



**Room for  
Improvement:  
Current New Zealand  
housing policies and their  
implications for our  
children.**

**Alan Johnson**

Child Poverty Action Group (Inc) is a non-profit group, formed in 1994 and made up of academics, activists, practitioners and supporters. CPAG, in partnership with Maori, advocates for more informed social policy to support children in Aotearoa New Zealand, particularly the one-third of New Zealand children who presently live in relative - and occasionally - absolute poverty. CPAG believes this situation is not the result of economic necessity but is due to policy neglect. Through research and advocacy, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

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## Preface

Child Poverty Action Group is delighted to publish this in-depth analysis of the background and consequences of the housing reforms of the 1990s in New Zealand. CPAG's primary objective is to make meeting the needs of children a high priority for policy-makers and to advocate for social policies that ameliorate the adverse outcomes experienced by far too many New Zealand children. Author Alan Johnson is well qualified to write on these matters, as he has a background in social policy, local government, low-income housing initiatives and building homes. He believes, as does CPAG, that finding the solution to poor housing is the key to turning around child poverty.

Growing inequality in New Zealand has particularly affected young children, and far too many of them are growing up in deprived circumstances. After caregivers' love, the fundamental prerequisite for the development of a child's potential is warm, secure and affordable housing. Giving families access to stable accommodation provides the key to their access to social provisions such as regular health and dental care. It enables them to fully benefit from their education and to form secure social networks. This should be the birthright of every child, but that is far from the case in New Zealand today. Unless society gets housing right, other attempts to address child poverty are bound to disappoint and to be only a temporary bandaid.

Years of market-driven reforms in housing and welfare generally have left a sector in turmoil and a generation of children deprived of the chance to fully develop their potential. The experiments with the Accommodation Supplement have not been successful, and the moves away from an emphasis on home ownership and third sector involvement in housing have been disastrous in their impact. While the recent release of Housing New Zealand's 2003 *Housing Strategy* is a welcome indication that increased attention is being paid to urgent housing issues, the necessary commitment of resources to make the strategy work has yet to be made.

There is very little research or commentary on housing in social policy literature. This monograph fills a very important gap. It offers some original research findings into transience in South Auckland schools, directly related to housing. Alan Johnson comes to some definite conclusions about how housing policy must change to restore some of the stability needed in children's lives. While many of his arguments deserve a wide debate, CPAG strongly endorses the central tenet that children and their families must be placed at the forefront of policy-making and nowhere is this more important than in housing.

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## Acknowledgements

A number of people are involved in a project of this size. In particular, CPAG thanks Donna Wynd for editing early drafts, Trish Gribben for editing the final draft and Janet McAllister for managing this project to publication. We thank the rest of the CPAG housing subcommittee comprising Susan St John, David Tollich and Steven Polleti for their time and support of the project, and Dr Nikki Turner for providing most of the case studies of the link between poor housing and poor health.

## Executive Summary

**The poorest New Zealand households are now not state tenants, but private sector tenants dependent on inadequate state rental subsidies for their housing.**

Housing policy in the 1990s will be remembered for the introduction of market rents for state houses and the Accommodation Supplement. The reintroduction of income-related rents for 50,000 state tenants in November 2000 was a welcome and necessary shift in housing policy, but had little overall impact on the direction of housing policy or on the well-being of the poorest 20% of New Zealand's children.

Fewer than one in four families receiving housing assistance from the state have received any advantage from the re-introduction of income-related rents. The poorest New Zealand households are now not state tenants but private sector tenants dependent on inadequate state rental subsidies for their housing.

The failure of housing policy will be remembered for its huge social and financial expense and ineffectiveness. Key impacts of housing policy over the past decade are:

- **Falling levels of home-ownership** – In the 1990s the levels of homeownership began falling for the first time since World War II. By 2001 one in three households rented their home, compared with one in four households ten years earlier.
- **Growing unaffordability** – The Accommodation Supplement has not kept pace with the increase in rents and most low-income households now have less money left after paying housing costs than they did ten years ago.
- **Increasing dependence** – The number of households dependent on state rent subsidies has increased over the last ten years. In 1996 the Accommodation Supplement supported around one in eight households. This rose to one household in six by the end of 2001. More importantly, increasing numbers of families became mired in a poverty trap as a result of this dependence.
- **Increasing inequality** – The decline in levels of homeownership appears to have impacted most on low-income households. The decline in levels of homeownership has been sharpest for the poorest 20% of households. The housing market boom and rapid price escalation of the early 2000s has only increased the gap between those who own a house and those who do not.
- **Overcrowding** – Average occupancy rates have remained stable over the last 10 years. There is evidence however of persistent problems of overcrowding for Pacific families.
- **Transience** – Overall mobility appears to have increased for the most mobile quarter of households. There is evidence to suggest that the poorest 20% of households are nearly twice as mobile as the rest of New Zealand. For children, this mobility results in poorer health status and lower levels of educational achievement.
- **Fiscal Expense** – The cost to the taxpayer of the Accommodation Supplement in 1993- 1994 was \$352 million. Estimates in the 2003 Budget for the 2003/4 year are \$741 million for the Accommodation Supplement and a further \$329 million for income related rents. This rapidly increasing expenditure is proving ineffective in solving the problems of housing.

## Recommendations

1. The Government acknowledges that universal access to safe, decent and affordable housing is a key factor in improving overall social wellbeing in building an inclusive society and in investing in children.
2. The Government uses housing provision as a leading policy tool for ending child poverty, and for raising the quality of life of the tangata whenua, Maori, and the tagata Pasifika of Aotearoa to the level of our country's other ethnic groups.
3. In setting its budgetary framework the Government accords the adequate housing of children the same priority that it gives presently to the future retirement incomes of the baby boom generation.
4. The Government develops the recently released New Zealand Housing Strategy on the basis that social housing will play an increasing rather than diminishing role in housing low-income families and other socially vulnerable groups of people.
5. The New Zealand Housing Strategy is based on well-resourced partnerships between the Crown and the community sector, iwi and urban Maori to allow these groups to play a more effective role in the provision of social housing.
6. The Minister of Finance makes provision in the 2003 December Budget Policy Statement for adequate long-term funding for the New Zealand Housing Strategy. This provision should be for at least \$500 million annually for the next decade.
7. Homeownership programmes to assist low-income families are developed with adequate funding.
8. The Government begins land banking in areas of high housing demand to ensure adequate future land supply for social housing.

# 1. Introduction

*“One family we know is that of two parents and two kids, who had a homeless sister/aunty and her five kids move in with them. There was lots of family tension and money was really tight. The two children who were already in the house developed a range of health and behaviour problems – the daughter, who is usually very articulate and bubbly became withdrawn and quiet, and developed recurrent constipation problems. The 4-year-old son started soiling and showing attention-seeking behaviour. Their mother got recurrent asthma and was admitted to hospital twice for pneumonia and once for asthma in the space of 6 weeks.”*

*- Dr Nikki Turner, Waipareira Trust GP*

## Historical overview

**In the early 1990s, the state housing support that had prevailed from the end of the Second World War gave way to a hard-nosed market-based approach.**

Traditionally the state has played a large role in the housing of low-income people. From the 1940s, various governments contributed to a state-owned mortgage finance fund originally known as the ‘State Advances Corporation’. Later, in 1969, this became part of the Housing Corporation of New Zealand. The mortgage fund provided low-interest housing finance to low-income families as a means of increasing access to homeownership. After the war, much of this finance was provided to returned servicemen, and helped bring about increasing levels of homeownership during the 1950s and 1960s, and the stability and improved quality of life that this homeownership provided.

Between 1991 and 2001 there were sharp shifts in New Zealand’s housing policy. In the early 1990s, the benign, some might say ‘paternalistic’, state support that had prevailed from the end of the Second World War gave way to a hard-nosed market-based approach. The state-owned mortgage fund was terminated in 1992 with the first sale of \$500 million of mortgages to the private sector. By 2000 these sales had reached \$4 billion and represented the second largest – but least acknowledged - privatisation of public assets (Murphy, 2000).

Then in 1992, Housing New Zealand Ltd was restructured by the National Government. At the time the company owned nearly 70,000 rental units.<sup>1</sup> As a result of the sale of state houses this had fallen to less than 59,000 units by 1999. Over the same period the Government extracted cash from the company of around \$900 million by way of share repurchases. These share repurchases were financed through increasing debt for Housing New Zealand, and revaluation of assets.<sup>2</sup>

Market-driven housing reforms were completed in 1993 with the introduction of the Accommodation Supplement. This replaced the old Accommodation Benefit and appeared to be much more generous. Predictably however, this subsidy fuelled rapid increases in rents, and actually left many tenants materially worse off because of the abatement formulae involved in setting and allocating the supplement (Friendship House, 1997). Effectively the Accommodation Supplement has proved to be a landlord subsidy, which has become increasingly burdensome for taxpayers.

**Effectively, the Accommodation Supplement has proved to be a landlord subsidy - increasingly burdensome for taxpayers.**

Not only have the housing reforms of the 1990s been expensive financially, they can be associated with deteriorating housing conditions and housing ownership for the poorest New Zealanders. During the 1990s, homeownership levels dropped for the first time since the 1940s as housing costs rose faster than incomes. Inevitably this led to problems with overcrowding, particularly for Pacific families. These overcrowding and affordability problems have themselves led to increasing transience of families and have therefore



diminished opportunities for children already at risk of failure within the education system. Further evidence of the social impacts of unsuitable housing arrangements has emerged, notably the increasing incidence of diseases of overcrowding such as meningococcal disease and tuberculosis, and in the deaths of children in fires in makeshift rural shacks. A widespread cycle of social disadvantage reinforced by housing poverty has reappeared in New Zealand society for the first time since the 1940s.

In 1999 there was a shift back towards some state intervention. Income-related rents for state tenants were a long-held philosophical tradition of both the Labour Party and the Alliance and so were a key election promise for both parties in the 1999 general elections. In November 2000 the Labour-Alliance Government delivered on this promise by reintroducing income-related rents for just over 50,000 households living in state houses. At this time a further 150,000 households, or 400,000 people, remained in private rental housing, living in financial circumstances similar to those of state tenants before the changes.

Housing policy in 2003 is best described as minimal state involvement couched in the rhetoric of state support.<sup>3</sup> The situation for families living in private rental housing has not changed since December 2000, and is unlikely to change given the minimal commitment to additional housing-related expenditures. In the 2002 Budget, the Government committed \$262 million for the building/acquisition of 1,500 new state houses over the following three years.<sup>4</sup> At the same time, the waiting list for families needing or wanting a state house stood at over 11,000 including 4,000 families judged to have a high or urgent need (Housing New Zealand Corporation Ltd, August 2002). In its 2003 Budget, the Government committed \$100 million for the building/acquisition of an extra 318 state houses over the next four years (Maharey, 2003). At the same time the waiting list for families needing or wanting a state house stood at nearly 11,800 including 4,800 families judged to have a high or urgent need (Housing New Zealand Ltd, 2003). At this rate it will take 15-20 years to replace the 10,000 houses that the former National Government sold in less than seven years.

The policy shifts since the early 1990s have largely been driven by ideology rather than a consideration of what might be in the best interests of low-income children and their families. The outcome of these ideological lurches has been social disruption, rising costs to taxpayers of housing subsidies, and housing-related problems for one in five families.

## **Economic liberalisation and housing policy**

Housing policy needs to be placed in the wider context of the economic liberalisation policies of successive governments since 1984. A deliberate policy of accepting high levels of unemployment as a means of combating the risk of inflation combined with changes in employment laws, reduced the incomes of the lowest paid 40% of New Zealand workers and widened the gap between rich and poor. To provide an incentive for the unemployed, single parents and sickness beneficiaries to get into paid employment, the National Government cut welfare benefits by up to 10% in 1991. Whilst Labour politicians decried such moves at the time, they have not sought to reinstate the cuts since their election in 1999. The increased incidence of housing-related poverty rose quickly in the 1990s following the benefit cuts, the introduction of market rents for state houses, and the rent rises that were an unintended side-effect of the Accommodation Supplement.

**A widespread cycle of social disadvantage, reinforced by housing poverty, has reappeared in New Zealand society for the first time since the 1940s.**

**One of the outcomes of the ideology-driven policy shifts of the 1990s has been housing-related problems for one in five families.**

*“A pregnant mum and her baby who is only a few months old are living in a one room cabin in a caravan park. It’s damp and cold, and in the rain it is surrounded by mud. The child has recurrent ear infections and recurrent chesty problems. The mother is having recurrent asthma issues in her pregnancy.”*  
- Dr Nikki Turner

**The “market response” of families and households faced with expensive housing has been to “economise” on housing by crowding in, or making use of “informal” housing such as sheds, garages and caravans.**

The “market response” of families and households faced with expensive housing has been to “economise” on housing by crowding in, or making use of “informal” housing such as sheds, garages and caravans. Such responses have had the effect of forcing the housing problem out of sight, and provide the illusion that policies are effectively dealing with housing demand. In the Auckland region, where overcrowding appears to be worst, there has recently been a slight improvement in the incidence of overcrowding and in the proportion of children affected by overcrowding. However, there are two instances where this is clearly not the case. Firstly, while overcrowding is getting better for Maori children, it is getting worse for Pacific children in Auckland. Perhaps as many as one in three Pacific Island children living in Auckland lives in an overcrowded house (Solomon, 2002). Secondly, overcrowding is concentrated in South Auckland, where over 10,000 children are affected, and where the situation appears to be getting worse at the same that it has improved elsewhere in New Zealand.

The effects of overcrowding and/or other forms of inadequate housing on a child’s health are difficult to isolate from other contributing, inter-related factors such as inadequate nutrition and limited access to primary health care. However, a strong link can be seen between poor housing and the incidence of communicable diseases and other preventable illnesses amongst children.

This strong link exists in South Auckland and Northland. For example:

- The rate of meningococcal infection in Counties-Manukau<sup>5</sup> is twice the national average for children under one year old, and two and half times the national rate for children aged between one and 14 years. In 1999 one third of all cases of meningococcal infection in children nationwide were reported in South Auckland.
- The rate of cellulitis (skin infection) for children in South Auckland was one and half times the national average in 1999, while the rate of rheumatic fever was two and half times (1995-99 figures).
- Between 1995 and 1999 in Northland, hospitalisation rates for children suffering tuberculosis was twice the New Zealand average, while for rheumatic fever it was three times.
- Hospitalisation rates for children in Counties-Manukau suffering from preventable illnesses are 25% higher than the national average. Hospitalisation rates for Pacific children are three and half times that for Pakeha and Asian children, while for Maori children they are two and half times higher. Half the Pacific children living in South Auckland will be admitted to hospital before their first birthday.

**Half of the Pacific children living in South Auckland will be admitted to hospital before their first birthday.**

Transience also emerged during the 1990s as a negative social effect of housing policy reform. Households have become more mobile, and tenant households are more mobile than owner-occupier households. Private sector tenants are likely to move more frequently than state tenants.

**Poor housing is linked to poor health, and a lack of affordable housing leads to transience – a major barrier to a child’s educational achievement.**

Transience is a major barrier to children’s educational achievement. It takes time for children to settle into a new school and for their teachers to identify their educational needs. Children who frequently shift houses and schools risk falling behind their peers, which in turn creates ongoing problems in their learning. A 2002 CPAG survey of 31 South Auckland primary schools showed that nearly one third of children in decile one schools (the poorest) are likely to change schools in any given year (see chapter 5).<sup>6</sup> This is twice the rate of transience in schools which are decile three or higher and appears to be related to the housing tenure of students’ families.

