

New Zealand's housing story is not one but several. There is the story of changing housing tenure, changing housing affordability and variable housing supply. But these stories are themselves quite different depending on where you are placed in the housing market. A tenant faces a different set of challenges than those faced by a landlord and a new home owner is often more affected by market changes than an established owner. In addition, the housing fortunes of each of the regions of New Zealand have tended to be vastly different on account of local economic conditions, and population growth, and in Canterbury's case, natural disasters. This complexity means that it is difficult to present a single narrative about housing in New Zealand and almost as difficult to avoid framing housing issues and conditions from just one perspective.

In the face of such difficulties this briefing note is an attempt at providing an overview of New Zealand's housing markets and housing system and of recent changes to these. Such a system and market is of course quite dynamic which means that the following summary will quickly date as policies change and economic and demographic factors shift. This summary initially offers an overview of New Zealand's housing markets and housing policies then considers three key elements of the housing landscape - tenure, supply and affordability. While a discussion of housing policy would complete this briefing paper it is beyond the scope of it so only brief mention is made here of present policy settings.

AN OVERVIEW OF NEW ZEALAND'S HOUSING

There are almost 1.8 million private dwellings in New Zealand of which 64% or around about 1.14 million are owner-occupied and around 640,000 are rented. Of the rented dwellings approximately 80,000 or just over 12% might be classed as social housing although the exact number of such units remains a little unclear¹.

Over the past decade New Zealand's housing stock has grown at an average annual rate of 1.1% or by about 18,000 dwellings. Over the same period, an average of 21,000 consents for new dwellings have been issued.

These 1.8 million dwellings are occupied by just over 4.5 million people providing an average household size of 2.6 people per household. Such an average is somewhat misleading as there is considerable variation in household sizes across New Zealand. For example the average household size in Auckland is 3.0 people per household while it is just 2.4 people per household in Marlborough and Southland. Within Auckland the variability in average household size is even greater with almost 4.2 people per household across the Mangere-Otahuhu board area and just 2.6 people per household in Devonport-Takapuna².

Housing dominates New Zealanders' wealth and debt. At the end of 2014 New Zealand households owed \$196 billion in housing related debt which was around 82% of GDP. Ten years previously households owed \$102 billion in housing related debt or 67% of GDP. Housing debt as a proportion of GDP peaked in 2009 at over 87%. At the end of 2014 the market value of New Zealand's housing stock stood at \$768 billion or 323% of GDP when ten years previously these assets were worth \$429 billion or 280% of GDP. House values as a proportion of GDP peaked in 2007 at 336%.³

Government allocates around \$1.9 billion to housing subsidies or about 2.5% of its entire spending. Of this housing budget almost \$1.14 billion is spent on the Accommodation Supplement and \$718 million is paid to Housing New Zealand to allow it to provide income related rents to around 60,000 state tenants⁴. Government assistance for home-ownership is fairly minimal with a modest mortgage guarantee scheme known as Welcome Home Loans and Kiwisaver withdrawal concessions alongside grants of up to \$5000 per person. The Government is presently undertaking a widespread reform of social housing including reconfiguring the state house stock and moves to increase the provision of social housing through NGO housing providers. To date these changes have seen a sell down of state houses with promises of more to come⁵, alongside the establishment of a special purpose development agency to redevelop the public housing estate in Tamaki in eastern Auckland.

HOUSING TENURE

The proportion of New Zealand households which own their own home has fallen continuously since 1991 when the last of any meaningful Government support for home ownership programmes was withdrawn. In 1991 73% of households owned their home and this proportion has fallen progressively since then to 64% of households at the end of 2014. This decline has meant that the majority of additional dwellings added to the national housing stock have been rented dwellings. Between 2004 and 2014 of the 180,000 dwellings added to the stock, 63% or 114,000 were rental housing. Of these 114,000 additional rental units just 3000 were additions to the social housing stock.⁶

Homeownership rates vary considerable across the country. In Marlborough-Nelson-Tasman over 70% of households own or partly own their homes while in Gisborne less than 60% do while in Auckland the homeownership rate is just 61% of all households.

