



**MINISTRY OF HOUSING  
AND URBAN DEVELOPMENT**

# Increasing uptake of HomeStart in Auckland

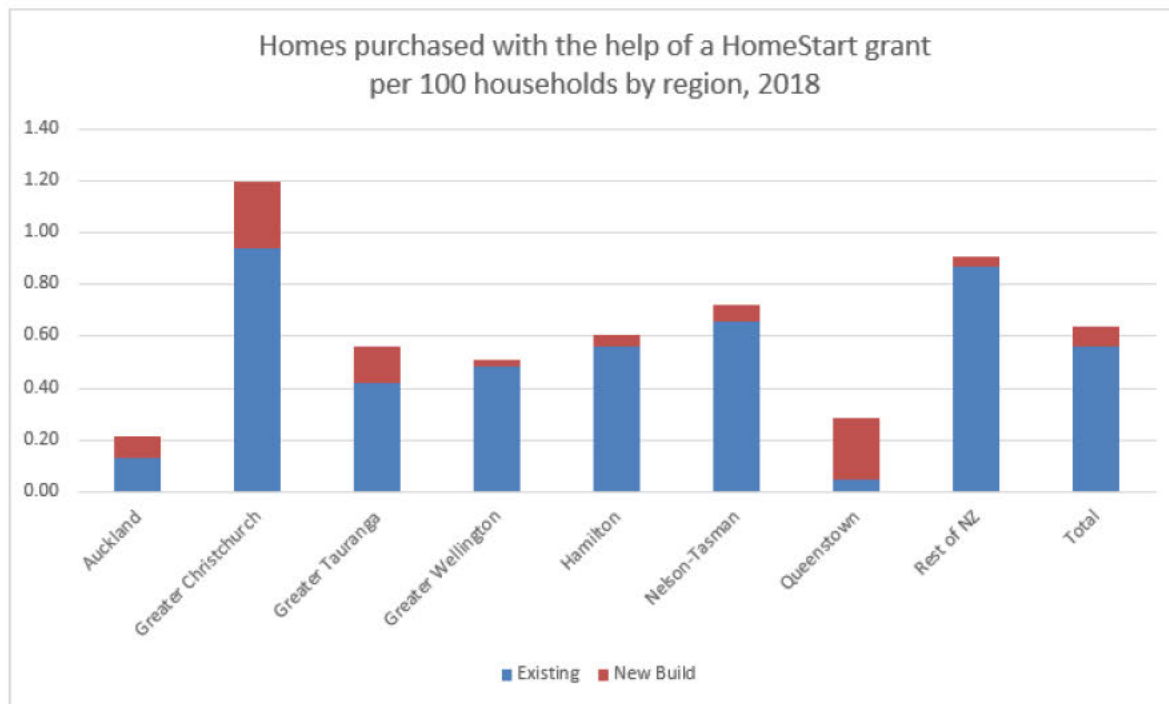
23 July 2019

# Summary

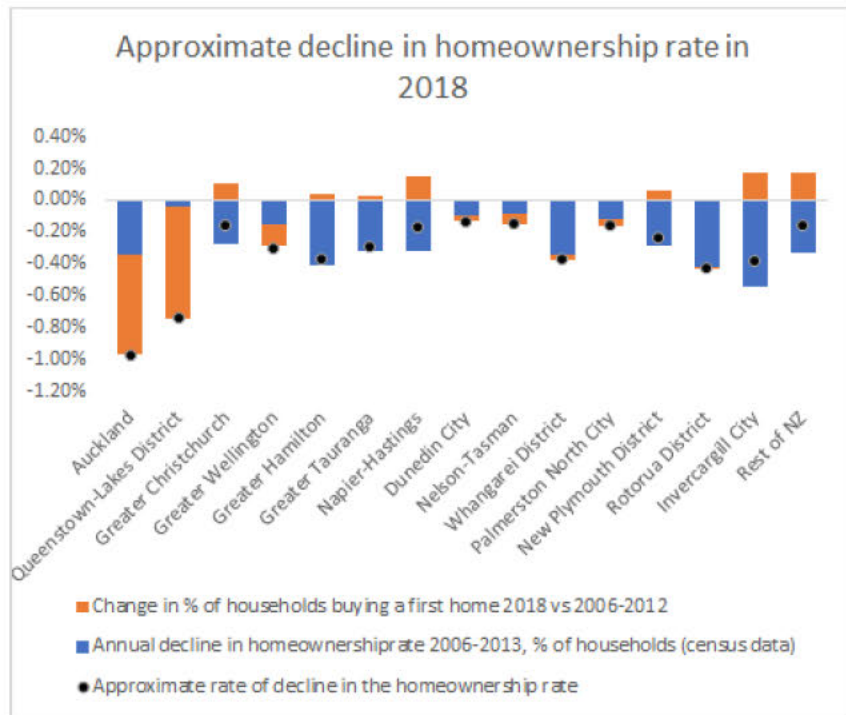
- Uptake of HomeStart is low in Auckland and Queenstown because mid-income first home buyers do not have enough income to service a mortgage, and there are few homes available below the house price caps.
- HomeStart is intended to help households who have enough income to service a mortgage, but do not yet have a deposit. It does not help with mortgage servicing so does not tend to help mid income households who cannot service a mortgage (aside from by fractionally reducing the size of a mortgage by increasing the household's deposit).
- The grant amount, house price caps, or income caps could be increased to raise uptake of HomeStart in Auckland. However, doing this would largely increase grant payments to well off households who could afford a home unsupported, and would not help those without enough income to service a mortgage.
  - **Increasing the grant amount** as currently proposed would largely give more money to households already accessing HomeStart. Households unable to service a mortgage would still likely be unable to buy a home (aside from a few for whom the increased deposit reduces their mortgage enough that they can now service it). The main benefit from increasing the grant amount for new builds is that it would encourage first home buyers to buy new builds and bring forward some households' purchases, incentivising the supply of affordable homes.
  - **Increasing the income cap** would raise HomeStart uptake by making grants available to high income households. Some large households on incomes of over \$130,000 may genuinely need support to buy a home suitable to their needs in Auckland, but most households at this income range could buy a home unsupported.
