MINISTRY OF HOUSING
AND URBAN DEVELOPMENT

Options to improve access to housing across the continuum

5 July 2019

New Zealand Government

Overview

You have asked for advice on:

- Options investigated in the housing continuum
- Options for current HNZ tenants who currently earn too much to remain in State Housing
- Advice on shared equity

In response we have provided:

1. An overview of the housing continuum, current support and available options
2. More detailed options for each of the household groupings identified
3. Channels available to provide these home ownership products
4. Options to support third party financing
5. An overview of the options currently available to HNZ tenants. We have taken this approach as the options identified earlier could be leveraged for HNZ tenants

Observations on our analysis

- Purchase affordability is most constrained in major centres where prices are higher, but new build and lower quartile prices are similar.
- There is already significant deposit support available. Increasing deposit support is unlikely to improve affordability for lower income households
- Current deposit support products do not work well for larger and multi family households. Serviceability may also be a challenge given the higher cost of larger homes.
- Serviceability is a barrier for low to moderate income households:
  - Progressive home ownership schemes like shared equity and leasehold ownership could assist households who can service a mortgage of 60% of the cost of home
  - Sub-Market rentals, rent to buy and services can enable other households, who may not be ready for ownership now, to save for a deposit and get into a position where they can service 60% of a mortgage for a home

Caveat: much of the analysis we have drawn on has been focused affordability in major centres where lower quartile house prices are comparable with HomeStart and KiwiBuild new build price points

1. There is a range of support and further options to meet housing need and aspiration

Renting Households	How many	Issues	Support currently available	Options to improve access to housing
Can service mortgage for new home	Approx. 160k	Around half have 20% deposit	HomeStart grants for individuals and households below income cap (85k individual and 130k couple) to purchase homes below price caps Households can withdraw KiwiSaver funds for a deposit Welcome Home Loans can provide higher LVR loans to those who cant get bank finance. (income and price caps also apply)	Increasing deposit subsidies (i.e. increasing home start) Reducing deposit requirement for welcome home loans
Can service 60% of mortgage for new home	Approx 60k	Few have a deposit and cant service a mortgage for a new home Some could service mortgage for existing homes outside major centres	Community Housing Providers offer some shared equity or leasehold arrangements for moderate income households.	Shared equity or leasehold arrangement for new homes and existing homes in major centres.
Cant service 60% of a mortgage for a new home. But not stressed	Approx 180k	Few would have a deposit and cant service a mortgage for new or existing home.	Community housing providers may offer shared equity or leasehold products for moderate income households Some households may receive accommodation supplement Financial capability support, including tailored schemes for Māori and Pacific	A shared equity or leasehold arrangement for existing homes in regional centres. A more generous shared equity or leasehold arrangement required for new and existing homes in major centres.
Stressed Renters (spending more than 30% of income on rent)	Approx 180k	Unlikely to have a deposit and may not be in a position to service 60% of mortgage. May have debt to clear and need to demonstrate savings habit.	Community housing providers offer rent to buy and sub-market rentals to low to moderate income households. Local Government housing (approx. 13k) Financial capability support, including tailored schemes for Māori and Pacific Likely to receive accommodation supplement, and some will receive temporary additional support.	Rent to buy or sub-market rental would enable households to save for deposit and clear debt. Could then transition to shared equity and lease hold arrangements.
In public housing	67k	1500 are paying market rents, though may be various barriers to securing private rental	Some option to purchase HNZ homes Community Housing Providers have worked with households in public housing	As above
Individuals in severe housing deprivation	41k at 2013 census	Many will be within stressed households Some will be homeless	Housing First, Transitional and Public Housing	See separate advice on Homelessness.

