



11 August 2020

DOIA19/20060435

s 9(2)(a)

Dear s 9(2)(a)

I refer to your email of 23 May 2020 to Kāinga Ora – Homes and Communities requesting information under the Official Information Act 1982 (the Act) about First Home Grants. On 17 June 2020, your request was transferred to the Ministry of Housing and Urban Development (the Ministry) for response:

1. *I want the order/document/paper/decision that sets the property price caps for given regions of NZ.*
2. *Please explain the decision-making process that decides what the price cap is, including who makes those decisions and the information they take into account in doing so.*
3. *Please provide any of that information that was/is taken into account in making that decision (referred to in point 2).*
4. *Any information relating to whether the price caps should be reviewed, when they are likely to next be reviewed and/or why they are not being reviewed.*

On 19 June 2020, you clarified that your request only relates to the current house price cap levels.

I can confirm that ten documents have been found to contain information related to your request. Three documents are publicly available so are refused under section 18(d) of the Act, one document is withheld, and the remaining six are released with this letter. The schedule annexed to this letter details the documents, the sections of the Act applied, and provides links to those that are publicly available.

The document withheld is an excerpt from BRF19/20050679 - Covid-19: Options to support residential construction. This briefing is still under consideration by the Minister, so the information within the scope of your request is withheld under section 9(2)(f)(iv) of the Act, to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

The six documents released to you have some information withheld under the following sections of the Act:

- 9(2)(ba)(i) to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

- 9(2)(g)(i) to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty

In addition, mobile phone numbers are withheld under section 9(2)(a) of the Act, to protect the privacy of natural persons.

You may notice that some of the documents refer to the HomeStart Grant. This was the name of the First Home Grant when it was first created, but I can assure you that it is the same grant.

Annex two in document five summarises shared equity/ownership products provided by New Zealand organisations. The information is a mix of publicly available information and information withheld under section 9(2)(ba)(i) of the Act. Whilst this topic is not directly related to your request, you may be interested in the information, so I encourage you to visit the organisations' websites where the publicly available information can be found.

Document six makes reference to the delegated authority to the Minister of Housing and Urban Development and Minister of Finance to amend eligibility criteria for HomeStart grants and Welcome Home Loans under Cab Min (05) 13/10. This Cabinet Minute, whilst not in scope, is publicly available at <https://treasury.govt.nz/sites/default/files/2017-12/cabmin05-13-10a.pdf>.

In addition to the documents released to you, I can also provide some context to the house price caps that may be helpful to you. The requirements of the First Home support schemes are designed to support first-home buyers on modest incomes to purchase houses across the country and to incentivise the housing development sector to supply more housing in an affordable price range.

A number of factors are considered when setting the First Home Grant price caps. These include the lower quartile price of homes in the area, the relative purchase affordability of homes available on the market relative to the cap, and the likelihood of further inflating prices. This means that specific places around New Zealand where housing is more expensive do have a higher price cap than regional places, where housing is relatively less expensive.

As house prices have increased over time, to match house price inflation in the setting of the price cap would risk pushing up house prices further and disincentivising developers to supply housing at lower price points. In addition, increasing the First Home Grant price cap would come at a cost, which would need to be considered against other options in the Government's toolkit to address the housing crisis.

The Ministry of Housing and Urban Development continues to monitor the scheme and provide advice as required.

You may be interested to know that the Government recently announced details of the \$400 million Progressive Home Ownership Fund. The Fund is expected to help between 1,500 and 4,000 New Zealand families into home ownership that would otherwise not be able to buy their own home. The Fund will enable low to median-income households partner with a progressive home ownership provider to access shared ownership, rent to buy, or leasehold arrangements to step into home ownership. Progressive home ownership schemes help households to buy their first home by reducing the deposit needed to buy a home and/or the ongoing costs of servicing a mortgage.

The first two confirmed providers are for housing projects in Auckland and Queenstown, both areas where housing affordability issues are most severe. Across the lifetime of the Fund, it will support households in a range of places across New Zealand with severe housing affordability issues. You can read more about progressive home ownership at: [www.hud.govt.nz/residential-housing/progressive-home-ownership](http://www.hud.govt.nz/residential-housing/progressive-home-ownership).

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of my response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz).

As part of our ongoing commitment to openness and transparency, the Ministry proactively releases information and documents that may be of interest to the public. As such, this response, with your personal details removed, may be published on our website.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Julia Pearce', is positioned above the printed name and title.

Julia Pearce  
**Principal Policy Advisor**  
**Market and Supply Responses**

Documents released – DOIA19/20060435			
Ref	Date	Title	Section of the Act applied
1	June 2016	Cabinet Paper: Changes to KiwiSaver HomeStart grant settings to further assist first home buyers	N/A
2	29 June 2016	Cabinet Minute: EGI-16-MIN-0152 - KiwiSaver HomeStart Grant: Changes to Settings to Further Assist First Home Buyers	N/A
3	10 June 2016	Briefing: 3025 15-16 – Amending the KiwiSaver HomeStart house price caps	9(2)(a)
4	24 June 2016	Briefing: 3566 15-16 – Amending the KiwiSaver HomeStart eligibility criteria to further assist first home buyers	9(2)(a)  NB: Annex 2 is document one so is not duplicated here.
5	8 February 2018	Briefing: 1671 17-18 – Government financial assistance for first home buyers	9(2)(a) 9(2)(ba)(i) 9(2)(g)(i) 18(d)
6	31 July 2018	Briefing: 0196 18-19 – Increasing the Queenstown Lakes District HomeStart house price caps	9(2)(a)



Documents refused – DOIA19/20060435		
Date	Title	Section of the Act applied
20 August 2018	<p>Briefing: 0642 18-19 – Facilitating transitions to housing independence through progressive home-ownership schemes and affordable rental supply</p> <p><a href="https://www.hud.govt.nz/assets/News-and-Resources/Proactive-Releases/Second-Tranch/55fa1711f0/Facilitating-transitions-to-housing-independence-through-progressive-home-ownership-schemes-and-affordable-rental-supply.pdf">https://www.hud.govt.nz/assets/News-and-Resources/Proactive-Releases/Second-Tranch/55fa1711f0/Facilitating-transitions-to-housing-independence-through-progressive-home-ownership-schemes-and-affordable-rental-supply.pdf</a></p>	18(d)
30 November 2018	<p>Briefing: BRF18/19110079 – Aligning the house price caps for HomeStart and Welcome Home Loans with KiwiBuild</p> <p><a href="https://www.hud.govt.nz/assets/News-and-Resources/Publications/a925a06855/Briefing-BRF1819110079-Aligning-the-house-price-caps-for-HomeStart-and-Welcome-Home-Loans-with-KiwiBuild.pdf">https://www.hud.govt.nz/assets/News-and-Resources/Publications/a925a06855/Briefing-BRF1819110079-Aligning-the-house-price-caps-for-HomeStart-and-Welcome-Home-Loans-with-KiwiBuild.pdf</a></p>	18(d)
23 July 2019	<p>Presentation: Increasing uptake of HomeStart in Auckland</p> <p><a href="https://www.hud.govt.nz/assets/News-and-Resources/Proactive-Releases/Second-Tranch/6ed922e04b/Presentation-Increasing-uptake-of-HomeStart-in-Auckland.pdf">https://www.hud.govt.nz/assets/News-and-Resources/Proactive-Releases/Second-Tranch/6ed922e04b/Presentation-Increasing-uptake-of-HomeStart-in-Auckland.pdf</a></p>	18(d)
5 June 2020	Excerpt from BRF19/20050679 - Covid-19: Options to support residential construction	9(2)(f)(iv)

In Confidence

Office of the Minister for Building and Housing

Cabinet Economic Growth and Infrastructure Committee

## **Changes to KiwiSaver HomeStart grant settings to further assist first home buyers**

### **Proposal**

1. This paper outlines changes to the criteria for the KiwiSaver HomeStart grant that will take effect from 1 August 2016.

### **Executive Summary**

2. The Government currently has four programmes that assist New Zealanders to buy their first home:
  - i. KiwiSaver HomeStart grant;
  - ii. KiwiSaver withdrawal;
  - iii. Welcome Home Loans mortgage insurance; and the
  - iv. First Home initiative.
3. The policy aim of HomeStart grant is to support first home buyers on modest incomes to purchase modest priced houses, irrespective of what part of the country they live in. The scheme also aims to incentivise greater supply of new builds for first home buyers
4. Periodic adjustments to the HomeStart eligibility criteria are required to reflect current market conditions and ensure that the scheme remains accessible to those for whom the policy is intended to apply.
5. House price increases and wage inflation since the policy settings were agreed mean fewer first home buyers are likely to be eligible for the scheme unless the eligibility criteria settings are adjusted.
6. The Minister of Finance and I (as the Minister for Building and Housing), have delegated authority to agree on detailed design issues for first home ownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [CAB Min (05) 13/10 refers].
7. To better fulfil the aim of the scheme under current market settings, the following changes have been made:
  - i. Amended the HomeStart house price caps for *existing* dwellings in
    - i. Auckland from \$550,000 to \$600,000

- ii. HASHA areas from \$450,000 to \$500,000
    - iii. Other areas from \$350,000 to \$400,000
  - II. Amended the HomeStart house price caps for *new builds* in
    - iv. Auckland from \$550,000 to \$650,000
    - v. HASHA areas from \$450,000 to \$550,000
    - vi. Other areas from \$350,000 to \$450,000
  - III. Amended the HomeStart income caps from:
    - vii. \$80,000 to \$85,000 for individuals
    - viii. \$120,000 to \$130,000 for two or more buyers.
8. These adjustments will also be reflected in the Welcome Home Loan scheme criteria, which are aligned with those of HomeStart. As the consideration of assets for KiwiSaver withdrawals by previous homeowners is based on the HomeStart house price caps, the asset caps for this scheme also need to be amended.

### **HomeStart grant background**

- 9. The KiwiSaver HomeStart grant commenced from 1 April 2015 to improve access to first homeownership through Crown support. It offers a grant of between \$3,000 and \$5,000 following three to five years of active KiwiSaver contributions, with this amount doubled if the purchase is for a brand new home. Eligibility criteria apply including house price caps and income caps. These are listed in Annex One.
- 10. In the first three quarters of the 2015/16 financial year, 10,371 HomeStart grants have been paid out at an average of \$4,670 per grant. At that rate, officials estimate only \$65 to \$68 million of the \$78 million HomeStart grant appropriation will be spent in 2015/16. If current settings remain, I expect a similar underspend in the 2016/17 financial year and out-years.

### **Rationale for change**

- 11. Reviewing settings that apply across New Zealand requires a balance of concerns including:

#### *House price inflation*

- 12. The Auckland, Queenstown, Tauranga and Hamilton housing markets have experienced particularly high price growth over the past year. Annex Two details local house price changes between the introduction of the HomeStart programme in April 2015 and May 2016.
- 13. In the year to March 2016, the current house price thresholds captured approximately 62 per cent of all sales to first home buyers nationwide. However, less than a third of sales to first home buyers were eligible in Auckland and Queenstown, and only 39 per cent in Wellington.

14. Unless the house price caps are increased, I expect rising house prices can be expected to further reduce the number of sales that fall below the caps, especially in Auckland, Queenstown and Wellington.

#### *Wage inflation*

15. The income caps were changed to their current levels in August 2013. There has been wage inflation of approximately 6.2 per cent since this time. This would suggest current incomes of \$84,960 and \$127,440, which would be consistent with the real value of the income caps set by Cabinet in 2013. Therefore, I have made a small adjustment to the income caps.

#### *Housing development*

16. Activity in the residential construction market is heavily weighted towards larger and more expensive homes, rather than smaller and lower priced products that would favour first home buyers.
17. It is a Government priority to increase housing supply to address affordability concerns, and as such I would like incentivise the construction of new builds through the programme by allowing eligibility at a higher price cap for new construction. Therefore I have made the price cap higher for first home buyers purchasing new builds than existing homes.

#### *Operational efficiency*

18. A balance of simplicity and effectiveness needs to be considered when grouping territories across house price cap categories. Too many categories makes administration more difficult for Housing New Zealand; but too few risks treating some regions unfairly as compared to others. As such, I have kept the regional price cap groupings to provide sufficient flexibility to reflect future market changes and avoid administrative complexity.

#### *Fiscal impact*

19. Changes to the settings need to balance expanding accessibility of the scheme, while ensuring spend is retained within the existing appropriation.
20. Table 1 presents the expected appropriation spend for financial years 2016/17 to 2018/19.

*Table 1. Forecasted appropriation spend for adjusted settings*

	2016/17	2017/18	2018/19
Estimate of Appropriation	\$85.86	\$102.45	\$106.2
Forecast spend \$m	\$84.78	\$94.51	\$102.91
Forecast underspend against appropriation	(\$1.08)	(\$7.94)	(\$3.29)



## Summary of changes to the house price cap and income cap settings

21. With these concerns in mind, we have made the following changes to the HomeStart settings:
  - I. Amend the HomeStart house price caps for *existing* dwellings in
    - i. Auckland from \$550,000 to \$600,000
    - ii. HASHA areas from \$450,000 to \$500,000
    - iii. Other areas from \$350,000 to \$400,000
  - II. Amend the HomeStart house price caps for *new builds* in
    - iv. Auckland from \$550,000 to \$650,000
    - v. HASHA areas from \$450,000 to \$550,000
    - vi. Other areas from \$350,000 to \$450,000
  - III. Amend the HomeStart income caps from:
    - vii. \$80,000 to \$85,000 for individuals
    - viii. \$120,000 to \$130,000 for two or more buyers.

## Risks

### *Forecasting risk*

22. While I am confident that the estimated costs above reasonably reflect the likely fiscal impact of these proposals, there is nevertheless a risk of material variance.
23. The forecast is based on historic data. It is difficult to accurately model the number of grants that will be paid out in any one year given market changes. For example, decisions by the Reserve Bank have the potential to increase or reduce demand from first home buyers. Consequently, there is a risk that a greater or lesser number of grants than has been modelled will actually be paid out.
24. Should actual expenditure exceed the given appropriation, there may be scope to bring forward appropriation from future years to retain spend with the overall budget.
25. Officials will monitor uptake of the scheme and report to me on revised forecast spend against the appropriation as the new settings come into effect.

