



External Research Report  
Issue Date: 01/12/2016  
ISSN: 2423-0839

Report ER21

# Community Housing Providers, Procurement and the Building Industry

Kay Saville-Smith, Nina Saville-Smith and Bev James

Project LR0485

Centre for Research, Evaluation and Social Assessment Ltd (CRESA), funded by the Building Research Levy





1222 Moonshine Rd,  
RD1, Porirua 5381  
Private Bag 50 908  
Porirua 5240  
New Zealand

[branz.nz](http://branz.nz)





**COMMUNITY HOUSING PROVIDERS,  
PROCUREMENT AND THE BUILDING INDUSTRY**

**November 2016**

Research Report LR0485

Kay Saville-Smith, Nina Saville-Smith (CRESA) and  
Bev James (PP&R)

## CONTACT DETAILS

**Key contact:** Kay Saville-Smith, Director  
Centre for Research, Evaluation and Social Assessment Ltd (CRESA)

**Address:** 44 Tirangi Road  
Rongotai  
Wellington 6142

**Phone:** 0274 303575

**Email:** [kay@cresa.co.nz](mailto:kay@cresa.co.nz)

## CONTENTS

	Executive Summary	i
1.	Introduction	1
2.	Research Method	2
3.	Community Housing Provider Participants	5
4.	Stock Acquisition	6
	Desired Stock	6
	Stock Acquisition 2014-2016	13
	Factors Shaping Stock Acquisition	13
5.	Procurement Approaches and Practices	18
	Dimensions of Procurement	18
	Land Acquisition, Design and Building	20
	Selecting Suppliers and Contracting	24
	Risk Reduction and Risk Sharing	26
6.	What Works	30
7.	Community Housing Strengths and Vulnerabilities	35
8.	Conclusions and Some Pathways Forward	38
	REFERENCES	41

## TABLES

3.1	Anonymised – Participant Community Housing Providers	5
4.1	Weekly Rents by Unit Type/Size – CHA Affiliated Community Housing Providers 2014	7
4.2	Weekly Rents by Unit Type/Size Non-affiliated Community Housing Providers 2014	7

# EXECUTIVE SUMMARY

---

The community housing sector in New Zealand has long made a contribution to the provision of housing for people at the margins of the housing market. This report looks at the procurement processes and relationship that community housing providers have with the building industry with in-depth interviews with 17 community housing providers who have built new residential dwellings either on green-fields or re-developed sites from 2014. Together these housing providers built around 751 stock units over that period.

The community housing providers that participated in this research are diverse in character and operation. They range over large providers with more than 75 dwellings to small providers with a stock of less than ten dwellings. They are spread over the North and South Islands and, as a set, operate in a variety of settlements from major urban conglomerations to secondary provincial and minor provincial settlements. Some operate across a number of regions or through a federated organisational structure. Others focus on a local region. New-builds are typically destined for rent, rent for buy or shared ownership. Some of the participant community housing providers also provide transitional or emergency housing through their existing stocks.

The questions that guided this research are around the:

- Current range of procurement and project management models used in new build developments.
- Outcomes of building projects in relation to cost management, design fitness and fidelity, build efficiency, productivity, cost and value optimisation, and dwelling performance and satisfaction parameters.
- Barriers between community housing providers and the building industry to improving design and build outcomes and the timely delivery of affordable dwellings.

Using grounded theory, this research has found that the procurement process is much more complex, nuanced and dynamic than that often portrayed in the housing, building industry or contract literature. There are three dimensions of procurement that community housing providers deal with. Those are:

- i. The multiplicity of different elements to procurement, in which community housing providers have to select, purchase or provide to ensure successful delivery of a new build including:
  - Goods including land, designs, products and materials.
  - Services including legal services, surveying, design services, quantity surveying, trade services (building, electrical, plumbing), engineering, drain laying, landscaping, compliance services, and project management.
- ii. The multiple ways in which goods and services might be bundled and contracted.
- iii. Informational asymmetry between community housing providers procuring housing and the suppliers of goods and services needed to build those dwellings.

Community housing providers undertake their procurement in the context of three critical and largely unavoidable imperatives:

- Building affordable dwellings for people on the lowest incomes.
- Delivering housing to people who are likely to spend more time in their dwellings on a daily basis, who need secure housing, and who have limited choices on the housing market.
- Maintaining a long-term interest in the stock it commissions.

Those three imperatives place community housing providers in a significantly different position from other housing providers. Developers and speculative builders divest themselves of the stock and responsibilities for it as soon as possible. Private landlords have freedoms in the disposal of stock and, indeed, tenants, which are distinctively different from practice in the community housing sector or, indeed, with recent policy changes in Housing New Zealand. Owner occupiers, too, have more flexibility than community housing providers, both in the buying and selling of properties and investing in their maintenance. Community housing providers are restricted in the disposal of their stock, as many are bound by their constitution or trust deed to only dispose of stock either to another charitable organisation, or to re-invest income from disposal into more housing for a charitable purpose.

Community housing providers must often accept lower rates of return on capital than, for instance, private landlords, if they are to ensure community housing is affordable to residents. This will continue to be the case with the Income Related Rent Subsidy because of the limits embedded in those payments. Nevertheless, community housing providers have a strong focus on value for money as well as on affordability. This is manifest in their concern to ensure that their housing is:

- Located to allow residents to access public transport and to optimise walkability.
- Affordable to operate, both in relation to day-to-day 'running costs' for the resident and in relation to long term repairs and maintenance.
- Durable and resilient.
- Providing quality indoor and outdoor space.
- Accessible and functional with good thermal performance and energy efficiency.

In addition, some community housing providers are concerned to promote other outcomes including:

- Increasing skill in the building industry and wider community by supporting builders to take on apprentices through sustained engagement over time.
- Community building.
- Demonstrating the buildability of high performance, low cost dwellings.

There is enormous diversity in procurement, including contractual approaches, in New Zealand's community housing sector. Even a single community housing provider is likely to vary their approach to procurement from build to build or development to development. Despite this, there are clear continuities around the determinants of success in procuring and delivering new builds. Those are:

1. *Shared and values-based commitment* between the community housing provider and suppliers, which emphasises mutual respect of each other's needs and ensuring that whatever the nature and the form of procurement there is a fair deal for all parties.
2. *Openness, clarity of expectations, and transparency about limits of resources.* This involves understanding what is really important, what can and cannot be compromised, and learning about project management, risks and appropriate sequencing of decisions.

3. *Vigilance*. This means taking responsibility for the organisation's relationship with its suppliers and actively looking at the market, building costs, monitoring delivery, resolving risks and issues and collaborating to optimise outcomes.

Some have accused the community sector of being too fragmented, unable to achieve good pricing because of internal skill deficits and small scale, and unable to establish positive relations with the building sector. This view is not supported by this research. The sector shows extraordinary nimbleness and flexibility in approach, in the way in which providers bundle different goods and services together, and in the way in which they select, supervise and manage their contracts. Community housing providers show themselves to be proactive in a quickly changing funding and policy environment. They quickly apply learnings from previous builds to future projects.

What this research has shown is that the community housing sector can and does procure effectively. There are some deficits in skill and capacity, but those are attached less to size than to experience and the longevity of the relations providers have with the building industry. The local focus of providers, both to their clients and to the local building industry, allows a much more nimble approach that can generate stock aligned with its specific purpose. Community housing providers that reported struggling most are those that have operated rather like householders who seek financial certainty and believe quality and value for money will be optimised by seeking services from group home builders and/or through fixed price contracts.

Significant barriers to stock acquisition have been:

- Limited and uncertain capital funding which exacerbates the impacts of high house prices and fuels building costs.
- Inability to forecast income even when accessing the Income Related Rent Subsidy.
- Uncertain and tangled legislative reform with consequent tax liabilities, charitable status and housing policy.
- Barriers presented by the Resource Management Act and district planning and the way in which some councils execute their responsibilities in relation to those and the Building Act when dealing with community housing providers.

Community housing providers are able to establish productive relationships with the building industry through their selection of builders and ancillary professionals who align with their values. But they remain disappointed with the ability of architects in particular, as well as the ability of the industry as a whole to value affordable housing and see its innovative and design potential. Community housing providers wish to provide their preferred building partners with some certainty of builds over time. They see the on- off- flow of capital and demands to supply by government as counter-productive, often bringing them into the building market at the high point in the cycle when prices are also high. They see an orderly planned procurement and delivery of housing as critical to meeting demand, avoiding significant under-supply, and enabling them to both support the building industry in down turns and achieve the best pricing.

The main barrier to procurement on new-builds does not reside in a lack of expertise or aspiration among community housing providers. Notwithstanding, on the margins, there

are some very real opportunities to improve procurement effectiveness and practice within the community housing sector itself. Particular attention could be given to:

- Development and promotion of standardised quoting, quantity surveying, and project management templates and software.
- Joint, cross-sector initiatives to establish insurance and build guarantees.
- Development of knowledge-based procurement kits and training by both community housing providers and building industry training including the development of bid and proposal evaluations that recognise the value of outcomes approach of the community housing sector.
- Promotion of simple house and multiple consent opportunities to community housing providers.

In addition, two broader conversations are needed to assist the building industry to deliver to the needs of community housing providers and their clients. The first is a conversation around price points. The second is a conversation with councils and planners around the needs and characteristics of the people seeking housing through the community housing sector. Currently there is a clear misalignment between the planning amenities required by councils such as parking and the needs of the people likely to live in the affordable homes the community housing sector needs to deliver. Finally, there are community housing providers in New Zealand who have effective relations with some members of the building industry. Those relationships and experiences provide a platform for the future. It is important that housing as well as building industry policy and regulatory frameworks support rather than undermine those relationships and relation-based procurement and contracting.

# 1. INTRODUCTION

---

The community housing sector in New Zealand has long made a contribution to the provision of housing for people at the margins of the housing market. It has delivered a range of stock to a diversity of people through rental and the development of secure approaches to home ownership, which neither public nor private housing providers have been able to deliver. It is in the community housing sector that intermediate tenure products such as rent for buy, self-build, and shared ownership have been developed and delivered. It is the community housing sector that has promoted independent and secure living for people facing the burdens and challenges of maintaining secure housing in the face of mental health or disability. It is the community housing sector that has promoted, sustained and been committed to the idea of housing first.

In attempting to support vulnerable and low income households into secure, decent housing, community housing providers have always worked with the building industry through new builds in greenfields sites and in local regeneration projects. In doing so the community housing sector is asking the industry to take its attention away from the upper quartiles of housing value and address the persistent problem of under-supply of housing affordable to New Zealand's lower income quartiles, indeed, typically households with the lowest incomes in New Zealand. At the same time the community housing sector sees itself as not simply developers of low cost housing, but investors in their communities. Moreover, community housing providers have, compared to mainstream developers and the building industry that delivers residential buildings, a long-term commitment both to the stock and to the residents that live within them.

The combination of a client-base with limited resources and this on-going commitment to stock and residents means that community housing providers place particular, and unusual, demands on the building industry. In the context of under-supply of low-cost stock, a desire by government that the community housing sector expand, and unmet demand, the community housing sector and the building industry are facing new pressures. The community housing sector is confronted with the question of how it can leverage fit-for-purpose, affordable rental housing when the building industry has largely targeted the upper quartile of house value, has struggled to raise its productivity, and is the subject of persistent concerns about the quality and cost of its production.

The point at which community housing providers and the building industry meet is at the procurement of new builds and existing stock renewals. Effective procurement that maximises productive, sustainable margins to the industry, fit-for purpose dwellings at an affordable price to the community sector is critical if community housing is to address unmet housing need. In the community housing sector overseas, partnering approaches involving collaborative design, project management and procurement are increasingly being adopted in preference to competitive models. It is claimed that these approaches improve dwelling quality and performance, reduce building costs and provide reasonable margins by reducing uncertainties for builders including the costs of bid preparation, value-based sourcing of materials and

components. These approaches also encourage efficient processes and productivity, and improve design fidelity.<sup>1</sup>

To date there has been no systematic research into community housing providers' approaches to procurement and project management or their relations with the building industry in New Zealand. This research is an initial step in filling that informational gap. The following report presents an analysis of in-depth interviews with 17 community housing providers who have built new residential dwellings either on green-fields or re-developed sites from 2014. Together these housing providers built around 751 new stock units over that period. That stock supports low income and vulnerable people through secure and affordable rental housing, rent for buy and shared ownership. The community housing providers participating in this research represent national organisations as well as community housing providers that target their local areas. Some have large existing stocks, others are new-comers to building and delivering housing. All have experiences that shine a light on effective procurement and the way in which the building industry and the community housing sector can get the best from each other.

The report is structured as follows. Section 2 outlines the research method. Section 3 describes the community housing sector and the community housing providers that participated in this research. Section 4 reports on three aspects of stock acquisition. Those are: what community housing providers are looking for in their stock, the stock acquisition through new builds in the period 2014-2016, and the factors that community housing providers report as impacting on their stock acquisition.

Section 5 explores procurement approaches and practices. It starts with an overview of the dimensions of procurement that emerge from the in-depth interviews with community housing providers. It then describes the diversity of ways in which community housing providers:

- bundle or split up land acquisition, design and the building process
- select suppliers and undertake contracting
- seek to reduce and share risks.

Section 6 summarises what works for community housing providers in the procurement process. Section 7 comments on the vulnerabilities and strengths of community housing providers in commissioning new residential builds. Finally, Section 8 comments on some ways that the interface between the community housing sector and the building industry could be improved.

## 2. RESEARCH METHOD

---

To explore the community housing sector's relations with the building industry and the procurement practices and processes that tie them together, this research was originally going to use primarily survey methods supported by a selection of a few modal case studies demonstrating particularly successful practice. However, the research saw a significant

---

<sup>1</sup> See Kwawu and Hughes, 2005; Colledge, 2005; Chan, Chan and Yeung, 2010; for useful reviews of movements within the construction industry from traditional contracting to relational contracting based on shared risk, trust and an orientation of commitment across the value-chain to the outcome. Another aspect of this movement is "intelligent commissioning", where an alternative to lowest cost competitive tendering is developed, which involves local stakeholders, and aims to build trust-based, flexible planning and delivery (Milligan *et al.*, 2015).

methodological shift. Case studies and surveys were replaced by a series of targeted in-depth interviews with community housing providers affiliated with Community Housing Aotearoa (CHA) that were identified as having commissioned new build housing since 2014.

There were methodological and practical reasons for this change in approach. There were three practical reasons. First, it was clear that community housing providers were becoming research and data tired. The number of requests directed to community housing providers about their stock configuration, their target populations, the location of their stock, and their stock acquisition and disposal intentions increased significantly during this period as CHA, many councils and central government sought to analyse the supply and future demand for housing in the community housing sector. Second, community housing providers were simultaneously confronting significant uncertainties around their status as charitable organisations as well as changes in the tax and housing policy and funding frameworks. Third, only a small proportion of community housing providers were delivering new stock. It became evident in an initial engagement with the sector at a CHA conference that community housing providers would feel more comfortable in engaging through a broader in-depth interviewing strategy than detailed case studies or surveying.