2. Homeownership product and lending statistics

HomeStart grants (12 months ended March 2019):

- $86.0m of grants paid
- 12,062 homes bought with the help of a grant, of which 12.4% were new builds
- 16,917 individual people received a grant (1.4 per house on average)
- $13,337 paid per new build on average
- $6,092 paid per existing home on average

Welcome Home Loans (12 months ended March 2019):

- 1,446 loans settled (Around 90% to first home buyers and 10% to previous homeowners, so Welcome Home Loans make up around 5% of first home buyer loans)
- Just 5% were for new builds
- $475.6m of loans facilitated, underwrite cost to the Crown of $5.7m

KiwiSaver withdrawals (12 months ended March 2019):

- 40,536 *individuals* made a withdrawal
- Average withdrawal of $23,387

Total bank loans to first home buyers (RBNZ statistics, 12 months to May 2019)

- 27,339 homes loans made to first home buyers
- 8,900 with less than a 20% deposit (ie. 33% of loans)
- Average loan $397,000

- High uptake in Christchurch and the rest of NZ, low uptake in Auckland
- New builds are available in Auckland, Christchurch, Tauranga and Queenstown, less so elsewhere

Figure 1: Regional breakdown of homes bought with the help of a HomeStart grant (2018)

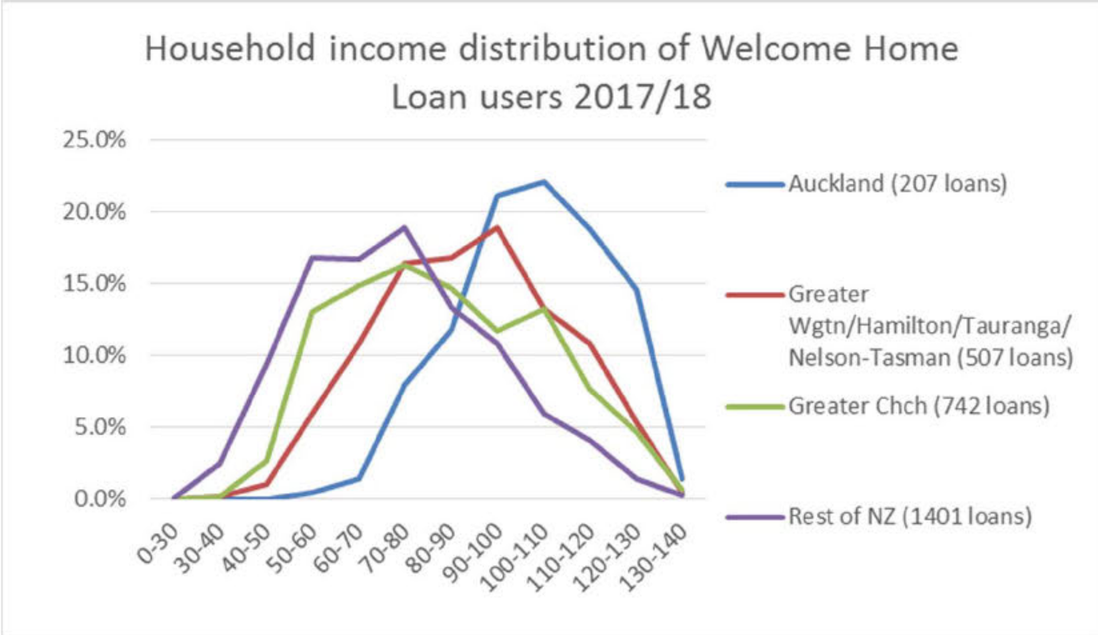
Auckland	10.5%
Greater Christchurch	20.1%
Greater Wellington	7.9%
Hamilton	5.7%
Greater Tauranga	3.6%
Nelson-Tasman	2.6%
Queenstown	0.4%
Rest of NZ	49.2%

Share of homes bought with a HomeStart grant in each area that are new builds (2018)

Auckland	38%
Greater Christchurch	22%
Greater Wellington	6%
Hamilton	8%
Greater Tauranga	26%
Nelson-Tasman	9%
Queenstown	83%
Rest of NZ	4%
Total NZ	12.4%

