SOCIAL POLICY AND PARLIAMENTARY UNIT

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From Housing to Homes

Strategies to assist low and modest income New Zealand households into homeownership

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Executive Summary

DECLINING HOMEOWNERSHIP – A PROBLEM FOR NEW ZEALAND

Encouraging and facilitating homeownership has historically been a key plank in New Zealand government housing policy. Homeownership provides more stable and secure housing and therefore a more stable and secure lifestyle for the homeowning household. It also encourages savings and the creation of assets. The benefits of homeownership are therefore collective as well as individual, contributing to the wealth and wellbeing of the nation. In recent years, however, homeownership rates in New Zealand have started to decline and this decline is expected to continue. Changing preferences, student debt, affordability, sustainability, consumer debt, increasing market segmentations within a single housing policy environment, and households becoming stuck on the 'housing continuum' are all factors behind this trend.

Given the economic and social benefits of homeownership, in circumstances where homeownership is in decline, or unavailable to a significant group of households, government has a role in developing policies, mechanisms and partnerships to reverse this trend.

OVERSEAS EXPERIENCE

The United Kingdom, United States and Australia have faced a similar trend regarding homeownership. Each of these nations has either developed or is currently exploring a range of policies to arrest or reverse this decline and assist low and middle income households to enter and sustain homeownership. Overseas solutions fall under major headings of equity share schemes, deposit gap policies and subsidised savings, key worker housing, and mortgage assistance.

OPTIONS FOR NEW ZEALAND

The international evidence points to four broad policy approaches that will assist New Zealand's low and modest income households into homeownership. These are Shared Equity, Right-to-Buy, Supported Saving, and Land Lease For Key Workers. The report discusses each of these policy approaches in terms of how they work, who is targeted, its benefits and risks, and how to mitigate against the risks. Three criteria for assessing the policy options are identified: (1) Will the option increase access to homeownership? (2) Will the option create sustainable homeownership? (3) Is the option affordable? The discussion suggests that all the policy approaches are workable in New Zealand.

SHARED EQUITY

Shared Equity is an option where the equity in a property is (at least initially) shared between two parties. One of the major advantages of the shared equity option is the ability of shared equity housing models to be created/adapted for a variety of household types and housing regions. One model focuses on the capital gains of a new property, enabling the deposit gap to be bridged. Another model is an adaptation of that currently operating in the United Kingdom, the Rent-to-Mortgage scheme.

The key benefits of Shared Equity are:

- The scheme immediately gives the household equity in the property and therefore a sense of ownership and commitment to the property and community.
- It overcomes the deposit gap (affordability) problem.
- It provides security of tenure to households.
- It provides an incentive and pathway for those who previously thought homeownership was out of their grasp.
- It increases the asset base of low and modest income households.

Executive Summary (cont)

The risks of shared equity are:
– The need for significant expenditure.
– Sustainability issues.
– Equity issues.
– Government (or the non-government organisation or private organisation) shouldering the risk of the scheme with the bulk of the benefits accruing to the household.
– Government bureaucracy and compliance costs that may stifle the ability of the schemes to function for non-government organisations or private providers.

RIGHT-TO-BUY

The Right-to-Buy scheme would enable state tenants the right-to-buy their property at a discounted price. This scheme would be targeted at particular areas of New Zealand and sections of the housing market, such as areas where there is an oversupply of state houses, and lower cost housing markets. The main benefits of the Right-to-Buy scheme are:
– It enables state/council house tenants the opportunity to enter homeownership who were previously unable to enter or sustain it.
– It ensures that housing resources are used effectively.
– It provides stability for households and communities as they have security of tenure and a more vested interest in the community and local environment.

The risks of the Right-to-Buy scheme are:
– Equity issues.
– Sustainability issues.
– Loss of housing stock – the scheme will reduce the social housing stock at the time of purchase if state houses are not completed in areas of high demand to replace those being sold in other areas.

SUPPORTED SAVING

Supported Savings schemes encourage savings by matching or otherwise enhancing savings made by individuals or households. They often involve the locking in of savings for specific purposes, such as home deposit or education, by providing bonuses for those who do not withdraw before a specified period. Support Savings schemes are a longer-term strategy. The key benefits of Supported Savings are:
– It assists households to bridge the deposit gap.
– It creates financial assets that may be used for education and small business.
– It encourages a savings habit in the population.
– An increase in money available in the New Zealand financial system that can be used for local investment.

The risks are:
– It is only an option for those who have the ability to save.
– How people use the money that is accruing in these savings accounts.
– Need for significant government expenditure.
– Inflationary risks.
– A strong housing sector could mean that the money saved is still short of that needed to bridge the deposit gap, with low and modest income households/individuals still shut out of homeownership.

LAND LEASE FOR KEY WORKERS

The Land Lease For Key Workers scheme operates by the government leasing, at a discounted price, government land in high housing cost areas for key workers (such as nurses, police officers, teachers) to

“I’m tired of renting, I have spent thousands on rent and could have had two homes if given the opportunity to get one. I just want to pay for a house that I could one day own.”
Household of 4, Manukau City*

build homes on. This enables key workers to live in or near the communities in which they work. The main benefits of the Land Lease For Key Workers scheme are:
– It enables key workers the ability to achieve homeownership.
– It ensures communities can attract and retain key workers into their local communities and provide services.
– It creates community awareness and focus with a mix of households and quality services.
– It provides stability for both communities and the key workers themselves.
There are risks in this option, including:
– Equity issues.
– Sustainability issues.
– Perception issue – potential households/individuals of key workers may not opt into the scheme as they perceive it not to be 100 percent ownership, and have concerns over the security and cost of the land lease.
– Land use issues – the government needs to be certain that the land used in these schemes is appropriate, also the cost of what the land could have been used for instead of housing for key workers needs to be taken into account.

ECONOMIC CONSIDERATIONS

The housing options outlined are not costless and have economic implications that need to be taken into consideration. These economic factors include: crowding out issues, financial cost issues, inflationary costs, externalities, and the costs of not proceeding. The fact that economic and financial issues exist for an option does not mean it should not be undertaken, rather they need to be considered, and where possible strategies should be put in place to alleviate any negative outcomes that may occur.

CONCLUSION

Housing is a complex issue and no single policy mechanism can provide solutions for all households. A variety of interventions are required, ideally provided through a range of government and non-government structures. Homeownership programmes need to focus on affordability and sustainability, because schemes that simply ease access without focusing on long term sustainability are unlikely to work, and could in fact be detrimental. Despite the challenges, the evidence shows that reversing the declining trend in homeownership is important and achieveable.

**Quotes taken from survey of clients of The Salvation Army Community and Family Services, December 2004. Findings of this survey will be published after Easter.*

Contents

1. Introduction

Housing is a major determinant of wellbeing for New Zealanders. Households with secure, affordable housing generally function at better levels across a range of socio-economic indicators.[1]

In New Zealand, encouraging and facilitating homeownership has historically been a key plank in government housing policy. In recent years, however, homeownership rates in New Zealand have started to decline. This is especially true for low-to-middle income households who are increasingly priced out of homeownership in major metropolitan areas. Households can sometimes see no opportunity to move on from Housing New Zealand rental or private rental. This can result in the locking up of Housing New Zealand housing or insecurity and loss of hope for those in private rental housing.

The benefits of homeownership are not just financial. Households who own their own home build up wealth, and also contribute to a greater sense of security, belonging and commitment to their community. The benefits of homeownership are therefore collective as well as individual, contributing to the wealth and wellbeing of the nation.

Homeownership is therefore not just the concern of the individual or the for-profit market place. It is also the concern of government and of not-for-profit organisations. In circumstances where homeownership is in decline, or unavailable to a significant group of households, government has a role to play in developing policies, mechanisms and partnerships to reverse this trend.

"I'm tired of renting, I have spent thousands on rent and could have had two homes if given the opportunity to get one. I just want to pay for a house that I could one day own." Household of 4, Manukau City

[1] *"Housing is a basic human need and has one of the biggest impacts on people's wellbeing and quality of life" (Quality of Life 03 in New Zealand's Eight Largest Cities www.bigcities.govt.nz p.61, 2003). See also: "Building the Future: Towards a New Zealand Housing Strategy", Housing New Zealand Corporation, 2004b; "Housing in New Zealand", Joint NGO Submission in Response to the New Zealand Government's Second Periodic Report to the Committee on Economics, Social and Cultural Rights, April 2003; Habitat for Humanity Annual Report, 2003.*

"It's just not my own and at 32 I should have my own home by now..." Household of 4, Christchurch

This report outlines the international and New Zealand experience of declining rates of homeownership. It then broadly explores the policies that have been, and are currently being, implemented internationally to arrest this decline, and suggests a range of options for New Zealand. The focus is on identifying a variety of policy mechanisms that can, once fully developed and implemented, provide sustainable access to homeownership for low and middle income households.

