakes, the government announced and promoted the 'Canterbury Skill Shortage List', which included a number of construction occupations. This was effectively a temporary re-branding of the standard Immigration Skill Shortage List. In addition, a Canterbury immigration package (which largely expired in 2016) included a number of other mechanisms aimed at improving flexibility (i.e. lower skilled workers were granted longer term visas than in the rest of New Zealand, and all workers could change employers without needing to apply for a formal variation to their visa conditions) while protecting their conditions (labour hire companies operating in Canterbury have to be formally accredited).
  - c. The Multiproof building consent: A MultiProof is a national, multiple-use approval from MBIE for building plans and specifications. They are designed to speed up the building consent process. MultiProofs are currently rarely used, but they have the potential to be useful for projects that involve building a large number of similarly-designed buildings. There is scope to explore opportunities to streamline the consenting process to support KiwiBuild, including through the use of MultiProof.
  - d. Tools grants for apprentices: The 'Reboot' scheme provided one-off grants of \$2,000 for priority trades (or \$1,000 for non-priority) to new apprentices who signed up for training

from 6 March 2013 to 31 December 2014. A matching payment was made to their employer. The scheme was not specific to BCITO apprentices, and has not been repeated. The Reboot scheme cost just under \$70 million.

e. Workforce engagement: From early 2016 the primary initiative has been the Sector Workforce Engagement Programme (SWEP).

40. SWEP is a cross-agency operational initiative operated by MBIE. The programme is focused on sectors that employ large numbers of low skilled workers. It aims to improve employers' access to reliable, appropriately skilled staff at the right time and place, while creating work opportunities for New Zealanders, including young people and those currently on benefits. SWEP aims to work with industry to strengthen the domestic supply pipeline.
41. SWEP initiatives in respect of the construction sector are mainly based in Auckland with three Jobs and Skills hubs established to support recruitment and training at the centre of areas where there are sizeable projects that create jobs, and opportunities to grow employment and the skilled workforce.
42. Auckland's first Jobs and Skills Hub was Ara at Auckland International Airport. Ara commenced operations in November 2015, followed by the Tamaki Hub in late 2016 and the CBD Hub in March 2017. To date the Hubs have placed nearly 500 people into employment, facilitated over 2,000 training opportunities and engaged with over 80 Auckland companies. Hubs have also facilitated 32 apprenticeships to date. MBIE will provide further advice on the scope to expand SWEP.

*The construction sector tends to recruit from other sectors, and has particular challenges in retaining workers*

43. MBIE is now finalising an updated analysis of the flows of workers into the construction sector over the period to 2015 (see Appendix 3). A key finding is that the sector has grown its workforce primarily by recruiting workers from other industry sectors, and a steady number of workers leave the sector even during a construction boom.

*There is potential to attract Australian construction firms*

44. Australia's state capital cities have experienced a major boom in apartment construction since 2013, and a recent report has projected that a record decline in this form of building will soon occur. Commencements of high-density dwellings in 2018 are expected to reach just half the level of the record starts seen at the peak of the Australian building boom (BIS Oxford Economics, 2017).
45. The reduction in building demand in Australia offers an opportunity for New Zealand developers to contract Australian firms to undertake large-scale residential projects, particularly in Auckland. Under Closer Economic Relations, Australian firms and workers can access our market on the same terms as New Zealanders. The electrical workers and Licensed Building Practitioners schemes run by MBIE both have a Trans-Tasman Mutual Recognition Agreement in place.



## Next steps

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*Advice on detailed options to grow and develop the workforce and alleviate capacity constraints*

46. The policy and operational levers to help grow the construction workforce are a shared responsibility with the Ministry of Education and TEC, together with MBIE-Immigration New Zealand. The Ministry of Social Development also has an important role to play in supporting the entry into the workforce of its client base.
47. Later this month MBIE will provide you with a follow-up cross-agency briefing, providing policy advice on a set of skills and employment options to grow and develop the construction workforce. This advice will specifically consider the *Kiwibuild Visa* and *Dole for Apprenticeships* policies.
48. This advice will also consider non-skills related options for alleviating capacity constraints, including options to streamline the building consenting process, and the possibility of encouraging labour-saving building systems and construction practices.
49. MBIE will refine the modelling of the potential impact of Kiwibuild on the construction sector (including the labour force), as more details on the design and phasing of Kiwibuild are finalised.

## Appendix 1: Construction investment is projected to peak in 2020

The *National Construction Pipeline Report 2017* (the fifth Pipeline Report) provides national and regional forecasts to 2022 on the number and value of residential building projects, and the value of non-residential building and infrastructure. The current forecast does not include an estimate of the additional residential investment expected to result from the Kiwibuild programme. The *Pipeline Report* forms the basis of the linked *Future Demand for Construction Workers Report 2017* (the occupations projections), which presents forecasts for national and regional levels of construction-related occupations to 2022.

Since 2010 the construction sector has experienced a 38 per cent rise in total investment to \$34.3 billion in 2016. The rise in gross fixed capital formation<sup>1</sup> has primarily been due to increased demand for residential building, followed by non-residential building (including offices, factories and warehouses) and infrastructure (transport, 3 waters, electricity). Investment is projected to grow a further 23 per cent to \$42.4 billion in gross fixed capital formation in 2020; this does not include an allowance for Kiwibuild investment (Figure 9).

Figure 9: Trend of Construction Investment in New Zealand; Actual 1988 – 2016, Projected 2017 - 2022



Source: National Construction Pipeline Report 2017 (BRANZ/Pacificon Ltd)

Web: <http://constructionprojections.mbie.govt.nz>

**Auckland** has the largest share of the national investment in construction. In 2016 the total value of construction investment in Auckland increased by 12 per cent, to a total of \$12.7 billion (37 per cent of the national total). This increase is forecast to continue and peak in 2020 at \$17.5 billion (41 per cent of the national total). In particular, Auckland residential building investment is forecast to increase by 36 per cent to a peak of \$10.1 billion in 2021.

<sup>1</sup> Gross Fixed Capital Formation (GFCF) is a measure of the net new investment by producers on durable real assets. Land is excluded from GFCF; however alterations and additions are included.

## Appendix 2: Construction capacity measures other than labour

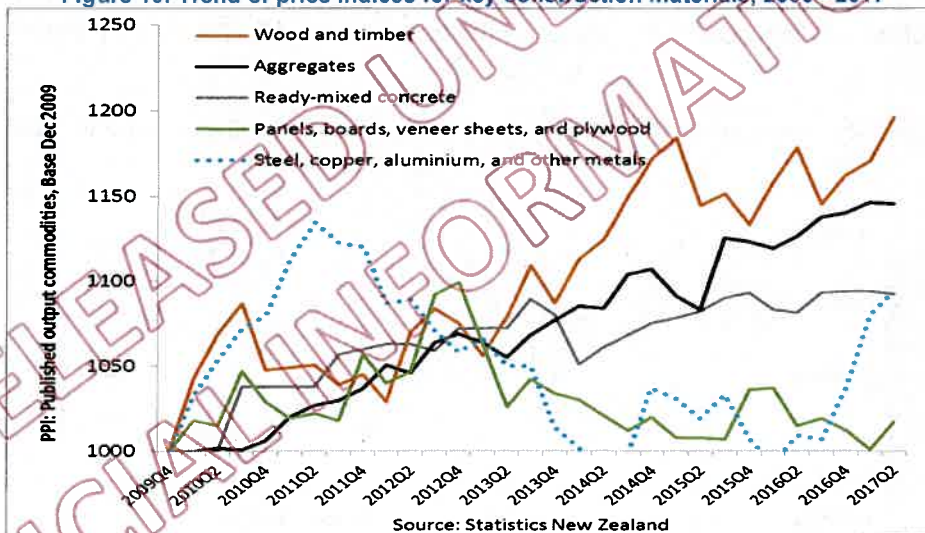
*Most construction materials prices are rising*

The producers' price index (PPI) for key construction materials shows price rises since 2009Q4 for *wood and timber* (20 percent to 2017Q2) and *aggregates* (15 per cent); however, prices for *panels, boards, and plywood* have been stable or falling since the base period of 2009Q4. *Metals* generally declined in price from mid-2011, till a recent jump in 2017 (Figure 10).

The likely contributors to the differing index trends are international commodity prices (which particularly affect *timber* and *metals*) and whether goods are tradeable (e.g. *aggregates* and *concrete* rely on domestic production). Competition amongst domestic producers and from imports is likely to have contributed to the falling price index for *panels, boards, and plywood*. There is not a specific price series for plasterboard, which is manufactured by one New Zealand producer (i.e. Winstone Wallboards, a subsidiary of Fletcher Building).

The quality of some construction materials, particularly imports of some steel products, has been raised as a concern by construction bodies. MBIE can provide you with a more detailed briefing on this issue.

Figure 10: Trend of price indices for key construction materials, 2009 - 2017

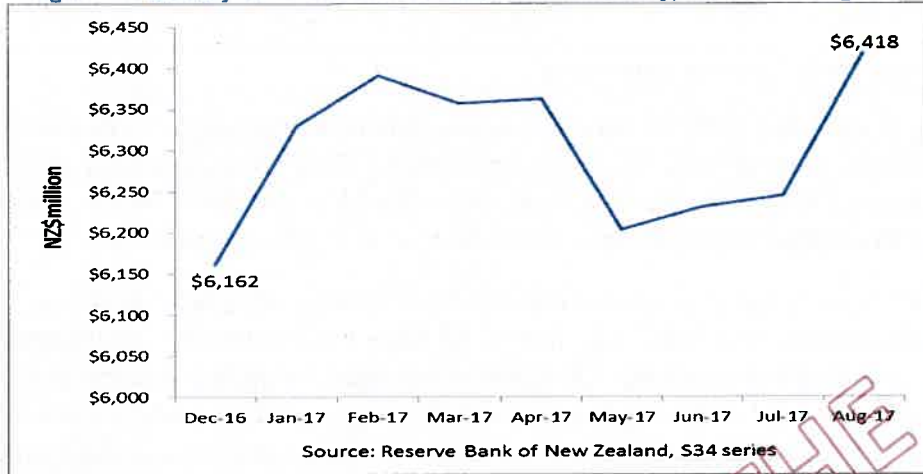


*Bank finance for construction is variable, and access to loans is reported to be tightening*

A key constraint on construction projects is the availability of finance. Recent bank loans to the construction industry are reported to be rising, with a peak of \$6.41 billion in August 2017 (Figure 11). However, anecdotal reports from construction bodies have indicated it is harder for firms which do not have sound track records to attract finance.

This effect has been ascribed to constrained lending for apartment developments by the Australian parents of most New Zealand trading banks (Reserve Bank of NZ). The reported difficulties in accessing finance by construction firms also appear to be common across the range of industries which are surveyed by leading banks (ANZ Business Outlook).

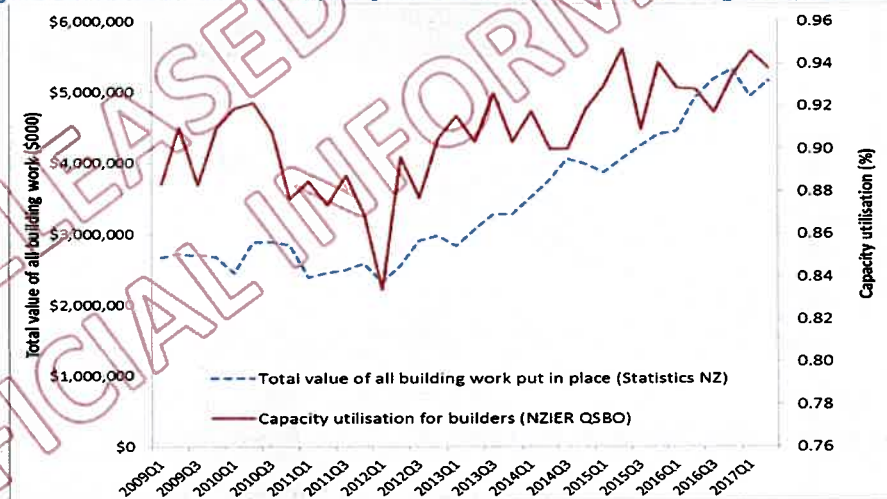
Figure 11: Monthly bank loans to the construction industry, Dec 2016 – Aug 2017



Capacity utilisation is at peak levels, and more construction firms are investing in expansion

The New Zealand Institute of Economic Research Quarterly Survey of Business Opinion (NZIER QSBO) asks their sample of builders about 'capacity utilisation' (that is, whether they can increase production without raising their unit costs). For 2017Q2, reported capacity utilisation for builders was 94 per cent, indicating there was very little spare capacity. This result is consistent with the record value of all building work put in place, which amounted to \$5.16 billion for 2017Q2 (Figure 12).

Figure 12: Trend of builders' capacity utilisation and value of building work, 2009 - 2017



The rise in demand for construction outputs is encouraging firms to expand their activities. The latest *Statistics New Zealand Business Operations Survey* (August 2016) of 4,569 construction firms found that 28 per cent had introduced new products, processes or services, and 42 per cent had improved existing products, processes or services. The 2016 survey also found that 71 per cent of construction firms had invested in raising the skill levels of their employees. This survey excludes sole owner-operators.

### Appendix 3: The construction sector tends to meet its labour demands by recruiting from other sectors

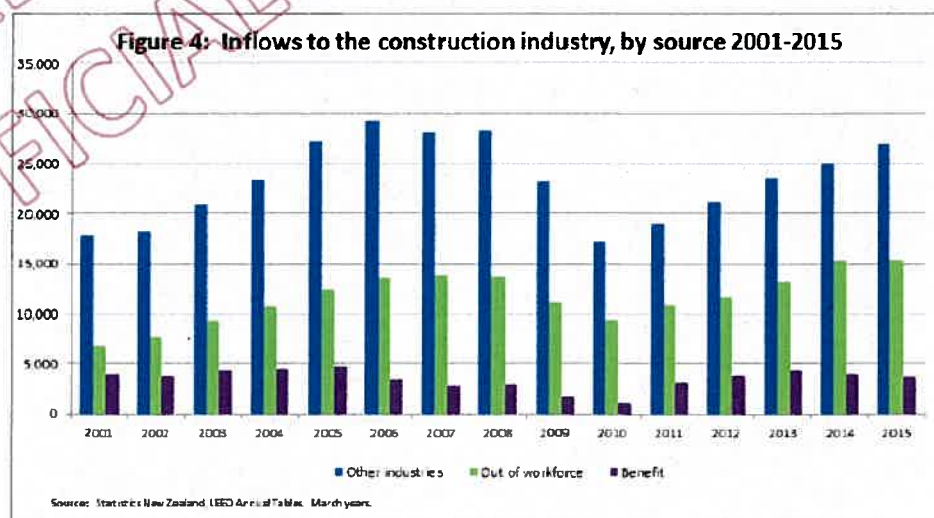
MBIE is now finalising a report on *Labour market adjustment and the construction industry*, detailing how the construction sector has responded to growth pressures over several economic cycles from 2001 to 2015. Its preliminary conclusions are that:

- The construction industry has been able to recruit and shed labour to meet changing labour demand within the sector, without any apparent growth in wage rates or self-employed earnings
- The sector has grown its workforce primarily by recruiting workers from other industry sectors, and also shows a consistent inability to retain workers in the sector (with a steady number of workers leaving the sector even during a construction boom).
- The sector tends to meet additional demand for workers by recruiting new workers, rather than seeking to retain its existing workforce. On average 33,000 workers leave the construction sector annually, ranging from 34,000 workers during in the construction boom in 2015, to 43,000 workers during the construction slowdown in 2010.

#### *Additional labour demand is met by recruiting new members from other industries*

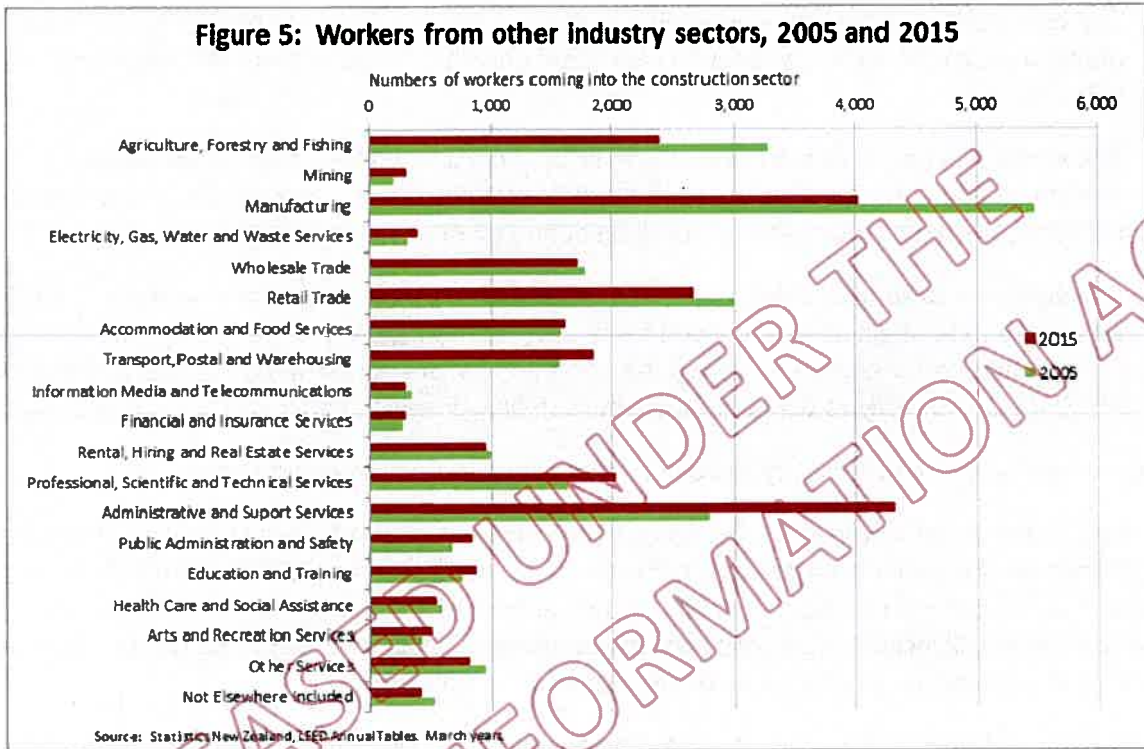
The main source for new workers in the construction industry is workers from other industries, with 26,800 entering the sector from other industries in 2015, compared to 15,300 from out of the workforce and 3,800 who were on a benefit. The numbers who are recorded as coming from 'out of the workforce' will include those who are new to the New Zealand labour force (school leavers) as well as those who have been recruited from offshore (migrants).