  - **Increasing the house price cap** would raise HomeStart uptake, but only for households on high incomes who are able to service a mortgage on a high priced home.
- There are other options available to help mid-income households in a more targeted way, such as shared equity and rent-to-buy, along with broader work across government to lower the cost of new housing. Options beyond the affordable housing fund would take a matter of months to properly develop but we could provide you with further advice if you wish.



# Uptake of HomeStart is low in Auckland and Queenstown



# The homeownership rate in Auckland and Queenstown appears to be falling fast as first home buyer numbers have dropped in recent years

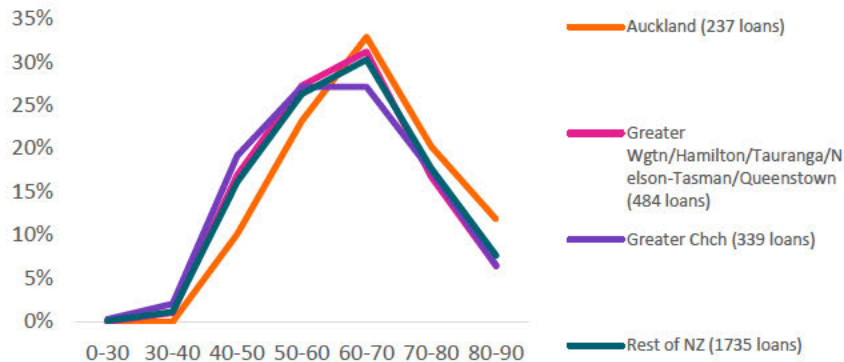


- This chart shows approximate trends in homeownership across regions in 2018. This is based on initial analysis and the results may change as we further investigate the data sources.
- The blue bars show the average annual decline in the homeownership rate between the last two censuses (2006 to 2013). We will not have more recent official statistics on regional homeownership rates until the 2018 census results are released.
- The orange bars indicate how much the rate of decline in homeownership might have accelerated since the 2013 census based on first home buyer numbers.
- These figures suggest that the homeownership rate is declining rapidly in Auckland and Queenstown, and gradually elsewhere.

# Mid-income households have been priced out of the market in Auckland

- Mid income households in Auckland used to access the Welcome Home Loan scheme in 2010/11, but homeownership is now out of reach for these households. (We do not have data on uptake of HomeStart grants by total household income at this stage, but anticipate that the picture is likely to be similar).

