

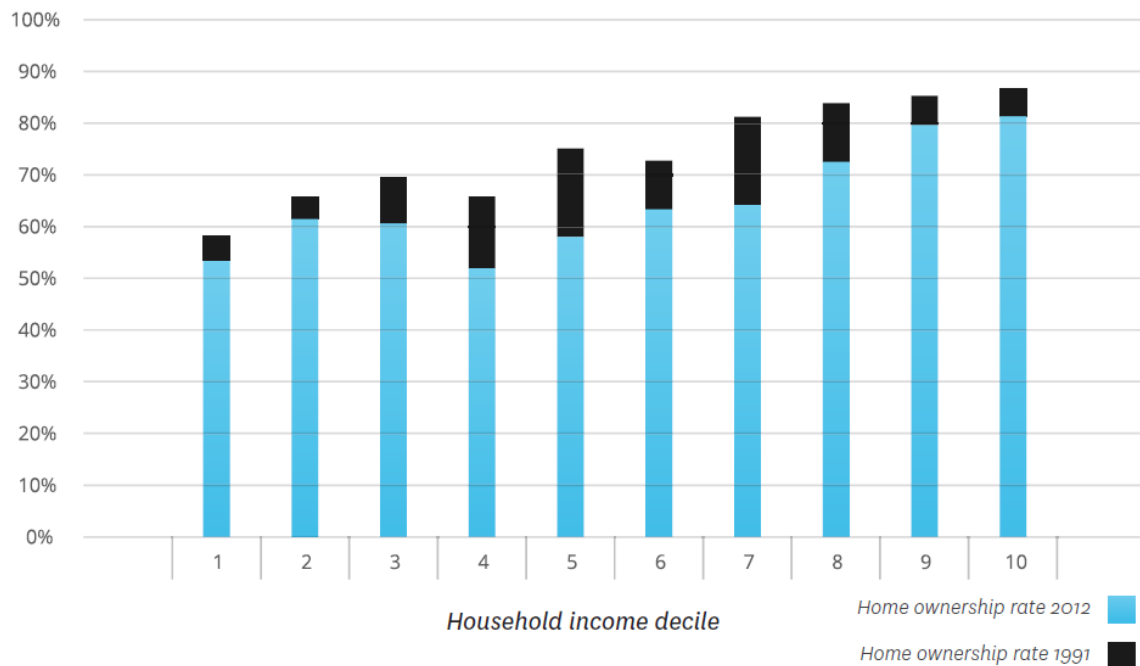
# Home For Life Q & A

## Why is the Home for Life Progressive Ownership model needed?

It's very hard for a young family to get into a good, healthy home that they can afford. While there are some houses in the \$300,000 range, there are not enough to meet demand and they are often not built to modern insulation standards.

Servicing a mortgage, even on a \$300,000 house, at current interest rates costs over \$400 a week, which is too expensive for about 45% of families with kids - and that's if they can get a deposit together. The lack of supply of affordable houses and the cost of a mortgage puts home ownership out of reach of many families. As a result, the home ownership rate in New Zealand has plummeted.

Decline in home ownership by income decile 1991 vs 2012



Renting isn't much cheaper and, instead of building up their own wealth, families are paying off someone else's mortgage. The cost of renting is such that it is very difficult for many families to build up a deposit to buy a house.



## **How does Progressive Ownership work?**

A family enters into an agreement with the Crown for their Progressive Ownership home. Initially, the Crown owns all the equity in the home. The family makes a basic weekly 'rent' payment to cover the Crown's cost of capital and can then purchase equity in the home on top of that until they own the home outright.

## **How much would Progressive Ownership cost a family purchasing a \$300,000 home versus a mortgage or rent?**

Indicative weekly costs for a \$300,000 Progressive Ownership home show it can be over \$100 a week cheaper than a mortgage.

- Mortgage: \$415pw plus other home ownership costs (eg rates, insurance) \$50pw = \$465pw
- Renting: \$350pw, but no asset to show for it
- Progressive Ownership: \$200pw basic payment, \$100pw equity payment, \$50pw other costs = \$350pw

One of the great aspects of Progressive Ownership is that families can increase or decrease the amount of equity they buy as their financial circumstances change. Unlike a mortgage, there's no 'early repayment' penalties and no risk of default.