2. Purchase affordability varies significantly across the country

- In Auckland, Welcome Home Loan data shows it is not possible to buy a home with a household income of less than $70,000-$80,000.
- In Christchurch, where supply is largely matching demand, households with incomes as low as $50,000-$60,000 can buy a home.
- In regional areas even lower income households can buy cheaper existing homes

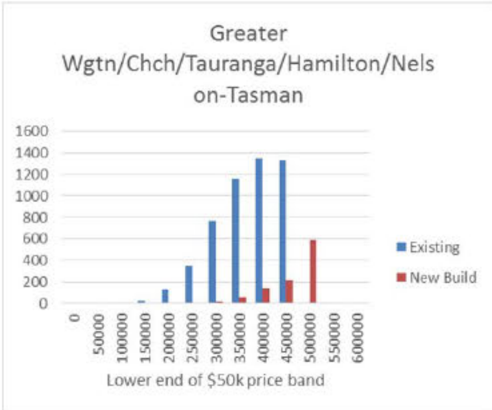


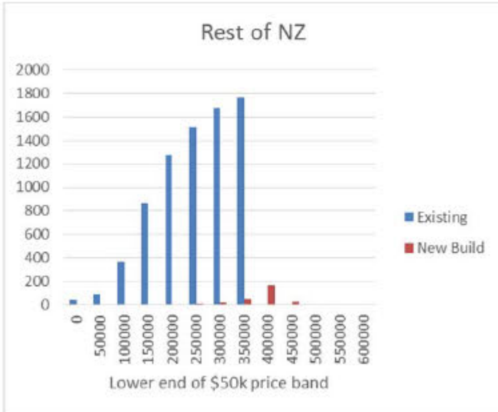
Key take out: ownership is more affordable across a range of incomes outside Auckland

2. First home buyers are only buying new homes in major centres

- Demand for new builds from first home buyers receiving home start grants is stronger in Auckland and other urban areas because they are competitively priced with existing homes
- In regional areas existing homes are cheaper, so HomeStart grant users prefer these

<u>Number of homes purchased with the help of a HomeStart grant, 2017/18</u>





2. Options to address the deposit barrier

Option	Description
Revisiting the 10% deposit requirement on Welcome Home Loans and HomeStart grants	Currently the deposit requirement for HomeStart and Welcome Home Loan grants is 10%. The requirement works against the intention of HomeStart to provide deposit support and buyers have found ways to work around this requirement. In addition, some banks already offer mortgages to households with deposits as low as 5% for existing homes and finished new builds (banks require larger deposits for construction loans and self builds). This is below the existing requirement for Welcome Home Loan. If changes are made to deposit requirements, it would be best they are done together so that the products can continue to be used together.
Allowing HomeStart grants to be paid to all buyers where there are three or more buyers	Currently a maximum of two buyers per households can be paid a HomeStart grant. This disadvantages groups of buyers, such as multigenerational households which includes many Pasifika and Asian households. At present only 0.6% of homes bought with the help of HomeStart grants have three or more buyers. We estimate it would cost an additional $4.3m over four years. There is a risk that people may group together to buy a home to get a higher level of grant. Against this the income cap of 130,000 could still apply across all borrowers and multi-borrower mortgages make each borrower joint and severable liable for the mortgage repayments.
Regionalising the income caps	The current income caps are the same across the country ($85,000 for sole purchasers and $130,000 for groups of two or more buyers). This makes it more difficult to use HomeStart grants in higher priced areas than low priced areas and is reflected in higher take up of HomeStart outside major centres (except Christchurch) House prices are typically lower outside major centres requiring lower deposit and mortgage servicing (average house price for first home buyers using HomeStart in regional areas is $281,000). Increasing the income cap for major centres would extend the deposit subsidy to higher income households who are more likely to be in a position to service a mortgage and save for a deposit. This extends support in the wrong direction.

