



Community and Affordable Housing in New Zealand

Accelerating pace and scale of new supply

March 2024



In New Zealand, housing affordability, housing quality and homelessness are major challenges across most metropolitan and rural areas.

At their core, these issues are grounded in a long-term housing supply problem that impacts the everyday wellbeing of New Zealanders and the enduring prosperity of the country. A critical part of the housing system is the Community Housing Sector, which provides housing to those most in need. Growing the Community Housing Sector can be a key component of building a housing system that meets the needs of all New Zealanders.

Purpose

The purpose of this report is to identify the challenges and potential opportunities for increasing the supply and pace of community housing in Aotearoa. The primary focus is on government funded social housing, but the report does consider wider assisted rental and other affordable housing tenures in places (which together we define as **'Community Housing Sector'** or **'Sector'**)¹.

To inform our analysis, we undertook a survey of registered Community Housing Providers ("CHPs") and non-registered organisations (together the "Community Housing Organisations" or "Organisations"). We also interviewed a range of wider sector participants. The survey and interviews took place in 2023 prior to the change in the Government and the findings will not reflect any changes in direction since that time.

The Government has not yet set a renewed direction for the role Community Housing Providers will play in contributing to new supply of social housing, including the extent to which their focus extends beyond tenancy management and into property development. We expect this direction to become clearer in the coming months and it is not the intention of this report to make assumptions or present a view on these high-level policy choices.

The Findings section of this report, informed by a survey and interviews, naturally reflects the aspirations of the sector with respect to these matters.

The Opportunities section presents a range of approaches for exploration. The viability and desirability of specific opportunities will depend in large part on the high-level objectives the Government sets for the role of Community Housing Providers.

¹ See section on 'Role of the Community Housing Sector' for further details on the housing continuum.

Executive summary

The housing affordability challenges faced by New Zealand and its impacts are well-known, necessitating urgent action to address the underlying issue – namely, the lack of supply to meet the growing demand for new affordable dwellings.

This report specifically considers the challenges and opportunities for the Community Housing Sector to improve its contribution in delivering housing outcomes. Our survey revealed that organisations are ambitious for growth, but in their view, also face considerable challenges when seeking to deliver new housing supply and provide for tenant needs.

The report focuses on the following six challenges:

1. Tenant needs are diverse, but the current settings do not recognise this.
2. Lack of a clear vision from government for the Sector to plan around.
3. Limited balance sheets can act as a constraint on new supply investment.
4. Challenging economics of new community housing supply are exacerbated by access to third party capital and the cost of finance.
5. Delivering for Māori tenants requires targeted solutions.
6. Diversity is a strength, but it can lead to scale challenges.

To address these challenges, the report identifies five potential opportunities to consider. These are:

1. Send clearer medium-term investment signals so CHPs have greater certainty about where and when the government will provide support.
2. Utilise the regulatory tiering system to support further investment for organisations that can demonstrate they are investment-ready.
3. Reconsider funding settings to more closely align with the costs of providing tenancy to different tenants.
4. Consider alternative commercial and ownership structures that could reduce capital requirements for CHPs.
5. Consider a wider range of approaches beyond the Operating Supplement to lower the cost of capital and improve development economics.

Central to many of the opportunities identified is a role for the Government to reconsider its policy and funding mechanisms in the Community Housing Sector. While not all of these opportunities may be feasible in the short-term, we believe that exploring opportunities to improve development feasibility, system tiering, and support for tenants could achieve more and better community housing to those in need.

Role of the Community Housing Sector

The Community Housing Sector provides housing solutions to those who, for a range of reasons, find it difficult to access housing in the private market. Most commonly, the Sector provides subsidised rental housing, with rent charged as a proportion of market rent or based on the tenant's income. In addition, many Organisations work across the housing continuum including emergency housing, transitional housing and providing home ownership assistance. Some also provide additional wrap-around support services directly, while others ensure links are available as needed for their tenants.

The Sector consists of registered CHPs and other non-registered organisations that provide a range of housing services. Community Housing Organisations are typically independent, not-for-profit organisations who reinvest their surplus back into providing housing or housing related services². In practice, Community Housing Organisations take many forms – registered charities, limited liability companies, incorporated societies or land trusts that are often owned by or affiliated to social service providers, religious groups, iwi, rūnanga, and more.

A significant proportion of rental housing provided by CHPs is supported by subsidies from central government (through the Income Related Rent Subsidy ("IRRS")). For this report, we refer to this type of housing as 'social housing'³. These subsidies enable housing providers to maintain rental affordability at lower than market rents to tenants, with tenants typically paying no more than 25% of their income in rent.

Until 2014, Kāinga Ora (formerly Housing New Zealand) was the only entity that could receive government subsidies for social housing. As part of a range of system changes, the Social Housing Reform Programme enabled access to the IRRS for CHPs that obtained registration with the Community Housing Regulatory Authority ("CHRA"). These changes have helped to stimulate the growth of CHPs, who previously had been subsidising the costs of housing with more limited forms of government support and/or philanthropic sources only.

In recent years, in addition to the IRRS, the Government has provided operating supplement ("OS") funding to both Kāinga Ora and CHPs to help enable the supply of new houses. OS is typically paid as a percentage top-up on market rent to make new supply more economically viable.

As of December 2023:⁴



12,858

65 registered CHPs provide about 12,858 social houses throughout New Zealand. This represents the approximately 16% of all social housing places, with the remainder being provided by Kāinga Ora.



15%

The Housing Register, which captures the housing requirements of people who have applied for social housing through MSD, has increased by 15% from the last quarter.

² Source: <https://inner.kiwi/commentary/kiwi-housing-all-you-need-know-great-bbq-debate-summer/>

