

Homeownership

Preamble:

In our society, being a homeowner can allow people to actively determine how they best meet the shelter needs of themselves and their families. For many households, the private rental market does not provide the level of security, and stability required to bring up their families. Home ownership can allow people to exercise greater control over their circumstances and the way in which they chose to live.

Home ownership has been an important way for New Zealanders to take responsibility for their own shelter needs. It has been an important way for people to invest in an asset that they can use and that can grow in value and contribute to future financial security not only for this generation but future generations as well. By taking on a mortgage and paying it off prior to retirement, people can free up their post-retirement income. By investing in their homes people are also investing in their neighbourhoods and communities.

In the past, the government played an important role in enabling home ownership through initiatives like capitalisation of the family benefit and the provision of income-related mortgage lending. However, over the last decade affordable home ownership has not been encouraged. The accommodation supplement, the principle form of government assistance available to low and modest income homeowners, is not effective in assisting people who could take greater responsibility for their housing into home ownership. Nor is the accommodation supplement effective in sustaining people in home ownership. The accommodation supplement has not made homeownership affordable, it does not assist with the deposit gap and it does not deal with issues such as the on-going maintenance costs faced by homeowners.

The movement away from income-related interest mortgages, the removal of opportunities to get a deposit from capitalising the family benefit, and the movement to the accommodation supplement as the primary mechanism for assisting people with housing needs has been associated with a decline in homeownership rates in New Zealand. Uncertainty around employment and the growth in student debt may also have contributed to the decline in home ownership rates.

In 1986, 73% of New Zealanders were homeowners. In 2001, the rate of ownership has fallen to 68%, despite the vast majority of New Zealanders still looking upon home ownership as their preferred tenure choice. If this trend continues, and without intervention, the home ownership rate could fall to 62% within ten years and 58% over the next twenty-five years.¹

The declining opportunity for New Zealanders to enter home ownership has profound implications for our society. In New Zealand, which has traditionally been a world leader in home ownership, ensuring that people have the choice to enter and sustain homeownership is an important part of keeping New Zealand a socially inclusive society. People who want and could be homeowners with some assistance, are excluded from home ownership, real pressure will build on the rental market. The Government is already confronted with a ballooning expenditure on the accommodation supplement. There is considerable pressure on the public rental housing stock.

¹ Estimates based on the number of households entering home ownership in the key ownership years from 25 to 40 years of age.

The cost of acquiring a new public housing unit is on average \$160,000. This is a full capital cost to the Government, before income-related rent subsidies are considered. Where the Government assists people into homeownership, the costs of housing access are shared with homeowners. Providing some assistance to people to enter home ownership is a way in which Governments can empower people to take responsibility for and make an investment in their housing future. Assisting people into homeownership is a way of moving people from welfare orientation to an orientation of investing in one's own future, family and community.

The groups who need and would benefit from assistance to have a genuine choice about entering home ownership include:

- Low income households living in high house price areas (urban) where housing is no longer affordable and home ownership is simply not a choice;
- Households in rural areas where there does not exist a viable rental sector providing adequate housing as an alternative to home ownership and who often face high building costs;
- Households under served by lending markets and who also frequently face discrimination or difficulties achieving appropriate housing in the rental market including low income Maori, Pacific peoples, refugees, people with disabilities, older people and young people.
- Households who are *already* in home ownership but are vulnerable to losing their homes through declining quality (e.g. due to poor design, poor maintenance, poor building), family dissolution, accident or illness, and/or negative equity.

Achieving home ownership requires a close relationship between homeowners and lenders. Where prospective homeowners struggle to access and/or achieve home ownership the Government is a key partner in attaining home ownership and securing the benefits that home ownership can generate. HNZC is the Government's key agent in supporting the aspirations of low-income households looking to achieve home ownership. There are four primary ways in which HNZC can use its position to promote home ownership opportunities:

- As principal advisor to the Government on housing issues including how to effectively support home ownership aspirations;
- As a potential lender. Even though its current lending activity is very small it still has the financial mechanisms to both expand lending activity and engage with the private and community sector to leverage finance off the private sector; owner of a significant housing portfolio. HNZC can use its position as a housing developer to promote good practice in the areas of design and building standards to the advantage of both the rental and home ownership markets; and
- Through assisting households in public rental housing who can and want to, make the transition into home ownership and thereby free up public housing for those with greater housing need.

Goal

To give low-income people and under-served communities a genuine choice to invest in their communities and meet their housing needs through homeownership.

Objectives

To meet that goal, four objectives will need to be achieved. They are:

- Increase opportunities to enter homeownership;
- Encouraging and supporting existing and potential lenders to finance low income people and expand their lending in under served communities;
- Protecting low-income people and vulnerable groups' investment in homeownership;
- Increasing the supply of affordable, good quality and appropriately well designed housing for low-income people wanting to enter homeownership.

