

CHRANZ Fact Sheet

Affordable Housing in New Zealand

Prepared for the

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Affordability typically becomes a concern when the housing costs of households in the lower 40% of the household income distribution exceed more than 30% of their gross income, whether renting, buying or existing homeowners. New Zealand has been experiencing a decline in housing affordability for some renters and would-be homeowners as rents and house prices have increased at a faster rate than household incomes. A lack of affordable housing has potential negative social and economic impacts in housing market 'hotspots'. Attempts to address affordability difficulties largely fall into demand side interventions – to increase the ability of people to rent or purchase affordable housing – and supply side interventions - to reduce the cost of housing and/or directly or indirectly increase the supply of affordable housing.

This fact sheet is based on the CHRANZ reports:

- *Changes in the Structure of the New Zealand Housing Market* DTZ New Zealand (May 2004)
- *Housing Costs and Affordability* DTZ New Zealand (June 2004)
- *Housing Tenure Aspirations and Attainment* DTZ New Zealand (October 2005)
- *Regional Housing Markets in New Zealand: house prices, sales and supply responses* Motu Economic and Public Policy Research (February 2006)
- *Affordable Housing in Nelson, Tasman and Marlborough Regions: Taking Action* Motu Project Team (August 2006)
- *Stakeholder Perspectives and Experiences of Housing and Affordability in Nelson, Tasman and Marlborough* Public Policy and Research / CRESA (April 2006)
- *Public Perspectives on Housing and Affordability in Nelson, Tasman and Marlborough* CRESA / Public Policy and Research (April 2006)

A copy of these reports can be found on the CHRANZ website under 'Our Publications'.

Other relevant reports include:

- *The Role of Local Government in the provision of Affordable Housing* A report prepared for Local Government New Zealand, Dunedin, Wellington and North Shore City Councils and New Plymouth and Western Bay of Plenty District Councils by McKinlay Douglas Ltd (2004)
- *Policy Approaches to the Provision of Affordable Housing* Hill D; Mead, D; Austin, P A Report to the Auckland City Council by Hill Young Cooper Ltd (2004)
- *Housing affordability in Queenstown Lakes District – the nature and scale of housing affordability issues in the district* A report produced for the Queenstown Lakes District Council by Austin, T and Hill, Young and Cooper (2004)
- *Affordability of Housing: Concepts, Measurement and Evidence* New Zealand Treasury Working Paper 06 / 03 (March 2006)

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Measures and Trends

Housing affordability has three key dimensions:

- Affordability for renters;
- Affordability for would-be homeowners; and
- Affordability for existing homeowners.

Measures

A wide range of housing affordability measures are used for rental tenure and home ownership tenure. Most of these measures include components of adequate accommodation and adequate residual income. While recognising the significant subjective issues and associated difficulties around the measurement of housing affordability, various national and other agencies have set objective measures for measuring housing affordability – a necessary prerequisite for intervention. (See Appendix A: Definitions of Affordability, page 9)

A common benchmark of housing affordability is those households experiencing 'housing stress' which are in the lower 40% of the household income distribution and pay more than 30% of their gross income on housing costs, whether renting, buying or existing homeowners.

A distinction is increasingly being made between housing affordability issues for those accessing social housing, (i.e. generally households in the lowest household income quintile) and those identified as part of the 'intermediate' housing market where households are neither poor enough for social rented housing nor rich enough to buy or rent affordably in the open market.

Several interrelated factors contribute to the affordability of housing:

- Income (ability to pay and save);
- House prices and rents (level of payment required);
- Financial factors (cost and availability of credit);
- Demographic factors (household formation rate and migration inflows);
- Employment and labour market conditions (ability to participate);
- Supply factors (zoning, labour & resource availability and costs).

Trends

Rents and house prices in New Zealand have increased over the last twenty years at a faster rate than household incomes. Consequently, there has been an escalation of household housing costs as a percentage income. The growing disparity between house prices, rents and low to medium household incomes is not confined to New Zealand and has occurred in most OECD countries.

Affordability across a range of measures has reduced for would-be homeowners and, most significantly, for renters in New Zealand. There is a large variation in housing affordability across regions. The decline in housing affordability has been most marked in the Auckland region.

The probability that households in New Zealand will own their dwelling has been falling since 1991 even though the number of households actually owning has risen. The fall in ownership has disproportionately affected younger, low income households. However, the rise of house prices in New Zealand relative to growth in household incomes has seen housing affordability problems widen to include modest income households between deciles 3 – 5.