### *Risks to other housing affordability outcomes and financial stability policies*

26. HomeStart could create additional demand pressures in many current regional housing markets. While house prices have increased over recent years, there has been a rapid increase in prices also in areas outside of Auckland in the past 12 month period. Supply constraints have been observed in terms of a shortage of new builds and very low inventory levels (listings of existing houses). In addition, the distortive effects of the Reserve Bank's loan-to-value ratio limits on banks' lending to first home buyers (and the effects of potential future interventions) are not well understood.



27. In the current context of supply constraints and financial stability interventions from the Reserve Bank, there are risks that additional demand from HomeStart subsidies could increase prices and counteract the Government's wider housing affordability objectives.

### **Administration**

28. Housing New Zealand Corporation will continue to administer the HomeStart grant. No increase to the existing appropriation for administrative costs is required at this stage. However, the administrative impact of any future adjustments will need to be considered to ensure there is sufficient appropriation to meet an increase in administrative expectations.
29. Housing New Zealand has noted two separate caps for existing homes and new builds will add substantial complexity to administration when considering the assets for previous homeowners applying for a HomeStart grant or KiwiSaver withdrawal. The asset cap for previous homeowners in both schemes is set at 20 per cent of the house price cap for that area.
30. As the intent of both schemes is to support people who would otherwise struggle to form a deposit to buy a home, I propose that assets for previous homeowners be considered against the new price cap for existing homes.

### *Welcome Home Loan scheme*

31. Take-up was below expected levels, with an estimated 1,100 of the budgeted 2,500 loans issued in 2015/16. Changes to the criteria are likely to increase take-up but not materially impact on future appropriation expenditure.

### **Consultation**

32. Housing New Zealand Corporation was consulted in the drafting of this paper.
33. Treasury were consulted in the drafting of this paper and do not support the proposed changes to the KiwiSaver HomeStart grant settings for the following reasons:
34. Increasing the income and house price caps for HomeStart would stimulate demand for lower-priced housing, when demand is constrained and already exceeding supply. The likely effect would therefore be to increase house prices, to some extent negating the goal of the proposal.
35. The policy intent of the HomeStart scheme is to support first home buyers on modest incomes. Only households that have a gross income of Decile 8 or above would be excluded by the proposed income cap for Auckland, and Decile 9 or above nationally. This suggests that the proposal is not well targeted.
36. To the extent the proposal does have its intended effect, it would be encouraging marginal first home buyers into the housing market. Such buyers are at greater financial risk if interest rates increase, or if house prices begin to fall.

### **Human rights and gender implications**

37. This paper raises no human rights issues or gender implications.

### Legislative implications

38. HomeStart and the Welcome Home Loan schemes are Government policy and not provided for in legislation. The consideration of assets for KiwiSaver withdrawals by previous homeowners is required under the KiwiSaver Regulations 2006, however the cap amount is set outside of the Regulations. There are therefore no legislative implications.

### Regulatory impact analysis

39. A regulatory impact analysis is not required for the proposals in this paper, as no legislative or regulatory changes are proposed.

### Publicity

40. I intend to announce these changes on 1 August 2016, with the changes to take effect from this date.

### Recommendations

41. I recommend that Cabinet:

- a. **Note** the Minister of Finance and Minister of Building and Housing have delegated authority to agree on detailed design issues for first home ownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [CAB Min (05) 13/10 refers];
- b. **Note** raising caps for all homes throughout New Zealand reflects house price inflation;
- c. **Note** raising the price caps for new builds above the price for existing homes will incentivise supply of new builds;
- d. **Note** the HomeStart house price caps for *existing* dwellings are amended in
  - i. Auckland from \$550,000 to \$600,000;
  - ii. HASHA areas from \$450,000 to \$500,000; and
  - iii. Other areas from \$350,000 to \$400,000;
- e. **Note** the HomeStart house price caps for *new builds* are amended in
  - iv. Auckland from \$550,000 to \$650,000;
  - v. HASHA areas from \$450,000 to \$550,000; and
  - vi. Other areas from \$350,000 to \$450,000;
- f. **Note** the HomeStart income caps are amended from:
  - vii. \$80,000 to \$85,000 for individuals; and
  - viii. \$120,000 to \$130,000 for two or more buyers;

- h. **Note** the criteria regarding realisable assets for previous homeowners applying for a HomeStart grant or KiwiSaver Withdrawal will be based on the new price cap for existing dwellings (not the new build price cap) in the relevant region;
- i. **Note** that the Welcome Home Loan scheme criteria are aligned with HomeStart, and will be adjusted in accordance with paragraphs (d) to (f) above;
- j. **Note** I intend to announce these changes on 1 August 2016, and these changes to take effect from this date.

Authorised for lodgement

Hon Dr Nick Smith  
**Minister for Building and Housing**  
\_\_\_\_/\_\_\_\_/\_\_\_\_

## Annex One: Current HomeStart eligibility criteria

Scheme	HomeStart grant (first home buyers)	HomeStart grant (previous homeowners)
Benefit	Grant of up to \$5,000 to buy an existing home (\$10,000 for 2+ buyers), double for a new home	
Years of KiwiSaver membership	3 continuous years of meeting at least the minimum employer contribution rate* (maximum grant after 5 years)	
Income cap	\$80,000 (\$120,000 for 2+ buyers)	
Asset cap**	Nil	20% of the HomeStart house price cap for the relevant region <sup>3</sup>
House price cap	<b>\$550,000</b> Auckland; <b>\$450,000</b> Wellington, Queenstown, Christchurch, Selwyn District, Hamilton, Tauranga, Western Bay of Plenty, Hutt City, Porirua, Tasman, Nelson, Waimakariri, Upper Hutt and Kapiti Coast; <b>\$350,000</b> all other areas	
Occupancy requirement	6 months from settlement date or issue of code compliance certificate	
Further notes: <ul style="list-style-type: none"><li>• A member may not receive a HomeStart grant more than once.</li><li>• Applicants cannot currently own a home or, and</li></ul>		
*The minimum KiwiSaver contribution rate is currently set at 3% of income		
**Considered to be 'net realisable assets', including: all money held in a bank account, fixed and term deposit; shares, stocks and bonds; investments in banks or financial institutions; money paid to or held by a real estate agent or solicitor as a deposit on a home; boats or caravans valued over \$5,000; vehicles not used as usual method of transport; other assets valued over \$5,000. Does not include any savings held in the KiwiSaver account.		

## Annex Two: House price changes, April 2015 – May 2016

REINZ May 2016

	Median price		
	May-16	Apr-15	Difference
<b>National</b>	<b>\$506,000</b>	<b>\$455,000</b>	<b>11.21%</b>
Auckland Region	\$805,000	\$720,000	11.81%
Whangarei City	\$335,000	\$282,500	18.58%
Northland	\$350,750	\$346,750	1.15%
Hamilton City	\$480,000	\$375,000	28.00%
Tauranga	\$550,250	\$386,000	42.55%
Rotorua	\$285,250	\$269,000	6.04%
Taupo	\$365,500	\$332,000	10.09%
Gisborne	\$232,000	\$238,500	-2.73%
Waikato/Bay of Plenty	\$419,000	\$350,000	19.71%
Napier City	\$350,000	\$340,000	2.94%
Hastings City	\$302,000	\$307,500	-1.79%
Hawkes Bay	\$310,000	\$305,000	1.64%
Palmerston North	\$302,500	\$268,500	12.66%
Levin	\$251,000	\$176,000	42.61%
Wanganui	\$170,000	\$147,500	15.25%
Manawatu/Wanganui	\$238,000	\$222,000	7.21%
New Plymouth	\$406,000	\$347,000	17.00%
Taranaki Country	\$270,000	\$206,500	30.75%
Taranaki	\$343,250	\$297,500	15.38%
Upper Hutt	\$407,500	\$349,000	16.76%
Hutt Valley	\$397,000	\$365,000	8.77%
Wellington	\$465,000	\$411,250	13.07%
Nelson City	\$436,175	\$403,000	8.23%
Marlborough/Kaikoura	\$351,500	\$309,500	13.57%
Nelson/Marlborough	\$395,000	\$356,000	10.96%
Christchurch	\$455,000	\$440,750	3.23%
Timaru	\$289,000	\$297,500	-2.86%
South Canterbury	\$300,500	\$268,750	11.81%
Canterbury/Westland	\$435,500	\$425,000	2.47%
Central Otago	\$508,500	\$403,000	26.18%
Queenstown	\$818,500	\$670,000	22.16%
Central Otago Lakes	\$707,250	\$532,000	32.94%
Dunedin	\$307,000	\$288,500	6.41%
Otago	\$281,000	\$260,000	8.08%
Invercargill	\$211,750	\$212,000	-0.12%
Southland	\$210,000	\$200,000	5.00%





# Cabinet Economic Growth and Infrastructure Committee

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### KiwiSaver HomeStart Grant: Changes to Settings to Further Assist First Home Buyers

**Portfolio**                      **Building and Housing**

On 29 June 2016, the Cabinet Economic Growth and Infrastructure Committee

- 1        **noted** that the Minister of Finance and the Minister for Building and Housing have delegated authority to agree on detailed design issues for first home ownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [CAB Min (05) 13/10 and SOC Min (09) 16/5];
- 2        **noted** that raising caps for all homes throughout New Zealand will reflect house price inflation;
- 3        **noted** that raising the price caps for new builds above the price for existing homes will incentivise the supply of new builds;
- 4        **noted** that the HomeStart house price caps for *existing* dwellings have been amended in:
  - 4.1      Auckland from \$550,000 to \$600,000;
  - 4.2      Housing Accords and Special Housing Areas (HASHA areas), from \$450,000 to \$500,000;
  - 4.3      other areas, from \$350,000 to \$400,000;
- 5        **noted** that the HomeStart house price caps for *new builds* have been amended in:
  - 5.1      Auckland from \$550,000 to \$650,000;
  - 5.2      HASHA areas, from \$450,000 to \$550,000;
  - 5.3      other areas, from \$350,000 to \$450,000;
- 6        **noted** that the HomeStart income caps have been amended from:
  - 6.1      \$80,000 to \$85,000 for individuals;
  - 6.2      \$120,000 to \$130,000 for two or more buyers;

- 7 **noted** that the criteria regarding realisable assets for previous homeowners applying for a HomeStart grant or KiwiSaver Withdrawal will be based on the new price cap for existing dwellings (not the new build price cap) in the relevant region;
- 8 **noted** that the Welcome Home Loan scheme criteria are aligned with HomeStart, and will be adjusted in accordance with paragraphs 4-6 above;
- 9 **noted** that the Minister for Building and Housing intends to announce these changes on 1 August 2016, and that these changes will take effect from that date.

Janine Harvey  
Committee Secretary

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**Present:**

Rt Hon John Key  
Hon Bill English (Chair)  
Hon Steven Joyce  
Hon Amy Adams  
Hon Simon Bridges  
Hon Dr Nick Smith  
Hon Nathan Guy  
Hon Michael Woodhouse  
Hon Maggie Barry

**Officials present from:**

Office of the Prime Minister  
Officials Committee for EGI

**Hard-copy distribution:**

Cabinet Economic Growth and Infrastructure Committee  
Office of the Prime Minister  
Melleny Black, PAG, DPMC



## BRIEFING

### Amending the KiwiSaver HomeStart house price caps

Date:	10 June 2016	Priority:	High
Security classification:	In Confidence	Tracking number:	3025 15-16

Action sought		
	Action sought	Deadline
Hon Dr Nick Smith Minister for Building and Housing	Agree to meet with officials to discuss the contents of this briefing.	17 June 2016

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Fiona Hill	Acting Manager, Construction and Housing Policy	04 896 5513	✓
Andre Anderson	Principal Policy Advisor	04 474 2815	
Hannah Frost	Graduate Policy Advisor	04 901 2050	

The following departments/agencies have been consulted					
<input type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
<input type="checkbox"/> Other:					

Minister's office to complete:

- ☐ Approved  
☐ Noted  
☐ Seen  
☐ See Minister's Notes

- ☐ Declined  
☐ Needs change  
☐ Overtaken by Events  
☐ Withdrawn

Comments:





# BRIEFING

## Amending the KiwiSaver HomeStart house price caps

Date:	10 June 2016	Priority:	High
Security classification:	In Confidence	Tracking number:	3025 15-16

### Purpose

To advise you on:

- Options for raising the KiwiSaver HomeStart grant house price caps while retaining spend within existing appropriations; and
- Options for a wider review of both the KiwiSaver HomeStart and Welcome Home Loan schemes.

### Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that, in light of the anticipated underspend in the KiwiSaver HomeStart appropriation, we have considered the following scenarios for raising the house price caps that apply under the KiwiSaver HomeStart grant:

Area	Current cap	Scenarios
Auckland	\$550,000	\$650,000
Queenstown Lakes	\$450,000	\$650,000
Wellington City	\$450,000	\$550,000
All other HASHA areas	\$450,000	\$550,000
All other areas	\$350,000	No change

- b **Note** our modelling suggests that:

- raising the price caps in Auckland and Queenstown alone would lift projected expenditure to approximately \$77 million (\$9 million short of the 2016/17 appropriation);
- raising the price caps in Auckland, Queenstown and all other HASHA areas including Wellington would lift projected expenditure to approximately \$81 million (\$5 million short of the 2016/17 appropriation)

- c **Note** that raising price caps higher than \$650,000 is unlikely to materially increase the number of grants paid because few first home buyers who are eligible for the grant can afford to purchase higher priced houses, given the existing income caps
- d **Note** to allow changes to the house price caps to take effect by 1 July 2016, we request your decision by 17 June 2016 to ensure Housing New Zealand Corporation management system, technological system and collateral can be updated in due time.
- e **Agree** to meet with officials to discuss the scenarios presented in this briefing

*Agree / Disagree*

- f **Agree** the Ministry of Business, Innovation and Employment conduct either a:
- i. Targeted review of proposed HomeStart grant and Welcome Home Loan criteria by September 2016;

*Agree / Disagree*

OR

- ii. Full review of all KiwiSaver withdrawal, KiwiSaver HomeStart grant and Welcome Home Loan criteria by September 2016

*Agree / Disagree*

*#ill*

Fiona Hill  
**Acting Manager, Construction & Housing  
Policy**  
Building, Resources and Markets, MBIE  
*10 / 6 / 16*

Hon Dr Nick Smith  
**Minister for Building and Housing**  
*..... / ..... / .....*

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## Introduction

1. You have requested advice on adjusting the house price caps to maximise use of the HomeStart grant appropriation, which will increase to \$85.863 million in 2016/17.
2. In the first three quarters of the 2015/16 financial year, 10,371 HomeStart grants have been paid out at an average of \$4,670 per grant. At that rate, we estimate only \$65 to \$68 million of the \$78 million HomeStart grant appropriation will be spent in 2015/16.
3. Unless the settings are changed, we expect a similar underspend in the 2016/17 financial year. Note, however, that the following analysis only considers amending the house price caps. As amending the income caps and other criteria were beyond the scope of the present analysis and more comprehensive modelling is required, a review of those settings needs to be deferred until the wider review discussed further below.

