MINISTRY OF HOUSING AND URBAN DEVELOPMENT

Information on first home buyer demand

4 July 2019

New Zealand Government

The housing continuum and interventions we've considered for private renters

Key groups by housing situation - 2018

(Thousands of households, severe housing deprivation measures individuals)

- ▮ Individuals in severe housing deprivation (2013)
- ▮ Households in public housing
- ▮ Stressed private renting households (rent >30% of gross income)
- ▮ Not stressed but can't buy
- ▮ Renting households who could service a mortgage on a new build priced home (based on KiwiBuild price points)
- ▮ Owner-occupier households

| 41 | 66 | 184 | 242 | 162 | 1093 |

0 — 200 — 400 — 600 — 800 — 1000 — 1200 — 1400 — 1600 — 1800
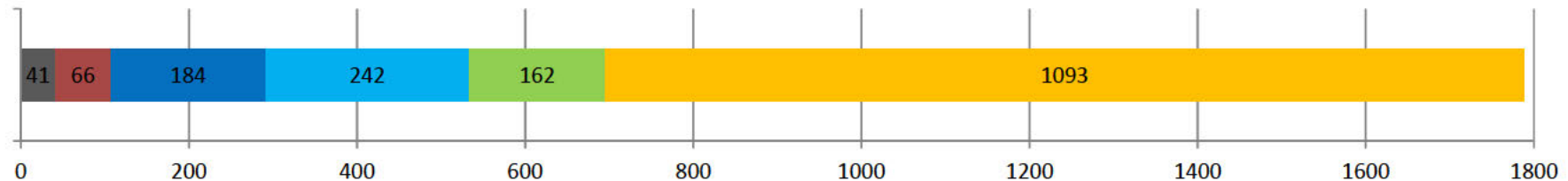
Secure tenure rentals (subsidised and market)

Shared equity:
-Through CHPs
-Through Govt

Deposit subsidies (eg HomeStart)

Mortgage underwrites (eg Welcome Home Loans)

Rent-to-buy
– through CHPs
– through govt

Capitalising Working for Families and Accommodation Supplement

Mortgage subsidies

Government loans

Notes on the chart
-This chart can be broken down by region if required
- The green bar for the number of renting households is based on new build prices. We can re-estimate this with prices of all homes, and if this were done it is likely that the green bar would grow as more buyers could afford an existing home than a new build

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Demand – potential first home buyers

- Although there are around 600,000 renting households in New Zealand, only a fraction will be able and interested in becoming first home buyers at any point in time.

- HUD and RBNZ data suggests that around 20,000-25,000 households actually do buy a first home each year. In addition, around 3000 previous homeowners who meet the KiwiBuild definition of a 'second chancer' purchase a home each year.

- Renting households may not buy a new build either because:
  - They lack the ability. Key constraints are the deposit and income.
  - They are not interested in buying a new build. For example, they might prefer to rent or prefer to buy an existing home.

Deposit vs servicability

Proportions of working age renting households in Auckland that have enough
income and savings to buy a home

	Does not have deposit	Has deposit (>$120k wealth)
Inadequate income	51%	11%
Adequate income (>$110k income)	19%	20%

- Information on household wealth in New Zealand is limited.
- The information we do have suggests that more potential buyers are constrained by not having a 20% deposit than not having enough income to service a mortgage.
- Of those surveyed on the KiwiBuild register, 47% report not yet having a deposit.
- A 20% deposit is not an absolute requirement, with 30% of loans to first home buyers in 2018 at LVR of greater than 80%

Assumptions:
Auckland household buying a $600k home
20% deposit required
Mortgage payments need to be less than 30% of gross household income (5.5% interest rate, 30 year term)

Income and mortgage serviceability

- Officials estimate that just over a quarter of renting households - around 160,000 - have enough income to service a mortgage on a KiwiBuild priced home.

- RBNZ data suggests that the median household income of actual first home buyer in 2018 sat between $90,000 and $115,000. Around 17% of actual first home buyer households had incomes below $65,000. We are unable to break these figures down by region, although these lower income first home buyers are more likely to have been in low priced areas, buying cheaper existing homes.

- There are other reasons that a renting household may not be able to buy a home, although it is more difficult to get quantitative information on these other factors. These other factors include:
  - Not having an adequate credit history to get a mortgage.
  - Not having the knowledge, skills and family/peer support to navigate home buying process.

