

HOUSING

OWNING LESS TO ACHIEVE MORE

Refocusing Kāinga Ora

Bryce Wilkinson ONZM

Foreword by Right Honourable Sir Bill English



**THE
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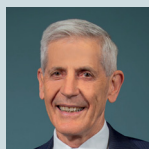
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About The New Zealand Initiative

The New Zealand Initiative is an independent public policy think tank supported by chief executives of New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We are developing and contributing bold ideas that will have a profound, positive and long-term impact.

ABOUT THE AUTHOR



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His publications on housing and social support include: “Why the Government’s housing policy is shambolic”, March 2021, “Research note: KiwiBuild – Twyford’s Tar Baby”, January 2019, “Investing for Success: Social impact bonds and the future of public services”, May 2015, (co-authored with Jenessa Jeram), “Poorly understood, the state of poverty in New Zealand”, 2016 (co-authored with Jenessa Jeram), “Child abuse needs new solutions”, NBR, October 2015.

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Foreword



People who need housing and social support are more important than who owns the houses. Anyone who cares about the 200,000 people who are

sometimes in desperate need of housing support should be interested in Bryce Wilkinson's questions about Kāinga Ora and social housing in this report. Owning and operating \$45 billion worth of state houses, Kāinga Ora's performance has significant economic and social impact. In every urban area, it is the biggest landlord and the biggest single contributor to shaping lower-income communities, including housing some of the most vulnerable people in every community.

Research shows that successful housing solutions for people in need are all local. A social house represents a substantial investment in a family, but when done well, social housing and support can transform lives. The best outcomes are achieved when people have appropriate support for their individual needs, along with the right kind of house in the right location. A large, centralised bureaucracy cannot adequately assess the nuanced elements that determine success for tenants, neighbourhoods, or distinctive communities.

The 2024 review found that the relevant public agencies possessed little more than cursory knowledge of social housing tenants' circumstances and those of the 20,000 people on the waiting list, despite the agencies' access to extensive linked data that could provide a detailed and helpful picture. There was no evidence of the life course analysis and measurement of change that research shows would significantly improve the system's impact on transforming lives. The frontline workers who strive to make a difference by matching people to houses have simply not been given the tools to do a better job. Social investment tools would

help evaluate the benefits of different support and housing options for various households, creating an expectation of using housing opportunities to change lives rather than merely filling houses with people from the waiting list.

The Government is implementing recommendations from the 2024 review of Kāinga Ora, and Kāinga Ora's worst inefficiencies have been curbed. However, the result will be a more efficient large bureaucracy with smaller financial losses that still cannot adapt to individual and whānau needs. This report questions whether there is an argument for Kāinga Ora to own and operate over 70,000 houses. The 2024 review found no evidence of economies of scale in construction—indeed, the opposite—and considerable evidence of undermanaged and mismanaged tenancy and community issues.

A poorly performing social housing system affects communities, towns, and cities as well as tenants. Social housing significantly influences many low-income communities; yet these communities and their local councils have limited ability to influence Kāinga Ora's decisions about when to build, what to build, and how to manage some challenging tenants within the community. Land supply is a critical variable in housing supply and housing costs in family budgets. Kāinga Ora operates as a large-scale land banker, using scarce land inefficiently while benefiting from increased valuations through land holdings, much like commercial developers.

Ownership is not what is critical. What is critical for the people Kāinga Ora and others are helping is an adequate supply of housing and support that demonstrably works.

Right Honourable Sir Bill English

Executive Summary

This report raises the question of how many state houses should the Crown own? In New Zealand, the answer has fluctuated with the political winds.

The report observes that in 1951, there was one state house for every 18 dwellings. By 1957, the rate had dropped to one in 28. By the early 1990s, it was up to one in 15. In June 2024, it was back down to one in 29.

Currently, Kāinga Ora Housing and Communities (KOHC) manages over 77,000 homes valued at \$46.7 billion, housing 198,000 people, representing 3.8% of New Zealand's population.

Formed in 2019, the incoming government in November 2023 found it was already in dire financial straits. Debt had surged from \$2.3 billion in 2017/18 to \$16.5 billion in 2023/24. Operating deficits grew from a \$76 million surplus to a \$722 million (pre-tax) deficit. Officials forecast that its debt would be \$24.8 billion by 2026/27.

The government commissioned an independent review of the situation in December 2023. Its report in March 2024 recommended urgent governance changes, including 'refreshing' KOHC's Board.

The government responded decisively with new governance and clear expectations for financial sustainability. It required a Reset Plan from the new Board that would refocus KOHC on its core landlord mission.

The new Board delivered that Reset Plan in November 2024. It set a path to future sustainability based on five key themes. The government endorsed the Plan, including these themes.

The Plan eliminates non-core activities, implements stronger cost disciplines, improves tenant management, including addressing disruptive behaviour, and proposes selling land and approximately 900 homes annually while maintaining the total state housing stock at around 78,000 units.

KOHC's urban development role is being run down. Its core focus is now on its landlord role.

The report identifies the deeper reasons why KOHC was failing. No system is perfect and system design should consider the difficulties with both private provision and government provision.

For a start, government agencies often lack commercial incentives for cost control. The report calculates that KOHC's operating costs per housing unit in 2023/24 accounted for around 88% of its market-related rental income, compared to a private sector benchmark of 50%. Adding that cost excess to the government rental subsidy paid directly to KOHC indicated that state rental housing might be costing taxpayers around \$2.2 billion annually or \$29,000 per unit. The report suggests that KOHC should be asked to provide more authoritative comparisons of its costs against such benchmarks.

Another problem is that government cannot effectively regulate itself as a landlord. There is a conflict between ownership interests and broader housing policy objectives. Instability in provider targets is another feature of government provision. Public housing priorities can change with a change in government. That forces a short-term target-chasing focus on managers. Political sensitivities to chasing up on arrears in rents and addressing disruptive or destructive tenant

behaviour are likely another factor limiting government provision and tenant satisfaction.

The problems of managing a \$45 billion property portfolio must also distract ministers and officials from their core policy functions, including setting rules, targeting subsidies, and enabling markets. State providers are also susceptible to being distracted by ‘worthy’ employee or interest group causes that are not focused on value-for-money for either taxpayers or tenants. The list of such questionable side preoccupations is quite long.

Such difficulties do not constitute a case for near-zero state house provision. The report’s review of overseas practice finds that social housing provision and funding are most pronounced among prosperous countries with large welfare systems.

The diversity in practice of who owns social housing, the proportion and nature of government funding, and the determination of rents is vast. Most OECD countries deliver social housing through diverse models, rather than dominant government ownership. The United Kingdom transferred 1.7 million council homes to housing associations and tenant ownership, resulting in improved maintenance and tenant outcomes. The Netherlands provides 75% of rental housing through independent housing associations. The higher levels of government in the US use vouchers rather than ownership to assist those in need. Germany relies on private provision with time-limited government subsidies.

It appears that governments facing fiscal difficulties are likely to target subsidies more at those in need than otherwise and seek to shift responsibility for housing provision to private providers, including community-based providers.

The report concludes that, based on these considerations, large-scale government ownership is not critical. As the diverse overseas practices show, governments can assist vulnerable citizens through subsidies, regulation, and diverse providers. Competition for tenants between diverse providers empowers tenants.

The report concludes with eight suggestions, including greater reliance on vouchers, expanding community housing and other providers, coordinating housing assistance with broader welfare support to help people reduce their dependence on state support, and removing barriers to new housing development.

Government asset ownership should be assessed based on the public policy case for it, not anyone’s ideological preference.

CHAPTER 1

Introduction

How many state houses should the Crown own? In New Zealand, the answer has fluctuated with the political winds, rather than being determined by a clear public policy objective.

New Zealand's state housing history has been marked by ideological shifts. The first Labour government (1935–1949) had built around 30,000 state houses by 1950. The total number of dwellings was 534,987 in 1951, so there was one state house for every 18 dwellings (5.6%).

National governments generally favoured sales and private ownership, while Labour governments typically halted sales programs. By 1957, the stock of state houses was down to 21,000, or one for every 28 dwellings (3.6%).

Such changes in ownership priorities shifted with a change in government for decades. Various schemes to encourage tenant purchases and transfers to community housing providers have been implemented and discontinued as governments changed.

By the early 1990s, the Crown, through Housing New Zealand, owned 70,000 state rental houses, representing 1 for every 15 of the total of 1,035,100 dwellings (6.7%).

The sixth Labour government established a new Crown agency, Kāinga Ora Homes and Communities (KOHC) in October 2019. It did so by merging Housing New Zealand with KiwiBuild and the Hobsonville Land Company.¹

KOHC was jointly tasked to be New Zealand's largest landlord and the government's lead urban development agency. Aspiration is one thing, capability another.

From 2019 to 2023, KOHC attempted to fulfil major state housing responsibilities and undertake challenging large-scale urban redevelopment projects, including KiwiBuild targets, and experimental construction programs. It bought land for development and spent hundreds of millions of dollars on scoping, planning and executing developments.

By June 2024, it was landlord to 191,000 social housing occupants and was managing more than 75,000 public and supported homes.² (That represents at least one for every 29 of the 2,162,200 dwellings in June 2024.) Its June 2024 accounts put the market value for its rental property at \$42.5 billion.³

Its more recent statement of intent updated those statistics to March 2025. Its total managed stock was 77,000, its tenancies were 69,000 with 198,000 occupants (3.8% of New Zealand's population) and it valued the housing and land portfolio at \$46.7 billion.⁴

The results have not been good. As events showed, the Labour-led government's ambitions for KiwiBuild through to KOHC were unrealistic.

