

Budget Sensitive

Office of the Minister of Housing

Office of the Associate Minister of Housing (Māori Housing)

Chair, Cabinet Economic Development Committee

## **Modernising First Home Products**

### **Proposal**

1. We are seeking Cabinet's agreement to adjust First Home Products and Kāinga Whenua Loans settings to support more first home buyers (FHBs) to overcome the deposit barrier to home ownership, including Māori, Pacific peoples, and families with children.
2. Cabinet has agreed to fully fund the changes through Budget 2022. We are seeking agreement to the adjusted settings so changes to the First Home Products and Kāinga Whenua Loans can be announced on Budget day (19 May 2022).
3. The Minister of Housing is also seeking agreement in-principle to make changes to KiwiBuild house price caps and other settings to further boost support for first home buyers through encouraging the supply of affordable homes.

### **Relation to government priorities**

4. Our Government has three overarching objectives: to keep New Zealanders safe from COVID-19, to accelerate our recovery, and to lay the foundations for a better future through reducing inequality and addressing child poverty, reducing carbon emissions, and improving housing affordability [CAB-20-MIN0525].
5. The First Home Products aim to improve housing affordability by reducing the deposit barrier faced by FHBs on modest incomes wanting to buy a modest first home. The products are part of a suite of targeted initiatives that increase access to home ownership for people who might otherwise not be able to do so. Changes to the product settings aim to better support uptake of the products by Māori, Pacific peoples, and families with children; as well as a wider group of FHBs.

### **Executive Summary**

6. The First Home Products include the First Home Loan (the loan) and the First Home Grant (the grant). The loan reduces the minimum deposit required to five percent, and the grant provides a subsidy for FHBs to put towards a deposit. The Kāinga Whenua Loan is a type of home loan that supports Māori to access finance to build on their whenua.

7. At the start of 2021, the Minister of Housing asked Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) to undertake a review and identify options to modernise the products. The review found some settings have not kept pace with a rapidly changing housing market which has led to reduced uptake of the products, particularly in urban areas.
8. In addition, the review found the products could be better targeted as uptake by Māori and Pacific peoples is lower than uptake by other New Zealanders and income cap settings do not effectively accommodate single earners with dependents. Through the review HUD also identified changes to the Kāinga Whenua Loan.
9. We are seeking your agreement to a number of changes to the grant and loan to better support Māori, Pacific peoples, and families with children to access the products. These changes include:
  - 9.1. changing income cap categories so there is an 'individual earner with dependents' category
  - 9.2. making the grant more accessible by reducing the KiwiSaver saving level requirements.
10. We are also seeking your agreement to increasing the loan cap for Kāinga Whenua Loans from \$200,000 to \$500,000 to make the loan scheme more effective for whānau.
11. Other proposed changes will support the wider group of FHBs:
  - 11.1. increasing house price caps for the grant (based on the estimated lower quartile value of new and existing properties)
  - 11.2. removing house price caps for the loan altogether
  - 11.3. implementing a regular review of house price caps and income caps to take place either six monthly or annually.
12. All of the proposed changes have been funded through Budget 2022. Subject to your agreement, the changes will be announced on Budget day (19 May 2022). Changes to the First Home Grant will take effect from 19 May and changes to the First Home Loan and Kāinga Whenua Loans will take effect from 1 June 2022.
13. The First Home Products work alongside other government home ownership programmes, such as Progressive Home Ownership and KiwiBuild, to support FHBs and encourage the supply of affordable new build homes. KiwiBuild has the potential to play a more significant role than it does now, as a countercyclical tool encouraging the supply of new build homes for FHBs at a time when the development and construction sector is facing increased costs and uncertainty.
14. KiwiBuild house price caps have remained largely unchanged since the programme was introduced, reducing the commercial viability of the programme and making it increasingly difficult to deliver homes.

15. The Minister of Housing is seeking your agreement in principle for changes to be made to KiwiBuild to update the house price caps and adjust other settings to improve the commercial viability of the programme and encourage the supply of affordable new build homes for FHBs. The Minister of Housing will seek detailed decisions on KiwiBuild price caps and policy settings in June. Your agreement in principle is sought now so the Minister can signal upcoming changes to KiwiBuild in any Budget announcements on the First Home Products.

## **Background**

16. The First Home Products are designed to help FHBs on modest incomes overcome the barriers to bringing together a deposit on a first home. These differ from our Progressive Home Ownership products that are designed to assist borrowers with servicing a loan. An overview of the First Home Products is provided at Annex A.
17. The grant is administered by Kāinga Ora – Homes and Communities (Kāinga Ora). The grant is available to eligible KiwiSaver members who meet minimum savings requirements. The amount of the grant is between \$3,000 and \$10,000, depending on the number of years the buyer has been a KiwiSaver member and whether the property being purchased is a new build or an existing home.
18. Loans are issued by select banks and other lenders and underwritten by Kāinga Ora. The loan assists FHBs to secure a loan with a five percent deposit. Unlike the grant, loan applicants do not need to be KiwiSaver members.
19. For both products, currently buyers must:
  - 19.1. earn under \$95,000 for single earners and \$150,000 for two or more earners
  - 19.2. be purchasing a property below the relevant house price cap for the region they are buying in
  - 19.3. meet bank lending requirements.
20. Income caps and house price caps were last increased on 1 April 2021. The income caps were increased from \$85,000 to \$95,000 for individual buyers, and from \$130,000 to \$150,000 for multiple buyers. The regional house price caps were increased to reflect the increased price of housing.
21. The Kāinga Whenua Loan is a scheme run by Kāinga Ora and Kiwibank to help Māori achieve homeownership on multiple-owned land. The scheme supports Māori to build, purchase or relocate a house and can also be used for repairs and maintenance for an existing house.
22. There are a number of eligibility requirements, including: the build must be on multiple-owned Māori land, borrowers must have a licence to occupy, provide satisfactory proof of income and have a good credit history. The home built using the loan must be built on piles, be of one storey of at least 50 square metres, have reasonable road access and be located on the mainland of the North or South Islands.