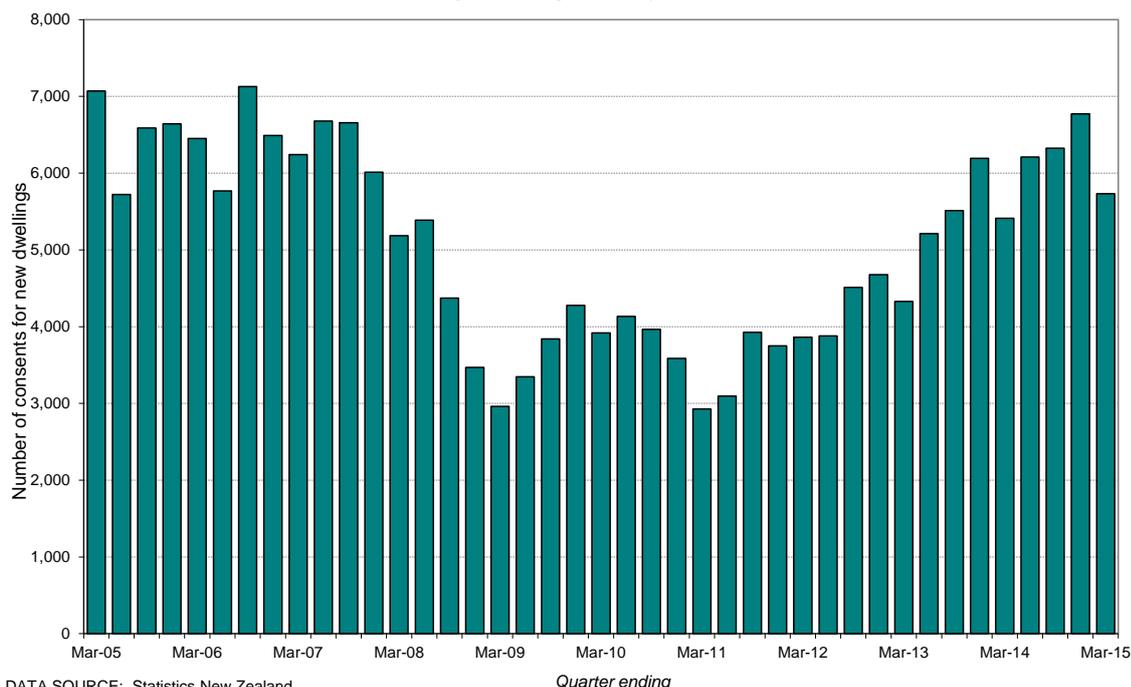
HOUSING SUPPLY

As discussed above over the past ten year on average 21,000 consents for new dwellings have been issued. As shown in Figure 1 house building activity has fluctuated significantly from an annual total of more than 30,000 dwelling consents in 2005 to one of less than 15,000 consents in 2010.

Over the past decade Auckland has received nearly half (48%) of New Zealand’s total population growth⁷ yet gained just 28% of the country’s consents for new dwellings. This shortfall in new house building in Auckland has perhaps created a deficit of around 10,000 houses over the past five years⁸.

A notable feature of the housing supply is the rising cost and size of new houses. New dwellings can roughly be divided into two categories - detached houses and attached dwellings such as apartments, terrace housing and retirement villages. Detached houses make up almost 80% of all new dwellings nation-wide and just over 70% of new dwellings in Auckland. Over the past ten years the average size of a new detached house has remained fairly constant at around 215m² although in Auckland it has risen from around 218m² to 236m². The per square metre cost of such houses has however risen sharply. Across all of New Zealand and for the year to March 2015 the average per square metre cost of a house was just over \$1700 and increase of 30% in inflation adjusted terms on the cost ten years earlier of just over \$1300⁹

FIGURE 1: Consents for new dwellings on a quarterly basis - 2005 - 2015



DATA SOURCE: Statistics New Zealand

HOUSING AFFORDABILITY

A number of housing affordability measures are available and these can be applied to various housing markets which might be determined by location, housing tenure, housing size and relative price. Given this breadth it is difficult to identify the most appropriate affordability measure so an attempt is made here to divide them between rent affordability measures and purchase affordability measures.