The proportion of new workers recruited from other industries has remained relatively stable at approximately 60 per cent of all new recruits, while the numbers employed from 'out of the workforce' has varied between 22 to 35 per cent and those who were previously on a benefit has ranged from 14 per cent to 5 per cent (see report excerpt 'Figure 4').



Recruiting workers from other industries has been the main way in which the construction sector has consistently met its growing demand for labour, and workers from a wide range of industry

sectors. This creates opportunities and challenges for affected firms in those sectors in backfilling any vacancies or skills shortages. The manufacturing sector has traditionally been the largest source of these workers from other industries, but in recent years this sector has contributed few new workers (from 20 per cent in 2005 to 15 per cent in 2015). The administrative and support services sector is now the primary source of new construction workers coming in from other industries (see report excerpt Figure 5 for the changes).<sup>2</sup>



<sup>2</sup> In 2015, of the total inflows of existing workers from industry sectors, 16 per cent were recruited from the Administrative and Support Services Sector, 15 per cent from Manufacturing, 10 per cent from Retail Trade, and 9 per cent from Agriculture, Forestry and Fishing.

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## BRIEFING

### Implementing KiwiBuild

<b>Date:</b>	1 November 2017	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0739 17-18

Action sought		
	Action sought	Deadline
Hon Phil Twyford Minister of Housing and Urban Development	Discuss with officials	6 November 2017
Hon Jenny Salesa Minister for Building and Construction	For your information	

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Chris Bunny	Deputy Chief Executive	04 901 8728	s 9(2)(a)
Jo Doyle	General Manager, Construction and Housing Markets	04 901 8730	s 9(2)(a) ✓

The following departments/agencies have been consulted
Ministry of Social Development, the Treasury, Housing New Zealand Corporation, and State Services Commission

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



# BRIEFING

## Implementing KiwiBuild

<b>Date:</b>	1 November 2017	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0739 17-18

### Purpose

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This briefing responds to your request for initial advice on implementing KiwiBuild. It also provides a high level overview of broader strategic issues we would like to discuss with you to inform the design and implementation of KiwiBuild.

### Executive summary

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Delivering KiwiBuild and establishing the Affordable Housing Authority, in addition to injecting 100,000 affordable houses into the market over the next 10 years, present opportunities to:

- Provide a high and dependable level of demand to give the building and construction sector confidence to invest in the skills, plant and machinery required for transformative change to lift productivity and deliver cheaper housing
- Address regulatory constraints and support better, more efficient planning and coordination of both public and private investment in key infrastructure
- Leverage and consolidate existing Government housing supply initiatives
- Support better urban development by integrating large-scale development with transport and other infrastructure investment in order to support improved urban performance, social inclusion and economic development.

These opportunities also give rise to potential risks that need to be considered and managed. We would like to discuss the content of this briefing with you so we can progress the Cabinet Paper on establishing the Appropriations. You may wish to also engage with key Cabinet colleagues (Environment, Immigration, Infrastructure, Employment and Land Information) on the delivery of KiwiBuild.

### Recommended action

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The Ministry of Business, Innovation and Employment recommend that you:

- a Discuss with officials.

Jo Doyle  
General Manager  
Construction and Housing Markets, MBIE

..... / ..... / .....

Hon Phil Twyford  
Minister of Housing and Urban  
Development

..... / ..... / .....

## Background

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1. At your first meeting with officials on Friday 27 October 2017, you indicated that your initial priorities with respect to KiwiBuild include:

### *Establishing the Programme*

- a. Establishing a KiwiBuild unit and associated procurement function within MBIE to ensure rapid progress is made
- b. Establishing eligibility criteria for the purchasers of KiwiBuild houses, both to ensure appropriate targeting and avoid windfall gains
- c. Securing the funding for KiwiBuild

### *Delivery*

- d. Identifying opportunities to deliver KiwiBuild houses via existing Government-led housing supply initiatives
  - e. Establishing a mechanism to underwrite/purchase KiwiBuild dwellings in private sector led developments.
2. Establishing the eligibility criteria also requires consideration of potential assistance to the purchasers of KiwiBuild houses (see below).
  3. The third strand to the implementation of KiwiBuild is the establishment of the Affordable Housing Authority (AHA) as a long-term delivery vehicle for KiwiBuild.

### **Other Briefings**

4. You will also receive briefings on the following related topics:
  - a. Stocktake of all Crown-facilitated, including Housing New Zealand Corporation (HNZC), development in Auckland
  - b. Construction Sector Capability & Capacity – which is critical for the long-term delivery of housing
  - c. Legislation to empower KiwiBuild and establish the Affordable Housing Authority
  - d. Establishing HNZC as a Departmental Agency.

## Context

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### **Manifesto Commitments**

5. Your housing manifesto includes a commitment to deliver 100,000 affordable houses over ten years via the KiwiBuild programme, with over half of these to be delivered in Auckland. In summary, the manifesto states that:
  - a. KiwiBuild houses will be sold to first home buyers, and priced between \$300,000 and \$600,000 depending on the location and typology
  - b. Construction will be funded by an initial \$2 billion capital injection, which will be recycled as houses are sold, and returned to the Crown at the end of the KiwiBuild programme.

6. Your manifesto also proposes the establishment of an AHA - with a fast-tracked planning process - tasked with leading large-scale housing developments and cutting through red tape.<sup>1</sup> Your manifesto indicates that a typical AHA development project will comprise 50 percent KiwiBuild dwellings and 50 percent private dwellings.

## Opportunities

7. In addition to injecting 100,000 affordable houses into the market over the next 10 years, implementing KiwiBuild and establishing the AHA present opportunities to:
  - a. Provide a high and dependable level of demand to give the building and construction sector confidence to invest in the skills, plant and machinery required for transformative change to lift productivity and deliver cheaper housing
  - b. Address regulatory constraints and support better, more efficient planning and coordination of both public and private investment in key infrastructure
  - c. Leverage and consolidate existing Government housing supply initiatives
  - d. Support better urban development by integrating large-scale development with transport and other infrastructure investment in order to support improved urban performance, social inclusion and economic development.

## Key enablers for KiwiBuild

8. You have indicated that you see the KiwiBuild programme progressively ramping up over three years, and comprising a range of implementation approaches. The essential components required to deliver the KiwiBuild programme at scale are summarised in the following table, and discussed further in Annex One.

Table A: Key components to deliver KiwiBuild.

Land	Infrastructure	Development model	Sector Capacity	Demand	Affordable Housing Authority
<ul style="list-style-type: none"> <li>• Scale requires a mix of Crown, Crown-body, Council &amp; privately owned land</li> <li>• Green &amp; brown field</li> <li>• Land aggregation &amp; rezoning</li> <li>• Treaty considerations</li> </ul>	<ul style="list-style-type: none"> <li>• Some high-growth councils are unwilling or unable (due to debt ceilings) to invest</li> <li>• Alternative funding approaches needed</li> </ul>	<ul style="list-style-type: none"> <li>• Options around how responsibilities, costs, risks, &amp; rewards are allocated between public &amp; private sectors</li> <li>• Tailor to site specific opportunities &amp; constraints</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement approach to support scale efficiencies /increased productivity</li> <li>• Trade training /skilled Immigration</li> </ul>	<ul style="list-style-type: none"> <li>• Need to bridge gap between market value, proposed prices &amp; households' abilities to pay</li> <li>• Alternative tenures?</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible for KiwiBuild delivery</li> <li>• Requires cut through powers to address planning and infrastructure constraints</li> </ul>

9. The key constraints include land access and agglomeration; infrastructure planning, coordination and funding; sector capacity and productivity; and regulatory barriers. Some of these issues are discussed further in the briefings outlined at paragraph 4 above.

## Iwi Relationships

10. Crown-owned land (and some Crown-body owned land (e.g. HNZA)) may be subject to rights of first refusal or other Treaty obligations, some of which can only be discharged by Ministers and core Government departments. Many iwi share common or complementary objectives with the Crown and are keen to work with the Crown to deliver affordable housing.

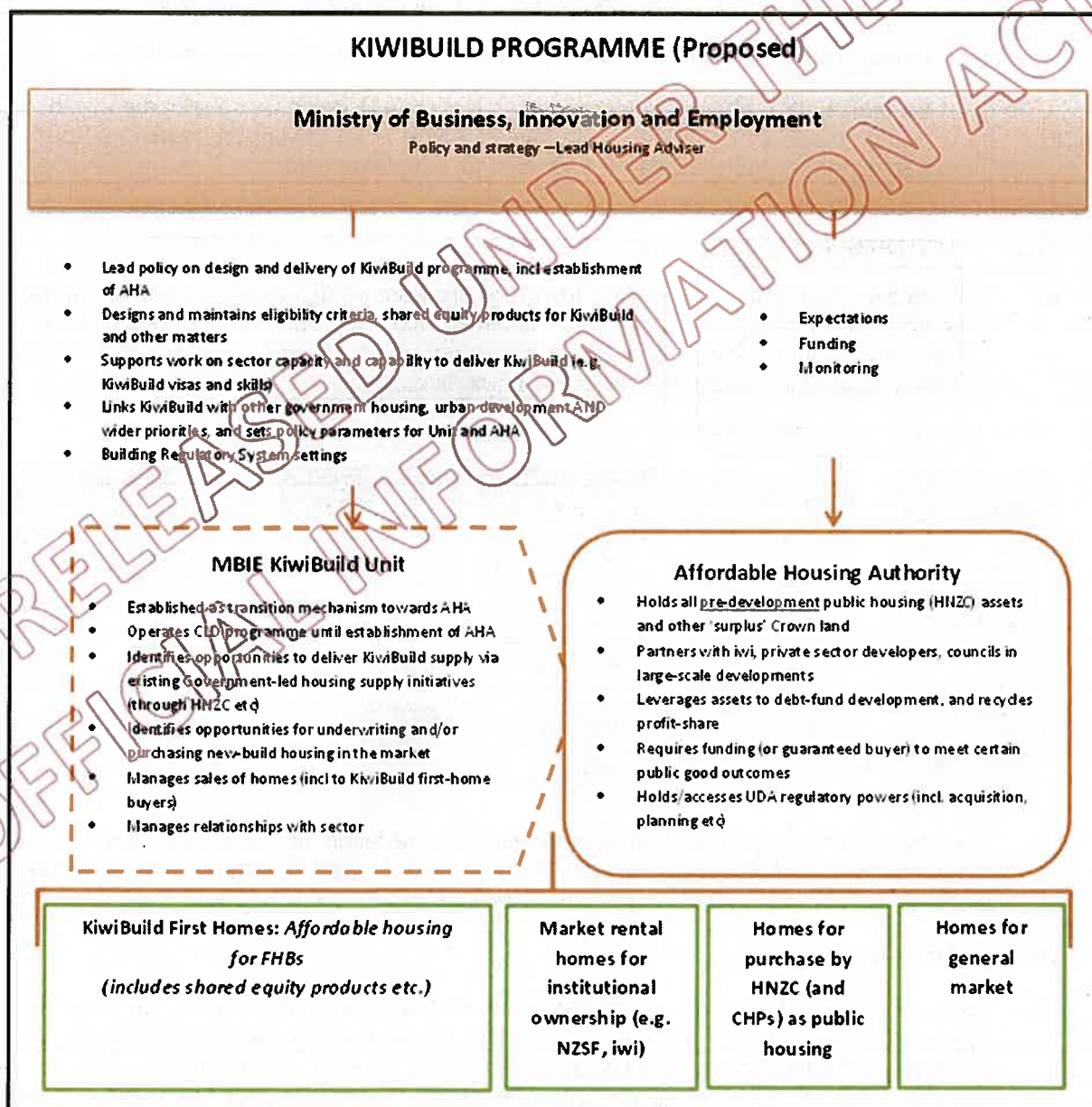
<sup>1</sup> Crown Agents have an arm's-length relationship with Ministers. They can be directed to give effect to Government policy, but their founding legislation will determine whether or not they are able to make independent decisions with respect to the allocation of funding.

Some Māori/iwi organisations have already entered into development agreements with the Crown.

- The Ministry has a number of strong relationships with iwi. This includes Ngāi Tahu, who we are exploring development opportunities with in Queenstown, and the 13 Auckland iwi and hapū who we are partnering with under the Housing Mahi Ngātahi Agreement to deliver housing in Auckland under the Vacant and Underutilised Crown Land Programme (Crown Land Programme), see Annex Two.

## Establishing the Programme

- To inform the Unit's establishment and work programme, there are a number of high-level trade-offs and assumptions that we would like to discuss with you, as illustrated in the following diagram and discussed in more detail below.



## **Establishing a KiwiBuild Unit and associated procurement function within MBIE**

13. MBIE is able to leverage its experience as the Government's Procurement Functional Lead and administrator of the Crown Land Programme to establish a KiwiBuild procurement unit.
14. Subject to your agreement, there is a range of actions we can progress now on a 'no-regrets' basis, utilising existing resources and stakeholder relationships, ie:
  - a. Commencing market sounding with key stakeholders (including developers, iwi and land-owners) to test (on a no-commitment basis) their interest in the development/ procurement models outlined in this briefing, and identify other potential approaches and opportunities. Market testing will provide information on cost savings and productivity improvements that should arise from the scale and certainty provided by KiwiBuild
  - b. Preparing a Cabinet Paper seeking agreement to:
    - i. The broad programme objectives and parameters
    - ii. The new Appropriations (discussed below)
15. In establishing the KiwiBuild Unit our working assumptions are that:
  - a. The Unit is a transitional mechanism as we establish the AHA — the Unit's role is to build on the Crown Land Programme and lead the implementation of KiwiBuild
  - b. The Unit will primarily have a delivery focus, and will have responsibility for:
    - i. Exploring opportunities for underwriting existing developments
    - ii. Undertaking and monitoring the sale of KiwiBuild homes to eligible households (through development partners), as well as to HNZ/MSD for public housing.
16. MBIE will provide the policy support for the Unit's operations, including but not limited to:
  - a. Designing the eligibility criteria for KiwiBuild first-home buyers, and the design of complementary homeownership products
  - b. Supporting the complementary work on sector capability and capacity (including working with MBIE's Immigration Branch on the KiwiBuild visa)
  - c. Establishing the AHA and its funding sources, regulatory powers etc once the empowering legislation is enacted
  - d. Advising on the policy expectations for the AHA, including:
    - i. The mix of housing (incl. tenures) to be delivered
    - ii. The extent to which its decisions are driven by wider policy objectives (e.g. urban and economic performance, environmental, transport connectivity)
    - iii. How it will work with and partner with local government (e.g. Panuku Development Auckland).
17. In order to ensure the Unit has a clear role and to prepare the Cabinet paper and test the market, there are some discussion points we want to test with you:
  - a. The relative priority of delivering houses at pace and scale versus achieving the target price points and/or avoiding the need for subsidy

- b. We are assuming that any public housing delivered by developments is in addition to the 100,000 KiwiBuild houses
18. Being clear on these issues allows us to proceed in a manner that achieves the objectives sought while being flexible with how these are achieved.

### **Eligibility criteria and avoiding windfall gains**

19. Key considerations in designing the eligibility criteria for KiwiBuild include:
- a. Whether the Crown is able to realise sufficient cost savings (through economies of scale and efficient land use) to build houses at the target price points
  - b. The risk of households receiving windfall gains due to the target price points being less than the properties' market values
  - c. Whether there are sufficient first home-buyers willing and able to purchase dwellings at the target price points
  - d. The interaction between the KiwiBuild programme and any new or revised ownership products for first home buyers, including shared equity, rent to buy etc.
20. For the Crown Land Programme the eligibility criteria have been aligned with the KiwiSaver HomeStart grant or Welcome Home loan (which include an income cap, a minimum deposit, a house price cap and requirements to be a New Zealand citizen or permanent resident). But this starting point may not be appropriate.
21. Indicative modelling suggests that there may be insufficient first home-buyers willing and able to purchase 100,000 KiwiBuild houses at the price points outlined in your manifesto. This suggests the target cohort and/or price points may need to be revised or additional support for KiwiBuild first home buyers provided.
22. Shared equity schemes could be used to manage the potential for windfall gains (through the Crown maintaining an equity stake in the house) and/or there being insufficient first home buyers with the necessary income to service a mortgage. But they are not the only possible mechanism.
23. Market testing by the KiwiBuild Unit will provide information on the ability of developers to deliver, demand from first home buyers and the potential need for programmes such as shared equity, affordable rental and public housing to ensure there is sufficient demand.