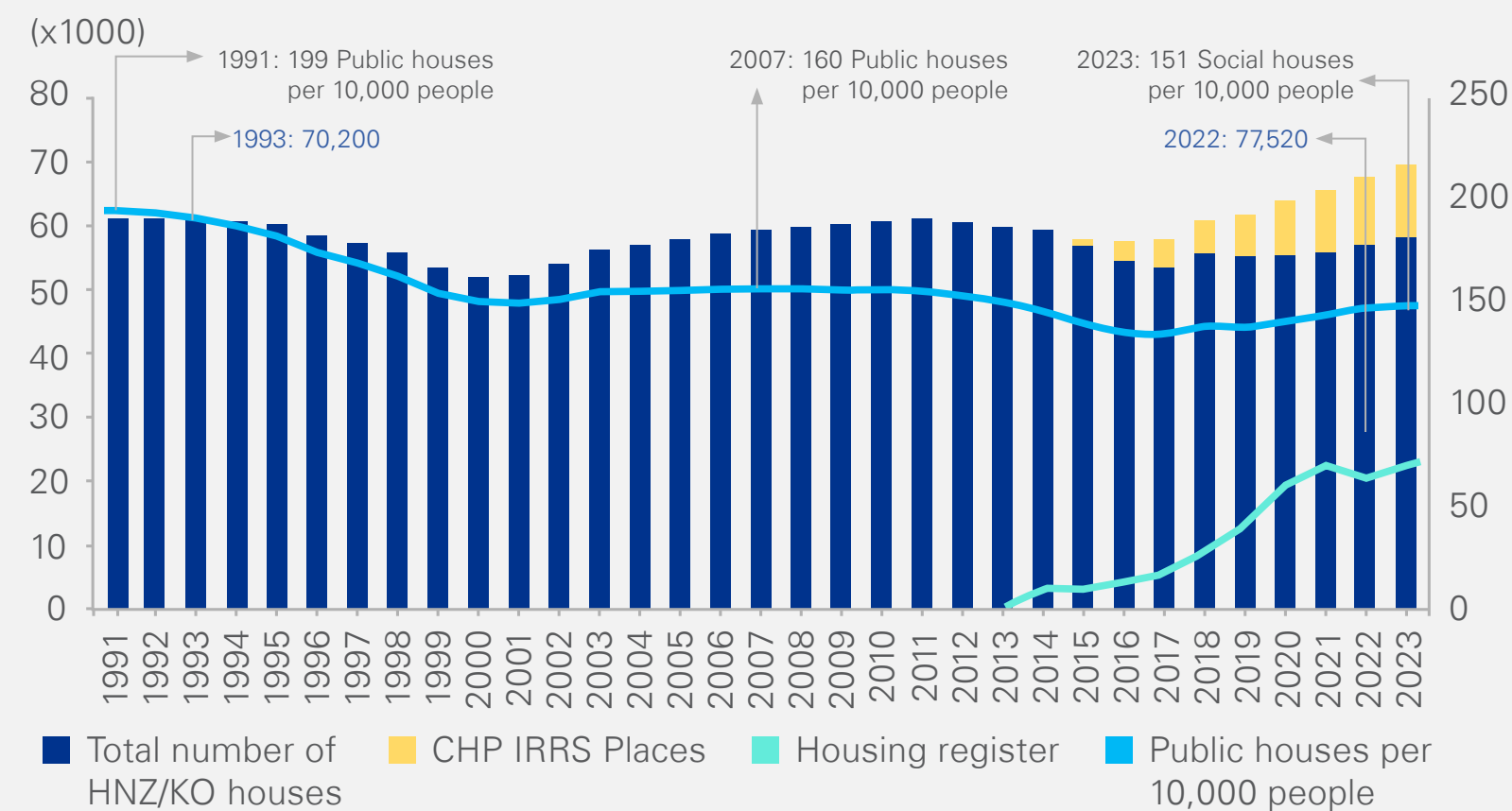
³ Social housing has also historically been referred to as either 'public' housing or 'state housing' (particularly when it was provided exclusively by central Government).

⁴ <https://www.hud.govt.nz/assets/Uploads/Documents/Public-Housing/Public-Housing-Reports-December-2023/Public-Housing-Quarterly-Report-December-2023.pdf>

Overview of the social housing portfolio

The total size of the social housing portfolio has not changed dramatically over the last 30 years, despite the New Zealand population growing by ~50% between 1991 and 2023. As shown in the graph below, this has resulted in a ~24% decline in available public houses per 10,000 people over this period. However, while there has been recent improvements in social housing supply (driven partially by a renewed policy direction on new supply and the emergence of the CHP funding model), the future picture still looks challenging.

Public housing stock compared to the population: 1991 to 2023



* Data has been compiled from StatsNZ, Te Ara and Kainga Ora records.

There are a wide range of indications of the ongoing undersupply challenge across the housing continuum, such as⁴:



1. Unprecedented demand for social housing – with a waitlist of approximately 25,000 households (as at December 2023).



2. High need for transitional housing – with approximately 6,000 places (as at December 2023).



3. Record spending on housing support – with approximately \$1,128.6 million spent⁵ on support to individuals who need assistance with housing (in the quarter to December 2023).

Research methodology

How we approached the report

KPMG, with support from Community Housing Aotearoa (“CHA”) and Te Matapihi, surveyed a range of Community Housing Organisations and undertook a series of further targeted interviews (“Survey Respondents” and together the “Respondents”). Through this process, we have identified some of the barriers and opportunities for growing supported housing supply. For the detailed steps of how we approached the survey, refer to Appendix B.

The Community Housing Sector is diverse and so it can be challenging to comprehensively canvass the full range of perspectives.

However, 32 Community Housing Organisations responded to the survey including 21 CHPs. For additional details on the limitations and challenges of the survey refer to Appendix A.

⁴ <https://www.hud.govt.nz/assets/Uploads/Documents/Public-Housing/Public-Housing-Reports-December-2023/Public-Housing-Quarterly-Report-December-2023.pdf>

⁵ The \$1,128.6m consists of \$376.2m on the IRRS, \$528.5m on the Accommodation Supplement, \$112.0m on the Temporary Additional Support, \$86.2m on the Emergency Housing Special Needs Grant, \$25.7m on the Housing Support Products.

Findings

Community Housing Organisations are ambitious for growth ...

Our results show that the Sector is ambitious for growth, driven by organisational missions to improve the lives of New Zealanders by meeting critical housing needs:

90%

Over 90% intend to grow their housing stock in the next ten years

65%

of Survey Respondents strongly agreed with the statement 'we would like to deliver more public housing than we are able to receive funding for'.

