

In Confidence

Office of the Minister of Housing and Urban Development

Chair, Economic Development Committee

KiwiBuild eligibility criteria

- 1 This paper describes the first home buyers expected to participate in KiwiBuild, seeks agreement to the eligibility criteria for purchasing a KiwiBuild home, and describes the proposed sales process.

Executive Summary

- 2 The Kiwi dream of homeownership is slipping away. Home ownership is at its lowest level in over sixty years. Too few homes are being built, which is helping to drive up prices beyond the reach of middle New Zealand; and, of the homes being built, few are priced in the lower quartile of existing stock where over a third of first home buyers purchase their homes.
- 3 In short, we are not building enough homes and we are not building modest starter homes for young families.
- 4 Younger generations have been the most affected. A generation of young New Zealanders who have good jobs are priced out of home ownership. They made good choices, but still can't afford the security of their own home. Families which would have traditionally been able to purchase a home are now locked out in ever increasing numbers.
- 5 KiwiBuild is about restoring the Kiwi dream of home ownership to those families who traditionally would have expected to own their own home and expanding that same dream to thousands of more families across New Zealand.
- 6 KiwiBuild homes will be spread across New Zealand. They will be priced between \$300,000 and \$500,000, unless they are in Auckland or Queenstown where the maximum price can be \$650,000.

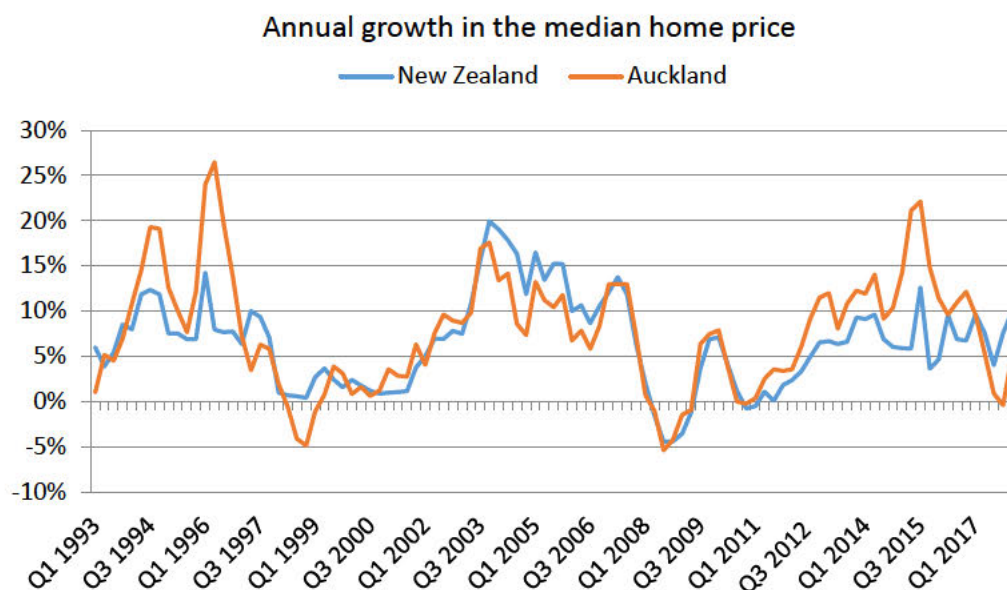
Eligibility criteria

- 7 The first KiwiBuild year starts on 1 July 2018. In the following weeks, we intend to launch a website where prospective first home buyers the opportunity to pre-register for KiwiBuild homes; and the first KiwiBuild homes are due to be sold in the next few months. Consequently, we need to finalise the eligibility criteria and any associated rules before this occurs.

- 8 I propose that, to be eligible to purchase a KiwiBuild home, a person must meet all of the following requirements:
- 8.1 be a New Zealand citizen, permanent resident, or a person who is “ordinarily resident in New Zealand” as defined under the forthcoming amendments to the Overseas Investment Act (“nationality test”);
 - 8.2 either be:
 - 8.2.1 a first home buyer, meaning a person who has never owned a home before; or
 - 8.2.2 a previous home owner, provided that person—
 - 8.2.2.1 no longer owns a home; and
 - 8.2.2.2 meets the asset test that applies to the KiwiSaver HomeStart grant;
 - 8.3 intend to own the home for at least three years;
 - 8.4 intend to reside in the premises as their principal place of residence (i.e. will not rent out the premises); and
 - 8.5 have income below the following caps:
 - 8.5.1 \$120,000 for a sole purchaser; and
 - 8.5.2 \$180,000 for multiple purchasers.
- 9 I appreciate that the \$180,000 household income cap may seem higher than may be expected. It reflects our analysis of who is currently locked out of home ownership and is likely to purchase a KiwiBuild home. Work is underway to investigate programmes that may increase the number of lower income households who could purchase a KiwiBuild home through shared equity schemes or rent-to-buy schemes. I discuss this work further below.
- 10 It is important that the criteria are fit-for-purpose nationally. Families with incomes that may enable them to buy a first home in some areas may be locked out of home ownership in Auckland, Tauranga, Wellington and Queenstown. Similarly, the income required to save a deposit and service a mortgage for a KiwiBuild home may be higher in Auckland and Queenstown than elsewhere.
- 11 The criteria also reflects public expectations of KiwiBuild and an underlying expectation of fairness. There is a sense among the community that purchasers of KiwiBuild homes are benefitting from Government intervention. We should ensure that we are taking reasonable steps to prioritise those who would aspire to home ownership, but are currently locked out of home ownership. Similarly, KiwiBuild is unashamedly for owner-occupiers and the purchaser must reside in their KiwiBuild home for at least three years.

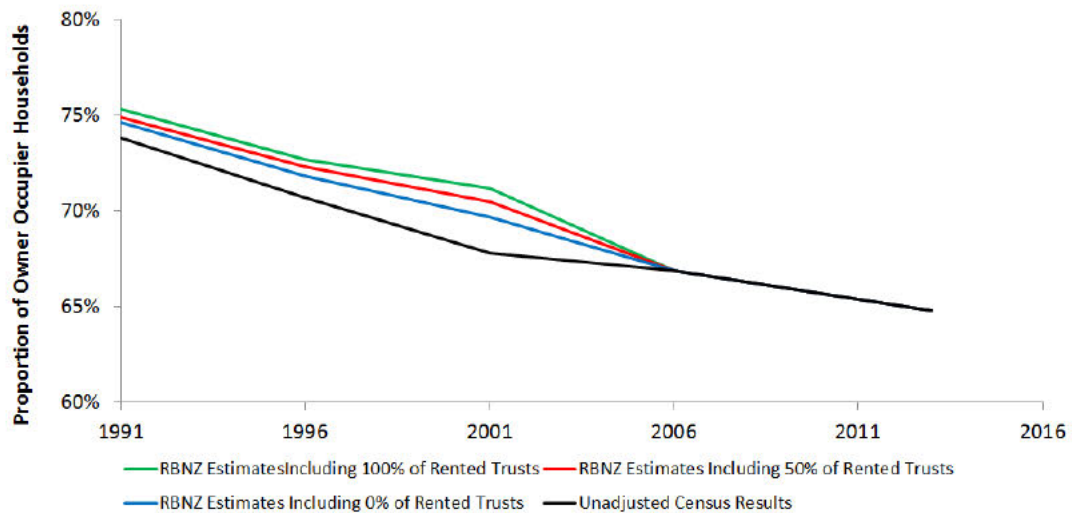
Home ownership is declining

- 12 An increasing number of first-home buyers are locked out of home ownership – affecting a broad range of New Zealanders.
- 13 Three separate periods of high home price inflation are likely to have been the primary cause of declining home ownership, particularly in Auckland, where price rises have been highest. Adjusted for inflation, the median priced Auckland home now costs \$650,000 more than 25 years ago.