### **Securing the funding for KiwiBuild**

24. Three new appropriations will need to be established in order to deliver the KiwiBuild Programme:
- a. Two new Non-departmental appropriations:
    - i. A Capital multi-year appropriation to fund the purchase of land and/or houses (including equity shares) for the KiwiBuild Programme (and potentially supporting infrastructure)
    - ii. An annual operational appropriation to fund holdings costs (e.g. rates and insurance), as well as any subsidies/losses on asset sales
  - b. New departmental funding for both the programme design and its ongoing administration and specialist advice.
25. You will need to seek Cabinet agreement in order to establish the new Appropriations. This can be done out of the budget cycle, subject to Cabinet approval.

26. In the short term, capital funding could be transferred from the Crown Land Programme's non-departmental capital appropriation to fund certain activities for the remainder of the current financial year. Some additional departmental policy advice funding will also be required for the remainder of 2017/18.

## Delivery

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### Leveraging existing Government-led housing supply initiatives

27. There are a number of Government programmes underway to deliver a mix of new public, affordable and market priced housing.
28. In Auckland, the combined Crown Building Project is expected to deliver 34,000 dwellings over the next 10 years: 13,500 public houses and 20,600 affordable and market priced houses. The net dwelling gain will be around 26,000 dwellings after accounting for the demolition of 8,000 existing state houses. The Crown Building Project is comprised of:
- The Crown Land Programme (MBIE)
  - Hobsonville Point (Homes, Land and Communities (HLC))
  - The Auckland Housing Programme (HNZG and HLC)
  - The Tāmaki Regeneration Programme (Tāmaki Regeneration Company).
29. Outside Auckland HNZC is the major, but not only, deliverer of housing:
- HNZC has redevelopment projects underway across a number of locations, including Hamilton and the Wellington region
  - A further 1,100 affordable and market priced dwellings will be delivered via Awatea, Welles Street and Colombo Street (MBIE) and East Frame (Ōtākaro Ltd) developments in Christchurch.

### MBIE's Crown Land Programme

30. The initiatives over which you have the most direct influence are MBIE's Crown Land Programme and Christchurch developments, which utilise Crown (as distinct from Crown-entirety or company) owned land and are being developed under the provisions of the Housing Act 1955. We are also exploring a Queenstown development opportunity with Ngāi Tahu.
31. There is potential to enhance these existing programmes to incorporate KiwiBuild dwellings. However, it is likely that this will need to be subsidised and/or de-risked by the Crown in order to make it attractive to our development partners. This is because under the current programme parameters they are required to purchase the land at a value representing its 'highest and best use' and bear all of the associated development and on-sale costs and risks. The current target price points for the 'affordable' component of these programmes are significantly higher than those proposed for KiwiBuild.
32. MBIE will provide a separate briefing on the Crown Land Programme, including specific measures that could be taken to incorporate KiwiBuild dwellings, by Friday 3 November.

### Other Government programmes

33. The other Government programmes are being facilitated by a Crown-entity (HNZC) and its wholly-owned subsidiary (HLC), and companies established under Schedule 4A of the Public Finance Act 1989 (Tāmaki Redevelopment Company and Ōtākaro Ltd). Each of which are governed by an independent board and subject to varying degrees of ministerial oversight and direction. Except for Ōtākaro, you are one of the shareholding Ministers in each case:

Agency	Shareholding Ministers
HNZC & HLC	Minister of Finance Minister of Housing and Urban Development
TRC	Minister of Finance Minister of Housing and Urban Development  Note: TRC is 59 percent owned by the Crown and 41 percent owned by Auckland Council <sup>2</sup>
Ōtākaro	Minister of Finance Minister for Greater Christchurch Regeneration

34. On Friday 27 October, you indicated you wished to see if these programmes could deliver 20-25% public housing and 30-40% KiwiBuild housing. Achieving these targets could be done in different ways. For example, agencies could be funded (if necessary) to develop and sell KiwiBuild houses directly to eligible purchasers or the houses could be acquired and onsold by the KiwiBuild Unit.
35. In the first instance, we suggest you engage with your fellow shareholding Ministers to test their appetite for altering existing plans to support KiwiBuild. Changing plans could involve greater delivery of KiwiBuild houses. However, revisiting existing development plans risks slowing down delivery or adversely affecting development economics.

### Establishing a mechanism to secure KiwiBuild dwellings in private sector led developments

36. Access to finance is becoming more difficult for developers following the collapse of the mezzanine financing sector (post-Global Financial Crisis), and more recently tightened bank lending conditions. This is likely due to both global economic conditions (finance needing to be sought off-shore which is now more expensive, including as a result of Australian prudential requirements) and local risk aversion (concern that local markets may have reached their price peaks). Securing finance for medium-to-high density developments is particularly challenging, with banks requiring significant pre-sales (upwards of 50 percent).
37. In light of these constraints, our informal market engagement suggests that many developers would welcome an opportunity to work with the Crown to address financing constraints and deliver KiwiBuild houses. Government support could take a range of forms. The most straightforward approach would be for the Government to de-risk developments through either:
- Entering into a binding pre-sale commitment to purchase the KiwiBuild dwellings from the developer at their market value (less any reasonable bulk or pre-purchase

<sup>2</sup> Note: TRC's shareholding arrangements preserve the Crown's full interest in the housing and land assets that were transferred from HNZC to TRC.



- discount)
- b. Agreeing to a put option, under which the developer may compel the Crown to purchase any unsold dwellings at a pre-agreed price (say cost, plus 5 percent) provided the developer has made a reasonable attempt to sell the dwellings directly to eligible purchasers (refer above)
  - c. Underwriting (subject to actuarial advice) bank lending (i.e. principal and interest payments) to developers, on condition that they include an agreed proposition of KiwiBuild dwellings in their developments. The underwrite could take the form of a risk pool, similar to the approach used for Welcome Home Loans.
38. Subject to your agreement, we propose testing these options further with developers within the context of the market testing proposed above.

## Risks

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39. Property development is inherently risky, but we can draw on previous experience to reduce these risks. Some of the key risks that will need to be managed within the context of designing and implementing KiwiBuild and the AHA include:
- a. **Policy risks:**
    - Inability to deliver homes/inability for households to purchase homes at the target price points
    - Crowding out of private sector housing developments; small residential builders may prefer secure and long-term KiwiBuild contracts over tenders for individual houses
    - Loss of momentum on existing housing supply initiatives.
  - b. **Institutional risks:**
    - Institutional capacity and capability of the AHA.
  - c. **Commercial risks:**
    - Inability to realise scale efficiencies/construction cost over-runs
    - Losses on dwelling sales
    - Inability to access finance
    - Building sector capacity constraints: skills, materials, consenting and infrastructure.
40. We would like to discuss your risk preferences further during the course of policy design.

## Next steps

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41. We would welcome an opportunity to meet with you to discuss and clarify the next steps to deliver on your priorities, particularly on the need to secure funding and the design of KiwiBuild.
42. Given the implications of KiwiBuild you might want to consider when and how to engage your colleagues on its delivery.

## Annex One: Key enablers of KiwiBuild

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### Access to land

- 1 The amount of land required to deliver the 100,000 KiwiBuild homes will depend on a range of site specific considerations, such as zoning, ground conditions and development economics. However, to provide some sense of scale, 100,000 homes is equivalent to building two cities the size of Hamilton.
- 2 The land requirements significantly exceed the amount of vacant and underutilised Crown-owned land that is both available and suitable for housing development in urban centres. You have confirmed that a mix of Crown, Crown-body (e.g HNZC), Council and privately-owned land, both brownfield and greenfield, will be utilised.
- 3 There is an existing Cabinet directive under which Government agencies must advise MBIE and HNZC of any land within urban Auckland that has become surplus to their requirements before commencing the formal disposal process, so that its utility for State housing purposes can be considered.<sup>3</sup> However, this still relies on vendor agencies actively reviewing their portfolios and making a determination that the land is surplus to their requirements.
- 4 We recommend that you discuss the potential for a more active approach to identifying Crown-owned land with housing development potential, and considering competing land use priorities from a whole-of government-perspective, with the Minister for Land Information who has overarching responsibility for the stewardship of Crown-owned land.<sup>4</sup>
- 5 There is also potential to add additional stock through expanding redevelopment and densification of HNZC's existing housing portfolio beyond its current contribution to the Crown Building Project.<sup>5</sup> However, this is complicated by the need to acquire and aggregate privately-owned properties (to fill in 'missing teeth'); demolish and write-down the value of existing buildings; and relocate existing tenants. While the net housing gain per new house constructed is lower than for greenfield developments (an important consideration given sector capacity constraints), redevelopments can achieve infrastructure cost savings and be more attractive in terms of their proximity to existing transport, amenities and services.
- 6 There is emerging evidence of private developers who have obtained resource consents, but are unable to progress their developments due to banks having tightened their lending criteria. Acquiring land from, or working with, these land-owners would assist the Government in achieving its dwelling target, and reduce the risk of crowding out private development. There is also potential to acquire and rezone large tracts of privately owned greenfield land earmarked for future development in places like north-west Auckland. Capturing the corresponding value uplift resulting from this rezoning would help to offset the costs of the associated infrastructure provision, if required (see below).

### Infrastructure

- 7 Lack of infrastructure is one of the key barriers to delivering housing at scale, particularly in greenfield locations. Many territorial authorities are approaching their debt limits, and are unwilling or unable to provide the bulk infrastructure required to progress large scale developments. Alternative funding options will need to be considered.
- 8 Crown Fibre Holdings has been repurposed (and renamed Crown Infrastructure Partners) to invest in housing infrastructure projects. Crown Infrastructure Partners is a general

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<sup>3</sup> CAB-15-MIN-0297 refers.

<sup>4</sup> LINZ had already commenced work on a State land register. It is also commencing a strategic review of the use and management of Crown-owned land, with a view to securing better decision making and value from a whole-of-government perspective.

<sup>5</sup> HNZC's Auckland Housing Programme is expected to contribute 24,000 (gross) of the 34,000 dwellings to be built under the umbrella of the Crown Building Project. However, at this stage funding (\$2.2 billion) has only been approved for stage one totalling 6,688 dwellings (4,961 net after demolishing and replacing 1,727 existing houses).

intervention to unlock capital constraints to bulk infrastructure (e.g. council debt constraints); it will investigate and trial a range of solutions. Current plans focus on developing two areas of Auckland, but the model could be expanded to other areas in support of KiwiBuild.

- 9 The Housing Infrastructure Fund (HIF), a \$1 billion fund to assist high growth councils to advance infrastructure projects important to increase housing supply, has been fully allocated amongst the eligible councils (Auckland, Waikato, Hamilton, Tauranga, Queenstown-Lakes). MBIE and NZTA are currently working with the successful councils to develop detailed business cases to confirm the infrastructure required, the costs, development timeframes and financial details.
- 10 Other options to secure private investment (such as issuing Infrastructure Bonds and creating Municipal Utility Districts (MUDs) could also be explored). Treasury can provide further advice on options for infrastructure financing at your request.

### **The commercial model**

- 11 There is a range of commercial models available to deliver KiwiBuild, particularly once the AHA is established, each involving different allocations of costs, risks and rewards between the public and private sectors. They are not mutually exclusive. You have outlined several of the roles the Crown can play, these as well as some additional options you may wish to consider, are:
  - a. **Land aggregator and reseller** – acquiring and aggregating land (both public and private), then on-selling it to iwi and/or private developers on condition that is development in accordance with certain minimum requirements (e.g. in relation to pace and price-points)
  - b. **Master planner and super-lotter** – this approach differs from the one above, in that before on-selling the super lots for further subdivision and development, the Crown would complete a comprehensive master plan for the area and install key network and social infrastructure
  - c. **Integrated developer and builder** – under this approach, the Crown would assume full responsibility for financing and delivering, or procuring delivery, of the entire development from end-to-end (including house construction)
  - d. **Underwriter** – this differs from the above approaches, in that it could also be used to de-risk development of affordable housing on privately owned-land.<sup>6</sup> For example, to encourage new affordable housing development in the 1950s the Government pledged to buy any unsold houses from developers who registered for the Group Building Scheme and built housing in accordance with certain specifications
  - e. **Financier** – providing debt and/or equity to support private developers
  - f. **Place-based coordinator and regulator** – this is essentially the role played by urban development authorities.
- 12 A multi-pronged approach would enable the Crown to tailor its approach to site specific constraints and opportunities, and provide maximum scope to leverage/complement private investment and development opportunities. However, this may require some trade-offs to be made (in terms of dwellings price points and tenure mix), given development partners will seek a commercial return commensurate with the level of their investment, effort and risk exposure. Even under a scenario where the Crown bears all of the development costs and risks, and forgoes any development margin, the target KiwiBuild price points will be challenging to achieve.

<sup>6</sup> In turn, this can reduce development costs and delays associated with the risk premiums built into development/lending margins and banks requiring developers to pre-sell dwellings prior to drawing-down development finance.

### **Construction sector capacity and capability**

- 13 The residential construction sector appears to be approaching its capacity limits, as evidenced by plateauing consenting volumes, particularly in Auckland, and rising construction costs.<sup>7</sup> These capacity constraints are partly a product of industry fragmentation. Of the 4,035 residential building companies, about 77 percent of these firms build an average of just 2.5 dwellings each year. Around 65 percent of construction firms employ just the owner.
- 14 Indicative MBIE modelling suggests that in order to build 5,000 dwellings per annum in Auckland under current settings, 17,000 construction related workers would be required; equivalent to 3.4 workers per dwelling. This estimate is conservative. It includes support workers, such as truck drivers and office staff working for construction companies. However, it does not account for the labour required to construct supporting infrastructure and non-residential buildings (e.g. schools and shops).
- 15 The KiwiBuild programme has the potential to drive a step change, by providing the scale and certainty of demand to drive sector consolidation and support investment in the innovation, plant and machinery required to drive productivity improvements (e.g. through greater use of prefabrication). Industry estimates suggest that prefabrication of standardised designs could reduce construction costs by around 15 percent and time by around 60 percent. Standardisation could also reduce consenting delays.<sup>8</sup> However, it will take time for these changes to take effect.
- 16 In the short-term, we propose supporting you to commence engagement with the Minister(s) for Education and Immigration regarding the potential to fast-track the KiwiBuild Visa and Dole for Apprenticeships schemes, or similar initiatives, to relieve capacity constraints in the construction sector. In the absence of ramping up sector capacity, there is a risk that the KiwiBuild Programme will simply crowd-out private developments.

### **Demand and affordability**

- 17 There are three key risks from a housing demand and affordability perspective:
  - a. The Crown is unable to realise sufficient cost savings (through economics of scale and efficient land use) to build houses at the target price points
  - b. Households receive windfall gains due to the target price points being less than the properties' market values
  - c. There are insufficient first home-buyers willing and able to purchase dwellings at the target price points.
- 18 Indicative modelling suggests that a first home-buyer would need to be earning around \$114,000 (compared to the median household income of ~ \$90,000) in order to purchase a stand-alone KiwiBuild house in Auckland.<sup>9</sup> Analysis of the Auckland housing market in 2015 suggested that only 25,000 Auckland private rental households in paid employment could afford to purchase a house at the then lower quartile price of around \$500,000.<sup>10</sup> It is not known how many of these households actually wanted to purchase a house, or whether a lower-quartile priced house would have been suitable in terms of its size and location.
- 19 In order to secure enough purchasers, the target market may need to be extended to a broader group of prospective purchasers (including institutional or other investors e.g. iwi) or

<sup>7</sup> Residential construction costs increased by 31 percent between 2010 and 2017.

<sup>8</sup> Builders wishing to replicate the same design multiple-times can apply to MBIE for national multiple-use approval (known as a MultiProof). This is statement confirming that a set of plans and specifications meets the requirements of the Building Code. Building Consent Authorities must process MultiProof building consent applications within 10 working days instead of the usual 20.

<sup>9</sup> Assuming a 10 percent deposit on a \$500,000 house, 25 year mortgage term (interest and principal repayments) at the current floating rate of 5.8 percent, and mortgage payments not exceeding 30 percent of gross household income.

<sup>10</sup> BRANZ research report ER5: Can Work, Cannot Afford to Buy - the Intermediate Housing Market (August 2015).

additional financial support (such as shared ownership) provided. We note that your Māori housing manifesto includes a commitment to investigate the option of shared equity and rent to buy for KiwiBuild houses with iwi.

- 20 As part of your confidence and supply agreement with the Green Party, you have agreed that a rent-to-own scheme or similar progressive ownership model will be developed as part of KiwiBuild. A shared equity scheme could also be used to manage the risk of windfall gains, with the Crown retaining the difference between build costs and market value as an equity share, which the purchaser could acquire over time at the prevailing market value. You may also wish to consider the role of the Accommodation Supplement in relation to a rent-to-own scheme. MBIE has provided further information on the options available for progressive ownership in our *Home Ownership Pathways and Improving the Experience for Those Who Rent* briefing [MBIE 0738 17-18 refers].