## Review of the First Home Products

23. At the start of 2021, the Minister of Housing asked HUD to investigate options to modernise the products. Information on the findings of the review is provided in Annex B. In summary, the review found:

23.1. uptake of the products by Māori and by Pacific peoples is lower compared to uptake by other New Zealanders

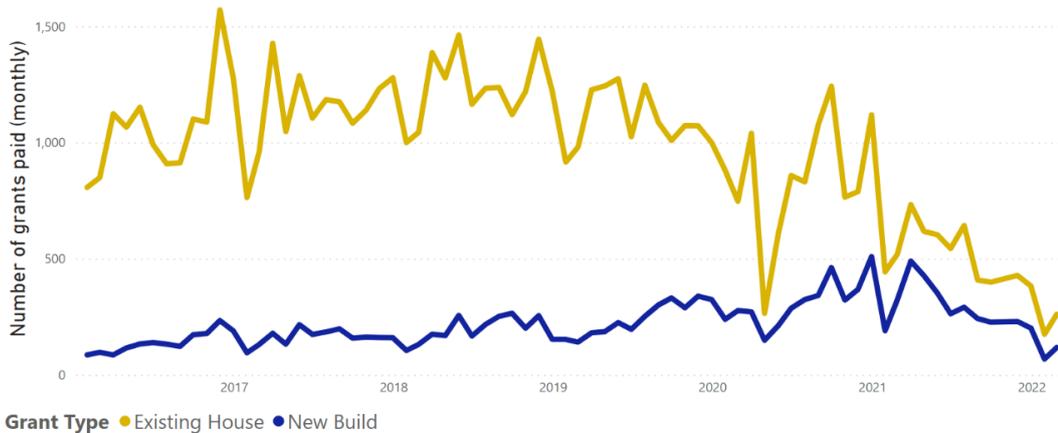
23.2. income cap settings favour multiple buyers compared to individual buyers and can be particularly unfavourable where the individual buyer has dependents

23.3. house price caps have constrained uptake of the products in some areas (see Figure 1)

23.4. the loan better targets FHBs who need support to overcome the deposit barrier compared to the grant, because the grant can be accessed by buyers who already have the full deposit required to buy a home

23.5. the loan is a more cost-effective tool for supporting FHBs over the deposit barrier. In 2020 the loan decreased the deposit barrier by \$37,500 at an average cost to the government of \$4,300.

**Figure 1: Number of First Home Grants paid monthly by grant type**



Source: Kāinga Ora – Homes and Communities and Statistics New Zealand

24. The review identified setting changes that would:

24.1. assist more FHBs with the deposit barrier to owning a modest first home

24.2. ensure the products support FHBs struggling to overcome the deposit barrier and who need government assistance to do this

24.3. work more effectively for groups who may face additional barriers to homeownership such as Māori, Pacific peoples, and families with children.

## **Broad direction of changes proposed**

25. The recommended changes align with the findings of the review and aim to improve FHB access to the products and increase uptake, including through changing eligibility requirements that can be overly restrictive, adjusting income cap categories, and updating or removing house price caps.
26. Changes aimed at increasing uptake of the products, particularly those supporting FHB demand for new build homes, will help to mitigate some of the demand side headwinds currently impacting the development and construction sector.
27. The construction sector is already feeling the impacts of limited availability and rising costs of building materials, labour, and development finance. Rising mortgage rates and tighter lending criteria could lead to reduced buyer demand. Increased risk of developments being delayed or discontinued is likely to disproportionately impact delivery of the types of housing we need most, including higher density and affordable housing developments that can be suitable for FHBs.

## **Changes to better support Māori, Pacific people and families with children**

### *Relocatable homes to qualify as new build properties (grant only)*

28. Relocatable homes are currently treated as existing properties. While few FHBs currently seek the grant for relocatable homes, relocatable homes can help to bring on new supply by freeing up land for development. Māori can access funding for relocatable homes through the Kāinga Whenua Loan.
29. The Minister of Housing proposes that relocatable homes that have received a new Code of Compliance Certificate within the previous 12 months qualify for the new build property grant.

### *Enabling members of Progressive Home Ownership rent-to-buy schemes to access the new build grant (grant only)*

30. The Progressive Home Ownership Fund is targeted toward assisting Māori, Pacific peoples, and families with children into home ownership. Other schemes provided by iwi and Māori and by charities may also assist these groups.
31. People participating in shared equity Progressive Home Ownership schemes, where the FHB moves into a new home that they own, are eligible for the new property grant. However, people participating in Progressive Home Ownership rent-to-buy schemes initially move into a new home as a rental, and at the point they are ready to buy, it is considered an existing home.
32. The Minister of Housing proposes that a home that is part of a rent-to-buy Progressive Home Ownership scheme be eligible for the new build property grant. Kāinga Ora would be required to determine whether the rent-to-buy scheme is a legitimate scheme and that the FHB moved into that rental as a new build property with the intent of purchasing that home in the future. Eligibility for the grant would be determined at the point the potential homeowner is ready to purchase the home.

*Adjusting KiwiSaver requirements to reduce the threshold amount of regular savings to access the grant (grant only)*

33. Kāinga Ora data shows the most common reason for a grant application to be declined is because the FHB does not meet the minimum KiwiSaver requirements (i.e., regular KiwiSaver contributions of three percent of income for three years). In 2021, 60 percent of grant applications declined at the pre-approval stage were because KiwiSaver requirements were not met (2,127 declined applications were declined for this reason). In this same year, 65 percent of grant applications (372 applications) from people identifying as Māori were declined for not meeting these requirements.
34. The Minister of Housing proposes changes to the KiwiSaver requirements. To be eligible, a FHB would need to contribute either three percent of their income or at least \$1,000 annually (whichever is lower), for at least three years. Retaining the three year requirement along with the proposal to be more flexible about the level of regular contributions to KiwiSaver would still ensure a FHB demonstrates a savings habit while enabling buyers on lower incomes or working part-time to meet the KiwiSaver requirements. The three year period does not need to be continuous, so if someone pauses their contribution after two years (for example, to free up disposable income), when they re-start contributions they will need to save for one more year to meet the KiwiSaver eligibility requirements.

*Changing income cap categories (grant and loan)*

35. The income caps for the products are designed to target FHBs on modest incomes. The income caps are \$95,000 for 'individual buyers' and \$150,000 for 'multiple buyers'. The Minister of Housing proposes to add a category for 'individual buyers with dependents', with the income cap mirroring the cap for multiple buyers. In most cases dependents will be children, but this definition applies equally to dependent adults in a household.

