

How to save the public tens of billions of dollars in KiwiBuild?

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The government [claims](#) that the KiwiBuild homes will be sold “at cost,” implying that the scheme will cost the public nothing after the homes are sold. It is misleading. The homes will be sold at deep discounts to their market values. Whenever the government sells something to someone at less than the market price, the discount is a cost to the public. For example, if a crown land is used for KiwiBuild, the cost is the money that the government could’ve received had the land been auctioned off in the open market.

Each KiwiBuild home will be sold to a winner of the scheme’s lottery at a discount of hundreds of thousands. As the government aims to sell 100,000 of them in the next decade, the total cost will add up to tens of billions. That’s an average of thousands, maybe near ten thousand dollars for each New Zealander. In effect, KiwiBuild will transfer enormous wealth from the public to the lucky few.

You might think: The cost is huge but it’s unavoidable if we want to help (some lucky) families buy their own homes. Not so. In fact, the government can save most of the cost.

Let’s first ask: If the government has to help a family who’re priced out of the market, how much should it help? I think we can all agree it should be just enough for them afford a reasonable home. The goal of the scheme is to help them own a home, not to enrich them.

Instead of lucky draws, the homes should be sold by auctions, in which only KiwiBuild qualified buyers can bid. (If open auctions are too much drama, then use sealed envelope bids.) The sales should also come with resale restrictions (to be discussed later). Since the biddings are only open to qualified buyers and are subject to restrictions, the homes will still be sold for less than their market values. But as the homes will be sold for the winning bids instead of prices set by the government, the discounts will be considerably smaller than those under lottery. And as I’ll explain, the resale restrictions will make sure that when the owner sells the home in the future, the discount will either get passed on to another qualified buyer or returned to the public.

The buyers bid according to their financial abilities. Therefore the auction plan provides adequate, but not excessive, assistance to the buyers. Meanwhile, since getting a KiwiBuild home is now less lucrative, those richer yet eligible families are nudged towards the open market, leaving the chances to other eligible families.

You might protest that auction is unfair because poorer families will never have a chance. I’ll offer a solution that’ll help a wide range of families later. But let’s first talk about fairness.

If you think auction is unfair, then you’d need to explain why a family that pay less for a home deserve it more than another family that pay more, when both families qualify for KiwiBuild. It’s hard to justify unless you believe their difference in financial means is *entirely* due to luck, and has nothing to do with personal effort. It’s even harder to justify when the extra money collected can be used to build hospitals, clean up rivers, or cut taxes.

You might argue that lottery is still fairer because it gives every qualified family an equal chance of winning the jackpot. But it looks fair only before the lottery is drawn. What matters is the outcome, and the outcome of a lottery is never fair, otherwise it won’t be called a lottery. Let’s say lucky Bob gets to pay only \$500k for a brand new KiwiBuild house that’s valued at \$1m. Bob is ecstatic. Todd earns the same as Bob but didn’t win the lottery. He has to either continue renting, or buy a tiny old house for the same \$500k. How is that fair?

And then there's Sue. Sue earns more than Bob, but just barely above the income threshold for KiwiBuild. She bought a house inferior to Bob's for \$800k. Yet she has to borrow much more than Bob, and so pay much more in loan repayments. She ends up having less money left to put food on the table for her family for the next 30 years, despite earning more (and paying more taxes). How is that fair?

As I mentioned, resale restrictions should be imposed on KiwiBuild homes. Three years after purchase, when the owner decides to sell the home, he must sell it through KiwiBuild auction. So the home will go to another qualified buyer, who'll again buy it at a discount to the market price.

If market condition or policy has changed so much so that selling through KiwiBuild auction is no longer viable, or when KiwiBuild ultimately ends, the government should also allow the owners to sell freely in the open market, but with the proportion of discount returned to the government. If the home was bought at 50% discount, then return 50% of the sales proceeds to the government. As I [wrote](#) earlier, it is ridiculous to allow the buyers to buy at discounts and sell at full market prices.

So the discount gets either passed on to another qualified buyer, or rightfully returned to the public coffer. This way the owner bears the risk of market fluctuation like everyone else in the free market.

Additional restrictions on eligibility can be imposed to further discourage richer families from participating in the scheme. For example, set asset thresholds in addition to income thresholds for all buyers; extend the no-sale period to five years; restrict the type of properties a family is eligible for (e.g. only a family of four or more can bid for a three-bedroom home); require all family members to live there (except to study somewhere else temporarily); and prohibit them from owning other properties in the next three years.

Now turn to the question of how to make the scheme accessible to a wide range of families. First let's ask: If the goal is just to help families own reasonable homes, why do the homes have to be brand sparkling new? New properties inevitably attract high bids, and the poorer families who just want to own a modest home will miss out.

Instead of building new homes, the government should buy a wide range of properties of different sizes, ages, neighbourhoods from the market, and auction them off to qualified buyers. Better-off families bid for nicer homes; worse-off families bid for more modest homes.

This way the government doesn't need to meddle in property development. It doesn't need to struggle with construction schedules. It can survey the potential buyers before deciding the types and locations of properties to buy. It can test out some auctions first and easily adjust the supply according to the reaction.

To avoid exciting the market, the government should buy gradually and orderly, rather than to splurge. More importantly, it should release the KiwiBuild lands to the market for development, so that the new supplies will balance its purchases. The revenues from land sales will far outweigh the discounts given to the auction buyers, and much of the discounts will ultimately be repaid to the public.

The auction plan is fairer, more flexible, and will save the public enormously. Will the government consider it?

Most likely not. The government's build-and-lottery plan may be bad economics, but it's probably good politics. (The opposite is true for the auction plan.) To the eligible buyers, free lucky draw and the chance of winning a jackpot is luring, while the thought of having to bid is daunting. As for the families who're not eligible, they may not even realize what they're losing.

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