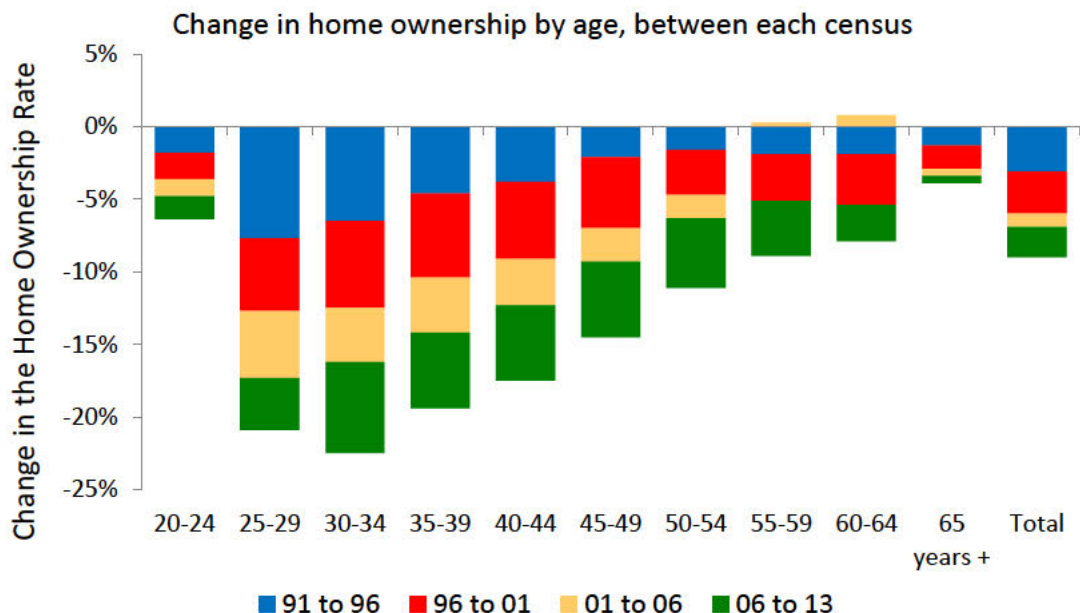


- 14 In March 2009 the median price of a home in Auckland was \$433,813. In March 2018 it was \$851,250. To a varying extent this trend has been replicated in Queenstown, Tauranga, Hamilton and Wellington. Over the last decade the nationwide median home price to median household income ratio, otherwise known as the median multiple, has increased from 4.58 in March 2009 to 6.34 in March 2018. Increases in the median multiple have been particularly stark in Auckland and Queenstown where, in March 2018, the median multiple was 9.5 (Auckland) and 11.7 (Queenstown).
- 15 The internationally accepted ratio for an affordable home is three times the median income, a ratio that, in March 2018, was only achieved in Whanganui, and Invercargill.
- 16 It is not just an Auckland and Queenstown issue. Other areas which have traditionally had steady home price growth, such as Whangarei, are also experiencing large growth. Since June 2015 the median home price has increased from \$320,000 to over \$450,000 in December 2017.

- 17 This has led to a precipitous decline in home ownership. Homeownership rates have been falling for 30 years, down from approximately 75 per cent in 1991,¹ to the latest estimate of 62.7 per cent:²



- 18 Younger generations – implying first home buyers – have been the most affected. Whereas three quarters of 35-39 year olds owned their own home in 1991, only a little over half of the same age group owned their home in 2013. Overall, only a quarter of adults under 40 own their own home, compared to half in 1991. The graph below demonstrates that home ownership has declined for all age groups but that it has been most acutely felt by those under 40 years' of age.



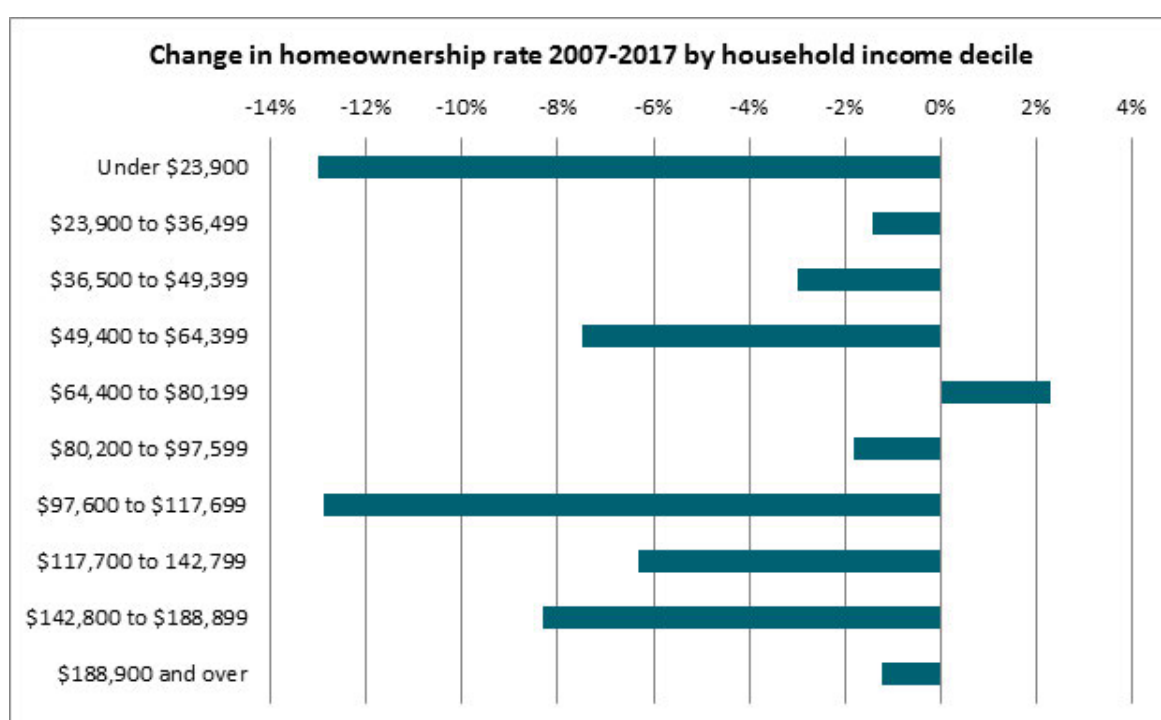
¹ Note that the census did not identify cases where the home is owned by a family trust until 2006, meaning that earlier census data understated homeownership. The graph shows a range of estimates from the Reserve Bank for home ownership that included family trusts prior to 2006.

² As at 31 March 2018, Statistics NZ, Dwelling and Household Estimates.

- 19 I should note that since the census in March 2013, the median home price in Auckland increased from just over \$500,000 to just over \$850,000. I believe that the decline set out in the graph above has significantly worsened since 2013.
- 20 Through KiwiBuild, this Government will restore the opportunity of home ownership to those who are locked out of home ownership.

Unaffordable housing affects a broad range of New Zealand families

- 21 As a result of the decade of increasing home prices and minimal wage growth, purchasing a first home has become increasingly more difficult for an increasingly broader range of New Zealanders.



- 22 In high-demand markets such as Auckland, Queenstown and Wellington families with household incomes higher than the average household income of \$101,000 are locked out of home ownership. This has led to a precipitous decline in home ownership across nine of the ten household income deciles between 2007 and 2017.³
- 23 This indicates that KiwiBuild needs to provide the opportunity of home ownership to a broader range of families than we may have first anticipated.

³ Household Economic Survey for the year ended 2017, Statistics New Zealand.

