



## 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 <b>Minister of Housing and Urban Development</b>	<p><b>Note</b> that the HomeStart house price caps are more problematic in Queenstown Lakes District than in other areas.</p> <p><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.</p>	At your convenience
Hon Jenny Salesa <b>Minister of Building and Construction</b>	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	s 9(2)(a)	✓
Matthew Galt	Policy Advisor	(04) 896 5686		

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

Minister's office to complete:

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

Comments



## BRIEFING

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

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<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

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## Background

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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

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*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><i>\$600,000/\$650,000 cap</i></b>				
Auckland	23%	660	0.6	1,049
<b><i>\$500,000/\$550,000 cap</i></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><i>\$400,000/\$450,000 cap</i></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



## Briefing

<b>Aligning the house price caps for HomeStart and Welcome Home Loans with KiwiBuild</b>			
<b>Date:</b>	30 November 2018	<b>Security level:</b>	In Confidence
<b>Priority:</b>	Medium	<b>Report number:</b>	BRF 18-19 19110079

<b>Action sought</b>		
	<b>Action sought</b>	<b>Deadline</b>
Hon Grant Robertson <b>Minister of Finance</b>	<b>Agree</b> to the recommendations	11 December
Hon Phil Twyford <b>Minister of Housing and Urban Development</b>	<b>Agree</b> to the recommendations <b>Forward</b> to the Minister of Finance	6 December
Hon Jenny Salesa <b>Minister of Building and Construction</b>	For information only	None

<b>Contact for discussion</b>				
<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1<sup>st</sup> contact</b>
Fiona Ryan	Acting Manager, Housing System Performance	04 901 9873	s 9(2)(a)	✓
Matthew Galt	Senior Advisor	04 896 5686		

<b>Other agencies consulted</b>
Treasury, Housing New Zealand Corporation. DPMC has been informed.

### Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify)  <hr/>	<b>Comments</b>           
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**Date returned to MHUD:**

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## Briefing

### Aligning the house price caps for HomeStart and Welcome Home Loans with KiwiBuild

**For:** Hon Grant Robertson, Minister of Finance  
Hon Phil Twyford, Minister of Housing and Urban Development

**Date:** 30 November 2018      **Security level:** In Confidence

**Priority:** Medium      **Report number:** BRF 18-19 19110079

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#### Purpose

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1. This briefing provides advice on increasing the HomeStart grant and Welcome Home Loan house price cap for new builds outside of the main centres from \$450,000 to \$500,000 to match the KiwiBuild price cap.

#### Executive summary

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2. HomeStart grants and Welcome Home Loans (WHLs) are available to support first home buyers on modest incomes to purchase modestly priced homes. Eligibility criteria apply, including regional house price caps.
3. The HomeStart grant and WHL house price cap for new builds outside of the higher priced urban areas is currently \$450,000. This is below the KiwiBuild house price cap of \$500,000, meaning that some KiwiBuild homes will be ineligible for HomeStart grants and WHLs. In higher priced urban areas the HomeStart and WHL price cap is at or above the KiwiBuild price cap, so the misalignment is only an issue in areas where the \$450,000 cap applies.
4. Officials recommend increasing the \$450,000 HomeStart and WHL house price cap to \$500,000 so all KiwiBuild homes are eligible for HomeStart grants and WHLs. This will allow the HomeStart and WHL schemes to support the sale of KiwiBuild homes and ensure that early KiwiBuild buyers do not miss out on the grant. It will also simplify administration for buyers and the government, eliminate a perceived inconsistency with having different price caps, and may more closely align the caps with development costs across regions. The change is expected to result in HomeStart grants being paid for an additional 230 homes per year and an additional 10 WHLs being drawn per year. The majority of these will initially be for non-KiwiBuild homes, but within a couple of years we expect the majority to be for KiwiBuild homes.
5. Officials recommend that this change is announced, and comes into effect, on Monday 7 January 2019 in order to give Housing New Zealand time to implement the increase and avoid making the change during the Christmas break. No KiwiBuild homes are expected to be sold before 7 January that will be ineligible for HomeStart grants and WHLs, although some may go on sale shortly after this date. This date could be shifted, although Housing New Zealand ideally requires 1-2 weeks' notice ahead of the implementation date to prepare the operational changes. It is best for the change to come into effect on the day it is announced to avoid creating administrative complications for people partway through the application process.

6. The cost of this increase is estimated to be around \$3m per year. This can be funded within the existing appropriations. The KiwiSaver Deposit Subsidy appropriation (used for HomeStart) has a buffer of around \$25m per year and the HNZC support services appropriation (used for WHLs) has a buffer of around \$1.5m per year. These buffers are likely to reduce over time because spending on HomeStart and WHLs is likely to increase as KiwiBuild ramps up. However, the appropriations are not at risk of being overspent for the next two years, which will allow time to respond if an overspend starts to appear likely.
7. Cabinet agreement is not needed to make this change as the Minister of Finance and Minister of Housing and Urban Development have delegated authority. However, it may be appropriate for Minister Twyford, as responsible Minister, to inform Cabinet of the change ahead of it being publically announced. Cabinet Office guidance is that proposals that affect the government's financial position should be submitted to Cabinet [CO (18) 2 paragraph 9 refers]. While the cost of \$3m for one year is not large, it could accumulate to a sizable amount over time since it is an ongoing cost (for example, \$15m over five years if market conditions and policy settings remain similar to today). If you consider this change to be significant enough to be of interest to Cabinet, this could be done as an oral item at or before the final Cabinet meeting of the year (17 December). Annex A contains talking points for this.
8. Officials recommend no other changes to the house price caps at this stage. Officials are currently undertaking a wider review of the existing package of homeownership products (HomeStart grants, WHLs and KiwiSaver withdrawals) to ensure they support the Government's priorities, with a report back to Minister Twyford in March 2019.