New Zealand's home ownership rate is projected by DTZ NZ to continue to decrease and fall to 61.8% by 2016. Home ownership rates are expected to decline across all regions, however, the rate of change is expected to vary. For example, Gisborne and Auckland are projected to have the lowest home ownership rates at 57.5% and 58.3% respectively and Southland and Tasman the highest at 69.5% in 2016. (See Table 6 Homeownership Rate Trends by Region, page 10)

The total number of households is expected to increase to 1,748,020 by 2016 or approximately by 20,500 households per annum between 2006 and 2016. Just under half of the total growth is projected to be in the Auckland region and 70% of the total growth in the upper half of the North Island. .

The growth in the number of rented units between 2006 and 2016 is projected by DTZ New Zealand to be 136,050 units, whereas the growth in owned units is expected to be 58,930 units. (See Table7 Projected Number of Owned and Rented Households, page 10)

House and land prices have risen in real (CPI – adjusted) terms by 105% and 286% each on average across New Zealand between 1981 and 2004, but there has been a wide regional variation. Major urban areas and sun-belt destinations (retirement, holiday home and tourism destinations) report the strongest growth. Areas with negative or low real price rises are predominantly rural North Island or southern South Island Regions.

There is an emerging geography to home ownership resulting from the constraints on securing owner occupancy in the major cities. As ownership rates decline in the metropolitan centres, ownership rates have risen relatively in areas beyond the main and secondary urban centres.

Impacts – Social and Economic

A lack of affordable housing is both a social and economic issue. Housing affordability is about more than the ability to purchase or rent and sustain adequate housing at an acceptable cost. It is also about the contribution that housing can make to achieve positive outcomes in education, health, employment, regional economic development and building communities.

Social

A lack of affordable housing can have a number of negative social impacts:

- A positive relationship exists between poverty and housing costs, especially for households in the private rental sector.
- Households facing insufficient incomes or insufficient residual incomes are likely to trade off their housing costs against one or more dimension of housing adequacy, for example by moving into inadequate housing that is overcrowded, or substandard, or in a remote location.

- There is a clear association between overcrowding and substandard living conditions and a range of adverse health, education and social outcomes.
- Inadequate housing and associated financial stress can contribute to family breakdown, as well as result from it.
- The cohesion of broader society can be undermined by neighbourhood instability and social exclusion in the face of a decline in permanent and secure housing.

Economic

A lack of affordable housing can impose significant constraints on the economy. Housing affordability is important for economic well being because:

- Poor housing affordability can restrict access to labour and retaining employees.
- Low to medium paid workers, many who provide essential services, can migrate elsewhere in search of affordable housing and sustainable lifestyles.
- Innovation drivers can be undermined if successful regional economies alienate young, creative workers at the beginning of their careers because the struggle to access affordable housing in the local market is too great.
- Along with other infrastructure components, affordable housing helps to determine whether or not companies and employees locate and/or remain in a city or region.

A 2005 survey of 612 Nelson, Tasman and Marlborough households identified that problems with housing affordability posed a significant restraint on economic development and productivity in these regions.

Key stakeholder interviews revealed further agreement that a lack of affordable housing has a major negative impact on the local and regional economies. In particular, they noted that a lack of affordable housing results in difficulties for a range of industries in attracting and retaining prospective employees to the top of the South Island. This impacted not just seasonal industries or the primary sector, but also impacted on construction, and tertiary sector industries such as tourism, education and health. A range of occupations from workers to managers, technical staff, trades people and professionals are affected.

Responses – Demand Side and Supply Side

The wide range of interventions tried internationally to address affordability difficulties are usually of two types:

- Demand side - increase the ability of people to rent or purchase affordable housing;
- Supply side - reduce the cost of housing and/or directly or indirectly increase the supply of affordable housing.

The range of affordable housing interventions available usually involves a combination of techniques and different implementation iterations.

Not all the approaches are equal. Those using the planning system are significant interventions across multiple levels. Others are much less significant in scale and intent and generally supplement other approaches.

The context in which possible affordable housing interventions are made is critical. New Zealand's relatively narrow affordable housing interventions, historic and current, have occurred in a specific political, institutional and regulatory environment.

Housing policy and practice by itself cannot guarantee desirable housing outcomes. Monetary policy, labour market policy, taxation policy, social assistance, immigration and infrastructure (transport, water and sewage) policy have the potential to exercise a large influence on housing.

Demand Side

Demand side approaches focus on giving direct financial assistance or some other form of subsidy to individuals/households to enable them to rent or purchase affordable housing. Demand-side affordability assistance is most commonly funded and delivered by government agencies. In some jurisdictions, however, employers provide it as part of their wider benefits programme to help attract and retain employees who would otherwise face affordability issues in the intermediate housing market.