## Background

4. The KiwiSaver HomeStart grant commenced from 1 April 2015 to improve access to first homeownership through Crown support. The policy aim is to support first home buyers on modest incomes to purchase modest priced houses, irrespective of what part of the country they live in. Eligibility criteria apply, including house price caps and income caps.
5. Since 1 April 2015 territorial authorities throughout New Zealand have been grouped into one of three house price cap categories:

Table 1. Current HomeStart house price caps

Area	Price cap
Auckland	\$550,000
All HASHA areas (excluding Auckland)	\$450,000
All other areas	\$350,000

6. Table 2 shows the number of grants that our model projected would be paid out during 2015/16 when we advised on the introduction of HomeStart. That projection was used to calculate the \$78 million appropriation that Cabinet subsequently approved for this year. The table then compares the projected number of grants with the likely number of grants in 2015/16, extrapolated from data for the first three quarters of the financial year:

Table 2. Projected versus likely actual grants paid

Area	Projected 15/16 total	Likely 15/16 Actual	Difference
Auckland	2648	1261	-1387
Other HASHA areas	7090	5264	-1826
All other areas	7727	7303	-424
<b>Total</b>	<b>17466</b>	<b>13828</b>	<b>-3638</b>

## Issues arising from house price appreciation

7. The Auckland, Queenstown, Tauranga and Hamilton housing markets have experienced particularly high price growth over the past year. In the year to March 2016, the current house price thresholds captured approximately 62 per cent of all sales to first home buyers nationwide. However, less than a third of sales to first home buyers were eligible in Auckland and Queenstown, and only 39 per cent in Wellington.



Table 3: The proportion of sales to first home buyers that fell below the price cap in each area in the year to March 2016:

Area (price cap)	%
Auckland (\$550,000)	25%
Hamilton (\$450,000)	69%
Tauranga City & Western Bay of Plenty District (\$450,000)	62%
Wellington City (\$450,000)	39%
Porirua & Hutt City (\$450,000)	74%
Upper Hutt & Kapiti Coast (\$450,000)	89%
Nelson City & Tasman District (\$450,000)	84%
Christchurch City, Selwyn District & Waimakariri District (\$450,000)	68%
Queenstown Lakes	28%
All other areas combined (\$350,000)	81%
<b>National average</b>	<b>62%</b>
<b>National average excluding Auckland and Queenstown</b>	<b>71%</b>

8. Within Queenstown, the proportion of sales to first home buyers below the price cap in the urban area was 23 per cent<sup>1</sup>. This proportion measured 32 per cent in the wider district. While it is possible to differentiate between Urban Queenstown and the wider district, both areas indicate that first home buyers have limited access to homes below the current house price cap.
9. Unless the house price caps are increased, rising house prices can be expected to further reduce the number of sales that fall below the caps, especially in Auckland, Queenstown and Wellington.

### Limitation of the current income caps

10. However, simply raising the price caps to those levels or above for the 2016/17 financial year will not increase the number of grants paid to the same extent. Although it would capture a much greater proportion of sales to first home buyers, only those first home buyers whose income falls below the cap would be eligible for the grant.
11. The income caps are currently set at \$80,000 for individuals and \$120,000 for two or more buyers. Under those caps, if:
  - i. a couple on a combined income of \$120,000;
  - ii. purchase a \$650,000 dwelling;
  - iii. apply for a mortgage with a 10 per cent deposit which is made up of \$10,000 from HomeStart and the remaining \$55,000 through savings; and
  - iv. opt for a 30-year mortgage at a fixed term mortgage rate of 4.85%;
 then weekly repayments will be \$712, which is approximately 31 per cent of their combined gross weekly income. Given that 30 per cent of income is often used as a broad indication of affordability, this scenario illustrates how the effect of raising the house price caps will be limited by members' ability to repay their mortgages, and consequently the willingness of lenders to lend up to the value of a higher cap.
12. As HomeStart is targeted at households with modest incomes, if the price cap is raised but the income cap is not, then beyond a certain point there will be few households with eligible incomes that will also be able to secure a mortgage in the upper range of prices. Given that the 30 per cent threshold for affordability is reached at a price of approximately \$650,000

<sup>1</sup> As defined by the New Zealand fire service and used by Corelogic data. See Annex 1 for a map.

even for households earning at the top end of the range, it suggests that \$650,000 is the practical limit for raising the price cap within current income settings.

13. For this reason, we expect that solely raising the price caps may still result in an underspend of the KiwiSaver HomeStart appropriation.

## Scenarios for adjusting the house price caps

14. In addition to the effect of the income cap, reviewing house price caps that apply across New Zealand requires a balance of concerns, including:
  - i. Housing development - house price caps need to be set at a level that encourages developers to build homes in the lower-quartile price range;
  - ii. Operational - a balance of simplicity and effectiveness needs to be considered when grouping territories across house price cap categories. Too many categories makes administration more difficult for HNZN; but too few risks treating some regions unfairly as compared to others.
15. As the share of sales below the price cap in Auckland (25%), the urban area of Queenstown (23%) and the greater Queenstown region (32%) illustrates, these areas are most in need of amendment, followed by Wellington (39%). There is also a lesser case to amend the price caps for Tauranga (57%), Greater Christchurch (68%) and Hamilton (69%), especially given the further likely price rises in Tauranga and Hamilton this year.
16. Below, we present scenarios for amending the house price caps in these regions.

### Auckland

17. This scenario involves raising the house price cap for Auckland from \$550,000 to \$650,000.
18. Using retrospective house sale data, if the Auckland house price cap had been raised to \$650,000 on 1 April 2016, it would have captured approximately 44 per cent of sales to first home buyers in the year to March 2016.
19. Should the Auckland house price cap be raised to \$650,000 on 1 July 2016, the projected spend for 2016/17 would be approximately \$76 million, approximately \$10 million short of the appropriation.
20. To maximise the use of the appropriation solely through amendments to the Auckland house price cap, it would need to be set in excess of \$800,000. While working towards maximising the appropriation, this setting may have the unintended consequence of working against the policy aims of the grant; for example by no longer encouraging developers to build new housing under certain price points.
21. Given that the agreements MBIE is entering into with developers as part of the Auckland Crown Land Programme include a reference to supplying a certain proportion of the new houses below the HomeStart price cap, raising the cap too high will undermine the ability to describe these houses as "affordable".

### Queenstown Lakes District (urban and greater area)

22. This scenario involves raising the house price caps for the whole Queenstown Lakes District (urban and greater area of Queenstown) from \$450,000 to \$650,000.
23. Using retrospective house sale data, if the Queenstown Lakes District house price cap had been \$650,000, it would have captured 59 per cent of sales to first home buyers in the year to March.
24. When combined with the Auckland house price cap change above, the caps would have captured an average of 67 per cent of all sales to first home buyers in the year to March.



## Options for other areas

25. In addition to Auckland and Queenstown, we consider two further options, one that raises the price cap in Wellington only and the other that raises the price cap for all areas in the second house price category.

### *Wellington only*

26. Using retrospective house sale data, if the Wellington City house price cap had been raised from \$450,000 to \$550,000, it would have captured 65 per cent of sales to first home buyers in the year to March.
27. When combined with the recommended changes to Auckland and Queenstown above, these house price caps would have captured an average of 70 per cent of all sales to first home buyers in the year to March (up from the 62 per cent average actually covered by the current price caps across all areas).
28. From an operational perspective, this scenario is the most complicated as it groups New Zealand territories across four different house price cap categories, instead of the current three. However, we consider that the additional administrative burden will not be unreasonable for HNZC to manage:

Area	Adjusted Price cap
Auckland and Queenstown	\$650,000
Wellington City	\$550,000
All other HASHA areas	\$450,000
All other areas	\$350,000

### *All HASHA areas (including Wellington)*

29. Administratively, adjusting the HASHA house price caps from \$450,000 to \$550,000 is the simplest in that it only changes the price cap for existing price groupings, albeit that Queenstown now joins Auckland in the highest price category. The key difference is that areas that already enjoy high coverage, such as Nelson and Tasman (84 per cent) and Upper Hutt and Kapiti Coast (89 per cent), would now have price caps that would have covered almost all sales to first home buyers in the year to March (93 per cent and 96 per cent, respectively). This would be significantly higher than for all other areas of the country (81 per cent).
30. In the 12 months to March 2016, using retrospective data, the proposed house price caps under this scenario would have captured 79 per cent of sales to first home buyers nationwide. If adopted for the 2016/17 financial year, we project that expenditure will rise to \$81 million, \$5 million short of the appropriation:

% of sales to first home buyers in the year to March 2016 captured below the:	Current caps	Adjusted caps
Auckland	25%	44%
Hamilton	69%	85%
Tauranga City & Western Bay of Plenty District	62%	83%
Wellington City	39%	65%
Porirua & Hutt City	74%	91%
Upper Hutt & Kapiti Coast	89%	96%
Nelson City & Tasman District	84%	93%
Christchurch City, Selwyn District & Waimakariri District	68%	88%
Queenstown Lakes	28%	59%
All other areas combined	81%	81%
<b>Average</b>	<b>62%</b>	<b>79%</b>



## Summary of scenarios

31. Although the scenario in which the price cap is raised for all HASHA areas is both unlikely to exceed the appropriation and is the most administratively simple for HNZN, it is the least fair when compared with the likely coverage in other regions. Accordingly, we suggest that raising the price caps in Auckland, Queenstown and Wellington, but not in other HASHA areas, may be the most suitable scenario.

32. The following table summarises the potential changes under each scenario:

*Table 6: Comparison of proportion of sales to first home buyers that fall with current and adjusted house price caps*

Area	Current Cap	Current %	Adjusted Cap	Indicative %	Increase %
Auckland	\$550,000	25%	\$650,000	44%	19%
Queenstown Lakes	\$450,000	28%	\$650,000	59%	31%
Wellington City	\$450,000	39%	\$550,000	65%	26%
All other HASHA areas combined	\$450,000	74%	\$550,000	89%	15%
All other areas combined	\$350,000	81%	\$350,000	81%	0%

## Risks

### *Macroeconomic Impact on Housing Affordability*

33. The impact on the proportion of owner-occupiers is expected to be small, as most recipients of a HomeStart grant would have purchased a house eventually anyway. That is
- A change in eligibility can be expected to bring forward the point in time at which first home buyers have the requisite deposit to purchase a house. In the short term, it might increase housing demand, particularly at lower price points. But this is not expected to have a material effect.
  - As first home buyers and investors compete for the same houses, any increase in demand from first home buyers may be offset to the extent that they substitute for the number of investors purchasing in the market. The extent to which this will occur will depend on whether investors are able to find other suitable properties elsewhere in the same market, or hold off buying altogether.
34. While the grant will make a material contribution to first home buyers' ability to raise a deposit, the grant makes no difference to the cost of servicing a mortgage.

### *Forecasting risk and exceeding the HomeStart grant appropriation*

35. Our projections are based on the same model that we used to advise Ministers for the introduction of the HomeStart grant, updated to reflect actual data since the scheme commenced. As the anticipated underspend for the 2015/16 year reflects, it is difficult to accurately model the number of grants that will be paid out in any one year, especially given the ongoing price rises in certain markets. Consequently, there is a risk that a greater or lesser number of grants than we have modelled for the above scenarios will actually be paid out.
36. However, we consider market changes over the next 12 months are likely to reduce rather than increase uptake. Therefore the Ministry considers the risk of exceeding the HomeStart grant appropriation to be low and may only arise through unforeseen circumstances such as a market correction. A full review of criteria later in 2016 would allow an opportunity to adjust settings further if required.



## Authority and timing of amending the house price caps

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37. To ensure no market distortion occurs in response to any publicised house price cap amendments, the Ministry and HNZN will ensure all correspondence and collateral remains confidential until the amendments take effect.
38. Should you wish to amend the house price caps, we recommend the changes be implemented either:
  - i. On 1 July 2016 to coincide with the financial year and allow full year data collection to monitor the impact of changes; or
  - ii. Later in 2016 to coincide with the full review of criteria.

*If you wish for changes to the house price caps to take effect by 1 July 2016:*

39. You and the Minister of Finance have delegated authority to amend the eligibility criteria for the KiwiSaver HomeStart grant. Should you agree to amend the house price caps, we will draft a briefing to you and the Minister of Finance seeking formal approval for the change.
40. Alternatively, you may wish to seek Cabinet approval for any change, notwithstanding your delegated power. Should you wish to seek a Cabinet decision, we will draft a Cabinet paper seeking formal approval for any agreed change.
41. HNZN processing systems may be updated quickly to allow for new house price caps. However, they advise that the marketing collateral will take more time to update and publish. To allow changes to take effect by 1 July 2016, we ask you advise the Ministry of your decision by 17 June 2016.

*If you wish to delay changing the house price caps until the wider review is complete:*

42. This will be most practical from an operational perspective, as changes can be implemented in conjunction with any further changes that may be agreed upon as a result of the wider review.

## Aligning the Welcome Home Loan house price caps

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43. Eligibility criteria also apply to the Welcome Home Loan<sup>2</sup> in the form of house price thresholds and income caps. The current settings are the same as those for the HomeStart grant.
44. To ensure the criteria for Welcome Home Loans remain aligned with those for HomeStart, we would recommend that the house price caps for Welcome Home Loans are increased to the same levels in the same areas agreed for the HomeStart grant.

## Wider review

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45. In August 2013, Cabinet directed the Ministry to review changes made at the time (primarily to the income and house price caps for what was then called the 'First Home Deposit Subsidy' and Welcome Home Loan scheme), and report back to the Minister of Housing in September 2015 [EGI (13) 156 refers].
46. As further substantial changes to the HomeStart scheme were implemented on 1 April 2015, Cabinet agreed that HomeStart be reviewed in 2016 [CAB Min (14) 28/9 refers].

