CHiLD POVERTY ACTION GROUP

The contribution of rental affordability to child poverty in Aotearoa:

Measuring rental affordability accurately

a new approach to measuring rental affordability

Greg Waite
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GROUP

Our mission

Founded in 1994, the Child Poverty Action Group (CPAG) is an independent, registered charity working to eliminate child poverty in Aotearoa New Zealand through research, education and advocacy.

Our work

CPAG produces research about the causes and effects of poverty on children and their whānau and families, and uses this to inform public discussion and promote evidence-based responses.

CPAG is funded entirely by grants from charitable trusts and donations from the public. Our members across New Zealand include leading academics, doctors, teachers, health workers, community workers and many others.

Our work covers issues such as health, housing, education, taxation, disability, employment and income support.

Our focus on children

CPAG focuses on eliminating poverty for children because:

Overall effects of poverty are worse for children — Child development is adversely affected by poverty, and can lead to detrimental effects for an entire life.

Children are more likely to experience poverty — Children are over-represented among those in deprived households.

Children don't get a say — Decisions affecting children are made without their input; state democracy involves only adults.

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Overview

This is the first paper in a series, introducing a new approach to measuring rental affordability. The second paper develops benchmark rents for affordable homes at three income levels – median wages, low wages and benefits – to measure changes in the supply of affordable rental stock over time. The third paper looks at systemic limitations within our income support systems.

Executive Summary

In 2019 the Welfare Expert Advisory Group (WEAG) report *Whakamana Tāngata* recommended increases to social support payments so all households had sufficient income to afford a basic standard of living. To estimate this level of income, they costed and consulted on budgets for singles, couples, sharers and complex families; for the employed, those searching for employment and full-time parenting.

This paper uses those budgets, updated for inflation, combined with national tax, benefit and rent data to provide an accurate measure of the median weekly shortfalls faced by different household types in today's private rental market. The results demonstrate that the WEAG's landmark report can continue to provide a reliable and transparent test of income adequacy and housing affordability.

In June 2021, singles and couples receiving the Jobseeker benefit faced the largest shortfall in weekly income ($157, 37% and $240, 36% respectively), closely followed by couples with children ($323 per week, 33% of weekly income).

Two key findings in this report are that the significant increases made to benefits in July 2021 and April 2022 improved both affordability and equity across household types, but that benefits in 2022 still need to rise by between $134 and $272 a week to meet the WEAG's basic standard of living.

Looking at affordability by household type for all non-working households, families with dependent children – single and couple parents and complex multi-family and multi-generation households – have the lowest proportion in affordable rental homes (6%, 1% and 4% respectively). Six out of every seven households receiving only benefits in 2021 could not afford their rented homes (86%).

Across all working households only one in twelve were in an unaffordable rented home (8%), but for those on the minimum wage 63% of working couples with children could not afford their rental housing. Looking at living arrangements in private rental, 23% of all households now involve some form of sharing, whether that is younger unrelated sharers or more complex multifamily households.

The largest pressures on rental affordability from 2018 to 2023 were rising rents (up $90 and 19%), food ($62, 23%) and transport ($21, 26%). Looking at longer term changes, rents rose by 190%, 30%, 30% and 38% over the four decades to 2022. More recently, annual rent increases have risen to around 4% since 2021, up from an average of 3.2% over the previous five years.

Despite significant increases in social support payments since 2018, current economic and social policies have not created a rental market which provides affordable homes for lower income families. House prices have now peaked, ending decades of big capital gains, and mortgage costs have increased sharply so investor returns on overpriced assets come only from raised rents.

Today, Aotearoa is last in the Organisation for Economic Co-operation and Development's (OECD) rental affordability rankings[1] and our population is growing faster than our supply of affordable rental homes[2]. Without big changes, future generations will be much worse off as unaffordable renting replaces affordable home ownership for more young families and more retirees.

The ongoing failure to deliver affordable private rental makes a strong case to focus new spending on longer term solutions such as social housing, incentives to build new affordable housing, and shared equity rental, rather than short term rent subsidies.

[1] OECD Affordable Housing Database report Figure HC1.2.3b Share of population spending more than 40% of disposable income on private rent, in percent, 2020 or latest year.

[2] See paper two in this series, *Measuring affordable rental supply*, CPAG (2023).

Method for calculating rental affordability

Housing affordability is typically measured as the ratio of housing costs to income, often by asking if housing costs are less than 30% of income. These ratio measures of affordability suit comparisons across time and nations, but they are only a rough rule of thumb. No allowance is made for varying living costs across different household compositions, so some households will be better off than others at this 30% threshold. Household comparability can be improved through 'equivalising' incomes, applying the simple multipliers used in OECD statistics which are loosely based on European living costs in 1994[3] - but again, this is approximate at best.

This paper measures affordability differently by calculating if income is sufficient to cover costs:

weekly surplus/deficit = net wages + benefits + allowances - (budget living costs + rent)

Detailed incomes are derived from tax and benefit data, rents from bonds data, and budgets are included for living costs at a basic standard of living across different life circumstances – singles and couples; sharers, large and extended families with children; with and without the costs associated with work. These budgets were developed for the WEAG to provide a consistent baseline for adequate income across different living arrangements[4] and are updated here for inflation[5].

