



Aide-memoire

Implications for Progressive Home Ownership Fund from Covid-19			
Date:	3 April 2020	Security level:	In Confidence
Priority:	High	Report number:	BRF19/20040606

Information for Minister(s)	
Hon Dr Megan Woods Minister of Housing	Note that this aide-memoire provides an assessment of the potential impact of Covid-19 on the Progressive Home Ownership Fund, and progress and next steps for the Pilot and development of the full Fund.

Contact for discussion			
Name	Position	Telephone	1 st contact
Helen Potiki	Deputy Chief Executive, Housing and Urban Setting	NA	s 9(2)(a)
Caleb Johnstone	Policy Manager	NA	✓
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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:



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For: Hon Dr Megan Woods, Minister of Housing

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Purpose

1. To provide an assessment of the potential impact of Covid-19 on different aspects of the Progressive Home Ownership (PHO) Fund, on progress and next steps for the Pilot, and the development of the full PHO Fund. Our assessment has been informed by engagement with providers who we have been working with in the development of the PHO pilot and full Fund.

Potential impact from Covid-19 on the PHO Fund

2. Covid-19, and the resulting impact on New Zealand's economy, is likely to have a number of implications for the PHO Fund. These include the following potential impacts on households, providers and banks.

Households

3. Over the Level 4 Alert period, the ability for households to settle house purchases is being affected. We may also see:
 - a. changes to the number and makeup of households in Cohort A (those households requiring significant support to become homeowners), and in Cohort B (those households for whom home ownership moves beyond their reach). This would include more households previously on the cusp of home ownership who are no longer able to access mortgages, and households that were previously eligible no longer in a position to enter into home ownership due to loss of income and/or other impacts. Māori housing providers have noted concerns that the impact on KiwiSaver balances (which are used for first home purchases) will have a flow on effect on the ability of whānau to access the PHO Fund;
 - b. a possible switch in preference for type of progressive home ownership product to rent-to-buy PHO products as a means to manage household risk. This may result in less demand for PHO in the form of shared equity, which could have implications for demand for the direct-to-household PHO Fund pathway;
 - c. the effects of Covid-19 and being at Level 4 (or 3) Alert playing out differently for households in different regions.

Providers

4. Implications of Covid-19 on the construction sector will have implications for providers' development pipelines.

s 9(2)(b)(ii)

It is also likely to have broader implications for the direct pathway, where households are

expected to find their own, preferably new build, house. Providers' access to finance may also be affected.

5. Our engagement with PHO providers so far indicates that they want to continue to be involved in PHO work and see PHO as an enduring feature of our housing system. We consider it will be an important activity in supporting recovery. However, providers may choose to change the mix of households they support, or the scheme they offer, as a way to manage risk. Providers are also indicating their preference for offering rent-to-buy PHO options compared to shared equity in the short term. This is because it can help manage both PHO provider and household risk in more uncertain times.

Banks

6. Banks have signalled their ongoing interest in the Fund. In mid-March, we initiated a discussion with banks who currently work with PHO providers. We will follow up these discussions to progress the PHO Pilot and to also understand banks' ongoing interest in PHO in the Covid-19 context. This could also help us understand any short or medium-term change in approach to supporting PHO, including whether banks are likely to become more conservative in their lending decisions.

The PHO Pilot has commenced

7. The changing market context driven by the effects of Covid-19 make the PHO Pilot an important step. We have commenced the Pilot, and shared Invitation to Participate documents with invited providers in late March.
8. We are aware that Covid-19 is creating less certainty for providers than would be the case in a settled housing market. We are also aware of the impact that Covid-19 and the lockdown will have on provider ability to respond. We have indicated to invited providers that we will be responsive to when they can respond.
9. Invited providers have indicated that they are still ready to participate in the Pilot and are considering their response in light of Covid-19. Some of the providers invited have indicated that they will be able to respond within the original timeframe set to make possible the signing of contracts in late April. However, these providers are mostly small. The other larger providers have signalled that they can respond later in the month. Most of the providers have signalled that this timing might change.
10. We expect Minister of Finance approval to some PHO Pilot provider loan agreements will start in late April / early May. We are aware that the Treasury and Minister of Finance will be focussed on Covid-19 and its economic impact. However, we will work with Treasury to get decisions made efficiently.
11. s 9(2)(g)(i)

Design of the full PHO Fund

12. We are continuing work on the design of all proposed PHO pathways. We will be testing some design through the Pilot, including the design for the provider pathway, along with some specific aspects of the iwi and Māori, and the direct pathway. This is intended to involve a continuation of the active engagement model that we have run for the PHO development to date. However, we are adjusting this approach so that it can take place without face to face meetings.

Provider pathway and iwi and Māori pathway

13. The design work for these pathways covers:
 - a. the procurement approach taken for the two supported pathways (i.e. the provider and iwi and Māori pathways), and the loan arrangements being tested through the Pilot

- b. details unique to the iwi and Māori pathway including the use of an outcomes-based procurement approach. This approach would enable iwi and Māori to work together with us, on a case-by-case basis, to determine the outcomes they are seeking to achieve through PHO for their iwi, hapū or whānau, and the actions and deliverables (outputs) that would be associated with achieving these outcomes. This approach would also enable place or projects to be identified for support through this pathway;
- c. the way in which land and developments might be connected with PHO provision for iwi and Māori in particular.

The direct-to-households pathway

- 14. The direct pathway will take significant time and effort to stand up and is intended to be the last element to be phased in for the full PHO Fund. In December Cabinet agreed that the direct pathway would be through a tenants-in-common arrangement for shared ownership.
- 15. We need to further assess the economic effects of Covid-19 on the demand for the type of shared ownership product proposed for the direct scheme. At the same time, we are considering options about when, and in what form, the direct pathway could be offered in light of the uncertainty.
- 16. The options include:
 - a. continuing to design and implement before the end of 2020;
 - b. changing the timing of the design and implementation of the pathway until we have a better sense of Covid-19 on demand for a shared equity product; and
 - c. extending the direct-to-households approach being tested through the Pilot (i.e. implement a direct “lite” approach), where providers offer their own shared ownership product and apply the government eligibility criteria.
- 17. We will provide you with further advice on these direct scheme options later this month.

Reporting to Cabinet in June

- 18. While we continue to make good progress on the design of the full PHO Fund, Covid-19 has had some implications for our timing for reporting to you and to Cabinet, particularly in relation to the shape of the direct-to-households pathway, the development of the machinery that will sit behind the operation of the scheme, and the development of the iwi and Māori pathway, where we proposed to engage closely with iwi and Māori on design.
- 19. We now expect that reporting to Cabinet on the full PHO Fund is likely to be delayed by at least two weeks to mid-June.
- 20. We will brief you in late April/early May, foreshadowing the content of the Cabinet paper. This briefing would include:
 - a. the design of the full Fund;
 - b. overview of the investment framework; and
 - c. machinery of government proposals – specifically, which organisations should perform the various different roles and functions to put the full Fund into effect.
- 21. In that briefing, we also propose to include information on the relationship between the PHO Fund and Te Ara Mauwhare. This information had previously been sought by Ministers as a separate briefing.

Next steps

- 22. We continue to progress the development of the PHO Fund as a priority and, in the Covid-19 context, as an initiative that can help support recovery in the housing market.
- 23. Any announcements about the PHO Pilot will be influenced by the make-up of the first providers. We will continue to keep you informed on progress in this area, as well as on the development of the full PHO Fund.