Released under Official Information Act 1982

## Recommended actions

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It is recommended that you:

1. **Note** that the Minister of Finance and Minister of Housing and Urban Development have delegated authority to agree on detailed design issues for first homeownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [Cab Min (05) 13/10 refers].

*Noted*  
Hon Robertson

*Noted*  
Hon Twyford

2. **Note** that officials recommend increasing the HomeStart and Welcome Home Loan house price cap for new builds from \$450,000 to \$500,000 for all areas of New Zealand that are outside of Auckland, Queenstown, Greater Wellington, Greater Christchurch, Hamilton, Greater Tauranga and Nelson-Tasman. This will ensure that all KiwiBuild homes are eligible for HomeStart grants and Welcome Home Loans.

*Noted*  
Hon Robertson

*Noted*  
Hon Twyford

3. **Note** that the cost of this change is estimated to be around \$3m per year. This can be funded within the existing KiwiSaver Deposit subsidy and HN2C support services appropriations.

*Noted*  
Hon Robertson

*Noted*  
Hon Twyford

4. **Agree** to increase the HomeStart and Welcome Home Loan house price cap for new builds from \$450,000 to \$500,000 for all areas of New Zealand that are outside of Auckland, Queenstown, Greater Wellington, Greater Christchurch, Hamilton, Greater Tauranga and Nelson-Tasman.

*Agree/Disagree*  
Hon Robertson

*Agree/Disagree*  
Hon Twyford

5. **Agree** that the change to the HomeStart and Welcome Home Loan house price cap will be announced and take effect from Monday 7 January 2019.

*Agree/Disagree*  
Hon Robertson

*Agree/Disagree*  
Hon Twyford

6. **Note** that it may be appropriate for Minister Twyford, as responsible Minister, to inform Cabinet of the change ahead of it being publically announced as it is a policy change with financial implications. If you consider this to be significant enough to be of interest to Cabinet, this could be done as an oral item.

*Noted*  
Hon Robertson

*Noted*  
Hon Twyford

7. **Note** that officials are undertaking a wider review of the existing package of homeownership products (HomeStart Grants, Welcome Home Loans and KiwiSaver withdrawals) to ensure they support the Government's priorities, with a report back to Minister Twyford in March 2019.

*Noted*  
Hon Robertson

*Noted*  
Hon Twyford

8. **Forward** this briefing to the Minister of Finance.

*Agree/Disagree*  
Hon Twyford



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Fiona Ryan  
**Acting Manager, Housing System  
Performance, Ministry of Housing and  
Urban Development**

30 / 11 / 18  
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Hon Grant Robertson  
**Minister of Finance**

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Hon Phil Twyford  
**Minister of Housing and Urban  
Development**

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## Background

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9. The KiwiSaver HomeStart scheme offers grants of between \$3,000 and \$20,000 to assist with the purchase of a home depending on how many buyers there are, how long each buyer has made active contributions to KiwiSaver, and whether it is a new build or an existing home.
10. The Welcome Home Loan (WHL) scheme supports the provision of low-deposit mortgages to eligible buyers through the government providing an underwrite to the banks making the mortgages.
11. The schemes were designed to support first home buyers on modest incomes to purchase modestly priced homes, and to incentivise the development sector to deliver more affordable homes.
12. Eligibility criteria apply to both schemes, including house price caps and income caps. The Minister of Finance and Minister of Housing and Urban Development have delegated authority to agree on detailed design issues for first homeownership assistance, including the HomeStart grant and Welcome Home Loan scheme eligibility criteria [Cab Min (05) 13/10 refers].
13. The most recent adjustment to the eligibility criteria was an increase in the Queenstown Lakes District house price caps in September 2018 [BN 0196 18-19 refers]. This adjustment was made due to there being a lack of homes available below the house price caps, and to better align the HomeStart and WHL caps with the KiwiBuild caps. Prior to this, the settings of the HomeStart and WHL schemes were comprehensively reviewed in August 2016 [EGI-16-MIN-0152 refers].
14. In September 2018, Minister Twyford agreed that officials undertake a wider review of the existing package of home-ownership products (HomeStart grants, WHLs, and KiwiSaver withdrawals). The aim is to identify any changes that could be made to better align with KiwiBuild, support new housing supply and facilitate transitions through the housing continuum, with a report back to Minister Twyford in March 2019.
15. Minister Twyford has asked for quicker advice on the specific matter of further aligning the HomeStart and WHL house price caps for new builds with the KiwiBuild house price caps to ensure all KiwiBuild homes are eligible. Some KiwiBuild homes being built in areas like Te Kauwhata (in the Waikato District) and Whangarei will not be eligible for HomeStart grants or WHLs under the current settings.
16. There were no entries into the ballot for any of the first 10 KiwiBuild homes in Te Kauwhata, which were not eligible for HomeStart and WHLs. The lack of entries may be partly due to the homes still being under construction, but ensuring eligibility for HomeStart and WHLs in the future could help support future sales. This briefing provides advice on aligning the HomeStart, WHL and KiwiBuild caps in the near term.