The waiting lists for social housing lengthened. Obviously, heavily subsidised rents attract applicants. The waiting list increased to over 20,000.⁵ But, as shall be seen, this did not mean that social housing was being allocated to those most in need.

Property development was an additional problem. It requires commercial skills, and politicians and public servants often lack commercial incentives and expertise. They can easily pay too much for land and build houses

that are not good fits with changing demographic and locational needs. Urban development is hard. Expertise and competence take time to develop, even when the incentives are strong.

Much money was spent. Annual operating expenses surged from \$1.5 billion to \$2.5 billion in just four years to 2023. Staff numbers rose from 2,000 in 2020 to 3,477 by the end of 2023.

Capital spending also surged, with much of it being debt-financed. In the four years to June 2024, its purchases of rental property assets totalled \$13.5 billion. It spent over \$500 million on land development.

Its land purchases in 2022-23 totalled \$75 million, with an additional \$51 million spent in 2023-24.⁶ It became a significant holder of land that could be used for housing development but lacked the commercial incentives to provide what people most wanted to buy or occupy, given the cost.

A December 2024 ministerial report summarised developments as follows:⁷

Under the previous government, Kāinga Ora (formerly Housing New Zealand) grew rapidly, with debt on its balance sheet rising from \$2.3 billion in 2017/18 to \$16.5 billion in 2023/24. Operating deficits grew from a surplus of \$76 million in 2017/18 to a deficit of \$568 million⁸ in 2023/24. Kāinga Ora's housing stock grew from around 62,000 to over 70,600 social houses, although it is worth noting that the social housing register (often referred to as the waitlist) also grew from around 8,700 to 23,000.

Kāinga Ora's 2023 internal Board-approved budget showed a forecast deficit of \$570 million in 2023/24, debt to grow to \$24.8 billion by 2026/27 (outside of the previous government's debt limit for the organisation) and forecast the sale of around 10,000 Kāinga Ora owned houses in the next four years.

In words attributed to the current Minister of Housing, Chris Bishop, KOHC was a “financial basket case”.⁹

In 2023-24, the fast-rising net interest expense of \$482 million was closing in on both spending on repairs and maintenance of \$543 million¹⁰ and on income from accrued rent from tenants of \$572 million.¹¹

The \$572 million that KOHC's tenants were due to pay in rent in the year ended June 2024 represents only 25% of KOHC's related operating costs of \$2.175 billion.

The Crown paid KOHC \$1.281 billion in subsidies for income related rents in 2023-24. The combined rent-related income was \$1.853 billion (see Table 1). This can fairly be regarded as a market-related rental income. It is 4.4% of KOHC's estimated \$42.5 billion value of its rental properties.

That 4.4% gross revenue ratio is materially higher than the 3.1% average ratio for New Zealand as a whole – as reported by Interest.co.nz for March 2025.¹² This suggests that the \$42.5 billion valuation is in the right ballpark.¹³

A private sector landlord with \$42.5 billion invested in rental housing would expect to earn the best part of a billion dollars of cash income, particularly before factoring in depreciation, interest and tax. Any capital gains would be extra.

The second block of statistics in the table assesses what this commercially based surplus might be. It does so by using a private sector rule of thumb, which suggests that a landlord's outgoings on maintenance, rates, insurance and the like will account for about 50% of market income.¹⁴

On this basis, both operating costs and the operating surplus, each at 50% of the market rental income of \$1.853 billion, would be approximately \$927 million or \$12,249 per rental unit. Deducting \$408 million for depreciation¹⁵ would give an

accrual-based operating surplus before interest and tax of \$519 million. (That represents a return of 1.2% on the assets of \$42.5 billion.)

KOHC's costs are on a different planet from this \$12,249 figure. According to its annual report, its target for operating costs (excluding depreciation) per unit for 2023-24 was \$21,467, and the outcome was \$21,669.¹⁶ That represents 88%, not 55%, of the indicative average rental income of \$24,498 per unit, as shown in Table 1.

The third block of data in Table 1 reinforces that conclusion. KOHC's actual costs in its 2024 Annual Report for repairs and maintenance (\$543 million), other direct property costs

(\$721 million) and indirect costs (\$553 million) sum to \$1.817 billion.¹⁷ That is almost twice the private sector ballpark cost of \$927 million. At \$24,022 per unit, it means there is very little left from the average rental income per unit of \$24,498.

These calculations suggest that KOHC's cost structure as a landlord is far higher than what prevails in the private sector. Perhaps it is inefficient, perhaps its houses are older than average, and (very likely, see below) a significant proportion of its tenants are far more destructive than are private tenants on average. KOHC could provide a better cost comparison but it might not change the conclusion.¹⁸

Table 1: Cost to taxpayers of KOHC's landlord operations

Indicative combined cost to taxpayers of Kāinga Ora's landlord function and the Crown's rental subsidies in the year to June 2024			
	Totals \$m	Occupants	Houses
	Jun-24	191,000	75,640
	\$m	\$ per occupant	\$ per house
Rents from occupants	\$572	\$2,995	\$7,562
Government income-related rent subsidy	\$1,281	\$6,707	\$16,935
A. Sum = "Market-related" rental income	\$1,853	\$9,702	\$24,498
Indicative expected costs under private landlord benchmarks			
Expected operating costs under the 50% rule	\$927	\$4,851	\$12,249
Expected net operating income	\$927	\$4,851	\$12,249
Depreciation (rental housing KOHC actual)	\$408	\$2,136	\$5,394
Indicative accrual operating surplus before interest & tax	\$519	\$2,715	\$6,855
Indicative actual Kāinga Ora costs			
B. Actual operating costs excl retrofit, asset write-offs, depreciation	\$1,817	\$9,513	\$24,022
Indicative costs in excess of the 50% rule	\$891	\$4,662	\$11,773
C. Depreciation (rental housing KOHC actual)	\$408	\$2,136	\$5,394
D=A-(B+C) Implied 2023-24 operating surplus before interest & tax	-\$372	-\$1,948	-\$4,918
Indicative forgone surplus due to high costs	\$891	\$4,662	\$11,773
Plus government rent subsidy	\$1,281	\$6,707	\$16,935
Indicative taxpayer support for occupants	\$2,172	\$11,369	\$28,708

Sources: Kāinga Ora Annual Accounts year ended June 2024, pp 15, 80, 94, 112, Judge Real Estate, Capital Economics Limited.

The support that taxpayers provide to the occupants of KOHC homes is the sum of the government subsidies that KOHC accounts for as income and the excess costs due to some combination of the above three factors.

The last row in Table 1 provides an indicative *annual* opportunity cost to taxpayers of \$2.17 billion in 2023-24, representing an average of \$11,000 per occupant and \$29,000 per unit.

It would improve accountability if KOHC published its own assessment of its performance against such private sector benchmarks. It could use more accurate, disaggregated information and adjust for exceptional events in any given year. For example, KOHC's rental income was down by \$26 million from budget in 2023-24, due to the Auckland floods. This was offset in its accounts by an insurance payout of \$20 million.¹⁹

As another example of its non-commercial environment, being government-owned and subject to close Ministerial attention, KOHC may be less able than a private landlord to collect rent from tenants who do not pay.²⁰ It may also be less able for political reasons to deal decisively with tenants who vandalise their properties and/or menace their neighbours.²¹

KOHC does indeed have a significant problem with troublesome occupants. It has classified its occupants into three groups. Group 1 comprises stable and compliant tenants. It constitutes 40% of KOHC's units and accounts for 20% of interactions with its tenancy services group. Group 2 comprises tenants with occasional rental arrears and minor behavioural issues. It constitutes 36% of units and accounts for 39% of all interactions. Group 3 constitutes 24% of units and accounts for 41% of interactions. Those who are highly disruptive or in chronic rent arrears constitute less than 5% of the 24% of units, so less than 1,000 units.²²

How much is KOHC spending on repairs and maintenance compared to a commercial

benchmark? Real estate firm Lodge suggests private landlords should budget to spend 1.5 months of annual rental income on annual repairs and maintenance. On an annual rental income of \$1.853 billion, the monthly average is \$154 million, and 1.5 times that is \$231 million. KOHC's spending in 2023-24 of \$543 million is over twice that amount. That difference is a red flag.

Ownership incentives matter. The incentives under government ownership are different from those under private ownership. Under government ownership, there will be less emphasis on cost-control, for better or for worse, and there is likely to be greater difficulty in dealing with troublesome tenants.

A government agency is also likely to be obliged to focus on "worthy" matters that may not represent value for money from the perspective of either its customers or the mass of taxpayers who fund it. A perusal of the 2024 Annual Report shows the attention KOHC felt it needed to give to the following matters that do not obviously have a tenant or taxpayer value-for-money focus:

- Greenhouse Gas Emissions inventory
- Climate Statements (p 43)
- Targets for new trainees
- Pacific Wellbeing Strategy (p 36)
- Promoting urban design (p 34)
- Enabling Māori aspirations (p 37ff)
- Promoting environmental wellbeing through sustainable practices (p 61 ff)
- Implementing a renewable energy programme (p 42)
- Reducing carbon emissions from public housing (p 42)
- Reducing waste going to landfill (p 42)
- Increasing biodiversity and tree canopy coverage in poorer neighbourhoods (p 42)
- System transformation with revolutionary thinking and leadership (p 44 ff)
- Adoption of off-site manufacturing achievement (p 18)

- Staff ethnic and gender ratios and pay gap ratios (p 70)
- Privacy and protective security issues (p 76)

The point is not that KOHC should be doing nothing in these respects. The question instead is how it could know what the best balance between them is, and from whose perspective? Might tenants prefer more cash in the hand through lower rents? Might many taxpayers prefer lower tax burdens from less attention to “worthy” distractions and more attention to helping tenants achieve self-sufficiency? Surely the answer is “probably”.