Reducing mortgage costs could increase the number of households able to afford a home

	Baseline result	10% reduction	30% reduction	10% increase	30% increase
Renters who could service a mortgage	161,572	+19,511	+62,677	-17,738	-48,242

Reducing mortgage servicing costs by 30% would make it possible for around 60,000 more households to afford a home

- An improvement in affordability would likely give an initial surge of buyers as renters locked out of homeownership become able to buy a home, and this would taper off over time
- Note that a 10% reduction could arise through:
  - Providing starter homes 10% more cheaply
  - Raising incomes by 10%
  - A subsidy, such as a grant equal to 10% of the loan (or the equivalent paid over time)
  - A shared equity scheme (where not interest or rent is charged on the equity)

Māori and Pacific households face additional challenges attaining homeownership

- Incomes tend to be a bit lower, although out of the 160,000 renting households who could afford to service a mortgage, we estimate 13.5% are Māori and 5.6% are Pacific. This is broadly similar to the Māori and Pacific shares of total households.

- Māori and Pacific people have signficantly less wealth than other ethnicities, making it harder to accumulate a deposit.

- Around half of Pacific households who have enough income to service a mortgage are households with five or more people, and around half are in Auckland. These households are likely to demand larger homes that will be less affordable.

KiwiBuild subscriber demand information

- The KiwiBuild registration of interest form asks several questions around preferences & readiness to buy
  - The original set of questions were formulated with little time when the registration page was going live.
  - In the first months of 2019 we began work on new questions that would provide better insight on the types and locations of homes people were interested in and their readiness to buy.

- Pilot run of the new questions was sent to 2000 recipients in early March 2019.

- Registration page was altered to the new questions in late March 2019.

- Since the launch of the new website in April 2019 an 'Update your preferences' option has been more prominent in emails and on the site.

- As the primary purpose of the registration form is to increase KiwiBuild subscribers a trade off was sought between the richness of information collected and asking detailed or sensitive questions that might increase drop off rates.
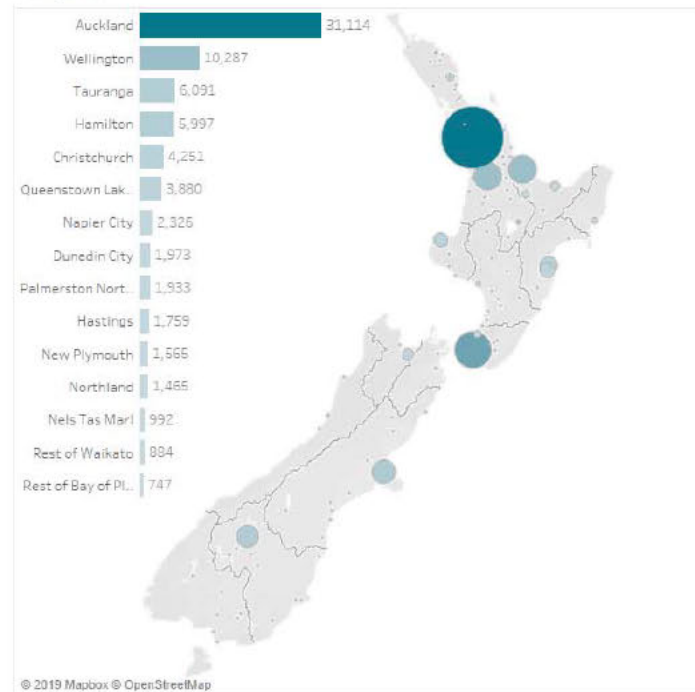
Questions Asked

- Preferences:
  - Area of the country they are interested in
  - Type of area they would consider (inner city, fringe, new developments)
  - Number of bedrooms they would consider
  - Type of property they would consider

- Readiness to buy:
  - When they expect to be purchasing (5 years away through to looking right now)
  - Expected budget (limited to maximum answer available being $650k)
  - Eligibility for HomeStart Grant and Welcome Home Loan
  - Use of KiwiSaver
  - Whether they have contacted a bank or other lender

- Limitations
  - Plans were also made to do a second, detailed survey to statistically predict how people choose to trade off different preferences. This was put on hold due to time and resource constraints.
  - At present there have been too few KiwiBuild properties made available to provide meaningful insights on how people's stated preferences relate to their final decisions or ascertain the conversion rate from registering interest to purchase.
  - Because some prior questions were single choice and the current questions are multiple choice there are difficulties in combining responses from the all subscribers. For that reason most results are provided as percentages rather than counts.