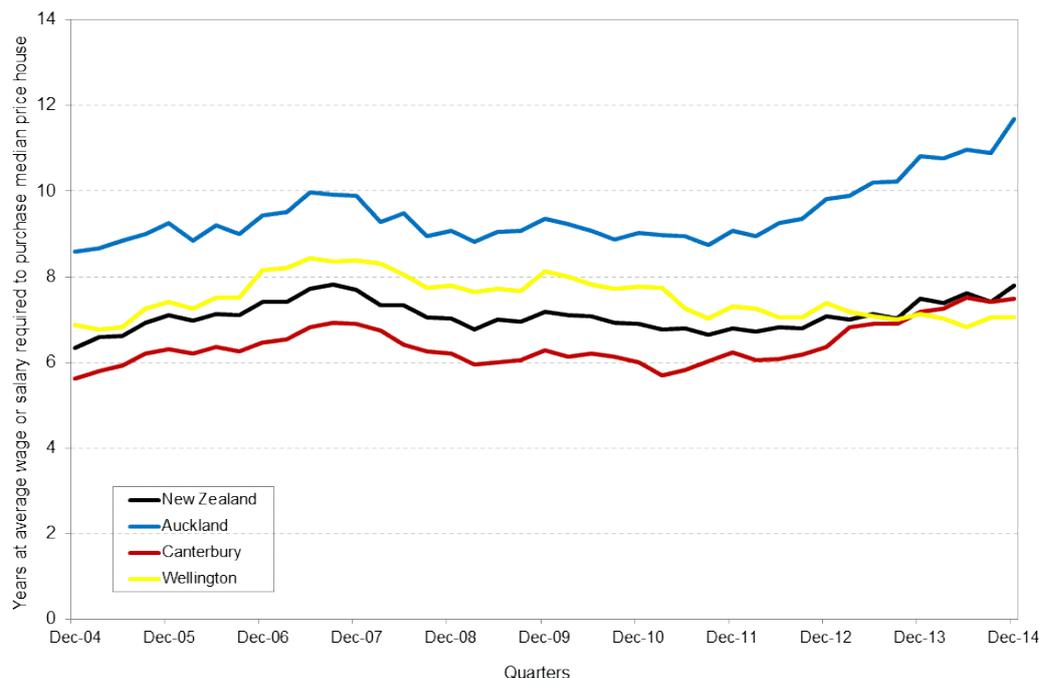
Purchase affordability measures are normally based on two or three variables - income, house price and debt servicing costs. For example the Massey University Home Affordability Report is based on an index which is calculated from the prevailing mortgage interest rates, regional house prices and weekly wages. This index is used to report relative changes in affordability over time and the relativity of affordability between regions. A summary of these measures is offered in the following table.

Table 1: Housing affordability measures from Massey University Home affordability Report¹⁰ March 2015

Region	Affordability as proportion of NZ average	Change in affordability over the past 12 months - +ve = improvement
Northland	84%	+1.8%
Auckland	149%	-22.3%
Waikato - Bay of Plenty	88%	-5.3%
Gisborne - Hawkes Bay	72%	-2.6%
Manawatu-Wanganui	59%	-12.0%
Taranaki	69%	-10.8%
Wellington	87%	-5.3%
Nelson-Marlborough	95%	-5.8%
Canterbury-Westland	97%	-6.8%
Otago	67%	-12.8%
Central Otago Lakes	133%	-17.7%
Southland	48%	-2.2%
New Zealand		-10.4%

A more intuitive measure of housing affordability is a simple ratio between house prices and incomes. Figure 2 offers such a measure over the past 10 years where affordability is expressed as the number of years it would take on the average full-time wage or salary to purchase a median priced house. Figure 2 provides estimates of this measure for Auckland, Wellington, Canterbury and New Zealand overall.