Length of time to save a deposit

- 24 Deposits are a key factor when considering a family's ability to purchase their first home. Most households earning at or even somewhat above the median household income will struggle to save a sufficient deposit for to purchase their first home.
- 25 Assuming median nationwide household expenses, estimates suggest it could take a household earning the median income in Auckland, Queenstown and Wellington between three to five years to save a 10 per cent deposit on the most expensive KiwiBuild homes. In the regions where median incomes are lower, it could take considerably longer to save the deposit for the most expensive KiwiBuild home. However, KiwiBuild homes will be able to be built for substantively less than the maximum price cap in many of the smaller regional centres, and weekly expenses will also likely be lower. This indicative analysis is attached at **Annex Two**.
- 26 These factors are compounded by the median repayment time of a student loan of 8.5 years for someone with a bachelor's degree and the high cost of rental accommodation in many towns across New Zealand, but in Auckland, Wellington and Queenstown in particular.
- 27 Because of the length of time to save a deposit families are likely to purchase later in life, and therefore at a time when their household income is higher. It also reiterates that even families of higher than average household income are unable to purchase their first home.

Locked out of home ownership

- 28 Currently, nearly two-thirds of first home buyers earn more than the median annual income (\$81,000). Almost a third earn more than \$115,000.



- 29 There is significant regional variation in the income distribution of first home buyers. In high-demand markets such as Auckland and Queenstown officials tell me that first-home buyers are likely to have household incomes 30-50 per cent higher than the median for regions outside of these areas.
- 30 Thirty per cent of gross income spent on housing costs is a recognised rule of thumb for measuring housing affordability.⁴
- 31 For those that are able to purchase their first home, two-thirds of first home buyers purchase a home at the lower-quartile price. With a 10 per cent deposit, assuming a 30 year mortgage plus average council rates, insurance and other maintenance costs,⁵ the household income needed in order to spend less than 30 per cent of gross household income on housing costs is set out in the following table:

	Lower quartile price	Income required
Queenstown-Lakes District	\$690,000	\$153,573
Auckland	\$650,000	\$146,145
Tauranga	\$515,000	\$121,073
Hamilton	\$435,000	\$106,215
Wellington	\$425,000	\$104,358
Nelson-Tasman	\$413,000	\$102,129
Whangarei District	\$375,000	\$95,072
Christchurch	\$367,000	\$93,586
New Plymouth District	\$336,500	\$87,922
Napier-Hastings	\$335,000	\$87,643
Rotorua District	\$308,500	\$82,722
Palmerston North City	\$307,000	\$82,443
Dunedin City	\$300,000	\$81,143

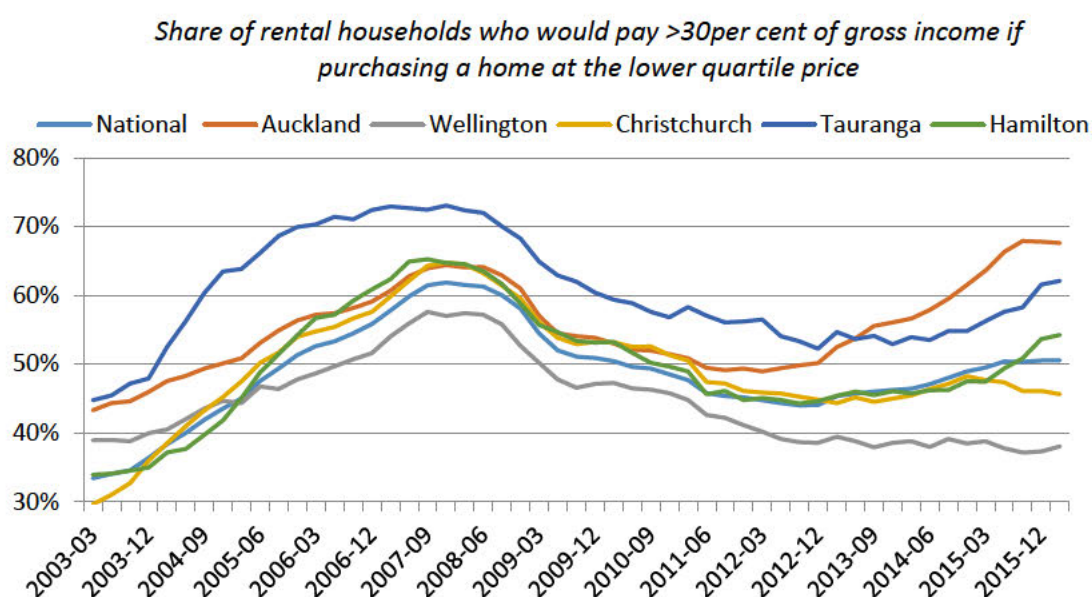
- 32 Currently, the national median household income is approximately \$81,000. Thus, despite historically low mortgage rates, even households earning the median income would struggle to be able to afford a new home at or above the lower quartile prices listed above.
- 33 Under the Housing Affordability Measure, which makes similar calculations but assumes no deposit, half of all rental households – implying potential first home buyers – are able to afford to buy an existing home at the lower quartile price.⁶ In Auckland, two thirds of rental households are shut out of homeownership under this measure, with Tauranga not far behind (62 per cent).

⁴ It is also the threshold used for calculating the accommodation supplement that the Government offers lower income households.

⁵ Collectively costing \$7,600 per year.

⁶ Housing Affordability Measure, MBIE, March 2016. In most markets, prices have continued to rise since.

- 34 Given that 75 per cent of first home buyers in Auckland, and 42 per cent of first home buyers outside of Auckland, are buying at debt to income ratios of greater than 4, the household income that they would require before they would consider buying a house at the prices indicated in the above table may even be slightly higher than indicated.



- 35 Whilst there is no data available for the number of first-home buyers who pay in excess of thirty per cent of gross income on housing costs, we know some current first-home buyers would be.

Conclusion

- 36 Through KiwiBuild this Government is committed to providing the opportunity of home ownership to families who are currently locked out of purchasing their first home. This is a broader cohort of families ranging in household income from \$80,000 to \$180,000 in high-demand markets.

KiwiBuild

- 37 The benefits of KiwiBuild are the increased supply of new homes at lower prices combined with the focus on first home buyers. Rather than have to compete with investors to buy an older home from the existing stock, first home buyers will have exclusive access to a range of new homes at around the same prices. By increasing supply, it will also reduce the demand pressure for existing homes priced below the median, helping to reduce price growth.
- 38 Fewer families renting may also reduce the demand for rental properties in high-demand regions, lowering rents and enabling more families to save a deposit more quickly.

We acknowledge KiwiBuild price points will still be difficult for some families

- 39 KiwiBuild homes will be priced at or below the lower quartile price in each region.
- 40 I understand that KiwiBuild may still be out of reach for many families. That is why, as we ramp up KiwiBuild, we are also working on a number of programmes to complement KiwiBuild and enable more families to take advantage of the KiwiBuild programme.
- 41 In particular, we are investigating a progressive home ownership scheme. There is a lot of work still to be undertaken in developing the policies underpinning the scheme and establishing the capital to sustain it. A shared equity scheme is a joint NZ First, Labour and Greens commitment. At this stage we are aiming to introduce the scheme in late 2019 or early 2020, in time for the ramp up to 10,000 KiwiBuild homes per year.
- 42 However, it is important to note that progressive home ownership models would need to be funded separately from the \$2 billion we have appropriated for KiwiBuild and is likely to either need an additional appropriation or the expansion of existing Crown products (such as the Accommodation Supplement, KiwiSaver HomeStart grant, and Welcome Home Loans). Officials are also investigating how we can partner with private capital to fund such a scheme.
- 43 In the meantime, there are other providers of shared equity schemes, such as the Housing Foundation, and KiwiBuild will continue to fund these projects on a development-by-development basis until a Government programme is implemented.