There were, too, methodological reasons for moving from surveying to interviews and from a few selected case studies to a broader range of in-depth interviews. Three factors were particularly important:

- The first factor was the diverse character of community housing providers themselves, including their target client groups, their geographic coverage, their stock numbers and stock acquisition intentions, and the housing tenure they provide.
- The second factor was the evident diversity of procurement practices among community housing providers. There is not only variation among community housing providers, but also community housing providers have changed practices over time. Furthermore, it appears that some providers have used different procurement models simultaneously.
- The third factor was the multi-dimensional nature of procurement for community housing providers. By comparison the research, policy and technical literature tended to focus on a specific aspect of what was, it seemed, a complex series of decisions and practices that could permutate in a variety of different ways.

Those conditions made the development of reliable survey instruments highly problematic. They also posed significant difficulties for the selection of a few case studies. In the context of such diversity it is difficult to identify what cases may present a modal case. Similarly, it is impossible to argue that a particular case provides more pertinent and transferrable learnings than another. Under those circumstances, a more revealing, rich and reliable research method was selected. That is, in-depth, conversational interviews undertaken within a framework which is aligned to 'grounded theory method'.

While there are many variations of grounded theory method, as well as internal debates about what it is and is not, at the core of the method sit three principles.<sup>2</sup> First, that understanding the dynamics of a situation requires the key players to be able to tell their story in whatever way they please using language that makes sense to them. Second, that the role of the

---

<sup>2</sup> Strauss and Juliet, 1994; Chamez, 2013.

researcher is to generate an abstract, generalizable analysis which helps us to understand complex real-world settings through simultaneously simplifying lived experiences while allowing for variation to be expressed. Third, that the rendition of the world arising from the method should not be artefactually shaped by pre-existing schema or models. The latter places literature and research reviews in a somewhat marginal position, since the narrative and analysis of the community housing sector's procurement must be based in the interviews and inductively generated. Indeed, one of the indicators that a grounded theory approach provides the most robust entry into understanding the relationship between community housing providers and the building industry is that there is no single body of research literature that has that focus. Relevant research is spread over a number of disparate fields from social housing policy and funding, to the delivery of value through the construction industry's value chains, to the nature of contracts and trust.

The core principles of grounded theory mean that interviews are conversational in character and in-depth. They are inherently resource intensive, both in relation to data collection and data analysis. The community housing providers in this research project were approached because they were CHA affiliated and had received capital funding either through central or local government, community or charitable funding to undertake new build projects since 2014. The community housing providers that participated engaged in interviews that were conversational in character and extended anywhere between thirty minutes and ninety minutes. Most interviews involved both an interviewer and a notetaker who recorded interviews closely by hand. The community housing providers that participated in the research involved one, two or three people from the organisation, typically the property, asset or building project manager, sometimes the chief executive officer, and occasionally a trustee. Consent was orally agreed on the basis that the organisation would not be identified in the analysis and that the analysis would be thematic in nature.

The analysis is directed to uncovering and ordering deep continuities, structures and processes around key dynamics, problematics, or questions. The questions that guided this research are around the:

- Current range of procurement and project management models used in new build developments.
- Outcomes of building projects in relation to cost management, design fitness and fidelity, build efficiency, productivity, cost and value optimisation, and dwelling performance and satisfaction parameters.
- Barriers between community housing providers and the building industry to improving design and build outcomes and the timely delivery of affordable dwellings.

The data analysis has been enriched by the participant observation of the research principals in the commissioning and delivery of affordable housing. In the last twelve years that has involved: three major renovations of domestic dwellings ranging in age from the 1930s through to 1959; commissioning design and the subsequent open-book contract with a builder of a tilt-build dwelling under supervision of the designer; land acquisition for affordable housing; commissioning one off-plan design and build at fixed price affordable dwelling for shared ownership; commissioning the design and project managing the build of three affordable dwellings with two in shared-ownership and one in rental using labour only contracts and independent procurement of products and materials; and, commissioning the

design and project managing the subsequent build of a residential dwelling using hybrid contracting.

There has been considerable use of community housing providers' specific comments in the analysis and reporting. These comments are close renditions of their comments but have been adjusted to ensure clarity of meaning in the transfer from an oral context to written reporting. The use of these comments has been designed to demonstrate differences and nuances in community housing providers' experiences. They are also a means by which the very deep continuities between community providers with different characteristics can be observed by the reader. To assist that, each comment has an anonymised identifier setting out the size and reach of the community housing provider associated with the comment (see Table 3.1 below).

### 3. COMMUNITY HOUSING PROVIDER PARTICIPANTS

Seventeen community housing providers participated in this research. As Table 3.1 shows these ranged from providers with small existing housing stocks of ten units or less, to those with large stocks with 75 dwellings or more. In all there were seven large providers, six medium providers and four small providers.

**Table 3.1 Anonymised – Participant Community Housing Providers**

<b>Community Housing Provider</b>	<b>Tenures delivered</b>
Large multi-region – CHP 1 <sup>3</sup>	Rental, shared-ownership
Small federated <sup>4</sup> – CHP 1	Rental
Large multi-region – CHP 2	Rental
Large single region – CHP 1	Rental
Small single region – CHP 1	Rental, license to occupy
Medium single region – CHP 1	Rental
Large single region – CHP 2	Rental, shared-ownership
Large federated – CHP 1	Rental, rent-then-buy
Small single region – CHP 2	Rental, shared-ownership
Medium multi-region – CHP 1	Rental
Large single region – CHP 3	Rental, shared-ownership
Small single region – CHP 3	Rental, license to occupy
Medium single region – CHP 2	Rental
Medium multi-region – CHP 2	Rental
Medium single region – CHP 3	Rental
Large multi-region – CHP 3	Rental
Medium multi-region – CHP 3	Rental

These community housing providers are drawn from both the North and the South Islands. Together they embrace experience with very different communities and settlements including Māori initiatives in provincial settlements. A number deliver affordable housing in major urban

<sup>3</sup> Small = 1-10 dwellings; Medium = 11 – 74 dwellings; Large = 75+ dwellings.

<sup>4</sup> Federated = an affiliated member of a national organisation.

areas, there are participants that deliver housing in secondary provincial cities and some that deliver into smaller provincial settlements.

## 4. STOCK ACQUISITION

---

All the community housing providers approached in this research had actively procured new-built dwellings within the previous two years. A number had also acquired existing dwellings that they renovated or retrofitted. This research focuses primarily on residential new builds. This section focuses on three aspects of stock acquisition:

- The stock community housing providers are attempting to procure.
- Existing and new built stock reported by the participant organisations as acquired over the last two years.
- Factors shaping stock acquisition.

### Desired Stock

Community housing providers are typically seeking to build stock that is affordable, durable and provides key amenities to their tenants or shared owners. Affordability in this context has three manifestations. First, community housing providers are seeking value for money and margins which allow them to sustain and sometimes expand their operations. In that context, providers are acutely aware of the costs of building and the subsequent costs of housing delivery. They are also aware of the limited incomes of their clients and, therefore, the considerable constraints on rents for tenants using community housing.

For some community housing providers, the introduction of access to Income Related Rent Subsidy (IRRS) means that new builds in the future will potentially be associated with higher rentals than current rentals in which tenants are reliant on the Accommodation Supplement. For community housing providers, access to the IRRS was by no means straightforward; some providers noted that they had foregone access because they felt the need to provide for tenants who had not yet been processed through the Ministry of Social Development's (MSD) waiting lists. Others noted that they felt uncomfortable, and indeed had refused, referrals by MSD that had fallen outside their own target populations. This was particularly a characteristic of community housing providers working within the mental health sector. Others noted that the lack of capital funding would, in the future, largely off-set the benefits associated with access to IRRS as the costs of borrowing, if available at all, would raise the cost of provision. Irrespective of the uncertain future outcomes of these recent policy changes, the fine balance of affordable rents to tenants and sustainable margins was one that community housing providers noted as both critical and problematic. This provider set out the problem in relation to building the business case for development:

*In an affordable/social housing market, a developer is dependent on MSD for subsidized tenants. A quirk of the MSD policy is that rentals that MSD is prepared to pay can only be known finally when the project is complete. Those [rental prices] published by MBIE are only a guide and may lag behind actual market movements ... While this may be a problem that faces any commercial housing developer, it is more acute when the grants obtained to enter into this market have a provider expectation that the developer will deliver social/affordable housing. If the grants obtained are insufficient to allow sub-market rentals to be charged then the project can*

*be jeopardised. A commercial landlord in the open market is not hamstrung in this way. Ultimately we were able to obtain tenants through the IRRS scheme although the rentals agreed with MSD for 3-bed units were a little less than we had budgeted for (Small single region – CHP 3).*

Most of the dwellings reported by community housing providers in this research were procured before the IRRS and, of course, the providers delivering shared ownership cannot access IRRS for shared owners. Under those circumstances, the rental data collected in 2014 about CHA affiliated community housing providers (Table 4.1) and other charitable housing providers (Table 4.2) show the constraints on dwelling prices imposed by low rents. Even at the high end of the rental range, and excluding all costs, the capital invested in a dwelling would have to be less than \$572,000 to achieve even a 5 percent return based on rental income.<sup>5</sup> Notably, despite the demand for one bedroom dwellings, community housing providers recognise that building small can be expensive:

*Tenants would like more 1 bedroom units [rather than share houses], but we can't get those at an affordable price ...it's mostly around affordability. We would fill one bedrooms no problem but people would struggle to afford them (Large multi-region – CHP 2).*

*Single person flats are expensive to build (Medium single region – CHP 1).*

**Table 4.1 Weekly Rents by Unit Type/Size – CHA Affiliated Community Housing Providers 2014**

Unit Size	\$/week Range	
	Min	Max
Bedsit/1 Bedroom	\$85	\$340
2 Bedroom	\$110	\$400
3 Bedrooms	\$100	\$500
4 or more Bedrooms	\$148	\$525

**Table 4.2 Weekly Rents by Unit Type/Size Non-affiliated Community Housing Providers 2014**

Unit Size	\$/week Range	
	Min	Max
Bedroom with communal facilities	\$105	\$134
Bedsit/1 Bedroom	\$95	\$200
2 Bedroom	\$127	\$310
3 Bedrooms	\$140	\$330
4 or more Bedrooms	\$160	\$550

<sup>5</sup> The 5 percent return noted here is significantly lower than most developers and private sector investors would look for. See Susilawati and Armitage, 2005, and Susilawati *et al.*, 2009, for research into the way in which differing perceptions of desirable returns present a barrier to partnerships between private developers and social housing providers.

It is hardly surprising that house prices matter to community housing providers. They are committed to striking affordable rents. But affordable rents are not the only outcome community housing providers are seeking. They also typically want to ensure that housing-related costs are also affordable. That desire means that community housing providers are interested in other aspects of dwelling siting and performance, in particular:

- Locations that allow access to public transport and reduce travel costs.
- Thermal efficiency through orientation and design.
- Energy efficiency.

One provider in a provincial town had a strict policy of walkability to the central business district for any dwellings built in the town because of the lack of public transport. Others specifically attempt to locate within walking distance to public transport routes.

*We do largely infill development. Near services, existing communities. The idea is to get people into the community (Large multi-region – CHP 2).*

*[buy and refurbish] Very central to town. That's the difficulty if you're trying to find new land. [target group] have no car (Medium single region – CHP 3).*

*It's right in the middle of [suburban centre]. The bus stop is right at the end of the street, amenities are right in the centre (Large single region – CHP 2).*

In some cases, community housing providers have sought to off-set the additional cost of more connected sites by attempting to make cost savings related to the provision of on-site car parking. Those negotiations are with the local council and have met with mixed success. For many community housing providers, this issue is particularly frustrating. Their tenants typically do not have private vehicles and, because the provider is a long-term owner and manager of the stock, that tenant profile is unlikely to change substantially over time.

*Council issue with parking requirements ... we have been able to get some reduction of parks on site – had to lobby quite heavily. We were originally required to have one park per unit for resident, plus 1-2 for visitors to the complex. Big coverage of area with car parks. This even applies if flats have garages. There are land zones for intensive housing yet we still have difficult requirements for parking. The priority for us is private outdoor space for residents (Medium single region – CHP 1).*

*Our biggest issue is around car parking. Because of what's in the district plan the council require one carpark per home. Some people don't need or want to do that. We're having that argument with them now – we've never won it. It's crazy. For the upcoming project we're looking at 14 apartments with 6 carparks. But it's right in the middle of [suburban shopping centre] ... The council has advised us of proposed plan changes [about car parks]. We had to meet the current requirements as well as the proposed changes in the plan. Then the proposed changes didn't go through. Lots of backwards and forwards. We lost a lot of time, money and a bedroom (Large single region – CHP 2).*

Seeking thermal efficiency is about cost, well-being and comfort. Community housing providers note that their tenants are frequently vulnerable and, in some cases, may require constant and somewhat higher indoor temperatures in winter due to disability. Several providers noted that their designs exceeded the Building Code insulation standards. They were concerned with passive solar gain. The installation of solar hot water heating was standard for one community housing provider. This was prompted by the potential for energy cost reductions. Participants commented:

*We're mindful of how we place the house on the section, facing north (Medium multi-region – CHP 2).*

*Money for us is always a constraint, but we still wanted to get the most bang out of our buck. We wanted low emissions. We went high spec in terms of thermal performance, solar water heating and accessibility. All the houses have wood burners, not reliant on heat pumps, to ensure the dwellings are resilient and as cheap as possible to run, lots of people round here can get cheap or free firewood (Small single region – CHP 2).*

*We've had real big discussions around heating, where do you put it, how much insulation do we do, do we just do it up to code or do you do a bit extra? We always do a bit extra. In the first build we put in double glazing before the code, always do a bit more insulation, thermal curtains. We don't just want it to be low cost, we want it to be affordable to run. It's not just about getting it done for the cheapest price (Large single region – CHP 2).*

There are other amenities and housing characteristics sought by community housing providers depending on their client groups. As a generalisation, community housing providers, whether delivering shared ownership or rentals, want the acquired stock to fit the character of the locality. Some quite explicitly want their stock to be attractive to others, in part to reduce any risk of stigmatisation for residents.

*Small complexes of 4, 6 or 8. You wouldn't know they are social housing. Single storey, they look like ownership units (Medium single region – CHP 1).*

*We like to change the outside a bit. Sometimes our people get stigmatised. We like to spread them around the development a bit (Medium multi-region – CHP 2).*

*We had some constraints on design. It was a covenanted estate in a new subdivision ... Once we'd purchased sections they got very jittery about social housing on their estate. They put in all sorts of constraints and covenants, no dogs, limited the number of children, no 2 storey buildings (Medium multi-region – CHP 1).*

Community housing providers often have a broader and explicit agenda to demonstrate that housing diversity and low cost housing can be pleasing and desirable as well as performing well.