## Aligning the HomeStart and WHL house price caps with the KiwiBuild house price caps outside of the main centres

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### Reasons for increasing the cap

17. The HomeStart and WHL house price caps for new builds vary across regions and differ from the KiwiBuild house price caps as shown in Table 1. All KiwiBuild homes in areas 1 and 2 are currently eligible for HomeStart and WHLs. However, KiwiBuild homes delivered in area 3 may not be eligible for HomeStart and WHLs because the price cap is \$450,000, which is below the \$500,000 KiwiBuild price cap.



**Table 1: House price caps for HomeStart grants and Welcome Home Loans**

Area	HomeStart grants and Welcome Home Loans		KiwiBuild
	Existing homes	New builds	
Area 1 (Auckland and Queenstown Lakes)	\$600,000	\$650,000	\$650,000 3+ bedroom \$600,000 2 bedroom \$500,000 1 bedroom
Area 2 (Greater Wellington, Greater Christchurch, Hamilton, Greater Tauranga, Nelson-Tasman) <sup>1</sup>	\$500,000	\$550,000	\$500,000 all house sizes
Area 3 (Rest of New Zealand)	\$400,000	\$450,000	

20. Officials recommend increasing the \$450,000 HomeStart and WHL house price cap for new builds in area 3 to \$500,000. This will allow the HomeStart and WHL schemes to support the sale of KiwiBuild homes and ensure that KiwiBuild buyers do not miss out on the grant if they purchase early in the programme. Creating alignment will also simplify administration for both the users of the products and the government and eliminate a perceived inconsistency with having different price caps. Furthermore, the limited data we have on the prices of new builds relative to existing homes indicates that new build prices vary less across regions than existing home prices (annex B illustrates this). The change may therefore align the price caps more closely with development costs.
21. The change is expected to result in HomeStart grants being paid for an additional 230 homes per year and an additional 10 WHLs being drawn per year. The majority of these will initially be for non-KiwiBuild homes, but within a couple of years we expect the majority to be for KiwiBuild homes.<sup>2</sup>
22. Buyers of KiwiBuild homes who are ineligible for HomeStart or WHLs for other reasons – such as having incomes over the income caps or not contributing to KiwiSaver for long enough – will remain ineligible.<sup>3</sup>

### The cost and funding

23. The cost of this change is estimated to be around \$3m per year, of which almost all is for the additional HomeStart grants (annex C provides details on this estimate). This can be funded within the existing appropriations.
24. The KiwiSaver Deposit Subsidy appropriation (used for HomeStart) has a buffer of around \$25m per year and the HNZC support services appropriation (used for WHLs) has a buffer of around \$1.5m per year. A portion of the buffer was intentional to ensure that people did not miss out on grants or loans due to a lack of funding, but the buffer has become larger than planned due to market changes over recent years, such as rising house prices. The buffers are likely to reduce over time because spending on HomeStart and WHLs is likely to increase as KiwiBuild ramps up. However, the appropriations are not at risk of being overspent for the next two years, which will allow time to respond if an overspend starts to appear likely.

<sup>1</sup> The specific territorial authorities included are: Hamilton City, Tauranga City, Western Bay of Plenty District, Kapiti Coast District, Porirua City, Upper Hutt City, Lower Hutt City, Wellington City, Tasman District, Nelson City, Waimakariri District, Christchurch City and Selwyn District.

<sup>2</sup> This is because, once KiwiBuild has ramped up to 10,000-12,000 home per year, it will need to sell homes to 40-50% of the annual market of first home buyers. It will likely capture a much higher proportion of the market of first home buyers purchasing new builds.

<sup>3</sup> The income caps for HomeStart and WHLs are \$85,000 for one buyer and \$130,000 for two or more buyers. This is less than the KiwiBuild income caps of \$120,000 for one buyer and \$180,000 for two or more buyers.

## Delegated authority and Cabinet involvement

25. Cabinet agreement is not needed to make this change given the Minister of Finance and Minister of Housing and Urban Development have delegated authority. However, it may be appropriate for Minister Twyford, as responsible Minister, to advise Cabinet of this change as an oral noting item ahead of it being publically announced.
26. Cabinet Office guidance is that proposals that affect the government's financial position should be submitted to Cabinet [CO (18) 2 paragraph 9 refers]. While the cost of the change is not large, and it can be funded from within existing appropriations, it is a policy change that will result in an ongoing cost that could accumulate up to a sizable amount over time (for example, \$15m over five years if market conditions and policy settings remain similar to today). If you consider this change to be significant enough to be of interest to Cabinet, this could be done as an oral item at or before the final Cabinet meeting of the year (17 December). Annex A provides talking points for this. We do not consider a full Cabinet paper to be necessary, nor practicable given the timeframes.

## Timing of the change

27. We recommend that the change is publically announced, and comes into effect, on Monday 7 January 2019. This will allow time for Housing New Zealand to make the operational changes needed for implementation, avoid making the change during the Christmas break, and allow time for Minister Twyford to advise Cabinet of the change in advance if he wishes. No KiwiBuild homes are expected to be sold in area 3 ahead of 7 January 2019, although some may go on sale shortly after this date. The implementation date could be shifted, although Housing New Zealand ideally requires 1-2 weeks' notice ahead of the implementation date to prepare the operational changes. It is best for the change to come into effect on the day it is announced to avoid creating administrative complications for people partway through the application process.