2. Options to address the deposit barrier (cont)

Option	Description
Increasing grants for all homes or new builds	Currently HomeStart grants are up to $5,000 for purchases of existing homes and up to $10,000 for purchases of new builds. Government could choose to increase the grants for either of both existing and new homes. For example, the grant could be doubled for just new builds, which we estimate would cost an additional $130.9m over four years. Alternatively the grant could be doubled for all homes, which would likely cost an additional $447.8m over four years. Most of the cost would relate to higher payments for households who would have purchased anyway. These costs assume a 12% increase in new build purchases by first home buyers due to the increased grant. The fiscal cost could be mitigated by introducing new lower income caps. At lower incomes serviceability can become a problem, so should be considered alongside any progressive home ownership schemes. We have been able to model the cost of a lower cap and potential impact ownership.
Tieing the house price and income caps to the household size	The current house price caps are regionally based. However, this means that larger families may be ineligible to purchase a suitably sized home while still receiving government deposit support as larger homes can be above the price cap. Income caps can also be a constraint for larger households. Of the renting households we estimate can afford to service a mortgage on a new home 11% are large families of five or more people. This is much higher for Māori (around 20%) and Pasifika households (around 40%). Pasifika families are also more likely to live in Auckland where housing costs are highest.
De-coupling HomeStart grant from KiwiSaver	Currently individuals must be a member of KiwiSaver for at least 3 years, and the maximum amount of grant is staggered between years 3, 4 and 5. De-coupling would remove the requirement to be a member of KiwiSaver and offer the maximum amount to all applicants that meet the income cap and purchasing a home below the price cap. This would increase the payment for households who are either not in KiwiSaver or had not been members for 5 years. This change would increase the cost of the grant by up to 40% assuming that all households that meet the income cap have at least one member of KiwiSaver. To the degree there are households that meet the income cap and are not KiwiSaver members the cost would be greater.

Key Take Out: A significant expansion of deposit support is unlikely to increase purchase affordability and will increase support for those who would have bought anyway. However some targeted changes around to address needs of larger multi family household would be more effective. In major centres the ability to service a mortgage for a new or existing home is the more significant challenge.

2. We have also considered the potential to capitalise Working for Families (WFF)

- This would involve capitalising WFF or a portion of it so that households can use it for deposit
- Banks already take account of WFF as income within their lending criteria, meaning WFF will likely increase the amount a first-home buyer can service. While capitalising WFFs would increase the households deposit, it would also reduce the income available to service a mortgage. Existing deposit support, such as HomeStart grants, and welcome home loans are likely to be more effective at overcoming the barrier for households.
- In addition, capitalising WFF could:
  - undermine the policy objective to reduce child poverty. These families would no longer have access to ongoing WFF payments, which help support the family, particularly if they encounter financial difficulty after purchasing their first home.
  - produce arbitrary or inequitable treatment. WFF is means tested, with entitlement dependent on a range of factors including income level, income source, hours worked, number of children and shared care arrangements. These can change over time, meaning that capitalising WFF would result in some families missing out on much needed income later on, or being overpaid.
  - be administratively complex. There would need to be a process to estimate future entitlement and methods to monitor and manage changes that might affect accuracy, which would add to the administrative cost of such an initiative.

