



Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Residential Development Underwrite (RDU)

Frequently Asked Questions (FAQ)

V2 18 October 2024

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

This version of the Frequently Asked Questions was updated on 18 October 2024 and supersedes any earlier versions.

1. How long will the RDU be open for applications?

The RDU is a new, time-limited, Government initiative to help the residential construction sector recover from the effects of the downturn. HUD will monitor market conditions, the demand for RDU and funds available. When the effects of the downturn have lessened, or funds are fully committed, Ministers will direct HUD to pause receiving new applications for the RDU. The RDU is designed to be able to be un-paused during future market downturns.

There is no set deadline for applications to be received. The RDU is open to receive applications until Ministers direct HUD to pause new applications. HUD will provide reasonable notice when this occurs, including in relation to applications that are in the process but have not advanced to a signed Contract.

2. What is an underwrite?

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

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

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

3. Is the RDU just for main centres?

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

Successful developments will have good feasibility, a reasonable level of developer

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

4. How is RDU different to KiwiBuild?

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

5. Can we have a pre-application discussion with the RDU team to determine eligibility prior to applying?

Yes, email RDU@HUD.govt.nz to arrange this.

6. Can HUD assess high priority applications faster than the standard timeframes?

Yes, our assessment process will focus on advancing proposals that best match the RDU objectives, rather than the order in which we receive submissions. Therefore, those applications that closely align with the assessment framework and have provided all required documentation will be processed faster than less aligned applications or applications that require HUD to request additional information.

7. Can not-for-profit housing organisations, iwi housing organisation or Community Housing Providers apply for an underwrite?

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

8. What prices of houses will the RDU support?

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

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

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

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

The market value of the houses is set by a registered valuation. Developers will provide a recent registered valuation. HUD will then have the developer's valuation peer reviewed and may commission its own valuation as part of our assessment process. HUD may also require the Developer's valuer to address their valuation to HUD so that we can rely on it.

10. Is there a maximum amount of funding per development?

No there are no maximum volume of underwrites per development however, HUD will assess the underwrite risk for each development and manage RDU funds available.

11. Are there any deposits or upfront funding available?

No. There are no deposits or up front payments paid to developers. Money is only paid if an underwrite notice is served, after an agreed period after practical completion (CCC and titles issued) and all other conditions are met regarding sales and marketing.

12. What information does HUD need to see from our funder?

Developer needs to provide satisfactory evidence that finance approval is conditional on securing presales to be eligible for the underwrite. This evidence should be in the form of a conditional loan offer specifying the amount of funding, the development, and the pre-sale requirements.

13. What percentage of developer equity will be acceptable to HUD?

Developers must have equity within the development to be considered for an RDU. Developments will be considered in an individual basis, developers should consider their funder's requirements, the level of pre-sales already achieved and the likelihood of underwrites being triggered.

14. Does the developer need to prove they have already marketed the project for sale prior to applying?

No. Developers need to be able to provide satisfactory evidence underwrites are needed for the development to proceed within 6—12 months. This may be through evidence that finance approval is conditional on securing presales.

15. Is there a minimum number of presales required?

No, there is no requirement for a minimum proportion of presales. The assessment criteria will review the proposed portion of underwritten dwellings as a percentage of total dwellings, lower proportions will present less risk to Crown.

16. What is the minimum or maximum number of homes available for underwrite?

There are no minimum underwrite volumes per development. The lower the better for the proportion of underwrites per development. Developments needing 100% of houses to be underwritten will not be accepted.

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

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

18. Can a development that is completed and ready to be sold get an underwrite?

No, RDU has been established to help the residential construction sector recover from the effects of the housing market downturn. Therefore, only new housing supply is eligible. Developers will need to confirm they have not yet started any vertical construction on the land.

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

Yes, developers can make multiple applications, but we ask that applicants indicate if they are making more than one application and provide their own priority order (with rationale) for HUD's assessment.

20. Can the homes in the development be spread across multiple sites?

No, the development minimum of 30 must be achieved in a single development and a single stage (if the development is staged).