Household income distribution of Welcome Home loans users 2010/11



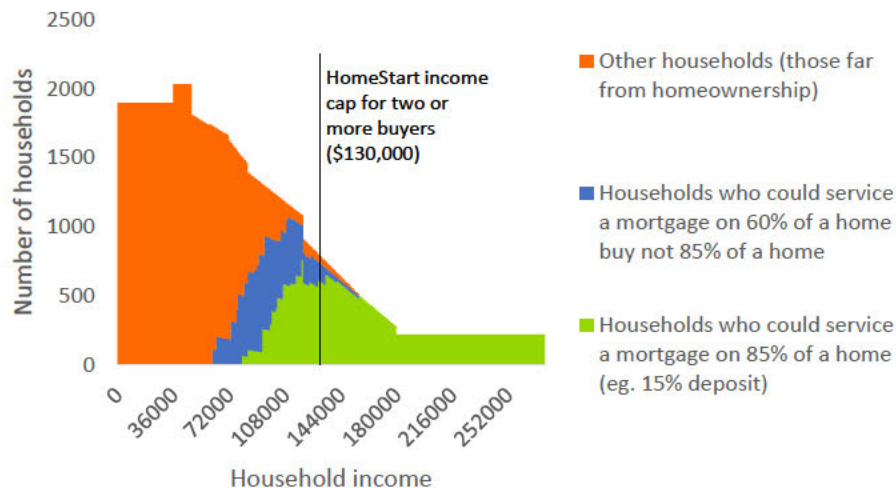
Household income distribution of Welcome Home Loan users Jan 2017 to Oct 2018





# As mid-income households have been priced out of the Auckland market, the cohort of households able to use HomeStart has narrowed

Breakdown of renting households in Auckland by ability to service a mortgage on a KiwiBuild-priced home

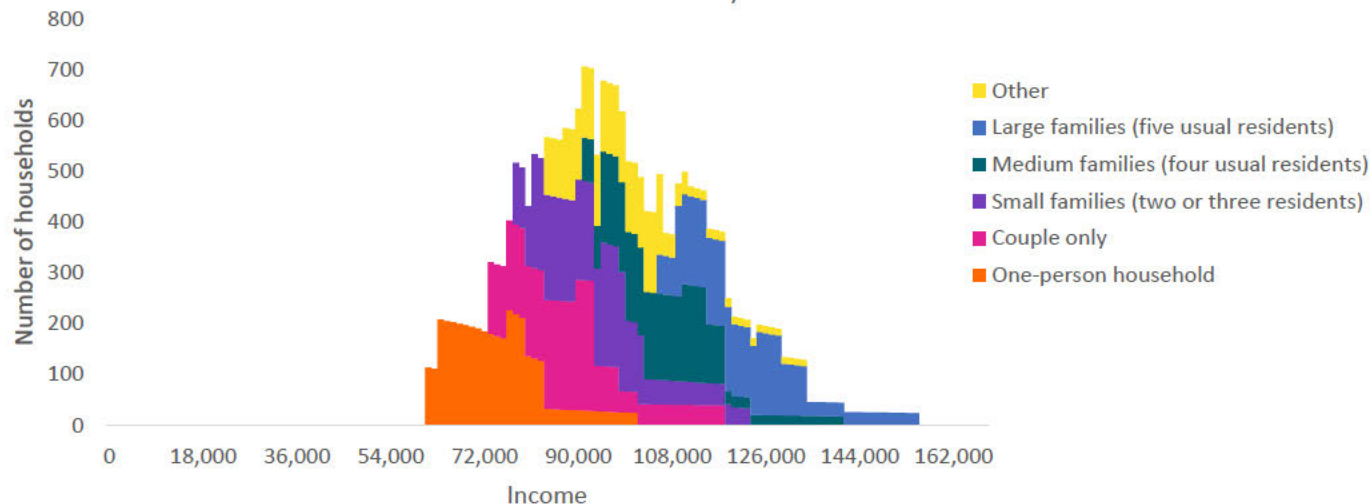


- The green households on the chart to the left have enough income to service a mortgage (and save a deposit while renting). HomeStart helps these cohorts. The majority of these households are over the income cap.
- The blue households are households who would struggle to service a mortgage now. These households would have been able to afford a home if house prices were lower, or with a shared equity scheme.