This consistency across household types is important, because it provides a transparent and reliable baseline for how much assistance different households need. Evaluation of both income and housing policy needs to measure equity across different households because both social support payments and housing markets include historic and systemic contributors to inequity[6].

Incomes (wages, paid parental leave, benefits, Accommodation Supplement, Temporary Support, Working For Families tax credits and others) and rents are sourced from administrative data, so they are more accurate than surveys or assumed entitlements. As a result, this paper focuses in on whether income is sufficient to cover rent, the largest and least flexible household cost. Coverage here is limited to private renting, the tenure with the largest share of households in poverty and material hardship[7].

This approach has traditionally been described as a measure of income adequacy. I refer to it in this paper as a measure of housing affordability because it provides the most accurate calculation of the ability of renters to pay their rents and still afford an acceptable standard of living. The relative contributions of high rents, rising living costs, low incomes and limited diversity in housing supply to poor affordability is a more complex question which is explored separately later in this paper and in the other papers of this series.

Tax, benefit, rent and census data is sourced from Statistics NZ, which replaces personal details with numeric identifiers so all these sources can be linked to provide an overall record of affordability without identifying individuals. Further details are provided in the technical appendices.

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[3] The original OECD 'equivalisation' ratios of 1 for the first adult's costs, 0.7 for subsequent adults and 0.5 for each child was based 1980s English living costs, later revised to 0.5 for additional persons 14 and over and 0.3 for children under 14 based on European evidence in Haagenars et al (1994). The WEAG budgets show adult costs vary significantly across singles, couples and sharers, and child costs increase with age.

[4] This approach is referred to as budget standards in Australasia, minimum income standards in the UK and reference budgets in Europe; see Waite (2021). Budget standards are used in Australia to help guide setting of the minimum wage and to assess the adequacy of social security payments (Saunders & Bedford, 2017, p.1).

[5] Inflation adjustment is by cost group (e.g. food, transport) to keep living costs relevant, see Appendix A2.

[6] Examples include the limited supply of small rentals in an ageing housing stock, the income-to-costs advantage of working households without children, and politically driven changes to benefit relativities in 1991.

[7] Perry, 2022 p.25 and p.38.

Comparing rental affordability by household type, income and region

Affordability – weekly shortfalls by household type and income level

Private rental affordability is compared for the five main household types[8] across four income levels. Table 1 below covers households on full adult rate for main benefits (Jobseeker, Sole Parent); Table 2 covers households on other benefits, youth rates and reduced benefits, including part time earnings (less than forty hours at minimum wage rates); Table 3 covers low wages; Table 4 covers median wages[9]. To compare households with varying living costs, median weekly shortfalls are calculated as a percent of total income; for example the median shortfall of $157 per week for single benefit recipients in Table 1 is 37% of income ($422)

These four income levels are examined separately because the rules for support payments treat each differently, depending on their income source and amount, household type and size, and in some cases assets. Differences in administrative criteria can result in very different payments, affecting affordability.

Please note that in this comparison, the income groups for part time, low and median wage households are based on 40 hours work at the specified rate for singles, 80 hours work for couples without children, and 60 hours for couples with dependent children who typically work less paid hours[10].

In June 2021[11], singles and couples receiving the Jobseeker benefit faced the largest weekly income shortfall at 37% and 36% of income respectively, with couple parents on the Jobseeker Benefit close behind with a weekly shortfall of 33% (Table 1, below). These households need large increases in support payments ($157, $240 and $323 respectively) to afford the basic standard of living recommended by the WEAG.

Table 1. Affordability for different household types receiving Jobseeker and Single Parent benefits, full adult rate, June 2021

Median ($ per week)	Single	Couple	Unrelated sharers	Single parent	Couple parents
Living costs	317	519	566	579	873
Rent	270	380	340	390	410
Accommodation Supplement	105	155	125	158	203
Total income	422	667	863	802	970
Income surplus (shortfall -ve)	-157	-240	-38	-143	-323
Surplus (% of income)	-37%	-36%	-4%	-18%	-33%

Notes: Includes households receiving one or more main benefits (Jobseeker, Single Parent) at the full adult rate with no earned income. Accommodation Supplement included in total income. Medians do not sum to totals.

Table 2 below covers households with income below 40 hours on the minimum wage, so includes reduced benefits with part time work. Measuring affordability for this subgroup is important because

[8] Complex multi-family and multi-generation sharers are excluded from Tables 1-5 & 7 with analysis by income source because many have complex combinations of income. See Table 6 for affordability of all households.
[9] The low wage group covers the minimum wage plus 19%, which is the lower boundary of the median wage plus or minus 10%, so the two groups cover similar wage ranges. Median individual earnings (less tax) from wages and salaries, Statistics NZ Labour Market Statistics (Income) June quarter 2021.
[10] 60 hours per week is also used to calculate the Living Wage for couple families with two children.
[11] Data on 2022 households not available due to lags with final assessment of Working For Families tax credits.

working families on partial benefits are ineligible for the Minimum Family and In Work Tax Credits.