21. If it is a staged development and stage one has started but not the stage 2, can stage 2 be applied for?

Yes, developers that have started or completed initial stages of their development can apply for a RDU for future stages.

22. Can the homes within a development be a mixture of typologies (i.e. stand alone, duplexes, townhouses)? And does HUD have a preferred typology?

Yes, as long as they're all within the same development and stage (if the development is staged). HUD does not have a blanket typology preference, the typology most in demand in the local area would be the least risk to the Crown.

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

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

24. Do projects require building consent?

No, building consent is not a requirement to apply (although this would indicate build-readiness). To be eligible, the development needs all resource consents for residential housing.

25. Will there be any Homestar requirements?

No, Homestar certification is not a requirement for the RDU although we do expect homes to be constructed to Healthy Homes standard.

26. Are there any restrictions around using prefabricated / re-locatable new homes?

No. Your chosen construction methodology does not restrict your eligibility for the RDU.

27. Will developments with a mixture of residential and commercial be eligible to apply? if so, is there a ratio of commercial vs residential that is preferred?

Yes, a development with both residential dwellings and commercial buildings can apply to the RDU and there is no set ratio of commercial to residential. However, RDU will underwrite residential dwellings only.

28. Do developers need to pay any underwrite or set up fees to HUD?

There are no fees payable to HUD to apply for or enter into an Underwrite Agreement. To be eligible, developers will need to agree to provide a market valuation from a registered valuer and cover their own costs of obtaining this and any other evidence to support an application. HUD will not contribute to any costs incurred by developers throughout the process (including legal costs).

29. When is the underwrite price set and is it reviewed?

The underwrite price will set at the time we enter into the RDU agreement, the agreement does not have standard review points but a variation could be made with both parties agreement.

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

When proposing the underwrite discount percentage in an application, developers should consider evidenced funder's requirements, the level of developer equity, the overall development feasibility, and the risk of the underwrite being triggered.

31. Will you be underwriting specific dwellings within a development, or will it be based off the order they're sold?

Yes, the underwrite will be for specific dwellings within your development.

32. Will there be an agreed sunset date within the Crown underwrite contract and what would the terms be?

Yes, the term will be negotiated based on the specific developments risk profile. A template RDU agreement will be available on the RDU webpage

(<https://www.hud.govt.nz/our-work/residential-development-underwrite>) in the coming weeks for review.

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

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

34. What are the minimum/maximum timeframes to trigger an underwrite?

These will be negotiated based on the specific developments risk profile but will always be set after the homes have achieved practical completion (CCC and titles).

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

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

36. Can the developer choose not to execute the underwrite later?

Yes, the developer can choose not to execute the underwrite. HUD will only purchase the underwritten houses if the Developer triggers the underwrite (by serving an underwrite notice) within the agreed period and has provided a comprehensive sales and marketing plan and evidence of best efforts to sell houses to market buyers.

37. Once an underwrite is signed, can the Crown pull out?

An underwrite, once signed, obliges the Crown to buy the houses in accordance with the RDU agreement. The Crown cannot end the agreement due to market changes.

38. How will you assess the risk to the Crown if the underwrite is triggered, for a particular development?

You can find the assessment framework on our webpage and in our information document found here: <https://www.hud.govt.nz/our-work/residential-development-underwrite>.

39. What due diligence will be taken on an application?

HUD will complete commercial and legal due diligence to a level appropriate at each stage of the process, and for the particular elements of each application. This will include checks on ownership, integrity, existing sales and capability using information provided by the developer, information available on public databases, any information held by HUD and the results of any third party checks that HUD deems appropriate. We also ask developers in the application if they have anything

to declare. The terms and conditions (in the Information Document) set out more detail about the information that HUD may use.

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

Developments that already have a Crown underwrite (namely KiwiBuild or Build Ready Development underwrites) are not eligible to receive the RDU for further stages of that development

41. What do the 'before and after discount' columns mean in the application forms?

On the feasibility template HUD asks developers to input their project specific information. On the feasibility summary tab there are two columns that provide HUD with an overview of what the development feasibility is if the underwrite is triggered and if it is not. HUD wants to ensure developments are financially viable, but developers will not profit from underwrites being triggered.