## 2. Housing policy and affordability

High housing costs can be a major source of poverty for households with children. Households either meet the market cost of adequate housing by reducing expenditure on other necessities, or alternatively, reduce their housing costs in order to afford other necessities. Both options put the health and wellbeing of children at risk. For this reason housing costs and the ability of families to meet these costs are important policy issues within the debate about child poverty in Aotearoa.

Attention on housing affordability allows us to gain two useful insights in efforts to relieve child poverty. Firstly, an analysis of housing affordability can be used to assess income adequacy, enabling the identification of those households or families at risk of living in poverty. Housing affordability also allows researchers to determine which households are more at risk than others.

The second policy insight is economic. While there is no universal agreement over what is an acceptable level of housing affordability, it is possible to measure the likely costs of addressing housing affordability problems at any suggested level of affordability. Such measures provide a good starting point when considering the costs and consequences of housing policies.

**Many households have to choose either adequate housing at market rents or other necessities.**

### The problem of housing affordability

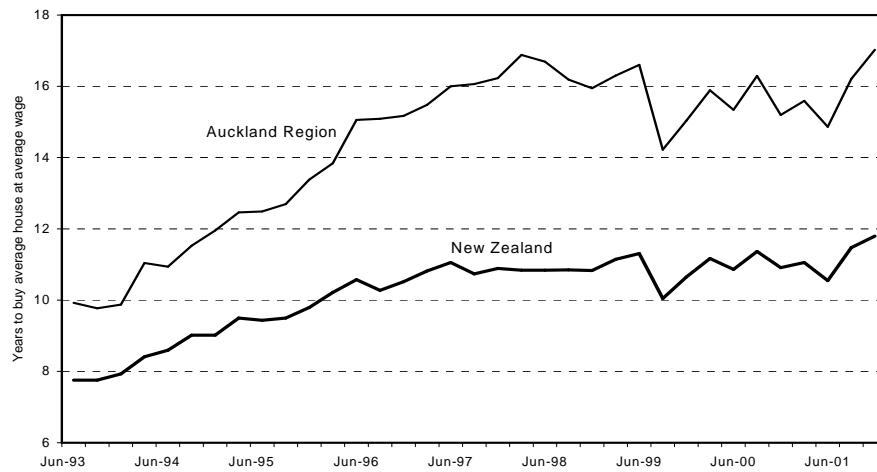
Housing affordability has been a persistent problem in New Zealand for the last quarter of a century. In 1988 the Royal Commission on Social Policy reported increased difficulties with housing affordability from 1975 to 1986. More recently, Mary Mowbray 2001 showed how the after-housing cost disposable income for low-income households deteriorated between 1988 and 1998.<sup>7</sup>

A commonly used measure of housing affordability is to compare wages and house prices. These comparisons allow the development of an aggregate affordability indicator, which shows the number of years it takes to buy a house at the average wage. This affordability measure for both New Zealand as a whole and the Auckland region is shown in Figure 1 overleaf.

The drivers for the growing problem of housing affordability include:

- New Zealand's relatively high real interest rates
- Growing income disparities which mean low-income groups are less able to compete within the housing market
- Deregulation of financial markets which has made housing finance relatively easier to obtain for middle and high income groups, driving up house values
- Falling real wages for the lowest paid which, together with the retreat of the State from low-income home lending, has severely limited the ability of poor households to obtain housing finance.

**Figure 1: Years to purchase average house 1993-2001**



Data sources: Valuation NZ, Quotable Value Ltd and Reserve Bank of New Zealand

**The poorest 25% of households are in a rent-trap due to rising rent and house prices, and the difficulty of obtaining housing finance.**

The inability of the poorest 25% of households to obtain housing finance has resulted in them having to rent, as discussed in Chapter 3. Meanwhile, rising rents and house prices in turn have reduced households' net disposable incomes, resulting in a rent-trap for these households.

### Housing costs & household incomes

Mowbray, (2001) provides an account of trends in household incomes between 1988 and 1998 based largely on Statistics New Zealand's Household Economic Survey.<sup>8</sup> This report makes compelling and disturbing reading on the declining fortunes of many New Zealand households in the decade following the economic rationalisation of the late 1980s.

Of particular relevance to this paper is Mowbray's discussion of household incomes and housing costs during the 1990s. These changes are summarised in Table 1 below:

**Table 1: Tenure Type and Proportion of Income spent on Housing**

Tenure Type	Proportion of Income spent on housing	1990	1992	1994	1996	1998
<i>Percentage of households</i>						
No Mortgage	10% or under	93	93	92	92	91
	10% - 30%	6	6	7	7	8
	Over 30%	1	1	1	1	1
With mortgage	10% or under	20	17	12	9	10
	10% - 30%	58	54	57	57	55
	Over 30%	22	29	31	33	35
Rented	10% or under	9	6	6	5	4
	10% - 30%	65	64	48	43	44
	Over 30%	26	30	47	51	53

Source: Table 11, Mowbray (2001)

This table shows how the position of tenants deteriorated between 1990 and 1998. In 1990 one in four tenant households paid more than 30% of their household income in rent; by 1998 this proportion had doubled to one in two tenant households. This is concerning because a high proportion of tenant households include children.

During the study period, increases in household income tended to be offset by disproportionate increases in housing costs. For households with children, and headed by a solo parent or beneficiary and/or including a Maori or Pacific adult, the trend is even more pronounced. For these households, after-housing cost disposable income has actually declined.

## Rent gap measures

Adopting the “rent gaps” approach of Berry (2001), rents for five lower income areas of South Auckland were studied for the period 1994-2001. (See Appendix 2 for an explanation of rent gaps)

To establish the gap between affordable rents and market rents, the incomes of four indicative households have been estimated for the study period using both Statistics New Zealand income surveys and the Department of Work and Income’s benefit schedules. The four indicative households are as follows:

- A family of two adults and two children living on the unemployment benefit/community wage;
- A household on the lowest quartile household income;
- A single parent with two children living on the Domestic Purposes Benefit/Community Wage; and
- A single parent with one or two children living on the median household income for a single parent household.

To establish the gap between the market and sustainable rent, an estimate of landlord’s costs has been made and compared with the market rents recorded as above. Landlord’s costs are taken as follows:

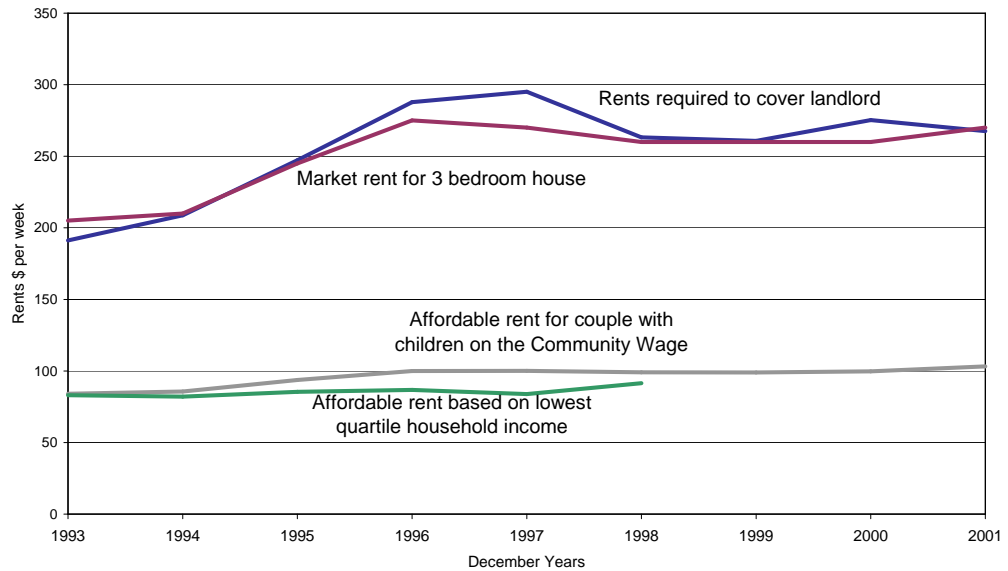
- An **opportunity cost** being the five-year bond rate<sup>9</sup> multiplied by the average sale price of the type of property in the subject suburb.
- An **operation cost** which includes allowances for rates, insurance, maintenance and administration but not depreciation.

Market rents have been taken from newspaper advertisements and from data on rents registered at the Tenancy Bonds Centre of the Ministry of Housing. Average rents for various suburbs have been recorded for two and three bedroom flats or houses. These rents have been rounded up or down to the nearest five dollar increment in recognition that averages are only indicative.

To provide an aggregate position for the five subject suburbs a weighted average sale price and rent has been compared against the incomes for the indicative households for the period 1993 to 2001. 1993 of course corresponds with the introduction of the Accommodation Supplement. This aggregate position is shown in the graphs below for a three bedroom house rented to a two adult two children household and a two bedroom house/flat rented to a single parent household with two children. “Affordable rent” is calculated as 25% of a household’s income.

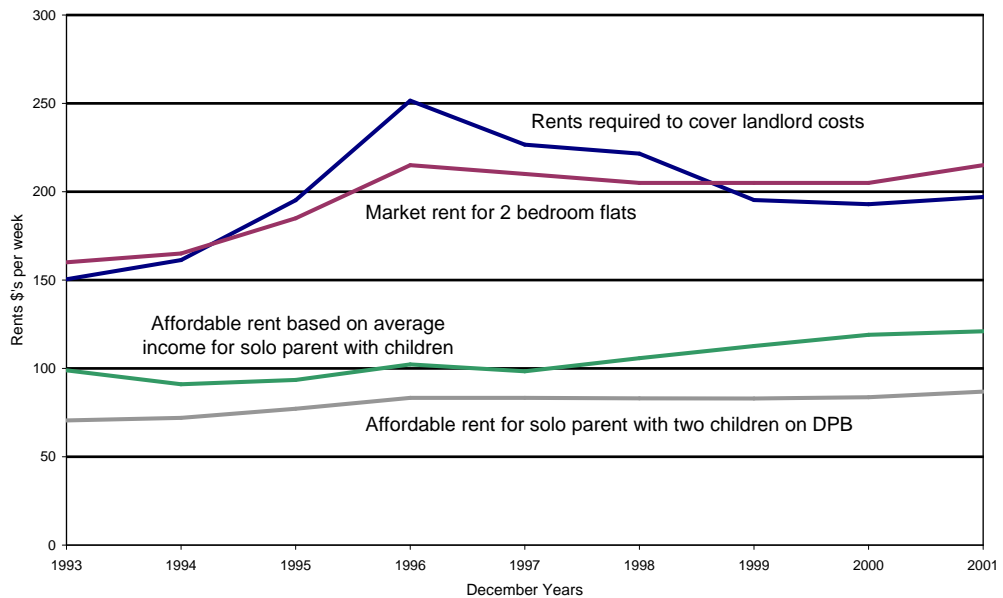
**Figure 2: Measures of affordability for a three bedroom rented house**

*Based on a typical three bedroom rented house in South Auckland.*



**Figure 3: Affordability measures for a two bedroom rented flat**

*Based on a typical two bedroom flat in South Auckland*



Points to note from these graphs are as follows:

- The profitability of South Auckland rental properties has fluctuated over the period but generally market rents appear to be covering operational expenses and opportunity costs. A landlord who invested in a three bedroom property in 1993 would have received around 66% appreciation in the value of their investment today, an effective rate of return of over 8% annually.

- Rents and property values rose sharply between 1993 (when the Accommodation Supplement was introduced) and 1996, but remained relatively stable after that. Beyond the graph's time limit, house values and rents began to rise again in early 2002, most likely because of net inwards migration.
- Overall the gap between market rents and affordable rents has grown during the study period with most growth occurring between 1993 and 1996. The gap at present is around \$170 per week for a two adult family with children in a three bedroom house and \$100 per week for a single parent family renting a two bedroom flat. This gap takes account of any Accommodation Supplement received and illustrates the income gap between private and state tenants who are paying income-related rents.

**The gap between market rents and affordable rents grew sharply between 1993 and 1996 and has been wide ever since.**

## **Income adequacy approaches**

Bob Stephens, Charles Waldegrave and others have discussed the adequacy of incomes for low-income New Zealanders (Stephens, Waldegrave, & Frater, 1995; Waldegrave, 1996). This work identifies the extent to which housing costs contribute to the gap between living costs and family incomes.

Waldegrave and Stephens used focus groups comprised of people living on low and modest incomes in Wellington to assess both the level of income that would be required to sustain them adequately and how this money would be spent. Groups were based on differences in ethnicity, family type and incomes. Participants were asked to identify what they thought was both an adequate and a fair weekly income for sole parent and two parent households. The results of this work are provided in Table 2 overleaf.

Focus group surveys were done in other North Island centres including Auckland to gauge the views of households themselves on adequacy. These have not been reported but appear to support the consensual results from the Wellington work, with the exception of Auckland where higher housing costs resulted in higher estimates of adequate and fair incomes (Stephens, Frater, & Waldegrave, 2000). Consensus based estimates of minimum adequate household incomes can be benchmarked against inflation and movements in household incomes to gain up to date values at any time.

The income estimates in Table 2 are useful for estimating income adequacy for two reasons. Firstly, they give a "users' view" of what incomes are required for just a modest standard of living in New Zealand.<sup>10</sup> This "users' view" reflects the difficulty of providing for families reliant on welfare benefits or low paid work. While such views may be presented as self-serving, it should be borne in mind that any view of what is a minimum adequate income is inevitably subjective.<sup>11</sup>

The second advantage of this approach is that it allows the separation of housing costs from other household expenditure. Simply observing the housing costs paid by a household does not provide any insights other than how much households pay in rent.

Table 2 indicates that in 1993 a two parent/ three child family needed around \$300 per week after their housing costs were met. Assuming relative prices are unchanged, this is equivalent to \$357 in 2002 dollars.

