

Public Housing Funding Review

Meeting with Community Housing Providers

13 May 2020

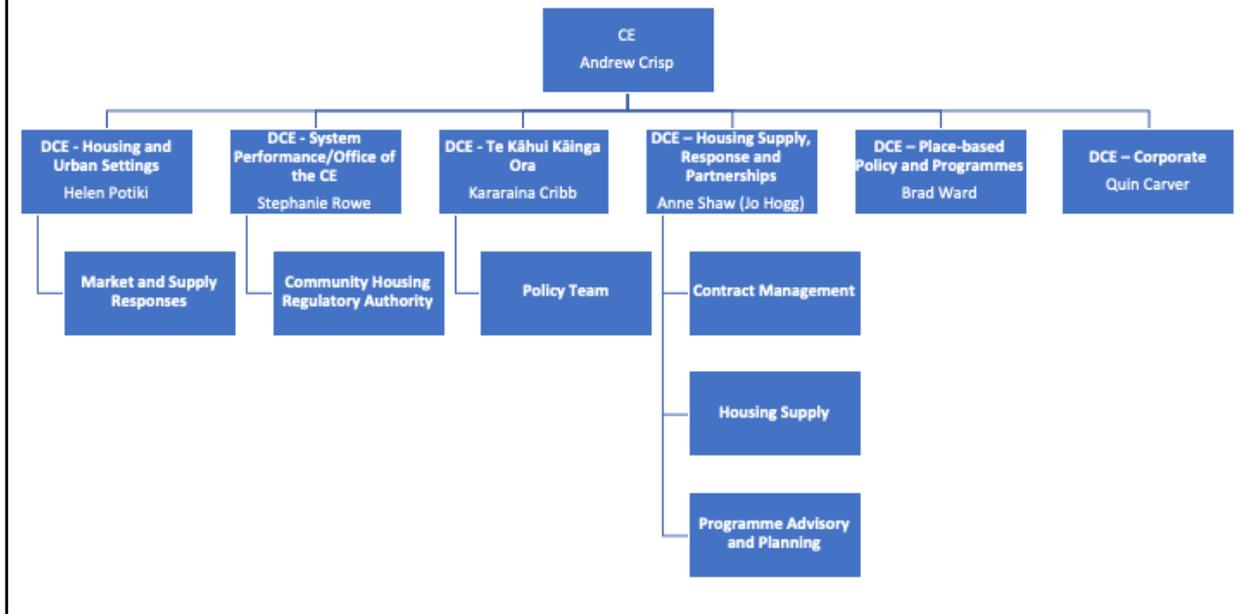


Agenda

- Welcome
- HUD 'who we are'
- Pipeline projects update
- Public Housing Funding Review findings
- Discussion



HUD Organisational Structure



Pipeline Projects Update

- Pipeline projects reporting tools
- Process to date
- Distributing tools today
- Wednesday 20 March Zoom

Minister Woods requested that HUD gather information on social and affordable housing projects independently from the 'shovel ready' work of the Infrastructure Commission. We are working with HUD to coordinate this work.

Over past several weeks have worked with a small number of providers to develop and refine the tool.

The reporting tool is an **excel summary sheet** to consolidate the information and a **word document** based on the "shovel ready" projects work of the Infrastructure group customized by CHA that provides more detail to inform government of readiness and scale.

Includes all tenure types and funding needs

Pipeline Testing Phase Data

Region	# Projects	# Units	Cost \$m
Auckland	18	766	329.4
Bay of Plenty	8	771	66.2
Christchurch	9	387	114.4
Marlborough	2	26	5.8
Nelson/Tasman	7	153	57.1
Northland	1	5	0.5
Queenstown	4	99	46
Rotorua	1	4	1.8
Taranua	1	12	2.8
Waikato	5	80	27.2
Wairarapa	2	155	50
Wellington	4	168	79.4
West Coast	1	12	2.1
TOTALS	63	2,638	782.7

Data collected by CHA as of 12 May
from 12 registered CHPs

We have received information to develop the tool from 12 CHPS, 1 lender and 1 private developer. Wanted this variety to ensure we had a robust tool.

Now we need your participation to get a complete picture of the projects you have that can help to address housing needs across New Zealand.

Will send you an invite to a meeting next week at this same time to discuss questions and details of the pipeline project.

March 2020



Public Housing Funding Review 2019

KPMG completed this review for HUD and delivered the final report in September. Work kicked off around one year ago and included a survey of registered CHPs in June 2019. Both CHA and Kainga Ora were able to meet with the KPMG and the HUD working group on multiple occasions to provide information, advice and feedback. Report released and posted to HUD website at same time as lockdown starting.