## **Who will be eligible for Progressive Ownership?**

Progressive Ownership is intended to be a helping hand for young families to get into their first home, so it will be open to first home buyers with dependent children. There will also be other eligibility criteria, such as income and assets, to ensure that the policy helps those who need it most. Progressive Ownership homes will not be able to be leased out as rentals.

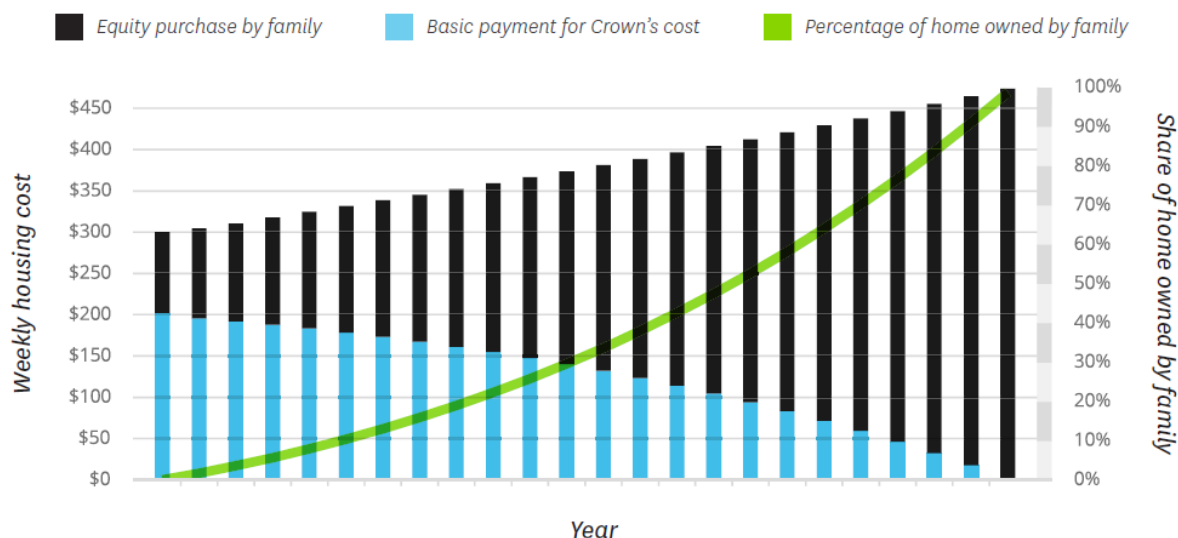


## How long will it take for a family to own their Progressive Ownership home?

A family that starts off with a \$200pw basic payment and a \$100pw equity payment on a \$300,000 home, and increases the amount they spend on the home by the rate of inflation, will own their home outright after 25 years.

### A Progressive Ownership path to full ownership in 25 years

(assumptions: family pays \$300 a week in total initially, rising at rate of inflation, Crown borrowing rate 3.5%)



## How many Progressive Ownership homes will there be?

We see Progressive Ownership working in conjunction with Labour's KiwiBuild and forming part of the 100,000 affordable homes target of that policy. The exact balance between Progressive Ownership and KiwiBuild will be the subject of negotiations post-election and will reflect demand from families.

## What will it cost the government and how will you pay for it?

The houses will require a capital investment from the Crown to build but an offsetting asset is also created. There will be no impact on the Crown's net debt because the Progressive Ownership agreements will be a financial asset on the Government's books. In addition to the construction costs, there would be small on-going administration costs of around \$1,000 per year per house.

It's unavoidable that the building of a decent number of affordable homes requires a large investment. Building 1,000 homes averaging \$300,000, for example, would cost \$300 million. But there is a large amount of unallocated money in future budgets, \$700m to \$900m a year of capital allowance, that can be used for building these affordable homes.



Additionally, latest projections have the Government running \$80 billion of surpluses from 2015 to 2025. Future governments will have to choose how much of that surplus should be spent on paying back the \$50 billion of debt National has amassed and how much should go on smart investment such as our housing policy.

The Green Party will not have to increase net Government debt to pay for this policy. The Green Party will be producing a fully costed summary of all its policies closer to the election.

### ***Can homes really be built for \$300,000?***

Yes. Homebuilding companies have confirmed to us that warm, healthy, 2-3 bedroom houses, with full kit-out and services connected, can be built using modern, environmentally-friendly techniques for prices ranging from \$130,000 to \$170,000. Building these houses as units and/or on smaller sections in existing suburbs minimises the land and infrastructure costs.

