MINISTRY OF HOUSING
AND URBAN DEVELOPMENT

Briefing

Government Build Programme: Helping People into Affordable Housing			
Date:	9 August 2019	**Security level:**	In Confidence
Priority:	High	**Report number:**	BRF19/20070361

Action sought		
	Action sought	**Deadline**
Hon Dr Megan Woods **Minister of Housing**	**Discuss** with officials which households you wish to target additional support and how this might be delivered	Officials meeting on Monday 12th August.

Contact for discussion			
Name	**Position**	**Telephone**	**1st contact**
Nick McNabb	Principal Advisor	s 9(2)(a) [redacted]	
Caleb Johnstone	Manager, Market and Supply Response		✓

Other agencies consulted
None

Minister's office to complete

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

_____

Comments

Date returned to MHUD:

_____

Briefing

Government Build Programme Helping People into Affordable Housing

For:	Hon Dr Megan Woods, Minister of Housing		
Date:	9 August 2019	**Security level:**	In Confidence
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Purpose

1) This briefing provides initial advice on a direct shared equity scheme to increase home ownership and how it fits with other options to increase households access to affordable homes.

Executive Summary

2) The Government's housing and urban development work programme will significantly improve housing outcomes through increasing the support for households, increasing the supply of affordable housing and long-term reforms to make the system more responsive.

3) However, some households will only benefit indirectly from the current programme focussed on supply and further targeted support would be required to improve purchase and rental affordability for those households. Increased supply of sub-market rental homes would increase rental affordability for low income stressed renters who might not qualify for public housing, and progressive home ownership schemes can support medium income households currently priced out of the market into home ownership. Further targeted support can also enable government to better meet the needs of households in different places and ensure the Government Build Programme provides the right homes, in the right place and is affordable to a mix of households.

4) Support for submarket rental and progressive home ownership can be expensive, so you will need to make choices about where support is targeted in the short term. Our analysis indicates that $400m of capital funding over four years might support:

   a) 4000 homes sold through progressive home ownership through a direct shared equity scheme. This based government contributing a 15-25% equity share targeting medium income households.

   or

   b) 2,200 sub-market rentals and homes sold to first home buyers through progressive home ownership schemes delivered by Community Housing Providers, iwi and Māori Organisations and local government. This is based on equal share of sub-market rental and progressive home ownership homes and matching funding from providers. The target group would be low to medium income households.

5) A direct shared equity scheme could be implemented in a number of ways with different cost and risk profiles for the Crown. A scheme where the Government provides equity directly to households will require significant capital and ongoing cost through foregone "rent" on its equity share. An approach that leveraged third party schemes and investment would require

less capital, but may have similar ongoing subsidy costs to attract private capital. Given the different options for delivery and choices around design, one way to progress this would be to test appetite from third parties to be involved in a government shared equity scheme and to develop a stronger evidence base around the effectiveness of different approaches. This could inform a bid for Budget 2020.

6) The previous Minister of Housing and Urban Development submitted a bid through budget 2019 for an Affordable Housing Fund (AHF) to increase supply of new sub-market rental homes and new homes sold to first home buyers through progressive home ownership. This would be delivered through community housing organisations. The bid was not successful, rather Cabinet agreed that $400 million in operating funding from the "KiwiBuild Housing" Multi-Year appropriation be ring-fenced to support expansion of KiwiBuild to deliver affordable rental homes, progressive home ownership products and homes for first home buyers. If funding were confirmed the AHF could be implemented ahead of Budget 2020.

7) s 9(2)(f)(iv)

8) We would recommend that Home Start grants are not increased as part of the Build Reset. Increasing the grants would be poorly targeted and increase payments for households who would have purchased a home anyway with little impact on home ownership. However, there are some improvements which could be made to Welcome Home Loans and HomeStart grants, for example reducing the deposit requirement from 10 percent to 5 percent reduce the deposit barrier for households who can service a mortgage. This may cost $15m-$30m over four years.

9) In the main centres the current house price and income caps for KiwiBuild and the HomeStart grant may not work for larger homes for larger or multi generation families. Mortgage serviceability is also a key barrier for this group. We propose that the report back to Cabinet around the design of a progressive home ownership scheme, either through the AHF or a direct shared equity scheme, and also increase the respective caps across KiwiBuild, HomeStart and Welcome Home Loans to ensure consistency across the policies.