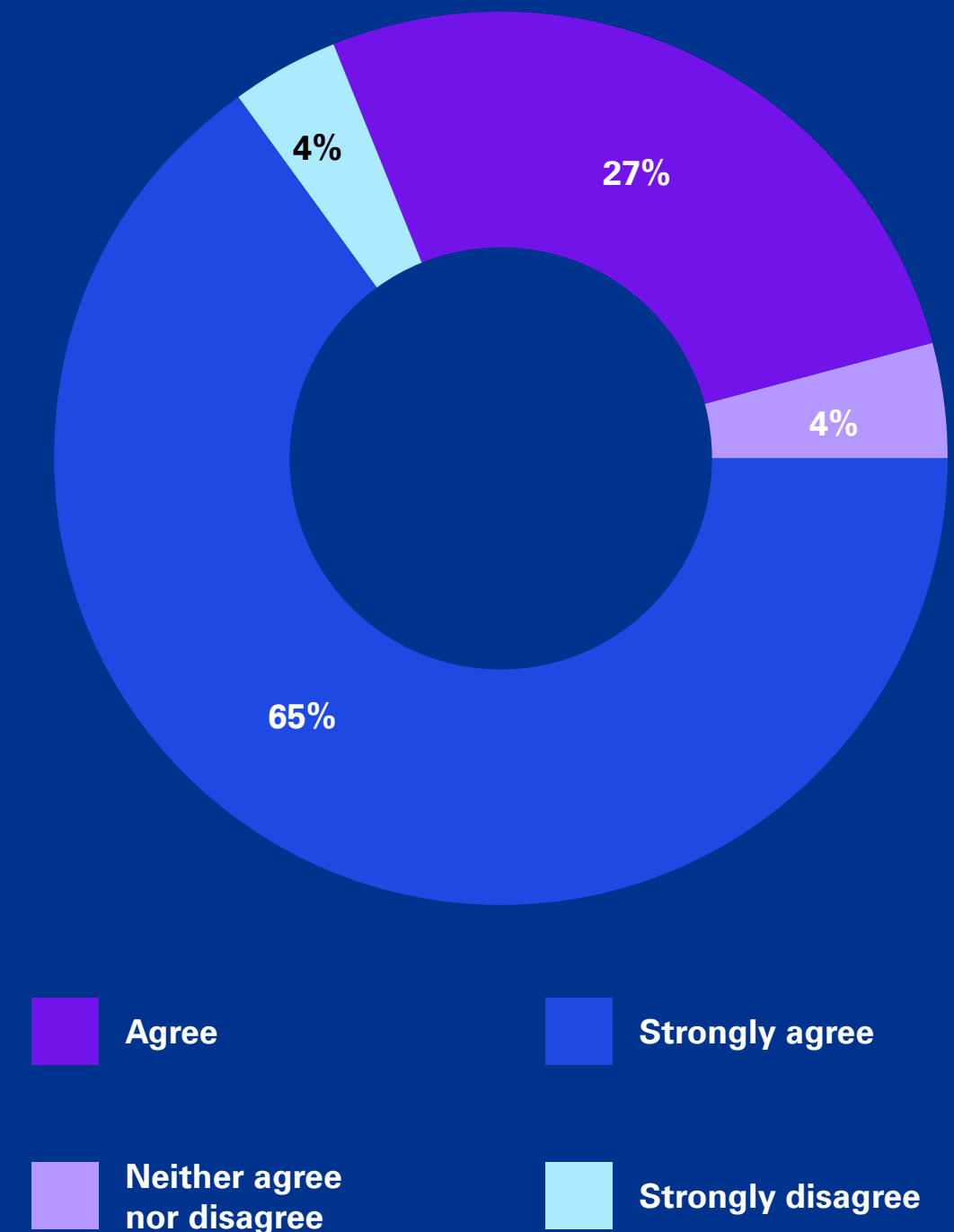
42.4%

Most respondents aim to grow their housing stock by over 100% in the next ten years (42.4%), with some aiming to grow by 25-100% (36.4%) or 0-25% (12.1%) or no growth at all (9.1%).

Community Housing Organisations had diverse ambitions in how they wanted to achieve this growth, reflecting a variety of development types, tenant cohorts and commercial models. This breadth of ambition speaks to a core strength of the Sector, namely that the diversity of Community Housing Organisations provides the opportunity for specialisation and the delivery of different models best suited to tenants and local needs. For example, Survey Respondents identified ambitions to:

1. Expand and intensify housing on sites they already owned.
2. Be involved in the planning and design of new housing developments.
3. Lease housing from private owners for the purpose of on-renting to tenants on a subsidised basis.
4. Provide key worker housing.
5. Expand into progressive home ownership products.
6. Provide secure accommodation for elderly people and kaumatua.
7. Provide housing to those with disabilities.
8. Focus on housing those currently in transitional and emergency housing, in particular those living in motels.

Funding (other tenure) - We would like to deliver more housing than we are able to receive funding for





... But they see challenges meeting this growth

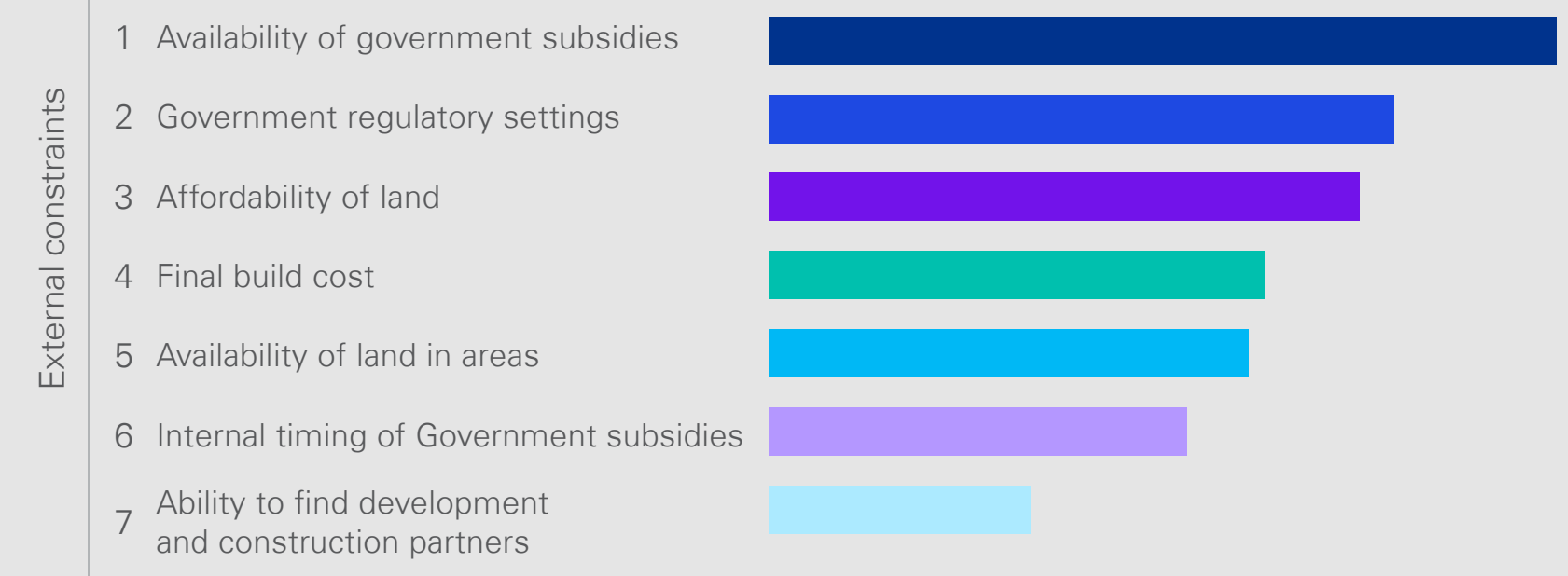
Survey Respondents indicated that, in their view, the greatest constraint on growth of the Sector is the availability of Government funding. Subsidies are required to deliver affordable housing and 48% of Survey Respondents ranked availability of, and access to, Government subsidies as their primary constraint following by the Government’s regulatory settings.

We note the strength of the response from the Sector on the importance of Government funding to enable the delivery of new supply. Under current settings, Government funding is key to supporting both the economics of new developments (through the OS) and ongoing rental subsidies for tenants.