Public Housing Funding Review Key Points

- Total cost of new PH exceeds market rent
- Upfront Funding and Operating Supplement have a similar cost per unit
- Data limitations do not allow benchmarking
- Five policy areas for further consideration

The Executive Summary identifies 10 key points regarding Public Housing and one each for Housing First, Transitional Housing and Community Group Housing. The four here are what we will briefly cover this afternoon.

Rent Setting

- Kāinga Ora (HNZ) – updates rents quarterly based on methodology of comparable private sector rents
- CHPs – rent levels capped by maxima set by HUD in 2016

Rents exceeding maxima

Table: Top 10 CHP areas (by total number of properties)

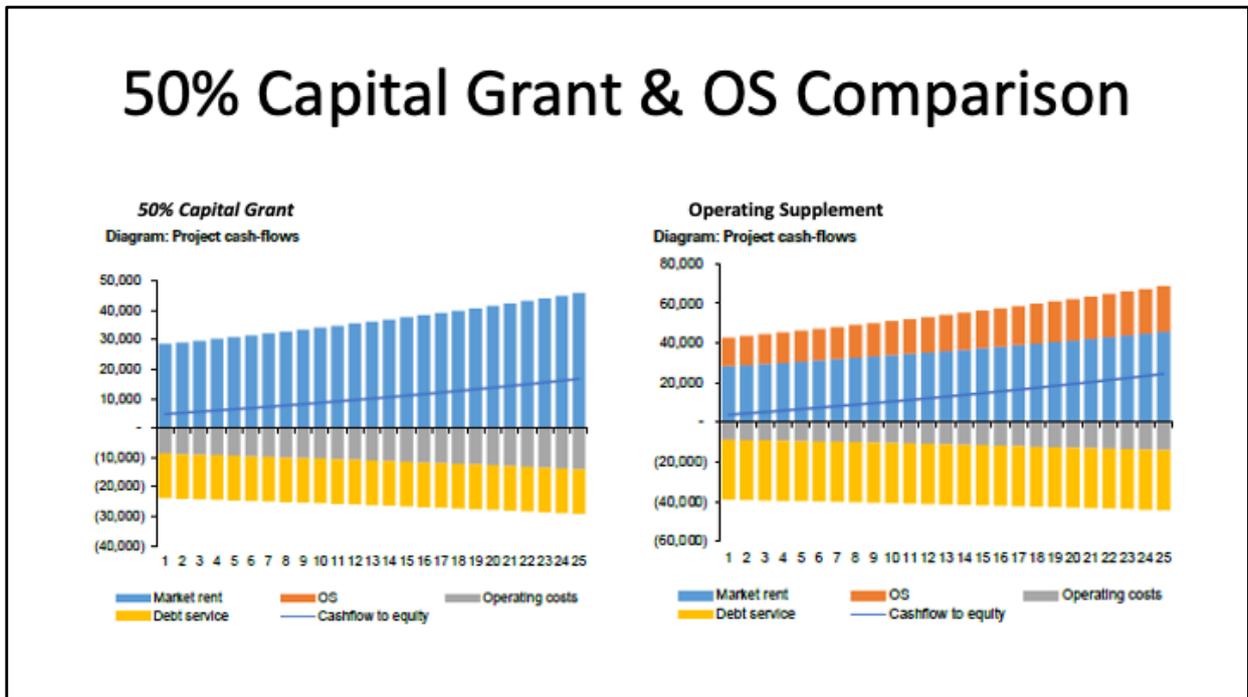
	% over	\$101+ under	\$1-100 under	\$0-99 over	\$100+ over	Total
Auckland - Central	7%	1795	844	183	2	2824
Tauranga City	5%	13	1018	49	3	1081
Christchurch City	2%	384	395	18	0	795
Auckland - South	5%	308	176	21	5	510
Auckland - West	6%	125	145	15	1	286
Hamilton City	54%	3	54	62	5	124
Auckland - North	1%	27	73	1	0	101
Western BOP	1%	0	97	1	0	98
Wellington City	40%	11	42	27	9	89
Masteron District	8%	5	52	5	0	62
Napier City	63%	0	15	25	0	40

Table: Highest proportion of HNZ properties above maxima (with >30 properties in total within the region)

	% over	\$101+ under	\$1-100 under	\$0-99 over	\$100+ over	Total
Waipa District	96%	0	9	203	3	215
Tauranga City	83%	1	31	152	6	190
Whakatane District	81%	54	40	395	8	497
Rotorua District	67%	2	209	417	8	636
Upper Hutt City	66%	0	129	254	1	384
Matamata-Piako District	62%	1	63	106	0	170
Hauraki District	55%	0	49	59	0	108
Lower Hutt City	45%	3	1772	1446	13	3234
Marlborough District	45%	0	230	188	1	419
Hamilton City	34%	13	1896	968	5	2882

