

Kāinga Ora

Type of Engagement: Annual Review

Date: October 7, 2022

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Introduction

Between July 2020 and June 2022, Kāinga Ora (the “Organization”) issued Wellbeing¹ Bonds aimed at financing and refinancing project expenditures that help improve the environmental impact of Kāinga Ora’s public housing portfolio while increasing access to social housing in New Zealand. In September 2022, Kāinga Ora engaged Sustainalytics to review the projects funded through the issuances and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Kāinga Ora Sustainability Financing Framework 2021 (the “Framework”). Additionally, in September 2022, Kāinga Ora also updated the Framework², adding new eligible activities within the existing eligible social Use of Proceeds category of the Framework. Sustainalytics has provided a Second-Party Opinion in 2021 and an update to it in September 2022³.

Evaluation Criteria

Sustainalytics evaluated the projects funded between July 2020 and June 2022 (reporting period is July 2021 – June 2022)⁴ based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria	KPIs
Green Buildings	1) New construction and/or retrofit of social housing that has, or will receive, minimum 6 Star Homestar rating ^{5,6,7}	<ul style="list-style-type: none"> • Green certifications obtained • Materials sourced sustainably (including certified products, recycled content) (%) • Energy/CO₂ savings from new green buildings
Pollution Prevention and Control	1) Reduction of waste by Kāinga Ora construction activities on kg/m ² basis through: <ul style="list-style-type: none"> • standard designs for standard material sizes and reduced 	<ul style="list-style-type: none"> • Amount of waste reduced, reused, recycled and/or diverted from landfill (tonnes)

¹ Wellbeing bonds are sustainability bonds that are also aligned with the New Zealand Living Standards Framework (LSF). The LSF was developed by the New Zealand Treasury to measure and analyze intergenerational well-being.

² Kāinga Ora, “Sustainable Finance Framework”, (2022), at: <https://kaingaora.govt.nz/assets/Investors-Centre/Documents/Sustainability-Financing-Framework.pdf>

³ Kāinga Ora, “Second Party Opinion Kāinga Ora Sustainable Finance Framework”, (2022), at: <https://kaingaora.govt.nz/assets/Investors-Centre/Documents/Second-Party-Opinion.pdf>

⁴ Impact reporting is for the year ended 30 June 2022.

⁵ New Zealand Green Building Council, “Sustainable, green homes and buildings for happier, healthier New Zealanders”, at: <https://www.nzgbc.org.nz/>

⁶ Most Kiwi homes would only achieve a 2-3 on the Homestar rating scale; a new home designed and built to today’s Building Code would achieve around a 3-4 on the Homestar scale. <https://www.nzgbc.org.nz/homestar>

⁷ Broadly speaking, in Auckland a 6 Homestar home will be 38% more energy efficient than a home built to the building code. (Potential savings vary from region to region)

	<p>material types that reduce construction waste.</p> <ul style="list-style-type: none"> deconstruction services and waste management to recycle and reuse deconstruction waste use of materials that reduce waste and/or have recycled content. <p>2)Reduce rate of embodied emissions through use of low embodied carbon designs and materials in Kāinga Ora developments.</p>	<ul style="list-style-type: none"> CO₂ and other GHGs avoided/reduced through waste management (tCO₂e) Amount of waste that is separated and/or collected and treated (including composting) (tonnes and %)
Affordable Housing	<p>1)Retrofit of existing, and development of new, social housing. This includes upgrades to provide better health and wellbeing outcomes for tenants under a number of programmes including the Kāinga Ora Warm & Dry programme and Healthy Homes Act requirements.</p> <p>2)Development and modification of units (Public and Supported Housing) for accessibility, mobility, and intensive support.</p>	<ul style="list-style-type: none"> Number of people housed with new and/or retrofitted social housing accommodation Modifications, number of new and/or upgraded facilities financed that include mobility, accessibility, intensive support housing considerations Number of transitional homes delivered Number of homes retrofitted
Socio-Economic Advancement⁸	<p>1)Development of a Te Waka Urungi (Intensive Tenancy Management) function to provide better support for the 5 percent of Kāinga Ora customers identified as most at risk of poor wellbeing outcomes</p> <p>2)Supporting equitable market participation and reduction in income inequality through:</p> <ul style="list-style-type: none"> Providing apprenticeship and training opportunities in the construction programme Ensuring local businesses are fairly represented in supplier base 	<ul style="list-style-type: none"> Type of support for customers identified as most at risk of poor wellbeing outcome Case studies Number of apprenticeships enabled by construction programme Percentage of apprentices who identify as Maori or Pasifika

Issuing Entity's Responsibility

Kāinga Ora is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

⁸ As a part of the Framework update in September 2022, Kainga Ora added "apprenticeship, training program and supporting supplier diversity" project within the eligible social use of proceeds category of the Framework. For this single project, Sustainability will use the September 2022 Framework criteria to analyze the eligibility.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Kāinga Ora’s Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Kāinga Ora employees and review of documentation to confirm the conformance with the Kāinga Ora Sustainability Financing Framework.

