



Briefing

Aligning the house price caps for HomeStart and Welcome Home Loans with KiwiBuild

Date:	30 November 2018	Security level:	In Confidence
Priority:	Medium	Report number:	BRF 18-19 19110079

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations	11 December
Hon Phil Twyford Minister of Housing and Urban Development	Agree to the recommendations Forward to the Minister of Finance	6 December
Hon Jenny Salesa Minister of Building and Construction	For information only	None

Contact for discussion

Name	Position	Telephone	1 st contact
Fiona Ryan	Acting Manager, Housing System Performance	04 901 9873	s 9(2)(a) ✓
Matthew Galt	Senior Advisor	04 896 5686	

Other agencies consulted

Treasury, Housing New Zealand Corporation. DPMC has been informed.

Minister's office to complete

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Declined
- ☐ Referred to (specify)

Comments

Date returned to MHUD:



Briefing

Aligning the house price caps for HomeStart and Welcome Home Loans with KiwiBuild

For: Hon Grant Robertson, Minister of Finance
Hon Phil Twyford, Minister of Housing and Urban Development

Date: 30 November 2018 **Security level:** In Confidence

Priority: Medium **Report number:** BRF 18-19 19110079

Purpose

1. This briefing provides advice on increasing the HomeStart grant and Welcome Home Loan house price cap for new builds outside of the main centres from \$450,000 to \$500,000 to match the KiwiBuild price cap.

Executive summary

2. HomeStart grants and Welcome Home Loans (WHLs) are available to support first home buyers on modest incomes to purchase modestly priced homes. Eligibility criteria apply, including regional house price caps.
3. The HomeStart grant and WHL house price cap for new builds outside of the higher priced urban areas is currently \$450,000. This is below the KiwiBuild house price cap of \$500,000, meaning that some KiwiBuild homes will be ineligible for HomeStart grants and WHLs. In higher priced urban areas the HomeStart and WHL price cap is at or above the KiwiBuild price cap, so the misalignment is only an issue in areas where the \$450,000 cap applies.
4. Officials recommend increasing the \$450,000 HomeStart and WHL house price cap to \$500,000 so all KiwiBuild homes are eligible for HomeStart grants and WHLs. This will allow the HomeStart and WHL schemes to support the sale of KiwiBuild homes and ensure that early KiwiBuild buyers do not miss out on the grant. It will also simplify administration for buyers and the government, eliminate a perceived inconsistency with having different price caps, and may more closely align the caps with development costs across regions. The change is expected to result in HomeStart grants being paid for an additional 230 homes per year and an additional 10 WHLs being drawn per year. The majority of these will initially be for non-KiwiBuild homes, but within a couple of years we expect the majority to be for KiwiBuild homes.
5. Officials recommend that this change is announced, and comes into effect, on Monday 7 January 2019 in order to give Housing New Zealand time to implement the increase and avoid making the change during the Christmas break. No KiwiBuild homes are expected to be sold before 7 January that will be ineligible for HomeStart grants and WHLs, although some may go on sale shortly after this date. This date could be shifted, although Housing New Zealand ideally requires 1-2 weeks' notice ahead of the implementation date to prepare the operational changes. It is best for the change to come into effect on the day it is announced to avoid creating administrative complications for people partway through the application process.

6. The cost of this increase is estimated to be around \$3m per year. This can be funded within the existing appropriations. The KiwiSaver Deposit Subsidy appropriation (used for HomeStart) has a buffer of around \$25m per year and the HNZN support services appropriation (used for WHLs) has a buffer of around \$1.5m per year. These buffers are likely to reduce over time because spending on HomeStart and WHLs is likely to increase as KiwiBuild ramps up. However, the appropriations are not at risk of being overspent for the next two years, which will allow time to respond if an overspend starts to appear likely.
7. Cabinet agreement is not needed to make this change as the Minister of Finance and Minister of Housing and Urban Development have delegated authority. However, it may be appropriate for Minister Twyford, as responsible Minister, to inform Cabinet of the change ahead of it being publically announced. Cabinet Office guidance is that proposals that affect the government's financial position should be submitted to Cabinet [CO (18) 2 paragraph 9 refers]. While the cost of \$3m for one year is not large, it could accumulate to a sizable amount over time since it is an ongoing cost (for example, \$15m over five years if market conditions and policy settings remain similar to today). If you consider this change to be significant enough to be of interest to Cabinet, this could be done as an oral item at or before the final Cabinet meeting of the year (17 December). Annex A contains talking points for this.
8. Officials recommend no other changes to the house price caps at this stage.