*Part of what we do is try and build houses that perform really well. They are small less than 150 sqm including carports and decks but they have solar, fully accessible showers, we score well on LifeMark. People love living in them, but they are still comparatively low cost although they are packed full of features. We want people to know, not just our clients, that you can have a really good house that is comfortable and nice to live in for an*

*affordable build price. We see that as part of our mission – I think the Charities Commission doesn't see it like that. We had to spend a lot of time showing that our houses were targeting people within what they saw as fitting the legislation. And they agreed we did. If more mainstream builds were like ours there would be less housing need and less inappropriate housing around. That stuff sits in the housing stock for a long time you know. We all have a part to play in making New Zealand's housing stock better and showing that decent housing can be affordable (Small single region – CHP 2).*

*Putting in wider doors is a no brainer – no extra cost. Wet area bathrooms are a little extra cost – not a heck of a lot. Kitchens modified to give people with disabilities – lowered benches etc. ... At the end of the day it's got to be affordable for those whanau that have disabilities (Medium multi-region – CHP 2)*

*The number and the configuration of the units within the site was important as we did not want to create a ghetto. What we wanted to create was a community made up of a cross section of economic and social groups. We also wanted the development to fit into the landscape ... An important component of the design was the incorporation of features that reflected the tribal origins of the land owners, their connection to the original [pa site] and their Māori culture (Small single region – CHP 3).*

To some extent community housing providers are driven to innovate. While they want their dwellings to fit within the local housing, they are primarily concerned with the fit with their clients. While one bedroom units have little representation in the New Zealand housing stock as a whole, the community housing stock still has a substantial proportion of one bedroom stock units. In 2014, CHA affiliated community housing providers reported that 26 percent of their units were one-bedroom or bedsits, while a smaller number of charitable housing providers not affiliated with CHA report 39 percent of their units were one-bedroom, bedsits or rooms with communal facilities.<sup>6</sup> This reflects the high levels of need among people living alone and, for some providers targeting people with mental health issues, the need of some people to have private space even in supported living environments.

Community housing providers also build multi-units and integrated site developments. In some cases those reflect small unit size and the desire to increase yield. In other cases, multi-units or integrated sites reflect a desire for communal living. Several Māori housing providers seek to develop papakāinga or papakāinga-like environments. Multi-unit developments give attention to both private and communal outdoor space. In this, community housing providers have much in common with retirement villages. Both the community housing and retirement village sectors face the challenge of generating dwellings with a delineated outdoor space that needs to be developed and maintained. Both, unlike developers that on-sell, have long term commitments to their residents, the stock and the site environment. They see themselves as part of and building communities. Some providers made extensive comments about their community placemaking role:

*The philosophy behind the villages being built is based on the saying 'it takes a village to raise a child.' Moving forward it's about safety for whanau, intergenerational, no fences, live together. We think that's unique (Medium single region – CHP 2).*

---

<sup>6</sup> Saville-Smith, Fraser and Saville-Smith, 2014.

*The community building part starts a couple of years before building. We work with applicants to establish wrap around services, especially focus on debt reduction and management. All developments have a residents association, neighbourhood support. Share lawn mowers etc. We build a community centre. The aim is to establish a sustainable, thriving community – very important. This part is essential to all the other parts of the process (Large multi-region – CHP 1).*

*There's private space but they can come together as a group. That's what the Board's challenge was to create. They wanted it to be communal, families to come together and work as a community. A bit hard to try to work out ... the landscaper was able to create screens between the houses with planting. Pockets of private space extending out from patios. Looked at the key health and wellbeing of the community ... we had a cost structure and well-funded resourcing for plants ... We want our kids to be safe inside the protective boundary. Vehicle access is on the outside so children can play outside ... It's all about creating a community environment. We started with the model of children being the centre of the family, then outward to the mother, father, grandparents (Small single region – CHP 1).*

Evident among community housing providers is a widespread commitment to design, and, in some cases, accessible design. That commitment, however, has thrown up some interesting debates around the nature of design and the ability of designers to provide design solutions that provide both functional/performance optimising solutions and affordable solutions. Typically, community housing providers want design solutions that:

- Have a functional rather than a decorative purpose.
- Are buildable solutions.
- Are value for money and add to affordability rather than compromise affordability.

The interplay of these three requirements is evident in the comments below:

*We had lovely pou, but really not worth the price of those just to be aesthetically pleasing. They said we could take a number away and utilise them around the section instead. Things like, the [designers] asked us if we'd thought about polishing the concrete. It's dearer than carpet or vinyl, but cheaper and less slippery than tiles ... We're drawing back on some of the things we thought would be good, though probably not as far as the builders would like (Medium single region – CHP 2).*

*We had an architecturally designed scheme. The quantity surveyor priced it beyond what we could afford. We scaled it back a bit, then took it to the council. We considered not going ahead with it. We talked to a lot of building firms who said, "we can do that for the price you've got," but cut out a lot of the things we wanted in terms of design. It was a case of being very pragmatic – this is what we can do for the price we have. The architect designed it to have one material down the front of the buildings and a different material down the sides. Didn't do that in the end. We simplified the design inside significantly. In the end, we have stairs going up, rooms off the corridor, open plan. They ended up being boxes really, modular, square. You have to say "what are we trying to achieve?" Quality homes, affordable, outside space, sun. Those things are more important than design features (Large single region – CHP 2).*

*We tend not to use architects ... when we did he designed these houses for us, largely ignored the brief. Showed us the designs and he'd ended up with seven different external claddings, parapets, and internal gutter. We did away with the parapets and the internal gutter (Large federated – CHP 1).*

*[we thought] we could find cheaper ways of doing things – especially around roofing. Used a low-cost roofing structure. The first time we used it, it was not as low cost as we had hoped in terms of labour, but we worked out how to manage that in later builds and now the builder loves it. It's just clever design - design that works and is easy to build. But you need to get the builder, the designer, the householder and everyone together to make good design decisions. If it's poor design and unnecessarily fussy you often end up with poor quality (Small single region – CHP 2).*

Community housing providers' long-term commitment to operating or sharing ownership of acquired stock also raises issues of stock durability. Community housing providers see reducing the need for maintenance and early replacement of appliances and whiteware such as toilets, taps, basins and sinks as a desirable outcome. Several community housing providers note, however, that in the past issues of price and durability have been traded off. That trade-off has been particularly evident where a community housing provider has purchased off plan at a fixed price contract or where the provider itself has selected whiteware and appliances with lower performance and durability specifications to reduce costs. Those past decisions have proved to be poor economies and resulted in long term repair, maintenance and replacement liabilities.

*Bathroom fittings were not as robust as needed – social housing needs robust fittings and equipment. It needs things done properly and well. Sturdy. It was all done to be cheap as possible and it's not always the best way ... One of the greatest issues is funding decent housing – warm, suitable (Medium single region – CHP 3).*

*You do worry a bit about compromises around quality, especially if you're strapped for cash. There's a tension between wanting to get better homes and not having a lot of money... Good, well designed products but not high end. We need good, robust fixtures and fittings, but we don't need high end products to achieve that (Large single region – CHP 2).*

The long-term commitment that community housing providers have to their stock and their tenants was associated with a desire for low maintenance. Even where group home builders were used in an attempt to reduce costs, community housing providers encouraged the use of more durable products.

*It's a balancing act. [The group home builder] produces little boxes. Not architecturally stunning but robust. We give them feedback about their fittings and fixtures. For example, ceramic pedestals rather than vanity units which fall apart (Medium multi-region – CHP 1).*

*We use brick and tile cladding. Our whanau can't do maintenance. Use maintenance free products where we can so there is less maintenance over the years (Medium multi-region – CHP 2).*

## Stock Acquisition 2014-2016

The 17 community housing providers that participated in the interviews report an aggregate of new built stock of around 751 stock units over the last two years. The pattern of acquisition and the variations in procurement activity reflect a complexity of factors as follows:

- *Specialist niche market targeting and local demand characteristics.* Those community housing providers with a very specialised target population tend to have lower levels of procurement activity. Those smaller acquisition programmes were often designed to fit the specific, well-defined demand associated with provision in smaller provincial areas, a Māori provider directed to resolving housing issues challenging a particular hapu, whanau or Trust beneficiaries, or specialist targeted housing.
- *Significant organisational credit lines and housing or land assets underpinning credit lines.* By definition, community housing providers with a larger asset base are more able to attract support from financiers. Typically those with large asset bases have had considerable and long-term government capital in the past. In some cases, those capital funds or government financing commitments reach back in the 1970s and 1980s.
- *Self-funding or through associated or parent organisations.* The provision of funds through parent organisations with significant reserves in cash or in land is evident in several Māori community housing providers but it is by no means confined to them.
- *Co-payment arrangements with householders through shared-ownership.* This, *de facto*, provides a retail banking contribution through the householder who purchases shares in a dwelling through their own mortgage access.

Typically, the community housing providers with the largest existing stocks also procured the greatest number of dwellings over the period of focus. Those community housing providers delivering shared-ownership opportunities, as opposed to rental stock, were also prominent among the most active procurers.

## Factors Shaping Stock Acquisition

Some community housing providers wished that they could have commissioned more housing stock over the last few years. Providers typically cited three constraints to acting on those aspirations. The first was around planning and consenting. The second was the lack of government capital funding programmes. The third was the on-going uncertainties around the framing and direction of the government's housing policies. Those uncertainties included the government's apparent U-turn around local authority roles in affordable housing,<sup>7</sup> and, perhaps more importantly, uncertainties around tax liabilities and uncertainties around the position of community housing providers within the net of charitable organisations.

### *Planning, Resource and Building Consents, and Covenants*

Councils are inevitably at the centre of the debate around affordable housing supply because regional councils have responsibility for the implementation of the Resource Management Act (RMA) and local councils have responsibility for the implementation of the Building Act (BA). Unity authorities, of course, undertake both functions. Councils also can strike development levies or fees to fund the infrastructure costs associated with new builds on greenfields or intensification in renewal or regeneration areas. Community housing providers inevitably deal

---

<sup>7</sup> The Affordable Housing: Enabling Territorial Authorities Act 2008 was almost immediately repealed by the incoming National Government in 10 August 2010 only to be replaced by a more narrowly conceived Housing Accords and Special Housing Areas Act 2013.

with councils because of the Building Act. Some must deal with resource management issues as well.

For community housing providers, the issues around resource consenting can tip a project from affordable to unaffordable. It can impact on whether a community housing provider chooses to add to New Zealand's housing stock or not.

*Land is not a problem; the biggest problem is NIMBY. It's always our biggest problem. We planned 7 units, but there was huge difficulty. The resource consent was challenged in the high court. It cost us \$500,000. We gave up in the end ... we sold the land and bought an existing block of flats. This is easier because no consent is required (Medium single region – CHP 3).*

*It should have been straightforward but there were neighbour problems about water reticulation, it was held up for about 2 years by council and RMA process. It cost us \$200,000 in holding costs... for the council – no urgency (Large single region – CHP 1).*

*[biggest issue] Price moving between when we got government funding and the resource consent to go ahead – we had to go back and find a way to cut \$1 million out of the budget, it was incredibly stressful, 20% of the budget. The resource consent took 18 months ... the funding had been locked in and we were caught between a rock and a hard place ... some of the things that made it a great development, we had to do away with, or reduce – covered walkways, use lighter materials, we had to reduce the size of the bedrooms and go from 2 to 3 bedrooms, to gain extra revenue (Medium multi-region – CHP 3).*

Community housing providers and the building industry make similar complaints about councils. They raise issues of inconsistency in rules and their application, risk shifting, and poor skills both in the context of the RMA and the BA. The RMA is a much more contested process and community housing providers recognise that tendency but express a sense of frustration with the costs and delays. The following comment is representative of many of the community housing provider participants.

*We've talked to the council a lot over the years. We have had lengthy delays with the resource consent process. The first time was 6 months at one project, then 4 months for another. That's quite a long time when you've applied and there's uncertainty. It makes it difficult to do design-build for builders. We've talked to builders and quite a few have said, "do you have resource consent? Can you do what you want to do?" We have talked to the council about having a special process for social housing to move things through. They have a special projects team for big projects, closer working relationships, but the council aren't interested. It annoys me that these big institutions get a special process. You still have to meet all the requirements, but you have a coordinator, a lot more coordination before you apply. They're not interested in social housing really (Large single region – CHP 2).*

Perhaps more unexpectedly, given its less contestable nature, is the frustration expressed around implementation of the BA in consenting building plans and providing code compliance after builds. A lack of clarity and sometimes skills presents a barrier to effective procurement.

*The Council changed specifications. There was a lot of juggling around between engineers and various other specialists ... Had a lot of cost overruns because of that, due to the extra engineering work ... The main expense was with the council ... their rules for comprehensive and compact developments overlapped and our scheme didn't fit either category (Medium multi-region – CHP 1).*

*We had one situation where we were all consented in one house, got a code compliance, but another house with the same load bearing, the same wind zone, and despite the detailed plan being consented we suddenly had a problem. During a site visit for a completely different inspection the building inspector decided he wanted the connector and load bearing signed off by an engineer. Very confusing. And costly – about \$600 to figure it out. Had to get an engineer to double check the calculations provided in the plan and already signed off... They were fine ... One consent officer wouldn't sign off on a heating system because he didn't know the product, even though the heating system was approved on low emission wood burners list he was issued with from the Ministry of the Environment. He just hadn't looked. In another we used BRANZ tested insulation. The accreditation number for the product was marked on the plan, instead of checking the certification the consent officer stopped the clock and sent it back to us. It took about two weeks to sort it out ... It just makes you feel he wanted to stop the clock for some other reason (Small single region – CHP 2).*

*With consents, a standard design makes it easier. In the past it has cut time, but it's not working at the moment because council has issues – they used to have a special housing unit that was able to fast track approved designs. They had the experience and skills. That unit was dissolved and the council is struggling with volume and needs to train up staff. They've had big staff turnover (Large multi-region – CHP 1).*

*Building consent takes an interminable length of time. They're compelled to do it in 20 working days, but you would never get that. Sometimes they're asking questions that have already been answered in the documents. Some of the questions they are asking are new, never had to be answered before. Always some clock stopping ... I'm really concerned about council's attitude towards development, it's a very risk averse approach, very conservative ... you've got people on council who are really trying to help, but there's a nucleus, always difficult to deal with (Large federated – CHP 1).*

For community housing providers, uncertainties around consenting and delays in code compliance, are not only financially problematic, but can also affect future relationships and trust with builders:

*We also entered into pre-resource application and pre-building application consent discussions in an effort to avoid costs occurring through unexpected consent conditions being imposed. These were conditions that carried project threatening costs. By the time you reach this point in a project's development, you have already committed a great deal of time and money and it is no easy thing to contemplate abandoning a project. There is an understandable level of conservatism within Councils when it comes to risk and there is always a possibility that such conservatism can*

*be taken to extremes if not checked through robust interrogation ... eleventh hour conditions were proposed that had to be challenged aggressively to avoid the project being derailed. A condition was proposed for a ventilation system to be installed in the expectation that tenants would not open windows because of road noise. This would have added an unsupportable cost and been physically difficult. Again this proposed consent condition was successfully challenged. ... combatting consent conditions deemed inappropriate or extreme carry costs that have to be borne by a project (Small single region – CHP 3).*

*At the end of a project it takes forever to get a code of compliance. [Government funding won't be released] until you've got a code of compliance ... We owed [our builder] about \$150,000. Technically they shouldn't hand over but they understood we needed to get tenants in ... A lot of people are at risk... We were told by the council "That's the way it is. There's a lot to be checked." ... Every scheme we've had we've put tenants in before making the final payments (Medium multi-region – CHP 1).*

### *Capital Funding*

Most participants noted that the demise of government capital investment was a primary and significant barrier to committing to further building despite reporting unmet demand. The community housing providers building over the period focused on in this research were procuring dwellings typically funded with government capital grants and subsidies that they had pursued prior. A few community housing providers reported that they had not sought capital funding from central government and relied on the charitable sector or the financial sector. Most providers mixed those sources of funding. Some community housing providers, both those with large and those with small housing stocks, could secure borrowing from the financial sector against undeveloped land. Some with very large stock assets, or connected to other organisations or trusts, could potentially secure finance through those associated organisations. Others leveraged off the asset-value embedded in their housing stocks. Notably these were uniformly those who had received significant and longstanding government capital funding. For many of those, significant stocks had been accumulated prior to the housing reforms in 1991, received significant funding subsequently from government, or were the recipient of previously highly subsidised stock including council delivered pensioner housing.