2. The New Zealand Situation

Rates of homeownership in New Zealand are falling. Homeownership peaked at 73.8% in 1991 but since then the rate has fallen to 67.8% (in 2001).[2] The expectation in the current climate is that homeownership rates are likely to fall below 65 percent within 10 years.[3] Younger people have seen the biggest reduction in homeownership with a decline of around 12% for people aged 34 years and under, and 10% for people aged 35-39 years.[4]

Declining rates of homeownership is a concern due to the fact that it results in:
1. a reduction in household asset accumulation.[5]
2. a slowing or reduction in the movement out of social housing.
3. a decline in the social good associated with stable housing.

2.1 A REDUCTION IN HOUSEHOLD ASSET ACCUMULATION

For the majority of New Zealand households their home is either their major or only asset. When rates of homeownership fall, this signals not just a reduction in this type of housing, but also a reduction in asset accumulation.[6] Evidence suggests that the inability to accumulate assets places households at higher risk of poverty should they experience an adverse event such as job loss or sickness.

2.2 A SLOWING OR REDUCTION IN MOVEMENT OUT OF SOCIAL HOUSING

Although many state house tenants require the level of subsidy provided by income related rents for their lifetime, there are some that have the ability to sustain a mortgage. Historically, state house tenants were provided with home purchase options through rent-to-buy, subsidised mortgages and capitalisation of family benefit. These packages enabled thousands of families to own their own homes[7] and free up state houses for more vulnerable households. Currently, state house tenants in areas of highest need are unlikely to be able to afford to get into homeownership. This adds to the problems of waiting lists.[8]

2.3 A DECLINE IN THE SOCIAL GOOD ASSOCIATED WITH STABLE HOUSING

In addition to being an individual good, homeownership also has social implications. Homeownership provides more stable and secure housing and therefore a more stable and secure lifestyle for the homeowning household. Of Housing New Zealand tenants in 1999, 77 percent had a total length of tenancy of less than 10 years. Sixty percent had a tenancy history of less than five years, and 25 percent of tenants had a total tenancy history of less than 12 months (HNZ, 1999). The average length of private

[2] Skilling and Waldegrave (2004, p26).
[3] www.beehive.govt.nz/briefings/socialpolicy/housing/3.cfm
[4] Skilling and Waldegrave (2004, p26).
[5] The psychological and social effects of having assets presented by Chapman and Sinclair (2003, p25) are as follows: "Household economic stability, Decreased economic strain on households, Educational attainment, Decreased marital dissolution, Decreased risk of intergenerational povety transmissions, Increased health satisfaction among adults, Increased property values, Decreased residential mobility, Increased levels of civic participation."
[6] For a fuller discussion of this issue see Skilling and Waldegrave (2004) The Wealth of a Nation.
[7] www.nzhistory.net.nz/Gallery/housing/state-steps-in.html
[8] Being able to meet the waiting list targets is difficult in some areas. See Housing New Zealand Corporation waiting list website: www.hnzc.co.nz/rental/waitinglistsnumap/indes.html

"When renting you are never sure how long you can stay for." Household of 4, Waitakere

rental tenancies in New Zealand is currently around 12 months.[9] This means that when compared to Housing New Zealand tenants, households in private rental accommodation have a high level of transience. This impacts negatively on education, health, family life, and community involvement. Where the ability of households in private rental to move onto homeownership is limited, the community suffers a loss of social good.

2.4 WHY ARE RATES OF HOMEOWNERSHIP DECLINING?

The decline in homeownership rates is explained by a number of factors:

2.4.1 Changing preferences

Younger generations do not appear to have the same focus on homeownership. Employment opportunities often demand flexibility and some households do not want the rigidity of a mortgage.

2.4.2 Student Debt

It appears that student debt is delaying or inhibiting first home purchasing for some households as they struggle to save after paying a percentage of their income in debt repayment. Some find it difficult to obtain mortgage finance if they already have a significant student loan.

2.4.3 Affordability

Data shows that housing affordability has worsened over the past 10 years[10] with fewer mortgages going to first homebuyers. Affordability is especially critical for low and modest income households in major metropolitan areas. Low and modest income households are unable to save deposits sufficient to gain access to the housing market on a sustainable basis. These households have either no or limited ability to save, their rates of saving are slow and do not keep pace with house price increases, or they are unable to save a sufficient deposit to attract a mortgage. In Auckland over the past 10 years the median house price has increased by 67 percent, but salaries and wages in Auckland over the same period have only increased by 25 percent.[11]

9 Tenancies that ended during the calendar year 2002 had an average duration of 15 months. More than half of all tenancies that ended in 2002 were within 10 months, a third within 6 months and 13 percent within 3 months (Ministry of Housing, 2004, p13).
10 Skilling and Waldegrave (2004), p.27.
11 Milne, 2005

2.4.4 Sustainability

While the deposit gap appears to be the primary barrier for low and modest income households to get into homeownership, sustaining the mortgage is also a significant issue. Low and modest income households have very limited ability to absorb income shocks, such as increases in interest rates, reduced hours of employment, or periods of unemployment. As a result some low and modest income households are unable to sustain a mortgage without government assistance.

2.4.5 Consumer Debt

Since the deregulation of the financial sector in 1984, New Zealand households have become increasingly debt-ridden. There is now far easier access to credit than previously in New Zealand's economic and social history and New Zealand households are using this credit to fund consumption.

In December 2004 New Zealanders spent around $2.1 billion on their credit cards, taking the total debt on credit cards to over $4 billion for the first time. The Reserve Bank reports that an average New Zealand household is currently spending $10 out of every $100 (after tax income) paying interest on their debt, this is up from $6 out of every $100 in 1994. Total credit card billings[12] in New Zealand between 1990 and 2004 increased by over 530%.[13]

This level of consumer debt impacts on a household's ability to obtain mortgage finance, and sustain mortgage payments.

2.4.6 Increasing market segmentation within a single housing policy environment

The housing market in New Zealand is increasingly segmented with house prices and therefore access, affordability, and sustainability different across the segments. Greater Auckland is a different market to the rest of New Zealand, with the other major metropolitan areas being different again to provincial and rural areas. Government has recently acknowledged this when it created another zone, in central Auckland, with a higher rate of payment for the Accommodation Supplement.

[12] *This total adds New Zealanders' domestic card spending to their card spending overseas.*
[13] *Figures from the Reserve Bank to September 2004.*

"I would like to own my own home but I get nervous when I think how much I would owe the bank." Household of 4, Lower Hutt

In general, however, both government policy and private sector finance mechanisms are 'one size fits all' and do not take account of the different issues facing households seeking homeownership in Auckland as opposed to Timaru, for example. This results in households missing out on homeownership because the current government assistance or private sector mechanisms do not fit their combination of household and market circumstances.

2.4.7 New Zealand households are becoming stuck on the 'housing continuum'

Literature from the United States, Australia and Canada discuss the idea of a housing continuum that people transition through as they move through their lives. The basic concept is that individuals and households begin in one housing tenure state, usually living with parents, and transition, or 'career' through the various tenures of the continuum; rental, home purchase, homeownership.[14]

The literature suggests that housing policy should assist those who are 'stuck' in a particular housing tenure state when they have the potential to move into other states. The continuum idea focuses on the flexible and fluid aspects of the housing market and tenure states, and the desirability and potential for individuals and households to move to the state that suits them best.

New Zealand housing literature currently does not refer to such a housing continuum. Our housing history, however, suggests the existence of an implicit housing continuum, with the ideal housing career being a move from the parental home, to flatting as a young adult, to renting in the private sector or from the state as a couple or young family, to home purchase (with a mortgage), to homeownership (mortgage free). Currently many New Zealand households are effectively 'stuck' on the housing continuum, either unable to enter homeownership, or failing to sustain homeownership and slipping back into renting. When households get 'stuck' on the housing continuum, 'bottle necks' are created throughout the continuum, affecting costs and access. Policies that can assist households to become 'unstuck' and move on to home purchase and ultimately homeownership have the potential to impact positively on all points of the continuum.