Subscriber Preferences Information - National View as at 27/06/2019

total subscribers
50,031

responses to new questions
6,641

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Interest by area
map includes all subscribers, not just those asked new demand questions - people can select multiple areas
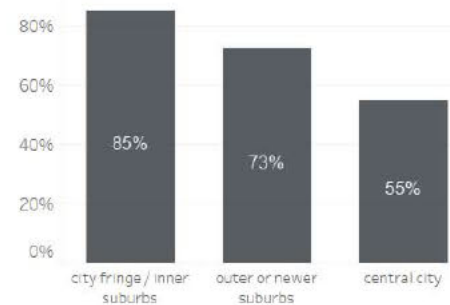
Area	Count
Auckland	31,114
Wellington	10,287
Tauranga	6,091
Hamilton	5,997
Christchurch	4,251
Queenstown Lak...	3,880
Napier City	2,326
Dunedin City	1,973
Palmerston Nort...	1,933
Hastings	1,759
New Plymouth	1,565
Northland	1,465
Nels Tas Marl	992
Rest of Waikato	884
Rest of Bay of Pl...	747

© 2019 Mapbox © OpenStreetMap

Areas people are interested in living in
new question, people can select multiple areas

- city fringe / inner suburbs: 85%
- outer or newer suburbs: 73%
- central city: 55%

Types of home Auckland KiwiBuild subscribers would consider
new question, people can select multiple areas

- Standalone house: 94%
- Duplex townhouse & Townhouse / Te..: 62%
- Apartment: 32%
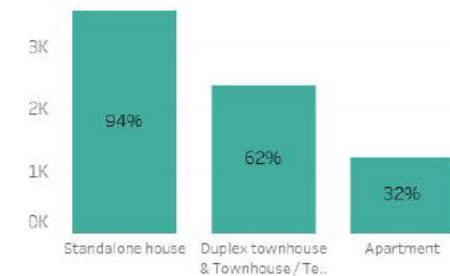
How many bedrooms would they like
new question, multiple choice

- 33% select 4+ Bedrooms (2,218 people)
- 11% select 1 bedroom (712 people)
- 48% select 2 bedrooms (3,206 people)
- 76% select 3 Bedrooms (5,042 people)

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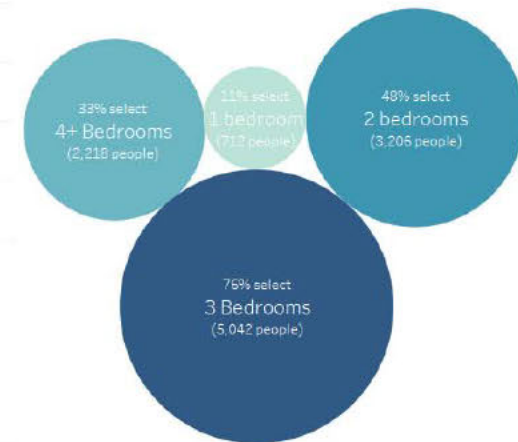
Subscriber Readiness information - National View as at 27/06/2019

only asked in new questions

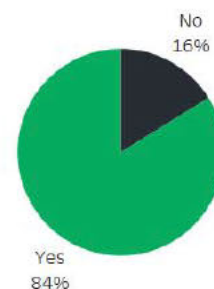| total subscribers	responses to new questions
50,031	6,641

kiwibuild

How ready are people to buy?

finances are in order, next 12 months **20%**

I'm looking right now **22%**

1-2 years **31%**

2-4 years away **18%**

at least 5 years **8%**

I'm looking for information for someone else **2%**

Budget

% of subscribers

Less than $400k	Up to $450k	Up to $500k	Up to $550k	Up to $600k	Up to $650k
12%	10%	16%	14%	15%	33%

Of those looking to buy in next 2 years:

Looked at using Kiwisaver

No 16%
Yes 84%

Qualify for HomeStart grant or Welcome Home Loan

No 36%
Yes 64%

Talked to a lender

Yes 46%
Not yet 54%

Have a deposit

Not yet 3%
Yes 53%
Started saving 44%
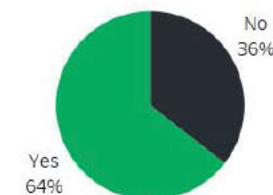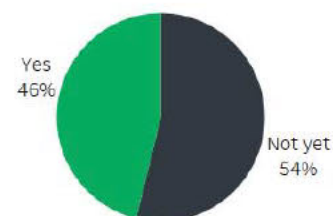
Differences between stated preferences and behaviour

The preferences people state do not always match with observed behaviour in the market.