## Alternatives and risks

28. One alternative to increasing the cap for all of area 3 would be to increase the cap in regions where it is most likely that KiwiBuild homes will be delivered. This would have the advantages of reducing the cost of the change to somewhat below \$3m per year and avoiding the risk of making the schemes available for use on relatively high-end new builds in lower priced regions. However, raising the cap in only some regions is not recommended because:
  - a. this may be seen as unfair towards regions where the cap is not increased;
  - b. it is hard to predict which parts of the country may ultimately receive few or no KiwiBuild homes priced between \$450,000 and \$500,000;
  - c. increasing the price caps for a large number of territorial authorities but not others would introduce a lot of geographic boundaries where the price caps differ, which may create confusion; and
  - d. even if the cap is increased for all regions, it is likely that the majority of the additional funds will be used on more modest homes in higher priced parts of area 3 as there are few new homes being built in very low-priced parts.<sup>4</sup>
29. One risk of increasing the price cap for area 3 now is that it may end up higher than the KiwiBuild cap if the \$500,000 KiwiBuild cap is subsequently lowered in any parts of the country. Officials intend to further examine whether the price cap can be further broken down by bedroom numbers, or adapted to better reflect other regional variations [CAB-18-MIN-0142 refers].

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<sup>4</sup> 70% of HomeStart grants paid out for new builds in the year to June 2018 in area 3 were in Territorial Authorities with a median house price over \$300,000.

## **No other changes to the house price caps are recommended at this stage**

30. Officials recommend no change to the \$400,000 house price cap for existing homes in area 3. This is because there is no need to adjust the existing home cap to maintain alignment with KiwiBuild, and there are plenty of homes available below the existing home cap in the vast majority of regions in area 3. There are a few areas where it is relatively difficult to find existing homes under the cap, such as the Waikato and Waipa Districts. This issue will be considered as part of the wider review of HomeStart and WHLs, along with broader issues such as further targeting the funding towards new builds and enabling more equal access to the schemes across regions and household types.
31. Leaving the existing home price cap for area 3 unchanged will mean that the gap between the existing home and new build price caps will increase to \$100,000 in area 3, which is greater than the \$50,000 gap in areas 1 and 2. This larger gap is consistent with the limited information we have indicating that new build prices vary less across regions than existing home prices.
32. Officials recommend no change to the house price caps in areas 1 and 2. We could consider lowering the \$550,000 new build price cap in area 2 to align it with the \$500,000 KiwiBuild price cap. However, lowering the cap before there are significant numbers of KiwiBuild homes available would be seen as unfair by people trying to buy a first home in these regions now. There may also be pressure to reverse the change within a few years if house prices in urban areas outside of Auckland continue to increase.

## **Next steps**

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33. If Minister Twyford wishes to advise Cabinet of this change ahead of it coming into effect, this will need to be done at or before the final Cabinet meeting of the year on Monday 17 December.
34. Officials will report back to Minister Twyford on the wider review of HomeStart and Welcome Home Loans in March 2019.

## **Annexes**

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Annex A: Talking points for Cabinet oral item

Annex B: The prices of existing homes vs new builds purchased with the help of a HomeStart grant

Annex C: The estimated cost of increasing the new build cap in area 3 to \$500,000

## Annex A: Talking points for Cabinet oral item

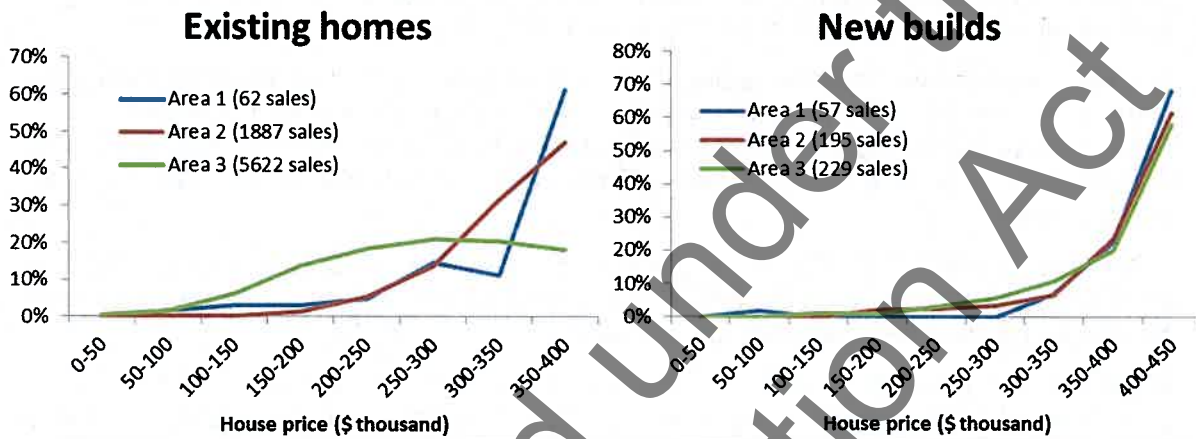
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1. The Minister of Finance and I have agreed to make a minor change to the KiwiSaver HomeStart grant and Welcome Home Loan eligibility criteria to support the success of KiwiBuild. I am mentioning it today because it has a financial impact of \$3m per year, but this will be fully funded by the existing appropriations and I don't think this change is large enough to warrant a full Cabinet paper.
2. HomeStart grants are grants of between \$3,000 and \$20,000 to help first home buyers purchase a home. Welcome Home Loans are high LVR mortgages for first home buyers underwritten by the Government. Income and house price caps apply to both schemes.
3. The Minister of Finance and I have delegated authority to amend the eligibility criteria for HomeStart and Welcome Home Loans, including the house price caps.
4. The change the Minister of Finance and I have agreed to make is to increase the house price cap for new builds outside of the main centres from \$450,000 to \$500,000 to align it with the \$500,000 KiwiBuild house price cap. This will ensure that all KiwiBuild homes are eligible for HomeStart grants and Welcome Home Loans. The HomeStart and Welcome Home Loan house price caps in the main centres were already at or above the KiwiBuild caps.
5. We have recently begun building KiwiBuild homes in some places where the \$450,000 HomeStart and Welcome Home Loan cap has applied, including the Waikato District, Whangarei and New Plymouth. Aligning the HomeStart, Welcome Home Loan and KiwiBuild house price caps will help support the sale of KiwiBuild homes, make administration simpler for both the Government and buyers, eliminate a perceived inconsistency with having different price caps, and align the caps more closely with development costs in each region.
6. Officials estimate that this will cost \$3m per year, with most of the cost being for an additional 350 HomeStart grants per year. The HomeStart grant and Welcome Home Loan appropriations are both underspent, so this cost can be met from the existing appropriations.
7. I plan to announce the change on Monday 7 January and have it come into effect that same day because some KiwiBuild homes may go on sale in the affected regions shortly after this date.