However, we recognise that there will always be funding constraints in the face of competing needs and priorities across a range of social services. Given this, we have not focused on the total quantum of funding in this paper, but instead on the ways in which the Government could improve how its supports the Sector largely within the existing funding envelope.

We also recognise that many of the key external constraints are the result of broader system-wide settings that impact all aspects of the housing continuum. While we would support changes that facilitate more housing supply, we have largely focused on challenges identified by Respondents specific to Community Housing Organisations that are inhibiting growth and the quality of provision.

Rank the biggest external constraints impacting your ability to achieve your aspirations



Number of Survey Respondents that ranked the external constraint as their first choice.

Further key findings on the delivery of new supply and meeting the needs of tenants

Tenant's needs are diverse, but current settings don't recognise this

The current IRRS funding model for CHPs is fundamentally based on a market rent model, with the total income received for a particular property driven by typology and location, rather than the tenant occupying it. In other words, CHPs receive income as if they were regular landlords, but must support a wide range of tenant needs that are beyond those required for a regular market rental.

Tenant needs can be diverse and this impacts both the type of housing and the non-housing services that tenants might require. This complexity of need means that CHPs end up providing a wide variety of housing and non-housing services for their tenants. Survey Respondents highlighted this breadth of support, including education, mental health and addiction, respite care, prisoner reintegration, support for kaumatua, budgeting advice, and community liaison.

Respondents indicated that it can be challenging to meet these diverse needs as they are only effectively funded to be standard tenancy managers or to provide a narrow set of specific wrap around services.

This issue was also evident in the survey's open text responses, with a common theme being that IRRS is insufficient to increase the quality of their housing services for the community, and that many Survey Respondents would support further investment into the provision of support services.

While this report does not propose that CHPs take on the role of being formal support service providers (as this is in conflict with current regulations and system design), the survey findings highlight the challenges associated to providing quality tenancy management services.



"The social support that we provide to our social and affordable housing tenants is not funded, so is limited to what we can provide by our own resourcing."

"For our current services we would like to supply more communal spaces for tenants to engage, however a space used for a community hall could be a unit for a tenant and an extra unit supersedes a communal space."

"Capacity - retention of staff, these roles are often complex and have no formal qualification connected to the role. Professional development opportunities limited."

"Increasing complexity of the tenants linked to trauma related behaviours is challenging."





“Long term vision from Government for support of the Community and Housing Sector [are needed] - not just 3-year or shorter-term “pilot” funds.”

“Government agencies often slow in making decisions, which can jeopardise relationships with the private developer.”

“It would be preferred to negotiate IRRS for e.g., 5 builds rather than one by one. Funding of IRRS build by build has its limitations.”

“We provide a fantastic housing service to our tenants. We’d like to be able to plan to build 100 homes a year without the on/off of the funding tap and long-term contracts.”



Lack of a clear vision from the Government for the Sector to plan around

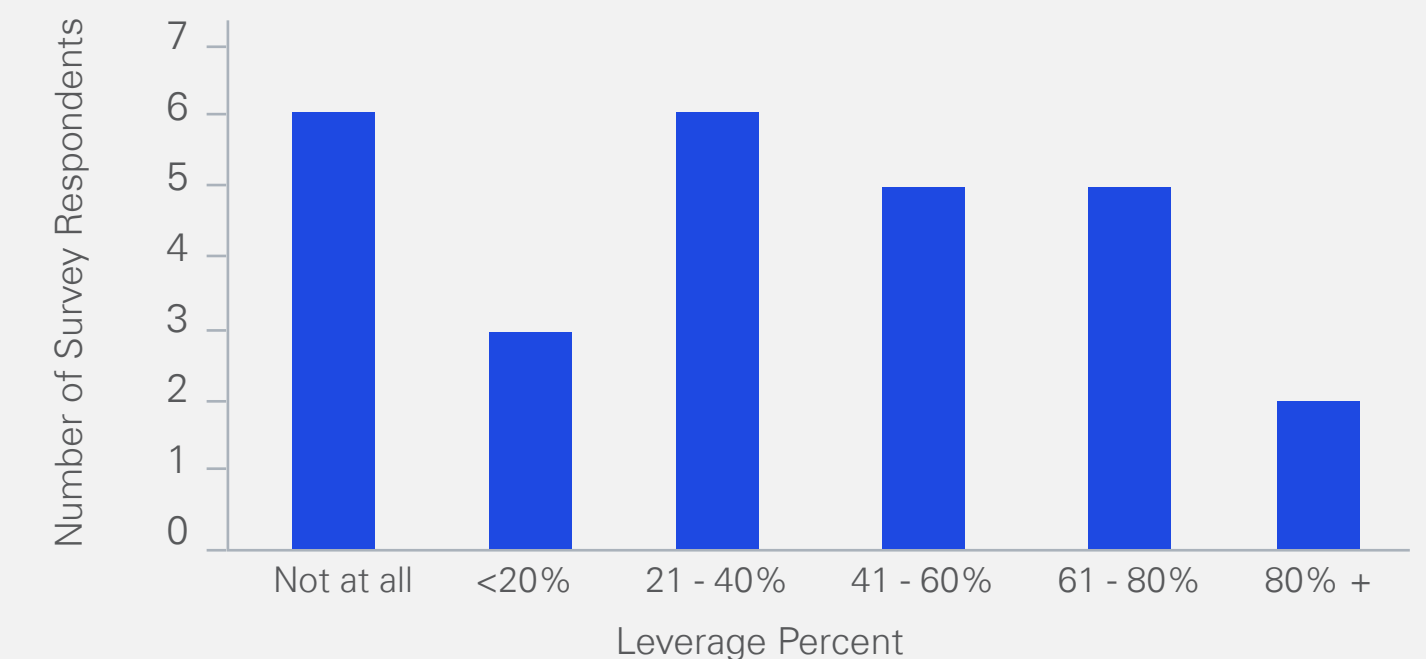
Respondents pointed to the challenge of short-term investment horizons, and in particular the Public Housing Plan that have been operative for at most three years, and in some cases only one. Providers consider that this, in combination with the development-by-development approach to funding has made medium term planning more difficult and has led to missed opportunities.

Many Respondents considered that this insufficient forward direction and investment predictability created a number of practical challenges. These included accessing the most affordable sources of finance and undertaking earlier development stages (acquiring land, seeking resource consent) efficiently.

Limited balance sheets can act as a constraint on new supply investment

Many Community Housing Organisations reported facing capital constraints to delivering new supply, driven by limited balance sheet capacity to support land purchases and/or construction. According to Survey Respondents, where developments do occur, they also often tend to apply their own equity for substantial portions of the project with a reasonable number of developments not being highly levered (see chart below).

Survey Respondents' leverage level



However, importantly, the above data only captures developments that have occurred, rather than those which cannot get off the ground in the first place. Under current settings, upfront capital grants to CHPs have generally not been possible, with the OS funding being provided over the life of the development (typically 25 years). This has supported long-term capitalisation of the Sector and improved the financial viability of developments, but it alone does not alleviate capital constraints if the Organisation cannot source sufficient finance either from its own balance sheet or from external financiers.