- 44 Furthermore, it is important to note that the published prices are price caps. We aim to deliver as many homes as we can below the price caps. For example, the first KiwiBuild homes at McLennan, in Auckland, will be sold for \$579,000 for a three bedroom home – \$71,000 less than the maximum price cap.
- 45 One of the goals of KiwiBuild is to use the scale of the KiwiBuild and public housing build programme to reduce the costs of building a home through our procurement practices. One example will be the increased use of off-site manufacturing. As KiwiBuild drives construction costs down over time, we will pass these savings onto first home buyers.
- 46 Finally, KiwiBuild is only one policy initiative this Government is committed to. The Government is committed to building a more productive and high-wage economy, reforming the Residential Tenancies Act 1986, backing higher wages through fairer employment laws and removing the obstacles stopping first home buyers purchasing their first home. These will all assist families into home ownership.

Eligibility criteria

- 47 In April, Cabinet invited me to report back with further advice on the definition of an eligible KiwiBuild purchaser, [REDACTED]
Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)
- 48 I consider the following options for eligibility criteria:
- 48.1 home ownership status;
 - 48.2 nationality;
 - 48.3 minimum ownership period;
 - 48.4 intention to live in the home as the buyer's principal place of residence; and
 - 48.5 maximum income or assets (a "means test").
- 49 [REDACTED]
Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)
[REDACTED] In addition, there are issues with how to manage multiple purchasers of a single home; and the potential for KiwiBuild properties to be purchased by a first home buyer's family trust.

Home ownership status

- 50 The primary objective of KiwiBuild is to increase home ownership through increasing the supply of affordable starter homes for families. The best means of increasing homeownership is to restrict eligibility to people who do not currently own a home.

- 51 Most people in this category are first home buyers who have never owned a home before. We conceived of KiwiBuild with these people in mind.
- 52 However, we must also consider those people who have previously owned a home, but who no longer do so. It would undermine our objective to exclude such a person if they are in the same financial position as a first home buyer. For example, a divorcing couple usually sell their family home in order to separate their financial affairs, but this can leave both persons in rental accommodation with insufficient deposit to purchase a new home.
- 53 Thus, I consider that it would be unfair to automatically exclude those who have previously owned a home. When the fifth Labour Government established KiwiSaver and decided to incentivise its use for home ownership by offering a grant to first home buyers that could be added to the deposit (which continues today as the KiwiSaver HomeStart grant), we confronted this same issue and decided it was important to ensure that previous owners such as divorced single mothers could still receive the grant.
- 54 Certainly, if previous owners have significant assets that mean they are independently wealthy, the case to include them among first home buyers diminishes. But this can be managed through the same asset test that protects the KiwiSaver HomeStart grant against being given to buyers in that position. In that case, the buyer cannot have realisable assets totalling more than 20 per cent of the HomeStart home price cap for the relevant area.
- 55 For these reasons, I propose that either the buyer:
- 55.1 must never have owned a home before, or
 - 55.2 must not currently own a home and must not have sufficient realisable assets to afford the deposit on a new home.
- 56 Realisable assets are cash savings or belongings that can be sold to help buy a home (so exclude savings that are locked up in KiwiSaver). Currently, the asset thresholds for former home owners under KiwiSaver HomeStart are:
- 56.1 \$120,000 in Auckland;
 - 56.2 \$100,000 in Hamilton City, Tauranga City, Western Bay of Plenty District, Kapiti Coast District, Porirua City, Upper Hutt City, Hutt City, Wellington City, Nelson City, Tasman District, Waimakariri District, Christchurch City, Selwyn District, Queenstown Lakes District; and
 - 56.3 \$80,000 in the rest of New Zealand.

Nationality

- 57 To align with our wider policy on purchasers of residential property in New Zealand, I propose that the second criterion be a requirement for the buyer to meet the same nationality tests we have agreed for the amendments to the Overseas Investment Act.

- 58 Under the Bill, in addition to citizens and permanent residents, a person who is “ordinarily resident in New Zealand” will also be able to obtain consent to acquire residential land. This is wider than just those with permanent residency, as it includes a person who:
- 58.1 holds a residence class visa granted under the Immigration Act 2009; and
 - 58.2 is in one of the following categories:
 - 58.2.1 is domiciled in New Zealand; or
 - 58.2.2 is residing in New Zealand with the intention of residing there indefinitely, and has done for the immediately preceding 12 months.

Living arrangements

- 59 There are two related but separate issues that concern how a buyer uses their KiwiBuild home:
- 59.1 whether they must own it for a minimum period before they can sell it; and
 - 59.2 whether they must live in it and not rent it out to others.
- 60 After introducing each issue separately, I consider the enforcement issues together, as they are the same in each case.

Minimum ownership period

- 61 Price appreciation of properties is a normal market function. However, in a rapidly rising market, such as we have experienced in recent years, homes can be bought and re-sold at a higher value in a short timeframe. In these circumstances, particularly because we are aiming to deliver lower priced new homes, there is a risk that some first home buyers may purchase a KiwiBuild home as an investment that they can buy and then sell quickly for capital gain.
- 62 Such an approach would defeat our purpose of assisting first-home owner-occupiers into home ownership. KiwiBuild is about enabling New Zealand families to have the security of home ownership. I believe KiwiBuild would be undermined if this were to happen. To manage that risk, I propose that KiwiBuild require a minimum occupancy period. This is the approach that is taken at Hobsonville Point with the affordable Axis Series homes, where buyers have a minimum occupancy period of two years. However, if buyers encounter unexpected changes in circumstances that mean they have to sell within the two year period, they can seek consent to an earlier sale or other alternative arrangements.

- 63 The KiwiSaver HomeStart Grant also has a minimum occupancy requirement. For this Crown product, the prescribed period is only 6 months. If the buyer sells within that period, they are liable to repay the full amount of the grant (of up to \$10,000 per eligible buyer).
- 64 In determining this issue, it is important to acknowledge that, at the point of sale, all the investment risk for the purchase, maintenance and on-sale of the KiwiBuild home passes to the first home buyer and any mortgagee. The Crown will retain no property interest in a KiwiBuild home once it is sold, meaning any normal capital gains should accrue to the first home buyer.
- 65 With those considerations in mind, I consider that a minimum ownership period of three years is an appropriate constraint, after which owners of KiwiBuild homes will be free to sell their homes. As in Hobsonville Point, where circumstances change that necessitate a sale within that time period, I propose that the KiwiBuild Unit retains discretion to allow a sale. In either case, any capital gains will go to the owner.
- 66 I don't propose that we prescribe in advance the circumstances that might reasonably justify the KiwiBuild Unit allowing an owner to sell within three years. The obvious circumstances include divorce, when it may cause financial and emotional distress to prevent a couple from separating their financial affairs; serious illness, which can lead to insufficient income to service a mortgage; and changes in employment that necessitate a change of location.
- 67 This requirement will be supported by a statutory declaration in advance of the sale in which the buyer confirms that they intend to own the KiwiBuild home for at least three years.

Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)

Principal place of residence

- 68 Cabinet asked for further advice on requiring the buyer to reside in the premises as their principal place of residence [CAB-18-MIN-0142]. The purpose of including this requirement would be to mitigate the risk of buyers purchasing a KiwiBuild home to lease as a rental property, rather than to live in themselves.

Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)

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- 71 As with the intention to own the home for three years, this will be supported by a statutory declaration in advance of the sale in which the buyer confirms that they intend to live in the home as their principal place of residence.
- 72 I do not propose to prevent owner-occupiers from having flatmates or renting spare rooms, including through websites such as AirBnB.

Enforcement

- 73 If you monitored each home once a year for three years, officials estimate that the cost of doing so would be around \$1-3 million over the full 10 year period.⁸
- 74 Monitoring of the minimum period of ownership can be undertaken through third-party search providers. The cost is about \$2 per property per annum, although we are investigating lower cost alternatives. With a three year period of occupancy the maximum number of properties monitored each year would be 36,000 at a cost of \$72,000. Monitoring would need to be undertaken for 13 years, meaning total costs of around \$750,000.
- 75 In addition, staff would be needed to manage and respond to the monitoring work. Any change that occurred without the KiwiBuild Unit's approval would also need to be followed up and legal action taken if warranted. Consequently, additional costs to pursue legal action may be incurred.