[14] Baum and Wulff (2003, p5) talked about a housing career where through various housing tenure states " described as stepping up a ladder – from parental home to rental, from rental to home purchase, from home purchase to outright ownership." The Canadian housing continuum model (AUMA,2004) indicated a movement from long-term homelessness to optimum housing choice. At one end of the spectrum long-term homelessness; safe houses, drop in centres and detoxification centres were provided, at the other end (in core housing need) housing cooperatives, social housing, senior housing, community land trusts, market entry-level home ownership, small suite rental housing, and municipal land bank. Cisneros (2003) outlined a detailed housing continuum moving from: homeless shelters –> supportive housing –> public housing –> assisted private rental housing –> rental housing –> first home buyers –> move-up long-term homeownership.

3. Overseas Experience

The United Kingdom, United States and Australia have faced a similar trend regarding homeownership. Each of these nations has either developed or is currently exploring a range of policies to arrest or reverse this decline and assist low and middle income households to enter and sustain homeownership. The policies implemented or under consideration by these governments promote homeownership through savings schemes, direct assistance to meet the deposit gap, shared equity, or land lease. The following section looks briefly at the international experience of homeownership policy problems and the policies implemented to deal with these.

3.1 OVERSEAS EXPERIENCE OF HOUSING POLICY PROBLEMS

3.1.1 Affordability and Sustainability of Homeownership

Internationally the biggest barrier to homeownership is affordability. United States research found that much of the new housing being built was for those at the middle and upper ends of the income scale, and was not affordable for most low income households (Lipman, 2004). It was also found that a negative attitude existed towards affordable new housing areas being built in wealthier areas.

Simmons (2004) found that, by the end of the 1990s, approximately one in thirteen homeowners in the United States were suffering from severe affordability problems that led to a huge struggle to sustain homeownership. Burrows' (2003) research in the United Kingdom found that half of all adults in poverty were homeowners. This information, matched with figures indicating that 92 percent of state assistance for housing in the United Kingdom went to households/individuals in rental tenancies and eight percent to homeowners, indicated that a rethink by government was needed as to how they would support low income households. Burrows found that the characteristics of homeowners most likely to live in poverty in the United Kingdom included; young people (aged 24 to 35), manual workers, out of work, lone parents, or came from a black or minority group.

3.1.2 Homeownership Aspirations

Australia, the United States, the United Kingdom and Norway show similar trends to New Zealand in terms of households desiring homeownership but being unable to achieve it. Burke, Neske and Ralston (2004) found that of those who were on a waiting list for public rental accommodation in Australia, 22.4 percent would have preferred to own their own home, and only 11.2 percent wanted to be in private rental accommodation.

In Norway, becoming a homeowner is stressed as an important political aim. Nearly three-quarters of the population are in homeownership, however, there are many households who have a long distance still to travel in becoming homeowners (Dyb, 2004).

Amongst younger people, the international decline in homeownership has been attributed to lifestyle, rather than economic reasons. Evidence from Australia shows that in the age group 25 to 34 years there has been a declining trend in homeownership, and an increasing trend to remaining in private

"Someday I would like to move to a better area." Household of 1, Nelson

rental accommodation. Research by Baum and Wulff (2003) found the decline in the housing aspirations of this group was due in large part to their desire to be flexible, portable, and free.

3.2 OVERSEAS POLICY SOLUTIONS

3.2.1 Equity Share Schemes

The British government has examined the potential for implementing an equity share programme at a national level as a mechanism for assisting more low income households into homeownership. Shared equity is already operating in the United Kingdom on a small scale with some Housing Associations and trusts.

The British government are considering the implications of two particular schemes: a matching scheme, and a full scheme.

A matching scheme will see the government matching the money that tenants save in an equity share savings account. The tenant can use the money to purchase a home through Rent-To-Buy or in the open market. Alternatively they can use the money for another purpose. This scheme has limits in its effectiveness for low income individuals and households, as it is beneficial only to those who have the ability and the means to save.

In a full scheme an individual or household will receive between £250.00 and £500.00 each year in an equity savings account, which will accrue a substantial bonus if left for five years. This money will be provided by government, and as long as the tenant meets their tenancy obligations they will continue to receive it annually. When withdrawing the money, 75 percent of it has to be used to purchase housing either through Rent-To-Buy or in the open market. The remaining 25 percent can be used for other purposes.

• Shared Ownership

Morrison (2003, p. 286) stated, "shared ownership can be considered a 'midpoint' tenure between full owner occupation and renting." Since the 1980s, Housing Associations in the United Kingdom have operated shared ownership programmes delivered through a building homes for sale programme. Through a mixture of public and private finance housing has been built and sold to households/individuals who may be existing tenants or first-time buyers priced out of the mainstream market. Households/individuals purchase between 25 and 75 percent of the house with a mortgage and pay rent on the remainder of the equity. The household/individual is able to 'staircase' up to 100 percent ownership (Berry, Whitehead and Yates, 2004).

• Home Buy

The Home Buy scheme running in England since 1999 is an equity based mortgage scheme. The household/individual purchases a house with a mortgage that may be financed 75 percent through a private mortgage, and the remainder through an interest free equity loan from a Housing Association. Again, when and if, an individual chooses, they may staircase up to 100 percent.

•Rent-To-Buy (RTB)

The government in the United Kingdom has been, and continues to be, committed to a Rent-to-Buy scheme, which has run since 1980. Under this scheme a household/individual who meets the criteria may buy their council home at a discounted price (lower than its full market value). The length of time a household/individual has lived in the house determines the amount of discount. There is, however, a maximum discount amount that varies regionally. Once a household/individual buys the council house they are no longer eligible to receive the Housing Benefit (HB) but they can apply for income support to help with housing costs.[15]

There are also equivalents to the RTB scheme called the Right-to-Acquire (RTA) and the Voluntary Purchase Grant (VPG) that have operated since 1996 in the Housing Association sector. The RTA enables eligible households of Registered Social Landlords the right to buy their house at a set discounted rate. Only housing that is purchased or built with public funds can be sold through the RTA scheme. The VPG scheme was established for those households who are generally ineligible for the RTB or RTA schemes. VPG allows households who rent from housing associations to buy their house at a set discounted rate, and the housing association can claim a grant equivalent to the amount of the discount they gave to the household back from the Housing Corporation.

The Rent-to-Mortgage scheme enables those households, who even at a discounted price cannot afford to buy their house outright, to purchase part of the house and the landlord retain a share of the property. Once a household has made a part payment for the house they are considered the outright owner (even though the landlord retains a share in the property) and cease to pay rent. Repairs and maintenance, rates and water charges, and insurance, however, are all the responsibility of the household.

While these programmes have enabled thousands of households to enter homeownership, the caveat with these schemes is that they reduce the amount of social housing that is available for rent. With increasing costs for housing it can be financially difficult to replace the houses lost to homeownership through these schemes.

3.2.2 Deposit gap policies and subsidised savings

Internationally savings programme are considered an important bridge into homeownership. Programmes are operating in the United Kingdom, Canada, the United States, Taipei, Taiwan, Sweden, Mexico, Singapore, and Puerto Rico.

[15] *Office of the Deputy Prime Minister, UK 2002*

"We need more understanding about houses we could afford, a plan etc..."

Household of 6, Hamilton

• Cash Incentive Scheme

Under the 1988 British Housing Act, power was given to local authorities to run Cash Incentive Schemes (CIS). These schemes enabled local authorities to free up rental stock by helping eligible tenants with a grant (up to £10,000 in most areas) to buy a home on the open market. Between 1994 and 1997 the scheme released over 14,000 properties, which were used for housing homeless people, those on the waiting list, and transfers.[16] The average value of the properties purchased by individuals and households during the 1994 to 1997 period was £55,000, with the vast majority buying a house in the area they were currently renting in. Around 70 percent of those who purchased a house under this scheme were couples or single parents with children.

• The Savings Gateway

This British scheme offers incentives for saving for those on low incomes and benefits, with the government matching the amount saved over a period of time (18 months), and up to a maximum amount per month. An individual is free to withdraw money from their account, but can only access the government's contribution once the account matures after 18 months. No restrictions are placed on what the money can be used for, but information on saving and investing is provided.

• The Child Trust Fund (CTF)

The CTF is a savings and investment account for British children born after 31 August 2002 who receive the Child Benefit. A £250.00 voucher is sent to the Child Benefit Claimant, which is used to open a CTF account, and an additional £250.00 is paid to the CTF accounts of children who are in families eligible for the full Child Tax Credit. Family and friends are able to add to the account up to £1200.00 per year. The interest gained from this account does not affect the family benefit and tax credits that families receive while the account is open. Once the child reaches 18 there is no restriction on how they use the money in their account. The idea is to encourage families to save, increase the asset stock of young adults, and provide education on saving and financial assets.

• Individual Development Accounts (IDA)

These are savings accounts where the government matches dollar for dollar (or in some cases two dollars for every one dollar), and the money is used for education, small business enterprises, or homeownership.