**Table 2: Composition of Expenditure (4) for "Minimum Adequate Household Expenditure"- Two Adults and Three Children**

(A = Adult, C= Child)

Expenditure Category	Focus Group Type						
	Maori	Samoan	Pakeha Low Income	Single Parent	Low income Earning	Pakeha Mid Income	Average
Food	100	150	100	130	90	100	112
Household operation	10	10	10	15	10	10	11
Housing	150	180	150	150	150	180	160
Power	30	20	20	25	20	15	22
Transport	40	30	40	55	60	50	46
Activities	15	10	25	21	30	20	20
Insurance	11	11	15	20	15	12	14
Life Insurance	20	10	20	10	5	25	15
Exceptional	10	20	10	10	5	10	11
Appliances	10	6	5	0	3	5	5
Furniture	10	6	5	0	3	5	5
Medical	15	5	15	5	15	5	10
Clothing	37	10	15	20	20	20	20
Education	6	5	8	15	10	5	8
<b>TOTAL</b>	<b>475</b>	<b>483</b>	<b>458</b>	<b>491</b>	<b>442</b>	<b>472</b>	<b>471</b>
Fair 2A + 3C	634	690	667	678	689	687	674
Adequate 1A + 2C	374	371	377	425	390	383	386
Fair 1A + 2C			525	563	569	547	551

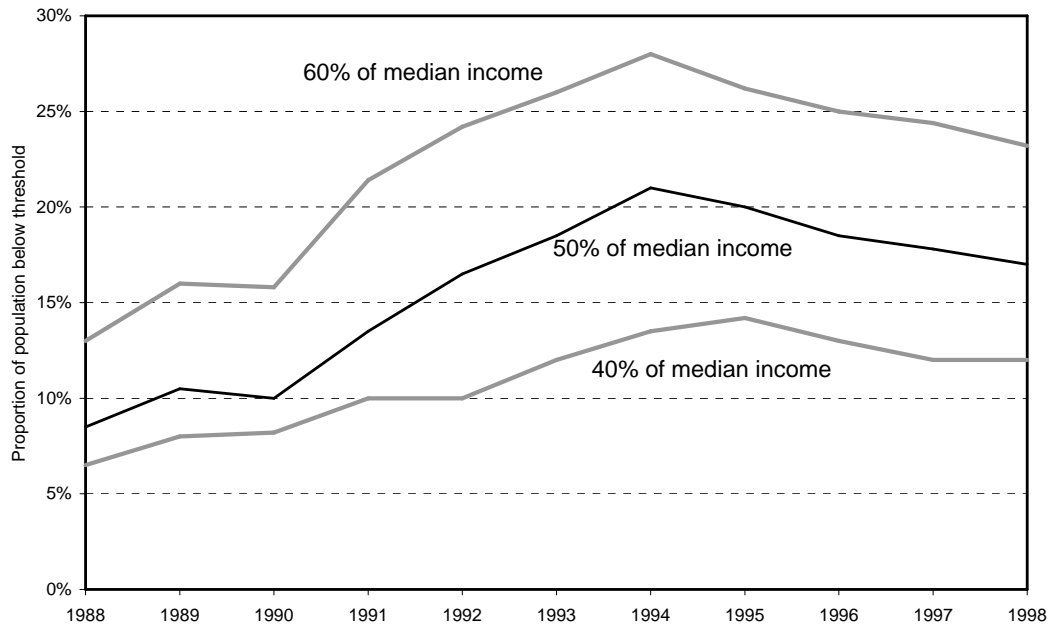
*Source: Waldegrave & Sawrey (1993) cited in Stephens, Waldegrave & Frater (1995)*

**The minimum adequate income is 66% of the median household income, if ideals such as social participation are taken into account. (Stephens & Waldegrave)**

Stephens and Waldegrave extended their consensus-based estimates to determine poverty lines. In 1993 a consensus-based estimate for a two-parent/ three child family corresponded with 60% of the median household income. However, after adjusting for inflation Stephens and Waldegrave found the minimum adequate income was actually 66% of the median household income.<sup>12</sup> More stringent thresholds can be argued from a less progressive perspective that focuses solely on deprivation rather than on ideals such as social participation. Waldegrave and Stephens acknowledge this, and discuss a 50% of median household income threshold. The Social Report 2001 goes one step further and considers a 40% threshold. However, it is certain that at a 50% threshold, some families in Aotearoa New Zealand would suffer deprivations such as inadequate shelter and food poverty.<sup>13</sup> This means that the 50% threshold is more contentious than the 60-66% threshold. Figure 4 reports the level of poverty as defined by the 60%, 50% and 40% of median household income thresholds. Figure 5 opposite provides an indication of what has happened to the relative poverty level of individuals since 1988 in Aotearoa New Zealand.

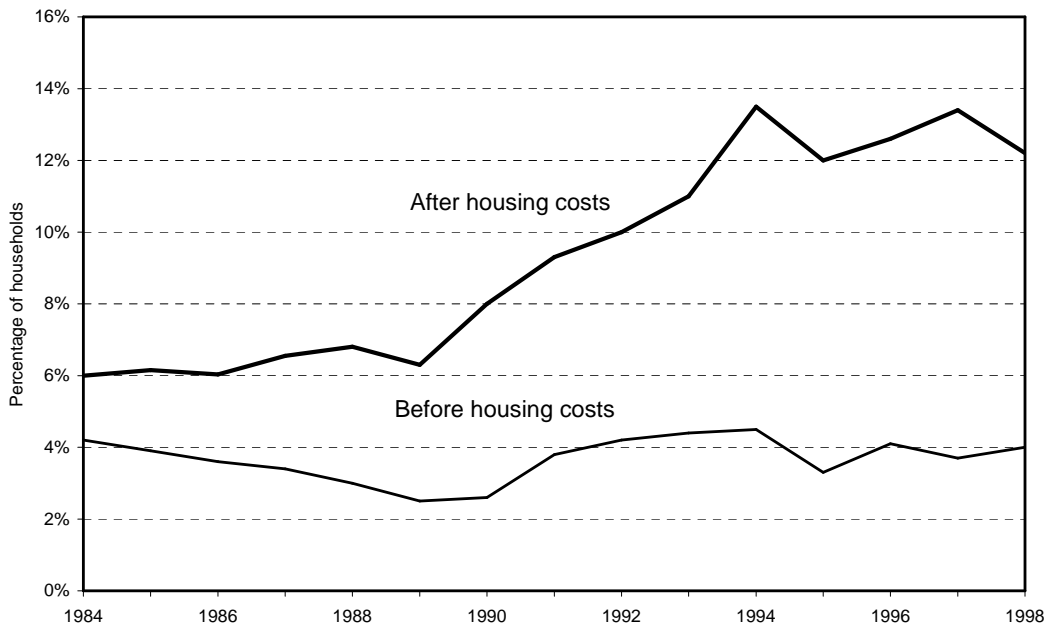


**Figure 4: Proportion of population with net of housing costs income below thresholds 1988-98**



Source: *The Social Report 2001 Figure EC3.1*

**Figure 5: Incidence of household poverty at 50% threshold 1984-98**



Source: *Stephens, Frater and Waldegrave (2000) p.27*

Figure 5 reports the changing incidence of poverty of households at the 50% threshold before and after housing costs are taken into account. The following trends can be identified:

Relative poverty rose quickly immediately after the benefit cuts in 1991. Further increases in relative poverty are probably attributable to the introduction of market rents in state houses. It was not until the sustained economic growth in the late 1990s and the corresponding expansion in the labour market that there was a decline in the incidence of poverty.

A comparison of Figure 4 and Figure 5 highlights two features. Firstly, there is a higher incidence of relative poverty among individuals. For example in 1994 around 14% of households but 21% of the population were below the 50% threshold. This suggests that relative poverty was more common in crowded households.

The second feature is that after 1995 the proportion of people in relative poverty fell but the proportion of households did not. This trend emerged because it was smaller households that remained in poverty after 1995 (Stephens et al., 2000). This trend is difficult to account for.

Figure 5 illustrates the impact that housing costs have on the incidence of poverty. By 1998, 8% of households were below the 50% threshold solely on account of their housing costs, up from 2% in 1984.

**By 1998, 8% of households were below the 50% threshold solely on account of their housing costs.**

## **An overview of affordability problems**

All measures of housing affordability used in this chapter (see Appendix 2) paint a similar picture, being a rapid deterioration of housing affordability during the first half of the 1990s, followed by a period of consolidation with no improvement since then. This deterioration appears to be due to three factors:

- The benefit cuts of 1991 in the middle of a recession, combined with the introduction of the Employment Contracts Act, had the effect of reducing wages, especially for those in low paid and unskilled work.
- The introduction of market rents in state houses from 1993 and the introduction of the Accommodation Supplement which contributed to rapid house price rises and rent increases, particularly in the Auckland region.
- Rapid increases in house prices were unmatched by increases in household income, particularly for low-income families. Factors contributing to these changes were immigration, increasing income disparities and rising household indebtedness.<sup>14</sup>

The housing affordability problem is now at the core of poverty in Aotearoa New Zealand. Addressing this problem is itself problematic because the mismatch between the incomes of the poorest 40% of households and the market cost of adequate housing has now become structurally embedded. That is, present policy settings maintain the recent extension of economic inequality, together with debt-financed residential property values and a heavily subsidised private rental market.

The rent subsidies of the Accommodation Supplement have now been institutionalised into property values and into landlords' and tenants' expectations. These subsidies are currently costing taxpayers around \$741 million per annum in addition to the \$329 million for income-related rents (2003/4 figures).

**The housing affordability problem is now at the core of poverty in Aotearoa New Zealand – but addressing it is problematic; the root of the problem has become structurally embedded.**

## But what of the future?

The experiment with market driven housing policies will prove to have left a legacy for any Government looking to deal with housing-related poverty.

Under the present policy settings, and given population growth and continuing levels of dependence on the Accommodation Supplement, it is likely that we will see continued growth in the cost of the supplement, particularly for rent subsidies. The bulk of this growth will be in Auckland.

In facing this growing cost, the Government faces a stark choice. It could undergo a radical shift in policy – such as reducing rent subsidies – or allow a major economic shock such as the collapse of the household debt markets. It is unlikely the present Government would do either of these, and such actions would be undesirable anyway. Or it may accept the rising cost of the Accommodation Supplement market-based rent subsidies and continue with its indifferent housing policy. This would allow housing-related poverty and the ensuing problems of poor child health and educational failure to persist. Alternatively the Government may accept the need to make significant investment in new housing, particularly in Auckland.

It seems likely that from now, an extra 2,500 households each year will require state assistance with their housing. Fifteen hundred of these households will be living in Auckland.<sup>15</sup> If Government is to meet half this demand in Auckland alone it will cost it around \$100-150 million each year in additional capital expenditure. This compares dramatically with the modest increase of \$100 million over four years which the Government is planning on spending to acquire 318 state houses and refurbish a further 80.

An additional \$300 million per annum would be required to meet demand for state housing. However \$300 million for new housing for poor families each year is also modest, when compared with the \$2 Billion a year which flows into the New Zealand Superannuation Fund for investment largely in foreign sharemarkets. It is not simply a matter of more money but of more houses as well. The recent purchase by the Government of Auckland City Council's rental housing stock for \$83 million does not increase the housing available to low-income families and households. This purchase merely changed the landlord. Much of Housing New Zealand's modest stock acquisition programme is merely changing the landlord as well. In 2002/03, for example, Housing New Zealand planned to purchase 350 existing houses and 180 new houses through its state house acquisition programme. In Auckland the company planned to buy 139 new and 206 existing units in a region where the shortage of affordable housing is already severe. The purchase of existing housing for state rentals actually reduces the housing opportunities for the three-quarters of poor families who do not qualify for or have a state house.<sup>16</sup>

The provision of a wider range of housing opportunities for low-income families and households should also become a Government priority. There is considerable value in supporting home-ownership for low-income families especially those families who may be described as the "working poor" - those families who earn little more than the dole and who often miss out on state assistance perhaps through ignorance, pride or red tape. Low-income home-ownership programmes would assist to build more stable communities and a more stable home life for children. Such programmes may also be a way of moving state tenants out of their state houses thus utilising the state house stock more effectively as a resource to staircase families into long-term independence from the state.

Third sector housing providers are largely an ignored option in Aotearoa where policy has alternated between preferring state provision and market provision. Third sectors

**An extra 2500 households each year will require state assistance with housing, costing much more than the Government is presently spending on housing, but much less than the Super Fund.**

**Much of Housing NZ's stock acquisition merely changes the landlord, reducing housing opportunities for those who don't qualify for state housing.**

**Low-income home ownership programmes and encouraging third sector housing providers are possible policy alternatives.**

housing options such as housing trusts, housing associations and cooperatives play an almost insignificant role in New Zealand's social housing because they have never had a supportive policy environment such as they have in Canada, Britain and north-west Europe. Building up a credible third sector housing movement in Aotearoa may take a generation but it is likely to be the only protection low-income families have from any future government which is indifferent or hostile to the ideal of decent housing for low-income families.

### **3. The Fading Kiwi Dream: Changing housing tenure.**

#### **Reflecting on the Kiwi dream**

New Zealand has been seen as a nation of homeowners – a country where most families have access to the New Zealand dream of one day owning their own home. New Zealand's high level of homeownership compared with other developed countries is a direct result of Government policies dating from the 1940s through to the 1980s.

The term 'home owner' frequently masks the fact that most homeowners share the ownership of their home with the bank through a mortgage that often extends for the whole of their working lives. However, debt-free homeownership is achieved by around three quarters of New Zealanders by the time they reach their retirement. Ownership not only provides a store of value for elderly people but also a means of reducing the overall cost of living for the remainder of their lives. The high level of debt-free homeownership for people aged over 65 has been a major contributor to the high standard of living that the majority of our elderly have enjoyed since the 1970s.

The neo-liberal social policies of the Labour and National administrations from 1985 to 1999 have left a significant impact on the way New Zealanders now access their housing, and the type of housing they are in fact able to access. This chapter studies the changes in tenure for the period 1986-2001.

As will be seen in the following data, much of this change relates to changes in the Auckland housing market.

#### **Tenure changes in New Zealand**

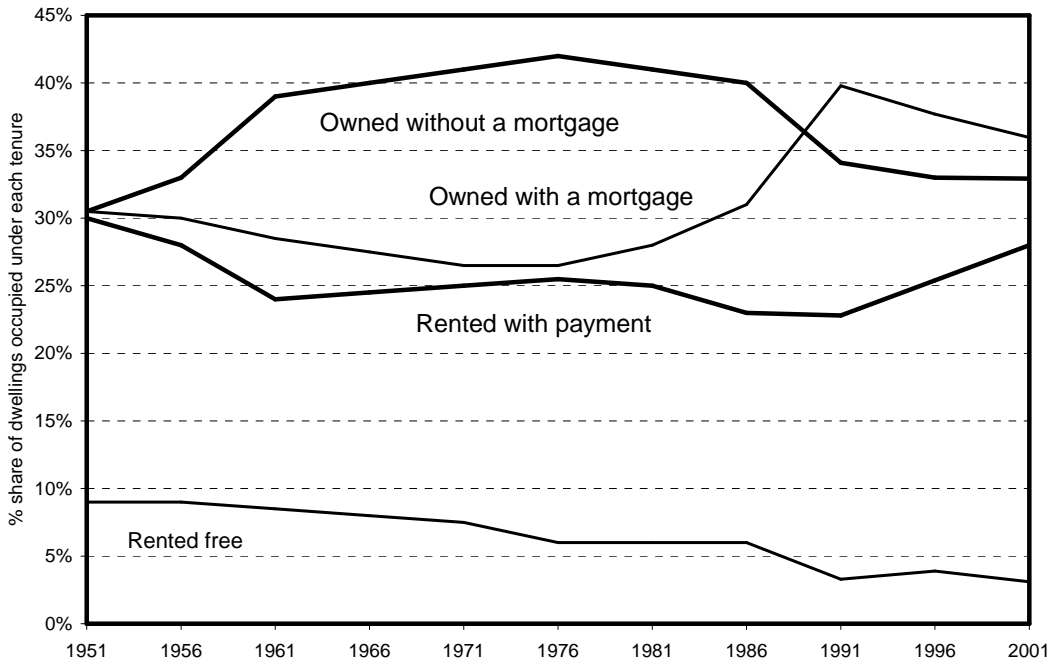
The changing tenure patterns within New Zealand's housing market are shown in Figure 6 opposite for the 50 year period to 2001.

Figure 6 shows a number of interesting trends over time, some of them due to government policy changes and some due to economic changes, including:

- A steady increase in the levels of homeownership (with or without a mortgage) from 1951 to 1991 and following this a sharp decline in owner-occupation accompanied with a subsequent increase in rented housing.
- A modest decline in levels of homeownership since 1991, most noticeably in mortgaged homeownership. The causes of this appear to be related to the rising inaffordability of housing, particularly in Auckland, Wellington and some central North Island centres.

It is important to view the recent decline in levels of homeownership in context. Although the levels of homeownership are still high in post-war terms, a structural shift appears to have taken place between 1986 and 1991. This shift coincides with the financial deregulation of the mid-eighties and the move to market-based housing subsidies in 1993.

**Figure 6: Changing tenure patterns in New Zealand 1951-2001**



Source: Statistics New Zealand and "The April Report" Royal Commission on Social Policy

## Auckland housing markets in the New Zealand context

The Auckland region represents slightly less than one third of New Zealand's population and around one third of the country's economic activity. Population and economic growth rates in Auckland have throughout most of Aotearoa New Zealand's post-colonial history exceeded those of the rest of the country. Generally Auckland's growth rates represent 40-50% of New Zealand's overall growth.