The fact is that, even in Auckland, houses in the \$300,000 range already exist. The problem is that there are just too few of them and it is not profitable enough for private property developers to build more.

### ***Why not just adopt Labour's KiwiBuild policy?***

KiwiBuild is a good policy that, as with our Progressive Ownership policy, addresses the serious lack of affordable houses in New Zealand. But it has two significant weaknesses. We see our Progressive Ownership policy working in conjunction with KiwiBuild addressing those weaknesses.

The first problem with KiwiBuild is that a majority of renting families could not afford to service the commercial mortgage or have the deposit needed to purchase a KiwiBuild house; KiwiBuild addresses the supply side of the affordable housing problem, but not the demand side. The Progressive Ownership policy, by leveraging the Crown's low cost of capital, offers a cheaper option that will see far more families able to afford an affordable home.

Secondly, KiwiBuild is essentially funded by private households collectively taking on \$30 billion of additional mortgage debt with which they would buy the houses off the Crown. New Zealand already has a disproportionate amount of private debt owed to foreign lenders, most of it in the form of mortgages with the Australian-owned banks. Where KiwiBuild relies on households taking on more debt, our Progressive Ownership policy would use the Crown's balance sheet – and at a lower overall cost.

In practice, we see KiwiBuild and the Progressive Ownership policy being run as complementary parts of a complete package with some of the 100,000 homes that Labour has promised to build being sold under KiwiBuild and others becoming part of the Progressive Ownership policy.



### ***Why isn't National's policy of more sprawl the answer?***

National's argument is that expensive land is the problem, so the solution is to build on cheap land far from city centres. In fact, there are huge costs to sprawl. New infrastructure such as roads, water services, and electricity supply has to be built. Transport costs for families are much higher and they are very vulnerable to petrol price increases. The increased traffic volumes created by long commutes means the Government has to spend more on motorways. Finally, sprawl means more productive farmland is lost.

Smartly-designed, medium density housing in existing suburbs, well-served by public transport is cheaper, more environmentally sustainable, and creates a more vibrant community.

### ***Why should rentals have to meet a Warrant of Fitness?***

When we purchase any good or service in our daily lives, we know that there are standards that the seller has to meet – for example, electrical goods have to meet safety standards, food has to be prepared in hygienic conditions, and medical professionals need appropriate qualifications. But this isn't the case with renting. Despite the fact that more than a third of Kiwi households rent, there are no basic standards that rentals have to meet to ensure that they are adequate for families to live in.

The Warrant of Fitness will change that by setting insulation, weather-tightness, and basic service provision standards for rentals.

Most landlords are good business operators and meet these standards anyway, but these standards will make sure that every rental is fit for people to live in.

### ***Why should tenants have secure tenancy?***

Secure tenancy will allow renting families to put down roots in their communities, encourage families to take better care of rentals, and redress some of the power imbalance that can exist between landlords and tenants.

Limiting rent increases to once a year and requiring that the formula for calculating them be included in tenancy agreements will protect tenants from arbitrary and unexpected rent hikes.

Allowing tenants a right of renew on rental agreements will encourage a more long-term approach to landlord-tenant relationships. Security of tenure will allow tenants to request that landlords fix problems such as maintenance issues without fear that it will lead to their tenancy not being renewed, or their rent being arbitrarily increased.



### ***What will be the effect on house prices and rents?***

Building more affordable houses and giving families a helping hand into home ownership doesn't just benefit the families that participate directly in the scheme. It will also help to relieve pressure in the rental market and ease demand for existing affordable homes. That will help to make both renting and buying an existing home more affordable.

### ***Will the improvements for tenants' rights put rents up?***

Rents are determined by supply and demand, not by the cost factors of suppliers. If the market would allow landlords to put up rents, then market logic says that they would already. If some property investors leave the market and renting families buy those houses, it does not change the overall balance of the rental market.

Our state housing and Progressive Ownership policies will actually decrease demand for rentals by taking people out of the private rental market and into either state houses or their own Progressive Ownership homes. This should lead to renting becoming more affordable.

### ***How will you ensure hard to house people can still get accommodation?***

By expanding the number of state and third sector houses. Our policy is to build 2,000 state and community houses over three years and to find ways, including Progressive Ownership, to expand provision of social housing by third sector organisations.