[16] *Office of the Deputy Prime Minister, UK 1998*

The United States has identified five key benefits of IDA programmes:

– They improve access to financial services for low income families and marginalised groups – ethnic minorities, women.

– They help to raise awareness of the importance of money management, financial literacy and education.

– They support high return quality of life investments, such as education and training, self-employment and homeownership.

– They alter the behaviour and perceptions of individuals and family members towards a culture of saving and investing in their own futures.

– They stimulate enterprise creation through support for microenterprises.[17]

In the United States alone there are over 250 communities with IDA programmes, and well over 100 in development. Australia operates a more limited scheme. Since July 2000 the government has provided a one-off payment (First Home Owners Grant) to first homebuyers. This was primarily implemented to compensate first homebuyers for the introduction of GST.

3.2.3 Key worker housing

• Home Initiatives for Key Workers

This programme from the United Kingdom aims to keep the skilled people, wanted and needed by their local communities where housing costs are high by providing subsidised homeownership options. Morrison (2003, p. 298) provided a definition of key work, stating that it 'should relate to the role that key workers have in the local economy, whether by virtue of employment in essential services or in the growth industries required to sustain the local economy into the future.' Key workers include nurses, hospital clinical staff, teachers, police officers, prison and probation officers, and social workers.

In the United Kingdom, public sector employers, such as teachers, police officers and nurses have particular problems as they are most often not eligible for social housing, yet in the major metropolitan areas are clearly in need of affordable housing. This often results in them having to commute long distances to work, adding to their dissatisfaction. They are often trapped in a private rental housing market with affordable homeownership out of their reach.

17 Chapman and Sinclair (2003, p7.)

"Haven't got the finance to buy a house of my own." Household of 3, Gisborne

The programme is targeted at high housing cost metropolitan areas that have had recruitment and retention problems in these skill areas. In partnership with both private developers and social housing providers the government provides a range of assistance. This includes cash grants, subsidised rents with right-to-buy, and shared equity where the government purchases/subsidises the land and/or house and the key worker purchases the house (in full or part). If the key worker leaves the qualifying employment they have two years to repay the assistance (if cash loan), or fully purchase the property (subject to exemptions for ill health retirement).

3.2.4 Mortgage assistance

Many countries run a variety of loan and subsidised interest payment schemes to assist low and moderate income households/individuals into (and in) homeownership. Zero interest loans are currently being looked at in the United Kingdom. Finland provides bank housing loans with a subsidised interest rate, state guarantees for bank housing loans, and state housing loans. Subsidised interest housing loans are also used in Germany, where the state pays the difference between the market rate of interest and the government determined subsidised interest rate. State-subsidised interest rate schemes also exist in Spain and in the United States. Many nations also provide income-related assistance for mortgage payments, such as that available to low income earners in France.

4. Options for New Zealand

The international evidence has raised several alternative broad policy approaches that might assist New Zealand's low and modest income households into homeownership.

It is important to note that a range of policy options is required for application in New Zealand. Housing needs, and the housing market, differ between geographic areas, and household types. No single policy lever is likely to successfully resolve the problems associated with assisting low and moderate income households into homeownership. A range of policy programmes are required to respond to these differing and changing circumstances.

Before outlining the possible options in more detail it is also important to identify the criteria against which the options will be assessed. There are three key criteria when considering homeownership options for New Zealand:
– Will the option increase access to homeownership?
– Will the option create sustainable homeownership?
– Is the option affordable?

Using these criteria, this report has identified shared equity, right-to-buy, supported savings, and land lease for key workers as viable options.

4.1 SHARED EQUITY

Shared Equity already operates on a very small scale in New Zealand. There are a very small number of Trusts who provide housing for older people where the person only needs to purchase a percentage of the property, leaving them with cash for daily living. The New Zealand Housing Foundation has also initiated a shared equity scheme in Auckland to assist low-to-middle income households who would otherwise be priced out of the market. Although the current schemes in New Zealand are small in number, to date they have been successful in terms of making homeownership accessible, affordable and sustainable. Shared equity is, in housing policy terms, relatively quick to realise its goals.

4.1.1 What is Shared Equity?

Shared Equity is an option where the equity in a property is (at least initially) shared between two parties. The equity partner in either scheme could be the government, a non-government organisation (for example, the New Zealand Housing Foundation, The Salvation Army), or some other private organisation/provider. Shared Equity ownership may be for a relatively short or medium period of time, or may be a permanent housing option. One of the major advantages of the Shared Equity option is the ability of Shared Equity housing models to be created/adapted for a variety of household types and housing regions.

If you are a solo parent you cannot afford a mortgage, insurance, rates, repairs."
Household of 7, Dunedin

4.1.2 Who does Shared Equity target?

The Shared Equity option targets low and modest income households particularly (but depending on its criteria and structure could be adapted for any income group) who for whatever reason, may be priced out of their local housing market, not be able to save to bridge the deposit gap, or not want to be as asset rich and therefore prefer to have less equity tied up in housing. They may be in state houses and currently paying market rent; not in a state house and not eligible for a state house; need (and want) to live in urban areas, get caught in the private rental poverty trap, with banks not willing to lend them money to purchase their own home; and cannot save for a deposit and tend therefore to lose hope.

Households/individuals who are eligible for Shared Equity schemes would go through a rigorous education programme on homeownership, repair and maintenance responsibilities, budgeting, financial and mortgage education. Debt history and current levels of household debt would need to be taken into account when households applied for Shared Equity schemes, as this is key to the issue of homeownership sustainability. Households will need to formally apply (criteria needing to be met to be eligible for the programme), with each household on the programme having a mentor who would support them while in the programme.

4.1.3 How does Shared Equity work?

Shared Equity models could take a number of forms. What follows are two models that encapsulate the shared equity idea. The first model is that run by the New Zealand Housing Foundation in South Auckland. In this model the focus of the Shared Equity is on the capital gains of a new property. The second model is an adaptation of that currently operating in the United Kingdom, the Rent-to-Mortgage scheme.

The important feature of these models is that they can be adapted to accommodate regional, household income and partnership types through the criteria set for the model, and the incentives made available for partners.

• Model One: New Zealand Housing Foundation
Families participating on the New Zealand Housing Foundation scheme are recommended by local community groups and community leaders. They must meet set criteria and go through an education programme before final selection to enter the scheme.

The scheme operates as follows: The New Zealand Housing Foundation builds a property at cost (for example, cost price $200,000), the property is then independently valued (for example initial valuation $220,000), and the household moves into the property which immediately has a $20,000 equity gain. While preparing to purchase the property the household have security of tenure for five years as they sign an occupation agreement, and pay market rent for the property.

The household may take up the option to purchase the property at any time over the five-year period. At the time of purchase they go with their mentor to a bank to obtain a loan. They get the property independently valued again (let's say that the property is now worth $250,000). The asking price for the property is the cost price (in this example $200,000) plus 25 percent of the difference in the initial cost of the property and the valuation at the time of purchase. To continue the example: $250,000 (valuation at time of purchase) minus $200,000 (initial cost), which is $50,000. Twenty-five percent of this figure is $12,500. The household will therefore be asking the bank for a mortgage of $212,500 as they already have $37,500 (a 15 percent deposit) toward the total value of the property. Table 1 presents the formula for the Shared Equity process.

Table 1: The Shared Equity Process = (c – a) x 0.75 = occupant's equity deposit

	Cost Price of House (a)	Initial Valuation (b)	Valuation at Time of Purchase (c)	Occupant's Equity Deposit (d)
$	200,000	220,00	250,000	37,500

If after five years the household/individual has not decided to purchase the property they can sign another five-year licence to occupy and continue paying market rent, with the expectation that over the next five years they will purchase the property.

Model Two: Rent-to-Mortgage New Zealand

A Rent-to-Mortgage scheme enables households/individuals who are tenants of state rental housing who are, because of their circumstances, paying market rents or near market rents, to purchase a share of the house and the landlord (Housing New Zealand Corporation) retains a share of the property. Once a household/individual has made a part payment for the house they are considered the outright owner (even though the landlord retains a share in the property) and cease to pay rent. Repairs and maintenance, rates and water charges, and insurance, however, are all the responsibility of the household. The household will have the option to staircase up and purchase a greater proportion of the home over time. What follows are two examples of a purchase of a house under a Rent-to-Mortgage scheme.

'Household A' is living in South Auckland and decides to purchase their house worth $250,000. The household has been renting for six years, and their current rent is $300 a week. The household decides to purchase 50 percent of the house.