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## Annex Two: DBH Protocol & Mahi Ngatahi Agreement

- 21 The Crown is expected to act in a manner consistent with the principles of the Treaty of Waitangi, being:
- a. **Partnership.** The Crown and Māori have a positive duty to act in good faith, fairly, reasonably and honourably towards each other
  - b. **Active Protection.** The Crown has a duty to protect Māori property interests and taonga
  - c. **Redress.** Past wrongs give rise to a right to redress.
- 22 Crown-owned land (and some Crown-body owned land) may be subject to rights of first refusal (RFR) or other Treaty settlement obligations. For example, most of the Crown-owned land in Auckland is subject to an RFR in favour of the Whenua Haumi Roroa o Tāmaki Makaurau Limited Partnership (Limited Partnership). The Limited Partnership is the commercial post settlement governance entity of the 13 iwi and hapū who received collective Treaty redress via the Ngā Mana Whenua o Tāmaki Makaurau Collective Redress Act 2014 and corresponding Redress Deed.<sup>11</sup>
- 23 There is an exception to the Limited Partnership's RFR enabling the Crown to dispose of RFR land held for State housing purposes, whether to a Crown body or private party. However, the exercise of this exception is subject to the Department of Building and Housing (now MBIE) Protocol. Under the terms of the Protocol, if the Crown wishes to develop and dispose of land to achieve its housing objectives and involve a party other than the Crown in that development (e.g. a Crown entity), MBIE must first offer the Limited Partnership the opportunity to be the developer.<sup>12</sup>
- 24 s 9(2)(g)(i)
- 25 There is also a range of other RFRs applying to Crown (and in some cases Crown-body) owned land, both in Auckland and throughout the country. Where Crown-owned land is not subject to an RFR, the Crown may nevertheless have an obligation to retain that land as redress for future Treaty settlements. The Crown must also consider the potential impact of other actions (e.g. the use of cut-through planning powers) on Māori interests.
- 26 In MBIE's experience, many iwi share common or complementary objectives with the Crown and are keen to partner with the Crown to achieve these objectives. Some Māori/iwi organisations have already entered into development agreements with the Crown. As more iwi settle their claims, they will play an increasingly important role as both developers and long-term investors in the housing market. However, because the central Treaty relationship is between the Crown and iwi, there is a range of Crown functions that the Crown will need to retain responsibility for if the Authority is established as a Crown entity, as proposed.
- 27 The potential interdependencies with, and implications for, Te Puni Kōkiri's Māori housing functions and network will also need to be considered.<sup>14</sup>

<sup>11</sup> Each of the iwi and hapū also has, or is negotiating, an individual settlement – some of which contain separate RFRs.

<sup>12</sup> For the purposes of the Protocol, the definition of the Crown is limited to the Sovereign, Ministers and departments. It expressly excludes Crown entities, SOEs and other similar entity types.

<sup>13</sup> MBIE has also entered into the Housing Mahi Ngātahi Agreement with the 13 iwi and hapū, which reinforces the Crown's commitment to honouring the Protocol. It sets out the ways the parties will work together to achieve their common objectives, including in relation to non-RFR land and with respect to the advancement of He Whare Āhuru He Oranga Tāngata – The Māori Housing Strategy.

<sup>14</sup> The Māori Housing Network supports whānau, hapū and iwi with information, advice and practical support to improve and develop Māori housing.

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## BRIEFING

### Leveraging and enhancing the existing Crown Land Development Programme to contribute to KiwiBuild objectives

<b>Date:</b>	6 November 2017	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0801 17-18

Action sought		
	Action sought	Deadline
Hon Phil Twyford <b>Minister of Housing and Urban Development</b>	Agree to meet with officials to discuss your priorities, preferences and next steps for the Crown Land Development Programme.	Friday 10 November 2017
Hon Jenny Salesa <b>Associate Minister of Housing and Urban Development</b>	Information only.	

Contact for telephone discussion				
Name	Position	Telephone		1st contact
Jo Doyle	General Manager, Construction and Housing Markets	04 901 8730	s 9(2)(a)	
Matt Fraser	Manager, Crown Land Development Programme	04 901 8652	s 9(2)(a)	✓

The following departments/agencies have been consulted					
<input type="checkbox"/> Treasury	<input checked="" type="checkbox"/> DPMC	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
		<input type="checkbox"/> Other:			

Minister's office to complete:

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

Comments:





# BRIEFING

## Leveraging and enhancing the existing Crown Land Development Programme to contribute to KiwiBuild objectives

Date:	6 November 2017	Priority:	Medium
Security classification:	In Confidence	Tracking number:	0801 17-18

### Purpose

This briefing provides you with background information on the existing Crown Land Development Programme (the Programme) and advice on how it can be leveraged and enhanced to quickly contribute to your KiwiBuild objectives.

### Executive summary

The Programme was established in December 2015 to acquire vacant or underutilised Crown-owned land and then on-sell to iwi / private developers on condition that they deliver a proportion of new dwellings built as public housing and/or sold at prices attainable for first home buyers.

\$252.2 million capital was appropriated to the Programme in Budgets 2015, 2016 and 2017 to fund land acquisitions. **s 9(2)(j)**

The Programme is currently fiscally neutral to the Crown with all development risks such as regulatory approvals, financing, sales risks, construction costs and timing resting with the developer. The Crown is expected to recover the land value in full and in most cases the Government will also be entitled to receive a share of any profits achieved above an agreed margin.

In the past 2 years the programme has achieved:

- Establishment of a private developer panel with collective capacity to build over 4,000 dwellings per annum.
- Acquisition of five sites<sup>1</sup> in Auckland and assumed the responsibility for the on-going management of three Crown developments in Christchurch. We have also entered negotiations to acquire a further three sites in Auckland and Queenstown. Collectively, these sites are expected to yield approximately 2,000 dwellings (1,157 in Auckland, 424 in Christchurch and 400 in Queenstown).
- Completion of 123 homes across two sites in Auckland and Christchurch.
- Establishment of a site identification and assessment database: currently 43 Crown-owned sites in Auckland on 135 hectares are ready for assessment of suitability for residential development.
- Approval of a business case to expand the Programme to include Queenstown in August 2017.
- Developed strong, transparent and proactive working relationship with the 13 Auckland iwi that represent Ngā Mana Whenua o Tāmaki Makaurau, and with Ngāi Tahu properties on development opportunities in Queenstown.

<sup>1</sup> Note: a development at 1550 Great North Road, Auckland, was made possible via the Programme through acquisition and on-sale with conditions to Housing New Zealand (HNZ). Housing outcomes for Great North Road are reported via HNZ.

The Programme is readily scalable and the existing platform, pipeline of sites and relationships formed with iwi and private developers can be leveraged to quickly contribute to the implementation of your priorities. Further success can be achieved by enhancing the Programme through expanding the mandate to other regions, including private land and distressed properties, reviewing the way Crown-owned land is administered and the underwriting of private developments.

## Recommended action

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The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **Note** the Programme was established in December 2015 under which MBIE:
- I. acquires any available parcels of vacant or underutilised Crown-owned land in Auckland that is suitable for residential development;
  - II. on-sells that land to iwi/developers, who use their own capital to develop the land for housing and assume the corresponding development and sales risk,
  - III. requires that each site delivers outcomes with respect to:
    - i. increasing total housing supply;
    - ii. the pace of construction; and
    - iii. the proportion of new dwellings built for public housing and/or sold at prices attainable for first home buyers<sup>2</sup>
- b **Note** that \$252.2 million capital was appropriated to the Programme in Budgets 2015, 2016 and 2017 to fund land acquisitions, and a s 9(2)(j)
- c **Note** the Programme has s 9(2)(j)
- Combined with the three Christchurch developments, these sites are expected to yield approximately 2,000 dwellings (1,157 in Auckland, 424 in Christchurch and 400 in Queenstown).
- d **Note** there is opportunity to enhance the Programme and contribute to your priorities by expanding the mandate to other regions and including private land and distressed properties, reviewing the way Crown-owned land is administered and the underwriting of private developments.
- e **Note** officials have initiated discussions with iwi and development partners on revising offer terms to reflect KiwiBuild objectives within existing developments.
- f **Note** that revising offer terms to reflect KiwiBuild objectives within existing developments may result in subsidising developments to a currently unknown cost.

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<sup>2</sup> Prices attainable for first home buyers is defined by the relevant KiwiSaver HomeStart price cap, currently \$650,000 in Auckland and \$550,000 in other regions.

- g **Agree** to meet with officials to discuss how to leverage and enhance the existing platform, pipeline of sites and established relationships with iwi and private developers to quickly contribute to KiwiBuild objectives while an Affordable Housing Authority is established.

*Agree / Disagree*

Jo Doyle  
**General Manager**  
Construction and Housing  
Markets, MBIE  
..... / ..... / .....

Hon Phil Twyford  
**Minister of Housing and  
Urban Development**  
..... / .....

## **Background**

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1. It is estimated that the top 15 land holding Government agencies administer Crown-owned land worth around \$41 billion. In Auckland alone there is estimated to be around 100 hectares of vacant or underutilised Crown-owned land zoned for housing. To date, the Vacant and Underutilised Crown Land Development Programme (the Programme) has acquired approximately 22 hectares in Auckland, and has pending negotiations on a further 17 hectares with a total potential yield of 1,157 homes.
2. The Programme was established in December 2015 under which Ministry Business Innovation and Employment (MBIE):
  - I. acquires, from the Crown agency that currently holds it, any available parcels of vacant or underutilised Crown-owned land that is suitable for residential development;
  - II. on-sells that land to iwi/developers, who use their own capital to develop the land for housing and assume the corresponding development and sales risk;
  - III. requires that each site is developed in a way that contributes to the Government's social objectives in relation to housing, in particular by delivering outcomes with respect to:
    - i. increasing total housing supply;
    - ii. the pace of construction; and
    - iii. the proportion of new dwellings built for public housing and/or sold at prices attainable for first home buyers.
3. Across the Programme as a whole, at least 20 percent of the new dwellings must be made available for public housing, with a further 20 percent sold at prices attainable to first home buyers (i.e. below the relevant KiwiSaver HomeStart price cap) [CAB-15-MIN-0297 refers].
4. In Budgets 2015, 2016 and 2017 \$252.2 million capital was appropriated to the Programme to fund land acquisitions of Crown-owned land and any adjacent land (local government or privately-owned) that can be aggregated to improve outcomes.

5. The Programme is currently fiscally neutral to the Crown with the Crown expected to recover this money in full when the land is on-sold. In most cases the Government will also be entitled to receive a share of any profits achieved above an agreed margin.

6. s 9(2)(j)

7. s 9(2)(j)

### **Prospective development partners: Iwi and private developers**

8. Most of the Crown-owned land in Auckland is subject to Right of First Refusal (RFR) under the Ngā Mana Whenua o Tāmaki Makaurau Collective Redress Deed and corresponding Act 2014. Iwi with RFR over Crown land get the first opportunity to develop sites within the Programme. MBIE has established a strong, transparent and proactive working relationship with the 13 Auckland iwi and hapū that collectively make up Ngā Mana Whenua o Tāmaki Makaurau, and with Ngāi Tahu properties on development opportunities in Queenstown.

<b>Ngā Mana Whenua o Tāmaki Makaurau (Tāmaki Collective)</b>		
<b>Marutūāhu Rōpū</b>	<b>Waiohūa Tāmaki Rōpū</b>	<b>Ngāti Whātua Rōpū</b>
Ngāti Maru Ngāti Pāoa Ngāti Tamatera Ngāti Whanaunga Te Patukirikiri	Ngai Tai ki Tāmaki Ngāti Tamaoho Ngāti Te Ata Te Ākitai Waiohūa Te Kawerau ā Maki	Te Rūnanga o Ngāti Whātua Ngāti Whātua Ōrakei Ngāti Whātua o Kaipara

9. We have established a private developer panel (the Panel) ranked by capability for low, medium or high density developments. The Panel has a collective capacity to build over 4,000 dwellings per annum and is offered any development opportunities that are not subject to RFR or once the Crown has fulfilled its Treaty settlement obligations (e.g. where iwi decline the opportunity).

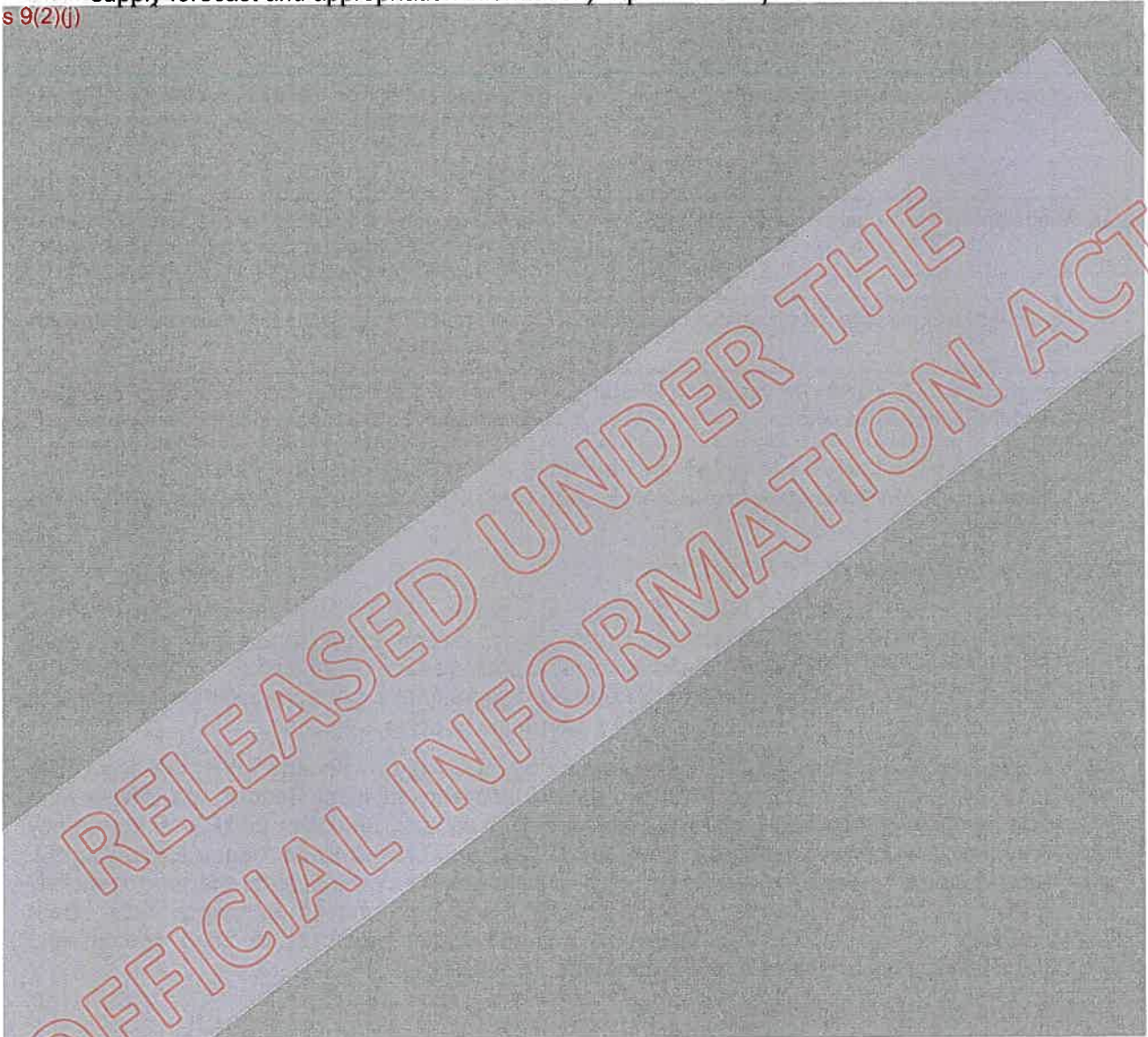
<b>Low density panel</b>	<b>Medium density panel</b>	<b>High density panel</b>
1. Fletcher Residential Limited	1. Ockham Residential	1. Fletcher Residential Limited
2. The Neil Group Limited	2. Fletcher Residential Limited	2. Classic Group Limited
3. Classic Group Limited	3. Classic Group Limited	3. Urban Growth Partners

10. A number of individual rōpū, iwi and hapū have formed strategic alliances with private developers (including those from the Panel), creating development entities responsible for designing and delivering development schemes that align with the Programme's objectives. For example, the New North Rd development is being undertaken by a partnership comprising Marutūāhu Rōpū and Ockham Residential. Fletcher Residential is also partnering with Ngāti Whātua Ōrakei in the Moire Road development.

### **Programme progress to date**

11. To date, we have acquired five sites<sup>3</sup> in Auckland and assumed the responsibility for the on-going management of three Crown developments in Christchurch. We have also entered negotiations to acquire a further three sites in Auckland and Queenstown. Collectively, these sites are expected to yield approximately 2,000 dwellings (1,157 in Auckland, 424 in Christchurch and 400 in Queenstown). A summary of progress on all the sites is provided in the table below. More detail on development progress and Programme metrics (including supply forecast and appropriation information) is provided as part of Annex 1.

s 9(2)(j)



12. We have also established a site identification and assessment database that currently consists of an additional 135 hectares in 43 aggregated Crown-owned sites. Not all of these sites will be suitable for residential development (e.g. zoning restrictions). We will seek your approval to acquire any of these additional sites if they are suitable as we progress through the site assessment process.

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<sup>3</sup> Note: a development at 1550 Great North Road, Auckland, was made possible via the Programme through acquisition and on-sale with conditions to Housing New Zealand (HNZ). Housing outcomes for Great North Road are reported via HNZ.

## Key challenges and opportunities

13. We have identified several key challenges in acquiring and facilitating the development of vacant and underutilised Crown land.

Challenges	Opportunities
The difficulty of identifying Crown-owned land with housing development potential as there is no consolidated register of Crown-owned land.	Establish a central register of Crown-owned land (Note: LINZ is commencing this work).
Convincing agencies to part with land.	Strategic review of the administration of Crown-owned land, including requiring vendor agencies to apply a more active approach to reviewing their portfolios.
Agreeing appropriate valuation methodology.	Question vendor agencies' price expectations and agree realistic valuation assumptions. Seek review on valuation for Crown to Crown transfers.
Crown-owned land suitable for residential development is limited.	Scale up the Programme to include the acquisition of private land.
Achieving commercial viability by on-selling land at no less than MBIE's acquisition cost.	Using the \$10 million land acquisition operating contingency to directly subsidise developments.