A good example of this is the number of subscribers who indicate an interest in purchasing an apartment versus the percentage of first home buyers who do buy apartments
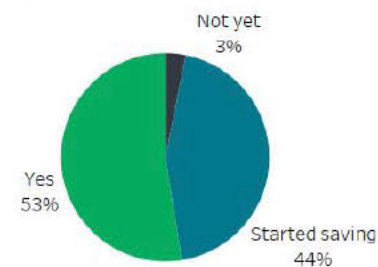
Further work is needed to understand the influence of choice versus other constraints like lending criteria

Stated preferences

Types of home Auckland KiwiBuild subscribers would consider
people can select multiple types

| | 94% | 62% | 32% |
| Standalone house | Duplex townhouse & Townhouse / Te.. | Apartment |
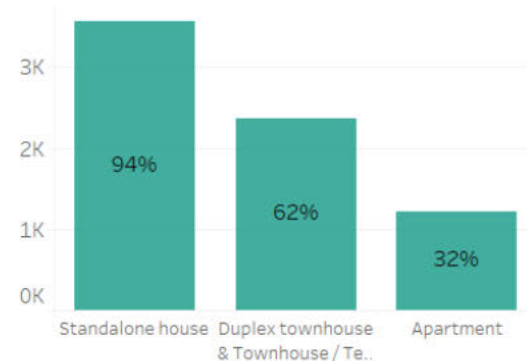
Actual purchases

Types of properties purchased by first home buyers - Auckland, 2002-2018

Apartments
Duplex/townhouse
Standalone
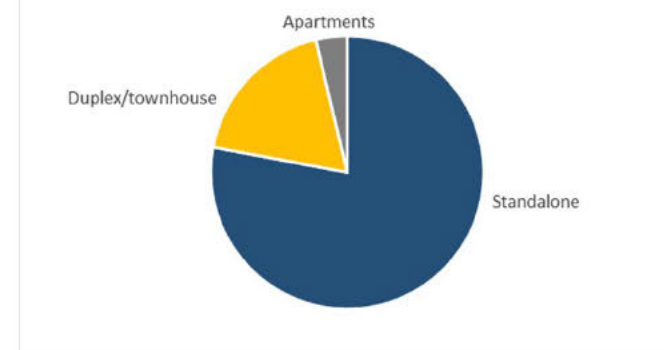
Market Analysis

- As KiwiBuild has to compete with other offerings in the market emphasis has been put on an analysing recent behaviour by first home buyers and how proposed deals compare with what else is available in the market.

- This can be made available for any area of the country and look at factors including
  - Location
  - Property type
  - Bedroom count
  - Age of property*

*estimates currently available, reliable date built indicator being worked on as a matter of priority

Auckland First Home Buyer purchases by property type and bedroom count since 2018
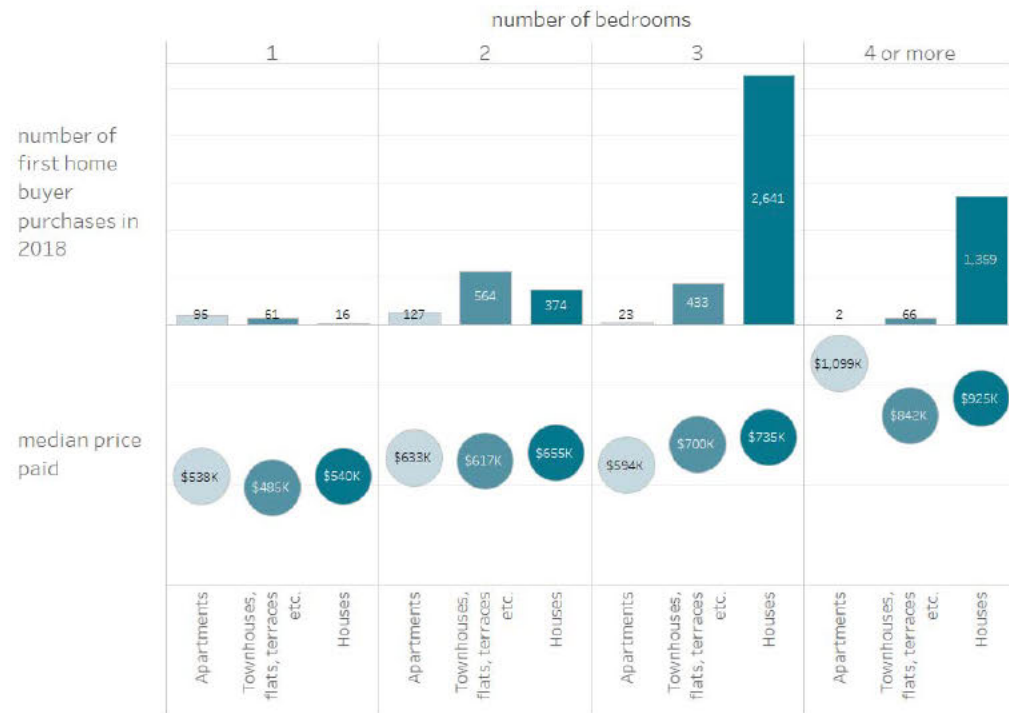
FHB's buy standalone houses, not apartments

- In Auckland over three quarters of first home buyer purchases since 2002 are standalone dwellings

- Apartments make up only 3.7% of FHB sales

- This in part reflects the relatively low proportion of apartments in the Auckland housing stock