In terms of rental housing, demand side assistance is focused on accommodation supplements or vouchers but can also include programmes to help low-income renters search for affordable housing in the private market and guarantor programmes around bond and rental payments. For low-moderate income renter households there are also a range of interventions to assist them into owner occupation such as low interest or interest free loans, loan guarantees and share equity/shared ownership schemes.

Table 1: Demand side interventions

Technique	Description
Second tier income support (NZ = Accommodation Supplement)	Available to low income earners who meet certain criteria to assist with accommodation costs
Bond/rental payment guarantee	A body, usually central government or local government, acts as a bond and rental payment guarantor
Housing finance assistance	Reduced interest rate, deferred interest or no interest loans sustain in home ownership those who would otherwise have on-going affordability issues
Tax concessions	Tax related subsidies reducing the on-going cost of mortgage interest costs for borrowers
Deposit assistance	Deposit assistance for those with insufficient weekly cash surpluses to build a deposit
Mortgage insurance	Central government acts as a mortgage insurer and loan underwriter
Shared equity/shared ownership	Ownership shared with government or third sector provider. Land component can be removed from the equation.

Source: Hill et al (2004) DTZ Research

Supply Side

Supply side strategies look to either reduce the cost of housing and/or directly or indirectly increase the supply. The four key types of supply side intervention are:

- Provision - focuses on the direct supply of affordable housing and land for affordable housing by central and/or local government and third sector housing providers
- Development incentives – incentives, commonly at local government level, to developers to undertake affordable housing development;
- Financing methods - the provision and/or generation of finance for affordable housing; and
- Land use regulation - regulation either as an impediment to affordable housing or support to affordable housing.

Table 2: Affordable Housing Provision

Technique	Brief Description
Expand supply of central government affordable housing	Increase the number of central government units available for rent to eligible households
Expand council housing stock	Directly provide additional units for rent to eligible households
'Third sector' housing provision	'Third sector' housing providers develop and/or purchase, maintain and manage affordable housing
Development of publicly owned or private land	Affordable housing has first call on surplus publicly owned land. Individual firms and companies can also operate such schemes.
Land banking/site acquisition	Local council/public funded agency strategically acquires land for affordable housing
Self build housing/sweat equity	Prospective owners assist with construction

Source: Hill et al (2004) and DTZ Research

Table 3: Development Incentives

Technique	Description
Reduced rates	Developer provides a certain number of affordable units in exchange for a rates reduction for a set period
Reduced resource consent fees	Developer provides a certain number of affordable units in exchange for a consent fee reduction
Reduced/deferred financial contributions	Commercial developers are levied to reflect the wider social and community impacts of their developments
Low interest loans for developers	Local council's provide developers of affordable housing with low interest loans
Development underwrite	Councils underwrite affordable housing developments to lower developer risk

Source: Hill et al (2004) and DTZ Research

Table 4: Financing Methods

Technique	Description
Government affordable housing financing	Central/state government's provide low interest loans and grants for developers and non-profit organisations to build or rehabilitate affordable rental housing
Private-Public funding Housing Trust Funds	A fund dedicated to bringing together various sources of financing to produce and preserve housing that is affordable to lower-income households
Development contributions	Developers are levied with monies which are directed to affordable housing
Rate increment financing	Rates income from designated growth areas is used to fund loans/bonds to finance affordable housing schemes in those areas.
Planning gain tax	Tax on the capital gain resulting from a change of use, development or rezoning used to finance affordable housing schemes
Real estate transfer tax	Tax paid on the sale of property used to finance affordable housing schemes

Source: Hill et al (2004) and DTZ Research

Table 5: Planning Regulation

Technique	Description
Inclusionary zoning	A proportion of new housing in a development has to be set-aside for low income households.
Reform of exclusionary regulatory regimes	Reform of zoning requirements, subdivision regulations and building codes to eliminate exclusionary provisions
Higher density zoning	Zoning which allows greater intensity of development
Performance-based zoning	Zoning is based on performance standards rather than set bulk, location and density rules.
Density bonuses or relaxation of other controls	Provides an incentive for affordable housing, e.g. a higher density of development than allowed by zoning would be possible if a certain percentage of affordable housing is provided

Source: Hill et al (2004) and DTZ Research

Appendix A

Definitions of Affordability

“Affordability is concerned with securing some given standard of housing (or different standards) at a price or rent which does not impose, in the eye of some third party (usually government) an unreasonable burden on household incomes.” (Maclennan and Williams, 1990a, p. 9)

“The answer is that any rent will be affordable which leaves the consumer with a socially-acceptable standard of both housing and non-housing consumption after rent is paid.” (Hancock, 1993, p.144).