**Table 1: Proposed income caps for First Home Products**

<b>Group</b>	<b>Income cap</b>
Individual buyers with no dependents	\$95,000
Multiple buyers and <b>individual buyers with dependents</b>	\$150,000

36. Individual buyers with dependents often have the same housing needs as multiple buyers. They are likely to require more bedrooms or homes with a larger footprint compared to those without dependents. The Minister of Housing receives correspondence on a regular basis from individual buyers who are unable to access the products to provide a home for their families due to the \$95,000 income cap.
37. The higher income cap would provide an individual buyer with dependents with the ability to access the First Home Products to purchase a bigger house for themselves and their dependents. The change in income cap categories will ensure that individual buyers with dependents are not disadvantaged and that they can buy a suitable home.

38. The option of moving to a single income cap for the products was considered (for example, a cap of \$150,000 regardless of the number of borrowers or whether they have dependents). However, this would potentially give high earning individuals without dependents access to the products when they might not need them to purchase a suitable first home. This would be inconsistent with the intention of providing support to modest income earners to buy a modestly priced first home.

#### *Increasing the loan cap for the Kāinga Whenua Loans*

39. Through the review of the First Home Products, it came to our attention that the current cap for the Kāinga Whenua Loans was too low for the product to be effective and uptake has been minimal with less than 80 loans drawn down since 2010. The \$200,000 cap was set in 2010 when the programme was established.
40. We propose that the loan cap be raised from \$200,000 to \$500,000 (with a deposit requirement of 15 percent for every dollar borrowed over \$200,000). This reflects increasing costs in the residential construction sector and will be more workable for borrowers. Costs associated with increasing the loan cap can be met from within existing baselines.
41. Other issues, such as administrative processes and requiring the property to be relocatable, were raised during the review. However, without making fundamental changes to the Kāinga Whenua Loan scheme, legal and operational barriers that can prevent building on whenua Māori will limit the impact of further changes to the loan scheme.
42. These matters will be considered in a review of barriers to building on whenua Māori and Kāinga Whenua Loans that Te Tūāpapa Kura Kāinga is leading with Te Puni Kōkiri and involving Kāinga Ora. This review sits alongside the Māori and Iwi Housing Innovation (MAIHI) Framework for Action and is part of the implementation plan for MAIHI Ka Ora - National Māori Housing Strategy.

#### **Changes that lower the deposit barrier more generally**

##### *Adjusting house price caps for the First Home Grant*

43. The house price caps were last updated on 1 April 2021. However, in many locations the caps have limited FHB uptake of the grant because lower quartile house prices have risen above the caps. This means there are likely to be only a small number of properties for sale at prices eligible for the grant. We propose to update the house price caps to reflect lower quartile market valuations.
44. Updating the house price caps to realign them with lower quartile house prices will support more FHBs to overcome the deposit barrier to owning their first home while continuing to target modest homes and provide FHBs a greater choice of homes to purchase while accessing government support.

45. We propose to continue to have different house price caps for new build homes and existing homes. The table at Annex C shows the updated house price caps using February 2022 data, and compares these to the existing house price caps last updated in April 2021. An overview of the method for setting the caps is outlined in Annex D.

#### *Removing house price caps for the First Home Loan*

46. While it is necessary to retain house price caps for the grant to ensure that it remains targeted toward modest first homes, the Minister of Housing proposes that the house price caps for the loan be removed altogether, relying on income caps and bank lending criteria to determine what home a FHB can afford. Removing house price caps for the loan is similar to the approach used for the Progressive Home Ownership Fund.
47. Removing the house price caps will allow more FHBs to access the loan.<sup>1</sup> Costs to the Government of removing the house price caps for the loan will be mitigated through the income cap settings and responsible lending requirements.
48. HUD consulted with banks which offer the loan and identified that local housing markets would operate more effectively if the house price caps were removed as it would reduce a concentration of buyers in a limited segment of the market.
49. Removing house price caps for the loan could risk increasing house prices. However, we do not consider this to be a significant risk, given there were only \$346 million dollars of First Home Loans underwritten in 2021 compared to \$99 billion in residential mortgage lending.<sup>2</sup> Demand for homes is affected by a range of factors such as individual readiness to purchase a home, interest rates, and the number of houses that are on the market in any particular place at any point in time.

#### *Implementing a six monthly or annual review of the house price caps*

50. House price caps and income caps have been reviewed on an ad-hoc basis, with changes approved by Cabinet. This process works when house prices are changing relatively slowly. In times when house prices are increasing quickly, however, lower quartile house prices and the house price caps become disconnected, limiting FHB access to the products, and limiting the ability of the products to lower the deposit barrier.
51. The method outlined in Annex D will be used for future adjustments to house price caps. This method aligns house price caps with lower quartile prices for new build properties and for existing properties. This approach is the most transparent option for setting caps from the perspective of FHBs, lenders and administrators.

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<sup>1</sup> HUD modelling of removing house price cap from the loan could result in two to three times as many people accessing the loan each year.

<sup>2</sup> RBNZ - New residential mortgage lending by borrower type (C31).

52. The Minister of Housing seeks your agreement to house price cap reviews being either six monthly or annually (with changes agreed by Cabinet):
  - 52.1. six monthly reviews of house price caps reduce the potential for misalignment between lower quartile prices and the house price caps in a fast-moving housing market, but could increase uncertainty about eligibility for grant applicants (as house price caps are subject to more frequent changes) and have a higher administrative burden
  - 52.2. annual reviews increase the potential for misalignment between lower quartile prices and the house price caps in a fast-moving housing market, but could reduce uncertainty for buyers (with less frequent changes) and have a lower administrative burden.
53. There are no budget implications for either six monthly or annual reviews as funding for future reviews has been appropriated through Budget 2022.

#### *Income cap reviews*

54. Income caps would be assessed alongside reviews of house price caps to ensure the products remain targeted toward modest income earners. However, it is not proposed that income caps be automatically updated or be linked to a specific indicator. If the income caps are no longer supporting modest income earners, and any risks can be managed, then changes to the income caps would be recommended.