Economic growth and demographic change are the two main drivers of change within housing markets. This link, combined with the comparatively high rate of growth and change in the Auckland region, are reasons to expect that much of the change in New Zealand's housing market is the result of changes within the Auckland sub-market.

**Table 3: Changing tenure in New Zealand & Auckland region (by percentage)**

Tenure	New Zealand			Auckland region			Rest of New Zealand		
	1991	1996	2001	1991	1996	2001	1991	1996	2001
Owned with mortgage	39.8	37.7	35.9	41.2	38.8	36.4	39.2	37.3	35.7
Owned mortgage free	34.1	33.0	32.9	31.2	30.3	28.0	35.3	34.1	35.0
Rented	26.1	29.2	31.2	27.5	30.9	35.6	25.6	38.6	29.3

Source: Statistics New Zealand – Census 1991, 1996, 2001

**It appears that tenant households outside of Auckland are no longer making the shift into owner-occupation and may even be shifting from owner-occupation to tenancies.**

Table 3 illustrates the extent to which the Auckland housing market has driven, and at the same time obscured, changes in the New Zealand housing market. For example the decline in levels of homeownership and the subsequent rise in levels of rental housing is a nationwide trend, although it is far more pronounced in the Auckland region. Auckland has historically had a higher proportion of rental housing than the rest of New Zealand. What this table also shows is that the growth in rental housing in Auckland has been much faster than for the rest of the country although there is still a noticeable tenure shift outside of Auckland. In Auckland the decline in owner-occupation appears to have been equally spread between mortgaged and mortgage-free ownership. For the rest of the country the decline in owner-occupation appears to have been as a result of a decline in mortgaged homeownership. From this it appears that tenant households outside of Auckland are no longer making the shift into owner-occupation and may even be shifting from owner-occupation to tenancies.

**Figure 7: Changing tenure in New Zealand: Total dwellings 1991-2001**



Source: Statistics New Zealand – Census 1991, 1996, 2001

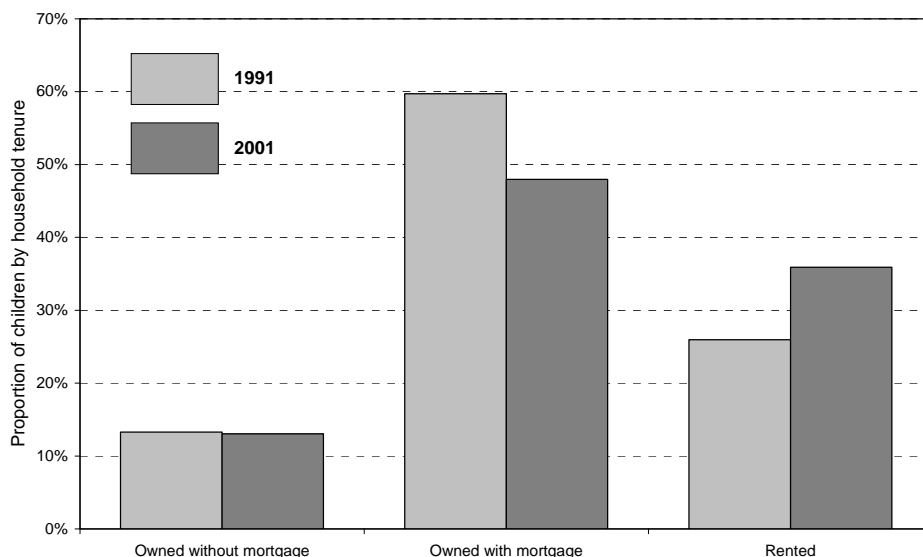
Figure 7 opposite shows these changes in total numbers, taking account of population growth. Although some caution should be exercised in interpreting these results<sup>17</sup> they appear to be significant for the following reasons:

- In terms of total dwellings rented, the growth in rental housing in the Auckland housing market has contributed to just over half of the increase in rented housing across the country (43,800 of the total 83,700 dwellings).
- Owner-occupation in the Auckland region has grown slightly (8,200) in total numbers although this represents only around 12% of the growth in households in Auckland between 1991 and 2001.
- For the rest of New Zealand, owner-occupation has fallen in absolute terms. In 2001 there were 10,000 fewer owner-occupier households than in 1991.
- Over the whole country it appears that owner-occupation has remained stable in total numbers with around 13,800 households moving from mortgaged ownership to mortgage-free ownership between 1991 and 2001. This shift was not matched by households moving from tenancies to mortgaged homeownership, so overall households with a mortgage declined by around 14,500 in the decade to 2001.

Overall the stark conclusion to draw from these figures is that all of the growth in households in New Zealand between 1991 and 2001 has been accommodated in rental housing. While there has still been some shift into homeownership by tenant households, this has been at a historically low level, especially outside of Auckland.

The shift of household tenure toward rented housing has disproportionately affected households with children living in them. This trend is consistent with the concentration in lower income groups of households with children and the lack of real choice these groups have in their housing tenure due to economic constraints. The extent to which households with children are shifting into rental housing is shown clearly in Figure 8 below.

**Figure 8: Tenure of children's housing as % of all children 1991-2001**



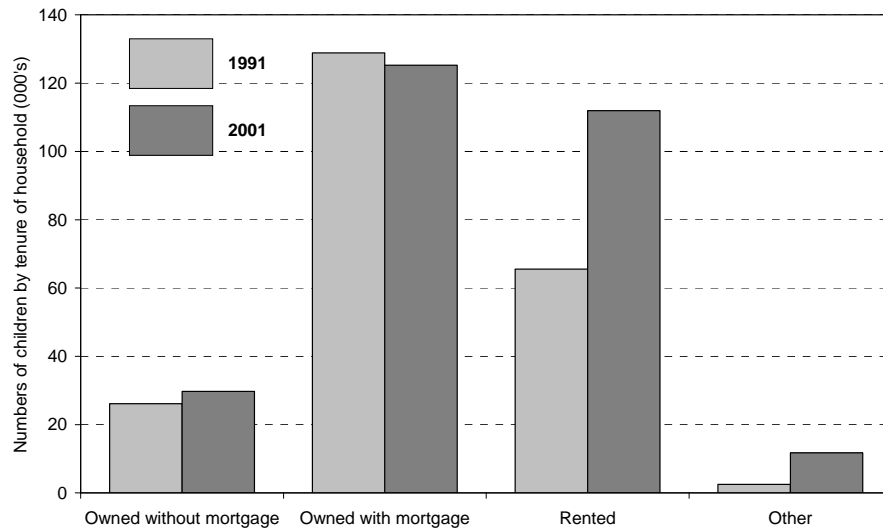
Source Statistics New Zealand

Figure 8 shows that there has been both a relative and absolute decline in the number of children living in mortgaged home ownership, which has been more than offset by a relative and absolute increase in the numbers of children living in rented accommodation. In 2001 there were 63,000 fewer children living in mortgaged owner-occupied houses than in 1991. Over the same period there was an increase of 107,000 children living in rental housing.

**All of the growth in households between 1991 and 2001 has been accommodated in rental housing, disproportionately affecting households with children.**

**In 2001 there were 63,000 fewer children living in mortgaged owner-occupied houses than in 1991. Over the same period there was an increase of 107,000 children living in rental housing.**

**Figure 9: Tenure of children’s housing in Auckland region – total number of children 1991-2001**

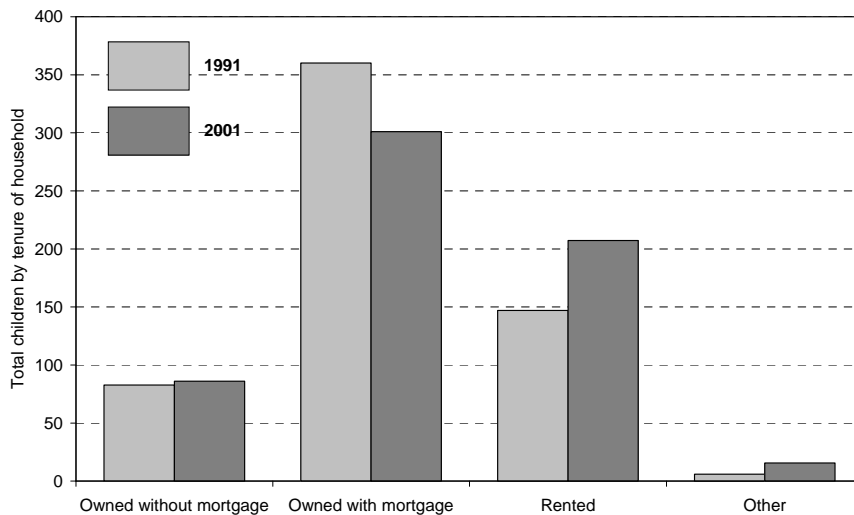


Source: Statistics New Zealand

Figure 9 shows the impact of tenure changes on children for Auckland region between 1991 and 2001. Although the numbers of children living in owner-occupied housing was relatively stable overall, this is against a background of sustained growth of 2.4% annually for the decade, suggesting a declining proportion of children in owner-occupied housing. Over the same time the number of children living in rented houses rose over 70%, or 46,000 children.

**Between 1991 and 2001 in Auckland, the number of children living in rented houses rose by over 70%, or 46,000 children.**

**Figure 10: Tenure of children’s housing outside of Auckland – total number of children 1991-2001**



Source: Statistics New Zealand

Figure 10 below provides the same information for the rest of New Zealand. Over the decade 1991-2001 the number of children living in owner-occupied housing declined by 59,000. This was matched by an increase of 60,000 children living in rental accommodation. Given that the growth rate for children living outside of Auckland under 15 years grew at 0.9% annually during the period, this suggests that young families have not been able to move from rental housing into mortgaged owner-occupation.<sup>18</sup>



The data shown in figures 8, 9 and 10 cover a decade and so record an aggregate change over time. This means of course that the children living in rental accommodation in 1991 are most likely not to be the children living in rental accommodation in 2001 simply because children grow up. What the data does show is the difficulty that young families (i.e. households with children less than 10 years old) are having in gaining access to homeownership. This is most pronounced outside of Auckland where the increase in children in rented housing is a direct reflection of the decline in the numbers of children living in mortgaged housing. For Auckland the increase in children in rented accommodation is partly the consequence of growth as well as a lack of opportunity, given that the numbers of children in mortgaged and owned housing has remained relatively stable.

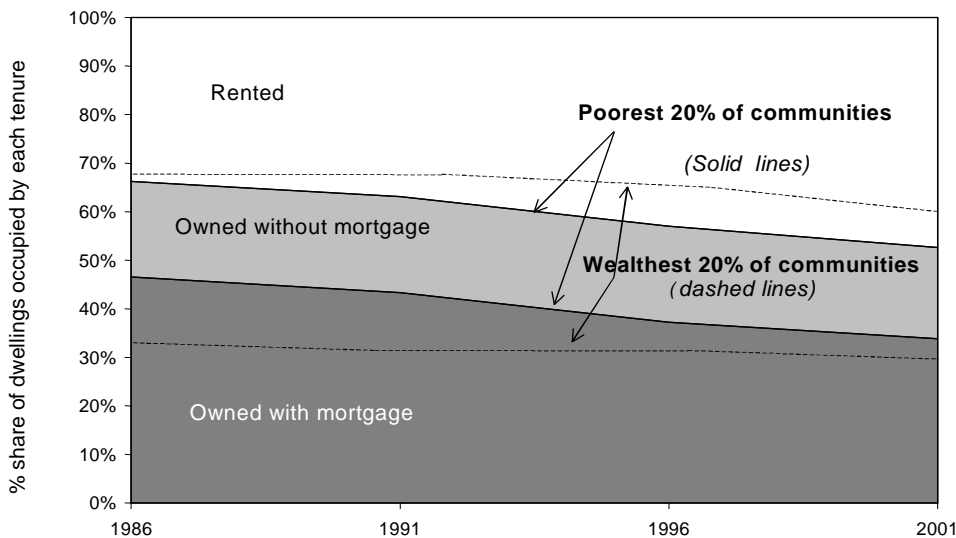
## Growing inequality within Auckland

While changes in the Auckland housing market may obscure changes elsewhere in the country, data focussing on Auckland alone as a whole may obscure the growing inequality within Auckland itself.

It is important to study the Auckland housing market in some detail, because the poorest one fifth of Aucklanders represents both a considerable population in New Zealand terms, and because this group represents a disproportionately large proportion of the poorest New Zealanders. Moreover, it is mainly through housing markets that poor Aucklanders are made relatively poorer than those in otherwise similar social and economic circumstances elsewhere in the country.<sup>19</sup>

Overall it appears that there has been a proportional shift toward rental tenure in both the poorest and wealthiest quintiles. Figure 11 below shows how the poorest communities have experienced a greater decline in home ownership than the wealthiest.

**Figure 11: Tenure changes in Auckland region – poorest vs wealthiest census area units**



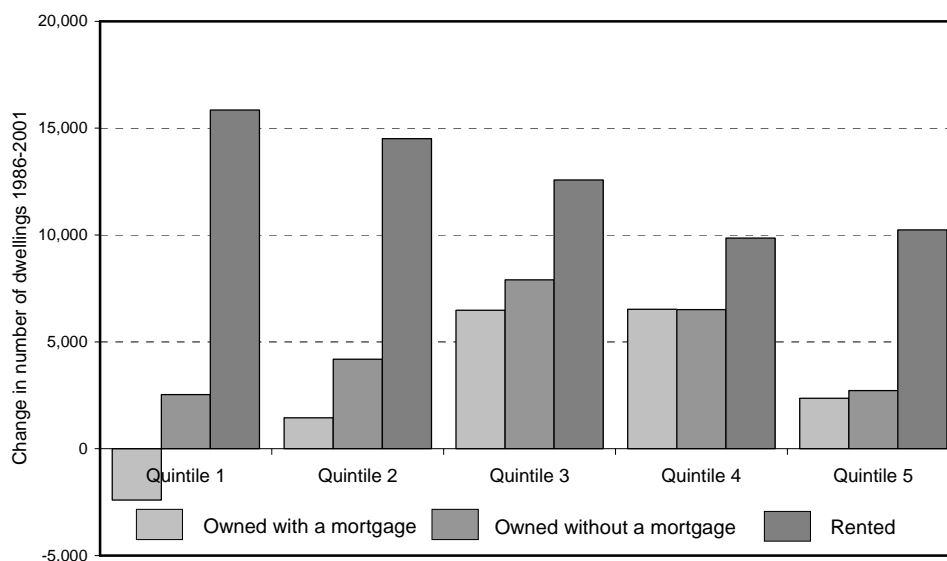
Source: Statistics New Zealand – Census 1991, 1996, 2001

For example:

- In 1986 just under half (47%) of households in the lowest income communities were owner-occupiers with a mortgage. By 2001 this proportion had declined to one third (34%). Over the same period rental tenure rose from one third of households (34%) to just under half of households (47%). Within this shift the proportion of households with mortgage free homeownership remained around one fifth (19%).
- For the wealthiest communities the changes have been nowhere near as significant. In 1986, the wealthiest communities had 70% owner-occupation, evenly split between mortgaged and mortgage-free ownership. By 2001 this proportion had dropped to 62%, still evenly split between debt-based and debt-free ownership. It is unclear whether this shift reflects financial constraints or a shift in preferences towards rental accommodation, particularly apartment living.
- In 1986 levels of home ownership were similar between the two groups – approximately 70%. Since then a gap has widened up, so now 53% of households in poorer communities are owner-occupiers while the figure is 62% in higher income communities.

Figure 12 below provides a comparison of the tenure changes of dwellings across all five quintiles in the Auckland region between 1986 and 2001.