A number of Respondents highlighted the relative ease of the leasing arrangements, with 22% of Survey Respondents reporting a preference for leasing over purchasing completed/existing units or undertaking developments. Leasing arrangements have their own set of trade-offs to consider, given they can provide more housing in the near-term within a fiscally constrained environment, but generally do not support the long-term growth of CHPs' balance sheets. However, the impact on overall growth in housing supply from leasing is unclear. We discuss alternative models, including leasing, in more detail in the Opportunities section of this report.

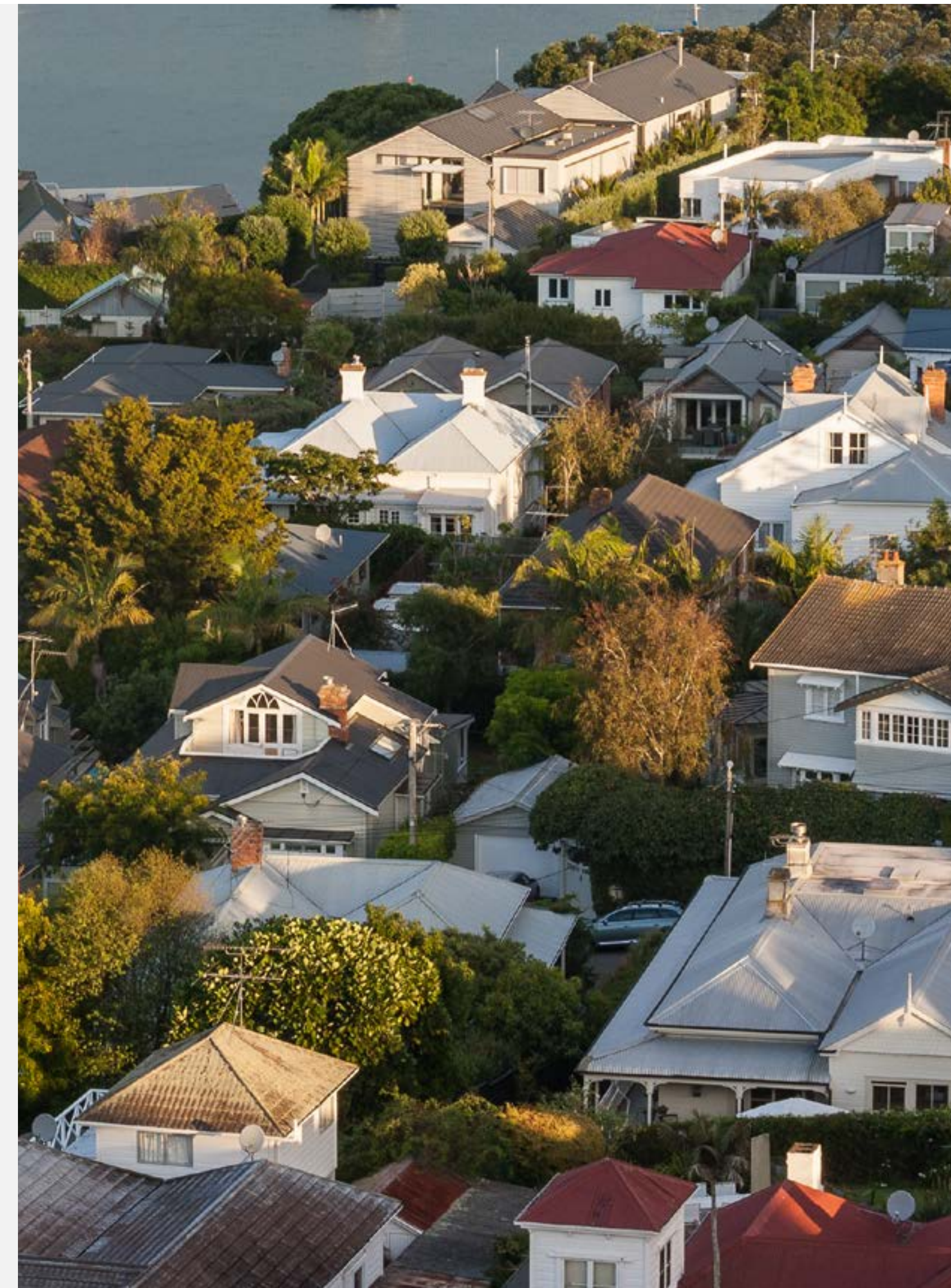
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“Access to capital at the right time is a major challenge. It is either not available in sufficient volume (IRRS/OS) or the timing doesn't align with build milestones.”

“Availability of capital upfront to secure suitable sites is absolutely key. We have received some large philanthropic donations to help buy land in the past 3 years... Going forward, without upfront capital, our relatively small balance sheet will limit how much more we can grow.”

“Currently our loan-to-value ratio (“LVR”) is 22%. This is forecast to increase up to 40% in the coming years as we grow. Under the current Government funding settings (OS drip-fed over time not upfront capital), we end up borrowing more to build public housing.”

”





“The funding environment has tightened significantly with additional measures being imposed especially by bank lenders. The imposition of the General Security Agreement etc inhibits flexibility on some projects.”

“Banks ... do not understand our business and funding frameworks.”

“We already own land for development, however, getting the finance to build affordable housing is prohibitive.”

“No trouble accessing finance, but the costs are still very prohibitive.”

“We are charged commercial interest rates. Which are higher than residential. We should attract a social or residential rate.”



Challenging economics of new community housing supply are exacerbated by access to third party capital and the cost of finance

The economics of delivering new community housing can be challenging. Relatively high land and build costs relative to potential rental income contribute to this, while Survey Respondents indicated that this can be exacerbated by limited access to third party capital and the current interest rate environment. Of the Survey Respondents, 45% has indicated they were unable to find lending products that suit the needs of their developments. It was also evident as 73% of Survey Respondents either agreed or strongly agreed that rising interest rates impact their organisation's ability to produce affordable housing.

The overall financial viability can also be more challenging given that Community Housing Organisations typically seek to retain housing indefinitely and therefore are less likely to realise capital gains. While efforts from organisations like Community Finance and other social impact focused financiers can lower the cost of finance, it is clear from the survey that the Sector is still facing challenges in this area. The financing arrangements for Kāinga Ora also differ to those of the Community Housing Organisations which some respondents considered inhibits a level playing field and contestability of supply between CHPs and Kāinga Ora provision.

Delivering for Māori tenants requires targeted solutions

While Māori make up ~50% of social housing tenants⁶, Kaupapa Māori organisations make up 30% of registered CHPs, and deliver only 12% of CHP social housing places.