### *Legislative and Policy Uncertainties*

The problems of building a community housing stock associated with the termination of capital funding programmes which had, in any case been 'run-down' since the 1990s housing reforms, were, according to participants, exacerbated by the recent disarray around the legislative framework for community housing providers and the review of charitable status. In 2015, the Charities Services announced a review of the charitable status of community housing providers. This was, in part, a response to a high court decision around the removal of the Queenstown Lakes Community Housing Trust from the Charities register.<sup>8</sup> This is not the place to rehearse the arguments, counter-arguments or interpretations associated with that decision. It triggered, however, not simply the review of organisations with charitable status and signalling interest in some sort of housing service, in their purpose/objective statements, but also a raft of other legislative and regulatory changes. Running alongside the review of community housing providers by the Charities Services, there was instituted a community

---

<sup>8</sup> Re Queenstown Lakes Community Housing Trust - [2011] 3 NZLR 502.

housing registration system to allow community housing providers to access IRRS for new clients selected and referred to them by the MSD.<sup>9</sup>

Registration as a community housing provider was also associated with legislation around community housing provider tax liabilities. Community housing providers noted that while the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014, which set up a registration system for providers, came into force in April 2014, there was no synergy with the legislation to deal with tax liabilities, if a provider lost its charitable status. Amendments were made to the Income Tax Act 2007 and the Tax Administration Act 1994 to confer tax-exempt status and charitable organisation status on registered community housing providers in 2014. However, there were delays that resulted in the detailed tax exemption regulations not being set so that they did not come into force until 2016.<sup>10</sup>

The immediate impact of that review was profound. Although few, if any, active community housing providers were removed from charitable status, all the community housing providers reported that over four years of uncertainty concerning the charitable status of community housing providers and legislative change processes, combined with the failure to generate the detailed regulations around tax exemption and charitable status, compromised their focus on meeting housing need and, particularly, planning future procurement. Community housing providers articulated a variety of narratives around those impacts which can be broadly ordered into three categories:

1. The redirection of resources (financial and human) away from addressing unmet housing need and stock acquisition and procurement. One very small provider that had built four houses in the previous two years and entirely run by volunteers, noted that the direct costs were over \$12,000 and indirect costs in time were probably of similar quantum. A larger provider reported that they had expended over \$22,000 in direct costs in dealing with the Charities Services Review. They relied on the considerable contribution of one board member who was a lawyer and provided legal services *pro bono*. Those costs directly impacted on funds that would otherwise be directed to house building. There were additional costs associated with attempting to comply with the new registration system for community housing providers.
2. The unwillingness of community housing providers to make medium or long term strategic decisions about procurement and operations generally without knowing the future status of their organisation as a charity and their taxation liabilities. This was exacerbated by the failure to promulgate either clear policy or regulations around community housing provider tax liabilities within specified legislative timeframes and misalignments between the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014 and amendments to the Income Tax Act 2007 and the Tax Administration Act 1994.
3. Barriers to accessing funding generated by income, tax, and charitable status uncertainties. Community housing providers relying on charitable foundations for capital funding reported that those foundations were constrained by their own trust deeds to provide grants only to organisations with charitable status.

---

<sup>9</sup> See About Social Housing Providers web page <http://www.housing.msd.govt.nz/information-for-housing-providers/providers/index.html> (accessed 15 November 2016).

<sup>10</sup> See Charitable Organisations and Community Housing web page <http://www.ird.govt.nz/charitable-organisations/chart-orgs-comm-housing/chart-orgs-comm-housing.html> (accessed 15 November 2016).

## 5. PROCUREMENT APPROACHES AND PRACTICES

---

Community housing providers involved in this research frequently comment on the seemingly contradictory nature of procuring new-builds. On the one hand, the vast majority of the community housing providers, whether large or small, stated that providers can confidently procure dwellings and, indeed, should be much more proactive and involved in the design and build process. On the other hand, community housing providers also recognise that to many the process of procurement and building can feel bewildering, complex and risky. The providers in this research have threaded their ways through the complexity and risks.

To explore how these providers approach procurement, it is useful to understand the dimensions of procurement that community housing providers (indeed any housing procurer) must manage that generate these seemingly contradictory perspectives. The discussion in this section starts by focusing on three characteristics of procurement which can be gleaned from the interviews with providers, but which also shape any individuals or organisations seeking to commission residential new builds. Those three dimensions of procurement are used to frame the remaining discussion around community housing providers' procurement approaches and practices.

### Dimensions of Procurement – An Overview

In discussing the challenges and successes of their procurement activities, community housing providers reveal three dimensions of procurement which make housing procurement complex and dynamic. Those are:

1. *There are a lot of different elements to procurement – a wide and disparate range of goods and services need to be selected, purchased and provided to ensure successful delivery of a new build.* Building dwellings is all about making decisions to spend money on goods and services:
  - The goods are land, designs, products and materials.
  - The services include legal services, surveying, design services, quantity surveying, trade services (building, electrical, plumbing), engineering, drain laying, landscaping, compliance services, and project management.
2. *The different elements of procurement can be bundled up, selected and contracted in different ways.* These 'bundles' can also interact in different ways or be organised around different dimensions. Two dimensions are particularly important and relate respectively to:
  - How goods and services are bundled up. The land, design, build package is, perhaps, the most comprehensive version of the 'goods and services bundle' but there is a continuum. There are also design and build packages which are delivered to housing procurers that have or wish to purchase land separately.
  - The contractual instruments used to develop residential sites. These can range from fix-priced contracts through to labour only contracts to hybrids between the two.
3. *There is typically informational asymmetry between community housing providers procuring housing and suppliers of goods and services needed to build those dwellings.*

Informational asymmetry is pervasive in the building sector. The negative impacts of informational asymmetry include poor build performance and functionality, low durability, or inability to enforce contracts. Both here and overseas, the issue of asymmetric information is addressed primarily through four mechanisms:

- **Regulation and legislative protections.** In New Zealand that consists primarily of the Building Act 2004 but there are also legislative controls around contracts and sub-contracting as well as a raft of health and safety legislation.
- **Accreditation systems.** There have been a plethora of these in New Zealand around sustainable housing and 'green' housing. There are also non-legislative standards or guidelines around dwelling accessibility. The most comprehensive accreditation system for universal design housing is the LifeMark, a set of design standards for internal and external dwelling features that make homes safe and useable for all ages and abilities. Lifetime Design Ltd, a charity, advises designers and builders about universal design and runs an accreditation service to rate the accessibility of dwellings.
- **Selection processes by procurers.** In the private, government and community sector considerable attention has been given to the selection processes through which goods and services are obtained. Public sector procurement guidelines have been released for all types of goods and services required by central and local government agencies.<sup>11</sup> Those tend to support a competitive tendering approach to procurement. For some organisations, particularly public organisations, competitive tendering is preferred and in some circumstances, is required.<sup>12</sup> Internationally and in New Zealand, however, there has been a move towards negotiated, relationship based provider selection. There are also notably some instances of public sector procurement based on more limited tendering or preferred provision where there has been a previous and successful contract with the supplier.<sup>13</sup>
- **Risk reduction and risk sharing mechanisms.** These come in a variety of guises in the building sector: contract mechanisms, insurance, and specification and fidelity supervision:
  - Contracts are frequently designed to reduce or share risk. Fixed price contracts are directed particularly to reducing the risk of price 'blow-outs', while large residential and commercial developments here and overseas have contract bonuses or penalties to manage issues around timeliness and quality.
  - Risk sharing around quality and building failure are also typically addressed through insurance instruments. In New Zealand both the Masterbuilders and Certified Builders offer insurance around building failures and building warranty. These are directly associated with the type of contract entered into between a builder and the commissioning individual or organisation. There are number of smaller insurance options for renovation and low cost jobs of less than around \$30,000. Building warranty for dwellings not covered by Masterbuilders and Certified Builders usually means resorting to specialist insurers such as the Australian based QBE. Of course, many of the service professionals involved in

---

<sup>11</sup>For example, Ministry of Economic Development, 2011 Mastering Procurement a structured approach to strategic procurement, Wellington, MBIE. <http://www.procurement.govt.nz/procurement/pdf-library/agencies/GUIDEMasteringProcurement.pdf> (accessed 15 November 2016); Auckland Council, Auckland Council Procurement Policy <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/councilpolicies/Documents/aucklandcouncilprocurementpolicy.pdf> (accessed 15 November 2016).

<sup>12</sup> Ministry of Economic Development 2011.

<sup>13</sup> Ministry of Economic Development 2011.

design and building have both public and professional liability insurance to protect them if litigation is pursued around their component of service provision. It is notable that efforts to embed in the Building Act an insurance scheme designed to protect new home buyers against poor workmanship, building material defects and other failures, were not successful. It has been suggested that the extensive building failures evidenced by leaky buildings is in part due to a lack of protections for new home buyers.<sup>14</sup>

- In addition to contracts and insurance, practices to increase fidelity to design including detailed specification, on-site inspection, and relational project management and review are also ways in which issues of poor quality, lack of timeliness, excess waste, or cost-driving are managed. It is notable that, while project management, including site inspections and various other mechanisms to reduce risk, are used in New Zealand for larger developments, the residential building sector is not entirely comfortable with owners having high degrees of surveillance. It is not unusual, for instance, for some group home builders to restrict the number of site visits by owners during a build. Furthermore, few eventual owner occupiers of group build homes have automatic access to the full specification of the dwelling they have purchased.

All the dimensions outlined above, and the variations of practice within them, permutate in a variety of ways. Decisions, for instance, to acquire a dwelling through a land, design and build package is typically associated with fixed price contracts with a developer or builder. Fixed price contracts can, however, be struck around a variety of services and material supplies without a community housing provider commissioning through a land, design and build package or even a design and build package.<sup>15</sup>

## Land Acquisition, Design and Building

There is enormous diversity around the ways in which community housing providers bundle up the acquisition of goods and services. Some providers, particularly when relatively inexperienced or very small, have started with design and build packages often using the fixed price offered by the builder. Others have experimented with a variety of approaches and have settled on a particular approach that they find suits them across all their projects. Some providers use different bundles according to the opportunities presented to them at any particular moment. Those opportunities frequently reflect the heat or lack of heat in the housing market and the building industry at the time.

The least likely constituent in community housing providers' bundling of different goods and services is land. Land is most typically purchased as a separate item or, most commonly but not for all Māori community housing providers, part of their existing albeit undeveloped resources. Some providers have had land bequeathed to them or acquired land in previous transactions and have simply not had the capital to fund further development. In one case a

---

<sup>14</sup> Easton, 2011.

<sup>15</sup> This portrayal of the dimensions of procurement, built up from the grounded experience of community housing providers, provides a more nuanced understanding of procurement than that generated by Goodchild and Chamberlain, 1999. Nevertheless, it is consistent with the two principles they use to classify procurement, those being: (a) the extent to which contractors have responsibility for design, and (b) whether a contract is priced through negotiation or tender or some hybrid combination. Love *et al.*, 1998, also note the heterogeneous nature of procurement in Australia.

community housing provider used some of their land to secure lending to build a rental dwelling on another section.

The land that providers acquire or have within their resource stock is not always suitable for residential use without significant investment in infrastructure and engineering works. Sometimes issues arise in the course of resource consenting that require mitigation to the extent that prospects of building housing that is both affordable to low income and vulnerable people and financially sustainable for the provider are severely reduced. A few providers reported that they had disposed of land too costly to develop. Nevertheless, the usual pattern is for community housing providers to purchase land or develop their own land, although many feel uncomfortable with land-banking and land development. Occasionally, there have been examples of land, design and build packages being purchased but these are unusual and opportunistic:

*I was walking past [builder's office] so just called in and talked to them, asked them if they had any available sites. They identified the land and negotiated it (Medium multi-region – CHP 1).*

More typically providers find that land, design and build packages are not priced for affordable housing:

*We didn't set out to be the developer, just the end owner. [in two areas] it's been problematic ... developers purchased land on our behalf or already owned the land ... More often than not we've ended up being the developers. It doesn't stack up for developers to build 1-2 bedroom units (Large multi-region – CHP 2).*

There is considerable diversity around how community housing providers bundle up other goods and services. It is tempting to suggest that the least inexperienced tend to bundle up goods and services, but this is done by providers across all sizes and levels of experience. Certainly, what might be termed turn-key solutions were attractive to some:

*We looked at a lot of companies but liked [one company's] homes. They came in and said if you're going to work with us here's what we'll do for you. Everything inside the house was contracted by them – sparkies, plumbers, builders. The landscapers were a different contract ... the roading was contracted separately ... We quickly realised if we did design, architect, quantity design, build that's when costs escalate. Need to go for off the shelf ... Realised that with 8 homes there were economies of scale and they could give us discounts on things like solar heating and appliances (Small single region – CHP 1).*

*What we do now is put out to tender for a complete build – fixed price with project manager – we reckon the building company's responsible. Risk management and ease of management from our point of view. We're not in the business of managing building sites (Medium single region – CHP 3).*

*[Our most recent development] went to tender and was won by [building company]. He has a design and build capacity – he took over from that point. Tweaked the design to fit their capability. Five builders put in a tender and his was easily the best price (Small federated – CHP 1).*

*Turn-key works great – deliver on time, in full, at a price point. It doesn't require much energy. We get on with the things we're good at, they do the things they're good at, and we put more people in houses (Medium multi-region – CHP 3).*

But in contrast, some providers building a small number of stock units chose to move away from design and build. They were dissatisfied with the designs available and believed they could leverage higher performance for similar prices and are satisfied that they have done so. Similarly, other providers have chosen to contract design and build supported by in-house or out-sourced consultant assistance in project management and, occasionally, quantity surveying, despite having developed a considerable number of dwellings:

*We have a small in house team, plus we use consultants ... we do the project management, then the property management. We tender for consultants. We use the same ones but the problem is getting people in an overheated market (Large single region – CHP 1).*

*For our first development, we engaged a trustee as development manager. It was a lot of work. We found the management process onerous for a small organisation ... Now we have [company] manage on our behalf. They are amazing professionals ... It gives us a distance which is ideal. They report to me and attend board meetings once a month. It's a lot of work up front in terms of contract and negotiation ... We still write up a full proposal before development but trust their work ... We have to outsource a lot of our work. We've talked about bringing in a full-time professional developer but it seemed silly. We might have a project one year but not the next. It seemed much more sensible to outsource as we needed to. All three builders we use do design and build. They've designed, we've just approved (Large single region – CHP 3).*

Some of the larger community housing providers, particularly where they have a large existing stock and are involved in extensive property management have a dedicated in-house capacity:

*There's a team in which each person manages part of the process: master plan design; governance and financial; construction, project and programme management; community building (Large multi-region – CHP 1).*

Generally there is a tendency to outsource for specialist professional services: engineers, designers, quantity surveyors, landscape designers, and sometimes project managers. Only a few directly contract sub-trades for the construction process. A small housing trust that does so also contracts the builder separately to site supervise and the trust maintains a high level of weekly site visiting and works completion surveillance. Insurances around that approach are high and with new health and safety requirements and liabilities, the trust questions whether they will continue with that approach in the future, despite significant build-cost savings.