Figure 2: Housing affordability 2005-2015 - years at average wages to purchase median price house



The picture offered in both Table 1 and Figure 2 shows clearly the extent to which housing affordability is a particular problem in Auckland. Housing costs in Auckland relative to incomes are at unprecedented levels - approaching 12 years of income to purchase a median price house. As can be seen in Figure 2 this unaffordability has become a problem since early 2012 although Auckland was even prior to this date around 50% more expensive than New Zealand as whole. A further conclusion to take from Table 1 and Figure 2 is how close to the New Zealand wide median are house prices in Wellington and Canterbury regions. Wellington house prices have tended to rise with wages and salaries since the Global Financial Crisis (GFC) of 2007-08 and are in fact relatively more affordable than prior to the GFC. House prices in Canterbury have clearly risen since the earthquakes of 2010 and 2011 although the median price house is now around that of the New Zealand wide median.

The New Zealand wide median house price is of course a statistical artefact as the typical New Zealand house does not actually exist. This median price is of course an aggregate of the prices of all the houses sold in New Zealand during the period in question - which in the case of Figure 2 is three months. In focusing on New Zealand wide house price measures, some recognition should be given to dominance of Auckland in such measures. By value of transactions the Auckland market currently contributes over half of the total house sales market in New Zealand so clearly what happens in Auckland is directly reflected in New Zealand wide measures as well¹¹. It is difficult to estimate an 'outside of Auckland' housing affordability measure without having access to the raw data on which such measures are based. However a simple comparison of the Auckland and New Zealand wide trends offered in Figure 2 gives some insight into what is happening in the rest of New Zealand in terms of housing affordability. The New Zealand wide affordability measure is showing only a modest deterioration in affordability since the GFC and this is on the back of a rapid deterioration in Auckland. The balancing influence here must be one of improving affordability in most other parts of New Zealand with the exception obviously of Canterbury.

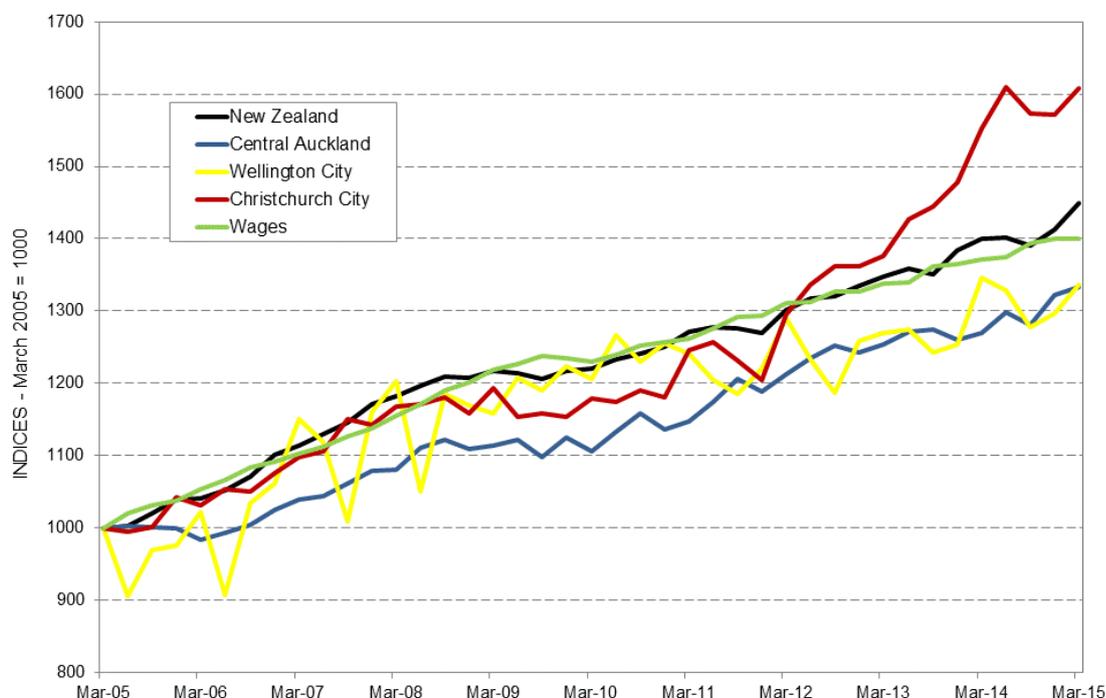
The Household Economic Survey, which is undertaken and published by Statistics New Zealand, paints a clear picture that it is tenant households which face the biggest housing affordability problems. The 2014 survey reports that 44% of tenant household spend more than 25% of the income on housing and 22% spend more than 40% of household income on housing. These proportions have changed little over the past six years. By comparison, of owner-occupier households only 20% spent more than 25% of their income on housing and just 8% spent more than 40% of their income. These differences need