14. There is opportunity to leverage and enhance the existing platform, pipeline of sites and established relationships with iwi and private developers to quickly contribute to KiwiBuild objectives.

### *Expanding the mandate of the Programme*

15. Currently the Programme has a mandate to acquire land in Auckland and Queenstown. There is an existing Cabinet directive under which Government agencies must advise MBIE of any land within urban Auckland surplus to their requirements before commencing the formal disposal process. This directive and the Programme's mandate could be amended to cover other locations where Public and/or affordable housing is needed.
16. There is potential to scale up the Programme by including private land within the acquisition mandate (currently restricted to Crown-owned land and adjacent Council and private land that can be aggregated to improve outcomes). Crown land is subject to RFR, and currently only one development within the Programme has been offered to the Panel. Expanding the Programme to include non-RFR land (e.g. private land or developments that are financially distressed), could increase opportunities for Panel participation to unlock their spare capacity. In addition this will allow iwi and the Panel members to bring private land development opportunities to the Programme.

### *Underwriting private developments*

17. The Crown could take a different role in developments by underwriting any unsold supply. This could be used to de-risk development of affordable housing on privately owned-land and allow developments to progress that may have previously been deemed too risky.

### *Reviewing the way Crown-owned land is administered*

18. There is potential to streamline the process of identifying and freeing-up Crown-owned land with housing development potential by requiring vendor agencies to apply a more active approach to reviewing their portfolios and considering competing land use priorities from a whole-of government-perspective (i.e. so the land's potential for housing can be considered).

## **Next steps: Upcoming Ministerial decisions and announcements**

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19. The existing Programme currently has housing delivery momentum and continues to accelerate with several existing and potential developments approaching key points for your decision.
20. We anticipate submitting the following briefings for your approval over the next four months:

s 9(2)(j)

21. You have asked for a stocktake of housing developments that can contribute to KiwiBuild objectives, including developments within the Programme. We have initiated early discussions with iwi and development partners seeking to revise offer terms to incorporate KiwiBuild objectives into existing developments where possible.
22. The Programme has a current mandate to supply 20 per cent of dwellings at affordable price points (i.e. below the relevant KiwiSaver HomeStart price cap, currently \$650,000 in Auckland and \$550,000 in other regions). We will seek to revise offer terms where possible to include homes delivered at under \$600,000 (stand-alone) and under \$500,000 (apartments and terraced houses) in Auckland, and under \$500,000 in other regions.
23. We will seek your approval at later dates to amend specific agreements where possible to reflect KiwiBuild objectives in our acquired and yet to be acquired sites and will update you as these negotiations with iwi and development partner's progress.
24. These revisions are likely to come at a cost as we may need to subsidise developments, for example through a reduction in the land sale price. The exact amount of any subsidy is unknown at this point as it will vary between developments.
25. We will provide you with key decision briefings as outlined in the table above. These decisions and milestone achievements will potentially provide opportunity for media announcements. We will provide you with further updates on these opportunities through the weekly status report.
26. In the meantime we would welcome an opportunity to meet with you to discuss in more detail how the existing platform, pipeline of sites, established relationships with iwi and private developers can be leveraged and enhanced to quickly contribute to KiwiBuild objectives.

## **Annexes**

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Annex 1: Crown Land Development Programme dashboard and construction timeline - 30 October 2017

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## BRIEFING

### Stocktake of Auckland housing developments

<b>Date:</b>	13 November 2017	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0887 17-18

Action sought		
	Action sought	Deadline
Hon Phil Twyford <b>Minister of Housing and Urban Development</b>	Agree to meet with the Minister of Finance to discuss measures to increase your oversight of agencies and entities involved in the delivery of KiwiBuild; Agree to seek the same information for other regions facing housing pressures	24 November 2017
Hon Jenny Salesa <b>Associate Minister of Housing and Urban Development</b>	For information	

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Jo Doyle	General Manager, Construction and Housing Markets	04 901 8730	s 9(2)(a)	✓
Scott Gallacher	Deputy Chief Executive, Housing, Ministry of Social Development	04 931 2360	s 9(2)(a)	✓ For Public Housing Items
Matt Fraser	Manager, Crown Land Development Programme	04 901 8652	s 9(2)(a)	

**The following departments/agencies have been informed/ consulted**

<input type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input checked="" type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
		<input type="checkbox"/> Other:	HLC, HNZC, TRC		

**Minister's office to complete:**

- Approved
- Noted
- Seen
- See Minister's Notes

- Declined
- Needs change
- Overtaken by Events
- Withdrawn

**Comments:**

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# BRIEFING

## Stocktake of Auckland housing developments

<b>Date:</b>	13 November 2017	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0887 17-18

### Purpose

This briefing responds to your request for a stocktake of all Crown facilitated development in Auckland. You have also asked for advice on opportunities to increase proportions of public/ and KiwiBuild housing within those projects.

This is a first briefing, containing the information agencies have collated on their existing pipelines in the time available. We anticipate providing you further advice in December once we have more complete information from agencies and entities.

### Recommended actions

The Ministry of Business, Innovation and Employment recommends that you.

- a. **agree** to meet with the Minister of Finance to discuss measures to increase your oversight of agencies and entities involved in the delivery of KiwiBuild;  
YES / NO
- b. **agree** to seek similar information on the pipeline and KiwiBuild opportunities for other regions facing housing pressures.  
YES / NO

Jo Doyle  
**General Manager**  
Construction and Housing Markets, MBIE

..... / ..... / .....

Hon Phil Twyford  
**Minister of Housing and Urban Development**

..... / ..... / .....

## Background

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1. You have asked for a stocktake of all Crown facilitated development<sup>1</sup> in Auckland and opportunities to increase proportions of public and KiwiBuild housing within those projects.
2. This briefing contains the stocktake, and preliminary advice on opportunities. More time is required by agencies to compile information on the options to amend development projects to deliver increased proportions of public housing and KiwiBuild, in particular the large redevelopments being led by Tāmaki Regeneration Company (TRC) and Housing New Zealand Corporation (HNZC).
3. TRC would like to meet with you to discuss its letter of 7 November before providing an estimate of opportunities to increase KiwiBuild within the Tāmaki redevelopment. HNZC has provided initial information on the typologies it considers appropriate for KiwiBuild. We would like to confirm with you the suitability or otherwise of this proposal before seeking further information from HNZC.
4. We anticipate providing you with significantly more detail on the estimates of public and KiwiBuild dwellings able to be delivered including the price points, costs, options and trade-offs, in further advice in December.
5. The information in this briefing provides you with:
  - a. an overview of the size of the housing pipeline by year for the current and next nine financial years;
  - b. some information on the amount of public and KiwiBuild housing already in the pipeline, to the extent this has been made available by agencies.
6. We also report on both State housing provided by HNZC and community housing procured by MSD and provided by Community Housing Providers (together, public housing).
7. We have defined KiwiBuild as dwellings that are currently planned within developments priced:
  - a. at \$500,000 or below for apartments and terraced houses;
  - b. at \$600,000 or below for standalone dwellings
8. Advice you have received separately from MBIE is also relevant to the matters covered in this paper, including Implementing KiwiBuild [MBIE 0739 17-18]. MSD is responsible for securing the supply of public housing, and has provided you separate advice on options to increase the procurement of public housing.

## Stocktake of Crown facilitated developments in Auckland

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### Crown agencies and entities

9. We have compiled information on the number of forecast dwellings of public and market housing out to 2026/27 by:
  - a. core-Crown:, the MBIE Crown land development programme and MSD's community housing procurement programme;
  - b. Crown entities:, HNZC and its wholly owned subsidiary Homes. Land. Community (HLC); and
  - c. TRC, which is jointly owned with Auckland Council and is a Public Finance Act Schedule 4A Company.
10. The forecast is attached in the table at **Annex One**.

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<sup>1</sup> We have understood Crown facilitated to mean Crown-lead projects as well as those being lead by Crown entities and the Tamaki Regeneration Company, in which the Crown has a majority shareholding.

## Summary of the Stocktake – public and market housing

11. The Stocktake suggests, with the caveats and limitations attached, that agencies are currently planning to build or secure 33,508 new dwellings across Auckland from 2017/18 to 2026/27. Of these 13,523 public houses will be delivered to 2026/27.
12. As the HNZC and TRC redevelopments require demolitions the net increase in total dwellings will be 25,233.
13. The table attached in **Annex Two** sets out the caveats and limitations on the totals in Annex One. These are different for each agency because of the different constraints on each of their projects.
14. As you intend 50 percent of KiwiBuild targets to be delivered outside of Auckland we also recommend commissioning advice on the opportunities to deliver KiwiBuild across these regions.

## Existing projects that fit KiwiBuild criteria

15. As part of the stocktake, agencies with the information available provided us with the numbers of existing housing which would meet KiwiBuild criteria. This information was not possible to compile for all agencies as:
  - a. information on the proportions of dwellings within the \$650,000 HomeStart cap has been collected to date but not information on housing below \$600,000 or \$500,000. TRC was unable to quickly investigate their projects;
  - b. HNZC focused on what it could potentially deliver if an increased price was available for terraced housing, not existing projects that would meet the KiwiBuild criteria.
  - c. HLC provided its count of dwellings under \$500,000 and \$600,000 but the typologies are not a match to your KiwiBuild typologies.<sup>2</sup>
16. These estimates are included in **Annex Three**.
17. The KiwiBuild criteria are not relevant to Ministry of Social Development (MSD) which has instead provided project by project detail on its forecast procurement of community housing which is included in **Annex Four**.

## Housing New Zealand forecasts

18. HNZC and HLC are jointly responsible for HNZC's redevelopments. HNZC and HLC have advised, should you be prepared to increase the price for terraced housing from \$500,000 to \$600,000, these agencies can deliver 5000 new houses as KiwiBuild out of 20,000 dwellings without additional direct subsidy. HNZC also anticipates that it can deliver apartments at around \$500,000, but this will be challenging.
19. HNZC and HLC note that terraced housing provides more desirable urban development outcomes than standalone housing, including with respect to density and privacy, and should be preferred.
20. Of HNZC's other development projects at least an additional 800 houses could be delivered on its proposed criteria for KiwiBuild with some trade-offs for State Housing.
21. HNZC also estimates, with additional funding, it could potentially increase its State Housing delivery from 7000 dwellings to 7,600 across its projects.

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<sup>2</sup> Of HLC's 435 homes contracted but not yet sold: 140 will be terraced, walk-up or apartments at or below \$500,000. A further 190 will be between \$500,000 and \$600,000. None are freestanding homes but HLC expect more than 100 of these will be terraced or walk-up homes rather than apartments.

## Opportunities to increase proportions of public/KiwiBuild housing

22. This section of the briefing provides high-level advice on the opportunities to increase the proportions of public/ KiwiBuild housing within the planned developments, including the risks and challenges for the Crown.
23. As above, we will provide you with further advice on the costs, options and trade-offs of the opportunities to increase proportions of KiwiBuild in December. At this stage not all costs are included in the headline numbers.

### *Ministers' levers*

24. We recommend you meet with the Minister of Finance to discuss measures to increase your oversight of agencies and entities to include good information on the delivery of KiwiBuild.
25. The Crown is unable to direct the activities of Crown entities and schedule 4A companies. Shareholding Ministers are able to influence these agencies through annual Letters of Expectation, and also have oversight of spending against appropriations through the Statement of Performance Expectations. Crown entities typically provide quarterly reports on their progress against expectations.
26. In the interim, before changes to the current institutional arrangements are implemented, you will be able to incorporate your objectives for public housing and KiwiBuild into Letters of Expectation. We also recommend that the quarterly reporting provided by agencies include progress against public and KiwiBuild targets and risks to delivery. The forecasts provided by agencies should also differentiate between developments at different stages: forecast; high level planning / master-planning; designed, and progress on consenting.
27. Alongside the quarterly reports, you will be advised on issues worthy of Ministerial follow-up (for example policy, clarification, remedial action).
28. You have direct levers to increase the proportions of public and KiwiBuild housing when it comes to MSD's purchasing strategy for state and community housing and MBIE's Crown land development programme.

### *Increasing proportions of KiwiBuild*

29. We anticipate there will be at least four categories of development projects for you to consider, with the first three involving trade-offs between pace, price and delivery. This is particularly relevant to TRC where planning is well advanced. The development projects will either be those where:
  - a. **housing delivery is contracted and potentially pre-purchased:** the majority of Hobsonville Point falls into this category as well as other well progressed projects across agencies. To increase proportions of KiwiBuild in these developments will – at the least – require renegotiation of contracts, and is also likely to create issues with resource consents. As a consequence, we do not recommend changes to these projects to increase proportions of KiwiBuild outside opportunities agencies identify at the margins.
  - b. **design and planning has been completed, but developers are still to be contracted or consents granted:** decisions to increase proportions of KiwiBuild may involve trade-offs of cost and pace. There will be some opportunities within these developments to increase proportions of KiwiBuild, but to avoid delay a higher proportion of these may need to be through direct subsidy or other funding (as opposed to design changes to increase inherent affordability);
  - c. **design has been initiated:** there will likely be delays to reconfigure typologies to increase proportions of inherently affordable housing. Nevertheless, it may be worth promoting changes as this project stage is typically before significant costs have been incurred;

- d. **design has not been initiated:** at this stage in the delivery of KiwiBuild you should have the ability to achieve scale. However, agencies have less certainty about all the inputs at this stage, and all estimates are significantly less reliable. You will need to consider the level of additional investment required and how much housing to progress before additional tools are available through the future structures of the urban development authority.
30. As an illustration, Table 1, below, provides the relative proportions of housing within each of these development categories for the TRC, with notes on each stage.

<b>Table 1: Stages of developments within Tāmaki Regeneration</b>				
<b>Category</b>	<b>Split public / non-public</b>		<b>Total</b>	<b>Comments from TRC</b>
<b>Contracted for Delivery/Delivered</b>	25% - 122	75% - 361	483	Design and typology locked
<b>Under procurement or with Resource Consent in place</b>	32% - 168	68% - 361	529	Design and typology effectively locked
<b>Design initiated</b>	30% - 142	70% - 329	471	Designs underway, amending typologies may significantly affect delivery timeframe or business case for these projects
<b>Design not yet initiated</b>	33% - 542	67% - 1110	1652	
<b>Totals</b>	<b>31% - 974</b>	<b>69% - 2161</b>	<b>3135</b>	

## Next steps

31. We recommend you have a discussion with the Minister of Finance on the reporting for Crown entities and agencies to ensure you have good oversight of the delivery of KiwiBuild and public housing as new structures for HNZA and the governance and delivery of your KiwiBuild programme are established.
32. We will provide you with further advice on KiwiBuild incorporating agencies' comprehensive information on the opportunities to increase proportions of public and KiwiBuild housing within existing Auckland developments including costs and trade-offs, in December.
33. A Cabinet paper seeking the decisions necessary to establish KiwiBuild will be provided to your office in time to enable the paper to be considered by Cabinet before end 2017.



## **Annexes**

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Annex One: Stocktake of Auckland housing projects.

Annex Two: Limitations of housing / dwelling forecasts

Annex Three: Overview of KiwiBuild eligible housing within existing developments

Annex Four: Ministry of Social Development's forecasts.

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## Annex One: Pipeline of Government led Developments in Auckland to 2026/27<sup>3</sup>

Pipeline of Government led Developments in Auckland to 2026/27, by Type (community, state, market)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Community Housing Dwellings Built	186	344	786	94	58	31	50	60	50	10	1,669
State Housing Dwellings Built	1,022	1,848	1,094	1,283	1,295	1,302	1,300	1,304	1,301	105	11,854
Public Housing Dwellings Built	1,208	2,192	1,880	1,377	1,353	1,333	1,350	1,364	1,351	115	13,523
Market Dwellings Built <sup>4</sup>	901	1,487	2,706	2,462	2,599	2,560	2,469	2,281	2,235	285	19,985
<b>Total Dwellings Built</b>	<b>2,109</b>	<b>3,679</b>	<b>4,586</b>	<b>3,839</b>	<b>3,952</b>	<b>3,893</b>	<b>3,819</b>	<b>3,645</b>	<b>3,586</b>	<b>400</b>	<b>33,508</b>
<b>Demolitions of existing stock</b>	<b>(688)</b>	<b>(717)</b>	<b>(282)</b>	<b>(1,076)</b>	<b>(1,095)</b>	<b>(1,094)</b>	<b>(1,083)</b>	<b>(1,066)</b>	<b>(1,038)</b>	<b>(136)</b>	<b>(8,275)</b>
<b>Net New Dwelling Supply</b>	<b>1,421</b>	<b>2,962</b>	<b>4,304</b>	<b>2,763</b>	<b>2,857</b>	<b>2,799</b>	<b>2,736</b>	<b>2,579</b>	<b>2,548</b>	<b>264</b>	<b>25,233</b>
<b>Cumulative Net New Supply</b>	<b>1,421</b>	<b>4,383</b>	<b>8,687</b>	<b>11,450</b>	<b>14,307</b>	<b>17,106</b>	<b>19,842</b>	<b>22,421</b>	<b>24,969</b>	<b>25,233</b>	

<sup>3</sup> As at 27 October 2017 - includes Crown, Crown entity and Crown agency developments.

<sup>4</sup> Although the government has previously collated information on the amount of housing planned out to 2026/27 at or below the previous \$650,000 HomeStart threshold, we have not separately included this in the totals. All these dwellings are included in the "Market Dwellings Built" row.