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## Annex B: The price distribution of existing homes and new builds purchased with the help of a HomeStart grant

1. The charts below show the price distribution of homes purchased with the help of a HomeStart grant in the year to June 2018. Due to the HomeStart eligibility criteria, we can only make regional comparisons of the prices existing homes priced under \$400,000 and new builds priced under \$450,000.
2. This data shows that the price distribution of lower priced existing homes differs significantly between areas 1, 2 and 3, but the price distribution of lower priced new builds is similar across all areas. This suggests that the price caps for new builds should be more similar across regions than the price caps for existing homes builds. This comparison is limited by not having data on higher priced existing homes to compare as well.
3. Officials are investigating more comprehensive measures of new build prices using CoreLogic sales data.



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## **Annex C: The estimated cost of increasing the new build cap in area 3 to \$500,000**

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1. The total estimated cost of increasing the house price cap for new builds in area 3 from \$450,000 to \$500,000 is \$3m per year. This is composed of:
  - Just under \$3m per year for HomeStart grants,
  - \$30,000 per year for Welcome Home Loan underwrite costs, and
  - a small amount arising from the costs of implementing the change.
2. These costs arise because increasing the cap is expected to roughly double uptake of HomeStart and Welcome Home Loans for new builds in area 3. The reasons for this are:
  - Uptake of HomeStart grants and WHLs is roughly proportional to the number of homes available below the house price caps.
  - Data on HomeStart grants indicates that the price distribution of new builds bought with the help of a HomeStart grant is broadly similar in areas 2 and 3.
  - In area 2, for each new build bought with the help of a HomeStart grant under \$450,000, there is one new build bought with the help of a HomeStart grant priced between \$450,000 and \$500,000. This implies that increasing the house price cap from \$450,000 to \$500,000 in area 3 will roughly double the number of grants and WHLs made for new builds in area 3.
  - In the year to June 2018, 229 new builds were purchased with the help of a HomeStart grant in area 3 at a total cost of \$2.96m, suggesting that around an additional \$2.96m of grants can be expected from increasing the caps.
  - In the year to June 2018, 8 WHLs were made in area 3 with a total value of \$2.6m. The underwrite cost of this is 1% of the loan amount, or \$26,000. If uptake of WHLs for new builds in area 3 doubles after the increase in the cap, this will result in around \$30,000 per year in additional underwrite costs.
3. Risks to this estimate are:
  - Upside risk from KiwiBuild facilitating greater uptake of HomeStart and WHLs.
  - Downside risk if house prices continue to rise in regional New Zealand, making it harder to use the grant, or if some people using the scheme to buy homes priced between \$450,000 and \$500,000 would have bought a different home that would have been eligible for HomeStart grants anyway.



## Briefing

<b>Financial support options for Eastern Porirua redevelopment, Residential Construction Response Fund, and First Home Grants</b>			
<b>Date:</b>	30 June 2020	<b>Security level:</b>	Budget - Sensitive
<b>Priority:</b>	High	<b>Report number:</b>	BRF19/20060717

<b>Action sought</b>		
	<b>Action sought</b>	<b>Deadline</b>
Hon Dr Megan Woods Minister of Housing	Indicate your preferred option	Wednesday 1 July

<b>Contact for discussion</b>			
<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1<sup>st</sup> contact</b>
Brad Ward	Deputy Chief Executive: Place Based Policy and Programmes	[Redacted]	✓
Hilary Eade	Kaiaki, Place Based Policy & Programmes	04 831 6032	
Jane Keane	Principal Advisor, Place Based Policy & Programmes	04 832 2564	

<b>Other agencies consulted/informed</b>
Kāinga Ora, Treasury, DPMC

### Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify)  <hr/>	<b>Comments</b>
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**Date returned to MHUD:**