⁸ Assuming \$2 per KiwiBuild home per year.

Means test

- 81 The next issue is whether to include a means test that would exclude buyers who possess the financial means to purchase an alternative higher-priced dwelling. Such a test would exclude any potential first home buyer who had higher income or assets than a specified cap. I am proposing to exclude only the highest income households by applying an income cap with the following thresholds:
- 81.1 \$120,000 for a sole purchaser; and
- 81.2 \$180,000 for multiple purchasers.
- 82 I believe this income threshold enables the highest number of young families who struggle to purchase a modest starter home to be eligible, whilst staying true to public expectations about who should benefit from KiwiBuild and what would be a fair outcome.
- 83 My reasons are:
- 83.1 The range of households who are locked out of home ownership is broad. As discussed above, households with incomes in the \$130,000 to \$170,000 range are struggling to purchase their family home in some high-demand markets, such as Auckland, Wellington and Queenstown.

- 83.2 The KiwiSaver HomeStart grant cap income threshold has been shown to be too low in Auckland and Queenstown. Few households are able to take advantage of it to purchase their family homes.
- 83.3 The other factors determining affordability (deposit amount, income level, rents, cost of living and other factors such as student loan repayments) push home ownership out of reach for families with incomes above the KiwiSaver HomeStart grant cap.
- 83.4 As KiwiBuild ramps up, we will develop complementary programmes such as shared equity schemes to expand the opportunity of home ownership to more families.

84 I discuss 83.1 and 83.2 in more detail below.

The broad range of households locked out of home ownership

- 85 I discussed above not only how an increasing number of first-home buyers are locked out of home ownership but that the crisis was affecting a broader range of New Zealanders. The breadth of the crisis demonstrates that KiwiBuild should provide the opportunity of home ownership to a broad range of purchasers. It is for this reason I consider it prudent to only exclude the most wealthy first-home buyers from purchasing a KiwiBuild home.
- 86 Excluding households who earn more than \$180,000 would remove about 10 per cent of first home buyers. Below are five case studies demonstrating how KiwiBuild may operate.

Case studies
<p>Two teachers</p> <p>If a couple of two teachers took at least 8 years⁹ to save a deposit from graduation, they would have eight years post-qualification experience and a household income of between \$150,000 and \$170,000 by the time of purchase. This family is locked out of home ownership and would benefit from KiwiBuild.</p>

⁹ Some studies have put the average time to save a deposit as high as 16 years on the average Auckland weekly income of \$2111.

A family working in semi-skilled roles

A couple in their 30s with three kids living in regional New Zealand who work as a customer service representative and a construction supervisor would have a household income of approximately \$129,000, having worked their way up from \$70,000 on entry into the workforce. High weekly expenses mean their weekly savings are just \$85. Life circumstances, including a periods of maternity leave, mean that this couple are only just starting to save a deposit for a house. It will take them more than 8 years to save a 10 per cent deposit on a lower quartile dwelling based on their current household income. Once that deposit has been saved, they would likely earn between \$130,000 and \$150,000 but still need KiwiBuild to assist them into home ownership.

A nurse and police officer

A nurse and a police officer living in Auckland who have been working for 5 years have a joint annual income of \$125,000. They save diligently but at this rate it will still take them at least 7 years to save a 20 per cent deposit on a lower quartile house.

A civil engineer

A mid-level civil engineer is earning \$90,000 per year. It would take them 5 years to save a 10 per cent deposit, but there is fierce competition for newly built homes at lower quartile house price. This means that they may be required to save a 20 per cent deposit so that they can buy an older home in the lower quartile price bracket.

Two skilled professionals

A couple, both working in the science and innovation sector, have a combined household income of \$176,000; but sizeable student loans reduce their weekly take-home pay. They have been able to accumulate savings for a two-bedroom property in the suburbs. However, they would like an extra bedroom as they have their first child on the way and family from out of town who regularly come to stay. They are working towards saving a larger deposit, but their take-home pay will be reduced if one of them takes parental leave. KiwiBuild would enable them to purchase a three bedroom home at a similar price point.

- 87 As these examples illustrate, in high-demand markets like Auckland families who may traditionally have been expected to buy a suitable home for themselves are still struggling to attain home ownership. Families with children will also need larger, more expensive homes, and will have higher living costs, so will be more likely to be locked out of home ownership, particularly in high-demand markets. I want KiwiBuild to speak to the aspirations of a wide variety of New Zealand families.

Relationship with the KiwiSaver HomeStart grant

- 88 One option would be to align any means test with the current test that applies to the grant, which would have the advantage of reducing confusion for buyers and administrators alike. Apart from the asset test for previous home owners noted above, the only test is that income falls below the following thresholds:
- 88.1 \$85,000 for a sole purchaser;
- 88.2 \$130,000 for multiple purchasers.
- 89 Excluding households who earn more than the \$130,000 threshold would remove over a quarter of first home buyers nationwide (illustrated in the graph on page 5).¹⁰ It would also severely limit the range of homes that could be offered, especially in Auckland.
- 90 The problems of a \$130,000 income cap are also visible in how few first home buyers in Auckland take advantage of the KiwiSaver HomeStart grant. Less than 9 per cent of HomeStart grants are for homes purchased in Auckland, grossly disproportionate to the number of Auckland first-home buyers. This shows that, even with the grant available, families immediately below the income cap struggle to purchase their first home, meaning that a cap at this level would exclude a large number of first home buyers.
- 91 In the examples considered above, only two families would receive assistance if KiwiSaver HomeStart caps of \$130,000 for multiple purchasers were used. Currently, we know all of those families are struggling to secure a first home that will meet their needs.