#### **Options identified in the review that were not progressed**

55. The review identified other changes that could be made to the products. However, at this stage we are not progressing options that would have low impact on the effectiveness or targeting of the products. These options include introducing an asset test for the grant and increasing the size of the grant. HUD will continue to explore options to strengthen the effectiveness of government interventions that lower deposit barriers for FHBs. It is currently reviewing the insurance premium for the loan.

#### **Changes to KiwiBuild to further support first home buyers**

56. Proposed changes aimed at increasing uptake of the First Home Products could work alongside other Government home ownership programmes, such as KiwiBuild, to support delivery of modest and affordable houses for FHBs. KiwiBuild has the potential to play a more significant role than it does now, as a countercyclical tool encouraging the supply of new build homes for FHBs at a time when delivering these kinds of houses is becoming increasingly difficult.
57. While there have been considerable increases in construction costs and house prices over recent years, the KiwiBuild price caps have remained largely unchanged. This has reduced the commercial viability and attractiveness of KiwiBuild and reduced the effectiveness of underwrites as a means of incentivising affordable homes. Changes are needed to KiwiBuild so that it can support the delivery of modest homes and provide better opportunities for FHBs to get into the market.

58. The Minister of Housing seeks your agreement in principle to make adjustments to the KiwiBuild price caps and other settings to improve the commercial viability and attractiveness of KiwiBuild, while retaining the focus on delivering modest, affordable homes. These changes are needed to ensure the ongoing delivery of KiwiBuild homes. Cabinet's in principle agreement to these changes is being sought now so the Minister of Housing can signal in announcements on the First Home Products that changes to KiwiBuild policy settings, including price caps, will follow shortly after. This will provide the Government with the opportunity to present changes to First Home Products and the KiwiBuild programme as part of a package of measures to assist FHBs.
59. The Minister of Housing will provide a paper seeking detailed decisions on KiwiBuild price caps and other settings changes for Cabinet consideration in June. As the KiwiBuild price caps have largely remained unchanged since they were first set in 2017, we expect the caps to move up to reflect current new build prices. At this stage, Kāinga Ora advises that KiwiBuild price caps changes can be managed within existing appropriations but it will monitor any potential impacts on the appropriation over time.
60. While house price caps for the First Home Products and KiwiBuild have different objectives, both focus on modest homes (generally at or around lower quartile house prices) and there may be opportunities to harmonise the approach to reviewing and adjusting the caps on a regular basis.

### **Financial Implications**

61. The proposed changes to the loan and grant settings are fully funded through Budget 2022.

### **Legislative Implications**

62. There are no legislative implications.

### **Impact Analysis**

### **Regulatory Impact Statement**

63. The Regulatory Impact Statement requirement does not apply.

### **Climate Implications of Policy Assessment**

64. The Climate Implications of Policy Assessment requirement does not apply.

### **Implementation**

*Implementing the changes more quickly requires advising lenders of changes to the loan settings ahead of Budget announcements*

65. Subject to Cabinet agreement, changes to the First Home Grant will take effect from 19 May and changes to the First Home Loan and Kāinga Whenua Loans will take effect from 1 June 2022.

66. The additional lead in time for the loan will allow Kāinga Ora sufficient time to make any necessary changes to internal processes and update information for FHBs. Lenders offering the loan will also need lead in time to make changes to their internal systems and processes. The Minister of Housing will ask HUD to inform lenders of the settings changes in confidence a week ahead of Budget announcements. While this introduces a risk of changes being disclosed more widely ahead of announcements, the Minister of Housing is satisfied this risk is low and is outweighed by enabling FHBs to benefit from the settings changes with minimal delays after they are announced.

## **Population Implications**

67. Improving access to the First Home Products may contribute to achieving more equitable outcomes for many population groups in New Zealand with lower levels of home ownership. This includes Māori, Pacific Peoples, women, disabled people, and lower-income households.
68. A number of the proposed changes are intended to better support Māori, Pacific peoples, and families with children to overcome the deposit barrier to owning a modest first home. While the paper highlights the changes that are specifically targeted towards assisting these groups, other groups with lower levels of home ownership will also benefit from the changes, such as women and disabled people.
69. Women (especially women who experience multiple and intersecting forms of disadvantage, including wāhine Māori, Pacific women, and disabled women) rate lower across most wellbeing measures, including housing, and are likely to benefit from improved access to First Home Products. The change to income cap categories to add a category for 'individual buyers with dependents' is most likely to benefit women with children given that over 80 percent of single parents are women. It will also benefit individual buyers who have a dependent disabled adult in the household.
70. Some of the key barriers faced by disabled FHBs cannot be addressed through the First Home Products, given these products are demand-side products so do not directly address, for example, a shortage of accessible homes on the market.
71. However, officials at HUD, Kāinga Ora, the Ministry for Social Development, and the Office for Disability Issues will work together on ways to target advertising of the products to groups under-represented in home ownership, and on opportunities to collect and use data and buyers' personal experiences to better understand and address barriers to accessing the products to buy a first home.

## **Human Rights**

72. There are no inconsistencies with New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. Human rights implications were considered in developing the recommendation to change income cap categories to create a category for individual buyers with dependents' and apply the same income caps as the 'multiple buyers' category.

## Consultation

73. The Treasury, Kāinga Ora – Homes and Communities, Ministry of Business Innovation and Employment, Te Puni Kōkiri, Ministry for Pacific Peoples, Department of the Prime Minister and Cabinet, Ministry for Social Development, and the Office for Disability Issues have been consulted on modernising the First Home Products.
74. Agencies have not yet been consulted on proposed changes to the KiwiBuild programme. Consultation will take place ahead of a paper being brought to Cabinet in June.

## Communications

75. Subject to Cabinet agreement, the Minister of Housing will announce changes to the First Home Products as part of Budget 2022 announcements on 19 May 2022. The Minister will signal upcoming changes to the KiwiBuild house price caps and other settings to further support FHBs.
76. In addition to Budget communications and information on its website, Kāinga Ora is undertaking a First Home Products advertising campaign starting in July to strengthen awareness of the products and how they can support FHBs.