Principles

There are a number of financial and non-financial ways in which Governments in partnership with the private sector and the community sector meet its housing objectives and provide a genuine choice for people who are currently excluded from home ownership. In developing those into a package of homeownership assistance, four principles need to be paramount:

- Sustainability – it is important that the benefits of home ownership (shelter, investment, social inclusion) are sustained now and in the future. For this to happen, homeowners need to be able to invest in housing that is:
 - of a quality that effectively meets the shelter needs of the homeowner;
 - secure so that the danger of losing the home is minimised; and
 - viable enough for homeowners to manage and cope with the financial requirements of home ownership.
- Choice – New Zealand society is becoming increasingly diverse ethnically, by household type, and a long regional lines. Choice is about developing initiatives that encourage a diversity of responses to meet a diversity of need. Choice is also about increasing people's knowledge to make informed choices about the most appropriate way to meet their housing needs.
- Empowerment – Home ownership initiatives should not only enable people to make an informed choice about home ownership, but should also encourage homeowners to take greater responsibility for meeting their current and future housing needs. Empowerment means that, through the process of home ownership, people are able to have greater control over their lives.
- Safety – a safe home is key to personal well being. For many, the home provides a sanctuary from the stresses and pressures of everyday life. For some though, the home does not provide sanctuary and actively contributes to stress undermining well being. Safety means that home ownership initiatives should provide active support to homeowners and encourage them to seek assistance if their home no longer is safe.



Objective One

Increase opportunities to enter homeownership

Issues Overview:

Achieving home ownership is a demanding challenge and a wide range of factors including labour market conditions influences home ownership opportunities. For many households, the challenges of home ownership become barriers and insurmountable without help. For instance, a major barrier to home ownership is limited ability to save for a deposit. If house prices grow faster than they can save, then home ownership will remain out of their reach. For people paying high rents, this is particularly frustrating if the home ownership costs are not significantly different from what they pay in rent and home ownership represents an opportunity to claw back some of the ‘dead money’ of renting.

The other major barrier to home ownership is affordability. Because house prices have grown faster than incomes, households have to commit more and more of their disposable incomes toward meeting housing costs. For many households, there comes a point where housing costs are no longer affordable and households have to forgo on other essentials like food to meet their housing costs. Their income level and what they need to expend on other essentials will determine what a household can afford. For those on benefit incomes, 30% of gross incomes is estimated to be at the upper end of affordability.

Other potential barriers people face include: meeting the associated costs of home ownership (e.g. legal fees, connection charges, moving costs), poor credit history and/or outstanding debt, fluctuations in interest rates, unexpected events (e.g. family breakdown, a large maintenance cost), limited information, and poor alignment of government policy.

Action Pathways:

Increasing the opportunities to enter home ownership is about finding ways to overcome the barriers to home ownership. There are three action pathways for increasing opportunities that HNZN should progress:

- *Close the Deposit Gap* - for many, this is the major barrier to getting into home ownership and if they were able to surmount it, then they would be well on the way to achieving home ownership. To close the gap HNZN will focus on:
 - Providing conditional grants to assist people meet deposit requirements;
 - Encouraging re-alignment of benefit policy so that the money a beneficiary household saves toward a deposit is not treated as a cash assets for income purposes;
 - Developing saving schemes to encourage people to save and improve their savings capacity through some form of incentive;
 - Low deposit lending to reduce the burden of trying to save enough and quickly enough.
 - Developing a rent-to-buy scheme that generates a deposit that can be put toward the purchase of the house.

- *Reduce the Cost and Uncertainties of Home Ownership* – for some people, the challenge of home ownership extends beyond accessing into home ownership. To sustain home ownership in the long term they will need assistance to reduce the cost and uncertainties of home ownership. To this end HNZN will focus on:
 - Initiatives to reduce the affordability barrier (e.g. income-related interest rates);

- Developing fixed interest rate products to provide increased certainty around housing costs
- Encouraging alternative tenure arrangements that can make home ownership more affordable and manageable (e.g. shared ownership, multi-ownership).
- *Filling the Knowledge Gap* – the risks of home ownership are numerous, and while some households can afford to make and learn from their ‘mistakes’ many households cannot and risk losing their home as a consequence. Filling the knowledge gap is not only about enabling people to make informed decisions about home ownership but also about helping them to avoid and plan ahead for the risks. Filling the knowledge gap requires HNZA to:
 - Promote and making available information on home ownership including the provision of education classes;
 - Develop incentives to encourage people to inform themselves about home ownership (e.g. reduced mortgage insurance premium).

Objective 2

Encourage lenders to support low-income people and under-served groups into home ownership.