“A household is said to have a housing affordability problem, in most formulations of the term, when it pays more than a certain percentage of income to obtain adequate and appropriate housing.” (Hulchanski, 1995, p. 471).

“Physically adequate housing that is made available to those who, without some special intervention by government or special arrangement by the providers of housing, could not afford the rent or mortgage payments for such housing.” (Field, 1997, p. 802)

“Definitions of affordability concentrate on the relationship between housing expenditure and household income and define a standard in terms of that income above which housing is regarded as unaffordable.” (Freeman, Chaplin and Whitehead 1997, p.2).

“Housing affordability relates to the ability of households to rent or purchase housing in an area of choice at a reasonable price, the capacity of households to meet ongoing housing costs, and the degree that discretionary income is available to achieve an acceptable standard of living. There is an underlying principle that expenditure on housing should leave enough residual income to cover other basic living costs, as well as allowing households to save for irregular but unavoidable costs such as medical and dental care.” (Working Party on Affordability Issues, 2003, p.66).

“The notion of reasonable housing costs in relation to income: that is, housing costs that leave households with sufficient income to meet other basic needs such as food, clothing, transport, medical care and education.” (Australia National Housing Strategy, 1991, ix).

Table 6: Home Ownership Rate Trends by Region

Region	Home Ownership Rates						Change in Rates	
	1991	1996	2001	2006	2011	2016	91 to 01	01 to 16
Northland	73.9%	71.2%	70.5%	68.8%	66.9%	64.9%	-3.4%	-5.6%
Auckland	72.7%	69.2%	64.6%	62.0%	60.1%	58.3%	-8.1%	-6.3%
Waikato	71.4%	68.0%	67.6%	65.5%	63.7%	62.3%	-3.8%	-5.3%
Bay of Plenty	76.2%	71.7%	68.4%	66.4%	64.3%	62.2%	-7.8%	-6.2%
Gisborne	67.2%	65.1%	63.2%	61.5%	59.3%	57.5%	-4.0%	-5.7%
Hawkes Bay	73.7%	70.6%	67.8%	65.9%	63.7%	61.7%	-5.9%	-6.1%
Taranaki	75.1%	72.1%	72.2%	70.3%	68.0%	66.0%	-2.9%	-6.2%
Wanganui / Manawatu	71.7%	68.7%	67.9%	66.1%	64.2%	62.7%	-3.8%	-5.2%
Wellington	72.1%	69.9%	66.9%	64.9%	63.1%	61.1%	-5.2%	-5.8%
Marlborough	78.3%	74.7%	73.7%	71.8%	69.4%	67.3%	-4.6%	-6.4%
Nelson	77.3%	72.3%	68.7%	66.1%	63.2%	61.0%	-8.6%	-7.7%
Tasman	80.1%	77.4%	76.1%	74.3%	72.1%	69.5%	-4.0%	-6.6%
West Coast	76.2%	73.7%	72.6%	70.4%	68.2%	66.6%	-3.6%	-6.0%
Canterbury	76.6%	73.8%	71.4%	69.6%	67.6%	65.5%	-5.2%	-5.9%
Otago	74.7%	71.9%	69.6%	67.2%	64.9%	63.0%	-5.1%	-6.6%
Southland	80.3%	77.7%	75.6%	73.6%	71.2%	69.5%	-4.7%	-6.1%
New Zealand	73.8%	70.7%	68.0%	65.8%	63.7%	61.8%	-5.8%	-6.2%

Source: DTZ Research (2005)