Recommended actions

10) The Ministry of Housing and Urban Development (HUD) recommends that you:

1.	**Note** that to enable the Government Build Programme to provide the right homes, in the right place that are affordable to a mix of households, targeted funding will be required to	*Noted*
	1.1. Increase the supply of sub-market rental homes to meet the needs of low income stressed renters who might not qualify for public housing	
	1.2. Increase the supply of homes sold to first home buyers who have been priced out of the market through progressive home ownership	
2.	**Discuss** with officials which households you wish to target additional support and how this might be delivered.	*Agree / Disagree*
3.	**Note** that our suggested approach is that:	
	3.1. the reset of the Government Build Programme confirm funding for the Affordable Housing Fund (AHF) that provides grant funding to community housing providers, iwi and Māori	*Noted*

Organisations and local government to deliver new sub-market rental houses and new homes for sale to first home buyers through progressive home ownership schemes

3.2. following announcement of the reset, officials undertake targeted engagement with the community housing sector and report back to Cabinet within three months on the detailed implementation approach for the AHF

3.3. that the reset signals the Government's intention to develop a direct shared equity scheme for Budget 2020

3.4. officials undertake targeted engagement with third party providers to test their appetite for involvement in a direct shared equity scheme and to develop a stronger evidence base around the effectiveness of similar schemes domestically and internationally.

4.	**Note** there are a number of ways a direct progressive home ownership or a shared equity scheme could be delivered, each with different cost and risk profiles for the Crown	*Noted*
5.	**Note** that establishing a direct shared equity scheme would take between 6-12 months to establish based on experience with developing the Welcome Home Loan Scheme	*Noted*
6.	**Agree** that no changes are made to the HomeStart Grants amounts as part of the reset of the Government Build Programme	*Agree / Disagree*
7.	**Agree** that the deposit requirement for the HomeStart Grant and Welcome Home Loan Scheme is reduced from 10 percent to 5 percent for new and existing homes	*Agree / Disagree*
8.	**Note** that officials will recommend any changes to KiwiBuild, HomeStart and Welcome Home Loan caps when design of a progressive home ownership scheme is confirmed by Cabinet.	*Noted*

Caleb Johnstone
Manager Markets and System Settings
9 / 8 / 19

Hon Dr Megan Woods
Minister of Housing
..... / ..... / .....

Background

11) The Government has an objective of ensuring every New Zealander lives in a warm, safe, secure and affordable home. For many households, the high cost of housing relative to household income and other circumstances can make access to housing difficult and results in poor housing (and other) outcomes. Increasing the supply of housing, particularly at affordable prices, will help reduce housing and other costs for all households.

12) However, even when housing supply (both public and private) is increased, housing may still not be affordable or available for some people and whānau. Government therefore plays an important role in ensuring households can access safe, warm and dry affordable housing through the support it provides to people to access housing.

13) This briefing is in response to your request for advice on implementing a direct shared equity scheme to increase home ownership. We have also included advice on other options to increase households access to affordable homes.

Context

There are a range of groups who find it difficult to access affordable homes

14) The supply of housing in New Zealand has not kept pace with growth in population in some regions and cities. This has significantly affected people's ability to access housing of their choice.

15) Home ownership rates have been in persistent decline. Ownership rates are at the lowest level for 60 years continuing a long-term decline. House prices have become increasingly unaffordable for first home buyers despite low interest rates and strong income growth. There is an increasing cohort of households who would have purchased a home in previous decades who are unable to do so.

16) House prices in main urban centres have reached levels that mean only those on higher incomes can service a mortgage for a home. While home ownership has declined across-the-board, we estimate the decline to be much greater in Auckland and Queenstown where prices are highest. Even though first home buyers are now making up a larger proportion of buyers in Auckland, we estimate that homeownership rates declined by a further one percentage point in 2018. Our initial analysis suggests that 5,000-10,000 more first home buyers would have been needed nationally to keep the home ownership rate stable last year, of which the majority were in Auckland.

17) The decline in home ownership means more households are renting for longer. This increases the competition for rentals. While rental affordability appears to have been broadly consistent over time, with a similar proportion of households spending more than 30 percent of their income on rent, affordability and security of tenure has become persistently worse for some households over time:

    a) Rents have generally increased in line with median household income, however rents have increased faster than individual wages and benefits rates. This means single earner households and those households dependent on benefits have seen rents increase faster than their income. For low-income households, the proportion of household income spent on housing costs has increased from 29 percent in the late 1980s to over 50 percent now. Between 2006 and 2016, accommodation supplement recipients housing costs increased from 45 percent to 50 percent of income.

    b) Worsening affordability, coupled with other complex needs, mean it is increasingly difficult for some households to maintain private accommodation, reflected in the 40 percent increase in the number of people on the housing resister over the last year and increasing reliance on special housing needs grants.

18) The decline in homeownership and increasing pressure on some households within the rental market means that people are getting stuck in their existing housing situation.

Government is already addressing supply and some aspects of demand

19) The Government can improve purchase affordability through increasing the supply of modest priced homes through the Build Programme. Through Kāinga Ora the Government can underwrite affordable housing developments, make build ready land available to developers, redevelop the existing public housing, and progress a number of large-scale projects to directly increase the supply of public, affordable and market priced housing. Industry transformation, for example, through offsite manufacturing, can reduce the cost of construction over time and further improve affordability.