From section on Setting of market rent pages 80 and 81

50% Capital Grant & OS Comparison



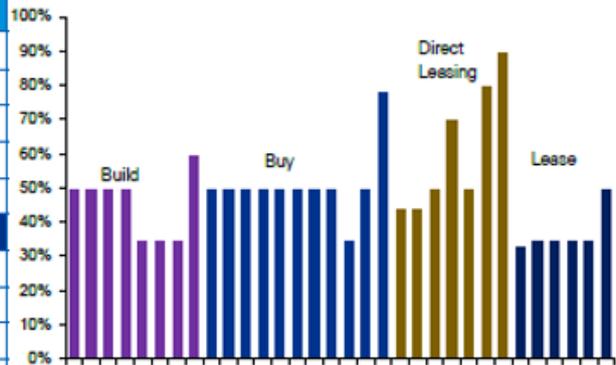
Pages 33 & 34. Unfortunately, the scales are different on these comparisons. KPMG concluded that cost to government basically the same. In reviewing upfront funding, on page 43 KPMG noted that 22 developments covering 569 units were marked as not proceeding due to the lack of Up Front funding. This validates the sector’s request to reinstate Up Front funding and Capital Grant programmes.

Operating Supplement

Table: Whole of life OS cost per unit

Auckland		
Procurement type	1 bedroom	2 bedroom
Build	184,809	213,918
Turn-key	183,982	220,447
Direct Leasing	171,812	209,992
Lease	118,054	178,868
Total	162,783	211,708
Rest of New Zealand		
Build	112,764	120,128
Turn-key	96,727	174,063
Direct Leasing	187,647	213,241
Lease		
Total	131,470	156,964
TOTAL	154,954	194,190

Spread of OS% across developments (procurement type)



NOTE: each bar represents a project – direct leasing refers to 25 year contracts between HUD and private developers, not CHPs