**Figure 12: Tenure change in Auckland region – total dwellings by quintiles – 1986-2001**



Source: Statistics New Zealand – Census 1991, 1996, 2001

Key points that emerge are:

- Almost all of the growth in the households in the lowest quintile (quintile 1) has been accommodated in rental housing. The decline in mortgaged ownership has been matched by the increase in mortgage-free ownership, a shift most likely due to households paying off their mortgages during the period.
- Home ownership is still an important tenure option for the middle deciles. However, even in these communities, rental housing has accounted for 40 - 50% of housing growth.

- Tenure shifts are also apparent in the highest income communities. In Quintile 5 about two thirds of the growth in new households has been accommodated in rental housing.

## What does all this mean?

The period between 1986 and 1991 represents an historic shift in the way New Zealanders gain access to their housing. The full implications of this shift have possibly yet to become apparent.

The decline in levels of homeownership has been widespread both geographically and in terms of socio-economic status. In fact only the middle class communities in Auckland appear (from the analysis at least) to have sustained their market position in terms of homeownership.

The extent to which this shift in tenure toward rental housing is a social choice or an economic necessity has not been examined. Paradoxically this decline in homeownership, especially of mortgage-based homeownership since 1991 and especially in the Auckland region, has come about at a time of rising levels of household debt. Housing costs are increasing at rates far exceeding household income growth. Given these factors, it appears as though some households are being squeezed out of the homeownership market and others are in danger of slipping out of it due to unmanageable debt. This gives rise to the question of the longer-term sustainability of the housing market under present conditions.

**Housing costs are rising faster than household income growth and some households are being squeezed out of the homeownership market due to unmanageable debt... Is the current housing market sustainable long term?**

## 4. Cosy for the Kids: Overcrowding in housing from 1986 to 2001

*“This 10-month-old girl, X,... was admitted three months ago with disseminated tuberculosis. This has involved her lungs, kidneys, liver and brain... She will have an ongoing oxygen requirement when she is discharged, maybe for many years... The tuberculosis infection has destroyed large amounts of her lungs. Future insults to her lungs, even those caused by usually innocuous pathogens, are likely to affect her very severely and in fact may easily prove fatal to her.*

*You may be aware that X and her mother share accommodation with 12 other adults and one other child. Conditions such as these are described by Charles Dickens in the 19<sup>th</sup> century, and are just as conducive to the spread of tuberculosis now as they were then.”*

*From a July 2003 letter to Housing New Zealand from a Paediatric House Surgeon, in support of improved accommodation for the 10-month-old patient.*

## What do we mean by overcrowding?

“Overcrowding” is largely a social construct. That is, the point at which a house becomes overcrowded is determined by subjective ideas of what is acceptable within the society in which the judgement is being made, in terms of the number of persons per room, and suitable arrangements between male and female, different generations and kin. This means that no matter what standard is set to measure overcrowding there will be some controversy based on whose judgements are at the core of the standard.

**Overcrowding can be a health risk simply because people are cramped into places too small for them to be able to avoid illness.**

**Due to reliance on self-reporting, overcrowding in Aotearoa New Zealand is likely to be more than the official estimations.**

More objectively, overcrowding may also be determined on a physiological or epidemiological basis. Overcrowding can be a health risk simply because people are cramped into spaces too small for them to be able to avoid illness or disease. Although there is some anecdotal evidence of the links between overcrowding and disease prevalence (Jones, 1996), the multiplicity of causes for the emergence and spread of disease make it difficult to identify an irrefutable causal relationship.<sup>20</sup>

This has meant that an absolute standard for overcrowding has not been able to be developed solely on the basis of medical science. Perhaps more importantly from a policy perspective, this inability to establish a causal relationship between overcrowding and certain communicable diseases means that a strong policy argument cannot be developed for using housing assistance programmes as a way of delivering measurable health outcomes. Research in this area of public health is continuing<sup>21</sup> and a stronger argument for housing improvements as a public health programme may yet be developed.

A standard or measure of overcrowding gaining some official acceptance in New Zealand is the Canadian National Occupancy Standard and the Canadian Housing Index. This approach has been used by the Ministry of Social Development to discuss overcrowding (Ministry of Social Development, 2001) and is used in the discussion below.

The Canadian approach to measuring overcrowding, or more accurately a proxy for overcrowding, is based on applying a household's housing situation against a number of criteria set out in the Canadian Housing Index. The number of additional bedrooms the household requires is assessed against this measure or index. According to this index, a household is overcrowded if it requires an additional two or more bedrooms for the size and type of household.<sup>22</sup>

It is acknowledged that this standard is not based on any consideration of the cultural dimensions of crowding or overcrowding in Aotearoa New Zealand. Moreover, because the data used to calculate the measure or index is based on the New Zealand Census which relies on self-reporting, the index is likely to under-estimate the actual level of overcrowding.

## **Indicators of overcrowding in Aotearoa New Zealand**

Household occupancy rates, or the average number of people living in each house, can be used as an indicator of the use being made of the housing stock across communities and across time. If the occupancy rate is falling it is possibly because overcrowding is becoming less of a problem. This is not always the case though, as household occupancy rates only provide an average but say nothing about the distribution of housing resources within the community. The discussion below provides an example of this.

The spaciousness of housing enjoyed by New Zealanders has increased due to the overall decline in household sizes during the second half of the 20<sup>th</sup> century, and the increase in house sizes since World War II. Morrison, in his survey of censuses between 1951 and 1991 (Morrison, 1994), reports that the household occupancy rate declined from 3.58 people per dwelling in 1951 to 2.76 in 1991, with the period of most rapid decline being the 1970s. Over the same period the number of living rooms per house increased from 1.34 per occupant to 2.45. Morrison also reports a steady decline in levels of overcrowding for the same period.<sup>23</sup>

Table 4 opposite reports household occupancy rates for selected areas within Aotearoa New Zealand.

**Table 4: Household occupancy rates 1991-2001**

Region city or district	Household Occupancy Rate (people per house)		
	1991	1996	2001
Far North District	2.92	2.90	2.76
Rodney District	2.74	2.72	2.66
North Shore City	2.80	2.84	2.77
Waitakere City	3.05	3.09	3.00
Auckland City	2.71	2.83	2.77
Manukau City	3.36	3.41	3.38
Papakura District	3.14	3.10	3.00
Hamilton City	2.85	2.87	2.77
Tauranga District	2.64	2.61	2.56
Rotorua District	2.96	2.93	2.83
Whakatane District	3.08	2.96	2.84
Opotiki District	3.03	2.95	2.84
Gisborne District	3.01	2.98	2.83
Palmerston North City	2.90	2.88	2.73
Porirua City	3.44	3.31	3.17
Lower Hutt City	2.87	2.81	2.75
Wellington City	2.66	2.66	2.61
Nelson Region	2.66	2.62	2.55
Christchurch City	2.68	2.65	2.56
Dunedin City	2.77	2.73	2.60
Invercargill City	2.82	2.68	2.52
All New Zealand	2.85	2.82	2.73

Source: Statistics New Zealand

These data show a number of trends:

- Household sizes are much larger than the national average in cities where there is a large Pacific population, most notably Waitakere, Manukau and Porirua;
- Areas with poor housing such as Northland, Eastern Bay of Plenty and the East Coast do not appear to have widespread problems with overcrowding;
- Rapid population growth does not appear to be linked to more crowded housing. Districts such as Rodney, Tauranga and Waimakariri, with average annual growth rates of 3.9%, 3.6% and 3.2% respectively, have had housing stock grow at a faster rate than the population, leading to falling average household sizes;
- Only two cities, Auckland and Manukau have had population growth exceed housing stock growth resulting in increased average household sizes in the decade to 2001.

In all other cities and districts in New Zealand the housing stock grew at a faster rate than the population did, meaning falling average household sizes. Falling fertility rates and an aging population, combined with the economic opportunity to form new households through the purchase and/ or construction of houses, lead to more and

**While there are proportionally fewer children in the overall population, those households which include children have an increasing number of children in them.**

smaller households. The falling fertility rate means that now there are fewer children as a proportion of the population, although households with children in them have more children.<sup>24</sup> Conversely, longer life expectancy is leading to an increasing proportion of the population in the “elderly” age group,<sup>25</sup> and this group becoming older on average. In European-Pakeha families, elderly people have traditionally lived as couples or alone in households without children. This, and the fact that the elderly population is predominantly European-Pakeha, has meant that the proportion of households with only one or two people has increased. This is shown in Table 5 below.

**Table 5: Household composition by family type in private occupied dwellings 1991-2001**

Family Type	1991	1996	2001
Single person household	20.2%	20.2%	22.9%
Couple only (no children)	23.9%	24.4%	24.6%
Non-family households	4.9%	4.3%	4.3%
Couple with children	35.4%	32.1%	29.0%
Single parent with children	11.6%	11.3%	12.0%
Multi-family or extended family households	1.7%	2.5%	2.1%
Households with children % <sup>26</sup>	48.6%	45.9%	43.2%
Households with children ( <i>number</i> )	783,600	832,000	847,700
Children per household with children	1.38	1.44	1.46

*Source: Statistics New Zealand*

**In 1996, 115,000 people, including over 50,000 children, were living in households which needed at least two more bedrooms.**

Generally it appears the trend is towards smaller households and relatively fewer households with children living in them. What is more, these trends will be key drivers within the housing market for the next decade given the present population structure and social values. Although this suggests that overcrowding will become less of an issue in Aotearoa New Zealand, we need to look in more detail at which households are overcrowded and consider what is happening to them.

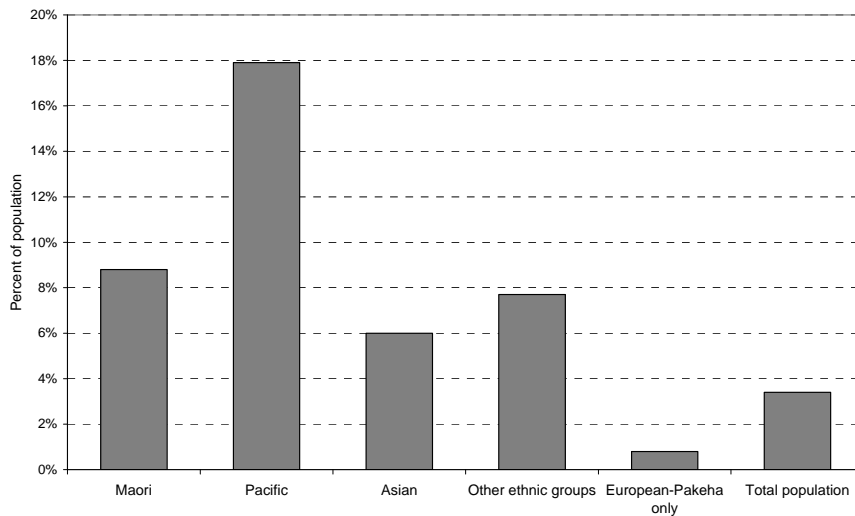
*The Social Report 2001* reviewed changes in household occupancy rates across the 1991, 1996 and 2001 Censuses. These changes show the extent of the regional variation in crowding and the relatively minor improvement in average levels of crowding between 1996 and 2001. Possible background reasons for this improvement are discussed below. The report also applied the Canadian National Occupancy Standard to the 1996 Census. Because the application of this standard to the 2001 Census data has not been undertaken at this stage, the data presented here show an historic view of overcrowding in Aotearoa New Zealand.

*The Social Report 2001* notes that in 1996, 115,000 people, including over 50,000 children required a house with two or more additional bedrooms. Ninety percent of overcrowded households had children living in them and 5.3% of children lived in overcrowded households. Tenants were twice as likely as owner-occupiers to live in overcrowded houses.

**18% of Pacific households live in overcrowded conditions – twice the rate of Maori households.**

Overcrowding is especially a problem within Pacific communities. 18% of Pacific households live in overcrowded conditions. This is more than twice the rate of Maori households and around 20 times the rate of European-Pakeha households, as shown in Figure 13.

**Figure 13: Proportion of population living in households requiring two or more additional bedrooms by ethnic group 1996**



Source: Ministry of Social Development 2001 p.82

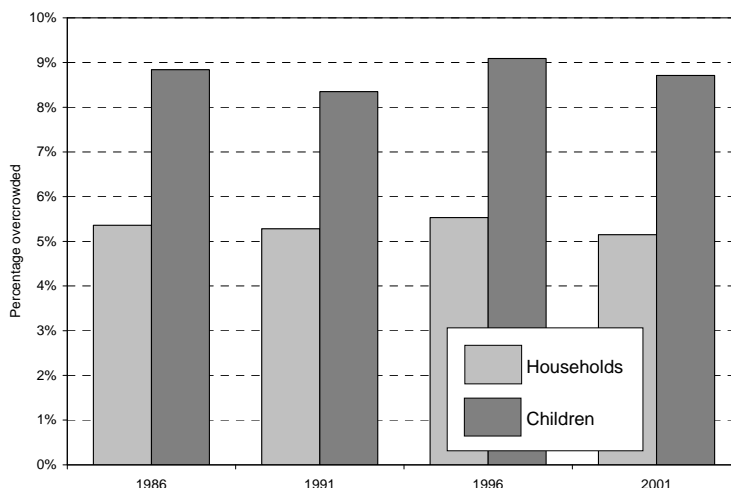
The Social Report 2001 reports that overcrowding is most common in South Auckland (4.5% of all houses), Porirua (3.2%) and Auckland City (2.6%). Within Auckland and South Auckland there are pockets where the proportion of overcrowded houses would be higher than 10%.

It is difficult to gain an accurate picture of how overcrowding has changed over time as no trend data is available on overcrowding in New Zealand. However the report discussed (Solomon, 2002) below considers the position for the Auckland region where overcrowding is a significant problem.

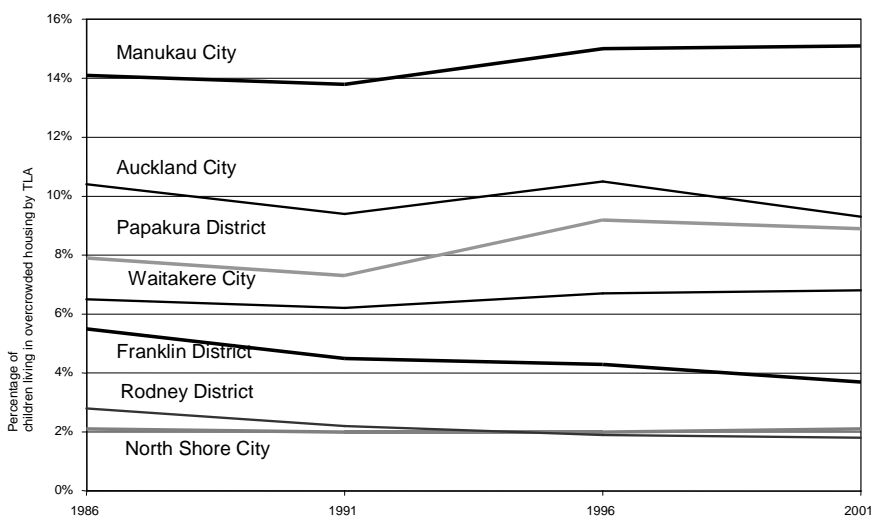
### Overcrowding in Auckland region

In 1996 Auckland was home for half the New Zealand children living in overcrowded conditions. Solomon (2002) provides an excellent summary of trends in overcrowding as they affected children living in Auckland between 1986 and 2001. Solomon uses the same Canadian Housing Index definition of overcrowding as The Social Report 2001. His work is best summarised in the graphs reported in his paper and reproduced below.