2. There are a range of options to improve serviceability

Initiative	Description	Household need	Comment
Leasehold land	Leasehold arrangements allow a landholder (as lessor) to retain ownership of the land while the purchaser acquires only the building on this land. The purchaser would enter a lease agreement with the owner of the land. The leasehold arrangement is attractive to some households because it requires less up-front capital.	Household principally seeking tenure security, but does little to improve housing affordability unless offered on concessionary terms (which some iwi and CHPs are considering doing)	Government or social partners will retain ownership of land and there are opportunity costs in terms of alternative use of land. Buyers may face difficulty securing finance due to the leasehold. *Example: Queenstown Lakes Community Housing Trust Secure Home Programme*
Shared ownership and Shared equity	Non-occupant's property interest is secured through co-ownership under shared ownership. Under shared equity the household buys a share of the property (both the land and the building) and the remaining share is owned by another party in the form of equity. Capital gain is parcelled out based on the share of the property each party owns.	Moderate income households who have already accumulated a deposit of some level, but who cannot afford to service a mortgage on the full balance of a house's value.	The equity partner pays the financing costs on the portion of the equity share, which may be recovered when the equity stake is bought back by the home owner. There may also be administrative costs associated. Increased risk exposure Buyer may face difficulty securing finance due to the shared equity arrangements *Examples: Tindell Foundation and NZ Housing Foundation Shared Ownership programme*
Te Ara Mauwhare programme	Pilot programme to identify, trial and evaluate innovative PHO models – supported through a compulsory financial capability programme - to overcome barriers to home ownership	Low to median income whanau moving toward home ownership	*Te Puni Kokiri* led and funded pilot programme

Key take out: leasehold and shared equity products can be effective for those households that could service a mortgage for more than 60% of a home (i.e. have demonstrated savings history and have accumulated some deposit)

2. And there are a number of other options to improve affordability and security of tenure

Initiative	Description	Household need	Comment
Rent-to-buy	Household accumulates deposit through paying subsidised rent or additional rent payment. This is generally provided with associated financial literacy coaching and support Household then has option to purchase home at later point either with commercial mortgage or through another progressive home ownership product	Provides pathway to home ownership for lower-income households who require time to accumulate a deposit and address issues such as consumer debt, poor credit histories and insecure employment.	No outright home ownership potentially leading to losses in the event of default. The burden may fall onto individuals or the parties providing subsidy. If the renters do not pay additional rent, then a direct subsidy is required There may be additional costs as savings are discounted, as well as administrative costs. The Government is unlikely to play a significant role, given this is a market based product but may provide some financial coaching support Example: *NZ Housing Foundation Affordable Rental Programme*
Sub-market rental	Household pays rent at subsidised rate.	Low income households which cannot afford market rent will have access to adequate housing that they would not otherwise be able to afford	Source of funding required to meet the difference between submarket and market rents. Examples include Local Authority Housing that does not receive Income Related Rent Subsidy, and rentals offred by community Housing providers
Reform of the Residential Tenancies Act 1986	A reform of a law governing the relationship between 592,000 households in the private rental market and their landlords has been underway since July 2018. The reform has the primary objective of improving tenants' security of tenure while maintaining adequate projection of landlords interests.	Of those that recently moved house in the private rental market, 25% attribute the cause of that movement to the landlord ending the tenancy. The law allows landlords to do so for any reason and at any point during a periodic tenancy and for any reason on expiration of a fixed-term agreement.	In addition to moving costs that fall to tenants when their tenancies end, insecure tenure is likely impacting on tenants' willingness to raise maintenance issues with their landlord or to self-enforce the standards that require properties to be warm and dry. The Reform proposes a multifaceted approach to make tenancies more secure while ensuring that landlord's still have the tools they need to run their businesses.

Key take out: stressed renters, households with debt or no savings habit may require other types of support before they are ready for home ownership

2. Indicative cost for shared equity and submarket rental

Government Shared Equity Scheme

We have previously provided advice on a government shared equity scheme.

While advice was calibrated to purchase of KiwiBuild homes, the modelling does set out indicative cost for schemes with different levels of Government Equity contribution, homes supported, approximate income level and length of time for households to buy out the government equity share.

The table below provides an indicative cost for a capital fund that could be recycled over time as households buy out the governments shared equity. In addition to the cost of establishing the capital fund, other costs would be operating the fund and the cost of the foregone return on equity.