s 9(2)(f)(iv)

Recommended actions

It is recommended that you:

1. **Note** that the Minister of Finance and Minister of Housing and Urban Development have delegated authority to agree on detailed design issues for first homeownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [Cab Min (05) 13/10 refers].

Noted

Hon Robertson

Noted

Hon Twyford

2. **Note** that officials recommend increasing the HomeStart and Welcome Home Loan house price cap for new builds from \$450,000 to \$500,000 for all areas of New Zealand that are outside of Auckland, Queenstown, Greater Wellington, Greater Christchurch, Hamilton, Greater Tauranga and Nelson-Tasman. This will ensure that all KiwiBuild homes are eligible for HomeStart grants and Welcome Home Loans.

Noted

Hon Robertson

Noted

Hon Twyford

3. **Note** that the cost of this change is estimated to be around \$3m per year. This can be funded within the existing KiwiSaver Deposit subsidy and HNZN support services appropriations.

Noted

Hon Robertson

Noted

Hon Twyford

4. **Agree** to increase the HomeStart and Welcome Home Loan house price cap for new builds from \$450,000 to \$500,000 for all areas of New Zealand that are outside of Auckland, Queenstown, Greater Wellington, Greater Christchurch, Hamilton, Greater Tauranga and Nelson-Tasman.

Agree/Disagree

Hon Robertson

Agree/Disagree

Hon Twyford

5. **Agree** that the change to the HomeStart and Welcome Home Loan house price cap will be announced and take effect from Monday 7 January 2019.

Agree/Disagree

Hon Robertson

Agree/Disagree

Hon Twyford

6. **Note** that it may be appropriate for Minister Twyford, as responsible Minister, to inform Cabinet of the change ahead of it being publically announced as it is a policy change with financial implications. If you consider this to be significant enough to be of interest to Cabinet, this could be done as an oral item.

Noted

Hon Robertson

Noted

Hon Twyford

7.

s 9(2)(f)(iv)

Noted

Hon Robertson

Noted

Hon Twyford

8. **Forward** this briefing to the Minister of Finance.

Agree/Disagree

Hon Twyford



Fiona Ryan
**Acting Manager, Housing System
Performance, Ministry of Housing and
Urban Development**

30 / 11 / 18
..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Phil Twyford
**Minister of Housing and Urban
Development**

..... / /

Background

9. The KiwiSaver HomeStart scheme offers grants of between \$3,000 and \$20,000 to assist with the purchase of a home depending on how many buyers there are, how long each buyer has made active contributions to KiwiSaver, and whether it is a new build or an existing home.
10. The Welcome Home Loan (WHL) scheme supports the provision of low-deposit mortgages to eligible buyers through the government providing an underwrite to the banks making the mortgages.
11. The schemes were designed to support first home buyers on modest incomes to purchase modestly priced homes, and to incentivise the development sector to deliver more affordable homes.
12. Eligibility criteria apply to both schemes, including house price caps and income caps. The Minister of Finance and Minister of Housing and Urban Development have delegated authority to agree on detailed design issues for first homeownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [Cab Min (05) 13/10 refers].
13. The most recent adjustment to the eligibility criteria was an increase in the Queenstown Lakes District house price caps in September 2018 [BN 0196 18-19 refers]. This adjustment was made due to there being a lack of homes available below the house price caps, and to better align the HomeStart and WHL caps with the KiwiBuild caps. Prior to this, the settings of the HomeStart and WHL schemes were comprehensively reviewed in August 2016 [EGI-16-MIN-0152 refers].
14.