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<sup>2</sup> From 2003 the Crown has funded mortgage insurance for eligible borrowers with sufficient income to pay a mortgage but an insufficient deposit to meet lending criteria.

### Proposed criteria for review

47. A more complete review of all criteria would test the extent to which the HomeStart and Welcome Home Loan schemes continue to meet policy objectives. We could conduct a full review by September 2016, allowing time for a Budget 2017 bid if desired.
48. The review will be particularly important in terms of assessing the apparent limitations of the KiwiSaver HomeStart income caps and whether these need to be adjusted in light of any further amendments to the house price caps that may be desired.
49. We propose two options for the review:
  - i. A targeted review assessing key criteria that have been raised in the media, ministerials and other correspondence. This proposed criteria is highlighted in orange below;
  - ii. A full review of all KiwiSaver withdrawal, KiwiSaver HomeStart grant and Welcome Home Loan criteria as shown in the table below.

Scheme	<i>KiwiSaver Withdrawal</i>	<i>KiwiSaver HomeStart Grant</i>	<i>Welcome Home Loan</i>
<b>Amount</b>	Applicants can withdraw all KiwiSaver contributions (with the exception of the Government \$1000 kick-start)	\$3,000 - \$5,000 at \$1,000 per year of KiwiSaver contributions; \$6,000 - \$10,000 for new builds. Amount doubled (up to \$20,000) for 2+ buyers	A loan up to the maximum house price cap of the relevant region, less a minimum 10% deposit requirement
<b>Income cap</b>	None	\$80,000 for single buyer, \$120,000 for 2+ buyers	\$80,000 for single buyer, \$120,000 for 2+ buyers
<b>Asset cap</b>	None (previous homeowners have an asset cap set at 20% of the relevant house price cap)	None (previous homeowners have an asset cap set at 20% of the relevant house price cap)	None
<b>House price cap</b>	None	Auckland \$550,000; other main centres \$450,000, rest of NZ \$350,000	Auckland \$550,000; other main centres \$450,000, rest of NZ \$350,000
<b>Dwelling type requirements</b>	Any residential property, or land with evidence of home to be built	Any residential property or land with evidence of home to be built	Maximum land size of 1 ha
<b>Homeownership</b>	Must not currently own land or property	Must not currently own land or property	Must not currently own land or property Must be a first home buyer
<b>Deposit requirements</b>	None	Must have a 10% deposit (including the grant)	Must have a 10% deposit
<b>KiwiSaver contributions</b>	KiwiSaver and/or a complying superannuation fund member for a combined total of at least 3 years	Minimum of 3 years contributing the minimum percentage of total income (currently 3%)	None
<b>Dwelling commitment</b>	Must be principle place of residence	Must live in the house for at least 6 months	House may not be used as rental or investment property
<b>Residency criteria</b>	Must be a New Zealand citizen or permanent resident	Must be a New Zealand citizen or permanent resident	Must be a New Zealand citizen or permanent resident
<b>Other criteria</b>	Recipient must: <ul style="list-style-type: none"> <li>Not have withdrawn KiwiSaver savings before</li> </ul>	Recipient must: <ul style="list-style-type: none"> <li>Be 18+ in age</li> <li>Not have received the grant before</li> </ul>	Recipient must: <ul style="list-style-type: none"> <li>Have a good credit record</li> <li>Meet any other criteria the lender may apply</li> </ul>

## Annexes

Annex One: Queenstown urban boundary used for analysis.



**Annex One: Queenstown urban boundary used for analysis.**





## BRIEFING

### Amending the KiwiSaver HomeStart eligibility criteria to further assist first home buyers

Date:	24 June 2016	Priority:	Urgent
Security classification:	In Confidence	Tracking number:	3566 15-16

Action sought		
	Action sought	Deadline
Hon Bill English Minister of Finance	Agree to the recommended changes to the KiwiSaver HomeStart eligibility criteria.	27 June 2016
Hon Dr Nick Smith Minister for Building and Housing	Agree to the recommended changes to the KiwiSaver HomeStart eligibility criteria and submit the attached Cabinet paper for EGI consideration on 29 June 2016.	27 June 2016

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Fiona Hill	Acting Manager, Construction and Housing Policy	04 896 5513	s 9(2)(a)	✓
Hannah Frost	Graduate Policy Advisor	04 901 2050		

The following departments/agencies have been consulted					
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input checked="" type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
<input checked="" type="checkbox"/> Other:			Housing New Zealand Corporation		

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments:





## BRIEFING

### Amending the KiwiSaver HomeStart eligibility criteria to further assist first home buyers

Date:	24 June 2016	Priority:	Urgent
Security classification:	In Confidence	Tracking number:	3566 15-16

#### Purpose

The Minister of Finance and Minister for Building and Housing have delegated authority to amend the eligibility criteria for the KiwiSaver HomeStart grant settings [CAB Min (05) 13/10 refers].

This briefing seeks your agreement

- i. to amend the HomeStart house price and income caps and realisable asset settings, as outlined in this briefing;
- ii. for the Minister of Building and Housing to submit the attached Cabinet paper, *Changes to KiwiSaver HomeStart grant settings to further assist first home buyers* for consideration by the Cabinet Economic Growth and Infrastructure Committee (EGI) on 29 June 2016.

#### Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the KiwiSaver HomeStart appropriation will have an underspend of approximately \$11 million for 2015/16, with an estimated \$67 million of the \$78.268 million appropriation to be spent;
- b **Note** we expect this underspend to continue in the out years, unless eligibility criteria are amended;
- c **Agree** to amend the following HomeStart criteria:
  - I. house price caps for purchases of *existing* homes in
    - i. Auckland from \$550,000 to \$600,000;
    - ii. HASHA<sup>1</sup> areas from \$450,000 to \$500,000; and
    - iii. other areas from \$350,000 to \$400,000;
  - II. house price caps for purchases of *new builds* in
    - iv. Auckland from \$550,000 to \$650,000;
    - v. HASHA areas from \$450,000 to \$550,000; and
    - vi. other areas from \$350,000 to \$450,000;

Agree / Disagree

Agree / Disagree

<sup>1</sup> Areas encompassed by Housing Accords and Special Housing Areas Act 2013 (HASHA). At time of writing, HASHA areas include Wellington, Queenstown, Christchurch, Selwyn District, Hamilton, Tauranga, Western Bay of Plenty, Hutt City, Porirua, Tasman, Nelson, Waimakariri, Upper Hutt and Kapiti Coast.

III. income caps from:

- vii. \$80,000 to \$85,000 for individuals; and
- viii. \$120,000 to \$130,000 for two or more buyers;

Agree / Disagree

- d **Note** we expect the revised package will carry an estimated cost of \$84.78 million in 2016/17, compared to the appropriated amount of \$85.86 million;
- e **Note** that while the estimated costs reasonably reflect the likely fiscal impact of these proposals, there is nevertheless a risk of material variance;
- f **Agree** that the Welcome Home Loan scheme criteria continue to be aligned with HomeStart, and be adjusted in accordance with paragraphs (c) (I – III) above;

Agree / Disagree

- g **Note** previous homeowners applying for a HomeStart grant or KiwiSaver withdrawal have additional asset criteria, which require their realisable assets to be below 20 per cent of the house price cap;
- h **Note** different asset criteria for existing and new homes in the same area will be difficult to administer, and a lower cap will be more consistent with the intent to support those who are more likely to struggle to form a deposit to buy a home;
- i **Agree** that the asset criteria for previous home owners be linked to the proposed new price cap for existing homes, rather than the proposed higher cap for new builds;

Agree / Disagree

- j **Agree** changes to the HomeStart grant and Welcome Home loan scheme settings be announced on 1 August 2016, and these changes to take effect from this date;

Agree / Disagree

- k **Agree** a further review of the HomeStart scheme take place in 2017;

Agree / Disagree

- l **Agree for the Minister for Building and Housing** to submit the attached paper *Changes to KiwiSaver HomeStart grant settings to further assist first home buyers* to the Cabinet Office by 10am on Monday 27 June 2016, for consideration by EGI on Wednesday 29 June 2016.

Agree / Disagree

*FHill*  
Fiona Hill  
Acting Manager, Construction & Housing  
Policy  
Building, Resources and Markets, MBIE

*24 / 6 / 16*

Hon Bill English  
Minister of Finance  
..... / ..... / .....

Hon Dr Nick Smith  
Minister for Building and Housing

..... / ..... / .....



## Background

1. The KiwiSaver HomeStart grant commenced from 1 April 2015 to improve access to first homeownership through Crown support. It offers a grant of between \$3,000 and \$5,000 following three to five years of active KiwiSaver contributions, with this amount doubled if the purchase is for a brand new home.
2. The policy aim is to support first home buyers on modest incomes to purchase modest priced houses, irrespective of what part of the country they live in. Eligibility criteria apply, including limits on the price of a house that can be purchased with a grant (house price caps) and limits to the annual income of those applying for a grant (income caps). The full set of eligibility criteria is attached as Annex One.

## HomeStart Criteria

### Rationale for change and recommended adjustments

3. Reviewing settings that apply across New Zealand requires a balance of concerns, including:

#### *House price inflation*

4. The Auckland, Queenstown, Tauranga and Hamilton housing markets have experienced particularly high price growth over the past year. In the year to March 2016, the current house price thresholds captured approximately 62 per cent of all sales to first home buyers nationwide. However, less than a third of sales to first home buyers were eligible in Auckland and Queenstown, and only 39 per cent in Wellington.

*Table 1. The proportion of sales to first home buyers that fell below the price cap in each area in the year to March 2016:*

Area (price cap)	%
Auckland (\$550,000)	25%
Hamilton (\$450,000)	69%
Tauranga City & Western Bay of Plenty District (\$450,000)	62%
Wellington City (\$450,000)	39%
Porirua & Hutt City (\$450,000)	74%
Upper Hutt & Kapiti Coast (\$450,000)	89%
Nelson City & Tasman District (\$450,000)	84%
Christchurch City, Selwyn District & Waimakariri District (\$450,000)	68%
Queenstown Lakes	28%
All other areas combined (\$350,000)	81%
<b>National average</b>	<b>62%</b>
<b>National average excluding Auckland and Queenstown</b>	<b>71%</b>

5. Unless the house price caps are increased, we expect rising house prices can be expected to further reduce the number of sales that fall below the caps, especially in Auckland, Queenstown and Wellington.
6. Proposed changes to the house price caps are as follows:

	<b>Current caps</b>	<b>Proposed house price caps for existing homes</b>	<b>Proposed house price caps for new builds</b>
Auckland	\$550,000	\$600,000	\$650,000
HASHA	\$450,000	\$500,000	\$550,000
All other	\$350,000	\$400,000	\$450,000

7. The proposed house price caps reflect an increase of approximately 10 per cent, and recognise market changes since the policy was announced in September 2014. REINZ data indicates national house prices increased by 10 per cent in the past year to May 2016 alone.

#### *Wage inflation*

8. As HomeStart is targeted at households with modest incomes, if the price cap is raised but the income cap is not, then beyond a certain point there will be few households with eligible incomes that will also be able to secure a mortgage in the upper range of prices.
9. The income caps were changed to their current levels of \$80,000 for single buyers and \$120,000 for two or more buyers in August 2013 [EGI Min (13) 18/12 refers]. There has been wage inflation of approximately 6.2 per cent since this time.<sup>2</sup> This would suggest current incomes of \$84,960 and \$127,440, which would be consistent with the real value of the income caps set by Cabinet in 2013.
10. Proposed changes to the income caps are as follows:

	<b>Current caps</b>	<b>Adjusted caps</b>
Income cap for an individual	\$80,000	\$85,000
Income cap for two or more buyers	\$120,000	\$130,000

#### *Housing development*

11. There remains a difficulty in encouraging developers and builders to deliver the right product to market to meet demand – particularly for first home buyers. Activity in the residential construction market is heavily weighted towards larger and more expensive homes, rather than smaller and lower priced products that would favour first home buyers.
12. HomeStart offers double the grant amount for the purchase of a brand new home. This aims to encourage developers to build new housing supply at relatively lower price points. Widening the eligibility criteria for new builds further supports this aim.

<sup>2</sup> RBNZ  
3566 15-16



### Operational efficiency

13. A balance of simplicity and effectiveness needs to be considered when grouping territories across house price cap categories. Too many categories risks administrative complexity; but too few risks treating some regions unfairly as compared to others. As such, we recommend keeping the current regional price cap groupings to provide sufficient flexibility to reflect future market changes and avoid over complexity.

### Fiscal impact

14. Changes to the settings need to balance expanding accessibility of the scheme, while ensuring spend is retained within the existing appropriation.
15. Table 1 presents the expected appropriation spend for financial years 2016/17 to 2018/19.

Table 1. Forecasted appropriation spend for adjusted settings

	2016/17	2017/18	2018/19
Estimate of Appropriation	\$85.86	\$102.45	\$106.2
Forecast spend \$m	\$84.78	\$94.51	\$102.91
Forecast underspend against appropriation	(\$1.08)	(\$7.94)	(\$3.29)

16. In comparison, the 2015/16 appropriation will have an underspend of approximately \$11 million, with an estimated \$67 million of spending within the \$78.268 million appropriation. This underspend is expected to continue in the out years unless criteria are changed, as house prices are a significant determinant of eligibility.

### Welcome Home Loan

17. The Welcome Home Loan scheme is a Crown funded mortgage insurance scheme for eligible borrowers with sufficient income to pay a mortgage but an insufficient deposit to meet lending criteria.
18. Welcome Home Loan criteria are currently aligned with those of HomeStart. We recommend that the criteria continue to be aligned and for the above changes to apply to the Welcome Home Loan.

### Forecasting risk

19. The projected appropriation is based on historic data. It is difficult to accurately model the number of grants that will be paid out in any one year given market changes. For example, decisions by the Reserve Bank have the potential to increase or reduce demand from first home buyers. Consequently, there is a risk that a greater or lesser number of grants than has been modelled will actually be paid out.
20. Should actual expenditure exceed the given appropriation, there may be scope to bring forward appropriation from future years to retain spend with the overall budget.