Couple families with children faced the largest weekly shortfall at 37% of income, followed by singles with a weekly shortfall of 25%. On average, couple families need an increase of $353 per week to afford a basic standard of living. Unrelated single sharers are the only group where a typical household can afford their current home.

Table 2. Affordability for different household types receiving other benefits and part time work, 2021

Median ($ per week)	Single	Couple	Unrelated sharers	Single parent	Couple parents
Living costs	317	586	633	595	864
Rent	280	380	370	380	440
Accommodation Supplement	70	0	61	148	27
Total income	453	902	1,210	922	944
Income surplus (shortfall -ve)	-115	-75	172	-99	-353
Surplus (%)	-25%	-8%	14%	-11%	-37%

Notes: Excludes NZ Super, includes households receiving part-rate main benefits, other benefits or part-time earnings.

Table 3 below covers households with incomes at or above the minimum wage but below the median wage band (median +/- 10%)[12]. Measuring affordability for this group is also important because many full-time low income working households still cannot afford their rent, and some do not receive support payments they are entitled to[13].

Low income working couples with children face a median shortfall of 4% of income or $49 per week. All other low income working households have, on average, sufficient income to cover rent and living costs, with couples and unrelated sharers having the largest surpluses at 27% and 31%. Note that for most household types, the median Accommodation Supplement is zero, meaning more than half receive no rent assistance.

Table 3. Affordability for low wage working households without benefits, June 2021

Median ($ per week)	Single	Couple	Unrelated sharers	Single parent	Couple parent
Living costs	383	653	700	699	902
Rent	280	410	390	390	430
Accommodation Supplement	0	0	0	130	0
Total income	766	1,395	1,524	1,113	1,294
Income surplus (shortfall -ve)	109	381	479	90	-49
Surplus (%)	14%	27%	31%	8%	-4%

Notes: 'Low wage' covers Minimum Wage + 19%, which is the lower boundary of the median wage plus or minus 10%, so the two groups cover similar wage ranges.

[12] These income bands were chosen to cover approximately equal ranges. The median wage band covers median net earnings plus or minus 10%; the low wage group extends from the Minimum Wage to the lower median wage boundary, which is 19% above the minimum wage, so both groups have a range close to 20% from their defining measure. For a single earner the low wage range is $667.73 to $795.72; median wage is $795.73 to $972.55. Income ranges for 60 and 80 hours per week are in the technical appendices.

[13] 'We learned that not everyone is receiving their full entitlement, especially once they move off a main benefit', WEAG 2019a, p.10.

Typically, working households on median incomes can afford the rented homes they are currently living in (median weekly surpluses for all household types, Table 4). The lower affordability for couples with children is also influenced by the method of analysis here, which sets the boundary for income ranges based on 1.5 full-time incomes. That reduced affordability also adds pressure for couple families with children to work longer hours.

Table 4. Affordability for median wage working households, June 2021

Median ($ per week)	Single	Couple	Unrelated sharers	Single parent	Couple parent
Living costs	383	653	700	579	902
Rent	300	400	410	400	430
Accommodation Supplement	0	0	0	76	0
Total income	903	1,670	1,848	1,198	1,410
Income surplus (shortfall -ve)	228	622	755	147	65
Surplus (%)	25%	37%	41%	12%	5%

Notes: 'Median wage' is median +/- 10%.

Did the 2021-22 benefit increases improve equity across household types and benefits?

Beginning in April 2020, the standard annual increase for benefits was set by wage growth rather than inflation, aligning benefits with NZ Super. However, benefit increases in the 2021-22 year exceeded wage growth and also varied depending on household type. The increases came in two stages, an ad hoc amount of $20 per adult in July 2021, then a further increase in April 2022 described as "meeting WEAG's recommendations plus an additional $15 for families with children".

No explanation was provided by the Ministry of Social Development for the extra $15 to families with children. The larger increases were widely supported but governments should also be transparent, providing evidence when making shifts in benefit relativities. Table 5 compares these 2021-22 increases to the pre-existing median weekly shortfalls in June 2021 from Table 1, to measure if these changes improved equity across household types.

Table 5. Estimated affordability for different household types receiving Jobseeker and Single Parent benefits, full adult rate, June 2021 plus 2022 increases

Median ($ per week)	Single JSS	Couple JSS	Single parent SPS	Couple parent JSS
Total income	422	667	802	970
Income shortfall	-157	-240	-143	-323
Shortfall (%) June 2021	-37%	-36%	-18%	-33%
2021-22 increase in benefit payments	57	122	54	125
Estimated total income June 2022	479	789	856	1,095
Increased living costs 2021-22	33	48	54	74
Remaining shortfall June 2022	-134	-165	-143	-272
Remaining shortfall (%) June 2022	-28%	-21%	-17%	-25%

Notes: The shortfall in June 2022 is an estimate based on 2021 income plus benefit rate increases, less inflation increases in living costs and rent. Single parents receive Sole Parent Support, other households receive adult Jobseeker Support.

