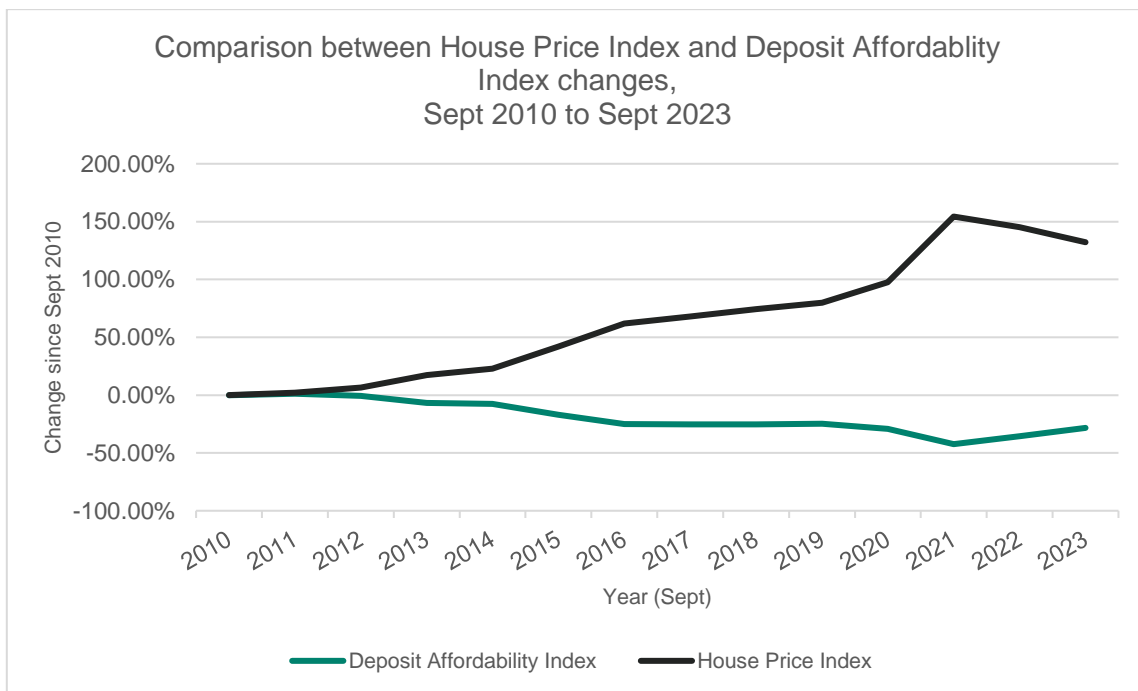


## Information request: Effectiveness of the First Home Grant (9 February 2024)

*The First Home Grant (FHG) was introduced in 2010 to help first home buyers overcome the deposit barrier, but its relative value has decreased as house prices have increased*

- First home buyers' ability to purchase a home is generally determined by their ability to raise the deposit required to access finance and their ability to service a mortgage. The key long-term drivers affecting their ability to do this are house prices, incomes, interest rates, and general access to mortgage finance.
- The FHG is a payment of between \$3,000 and \$10,000 for eligible first home buyers to put towards a deposit. It was not designed to help with servicing a mortgage.
- In 2023, house prices have increased by 132 percent since 2010. This has meant higher deposits are needed, decreasing deposit affordability by 28 percent (figure 1). However, FHG payment that a recipient can receive have stayed the same since its introduction in 2010.
- The FHG was more effective in its earlier years when the grant would have made up a larger portion of the recipient's overall deposit than it does now.

*Figure 1: As house prices have increased, deposit affordability for first home buyers has decreased over time (lower percentage means less affordable), September 2010 to September 2023<sup>1</sup>*



- Assuming that 20 percent is the standard bank deposit requirement to buy a home, in 2010 when the median house price was \$350,000, the deposit amount needed was \$70,000. In 2023 with the median house price at \$779,830, the deposit amount needed is \$156,000.