Equity share	15-25%	25%-35%	35-45%	15-45%
Household Income	95k	85k	75k	85k
Households per year	1680	1800	1800	5280
Capital fund required	$750m	$1,500m	$2,300m	$4,400m
Average payback*	5.8 years	8.3 years	10.8 years	8.3 years

***Modelling assumed that households pay back the government equity share at 4% per annum**

Affordable Housing Fund

The Minister of Housing and Urban Development submitted a bid for an affordable housing fund through Budget 2019. The bid was to provide grant funding for community housing providers, iwi and Māori organisations and local government to develop new homes and offer as progressive home ownership schemes or to rent at sub-market rates.

The bid sought $450m in funding. While the mix of progressive homeownership and submarket rentals would depend on interest from providers, the bid assumed half of each delivering 2500 places overall.

The costing assumed every dollar of government funding would be matched by a dollar of philanthropic or private funding. It assumed homes would cost $550,000 to develop with the government grant

- Progressive Home ownership: assumed a 30% equity share half funded by central government – or **$85,000 per household**. 1250 places would account for 23% of the proposed fund

- Submarket rental: assumed 50% contribution from the Crown costing **$275,000 per place**. 1250 places would account for 77% of the proposed fund

The expectation was that funding for progressive homeownership would be recycled over time delivering up to 7000 progressive home ownership schemes over 25 years.

The costing for submarket rental was conservative and assumed limited to no rental yield.

3. There are choices around the channels to deliver progressive home ownership products (and not mutually exclusive)

Channel	Pros	Cons
Through individual households identifying homes for purchase	• Offers individual households flexibility to find a home with the Government then offering and equity stake through shared equity. • Assumption that households are required to purchase new build houses with this grant, stimulating housing supply in the private housing supply market • Individual households work with existing local developers (some of whom may have expertise in large scale development, and may have access to local land banks)	• Government has significant funding tied up long term in Shared Equity. • Not suitable for Rent to Buy or Leasehold models as these would require the Crown to own the home or the land. • Requires significant setup eg development of criteria, allocation framework. Ballot process if oversubscribed
Through Crown agents (Kāinga Ora)	• Would expand the pool of buyers for large scale projects • Kāinga Ora has more development expertise than CHPs • Can provide developments at scale • Kāinga Ora can potentially provide wrap around services, or contract for them	• Kāinga Ora in establishment phase, needs time to get up and running; role should be kept more focussed at this time • Kāinga Ora does not have expertise in PHOs and wrap around services that the CHP sector has • Existing HNZ progressive home ownership schemes have had low uptake • Ties up Crown capital (inability to recycle capital)
Through community housing providers (CHPs, iwi, local authorities)	• CHPs can be closer to the individual household within a region and can therefore more flexibly customise the product/services needed by that household, including what is the most suitable PHO scheme, or even whether a PHO scheme or a sub-market rental is a better option. • CHPs can provide, or can organise for the provisions of wrap around services such as ongoing budgeting and financial management services • Opens up a wider pool of funding as it community groups can leverage off philanthropic funding (AHF would fund only up to 50% of a new development) • Does not require the Crown to own home / land long term (but Crown through Kainga Ora can facilitate)	• CHPs just provide another link in the chain • CHPs do not always have the capability to take on larger scale development projects, so the sector would need developing and potential consolidation

Key take out: delivery channels may be suited for different interventions and can be complementary

4. There are various options to support third party financing

Options	Description	Pros	Cons
Securitisation	PHO products and/or rental properties can be packaged into a commercially viable portfolio and sold to institutional investors	• Can be implemented through the existing Residential Estate Investment Trust model • Allows the market to deliver commercially viable services efficiently • Revenue gathered can be reinvest into the sector to achieve social objectives	• foregoes any future revenue stream • commercial drives can potentially crowd out any related/secondary social objectives
s 9(2)(b)(ii) [redacted]			
Bond Aggregator	Supports the philanthropic/private sector to issue bonds against their consolidated balance sheet	• Access to new source of capital • Leverage the collective financial assets which potentially lowers borrowing costs and improves viability	• The lack of scale in New Zealand and debt servicing ability will be difficult to overcome • Administrative costs mean any potential savings to CHPs compared to traditional bank financing would be too low to be self-sustainable • Higher borrowing costs compared to debt raised through core Crown

5. HNZ Market renters

Number
At 30 June 2019 there were 1,578 market renters living in Housing New Zealand properties. This compares with 1,262 at 31 March 2019 and 1,467 as at 31 December 2018.