s 9(2)(f)(iv)
15. Minister Twyford has asked for quicker advice on the specific matter of further aligning the HomeStart and WHL house price caps for new builds with the KiwiBuild house price caps to ensure all KiwiBuild homes are eligible. Some KiwiBuild homes being built in areas like Te Kauwhata (in the Waikato District) and Whangarei will not be eligible for HomeStart grants or WHLs under the current settings.
16. There were no entries into the ballot for any of the first 10 KiwiBuild homes in Te Kauwhata, which were not eligible for HomeStart and WHLs. The lack of entries may be partly due to the homes still being under construction, but ensuring eligibility for HomeStart and WHLs in the future could help support future sales. This briefing provides advice on aligning the HomeStart, WHL and KiwiBuild caps in the near term.

Aligning the HomeStart and WHL house price caps with the KiwiBuild house price caps outside of the main centres

Reasons for increasing the cap

17. The HomeStart and WHL house price caps for new builds vary across regions and differ from the KiwiBuild house price caps as shown in Table 1. All KiwiBuild homes in areas 1 and 2 are currently eligible for HomeStart and WHLs. However, KiwiBuild homes delivered in area 3 may not be eligible for HomeStart and WHLs because the price cap is \$450,000, which is below the \$500,000 KiwiBuild price cap.

Table 1: House price caps for HomeStart grants and Welcome Home Loans

Area	HomeStart grants and Welcome Home Loans		KiwiBuild
	Existing homes	New builds	
Area 1 (Auckland and Queenstown Lakes)	\$600,000	\$650,000	\$650,000 3+ bedroom \$600,000 2 bedroom \$500,000 1 bedroom
Area 2 (Greater Wellington, Greater Christchurch, Hamilton, Greater Tauranga, Nelson-Tasman) ¹	\$500,000	\$550,000	\$500,000 all house sizes
Area 3 (Rest of New Zealand)	\$400,000	\$450,000	

20. Officials recommend increasing the \$450,000 HomeStart and WHL house price cap for new builds in area 3 to \$500,000. This will allow the HomeStart and WHL schemes to support the sale of KiwiBuild homes and ensure that KiwiBuild buyers do not miss out on the grant if they purchase early in the programme. Creating alignment will also simplify administration for both the users of the products and the government and eliminate a perceived inconsistency with having different price caps. Furthermore, the limited data we have on the prices of new builds relative to existing homes indicates that new build prices vary less across regions than existing home prices (annex B illustrates this). The change may therefore align the price caps more closely with development costs.
21. The change is expected to result in HomeStart grants being paid for an additional 230 homes per year and an additional 10 WHLs being drawn per year. The majority of these will initially be for non-KiwiBuild homes, but within a couple of years we expect the majority to be for KiwiBuild homes.²
22. Buyers of KiwiBuild homes who are ineligible for HomeStart or WHLs for other reasons – such as having incomes over the income caps or not contributing to KiwiSaver for long enough – will remain ineligible.³

The cost and funding

23. The cost of this change is estimated to be around \$3m per year, of which almost all is for the additional HomeStart grants (annex C provides details on this estimate). This can be funded within the existing appropriations.
24. The KiwiSaver Deposit Subsidy appropriation (used for HomeStart) has a buffer of around \$25m per year and the HNZN support services appropriation (used for WHLs) has a buffer of around \$1.5m per year. A portion of the buffer was intentional to ensure that people did not miss out on grants or loans due to a lack of funding, but the buffer has become larger than planned due to market changes over recent years, such as rising house prices. The buffers are likely to reduce over time because spending on HomeStart and WHLs is likely to increase as KiwiBuild ramps up. However, the appropriations are not at risk of being overspent for the next two years, which will allow time to respond if an overspend starts to appear likely.