## Annex One cont.: Pipeline of Developments in Auckland to 2026/27<sup>5</sup>

### Pipeline of net delivery by Agency (all cumulative)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Tamaki Regeneration Company (TRC)	145	321	475	575	698	845	995	1,174	1,372	1,586	1,586
Housing New Zealand (HNZ)	529	2,209	4,649	6,433	8,495	10,595	12,695	14,795	16,895	16,895	16,895
Homes. Land. Community (HLC)	500	1,000	1,500	1,900	2,300	2,700	2,936	2,936	2,936	2,936	2,936
MBIE Crown Land Development Programme (CLDP) <sup>6</sup>	72	411	935	1,414	1,686	1,838	2,088	2,388	2,638	2,688	2,688
MSD and Other New House Builds <sup>7</sup>	175	442	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128	1,128

<sup>5</sup> As at 27 October 2017 - includes Crown, Crown entity and Crown agency developments.

<sup>6</sup> Excludes housing being delivered for Community Housing Providers which is counted with MSD, in particular, the 58 dwellings at Moire Road.

<sup>7</sup> These numbers reflect the three year horizon of MSD's Purchasing Strategy and Intentions, with MSD updating its demand forecasts for the release of another set of Purchasing Intentions, either later this year or early 2018.

## Annex Two: Limitations of housing / dwelling forecasts

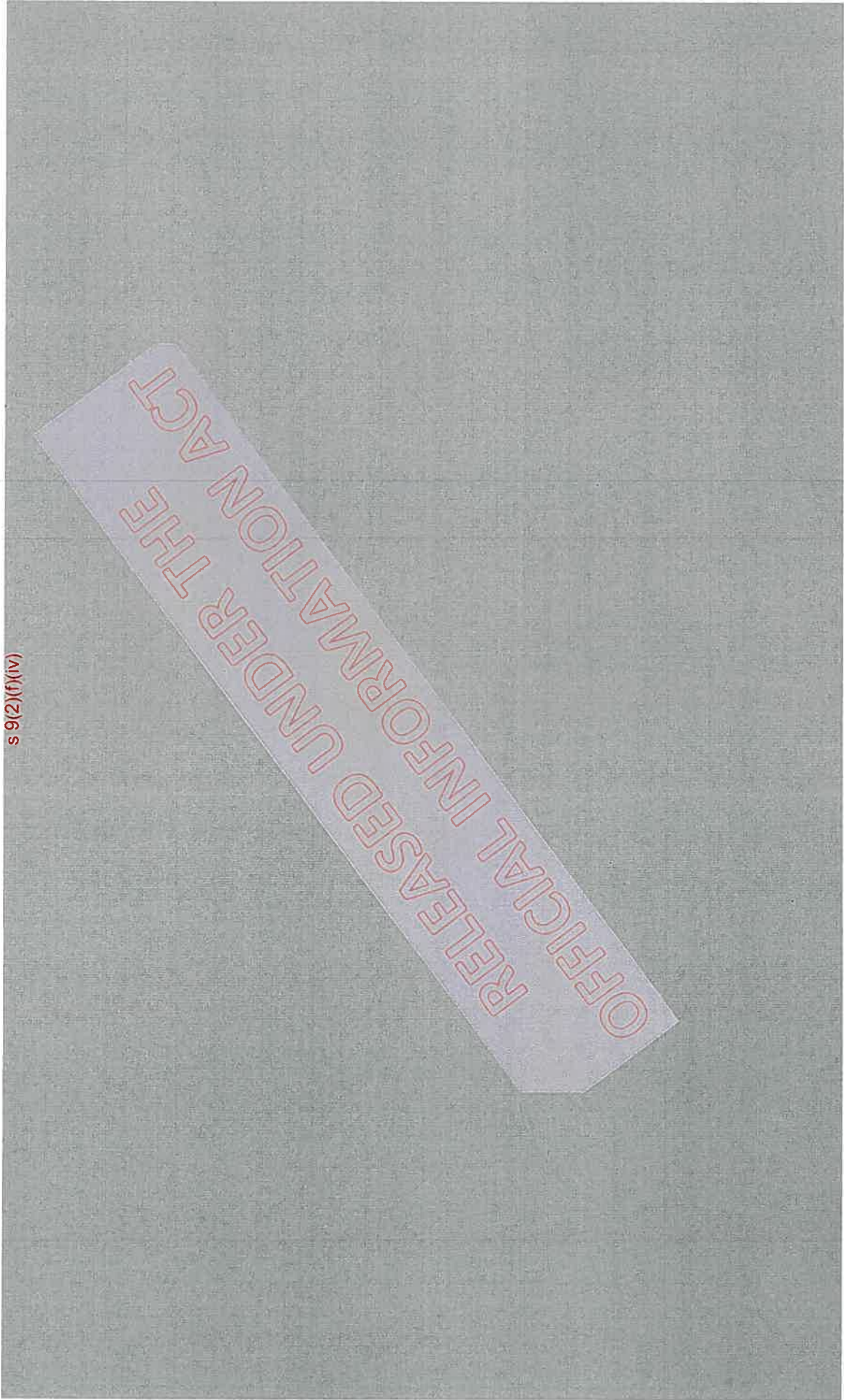
Agency / development programme	Limitation / caveat on forecast
MSD public housing procurement	MSD's separate substantive paper on increasing public housing supply (dated 10 November) addresses the current issues that need to be addressed for a strengthening of this part of the housing supply.
MBIE Crown land development programme	Crown land development programme has a pipeline of potential developments on Crown land but due diligence is still to be completed for all sites and acquisition negotiated. Actual supply could be higher or lower than forecast beyond the supply under contract. MBIE figures do not include the numbers of public housing being produced through these developments — that is collated with the MSD totals.
HLC / HNZZC / TRC	Forecasts for total supply are reasonably certain, but timing depends on procurement, contractors and consenting.

### Annex Three: Overview of KiwiBuild eligible housing within existing developments

Agency / development programme	
<p>MBIE Crown land development programme</p>	<p>CLDP currently has 15 properties under development that would meet the KiwiBuild criteria without subsidy, comprising:                      Moire Road – 1, New North Road – 6, Titoki Street – 8 *                      (*total numbers for this project still under negotiation).</p>
<p>TRC</p>	<p>TRC currently has 10 properties for sale within projections that would meet the KiwiBuild criteria, comprising:</p> <ul style="list-style-type: none"> <li>• Four freestanding properties yet to be completed, that have already been pre-sold at \$600k or lower</li> <li>• Six apartments have either been pre-sold or are currently advertised for sale at \$500k or lower</li> </ul>
<p>HNZC / HLC</p>	<p>N/A. As per advice, changes to typologies for KiwiBuild (particularly an upper limit of \$600,000 for terraced housing instead of \$500,000) would enable 5000 dwellings to meet the criteria.</p>

**Annex Four: Ministry of Social Development forecasts**

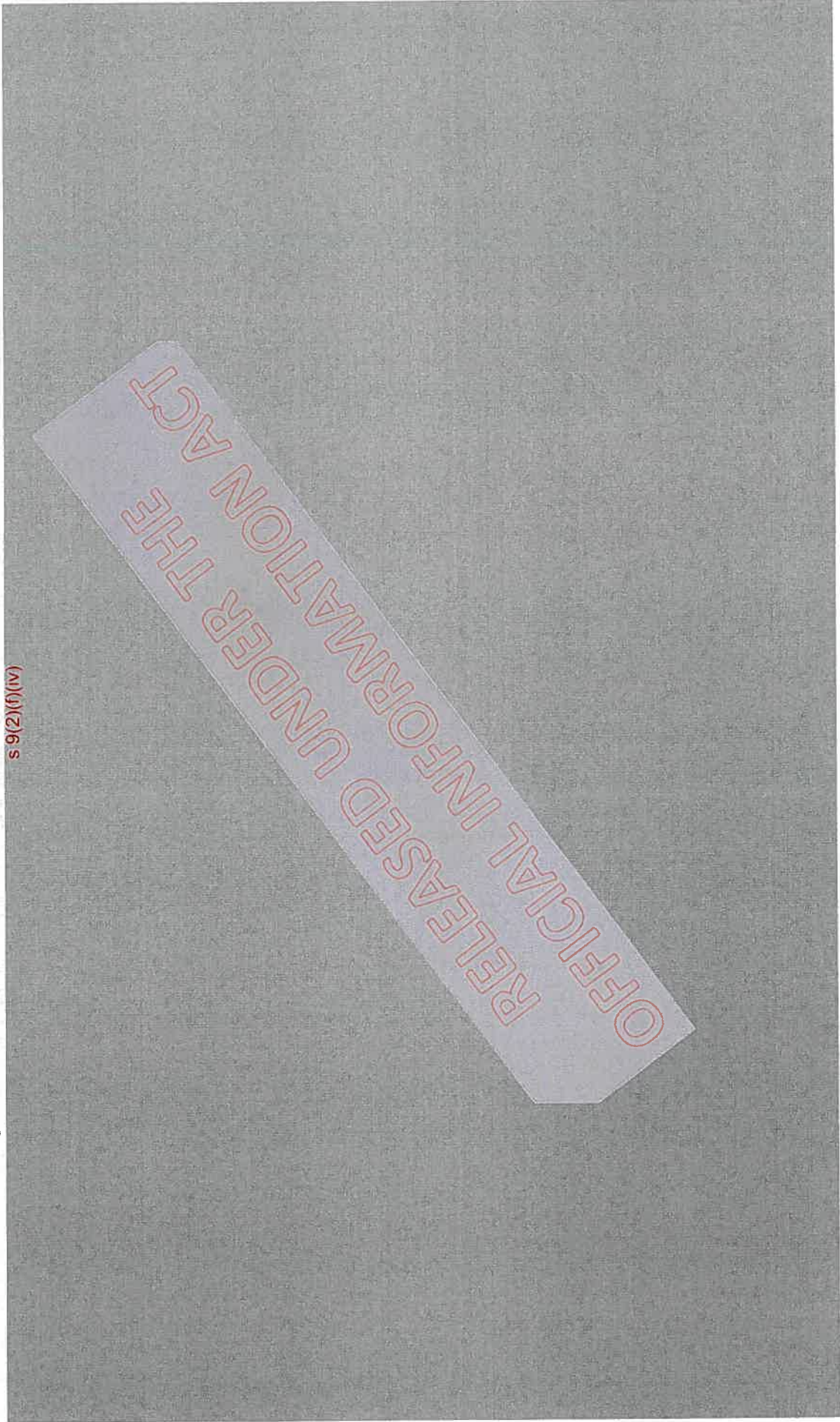
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**Annex Four: Ministry of Social Development forecasts**

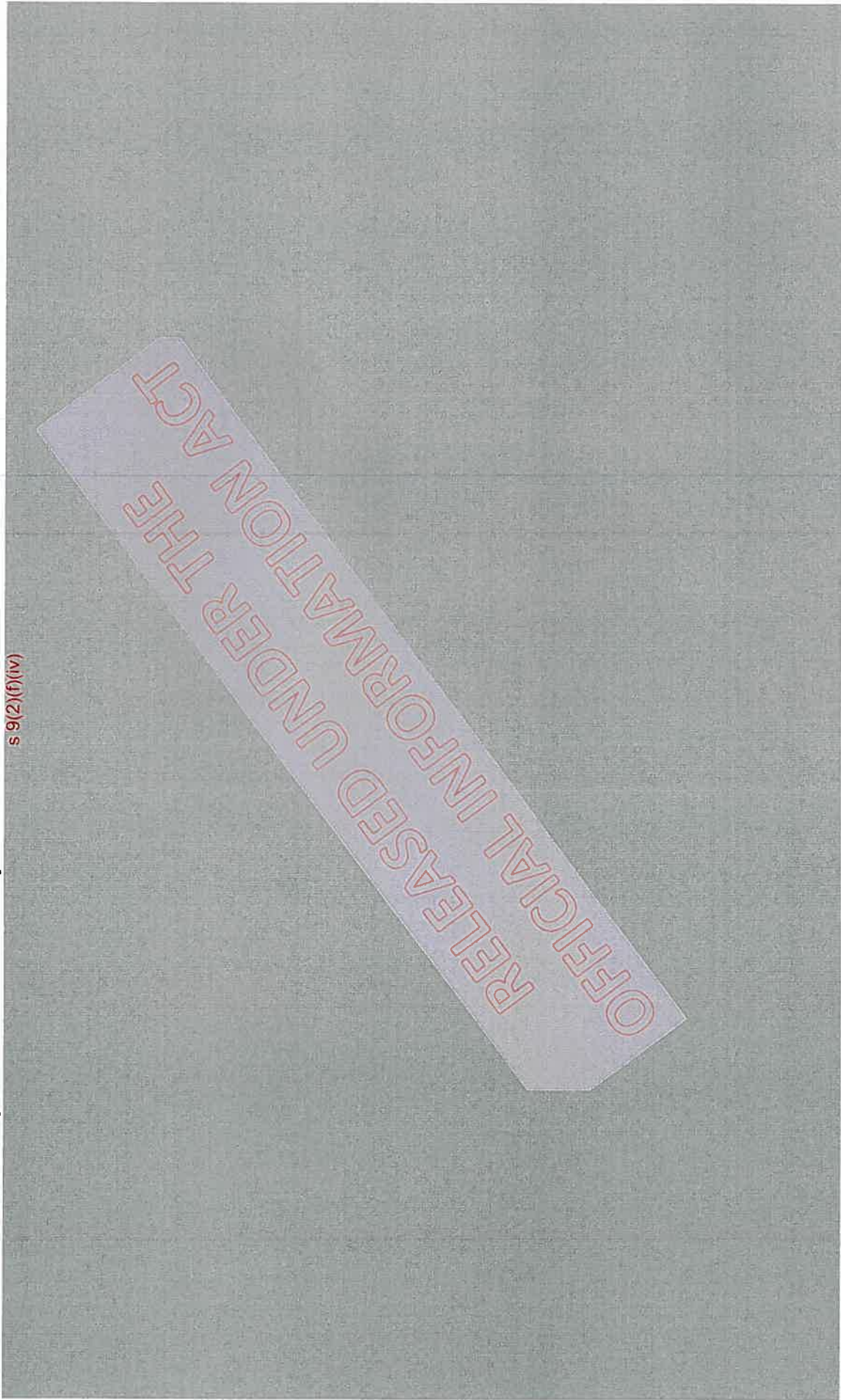
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**Annex Four: Ministry of Social Development forecasts**

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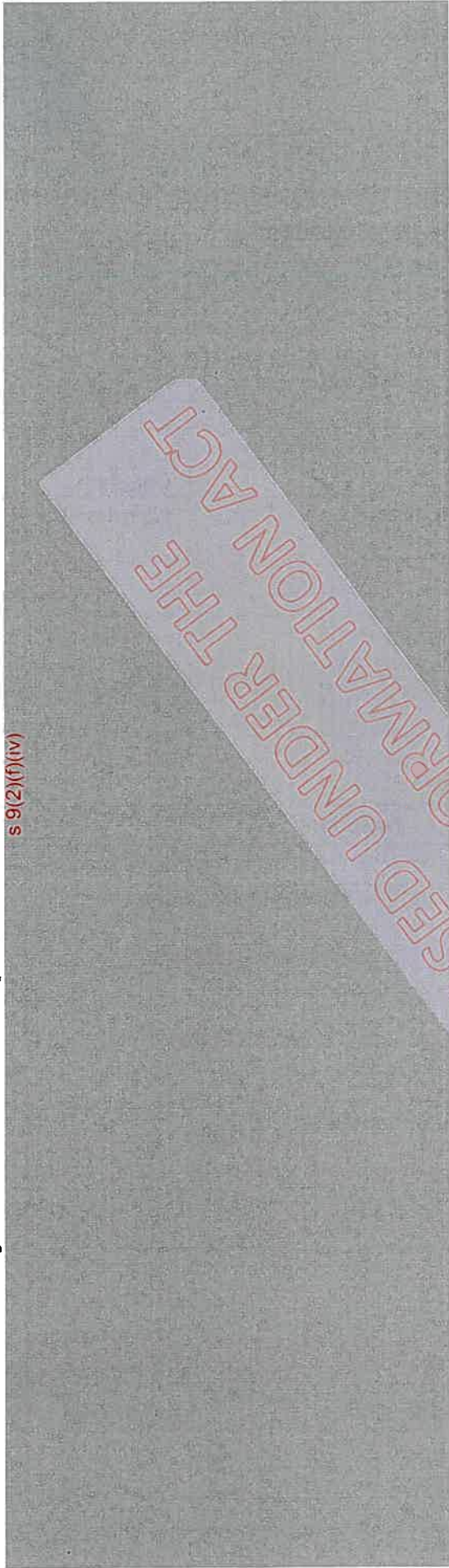


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**Annex Four: Ministry of Social Development forecasts**

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## BRIEFING

### Legislation to establish a national urban development authority and empower complex development projects

<b>Date:</b>	16 November 2017	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0854 17-18

Action sought		
	Action sought	Deadline
Hon Phil Twyford Minister of Housing and Urban Development	Discuss with officials.	22 November 2017
Hon Jenny Salesa Associate Minister of Housing and Urban Development	For your information.	