20) The Government is also increasing support for those people who cannot afford private accommodation, have other complex needs, or require ongoing support to retain housing. This is occurring, for example, through increasing the supply of public and transitional housing, investment in Housing First as well as through additional initiatives recently agreed by Cabinet to prevent and reduce homelessness (CAB-19-MIN-0384).

21) The Government's welfare work programme will consider options to improve the adequacy and design of the income support system. Addressing income adequacy for the lowest income households will improve affordability and reduce the number of renters who are considered stressed. While increasing income adequacy may put pressure on rents this effect can be mitigated by the government build programme and wider system changes to support more responsive supply.

22) Te Puni Kōkiri administers government programmes that support Māori to live on their land. The Māori Housing Network provides grant funding to housing repairs and affordable rentals with papakāinga developments. The Te Ara Mauwhare scheme is piloting innovative progressive home ownership schemes. s 9(2)(f)(iv), s 9(2)(b)(ii)

23) KiwiSaver HomeStart Grant and Welcome Home Loans enable the Government to address deposit barriers faced by first home buyers. Over the past year, 11,801 homes have been purchased with the support of HomeStart Grants and 1,292 with Welcome Home Loans (12 months ended June 2019). However, in the main centres house prices are high relative to both household incomes and the house price caps meaning uptake is significantly lower (excluding Christchurch). Increasing the house price caps may have limited impact as medium income households will struggle to service mortgages at those higher prices.

24) These programmes and initiatives will improve affordability for many households. There are some areas where further support could be provided. These are discussed below.

Increasing ownership through progressive home ownership

25) As house prices have increased, household cohorts who would previously have purchased homes (for example, young couples and young couples with families) have been priced out of the market. These households could get a commercial mortgage but not for the full cost of a house. Progressive home ownership, including shared equity or ownership schemes, can be effective in helping these households bridge both mortgage serviceability and deposit barriers by sharing the capital cost of purchasing the home with an equity partner. With income growth over time the household is able to buy out the equity partner and purchase the home outright.

26) Progressive home ownership schemes can take many forms that work for different people:

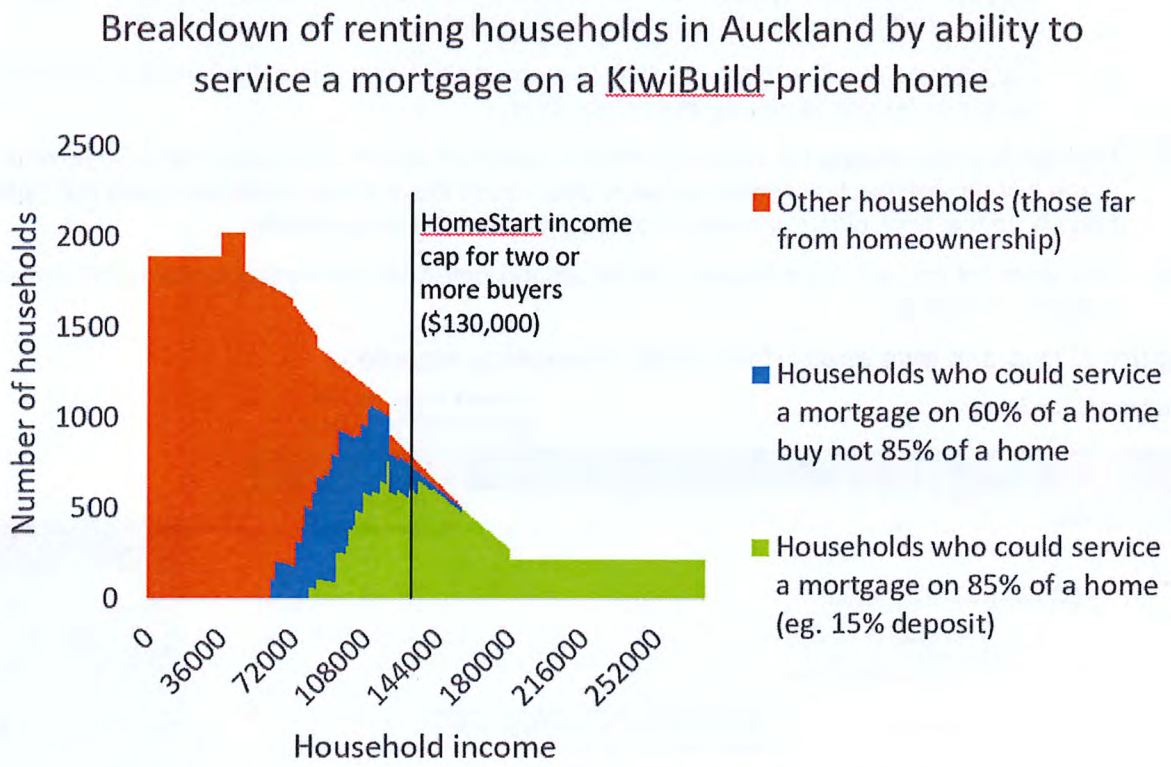
    a) Shared ownership or leasehold land can be effective at reducing the upfront purchasing price, with the "rent" charged by equity investor or landowner determining the overall improvement in serviceability for the household.

    b) Some households can have poor credit history and debt, so schemes can also include wrap-around services and a financial capability building component. Community housing organisations can also bundle products. For example, the Housing Foundation's Affordable Rental Programme offers a household a subsidised rental that

enables them to build a deposit over a five-year period, with the right to subsequently purchase the home through a shared equity product.