¹ The specific territorial authorities included are: Hamilton City, Tauranga City, Western Bay of Plenty District, Kapiti Coast District, Porirua City, Upper Hutt City, Lower Hutt City, Wellington City, Tasman District, Nelson City, Waimakariri District, Christchurch City and Selwyn District.

² This is because, once KiwiBuild has ramped up to 10,000-12,000 home per year, it will need to sell homes to 40-50% of the annual market of first home buyers. It will likely capture a much higher proportion of the market of first home buyers purchasing new builds.

³ The income caps for HomeStart and WHLs are \$85,000 for one buyer and \$130,000 for two or more buyers. This is less than the KiwiBuild income caps of \$120,000 for one buyer and \$180,000 for two or more buyers.

Delegated authority and Cabinet involvement

25. Cabinet agreement is not needed to make this change given the Minister of Finance and Minister of Housing and Urban Development have delegated authority. However, it may be appropriate for Minister Twyford, as responsible Minister, to advise Cabinet of this change as an oral noting item ahead of it being publically announced.
26. Cabinet Office guidance is that proposals that affect the government's financial position should be submitted to Cabinet [CO (18) 2 paragraph 9 refers]. While the cost of the change is not large, and it can be funded from within existing appropriations, it is a policy change that will result in an ongoing cost that could accumulate up to a sizable amount over time (for example, \$15m over five years if market conditions and policy settings remain similar to today). If you consider this change to be significant enough to be of interest to Cabinet, this could be done as an oral item at or before the final Cabinet meeting of the year (17 December). Annex A provides talking points for this. We do not consider a full Cabinet paper to be necessary, nor practicable given the timeframes.

Timing of the change

27. We recommend that the change is publically announced, and comes into effect, on Monday 7 January 2019. This will allow time for Housing New Zealand to make the operational changes needed for implementation, avoid making the change during the Christmas break, and allow time for Minister Twyford to advise Cabinet of the change in advance if he wishes. No KiwiBuild homes are expected to be sold in area 3 ahead of 7 January 2019, although some may go on sale shortly after this date. The implementation date could be shifted, although Housing New Zealand ideally requires 1-2 weeks' notice ahead of the implementation date to prepare the operational changes. It is best for the change to come into effect on the day it is announced to avoid creating administrative complications for people partway through the application process.

Alternatives and risks

28. One alternative to increasing the cap for all of area 3 would be to increase the cap in regions where it is most likely that KiwiBuild homes will be delivered. This would have the advantages of reducing the cost of the change to somewhat below \$3m per year and avoiding the risk of making the schemes available for use on relatively high-end new builds in lower priced regions. However, raising the cap in only some regions is not recommended because:
 - a. this may be seen as unfair towards regions where the cap is not increased;
 - b. it is hard to predict which parts of the country may ultimately receive few or no KiwiBuild homes priced between \$450,000 and \$500,000;
 - c. increasing the price caps for a large number of territorial authorities but not others would introduce a lot of geographic boundaries where the price caps differ, which may create confusion; and
 - d. even if the cap is increased for all regions, it is likely that the majority of the additional funds will be used on more modest homes in higher priced parts of area 3 as there are few new homes being built in very low-priced parts.⁴
29. One risk of increasing the price cap for area 3 now is that it may end up higher than the KiwiBuild cap if the \$500,000 KiwiBuild cap is subsequently lowered in any parts of the country. Officials intend to further examine whether the price cap can be further broken down by bedroom numbers, or adapted to better reflect other regional variations [CAB-18-MIN-0142 refers].

⁴ 70% of HomeStart grants paid out for new builds in the year to June 2018 in area 3 were in Territorial Authorities with a median house price over \$300,000.