Table 7: Projected Number of Owned and Rented Households

	2001		2006		2011		2016	
	Owned	Rented	Owned	Rented	Owned	Rented	Owned	Rented
Northland	38,350	16,050	39,790	18,040	41,080	20,320	42,040	22,730
Auckland	270,930	148,470	291,540	178,680	308,960	205,110	328,100	234,680
Waikato	92,210	44,190	95,180	50,140	97,580	55,610	100,740	60,960
Bay of Plenty	63,680	29,420	67,400	34,100	70,580	39,180	73,380	44,600
Gisborne	10,360	6,040	10,270	6,430	10,120	6,940	10,120	7,480
Hawkes Bay	37,830	17,970	38,330	19,830	38,280	21,820	38,310	23,780
Taranaki	29,820	11,480	29,480	12,460	29,030	13,660	28,640	14,760
Wanganui / Manawatu	58,870	27,830	58,410	29,960	58,270	32,490	58,690	34,920
Wellington	111,660	55,240	115,310	62,360	117,210	68,540	118,020	75,140
Tasman	12,010	4,290	13,280	5,210	14,200	6,260	14,690	7,140
Nelson	11,820	5,380	12,460	6,390	12,640	7,360	12,880	8,230
Marlborough	12,180	3,820	12,940	4,480	13,350	5,160	13,480	5,910
West Coast	9,150	3,450	8,920	3,750	8,840	4,120	8,700	4,370
Canterbury	140,020	56,080	146,650	64,060	149,290	71,560	152,050	80,080
Otago	51,920	22,680	53,180	25,950	53,170	28,760	53,350	31,340
Southland	28,050	9,050	27,980	10,040	27,410	11,090	26,900	11,810
New Zealand	978,860	461,440	1,021,120	531,880	1,050,010	597,980	1,080,090	667,930

Source: DTZ Research (2005)

Table 8: Change in the Number of Owned and Rented Households

Region	2006			2011			2016		
	Owned	Rented	Total	Owned	Rented	Total	Owned	Rented	Total
Northland	1,440	1,990	3,430	1,290	2,280	3,570	960	2,410	3,370
Auckland	20,610	30,210	50,820	17,420	26,430	43,850	19,140	29,570	48,710
Waikato	2,970	5,950	8,920	2,400	5,470	7,870	3,160	5,350	8,510
Bay of Plenty	3,720	4,680	8,400	3,180	5,080	8,260	2,800	5,420	8,220
Gisborne	-90	390	300	-150	510	360	0	540	540
Hawkes Bay	500	1,860	2,360	-50	1,990	1,940	30	1,960	1,990
Taranaki	-340	980	640	-450	1,200	750	-390	1,100	710
Wanganui / Manawatu	-460	2,130	1,670	-140	2,530	2,390	420	2,430	2,850
Wellington	3,650	7,120	10,770	1,900	6,180	8,080	810	6,600	7,410
Marlborough	1,270	920	2,190	920	1,050	1,970	490	880	1,370
Nelson	640	1,010	1,650	180	970	1,150	240	870	1,110
Tasman	760	660	1,420	410	680	1,090	130	750	880
West Coast	-230	300	70	-80	370	290	-140	250	110
Canterbury	6,630	7,980	14,610	2,640	7,500	10,140	2,760	8,520	11,280
Otago	1,260	3,270	4,530	-10	2,810	2,800	180	2,580	2,760
Southland	-70	990	920	-570	1,050	480	-510	720	210
New Zealand	42,260	70,440	112,700	28,890	66,100	94,990	30,080	69,950	100,030

Source: DTZ Research (2005)

Table 9: Growth in Owned, Rented and Total Households by Region - 2001 to 2016

Region	Owned Dwellings		Rented Dwellings		Total Dwellings	
	Total Increase	% of Inc	Total Increase	% of Inc	Total Increase	% of Inc
Northland	3,690	3.6%	6,680	3.2%	10,370	3.4%
Auckland	57,170	56.5%	86,210	41.8%	143,380	46.6%
Waikato	8,530	8.4%	16,770	8.1%	25,300	8.2%
Bay of Plenty	9,700	9.6%	15,180	7.4%	24,880	8.1%
Gisborne	-240	-0.2%	1,440	0.7%	1,200	0.4%
Hawkes Bay	480	0.5%	5,810	2.8%	6,290	2.0%
Taranaki	-1,180	-1.2%	3,280	1.6%	2,100	0.7%
Wanganui / Manawatu	-180	-0.2%	7,090	3.4%	6,910	2.2%
Wellington	6,360	6.3%	19,900	9.6%	26,260	8.5%
Marlborough	2,680	2.6%	2,850	1.4%	5,530	1.8%
Nelson	1,060	1.0%	2,850	1.4%	3,910	1.3%
Tasman	1,300	1.3%	2,090	1.0%	3,390	1.1%
West Coast	-450	-0.4%	920	0.4%	470	0.2%
Canterbury	12,030	11.9%	24,000	11.6%	36,030	11.7%
Otago	1,430	1.4%	8,660	4.2%	10,090	3.3%
Southland	-1,150	-1.1%	2,760	1.3%	1,610	0.5%
New Zealand	101,230	100.0%	206,490	100.0%	307,720	100.0%

Source: DTZ Research (2005)