Community housing providers show a degree of ambivalence about two aspects of bundling design and build. The first is the extent to which project management should be contracted separately and, if so, who should undertake that role. The second was ambivalence around design. With regard to the first of those, some providers contract project management to the company undertaking a design and build. There is clearly some anxiety around this, however,

to the extent that even under those contractual conditions the community housing provider will monitor and engage so closely they are effectively also undertaking project management. Where project management is outsourced and separated from a design or build, community housing providers typically contract specialist project managers or contract the architect, designer or engineer involved in the original concept to undertake project management.

There were significant variations among community housing providers in their approaches to design. Indeed, some providers approached design differently in each development. Design was frequently packaged up with a build, sometimes successfully and sometimes less so. Occasionally, intentions to contract a design and build got changed during the tendering phase:

*Expressions of interest were called for design, construction and funding. The preferred group of construction companies were given the opportunity to compete for the contract. Although we had already determined our upper limit for the build through the feasibility study, we invited those companies taking up the invitation to start with a clean slate and provide an innovative design and construction package within our budget limit. In the end, the competition came down to two construction companies ... [they] were required to present their bids to a meeting of the project management team, the steering committee, and the Trust's advisory trustees ... When one of the two construction companies withdrew, we decided to mix and match as we preferred the design of the company that had withdrawn from bidding and the construction company that had been unsuccessful for the actual build (Small single region – CHP 3).*

Not all community housing providers used design and build. One took an explicitly team approach involving trustees, the intended householders, a designer and the preferred builder. That approach was combined with a labour only building contract, direct contracting sub-trades and purchase of materials, and contracts for site supervision.

*The move to a team based, project based approach allowed us to design our own buildings. A lot more control in design than with a fixed price ... We buy our own materials. It's about transparency and reducing costs. It also relieves the builder of the costs of materials on credit ... [it meant we] could keep the design cost down not using an architect for management. It's more responsibility on the part of trustees, but with fixed price you would still have problems if things went wrong. You're more directly involved with controlling and coordinating subbies, and the potential hassle of that is off-set by the teamwork. On a fixed contract with design and build – and we did one of our houses like that – there were still problems and you had less ability to prevent problems and actually the subbies really push builders – the builders can end up with virtually no margin. That's not sustainable (Small single region – CHP 2).*

Many of the community housing providers were ambivalent about architects. Builders found them difficult and specifications were poorly aligned to the resources available. Some community housing providers were adamant that one of the reasons they used design and build was that the designers in building companies were often more responsive:

*The first build, we engaged an architect. They oversped everything ... [they had worked on] lots of high end stuff, they are passionate about*

*affordable housing, but, especially when you're doing high end homes, you don't really have an understanding of entry level. [architects] just think it's affordable because it is compared to what they were doing. But it's not entry level ... The next build, we flagged the architect, just went design build with [company], they'd built with us before, and knew exactly what we wanted ... it didn't go to full tender ... they have in-house draftsmen, we were really happy with the designs they came back with ... The first lesson would be to stay away from architect-led development and stay with design builders who have experience with affordable low end housing (Large single region – CHP 3).*

In some cases, architects, particularly as trustees, added considerable value when working with designers in design and build projects:

*We had an architect on the Trust, he negotiated the design and layout. The end product worked very well (Medium multi-region – CHP 1).*

There were benefits in having architects oversee builds but also disadvantages:

*With this build, the builders ran the project alongside with us. We had regular project control meetings. Our previous builds were managed by the architect ... It worked out okay, a lot more direct contact with the building company than we'd had with the architect. The experience was mostly good, a lot less formal than with the architect. With the architect, I felt like it added an extra layer, distance between us and the builder – there was not much contact with the builder other than in meetings. With the latest build, we were dealing directly with the builders, having to resolve issues directly. There are pros and cons with both approaches. We're having this debate at the moment. We're onto the next project. Everyone's got a view as to whether to get an architect or project manage ourselves. Architects add an extra layer, but they also add an extra cost (Large single region – CHP 2).*

## Selecting Suppliers and Contracting

The notion of competitive and open tendering is integral to procurement practices in public agencies. It is seen as delivering the best prices and avoiding consumers being captured by existing suppliers and distanced from the market. In the community housing sector, open tendering is not seen as always delivering either the best price or quality outcomes. What community housing providers are looking for is not simply price but value for money. Those providers are very aware that they will be involved with the dwellings they build, and their inhabitants, for many years. Consequently, issues of being fit for purpose, long term functionality, durability and resilience, as well as affordable capital costs and operating costs are finely balanced. Community housing providers seek from the building industry the professionals that recognise and can respond to those demands. They often demand transparency around prices that is unpalatable to some in the industry.

The particular nature of community housing providers' needs manifests itself in a strong predisposition towards preferred provision combined with transparency. While tendering allows providers an opportunity to explore what the market can provide, the approach of providers is one in which tendering is frequently by invitation rather than entirely open, as these comments show.

*Generally we invite providers to tender, as we have preferred providers ... We generate a group of preferred providers (Large multi-region – CHP 1).*

*For one development we put it out to 3 [builders] to bid, another, we bought from the developer who had what was the best competitive offers and then we negotiated the price further (Medium multi-region – CHP 3).*

*We did a competitive tender for the first 2 developments then negotiated with [a building company] – they're good to work with. In today's market it's so heated, we want to ensure we get the tradesmen so that's why we go with [that building company] ... Then we get the quantity surveyor to verify that rates are competitive. It's working, we've had a very good relationship with [building company], since 2012 (Large single region – CHP 1).*

There are debates around this approach, even within organisations, and even where there are preferred providers, multiple tenders are often invited.

*That was the first time we've approached someone, before that we've gone to market and tendered. Personally, I think the work we do, the biggest successes are built on relationships. [The builder] bought into our objectives, purpose, vision. We were really clear about what we wanted to achieve, our budget. If you go to tender I feel that you miss out on so much of that relationship, working together. I think I'm the only one who feels that way. Most people feel you have to go to tender to get the best price. We're having that argument at the moment, if you can get the best price from going to tender. The best price is not necessarily the cheapest. In the past we have gone to tender and issued invitations. The project we're working on at the moment, three tenders went out to three architectural firms we've worked with before. It's a mixture of going to people you know – open tender but also targeted invitations (Large single region – CHP 2).*

*We always put it out to tender because preferred firms may not be available, we send the tender document to 2-3 firms (Medium single region – CHP 3).*

*It's a matter of finding a builder who's available, but we sometimes manage to get two prices that are not desirable. I don't think we've got the competition (Large federation – CHP 1).*

For some providers, successive tendering exercises allow them to find a preferred provider to whom they commit, typically on the basis of sustained, acceptable performance, for a pipeline of builds over a period.

*We look for builders who provide a decent rate we can work with. If it's a large development it would have to go out to tender ... We started off with tenders until we found builders we were comfortable with. For 8 units in [area] we had 3 builders because of a lot of infrastructure work (Large multi-region – CHP 2).*

*If you already have a relationship, already have a company you've worked with and are pleased with, why would you put other builders to the trouble when you're likely to go with someone else? You're just wasting people's time (Large single region – CHP 3).*

One community housing provider specifically advertised for a builder willing to work in partnership on an open book basis. They wanted a local builder who was prepared to take on an apprentice on the guarantee of three builds contingent on performance.<sup>16</sup> That builder undertook four houses and will be the preferred provider for future builds when capital comes available to build on further sites. Another community housing provider commissioned a builder who was able to provide apprenticeship opportunities because of the certainty of the work commissioned by the trust.

Most contracting is fixed price, almost certainly for design and build projects. Most large projects are also fixed price after significant planning and design discussions to reduce contingencies. Ancillary professional services tend to be a mix of fixed price, estimates or agreed hourly rates. One small community housing provider chose labour only contracts with their builder, direct sub-contracting and materials purchase. They also provided their preferred builder with a separate contract for site supervision and co-ordination as well as transfers of points associated with product and materials purchased from their main supplier. This was designed to reduce price for the community housing provider while increasing margins for the builder who was relieved of having to manage payment and purchase streams.

## Risk Reduction and Risk Sharing

Selection and contracting processes are fundamental to risk reduction. It was notable, however, that community housing providers did not consider that open tendering always gave certainty that they are accessing the right expertise. Similarly, while providers were concerned to establish sound contracts, these were by no means always fixed price contracts. Moreover, there was a notable absence of penalties or bonuses in the contracts, although one provider commented about penalty clauses:

*We've had [penalty clauses] because time frames do blow out, but it's been managed pretty well, never had to use them. They are a good idea, nowadays there's a lot more delays (Medium multi-region – CHP 3).*

Indeed, while contracts were important, most community housing providers saw contracts as an opportunity for clarity between parties rather than a determinant of satisfaction. As one provider noted about their contractual clauses around defects, it was really the capacity of the builder that solved their defects problems:

*We have a 90-day defect period with all contracts. It seems to work pretty well. No problems. We were previously with builders who were so under resourced. Current builders are fantastic. They didn't have many defects, their quality is so much better (Large single region – CHP 3).*

Contracts work where there is clarity of expectations, as clarity is more likely to generate good contracts and, more importantly, contracts that are delivered on. Fixed price contracts were used to manage risks around building costs, but even so community housing providers using fixed price contracts reported that they had to ensure builders were aware that a fixed price contract would indeed remain a fixed price irrespective of any over-run incurred. That

---

<sup>16</sup> The desire to provide local community and human capital development as an output of a build project was also evident among some, but by no means all, community housing providers. As Fien *et al.*, 2008, note in remote and indigenous housing provision in Australia, the debate over these outcomes and trade-offs between mass production and production shaped to and involving the needs of local communities is a persistent one.

stringency around contract price reflects a typically open but very adamant conversation prior to design and build contracting about the price the community housing provider was willing to pay for the dwelling(s) specified:

*We have a tight set of specifications in terms of square metre ratio and building quality... Knowing your price and working with the builder in the early stages to make sure you stay at that budget (Large single region – CHP 3).*

*The contractors buy in and we are expecting them to sharpen the pencil... We are very clear about setting the parameters. We accept that contractors need a fair and reasonable profit to sustain their business – but we really try to shave the price ... [standard design allows] significant cost savings, removes risks, errors, and issues. Builders know what we are doing (Large multi-region – CHP 1).*

*[We are] very clear around fixed price. We won't open tender. We're meeting with contractors who have done projects like this so we have confidence around the quality, delivery and cost (Large multi-region – CHP 3).*

The most experienced community housing providers and those most satisfied with their experience in developing the dwellings they reported on did not simply rely on their contract to ensure delivery. Many contracted in, or had in-house, dedicated building project managers. They also reported high levels of surveillance with regular visits on-site, often weekly project meetings, and regular systems of financial and building progress review and reporting.

*One of the things around development that we don't do is project management – we recognise that that's a skill. But we're all over it. Very visible – even with the refit ... In the [next] build they will certainly have us there all the time. As much as you do on the plans there are always decisions to be made. We're very hands on ... Continuity of the relationship is important. We will spend a considerable amount of time through and in the project the whole way through. That way you get a good product in the end. And it's a learning experience (Large multi-region – CHP 3).*

*Every Tuesday we're onsite, every other day you're likely to find [project manager] there. [Builders] are very open with us, talked with us constantly (Medium single region – CHP 2).*

Some community housing providers noted that vigilance on site was critical when builders were new to certain design requirements, particularly lifetime design:

*All the homes are Lifemark standard, about a 5 or 6, one's a 7. We have to be vigilant otherwise mistakes happen. For instance in one house framing for the window in the bathroom was put in at the wrong height, not accessible. It had been specified in the plans, but the pre-nailing was done wrong and because the builder wasn't used to Lifemark design, he didn't pick it up. He would now because he's had that experience and won't do that again. But it also tells you something about pre-fab. It really was clear on the plans but the framing company simply set the bathroom window where they are used to setting bathroom windows. I think they thought the plan was wrong so they did their own thing. Luckily the window company came up with an opening solution which cost an additional \$300.*

*Not much for one house but easily mounts up (Small single region – CHP 2).*

*[The builders] ideally try to keep the same gang going through. It's different from a normal build, level entrance, and level showers etc. Once they've got the guys schooled up on that they wanted to carry them through. A lot don't know about accessible features ... A lot don't have the skill set ... Sometimes you see things and think that's not anywhere near an acceptable solution. That's where the project manager kicks in keeping a close eye on things (Large multi-region – CHP 2).*

Many community housing providers visited the building site regularly and regularly discussed progress against payments. One provider discussed weekly progress, not only with the labour only builder and the site supervisor but also with the sub-trades and the designer. These examples show the development of close, collaborative relationships. Where such relationships could not be established, some community housing providers had very different experiences:

*We didn't have building expertise so needed an industry professional to be quantity surveyor and project manager for the build. Two people were interviewed ... one was engaged and contracted. Then we progressed to 2 building companies, [the project manager] recommended [a builder]... We weren't fast enough to spot some of the things another industry person would of. The builders were well behind time. Impossible to talk to them – they just refused... Looking back I think the project manager was party to [the builder] (Medium single region – CHP 2).*

Indeed oversight is seen by some as so critical they were prepared to contract additional management oversight when they felt uncertain about a builder, even when there is a full-fixed contract:

*We don't set out planning to use penalty clauses [in a contract]. Full contract, got a planning manager managing the timeline, quality creation, payments etc. going onto site. That has been critical. Been a bit of double up – paying the [builder's] project manager then our own to keep an eye on things on a contract build. We employed an engineering company to contract manage (Large multi-region – CHP 2).*

In addition to giving close attention to pricing, design and construction, both on-site and through financial and progress monitoring, risk is also managed through contracting in or using key ancillary professionals. As the earlier discussion has noted, even community housing providers using design and build contracts take independent advice, particularly around costings, not only from architects, designers and engineers but also from quantity surveyors and product/material suppliers. Many providers note that quantity surveyors are both difficult to access and expensive for small developments. Some also noted that they tended to over-price developments:

*Pricing is usually pretty close to the estimate. Normally we do a quantity survey as well, we commission it to be done. We've never paid what the quantity survey said. My experience is that the quantity survey is always well over. Significantly over-priced – 10-20%. It's more embarrassing to be under-priced than over-priced (Small federated – CHP 1).*

Notwithstanding, quantity surveying and other front-end risk-management, comparing prices was identified as one of the most important elements of reducing risk and ensuring value for money. Using preferred providers, trust and open-book arrangements were prominent approaches among community housing providers. Previous experience which allowed comparison with previous pricing was also critical to reducing cost-related risks.