No other changes to the house price caps are recommended at this stage

30. Officials recommend no change to the \$400,000 house price cap for existing homes in area 3. This is because there is no need to adjust the existing home cap to maintain alignment with KiwiBuild, and there are plenty of homes available below the existing home cap in the vast majority of regions in area 3. There are a few areas where it is relatively difficult to find existing homes under the cap, such as the Waikato and Waipa Districts. s 9(2)(f)(iv)

31. Leaving the existing home price cap for area 3 unchanged will mean that the gap between the existing home and new build price caps will increase to \$100,000 in area 3, which is greater than the \$50,000 gap in areas 1 and 2. This larger gap is consistent with the limited information we have indicating that new build prices vary less across regions than existing home prices.
32. Officials recommend no change to the house price caps in areas 1 and 2. We could consider lowering the \$550,000 new build price cap in area 2 to align it with the \$500,000 KiwiBuild price cap. However, lowering the cap before there are significant numbers of KiwiBuild homes available would be seen as unfair by people trying to buy a first home in these regions now. There may also be pressure to reverse the change within a few years if house prices in urban areas outside of Auckland continue to increase.

Next steps

33. If Minister Twyford wishes to advise Cabinet of this change ahead of it coming into effect, this will need to be done at or before the final Cabinet meeting of the year on Monday 17 December.
34. s 9(2)(f)(iv)

Annexes

Annex A: Talking points for Cabinet oral item

Annex B: The prices of existing homes vs new builds purchased with the help of a HomeStart grant

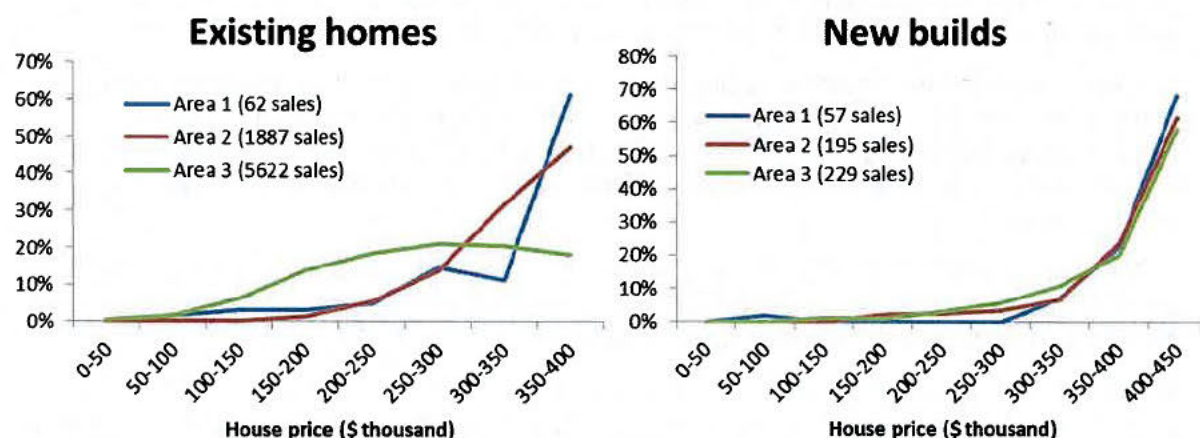
Annex C: The estimated cost of increasing the new build cap in area 3 to \$500,000