- However, only 10.8% of apartment sales went to FHBs, showing that it is not their preferred typology

- Apart from the style of living, bank lenders generally require higher deposits for apartments, and the additional costs of the body corporate can deter FHBs

- The KiwiBuild register of interest shows 32% of respondents would consider an apartment purchase, while 94% would consider standalone

Types of properties purchased by first home buyers - Auckland, 2002-2018
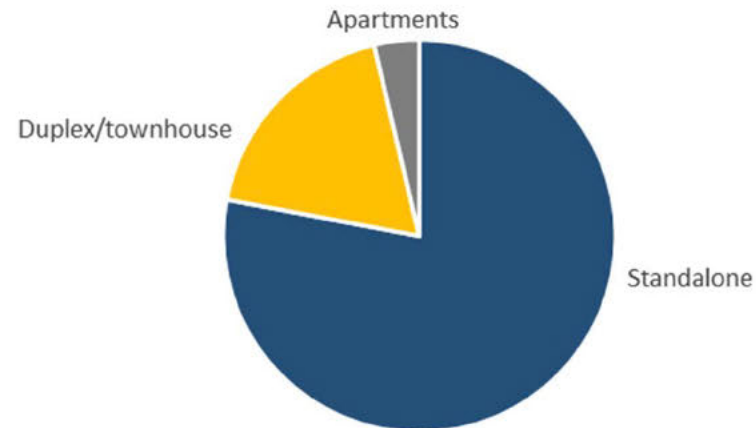
First Home Buyers aren't most active at the bottom of the market

- Possible reasons include:
  - Lending constraints on purchase of small properties/apartments etc.
  - Deposit/serviceability gap
    - If you have enough income to save a deposit, you also have enough income to jump over the lowest quartile and service a mortgage on a more expensive property

First Home Buyer Purchases by Price - Auckland, Q1 2018 - Q1 2019
histogram shows number of sales to FHBs and other buyers. Green line shows percentage of sales at that price to first home buyers
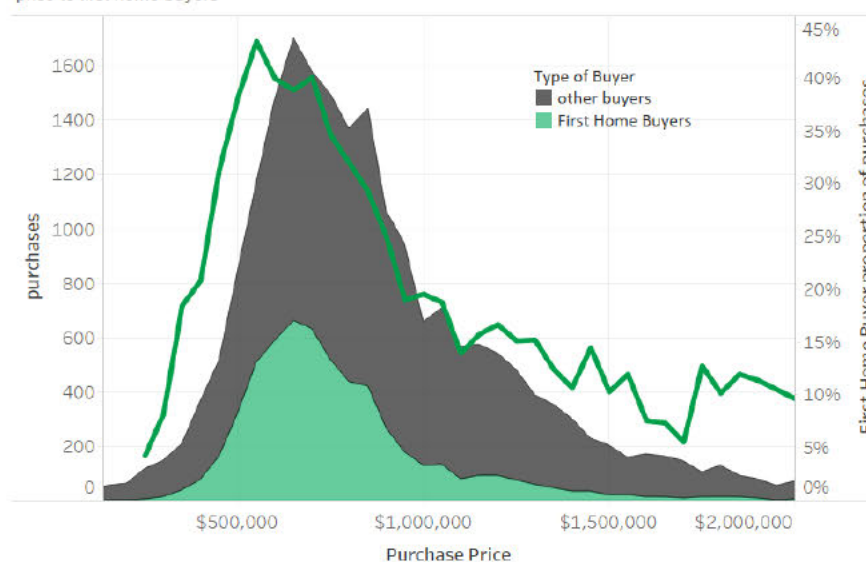
First home buyer share of market has risen but not the number of first home buyers

First home buyer - % and number of residential sales
New Zealand

- % of FHB sales (LHS)
- Number of FHB sales (RHS)

GFC

LVR speed-limits introduced

First home buyer - % and number of residential sales
Auckland

- % of FHB sales (LHS)
- Number of FHB sales (RHS)