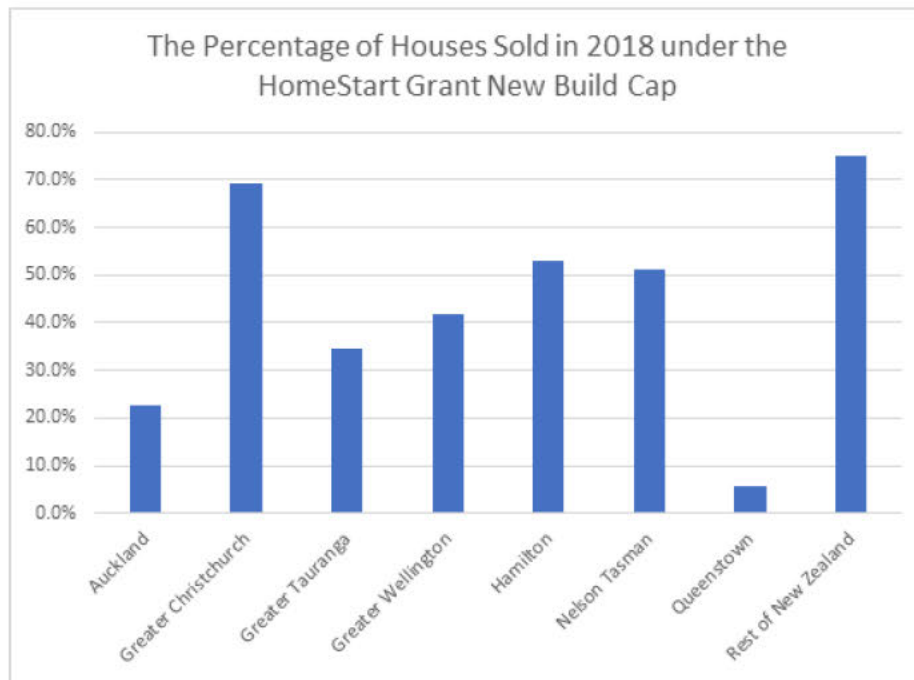
Source: HUD modelling based on the incomes of renting households. The model takes into account household size, the size of homes needed, and the age of the household members.

## Households priced out of homeownership in Auckland span a wide income range from around \$60,000 to \$130,000 depending on their situation

Indicative composition of households priced out of homeownership in Auckland by income based on HUD modelling (those who could service a mortgage on 60% of a home but not 85%)



## A related reason for low HomeStart uptake in Auckland is that few homes are available below the HomeStart house price caps





# Some changes to HomeStart have been proposed as part of the Build Reset

- As part of the Build Reset, it is currently proposed that:
  - The HomeStart grant amount for new builds be doubled, from a maximum of \$10k per eligible buyer to \$20k per eligible buyer. This is estimated to cost \$131m over four years.
  - The HomeStart and Welcome Home Loan deposit requirement be reduced from 10% to 5%. This is estimated to cost \$9.6m over four years.
  - HomeStart grants are able to be paid to all eligible buyers, rather than a maximum of two buyers as under current settings. This is estimated to cost \$4.3m over four years.
- The total cost of the HomeStart changes is \$144.8m over four years. There is significant uncertainty around this estimate as it is based on a forecast of demand (eg. +/-30%).

# Options to increase HomeStart uptake in Auckland

- The main ways that HomeStart uptake could be increased are by:
  - Increasing the grant amount
  - Raising the house price cap
  - Raising the income cap
- These changes will do little to help the households locked out of homeownership in Auckland, as outlined in the table below.

	Key feature	Comments	Estimated costs
Doubling the Grant	The total grant for new builds will be increased to a maximum of \$20,000 for an individual and \$40,000 for a couple as proposed	<ul style="list-style-type: none"><li>• This will encourage first home buyers to buy new builds.</li><li>• This option will mostly increase subsidy for people who are already capable of buying a home with existing settings, and allow them to purchase a home sooner</li><li>• This will also exacerbate boundary issues for households with similar incomes at either side of the thresholds.</li></ul>	\$131m over four years
Increasing the Auckland house price cap by \$50,000	increase the house price cap by \$50,000 to \$650,000 for existing homes and \$700,000 for new build	<ul style="list-style-type: none"><li>• Potential to help those families needing larger and more costly homes</li><li>• Will benefit those on a higher income buying more expensive houses</li></ul>	\$15-\$30m over four years
Increasing the Auckland income cap by \$10,000	Increasing income cap by \$10,000 to \$95,000 for individual and \$140,000 for house holds	<ul style="list-style-type: none"><li>• Likely to benefit those who are on a higher income but are now also facing difficulty saving for a deposit</li><li>• No benefits for those currently eligible households with lower income and likely higher needs</li><li>• Better targeting (such as having multiple needs based income thresholds) would address the leakage of benefits, but at higher administrative costs. Targeting by income is also challenging without accounting for household types, as shown by the wide range of households price out of homeownership in earlier slides.</li></ul>	\$5m-10m over four years



# None of the options above address the serviceability barrier

- All options above are targeted at individuals who struggle to save a deposit, but are likely to be able to meet the ongoing mortgage servicing costs.
- It is likely that a large portion of increase in support will allow some households to enter the housing market sooner, rather than helping those who are locked out of the market.
- These options can be modified to provide better targeting.