Issues Overview:

The most competitive segment of New Zealand's financial sector is the mortgage lending sector. Lenders look upon home ownership as one of the most secure investments available. Despite this, the mortgage lending business remains conservative in its approach to lending. Competition - and the benefits of competition - between lenders remains focussed on those with high incomes and/or the potential for high incomes seeking out the traditional home ownership arrangement of sole and full ownership status. Low-income households and under-served groups have not benefited from greater competition. There is a tendency still to look upon low-income households and under-served groups like people with disabilities as representing a higher lending risk. Nor do these segments constitute a big enough market to justify greater interest from mainstream lenders. Lender's are also constrained in their activity by criteria set by insurers whose head offices are located overseas and who show little interest in local conditions when setting their insurance criteria.

Where competition in the financial sector has focussed on low-income households, it is in the area of consumer finance. Unfortunately, this has exacerbated the credit problems of many low-income households, as they are encouraged to borrow and consume now at high interest rates, rather than save and consume later when a consumer product can be purchased outright. Many households find they are ineligible for a home loan because their consumer debt commitments prevents them from sustaining a home loan and/or had resulted in a poor credit history when they were unable to meet the high costs of consumer finance.

Action Pathways:

Despite the conservative nature of the lending sector there are opportunities for greater collaboration between the Crown and the lending sector to increase the opportunities of low-income and under-served groups to achieve home ownership. The action pathways HNZA needs to pursue to improve opportunities are:

- *Working with mainstream lenders and insurers* to encourage them to be more receptive to low-income households, under-served groups and alternative lending arrangements by:
 - Providing an underwriting service for loans made to under-served segments;
 - Developing more appropriate prudential lending criteria for underwriting purposes that more effectively reflect the circumstances of under-served segments;
 - Developing appropriate intervention services to reduce the risk of people falling out of home ownership and to provide lenders with greater certainty that the risks associated with lending to under-served segments are well managed (c.f. action pathways under objective three); and
 - Investigating with the financial sector, how to better regulate and co-ordinate the activity of the consumer finance market, so that people do not get themselves into debt trouble (for instance reducing the ability of people to use the same asset to leverage loans from a number of different financial institutions).
- *Encouraging the growth of alternative lending services* - where mainstream lenders cannot be convinced to expand their activity, look to develop alternative lending arrangements like credit unions focussed on serving the needs of their local communities through;

- Providing incentives to promote social outcomes (e.g. charitable tax status);
 - Supporting the development of a peak body association to provide secondary level support and provide some economies of scale (for example, the Benedigo Bank in Australia);
 - Develop a range of income related mortgage packages with private lenders where the Corporation provides the subsidy and guarantee and lenders provide the capital finance (e.g. lender offering a mortgage at a fixed rate over 20 years with the Government paying the difference over and above the combination of 30% of household income and the accommodation supplement).
- *Changing perceptions* – much of the assessment of risk associated with lending to different people, groups, and tenure types are based on perceptions rather than solid quantitative evidence. To improve the level of understanding of the risks and costs associated with lending to under-served segments:
 - Engage in research to more accurately assess the level of risk and the contributing factors and share this information with lenders;
 - In conjunction with private lenders develop best practice guidelines for managing the risks and how to reduce the cost to the homeowner as well as to the lender;
 - Show how alternative tenure arrangements like shared ownership or multi-ownership can be sound and generate benefits both for prospective homeowners and lenders.

Objective 3

Protect low-income people and vulnerable groups' investment in homeownership.

Issues Overview:

There are a number of risks associated with sustaining home ownership, which many households are likely to face as homeowners. While the majority of homeowners will be able to weather these adverse events, many low-income and vulnerable homeowners will not and be forced out of home ownership. For instance, unexpected negative changes in a household's circumstances like loss of income or relationship breakdown can contribute to the loss of their home and status as homeowners. When this happens, the Crown can expect to pick up a portion of the costs of the negative consequences of losing home ownership (e.g. re-housing them in public rental stock, health costs arising from the stress of lost home ownership).

Action Pathways:

There are many ways in which a household's long-term position as a homeowner can be undermined. The following action pathways provide a comprehensive approach to helping household's protect their status as homeowners.