Within the group of Māori Community Housing Organisations, there exists great diversity in terms of size, scale, affiliations, asset bases, and access to land. Many of these entities lack substantial asset bases of their own, even when associated organisations may possess greater assets. Further, they have largely not had the benefit of stock transfers or historical assets and have generally not received investment to achieve large scale. Consequently, there exists a gap between the needs and representation of Māori in social housing and the level of involvement and resources accessible to Māori organisations in the Sector. Based on survey responses from Māori Community Housing Organisations, it becomes evident that although some have access to land, they often face challenges in securing adequate funding for development purposes.

Addressing these challenges requires collaborative efforts as delivering meaningful outcomes for Māori cannot be achieved in isolation.

There are some existing initiatives in place to support this, such as the Government's MAIHI framework⁷, which provides a whole-of-system approach to expedite positive outcomes for Māori. In alignment with this framework, mainstream Community Housing Organisations, who manage a significant share of housing places, also have an active role in contributing to advancing outcomes for Māori.

Among mainstream Community Housing Organisations, there are varying levels of cultural competency and engagement maturity; however, a common theme that emerges is their genuine willingness to improve and work more closely with iwi and hapu.

Examples of these efforts include:



"We strive to include the interests of Māori in all decision-making processes. We want to ensure that Māori are equitable stakeholders and are represented in both the governance, and operations, of our organisation... We aim to ensure Māori have equal access to our services and in our decision-making processes. We recognise the importance of consultation, co-design, and co-development with Māori partner organisations."

"We always work in a participatory way, applying the values of partnership so we participate with iwi in all we do. Iwi understands the housing needs of their people far better than we will ever be able to do so. We promote among our partners the importance of to ao Māori in housing, in the community, we promote te reo Māori and through this we strive to constantly improve our cultural awareness of iwi."



⁶ <https://www.hud.govt.nz/assets/Uploads/Documents/Public-Housing/Public-Housing-Reports-December-2023/Public-Housing-Quarterly-Report-December-2023.pdf>

⁷ This national Māori Housing Strategy – Maori and Iwi Housing and Innovation Framework for Action, as part of the Government Policy Statement on Housing and Urban Development.



Diversity is a strength, but can lead to scale challenges

At the time of this report, there are 78 registered CHPs⁸ providing housing across the country (although not all are currently providing social housing). This provides the opportunity for the Sector to connect with local communities, provide specialist services to specific population groups and provide contestability in supply. While this diversity has advantages, it can create challenges through a lack of scale and a lack of concentration of certain capabilities (e.g. property development).

This has come through in the following findings:

- Balance sheet constraints for newly established entities that have not developed or begun with an existing asset base.
- Reduced scale efficiencies in development and financing access.
- Differences in capability and capacity to participate in property development (30% of Survey Respondents did not hold development expertise in house).
- There are a large number of entities involved in the Sector, with these requiring medium-term, predictable investment commitments.

This can lead to broader questions about the role of different parts of the Sector, such as whether all entities should be involved in delivering new supply and the best approach to do so. This issue is considered in more detail in the following section.

⁸<https://chra.hud.govt.nz/>. Accessed 05.03.24

Opportunities

Under current settings, the future direction of the Sector is fundamentally influenced by the Government as the dominant funder. Any changes should be grounded in a renewed, clear vision on the role of CHPs within the housing sector more broadly, something CHPs see as currently lacking. This will need to include a direction on the role of CHPs on the spectrum from developers to tenant managers.

On the expectation that CHPs will continue to be looked to contribute to the growth in supply in some form, and contribute to improved tenant outcomes, we have identified a number of potential opportunities to support these aims. These opportunities have been primarily informed by the feedback received from the Respondents. They require further testing and refinement but can hopefully contribute to the ongoing sector-wide exploration of how best to deliver improved housing outcomes for those most at need.

The opportunities we discuss deal to matters specific to the Community Housing Sector, and in particular, how CHPs could increase their role in the delivery of housing supply. We note that:

The most critical factors in maximising supply of new housing are the same systemic factors that influence affordability of new housing in general such as more enabling planning, infrastructure investment approaches that incentivise efficient development, and a reduction in construction cost through greater supply competition and standardisation. The continued focus on these housing system-wide matters, which drive the unit cost of any type of housing, are critical to complement the Sector specific opportunities we present here.

As outlined earlier, many providers pointed to insufficient funding as a major constraint. However given that there will always be competing priorities and funding will inevitably be limited to some degree, this section focuses on how to get the greatest value within a constrained funding environment, whatever the level of that constraint is.

Core to the value that CHPs can provide is the extent to which they contribute to improved tenant outcomes through their connection to communities and specific expertise. Any approach to increase the role of CHPs should be driven by the opportunity to improve the lives of their tenants over what can be achieved through alternative supported housing models that the Government may consider.



1. Medium-term and clearer investment signals

The Public Housing Plan is a document produced by the Ministry of Housing and Urban Development ("MHUD"), outlining the Government's intent for the supply of subsidised social housing detailing the location and number of additional housing places for up to a four-year period, with the current document in place until June 2025.

The PHP, as released by MHUD, outlines the Government's intention for purchasing new supply. The PHP presents an opportunity for the Government, as primary funder of the Sector, to take a long-term horizon and set out clearly what it expects of the Sector, and the support it will provide.

We consider that there is an opportunity for future plans to:

- Take an up to 10-year view and be supported by associated budget commitments to provide confidence to those within the Sector. This could be achieved by issuing it on a rolling basis to ensure that there is always at least a 12 to 18 month horizon on future investment intentions. This would also provide time for the Sector to respond to directions and adjust investment intentions accordingly.
- Set clear direction to guide investment at a strategic level. This should include clarity on the role of CHPs in social housing relative to Kāinga Ora, and the interactions with other forms of supported housing such as emergency housing, building on recent announcements regarding the prioritisation of emergency housing tenants for social housing places. It should also set clear direction on preferred and acceptable investment and development models as discussed further below.

2. Utilising the tiering system in the CHP regulation and enabling scale

If the CHP sector is going to have a larger role, the regulatory settings would benefit from further refinement to ensure it provides necessary safeguards to protect tenants and any Crown investments.

The current regulatory environment is not risk based – and all providers are subject to the same regulatory requirements regardless of their scale, whether they provide tenancy management services in homes they own, lease or have been involved in developing new supply. By contrast Australia's National Regulatory System for Community Housing ("NRSCH") categorises providers into three tiers depending on the scale and scope of their activities (see Appendix C).

Introducing a tiered system of regulation to distinguish between providers who undertake relatively lower risk activities (e.g., tenancy management) and higher risk activities (e.g., development of housing or very large scale providers where service failure would have significant implications) should be considered. The design of any tiering system may naturally favour providers that are already larger and well established, which would need to be balanced against considering how to maintain pathways for smaller providers, including Māori and Pasifika organisations, to reach the necessary scale.