Multiple purchasers

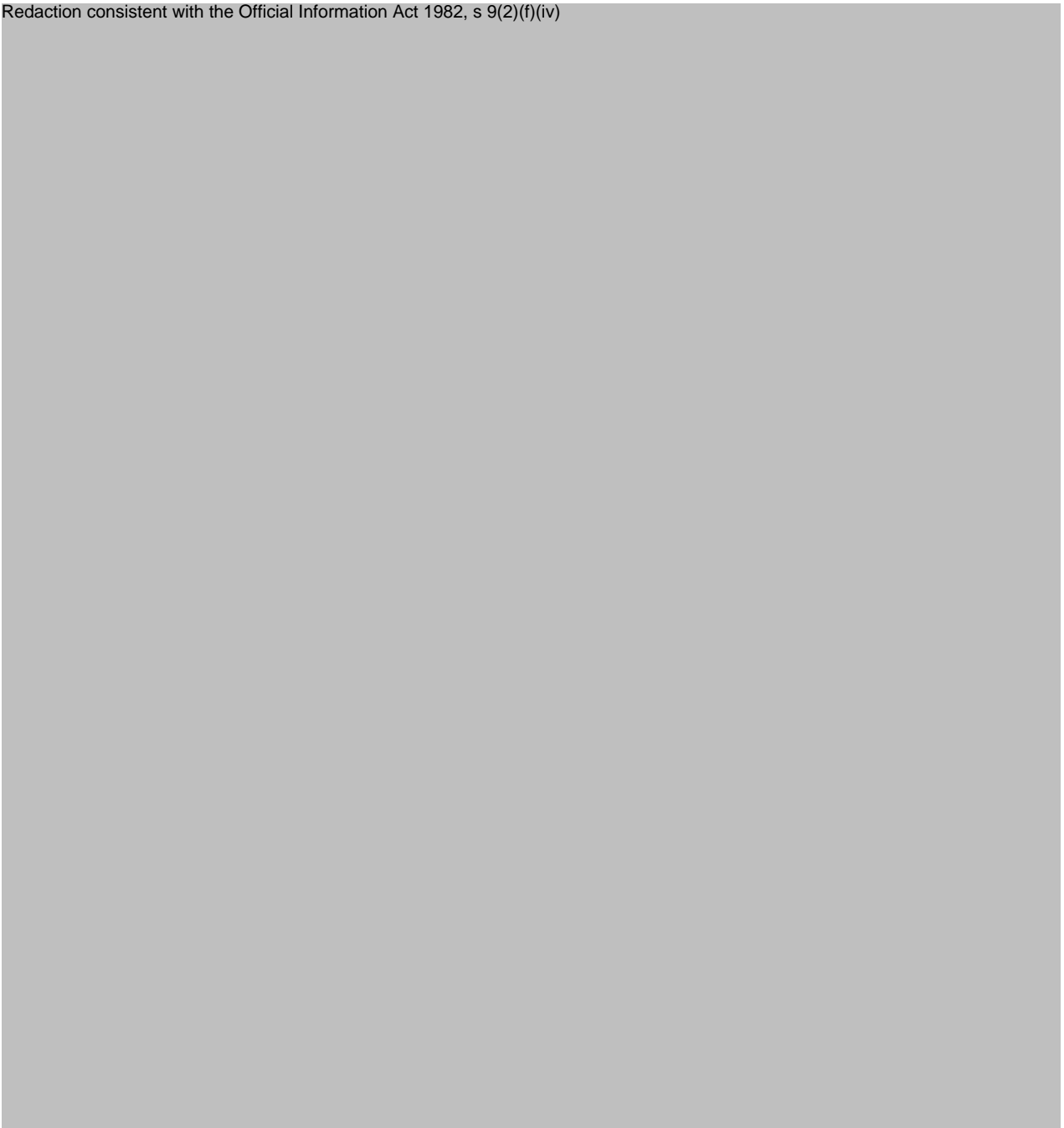
- 92 I expect many first home buyers to buy as couples. I also expect there will be two or more buyers who join together to purchase KiwiBuild homes.
- 93 In these cases, I propose that each buyer must separately meet all of the eligibility criteria, with one exception: I propose that couples are still eligible to purchase a KiwiBuild home even if one person does not meet the nationality test, provided the other person does and both individuals are legally entitled to be in New Zealand. This will ensure that no person who is otherwise entitled to acquire residential land in New Zealand on their own will be disadvantaged due to the status of their partner.
- 94 This is consistent with our wider residential housing policy under the forthcoming amendments to the Overseas Investment Act.

¹⁰ This is based on MBIE analysis of the incomes of first home buyers collected by NZ banks and reported to the Reserve Bank, for mortgage loan commitments from January 2018 to March 2018.

Sale of KiwiBuild properties to family trusts

- 95 Some first home buyers will want to purchase the home through a family trust. As this raises further complexities, I have sought advice on what approach to take and propose that Cabinet delegates authority to the Minister of Finance, Minister of Infrastructure and me to make this decision.

Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)



Supply considerations

- 103 While the Crown itself may be the developer and vendor of KiwiBuild homes on some occasions, the methods we have agreed to deliver KiwiBuild all rely on private sector developers entering into a contract with the Crown.

- 104 To be able to influence the sector and demonstrate a workable business model for modest priced housing, the Crown must first be able to attract developers and their bankers to participate. Their participation will depend on how commercially attractive the development opportunities are. From their perspective, the more restrictive any eligibility criteria, the fewer buyers will be eligible, the greater the sales risk and the less likely they are to participate in KiwiBuild.
- 105 In determining these criteria, I have also considered the likely effect of any means test on demand and thus on the private sector's willingness to participate.
- 106 Reducing the pool of eligible purchasers increases the sales risk for developers, so can be expected to reduce the number of developers (and their bankers) who are willing to participate in KiwiBuild. For those developers who do participate, it can be expected to increase the cost and risk they seek to shift to the Crown, and/or reduce the number of KiwiBuild homes they are willing to commit to building. In either case, it undermines our ability to deliver the volume of supply we are targeting.
- 107 Developers are very wary of restrictions that would significantly limit the pool of buyers, especially when higher priced KiwiBuild homes will eliminate most lower income buyers from the market. [REDACTED]
- 108 Even when the Crown is guaranteeing to purchase a KiwiBuild home, the price at which the Crown guarantees to purchase the home will be less than the price at which the developer can sell it.¹¹ But developers won't be willing to pursue the extra margin if they consider the pool of buyers is too small to be worthwhile. They will either demand a higher guaranteed price or reduce the number of KiwiBuild homes they are willing to supply. [REDACTED]

Redaction consistent with the Official Information Act 1982, s 9(2)(i)

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¹¹ E.g. A developer in Auckland may agree to supply 50 two-bedroom homes for KiwiBuild below the \$600,000 price cap, on condition that the Crown guarantees to purchase them for \$570,000 if the developer cannot find a buyer. Consequently, the developer is incentivised to find a buyer willing to pay up to \$600,000 for the home, as that means the developer receives up to \$30,000 more from the sale. The upside for the Crown is that it is less likely the developer will need to call on the guarantee.

110 Whilst I consider this to be an important concern, I believe the criteria are appropriate.

Managing the sale of KiwiBuild homes

111 The KiwiBuild Unit's role is to act as facilitator between applicants and developers and to match pre-qualified purchasers with suitable KiwiBuild homes.

112 As such, the sales process should:

112.1 provide an efficient, user-friendly service for both applicants and developers;

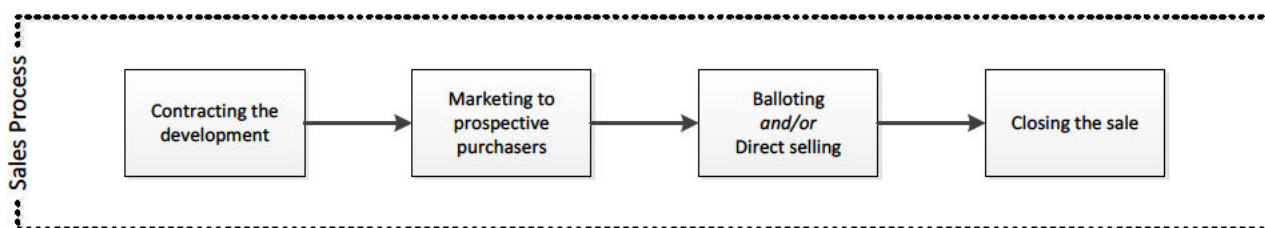
112.2 allow sufficient time for any potential purchasers to apply for eligibility and to express interest in the property;

112.3 recognise that the KiwiBuild Unit, Housing Commission or developers need to achieve sales at an early stage in the development process in order to reach delivery targets and maintain confidence in the programme; and

112.4 be structured in such a way that it can be made to fit different contract and development types.

Flexible and scalable sales process

113 The sales process will be managed in stages, to reflect the flexibility required to meet the varied needs of developers and changing dynamics of the industry. The following diagram shows the process at a high level, with a more detailed diagram set out in Annex One.



Contracting the development

114 The KiwiBuild Unit will work closely with private developers, iwi and other housing providers to establish contracts for the development of KiwiBuild homes. These contracts will set the commercial expectations and obligations for the development, including unit plans, pricing and the timeline for construction. The developer will work together with the KiwiBuild Unit to set out the marketing and sales protocols for the dwellings.

- 115 Once development details are finalised and a Development Agreement signed, properties will be granted preliminary KiwiBuild status and added to the KiwiBuild Register.