It is the politicians, bureaucrats and KOHC’s employees who are likely to be most influential in determining the trade-offs. Those with the most control are spending other people’s money with diffuse accountability and they are not the tenants who might prefer more cash.

Another feature of government ownership is unstable priorities. Priorities can change with a change of government or even with a change of the responsible Minister. A new government might tighten the fiscal ship when times are tough, but the next may squander the fiscal gains. “Stop-go” is a feature of government spending. Changing political priorities and targets are a feature, not a bug.

The point is not that there should be zero public ownership of housing. The point is that government spending can be wasteful for intractable democratic reasons. It needs to be justified.

The incoming government, elected in November 2023, was deeply concerned.

New Minister of Housing, Chris Bishop, said there was no incentive for tenants to improve poor behaviour or “stop deliberately damaging their taxpayer-owned house”. KOHC was getting hundreds of serious complaints every month about “things like intimidation, harassment, threatening behaviour and worse” ... “And yet, in all of 2023, only three tenancies were terminated due to ‘disruptive behaviour’.”²³

The new government commissioned an independent review of KOHC’s situation in December 2023.

CHAPTER 2

Panel assessment, Board and Government responses

The Independent Review panel's assessment (May 2024)

The government released the Independent Review panel's report in May 2024.²⁴

In broad terms, the independent review panel found that KOHC was not financially viable as it stood and that the social housing system was performing unsatisfactorily.

In the detail, the report was scathing about the state of KOHC. Poor governance from Ministerial level down was a key cause.

Though structured as a Crown Agent with theoretical independence, governance had become muddled. The roles of Ministers, the monitoring department (the Ministry for Housing and Urban Development), and the KOHC Board had become “blurred.”²⁵ Ministers pushed for rapid scaling up while the Board failed to assert strategic direction or set boundaries. The division between governance and management broke down, with the Board acting more as an advisor than a governor.

One result was inadequate transparency and accountability. Centralised decision-making was “remote from affected individuals, households, and communities.”²⁶ Policy settings favoured provision by KOHC relative to other housing providers. That reduced choice, contestability and innovation.

With access to cheap government loans and pressure from politicians to build quickly, cost

control and value-for-money seem to have taken a back seat.

Costs were too high in part because rushed procurement can be poor procurement. The review noted that asset procurement “is not done transparently, and it is not providing value for money.” KOHC allegedly paid “above market value for land.” Unlike private developers who carefully assess future return, KOHC “does not price [land] in the same way as other participants,” resulting in “land parcels that are not financially viable to develop.”²⁷

Another competitive advantage enjoyed by KOHC was special powers under its Urban Development Act to override certain planning rules. A special government Land Programme further distorted incentives by covering holding costs for idle land—essentially allowing KOHC to hoard land without feeling the financial consequences.²⁸

The review panel recommended a non-ideological approach to land ownership decisions: “If it is not economically sensible for KOHC to develop [a site] ... consideration should be given to divesting it to enable private development.”²⁹

Tenancy support services also showed significant gaps. Many tenants had high needs—mental health issues, disabilities, or trauma histories—requiring tailored support. Yet KOHC rightly acknowledged that it was “not set up to provide individual oversight and supervision of tenants.” Front-line managers lacked “specialist cultural competencies” for engaging with diverse tenants, and services were “not specifically tailored to

support older people or people with disabilities.” They also didn’t provide “intensive support services needed by those transitioning from institutions,” such as prisons or psychiatric facilities.³⁰ The standard model was one-size-fits-all, leaving vulnerable tenants without necessary assistance.

In response to growing issues, KOHC had doubled its tenancy staff from 527 to 1,026 between 2018 and 2023. While a necessary step given the policy-imposed situation, this increased costs without addressing the drivers of this need.

Another telling metric was rent arrears. They soared from \$1 million in 2017 to \$21 million in 2023. By late 2023, over 450 households each owed more than \$10,000.³¹ This indicated an inability to enforce rental agreements or provide early intervention for payment difficulties.

Another fundamental question was: were the right people getting the houses? The social housing waiting list had grown substantially, but the Independent Review found “evidence that suggests social housing is not necessarily being accessed by those households who currently need it most.” Some high-need cases remained in private rentals with subsidies, while lower-need cases occupied state houses. This pointed to allocation inefficiencies and the “poverty trap” of state housing, where tenants have “little incentive or ability to move to more cost-effective support as their needs change.”³²

In short, KOHC’s land and asset management was cautious, centralised, and inefficient. Its financial management featured over-spending and under-accountability. It ran large deficits, used debt freely, and lacked commercial discipline. With “insufficient focus on fiscal discipline and low levels of accountability,”³³ the agency could not return to profitability without fundamental change.

The Independent Review recommended urgent governance reforms, including “refreshing”

KOHC’s Board and potentially reconstituting it as a Crown company under the Public Finance Act to impose more commercial discipline.³⁴

While stopping short of outright divestment, these recommendations point in that direction—emphasising financial viability, accountability, and possibly preparing for future ownership changes.

Government Response and KOHC’s resulting Reset Plan

The government responded rapidly to the Panel’s Report.

It issued a series of Letters of Expectations to KOHC, the first of these being in March 2024. It stressed the need for fiscal sustainability and better governance and social housing delivery, including attention to rent arrears and disruptive tenants.

Its second Letter of Expectation, in June 2024, set three overarching priorities:

1. Financial sustainability – eliminating losses and managing debt within approved limits.
2. Alignment with wider government objectives.
3. Continued delivery in a fiscally responsible way.

This Letter appointed Simon Moutter as the new Board Chair and directed the development of a credible turnaround Reset Plan by November 2024. The Board duly did so, and the Cabinet has largely approved its provisions.

A third Letter of Expectations, issued in August 2024, provided specific regional delivery targets for social housing through June 2025 and 2026, giving KOHC the certainty needed for planning.

The new Board’s Reset Plan acknowledged the review’s findings and outlined a path forward, balancing financial sustainability with continued social housing provision.

It had five key themes:³⁵

1. Refocusing on its core mission: Concentrating on KOHC's role as social housing portfolio manager, shedding non-core activities that distracted from its primary purpose.
2. Improving organisational performance: Delivering on financial year 2025 cost reduction targets and implementing a transformation program with stronger performance management and cost disciplines, including external oversight of asset maintenance.
3. Improving tenant and community management: Introducing tenant segmentation to develop more sophisticated service models, better matching tenants to housing stock and targeting lower costs. Strengthening management of disruptive tenants and rental arrears.
4. Improving housing portfolio management: Introducing more flexibility in managing the housing portfolio, including strategic sales of approximately 900 homes per year while maintaining a total portfolio of around 78,000 homes. Delivering renewals at market-comparable costs and removing unnecessary building requirements.
5. Establishing a sustainable approach to funding: Working with government agencies to review funding models, aiming for cash surpluses by the financial year 2028 and operating surpluses as early as possible.

Significantly, the Reset Plan acknowledges that some house sales are beneficial for portfolio management—a considerable challenge for the opposition to selling state houses.

The Plan's financial modelling included five main scenarios, none of which contemplated a future housing stock of fewer than 78,000 homes.

The Board recommended "Scenario 2 – Dynamic". This proposed actively recycling the housing stock to reduce its age and better match

locational and demographic tenant requirements. For example, in the next 10 years, it proposed disposing of 12,295 units and adding 15,121. It would maintain the housing stock at around 78,000 units. This approach stays within debt limits, aims for cash neutrality by the end of the 2028 financial year, and projects operating surpluses by the end of the 2036 financial year.

Early results for the 2025 financial year show that savings initiatives are tracking ahead of targets, with operating expenditure savings 11% ahead of projections and capital expenditure savings 31% ahead. Construction costs for new builds are trending toward market rates, with per-square-meter redevelopment costs 5% lower than budgeted.

While the Reset Plan represents significant progress, it does not explain why a portfolio of around 78,000 homes is to be maintained. There needs to be a good public policy reason for sustaining such a costly investment. Nor does it address the issue of better coordinated welfare management for tenants receiving welfare benefits.

The Government's response to the Reset Plan

Cabinet accepted on 16 December 2024 that the new Board's Reset Plan met the expectations set out in the Letters of Expectations. It welcomed the significant fiscal savings already underway and agreed in principle to the sale of 800 properties in the 2026-27 financial year.³⁶

On 4 February 2025, the Minister of Housing announced that Cabinet had endorsed the Reset Plan.³⁷ It adopted the five key themes above.

KOHC is now required to focus on its core purpose of being a good social landlord, reduce operating losses and stay within a debt cap.