Sustainalytics has relied on the information and the facts presented by Kāinga Ora with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Kāinga Ora.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁹ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Kāinga Ora’s Wellbeing Bonds, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Kāinga Ora Sustainability Financing Framework. Kāinga Ora has disclosed to Sustainalytics that a total of NZD 3.52 billion proceeds were available for allocation which is inclusive of NZD 1.28 billion unallocated proceeds from bonds issued from July 2020 – June 2021. Between July 2021 and June 2022, 66.76% of the proceeds were allocated¹⁰, while the remaining 33.24% of unallocated proceeds will be invested according to Kāinga Ora Treasury Policy.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the Wellbeing Bonds between July 2020 and June 2022 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the Wellbeing Bonds between July 2020 and June 2022 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

⁹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

¹⁰ Kāinga Ora intends to reach full allocation of the issued bonds within two years of issuance.

Appendices

Appendix 1: Allocation Reporting by Eligibility Portfolio

Sustainalytics notes that allocation reporting was performed on a portfolio basis. 100% of allocations were used to finance new projects between July 2021 to June 2022, no projects were refinanced.

Eligible Portfolio	Sub-Portfolio	Programme	Allocation Amount (NZD millions)
Public Housing¹¹	New Supply	Redevelopments ¹²	780.8
		Acquire New ¹³	219.5
		Acquire Existing ¹⁴	172.2
		Acquire Land ¹⁵	85.2
	Renewal	Retrofit & Complex Remediation ¹⁶	359.2
Public Housing Total			1,616.9
Supported Housing¹⁷	Transitional ¹⁸	Redevelopments	56.3
		Acquire New	240.0
		Acquire Existing	30.6
	Corrections	Redevelopments	0.1
		Acquire New	5.4
		Acquire Existing	4.6
	Community Group Housing	Redevelopments	3.0
		Acquire New	0
		Acquire Existing	9.5
Supported Housing Total			349.5
Urban Development & Regeneration¹⁹	-	Urban Development & Regeneration Projects	312.2
	-	Land Purchase Fund	72.7
Urban Development & Regeneration Total			384.9
Total Eligible Capital Expenditure			2,351.3

¹¹ Public Housing portfolio covers housing for people in the greatest need for the duration of that need.

¹² Programmes where Kāinga Ora redevelops land and assets that we already own in order to deliver new housing. This may involve demolishing existing housing so that we can increase the number of houses on the site.

¹³ Programmes where Kāinga Ora purchases new housing from a developer and uses it for the purpose of the respective housing portfolio. In some cases, Kāinga Ora may sell land to the developer to be used in the development.

¹⁴ Programmes where Kāinga Ora buys existing housing from the residential property market and uses it for the purpose of the respective housing portfolio.

¹⁵ Programmes where Kāinga Ora purchases land for housing projects

¹⁶ Programmes where Kāinga Ora renews our existing assets through maintenance projects

¹⁷ Supported Housing portfolio is for providing short-term housing for families who do not have anywhere to live and have an urgent need for a place to stay

¹⁸ Temporary Housing housing is used to help clients stabilise their short-term housing and support needs and learn to live independently before moving to a more permanent housing solution

¹⁹ Urban Development and Regeneration covers land development programmes focused on enabling housing supply.

Table 3: Detailed Proceed Allocation

Proceed Allocation	Allocation Amount (NZD millions)
Unallocated proceeds carried over from July'20 – June'21	1,280
Total proceeds raised in July'21 – June'22	2,240
Total proceeds available for allocation in July'21 – June'22	3,520
Total proceeds allocated	2,350
Total proceeds unallocated	1,170

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Impact Reported ²⁰ by Eligibility Criteria
Green Buildings	838 green building homes to minimum 6 Homestar Rating were delivered ^{21,22}
Pollution Prevention and Control	20,825 tonnes of waste diverted
	87% reduction of waste related (Auckland region)
	57 houses were relocated which equates to about 10% of houses removed from development sites.
Affordable Housing	8,767 people provided with affordable housing Of this, 8,643 Priority A ²³ and 124 Priority B ²⁴ tenants were provided with affordable housing
	609 supported houses delivered
	288 homes retrofitted
	227 facilities modified for mobility/accessibility
Socio-Economic Advancement	142 apprenticeships enabled by the construction programme
	57% of new trainees identify as either Māori or Pasifika

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²⁰ The table covers impacts reported for the programs for the year July '21 to June'22.

²¹ Kāinga Ora has communicated that of all the units constructed between July'21 to June'22, 204 units are in process of getting accredited.

²² Kāinga Ora has communicated a revision in the number of units which received a minimum 6 Homestar Rating between July'20 to June'2021. 1,010 units received accreditation and 38 of them are in process of getting accredited.

²³ People who are considered 'at risk' and includes households with a severe and persistent housing need that must be addressed immediately. The household is unable to access and/or sustain suitable, adequate and affordable alternative housing.

²⁴ People who have a 'serious housing need' and includes households with a significant and persistent need. The household is unable to access and/or sustain suitable, adequate and affordable alternative housing.

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