Marketing and initial offering

- 116 The developer and the KiwiBuild Unit will publicly announce the upcoming properties. Notifications will be sent to any who have registered their interest in matching property types or pre-qualified for KiwiBuild eligibility.
- 117 Those who have expressed an interest but not pre-qualified will be able to do so during this time. Eligible purchasers will be able to express interest in the properties.
- 118 The developer may simultaneously market the properties through their own channels, broadening the visibility of the KiwiBuild programme and the units on offer.
- 119 The KiwiBuild Unit will publish the details of the sales process, including the deadline for offers and application requirements. There must be sufficient time available for interested applicants to pre-qualify and meet requirements of submitting an offer
- 120 Applicants who are interested in purchasing must submit:
- 120.1 a signed offer form for the specific unit (or block of units) available for purchase;
 - 120.2 confirmation of eligibility; and
 - 120.3 evidence of finance pre-approval, with no conditions and not older than three months.
- 121 The KiwiBuild Unit will review the offer and supporting documentation, and confirm with the applicant that their offer has been received.
- 122 If, at the end of the marketing period, there are multiple offers for a single unit, a ballot will be drawn. If no offers have been received, the developer may seek authorisation to move to a direct sales approach. Given that, in the vast majority of cases, a private developer will sell the home to the first home buyer, it will be the developer who decides when buyers will have to enter an unconditional purchase agreement.

Balloting

- 123 A ballot will typically be run in cases where:
- 123.1 there is high demand in the area for the type of properties being constructed (signalled through the Interest Register);
 - 123.2 the sale is the first block on offer in a larger development and the demand has not yet been tested; or

- 123.3 the project has been contracted through the Buying off the Plans initiative, where the Crown has underwritten the initial risk in commencing the development.
- 124 Officials estimate that balloting will be the most frequently used sales method in the first few years of the KiwiBuild programme, when interest and demand are highest and when Buying off the Plans is the most likely mechanism for establishing development contracts.
- 125 Applicants may be involved in more than one ballot and therefore may submit offers on more than one property. However, they will only be able to purchase one unit, regardless of their success in the multiple ballots.
- 126 The ballot will be drawn one week after the closure, to allow for any remaining review of entries. A primary purchaser and a back-up will be drawn.
- 127 The KiwiBuild Unit will immediately notify the successful entrant of the ballot outcome and their details will be given to the developer to proceed with the sale. If the initial applicant declines the property, the alternate will be contacted. Successful applicants will have five working days to confirm acceptance of the property. Unsuccessful applicants will be notified of the outcome.

Direct selling

- 128 In some cases, the developer may seek authorisation from the KiwiBuild Unit to skip the initial offering period and move immediately to direct sales. Examples of these might include:
- 128.1 regions where the KiwiBuild home price is not significantly different from the prices of existing homes in the lower quartile of the market;
- 128.2 when the size or type of available properties are typically more difficult to sell (e.g. one bedroom apartments); or
- 128.3 when nearing the end of a larger development and there has been evidence of declining interest in blocks of units as they are released for sale.
- 129 The developer may take the approach whereby they consider offers as they are received; however, these sales will be restricted to KiwiBuild eligible purchasers for a period of time. [Redacted]
Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)
- 130 Applicants wishing to purchase the property will be required to submit evidence of their eligibility to the developer, who will verify the purchaser's status with the KiwiBuild Unit.

Closing the sale

- 131 The applicant will meet the conditions of the sale and sign a Sale and Purchase Agreement. At this time the sale will go unconditional and the deposit must be paid to the developer.
- 132 In cases where the developer has sold directly to the applicant, the developer will confirm with the KiwiBuild Unit that the property has been sold to an eligible purchaser.
- 133 Once the home is completed, certified compliant and available for occupancy, its status will be updated on the KiwiBuild Property Register and will be counted against KiwiBuild targets.

Consultation

- 134 The KiwiBuild Unit was consulted on this Cabinet paper. The Department of Prime Minister and Cabinet was informed.

Financial Implications

- 135 The more eligibility criteria, the greater the administrative costs of processing applications, monitoring compliance and enforcing any breaches.

Human Rights

- 136 This Policy proposal is consistent with the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative Implications

- 137 This paper has no legislative implications.

Regulatory Impact Analysis

- 138 A regulatory impact statement is not required for the proposals in this paper.

Disability Perspective

- 139 MBIE is developing a policy on how the KiwiBuild programme can best meet the needs of a diverse range of households, including people with disabilities.

Publicity

- 140 The office of the Minister of Housing and Urban Development will manage the publicity resulting from any decisions in this paper in conjunction with the Prime Minister's Office.

Recommendations

I recommend that the Economic Development Committee:

1 **note**, in general, KiwiBuild homes will only be affordable for first home buyers earning above the median household income;

2 **note** on 9 April 2018, Cabinet:

2.1 invited the Minister of Housing and Urban Development to report back with further advice on the proposed definition of an eligible KiwiBuild purchaser; and

Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)

[CAB-18-MIN-0142]

3 **note**:

3.1 the more restrictive any eligibility criteria, the fewer buyers will be eligible, the greater the sales risk for developers, the less likely developers are to participate in KiwiBuild;

3.2 if the income test currently used for the KiwiSaver HomeStart grant was applied (which excludes households earning more than \$130,000 per year), it would:

3.2.1 exclude over a quarter of remaining first home buyers nationwide;

3.2.2 all but eliminate the demand for KiwiBuild homes priced above approximately \$550,000;

3.3 the success of KiwiBuild depends on being able to secure the participation of private sector developers;

4 **agree** that, to be eligible to purchase a KiwiBuild home, a person must meet all of the following requirements:

4.1 be a New Zealand citizen, permanent resident, or a person who is “ordinarily resident in New Zealand” as defined under the forthcoming amendments to the Overseas Investment Act (“nationality test”);

4.2 either be:

4.2.1 a first home buyer, meaning a person who has never owned a home before; or

4.2.2 a previous home owner, provided that person—

4.2.2.1 no longer owns a home; and

4.2.2.2 meets the asset test that applies to previous home owners for the KiwiSaver HomeStart grant;

4.3 intend to own the home for at least three years;

4.4 intend to reside in the premises as their principal place of residence; and

4.5 have income below the following caps:

4.5.1 \$120,000 for a sole purchaser; and

4.5.2 \$180,000 for multiple purchasers.

5 agree:

5.1 the intention to reside and intention to retain ownership must be supported by a statutory declaration

Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)

5.2 the Government retain a discretion to permit a KiwiBuild owner to sell or rent the home within three years for good reasons (e.g. divorce, change of job to another location, illness);

6 agree:

6.1 if two people wish to buy a KiwiBuild home together:

6.1.1 the buyers must each separately satisfy all the criteria; except

6.1.2 when the KiwiBuild home will be relationship property, one of the buyers can be an overseas person that does not satisfy the nationality test, provided—

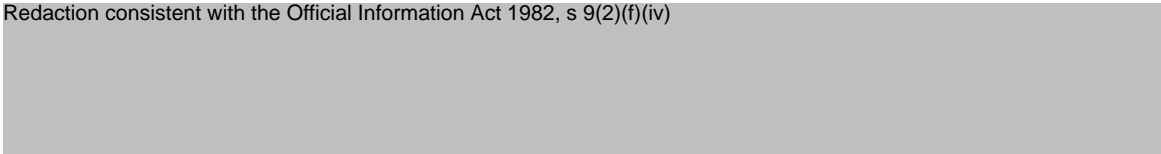
6.1.2.1 the overseas person is buying the home with their spouse, civil union partner or de facto partner; and

6.1.2.2 that person satisfies all of the eligibility criteria;

8 **delegate** to the Minister of Finance, Minister of Infrastructure and Minister of Housing and Urban Development authority to determine in light of further advice:

8.1 what approach to take to first home buyers who wish to purchase a KiwiBuild home through their family trust; and