Looking at the third column, single parents in 2021 had a weekly shortfall of $143 on an income of $802. Over the following year, their benefit income increased by $54 which was exactly matched by an increase in their living costs, so their weekly shortfall is unchanged at $143 a week. They are still slightly better off since their income has risen but their shortfall is unchanged, which is also shown in a small reduction in their shortfall as a percent of income.

Comparing household types in 2021, single parents had been comparatively better off, with the smallest weekly shortfall as a percent of income (18%, row 3). By June 2022 (last row) singles, couples and couple parents all had substantially reduced weekly deficits as a share of income, narrowing the gap to single parents. This confirms that the 2021-22 increases did improve equity across family and benefit types in addition to improving affordability for all.

These 2021-22 increases were described as meeting the WEAG's recommendations, but this reference was to WEAG's advice for *immediate increases* made in 2019. In Table 5 above, benefits are tested against the WEAG's *long term recommendation* for adequate family incomes[14]. The result is that main benefits still need to rise by between $134 and $272 a week in 2022 to cover a basic standard of living.

The WEAG did note though that major benefit resets like this are complex and need to move in tandem with interventions to raise wages. Their recommendations for a basic standard of living remain an aspirational target in 2022 but a fundamental target for long term benefit adequacy.

Affordability – how many renters can't afford their homes?

The medians in Tables 1 to 5 provide a clear comparison of typical shortfalls across household types. Behind these households though, some will face much less affordable rents. Table 6 below provides an overall comparison of affordability for all benefit recipients and working households, including the number and proportion of renters who can't afford their homes.

Table 6. Overall affordability by employment, all households in private rental, June 2021

Number of households	Single	Couple	Unrelated sharers	Single parent	Couple parent	Complex sharers+ children	Complex sharers- children	*Total*
Working								
Households	7,971	4,974	732	1,083	4,266	3,414	2,760	25,200
Unaffordable	1,389	246	81	90	24	45	105	1,980
Affordable	6,582	4,728	651	993	4,242	3,369	2,655	23,220
Affordable (%)	83%	95%	89%	92%	99%	99%	96%	92%
Not working								
Households	6,528	1,980	258	1,515	1,674	1,170	702	13,827
Unaffordable	5,139	1,734	177	1,425	1,650	1,125	597	11,847
Affordable	1,389	246	81	90	24	45	105	1,980
Affordable (%)	21%	12%	31%	6%	1%	4%	15%	14%
All households								
Households	14,499	6,954	990	2,598	5,940	4,584	3,462	39,027
Household type (%)	37%	18%	3%	7%	15%	12%	9%	100%

Notes: Includes all incomes and household types. See technical appendices for explanation of sample coverage.

Across all working households, only one in twelve did not have enough income to afford rent and a basic standard of living (8% unaffordable, 92% affordable, last column). Six out of every seven households receiving benefits only in 2021 could not afford their rented homes (86%). Comparing affordability by household type for these non-working households, all families with dependent

[14] "Example Families" (WEAG, 2019b) including living costs and social participation.

children – single and couple parents and complex multi-family and multi-generation households – have the lowest proportion in affordable rental homes (6%, 1% and 4% respectively). Add sample explanation.

Looking at living arrangements in private rental, today 23% of all households now involve some form of sharing, whether that is younger unrelated sharers or more complex households.

Is renting affordable on the Minimum Wage?

The government's stated objective for the minimum wage is to "to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses. The minimum wage can be an effective tool for setting a wage floor to reduce exploitation and set minimum return for labour[15]." Annual reviews are required by law but this definition emphasises maintaining the existing wage floor without referencing adequacy.

Table 7 below measures first, whether the 2021 minimum wage of $667 net per full time employee is sufficient for typical renting households; and second, what proportion of all those renting households cannot afford their homes because they face higher than average rents or receive lower than average social support payments.

Looking at the last three rows, all working sharers and 94% of couples on the minimum wage were able to afford private rental, but one third of singles and single parents and nearly two thirds of couple parents were living in unaffordable rental. Again, bear in mind the income range for couple families with children assumes 60 hours not 80 hours work.

Table 7. Affordability on Minimum Wage by household type, June 2021

	Single	Couple	Unrelated sharers	Single parent	Couple parent
Living costs ($ per week)	383	653	699	578	902
Median rent ($)	310	400	370	390	427.5
Accommodation Supplement ($)	0	0	0	120	0
Total income ($)	680	1242	1670	1135	1243
Weekly surplus/shortfall ($)	71	276	627	79	-105
Weekly surplus/shortfall (%)	10%	21%	34%	7%	-8%
Affordable (%)	67%	94%	100%	69%	37%

Notes: Includes Minimum Wage +/- 2%. Couple parents income is based one full time and one part time partner (60 hours) with no supplementary main benefit. Couples without children are both employed full-time. Single parent income is based on full time employment. Sharers assume full-time work for all adults.