It is now working more actively to address the problems of disruptive tenants,³⁸ arrears in rental payments³⁹ and implementing its Tenancy Management Framework.⁴⁰

It is also working on better ways to provide housing for “people with intellectual disabilities, physically disabled people, people at risk of becoming homeless, people with mental health problems, people who have experienced domestic abuse, prisoners reintegrating into society, and many others”.⁴¹

Ministers are making the decisions about what to do about KOHC’s four major land holdings. KOHC plans to sell roughly 36 hectares of land that is no longer needed for housing or urban development projects. (This represents⁴² about one-fifth of the vacant land it owns. Its book value is \$132 million.) By selling some of this land for less than it had paid for it, it is also reportedly writing off spending of \$150-\$180 million on planned housing projects that will no longer go ahead.⁴³

The agency’s CEO was quoted as saying:

Our reviews have highlighted an abnormally high number of projects and land holdings that no longer make sense for Kāinga Ora if we want to get ourselves in a better financial position.⁴⁴

An unanswered question is whether the land is always sold at a competitively determined market value. The question arises because many iwi have the right of first refusal on the sale of KOHC’s properties.⁴⁵

The government thinks KOHC should not have an urban development role in the medium term. Associated changes would be made to the Kāinga Ora Homes and Communities Act 2019.

CHAPTER 3

Economic benefits from less government ownership

Freeing Up Land and Increasing Housing Supply

KOHC controls considerable land,⁴⁶ ranging from undeveloped sites for future projects to underutilised sections beneath old houses and entire neighbourhoods undergoing renewal.

With more extensive divestment, these lands could be transferred to property developers, community housing organisations, iwi authorities, or even sitting tenants. Each would have stronger incentives to use that land productively because leaving it idle would represent a personal cost to them.

The proceeds from further asset sales would help the government fund other capital spending. With KOHC's housing portfolio valued at \$42.5 billion, further divestment could materially pay down debt or fund critical non-housing infrastructure.

Further divestment would increase competition and choice of provider. Competition drives entities to improve or perish. Competition for housing can occur at multiple levels: competition among landlords for tenants, among developers for projects, and among service providers for contracts.

Currently, even with the Reset Plan's improvements, low-income families needing social housing have limited choices—primarily KOHC or perhaps a community housing provider (managing a small fraction of the stock). If unhappy with their state house tenancy service, they have few alternatives. More extensive divestment could create a larger market for social

housing provision, with different organisations (trusts, cooperatives, iwi, private companies with government contracts) competing to offer the best service for the funding provided.

From a macroeconomic perspective, further divestment can help deepen capital markets and spread risk. Selling more of KOHC's assets into investment vehicles (like Real Estate Investment Trusts) would enhance investment opportunities. International investors might bring capital into NZ housing—effectively helping fund the housing stock instead of relying on government debt.

Housing-related risks would shift from taxpayers to private investors who price that risk into their investments. The Crown's balance sheet would be leaner and less exposed to house price risks.

In summary, enhanced tenant choice through greater competition from greater divestment enhances entrepreneurial opportunities to increase efficiency and penalise underperformance. The result would be a more responsive housing sector.

Ownership conflicts with other government priorities

Ownership obligations absorb resources and require management attention. That is likely to distract attention and even impair the ability to target housing assistance to those who need it most. A government's interests as a landlord can conflict with its priorities as a regulator of landlords and tenancies. It is hard for the Government, as a regulator, to fine itself as a landlord. The heavy ownership responsibilities

of a large housing portfolio can distract ministers and officials from policy and regulation.

With more extensive divestment, government could concentrate more on setting housing policy (such as subsidy levels and tenancy laws) rather than micromanaging landlord functions. This specialisation typically improves outcomes: the state becomes an enabler and funder while the market handles delivery.

Lower ownership means less fiscal risk. When housing markets face downturns (falling property values and construction companies face losses), currently, the government bears that risk on its balance sheet. With more extensive divestment, private investors would shoulder those risks. The Government would still pay subsidies, but these are relatively stable and can be adjusted through policy.

Tenants need not lose the benefit of the rental subsidy that KOHC currently receives directly from the Government. With housing vouchers, government could pay private landlords roughly the current Income-Related Rent Subsidy (IRRS) payments to KOHC, making this aspect fiscally neutral. The difference is government no longer covers overhead, maintenance overruns, and loan interest—those become the private sector's responsibility, financed from rental payments.

In summary, greater divestment than provided for in the current Reset Plan would further ease fiscal pressures. It would reduce the growth in fiscal liabilities and allocate the capital stock more efficiently. Tax burdens could be smaller and better directed.

CHAPTER 4

Overseas approaches and trends

Social housing⁴⁷ policies in other countries vary greatly. New Zealand has to find its own path, but its deliberations should be informed by an awareness of other countries' experiences and practices.

Even within the largely prosperous member countries of the OECD, government policies vary greatly in respect of ownership proportions, institutional arrangements, and intervention mechanisms. The OECD secretariat's considerable database documents the differences.

The proportion of the housing stock that is social housing

The OECD (2024a) reports that social housing constitutes an average of 7% of the total housing stock across its member countries and 8% across the member countries of the European Union.⁴⁸ The following Table copied directly from the Annex to this report, shows the major variation across countries, with the proportion being above 30% for the Netherlands but in the 2–10% range for 16 member countries of the OECD, including Australia and the US.

Extensive footnotes to this OECD table document aspects that reduce the comparability of the ratios across the countries. For example, one footnote states that the New Zealand statistic excludes local government social housing.

Table 2: OECD Social Housing Stock as % of total

Relative size of the social rental housing stock Number of social rental dwellings as a share of the total number of dwellings, 2022 or latest year available		
	% of total housing stock	
Netherlands	34.1	2021
Austria	23.6	2019
Denmark	21.3	2022
United Kingdom	16.4	2022
France	14.0	2018
Ireland	12.7	2016
Iceland	11.1	2016
Finland	10.9	2021
Korea	8.9	2018
Switzerland	8.0	2013
EU	8.0	-
OECD	7.1	-
Poland	6.6	2020
Slovenia	4.7	2018
Belgium	4.2	2018
Norway	4.1	2022
New Zealand	3.8	2020
United States	3.6	2019
Czechia	3.6	2021
Canada	3.5	2022
Australia	3.2	2021
Japan	3.1	2018
Hungary	2.6	2018
Germany	2.6	2021
Slovak republic	2.5	2021
Italy	2.4	2022
Latvia	1.9	2016
Israel	1.8	2023
Spain	1.1	2019
Estonia	1.1	2017
Portugal	1.1	2021
Lithuania	0.8	2020
Colombia	0.0	2019

Source: OECD (2024b) <https://www.oecd.org/els/family/PH4-2-Social-rental-housing-stock.xlsx>

The OECD's report warns that there are substantial differences in the measures of social housing across member countries, and these statistics do not adjust for them. For example, in Sweden, rents for many houses provided by municipal housing associations are not set below market rates, so such housing does not qualify as social housing.

It is easy to find other publications that report somewhat different ratios for these countries, reflecting different measures and different years.⁴⁹

The case of the US illustrates this. In the above table, the 3.6% ratio for the US is close to New Zealand's 3.8% ratio. However, government-owned (non-military) housing is less than 1% of the housing stock.⁵⁰ What the OECD measures is housing provided at below-market rental rates. In the US, much of this housing is provided privately with government subsidies in one form or another.

The Eastern European countries that were part of the Soviet Union are something of a special case. Mass privatisation in favour of incumbent occupiers in many of these countries in the 1990s has resulted in very low social housing proportions and extraordinarily high private ownership rates.⁵¹ Owner-occupiers account for over 90% of the housing stock in many of these countries. In contrast, the average homeownership rate for households in the European Union was 69% in 2023.⁵²

Of course, the privatisations in Eastern European countries did not quickly remove the problems of poorly built and maintained buildings that neither governments nor the occupants could afford to put right. Instead, it shifted the incentives to do what could be done. Nor could sound property laws be invented overnight. Owner-occupiers were sometimes left to struggle with poorly defined legal rights in multiply occupied buildings. Government subsidies were very limited.

The ownership mixes for social housing

The ownership mix for social housing also varies markedly across countries. Social housing can be owned by any combination of central, local, and municipal governments, as well as by non-profit housing associations, other not-for-profit organisations or for-profit investors.

The following table from the Annex to OECD (2024a) tabulates this diversity of ownership mixes.

Overall, there is very little government financial support for housing in the countries that have had mass privatisations. It is more prosperous countries with large welfare states and with significant rental housing that also tend to provide significant ongoing financial support for housing. Governments may subsidise the supply of housing (capital grants) and the demand for it (e.g. accommodation allowances, rent controls, assistance for first-home buyers). Governments also differ in their approaches to managing social housing. For example, they may manage it themselves or assign that role to associations that are likely to be not-for-profit.

The OECD did not include Germany in this table because of incomplete returns from its constituent entities. Scanlan et.al. (2015) reported that Germany was unusual in that a significant proportion of its subsidised social housing was provided privately. They also report that fiscal pressures in Europe following the 2008–2010 global financial crisis induced governments to target support more towards the most vulnerable, along with a greater role for private rental provision.

These different approaches across countries owe much to differences in historical situations and priorities. The massive privatisations following the collapse of the Soviet Union were likely driven by fiscal considerations.