also to be seen in the context that tenant households generally have lower incomes than owner-occupiers so the amount of money left over after paying for housing is normally significantly less.

The more significant affordability problems faced by tenant households would suggest that more attention should be given to the changes in rent affordability. Instead the media tend to focus on house prices and by association the cost of house ownership which probably suits the middle class and predominantly middle aged audience for such debate.

Rents vary considerably from place to place and even within a place for property to property. This can mean that measures around the centre such as median and averages can say little about the experiences of those households which are struggling most with low incomes and housing affordability. For this reason the following analysis considers trends in lower quartile rents over the past decade in New Zealand overall and in the central suburbs of Auckland as well as Wellington and Christchurch cities. This analysis also compares changes in these rents against those in the average ordinary time wage. Figure 3 summarises this analysis as a series of indices with March 2005 as the base quarter.

Figure 3: Changes in rents and wages 2005 - 2015¹²



It is apparent both from the analysis offered in Figure 3 and in other comparisons of incomes and rents, that rents have tended to increase at the same time and rate and wages. This probably should be expected because rents can normally only be paid out of current income - debt cannot be used to rent a house as it can be used to buy a house. The exception offered in Figure 3 is that of Christchurch since late 2011 and the beginning of the recovery from the earthquakes. Rents here have risen by 40% in nominal terms against a nominal increase in wages - nationally, of around 10%.

The data and analysis offered in Figure 3 does not however necessarily tell the story of rent affordability for the lowest income households. Beneficiary households for example have seen more modest nominal increases in their incomes on account of the indexation of benefits to the consumer price index rather than to wages. Over the ten year period in question overall consumer prices and benefit levels have risen 25% while rents have risen by 40%. The lowest paid workers also appear to have been left behind in the rent affordability stakes. Ordinary hourly wages for the lowest paid sector - hospitality rose just 35% between 2005 and 2015 leaving such workers slightly behind rent rises.

CONCLUSIONS & RECOMMENDATIONS

There are four stark features in New Zealand's housing landscape a present:

- the gradual shift to New Zealand as a nation of tenants rather than home-owners,
- the spectacular increases in house prices in Auckland and the prospect that these are a sign of an asset bubble or will soon choke off Auckland's growth,
- the absence of any building of affordable housing especially in Auckland, and
- the inadequacy of current Accommodation Supplement subsidies to match rising rents - especially for those on benefits and low incomes and for low-income tenants in Christchurch

Against these trends and features the Government's policy response has been quite muted. It has attempted to frame the growing shortage of affordable housing in Auckland solely as a land supply issue and a result of regulatory failure when in fact the house building industry appears incapable or unwilling to build modest houses which are affordable to low-income households. It has avoided any revision of the subsidy settings around the Accommodation Supplement despite these being ten years old and rents having risen by 15% in real terms over this period. Finally the Government has offered fairly token assistance to first time home buyers and by default accepts the continuing slide in rates of home-ownership.