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Jo Doyle	General Manager, Housing and Urban Branch	(04) 901 8730	s 9(2)(a)	✓
Di Anorpong	Manager, Construction & Housing Policy	(04) 901 8743	s 9(2)(a)	
Andre Anderson	Principal Advisor, Housing Markets	(04) 474 2815	s 9(2)(a)	

The following departments/agencies have been consulted
Ministry for the Environment Land Information New Zealand Ministry of Social Development

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



## BRIEFING

### Legislation to establish a national urban development authority and empower complex development projects

<b>Date:</b>	16 November 2017	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0854 17-18

#### Purpose

This briefing discusses the new legislation:

- that may be required to establish a national urban development authority; and
- that is required to provide more enabling development powers to support complex, large-scale development projects, such as those that form part of your strategy for delivering KiwiBuild.

We describe the core elements that we propose for this new legislation, to test whether these proposals align with your plans for the new authority and the KiwiBuild development projects. We have also attached an A3 summary of the proposals as Annex One.

#### Further advice

Out of Scope

#### Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **discuss** with officials whether the proposals in this briefing align with your plans for the new national urban development authority and KiwiBuild's large-scale development projects;

b Out of Scope

c Out of Scope

Jo Doyle  
General Manager,  
Housing and Urban Branch

Hon Phil Twyford  
Minister of Housing and Urban  
Development

..... / ..... / .....

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## Background

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1. **Out of Scope**  
[Redacted]
2. You have said that the new entity will be a national urban development authority (“UDA”) that will “drive the delivery of the 100,000 affordable homes planned under the KiwiBuild programme.”
3. **Out of Scope**  
[Redacted]

## Connection with KiwiBuild

4. Key components of KiwiBuild will depend on the new legislation. Other components can be delivered under existing legislation.
5. You have announced three methods for delivering KiwiBuild:
  - purchasing new homes off the plans, to de-risk and accelerate suitable developments that the private sector is leading;
  - adopting existing Crown-led development projects, to the extent that they can be re-purposed for KiwiBuild (such as the Tāmaki regeneration); and
  - initiating 10-15 large-scale development projects in partnership with the private sector.
6. Purchasing new homes off the plans does not require any new legislation. Similarly, the existing Crown Land Development Programme can be re-purposed for KiwiBuild without new legislation (see briefing 0801 17-18, dated 6 November). Among Crown-facilitated large-scale development projects, the Hobsonville development is already sufficiently advanced that it doesn’t need any new legislation; and the significant central city development projects in Christchurch already have access to their own empowering legislation (Greater Christchurch Regeneration Act 2016).
7. The other projects you are proposing are likely to be large, complex developments seeking a range of social, commercial and urban development outcomes (including a mix of public, affordable and market housing) that need a strong Government role to manage the high risk, mixed objectives and large investment involved. New legislation can better support these types of developments by providing the more enabling development powers you are seeking.

## Overview

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**Out of Scope**

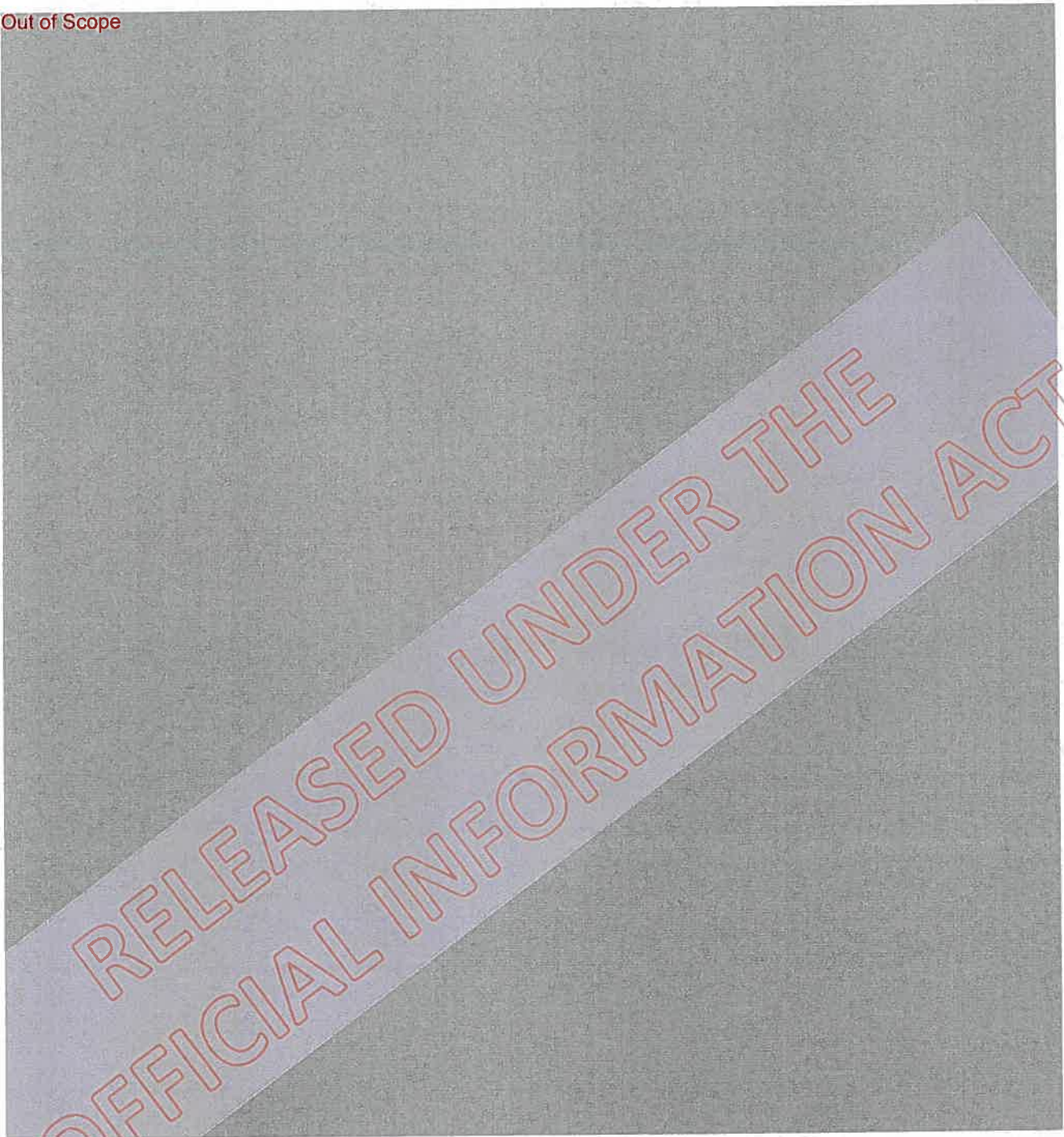
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9. It includes the development powers, processes and framework we think will be needed to deliver large and complex development projects for KiwiBuild and to establish the UDA. The purpose of this briefing is to test whether these proposals align with your plans.

**Out of Scope**

[Redacted]

Out of Scope



**Functions of the UDA**

- 19. The UDA will be able to play the key strategic role identifying, prioritising and coordinating the various development projects required to deliver the Government's objectives for KiwiBuild and urban development more generally. It will be able to do this both across the country as a whole and within particular regions, especially in Auckland, where multiple development projects will need to be established in both greenfield and brownfield locations.

Out of Scope

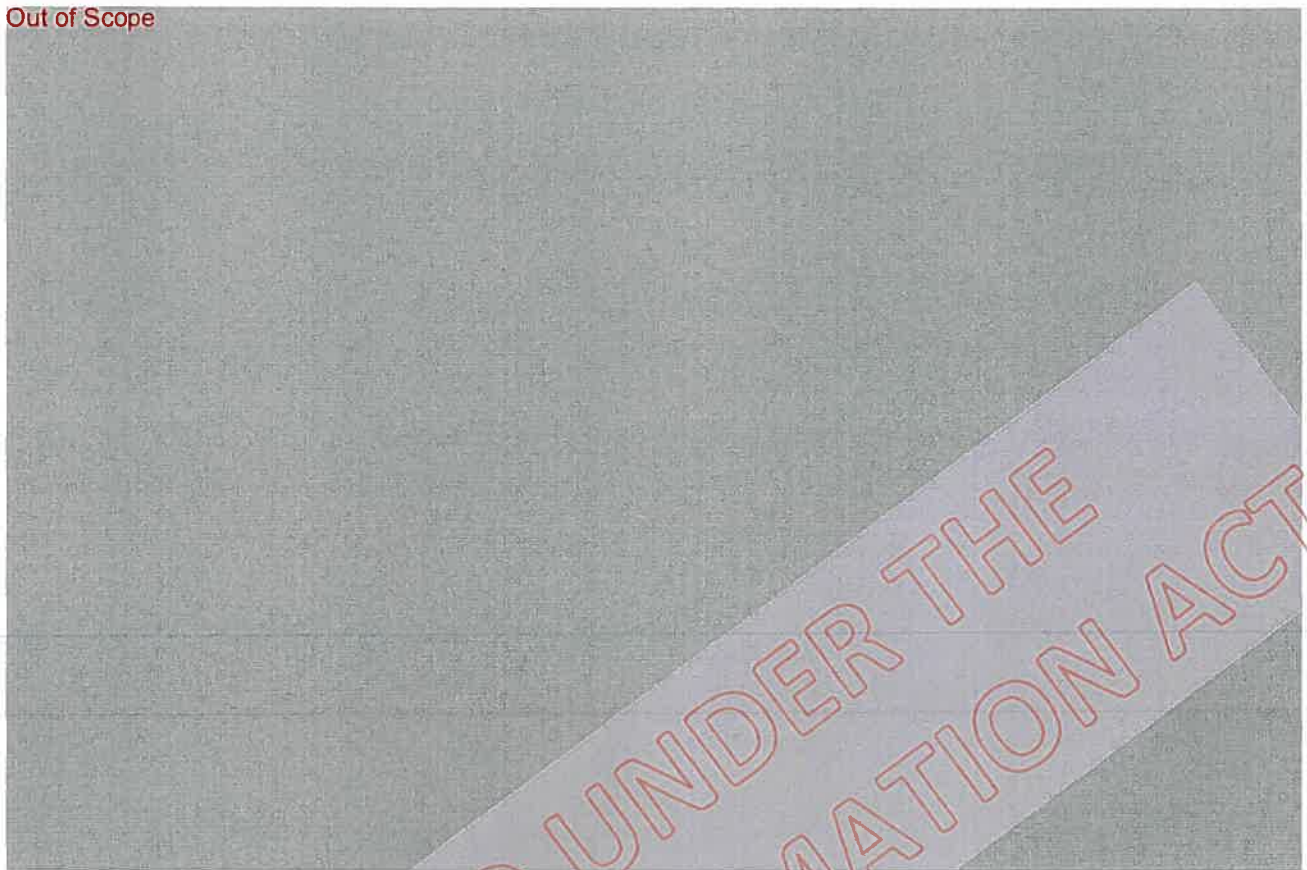


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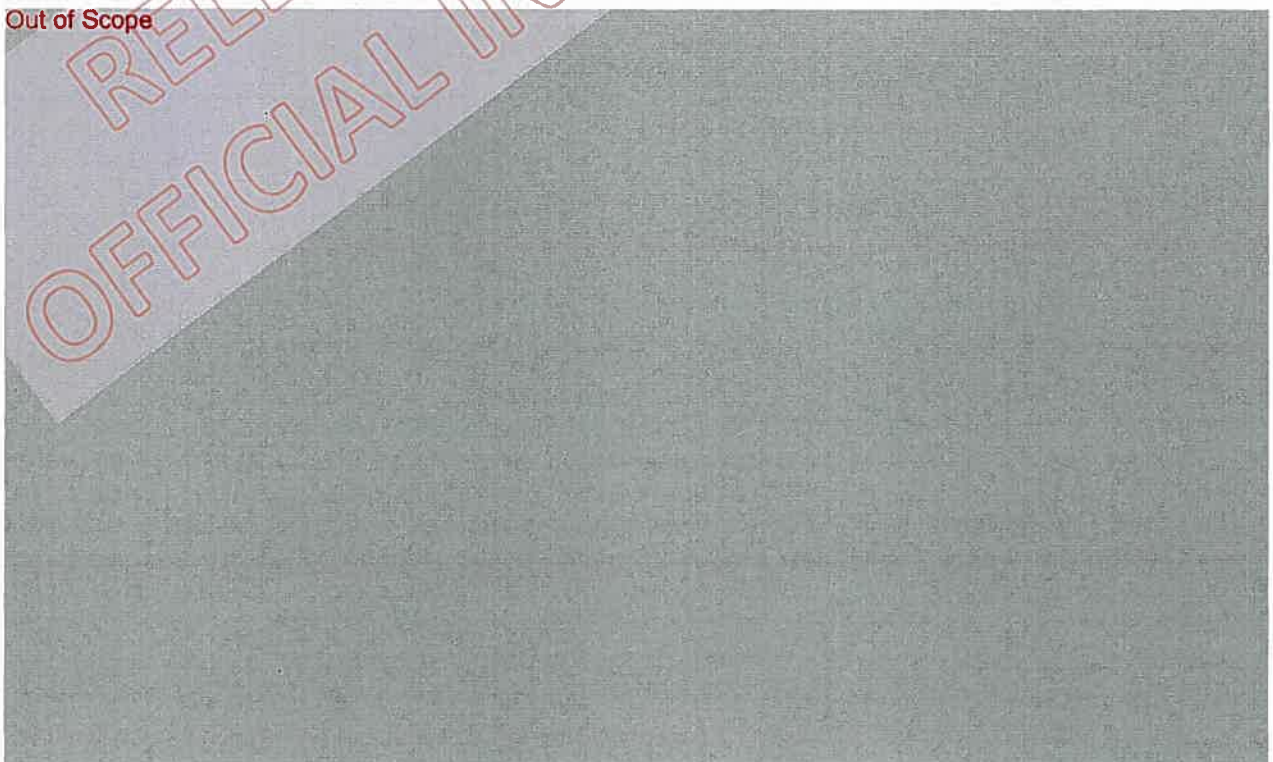


## Framework and processes

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41. The core part of your strategy for delivering the necessary scale for KiwiBuild is built on a series of urban development projects that have access to more enabling development powers. Given that the goal is to quickly establish and pursue 10-15 large-scale developments, we propose generic legislation that can support multiple development projects, with the flexibility to cater to their different needs.

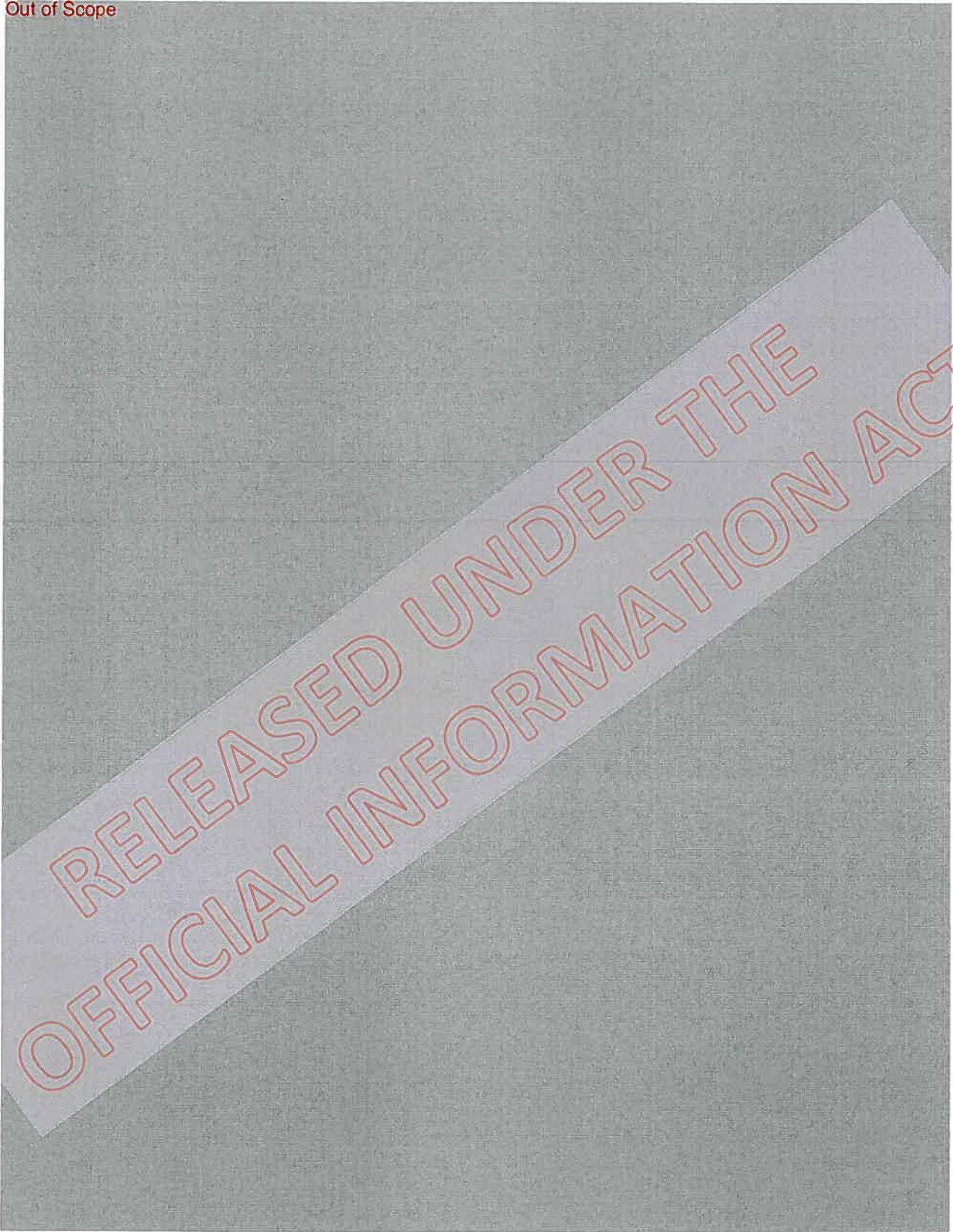
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## **Annexes**

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Annex One: A3 summary of the proposals.