**Figure 14: Impact of crowding on children in permanent dwellings Auckland region 1986 – 2001** Source: Solomon (2002) & Statistics New Zealand

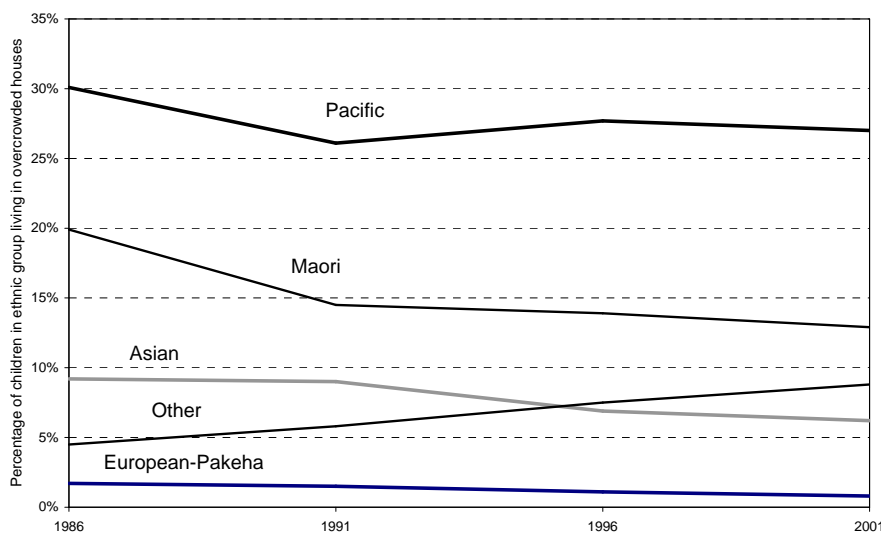


**Figure 15: Impact of crowding on children in permanent dwellings by Territorial Local Authority in the Auckland region 1986 – 2001**



Source Solomon (2002) and Statistics New Zealand

**Figure 16: Percentage of children crowded within Ethnic Group – Auckland region 1986-2001**



Source Solomon (2002) and Statistics New Zealand

From these graphs and the underlying data, a clear picture emerges over who is overcrowded and their changing circumstances over time. The main trends are:

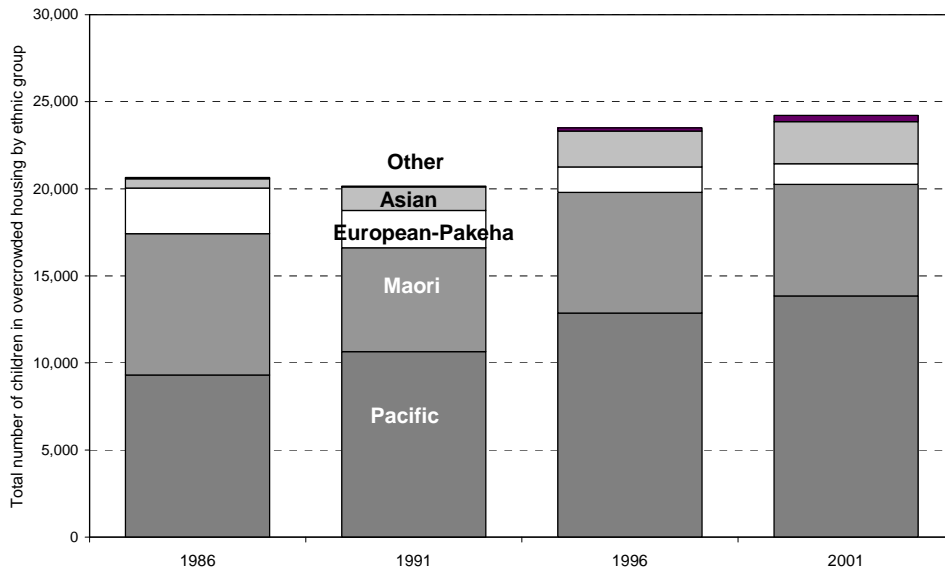
- Overall the level of overcrowding declined slightly during the late 1990s following a period of increase from 1991 to 1996. This increase coincided with the introduction of market rents for state houses, the introduction of the Accommodation Supplement and rapid rent inflation.
- Pacific families are the most affected by overcrowding. Their position has not improved, whereas it has for most other ethnic groups. The “Other” ethnic group records the sharpest increase in the incidence of overcrowding and mainly comprises recent migrants from Africa and the Middle East. Their numbers are small and make up only 3% of the children living in overcrowded housing.



- Overcrowding is more pronounced in Manukau City than elsewhere in the Auckland region, due to the concentration of Pacific people in South Auckland.

The tabular data from Solomon’s analysis (Figure 17 and Figure 18) yields additional points. Figure 17 shows that the number of Pacific children living in overcrowded conditions increased by nearly 8% from 1996 to 2001, while the number of Maori children living in overcrowded housing dropped by 7%, and European-Pakeha children in overcrowded housing fell by 15% over the same period.

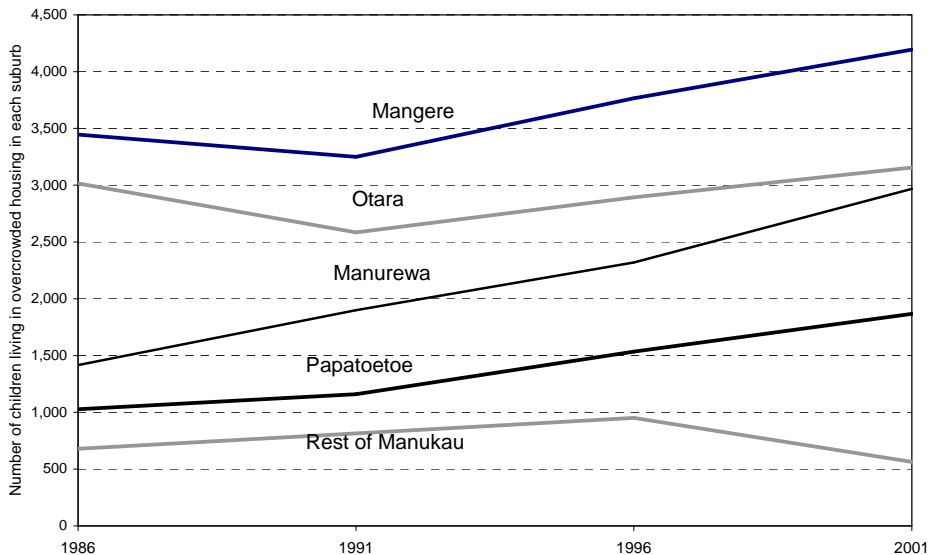
**Figure 17: Children living in overcrowded housing in Auckland region 1986-2001**



Source Solomon (2002) and Statistics New Zealand

Manukau City itself has a wide mix of incomes and the breakdown by city ward shown in Figure 18 below presents a different picture to that of the city average shown in Figure 15. “Rest of Manukau” includes the eastern, more affluent suburbs of Howick and Pakuranga, and rural Clevedon.

**Figure 18: Children living in overcrowded housing in Manukau City by city ward 1986-2001** Source Solomon (2002) and Statistics New Zealand



The highest concentration of overcrowding is seen in Otara and Mangere where over one in four children live in overcrowded conditions. In 1996, children in Otara and Mangere were five times more likely to live in overcrowded housing than children elsewhere. Overcrowding is still a significant problem in Papatoetoe and Manurewa, where around one in six children lives in overcrowded conditions.

A comparison between the analysis in *The Social Report 2001* and Solomon's paper provides an insight into overcrowding problems in Otara, Mangere, Papatoetoe and Manurewa. In 2001, nearly 13,000 children living in these suburbs were living in overcrowded conditions. These children represented one fifth of the all the children living in overcrowded housing nationally. Furthermore the problem of overcrowding appears to have worsened in these four suburbs (in relative and absolute terms) while it remained stable in real terms and improved proportionally in the remainder of the Auckland region and probably the whole of the rest of New Zealand.<sup>27</sup>

Overcrowding and high household occupancy rates are more common in state house suburbs such as Otara and Mangere as well as Tamaki in Auckland City. The rise in levels of overcrowding in state house suburbs up to 2001 was probably the result of market rent policies. Income-related rents were reintroduced in December 2000 just four months before the 2001 Census so it is most likely that the higher occupancy in state houses is a remnant of this past rather than the present policy. The extent to which overcrowding in state houses will decline with the reintroduction of income-related rents remains to be seen however.

## **Under-counting and the Census**

It is likely that the Census actually under-reports overcrowding mainly because those living in overcrowded conditions avoid responding to the Census or respond inaccurately. There are a number of reasons for believing this may be so.<sup>28</sup>

One reason why people would misrepresent their living arrangements to Census enumerators relates to the presence of informal residents or overstaying visitors in overcrowded households.

Broad estimates of the number of short-term visitors who have stayed on since 1995 would be around 50,000 people after an allowance for longer stays and more tourists is made.<sup>29</sup> Given that most migrants settle in Auckland, we should expect the majority of these informal migrants to also live in Auckland. This informal migration is a likely additional source of overcrowding in Pacific, Asian and "Other" ethnic households and will be a reason for the under-reporting or non-reporting of this overcrowding to any Government officials.

## **What does all this mean?**

Data on overcrowding is at the best unreliable because of the clear incentives people who are suffering overcrowding have to under-report or misreport their living arrangements. This weakness notwithstanding, there is mixed data on the extent and effects of overcrowding.

Anecdotally, it appears that overcrowding became a more significant problem during the early and mid 1990s following the introduction of market rents for state houses. Higher rates of overcrowding, in terms of both higher occupancy rates and greater prevalence of overcrowded households, were reported from this period. This was in both the public and private sectors, as some households moved from state houses to sharing, with other families, dwellings rented from private landlords. The high rate of overcrowded households reported in places which have a high concentration of state housing, such as South Auckland and Porirua, is most likely because of the observed link between

overcrowding and the ethnicity of the householders, rather than because the landlord happens to be the state.

Pacific people clearly suffer the higher incidence of overcrowding and this overcrowding became worse over the period 1996-2001 while it improved for Maori and Pakeha. Officially 18% of Pacific households were so overcrowded in 1996 that to be adequately housed they required two additional bedrooms. In Auckland since 1996 this position has deteriorated further for Pacific people especially children. If we take account of the acknowledged inaccuracies in Census data and build on the picture which this data paints for overcrowding in the Auckland region, it appears quite likely that at least one in three Pacific children lives in housing which is deemed to be overcrowded by an international standard.

The close association of poor housing conditions for Pacific children and their poorer health status should be regarded as a key policy issue to be addressed by Government over the next five years.

The extent to which building more and larger houses at affordable costs will resolve the overcrowding problem for Pacific families remains to be seen. Some of this overcrowding will be due to informal immigration from the Pacific and the cultural pressure Pacific people face to accommodate kin in any circumstance. It would help to relieve housing pressure on Pacific families if the Government became more realistic in recognising informal immigration and to manage this immigration in ways which accept and address the economic pressures which drive it in the first place. By doing so we may have a chance of addressing the poor health status of Pacific children at the cause rather than at the hospital.

**It is quite likely that one in three Pacific children lives in overcrowded conditions... The close association of poor housing conditions for Pacific children and their poorer health status should be a key policy issue for the Government.**

## **5. Children on the Move: the increasing mobility of households**

*"I had a family of five come to my clinic because the children had recurrent skin infections. They had been treated several times previously for infected scabies and one had been admitted to hospital recently with cellulitis. On the day I saw them there were 19 residents living in the house and garage - a mixture of several families, and on a regular basis the amount of people in the house changed as people were moving around within Auckland (due to difficulties with costs of housing) and in and out of Auckland as family came to Auckland looking for work but couldn't afford housing. We have endless stories of families moving houses constantly as they can't pay the bills, and moving in with relatives putting strain on everyone."* - Dr Nikki Turner

### **The trend to increasing residential mobility**

It appears that by nature New Zealanders are a mobile people. For example, at the last census over half of all New Zealanders shifted within the previous five years and slightly less than one quarter of all New Zealanders had moved house in the previous 12 months. These "averages" disguise significant variations in residential mobility between age groups and between tenants and owners. There is also some regional variation.

There was an increase in New Zealanders' residential mobility during the 1990s as indicated by the number of people who have declared in the various censuses that they have moved within the 12 months prior to the census. A similar trend is also observed with the decline in the median length of residence of people. These data are shown on

**There was an increase in New Zealanders' residential mobility during the 1990s.**

Table 6 below both for New Zealand as a whole and for the Auckland region for comparison.

**Table 6: Residential mobility and median length of stay - 1991-2001**

	Less than 1 Year	Less than 5 Years	More than 10 Years	More than 25 Years	Median Length of Residence
<b>Auckland region</b>					
1991	21.0%	56.5%	27.1%	5.8%	3.9 years
2001	25.6%	59.0%	23.5%	5.7%	3.6 years
<b>New Zealand</b>					
1991	20.6%	54.4%	28.5%	6.9%	4.2 years
2001	24.3%	55.6%	26.4%	6.9%	4.0 years

*Source Statistics New Zealand 1991 & 2001 Censuses*

This study has not been able to identify any strong reasons for this increase in mobility. Intuitively we might expect that a rising proportion of tenanted houses (as opposed to owner-occupied houses) would be a contributing factor. While this may be the case, analysis at the level of census areas undertaken in preparation for this monograph could not identify it as a strong determining factor. However, this rising residential mobility has a number of features which are worth identifying:

- Across New Zealand there has been an increase in residential mobility at the same time as there has been an increase in the number and proportion of tenant households.
- These trends are more pronounced in Auckland.
- Increasing mobility has arisen at the same time as a rapid expansion in external migration and alongside continuing but changing internal migration. These changes have seen for example the growth in retirement-focused migration to areas such as Kapiti Coast, Nelson and Eastern Bay of Plenty.

## Residential mobility and tenure

We would expect tenants to be more mobile than homeowners. Tenants have fewer obligations and even fewer rights<sup>30</sup> than both mortgaged and outright homeowners. This means that tenants can come and go a great deal more easily than owner-occupiers who have to make a longer-term commitment to the house they live in. For younger households of students or young workers, the mobility of tenancy is probably preferred. For family households the instability of rental housing is rather more disadvantageous. The preferred housing tenure of family households has never been examined but it seems likely that most parents want to provide their children with as much stability in their lives as possible, and that moving for most people is a laborious task to be avoided. So intuitively it seems that the transience of rental housing for households with children is not a choice but a necessity.

The policy importance of the transience of tenant families rests on at least three underlying policy concerns. These are:

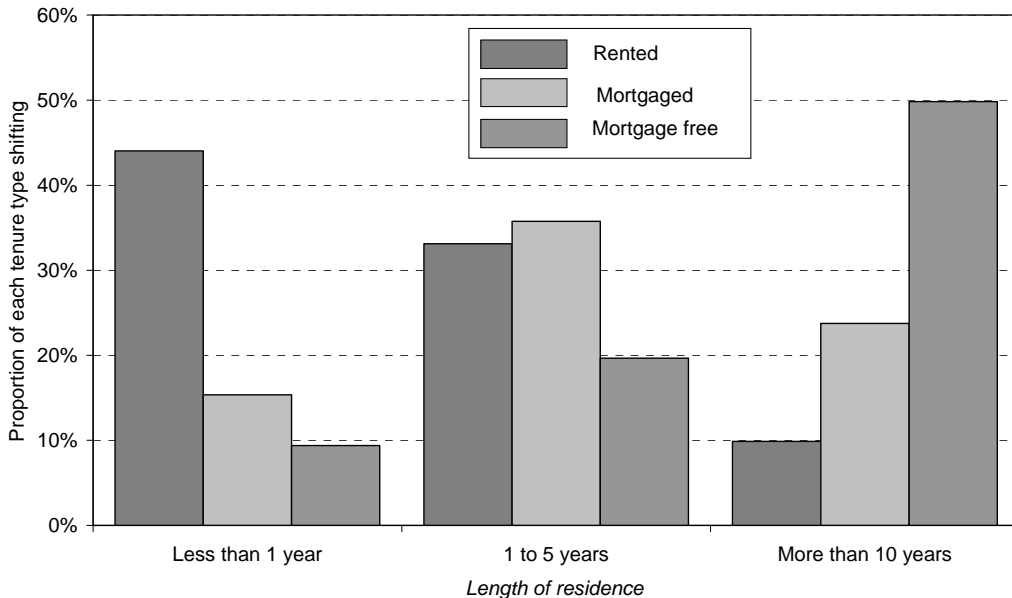
- the extent to which children are represented in tenant households,
- the extent to which tenant households are more mobile, and,
- the extent to which any mobility is a problem for the children affected.