27) As an illustration Figure 1 shows the indicative income range of households in Auckland who would benefit from a progressive home ownership scheme. For these households, even large increases in current deposit support will only marginally increase their borrowing capacity. A doubling of the new build HomeStart grant for an Auckland couple would increase their deposit for a lower quartile home by a maximum of 3 percent. Progressive home ownership would be more effective for the group in blue below. Even with significant support those households in orange may struggle to enter homeownership (and may not be sustainable over time).

Figure 1: Breakdown of renting households in Auckland by ability to service a mortgage on a Kiwibuild-priced home



Source: HUD modelling based on the incomes of renting households. The model takes into account household size, the size of homes needed, and the age of the household members.

Increasing supply of sub-market affordable rentals

28) There are households for whom market rental is "unaffordable", but who do not qualify, or are a low priority, for public housing. These households would benefit from increased supply of affordable rentals.

29) The Welfare Expert Advisory Group noted that housing is a major cost for families, and the shortage of affordable housing is a major contributor to the current cost of welfare. As noted earlier, housing costs as a share of income have increased significantly over time for low income families. Even with Accommodation Supplement, around 28 per cent of people in private rentals are in rent stress. Of these people, 75 per cent are sole parent families and 48 percent are of Māori or Pacific ethnicity. For some of these households, a financial shock could pose the risk of falling into homelessness.

30) Availability of sub-market rentals would:

a) improve the affordability for stressed renters in private rentals

b) provide an affordable rental option for some households who are on the public housing register but are low priority, thereby lessening demand for public housing

c) mitigate the risk that stressed renters might fall into homelessness following a financial shock and require emergency housing.

31) Given the significant work already underway and remaining gaps in affordability there are potentially three areas where additional government support could improve affordability and access. The Government can:

a) support households/people priced out of home ownership by implementing a progressive home ownership scheme (this group of households are likely have sound household finances but do not earn enough to be able to secure a mortgage for a home appropriate to their needs)

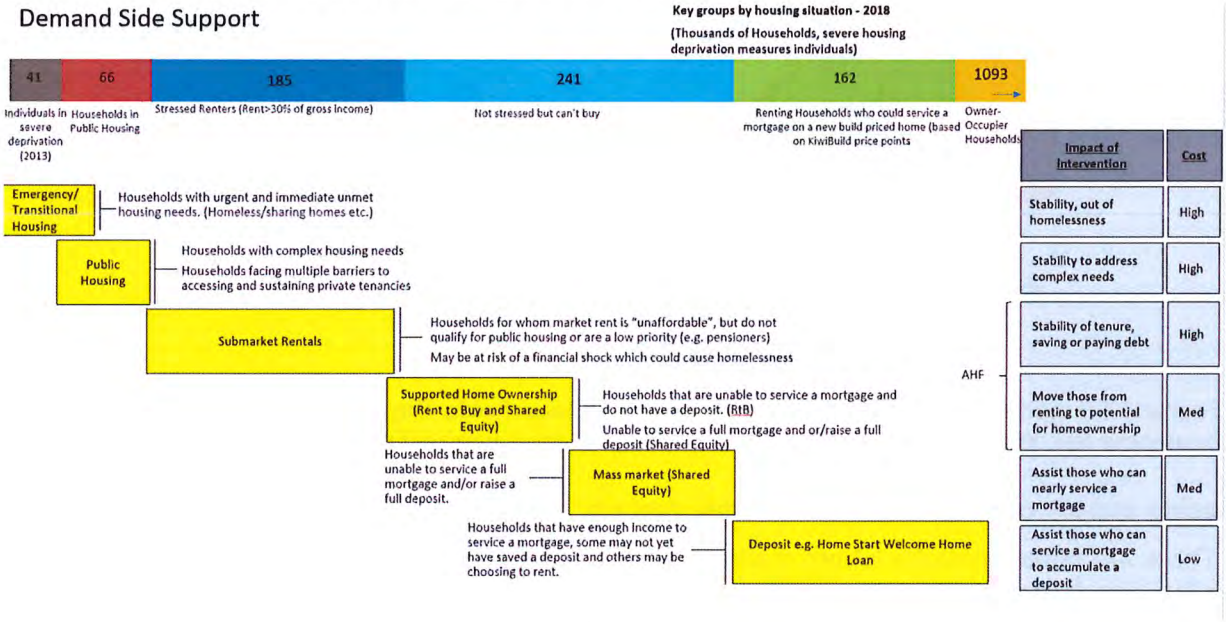
b) support households/people priced out of home ownership who may also require further support to lift financial literacy, and to clear debt and save for a deposit

c) support low income households for whom market rental is not affordable and may not qualify or be prioritised for public housing.