## Proactive Release

77. The Minister of Housing intends to proactively release this paper once Budget 2022 sensitivities have passed.

## Recommendations

78. The Minister of Housing and the Associate Minister of Housing (Māori Housing) recommend that Cabinet:

*Changes to First Home Products that better support Māori, Pacific peoples, and families to access the products*

1. **Agree** to change income cap categories for the First Home Grant and First Home Loan so there is an individual earner category (\$95,000) and an individual earner with dependents and two or more earners category (\$150,000)
2. **Agree** that relocatable homes that are issued with a Code of Compliance Certificate within the last 12 months be considered as new properties for the purposes of the First Home Grant
3. **Agree** that under a rent-to-buy Progressive Home Ownership scheme or the Progressive Home Ownership Fund, if a person rents-to-buy a new home under the scheme, then at the point they buy that same home, Kāinga Ora – Homes and Communities may determine that home to be a new build for the purposes of the First Home Grant and First Home Loan only
4. **Agree** to lower the grant's KiwiSaver level of savings requirements to either regular three percent contributions to KiwiSaver or \$1,000 per year, whichever is lower, with no change to the current three year contribution requirement

### *Change to Kāinga Whenua Loans*

5. **Agree** that the loan cap for Kāinga Whenua Loans be raised from \$200,000 to \$500,000 (with a deposit requirement of 15 percent for every dollar borrowed over \$200,000)
6. **Note** that the cost of this change will be met from within the existing First Home Loan appropriation

### *Changes to generally improve access to the products*

7. **Agree** to remove house price caps from First Home Loans
  8. **Agree** that the ***new build property*** house price cap for the First Home Grant be updated to align with lower quartile new build house prices using the method outlined in this Cabinet paper (Annex D)
  9. **Agree** that the ***existing property*** house price cap for the First Home Grant be updated to align with the lower quartile existing property house prices using the method outlined in this Cabinet paper (Annex D)
  10. **Agree** to either:
    - 10.1. review house price caps annually with the first review to be completed one year after the house price caps come into effect and following the method outlined in this Cabinet paper
- OR**
- 10.2. review house price caps six monthly with the first review to be completed six months after the house price caps come into effect and following the method outlined in this Cabinet paper
11. **Note** that changes to the income caps for First Home Grants and First Home Loans will be considered as part of future reviews
  12. **Note** all changes to the First Home Grant will take effect from 19 May and changes to the First Home Loan and Kāinga Whenua Loans will take effect from 1 June 2022
  13. **Note** Cabinet has agreed changes to appropriations as sought in the First Home Products budget initiative
  14. **Note** the decisions sought from Cabinet will not breach the Budget moratorium

### *Changes to KiwiBuild to further support first home buyers*

15. **Agree in principle** to changes being made to KiwiBuild to update the house price caps and adjust other settings to improve the commercial viability of KiwiBuild and encourage the supply of affordable new build homes for first home buyers

16. **Note** the Minister of Housing will provide a Cabinet paper seeking detailed decisions in June 2022
17. **Note** the Minister of Housing will signal in any Budget announcements on the First Home Products that the government will be making changes to the KiwiBuild house price caps and other settings.

Authorised for lodgement

Hon Dr Megan Woods  
Minister of Housing

Hon Peeni Henare  
Associate Minister of Housing (Māori Housing)

## Annex A: Overview of the First Home Grant and First Home Loan

1. The First Home Products are designed to help FHBs on modest incomes overcome the deposit barrier to buying a first home. The grant provides a subsidy for FHBs to put towards a deposit and the loan reduces the deposit requirement. In 2021, 8,955 grants were paid and 897 loans were made.
2. The grant is available to eligible KiwiSaver members who have been contributing three percent of their salary regularly to KiwiSaver for at least three years. The amount of the grant is based on the number of years an individual has been a KiwiSaver member and whether the property being purchased is a new build or an existing home. People who are eligible for the grant who are buying together can each access a grant to put towards the purchase of the same property.

**Table 1: First Home Grant size by years contributing to KiwiSaver**

Number of years of regular contributions to KiwiSaver	Grant for an existing property	Grant for a new build property
3	\$3,000	\$6,000
4	\$4,000	\$8,000
5 or more	\$5,000	\$10,000

3. The loan assists FHBs to secure a loan with a five percent deposit. Loan applicants do not need to be KiwiSaver members to be eligible. Loan applicants are required to pay an insurance premium of one percent of the First Home Loan (with the Crown contributing 1.2 percent).
4. To be eligible for the grant and loan, buyers must earn under the income caps and be purchasing a property below the house price cap for the region they are buying in. Buyers must also meet other eligibility requirements (such as minimum age) and meet bank lending requirements. Previous homeowners/second chancers can also receive the products but are subject to additional eligibility requirements.
5. The products sit alongside other programmes for FHBs. Figure 2 shows there are overlaps in the type of household the various programmes target. For example, Progressive Home Ownership programmes are designed to assist borrowers with servicing a loan, while First Home Products are designed to assist with the deposit barrier.