Since 1991, children have become more common in tenant households as shown in Chapter 3. This trend is most likely to be tied up with the general increase in the numbers of families with dependent children who are below or close to an agreed

poverty line. In other words, the increase in children living in tenant households is most likely the result of an income problem rather than a matter of preference. The remaining two policy questions are considered below in this chapter.

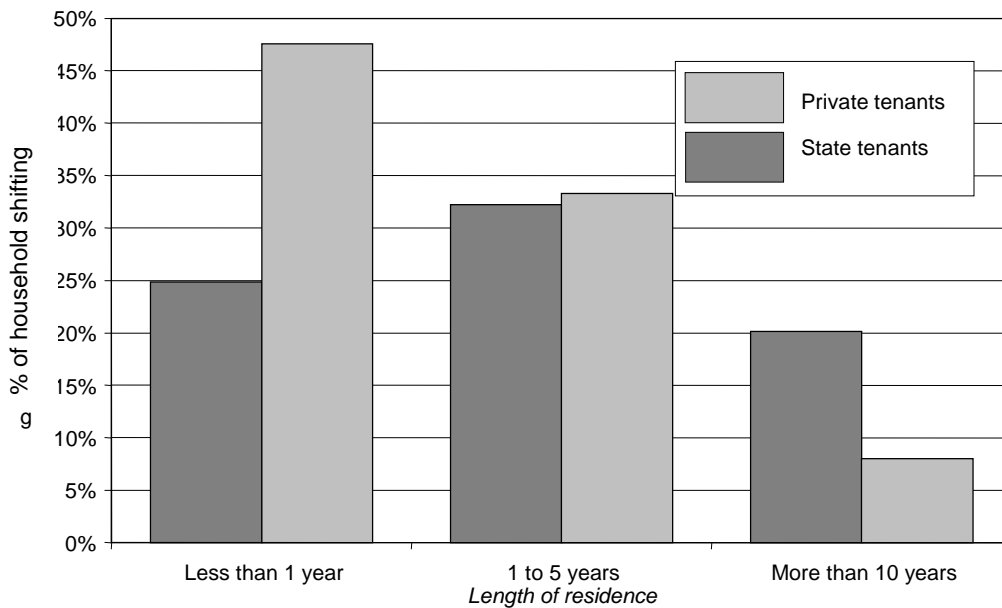
Figure 19 and Figure 20 below show the difference that housing tenure makes to a household's mobility.

**Figure 19: Residential mobility by housing tenure - 2001**



Source: Statistics New Zealand 2001 Census

**Figure 20: Residential mobility for private and state tenants - 2001**



Source: Statistics New Zealand – 2001 Census

Some interesting trends or points of comparison emerge from these graphs:

- Tenant households are a great deal more mobile than owner-occupier households. Tenant households are three times more likely to move in any given year than

owner-occupier households with a mortgage and four times more likely to move than a mortgage free owner-occupier household.

- Tenant households are also the least likely to stay in the same house for more than 10 years. In fact they're one fifth as likely as mortgage free owner-occupier households.

**State tenants are a great deal less mobile than private tenants.**

This picture is a great deal different for tenants when we take account of who the landlord is. Figure 20 shows that state tenants are a great deal less mobile than private tenants. State tenants are four times more likely than private tenants to stay for more than 10 years and half as likely as them to leave in the first year.

State tenants in fact exhibit similar patterns of residential mobility as owner-occupiers with a mortgage, even during the period of market rents (although state tenant turnover did increase somewhat during this period). This is because they have secure tenure from the State – state tenants know their houses are not going to be sold from under them.

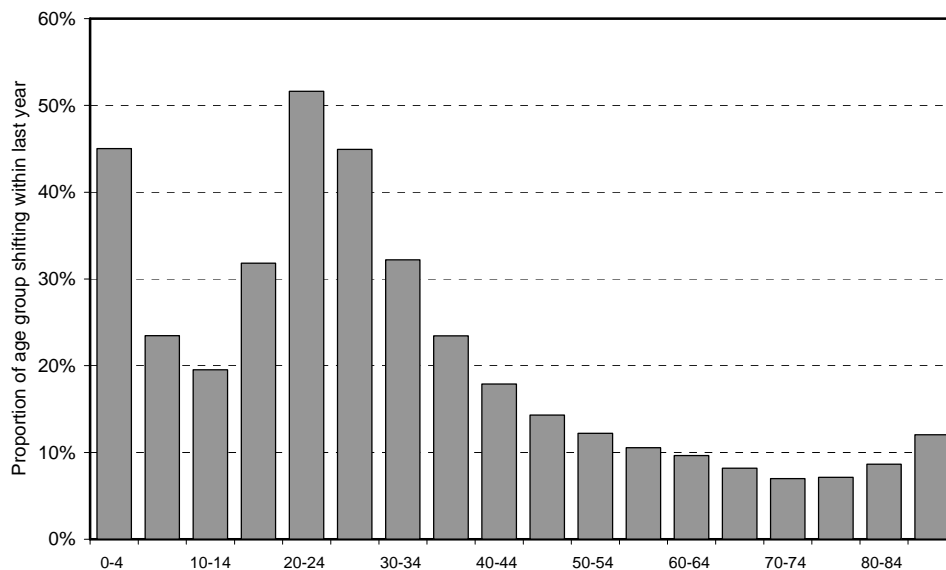
Two other points which are not immediately apparent should be raised. Firstly it appears that there is a pool of tenants who are very mobile. Figure 20 for example shows that nearly half of private sector tenants move every 12 months while a further third will move on average every three or four years. The question here is who are these super-mobile tenants and is their mobility a source of concern for social policy?

The second point to raise in the context of Figure 20 is that the mobility patterns of state tenants reported here is shortly after the reintroduction of income-related rents for state houses. The period of the market rents regime of the previous National-led Governments was characterised by an increase in the turnover of Housing New Zealand tenants. This turnover no doubt slowed immediately after the election of the Labour-Alliance government in October 1999 as state tenants began to appreciate that they were about to be favoured amongst tenants by receiving income-related rents. This shift notwithstanding, the data reported in Figure 20 will still contain some behaviours of tenants in the market rent period. In other words, in the future we should expect the immobility, or stability, of state tenant households to increase beyond the levels shown in Figure 20. This stability is seen as a policy virtue for families with children as it provides a sound foundation for raising children within a stable and supportive environment.<sup>31</sup>

## **Mobility across the ages**

This breakdown of residential mobility is merely an average across all age groups. Figure 21 opposite provides an age breakdown of the most mobile part of the population – those people who have shifted within the last year. The trends shown here are as can be expected – mobility is highest during the late teens and early 20 years and declines gradually during middle age to rise again in late old age as people shift to retirement villages and rest homes. This graph also shows the expected close link between the mobility of children and of adults of the age group we would expect to be their parents.

**Figure 21: Residential mobility in New Zealand by age - 2001**



Source: Statistics New Zealand 2001 Census

### The impact of residential mobility on school transience

Reports by primary school teachers and principals talk of the frustration of attempting to educate children who are constantly changing schools (Lee, 2000). Some of the anecdotal information from the teaching professionals is that this transience became worse during the 1990s and has been linked to the shift to market-related rents in 1993 and the rapidly increasing rents which followed this change. It has been suggested that these changes have made the housing position of many families vulnerable and tenuous, leading to frequent shifts between houses as they attempt to manage high rents and household debts. Reports from budgeting agencies suggest that many families shift between renting their own home and sharing one with their extended family, continuously trading off the high financial cost of renting and the high personal cost of sharing.

Issues of security of housing tenure and the resulting increasing mobility of households are likely to have two types of negative impact on the well-being of many children. These impacts were poor health status and reduced educational achievement. To study the second impact in more detail, a small survey of 31 South Auckland primary schools was undertaken to better understand two key questions:

- What is the size of the problem of transience of primary school children from low-income communities?
- How serious is this problem in terms of delivering good quality educational opportunities to the children affected?

The survey required schools to provide information from their school roll for 2001. The following information was sought:

- Estimates of the ethnic breakdown (in percentage terms) of the student population according to the four categories of Maori, Pakeha-European, Pacific and Other.
- The number of students enrolled at the start and at the end of the school year.
- The numbers of students enrolled at the school during the course of the school year. This number included enrolments by “New Entrants” (i.e., 5 year olds or children starting school) as well as enrolments from other schools.

**Many families shift between renting their own home and sharing one with extended family – continuously see-sawing between financial and personal costs.**

Estimates of transience have been made using these roll figures and by applying the following formula:

$$\text{Transience (as \% of average school roll)} = \frac{\text{Enrolments during the year} - \text{increase in roll}}{\text{Average school roll for the year}}$$

In these terms the increase in the school roll is simply the difference between the numbers enrolled at the beginning and at the end of the year. The average school roll is simply the average of the opening and closing rolls.<sup>32</sup>

It is accepted that this estimate is a little too broad to be seen as anything but an indicative measure of transience.<sup>33</sup> While a more accurate estimate may have been more useful, this would have required more information from respondents. Any request for more detailed information would no doubt have reduced the response rate considerably.

The responses from the survey have been analysed by suburb and the decile rating of the respondent schools. Table 7 and Table 8 below provide details of student transience on these bases.

**Table 7: Results of Primary School Transience Survey, by suburb**

Suburb	% Maori children	% Pakeha children	% Pacific children	Total children in responding schools	Children shifting during 2001	Transience % of school roll shifting during 2001
Otahuhu	16%	5%	63%	1,954	593	30%
Mangere	24%	2%	62%	2,506	602	24%
Otara	23%	1%	66%	1,327	420	32%
Papatoetoe	22%	22%	25%	1,383	213	15%
Manurewa	44%	22%	27%	6,077	1,992	33%
Papakura	41%	46%	14%	1,196	318	27%
<b>TOTAL</b>	<b>32%</b>	<b>16%</b>	<b>40%</b>	<b>14,443</b>	<b>4,138</b>	<b>29%</b>

**Table 8: Results of Primary School Transience Survey, by school decile rating**

Decile ranking	% Maori children	% Pakeha children	% Pacific children	Total children in responding schools	Children shifting during 2001	Transience % of school roll shifting during 2001
Decile 1	34%	6%	51%	9,299	2,985	32%
Decile 2	34%	23%	27%	2,378	693	29%
Other Deciles	25%	47%	16%	2,765	460	17%
<b>TOTAL</b>	<b>32%</b>	<b>16%</b>	<b>40%</b>	<b>14,443</b>	<b>4,138</b>	<b>29%</b>

A number of trends can be identified from these charts or from the underlying data. These include:

- The wide variation in transience levels across suburbs. (Some of this variance may be due to the small sample sizes.)
- The difference between suburbs with high levels of transience and those with lower levels appears to be due to differences in socio-economic status. Papatoetoe schools have slightly higher decile ratings than the majority of other schools while Papakura's results appear to have been influenced by the participation of a high decile school within their three responding schools.



- Mangere's low level of transience is important. This suburb has a high concentration of state housing and the study period follows the re-introduction of income-related rents in state houses. The lower level of transience for Mangere may be due to improved housing stability due to the major policy change.
- There is a clear relationship between the decile level of the school and the level of transience likely to be experienced. Nearly one in three children at a decile one school changed school during 2001 while only one in six children did so in schools with a decile rating of three or more.

By applying the above transience measures and based on the schools' responses in Table 8, it is possible to make an estimate of overall transience across South Auckland.

**Table 9: Estimates of overall primary school transience in South Auckland - 2001**

Decile Ranking	Official Roll July 2001	Total children in responding schools	Transience % of school roll shifting during 2001	Estimates of overall transience: numbers of children shifting during 2001
Decile 1	16,650	9,299	32%	5,300
Decile 2	5,050	2,378	29%	1,500
Other Deciles	8,140	2,765	17%	1,400
<b>TOTAL</b>	<b>29,840</b>	<b>14,443</b>	<b>29%</b>	<b>8,500</b>

Estimates of the likely ethnic breakdown have been attempted but because of the lack of reliability they have not been included in this discussion. Notwithstanding this poor reliability, it is quite plain to see from the tables above that the overall distribution of this transience is biased against Maori and Pacific children and to much the same extent against children from ethnic minorities such as Asian and Middle Eastern groups. This bias arises because of the predominance of Maori and Pacific children in the Decile 1 schools. Overall it appears that Pakeha children are nearly half as likely as non-Pakeha children to shift in any given year. More information would be required to determine this with any degree of confidence however.

As a supplementary question in the survey, principals were asked about the seriousness of student transience as an educational problem. Of the 30 responses to this question, 15 (50%) indicated that they thought that it was a serious problem, 11 (37%) indicated that it was quite a serious problem to them, 3 (10%) that it was a slightly serious problem and 1 indicated that it was not a problem at all.

## The problem with mobility

For whatever reasons, housing mobility has increased significantly in Aotearoa New Zealand over the past ten years or so. As could be expected, tenants are far more mobile than owner-occupiers and this fact plus the increase in the number and proportion of households renting could explain this increase in mobility. Intuitively we could expect an association between the two trends of increased renting and increased mobility. However the question of which way any causality or association runs is difficult to answer with the available information.

While we know that tenant households are more mobile and that a larger proportion of children lives in tenant households now than ten years ago, we do not know if the mobile tenant households have children living in them. (This data is not available with any reliability from the Census mainly because mobility data is personal while tenure data is household/dwelling based, making it difficult to accurately match data sets.) The

**High rates of transience are linked to low decile schools – nearly one in three children at decile one schools changed school during 2001.**

**87% of principals responding to a survey of South Auckland primary schools thought student transience was a serious or quite a serious educational problem.**

**Transience greatly contributes to educational under-achievement and failure. Additional resources in the classroom are probably of little value to children who constantly move school.**

survey of transience in South Auckland schools certainly supports the proposition that up to one third of low-income households with children are likely to shift in any one year. Nearly half the tenant households renting in the private sector will shift in any one year, which suggests that a large proportion, and perhaps the majority, of the very mobile tenants don't have children living in them. They include young, single workers and students sharing flats, who often expect to shift on a regular basis.

An argument can be advanced that this increased mobility is desirable if it matches peoples' lifestyle choices and the demands of the job market. No surveys have been done however to ascertain whether the increasing mobility of tenant households in particular, is a lifestyle choice or an economic necessity. Census data suggests that for the Auckland region at least, around half the people who shifted house between the 1996 and 2001 Censuses shifted only a relatively short distance. The remaining half of the "shifters" are split equally between migration overseas and migration out of Auckland. Those people shifting only a short distance would most likely be doing so for lifestyle or financial reasons rather than employment so the labour market efficiency argument at best only explains half the story.