- *Assisting People to Maintain their Homes* – many homeowners lose their homes as they are unable (or fail) to maintain their home in good condition and protect the underlying investment. To ensure homes are kept in good condition HNZC will:
 - Develop lending products for home maintenance / improvement purposes, including emergency lending when an unexpected large maintenance cost has to be met;
 - Provide information and education so that homeowners are informed and, to some degree, are able to undertake the necessary on-going maintenance to keep their home in good condition;
 - Encourage the building sector to place more emphasis on maintaining the existing housing stock as well as build new housing;
 - Review the merits of introducing a housing equivalent of a 'warrant of fitness' and annual maintenance checks which could be used as part of the process of selling a house as occurs with cars(c.f. Objective 4)

- *Helping People to preserve their Housing Access in the midst of Personal crisis* – many homeowners lose their homes due to a personal life crisis (loss of employment/income, illness, relationship breakdown). Often the negative consequences of these events are greater than they need to be because there does not exist appropriate support to help a person through the crisis. If appropriate support was available people could better weather these negative events and retain their independence. To assist people retain their homes HNZC will:
 - Explore opportunities for:
 - providing mortgage repayment protection to those most vulnerable to changes in their personal income flows; and
 - options for early intervention if a homeowner is at risk of default including restructuring the loan term;
 - Develop information and education services to assist people to consider and prepare for uncertain futures;

- Improve intervention policy designed to assist people in crisis (e.g. relationship breakdown or mental health episode) to more actively take into account housing need including protection of home ownership;
- Develop support services designed specifically to support people maintain home ownership through a difficult personal period;
- *Supporting People to Prevent the Loss of Housing or the Value of their Invest in their Homes* – home ownership often is lost due to a housing crisis (e.g. arrears, negative equity, interest rate fluctuation), which in turn can trigger a personal crisis compounding the initial problem. To reduce the probability of a housing crisis HNZN will:
 - Invest in community renewal initiatives in areas of decline to ensure people’s investments are not undermined;
 - Develop best practice guidelines for arrears management focussed both on addressing the problem of arrears and sustaining home ownership (i.e. early intervention before problem becomes unmanageable);
 - Develop a range of fixed interest lending products to provide households with greater certainty around mortgage costs;
 - Improve the process of housing valuations to ensure people get an accurate assessment of what a house is worth before purchasing;
 - Encourage local authorities to better manage rate arrears including using the appropriate channels for following up rate arrears and not seek to pass the cost onto other entities like lenders.
- *Supporting Employment* – viable and sustainable employment opportunities enhances people’s ability to sustain home ownership and reduce the cost to the Crown of supporting people maintain home ownership. In rural areas, employment opportunities can be especially rare. HNZN will look to:
 - Keep investment in home ownership initiatives within communities. For instance, using new build programmes as an opportunity to provide apprenticeship opportunity to local people to build their own skill base;
 - Work with the Ministry of Economic Development to use housing as a way to leverage local economic development.

Homeownership Objective 4

Increase the supply of affordable, quality and appropriately designed housing for low-income people wanting to enter homeownership.

Issues Overview:

New Zealanders invest heavily in their housing. For many, their house represents their retirement savings as well as their home. Yet despite the importance of housing to New Zealanders, the overall quality of the housing stock is declining. Ageing stock, poor workmanship, poor design, cosmetic maintenance as opposed to essential maintenance, high building costs, limited protection and remedies and a general lack of consumer knowledge are all contributing factors to this decline. In some areas, particularly isolated rural areas, the problem is further complicated by the absence of local capacity to supply quality housing.

Quality, affordable and appropriately designed housing is necessary if low-income and under-served groups are to fully benefit from entering home ownership. When housing fails to meet these requirements, there is an increased probability that government intervention of some sort will be required.

Action Pathways:

There are four action pathways that HNZN will pursue. They are:

- *Promoting Affordable Durable and Safe Design:* This will include:
 - Investigating new building solutions that are affordable, durable and easy to build;
 - Developing (support) design options with (or by) Maori, Pacific and other cultural communities, recognising that there are a range of different choices within cultural groups;
 - Encouraging innovation in the building industry through working closely with BRANZ (for instance, co-sponsoring a design competition);
 - Training partnerships with universities educating architects, and commissioning and testing innovative approaches to building affordable stock in HNZN's own housing stock and through its homeownership programmes.
- *Improved Regulatory Management and Control of Building Standards:* Including an evaluation and subsequent review of the adequacy of the current Building Act and regulatory processes as a platform for achieving stock quality in existing and new domestic stock.
- *Promote a better understanding of the quality, appropriate performance expectations, and maintenance of the housing stock:* This will include:
 - Developing and promote consumer checklists and accreditation mechanisms for new housing;
 - Establishing a regular programme of research and monitoring of stock quality;
 - Develop checklist / guidelines for looking after older stock (i.e. something like the Warrant of Fitness);
 - Housing rehabilitation including providing home improvement loans to households so they can meet significant maintenance costs and retain their home;

- *Promote affordable housing through improved planning and human settlement practices*
Including:
 - Better alignment of planning and housing needs to better take into account the impact of planning decisions on the supply and cost of housing;
 - Review of land development processes and options for including affordable housing developments within land development initiatives;