**Figure 1: Government home ownership support products**

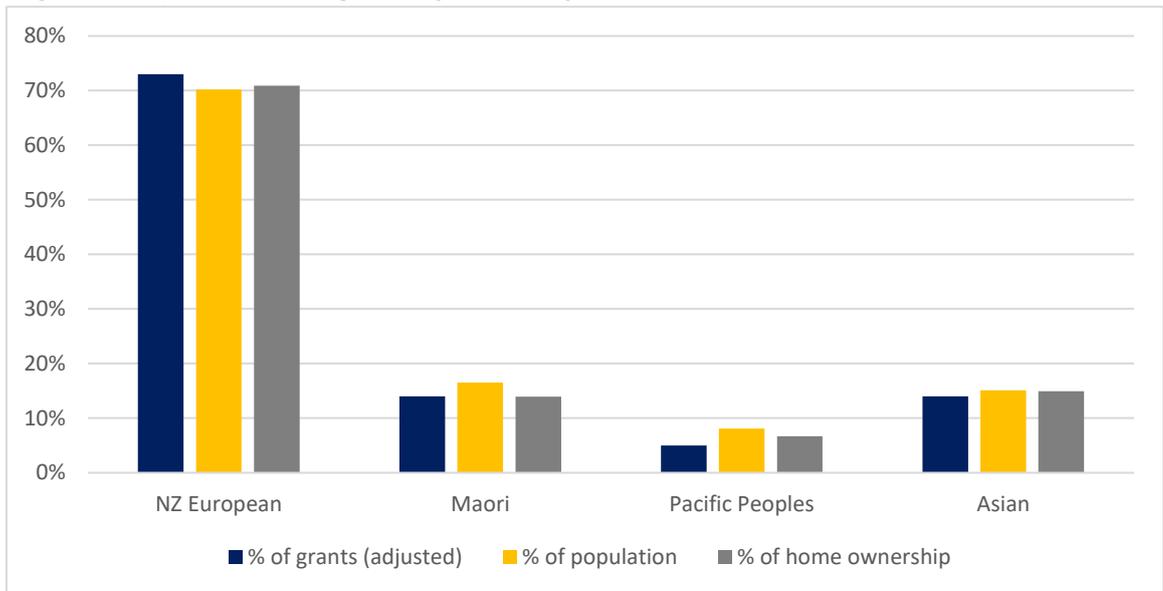


## Annex B: Findings of the First Home Products review

1. The key findings of the First Home Products review carried out by HUD in 2021 included:

1.1. **uptake of the products by Māori and by Pacific peoples is lower compared to uptake by other New Zealanders.** This is affected by factors such as lower average incomes, whanau size, and saving rates

**Figure 1: Uptake of the grant by ethnicity for 2020**

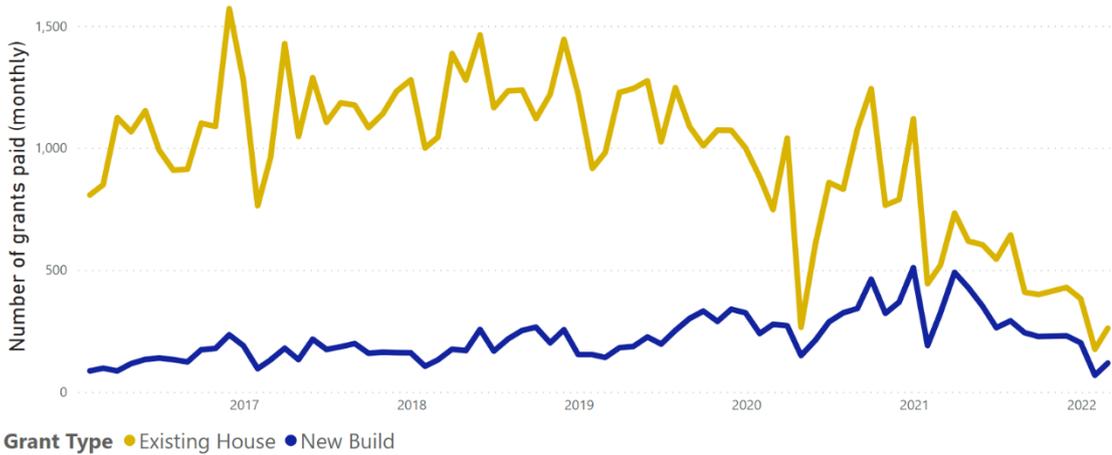


Source: Kāinga Ora – Homes and Communities and Statistics New Zealand. Note these are self-reported ethnicities and have been adjusted for non-responders

1.2. **income cap settings favour multiple buyers compared to individual buyers and can be particularly unfavourable where the individual buyer has dependents.** Individual buyers only receive one grant (and therefore a lower proportion of the deposit on any given home) and the income caps are lower (\$95,000 compared to \$150,000). Individual buyers already find it more difficult to access a mortgage because of bank lending requirements

1.3. **house price caps have constrained uptake of the products in some areas.** House price caps are designed to target the products to FHBs purchasing modest homes. This has been achieved by setting the house price caps at the lower quartile house price for a given Territorial Authority. Many of the house price caps that took effect on 1 April 2021 are now below lower quartile house prices. In these places, there are very few houses for sale at or below the house price caps causing frustration for buyers and limiting uptake of the products. Irregular reviews of the house price caps and significant house price inflation over the last 18 months have contributed to this situation

**Figure 2: Number of First Home Grants paid monthly by grant type**

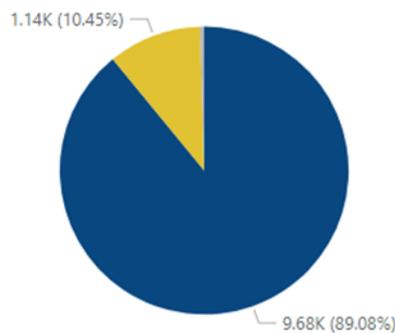


Source: Kāinga Ora – Homes and Communities and Statistics New Zealand

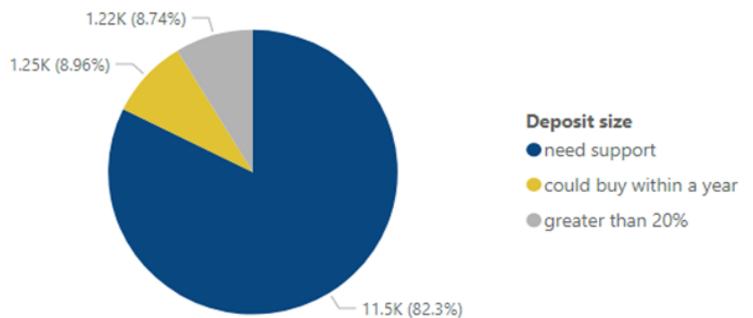
- 1.4. **the loan better targets FHBs who need support to overcome the deposit barrier compared to the grant.** The loan is accessed by FHBs who have less than a 20 percent deposit and may not have been able to borrow for a home through traditional arrangements. The loan’s insurance premium costs FHBs an average of \$3,500 on top of their mortgage. Therefore, FHBs will only access the loan if they require a low deposit and cannot access a standard bank loan. For some FHBs, the grant can be the difference between buying a home or not. However, it is also accessed by FHBs who already have a deposit of 20 percent or more. The figure below shows about nine percent of grant recipients already have a 20 percent deposit

**Figure 3: Deposit size of FHBs**

First Home Loans by deposit size



First Home Grants by deposit size



Source: Kāinga Ora – Homes and Communities

- 1.5. **the loan is a more cost-effective tool for supporting FHBs over the deposit barrier.** In 2020 the loan decreased the deposit barrier by \$37,500 at an average cost to the government of \$4,300, while the grant decreased the barrier by \$6,000 on average at an average cost to the government of about \$6,000 (not including operational costs).<sup>3</sup>

<sup>3</sup> First home buyers accessing the loan pay a one-off insurance premium of one percent of the loan and need to service a larger loan given a lower deposit is involved.