Table 3: OECD Providers of social housing

Providers of social rental housing					
Share of total social rental housing stock by type of providers, 2022 or latest year available					
	National authorities/ public agencies	Regional and/ or municipal authorities/ public agencies	Non- or limited-profit providers and/ or cooperatives	For-profit and individual providers	Other types of providers
Romania	100%	0%	0%	0%	0%
Türkiye	100%	0%	0%	0%	0%
Lithuania	100%	0%	0%	0%	0%
Belgium	99%	1%	0%	0%	0%
Malta	96%	0%	4%	0%	0%
Israel	93%	0%	0%	7%	0%
New Zealand	84%	0%	16%	0%	0%
Italy	72%	24%	0%	0%	4%
Korea	68%	17%	0%	12%	0%
Luxembourg	57%	39%	0%	3%	0%
Canada	54%	0%	43%	0%	3%
Denmark	35%	2%	33%	0%	31%
Slovenia	25%	52%	8%	0%	15%
Portugal	16%	84%	0%	0%	0%
Poland	3%	79%	10%	0%	8%
Austria	3%	27%	61%	9%	0%
Finland	1%	76%	21%	2%	0%
Norway	0%	100%	0%	0%	0%
Iceland	0%	100%	0%	0%	0%
Hungary	0%	100%	0%	0%	0%
Latvia	0%	100%	0%	0%	0%
Slovak Republic	0%	100%	0%	0%	0%
Estonia	0%	100%	0%	0%	0%
Czechia	0%	100%	0%	0%	0%
Australia	0%	71%	29%	0%	0%
Chile	0%	65%	35%	0%	0%
Ireland	0%	56%	12%	32%	0%
France	0%	46%	53%	1%	0%
United Kingdom (England)	0%	38%	62%	0%	0%
United States	0%	34%	6%	60%	0%
Netherlands	0%	0%	82%	18%	0%
Japan	0%	0%	0%	0%	100%
Spain	0%	0%	0%	0%	100%

Source: OECD (2024a) <https://www.oecd.org/els/family/PH4-2-Social-rental-housing-stock.xlsx>

Approaches to determining rent levels for social housing

Most, but not all, member countries targeted subsidised rental housing at low income or otherwise vulnerable households.⁵³ (The converse universal philosophies favoured housing clusters whose occupants represented a cross-section of society.) Countries also differ markedly in the

criteria they use to set rent subsidies for social housing. The following summary table is copied directly from OECD (2020).

New Zealand is in the group that charges more in rent the higher the occupant's income. Australia is in two groups. (Of course, rent subsidies should be assessed in the context of other components of government welfare assistance.)

Table 4: OECD Differences in rent-setting approaches

A range of factors determine rent levels in the social housing sector		
Rent-setting approaches in the social housing sector		
Rent-setting approach	Description	Countries
Market-based	Rent levels determined (at least in part) as a percentage of market-level rent levels for similar properties.	Australia, Canada, Colombia, Germany, Ireland, Israel and the United Kingdom (England).
Cost-based	Rent levels determined (at least in part) by the costs of building/acquiring the dwelling, so as to allow long-term cost recovery.	Austria, the Czech Republic, Denmark, Estonia, Finland, France, Hungary, Japan, the Slovak Republic, South Africa, Switzerland and the United Kingdom (Scotland).
Income-based	Rent levels determined (at least in part) based on household income levels (e.g. adjusted to reflect what households can afford to pay).	Australia, Bulgaria, Canada, France, Ireland, Japan, Luxembourg, Malta, New Zealand, Portugal, the United Kingdom (England, Scotland) and the United States.
Characteristic-based	Rent levels determined administratively (at least in part) by taking into account dwelling characteristics (which can include size, amenities, location), often using a point system.	France, Israel, Lithuania, the Netherlands, Poland, Spain, the United Kingdom (England, Northern Ireland, Scotland, Wales), United States.
Fixed rent ceilings	Fixed rent ceilings may be applied on top of other criteria.	France, Korea, the Netherlands, Spain and the United States.

Source: OECD (2020) "Social housing: A key part of past and future housing policy", Employment, Labour and Social Affairs Policy Briefs: OECD, Paris.

Extent of government subsidies for social rental housing

The following table from OECD (2024b) shows that New Zealand spends a higher percentage of GDP on subsidies for social housing than other countries for which comparable statistics are available.⁵⁴

For New Zealand, the OECD measure is based on central government assistance, whereas for Australia, the measure encompasses spending by different levels of government.⁵⁵

The OECD did not find “a direct correlation between the current level of spending on social rental housing and the size of the state sector”.⁵⁶

Table 5: OECD Social housing spending % GDP

Public spending on supporting social rental housing in selected OECD countries Government spending as percentage of GDP, 2022 or latest year available				
	National/federal	Regional/state	Joint (shared across levels of government)	Total
New Zealand	0.35%	0.00%	0.00%	0.35%
Australia	0.00%	0.25%	0.01%	0.26%
Austria	0.00%	0.21%	0.00%	0.21%
France	0.00%	0.20%	0.00%	0.20%
United States	0.00%	0.00%	0.10%	0.10%
Estonia	0.08%	0.00%	0.00%	0.08%
Germany	0.00%	0.07%	0.00%	0.07%
Finland	0.05%	0.00%	0.00%	0.05%
Poland	0.05%	0.00%	0.00%	0.05%
Slovak Republic	0.04%	0.00%	0.00%	0.04%
Denmark	0.00%	0.00%	0.03%	0.03%
Portugal	0.02%	0.00%	0.00%	0.02%
Chile	0.00%	0.00%	0.02%	0.02%
Belgium	0.00%	0.00%	0.01%	0.01%
Ireland	0.00%	0.00%	0.00%	0.00%
Czechia	0.00%	0.00%	0.00%	0.00%

Source: OECD (2024b), “Indicator PH4.1 Public spending on social rental housing,” OECD Affordable Housing Database, <http://oe.cd.ahd>.

Trends in social housing policies

The OECD reports that in the last decade, the social housing stock has declined as a proportion of the total housing stock in 18 of 25 member countries.⁵⁷ It comments that:

The decline is partly related to a slowdown in new social housing construction, as well as the privatisation of the stock, whereby social dwellings are converted into market-rate rental housing (Germany) or are purchased by tenants and thus transition to the owner occupied stock (the United Kingdom – England).⁵⁸

The OECD also reports a trend following the Global Financial Crash for countries to target social housing assistance more at low income groups or others with special needs. With the onset of Covid-19 some countries also moved to target assistance more directly at those who were homeless.

There has also been a trend for governments to shift responsibility for social housing provision from themselves to housing associations. These are typically not-for-profit.

The United Kingdom is a particularly dramatic case of this type.

Housing Associations

Australia

Australia has also moved in the direction of providing a greater role for housing association-type structures. It allows Community Housing Providers to exist alongside direct government provision.

Australia's Community Housing Regulatory Framework commenced on 1 April 2017. It established a governance structure that is expected to increase investor confidence in the sector's growth.

Housing Australia was established (as the National Housing Financing and Investment Corporation) in June 2018.

It works with the private sector, community housing providers and all levels of Government to facilitate and deliver programs that help more Australians to access social and affordable housing or to buy a home.

...

The majority of our involvement is at the start of these housing projects – bringing community housing providers, investors, governments, developers and construction companies together to secure suitable funding for eligible projects and make more housing stock available. We then work with the project owner – typically community housing providers or State governments – to monitor timing, budget and project delivery so more Australians have more homes to live in.⁵⁹

Austria

Social housing is large in Austria at 23.6% of total housing (Table 2). Around a quarter of all households live in homes owned or managed by 185 limited profit housing associations. These are neither profit-driven nor state-owned. Municipal ownership is concentrated in Vienna where around 50% of inhabitants occupy subsidised housing, about half of which are municipal-owned.⁶⁰

Finland

Finland's social housing stock is around 10.9% of the total housing (Table 2). Municipalities own about 60% of that social housing. Government assistance for housing is much more significant for Finland than is state ownership of the housing stock. It provides government funding for housing construction and interest subsidies for those buying a home. Social housing is owned by a combination of municipalities, non-profit housing associations and limited for-profit housing companies.⁶¹ The state controls these through loan conditions and regulations.

The government spends about 1.5–2.5% of GDP on housing support.

Germany

In Germany, “social housing” refers to houses created with state subsidies, which can only be let to socially entitled tenants and are subject to certain conditions.

When the term of these tenancies ends, those homes can be rented at market rates. To encourage the private supply of social housing, which is subject to rent controls, the relevant authorities provide low interest rate loans and subsidy support.

The stock of this social housing has declined markedly since 2000 as subsidised tenancy agreements have expired.⁶² As shown in Table 2 above, the stock is now at the low end of the European range as a proportion of all houses.

The Netherlands

About 75% of rented homes in the Netherlands are owned by housing associations.⁶³ These must allocate each year at least 92.5 percent of their vacant social housing to low-and middle-income households, with the government setting the relevant income thresholds.⁶⁴

The government does not own or generally directly subsidise these associations’ operations.⁶⁵ But it does so indirectly through favourable land discounts, tax treatment, low-interest loans, and loan guarantees. It also pays rent subsidies to eligible tenants.⁶⁶

The special case of Singapore

Singapore represents a unique approach—state-built but effectively privately owned housing. Its Housing & Development Board (HDB)⁶⁷ provides housing to 80% of Singaporean residents.⁶⁸

However, these are largely management operations as private ownership rights dominate in the form of 99-year leases at affordable prices.⁶⁹ The state maintains some control through resale regulations,

but Singapore achieved one of the world’s highest homeownership rates at around 88%. Residents take pride in their flats even though estates may be managed by government-linked entities.

Even so, over 40% of social spending in Singapore is housing-related, through HDB and housing investment averages around 7% of GDP. House purchases can be funded in part by buyers who draw down on their savings in Singapore’s Central Provident Fund.⁷⁰

The United Kingdom

Housing associations in Ireland and the United Kingdom are private, non-profit organisations that provide “social housing” for people in need of a home. Any housing association budget surplus is used to maintain existing housing and to help finance the development of new homes. It cannot be used for the personal benefit of directors or shareholders. Although independent, housing associations are regulated by the state.