*We look for builders who provide a decent rate we can work with ... we started off with tenders until we found builders we were comfortable with ... one of the builders ... is pretty close to open book. They give us their figures, what's behind those figures I don't know but we double check with our experience (Large multi-region – CHP 2).*

*The price of the current schemes compared to previous is consistent. We always do a calculation when looking at a site. [The builder] understands the constraints we're under and that it's getting harder and harder (Medium multi-region – CHP 1).*

*Actually I think I know more about our preferred builder's cost structure than he does. Certainly he gets better value for money from his subbies now than he used to because I was so hard nosed not only about the total quotes from subbies but also the actual line items they put in their quotes. Sometimes builders get caught by cover bidding from subbies, but sometimes it's just that they haven't got time to go through their subbies' quotes item by item. I did that. I like to think that our builder's other customers also get the benefit of that (Small single region – CHP 2).*

*We get quantity surveying to ensure that rates are competitive ... you've got to be commercial ... we are not looking at a rate of return, but we are looking at the rate of subsidising (Large single region 1).*

*I am also all over the numbers, the applications for finance, and all the contracts and lending documentation necessary to bring this project to fruition ... In the end finance –more than site restrictions – limited the number of home units (Small single region – CHP 3).*

Nevertheless, costs cannot always be controlled from job to job, as providers noted:

*It's joint between us, the architect and builder. We've done so much building the staff are familiar with processes. The builder puts together the price and the architect and we review it together. Our eyes are on it as much as we can 'cos we're answerable to a board and significant amounts of money. In comparison with previous builds the cost escalation for these current jobs is huge ... Incredibly difficult with grant funding because costs escalate. Costs of materials have risen (Medium single region – CHP 1).*

*It's challenging bringing it back to square metre value, a lot of it is to do with land, retaining walls etc. ... just about every new development has covenants associated with it ... limitations on what materials you can use, what design, even what fencing sometimes... you couldn't put fencing around the front, needed a certain kind of fencing out the back, couldn't put heat pump units out the front. Some are fair enough, but when extended beyond that it makes things difficult (Large federated – CHP 1).*

## 6. WHAT WORKS

---

These interviews make it abundantly clear that there is enormous diversity in procurement approaches in New Zealand's community housing sector. In addition, even a single community housing provider is likely to vary their approach to procurement from build to build. There are undoubtedly variations that emerge over time. The typical trend among community housing providers is to move from less engaged processes to more engaged process. That is, providers start with a cluster of procurement processes that reflect limited knowledge of the market and building processes and a desire to reduce risk both in relation to price and quality. Over time, they tend to de-couple design from building and use independent or in-house project management. Some providers effectively act as their own developers and directly contract a range of trades and professional services and, in some cases, direct purchase of materials and building products.

The low engagement approach to procurement tends to use open tendering as a selection process combined with design and build packages and fixed price contracts. That approach is characterised by low levels of project management by the community housing provider and little opportunity to assess progress through site visits or regular collaborative project management meetings with the builder. Participation in the process tends to be on the margins around some design consultation and where low specification means that the community housing provider is required to make decisions around such elements as lights, appliances, colour schemes or whiteware.

In many ways, this low engagement approach to procurement replicates the relationship evident between householders and group home builders. It is marked by a lack of customer confidence in their own ability to commission and manage the processes associated with designing, consenting and building a dwelling. It is associated with a belief that both quality and price will be optimised and risks will fall with the supplier rather than felt by the buyer.

Most community housing providers move to a much more pro-active and engaged approach to procurement. Open tenders appears to be modified to selected invitation of tenderers or preferred providers. Contracts involving commitment to purchase a clutch of dwellings from a particular provider become more common in exchange for a much more 'open-book' approach to pricing. Collaborative design and project management become more evident. The commissioning agent is much more likely to directly contract professional services from engineers, designers, quantity and land surveyors. In some cases materials and products are directly purchased and project management is undertaken in-house. In all cases, there is a movement away from commissioning a turn-key product to being much more involved in site visits and requiring supplier reporting.

The movement from a relatively passive procurement process to more pro-active engagement with the acquisition of dwellings is not necessarily driven by the size of the community housing organisation, whether it has paid staff or not, or even the quantity of stock that it wishes to acquire. One of the smallest community housing organisations participating in this research has a stock of four dwellings, of which one was built through a competitive, open tender and fixed price off pre-existing plans. The remaining three were built with a preferred builder, using an independent designer designing specifically for the site and for the specific

households selected as residents for the dwellings, using a labour-only contract, separately contracted site management by the builder, project management by a trustee, direct sub-contracting and direct purchase of materials. This required a high level of collaboration and communication but delivered dwellings well above code, fully accessible and at a significantly reduced price. The willingness to pursue a more pro-active approach appears to be less about size and more about confidence and experience. It also reflects the willingness of at least some building contractors to engage as well as the impacts of the prevailing building cycle.

Confidence is built by experience with the industry or in other sectors requiring complex, multi-decision making processes. The experiences that prompt community housing providers to move towards a more pro-active approach to procurement can be direct or indirect. Indirectly, community housing providers learn from other community housing providers, albeit currently through relatively informal channels and sometimes through conversations within limited networks. One provider commented:

*Other not for profits are pretty willing to share information on their costs and where good deals can be had. Not a formal network, an informal network that's quite good. We work from a local community base and trying to get things out of communities. Talk to local suppliers, get good deals ... [what] would help would be having someone who could organise a discount on the products. We often do that locally as part of the building process. We'd consider entering into a co-operative for direct importing but don't have much capacity for storage. If we had five projects going and needed 50, 75 or 100 of something – but at the moment we're struggling to do one house a year (Small federated – CHP 1).*

There is no doubt that those opportunities could be expanded. Some providers have noted, however, that in an environment which is under resourced and in which government tends to set up community sector organisations to compete with one other or wants them to amalgamate, they can often feel hesitant about information exchange.

There are both push and pull factors prompting a move to a more pro-active approach to procurement. The pull factors are prospects of more control, value-for-money, and getting a more refined, fit-for-purpose output. The pull is often associated with confidence built through a pro-active engagement with one or more aspects of a previous build, whether that be design, cost control or some aspect of project management. The push factors are often around the failure of one or more aspects of the open-tendering, design and build, and fixed price contract to deliver. In respect of both those matters, community housing providers have noted issues of not only premium pricing, but apparently inflated pricing and suggestions of cover bidding:<sup>17</sup>

*With one development, we went to open tender, and got some highly suspicious bids. This involved some pretty big building companies... We save a lot of time now going with who we know, we trust them. It's a trust based relationship (Large multi-region – CHP 1).*

---

<sup>17</sup> This experience is consistent with Commerce Commission research and subsequent strategies. See Commerce Commission, 2016.

*When quotes came in from subbies there was an inexplicable range of prices, some were three times more than others. There was a lot of backwards and forwards as it became clear we were not just accepting costs. One subbie said they'd made a substantial "arithmetic error" and reduced their price by about a third. The original price would have been accepted by a fixed price contractor as they wouldn't have time to look into it further ... There's been an argument in the Trust that fixed price means we'd be protected from cost overruns. But sometimes you are paying a huge premium for that certainty (Small single region – CHP 2).*

A few relatively inexperienced community housing providers report incidents that, despite fixed price contracts, open tenders, design and build contracts and apparently independent project management, they were confronted by drawdowns greater than build progress, poor workmanship, and other problematic behaviours. Problems with getting remediation were also reported where organisations did not have strong on-site surveillance and collaborative project management.

*We're cutting the pathway as we're walking it. There's not a lot of knowledge around. Hard when walking it, but beneficial in a way. All those knocks, bruises have turned into wider knowledge which can benefit the community (Small single region – CHP 1).*

*The old builders wouldn't even let us on site. On getting new builders, issues of quality came to the fore. A lot of remedial work ... Getting remedial work done was always going to be difficult. Some problems not realised until [residents] got in. Had to remove stuff before we realised. For example, a firewall doesn't exist (Medium single region – CHP 2).*

*There was not a good job of project management on that job. People cutting corners, doing poor quality of build - had to fix up a lot of things (Medium single region – CHP 3).*

This is not to suggest that turn-key type procurement with design and build packages and/or fixed price build contracts are not used by community housing organisations experienced in procurement. There are several instances where providers use fixed price contracts. It is not unusual for providers to also occasionally 'test the market' to ensure that the prices they are getting from preferred providers are appropriately aligned. Indeed, the debate over the relative benefits of open tendering compared to more targeted tendering or other forms of supplier selection is continual. What is clear, is that even where low engagement procurement is undertaken, providers with experience of other procurement approaches can take a stringent and realistic appraisal of packages offered by the building industry.

In a sense, then, these interviews suggest that procurement processes are important but there is no single approach that inherently provides a superior outcome for community housing providers.<sup>18</sup> Diversity in approach, diversity in the way in which providers bundle different goods and services together, and diversity in the way in which they select, supervise and

---

<sup>18</sup> This is consistent with Martel *et al.*, 2011, who note that a variety of different procurement methods can deliver in the context of remote indigenous housing in Australia. They note, however, that the imperatives of government funding agencies tend to dominate evaluations of community housing that can often miss non-housing dimensions of procurement including human capital development and local community development objectives.

manage their contracts allows providers to be nimble in a quickly changing funding and policy environment. They quickly apply learnings from previous builds to future projects.

Notwithstanding that diversity and the dynamic ways in which, and conditions under which, community housing providers work, these providers share very similar views on what makes procurement work for them and what delivers good outcomes. Repeatedly cited as determinants of success are:

1. *Shared and values-based commitment* between the community housing provider and suppliers, which emphasises mutual respect of each other's needs and ensuring that whatever the nature and the form of procurement there is a fair deal for all parties.

*For us it's all about relationships. We want to work with organisations where they understand our business, that we're not in it to make money but to increase supply to vulnerable people... We also recognise it's a business and they need to get something out of it. When it gets tough, you sit down and talk about it (Large multi-region – CHP 3).*

*This is the first step. In the future [our building company] would definitely be in the box seat [for future work]. We've really got no reason not to use them. They've gone the extra mile, given extra value to the project. We have a really good relationship (Small single region – CHP 1).*

*And we pay our bills on time, which sometimes doesn't happen in the industry (Large multi-region – CHP 1).*

2. *Openness, clarity of expectations, and transparency about limits of resources.* This involves understanding what is really important, what can and cannot be compromised, and learning about project management and appropriate sequencing of decisions. It requires communication and good faith.

*Openness and trust are really important. If there's a problem, you need to be able to talk about it rather than pretend it's not there. There's a 'we're all mates, she'll be right', way of talking in the building industry that isn't meaningful. People are anxious about building; they just want to know that things are alright. But it's better to know if things aren't going right so you and the builder can deal with it, rather than playing the blame game at the end (Small single region – CHP 2).*

*These builders have been open, that's been really nice. Didn't have that opportunity with the first lot – the first lot just wanted to run or rogue. When I look back it's like they were treating us as contractors, they only spoke to us when it was absolutely necessary, not like we were their client contracting them. No respect. We felt cheated. We were very angry. No time to dwell on anything though, had to run and get things done. Had to step in and keep asking questions. Not like that with [current builders]. They're very open. I think they understand that we got a bad deal. They help us understand why things are being done the way they are (Medium single region – CHP 2).*

3. *Vigilance.* This means taking responsibility for the organisation's relationship with its suppliers and actively looking at the market, building costs, monitoring delivery, resolving issues and collaborating to optimise outcomes.

*It's essential to have a relationship of trust with contractors/consultants. A team. Experience, trust, vigilance. Check prices regularly (Large single region – CHP 1).*

*Have as much information as possible as to what you want out of it first in terms of pricing. Know the metre square rate. Know what your pricing is (Large single region – CHP 3).*

*When interest rates were expected to increase rather than fall, we took the precautionary step of testing the cost of an alternative stick-frame construction methodology against the preferred concrete tilt slab methodology (Small single region – CHP 3).*

In essence, community housing providers emphasise relationships, trust, track records and sustaining relationships into the future. They are neither 'hit and run' suppliers of dwellings into the housing market, nor 'hit and run' procurers. They actively look to leverage learning into their future building programme. They typically look to work with suppliers they like and suppliers that have good reputations in the communities in which they work and deliver dwellings. A few community housing providers reported that they had chosen specifically not to work with suppliers that they saw as unethical or whose practices they felt were questionable. These comments from three community housing providers demonstrate the importance of trust and integrity:

*Go for open books or known and trusted folk in the industry you've worked with in the past ... we're happy to talk to people but before we start projects we have to have a value based conversation. [I was recently invited to meet a developer] I said 'there's no way.' ... he went bankrupt four times ... They've got to speak to our values. We will not do a deal at any cost ... [he] was a rogue.' ... I was probably more responsive to it because I'm aware of the carnage he left (Large multi-region – CHP 3).*

*We're looking for someone with honesty and integrity, bent towards some sort of social good, not just to make as much money as they can. The ones that really didn't work were the ones that were just looking for turnover. Often the ones that do work is when someone says, "meet this guy, he's a good Kiwi bloke. An honest hard worker." They're usually the ones we go back to even if they're a bit more expensive (Large multi-region – CHP 2).*

*We don't work with people we don't like ... You can't over-estimate the importance of trust and relationships, shared values. No matter what the product or service. Mission alignment of the provider with us – what's our purpose, keep that at the forefront (Large multi-region – CHP 1).*

## 7. COMMUNITY HOUSING STRENGTHS AND VULNERABILITIES

---

What this research has shown is that the community housing sector can and does procure effectively. There are some deficits in skill and capacity, but those are attached less to size than to experience and the longevity of the relations providers have with the building industry. Indeed, arguably the local focus of providers allows a much more nimble approach that can generate stock aligned with its specific purpose. Notably, the community housing providers that reported struggling most are those that have operated rather like householders who seek financial certainty and believe quality and value for money will be optimised by seeking services from group home builders and/or through fixed price contracts.