2. The products are demand-side products that can increase demand for housing and potentially cause house prices to rise. However, there are a number of other factors associated with purchasing a home that the products are not able to influence:
  - 2.1. Reserve Bank of New Zealand (RBNZ) decisions on loan to value ratios (LVRs) and Debt to Income ratios (DTIs). The RBNZ tightened LVRs from 20 percent to 10 percent on 1 November 2021. This reduced banks' ability to lend to home buyers with deposits less than 20 percent. Tighter LVRs could increase the uptake of the loan because the loan is exempt from these requirements. However, these changes could also potentially decrease uptake of the grant because it is harder for FHBs to access finance. DTIs could also potentially limit uptake of both products as accessing finance could become harder for FHBs
  - 2.2. While the products contribute to lowering the deposit barrier, they cannot affect the size of the mortgage a household can service or the prices of homes in a specific area, and they are significantly limited in their ability to influence supply or FHB choices.
3. While deposit support is provided for FHBs on modest incomes to purchase a first home, homes also need to be available to buy. Government initiatives to increase the supply of housing provide important support for FHBs.

## Annex C: Proposed house price caps for the First Home Grant

**Table 1: House price caps updated using February 2022 data**

Note: the shading shows locations where there is no change from the current house price caps set in April 2021.

Region	Existing Properties		New Build Properties	
	Current Cap (\$)	Proposed Cap (\$)	Current Cap (\$)	Proposed Cap (\$)
Far North District	400,000	400,000	500,000	675,000
Whangārei District	400,000	600,000	500,000	800,000
Kaipara District	400,000	525,000	500,000	875,000
Auckland	625,000	875,000	700,000	875,000
Thames-Coromandel District	400,000	875,000	500,000	925,000
Hauraki District	400,000	525,000	500,000	525,000
Matamata-Piako District	400,000	625,000	500,000	625,000
Hamilton Urban Area (Hamilton City, Waipā District, Waikato District)	525,000	650,000	600,000	725,000
Ōtorohanga District	400,000	400,000	500,000	500,000
South Waikato District	400,000	400,000	500,000	500,000
Waitomo District	400,000	400,000	500,000	500,000
Taupō District	400,000	575,000	500,000	575,000
Tauranga Urban Area (Tauranga, Western Bay of Plenty District)	525,000	800,000	600,000	875,000
Rotorua District	400,000	525,000	500,000	525,000
Whakatāne District	400,000	500,000	500,000	500,000
Kawerau District	400,000	625,000	500,000	625,000
Ōpōtiki District	400,000	400,000	500,000	500,000
Gisborne District	400,000	450,000	500,000	500,000
Wairoa District	400,000	400,000	500,000	500,000
Napier-Hastings (Napier City, Hastings District)	525,000	625,000	600,000	825,000
Central Hawke's Bay District	400,000	500,000	500,000	500,000
New Plymouth District	400,000	525,000	500,000	675,000
Stratford District	400,000	400,000	500,000	525,000
South Taranaki District	400,000	400,000	500,000	500,000
Ruapehu District	400,000	400,000	500,000	500,000
Whanganui District	400,000	425,000	500,000	500,000
Rangitikei District	400,000	400,000	500,000	500,000
Manawatū District	400,000	525,000	500,000	525,000
Palmerston North City	400,000	575,000	500,000	700,000
Tararua District	400,000	400,000	500,000	500,000
Horowhenua District	400,000	525,000	500,000	650,000

Region	Existing Properties		New Build Properties	
	Current Cap (\$)	Proposed Cap (\$)	Current Cap (\$)	Proposed Cap (\$)
Wairarapa (Masterton District, Carterton District, South Wairarapa District)	400,000	575,000	500,000	800,000
Wellington Urban Area (Kāpiti Coast District, Upper Hutt City, Porirua City, Lower Hutt City, Wellington City)	550,000	750,000	650,000	925,000
Nelson-Tasman (Nelson City, Tasman District)	525,000	650,000	600,000	875,000
Marlborough District	400,000	550,000	500,000	575,000
Kaikōura District	400,000	700,000	500,000	700,000
Buller District	400,000	400,000	500,000	500,000
Grey District	400,000	400,000	500,000	500,000
Westland District	400,000	400,000	500,000	500,000
Hurunui District	400,000	425,000	500,000	500,000
Christchurch Urban Area (Waimakariri District, Christchurch City, Selwyn District)	500,000	550,000	550,000	750,000
Ashburton District	400,000	400,000	500,000	500,000
Timaru District	400,000	400,000	500,000	500,000
Mackenzie District	400,000	500,000	500,000	500,000
Waimate District	400,000	400,000	500,000	500,000
Waitaki District	400,000	400,000	500,000	500,000
Central Otago District	400,000	525,000	500,000	800,000
Queenstown-Lakes District	600,000	875,000	650,000	925,000
Dunedin City	425,000	500,000	550,000	675,000
Clutha District	400,000	400,000	500,000	500,000
Southland District	400,000	500,000	500,000	500,000
Gore District	400,000	400,000	500,000	500,000
Invercargill City	400,000	400,000	500,000	500,000

## Annex D: Method for setting and reviewing house price caps

1. The method set out in this annex will be used in subsequent updates of the house price caps.
2. The policy parameters for setting house price caps are:
  - 2.1. **what data to use to inform house price caps.** When setting house price caps there is a range of different data that can be used and data is continuing to be developed. Future reviews will use the data that best represents new and existing estimated property values
  - 2.2. **which indicators to use when setting house price caps.** A range of indicators were considered including lower quartile, median and other percentiles of house prices. Given the house price caps are designed to target modest first homes, the house price caps will be set using the lower quartile indicator
  - 2.3. **what filters to apply to the data.** A range of filters on the data were considered including by specific typology and bedroom numbers. The products' house price caps would be more complex if different price points for different property types are used. For simplicity, no filters will be applied to the data
  - 2.4. **what flexibility to provide when setting house price caps.** When setting house price caps there are likely to be irregularities in the data. In future reviews flexibility to adjust for irregularities will be maintained
  - 2.5. **method for setting house price caps.** Future updates to the house price caps will follow a similar method to the one outlined below. However, house price caps could be rounded to different multiples in the future, be grouped by different areas, or could be subject to other slight changes. The key aspects that must stay the same are ensuring there is sufficient data in each area to provide a reliable measure.