Affordability – regional differences

Table 8 below contrasts regional variation in housing affordability across two income levels; all benefits and low wages combined, then median wages. Around 60% of households on benefits and low wages are unable to find affordable private rental housing right across the country, so rental affordability is primarily a national rather a regional issue. Even on the median wage, all regions covering major urban areas have around 10% who are unable to find affordable rented homes.

The shortfalls for the combined low incomes group are lower than in Table 1 and 2 because all benefits and NZ Super are included here.

[15] Minimum Wage Review, 10 November 2022 p.7.

Table 8. Affordability for all households by region and income level, June 2021

	Low incomes: Benefits and Low Wages				Median Wages			
	Rent	Total income	Surplus (%)	Affordable (%)	Rent	Total income	Surplus (%)	Affordable (%)
Northland	310	709	-4	40.4	330	1524	33	96.8
Auckland	470	935	-5	38.0	500	1704	29	88.7
Waikato	320	728	-3	41.4	340	1450	33	97.8
Bay of Plenty	350	720	-5	39.8	400	1521	30	91.1
Gisborne	260	695	-2	45.6	305	1640	36	100.0
Hawke's Bay	300	693	-3	41.7	320	1338	31	93.6
Taranaki	290	666	-5	36.7	320	1441	35	100.0
Manawatu-Wang.	260	686	-2	43.5	280	1295	33	100.0
Wellington	340	731	-2	39.7	370	1383	28	91.6
West Coast	240	594	-5	36.4	260	1533	40	100.0
Canterbury	350	763	-5	37.6	365	1462	31	95.3
Otago	290	696	-3	40.9	310	1355	32	93.8
Southland	240	649	-2	44.3	270	1471	36	96.4
Tasman	350	807	-8	37.8	420	1567	27	88.9
Nelson	350	686	-7	35.1	380	1577	33	100.0
Marlborough	300	749	-4	41.0	360	1393	31	100.0

Notes: Includes all household types, all benefits and NZ Super but excludes high wages. Low and median wages as previously defined.

Changes in rental affordability

Recent changes

To prioritise our response to poverty and declining rental affordability we need to understand the relative contributions of rising living costs and rents, wage trends and changes to social support payments. Table 9 below shows how each element changed between 2018 and 2023 for a typical family with two children receiving only benefit income.

Table 9. Costs and income changes, 2018 to 2023, Jobseeker couple with two children, Area 1

	2018	2023	Increase ($)	Increase (%)
Rent	470	560	90	19%
Food	240	302	62	23%
Utilities	80	93	13	16%
Transport	90	111	21	26%
Jobseeker benefit adult rate	384.50	606.86	222.36	58%
Accommodation support max.	305	305	0	0%
Family tax credit	157	231	74	47%

Notes: Table 9 shows budgeted living costs, full rate benefit and secondary payments for a couple with children in Area 1 (highest rents). Living costs are updated to quarter one 2023 by household living cost groups (Beneficiaries CPI) and rents are updated by the Rent CPI (stock index). The cost of children is based on one aged 5-11 and one aged 12-17. See Table A2.1 in technical appendices for full budget.

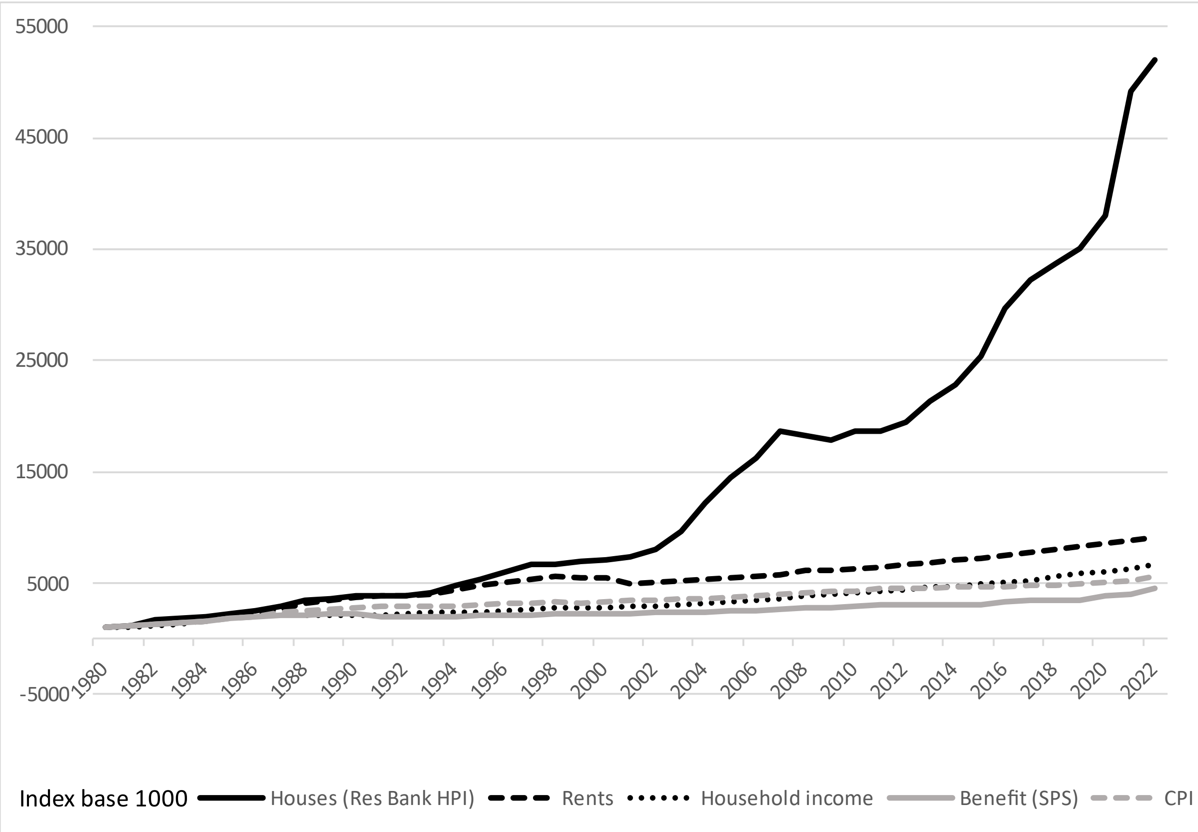
Comparing changes to living costs and income between 2018 and 2023, the largest dollar increases to costs were rent, food and transport in that order. Benefits and family tax credits increased by more than wage or consumer price inflation during this period, a result of government policy rather than automatic indexing. The maximum Accommodation Supplement payment and thresholds were unchanged so payments are assumed constant in line with Treasury projections.