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## Briefing

### Financial support options for Eastern Porirua redevelopment, Residential Construction Response Fund, and First Home Grants

**For:** Hon Dr Megan Woods, Minister of Housing

**Date:** 30 June 2020

**Security level:** Budget - Sensitive

**Priority:** High

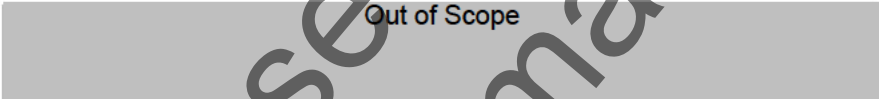
**Report number:** BRF19/20060717

#### Purpose

- To provide you with three broad options for providing targeted financial support for the residential construction sector using \$100 million from Wave 3 funding, and \$250 million of recyclable funding from the KiwiBuild appropriation. These options relate to the Eastern Porirua redevelopment, the proposed Residential Construction Response Fund, and potential changes to the First Home Grants.

#### Recommended actions

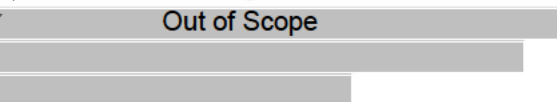
- The Ministry of Housing and Urban Development (HUD) recommends that you:

1.  Out of Scope *Noted*

2.  *Agree / Disagree*

3. **Note** that the three options for using the funding are: *Noted*

3.1.  Out of Scope

3.2. option two: \$50 million for changes to the First Home Grant  Out of Scope

3.3.  Out of Scope

4. **Indicate** which option you would like to progress *Indicate*

5. **Agree** to discuss a mechanism for progressing your preferred option noting that you will need Cabinet approval for changes to *Agree*





Brad Ward  
DCE: Place Based Policy &  
Programmes

30/6/2020

Hon Dr Megan Woods  
Minister of Housing

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

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## Background

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3. [Redacted] Out of Scope [Redacted]  
[Redacted] You have asked for further advice on the options for using that funding, and specifically on the Eastern Porirua Redevelopment, the proposed Residential Construction Response Fund (the Response Fund), and potential changes to the First Home Grants.
4. [Redacted] Out of Scope [Redacted]
5. Based on that proposed funding envelope, the three broad options are:
- a. [Redacted] Out of Scope [Redacted]
  - b. Option two: \$50 million for changes to the First Home Grant [Redacted] Out of Scope [Redacted]
  - c. [Redacted] Out of Scope [Redacted]
6. We set out the options below, including their costs and benefits.
7. Participants in the residential housing roundtable that you held last week proposed options for increasing the First Home Grant and for broadening the scope of Crown underwrites for residential developments (as proposed through the Response Fund). Officials had committed to reporting back to you by 9 July 2020 with indicative costings on the First Home Grant proposal put forward by Master Builders as well as advice on potentially changing GST treatment for Build to Rent properties.
8. [Redacted] Out of Scope [Redacted]

### Option One (Eastern Porirua redevelopment and the Response Fund)

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[Redacted] Out of Scope [Redacted]

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## Potential changes to the First Home Grant (\$50 million from Wave 3)

### Background

33. The First Home Grant scheme provides deposit support to eligible first home buyers and second chancers. This scheme is intended to help households who have enough income to service a mortgage, but do not yet have a deposit. The scheme offers each individual buying a home up to \$5,000 for existing properties, or up to \$10,000 for new properties.
34. Broadly speaking, there are two main eligibility criteria - income caps and house price caps. For the income caps, applicants must have an income of no more than \$85,000 for a single purchaser, or no more than \$130,000 for two or more purchasers. The house price caps are set out in Table 2.

**Table 2: Current house price caps for First Home Grant and Loan**

Region	Existing homes	New homes
Auckland, Queenstown Lakes District	\$600,000	\$650,000
Hamilton City, Tauranga City, Western Bay of Plenty District, Kāpiti Coast District, Porirua City, Upper Hutt City, Hutt City, Wellington City, Tasman District, Nelson City, Waimakariri District, Christchurch City, Selwyn District	\$500,000	\$550,000
Rest of New Zealand	\$400,000	\$500,000

### Analysis

35. There are three main policy settings that could be changed to increase uptake of the First Home Grant. These are to increase the size of the grant, increase the price cap or increase the income cap.
36. Options have been limited to the following:
- Option A: Increase the First Home Grant for new builds by 50 per cent
  - Option B: Increase the First Home Grant and Loan price caps for new builds.
37. We have not included an option to increase the income caps as it would not be well targeted to those that need deposit support from the government to buy a home.

#### *Option A: Increase the First Home Grant for new builds by 50 per cent*

38. If you wish to increase the size of the First Home Grant, we recommend that you only increase the grant for new builds. This would help to minimise any inflationary pressure that increasing the grant may have on the existing home market, and more directly support the residential construction sector.
39. From our initial analysis, increasing the size of the First Home Grant for new builds by 50 percent would cost between \$43 million and \$56 million over four years. This would mean that each applicant who has been a member of KiwiSaver for at least three, four, or five years would receive \$9,000, \$12,000, and \$15,000 respectively, increased from \$6,000, \$8,000, and \$10,000.
40. This option would not have implications for KiwiBuild settings.