Their operations are primarily funded through rental income, but they rely heavily on government grants and subsidised borrowing for new development and commonly receive public funding.

The United Kingdom government radically reduced its housing responsibilities beginning in the 1980s. At that time, millions lived in council houses (local government-owned homes) built after World War II. Many were poorly maintained and financially strained. Prime Minister Margaret Thatcher’s government introduced a “Right to Buy” which gave long-term council tenants the legal right to purchase their homes at substantial discounts. The policy aimed to foster homeownership and reduce state involvement.

The impact was enormous. By 1997, over 1.7 million council homes had been sold to tenants—one of history’s largest public-to-private asset transfers. UK homeownership rose from

about 55% in 1979 to a peak of 71% in 2003, with Right to Buy a main driver of this increase.⁷¹

A report by the UK National Audit Office found that the registered social landlords (RSLs) had “largely delivered the expected benefits to tenants”. Homes were upgraded to decent standards, repairs became timelier, and tenants gained more participation in management. By raising £11.6 billion in private finance, these associations achieved renovations much faster than councils could have. Rent affordability was maintained through regulatory agreements. While some associations faced financial difficulties, regulators facilitated mergers with stronger ones to ensure the protection of tenants.⁷²

In short, the UK experience indicates that, done well, private financing and management can revitalise a rundown housing stock and enhance tenant outcomes while fulfilling social objectives through regulation.

Britain’s dual approach—selling to individuals and transferring to housing associations—has effectively reduced the state’s direct role. Today, most social housing in the UK is managed by housing associations or other providers, rather than councils. The state focuses on funding (through housing benefits and grants) and regulation.

Concluding observations on overseas approaches

Reducing direct state management of housing can mobilise private initiative, capital, and responsibility in ways that improve the housing stock and empower residents. Such steps do not mean abandoning welfare safety nets and regulatory frameworks to protect vulnerable groups.

When implemented well, improved outcomes for occupants and housing use should be achievable.

Countries with high public debts and fiscal deficit problems are likely to continue to seek measures to shift the burden for providing social housing to a mixture of non-profit community housing associations, for-profit and not-for profit providers. New Zealand will also likely continue to seek ethnically based providers to partner with.

Austria and Finland represent contrasting extremes. Austria’s model presumes the state should directly provide housing as a public good, Finland’s model treats housing as a private good requiring state financial intervention to ensure affordability. Historically, the difference arises from the socialist municipal tradition in Austria versus the more market-based Nordic welfare tradition.

The Eastern European, UK and Singaporean examples show that big increases in private ownership proportions are achievable when state ownership is high. That is not New Zealand’s situation.

CHAPTER 5

Addressing Objections to Greater KOHC Divestment

Objection 1: What about the poorest families? Ensuring social housing provision

Concern: If the government sells more housing, who will accommodate low-income families, people with disabilities, or others relying on state housing? Private owners may reject tenants with complex needs or limited financial means, potentially leaving the most vulnerable individuals unhoused. Social housing exists because markets often fail to provide affordable, adequate housing for these groups. Critics fear more extensive divestment means abandoning the state's responsibility to shelter citizens in need.

Response: Further divestment does not mean the government stops supporting housing for people with low incomes—it would mean changing how that support is delivered. The state would shift from landlord to funder and regulator to a greater degree than the Reset Plan envisions. Instead of owning houses, the government could provide more housing subsidies or vouchers for eligible low-income households to use in the private market or with non-profit providers. US-type vouchers or European housing allowances demonstrate that private markets with government financial assistance can house millions.

The Independent Review itself suggested moving toward an “active purchaser” model, where the government contracts and funds various providers for housing outcomes, with KOHC as just one provider among many (or possibly none if fully privatised).

One option is to give existing tenants first option to continue as tenants under a new landlord if their KOHC house is sold. As with the UK Right to Buy, tenants could be encouraged to purchase (perhaps with discounts and financing assistance) or be guaranteed long-term leases with new owners under similar rent conditions.

For those unable or unwilling to buy, transfers to community housing providers (CHPs) is an option. New Zealand already has CHPs receiving the same Inland Revenue-delivered subsidies as KOHC. If more state houses were sold or transferred to CHPs, tenants would remain in “social housing” under new management. CHPs often have social missions and partner with support services (many are run by church groups, iwi, or organisations like the Salvation Army). Sales could be structured to favour CHPs or tenant collectives rather than pure profit-maximising investors to maintain social focus.

Contractual safeguards accompany asset sales. If a private company buys state houses, sale contracts could require that current tenants remain if they abide by the lease terms, with income-related rents continuing (government paying the difference). The private owner would effectively replace KOHC in these contracts—receiving government subsidies and tenant contributions while maintaining the tenancy. If owners fail to meet their obligations, the government could take legal action or transfer tenancies to other providers. This approach is common internationally: the government sets rules and monitors while providers deliver services.

Importantly, further divestment need not displace current tenants. They might actually benefit—either gaining the opportunity to own their home or having a potentially more responsive landlord with flexible management. For those on waiting lists, vouchers or an expanded community housing sector might provide faster assistance than waiting for KOHC to find something for them.

The government's role would shift to guaranteeing affordability through subsidies rather than direct provision. This could expand choices for vulnerable populations. Families could use vouchers to move to areas with better employment prospects or closer to support networks.

Another thing that could help the poorest families is better subsidy liability management. First, better contractual arrangements would target those in greatest need more effectively. Done well, by mutual agreement at the time of initial occupancy, they could make it easier to replace better off tenants with worse-off tenants. Second, KOHC should be given a stronger incentive to reduce the present value of housing subsidies by taking more active measures to help occupants who have this potential to improve their circumstances and regain housing independence. Coordination with the Ministry for Social Development should be organised.

Finally, even with the Reset Plan's improvements, KOHC hasn't eliminated housing need—waiting lists remain substantial. They can be expected to continue as long as it is cheaper for tenants to rent there than elsewhere, and the eligibility criteria are broad. The obvious remedy is to subsidise eligible tenants the same regardless of KOHC. That would give such tenants a wider range of accommodation options.

The government could also directly contract new social housing from private developers through long-term leasing arrangements. As overseas

practice demonstrates, governments have multiple means for helping the poor and disabled into housing without state ownership.

In summary, further divestment need not abandon social housing assistance—it can modernise it. A voucher-subsidy model offers tenants more choices and reduces KOHC's ownership responsibilities.

Objection 2: Will housing become less affordable?

Concern: Critics worry that more extensive divestment could increase rents for low-income tenants or house prices generally. The government doesn't seek profit and can thereby charge below-market rents, whereas private owners might maximise profits by raising rents or churning properties. There are also concerns that selling more state houses than planned could distort markets—either causing price crashes if sold too quickly or concentrating ownership with large investors at the expense of first-home buyers.

Response: For social housing tenants, rents are typically income-related and capped (often at 25% of income). This policy can continue regardless of ownership. If private entities take over, the government can maintain subsidies, so tenants still pay only 25% of their income. The subsidy would go to private landlords rather than KOHC, but for tenants, affordability remains unchanged—it's a matter of policy design rather than ownership structure.

For the broader rental market, increased competition could moderate rents. KOHC's high cost structure and dominance in social housing limits alternatives for low-income renters. If more state houses become privately managed (still subsidised), they enter the general rental pool to some extent. Further divestment would likely stimulate more housing construction through development incentives for new owners. More

rental supply generally eases price pressures. Currently, those unable to access state housing often pay high market rents without support; with vouchers, they could afford private rentals—spreading demand more evenly rather than concentrating unmet needs in limited market segments.

The point that the government does not make a profit is an example of fiscal illusion. The cost to the community of an investment decision is the value of the lost opportunity to invest differently. That lost value does not depend on what the government charges, if anything, for any service it provides.

An even more important point is that the costs under government provision may be far greater than the profit-inclusive costs if privately provided. This is because incentives to control costs are typically much stronger when one's own money is being spent.

The most effective solution to high market rents is to permit the construction of more homes. Divestment doesn't automatically increase construction, but by freeing land and encouraging development, more houses can be built. That would curb house prices and rents.

Governments could reduce doubts about continued affordability by making sales subject to continuing conditions. For example, it could require that certain properties have capped rents for specified periods, or that some be offered with shared equity or rent-to-buy schemes for moderate-income families. The government could assist incumbent tenants to purchase the homes they are currently occupying.

Fears of corporate landlord dominance (large entities buying substantial housing portfolios and exploiting tenants) can be reduced by a range of measures. The government can favour local small-scale not-for-profit purchasers. Large institutional investors would be subject to

tenancy laws and market competitive pressures. Competition would discipline rents.

In many countries, institutional landlords (like Real Estate Investment Trusts) provide stable rental housing because they treat it as a long-term yield investment rather than short-term speculation. They typically invest in maintenance to preserve asset value.

The divestment of unused KOHC land should help increase housing construction. Supporting options include zoning liberalisation (which government is advancing through Medium Density Residential Standards⁷³ and the National Policy Statement on Urban Development.⁷⁴

Even with the Reset Plan, KOHC will not be able to house everyone in need or stop incumbents who are not in much need from continuing to occupy some of its homes. Government funding is limited, and terminations are often political when the government is the landlord.