Annex A: Talking points for Cabinet oral item

1. The Minister of Finance and I have agreed to make a minor change to the KiwiSaver HomeStart grant and Welcome Home Loan eligibility criteria to support the success of KiwiBuild. I am mentioning it today because it has a financial impact of \$3m per year, but this will be fully funded by the existing appropriations and I don't think this change is large enough to warrant a full Cabinet paper.
2. HomeStart grants are grants of between \$3,000 and \$20,000 to help first home buyers purchase a home. Welcome Home Loans are high LVR mortgages for first home buyers underwritten by the Government. Income and house price caps apply to both schemes.
3. The Minister of Finance and I have delegated authority to amend the eligibility criteria for HomeStart and Welcome Home Loans, including the house price caps.
4. The change the Minister of Finance and I have agreed to make is to increase the house price cap for new builds outside of the main centres from \$450,000 to \$500,000 to align it with the \$500,000 KiwiBuild house price cap. This will ensure that all KiwiBuild homes are eligible for HomeStart grants and Welcome Home Loans. The HomeStart and Welcome Home Loan house price caps in the main centres were already at or above the KiwiBuild caps.
5. We have recently begun building KiwiBuild homes in some places where the \$450,000 HomeStart and Welcome Home Loan cap has applied, including the Waikato District, Whangarei and New Plymouth. Aligning the HomeStart, Welcome Home Loan and KiwiBuild house price caps will help support the sale of KiwiBuild homes, make administration simpler for both the Government and buyers, eliminate a perceived inconsistency with having different price caps, and align the caps more closely with development costs in each region.
6. Officials estimate that this will cost \$3m per year, with most of the cost being for an additional 350 HomeStart grants per year. The HomeStart grant and Welcome Home Loan appropriations are both underspent, so this cost can be met from the existing appropriations.
7. I plan to announce the change on Monday 7 January and have it come into effect that same day because some KiwiBuild homes may go on sale in the affected regions shortly after this date.

Annex B: The price distribution of existing homes and new builds purchased with the help of a HomeStart grant

1. The charts below show the price distribution of homes purchased with the help of a HomeStart grant in the year to June 2018. Due to the HomeStart eligibility criteria, we can only make regional comparisons of the prices existing homes priced under \$400,000 and new builds priced under \$450,000.
2. This data shows that the price distribution of lower priced existing homes differs significantly between areas 1, 2 and 3, but the price distribution of lower priced new builds is similar across all areas. This suggests that the price caps for new builds should be more similar across regions than the price caps for existing homes builds. This comparison is limited by not having data on higher priced existing homes to compare as well.
3. Officials are investigating more comprehensive measures of new build prices using CoreLogic sales data.



Annex C: The estimated cost of increasing the new build cap in area 3 to \$500,000

1. The total estimated cost of increasing the house price cap for new builds in area 3 from \$450,000 to \$500,000 is \$3m per year. This is composed of:
 - Just under \$3m per year for HomeStart grants,
 - \$30,000 per year for Welcome Home Loan underwrite costs, and
 - a small amount arising from the costs of implementing the change.
2. These costs arise because increasing the cap is expected to roughly double uptake of HomeStart and Welcome Home Loans for new builds in area 3. The reasons for this are:
 - Uptake of HomeStart grants and WHLs is roughly proportional to the number of homes available below the house price caps.
 - Data on HomeStart grants indicates that the price distribution of new builds bought with the help of a HomeStart grant is broadly similar in areas 2 and 3.
 - In area 2, for each new build bought with the help of a HomeStart grant under \$450,000, there is one new build bought with the help of a HomeStart grant priced between \$450,000 and \$500,000. This implies that increasing the house price cap from \$450,000 to \$500,000 in area 3 will roughly double the number of grants and WHLs made for new builds in area 3.
 - In the year to June 2018, 229 new builds were purchased with the help of a HomeStart grant in area 3 at a total cost of \$2.96m, suggesting that around an additional \$2.96m of grants can be expected from increasing the caps.
 - In the year to June 2018, 8 WHLs were made in area 3 with a total value of \$2.6m. The underwrite cost of this is 1% of the loan amount, or \$26,000. If uptake of WHLs for new builds in area 3 doubles after the increase in the cap, this will result in around \$30,000 per year in additional underwrite costs.
3. Risks to this estimate are:
 - Upside risk from KiwiBuild facilitating greater uptake of HomeStart and WHLs.
 - Downside risk if house prices continue to rise in regional New Zealand, making it harder to use the grant, or if some people using the scheme to buy homes priced between \$450,000 and \$500,000 would have bought a different home that would have been eligible for HomeStart grants anyway.