<sup>1</sup> Deposit affordability compares changes in house sale prices with the growth in the median household disposable income (after tax), and assumes that the standard deposit requirement is 20 percent for first home buyers.

- If a single FHG recipient was eligible to receive the maximum \$5,000 grant for an existing home, the grant would have contributed 7 percent to their overall deposit in 2010, versus 3 percent in 2023. For a couple receiving \$10,000 from the grant (each receiving \$5,000), the grant would have contributed 14 percent to their deposit in 2010, versus 6 percent in 2023.

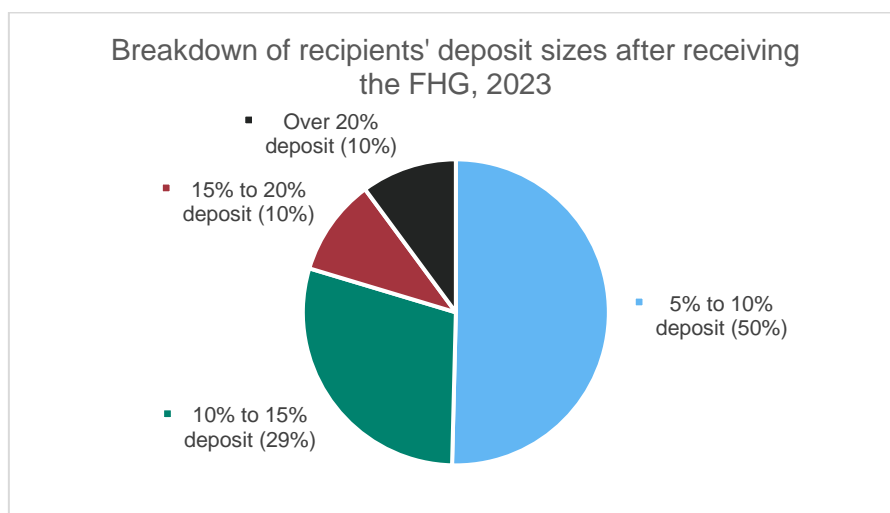
*The FHG is not very effective in addressing the deposit barrier for most first home buyers*

- The FHG helps boost the deposit amount that a first home buyer puts together, but it does not sufficiently address the deposit barrier on its own.
- For the FHG to effectively support first home buyers in overcoming the deposit barrier who would otherwise be unable to buy, the grant value would need to make up a large proportion of their deposit.
- In 2023, for half of FHG recipients, the grant contributed around 15 percent to their overall deposit (regardless of the deposit size). The rest of their deposits are made up of savings, KiwiSaver funds, and/or gifted money.

*The FHG does not significantly impact the ability to purchase for most first home buyers*

- For half of FHG recipients, the grant is worth 8 percent or less of their income. For three quarters of recipients, the grant is worth 11 percent or less of their income. This suggests that first home buyers with sufficient income to service a mortgage would be able to save the value of the grant within a year.
- For most buyers, the FHG likely helped to bring forward purchases (by reducing the length of time to save a deposit) or increased how much a buyer could borrow for a given deposit required by the bank. The grant does not significantly improve their ability to purchase.
- The FHG is accessed by a range of first home buyers, including those who already have at least a 10 percent deposit. In 2023, 49 percent of FHG recipients bought a home with at least 10 percent deposit.

*Figure 2: Pie chart showing 2023 FHG recipients' deposit sizes after receiving the grant*



- In contrast, the First Home Loan (FHL) is accessed by first home buyers who only have a 5 percent deposit and may not have been able to borrow for a home through standard bank deposit requirements. The FHL is more effective in addressing the

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deposit barrier as people using the loan are more likely to require it and would have otherwise not been able to buy.

- Most FHG recipients have a deposit of more than 5 percent of the purchase price of their home in 2023. For these buyers, if not having access to the FHG impacted their ability to purchase, they could still access the FHL with a lower deposit and still be able to purchase a home.