3. Funding support that reflects the underlying need and cost to serve

Community Housing Organisations often target specific tenant cohorts that they believe they can positively impact. For example, some Community Housing Organisations primarily provide housing for elder people, some target people with mental health and addiction challenges and others seek to support people with physical disabilities. However, as set out in our findings, the primary funding (IRRS) for social housing places is based on 'market rent' which effectively assumes that the tenancy management costs are the same as that in the private rental market.

The costs will vary for different cohorts and many Respondents' expressed the view that the actual payment for tenancy management should be more closely aligned to the actual costs of delivery for different tenant cohorts. This would support tenants to receive the tenancy management that they need and to enable the Sector to specialise and invest in improving tenant outcomes. The current model also provides a disincentive on CHPs to take tenants with greatest needs.

The intent here is not to increase IRRS payments overall, but to consider whether improved outcomes could be achieved through stronger targeting of funding based on tenants' needs.

Additionally, consideration should be given to improving overall equity of housing support across the housing continuum. Currently there are large differences in the effective benefit received by those receiving social housing, and those under similar circumstances not able to receive it. The existing disparities could be mitigated through a combination of adjustments to funding models, greater use of needs assessment for current tenants, as well as funding for supported housing outside the social housing system. We appreciate that these issues are complex and cut across a number of programmes, but these system-wide considerations should be considered alongside social-housing specific changes.

4. Alternative investment and ownership models

High upfront capital requirements for undertaking new build developments were cited as a barrier to investment by many Respondents. Current funding support through the Operating Supplement, while likely effective in some circumstances, has significant cost to Government.

We think there is an opportunity to consider a broader range of models for some CHPs wishing to increase their portfolio size, including for CHPs that arguably are best placed to focus on delivering specialist tenancy management rather than undertaking property development. For many of these models, there is a trade-off between cost to Government, long-term capitalisation of Sector and the extent that models largely shift supply from other parts of the housing continuum rather than achieve genuine growth. Whatever the preferred balance, more diversity in investment models provides the opportunity to enable the right solution for the right development.

Areas where we see scope for greater consideration include:

- **External equity:** In recent years, there has been an increase in the use of external equity partners by CHPs to acquire new properties for social housing, with investors motivated by the potential for market-competitive returns and social good. This reduces the capital burden for CHPs and the upfront cost to the Government by acting as a 'middle ground' between headleasing and full CHP ownership.

Our observation is that domestic and international investors, including from Australia, are increasingly well positioned to invest into the Community Housing Sector. There is greater interest and understanding of the Sector from traditional infrastructure investors and a growing number of housing focused equity partners. This is an area where providers, the financial community and the Government can all push for more progress. Within the Government's wider ambitions to attract more private investment into infrastructure, this represents a particularly promising area of opportunity.

- **Acquisition of existing housing stock:** In many cases the best way to provide fit-for-purpose social housing will be through new builds, and this should provide the majority of new supply. However, new builds, in addition to taking time, also carry a premium. The acquisition of existing stock where it is fit-for-purpose could arguably reduce total costs and add more subsidised housing supply faster, while potentially freeing up capital for private developers to undertake new development.

- **Māori owned land:** For iwi or hapū groups and post settlement governance entities that have land and/or capital available, lending restrictions can impede the ability for Māori to borrow against their whenua. There may be options to continue to encourage/enable development on this land and there has been positive progress in this space. One major bank and another major mortgage provider have created specific funds available for loans to build on whenua Māori which is positive progress.
- **Ground leases on public land:** Central Government could use existing land holdings, or acquire new holdings, and provide long-term ground leases for CHPs. This would reduce the capital requirements and risk profile for CHPs in the development of new supply. It would also allow the Government to invest through capital, rather than operating expenditure and retain any land value uplift. This approach, in combination with external equity, is a model we've observed applied in Australia.
- **Greater use of head leasing:** Private rental properties, whether new or existing properties, can be leased by CHPs. As this does not contribute to long-term growth of the CHPs' skills or asset bases it is therefore not preferred as a long-term solution by many providers. It also may not increase overall housing stock, unless the houses were commissioned in the first place to provide new public housing supply. Nevertheless, it can significantly reduce the near-term funding required to increase supply in certain areas.

5. Reducing the cost of capital

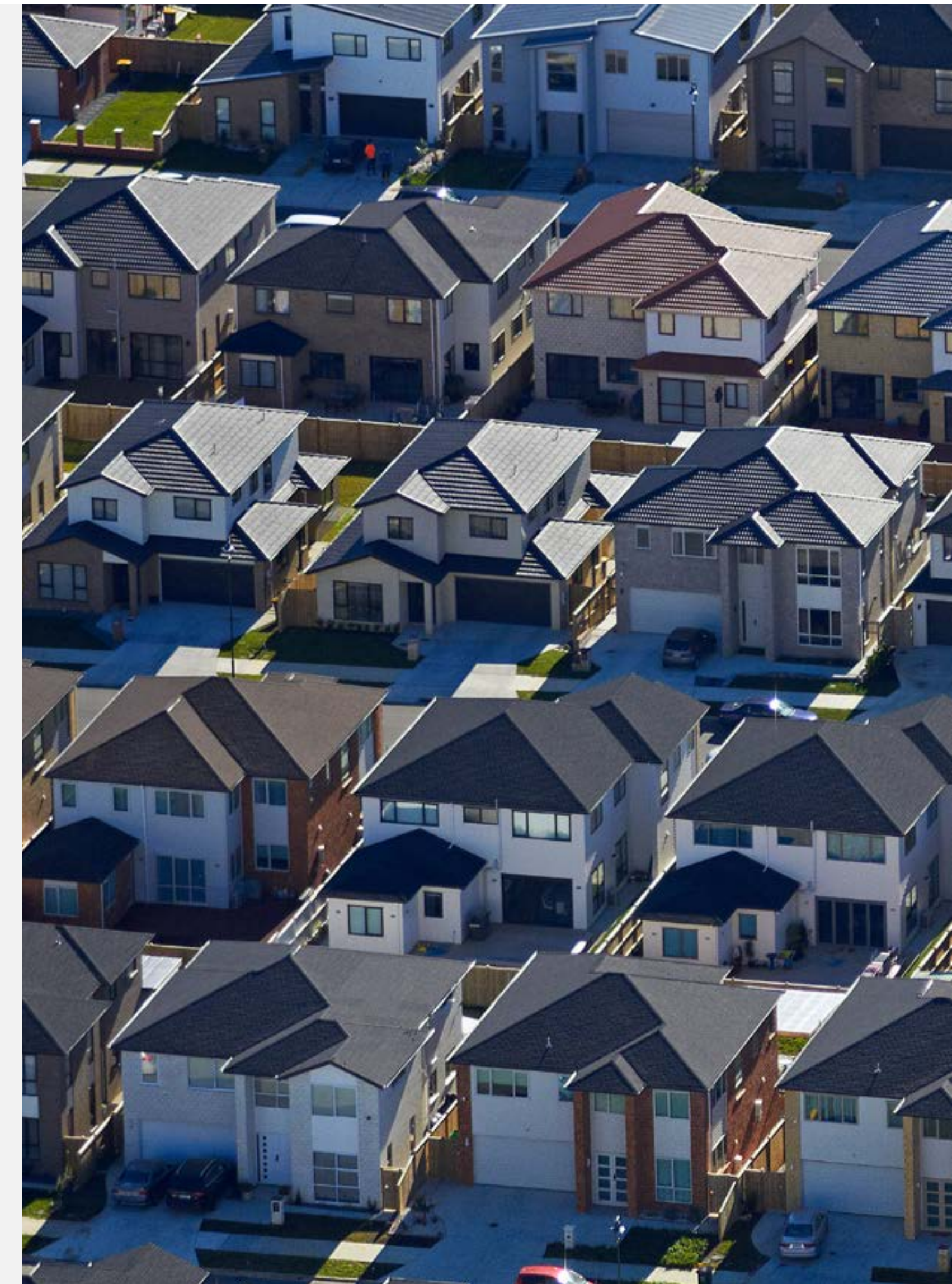
When CHPs have a role in developing housing, this will typically require the CHP to access debt and/or equity capital to meet the upfront costs of land and construction. As set out in our findings, the cost of this capital is a common area of concern for many CHPs. These issues may also extend to models where other organisations are playing the lead role in development.