This example emphasises the complex interaction between evolving changes in markets, living costs, current government policy and the rules for social support payments. Looking ahead, general inflation is predicted to gradually return to the long run average of 2-3%. Rents are more complex so the next section looks at long run trends and the economic drivers behind rising housing costs.

Long run trends

The relationship between earned income and rents is critical; first because working households need wage increases to match rents so they are not worse off, second because main benefits are now indexed to wages, and third because wages and household spending generates much of the tax base which keeps social support funding sustainable.

Chart 1. Long term house prices, rents, incomes and inflation



Notes: House prices sourced from RBNZ; rent, household income and CPI from Statistics NZ, Single parent support benefit from MSD. House prices, rents, incomes and benefit are nominal values, unadjusted for inflation as inflation comparison (CPI) is included in chart.

After the last push to bring down very high inflation in the 1970s and 1980s, income growth rose by 85% but rents rose by 190% in the decade to 1992. In the next decade to 2002 rents and income growth were relatively similar at 30% and 33% but the sole parent benefit rose only 20%. By contrast, from 2002-12 benefits nearly kept pace with rents (30% and 32%) while wage growth was 48%, and from 2012 to June 2022 both benefits and wage growth exceeded rents (benefits up 50%, wages up 50% and rents up 38%).

Looking at the underlying cost of houses, sale prices rose by 138%, 105%, 142% and 167% compared to income growth of 85%, 33%, 48% and 50% over the same four decades. This excessive house price growth produced 2022's unsustainable highs and prices are now falling. In this new situation the relative growth of income and rents is difficult to predict. Investors face capital losses and sharp rises in mortgage costs, so increased returns now come from rents alone[16]. The typical annual increase in rents over the five years to 2021 was 3.2% but this has since increased to 4%[17].

Trends in two secondary benefit payments also have a close connection to rental affordability; they are the Accommodation Supplement and Working For Families. Looking ahead, the 2023 Budget forecasts dollar spending on the Accommodation Supplement to plateau up to 2027, meaning significant cuts in future after-inflation support. Working For Families is similarly forecast to decline in real terms.

Taken together, all these short and long term trends help to unpack the complex and changing story of rental affordability. Historically, the biggest declines in affordability were in the 1980s, but more recently non-housing inflation and annual rent rises have hit new highs, with government policy responding by increasing benefits by more than inflation.

Today, Covid travel restrictions have been removed and international mobility is returning. Both residents and migrants will judge Aotearoa on how incomes and housing affordability here compare with similar countries in the OECD. Aotearoa ranks fifth for net disposable household income[18] but last for private rental affordability. Housing rather than incomes is our biggest challenge.

Creating more affordable rental homes

The story of all families is one of adaption through lifecycles, community changes and larger national transitions. In response to unaffordable housing we have seen ongoing adaption in the rise of shared housing, the increasing hours worked by primary carers of children, the decline in the number of children per family, and the rise in intergenerational housing[19] and childcare assistance.

Rising rents and falling home ownership signal that we need to do more than just adapt to market trends.

This series of papers provides new analysis of rental housing affordability to provide a more complete picture of today's private rental market. Evidence is presented about the difficulties faced by renters on today's benefits and minimum wage. At the simplest level, we need to continue recent progress towards social supports which are adequate, evidence-based and indexed to inflation.

But our current market-driven policies are steadily moving us towards a more difficult future where more and more families will be forced to adjust to unaffordable renting throughout their working lives and into retirement. To create enough new affordable rental homes to make a difference, we will need an expanded public debate and a new commitment to state funding and partnerships with communities and iwi.