GFC

LVR speed-limits introduced
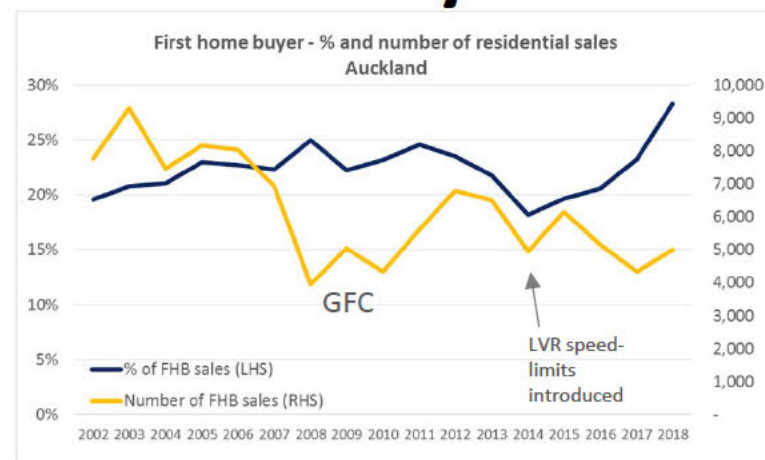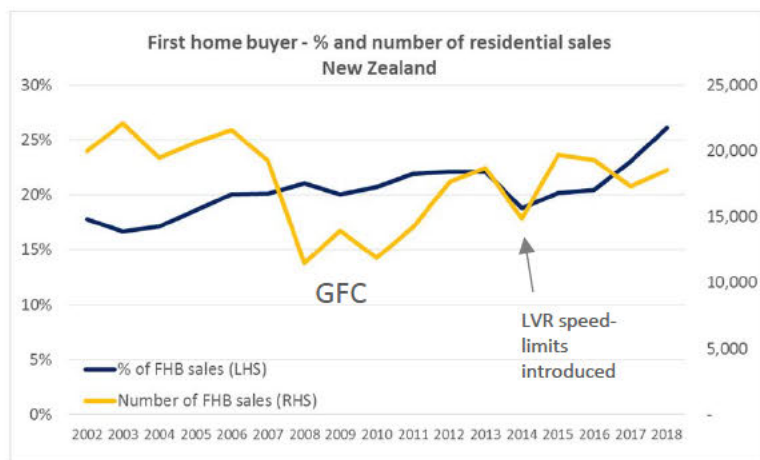
- Across NZ, the <u>percentage</u> of sales by first home buyers (blue line above) generally increased through to 2013 before the first round of LVR speed limits were introduced in 2014. After a brief dip their activity has since surged

- However the actual <u>number</u> of first home buyer sales (yellow line above) has dropped since 2015

- In Auckland, the <u>percentage</u> of sales by FHBs has surged since 2014 to reach record high levels by the end of 2018

- The <u>number</u> of FHB sales tells a different story, with first home buyer activity in the past two years barely above GFC levels

- The increased share of FHB sales therefore reflects that sales by other buyer groups have dropped even more than first home buyers

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First home buyer activity across major urban centres

- Follows nationwide pattern where recent increases in the first home buyer share of total sales are more reflective of a drop in purchases by other groups rather than more people buying their first home

First home buyer share and volume in major urban centres
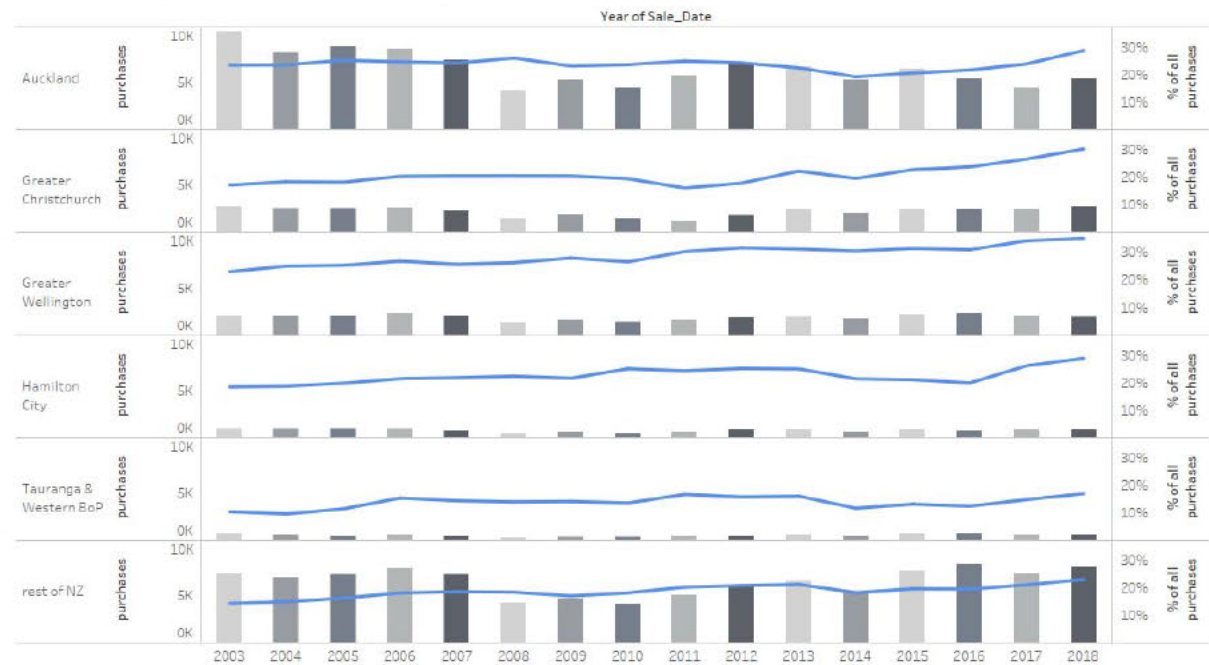
Limitations