### Administration

21. Housing New Zealand Corporation will continue to administer the HomeStart grant. No increase to the existing appropriation for administrative costs is required at this stage.
22. For previous homeowners, additional asset criteria apply for both the HomeStart grant and KiwiSaver withdrawal. This is currently an asset cap set at 20 per cent of the house price cap. Housing New Zealand has noted two separate caps for existing homes and new builds will add substantial complexity to administering the determination of assets.



23. As the intent is to support people who would otherwise struggle to form a deposit to buy a home, we recommend that assets for previous homeowners be considered against the price cap for purchases of existing homes.

#### *Welcome Home Loan scheme*

24. Take-up was below expected levels, with an estimated 1,100 of the budgeted 2,500 loans issued in 2015/16. Changes to the criteria to continue aligning the two schemes are likely to increase take-up but not materially impact on future appropriation expenditure.

#### **Consultation**

25. We have consulted with Treasury.
26. The Treasury does not support the proposed changes. Concerns are outlined in the attached Cabinet paper.

#### **Next steps**

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27. The Minister of Finance and Minister for Building and Housing have delegated authority to amend the eligibility criteria for the KiwiSaver HomeStart grant [CAB Min (05) 13/10 refers]. Should you agree to the recommended changes, we have prepared a separate Cabinet paper seeking to notify Cabinet of the changes made under your delegate authority.
28. Following agreement, to allow sufficient time for Housing New Zealand to implement the changes, we recommend the change in settings are announced on, and take effect from 1 August 2016.
29. To evaluate progress and the extent to which the HomeStart grant for new builds is driving the desired market changes, we recommend that the scheme's criteria be reviewed again in 2017.

#### **Annexes**

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Annex One: Current HomeStart Eligibility Criteria

Annex Two: KiwiSaver HomeStart grant settings to further assist first home buyers



## Annex One: Current HomeStart Eligibility Criteria

Scheme	HomeStart grant (first home buyers)	HomeStart grant (previous homeowners)
Benefit	Grant of up to \$5,000 to buy an existing home (\$10,000 for 2+ buyers), double for a new home	
Years of KiwiSaver membership	3 continuous years of meeting at least the minimum employer contribution rate* (maximum grant after 5 years)	
Income cap	\$80,000 (\$120,000 for 2+ buyers)	
Asset cap **	Nil	20% of the HomeStart house price cap for the relevant region <sup>3</sup>
House price cap	<b>\$550,000</b> Auckland; <b>\$450,000</b> Wellington, Queenstown, Christchurch, Selwyn District, Hamilton, Tauranga, Western Bay of Plenty, Hutt City, Porirua, Tasman, Nelson, Waimakariri, Upper Hutt and Kapiti Coast; <b>\$350,000</b> all other areas	
Occupancy requirement	6 months from settlement date or issue of code compliance certificate	
Further notes:		
<ul style="list-style-type: none"><li>A member may not receive a HomeStart grant more than once</li><li>Applicants cannot currently own a home or land</li></ul>		
<p>*The minimum KiwiSaver contribution rate is currently set at 3% of income</p> <p>**Considered to be 'net realisable assets', including: all money held in a bank account; fixed and term deposit; shares, stocks and bonds; investments in banks or financial institutions; money paid to or held by a real estate agent or solicitor as a deposit on a home; boats or caravans valued over \$5,000; vehicles not used as usual method of transport; other assets valued over \$5,000. Does not include any savings held in the KiwiSaver account.</p>		

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## BRIEFING

### Government financial assistance for first home buyers

<b>Date:</b>	8 February 2018	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	1671 17-18

Action sought		
	Action sought	Deadline
Hon Phil Twyford <b>Minister of Housing and Urban Development</b>	<b>Agree</b> to meet with officials to discuss next steps for work on government financial assistance products for first home buyers.  <b>Forward</b> this briefing to the Hon Shane Jones	15 February 2018
Hon Jenny Salesa <b>Associate Minister of Housing and Urban Development</b>	For information only	N/A

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Hilary Eade	Manager, Housing and Urban Branch	04 901 8544	s 9(2)(a)	✓
Matthew Galt	Policy Advisor, Housing and Urban Branch	04 896 5686		

The following departments/agencies have been consulted
HNZC, Treasury, MSD, TPK, LINZ

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments





## BRIEFING

### Government financial assistance for first home buyers

<b>Date:</b>	8 February 2018	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	1671 17-18

#### Purpose

This briefing provides you with advice regarding current and possible future products to provide financial assistance for first home buyers. It seeks your direction about the scope of future policy work in this area.

#### Executive summary

a The Labour party election manifesto and the Labour/Green Confidence and Supply Agreement committed to delivering innovative home ownership models, such as rent to buy or shared equity products. It commits specifically to developing a 'Rent to Own' or similar progressive ownership product as part of KiwiBuild. Since then:

- the Ministry of Business Innovation and Employment (MBIE) has commissioned PwC to assess the number of people who could potentially afford KiwiBuild homes,
- the Māori Housing Ministers group has commissioned advice on how KiwiBuild can deliver for Māori households, including the role of shared equity, assisted ownership and intergenerational house design, and
- the Minister of Land Information has requested work exploring how the land property rights legal system could better facilitate innovative tenure structures.

This work will provide advice on specific aspects of financial assistance for first home buyers, but we would welcome your feedback on the broad direction you would like other aspects of policy work on financial assistance products to progress in. This includes addressing issues with existing Crown homeownership products, and developing progressive homeownership products in addition to a Māori specific product.

- b Ideally, the most efficient way to support homeownership is by ensuring a well-functioning housing market. In such a market, most people would be able to afford homeownership and only people on low incomes may need additional support. However, in the current New Zealand housing market it has become difficult for people even on moderate incomes to attain homeownership. People on both low and moderate incomes may require financial support to become homeowners until the housing market improves.
- c Support in the form of financial assistance products for first home buyers can potentially increase housing demand and can also be fiscally costly. However, the benefits of financial products are that they are relatively simple to establish and operate, and can be targeted to specific groups.
- d The design of financial assistance products will depend on who you want to help. Key considerations could include: alignment with other programmes (such as KiwiBuild); location; income; groups disadvantaged by the current housing system; and groups likely to benefit most from homeownership. We would welcome your direction about what groups you want to prioritise for financial assistance.
- e The Crown currently subsidises several products providing financial assistance to first home buyers. The main products are HomeStart grants, Welcome Home Loans, and the KiwiSaver withdrawal scheme. These products help first home buyers accumulate a deposit (or reduce the required size of the deposit in the case of Welcome Home Loans). There are a number of



design issues with these products, and uptake of HomeStart grants and Welcome Home Loans have been very low in Auckland.

- f Officials consider that a review of these existing products may identify opportunities for improvements in the way they work, particularly for regions with acute affordability issues, or that alternative uses of the funding may better support homeownership.
- g Shared equity, rent-to-buy and similar products are another option to support people into homeownership. These types of products are referred to as progressive homeownership products in this paper. Each type of product has its own advantages and disadvantages:
  - Shared equity products can require less capital and be more straightforward administratively, so may be able to support a larger number of people for a given amount of funding.
  - Rent-to-buy products tend to work best for people on the lowest incomes because shared equity products require the occupier to have a deposit and access to mortgage financing (although the size of both the deposit and mortgage are reduced by the shared equity arrangement).
  - Another option to assist affordability is a ground lease product where the occupier has an option to buy the land at a later date. These would work for similar groups as shared equity products, with the difference being that ground leases in New Zealand traditionally only give the occupier ownership of the building and no equity in the land.
- h A key challenge in delivering new homeownership products will be sourcing Crown funding. As yet no provision has been made in the budget for this. While there are opportunities to work in partnership with, and access the capital of, iwi, local government, institutional investors, philanthropic groups, property developers, banks, and community housing providers, returns on shared equity products tend to be lower than other, similarly risky investments. These organisations may be reluctant to partner with the Crown in delivering a product on a large scale unless the Crown contributes some funding.

## Recommended action


The Ministry of Business, Innovation and Employment recommends that you:

- a. **Agree** to meet with officials to discuss next steps for work on government financial assistance products for homeownership. We are particularly interested in:
- Where the government wishes to target its support into homeownership with financial assistance (noting the commitment to support Māori into homeownership).
  - The changes you might consider making to the existing Crown homeownership products including:
    - i. Making them better aligned to support for identified target groups;
    - ii. Utilising the funding for other housing initiatives;
    - iii. Updating the house price and income caps to reflect market changes since they were set; and/or
    - iv. Addressing technical issues.
  - Any preferences you have regarding the development of progressive homeownership products (rent-to-buy, shared equity and leasehold products), including whether you would like them to be limited to KiwiBuild houses or available for other types of houses.

Agree / Disagree

- b. **Forward** this briefing to the Hon Shane Jones.

Agree / Disagree

  
Hilary Eade  
Manager, Housing and Urban Branch  
BRM, MBIE

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..... / ..... / .....

Hon Phil Twyford  
Minister of Housing and Urban  
Development

..... / ..... / .....



## Background

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1. Homeownership provides a range of benefits both for the homeowner and for wider society. These include security of tenure; stronger links into the community; greater control over the property; greater wealth accumulation (due to a mixture of house price appreciation, the discipline of making mortgage payments, and the favourable tax treatment of owner-occupied housing); and better housing quality (in part due to homeowners generally having higher incomes and wealth than renters, but also in part due to greater commitment to, and control over, the property).<sup>1</sup>
2. However, homeownership is not without downsides, including high transaction costs when buying and selling; home maintenance costs, including rates and insurance; and the risk of large financial losses if house prices fall.
3. Whether the benefits of homeownership outweigh the costs will depend on each individual's circumstances. For many households there will be substantial benefits in moving from renting to homeownership, so there is merit in ensuring there are avenues available which make this transition possible.
4. The government has signalled a commitment to supporting homeownership and to investigating innovative homeownership products. The Confidence and Supply agreement between the Labour and Green parties includes a commitment to: *"deliver innovative home ownership models within the State and broader community housing programme"*. It commits specifically that: *"a Rent to Own scheme or similar progressive ownership models will be developed as part of Labour's KiwiBuild programme"*. Work is underway on a range of other initiatives to support homeownership, including KiwiBuild, increasing taxes on property investors (through extending the bright line test to five years and ring-fencing rental losses), and banning overseas buyers from purchasing existing houses.
5. Labour's Māori housing manifesto commits to: *"expand home ownership support programmes proven to assist Māori into home ownership"*. This includes a commitment to: *"investigate the option of shared equity and rent to buy for KiwiBuild houses with iwi"*. At their meeting on 31 January 2018 the Māori Housing Ministers Group commissioned advice on how KiwiBuild can deliver for Māori households, including the role of shared equity, assisted ownership and intergenerational house design. This advice is underway. A separate forthcoming MBIE briefing *KiwiBuild definitions and eligibility* will outline potential eligibility criteria for purchasers of KiwiBuild homes.
6. In her letter of priorities, the Minister of Land Information, Eugenie Sage, requested that Land Information New Zealand explore how tenure constructs such as shared equity may improve access to housing and enable Māori land owners to better utilise their land. This work will focus on developing a clear and consistent regime governing shared equity arrangements to make it easy for people to participate in such arrangements. This could involve developing guidance materials and optional model contracts, introducing new property legislation clarifying people's rights and responsibilities, and establishing dispute resolution processes.
7. Each of the pieces of work that are underway will provide advice on specific aspects of providing financial assistance to first home buyers, but we would welcome your feedback on the broad direction that you would like policy work to go in. This includes your preferences about any groups that you wish to support in addition to supporting Māori, addressing issues with the existing Crown homeownership products, and developing progressive homeownership products.

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<sup>1</sup> Sources: Rohe and Lindblad (2013). *Reexamining the Social Benefits of Homeownership after the Housing Crisis*. Joint Center for Housing Studies, Harvard University. <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/hbtl-04.pdf>, and LeBlanc and Schmidt (2017). *Do Homeowners Save More? Evidence From the Panel on Household Finances (PHF)*. [https://ideas.repec.org/p/arz/wpaper/eres2017\\_110.html](https://ideas.repec.org/p/arz/wpaper/eres2017_110.html)



## Home ownership in NZ

8. New Zealand homeownership rates have been declining since 1991. Māori homeownership rates have fallen more quickly than those for the population as a whole. A key reason for these trends has been rising house prices relative to incomes (figure 1). This has made it more challenging for first home buyers to save a deposit. In many regions the increase in house prices has been large enough that it has also increased the difficulty of servicing a mortgage, despite interest rates now being lower than in the past.

**Figure 1: Nationwide house prices and mortgage servicing costs relative to income**



Note: Mortgage payments as a share of income shows the share of median gross household income required to service an 80% LVR mortgage on a median priced house, with a 25 year mortgage term at the floating mortgage rate.

Sources: REINZ, Stats NZ, RBNZ and MBIE.

### What might the role for government be?

9. Ideally, the most efficient way to support home ownership is by ensuring a well-functioning housing market with settings that allow housing supply to respond to demand, and by removing distortions that fuel demand. This would allow developers to deliver housing that is affordable for most people, and people requiring financial assistance to afford a first home would be limited to those on low incomes. However, the New Zealand housing market has not been functioning well, and it has now become difficult for people even on moderate incomes to attain homeownership. People on both low and moderate incomes may require financial assistance to become homeowners until the housing market improves.
10. Making homeownership more affordable for key groups through financial assistance will involve transferring some of the cost or risk of buying a house from the occupier to another party. It may be possible to design products that achieve this without a Crown subsidy, but it is more likely that some subsidy will be needed to deliver large scale products that materially improve affordability.
11. Subsidised financial products for first home buyers can potentially increase housing demand (and thus prices, in markets with constrained supply) and can also be fiscally costly. However, they also have a number of advantages in that they:
- tend to be simpler to establish, implement and operate than deeper reforms to the housing market; and
  - can be targeted at specific groups.



12. Consequently, targeted financial assistance products can be a useful part of a comprehensive housing programme, alongside longer-term measures to improve the overall functioning of the housing market for all tenure types. Financial assistance could play an important role in achieving some of the government's housing objectives, such as increasing Māori homeownership rates.
13. Care needs to be taken in designing financial assistance products for homeownership so that they do not unintentionally expose people to financial risks that they may not be equipped to manage. This would involve ensuring that users of the products fully understand the contracts they are entering (whether conventional products like a mortgage or an alternative progressive ownership model), are in a position to maintain the property, and can withstand volatility in house prices.