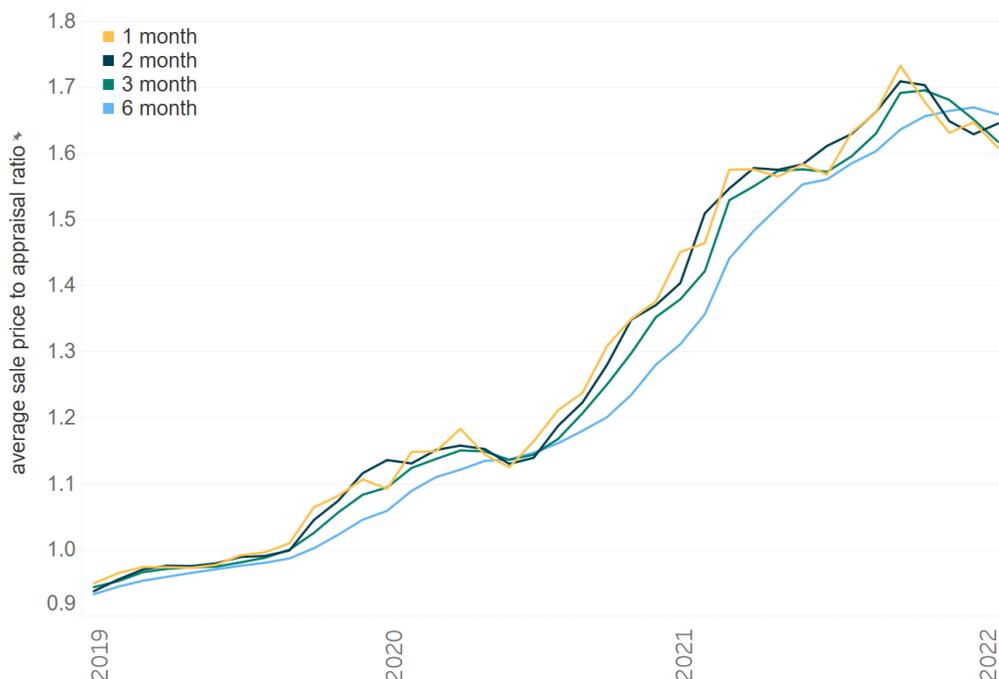
### Technical decisions

3. When setting the house price caps a range of technical decisions have been made regarding the data used and the most appropriate method for estimating property values.
4. Estimated values have been used to inform the house price caps. Sale price data is also considered. Estimated values show the price of the stock of housing, while sales prices only show the prices of properties being sold. Estimated values have been selected because the types of properties that happen to sell from one period to the next can create large variations in median and lower quartile sale prices.
5. The estimated values are calculated by adjusting capital valuations of all homes in an area to current market prices. The adjustment is made by generating a ratio based off the most recent sales prices (Source: REINZ).
6. When calculating an estimated value, the capital valuations of all homes in the area are indexed against current local sale prices (Sources: REINZ and CoreLogic). This sale price to appraisal ratio is created separately for each Territorial Authority.

7. Sales price to appraisal ratio indices can be based on a rolling average of one month, two months, three months, or six months. There is a trade-off between being reactive to market changes but subject to large variations from month to month. A longer period will produce stable numbers that will not swing around as much but will also not be as reactive to recent market changes. The 3 month index is used because it balances reacting to the market while still providing stability so that house price caps do not shift drastically between reviews.
8. Figure 1 highlights the differences between the indices, which can create large differences in the value assigned to a property.

**Figure 1: Capital valuation to sales price ratios for Lower Hutt**

Differences in average sale price to appraisal (capital valuation) ratio for Lower Hutt based on 1-6 months of sales. Source: REINZ/HUD



### *Method for setting house price caps for new properties*

9. The method for setting the house price caps for new properties used in this paper:
  - 9.1. takes the lower quartile estimated value for new builds and rounds it to the nearest \$25,000 to set the price cap for each area
  - 9.2. will be subject to modification where low sample size numbers make lower quartile values in a particular area unreliable
  - 9.3. if the estimated value for new build properties has less than 100 observations, then the estimated value for existing properties will be rounded to the nearest \$25,000 instead. This is to ensure there is a large sample size of new build properties to mitigate the risk of a few large developments skewing the data

- 9.4. if the updated house price cap for new properties is below the current house price cap for new builds, then the house price caps will be realigned with lower quartile estimated value. However, house price caps for new properties will not decrease below \$500,000.
  - 9.5. the maximum house price cap will be no higher than the highest urban centre's house price cap (that is, Auckland, Tauranga, Hamilton, Wellington, or Christchurch, whichever has the highest house price cap).
10. The house price caps are assessed as individual Territorial Authorities or the groupings below:

**Figure 2: Territorial Authority Groupings**

Urban Area	Territorial Authorities
Wellington Urban Area	Wellington City, Hutt City, Upper Hutt City, Porirua City and Kāpiti Coast District
Tauranga Urban Area	Tauranga City, and Western Bay of Plenty District
Hamilton Urban Area	Hamilton City, Waipa District, and Waikato District
Christchurch Urban Area	Christchurch City, Selwyn District and Waimakairiri District
Hawkes Bay Urban Area	Napier City, and Hastings District
Nelson Urban Area	Nelson City, and Tasman District
Wairarapa Urban Area	Carterton District, Masterton District and South Wairarapa District

*Method for setting house price caps for existing properties*

- 11. The method for setting house price caps for existing properties used in this paper:
  - 11.1. takes the lower quartile estimated value of existing properties for an area and rounds this to the nearest \$25,000 to set the price cap for that area
  - 11.2. will be subject to modification where low sample size numbers make lower quartile values in a particular area unreliable
  - 11.3. if the updated house price cap for existing properties is below the current house price cap for existing properties, then the house price caps will be realigned with lower quartile estimated value. However, house price caps for existing properties will not decrease below \$400,000.
  - 11.4. the maximum house price cap will be no higher than the highest urban centre house price cap (that is, Auckland, Tauranga, Hamilton, Wellington, or Christchurch, whichever has the highest house price cap).