Subsidising those with the greatest needs and the least means of achieving them should be the focus. But, as with welfare spending generally, it should be done in ways that help beneficiaries transition back to independence, where possible.

Objection 3: Perverse market risks from divestment

Concern: Some argue housing isn't a typical commodity and that market failures (speculative bubbles, slums, monopolistic landlords) could emerge without state control. Critics fear further divestment might lead to investors leaving homes empty for capital gains rather than rental income, forming cartels, or neglecting lower-income areas with less profit potential. Additionally, profit motives might conflict with social objectives—private landlords might evict challenging tenants that KOHC would support, potentially increasing homelessness.

Response: Rental contracts between willing landlords and tenants discipline each side of the bargain. Government regulations can affect those contracts independently of government ownership. Divestment does not mean deregulation.

Moreover, the tenancy subsidy would only be available to qualifying rental properties. Governments would determine what minimum standards would apply.

Of course, there is no perfect solution to the problems of wicked landlords and irresponsible, destructive tenants who cannot pay for the damage they cause and will not desist. Competition for tenants from better landlords is a powerful solution.

Public ownership is not perfect either, as evidenced by the problems of tenant aggression in state housing. Nor is this an ‘either/or’ proposition. The issue, instead, is one of finding a balance between private and public provision, while government assistance to tenants continues.

We should expect private, commercial landlords to be less willing to take on challenging tenants. Not-for-profit private landlords are likely to have a more social-welfare mission. There is a role for both provider structures.

Government can underwrite damage costs and provide caseworkers for identified high-risk tenants to reassure private landlords. Alternatively, specialised NGOs equipped to handle complex needs could be funded with resources currently flowing to KOHC for these populations.

With more diverse providers, better matching between tenants and suitable housing providers becomes possible. For instance, supported housing NGOs might accommodate formerly homeless individuals, while standard private landlords house working families needing affordable rent through vouchers. This segmentation and specialisation

could improve outcomes for difficult cases compared to the current one-size-fits-all approach.

If private providers fail (through bankruptcy or severe neglect), the government maintains safety net capabilities. However, investors typically have strong incentives to avoid failure. As already mentioned, the UK National Audit Office found very few housing associations experienced serious trouble, and those that did were successfully merged with stronger organisations. In New Zealand, any entity taking over substantial state housing would likely face public scrutiny and treat it as a stable long-term investment rather than an asset to exploit.

By selling more assets, the government could better fulfil its market regulation and support roles. There would be less conflict with its ownership interests.

Objection 4: Housing as a human right

Concern: One objection to private provision of housing is that housing is a human right that shouldn’t be subject to profit. Government does not have to make a profit, so government provided services should be cheaper.

Response: This confuses cost with price. Government can provide something at a low or zero price by not charging for the cost of procuring either labour or capital. But that does not change the cost to the community of not putting that capital and labour to some other purpose.

When the government borrows to fund capital spending, it is borrowing people’s savings. As with labour, capital can be used elsewhere. When money is borrowed, the interest rate represents the costs of the forgone use. When workers are hired, the wages paid reflect the forgone value of alternative employment or leisure time.

In short, the community incurs the cost of the forgone opportunity regardless of who builds the house or what price the government charges for its use. It could even give houses away free of charge without changing the cost of their provision to the community.

CHAPTER 6

Conclusion: Optimising government assistance for housing

New Zealand's approach to social housing was unstable and could easily become so again. The Independent Review of KOHC and the subsequent Reset Plan identified the reasons for this instability and identified sensible corrective measures.

The current government's reforms were vital to correcting the financial situation. That had to be its initial priority.

This research report asks a less urgent question. The current target of selling approximately 900 homes per year is modest. What should the end target be for the Crown-owned housing stock?

This report makes the case that less state ownership would permit KOHC to focus more on targeting constructive assistance to those most in need. Done well, that should yield benefits for tenants, communities, and taxpayers. KOHC could achieve more with reduced ownership responsibilities.

More ambitious steps toward divestment and decentralisation should be considered. The Crown does not need to be a substantial landlord to subsidise house rentals. By embracing a value-for-money approach to the Crown's housing portfolio, New Zealand could better harness private incentives and capacity. More decentralised community ownership and competitive innovation should be able to address housing needs more effectively than a centralised bureaucracy ever could.

Governments can backstop housing outcomes, without getting distracted and conflicted by the task of owning and managing the physical assets

on a grand scale. Transitioning toward a system where the state focuses more on funding and regulating while diverse providers deliver the service should enhance housing provision while improving efficiency and sustainability.

Government assistance for housing and social welfare in general should aim to assist people achieve independence when possible. Whereas ACC has an incentive to help people move off income support, KOHC lacks a strong incentive to provide social housing to those most in need and to help them escape from their predicaments.

Elsewhere, the New Zealand Initiative has highlighted the problem of multiple and fragmented government agencies and Ministers, each advocating for their own areas of influence.⁷⁵ Several Ministers have housing-related responsibilities and there are overlaps between housing assistance and welfare assistance more generally.

Serious consideration should be given to making a single agency responsible for the benefit system, including housing assistance. It should be required to have a strong focus on discovering and funding programmes proven to meet the immediate need but not perpetuate it.

The assessments in this paper provoke the following eight suggestions.

First, asset ownership should follow function, not ideology. The question of how many state houses the Crown should own is best answered not by ideological preferences but by a practical assessment of where government ownership adds value. Houses of high value in poor condition

or poorly matched to current needs could be sold. Other houses may be better managed by community housing providers, iwi organisations, or private landlords operating under clear regulatory frameworks. Greater recourse to 'rent to buy' pathways to homeownership for suitable tenants should be considered.

Second, a more diverse ecosystem of providers creates resilience and innovation. Greater provider choice encourages more responsive services, better value-for-money maintenance, and greater tenant choice and satisfaction. Competition drives improvements that benefit residents, while specialised providers can tailor their approach to different needs rather than applying a one-size-fits-all model. Non-profit providers can flourish. No system is perfect, but these are meaningful advantages.

Third, fiscal sustainability requires bolder action. Even with the Reset Plan, KOHC faces years of financial challenges before reaching an operating surplus. More extensive divestment could accelerate the path to sustainability, freeing government resources for other priorities while ensuring housing needs continue to be met.

Fourth, underutilised land for housing represents a lost opportunity. More flexible asset management would allow land to be used more efficiently, while providing capital that could be reinvested in more suitable accommodation or infrastructure.

Fifth, housing assistance needs to target those in greatest need better than currently.

Expanding transfers to community housing providers, particularly for properties serving tenants with specialised needs, should help.

Sixth, the care for those receiving housing assistance should be coordinated with care other agencies are providing though non-housing welfare assistance. The goal of helping people to achieve greater financial independence needs to take a holistic approach to their circumstances. This is not a task with an easy solution, but it needs stronger incentives.

Seventh, a shift in emphasis from ownership to vouchers should better harness competition, choice and capabilities.

Eighth, the proposals in this paper should be accompanied by supportive measures to reduce the multiple barriers to new housing developments. To the government's credit, it has this independent task firmly in its sights.

The potential rewards from better arrangements are substantial: lower house prices from lower land values, more homes built more efficiently, better-maintained properties, more responsive services, reduced fiscal burden, greater tenant choice and ultimately, improved living conditions for those who most need housing assistance.

Endnotes

- 1 The Hobsonville Land Company had been established in 2006 as a subsidiary of Housing New Zealand Corporation. Its purpose was to manage the development of integrated urban communities.
- 2 KOHC, Annual Report 2024, 12. Website.
- 3 KOHC, Annual Report 2024, 132. Also see the useful overview in 2020 of the government's involvement in housing in the website of the Office of the Controller and Auditor-General. Website. <https://oag.parliament.nz/2021/housing/roles-and-responsibilities>
- 4 KOHC, Statement of Intent 2025/26-2028/29, 6-7.
- 5 Minister of Housing turnaround press release, 4 February 2025. Website.
- 6 KOHC, Annual Report 2024, 14.
- 7 Ministers of Housing and Finance authorised report "Response to the Independent Review of Kāinga Ora: Turnaround Plan, 5 December 2024 for the Cabinet Economic Committee. Website.
- 8 This is post-tax. A better indicator of its performance is its pre-tax operating deficit of \$722 million.
- 9 Lane Nichols, "Kāinga Ora cans hundreds of social housing build projects after review, takes up to \$180 million hit", The Herald, 19 June 2025.
- 10 KOHC, Annual Report 2024, 15. See also footnote 7 to the financial statements, 103. The Statement of Intent put total spending on maintenance at \$623 million, 7.
- 11 Income related rental income paid by occupants was \$515 million, market rents added \$57 million. KOHC, Annual Report 2024, 80. But rent arrears were a problem too. Cash receipts for rent in the year were only \$481 million, 83.
- 12 Interest.co.nz. Website. Accessed on 1 April 2025.
- 13 KOHC's 2024 Annual Report explains the market-based evidential approach to these valuations, 132.
- 14 Lodge Real Estate, 50:50 rule of thumb. Website.
- 15 KOHC, Annual Report 2024, 112. Applies to rental properties only.
- 16 Ibid., 77.
- 17 These statistics are from Table 2 in KOHC's 2024 Annual Report at p 15. They appear to include some spending on items not related to the rental housing activity since the text above the table states that KOHC's "operating spend largely relates to the management and maintenance of our homes and frontline care for the people in them".
- 18 In a personal communication with the author, KOHC has indicated that rental income from tenants should include lease income of \$72 million and a more refined allocation of its pre-depreciation costs to rental housing would reduce them from the \$1.817 billion figure in Table 1 to \$1.639 billion. Including depreciation, the costs might be \$2.047 billion or \$27,062 per unit. That would still exceed the lease-augmented rental income of \$27,072 per unit.
- 19 KOHC, Annual Report 2024, 15.
- 20 KOHC. "Our approach to rent debt". Website.
- 21 KOHC, Annual Report 2024, 106 provided \$23 million for credit risks associated with rental debtors and inadequate cost recovery for damage. That represents 4% of rents received from occupants.
- 22 Kāinga Ora Reset Plan, November 2024, 42. Personal communication from KOHC.
- 23 Desmarais Felix. "Harder line on unruly Kāinga Ora tenants, overdue rents", 1News, 18 March 2024.
- 24 The Panel's report was delivered in March 2024.
- 25 Ibid., 35.
- 26 Ibid., 5.
- 27 Ibid., 5 and 20.
- 28 Ibid., 45 and 20.
- 29 Ibid., 21.
- 30 Ibid., 21 (all the quotes in this paragraph).
- 31 Ibid., 21.
- 32 Ibid., 11 (both quotes).
- 33 Ibid., 13.
- 34 Ibid., 37, 38.
- 35 Kāinga Ora Reset Plan v1.0, 20 November 2024, 5.