32) Further targeted support to meet the needs identified above will support the Governments place based approach and ensure the Government Build Programme provides the right homes, in the right place and are affordable to a mix of households.

33) The different groups, their housing situation and potential interventions are summarised below in Figure 2.

Figure 2: Demand side support for different housing situations



Government direct shared equity scheme

34) Shared equity schemes are where a household purchases their home in partnership with another party. The household will also have a small deposit to put towards the house. The household will then take out a loan on a proportion of the purchase price of the property, while the equity partner provides the rest of the capital.

35) Over a period of time, the household will buy portions of the shared equity to progress towards full ownership of the property. A key design choice is whether the equity holder typically shares capital gains with the household (more generous schemes would provide all gains to the household). As house prices increase, the household's repayments will reflect

the increased (or decrease) value of the house. Some shared equity schemes also charge an equity rent on the share.

36) The main benefit of shared equity is that households can initially borrow less, have lower mortgage payments, and, consequently, require a lower deposit amount. For households currently locked out of the market, shared equity can bridge the gap between the house price and the amount the household afford to pay. A key difference between deposit support and shared equity is that shared equity not only helps with the deposit, it also reduces mortgage servicing costs. This means shared equity offers a pathway to home ownership for households with sufficient income to service a modest mortgage.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

An affordable housing fund delivered through community-based organisations

50) The previous Minister of Housing and Urban Development submitted a bid in Budget 2019 for an AHF to support the delivery of two separate products: sub-market rentals and progressive home-ownership schemes. Subsequent design work from officials focused on housing for:

a) households for whom a market rent is 'unaffordable'

b) households who could move to home ownership but need additional support to help them along the housing continuum.

51) In contrast to the direct shared equity scheme the AHF would deliver progressive home ownership through community housing providers. It would also deliver submarket rentals. Community housing providers, iwi and local government would also reach households in different housing situations than a direct scheme – generally lower income households and households with challenges beyond the ability to service a mortgage.

52) Community-based not-for-dividend organisations, such as community housing providers (which includes registered charities, Māori and iwi housing organisations and local authorities) are well placed to be the delivery agencies for low to middle income households. This is because:

a) they are already working with existing target cohorts, and their eligibility criteria and prioritisation frameworks are approved at the point of registration with the Community Housing Regulatory Authority. This provides assurance that the AHF would be efficiently and appropriately targeted. Providers would allocate households to available homes and manage oversubscription

b) they can be closer to an individual household within a region and can therefore more flexibly customise the product/services needed by that household, including the most suitable progressive homeownership scheme, or even whether a progressive homeownership scheme or a sub-market rental is a better option

c) they can provide, or can organise for the provision of, wrap around services such as ongoing budgeting and financial capability services

d) for lower income households, progressive home ownership is a journey, rather than a one-off transaction, and it is difficult to replicate the tailored ongoing support that CHPs provide, within a large organisation that has a national focus.

e) this approach builds on existing knowledge and expertise in managing tenancies and providing progressive homeownership schemes

f) this channel opens up a wider pool of funding as community groups can leverage off philanthropic funding.[1]

53) However, New Zealand's community housing sector is relatively fragmented, which limits the sector's capacity to deliver large-scale mixed tenure developments. Capability in different parts of the country is also limited. For example, in Hastings the two registered community housing providers are iwi organisations with limited experience in housing development. The AHF provides an opportunity to grow a core group of providers or consortia to scale and build their capacity to deliver new supply and operate across regions.

54) Funding would be conditional on providers committing to recycling any operating surpluses back into public good housing, ideally in perpetuity, and sourcing their own co-investment (including land) to match against the Government's contribution.

55) The AHF would be available through grants made to providers over a four-year period, which provides certainty to providers. It would simultaneously help to address both demand side and supply side issues, as dwellings delivered would be new builds. The additional supply means that the AHF will alleviate, to some degree, the pressure on housing and is less likely to directly inflate the market.

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[1] Historically, each dollar of government grant funding has leveraged another $1.00 – $2.00 of private and philanthropic investment, including contributions of land.

Update on AHF design and timeframes

56) The AHF bid was not agreed through Budget 2019. Rather, Cabinet agreed that $400 million in operating funding from the "KiwiBuild Housing" Multi-Year appropriation be ring-fenced to support expansion of KiwiBuild to deliver affordable rental homes, progressive home ownership products and homes for first home buyers. Cabinet directed the Minister of Housing and Urban Development to report back on the direction and implementation including:

    a) A statement of programme goals;

    b) The strategy of the programme, including its relationship with other elements of the Government's housing strategy;

    c) Eligibility to be a beneficiary of the programme;

    d) The maximum support available for a beneficiary of the programme (and whether this should take into account other available support);

    e) Requirements for partner providers;

    f) Evaluation and monitoring;

    g) Phasing of the $400 million.