Characteristics
Information on the characteristics of the market renter cohort is not readily available. However there are reasons that tenants can be in an HNZ property even thought they can afford a market rent. These can include:

- tenancies where the signatory or their partner is aged 65 years and over
- tenancies where the signatory or their partner has one or more dependent children aged 18 years and under in their care
- tenancies where the signatory or their partner receives a Supported Living Payment due to having a permanent and severe health condition or disability, or being a full time caregiver
- tenants who have difficulty sourcing appropriate homes in the private rental market
- tenants who are in seasonal work, whose income moves them into paying market rents for a period of time
- tenants who have issues such as drug addiction, where it is considered that stability of tenure is important.

Work on reviewable tenancies in 2018 focussed more on the types of exemptions for review rather than analysis of the characteristics of the market renter cohort. However it did note that those in public housing who are paying market rent, or close to it, are the most likely to be reviewed.

5. HNZ Market renters and Home Ownership Products

Tenant Home Ownership products

There is no specific home ownership product for tenants paying market rent, but HNZ does have a Tenant Home Ownership scheme whereby any tenant (not just market renters) can request to buy their house. However not all properties will be made available for sale – especially in high demand areas. Tenants who live in houses that are not for sale but wish to buy a house may be given the option to buy other Housing New Zealand properties that have been identified as suitable for sale

Tenants don't automatically get first right to purchase a property for sale. There may be other factors at play – eg RFR for Iwi.

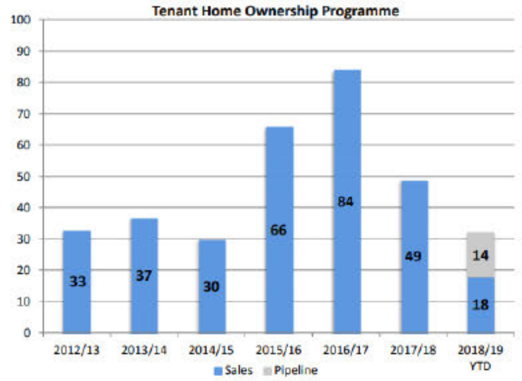
The properties are sold at current market rates, but tenants may be eligible for the FirstHome grant, Welcome Home Loan or KiwiSaver HomeStart grants. **The Progressive Home Ownership products above may also be suitable for HNZ tenants wanting to purchase a home** (in particular a Shared Equity product as recommended by the Shared Equity Technical Advisory Group in March 2017).

In 2018/19, HNZ received 405 applications from tenants wanting to purchase their home in. The majority of these applications were withdrawn due to the tenants being unable to secure finance to buy the property. Over the 2018/19 financial year, 28 houses were sold to tenants. Of these, two were market renters at the time of sale.

FirstHome property sales/grant

The FirstHome initiative is not targeted to HNZ tenants specifically. The scheme was set up for surplus (vacant) HNZ houses to be sold to first home buyers, along with a grant to put towards the deposit. HNZ has not sold any houses in the last two financial years under this scheme (ie to non-tenants), but the FirstHome grant has been used by 27 of the tenants who purchased a property under the Tenant Home Ownership scheme.

The FirstHome scheme can in theory be used alongside other first home buyer schemes, eg. Welcome Home Loans and KiwiSaver HomeStart grant.



HNZ's March 2019 Financial Products quarterly report shows the uptake of the Tenant Home Ownership Programme since 2012/13 (the scheme started in 2009).