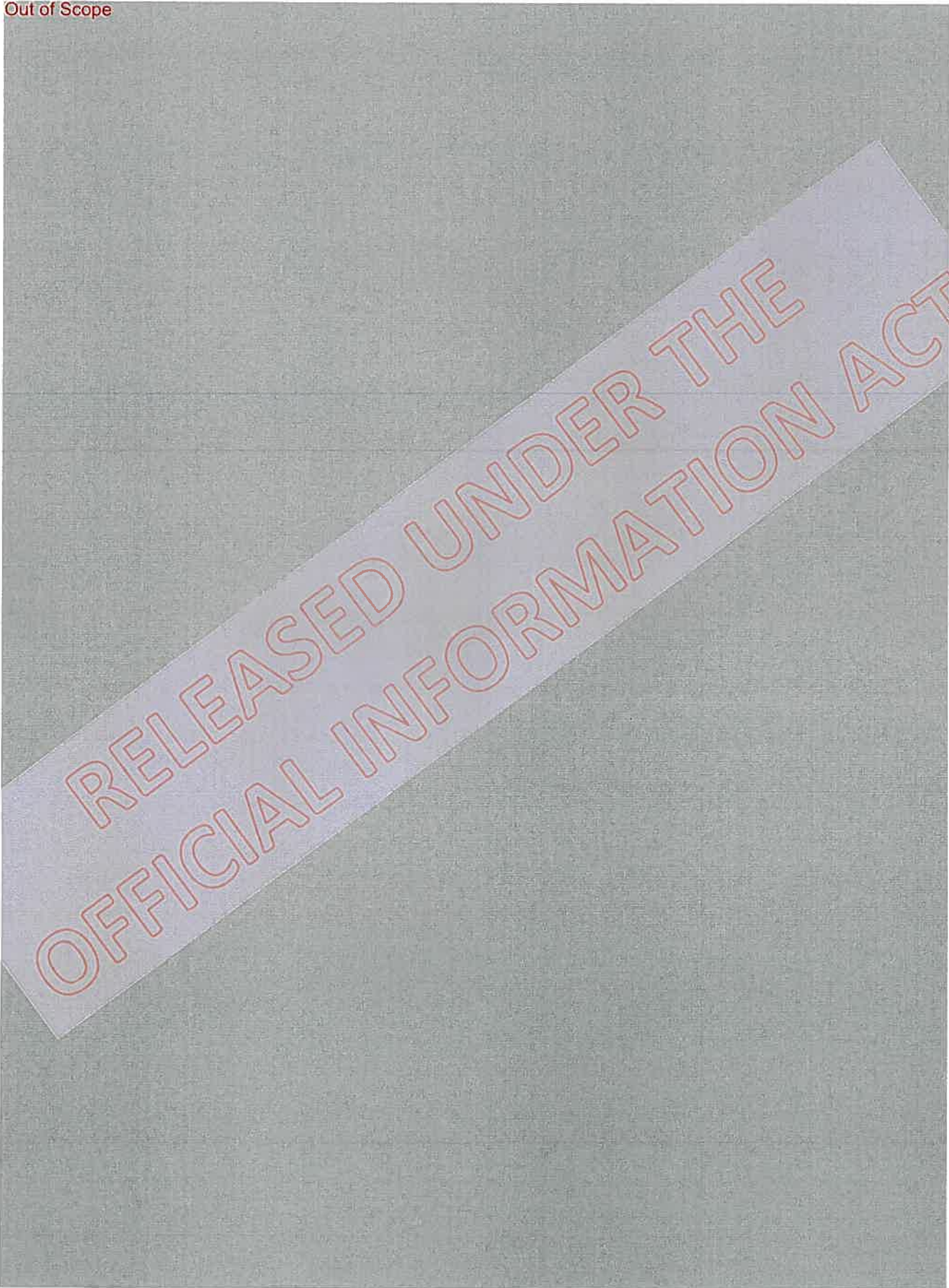
Annex One: Initial list of critical issues: to be examined in further briefings.

Annex Two: Summary of responses to the previous Government's discussion document.

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**Annex Two: Initial list of critical issues: to be examined in further briefings**

Out of Scope



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**Annex Three: Summary of responses to the discussion document**

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Out of Scope



Out of Scope

**From:** Jeet Sheth  
**Sent:** Thursday, 16 November 2017 11:37 a.m.  
**To:** Bronwyn Lauten  
**Cc:** Jo Doyle; Brett Parker; Richard Hills; Jared Beckett; Andre Anderson; David Hermans  
**Subject:** RE: Oral PQ KiwiBuild [IN-CONFIDENCE]

Hi Bronwyn,

Here's the draft response with possible supplementary questions and some background information.

Let us know if you need anything further.

Jeet.

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**From:** Bronwyn Lauten [<mailto:Bronwyn.Lauten@parliament.govt.nz>]  
**Sent:** Thursday, 16 November 2017 9:01 a.m.  
**To:** Jo Doyle; Brett Parker; Jeet Sheth  
**Subject:** Oral PQ KiwiBuild

Hi all,

We're going to have a question in the house today, which is:

- Has the Minister received any reports on the forecast rate of house building with and without KiwiBuild?

The primary answer no doubt relates to the information you provided yesterday, Brett.

Could you please provide answers/information to support potential supplementary questions by **11:30am today?**

Happy to discuss,

**Bronwyn Lauten** | Interim Private Secretary (MBIE) | Office of Hon Phil Twyford  
[Bronwyn.Lauten@parliament.govt.nz](mailto:Bronwyn.Lauten@parliament.govt.nz) Cell: s 9(2)(a)  
Minister of Housing and Urban Development | Minister of Transport  
6.6 EW Parliament Buildings | Wellington

**Question: Has the Minister received any reports on the forecast rate of house building with and without KiwiBuild?**

**Answer:**

Yes. The Ministry of Business, Innovation and Employment has estimated the additional supply of housing that will result from a phased implementation of KiwiBuild from 2018.

This estimate also includes an allowance for the additional housing supply needed in Auckland, in order to meet the Auckland Council estimate of 14,000 new dwellings required annually.

The National Construction Pipeline Report 2017, released in August this year, includes forecasts of New Zealand residential building consents from 2017 to 2022. The Pipeline Report forecasts that total New Zealand residential consents would rise from just over 30,000 in calendar year 2016, to 33,000 in 2018, peaking at 34,500 in 2020, before reducing to 31,000 in 2022.

The result of adjusting the Pipeline Report forecast for the phased implementation of KiwiBuild, is that total new housing supply would rise to 36,100 in 2018, and would further increase to 44,600 in 2022.

**Potential supplementary question: How would the forecast level of housing supply compare to New Zealand's past level of building activity?**

Including KiwiBuild, the estimated peak of 44,600 new dwellings in 2022 would be significantly above the previous historical record of 39,734 building permits in the year ended March 1974.

**Possible Supplementary question: Why are the projections for KiwiBuild housing supply stated in the latest Reserve Bank Monetary Policy Statement, different to the projections prepared by MBIE for additional KiwiBuild housing supply?**

**Answer:** The Reserve Bank states it has assumed that *"around half of the proposed increase will be offset by a reduction in private sector activity"*. This assumption is based on a 'business-as-usual' residential building system. The MBIE projections which have been adjusted for KiwiBuild, do not assume that there will necessarily be crowding out of the forecast levels of private housing supply. This is because the Government has a set of significant levers available to impact on the ability of the construction sector to deliver new dwellings, potentially with more of an impact than the Reserve Bank considered when assessing the situation - particularly around finance and infrastructure. Such as:

- Government underwriting private development
- De-risking investment through guaranteed supply and under-writing
- And Increased economies of scale from large development

The government also has a role to play in building the construction sector capacity

- Investment in skills and training to grow the local workforce
- Via the KiwiBuild Visa
- More certain construction pipeline for firms, to encourage investment
- Programmes to enhance productivity of existing capacity (e.g. through better IT uptake and usage)
- Encouraging investment in Research & Development for more efficient production methods such as prefabricated housing

## Information for the Minister's office

Extract from Briefing note 0465 17-18 Capacity of the construction sector to undertake KiwiBuild.

### KiwiBuild will increase the peak demand for new dwellings

- The *National Construction Pipeline Report 2017* projects a rise in new residential dwellings to 34,500 in 2019 and 2020, up 15 per cent from the 2016 level of 30,063 consents. This level of supply will still be insufficient to meet the demand estimated by Auckland Council (i.e. 14,000 dwellings each year), or to meet the additional supply targeted by KiwiBuild. The phasing of KiwiBuild, and the additional supply required in Auckland, would require a total of 44,600 new dwellings in 2022 (Figure 4).

Figure 1: New Zealand actual and projected new dwellings, 1970 - 2022

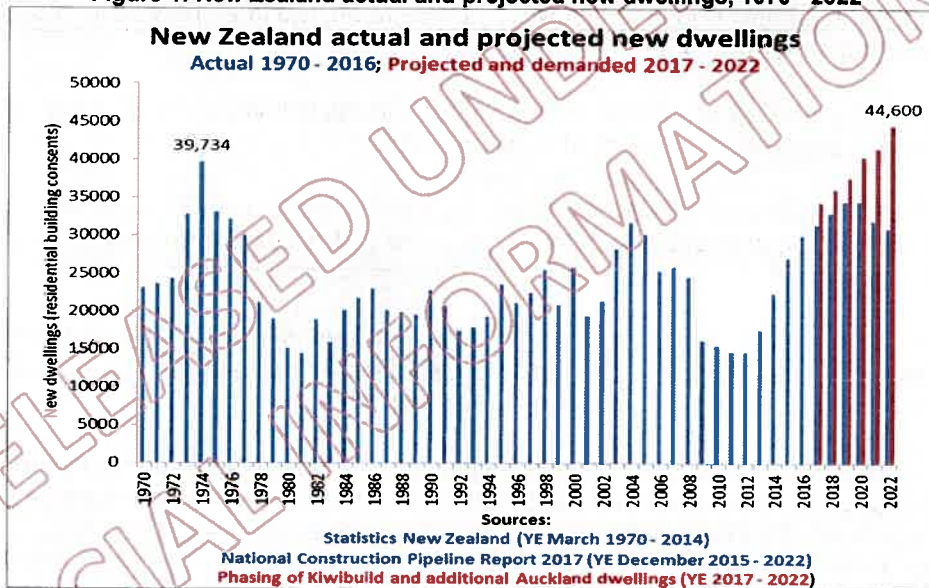


Figure 4: Data/Year	2016	2017	2018	2019	2020	2021	2022
Pipeline projected NZ dwelling consents	30,063 (actual)	31,500	33,000	34,500	34,500	32,000	31,000
Additional dwellings demanded in Auckland	3,900	2,900	2,100	1,200	900	1,500	1,600
Indicative phasing of KiwiBuild dwellings	-	-	1,000	2,000	5,000	8,000	12,000
<b>TOTAL DEMAND</b>	<b>34,000</b>	<b>34,400</b>	<b>36,100</b>	<b>37,700</b>	<b>40,400</b>	<b>41,500</b>	<b>44,600</b>

Note the projection risk:

*Importantly, the estimated additional demand for labour is based on the existing mix of construction occupations which applied in the residential building sector as at the 2013 Census. At this stage no assumptions have been included as to how the possible extensive use of prefab/MH could affect the demand for occupations, because MBIE*

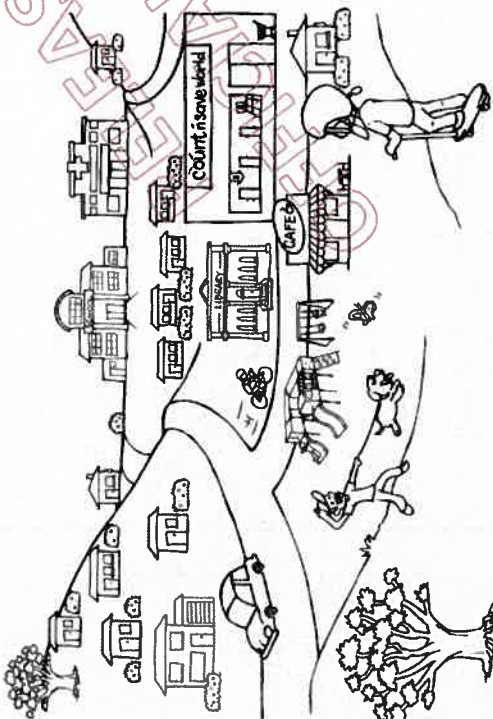


*does not yet have sound information on the labour needs of large-scale MH production. Similarly, at this stage no assumption has been made as to how Kiwibuild could introduce scale efficiencies and productivity improvements in the building of new dwellings. Officials will refine the modelling of the impact of Kiwibuild, as more details on the design of the programme are finalised.*

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# Housing presentation for 11.30am 20 November 2017 meeting

Attendees: PM, Ministers - Finance, Environment, Housing and Urban Development, Local Government, Infrastructure, Building and Construction



Agencies – MBIE, DPMC, MfE, DIA, Treasury, MSD, SSC, HNZZ













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# THE PLAN

Our goals require a significant shift in the way that the housing markets work. We will need to make changes to the overall settings in the long-term, but in the short term there are a number of actions we can take to improve housing for New Zealanders.





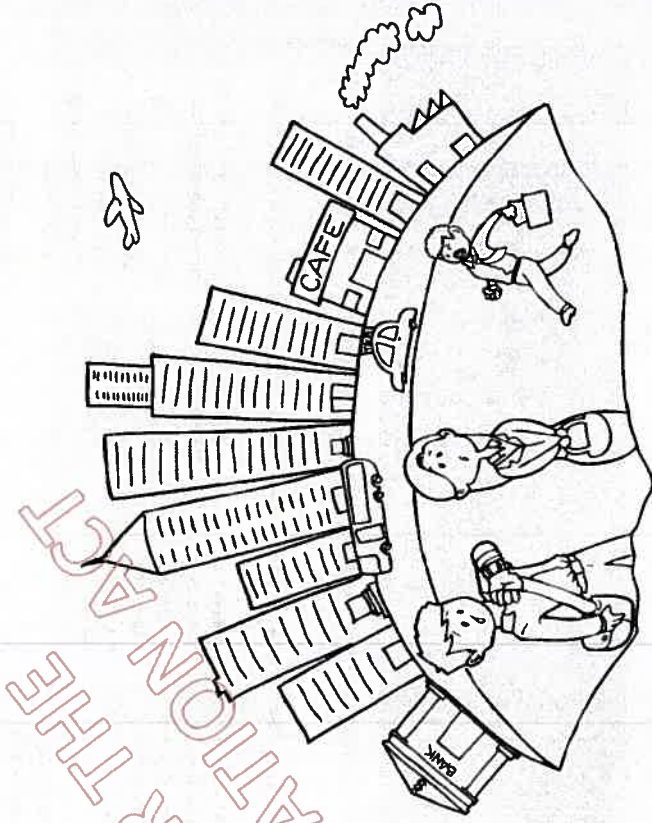
## THE 100 DAY PROGRAMME IS PROGRESSING WELL

Policy decisions have been taken on **restricting foreign buyers**. The development of legislation is underway for introduction before Christmas.

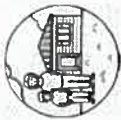
The **Healthy Homes (Guarantee) Bill** and Government SOP are progressing through the House. Regulation development will proceed into 2018.

A paper is being consulted on seeking Cabinet agreement to **cease state housing transfers in Christchurch and Invercargill** and agree to further work on options to progress the redevelopment of Porirua.

Further advice is being sought on **establishing the Kiwibuild programme and the Housing Commission**. Initial Cabinet decisions are likely to be sought before the end of the year.



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# STIMULATING HOUSING SUPPLY AND URBAN DEVELOPMENT

## KIWIBUILD – DELIVERING 100,000 HOUSES OVER 10 YRS

Immediate Actions

- **Set up Kiwibuild** function in MBIE now to build early momentum (MBIE)
- Leverage the existing government-led **Crown Land, housing and urban renewal programmes**
- **Underwrite private developments** to help with access to finance
- Manage integrated Crown property portfolio
- **Establish Housing Commission** as a national urban development authority to lead delivery of Crown development and urban revitalisation projects (MBIE)
- Implement National Policy Statement on **Urban Development Capacity (NUPC)**
- Implement the **Housing Infrastructure Fund (HIF)**
- **Partner with Auckland Council** to set agreed development strategy

Ongoing activities

- Further development of **infrastructure funding and financing tools** (including Crown Infrastructure Partners work)
- Facilitate investment in **skills, innovation and machinery** to lift productivity and deliver cheaper housing (MBIE)
- Support better urban development by **integrating large-scale development with transport and other infrastructure (MBIE/MOT/NZTA)**
- Progress planning reform through **Urban Growth Agenda**

- Leveraging \$2 billion to build 100,000 Kiwibuild homes within ten years requires careful fiscal design, use of new infrastructure funding tools, good planning
- Partnerships and reworking the **planning system settings** will be key to progress Kiwibuild and Housing Commission alongside other infrastructure investments in Auckland through a partnership process with the Mayor and Council and whether to take similar approaches elsewhere
- **Aligning with activity in transport and wider urban development** to improve employment and social outcomes, as well as environmental impact and climate change

Housing and Urban Development, Environment, Transport, Local Government, Finance, Infrastructure, Building and Construction

For discussion purposes only - not Government policy



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