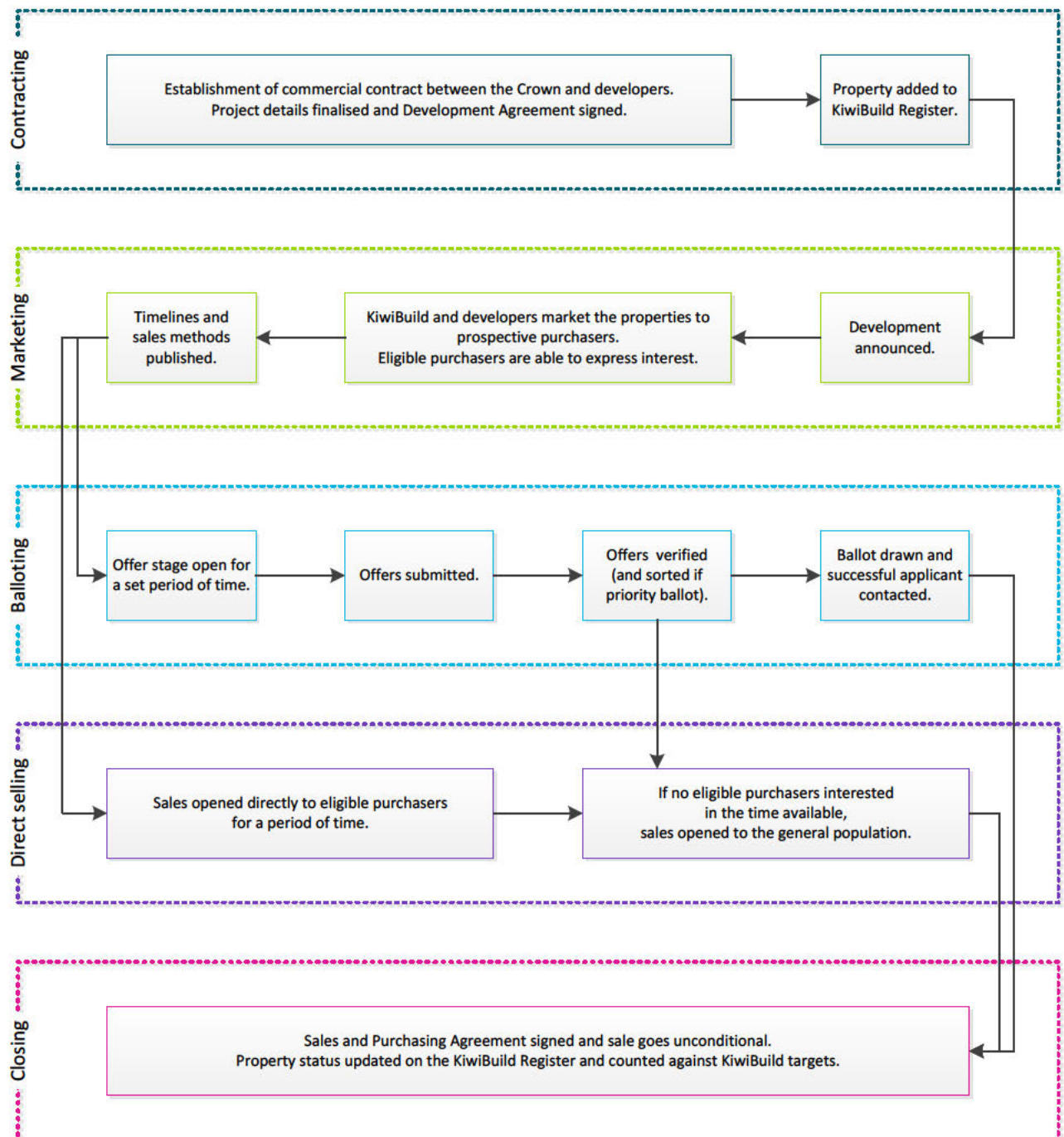
Redaction consistent with the Official Information Act 1982, s 9(2)(f)(iv)



Authorised for lodgement

Hon Phil Twyford
Minister of Housing and Urban Development

Annex One: KiwiBuild sales process



Annex Two: Time Required for New Zealand Households to Save for a Home Loan Deposit for Homes Built at the Maximum KiwiBuild Price Cap for the Region

This attachment provides indicative analysis of the time to save for a deposit on a KiwiBuild home, built at the maximum price cap, throughout New Zealand.

Assumptions

The following table outlines the main assumptions used in estimating the time to save a deposit for a KiwiBuild home of \$650,000 in Auckland and Queenstown and a \$500,000 throughout the rest of the country. Importantly, due to data constraints, it was assumed that household expenses for each income level are the same throughout New Zealand. This is most likely to overestimate expenses in smaller regions where some expenses, particularly rents, are lower. It is also reasonable to expect that KiwiBuild homes will be able to be delivered for considerably less than the maximum price caps in smaller regional centres, as indicated in the Table at Paragraph 33.

	Household Income	Household Expenses	Household student loans
Median income	Median household income, split 70:30 (i.e. higher income earner earned 70 per cent of household income)	Middle income quintile, average expenses for the country.	One, median bachelor degree loan.
Above median income	Median household income, split 70:30	Second highest income quintile, average expenses for the country.	Two student loans: One at the median bachelor degree loan One at half of the median bachelor degree loan.

\$150,000 couple	\$150,000 household income, Split 50:50.	Highest income quintile, average expenses for the country.	Two student loans: one each at the 90 th per centile bachelor degree loan for male and female.
\$180,000 couple	\$180,000 household income, Split 50:50.	Highest income quintile, average expenses for the country.	Two student loans: one each at the 95 th per centile bachelor degree loan for male and female.

Results

In Auckland, even on a relatively high income of \$150,000, a couple would need 4.5 years (232 weeks) to save a 10per cent deposit on a \$650,000 KiwiBuild house, as they likely need to be making substantial student loan repayments, paying tax on their incomes, plus, they will typically have higher expenditure. It is assumed they have the equivalent expenditure of the average household in the top income quintile throughout the country. They would take 9 years to save for a \$650k home with a 20per cent deposit.

Note: All results where indicative analysis concluded that more than 15 years would be needed to save a home deposit have been removed.

Weeks (years) to save a deposit, all regions for a \$650,000 home in Auckland and Queenstown, and a \$500,000 home in other KiwiBuild regions

Region	Median Household Income	10 per cent deposit median income	20per cent deposit median income	10per cent deposit, above median income	20per cent deposit above median income	10per cent deposit \$150,000 income	10 per cent deposit, \$180,000 income
Auckland	\$92,700	261 (5.0)	522 (10.0)	165 (3.2)	329 (6.3)	232 (4.5)	109 (2.1)
Queenstown	\$100,070	191 (3.7)	382 (7.3)	128 (2.5)	257 (4.9)	232 (4.5)	109 (2.1)
Northland ^a	\$60,300					178 (3.4)	84 (1.6)
Bay of Plenty	\$72,300			613 (11.8)		178 (3.4)	84 (1.6)
Waikato	\$78,100	764 (14.7)		291 (5.6)	582 (11.2)	178 (3.4)	84 (1.6)
Hawke's Bay ^a	\$74,700			418 (8.0)		178 (3.4)	84 (1.6)
Wellington	\$98,600	155 (3.0)	310 (6.0)	103 (2.0)	206 (4.0)	178 (3.4)	84 (1.6)
Nelson ^a	\$74,700			418 (8.0)		178 (3.4)	84 (1.6)
Tasman ^a	\$73,600			489 (9.4)		178 (3.4)	84 (1.6)

^aNote that KiwiBuild houses are likely to be able to be built at considerably less than the maximum price cap in these regions, meaning the deposit required to be saved is also likely to be considerably less than illustrated in the above table. Median lower quartile prices for each region are illustrated in the table at Paragraph 33. At these levels, and assuming lower weekly expenses for the regional centres, the time taken to save a deposit would be more than halved in Northland and would be reduced by 1-3 years in Hawkes Bay, the Waikato, and Nelson and Tasman regions.