“I would like a cheap Housing New Zealand home – rent to buy.” Household of 4, Rotorua

Table 2: Payment table 50 percent purchase	
Market value of house	$250,000
Initial payment is 50 percent of the market value of the house	$125,000
Landlord’s share is 50 percent	$125,000

Table 3: Mortgage table 50 percent purchase	
Total household gross income	$30,000
Loan amount	$125,000
Term	30 years
Interest rate	8 percent
Repayment amount (fortnightly)	$423.14

‘Household B’ is also living in South Auckland and decides to purchase their house worth $250,000. The household has been renting for 6 years, and their current rent is $400 a week. The household decides to purchase 75 percent of the house.

Table 4: Payment table 75 percent purchase	
Market value of house	$250,000
Initial payment is 75 percent of the market value of the house	$187,500
Landlord’s share is 25 percent	$62,500

Table 5: Mortgage table 75 percent purchase	
Total household gross income	$30,000
Loan amount	$187,500
Term	30 years
Interest rate	8 percent
Repayment amount (fortnightly)	$634.71

In each case rates, insurance, maintenance and repairs, water (approximately $120 per fortnight) will need to be paid over and above the mortgage repayment amount, like any other homeowner. Previously ‘Household A’ had housing expenditure of $600 per fortnight and no asset. Under this scheme they now pay $543.14 per fortnight (including rates etc), and have a 50 percent share in an asset. ‘Household B’ had been paying $800 per fortnight on rent; under this scheme they now pay $754.71 (including rates etc), and have a 75 percent share in an asset.

For the purposes of simplicity, the examples above are exclusive of the Accommodation Supplement. The households above will be eligible for some Accommodation Supplement, both as renters and homeowners. An assumption behind this scheme is that the Accommodation Supplement will continue to be available to homeowners as this payment will be critical to sustainability for most households.[18]

[18] *Further discussion of AS is found in Section 4.5.*

4.1.4 What are the benefits of Shared Equity?

The benefits of the option are that:

– It immediately gives the household equity in their property and therefore a sense of ownership and commitment to the property and community.
– It provides security of tenure.
– It provides an incentive and pathway for those who previously thought homeownership was out of their grasp.
– It increases the asset base of low and modest income households.

An additional benefit of the Shared Equity model is that it has the ability to free up a state house and help reduce the state rental housing waiting list. This is achieved either directly through a household shifting out of state housing, or indirectly through the releasing of assets currently tied up in a state house for reinvestment elsewhere.

4.1.5 What are the risks of Shared Equity?

With benefits come risks. Some of the key risks are associated with:

– The need for significant expenditure
  - on new housing
  - on managing and monitoring the scheme
  - on training and educating the households.
– Creating unsustainable housing situations for low and modest income households, creating even more financial stress for them.
– Equity of the schemes and models, with issues of eligibility and availability of the programmes.
– Government (or the non-government organisation or private organisation) shouldering the risk of the scheme with the bulk of the benefits accruing to the household.
– Crowding out in the property market, and inflationary effects. These are economic issues discussed later in the paper in section 5.
– Government bureaucracy and compliance costs that may stifle the ability of the scheme to function for non-government organisations or private providers.

4.1.6 How do we mitigate against the risks associated with Shared Equity?

Looking at each risk in turn we can establish what needs to be done to alleviate these recognised risks.

– Expenditure – there is recognition of the limited budget set aside for housing. One possibility would be to allocate some of the new houses the government is already committed to building in their current state housing strategies to the scheme. This scheme enables the same number of houses to be built, but instead of all of them going into the state housing stock, some are brought online in the shared equity scheme. As current state house tenants move into them, state rental properties are freed up for those on the waiting list. It also needs to be recognised that while preparing for ownership the households are still paying market rents to the government. For the non-government organisation there is the cost of purchasing the houses (they will need to borrow the money to purchase the houses), however, the tenants in these houses will also be paying market rents.
– Unsustainable homeownership – is a significant risk. This is where the education and training

"Although it would be cheaper in the long run to buy a house than to rent, not being able to save for a deposit limits me from buying a house."

Household of 5, Palmerston North

programmes for those on the scheme are crucial, as is the mentor assigned to each household to monitor and support the household. The mentor can intervene if financial stress begins to occur, and before households begin to default on their payments. If homeownership becomes unsustainable the household can be counselled and supported into another form of housing, and the government (or non-government organisation) still has the property that may be sold or used for state rental housing.

- Inequality of opportunity – the Shared Equity models are specialised, targeted schemes at a specific group in the housing market. When considering housing strategy a variety of schemes and plans are required to target the various market segments and regions in New Zealand. None of the Shared Equity models are considered a 'one size fits all' policy; other mechanisms need to be online to provide support and incentives for all contemplating homeownership. In addition it must be noted that homeownership is not for everyone or every household; this option focuses on getting some of those who are able, and want to, into owning their own home.
- Risk balance – the government (or non-government organisation or private organisation) does shoulder the risk in this scheme. It is the government (or non-government organisation) who loses and not the household in the case of a slump in the housing market and a decline in the value of properties, and they are also responsible for laying out all the initial financing for the building of the properties. The houses, however, can be used for state house rental, and the government is in a better position to withstand shocks in the market than the household/individual. The risk balance needs to be seen in a wider context, recognising the collective and individual benefits that accrue when households have good quality, accessible, and secure housing. The likelihood of mortgagee sales or the destruction of property is a possibility with only an extremely small number of households.
- Economic risks – there are certainly flow on effects of government intervention in the housing market that can produce outcomes beyond that which were intended. These risks will be further discussed later in the paper in section 5.

4.1.7 How does Shared Equity stack up against the criteria?

Taking each of the criteria in turn it is possible to assess the shared equity option.

- Will the option increase access into homeownership? It will enable those previously in state house rentals paying market or near market rents or in the private rental sector to move into their own homes.
- Will the option create sustainable homeownership? The option has the potential to create sustainable homeownership as it provides housing that is obtainable and sustainable, and provides training and mentoring.
- Is the option affordable? The costs of the government not moving to Shared Equity models for this group of state house tenants would seem to be much higher than operating the scheme. With the government already committed to the building of new state houses, it would be more of a redistribution of some of these housing resources.

4.2 RIGHT-TO-BUY

4.2.1 What is the Right-to-Buy scheme?

For some areas in New Zealand there may be less pressure on state houses and these may also be areas where there are limited capital gains to be made. To this end a housing scheme enabling state tenants the Right-to-Buy their property would be a viable option to encourage homeownership for low income households. The scheme will allow a household/individual to purchase their state/council house at a discounted price (lower than which would be full market value). Where a state/council house is sold through this scheme, another house will need to be built to ensure the social housing stock is not depleted.

4.2.2 Who does the Right-to-Buy scheme target?

The New Zealand Right-to-Buy scheme will enable a household/individual who met the criteria to buy their state/council home. The length of time a household/individual has lived in a state/council house will determine the amount of discount (there will, however, be a maximum discount amount that will vary regionally).

Like the New Zealand Housing Foundation model there will be clear eligibility criteria and financial and housing education that a household/individual will need to complete to be able to enter the scheme. There will be a rigorous education programme on homeownership, repair and maintenance responsibilities, budgeting, financial and mortgage education. An examination of debt history and the current levels of household debt will be taken into account as this is key to the issue of homeownership sustainability. Households will need to formally apply (criteria needing to be met to be eligible for the programme), with each household on the programme having a mentor who will support them in obtaining a mortgage and check in on them over the first five years of their house purchase to identify any financial stress issues which could impact on homeownership sustainability.

4.2.3 How does the Right-to-Buy scheme work?

For example: A three bedroom house is priced at $120,000 in Wanganui, and the household/individual is eligible for a 25 percent discount. This will make the amount of the mortgage necessary to purchase the house outright $90,000. The household/individual is currently paying rent of $160 per week.

Table 6: Mortgage table

Total household gross income	$30,000
Loan amount	$90,000
Term	30 years
Interest rate	8 percent
Repayment amount (fortnightly)	$304.66

Rates, insurance, maintenance and repairs, water (approximately $105 per fortnight) will need to be paid over and above this, like any homeowner. As with the Shared Equity models the application of Accommodation Supplement to the household will assist with affordability and sustainability. With this scheme, a household/individual is helped into homeownership through a discounted rate for their house, however, for those unable to afford the 100 percent purchase of a their house even at a discounted rate, other options such as shared equity may be available.

4.2.4 What are the benefits of the Right-to-Buy scheme?

Some of the key benefits of this option would be:

- Enabling low income state house/council house tenants to enter homeownership who were previously unable to enter or sustain homeownership.
- Ensuring housing resources are used effectively – i.e. houses not sitting empty that are not worth relocating (or able to be relocated), freeing up the resources tied up in state houses in low demand areas for use in high demand areas.
- Providing stability for households and communities as they have security of tenure, and a more vested interest in their community and local environment.
- Little upfront government expenditure needed.