There is no doubt that community housing providers are anxious about building procurement. They are aware that decisions made in the design, specification, building and commissioning of dwellings presents them with two significant risks. One is the risk of significant and unsustainable budget overruns. The other is risks around the integrity and suitability of the dwellings they commission from the building industry. Several providers noted that they had compromised on the latter to reduce probabilities of cost over-runs. In some cases, providers reported that that trade-off had presented them with unforeseen costs over the long-term as the newly built stock units showed low resilience, demanded more maintenance, remediation of various sorts, and, in some cases replacement of appliances and whiteware that had failed to meet the needs or stresses associated with constant use.

A set of persistent and pejorative motifs have become attached to the community housing sector. Those are implicitly and sometimes explicitly referenced as factors in alleged difficulties in managing procurement. Such motifs include: the sector is fragmented; its delivery is inefficient and vulnerable because it typically delivers at small and local scale; there is a deficit of community housing providers with large scale organisational structures and national reach, which makes their procurement associated with persistent skill deficits, limited knowledge of and poor interactions with the building industry; and there is an inability to reduce costs and optimise quality.<sup>19</sup>

There is a startling similarity around this portrayal of the community housing sector and criticisms directed at the New Zealand building industry itself. The undoubted issues of build cost and build quality were for many years ascribed to the structure of the building industry. It too was characterised as fragmented, uncoordinated, and too dominated by small companies working at limited scale and production.<sup>20</sup> That typification of the building industry has become increasingly contested under a weight of evidence showing the industry to be dominated by key supply and product chains, and that neither price nor quality are necessarily optimised through larger organisational structures or higher levels of demand and economies of scale.<sup>21</sup> Similarly it is clear that the community housing providers involved in this research have delivered a significant quantity of housing over the last few years. Moreover, they have

---

<sup>19</sup> Capital Strategy / SGS Economics and Planning, 2007: Treasury Report T2015/80, 2 February 2015.

<sup>20</sup> Productivity Commission, 2012.

<sup>21</sup> Page's (2015) survey of quality defects in new builds found that large group building companies figure in both building code defects and appearance and quality defects. The 'one-off' builds appear to be of better quality and to have fewer performance defects. A survey of new home owners' satisfaction (Curtis 2015) found that small-scale builders out-performed large-scale builders.

done so despite being in a fundamentally different position from others delivering housing onto the housing market.

The community housing sector is different from private sector developers and builders acting as developers, in that it deals with three critical and largely unavoidable requirements. The sector is:

- *Building affordable dwellings for people on the lowest incomes.* Indeed, the recent review of housing providers under the Charities Act has generated an environment in which portfolio diversity across tenants and shared owners is less and less likely. This is despite diversity underpinning the purchase power of some community housing providers and their ability to target housing to those in considerable housing need while maintaining financial sustainability. This represents very real problems for community housing providers, for they are seeking delivery from an industry that has focused on the upper quartile of price value since the mid-1990s.<sup>22</sup>
- *Delivering housing to people who are likely to spend more time in their dwellings on a daily basis, who need secure housing, and who have limited choices on the housing market.* Community housing providers generally have a philosophy of providing secure tenure, and the new registration system for community housing providers has codified a requirement that they must prioritise tenure security for their tenants.<sup>23</sup>
- *Maintaining a long-term interest in the stock it commissions.* This is the case irrespective of whether a dwelling delivered by a community housing provider is provided as an emergency, transitional, long-term rent or shared ownership dwelling.

Those three characteristics place community housing providers in a significantly different position from other housing providers. Developers and speculative builders divest themselves of the stock and responsibilities for it as soon as possible. Private landlords have freedoms in the disposal of stock and, indeed, tenants, which are distinctively different from practice in the community housing sector. Furthermore, the requirements for tenure security in the community housing registration framework are arguably more stringent than that applied by Housing New Zealand, which has now implemented a tenancy review process which unwraps the tenure security policy of previous decades.<sup>24</sup> Owner occupiers, too, have more flexibility than community housing providers both in the buying and selling of properties and investing in their maintenance. Community housing providers are restricted in the disposal of their stock, as many are bound by their constitution or trust deed to only dispose of stock either to another charitable organisation, or to re-invest income from disposal in more housing for a charitable purpose.

In short, when community housing providers commission dwellings they are very clear that they need those dwellings to not only be cost-effective in the short-term, but also to be fit-for-purpose, financially sustainable and resilient in the long-term. They are investing in a housing stock which is not only expected to be homes, but for which they will have continued

---

<sup>22</sup> Productivity Commission, 2012.

<sup>23</sup> The Community Housing Regulatory Authority's tenancy management performance standard includes - the CHP must have documented systems and processes to ensure that there are fair and transparent hardship and arrears management processes. These include policies and processes to support tenants experiencing financial hardship, including arrears management, referring tenants to budgeting advice services and ensuring that ending tenancies is a last resort. <http://chra.mbie.govt.nz/assets/Uploads/performance-standards-guidelines.pdf>.

<sup>24</sup> In 2014 tenancy reviews every three years were introduced for all social housing tenants in HNZ properties, with few exceptions. Those exempted are tenants living in a property modified for their needs (for example wheelchair access), who have agreed lifetime tenure with Housing New Zealand or who are 75 and over. <http://www.housing.msdc.govt.nz/documents/forms/factsheets/sha307-reviewable-tenancies-fact-sheet-english.pdf>.

liabilities and operating costs over many decades.<sup>25</sup> They frequently provide homes for people with particular design and amenity requirements. Under those conditions, the pervasive difficulties noted in market, research and policy commentary around price, value for money, and quality delivered by the New Zealand building industry in the residential sector<sup>26</sup> have more profound and direct impacts on the community housing sector than on other commissioning agents. The fundamental issue, then, lies not so much with the structure and operation of community housing providers or with the inherent strengths of one procurement model over another.<sup>27</sup> Instead, there are two other factors that shape procurement.

The first factor is access to a secure stream of capital funding. It has already been noted that government capital funding has been critical to stock building. The shift to IRRS and the belief that this will provide a sound base for negotiating with the private sector for secure funding streams is unconvincing to the community housing providers involved in this research, including those with significant stocks previously built using a range of capital grants, loans and under-writing provided by government since the 1970s. The second factor is the ability and desire of the building industry to deliver the dwellings that the community housing sector needs. Those two factors are entwined.

Some community housing providers commented that the tendency for government to turn off or turn on the flow of capital funding has become increasingly associated by perceptions of a politically unpalatable level of unfilled demand. A sudden demand from government that the community housing sector builds *en masse* is often accompanied by arguments that the community housing sector has not got the capability to 'step-up' to deliver at scale.<sup>28</sup> The community housing providers have a different view of that dynamic. They see a disorderly housing policy and public investment framework that has ignored demand that could have been filled in a measured way over several years. They see themselves as having to acquire and divest themselves of capability as housing investment ebbs and flows.<sup>29</sup>

According to these community housing providers, the 'best deals' and the best relationships do not emerge from sudden demand for large numbers of dwellings to be supplied into the market all at once. On the contrary, fuelling of previously unmet demand simply drives prices up, and reduces the building industry's ability to provide dwellings of acceptable quality. The lack of certainty around policy and housing investment means that opportunities for supporting the building industry and accessing lower prices in the downside of the building cycle are repeatedly missed and the building industry itself is destabilised.

Some community housing providers spoke critically of the efforts of government agencies to 'broker' relationships with the building industry. Those agencies seen as often out of touch and having significantly less understanding and experience in the market than the community housing sector. Concern was also expressed about the track records of some of the building companies and developers being introduced to community housing providers as potential

---

<sup>25</sup> This imperative is found among affordable housing providers elsewhere. Moreover, Shafik and Martin, 2006, found that in the context of the Scottish residential building sector some procurement processes effectively saved early stage costs but those savings could be at the risk of higher operating or maintenance costs or other requirements sought from the project.

<sup>26</sup> See the Productivity Commission, 2012.

<sup>27</sup> This finding is consistent with Griffiths, 1999.

<sup>28</sup> Capital Strategy / SGS Economics and Planning, 2007; Treasury 2015.

<sup>29</sup> The problems generated by government cycles of under- then over- then under- intervention is noted in Australia by Groenhart, 2013, in her analysis of supply stimulus, public stock transfer to community housing providers, and public housing estate renewal with mixed tenure housing provision. Her quantitative analysis concludes that there has been a net loss of social housing and little evidence of a stronger community housing relationship with the building industry. Further commentary on the constraints placed on the Australian community housing sector by slow progress in establishing a robust public policy and funding framework are provided by Milligan *et al.*, 2015.

partners.<sup>30</sup> Those community housing providers expressed disappointment at the continued instability of the regulatory and tax frameworks, as well as the seemingly low delivery of some initiatives that could assist the sector. In that regard, the government initiative on building materials procurement and its possible unfulfilled potential synergy with affordable housing initiatives was mentioned.

Disappointment was also expressed around the failure of councils to recognise and support community housing providers in the same way that many councils did with large developers and retirement villages. Those players were seen as more able to leverage changes in the application of the rules than community housing providers. This was perceived as simply a matter of who was generating the highest development levy revenue to local councils. Community housing providers repeatedly reported that the best value for money was found when there was a clear and sustained pipeline of building work for trusted industry partners that was aligned to local demand.

## 8. CONCLUSIONS AND SOME PATHWAYS FORWARD

---

The community housing sector in New Zealand is small and targeted to some of the most vulnerable people. The 17 community housing providers in this research delivered 751 dwellings into an under-supplied low cost housing market despite over-heated house prices and significant cross-market demand in Auckland and in the Christchurch re-build. As one provider pointed out, these periods are always hard for providers trying to get the best value out of the building industry:

*My general observation of the building industry is that when you have demand the price goes up considerably. You get a building industry that can load a quote they've got so much work on. There's a demand because of the crisis, trying to increase supply quickly. You get cost movement that's not in our best interest. Effectively its price fixing. So you need to work with known and trusted folk in the industry you've worked with in the past (Large multi-region – CHP 3).*

It is trust built on on-going relationships, past and future, that allows community housing providers to deliver. It is trust, vision and the opportunities presented by the possibility of on-going work in the down-cycle as well as the up-cycle that appears to attract some in the building industry to the community housing sector.<sup>31</sup> Community housing providers see themselves as good customers to the building industry. They pay on time, they are purposeful and many know exactly what they want. This is not to suggest that the relationship is entirely smooth. It is a relationship complicated by the pricing necessary for community housing providers if they are to deliver to vulnerable and low income groups. The virtual demise of

---

<sup>30</sup> This resonates with the work of Reid, 1995. Her work on inter-organisational networks and the delivery of local housing services found that actions to establish networks and economies of scale bringing different community housing providers, private investors and the building industry together were often problematic, created problems around accountabilities, generated anxieties around information sharing and alternative competitive alliances. A tendency to focus on keeping the network together rather than housing delivery was also noted.

<sup>31</sup> The theme of trust, shared values and communication is evident in much of the overseas literature around social housing procurement as well as the importance of trust in the construction irrespective of the client.

capital funding from central government makes the relationship between the community housing sector and the building industry fragile.

Nevertheless, the community housing sector is diverse. Community housing providers are diverse in their target client groups, their geographic coverage, their stock numbers and stock acquisition intentions, and the housing tenures they provide. They are also diverse in their procurement practices and the bundling of goods and services they want from the building industry. Most of the community housing providers will adjust their procurement methods to capture the opportunities that they see on offer at any particular time in the building cycle, local conditions, and according to their own resources at the time. That heterogeneity and diversity offer opportunities for those in the building industry ready to target specialist niche markets.

This report finds that claims that the community housing sector does not have the capability or willingness to be effective procurers of residential stock is misguided. Indeed, as a recent comparative review of planning and affordable housing in England, Australia and New Zealand argues, the opportunities to support affordable housing in the community sector through planning regimes have been missed because of a fundamental ambivalence, not among community housing providers, but of central and local government around committing to social housing.<sup>32</sup> Certainly, there is a widespread unwillingness among community housing providers to acquire stock through the transactions proposed by government in relation to the existing Housing New Zealand stock.<sup>33</sup> There is, however, a very real appetite to develop new-build residential stock for tenants, for people who can manage rent-to-buy and through shared ownership. Moreover, many of these community housing providers take an innovative approach to their builds and pay close attention to risk.<sup>34</sup> They, for instance, undertake traditional cost management focused on budget estimate compliance but many are constantly probing opportunities for better value and pro-actively managing design as well as construction to optimise value.<sup>35</sup> They also see investment in the building industry and industry skills as important.

The main barrier to procurement on new-builds, then, does not reside in a lack of expertise or aspiration among community housing providers. Notwithstanding, on the margins, there are some very real opportunities to improve procurement effectiveness and practice within the community housing sector itself. Particular attention could be given to:

- Development and promotion of standardised quoting, quantity surveying, and project management templates and software.
- Joint, cross-sector initiatives to establish insurance and build guarantees.
- Development of knowledge-based procurement kits and training by both community housing providers and building industry training including the development of bid and

---

<sup>32</sup> Austin *et al.*, 2014.

<sup>33</sup> Deloitte Touche Tomahatsu, 2016, *Community Housing: Structuring Options*, CHA <http://communityhousing.org.nz/resources/article/building-a-model-for-alternative-procurement>.

<sup>34</sup> Susilawati, 2009 also noted that risk reduction and mitigation characterised the activities of six out of the ten Australian social housing providers participating in her study.

<sup>35</sup> Susilawati and Armitage, 2005, found that the difference between traditional cost management and value for money outcomes presented a barrier to partnerships between developers (rather than builders) and the community housing sector. The former focused on compliance with budget which reflected a desire for higher rates of financial return. Community housing providers were concerned about budget compliance but wanted value for money outcomes rather than giving priority to returns on capital. Jefferies *et al.*, 2012, argue that the value for money preoccupations for indigenous housing in Australia could be accommodated effectively within a project alliance procurement framework set out in the Victorian Government's practitioners guide used for public private partnerships and other state procurement (see Department of Treasury and Finance, 2010).

proposal evaluations that recognise the value of outcomes approach of the community housing sector.<sup>36</sup>

- Promotion of simple house and multiple consent opportunities to community housing providers.

In addition, two broader conversations are needed to assist the building industry to deliver to the needs of community housing providers and their clients. The first is a conversation around price points. The second is a conversation with councils and planners around the needs and characteristics of the people seeking housing through the community housing sector. Currently there is a clear misalignment between the planning amenities required by councils such as parking and the needs of the people likely to live in the affordable homes the community housing sector needs to deliver.