- Attempting to change the market or provide something that has not previously been available makes analysing demand through observing past behaviour difficult

- Choice not to buy
    - As well as a choice of what they buy first home buyers also have the option to keep renting
    - We have no current ability to see this behaviour beyond analysing the gap between those who should be able to buy and those that do

- Current market analysis does not account for any saturation/concentration risk
    - Whilst it can help us understand the demand for a certain type of property or price point, it does not currently provide insight on the market response if a large number of those properties were to come onto the market at one time.

New homes are more expensive than existing homes

Percentage of new builds by value quartile - 6 priority urban areas

Dwelling type of lower quartile new builds - 6 priority urban areas
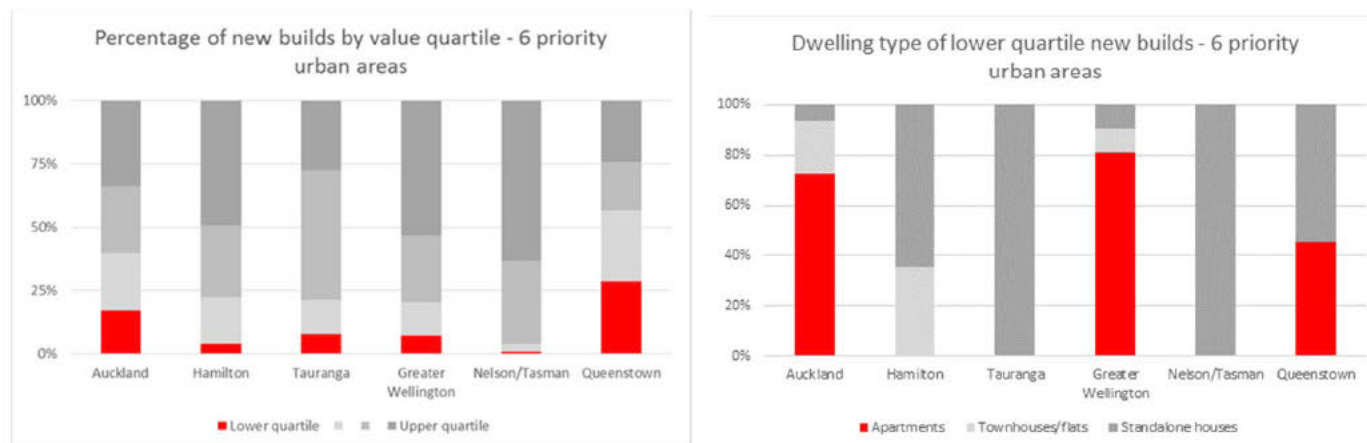
- There are very few lower value quartile new builds across the main centers
- A very small proportion of homes were delivered at below the current median house price in Hamilton, Tauranga, Wellington and Nelson.
- Almost all lower quartile priced homes that were delivered in Wellington and Auckland were almost all apartments and townhouses.

Caveat: an accurate identifier of all new builds does not currently exist. This analysis has been done by identifying new property records where supporting evidence suggests they are new. It is likely to understate the absolute number of dwellings. Therefore these numbers should be treated as indicative and approximate. A reliable new build identifier is being worked on as a matter of priority

There are fewer "affordable" options

- In Auckland, the number of homes sold for under $650K in 2018 has fallen significantly (prices are adjusted for CPI, so the 2010 price is around $575k)
- This would suggest unmet demand for more new homes at lower price points across the city.