4.2.5 What are the risks of the Right-to-Buy scheme?

There are risks in this option, including:

- Equity issues – providing state house (and council house) tenants in specified areas in New Zealand the opportunity to purchase their house at a discounted rate, an offer that is not available across New Zealand, may be considered inequitable and politically divisive.
- Sustainability issues – processes will be required to ensure sustainability. Sustainability will be jeopardised if the mortgage or other housing costs such as rates increased significantly, as well as changes in households/individuals circumstances.
- Loss of housing stock – the scheme will reduce the social housing stock at the time of purchase if state houses are not completed in areas of high demand to replace those being sold in other areas.

4.2.6 How do we mitigate against the risks associated with the Right-to-Buy scheme?

The ability to mitigate against these risks is important:

- Inequality of opportunity – the Right-to-Buy scheme is specialised and targeted at particular areas in New Zealand, particular sections of the housing market and specific households/individuals. It needs to be recognised that in some segments of the housing market and in some regions of New Zealand there is little ability to accrue capital gains on property, capital losses may in fact be more the norm. The Housing Foundation model of Shared Equity is less appropriate in this instance. When considering housing strategy, a variety of schemes and plans are required to target the various market segments and regions in New Zealand. This is not a 'one size fits all' housing policy; it is a useful mechanism to encourage those into homeownership in particular areas. Other mechanisms need to be in place to provide support and incentives for other households/individuals contemplating homeownership.
- Unsustainable homeownership – is a significant risk. This is where the education and training programmes for those on the scheme are crucial, as is the mentor assigned to each household to monitor and support the household who can intervene if financial stress begins to occur, and before households begin to default on their payments.

- The house sales will provide the government some income that would be used to reinvest in social housing in other areas of New Zealand. The replenishment of the social housing stock is a necessary part of this housing strategy as it is about utilising existing housing resources in particular areas most effectively in terms of homeownership, and ensuring new social housing is created in areas of most need.
- Economic risks – there are certainly flow on effects of government intervention in the housing market that can produce outcomes beyond that which were intended. These risks will be further discussed later in the paper in section 5.

4.2.7 How does the Right-to-Buy scheme stack up against the criteria?

Taking each of the criteria in turn, it is possible to assess the right-to-buy option.

- Will the option increase access into homeownership? It will help low income households/individuals who previously may never have been able to contemplate homeownership to achieve it.
- Will the option create sustainable homeownership? The option is likely to provide sustainable homeownership as the households will be provided with education and training programmes. They will also have a mentor monitoring and supporting them.
- Is the option affordable? The costs of the option are real, but need to be balanced against the benefits of increased homeownership rates, effective use of housing resources, and improvement in the quality of lives of households through secure housing and asset accumulation.

4.3 SUPPORTED SAVING

International evidence suggests that another key approach to increasing homeownership is the introduction of saving schemes that provide encouragement and incentives for households and individuals to save. Savings are necessary if households are to obtain a house deposit. Low and modest income households require subsidies if they are to achieve any significant level of saving in a reasonable timeframe. Current British research[19] indicates that it takes first-home buyers an average of four and a half years to save a five percent deposit for a house in the United Kingdom. While Supported Savings are slower to realise gains in terms of homeownership and should be thought of as long-term strategies, they do have some immediate and ongoing benefits. Savings schemes introduce (or reinforce) the savings habit, increase the level of financial assets, and increase the supply of money in the New Zealand financial system that is then available for local investment.

4.3.1 What is Supported Savings?

Savings schemes enable the household/individual to build a financial asset that can be used to bridge the deposit gap necessary to enter homeownership. The saving option can take a variety of forms: it can be targeted at children (like the Child Trust Fund) and accrue through the life of the child to mature after a set number of years; it can be a version of the matched saving schemes; or the creation of a quarantined homeownership account offering tax benefits and additional returns.

[19] *National Savings and Investment Research, December 2004 www.nsandi.com/press-room/press-releases/pr200484.jsp*

"Where I am now is great but I would love to own my own house and am trying to get deposit together."

Household of 4, Porirua

4.3.2 Who does Supported Savings target?

Depending on the type of savings scheme, the target household/individual would be different. For a savings option targeted at children (like the Child Trust Fund), it may be available for all children born to New Zealand residents living in New Zealand. When considering matched savings plans, these would be targeted at first-home buyers, or means-tested on income and assets to assist low and modest income households/individuals achieve their savings objectives. Quarantined homeownership accounts may again be open to all New Zealand residents living in New Zealand and be used as a means of encouraging saving for homeownership. The reality of any savings scheme is that only those with the ability to save are able to benefit from it. Those households/individuals not in a position to save, or who have no capacity in their disposable income for saving, are not able to participate.

4.3.3 How does Supported Savings work?

Three Supported Savings schemes follow. All the Supported Savings schemes provide financial education and training regarding mortgages, short-term borrowing, and credit cards as part of their package.

• Scheme One: Child Trust Fund-New Zealand
The Child Trust Fund-New Zealand would be an account that is opened after a child is born (assuming they and their parents meet New Zealand residency criteria). The government puts in an initial deposit of $500 into the account. The account has no fees attached to it, earns interest at a higher rate (0.5 percent above the market rate) and no tax is charged on the interest earned in the account. The account can be added to over a period of 18 years, but no money can be removed until its 18th anniversary when the account is 'unlocked' and the young person is able to access the money in their account. Financial education and advice would be given to the young person to help them achieve short, medium and long-term objectives, whether these regard furthering their education, purchasing a house, starting a business, reinvesting their money, as well as information on credit cards and borrowing.

The idea of these accounts is that over the 18 years money is contributed to the child's account by parents, family, even themselves, creating a savings habit and enabling the young person to have a financial asset. The account would remain part of the estate of a child/young person.

• Scheme Two: Matched Funds
This scheme would be offered to low and modest income households/individuals providing them the opportunity to enter a savings programme where every dollar they save would be matched by the government (up to a maximum amount per month). Households/individuals will be free to withdraw

their share of the money at any point, but the government-matched funds would not be withdrawn until the end of the period (five years). There would be incentives in place to encourage households/individuals not to withdraw their contribution of the saving for a certain period (five years) and accrue additional financial benefits and bonuses. At the end of the period, assistance is given to the household/individual to obtain a mortgage to purchase a property (either an equity share or a 100 percent purchase).

• Scheme Three: Quarantined Homeownership Account
The quarantined homeownership account would be available for any New Zealander who wanted to save for the purchase of a house. They would open such a designated account at any of New Zealand's registered banks and the PSIS and deposit money into the account. The homeownership account would be subject to no fees, earn interest at a higher rate (0.5 percent above the market rate) and no tax would be charged on the interest earned in the account. The household/individual would be encouraged to automatically transfer money into this account each pay period. The account could not be 'unlocked' for a period of five years,[20] at which time assistance would be given to the household/individual to obtain a mortgage to purchase a property, either an equity share or a 100 percent purchase).
The household/individual may after that period still not be in a position to purchase (or may choose not to purchase at that time), and may therefore 'relock' the account for a further period of three years.

4.3.4 What are the benefits of Supported Savings?

The key benefits of a Supported Savings option are:

– The potential to bridge the deposit gap so as to allow people previously unable to own their own home the ability to do so.

– The creation of financial assets that could be used for housing, education, business.

– The creation of a savings habit among the population.

– An increase in money available in the New Zealand financial system that can be used for local investment.

4.3.5 What are the risks of Supported Savings?

There are risks associated, however, with such an option:

– How people use the money that is accruing in these savings accounts.

– Government expenditure – recognition that expenditure by the government in the matched funds scheme in particular has the potential to be significant.

– Inflationary risks – there are risks that the value of the money in the accounts will be eroded by inflation over time making the bridging of the deposit gap still difficult to attain.

[20] There may need to be some provision to allow individuals to take out funds on compassionate or emergency grounds such as death of a family member, illness etc. To discourage inapprociate use of this dispensation there may need to be penalties attached such as a fee for withdrawing money before the locked down period expiry date, and/or loss of the 0.5 percent additional interest.

– A strong housing sector could mean that the money saved is still short of that needed to bridge the deposit gap, with low and modest income households/individuals still shut out of homeownership.

4.3.6 How do we mitigate against the risks associated with Supported Savings?

The ability to mitigate against these risks is important:

– How the money is used – it is possible to reduce the risk of how the saved money is used by stipulating what the money can be used for (which is how the IDA systems operate, with the money able to go to housing, education or, small business). Most of the overseas models allow a proportion of the saved money to be used at household/individual's discretion, with the remainder (and majority of the money) tagged to housing (education or small business).