57) The report back has not yet occurred and is dependent on the outcome of the reset.

58) If the AHF were progressed, we would recommend that officials undertake targeted stakeholder engagement and report back within three months to Cabinet on the detailed implementation approach for the AHF.

59) Stakeholder engagement would provide officials with the chance to inform the sector on the AHF and its aims, and to test design and implementation parameters and regulatory settings to ensure that they are fit-for-purpose and workable.

60) Officials would also use this opportunity to engage with stakeholders on their pipeline of projects, which means that the sector is more likely to respond quickly once the AHF is available.

61) Officials would work in parallel to develop a procurement plan and strategy, and contractual documentation, so that the Ministry is in a position to go to market as quickly as possible after Cabinet approves the AHF's final design and implementation.

62) However, regulatory change is needed for entities to receive Crown grants for sub-market rentals. The estimated timeframe for regulatory change is 5 to 6 months after Cabinet approves a consultation document and the consultation process can begin.

63) Once the regulatory change is promulgated, entities will then need to register with the Community Housing Regulatory Authority under a new class of provider. This process can take up to three months, although we expect that this timeframe would be shorter for larger and more experienced providers that are already registered under the existing class and delivering housing developments.

64) Even though funding for the AHF was ringfenced as part of Budget 2019, reprioritising the funding from the KiwiBuild Appropriation will need to be treated as a pre-recommitment against Budget 2020. In effect, any demand-side support proposed as part of the reset will need to be pre-committed. This means no funding has been formally "set aside" for the reset.

Significant changes to deposit support are not recommended

65) The Government currently provides three main forms of deposit assistance:

    a) HomeStart grants, where a person can receive a grant of up to $10,000 for the purchase of a first home after sufficient time contributing to KiwiSaver.

b) Welcome Home Loans, where the government underwrites mortgages with only a 10 per cent deposit (rather than the commonly required 20 per cent deposit) and the customer is charged the same interest rate as applies to borrowers with a 20 per cent deposit.

c) KiwiSaver withdrawals, where a household can withdraw all of their savings aside from $1000 for the purchase of a first home. The purpose of retaining $1000 in the account is to encourage the household to resume contributing to KiwiSaver after the withdrawal

66) The previous Minister for Housing and Urban Development proposed a number of changes to HomeStart and Welcome Home Loans as part of the build reset, including:

a) Doubling the grant for new builds.

b) Reducing the deposit requirement on Welcome Home Loans and HomeStart grants from 10 per cent to 5 per cent.

c) Making grants available to all buyers of a home.

67) We do not recommend making significant changes to the level of deposit assistance as part of the build reset.

Deposit support is less effective in increasing homeownership

68) Deposit assistance predominantly helps people who have enough income to service a mortgage, but who have not yet saved a deposit. These households correspond to the 162,000 renting households who could afford to service a mortgage on a KiwiBuild-priced home. These households tend to be higher income renting households – those with incomes over about $80,000 per year in Auckland, and somewhat lower incomes elsewhere in the country (households in green in Figure 1).

69) Around half of the households that can afford to service a mortgage on a Kiwibuild priced home already have a 20 per cent deposit, suggesting that a large proportion of these households do not need any assistance at all to buy a home.

70) For the rest of these households, the main effect of additional deposit assistance would be to allow them to purchase a home earlier than they otherwise would have. Households who have enough income to service a mortgage will also generally have enough income to save for a deposit over time and purchase a first home unsupported. Banks will only lend to households who can pay principal and interest well above current interest rates (commonly around 7 per cent) to ensure that the household will be able to pay their mortgage if interest rates rise. Rents tend to be a lot lower than this – typically 3-6 per cent of the value of a property – meaning that these households would be able to save while renting and eventually buy a home unsupported.

71) Given that the households helped by deposit assistance would likely be able to eventually purchase a home unsupported, increasing deposit assistance will only have a marginal effect on supporting homeownership. A large amount of the money from increasing deposit assistance will go to higher income households who will buy a home anyway, or at best bring forward their purchase.