Finally, there are community housing providers in New Zealand who have effective relations with some members of the building industry. Those relationships and experiences provide a platform for the future. It is important that housing as well as building industry policy and regulatory frameworks support rather than undermine those relationships and relation-based procurement and contracting. Community housing providers repeatedly expressed frustration at what they see as often unhelpful interventions such as attempts to broker relations between particular providers and particular businesses in the building industry. Their experience, and this is consistent with research overseas,<sup>37</sup> is that community housing providers and contractors of like-mind can and do find each other. Moreover, there are significant risks of failure if relationships are brokered between parties that do not understand each other. Indeed, incentivising parties to come together for what is a short-term 'marriage of convenience' will not necessarily generate sustained and productive relations into the future. Equally important, public agencies over-determining how parties should contract with each other may also be counter-productive.<sup>38</sup> For the community housing providers in this research, meeting unmet demand through effective procurement now and into the future, is dependent on a reliable and appropriately modulated stream of capital funding from which they can leverage both other funding and housing income.<sup>39</sup> Such investment would not only preserve extensive existing capability within the sector but would also allow expansion and stabilise building industry interactions with the community housing sector.

---

<sup>36</sup> An early example of ways to evaluate bids and proposals in the community housing sector is found in Jurison, 1998. This is consistent too with Le Masurier, 2006, and his recommendations for procurement change in the New Zealand building industry. Platten *et al.*, 2006, overviews the use of a more recent housing tool kit in procurement in east Lancashire of potential lead developer partners.

<sup>37</sup> See Loosemore, 2015, for instance, and Milligan *et al.*, 2015.

<sup>38</sup> Wimmers and Llewelyn, 2010, in the context of public, private partnerships suggest that the public sector is vulnerable to both over-capture by some private partners and under-flexibility. While community housing providers in this research welcome a proactive engagement with government agencies, they are also wary of those risks in relation to any involvement that government agencies might have in brokering or shaping directly the contractual relations and procurement processes of the community housing sector when seeking services from the building industry.

<sup>39</sup> The provision of capital grants and/or land provision is one of the continuing hallmarks of the development of community housing overseas. See, for instance, Pawson *et al.*, 2010; Susilawati and Armitage, 2010; Susilawati, *et al.*, 2009; Milligan *et al.*, 2015. This was also the case for New Zealand in the past. Reductions in New Zealand's capital funding from public agencies, either central or local, is well established in the research as impacting on the ability of community housing and social housing sectors to deliver affordable housing. See Saville-Smith, Fraser and Saville-Smith, 2014.

## REFERENCES

---

- Alexander, S., et al., 2011, *The Leaky Building Crisis Understanding the Issues*, Thomson Reuters, Wellington.
- Austin, P., Gurran, N., and C. Whitehead, 2014, Planning and Affordable Housing in Australia, New Zealand and England; Common Culture Different Mechanisms, *Journal of Housing and the Built Environment*, 2014, Vol.29(3), pp.455-472.
- Boyd, D., (ed) *Procs 22nd Annual ARCOM Conference*, 4-6 September 2006, Birmingham, UK, Association of Researchers in Construction Management
- Capital Strategy / SGS Economics and Planning, 2007, *Affordable Housing: The Community Housing Sector in New Zealand*, Wellington, Centre for Housing Research Aotearoa New Zealand.
- Carter, T., 1997, Current Practices for Procuring Affordable Housing: The Canadian Context, *Housing Policy Debate*, 8:3, 593-631.
- Chamez, K., 2013, *Constructing Grounded Theory*, L.A., Sage Publications.
- Chan, A., Chan, D., and J. F. Yeung, 2010, *Relational Contracting for Construction Excellence*, Abingdon, Routledge.
- Colledge, B., 2005, Moving on – Relational Contracting – Creating Value beyond the Project, *Lean Construction Journal*, 2:1, 30-45.
- Commerce Commission New Zealand, 2016, *Construction Sector Research – Key Findings*, <http://www.comcom.govt.nz/business-competition/anti-competitive-practices/construction-sector/construction-sector-research-key-findings/>
- Curtis, M., 2015, *New House Owners' Satisfaction Survey 2014*, BRANZ Study Report SR328.
- Czischke, D., 2009, Managing Social Rental Housing in the EU: A Comparative Study, *International Journal of Housing Policy*, 9:2, 121-151.
- Czischke, D., 2014, Social Housing Organisations in England & the Netherlands; Between the State, Market and Community, *Architecture and the Built Environment*, No 14.
- Davidson, J., Go-Sam, C., and P. Memmott, 2010, Remote Indigenous housing procurement and post-occupancy outcomes: A comparative study, *AHURI Positioning Paper*, No.129:1-73.
- Deloitte Touche Tomahatsu, 2016, *Community Housing: Structuring Options*, CHA <http://communityhousing.org.nz/resources/article/building-a-model-for-alternative-procurement>
- Department of Treasury and Finance, The Practitioners' Guide to Alliance Contracting, Melbourne, State of Victoria, <http://www.ejcm.or.jp/eng/pdf/victoria.pdf>.
- Denzin, N., and Y. Lincoln, 1994, *Sage Handbook of Qualitative Research*, LA, Sage Publications.
- Dieleman, F., 1999, Policy Review: The Impact of Housing Policy Changes on Housing Associations: Experiences in the Netherlands, *Housing Studies*, 14:2, 251-259.
- Easton, B., 2011, "Regulation and Leaky Buildings", in Alexander, S., et al., *The Leaky Building Crisis Understanding the Issues*, Thomson Reuters, Wellington, pp. 35-44.
- Fien, John, et al, 2008, Towards a Design Framework for Remote Indigenous Housing, *AHURI Final Report* No. 114

- Fortune, C., and S. Setiawan, 2005, Partnering Practice and the Delivery of Construction Projects for Housing Associations in the UK, *Engineering, Construction and Architectural Management*, 12, 2.
- Gallent, N., Mace, A., and M. Tewdwr-Jones, 2002, Delivering Affordable Housing through Planning: Explaining Variable Policy Usage across Rural England and Wales, *Planning Practice & Research*, 17:4, 465-483.
- Gilmour, T., and V. Milligan, 2012, Let a Hundred Flowers Bloom: Innovation and Diversity in Australian Not-for-Profit Housing Organisations, *Housing Studies*, 27:4, 476-494.
- Goodchild, B., and O. Chamberlain, 1999, Building Procurement in Social Housing in Britain: A Review of the Main Issues, *Housing Studies*, 14:6, 861-880.
- Griffiths, G, 1999, Construction Procurement Arrangements of Housing Associations in Liverpool, in Hughes, W (ed.), *15th Annual ARCOM Conference*, Liverpool, John Moores University, Association of Researchers in Construction Management, Vol. 2, 725-33, [http://www.arcom.ac.uk/-docs/proceedings/ar1999-725-733\\_Griffiths.pdf](http://www.arcom.ac.uk/-docs/proceedings/ar1999-725-733_Griffiths.pdf).
- Groenhart, L., 2013, Reflecting on a Decade of Australian Social Housing Policy: Changes in Supply and Geography 2001-2011, *Geographical Research*, 51 (4), 387-397.
- Gurran, N., Milligan, V., Baker, D. C., Bugg, L. B., and S. A. Christensen, 2008, New Directions in Planning for Affordable Housing: Australian and International Evidence and Implications, *AHURI*, Research and Policy Bulletin, 105 (Final Report: No. 120), 1-143.
- Gurran, N., and C. Whitehead, 2011, Planning and Affordable Housing in Australia and the UK: A Comparative Perspective, *Housing Studies*, 26:7-8, 1193-1214.
- Hughes, W (ed.), *15th Annual ARCOM Conference*, Liverpool, John Moores University, Association of Researchers in Construction Management, Vol. 2, 725-33.
- Hyunsang, Ha & Lee, In Won, 2011, Adoption of Institutional Options for Affordable Housing Production: Collective Action Problems and Option Choice, *International Review of Public Administration*, 16:2, 71-93.
- Jefferies, M., Rowlinson, S. and A. Schubert, 2012. The procurement of Indigenous Social Housing in Australia: A Project Alliance Approach, NOVA, The University of Newcastle's Digital Repository, [http://www.irbnet.de/daten/iconda/CIB\\_DC24150.pdf](http://www.irbnet.de/daten/iconda/CIB_DC24150.pdf).
- Jurison, A. C., 1998, Better buys: Preparing Bid/Proposal Evaluations, *Journal of Housing and Community Development*; May/Jun 1998; 55, 3.
- Khosrowshahi, F (ed.), 2005, 21st Annual ARCOM Conference, 7-9 September 2005, SOAS, University of London. *Association of Researchers in Construction Management*, Vol. 2, 1195-204.
- Kwawu, W., and W. Hughes, 2005 The impact of relational contracting on the construction industry, in Khosrowshahi, F (Ed.), 21st Annual ARCOM Conference, 7-9 September 2005, SOAS, University of London. *Association of Researchers in Construction Management*, Vol. 2, 1195-204.
- Lam, E., Chan, A., and D. Chan, 2003, Perceptions on the Application of Design-Build Procurement System in Hong Kong, *Architectural Science Review*, 46:4, 419-425.
- Le Masurier, J., 2006, Performance Improvement through Procurement Innovation in the New Zealand Construction Industry, *In the Symposium on Sustainability and Value through Construction Procurement*, Salford, United Kingdom.

- Loosemore, M., 2015, Social Procurement in UK Construction Projects, *International Journal of Project Management* 34 (2016) 133–144.
- Love, P., Skitmore, M., and G. Earl, 1998, Selecting a Suitable Procurement Method for a Building Project, *Construction Management and Economics*, 16:2, 221-233.
- MacLennan, D. and A. Moore, 2001, Changing Social Housing in Great Britain: A Comparative Perspective, *International Journal of Housing Policy*, 1:1, 105-134.
- Martel, A., Horne, R., Wakefield, R. and J. Harley, 2011. Innovation in the Procurement of Remote Indigenous Housing. *MTRO (More Than a Roof Overhead) Working Paper*, (1), <http://mams.rmit.edu.au/y6swzvdkv8v3z.pdf>
- Mehan, J., and D. J. Bryde, A field-level examination of the adoption of sustainable procurement in the social housing sector, *International Journal of Operations and Production Management*, 35, 7, 982-1004.
- Milligan, V., Hulse, K., Pawson, H., Flatau, P., and E. Liu, 2015, *Strategies of Australia's leading not-for-profit housing providers: a national study and international comparison*, AHURI Final Report No.237. Melbourne: Australian Housing and Urban Research Institute. <http://www.ahuri.edu.au/publications/projects/71006>.
- Muir, J., 2013, The Dynamics of Policy-Making under UK Devolution: Social Housing in Northern Ireland, *Housing Studies*, 28:7, 1081-1093.
- Muir, J., and D. Mullins, 2015, The Governance of Mandated Partnerships: The Case of Social Housing Procurement, *Housing Studies*, 30:6, 967-986.
- Norris, M., and C. O'Connell, 2010, Social Housing Management, Governance and Delivery in Ireland: Ten Years of Reform on Seven Estates, *Housing Studies*, 25:3, 317-334.
- Oladapo, M.A., 2001, A framework for cost management of low cost housing. In *International Conference on Spatial Information for Sustainable Development*, Nairobi, Kenya, pp. 2-5, <https://www.fig.net/resources/proceedings/2001/nairobi/oladapo-CMST1-3.pdf>
- Page, I., 2015, *New House Construction Quality Survey 2014*, BRANZ Study Report SR335,
- Pawson, H., Morgan, J., Wilcox, S. and P. Williams, 2010, *A Study into the Capacity of Registered Social Landlords and Local Authorities to Build Housing across Scotland*, Edinburgh: Scottish Government Social Research, <http://www.gov.scot/Resource/Doc/330637/0107259.pdf>.
- Platten, A., Dobrashian, T. and M. Dickenson, 2006, Innovative Approaches to Developer Selection and Procurement for Housing Market Renewal. *Symposium on Sustainability and Value through Construction Procurement*, <http://www.irbnet.de/daten/iconda/CIB1841.pdf>.
- Productivity Commission, 2012, *Housing Affordability Inquiry*, Wellington, Productivity Commission.
- Reid, B., 1995, Interorganisational Networks and the Delivery of Local Housing Services, *Housing Studies*, 10:2, 133-149.
- Rhodes, M., and D. Mullins, 2009, Market Concepts, Coordination Mechanisms and New Actors in Social Housing, *International Journal of Housing Policy*, 9:2, 107-119.
- Rojas, E., 2001, The Long Road to Housing Sector Reform: Lessons from the Chilean Housing Experience, *Housing Studies*, 16:4, 461-483.
- Sacranie, H., 2012, Hybridity Enacted in a Large English Housing Association: A Tale of Strategy, Culture and Community Investment, *Housing Studies*, 27:4, 533-552.

- Saville-Smith, K., Fraser, R., and N. Saville-Smith, 2014, *Community Housing Provision*, A Report prepared for Community Housing Aotearoa, Wellington, CHA.
- Shafik, M and Martin, P, 2006, The Impact of Procurement Methods on the Scottish Housebuilding Industry, in D. Boyd, (ed) *Procs 22nd Annual ARCOM Conference*, 4-6 September 2006, Birmingham, UK, *Association of Researchers in Construction Management*, 81-90.
- Strauss, A., and C. Juliet, 1994, Grounded Theory Methodology: An Overview, in N. Denzin and Y. Lincoln, *Handbook of Qualitative Research. 1st ed.*, 273–284.
- Susilawati, C., L. Armitage, 2004, Do Public Private Partnerships Facilitate Affordable Housing Outcome in Queensland? In Proceedings 11th European Real Estate Society Conference, Milan, Italy, <http://eprints.qut.edu.au/9245/1/9245.pdf>.
- Susilawati, C. and L. Armitage, 2005, Barriers to Building Partnerships Between Major Stakeholders in Affordable Housing Investment in Queensland, *Pacific Rim Property Research Journal*, 11:3, 232-252.
- Susilawati, C., Wong, J. and B. Chikolwa, 2009, An Evaluation of Viability of Public Private Partnerships in Social Infrastructure Procurement Projects in Queensland, Australia. In *Proceedings of the CRIOCM 2009 International Symposium on Advancement of Construction Management and Real Estate*, 1929-1941, HK Polytechnic University, <http://eprints.qut.edu.au/>
- Susilawati, C., 2009, Can Risk Management Boost the Supply of Affordable Housing Development and Management?. *International Journal of Housing Markets and Analysis*, 2(4), 392-402.
- Susilawati, C., and L. Armitage, 2010, Affordable Housing Solutions: Affordable Housing Providers' Perspective, *Pacific Rim Property Research Journal*, 16:3, 273-290.
- Treasury, 2015 *Community Housing: A Sector Survey – A report by Community Housing Aotearoa*, Treasury Report T2015/80 <http://www.treasury.govt.nz/statesector/socialhousing/pdfs/sh-3109223.pdf>
- Wakely, P., 2015, Reflections on Urban Public Housing Paradigms, Policies, Programmes and Projects in Developing Countries, *International Journal of Urban Sustainable Development*, 1946-3146.
- Wimmers, A., and G. Llewelyn, 2010. *PPP in New Zealand; Getting Procurement Right*, <https://www.kpmg.com/NZ/en/IssuesAndInsights/ArticlesPublications/SmarterProcurement/Documents/PPP-Procurement-issues-white-paper.pdf>.