2010 Sales under $650k (CPI adjusted)
sale prices adjusted to Q3 2018 prices using CPI
source: CoreLogic NZ
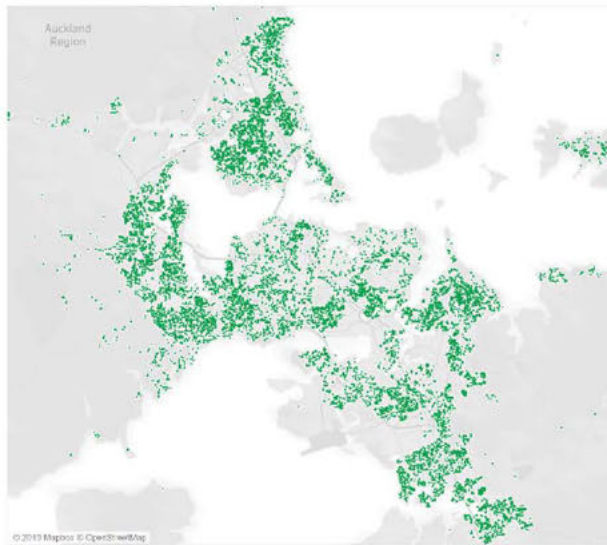
2018 Sales under $650k (CPI adjusted)
sale prices adjusted to Q3 2018 prices using CPI
source: CoreLogic NZ
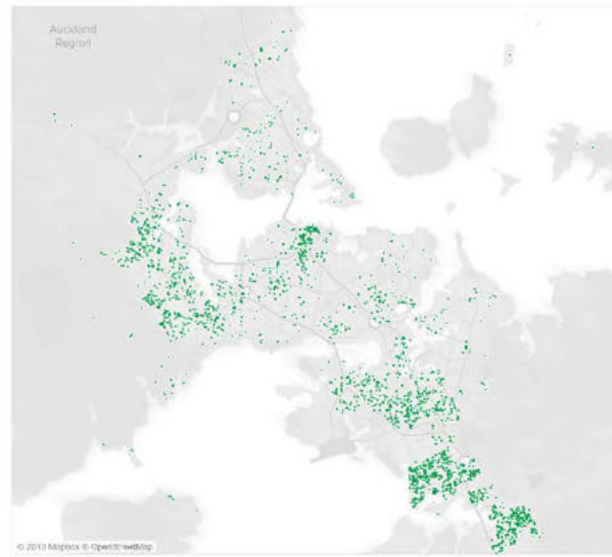
Housing heatmap

- There are different drivers of house prices across the regions

- Cost of land varies greatly across the different regions- Very high in main centers

- First time home buyers are paying a significant amount for their homes

- The average price paid by first homes buyers in every region is above the lower quartile house price which suggests that there is not enough supply in the lower quartile section

- We know that the majority of new dwellings across New Zealand are not in the lower quartile.

|	Lower quartile house price	Average price paid by first home buyers in 2018 (CoreLogic data)	Rural-urban land price difference for a 600m^2 section	Housing register (applicants per 1000 of population)	Share of renters able to afford a lower quartile priced home where they live	Value of average building consent (construction cost excluding	Share of renters in rent stress (paying >30% of income on housing costs)	Population growth (annual average 2013-2018)
Queenstown	776,250	943,060	202,485	0.26	36%	498,870	29.8%	5.7%
Auckland	650,000	856,467	206,722	2.30	27%	376,681	29.3%	2.6%
Greater Tauranga	500,000	546,898	139,135	1.52	28%	376,444	31.3%	2.3%
Nelson-Tasman	469,250	459,448	91,671	1.90	31%	350,035	34.2%	1.3%
Greater Wellington	460,000	556,863	120,371	2.23	44%	329,089	26.1%	1.4%
Greater Hamilton	441,500	513,210	136,213	1.93	40%	323,602	29.3%	2.4%
Whangarei	380,000	442,877	48,064	2.25	38%	404,206	29.6%	1.8%
Napier-Hastings	360,000	392,734	61,372	4.05	41%	416,878	26.5%	1.0%
Greater Christchurch	359,750	436,992	90,136	1.48	52%	359,141	27.2%	2.3%
Blenheim/Marlborough	355,000	396,809	36,303	2.34	46%	360,038	27.6%	0.8%
New Plymouth	336,125	394,978	55,080	1.25	43%	372,240	32.9%	1.2%
Palmerston North	328,000	375,263	43,902	2.78	49%	302,965	26.7%	1.2%
Rotorua	325,000	373,992	27,441	2.29	53%	335,726	27.4%	1.2%
Dunedin	320,000	367,224	22,505	1.09	45%	360,860	31.6%	1.1%
Gisborne	245,000	281,262	14,352	3.03	62%	378,590	19.9%	0.9%
Whanganui District	184,174	234,271	-	2.19	65%	313,084	24.1%	0.8%

High prices in main centres, even at lower quartile
- KiwiBuild

Urban land prices excessive in main centres
- UGA & HUDA

Construction costs high nationwide
- Building system reform
- Offsite manufacturing

A lot of stressed renters throughout the country
- Residential Tenancies changes
- Families package
- Increased overall housing supply

Prices already low in some areas – will be hard to build homes at the lower quartile here

Severe housing need is partially driven by high housing costs, but also region-specific issues
- Public housing
- Regional development
- Homelessness
- Increased overall housing supply

Renters can afford to purchase existing homes suggesting KiwiBuild should be focused elsewhere

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