



Briefing

Further advice on the Progressive Home Ownership Pilot

Date:	4 March 2020	Security level:	In Confidence
Priority:	High	Report number:	BRF19/20030575

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations in this paper.	9 March 2020
Hon Dr Megan Woods Minister of Housing	Agree to the recommendations in this paper.	9 March 2020

Contact for discussion

Name	Position	Telephone	1 st contact
Caleb Johnstone	Manager, Market and Supply Responses	s 9(2)(a)	✓
Ross Taylor	Policy Advisor, Market and Supply Responses	04 832 2454	

Other agencies consulted

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

Further advice on the Progressive Home Ownership Pilot

For: Hon Grant Robertson, Minister of Finance
Hon Dr Megan Woods, Minister of Housing

Date: 4 March 2020 **Security level:** In Confidence

Priority: High **Report number:** BRF19/20030575

Purpose

1. This paper provides you with further advice on two recommendations from the briefing *Design of the Progressive Home Ownership Pilot* [BRF19/20010538 refers] where the Minister of Housing requested further advice on places selected for the pilot and the treatment of capital gains.

Recommended actions

2. The Ministry of Housing and Urban Development (HUD) recommends that you:
 1. **Note** that in the briefing *Design of the Progressive Home Ownership Pilot*, we identified the following potential places for the pilot: Noted
 - 1.1. Highest priority: Auckland; Matamata-Piako District, Hamilton City and Waipa District; Tauranga City and Western Bay of Plenty District; Napier City; Kapiti Coast, Porirua City, Upper Hutt City, Lower Hutt City and Wellington City; Dunedin City; and Queenstown-Lakes District;
 - 1.2. Medium priority: Manawatu District and Palmerston North City; Carterton District and South Wairarapa District; Nelson City and Tasman District; Whangarei District; and Hastings District.
 2. **Note** that there is a need to ensure that providers and the pilot are not spread too thinly; Noted
 3. **Agree** that the places selected for the inclusion in the pilot be the highest priority places identified in recommendation 1.1 alongside Palmerston North City and Manawatu; Nelson City and Tasman District; Agree / Disagree
 4. **Note** that in the briefing *Design of the Progressive Home Ownership Pilot*, we recommended that providers be allowed to retain any capital gains received through the delivery of progressive home ownership schemes but that there will be an Noted

expectation that these be used for further progressive home ownership schemes;

5. **Agree** that providers be allowed retain any capital gains received through the delivery of progressive home ownership schemes and that they will instead be required to use these gains for progressive home ownership;

Agree / Disagree



Caleb Johnstone
Manager, Market & Supply Responses

4 / 3 / 20
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Hon Grant Robertson
Minister of Finance

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Hon Dr Megan Woods
Minister of Housing

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Background

3. On 20 February 2020, we provided you with the briefing *Design of the Progressive Home Ownership Pilot*, which provided you with advice on and sought your agreement to the design of the Progressive Home Ownership Pilot.
4. We understand that since receiving this briefing, the Minister of Housing has asked for further advice on:
 - a. the selection of places for inclusion in the pilot, in particular the places that were included in the highest priority places
 - b. whether providers can be required to reinvest any capital gains received from the pilot into delivery of progressive home ownership schemes.

We have revised our recommended places to include in the pilot

5. In December, Cabinet agreed to apply a place-based approach. In applying this approach, the pilot will focus on places where housing affordability issues are most severe and where progressive home ownership schemes can best help to address this.
6. Our previous advice identified the places in which the pilot could be targeted and sought your agreement to target either:
 - a. Highest priority: Auckland; Matamata-Piako District, Hamilton City and Waipa District; Tauranga City and Western Bay of Plenty District; Napier City; Kapiti Coast, Porirua City, Upper Hutt City, Lower Hutt City and Wellington City; Dunedin City; and Queenstown-Lakes District
AND/OR
 - b. Medium priority: Manawatu District and Palmerston North City; Carterton District and South Wairarapa District; Nelson City and Tasman District; Whangarei District; and Hastings District.
7. We recommended that the pilot only target the highest priority places. This was because it included a limited number of places that would not stretch the ability of providers to deliver. We consider that if providers deliver across too many places, they may not:
 - a. be able to deliver at pace and scale
 - b. have enough time to understand the particular market given the timeframe of the pilot.
8. The Minister of Housing requested for further analysis to be done for which places could be included as high priority for the pilot. We have since revised our recommendation on the places that should be included in the highest priority places to also include Manawatu District and Palmerston North City; and Nelson City and Tasman District. These places were the next two highest priority places in the heat map that we developed to inform where the pilot may take place
9. This approach will provide a slightly wider coverage across New Zealand but still ensure that providers and the pilot are not spread too thinly. We still do not recommend including the remaining medium priority places for the reasons we previously mentioned.
10. We note, however, that providers will be asked to identify where they are able and willing to operate. This means that there may be some highest priority places, at least initially, where providers are not delivering progressive home ownership schemes. As the pilot progresses and when the full Progressive Home Ownership Fund is established, we may see a wider coverage of places.

We will include a requirement in loan documentation to reinvest capital gains

11. In our February advice, we recommended that providers be allowed to retain any capital gains received through the delivery of progressive home ownership schemes, but that there would be an expectation that these be used for further progressive home ownership

schemes. The Minister of Housing subsequently asked that we ensure that capital gains be required to be reinvested into delivery of progressive home ownership schemes.

12. We propose to include a requirement in the loan documentation with providers that any capital gains earned by the provider through the pilot will be reinvested for the purposes of providing progressive home ownership schemes.
13. As the pilot does not provide any operating expenditure to cover providers' operating costs, we are aware that some of the capital gains may need to be recycled back to the providers to recover these costs. This should also be considered as reinvestment as it is an essential cost of running these schemes. We will be better placed to advise on this as we finalise each loan arrangement.
14. In some instances, some or all capital gains may be passed onto the households to help them get into a better position to graduate from the scheme and obtain a commercial mortgage. We will be better placed to know whether this is likely as we engage the providers for the pilot to understand the design of their schemes.

Next steps

15. If you agree to the pilot proceeding on the basis of the recommendations included in this briefing and our earlier advice in February, we will start to engage with potential providers to participate in the pilot.