Acknowledgements

My thanks to Statistics New Zealand for their commitment to providing high quality data for research and safeguarding the confidentiality of individuals; to the Integrated Data Infrastructure team for their

[16] *Interest.co.nz*, 'Falling house prices and rising rents have pushed up yields for investors – but they're still woefully inadequate', 20 June 2023.
[17] Rent increases from Statistics NZ Rents CPI, Stock measure, which covers all private rental.
[18] OECD (2023), Household net adjusted disposable income, Better Life Index income measure.
[19] NZ Herald, "Home ownership: Bank of Mum and Dad is the fifth biggest lender", 28 April 2022.

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Statistics NZ disclaimers

Integrated Data Infrastructure (IDI): These results are not official statistics. They have been created for research purposes from the IDI which is carefully managed by Stats NZ. For more information about the IDI please visit https://www.stats.govt.nz/integrated-data/.

Census: Access to the data used in this study was provided by Stats NZ under conditions designed to give effect to the security and confidentiality provisions of the Data and Statistics Act 2022. The results presented in this study are the work of the author, not Stats NZ or individual data suppliers.

IRD: The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

Technical Appendices

A1.Sample coverage

The administrative data used here is generally comprehensive and accurate, but the tables in this paper cover only a sample of all renting households because affordability analysis needs a full household description to assign appropriate budgets for living costs. Detailed household types are collected in the 2018 census but only partially complete in administrative data.

Analysing families in 2021 therefore required linking the 2018 census with 2018 administrative records to identify the family composition[20], then tracking household changes up to 2021. A check using the sum of confidentialised person identifiers is compared each year and if the household change is not consistent with recorded changes (new births, dependents ageing to adults), those households are excluded[21]. Separations, new relationships, new or departed household members and changes to child custody are not consistently recorded in administrative data.

The final sample includes 39,027 privately renting households from an estimated 278,434 valid bonds, enough to provide a reliable measure of comparative affordability across different circumstances and regions. Coverage is significantly larger than Statistics NZ's Household Economic Survey, which has a total sample of 28,500 households of which about 8,500 are in private rental.

Census private rental is limited to private dwellings (excludes both commercial property and rooms with shared facilities), includes dwellings which are occupied or with residents temporarily away, excludes visitor-only households, includes private landlords with rent paid but excludes social, employer, iwi or hapu landlords. Rental bonds are limited to private landlords, then linking properties to census records allows further reductions to exclude subsidised rents, non-private boarding houses

[20]Previous research using administrative data to identify relationships had partial coverage, as relationships are not recorded for households with limited government interactions. This creates sample bias; see Statistics NZ (2019, 2021) and Alinaghi et al (2020).
[21] The sum of individual identifiers is checked to pick new or departed residents. Administrative data records only changes related to payments, so families with births and dependents ageing to adults remain in the sample.

and room-only rentals, and subletting arrangements which are not recorded in the census.

The exclusion of self-employed households relies on the 2018 census record because more timely self-employed tax data is not released to non-government researchers. Child support payments are no longer available in the data lab, so paid childcare is not included in the affordability calculation. 2022 results are not available due to lags in final assessment for many Working For Families tax credits.

Table A1.1. Data source linkage counts and coverage loss, March 2018 and June 2021

Table 1	Table 2	Count	Coverage	Description
2018				
Census		1,852,296	-	Total dwellings
Census		451,197	-	Private rental households (PR)
Census		*449,448*	100%	PR excluding boarding houses, room-only
	Rents	363,057	-	All current bonds
	Rents	*355,446*	100%	Unique private rental bonds
	Rents	312,285	88%	Bonds with complete data, census address identifier
Census	Rents	294,861	83%	Linkage between census and bond on address ID
Census	Rents	*262,905*	72%	PR ex social, employer, iwi rental, boarding, room-only
Census		*186,543*	-	'Informal rental' = census private rental, no linked bond
2021				
Rents		*384,501*	100%	All current bonds
Rents	estimate	*278,434*	72%	PR ex social, employer, iwi rental, boarding, room-only
Census	All	*39,027*	15%	Linked households with complete information
ERP 2021		1,439,244	100%	Households in SNZ estimated resident population
ERP 2021	Census	1,210,155	84%	Linkage ERP households with census address

Notes: Statistics NZ's estimated resident population is a standardised and confidentialised record of all persons recorded in a range of administrative datasets, from which a household record was created for 2018 and 2021.

This is the first study of its kind and the coverage is limited by the three years between the last census and the 2021 data used. A repeat of this approach linking the 2023 census with 2023 administrative data would overcome these limitations and increase coverage dramatically. The scope could be extended to include social housing, market-discounted rental and the self-employed.

A2. Updating the Welfare Expert Advisory Group's 2018 household budgets

The WEAG developed budgets for a range of household types, tenures and income sources consistent with a basic standard of living in their Example Families (WEAG, 2019b). These budgets provide transparent and consistent benchmarks across differing household circumstances, making them uniquely suitable for reviewing income adequacy and housing affordability.