Some changes would improve effectiveness across regions and for different household types

72) The ease of using HomeStart for either new builds or existing homes varies widely across regions and household types. To illustrate this, Figure 3 provides a breakdown of the share of households buying a home:

a) Unsupported (green)

b) With HomeStart for a new build (yellow)

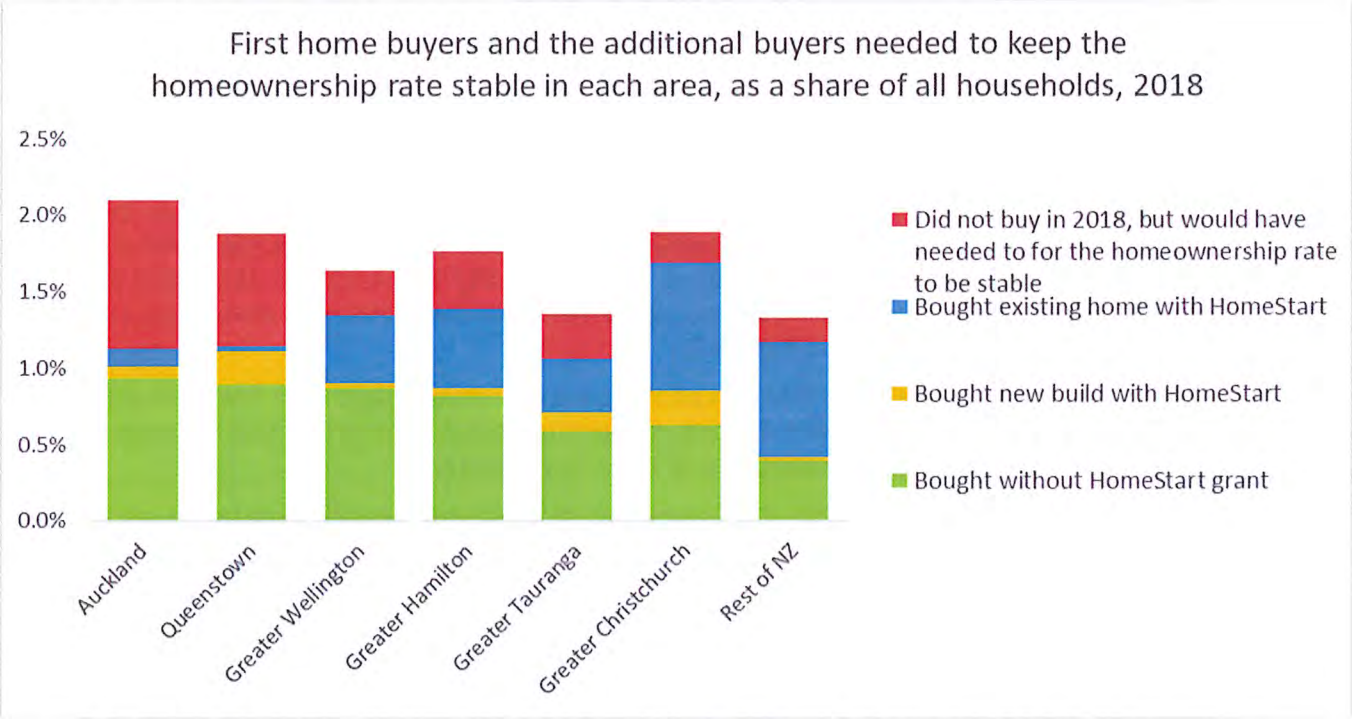
c) With HomeStart for an existing home (blue)

d) And the additional households who would have needed to buy a first home to keep the homeownership rate stable in 2018.

73) Uptake of HomeStart is low in Auckland and Queenstown. Part of the reason for this is that it is challenging for large households to find a home suitable to their needs within the eligibility criteria, and so a greater proportion of households buy a home without the help of a grant. However, it is also because a lot of households are unable to attain homeownership at all. These households (in red) likely do not have enough income to service a mortgage or easily save a deposit, so would be best supported with a shared equity scheme.

74) Figure 3 also shows how doubling new build grants will affect only a small proportion of aspiring first home buyers – the small group in yellow in the chart, plus any others who are able to shift into this category in response to the larger grants. These buyers will most commonly be in Auckland, Queenstown, Tauranga and Christchurch.

Figure 3: First home buyers across the country



75) Introducing progressive home ownership products will enable households to purchase homes priced above the current KiwiBuild and Home Start Caps. The current caps will prevent KiwiBuild underwriting or using crown land to supply the homes and deposit support will be unavailable. The relevant caps across HomeStart, Welcome Home Loans, KiwiBuild and any new shared equity schemes should be aligned when the detailed design and criteria for the progressive home ownership schemes are confirmed. The fiscal cost will depend on the ultimate design of the progressive home ownership scheme.

76) We also recommend the deposit requirement on Welcome Home Loans and HomeStart grants be reduced from 10 percent to 5 percent for new and existing homes. This will effectively eliminate the deposit barrier for mid-income households who can service a mortgage, as households who have contributed to KiwiSaver will commonly have close to a 5 percent deposit from just their KiwiSaver savings and their HomeStart grant. Reducing the deposit requirement will bring the Welcome Home Loan scheme into line with the lowest deposit mortgages banks currently offer on commercial terms, as some banks lend with 5 percent deposits for loans on existing homes and completed new builds (although not all

types of loans)[2]. The deposit requirements for the HomeStart and Welcome Home Loans schemes should be aligned so the schemes can be used together.

