



Aide-memoire

Advice on rent-to-buy schemes			
Date:	23 July 2019	Security level:	In Confidence
Priority:	Medium	Report number:	AMI19/20070121

Information for Minister(s)	
Hon Dr Megan Woods Minister of Housing	For your information

Contact for discussion			
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Other agencies consulted

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's notes <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) <hr/>	Comments
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Date returned to MHUD:



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For: Hon Dr Megan Woods, Minister of Housing

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Purpose

1. You have asked for further information on international exemplars of rent-to-buy schemes. This memo provides you with some examples of rent-to-buy in Australia and the United Kingdom (UK), and compares these to schemes already offered in New Zealand.

Background

2. Rent-to-buy is where a household accumulates a deposit through paying subsidised rent or an additional rent payment. Among non-profit providers, this is generally provided alongside financial literacy coaching and support. The household then has the option to purchase the home at later point either in full with a commercial mortgage, or in part through a shared equity scheme.
3. This can provide a pathway to homeownership for lower-income households that require time to accumulate a deposit and address issues such as consumer debt, poor credit history and insecure employment.

Rent-to-buy overseas and in New Zealand

Commercial rent-to-buy schemes are common in Australia

4. The rent-to-buy model in Australia is typically provided by a commercial broker that goes between the vendor and the potential first home buyer. Commercial brokers are for-profit businesses and as such are not focused on delivering affordable housing to lower income households. There have been instances where commercial brokers:
 - push a household into a house that is beyond their financial means
 - require a household to put forward an upfront payment as part of the scheme, which would be put towards the household's deposit
 - charge above additional rent (above market rent), which will be put towards the final purchase of the home.
5. Commercial brokers are also unlikely to provide a household with any financial training or support that would help to ensure that the household can obtain a commercial mortgage at the end of the lease.

The UK Government subsidises rent-to-buy schemes to assist with affordability

6. The UK Government has supported organisations to offer rent-to-buy over the last four years. The UK Government provided £400 million in concessionary loans from 2015 to 2017 to help housing associations and social landlords build 10,000 new homes to be available as rent-to-buy homes. Under the scheme, first time buyers would be charged rent at 80 percent of the market value for at least seven years and have the first right of refusal to purchase the property. The scheme was available for first time buyers and second chancers (those now in

a similar position as a first home buyer) with an income below £80,000 (approx. \$148,000 NZD).

7. In 2016, the UK Government announced its Shared Ownership and Affordable Homes Programme 2016 to 2021. The UK Government wanted to see greater involvement by the commercial housing sector in delivery, in particular of shared ownership. As part of this programme the government made £4.7bn of capital grant available between 2016 and 2021 to deliver at least:
 - 135,000 homes for Help to Buy: Shared Ownership
 - 10,000 homes for rent-to-buy
 - 8,000 homes for supported and older people's rental accommodation.
8. As with the earlier rent-to-buy scheme, rents are limited to no more than 80 percent of the market rent, to provide households with the opportunity to save for a deposit.

Community housing providers offer rent-to-buy schemes in New Zealand

9. We are aware of at least three community housing providers in New Zealand that have demonstrated capability to deliver rent-to-buy schemes to households, those being Habitat for Humanity, New Zealand Housing Foundation, and Queenstown Lakes Community Housing Trust. We understand that these providers carefully developed each of their rent-to-buy schemes over several years to ensure that they would work for households. We have provided you with a summary of the key aspects of these three schemes in Annex A.

Initial analysis of commercial and not-for-profit rent-to-buy schemes

Commercial rent-to-buy schemes are risky for households

10. The most significant risk to a household in a commercial rent-to-buy scheme is the potential to lose all the money they have already paid towards the house and end up in a worse financial situation. Some contracts state that if the household is late with a rent instalment that the contract will be voided and all money paid would be lost, including the additional rent and upfront payment.
11. The Australian Housing and Urban Research Institute (AHURI) noted in 2008 that while such products offer potential access to ownership without having to save for a deposit, they represent a high level of risk.
12. The South Australian government strongly recommends that individuals avoid rent-to-buy schemes as they are a high risk for buyers and are usually aimed at people who are unable to get approval for finance from most lending institutions. In addition, any contract that requires payment of part of the purchase price for a property, other than a deposit, is not legally binding in South Australia.
13. In New Zealand, some rent-to-buy schemes have previously attracted negative publicity in that some providers have used rent-to-buy in predatory ways. Landlords and property investors have been accused of luring people into the promise of home ownership under rent-to-buy schemes with "little interest" in their ability to afford it. Commercial and negative publicity surrounding rent-to-buy schemes have likely influenced the New Zealand banking sector's hesitations regarding rent-to-buy schemes more generally.