This project updates the budgets from 2018 to 2021, extends the WEAG's nineteen example budgets to cover all households, and replaces assumed entitlements and rents with real household incomes and rents. Each of these adaptions is explained in more detail below. Table A2.1 below shows an example budget and affordability calculation for a couple with two children aged 10 and 15.

The original WEAG example case studies assumed each household received their full entitlement to secondary payments while paying lower-quartile rents in a dwelling size appropriate to their household type. In real life, recipients may not receive their full entitlements and often face difficult trade-offs between price and size when markets do not offer sufficient diversity. This research uses administrative data on the benefit payments, wages and rents of many households to provide a more accurate update on the WEAG estimates.

Table A2.1. Example living costs budget, couple with two children receiving Jobseeker Support, Area 1 WEAG 2018, updated 2021 using Statistics NZ Beneficiary CPI cost group for each item.

	2018 WEAG	2021 Updated
Income (JSS benefit)	627	774
Accom supplement	243	197
Total income	*870*	*971*
Rent	470	535
Food	240	254
Clothes, shoes	37	38
Contents, services	38	40
Utilities	80	88
Phone, internet	34	32
Transport	90	97
Medical	19	20
Dental	10	10
Personal care	23	25
Insurance	27	30
Bank fees	1	1
School costs	31	32
Social participation	112	117
Contingency	14	15
Total costs	*1,226*	*1,334*
Surplus/shortfall	-356	-363
Shortfall (%)	-41%	-37%

Notes: Income includes benefit, tax credits and all secondary payments except accommodation supplement, which is shown separately to compare with rent. 2018 income and rent are estimated; 2021 are the median real payments. Areas refers to accommodation supplement areas, e.g. Area 1 (highest rents) covers the more expensive suburbs of Whangarei, Auckland, Wellington, Porirua, Christchurch and other cities.

Inflation updates

The WEAG budgets were based on 2018 costs, so need annual adjustment for inflation. Budget updates for benefit recipients use Statistics NZ's Beneficiary price index, while budgets for workers use the second quintile of expenditure index because expenditure quintiles have proven more accurate than self-reported survey incomes. Each cost category, e.g. food, utilities and transport, is updated by the relevant group category so the inflation adjustment reflects recent increases in those items. Updating with the relevant group keeps these budgets relevant to the costs faced today by households.

Over the years incomes and costs can change significantly, shifting the balance of household expenditure. Periodically, budgets like these need review and recalculation but this is typically not required for at least a decade. Between those reviews it is more useful to have a consistent benchmark when measuring social change. Australia's budget standards were developed in 1998 and had their first major review in 2017.

Extending budgets to cover all households

The original WEAG report contained nineteen example households. Here, the component costs are shown separately - adult couples, singles and sharers; for adults working or searching for jobs; and for children in different age groups with working or non-working parents. From this, living costs can be assigned for any household based on their specific combination of adults, children and employment. Table A2.2 shows the final values for generalised adult and child living costs applied in this affordability analysis.

Table A2.2 Generalised living costs, adults and children, WEAG 2018 indexed to 2021

Cost of adults				Cost of children		
Relationship	Benefit		Working	Age	Benefit	Working
Single	SLP	327.3	-	0<5	123.2	135.2
Sharer		293.6	-	5<12	139.1	157.9
Couple		540.1	-	12<18	177.1	195.4
Single	JSS/SPS	316.8	383.3			
Sharer		283.1	349.8			
Couple		519.1	653.3			

Notes: Derived from WEAG example budgets as described below. Detailed budgets for each group of living costs – food, utilities, transport etc. – are updated for relevant inflation and summed to these totals.

WEAG's costs for couples working a total of 60 hours are used in preference to 40 hours, as this aligns best with typical working hours and the Living Wage calculation for an adequate family income. Costs for part time workers are set the same as the majority in full time work as the difference is small and administrative data does not record hours of work.

Costs for couples without children, not included in WEAG's six example families, are calculated based on two sharing adults. Costs for the example children's ages of 2, 5, 8, 10 and 15 are converted to three age groups covering children under five, five to under twelve, and twelve to under eighteen. The living costs for larger households with more children or complex multi-generational families can then be calculated as the sum of costs for each adult and dependent child.

In line with the census, living costs for persons aged 15 and under 18 who earn more than 40 hours at the minimum wage are set at the adult budget, even when they are living in the family home. All persons 18 and over are treated as adults so, for example, couple parents with adult children living at home are classed as complex sharing households without children, while single and couple families with children include only households with dependents aged under 18.

Table A2.3 below shows the income ranges for 40, 60 and 80 hours work used in income groupings.

Table A2.3 Income grouping ranges June 2021

Minimum wage			
	40 hours	60 hours	80 hours
Gross	800	1,200	1,600
Net	667.73	957.56	1,224.38
Median earnings (per person)			
Gross	1,093	1,639.50	2,186
Net	884.14	1,250.30	1,608.85
Lower range	795.73	1,125.57	1,447.97
Upper range	972.55	1,375.33	1769.74

Notes: Median gross earnings from wages & salary 2021, *Labour Market Statistics (Income),* Statistics NZ.

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