77) Officials consider that both new builds and existing homes should be covered by the change because this will benefit regional areas with few new builds as well as urban areas, and the scale of demand induced by the change is unlikely to be large enough to raise house prices. The cost of the change would be around $15m to $30m over four years.[3] Officials will confirm the cost of the change for the Build Reset Cabinet paper.

Choices on how to improve affordability and access to homes

78) We consider there is a need for funding to increase the supply of sub-market rental homes and progressive homeownership schemes over the medium term. This suggests a multi-year programme of work spanning successive budgets. The reset could announce an initial package of support and signal the Government's medium-term intent to change affordable housing funding settings. Our view is that the AHF and a direct shared equity scheme can be complementary in the medium term and can support different needs. The proposed AHF would increase the supply of new sub-market rentals and new homes sold to low to middle income first home buyers through progressive home ownership. A direct shared equity scheme would support middle income households priced out home ownership into home ownership.

79) This medium-term approach to affordable housing funding settings would be informed by, and support:

a) The Government's emerging place-based approach and improving the match between supply and demand side interventions in a place. Assessments will help inform the underlying need and affordability and how demand side funding can support households into homes.

b) Large scale projects to deliver a mix of tenures including public housing, submarket rentals, affordable homes for first home buyers, secure tenure rentals and market homes for ownership.

c) The long term-role of Kāinga Ora, Community Housing Providers, iwi and local government in the supply of housing in different places (cities, towns or regions), and how to leverage the capital, capacity and expertise of others.

80) This medium-term approach should also ensure that funding support is targeted to new supply in order to minimise the degree that support bids up prices. Depending on the context, this new supply could be delivered by Kāinga Ora, iwi, Community Housing Providers, or private developers. Restricting funding towards new builds will affect how funding is deployed across the country. However, this will reflect the underlying need and affordability in the places concerned.

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[2] They will generally not lend with a 5% deposit for some types of construction loans, such as self builds and off-the-plan purchases due to the risk of cost overruns or the buyer abandoning the purchase and their deposit if property prices fall during construction. These types of loans would be available through the Welcome Home Loan scheme under certain circumstances, but in practice very few are drawn.

[3] The bulk of this cost arises from the expected increase in HomeStart uptake. Around 4% of first home buyers currently buy at between 90-95% LVR. Assuming HomeStart uptake immediately increases by 4% as a result of the change, and then overall HomeStart uptake growth at 8% instead of 7% per year over the next four years as a result of the change, the cost is estimated $17m. The cost of the Welcome Home Loan changes will be smaller than this but are yet to be confirmed.

Short term choices to inform the reset of the Build Programme

81) Given the limited new funds available for the reset, you will need to make choices in the short term about where support is targeted:

a) Modelling for the AHF indicated that $400m in capital grants to community housing organisations would deliver 2,200 homes over four years (split evenly between sub-market rentals and homes sold to first home buyers through progressive home ownership). This was based on matched funding with Community Housing Providers. The subsidy required for sub-market rentals is likely to be higher than progressive home ownership given the income of submarket tenants are lower. A greater emphasis on more sub-market rentals would deliver fewer homes than an emphasis on progressive home ownership.

b) Advice we provided in September 2018 on a progressive home ownership scheme indicated a targeted scheme (offering a 15 to 25 percent equity share) that supported 1,000 households a year would require over $400m in capital over four years. For comparison, stabilizing the homeownership rate through progressive home ownership would cost around $1bn of capital a year.

82) s 9(2)(f)(iv)

83) Previous work that has been completed in this area means that support for some households can be progressed faster than others.

a) Progressive home ownership schemes delivered through community housing providers could be delivered the fastest with projects potentially funded by the end of 2019 or early 2020.

b) Delivering submarket rental through Community Housing Providers will require new regulations under the Housing Restructuring and Tenancy Matter Act 1992. This means roll-out would be slower than for progressive home ownership. Our view is that funding for submarket rental is an important part of funding settings for affordable housing and will be necessary. If it is not undertaken now, then delay will affect the ability for government to procure submarket rental homes.

c) Given limited work to date on a direct shared equity scheme, we estimate it would take 6 to 12 months for the scheme to be operational and ready to take applications.

84) Given the likely constraints on funding and the practical constraints around implementation we recommend a phased approach to funding where the reset:

a) Confirms funding for the AHF consistent with the proposal put forward in Budget 2019

b) Signals the Government's intention to develop a direct shared equity scheme to be confirmed through Budget 2020.

85) As noted above we do not recommend significant changes to the HomeStart Grants and Welcome Home Loan Schemes. The different caps for KiwiBuild, HomeStart and Welcome Home Loans should be aligned with any progressive home ownership scheme to ensure this works for different family types and in different locations. We also recommend that the deposit requirement for HomeStart grants and Welcome Home Loans be reduced to 5 percent for both new and existing homes.