#### *Option B: Increase the dwelling price caps for First Home Grants and Loans for new builds*

41. Alternatively, you could increase the new build price caps for both the First Home Grant and Loan. The current house price caps were last set in 2016. House price inflation, particularly in certain urban centres, has resulted in it becoming more difficult for first home buyers to find a home under the current price caps.
42. Increasing the house price cap for new builds by \$50,000 for each respective price bracket would likely cost between \$23 million and \$35 million over four years. We expect that

increasing the new build price cap would primarily be taken up by buyers in Auckland, Hamilton, Tauranga, Wellington, Nelson and Christchurch, and their surrounding functional urban areas. In more regional parts of the country, few First Home Grants are currently used for people buying new builds, and we do not expect this behaviour to change significantly.

### *Potential impact from these options*

43. It would only be viable to fund one of these options within the \$50 million envelope because progressing both would require them to be watered down in a way that would not meet their objectives.
44. There is a broader question about the degree of impact either option would have on supporting households who would not have bought otherwise. For a household committing to purchase a new home, the impact of \$50 million expenditure on First Home Grants and Loans for the residential construction sector is likely to be reasonably limited, compared to investing the same amount through the Response Fund. We are not convinced that these changes would stimulate the number of new buyers needed to incentivise new supply, and therefore have any stimulus impact.
45. More specifically limitations of option A include:
  - a. it is likely to give a larger grant to those that (1) would already have been eligible and (2) could have afforded to buy a house with the original size of the grant;
  - b. the proposed grant increase of \$3000-\$5000 is a small proportion of a deposit, or of ongoing mortgage costs. The increase is therefore unlikely to change banks' decisions on whether to approve finance;
  - c. the increase would predominantly support households looking to buy in centres where the cost of construction is similar to the cost of an existing house. It would have limited impact on regions where the cost of an existing home is significantly less than a new build
  - d. there is a question about whether \$50 million over four years would be sufficient to cover the increased size of the grant given to households given the demand driven nature of the grant and loan schemes.
46. Option B would support households that would not have otherwise received the grant. However, as these households would need to be in a position to service a mortgage on these higher priced homes, we consider that many of these households are already likely to buy a home without additional government support. They may, however, need to continue saving towards a deposit for another year or two.
47. Further, keeping the price caps at the current levels sends a clear signal to the sector about what the Government considers to be an affordable home. At the residential housing roundtable some participants argued against an increase in the current price caps for KiwiBuild, arguing that the caps are having the desired impact of driving the construction/development sector to change delivery models. In addition, the First Home Grant and Loan price caps are currently aligned with the Kiwibuild price caps and this would need to be taken into consideration.
48. There are also predictions from economists and the banking sector that house prices will decline. This means that there is a risk that further increasing the price caps could influence demand and hold up house prices.

### **Option 3: Support the Response Fund only**

Out of Scope

Out of Scope

## Consultation

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51. Kāinga Ora have been consulted on this briefing. The Treasury has been consulted on the earlier policy development for the Residential Construction Response Fund, and on the Eastern Porirua redevelopment and have been informed of this paper. DPMC has been informed.
52. Proposals to increase First Home Grants and broaden the scope of Crown underwrites for residential developments beyond KiwiBuild properties are consistent with the recommendations from the residential housing roundtable which you held with key sector players.

## Next steps

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53. Cabinet approval is required for any changes to the First Home Grant Out of Scope





## Aide-memoire

<b>Advice on potential changes to the First Home Grant and Loan price caps</b>			
<b>Date:</b>	31 July 2020	<b>Security level:</b>	In Confidence
<b>Priority:</b>	Medium	<b>Report number:</b>	AMI20/21070379

<b>Information for Minister(s)</b>	
Hon Dr Megan Woods Minister of Housing	For discussion

<b>Contact for discussion</b>				
<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1<sup>st</sup> contact</b>
Caleb Johnstone	Manager, Market and Supply Responses	NA	s 9(2)(a)	✓
Ruby Sands	Policy Advisor	04 831 6030	NA	

<b>Other agencies consulted</b>

### Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's notes <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify)  <hr/>	<b>Comments</b>
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Date returned to MHUD:

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# Aide-memoire

## Advice on potential changes to the First Home Grant and Loan price caps

**For:** Hon Dr Megan Woods, Minister of Housing

**Date:** 31 July 2020

**Security level:** In Confidence

**Priority:** Medium

**Report number:** AMI20/21070379

### Purpose

1. This aide-memoire responds to your request for advice on changing the price caps for the First Home Grant and First Home Loan (First Home Products) in places where the house price caps do not reflect market prices.

### Background

2. On 30 June 2020 the Ministry of Housing and Urban Development (HUD) provided you with advice on the options for providing targeting financial support for the residential construction sector (BRF19/20060717 refers). As part of this, we provided advice on increasing the First Home Grant or increasing the dwelling price caps for the First Home Products. We advised that you prioritise funding to deliver the Residential Development Response Fund rather than to make changes to the First Home Products.
3. The policy aim of the First Home Products is to support first home buyers on modest incomes to purchase modestly priced homes and incentivise the development sector to deliver more affordable homes. The First Home Products are:
  - a. **First Home Grants** – provide grants of up to \$5000 to KiwiSaver members buying an existing home and up to \$10,000 for new builds, to assist with saving for a deposit.
  - b. **First Home Loans** – help households to access a mortgage with a deposit as low as five per cent.
4. The house price caps are currently grouped into three tiers for administrative simplicity, as set out in Table 1. The caps were intended to help first home buyers and second chancers purchase relatively affordable homes and therefore alignment with lower quartile house prices for each place was a key consideration. Note that the price caps for the First Home Products are the same.