– Government expenditure – expenditure will be significant, but this again goes to commitment of the government to ensure that people in New Zealand have quality housing, and the ability to get into homeownership if that is practicable and sustainable. It will provide households with a financial asset that could also assist in enabling their children (or themselves) to enter tertiary education, and improve their skills that are essential in a modern dynamic economy. The savings may also allow those who have good entrepreneurial ideas and skills to start business ventures they previously did not think were possible.

– Inflationary erosion – to alleviate the potential inflationary effects the government could increase their contribution each year, and ensure the present inflationary focus of the Reserve Bank remains.

4.3.7 How does Supported Savings stack up against the criteria?

Taking each of the criteria in turn, it is possible to assess the supported savings option.

– Will the option increase access into homeownership? It has the potential for households/individuals to bridge the deposit gap and move into their own homes.

– Will the option create sustainable homeownership? Here there is some uncertainty. The financial education and training will certainly help with financial decisions, but this option does not provide housing-specific help. Education and information programmes, could be run independently at a minimal cost through local polytechnics or schools to provide information and advice.

– Is the option affordable? The cost of the option will be significant, but this cost needs to be balanced against the benefits that increasing household savings levels have on homeownership rates, reduced dependence on student loans, and small business loans, as well as the impacts of additional money in the financial system that can be used for investment in New Zealand.

4.4 LAND LEASE FOR KEY WORKERS

Increasing emphasis has been put on governments to use their regulatory and planning instruments as a way of improving access to affordable, quality, low income housing.[21] There is the potential to use zoning, planning, and other land use rules to encourage (or require) property developers to supply affordable housing. In New Zealand, research by DTZ NZ (2004b, p. 66) stated "'there is substantial research evidence demonstrating that regulatory and planning instruments can have a substantial impact on affordable housing – either restricting the potential for its provision or actively encouraging its provision." The following housing option focuses on the government's ability to earmark land to encourage homeownership for key workers in New Zealand.

4.4.1 What is Land Lease for Key Workers?

An option where the government leases land to key workers enabling them to build houses for them and their families, therefore ensuring they are able to achieve homeownership.

[21] *Katz and Turner, 2003; New Zealand Business Roundtable, 1991; Berry, Whitehead and Yates, 2004; DTZ NZ, 2004b.*

4.4.2 Who does Land Lease for Key Workers target?

Individuals and families of key workers, for example police officers, teachers, nurses, fire-fighters, needed in communities are targeted for this option, enabling them to move into homeownership in areas they previously would have been priced out of.

4.4.3 How does Land Lease for Key Workers work?

The government earmarks land (in Hobsonville, Whenuapai, Papakura, for example) to be used for housing key workers. The households pay for the cost of the house, and the government provides a favourable long-term lease on the land. This makes quality homeownership attainable and sustainable for these key workers and their families.

4.4.4 What are the benefits of Land Lease for Key Workers?

Some of the key benefits of this option are:

- Enabling key workers the ability to obtain homeownership.
- Ensuring communities can attract key workers into their communities to provide services.
- Creating community awareness and focus with a mix of households and quality services.
- Providing stability for communities and key workers as they have security of tenure.

4.4.5 What are the risks of Land Lease for Key Workers?

There are risks in this option, including:

- Equity issues – providing key workers special housing assistance may be considered inequitable and politically divisive.
- Sustainability issues – processes will be required to ensure sustainability. Sustainability will be jeopardised if the land lease or other housing costs such as rates increased significantly.
- Perception issue – potential households/individuals of key workers may not opt into the scheme as they perceive it not to be 100 percent ownership, and have concerns over the security and cost of the land lease.
- Land use issues – the government needs to be certain that the land used in these schemes is appropriate, also the cost of what the land could have been used for instead of housing for key workers needs to be taken into account.

4.4.6 How do we mitigate against the risks associated with Land Lease for Key Workers?

The ability to mitigate against these risks is important:

- The equity issue is one that is not easily solved. There needs to be recognition in society and specifically relating to the housing market, that there have to be a range of packages provided to encourage a variety of people into homeownership. With this always come those who do not meet the criteria and are therefore ineligible for a particular package.

"Rent should be subsidised more or lower to help to buy own home with incentive system of some sort."

Household of 5, Christchurch

– The sustainability of homeownership is a risk that can be solved with land lease certainty.

– Perception issues can be managed through educating individuals and households about the option, and a change of public perception in general about what homeownership means and the flexibility such schemes offer. In terms of addressing the concerns about lease price changes there is a need for households to expect a realistic inflation adjustment at regular (yearly or two yearly) intervals that are manageable and predictable.

– The land use risk is real and needs to be thought through at the beginning of the process. Community planning, community need, and community expectation all have to be considered, as well as the commercial benefits and costs that these decisions create. This option also creates incentives for quality people to enter key professions as the housing packages are seen as an additional benefit. The land lease option has a positive effect on these professionals as with it comes a reduction of financial stress (particularly associated to housing), which in turn has positive benefits for the community, society, the economy, and the government.

4.4.7 How does Land Lease for Key Workers stack up against the criteria?

Taking each of the criteria in turn, it is possible to assess the land lease for key workers option.

– Will the option increase access into homeownership? It certainly will help key workers into homeownership as removing the cost of land will result in a significant reduction in the required mortgage.

– Will the option create sustainable homeownership? The option is likely to provide sustainable homeownership as many of the targeted households will be educated and capable. As with the Supported Savings option these education and information programmes could be run independently at a minimal cost through local polytechnics or schools.

– Is the option affordable? The costs of the option are real, but need to be balanced against the benefits of increased homeownership rates, improving the quality of service provision in local communities, and improving the quality of people entering key professions.

4.5 THE ACCOMMODATION SUPPLEMENT AND HOMEOWNERSHIP ASSISTANCE PACKAGES

As discussed in the substantive part of this report, affordability and sustainability are the two primary barriers to low and modest income households achieving homeownership.Currently the main vehicle for assisting low income households with affordability and sustainability problems in both the private rental and homeownership is the Accommodation Supplement (AS). The AS provides a variable level of subsidy depending on income, tenure type, rent or mortgage level and geographic area. For those living in Housing New Zealand Corporation housing they do not receive the AS but have their rent directly subsidised through income related rents.

One of the difficulties faced by low and modest income households in transferring from private rental and from income related rents into homeownership is that the level of subsidy they receive declines. For private renters the AS pays the difference between 25 percent of their income and the market rent up to a set maximum for their area. For homeowners the subsidy is the difference between 30 percent of their income and the weekly mortgage payment up to a set maximum for the area. This means that homeowners have to meet more of the cost of their housing themselves before being eligible for assistance. For low and modest income households the decline in the level of subsidy can be a financial disincentive to make the move into homeownership, or it can make a mortgage unsustainable as they may not be able to meet other costs once their AS is reduced. Even if their level of after-housing income is sufficient to meet normal costs, moving into homeownership and a reduced level of AS may require a lifestyle or standard of living change. This can be difficult for households to do, especially if their income meant their previous lifestyle was fairly basic to begin with.

When the AS was introduced, the rate for renters and homeowners was differentiated because it was argued that homeowners were building up a private asset. For fairness, they were required to contribute a higher proportion of their own income. It can be argued, however, that the capital that homeowners create is not only a private good, but has public good implications. Homeownership provides social stability, contributes to savings (as people save for a deposit), creating money in the financial system that is then available for investment, and thus contributes to the overall wealth of the nation.

In light of the social good afforded by homeownership, and the reality that the decline in AS subsidy is a barrier to some low and modest income households entering homeownership, it is appropriate to consider whether the AS should be at 25 percent for both renters and homeowners.

It is beyond the scope of this report to cost this proposal. It is clear, however, that it will require increased expenditure by government. The benefits of this expenditure will be increased levels of homeownership amongst low income earners, and increased sustainability of homeownership. Without a rise in the level of AS for homeowners, it is unlikely that many households on low incomes will be able to enter and sustain homeownership, particularly in the major metropolitan areas.

4.6 EQUITY ISSUES

Equity issues need to be considered when implementing homeownership strategies. Any programme that is targeted presents equity issues, for those who are excluded by the programme criteria, and between that programme and another that may be available to other groups of households. The concept of horizontal equity usually requires that those with the same needs receive the same level of assistance. When considering housing however, horizontal equity is only part of the overall issue due to the highly segmented nature of the housing market and the diverse nature of household need. A focus on horizontal equity may in fact be detrimental to the desired outcome of ensuring all households who have the potential to enter and sustain homeownership have opportunities and assistance to do so.[22]

Vertical equity requires that households in most need receive the most support to achieve secure housing tenure. Once again the regional, market, and household differences in New Zealand further suggest that a single policy mechanism is unlikely to deliver this.