The difficulties of young middle-class households to gain home ownership in locations where they expect to may begin to frame the housing debate - at least in the media. The larger and for some the more compelling housing issue is around the lack of additional affordable housing and the poor quality of much of the existing stock of affordable housing. These are the issues which will directly impact on the well-being of New Zealand's poorest children.

In response to these issues the following actions are recommended.

1. That children be provided with a statutory right of access to secure and safe housing.
2. That a building warrant of fitness for all rental housing be brought into law within three years and that this move be backed by continuing subsidies to landlords to encourage them to upgrade their properties.
3. That the policy settings around the Accommodation Supplement be revised with the intention of ensuring that public subsidies provide recipients with access to housing of an acceptable standard and that they preserve the affordability of this housing.
4. The political parties consider a developing a multi-party accord as the basis for developing a New Zealand affordable housing plan which is complete with appropriate targets and adequate budgets.

ENDNOTES

¹ The reason for this uncertainty is mainly due to the vagueness of tenant's reporting in the Census on who their landlord was. For example in the 2013 Census 52,500 households reported Housing New Zealand as their landlord yet at this time Housing New Zealand reported having 68,700 units. It seem likely that local government owns around 9,000 social housing units and that NGO's or community housing providers own a further 2,000 to 3,000. - see Johnson, A. (2013) Give me shelter: An assessment of New Zealand's housing assistance policies p.36

² These household estimates are based on 2013 Census data

³ Data from Reserve Bank of New Zealand at <http://www.rbnz.govt.nz/statistics/>

⁴ These figures are based on budgets estimates contained in the Government's 'Vote Social Development' appropriations budget.

⁵ Housing New Zealand Annual Reports indicate that the number of state houses fell from 69,717 in June 2011 to 68,229 in June 2014. In May 2015 the Minister of Finance indicated that Government intended to sell a further 1000 to 2000 state houses during 2015 – see NZ Herald article 1 May 2015 'Fast-track cash for house plan' .

⁶ Data from Statistics New Zealand dwelling estimates. Estimates of changes in the social housing stock are based on Housing New Zealand's reported stock from various Annual Reports.

⁷ Between June 2004 and June 2014 Auckland's population grew by 200,000 people from 1.33 million to 1.53 million while the New Zealand population grew by 420,000 people from 4.09 million to 4.51 million people- source Statistics New Zealand's sub-national population estimates

⁸ The estimate is based on estimated population growth between September 2009 and September 2014 of 92,000 people against consents for new dwellings of just over 20,700. At the present average household size for Auckland of 3.0 people per dwelling this 92,000 people would require 30,600 additional dwellings.

⁹ These estimates of floor space and costs have been averaged over four quarters and are sourced from Statistics New Zealand's building consent database via Infos.

¹⁰ Source: Massey University Home Affordability report available at <http://www.massey.ac.nz/massey/learning/colleges/college-business/school-of-economics-and-finance/research/mureau.cfm><http://www.massey.ac.nz/massey/learning/colleges/college-business/school-of-economics-and-finance/research/mureau.cfm>

¹¹ During the year to 31 March 2015 there were 76,700 residential properties sold in New Zealand with a total sales value of almost \$41 billion. Of these 22,700 were in Auckland and these had a combined value of just under \$23 billion of 55% of the total value of sales New Zealand wide – source Real Estate Institute of New Zealand statistics which are available at https://www.reinz.co.nz/reinz/public/reinz-statistics/reinz-statistics_home.cfm

¹²¹² Rent data is taken from Ministry of Business Innovation and Employment's Tenancy Bond Division data base at <http://building.govt.nz/nz-housing-and-construction-quarterly-open-data>. Wages data is taken from Statistics New Zealand's Quarterly Employment Survey and Labour Market Survey and is based on average ordinary time hourly wage for all sectors.