- 36 Cabinet Minute of Decision, Response to the Independent Review of Kāinga Ora: Turnaround Plan, CAB-24-MIN-0495.01.
- 37 Minister of Housing, “Turnaround Plan to get Kāinga Ora back on track”, 4 February 2025.
- 38 Kāinga Ora, Our approach to disruptive behaviour. Website.
- 39 Kāinga Ora tackles rent debt, 11 February 2025. Website.
- 40 Kāinga Ora, Tenancy Management Framework. Website.
- 41 Kāinga Ora, “Supported Housing”. Website.
- 42 KOHC Information Sheet, June 2025. Website.
- 43 Lane Nicols, “Kāinga Ora cans hundreds of social housing building projects after review, takes up to \$180 million hit”, *NZ Herald*, 19 June 2025.
- 44 The article reports that of 460 building projects in the pipeline, only 254 would now go ahead. The rest do not stack up financially or are in the wrong locations. Taxpayers take note.
- 45 See pp 114-115 of the 2024 Annual Report. The price offered could be an assessed market valuation rather than a competitively determined one.
- 46 If 36 hectares was 25%, the total holding of housing land at that time was about 180 hectares.
- 47 Social housing is typically rationed on the basis of need at below market rents. Definitions of it for measurement purposes vary across countries. Interpretations of cross-country differences need to take this into account. See, for example, Wikipedia https://en.wikipedia.org/wiki/Public_housing
- 48 OECD (2024). “Social housing: A key part of past and future housing policy”, Employment, Labour and Social Affairs Policy Briefs, OECD, Paris. Website.
- 49 See for example, Tomorrow Building. “The Richest European Countries Have More Social Housing” Website.
- 50 Federal and state governments own very little. Local government public housing was about 1 million units in 2020 according to Wikipedia. But that is well under 1% of total housing of 147 million units in 2024. 2024. So that is well under 1%. Also see Jeff Andrews, Affordable housing is in crisis. Is public housing the solution?”, 13 January 2020. Website.
- 51 In Wikipedia’s list of the 12 countries in the world with home ownership rates above 90%, only two (China and Laos) were not once part of the Soviet Union. Website.
- 52 Eurostat, “Housing in Europe - 2024 edition”. Website.
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- 55 Ibid.
- 56 Ibid., 1.
- 57 OECD Affordable Housing Database - indicator PH4.2. Social rental housing stock, <https://oe.cd/ahd>.
- 58 Ibid., 3.
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- 71 Ben Flatman, (2024), “Was Angela Rayner right to buy?”, Building Design, Opinion, 17 April. Website.
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- 73 These standards provided baseline rules for medium-density housing in many urban areas to boost housing supply. They were designed to make it easier for landowners to build more dwellings on existing residential land without going through lengthy consent processes.
- 74 This directive requires councils to plan proactively for urban growth and remove restrictive planning rules that limit housing supply, especially in high-growth cities.
- 75 Roger Partridge and Jemma Stevenson, “Unscrambling government: Less confusion, more efficiency”, The New Zealand Initiative, September 2025.

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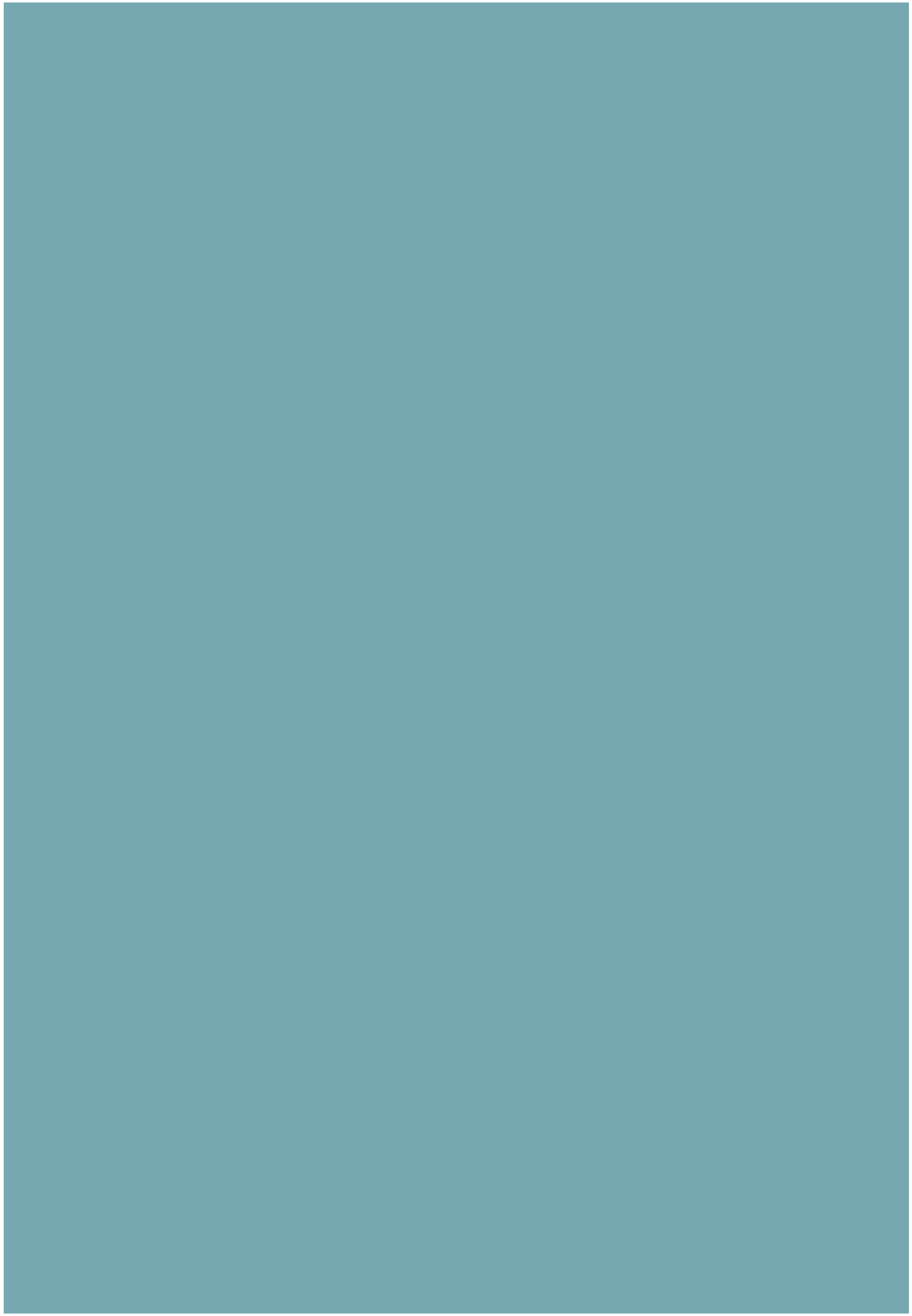
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New Zealand's state housing agency Kāinga Ora has ownership and managing responsibilities for around 78,000 homes. These are housing 198,000 occupants, 3.8% of New Zealand's population. It also owns significant vacant land that could be released for housing.

It needs to assist people financially, but does it need to own so many properties?

The ownership question arises because, as owner, it faces many difficulties from rent arrears, destructive or intimidating tenants, changing household demographic needs, unstable changes in political direction, large waiting lists and multiple distracting "worthy" objectives that are not necessarily either taxpayer or tenant priorities.

For such reasons, its incentives and ability to control costs are weak. In 2023-24 the Crown's equity investment in Kāinga Ora was \$30 billion. Its cost structure was so high that instead of achieving a significant operating surplus on this investment from a topped-up market-related rental income of \$1.9 billion, it reported an astonishing pre-tax operating loss of \$722 million dollars.

The core question is not whether government should support housing for those in need – it should. The question is whether aiming to own in future 78,000 or more properties is the best way to do it. From the UK's successful housing association model to Singapore's high-ownership approach, other countries demonstrate that governments can fund housing assistance without being landlords at scale.

Ending with eight policy suggestions, this report makes the case for considering separating to greater extent housing assistance from housing ownership – potentially better serving more New Zealanders in need while freeing capital for other priorities.

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