## Existing home ownership financial assistance products

14. The Crown currently offers several subsidised financial products for first home buyers. None of these are progressive homeownership products. The three most commonly used products are:
  - i. **HomeStart grants** – payments towards the purchase of a first home. These were first introduced in 2010 as the KiwiSaver Deposit Subsidy and were expanded and rebranded to KiwiSaver HomeStart in 2015. KiwiSaver members can receive grants of up to \$5,000 to put towards the purchase of an existing home. If purchasing a new home the grant doubles to a maximum of \$10,000.
  - ii. **Welcome Home Loans** – commercial bank loans that are insured by the government. The government insurance allows the loans to be made at up to 90 percent Loan to Value Ratio (LVR) without being caught by the Reserve Bank's LVR restrictions. The government maintains a fund to cover loan losses. Borrowers contribute a fee equal to 1 percent of the loan amount to the fund when the loan is drawn and the government makes an additional contribution to the fund equal to 1.2 percent of the loan amount.
  - iii. **The KiwiSaver first home withdrawal** – this allows people to withdraw all of their KiwiSaver savings above \$1,000. Although much of the money people withdraw from their KiwiSaver accounts will be their own savings, there is an element of subsidy because the government directly contributes up to \$521 per year as a tax rebate to people's KiwiSaver accounts.
15. HomeStart grants and Welcome Home Loans are intended to help households on moderate incomes accumulate a deposit (or reduce the required deposit in the case of Welcome Home Loans). They are only available to first home buyers with incomes of up to \$85,000 for an individual or \$130,000 for two or more buyers. In addition, they can only be used to purchase houses below certain prices.<sup>2</sup>
16. People must be enrolled in KiwiSaver for at least three years to be eligible for a HomeStart grant or be able to withdraw their savings. Previous homeowners who are in a similar financial position to a first home buyer are eligible for the products. A summary of all eligibility criteria for each of the products is outlined in **Annex One**.
17. The table below shows how many people accessed each of the schemes in the year to June 2017. The KiwiSaver withdrawal is the most commonly used product, followed by HomeStart grants.

<sup>2</sup> For existing homes: \$600,000 in Auckland, \$500,000 in other areas with relatively high house prices, and \$400,000 in other regions. The price caps for new builds are \$50,000 higher than the existing home caps for each region.

**Table 1: Use of the products in the year to June 2017**

	<b>Total value</b>	<b>Number</b>	<b>Average (\$)</b>	<b>Appropriation for 2017/18</b>
HomeStart grant	\$75 million of grants	15,403	\$4,980	\$102.5 million
Welcome Home Loans	\$407 million of loans	1,381	\$295,000	Up to \$12 million to fund mortgage insurance
KiwiSaver First Home Withdrawal	\$655 million of withdrawals	32,682	\$20,042	Included in KiwiSaver appropriation

*Note: The Welcome Home Loan appropriation also covers the Kāinga Whenua scheme.*

18. MBIE has policy responsibility for all three products. Housing New Zealand administers HomeStart grants and Welcome Home Loans, while individual KiwiSaver providers administer KiwiSaver withdrawals (with the support of Housing New Zealand).
19. The government also provides a number of other forms of homeownership assistance not covered in this briefing. These include:
  - i. Kāinga Whenua Loans (government-underwritten loans to facilitate building on collectively owned Māori land). Issues with the Kāinga Whenua scheme are being addressed through a separate, related workstream, and advice will be provided to the Māori Housing Ministers Group.
  - ii. The Accommodation Supplement (for eligible homeowners).
  - iii. Housing New Zealand subsidises the sale of state houses to tenants.
  - iv. Te Puni Kōkiri will soon trial innovative homeownership models to enable low to median income whānau Māori to move into home ownership through the Te Ara Mauwhare initiative. Te Ara Mauwhare has \$8.3m of funding from Vote Māori development to be spent over three years. Te Puni Kōkiri has received eight proposals for innovative models that are potentially suitable to trial, and expects to confirm which ones will be undertaken in late February.
20. Community organisations supported by government and philanthropic funders offer shared equity and rent-to-buy products in certain regions (described in **Annex Two**). These products tend to be provided on concessionary terms. For example, with the shared equity products, no rent is charged on the community organisation's share in the property. The products are targeted towards people that are likely to struggle to afford a home unsupported, but who do have at least one member of the household in employment.

## **Issues with the existing Crown homeownership products**

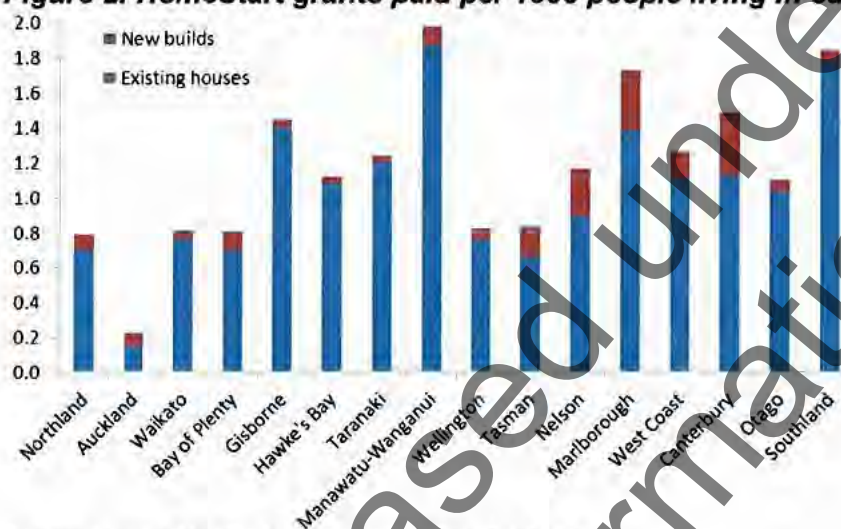
21. There are a number of issues with the current products and officials consider there are opportunities to improve on them. A review was scheduled for late 2017, but this was delayed due to the change in government.
22. The most substantial issues relate to HomeStart grants. The cost of the scheme to the Crown is between \$80 and \$100 million per year and it does not appear to be fully meeting its policy objectives of assisting more people into first homes. In response to deteriorating housing affordability, the parameters were expanded in 2015 with the intention of assisting first home buyers on a moderate income, and to incentivise the market to supply more affordable houses. Despite the changes:
  - The grants appear to make little difference in areas with acute affordability issues, such as Auckland (figure 2). Only 9 percent of grants paid out over the past year were in Auckland. This is likely to be due in part to a lack of housing supply below the house price cap.
  - The grants are seldom used by first home buyers purchasing new builds, indicating that they have had negligible effect on developers' incentives to supply affordable housing.



Only 13 percent of grants paid in the year to June 2017 were for new builds, and 38 percent of those were in Canterbury (where the supply of new housing is high due to the earthquakes).

- It is unclear how much impact the grants have had on homeownership rates. The grants are a small amount of money relative to house prices, so are likely to have largely been used by people who could already afford to buy or were very close to being able to buy. By supporting demand they may have also pushed up house prices, transferring some of the benefit of the grant to home sellers. However, no evaluation of the grants has been undertaken to assess the extent to which they have supported homeownership rates or inflated house prices.
- The HomeStart grant appropriation is being underspent. It was underspent by \$11 million in the 2016/17 financial year (\$75 million was spent out of the appropriation of \$86 million). The appropriation has been increased to \$102.5 million for 2017/18 so is likely to be underspent again this financial year. However, in the longer term an increase in the supply of affordable housing through KiwiBuild could result in more first home buyers being able to use the grants. MBIE intends to undertake further analysis to estimate the amount of any surplus funding going forward.

**Figure 2: HomeStart grants paid per 1000 people living in each region (June-Sept 2017)**



Sources: Housing New Zealand Corporation, Stats NZ, MBIE

23. As well as the policy issues with HomeStart there are also a number of technical and design issues with the products. For example, the KiwiSaver legislation considers the purchase of bare land the same as purchasing a first home. Some applicants for the scheme have been caught out by this definition, expecting to be able to use their KiwiSaver funds to build a home having already purchased the bare land.
24. Officials consider it may be timely to review these products alongside the design and development of any new progressive home ownership products to ensure they are working well for those that you want to help. This could potentially include:
  - i. Reviewing and updating eligibility criteria for the products, such as the house price and income caps, to reflect changes in market conditions since they were last reviewed in 2016.
  - ii. Further targeting HomeStart grants towards new builds to support demand for KiwiBuild homes and encourage the market to supply affordable new builds.
  - iii. Considering whether funding for HomeStart grants would better support homeownership in less affordable regions if it was reallocated to other initiatives within the housing portfolio (such as towards progressive homeownership products).
  - iv. Considering ways in which the KiwiSaver withdrawal provisions could be amended to better support homeownership and housing supply next time the KiwiSaver Act 2006 is amended.



## Options for progressive homeownership products

25. The Government has made a commitment to investigate innovative home ownership models and to deliver one as part of the KiwiBuild programme. This section discusses options for progressive homeownership products.
26. There are three main types of progressive home ownership product:
- Rent-to-buy**, where the Crown or a third party rents a house to an occupier with an agreement to sell the house to the occupier at a later date.
  - Shared equity**, where the Crown or a third party purchases a portion of the house, in partnership with the occupier.
  - Leaseholds**, where the occupier buys the building and leases the land off the Crown or a third party, potentially with the option to buy the land at a later date.<sup>3</sup>
27. The type of products developed and their detailed design will depend on several considerations, including:
- Where the government wishes to target support;
  - The cost of the products and sourcing funding;
  - How the products complement KiwiBuild; and
  - Speed and complexity of delivery.
- The rest of the briefing elaborates on these four key considerations.

### *Where the government wishes to target support*

28. The first consideration in developing a product will be who it is intended to support. Key criteria could include:
- Which areas of New Zealand you want to support, including urban, regional, rural and remote housing ;
  - The level of wealth and income of the target groups;
  - Which households would particularly benefit from homeownership, for example, households with school aged children;
  - Which households are particularly disadvantaged in the current housing system; and
  - The circumstances under which prior homeowners are eligible, for example, those in a similar position to a first home buyer. There could be significant social benefits in making the products available to prior homeowners, for example, where the family home was lost in a relationship break up.
29. There would be merit in considering developing more than one type of product because different products will work best for different groups, and can complement each other. The characteristics of each product will depend on their detailed design, but general differences are:
- Rent-to-buy** products tend to work better for people with very low incomes than shared equity and leasehold products because they only require the occupier only to provide a bond and pay rent at the outset.
  - Shared equity** products tend to require people to be in a somewhat stronger financial position than rent-to-buy products because they require the occupier to have a deposit and sustain a mortgage (though both are reduced by the shared equity arrangement). However, they can be designed to have lower capital requirements per user and lower administrative costs than rent-to-buy products, so could help a larger number of people for a given quantity of funding.<sup>4</sup> They would also provide a pathway for users of

<sup>3</sup> An example is the Australian Capital Territory's land rent scheme: <https://www.revenue.act.gov.au/home-buyer-assistance/land-rent-scheme>

<sup>4</sup> Capital requirements tend to be lower for shared equity products than for rent-to-buy products because the equity partner typically only funds 15-75 percent of the property, whereas the landlord in a rent-to-buy product needs to fund 100 percent of the property. Administrative costs tend to be lower for shared equity products because the occupier is usually in a stronger financial position and can more readily be made responsible for maintenance, rates and insurance (whereas the landlord is commonly responsible for these under a rent-to-buy scheme).

rent-to-buy products to transition to partial ownership before they are able to afford full ownership.

- iii. **Leasehold** products work for similar groups of people and in a similar way to shared equity products. Traditionally in New Zealand, rather than giving the occupier a share in both the land and the building, leasehold products give the occupier full ownership of the building and no ownership in the land. This protects the occupier from drops in the land price, but it also means that if the land price increases the occupier can be priced out of future ownership and subject to rent increases.

- 30. Initial analysis has indicated that government support internationally tends to take the form of rent-to-buy or shared equity products. However, there are some innovative approaches to leasehold products being developed here and overseas. Your Cabinet colleague, Minister Shane Jones, has expressed interest in further analysis of the opportunities of leasehold products as proposed to him by Mr Kerry Knight of Equinox Capital. MBIE recommends that you forward Minister Jones a copy of this briefing.

#### ***The cost of the products and sourcing funding***

- 31. It may be possible to develop products that do not require any subsidy, but it is more likely that some subsidy will be needed for the products to significantly reduce the costs and risk borne by first home buyers. The extent of subsidisation involved in any product will depend on the detailed design, such as how capital gains and losses are shared, how costs are shared, and how much rent is charged. Most products provided by governments and community groups charge no rent on their equity share, or lower rents than would normally be charged on rental property investments. They therefore earn lower returns than alternative, equally risky investments, and may not earn a commercial return.
- 32. Although a progressive homeownership product may not earn a commercial yield, the capital can generally be recycled as it is repaid because the value of it increases and decreases in proportion to house prices (or land prices in the case of leases).
- 33. A key challenge in delivering progressive homeownership products will be sourcing Crown funding for them. As yet no provision has been made in Budget 2018. There may be opportunities to work in partnership with, and access the capital of, banks, iwi and Māori organisations, local government, institutional investors, philanthropic groups, property developers, and community housing providers. However, these organisations may be reluctant to partner with the Crown in delivering a product at a large scale unless the Crown contributes some funding given that returns tend not to be lower than on alternative investments.

#### ***How the products complement KiwiBuild***

- 34. Any progressive homeownership product could help a wider range of people afford KiwiBuild homes, generate greater demand for these homes, and enable better targeting of assistance to those who need it. s 9(2)(g)(i)
- 35. Limiting use of the products to KiwiBuild homes would provide more demand for KiwiBuild homes and help contain costs, but would limit opportunities for first home buyers who may be better suited to buying existing homes or non-KiwiBuild new builds.
- 36. A shared equity product would provide one option for managing the risk of arbitrage and windfall gains where KiwiBuild houses are purchased at below their market values and later on-sold, although it would not be necessary to consider options like these if we are successful in delivering KiwiBuild homes with market values at the planned price points.