Equity in homeownership programmes will require the same level of access to an appropriate programme for households with the same level of need of support to enter homeownership. The mechanism used to provide the support will need to vary according to region and market circumstances. A single mechanism is likely to be less equitable and unsustainable as it will either not work, be too expensive to sustain or be made widely available. In a mixed package of options it is possible to mitigate against some of the effects of targeting by making some options universal. Two of the savings options outlined in this paper are universal.

[22] This was one of difficulties with the use of the Accommodation Supplement as a single mechanism for housing assistance. Studies have shown that the use of the AS as a single housing policy lever increased horizontal equity but decreased vertical equity and that this was at the expense of the goal of ensuring low income households were adequately and securely housed. See for example Waldergrave (2002)

5. Economic Considerations

The housing options outlined are not costless and have some negative economic implications that need to be taken into consideration. The fact that there are economic and financial implications does not mean they should not be undertaken, rather they need to be well thought through, and where possible strategies put in place to alleviate any negative outcomes that may occur. The negative economic and financial implications also need to be balanced against the positive household, community, social, and economic outcomes that the housing options will generate.

5.1 CROWDING OUT ISSUES

Crowding out occurs when government involvement in the housing market shuts out potential private homeowners and private housing investors from entering the housing market at a particular time, in a particular area, and/or in a particular style of housing. A household/individual may be looking to enter the housing market in a particular price range and/or area, and if at the same time so is the government, the household will be effectively competing with the government to buy land and build or purchase property in that local housing market. This has real potential to price the household/individual out of affordable, quality, homeownership in their area. A similar argument goes for private investors in housing who want to get involved in providing quality rental housing in a particular price range/area. They may also be priced out of certain local housing markets due to the effect of government purchasing land and property.

Government crowding out of potential private homeowners and private housing investors is a real and significant issue that needs to be considered when intervening in the housing market. Mitigating against this is not easy. When purchasing property and/or land the government should avoid creating an environment where prices are artificially inflated, and the number of properties purchased in any one particular area or price range should be limited to ensure the smallest impact on potential private homeowners and private housing investors. The fact that crowding out exists is not a rationale for the government not to be involved in the housing market, nor a reason not to go ahead with the housing options previously outlined, but it does need to be acknowledged and considered.

"I have 7 children … No savings at all. I want for my children something of their own when I'm gone – stability – roof over their heads." Household of 8, Hamilton

"House rents are increasing as is everything else. Would rather pay money towards a house I was going to own." Household of 9, Hamilton

5.2 FINANCIAL COST ISSUES

The housing options discussed in this report all come with a need for government spending. The reality of this is that 'new' money needs to be found to enable government to spend more in housing, from additional or new taxation, or alternatively a reduction in spending in other sectors to enable more spending in housing. Recognising that the dollar can only be spent once, and the variety of needs and financial commitments of the government, the financial aspects of housing options need to be fully evaluated and considered by government. There are always trade-offs when considering how government undertakes expenditure, and the implications of changes in expenditure and the direction of expenditure are real and relevant in specific sectors and across the economy. Again, however, they need to be balanced against the positive outcomes to the household/individual, community, society, and wider economy of people living in quality, affordable, and sustainable housing.

5.3 INFLATIONARY COSTS

A third major economic consideration is that of the inflationary effects of increased government spending in the housing sector. Government spending, regardless of the sector, has a stimulatory effect in the economy, which also tends to create inflationary pressures in the economy. Such pressures, if considered to be substantial and/or have longer-term effects, will in turn cause the Reserve Bank to tighten monetary policy. This would increase interest rates, which then impact directly on homeownership sustainability, by increasing the cost of a mortgage. When the government intervenes in the housing sector these effects are amplified, due to the size and volatility of the housing sector in the non-tradable sector.[23]

A strong active housing sector with growing house prices tends to make households/individuals feel wealthier and they borrow more to purchase more. This increase in consumer spending causes prices to increase (that is, it is inflationary). The other side of a strong and active housing sector is that it encourages those who previously were not investing in housing to enter into housing investments, which are seen as providing solid returns, increasing the demand for properties which in turn increases their price.

[23]In New Zealand the CPI inflation pressures come from two broad sectors: the tradable sector (broadly the overseas sector, including imports and exports), and the non-tradable sector (the domestic economy).

5. Economic Considerations (cont)

The building side of housing also needs to be taken into account, as a strong and active housing sector leads to a greater demand for sections and the building of new houses. This leads to increases in the demand for builders and building materials. To encourage builders into particular areas (and to hold on to existing staff) increased wages may be offered, which leads to increasing prices to build. Added to this are the compliance costs associated with building new houses all going to increase the cost of the house. Combined, these may have inflationary effects on the economy, which in turn cause a tightening of monetary policy in New Zealand having implications for the interest rate, the cost of mortgages, and potentially the exchange rate.

5.4 EXTERNALITIES

When thinking about externalities related to housing generally we think about the behaviour of households/individuals either impacting positively or negatively on their neighbours. If a household maintains an attractive garden in their property, neighbours around them receive a positive benefit from it despite never contributing to the maintenance or upkeep of the garden. Equally, a household that does not maintain their house and garden will impact negatively on the properties of those around them. Housing, and more specifically homeownership, however, is said to have much more far-reaching externality effects such as neighbourhood stability, better health and developmental outcomes for children, self-esteem, community participation and sense of community affiliation, and improved quality of living.

"I wish I could own my home one day and work hard for my goals."
Household of 1, Manukau City

Homeownership is said to create more positive externalities for individuals, households, and communities than rental tenure. These positive externalities provide additional benefits to both individuals and households who own a home and to the wider society.

5.5 COSTS OF NOT PROCEEDING

The government should ensure that people in New Zealand have quality housing and the ability to get into homeownership if that is practicable and sustainable. The benefits to the individual and household, community, society, and the economy of people living in their own homes (where practicable) are significant and beyond the asset creation that comes with such an endeavour. Child health concerns and poverty, crowding, interruptions in education due to frequent moving in rental accommodation, social dislocation, frustration, and the increasing gap between those that have and those that do not will only continue to exacerbate economic, financial and social costs for the government. Arguably these costs far outweigh the costs required to implement some or all of the options discussed in this report.

6. Conclusion – The way forward for New Zealand

Housing is a key determinant of New Zealander's wellbeing. Affordable, quality housing in locations close to employment, family, and community services is paramount for the health of the individual, household, society, and economy. Homeownership provides security of tenure and a sense of belonging that is difficult to achieve in rental accommodation. Homeownership also adds to the overall wealth of the nation by encouraging savings and asset accumulation.

Evidence internationally shows many nations are further down the track in encouraging homeownership through Shared Equity options, programmes for Key Workers, and through Savings schemes than New Zealand. The application of this international evidence to New Zealand suggests that there are a number of homeownership programmes that could work here. What is initially required is a change in attitude. Government needs to view assisting people into homeownership as an important part of the housing continuum. Government, not-for-profit, and for-profit organisations need to view themselves as partners in the delivery of homeownership options. Individuals and society as a whole need to take a more flexible approach to the concept of homeownership so that shared equity or land lease options are seen as a positive step on the pathway to ownership.

The second requirement for the introduction of homeownership programmes is recognition that a variety of mechanisms will be required to meet the diverse needs of households and the market. Housing is too complex for a single mechanism to provide solutions for all eligible households. A variety of interventions are required, provided through a range of government and non-government structures. Equity arguments should focus on outcomes rather than process.

The key to success will be to ensure that all mechanisms focus on both access and sustainability. Homeownership programmes that simply ease access without focusing on long term sustainability are unlikely to work, and may in fact be detrimental.

All homeownership programmes take time to achieve the ultimate goal of achieving homeownership and need to be thought of as medium-term strategies. Savings schemes are long-term. A balanced approach to policy development must include both kinds of mechanisms. It is critical to have programmes that get households into their own home as quickly as is viable and sustainable. It is also important that households and individuals are encouraged to develop savings habits, and are supported to take the first steps on the road to homeownership.

Doing nothing more than what currently exists in terms of enabling and encouraging homeownership is not a positive option for households/individuals, communities, society or the economy in New Zealand. New options need to be developed that will build up household assets and move households into a more secure housing tenure state. There are practical, implementable and affordable options available. Government needs to join with non-government organisations, and other willing partners to further develop and implement these options.

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