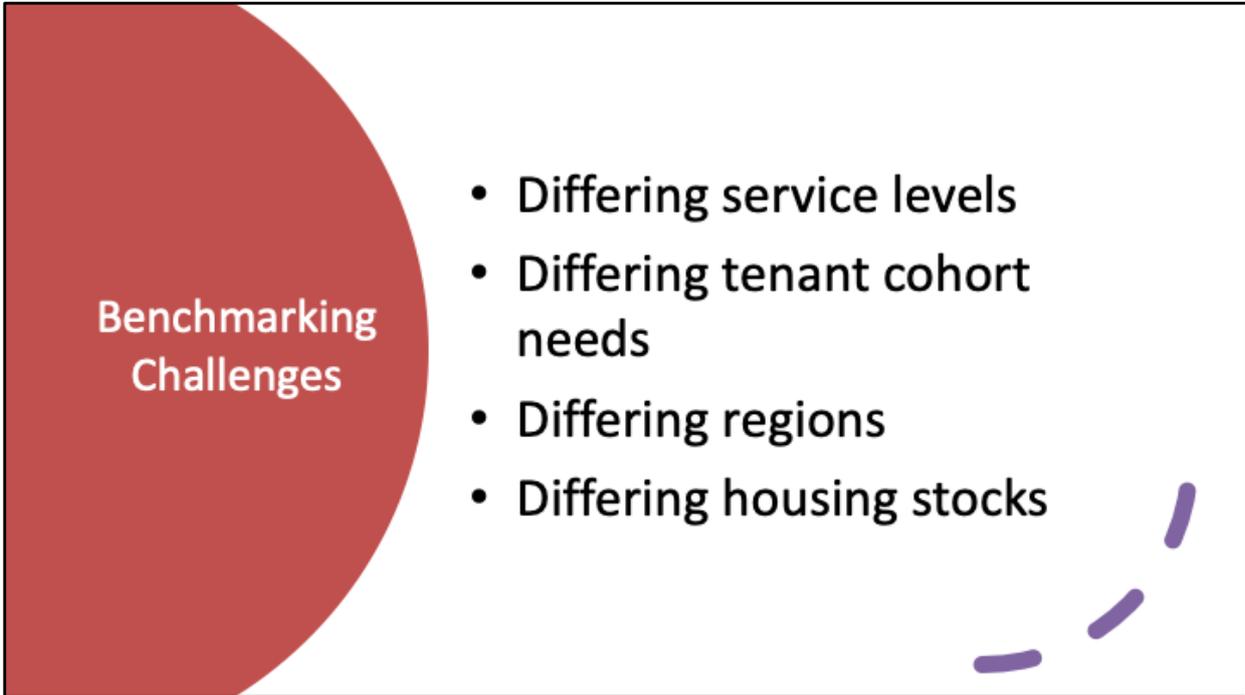
Pages 44 and 45 of the report

Funding Tool Options

	A. Operating grants	B. Upfront funding	C. Debt arrangements	D. Quasi-equity
Cost to the Crown	Marginally higher under an operating grant to provide similar level of subsidy		Lower than grants assuming some repayment obligation	Similar to B.
Cost of delivery	Marginally higher under an operating grant assuming government's cost of capital is below private		Similar to B	Similar to B
Alignment with sector preferences/requirements	Lower	Higher	Medium	Medium
Contracting and implementation complexity/ongoing burden	Lower	Lower	Higher	Higher
Ability to monitor	Higher	Medium	Medium	Medium
Risk to the Crown	Lower – Crown does not pay until construction complete. Benefit of private lender due diligence	Medium – Crown manages risk through contracted milestone payments and upfront due diligence	Medium – Upfront due diligence required	Similar to C.
Capitalisation of the CHP sector	Only in later periods of the contract with higher free cash flow	Immediate capital injection	Subject to policy design	Similar to B (but subject to policy design)
Treatment of residual value after contract end	Retained by provider	Retained by provider	Retained by provider	Retained by provider (unless sold within defined period)

Page 78 of the report identifies that “it is likely that a mixture of tools will be useful in New Zealand due to the variety of providers and property markets”.

In CHAs view, to date, we have used these in isolation, HIF with debt arrangements, SHU with capital grants up front, IRR and OS as operating subsidy. This has required CHPs to continually adapt resulting in lags in production and the inability to benchmark. A housing system approach would allow all of the tools to be available, and used as needed.



Benchmarking Challenges

- Differing service levels
- Differing tenant cohort needs
- Differing regions
- Differing housing stocks

Section 5 of the report beginning on page 64 identifies the challenges of benchmarking. They point out the need to carefully consider what data is collected, how this is done, in the UK and Australia, some potential approaches and the need to balance the burden on providers. In the Executive Summary, KPMG notes that much of the CHP sector information is evidenced through qualitative information, rather than data.

CHA is supportive of greater transparency in our funding system, including benchmarking data on development and operating costs, as well as tenant outcomes. The purpose of this should not be to say KO is better than CHPs or one CHP is better than another. It should be to improve our ability to delivery quality homes for families so they have a safe, secure place to achieve their aspirations. Benchmarking should move us toward a well functioning housing system.

Development and acquisition cost categories

The table below sets out the key cost categories that would generally sit within upfront development and acquisition costs (excluding GST) for each procurement type, and the data available (i.e. the extent to which the category could be separately identified) within our datasets.

Category	Description	CHP data	HNZ data
Design and Build, Turn-key, Build to Lease and Redevelopment			
Land	The value of land used in the development.		
Site Civils and Infrastructure	The cost of demolition and site works (including decontamination) and supporting infrastructure.		
Construction	The cost of building works.		
Development margin	In the case of developer-led procurements, the margin for the developer (typically in the order of 15%).		
Professional and other fees	The cost of external consultants, such as designers, surveyors and other consultants.		
Consent fees	The cost of Council and consenting fees (typically in the order of 2%).		
Total cost (including land)	The total cost of the new build (either partnering with a developer or a construction firm directly).		
Total cost (excluding land)	As above, but separately excluding the land component of the development.		

Not available for this review

Partially available for this review

Available for this review

On page 4 of the Executive Summary, KPMG could not “conclude on the current data whether one model of delivery is more efficient than another”. That is not good news for any of us; HUD, CHPs or Kainga Ora.

The difficulty of benchmarking is starkly represented in this table on page 20 reviewing development and acquisition costs. How do we move to a system with lots of green boxes instead of red?



Funding settings to consider

- Tools to incentivize and enable new supply
 - Market rent setting
 - Setting and administering the Operating Supplement
 - Data and performance management
 - Financial performance regimes
- 

KPMG provided these points on page 6 of the Executive Summary and a fuller discussion in Section 7 beginning on page 87 regarding funding settings to consider. From the information in the report, CHA agrees with their view that these are important areas to work on further.

Discussion

- Questions/clarifications for HUD to provide?
- Which topics do you believe warrant further policy work?
- Which funding tools do you want in the toolkit?
- What advice would you want HUD to put forward to Ministers?

The CHP sector pipeline projects data is one way we can work with HUD using our data to support the development of funding policy.