Not-for-profit rent-to-buy schemes are better targeted for households

14. A notable difference between commercial rent-to-buy schemes, like those found primarily in Australia, and those provided by community housing providers in New Zealand, is how a household is assisted to save for a deposit.
15. Community housing providers do not charge an upfront deposit payment and offer sub-market rent to households rather than charging higher rent to save on the behalf of the household. This means that even if the household does not go through with purchasing the home, they would still have had the benefit of subsidised rent and will not end up in a worse financial position.

16. Households also receive additional deposit support from some providers to help get the household in a position to acquire a commercial mortgage. NZ Housing Foundation gifts a quarter of any capital gains with the household and Queenstown Lakes Community Housing Trust matches the household's savings, similar to what government does with KiwiSaver.
17. Community housing providers offer or require households to go through some form of financial literacy training to help them get into a position to purchase the property. The Housing Foundation also helps a household to make introductions to banks that have had experience working with households in their rent-to-buy scheme.
18. These providers are registered with the Community Housing Regulatory Authority. Registering with the authority requires that providers demonstrate capability in areas such as management, governance, and financial viability and likely provides assurance to households that they are entering into an agreement with a reputable organisation.

Annexes

19. Annex A: Summary of the key aspects of rent-to-buy schemes offered by community housing providers

Annex A: Summary of the key aspects of rent-to-buy schemes offered by community housing providers

Name	Description	Income criteria	Other criteria
Habitat for Humanity's rent-to-buy/rent-then-buy schemes	<p>Families invest 500 hours of their time to build their own home or those of others or working in Habitat's shops.</p> <p>Once completed the households makes affordable regular repayments to Habitat at a no profit basis. Habitat sets rents at no more than 30 per cent of household income</p> <p>Habitat works with the household to provide assistance in the move towards homeownership. This covers areas such as home maintenance, monitoring repayments and other assistance as needed.</p>	Unstated, but according to Habitat the majority of households are below median household income	<ul style="list-style-type: none"> • Not a current homeowner • Have minimal debt • No or limited savings.
New Zealand Housing Foundation's Affordable Rental Programme	<p>Households move into newly built homes and pay an equivalent of a fair market rent. Rent is determined by what is affordable based on household income. After five years, households have the option to purchase the home.</p> <p>The Housing Foundation provides financial planning support to help households.</p> <p>The Housing Foundation provide a portion of the capital increase of the home to the household to put towards a deposit (generally 25 percent).</p>	Household income between \$65,000 and \$95,000 per year.	<ul style="list-style-type: none"> • A full-time employee in the household • Not a current homeowner • Have minimal debt • Have the ability to save towards a deposit • Must join KiwiSaver.
Queenstown Lakes Community Housing Trust's (QLCHT) Rent Saver Programme	<p>A qualifying household has the opportunity to rent a QLCHT owned property for a five-year term. The rent is set at a fair market rate and a savings goal is agreed with the household.</p> <p>Each year should the household's savings goal be met, QLCHT will match the savings up to \$2,600 each year (or \$13,000 over the five-year term).</p> <p>At the end of the five-year term, the household can apply for the Secure Home programme to purchase the house they have been renting, providing the standard Secure Home programme requirements are still met. Secure Home is QLCHT's progressive homeownership product that offers a 100-year lease to a household.</p>	Maximum household income varies on household size between \$84,000 (single person household) and \$127,000 (six-person household).	<ul style="list-style-type: none"> • The property must be used exclusively as the household's primary residence and not vacated for more than four weeks over a 12-month period • A full-time employee in the household • At least one New Zealand citizen or resident in household.