The cost of capital faced by CHPs will depend on a range of factors, including project specific risks, organisational track record and experience, commercial structure and broader macroeconomic factors. Further, these must be considered by financiers within the specific context of CHPs, including the high level of rental certainty, regulatory guardrails and long-term contracts with the Government.

Even once all these factors are accounted for, a number of opportunities to reduce the cost of capital faced by CHPs or their parties were identified for further consideration:

- Providing longer-term contracts which reduce revenue uncertainty over the period of lending required.
- Providing an underwrite to organisations that provide community housing specific finance to reduce the cost of capital at scale.
- A greater direct role in finance provision on a concessionary basis, for example through bond aggregation (as similar to overseas models such as Housing Australia).
- Where we are seeking to capitalise organisations, shifting towards greater use of upfront capital funding rather than the Operating Supplement. This would need to be complemented by contractual mechanisms to require repayment if CHP does not meet contractual terms.

Solutions such as underwrites or direct provision of concessionary finance will have a financial cost to the Crown and should be weighed against the impact of alternative means of support.





Acknowledgments

KPMG would like to thank everyone who participated in the survey for taking the time to share their thoughts and experiences on the barriers and opportunities for growing the stock of affordable housing in Aotearoa.

We also want to acknowledge the support from CHA and Te Matapihi. Working together, we conducted and distributed the survey, and their insights have provided valuable guidance in this area.

Additionally, thank you to the organisations and individuals we interviewed. These interviews have given KPMG a deeper understanding of the affordable housing landscape and the potential opportunities to increase the scale and pace of affordable housing.

Thank you once again to everyone involved in this report. Your contribution has been greatly appreciated.



Appendix

Appendix A: Limitations and challenges

One limitation faced was the limited participation from the CHPs. Out of the total number of providers in the Sector, 32 responded, with 21 being CHPs. While this report does capture the perspectives of a significant portion of the CHPs, it is important to acknowledge that the lower response rate from other providers in the Sector may limit the overall representativeness of the findings.

Initially, the research aimed to focus on the challenges faced by Māori entities. Due to the low number of participants, with only 6 respondents identifying themselves as Kaupapa Māori-based entities, it was not possible to explore their unique challenges in depth. As a result, the analysis and findings are presented within the broader context of the Community Housing Sector.

To mitigate the impact of limited participation, KPMG engaged with CHA and Te Matapihi to test the key issues outlined in this report, ensuring that they align with their understanding of the Sector.

Appendix B: How we approached the survey

KPMG, with support from CHA and Te Matapihi, gathered insights into the barriers and opportunities for growing affordable housing supply. Our approach included the following steps:

- Survey distribution: KPMG, with the assistance of CHA and Te Matapihi, distributed a survey to the Community Housing Sector. The survey sought to identify key challenges and potential avenues for increasing affordable housing supply.
- Survey responses: We received a total of 32 responses from Community Housing Organisations. The Survey Respondents represented a mix of organisations, with approximately 62% of these being CHPs.
- Interview engagement: We conducted interviews with a range of stakeholders to deepen our understanding of the affordable housing landscape. These interviews involved CHPs, developers, and financiers within the Community Housing Sector. We engaged a total of eight organisations in these discussions.
- Integration of insights: The survey and interviews aimed to gather insights, perspectives, and experiences from the Respondents. We integrated the insights gained through these interviews into our overall findings and analysis.

Appendix C: NRSCH’s categories of tiers⁹

Table 1. NRSCH's Categories of Tiers

Tier 1	Tier 2	Tier 3
<p>Tier 1 providers face the highest level of performance requirements and regulatory engagement – reflecting the fact that Tier 1 providers are involved in activities that mean they manage a higher level of risk based on:</p> <ul style="list-style-type: none"> - Operating at large scale, meaning any serious non-compliance has the potential to impact on a large numbers of tenants and assets - Ongoing development activities at scale, meaning any serious non-compliance has the potential to affect the viability of the provider. 	<p>Tier 2 providers face an intermediate level of performance requirements and regulatory engagement – reflecting the fact that Tier 2 providers are involved in activities that mean they manage a level of risk that is lower than Tier 1 providers but higher than Tier 3 providers based on:</p> <ul style="list-style-type: none"> - Operating at moderate scale, meaning any serious non-compliance has the potential to impact on a moderate number of tenants and assets - Small-scale development activities, meaning any serious non-compliance has the potential to affect the viability of the provider. 	<p>Tier 3 providers face a lower level of performance requirements and engagement – reflecting the fact that Tier 3 providers are involved in activities that means they manage a lower level of risk based on:</p> <ul style="list-style-type: none"> - Operating at smaller scale, meaning any serious non-compliance has the potential to impact on a smaller numbers of tenants and assets - No ongoing development activities or one-off and/or very small scale development activities.

Table 2. Example of NRSCH's Typical Registration of Tier for Different Community Housing Activities

Scope	0	50	100	300	500	2,000
Ongoing development activities at scale	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1
Ongoing small-scale development activities	Tier 2	Tier 2	Tier 2	Tier 2	Tier 1 or 2	Tier 1
One-off and/or very small-scale development activities	Tier 3	Tier 2 or 3	Tier 2	Tier 2	Tier 2	Tier 1 or 2
No development activities	Tier 3	Tier 3	Tier 2 or 3	Tier 2	Tier 2	Tier 2
Scale of community housing tenancy and property management activities Number of community housing tenancies / Number of community housing properties (whichever is larger)						

⁹<https://nrsch.gov.au/providers/categories-of-registration-tiers.html>

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