Table 1: Current price caps for the First Home Products

Tier	Places	Price cap existing home	Price cap new build
Tier 1	Auckland and Queenstown Lakes	\$600,000	\$650,000
Tier 2	Hamilton City, Tauranga City, Western Bay of Plenty District, Kāpiti Coast District, Porirua City, Upper Hutt City, Hutt City, Wellington City, Tasman District, Nelson City, Waimakariri District, Christchurch City, Selwyn District	\$500,000	\$550,000
Tier 3	Rest of New Zealand	\$400,000	\$500,000

5. The last time that the First Home Product price caps were systematically reviewed and increased was in 2016. Further tweaks were made in 2018, which increased the new build price cap for Tier 3 to be in line with KiwiBuild price caps and moved Queenstown Lakes from Tier 2 to Tier 1 to reflect market settings.

**We previously provided you with advice on increasing the new build cap by \$50,000**

6. As part of the advice on supporting the residential construction sector, we provided you with advice on increasing the new build price caps across New Zealand by \$50,000. Our estimate is that this would cost approximately \$10 million per year, which would require funding of \$40 million over four years to fund. The main driver of this cost is from likely uptake in the main urban centres, as these are the places where new builds are relatively more attractive to first home buyers.
7. We still do not consider that this would not be well targeted as:
- households that can afford to buy homes at the higher price caps are more likely to be in a position to service a mortgage already, and therefore are likely to buy without government support in the future
  - it would increase price caps in places where first home buyers are more likely to buy existing homes due to the price of new builds far exceeding those of existing homes in that place
  - places where the lower quartile house price is notably higher than the current price, such as Queenstown Lakes, an increase in the price cap of only \$50,000 is unlikely to have a notable impact for first home buyers.

**You have subsequently asked for advice on what more targeted changes could be made to the price caps**

8. You have subsequently asked for advice on what targeted increases could be made to the First Home Product price caps in places where the price caps do not reflect market prices. For the purposes of this analysis, these places are where the price cap is set below the lower quartile house price for that market.
9. There are a number of places where the lower quartile house price is higher than the price cap for that place. These are: Auckland, Central Otago District, Hastings District, Kapiti Coast District, Mackenzie District, Matamata Piako District, Napier City, Porirua City, Queenstown Lakes District, South Wairarapa District, Tasman District, Tauranga City, Thames Coromandel District, Waipa District, and Wellington City.
10. These range from places where there are significant differences between the lower quartile and the price caps to where the lower quartile price is only slightly above the price cap. In particular, there are some places where the current tier no longer reflects the prices of homes for that market.
11. One approach to addressing the disparity between price caps and the lower quartile house price would be to move places to higher tiers to better reflect market prices in that place.

Table 2 sets out the potential changes that could be made under this approach.

Table 2: Potential changes to the First Home Products price caps

Tier	Places	Price cap existing home	Price cap New Build
Tier 1	Wellington, Porirua and Tauranga	Increase from \$500,000 to \$600,000	Increase from \$550,000 to \$650,000
Tier 2	Napier, Waipa and Thames Coromandel	Increase from \$400,000 to \$500,000	Increase from \$500,000 to \$550,000

12. We estimate that the cost of making these changes would be approximately \$7 million per year. This would require approximately \$27 million over four years to fund this change. The cost of these changes would be relatively similar to the previous option as it would be driven by a sizeable number of potential first home buyers accessing the grant to buy:
  - a. existing homes due to increasing the price cap by \$100,000 across all seven places
  - b. new builds in Tauranga and Wellington due to the increasing the price cap by \$100,000 and because new builds are relatively attractive to first home buyers in these places.
13. While there are some places in Tier 3 that have lower quartile prices above the price caps, to increase the price cap of these places would require either:
  - a. Increasing price cap for all Tier 3 – we do not recommend this as currently for a number of places within Tier 3 the cap is either set appropriately or lower quartile house prices are below the caps (in some cases significantly). To increase the caps for all of Tier 3 would not be well targeted and there are risks that increasing the caps could inflate demand for housing
  - b. Introducing an additional tier – Currently the three-tier system provides administrative simplicity and is accessible to the public. We consider that introducing an additional tier would be a significant change that we consider would be better done as part of a systematic review of the policy settings.
14. We also note that while increasing the price caps will support households that would not have otherwise received the grant, this does not necessarily mean that the households will be able to service a commercial mortgage. Additionally, we consider that where household could service a mortgage on higher price homes, they are already more likely to purchase a home in the future without government support.

**We could instead begin a systematic review of the First Home Product price caps**

15. Rather than making some small tweaks to the First Home Product price caps, we could instead look to undertake a more systematic review of the suitability of the First Home Product settings, including the price caps. This could involve consideration of whether the current approach for setting price caps is appropriate, and whether tiers are still fit for purpose.
16. This approach could include the development of an investment framework for the First Home Products. This would guide decision-making on the policy settings of the First Home Products and ensure that they are achieving their policy objective of assisting moderate income households into home ownership.
17. Developing an investment framework would also shift delegation for changes to the First Home Products from Cabinet, which would make it easier to adjust the First Home Product settings in the future.

### Next steps

18. Officials will meet with you to discuss your preferences for addressing the inconsistencies within in the price caps for the First Home Products and how you would like us to progress this work.

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