### ***Speed and complexity of delivery***

37. Officials are at the initial stages of policy work and have not yet undertaken detailed work on how progressive homeownership products might be operationalised. Housing New Zealand is currently working on a proposal for a shared equity product. Community Housing Aotearoa has experience in delivering progressive homeownership products has indicated that it can work with MBIE officials in developing a product.

### **Next steps**

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38. Officials would like meet with you to discuss your preferences and objectives for government financial assistance products for homeownership, and how you would like us to progress this work.

### **Annexes**

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Annex One: Crown homeownership assistance products – detailed settings

Annex Two: Summary of non-Crown home ownership assistance products



## Annex One: Crown home ownership assistance products – detailed settings

		Deposit assistance		Providing properties for sale and deposit assistance		Mortgage insurance for low deposit lending	
		KiwiSaver Withdrawal	HomeStart Grant	FirstHome Ownership Scheme and Grant	Tenant Home Ownership Programme	Welcome Home Loan	Kāinga Whenua (loan)
Introduction dates		July 2010 (three years after first contribution made in July 2007).	April 2015 (replaced first home deposit subsidy which commenced July 2010).	October 2013 (grant available for HNZN tenants from 1 December 2015).	2009.	July 2009.	February 2010.
Scale		Assisted 26,028 households in the year to March 2017.	Assisted 15,038 households in the year to March 2017	428 grants paid since scheme began	322 houses sold to tenants since scheme began	Assisted 1,218 households in the year to March 2017	18 loans since the scheme began
Purpose	Summary of Product	Eligible KiwiSaver members can withdraw their KiwiSaver contributions, including both their employer and Government contributions (except \$1,000) to contribute to the purchase of their first home.	Provides eligible first-home buyers with a grant of up to \$5,000 for an individual and up to \$10,000 for two or more eligible buyers to put towards the purchase of an existing home.  If purchasing a brand new home, first-home buyers are eligible for up to \$10,000 for an individual and up to \$20,000 for two or more eligible buyers.	FirstHome properties are HNZN homes located in areas where changing demand has resulted in an oversupply of some types of houses. These homes are exclusively available for first home buyers (not just HNZN tenants) for a minimum of three months. If the house is not sold then it may be placed on the open market.  Eligible clients are able to receive a grant of 10% of the purchase price of the FirstHome property, capped at a maximum of \$20,000. Tenants in Auckland, Tauranga, Hamilton, Wellington and Christchurch are not eligible for a FirstHome grant if they purchase their HNZN rental property.	HNZN offers its tenants the opportunity to purchase the house they rent, mainly in areas where there is low or no demand for social housing.	HNZN provides 'Lenders Mortgage Insurance' to participating lenders (for eligible applications) for first home buyers with sufficient income to pay a home loan, but insufficient deposit to meet standard lending criteria. This insurance is funded through a one-off insurance premium of 2.2% of the loan value, of which the borrower contributes 1% and the Crown 1.2%.  Borrowers are required to have a minimum 10% deposit, rather than the normal 20% requirement. The loan amount is up to the maximum house price cap of the relevant region, less a minimum 10% deposit requirement.	A home loan provided by Kiwi Bank underwritten by HNZN, to both Māori land trusts, and individuals with a right to occupy their multiple-owned Māori land.  The loan is secured only against the house, not against the house and land, and can also be used for repairs to an existing house on multiple-owned land.  No deposit required on loans below \$200,000, but a 10% contingency applies.
	Target group	First home buyers or previous home owners who are deemed to be in a similar financial position as a first home buyer who have been a member of KiwiSaver for at least 3 years.	First home buyers or previous home owners who are deemed to be in a similar financial position as a first home buyer who have been contributing the minimum amount to KiwiSaver for at least 3 years.	First home buyers in provincial areas.	HNZN tenants.	First home buyers and previous home owners.	Māori land trusts and individuals with a right to occupy their multiple-owned Māori land.
Responsibility	Minister responsible	Minister of Commerce and Consumer Affairs (but issues overlap with the responsibilities of the Minister of Revenue, the Minister of Finance and the Minister for Building and Construction).	Minister for Building and Construction.	Minister Responsible for Housing New Zealand Corporation.	Minister Responsible for Housing New Zealand Corporation.	Minister for Building and Construction.	Minister for Building and Construction.
	Policy lead and/or Administrator	Policy Lead - MBIE. Administrator - KiwiSaver Scheme Providers. Previous home owner's withdrawal determination - HNZN.	Policy Lead - MBIE. Administrator - HNZN.	Policy Lead and administrator - HNZN.	Policy Lead and administrator - HNZN.	Policy Lead - MBIE. Administrator - HNZN Lenders - Westpac, TSB, Kiwibank, The Co-operative Bank, SBS Bank, Heartland Bank, NZCU Baywide, Nelson Building Society, NZCU Employees, NZCU South, first credit union.	Policy Lead - MBIE Administrator - HNZN Lender - KiwiBank.
Criteria	Income cap	None.	\$85,000 for single buyer, \$130,000 for 2+ buyers.	\$85,000 for single buyer, \$130,000 for 2+ buyers.	None.	\$85,000 for single buyer, \$130,000 for 2 or more buyers.	None.
	Asset cap	None (previous home owners have an asset cap set at 20% of the relevant house price cap).	None (previous home owners have an asset cap set at 20% of the relevant house price cap).	None (previous home owners have an asset cap set at \$80,000).		Previous home owners must not have realisable assets of more than 20% of the relevant regional house price cap for existing dwellings.	All applicants are expected to contribute as much of their realisable assets as they can towards the property purchase, less a reasonable amount set aside for costs associated with moving house.
	Dwelling type	Any residential property, or land (as stated in legislation) with evidence of home to be built.	Any residential property, or land (as stated in legislation) with evidence of home to be built.	Housing New Zealand stock, in areas of low/no demand and deemed suitable to sell to a first home buyer.	Housing New Zealand stock, throughout the country where the property has been identified as being available for sale and where the tenant is financially in a position to purchase the property.	Existing or new property, maximum land size 1 ha.	One-storey house of at least 70 <sup>2</sup> metres, on piles, with reasonable road access, located mainland (needs removable access).
	House price cap	None.	Existing homes: Auckland \$600,000; other main centres \$500,000, rest of NZ \$400,000 New builds: Auckland \$650,000; other main centres \$550,000, rest of NZ \$450,000.	None (limited to properties being sold by HNZN). Generally, because of the location, the vast majority of these properties are less than \$300,000.	None (the house will be sold at current market value – determined by a registered valuer).	Existing homes: Auckland \$600,000; other main centres \$500,000, rest of NZ \$400,000 New builds: Auckland \$650,000; other main centres \$550,000, rest of NZ \$450,000 (see Appendix Two below).	For individuals: 100% of house building costs or the purchase price of the house, up to \$200,000. Exemptions considered for trusts: Up to \$200,000 per dwelling.
	Dwelling commitment	Must intend to be principal place of residence.	Must live in the house for at least 6 months.	Must live in the house for at least 3 years.	If they buy and receive the FirstHome grant, there is a 3 year residence period requirement.	Owner/occupation - May not be used for rental or investment property.	At least one borrower must occupy house fulltime. May not be used for rental or investment property.
	Other general criteria	Recipient must: • Not have withdrawn KiwiSaver savings before.	Recipient must: • Be 18+ in age • Not currently own land or property • Not have received the grant/subsidy before • Be purchasing their first home (or similar circumstances) • Have a 10+% deposit (including the grant) • Be a contributing member of a KiwiSaver scheme, complying fund or exempt employer scheme If buying older property, it must be habitable from settlement date	Recipient must: • Be 18+ in age • Be a New Zealand citizen or permanent resident • Not currently own land or property • Not have received the grant before • Be purchasing their first home (or similar circumstances) • Be pre-approved by a certified lender	Recipient must: • Be a HNZN tenant	Recipient must: • Be a New Zealand citizen or permanent resident • Not currently own property • Have a 10+% deposit • Have a good credit record • Meet any other criteria the lender may apply	Recipient must: • Have a right (licence to occupy granted by the land owners) to live on their multiple-owned Māori land • Meet standard lending criteria Land must: • Be multiple-owned Māori land, including land received by Iwi and hapu as part of a Treaty settlement



Annex Two: Summary of non-Crown home ownership assistance products

Shared Equity/Ownership Products								
	Income Range/ Maximum	Employment	Residency Status	Range of Equity Programme will purchase	Minimum Deposit	Exclusions	Annual management fee	Staircasing Rules
New Zealand Housing Foundation (including provision of shared equity products on behalf of Ngai Tahu and Te Tumu Kāinga)					s 18(d), s 9(2)(ba)(i)			
Queenstown Lakes Community Housing Trust								
Dwell Housing Trust								
Marlborough Sustainable Housing Trust								
Other existing product types in New Zealand								
	How it works			Eligibility criteria				
New Zealand Housing Foundation – <i>Rent-to-buy</i>				s 18(d), s 9(2)(ba)(i)				
Habitat for Humanity <i>Sweat Equity + Rent- then-Buy</i>								



## BRIEFING

### Increasing the Queenstown Lakes District HomeStart house price caps

<b>Date:</b>	31 July 2018	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0196 18-19

Action sought		
	Action sought	Deadline
Hon Phil Twyford Minister of Housing and Urban Development	<b>Note</b> that the HomeStart house price caps are more problematic in Queenstown Lakes District than in other areas.  <b>Indicate</b> in the recommendations section your preferred approach to dealing with the Queenstown Lakes District HomeStart and Welcome Home Loan house price caps.	At your convenience
Hon Jenny Salesa Minister of Building and Construction	For information only	N/A

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Hilary Eade	Manager, Housing System Performance	(04) 901 8544	✓
Matthew Galt	Policy Advisor	(04) 896 5686	

The following departments/agencies have been consulted
Treasury, Housing New Zealand Corporation

Minister's office to complete:

☐ Approved

☐ Noted

☐ Seen

☐ See Minister's Notes

☐ Declined

☐ Needs change

☐ Overtaken by Events

☐ Withdrawn

Comments





## BRIEFING

### Increasing the Queenstown Lakes District HomeStart house price caps

<b>Date:</b>	31 July 2018	<b>Priority:</b>	Medium
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	0196 18-19

#### Purpose

This briefing responds to your request for advice about increasing the HomeStart house price cap for Queenstown Lakes to Auckland levels (\$600,000 for existing homes and \$650,000 for new builds).

It also provides an update on broader issues with HomeStart that officials are considering as part of the work on progressive home ownership.

#### Executive summary


1. The house price and income caps for HomeStart grants are intended to target support towards those on modest incomes wishing to buy modest homes.
2. There are two problems with the current level of the Queenstown Lakes District house price caps:
  - a) The house price caps in Queenstown Lakes are very low relative to house prices, making the grant difficult to use.
  - b) Purchasers of KiwiBuild homes in Queenstown Lakes priced between \$550,000 and the KiwiBuild price cap of \$650,000 will be ineligible for HomeStart grants, absent a change in the caps.
3. Increasing the Queenstown Lakes house price caps to Auckland levels (\$600,000 for existing homes and \$650,000 new builds) would help address both issues. While there are a range of issues with HomeStart at the moment, officials consider the Queenstown caps to be the most acute issue, so making this one change could be justified.
4. If you wish to increase the caps, officials recommend increasing both the existing home and new build price caps. This would make the change a technical fix within the existing policy parameters. Policy work to consider focussing HomeStart on new builds has not been undertaken, and it would be risky to increase only the new build caps without considering all of the advantages and disadvantages of doing so.
5. If the HomeStart house price caps are increased, officials recommend increasing the Welcome Home Loan house price caps as well to maintain alignment. Maintaining alignment will reduce the number of different criteria first home buyers need to be aware of and preserve administrative simplicity.
6. The impact of an increase in the Queenstown caps is expected to be minor until KiwiBuild homes start being delivered, as there will still be few homes available below the price caps. Only an additional 30 households per year are expected to receive a HomeStart grant as a result of the higher cap, and at most a handful more are expected to use Welcome Home Loans, however, we expect this to increase once KiwiBuild ramps up in Queenstown Lakes.

7. The total cost of increasing the caps is estimated at around \$350,000 next financial year. The increased costs in the first financial year would fit into the appropriations. However, as KiwiBuild ramps up it is possible that uptake of HomeStart will naturally increase nationwide to the point where the appropriation becomes overspent (regardless of the level of the Queenstown Lakes house price caps).
8. The Minister of Housing and Urban Development and Minister of Finance have delegated authority to jointly amend eligibility criteria for HomeStart grants and Welcome Home Loans, including the house price caps [Cab Min (05) 13/10 refers].
9. If you wish to increase the Queenstown Lakes caps there are two options for timing. Either option would work, but there are risks associated with each option.
  - **Option 1: Increase the Queenstown Lakes caps as soon as practicable.** If you wish to do this, officials will prepare a short paper seeking formal agreement from you and the Minister of Finance. The risk with this option is that people have been raising concerns about a range of settings, and making one change without systematically reviewing other issues could increase discontent with these other settings. Also, if there are other changes to the HomeStart settings that you wish to make soon, we suggest making all the changes simultaneously to avoid cost and aid communication.
  - **Option 2: Increase the Queenstown Lakes caps once work on progressive homeownership is more advanced.** As part of the work on progressive home ownership, officials are currently considering what changes to the HomeStart and Welcome Home Loan schemes may help contribute to the Government's housing objectives. This work will consider a range of issues, including how the schemes fit with other spending priorities and how the existing schemes would fit with progressive homeownership schemes. It is possible that changes to HomeStart will arise out of this work, and the Queenstown caps could be adjusted alongside this. Given the minor impact that increasing the Queenstown caps is expected to have in the near term, there would be little impact from delaying a change. However, as work on progressive homeownership may become linked to Budget 2019, any broader changes made to HomeStart may not happen until April/May 2019.
10. We would be happy to meet with you to discuss any of these issues if you wish.

## Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a. **Note** that the Minister of Housing and Urban Development and Minister of Finance have delegated authority to jointly amend eligibility criteria for HomeStart grants and Welcome Home Loans [Cab Min (05) 13/10 refers]. Noted
- b. **Note** that officials recommend increasing the Queenstown Lakes District HomeStart house price caps for both new and existing homes at some point because they have become very low relative to house prices. Noted
- c. **Agree** that if the Queenstown Lakes District HomeStart house price caps are adjusted, both the existing home and new build caps should be adjusted. Agree/Disagree
- d. **Indicate** whether you wish to increase the Queenstown Lakes HomeStart house price caps for both new and existing homes as soon as practicable, or postpone a decision until work on progressive home ownership is more advanced.
- Increase Queenstown Lakes caps as soon as practicable*
- OR
- Increase Queenstown Lakes caps once work on progressive home ownership is more advanced*
- e. **Agree** that if the HomeStart caps are amended, the Welcome Home Loan house price caps will be amended as well to maintain alignment. Agree/Disagree
- f. **Indicate** whether you wish to meet with officials to discuss the options. Yes/No

  
Hilary Eade  
Manager, Housing System Performance  
BRM, MBIE

1, 8, 2018  
..... / ..... / .....

Hon Phil Twyford  
Minister of Housing and Urban  
Development

.... / ..... / .....



## Background

11. The KiwiSaver HomeStart scheme offers grants of between \$3,000 and \$10,000 for the purchase of a home depending on how many buyers there are and how long each buyer has made active contributions to KiwiSaver for. The grant amount is doubled for new builds.
12. The policy aim is to support first home buyers on modest incomes to purchase modestly priced homes, and incentivise the development sector to deliver more affordable homes. Eligibility criteria apply, including house price caps and income caps.
13. The house price caps for new builds are set at \$650,000 in Auckland, and either \$550,000 or \$450,000 in other Territorial Authorities depending on the overall level of house prices in each area. The house price caps for existing homes are \$50,000 lower than the new build caps. The caps are intended to be set broadly at or above the lower quartile house price for each area. The caps were last reviewed in August 2016.

## The Queenstown Lakes HomeStart house price caps

*The Queenstown Lakes HomeStart house price caps are very low relative to house prices and are not aligned with KiwiBuild*

14. The Queenstown Lakes District house price caps are currently set at \$550,000 for new builds and \$500,000 for existing homes. There are two main issues with these caps:

- a. **The caps are very low relative to house prices, making the grant difficult to use**

Only 7% of all house sales in Queenstown Lakes were below \$550,000 in the year to March 2018. In Auckland, 23% of sales were below its \$650,000 house price cap for new builds, and in every other Territorial Authority between 24% and 99% of sales were below the local price cap for new builds. This means that the cap is around or above the lower quartile house price everywhere except Queenstown Lakes. Uptake of HomeStart has been correspondingly low. Note that these figures do not account for variation in prices within larger Territorial Authorities. It can also be difficult to use HomeStart in some towns within larger Territorial Authorities even though there are many low priced houses elsewhere in the Territorial Authorities. Examples of this are Cambridge, Cromwell and parts of Northern Waikato.

Queenstown Lakes is one of the places officials most commonly receive complaints from about the house price caps, although complaints are also received from a range of other areas.

- b. **The HomeStart house price cap for new builds in Queenstown Lakes (\$550,000) is below the KiwiBuild price cap (which goes up to \$650,000).**

This means that some KiwiBuild homes will be ineligible for HomeStart grants. This may make it more difficult for first home buyers to afford KiwiBuild homes in Queenstown Lakes and generate criticism about the eligibility criteria for Government programmes being inconsistent.

Note that similar issues may arise in areas with a \$450,000 HomeStart house price cap and a \$500,000 KiwiBuild cap, although officials do not recommend raising this cap right now. This issue is discussed in paragraphs 27 and 28.

***Increasing the Queenstown Lakes house price caps to Auckland levels would help address both issues, but would only have a minor impact until KiwiBuild ramps up***

15. Increasing the caps to \$600,000 for existing homes and \$650,000 for new builds would roughly double the number of home sales priced below the cap (from 7% to 14%). It would also ensure that all KiwiBuild homes in Queenstown Lakes are priced under the HomeStart house price cap.
16. If you wish to increase the caps, officials recommend increasing both the existing home and new build price caps. This would make the change a technical fix within the existing policy parameters. Increasing only the new build caps would be a departure from the previous policy approach, and it would be risky to do this without considering all of the advantages and disadvantages of focussing HomeStart on new builds. In practice, the effect of increasing both caps will be similar to the effect of increasing only the new build cap. Already a majority of the grants paid in Queenstown Lakes are for new builds, and the new build share is likely to rise as KiwiBuild ramps up.
17. The higher cap is expected to roughly double the number of households using the grant in Queenstown Lakes from 30 to 60 per year. As KiwiBuild ramps up, the number of households using HomeStart in Queenstown Lakes could increase to several times this figure.
18. Even with the higher caps, Queenstown Lakes would remain one of the most difficult parts of the country in which to find suitable homes priced below the caps until KiwiBuild ramps up. The caps would still be well below the lower quartile price (which is around \$740,000). Furthermore, there may be few buyers with incomes below \$130,000 that are able to afford homes priced over \$550,000. However, increasing the caps would reduce the imbalance with other Territorial Authorities.
19. If the HomeStart house price caps are increased, officials recommend increasing the Welcome Home Loan house price caps as well to maintain alignment. Maintaining alignment will reduce the number of different criteria first home buyers need to be aware of and preserve administrative simplicity. Increasing the Welcome Home Loan cap in Queenstown Lakes is likely to have a very minor impact on uptake, with at most a handful of additional Welcome Home Loans expected to be drawn each year as a result of the change.
20. There is a risk that widening access to the grants and Welcome Home Loans will fuel housing demand and further raise house prices. However, this risk is small given the small expected number of grants and their low value.<sup>1</sup>

***The cost of increasing the Queenstown Lakes HomeStart house price caps will be modest and fit within the existing appropriations for the time being***

21. Increasing the Queenstown Lakes HomeStart house price caps to Auckland levels is expected to have a fiscal cost of around \$350,000 per year, excluding any increase in the uptake of the scheme facilitated by KiwiBuild.<sup>2</sup> Once KiwiBuild ramps up in Queenstown Lakes the cost may rise to several times this figure.<sup>3</sup>
22. The increase in cost will fit comfortably within the existing appropriations for the next two years. There is around a \$25m annual buffer in HomeStart at the moment, and the Welcome Home Loan appropriation has also been underspent in recent years.
23. However, as KiwiBuild ramps from the 2020/2021 financial year onward it is possible that uptake of HomeStart will naturally increase across the country to the point where the

<sup>1</sup> If 60 homes per year are purchased with the help of a HomeStart grant, this would be equal to 7% of all sales in the District. Furthermore, the maximum grant available per household (\$20,000) would still only be 3% of the price of a \$600,000 home.



appropriation becomes overspent (regardless of the level of the Queenstown Lakes house price caps). This is because KiwiBuild will:

- a. allow some households to transition to homeownership who previously could not;
- b. allow some households who would have previously bought a home over the house price caps to instead buy a home under the house price caps; and
- c. increase the proportion of grant users purchasing new builds, which receive grants that are double the size.

24. While no action is needed to address this immediately, increasing the Queenstown house price caps now could exacerbate any future overspend to a minor extent.

***Officials are considering how HomeStart fits with work on progressive homeownership***

25. As part of the work on progressive home ownership to support KiwiBuild, officials are currently considering whether any changes to the HomeStart and Welcome Home Loans would assist with the Government's homeownership objectives. These include how HomeStart fits with other spending priorities, and how existing Crown homeownership products would fit with progressive home ownership schemes and KiwiBuild.
26. As work on progressive homeownership may become linked to Budget 2019, any recommended changes arising out of this work may not be implemented until April/May 2019.
27. One particular issue that increasing the Queenstown Lakes District caps could raise is the misalignment between the \$450,000 HomeStart house price cap for new builds in certain regions and the \$500,000 KiwiBuild price cap (outside of Auckland and Queenstown).
28. Officials do not recommend increasing the \$450,000 HomeStart cap in any regions until work on the connections between the existing products, progressive homeownership and KiwiBuild is more advanced. An immediate increase is not recommended because:
- a. The \$500,000 KiwiBuild cap may be further refined by region and bedroom size in due course, potentially leading to greater alignment with HomeStart. However, this refinement will require further analysis of development costs in each region.
  - b. The HomeStart house price cap for new builds is around or above the lower quartile price in all areas apart from Queenstown. Since KiwiBuild will target the lower quartile, most KiwiBuild homes are likely to fall under the HomeStart caps anyway.
  - c. Increasing the HomeStart caps may be fiscally costly and may open up HomeStart for use on high-end homes in lower priced regions, which is not the policy intent.

***A change to the Queenstown Lakes caps could either be made as soon as practicable, or after work on progressive homeownership is more advanced***

29. If you wish to increase the Queenstown Lakes caps there are two options for timing. Either option would work, but there are risks associated with each option.

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<sup>2</sup> The \$350,000 cost consists of \$300,000 in additional grants per year, up to \$20,000 per year from underwriting a few additional Welcome Home Loans and a few tens of thousands of dollars in one-off administrative costs from changing the cap (such as updating brochures).

<sup>3</sup> This is based on the potential for up to a few hundred KiwiBuild homes per year to be delivered in Queenstown Lakes District, and around half of KiwiBuild purchasers using HomeStart. The Labour Party manifesto committed to building 1000 KiwiBuild homes in Queenstown, and the current MBIE estimate of the housing shortfall in Queenstown Lakes District is 1600. Over 10 years, this translates to 100 and 160 homes per year respectively (if the housing shortfall were to be eliminated).

*Option 1: Increase the Queenstown Lakes caps as soon as practicable.*

30. Making a change as soon as practicable would address the issue sooner and could be justified on the basis that Queenstown Lakes District is a clear outlier among Territorial Authorities.
31. The risk with making a change as soon as practicable is that people have been raising concerns about a range of settings, and making one change without systematically reviewing other issues could increase discontent with these other settings. Other common complaints include the house price caps, the income caps, and other eligibility criteria. If you do wish to increase the Queenstown house price caps as soon as practicable, we can provide some draft Q&As in response to complaints that may arise.
32. In addition, if there are other changes to the HomeStart settings that you wish to make in the next few months, it would be best to postpone the increase in the Queenstown Lakes caps and make all the changes simultaneously. This would make communication easier and avoid unnecessary administration costs, such as reprinting brochures.

*Option 2: Increase the Queenstown Lakes caps once work on progressive homeownership is more advanced*

33. The alternative is to delay a change until work on progressive homeownership is more advanced. Given the minor impact an increase in the Queenstown Lakes house price caps is expected to have prior to KiwiBuild ramping up, there would be little impact from delaying an increase. However, given the timeline for progressive homeownership work, this may involve delaying an increase until April/May 2019.

## **Next steps**

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34. Please indicate in the recommendations section your preferred approach to dealing with the Queenstown Lakes District HomeStart and Welcome Home Loan house price caps.
35. As part of the work on progressive homeownership to support KiwiBuild, officials will continue to consider how existing homeownership products fit with the Government's broader homeownership objectives.

## **Annexes**

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Annex One: HomeStart statistics by territorial authority, year ended March 2018



## Annex One: HomeStart statistics by territorial authority (year ended March 2018)

Territorial Authority	Share of total home sales (both new and existing) below new build price cap	Lower quartile house price (\$000)	Homes purchased with the help of a HomeStart grant, per 1000 of population	Homes purchased with the help of a HomeStart grant
<b>\$600,000/\$650,000 cap</b>				
Auckland	23%	660	0.6	1,049
<b>\$500,000/\$550,000 cap</b>				
Queenstown Lakes District	7%	741	0.8	30
Wellington City	29%	519	0.9	201
Western Bay of Plenty District	31%	514	1.8	86
Tauranga City	34%	504	1.9	256
Selwyn District	46%	478	4.4	263
Tasman District	50%	451	1.9	98
Porirua City	50%	414	2.4	133
Hamilton City	56%	433	2.8	459
Kapiti Coast District	57%	415	2.7	140
Nelson City	62%	399	3.8	193
Lower Hutt City	62%	378	3.8	397
Waimakariri District	69%	382	4.5	265
Christchurch City	72%	353	4.3	1,631
Upper Hutt City	73%	387	5.1	219
<b>\$400,000/\$450,000 cap</b>				
Thames-Coromandel District	24%	452	0.9	25
Waikato District	27%	429	1.5	108
Waipa District	28%	435	1.8	94
Kaipara District	45%	319	1.5	34
Central Otago District	45%	353	2.1	43
Whangarei District	49%	364	2.0	180
Matamata-Piako District	52%	368	2.2	76
Napier City	52%	361	3.0	189
Far North District	53%	266	1.8	113
Taupo District	56%	288	3.0	110
South Wairarapa District	56%	315	3.4	35
Whakatane District	56%	315	2.1	73
Hastings District	57%	307	2.5	201
Kaikoura District	58%	308	1.1	4
Mackenzie District	59%	333	1.5	7

New Plymouth District	61%	335	3.1	250
Marlborough District	61%	328	4.3	197
Hurunui District	62%	319	2.6	33
Carterton District	64%	294	2.0	18
Rotorua District	67%	291	2.9	210
Hauraki District	70%	300	2.2	43
Otorohanga District	71%	265	2.7	27
Dunedin City	71%	285	4.3	551
Palmerston North City	71%	296	5.1	448
Masterton District	75%	257	4.2	106
Opotiki District	75%	217	2.6	23
Ashburton District	75%	286	4.8	165
Manawatu District	76%	262	5.0	151
Timaru District	78%	277	4.2	200
Gisborne District	80%	220	3.7	180
Southland District	82%	192	3.3	102
Horowhenua District	83%	226	5.0	163
Westland District	84%	203	4.1	36
Central Hawkes Bay District	84%	208	5.7	79
Wairoa District	84%	92	3.6	30
Waitaki District	86%	233	4.5	101
Gore District	91%	131	7.1	89
Invercargill City	91%	177	7.5	410
Grey District	92%	160	4.2	57
Stratford District	92%	208	5.6	53
South Taranaki District	92%	154	4.6	129
Whanganui District	92%	155	5.8	258
Waimate District	94%	190	3.9	31
Clutha District	94%	155	5.5	96
Waitomo District	94%	149	4.2	41
South Waikato District	94%	153	4.3	105
Tararua District	95%	141	6.0	107
Ruapehu District	95%	121	4.0	51
Rangitikei District	95%	151	7.1	106
Buller District	96%	133	2.4	24
Kawerau District	99%	157	7.3	51
Total NZ	52%	351	2.4	11,433