The excessive mobility or transience of children is claimed through anecdotal evidence from teachers and schools to be a major contributing factor to educational under-achievement and even failure. High mobility and high rates of under-achievement are both characteristics of low decile schools. These schools are justifiably being targeted for additional funding to reverse what may be called the systemic failure by the education system to meet the needs of poor children. Additional resources in the classroom and more extra remedial teachers will most likely be of little value to children who are constantly moving from school to school.

State tenants are a great deal less mobile than private tenants and will become even more stable as the income related rent policy beds down. This trend and the lower mobility of owner-occupiers provide a strong link between housing tenure and residential mobility. As we have seen above there is also a link between residential mobility and educational achievement. This chain of cause and effect provides a strong case for Government to be placing greater emphasis on decent housing policies as a means of achieving more equitable educational results for the children of the poor.

## **6. The Treadmill of Rent Subsidies: The Failures of the Accommodation Supplement**

### **Rising fiscal costs of the Accommodation Supplement**

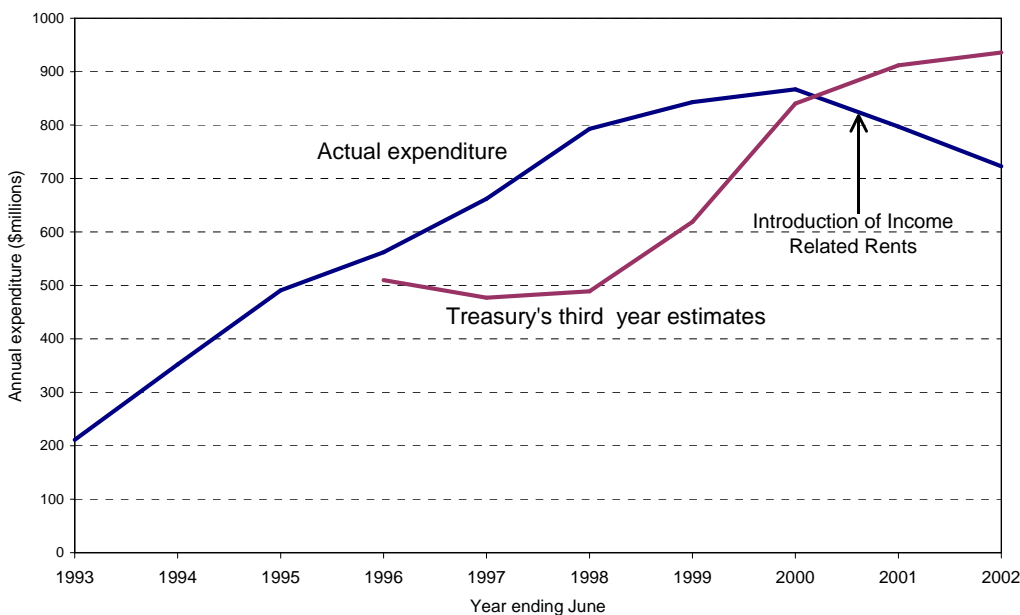
The Accommodation Supplement was announced and introduced by the then Minister of Housing John Luxton in 1991. Luxton argued, or more accurately his advisers in the Treasury argued, that this cash-based system of housing assistance was fairer and more efficient. It was said to be fairer because it equalised the level of assistance provided to state tenants and to private sector tenants. Previously state tenants had received more generous subsidies through income-related rents than those received by private sector tenants through the Accommodation Benefit. The supplement was to be more efficient because it would not distort the market or tenant behaviour because the level of subsidy was based on an individual household's income needs not who their landlord was or how they accessed their housing. The purely commercial focus of the restructured state-owned housing agency Housing New Zealand Ltd was also expected to reap operational efficiencies.

The Accommodation Supplement has proved to be an expensive policy, fiscally and socially. In financial terms the cost to the taxpayer of the supplement in its first year of application in the 1993/94 fiscal year was \$352 million. At that time the Treasury, who were the chief architects and main promoters of this “fairer” form of housing assistance, were predicting that it would eventually cost around \$500 million annually. But within six years the Accommodation Supplement budget had risen by more than \$500 million, to \$864 million. The extent to which the Treasury underestimated the total costs of the Accommodation Supplement is shown graphically in Figure 22 below.

**In its first six years, the Accommodation Supplement annual budget increased at a rate 12 times that of inflation, from \$352 million to \$864 million.**

The line described as Treasury third year forecasts is the sequence of estimates by the Treasury for the Accommodation Supplement costs three years ahead. Figure 22 shows both the steep rise in the actual cost of the supplement between 1994 and 1999 and the overall decline in this as a result of the reintroduction of income-related rents for state tenants in December 2000. Treasury’s initial forecasts - of a total cost of around \$500 million annually by 1996/97 - were reasonably accurate. It appears however that the Treasury expected the cost to stabilise at this level. Instead the costs continued to rise and would have risen further if income-related rents had not been reintroduced. By 1997, Treasury realised that costs were rising much higher than it expected and adjusted the forecast for 2000 accordingly.

**Figure 22: Actual and forecasted costs of the Accommodation Supplement 1994-2002**

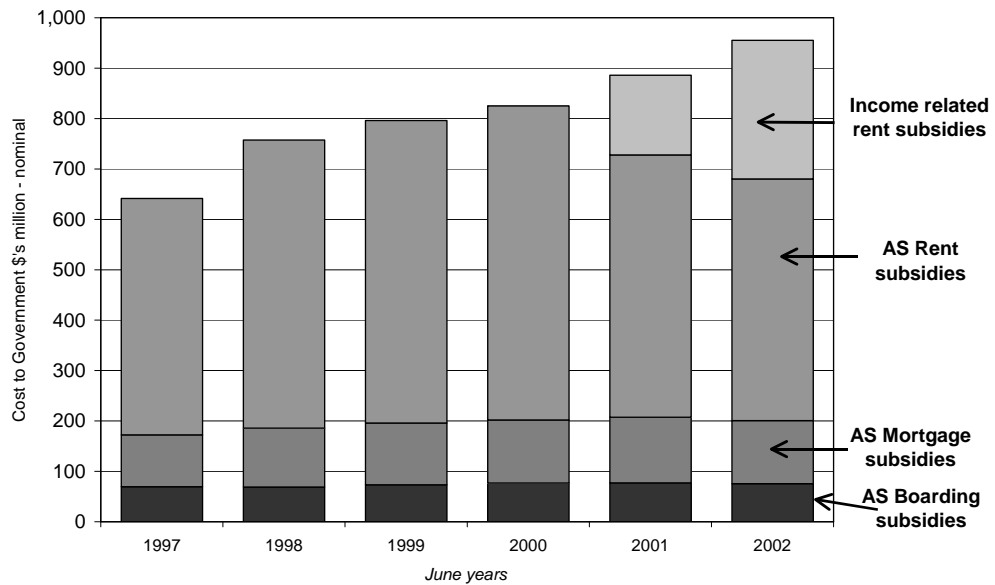


Source: NZ Government Budgets

The cost increase of the Accommodation Supplement before 1997 was due more to rising housing costs than it was to the fact that take-up of the new benefit was higher than expected. In 1993 Treasury analysts were predicting that the number of people or households likely to require an Accommodation Supplement would be around 280,000 by 1996. By 1999/2000 this number had actually risen to 324,000. These figures of course relate to total Accommodation Supplement payments which include payments to boarders and to owner-occupiers servicing mortgages.

The impact of the income-related rents on the total cost of housing assistance subsidies is shown in Figure 23 below.

**Figure 23: The total cost of state housing assistance 1997-2002**

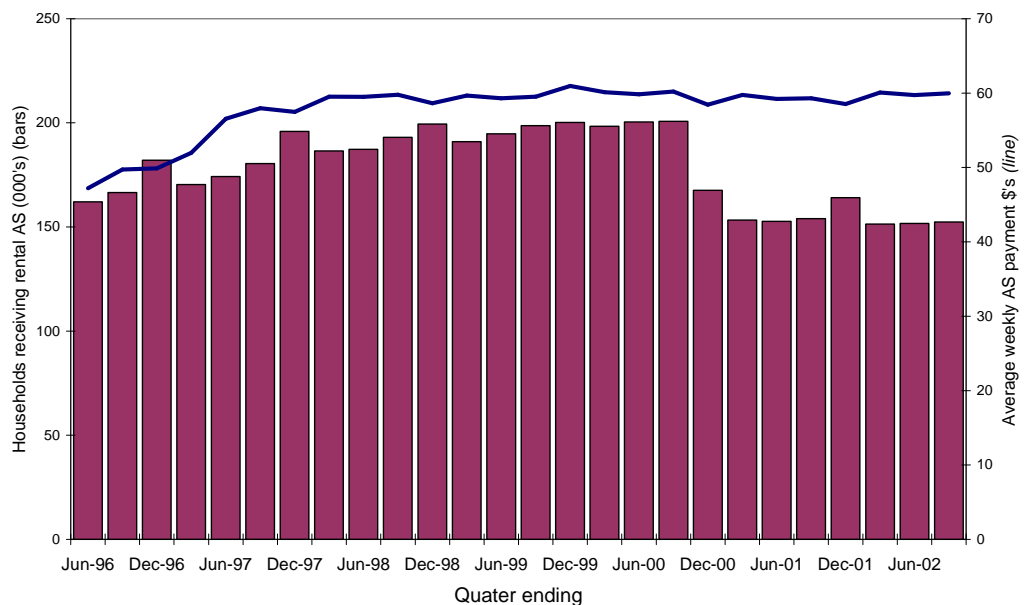


Source: Department of Work & Income and Housing New Zealand Corporation Ltd

As shown in Figure 23, the payments to boarders and owner-occupiers have in fact been relatively stable during the 1990s. Figure 23 also shows the extent to which rent subsidies have dominated the rise in costs. (The 2001 income-related rent subsidy figure only represents the cost for half a year.)

If we consider trends in rental subsidies only, we can identify four trends which give some indication both of how the rents subsidies have grown in costs and the extent to which the supplement is unfortunately embedded or institutionalised into New Zealand's rental housing market. These trends are shown below in Figure 24.

**Figure 24: Benefit numbers and average payments for the rental subsidies 1996-2002** Source: Department of Work and Income



Relevant trends to take from Figure 24 include:

- The increasing average value of payments during 1996 and 1997 was the driver of the cost increases for this period.
- After 1997 the average value of payments has remained relatively stable while the numbers of households receiving the supplement continued to increase. This increased take up was the underlying cause for the slower but continuing cost increases.
- The reintroduction of income-related rents in December 2000 was responsible for the sharp decline in the number of payments around this period. There was not however any decline in the average value of the payments made suggesting that the incomes and rents of both public and private tenants at the time of the policy change were much the same<sup>34</sup>.

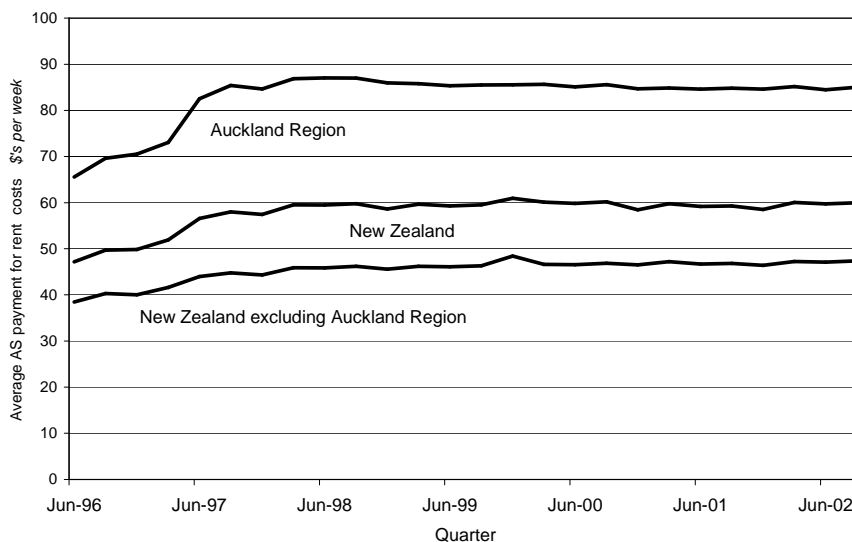
It seems from this that the 25% or so of Accommodation Supplement-receiving tenant households who were state tenants had no more or less need of the financial benefits offered by income-related rents than private sector tenants. The position of some 150,000 private sector tenant households in this position has changed very little since December 2000 and their needs have been almost completely ignored amid the publicity of a better deal for 50,000 state tenant households.

Since March 2001 the take-up of the Accommodation Supplement and the average value of payments have risen only slowly. Just prior to the reintroduction of income-related rents there was some suggestion by politicians that the lower rents in state houses would dampen cost pressure in the private sector as well. Given the actual scarcity of new tenancies in state houses and the fact that Housing New Zealand represents only about one quarter of its market segment, this seems unlikely long-term. Cost pressure does however appear to have been dampened somewhat particularly on the demand side rather than on price. Some of this reduced demand growth may have arisen from improving employment conditions and the reduction of unemployment rates to 15 year lows.

The Accommodation Supplement entitlement formulae make it the only welfare benefit which takes account of regional variations in living costs. This regional variation is justified on the basis of actual costs as shown below in Figure 25.

**The needs of the private tenants who receive the Accommodation Supplement have been ignored amid the publicity of a better deal for state tenants. Yet they have the same level of financial need.**

**Figure 25: Average Accommodation Supplement rental subsidy payments 1996-2002**



Source: Department of Work & Income

**Auckland tenants who receive rent subsidies are \$15 - \$18 worse off every week than their counterparts elsewhere in NZ, due to the region's high housing costs.**

This graph shows a wide variation in the value of payments between Auckland and the rest of New Zealand – a gap that amounts to \$35 to \$38 per week. This difference in the value of the payments has two direct implications for the well-being of Auckland tenant households. Firstly a higher Accommodation Supplement payout implies a higher rent, given that most recipients receive the same basic welfare benefit income. Based on the supplement subsidy rate of 70% we would expect Auckland rents to be \$50 to \$55 higher. The second implication is the corollary of the first. Given that tenant households receiving the supplement are mostly (90% plus) receiving the same basic benefit income, Auckland tenant households are \$12 worse off per week than their counterparts elsewhere in New Zealand, on account of higher rents.<sup>35</sup> This is after they have received their Accommodation Supplement, as the supplement is paid as a percentage of the rent. The higher the Accommodation Supplement received, the higher the rent shortfall in real terms.

## **Wider economic costs of the Accommodation Supplement**

Rent inflation contributes directly to Consumer Price Index inflation.<sup>36</sup> The Government's continued funding of rent inflation through the Accommodation Supplement will itself have consequences for ongoing inflation and hence for the setting of monetary policy and interest rates.

Under the present fiscal and monetary policy settings, the rising cost of the Accommodation Supplement is causing distortions which have economic effects. An inability to restrain expenditure growth on the Accommodation Supplement together with the Government's tight fiscal policies means that public expenditure elsewhere is reduced. Such expenditure, as increased investment in new housing, might have had a more beneficial impact for the economy than the Accommodation Supplement. The Accommodation Supplement subsidies mainly sustain existing assets and their values and do not contribute to economic growth.

If rents increase the Consumer Price Index, monetary policy may tighten, leading to higher interest rates. This in turn may constrain economic growth and will have two subsequent costs. Higher interest rates will raise landlords' costs and hence reduce the profitability of their investments and the tax revenue derived from these.<sup>37</sup> Higher interest rates also increase the housing costs for home-owners with mortgages, increasing the level of the Accommodation Supplement that may be claimed and possibly the number of households who may claim it.

## **Growing dependency**

The growth in expenditure on the Accommodation Supplement is due to increases in the number of households claiming the subsidy and to increases in the average amount being paid to each of these households. Both types of increases are linked to the declining position that the lower quartile of households are facing in the labour and housing markets.

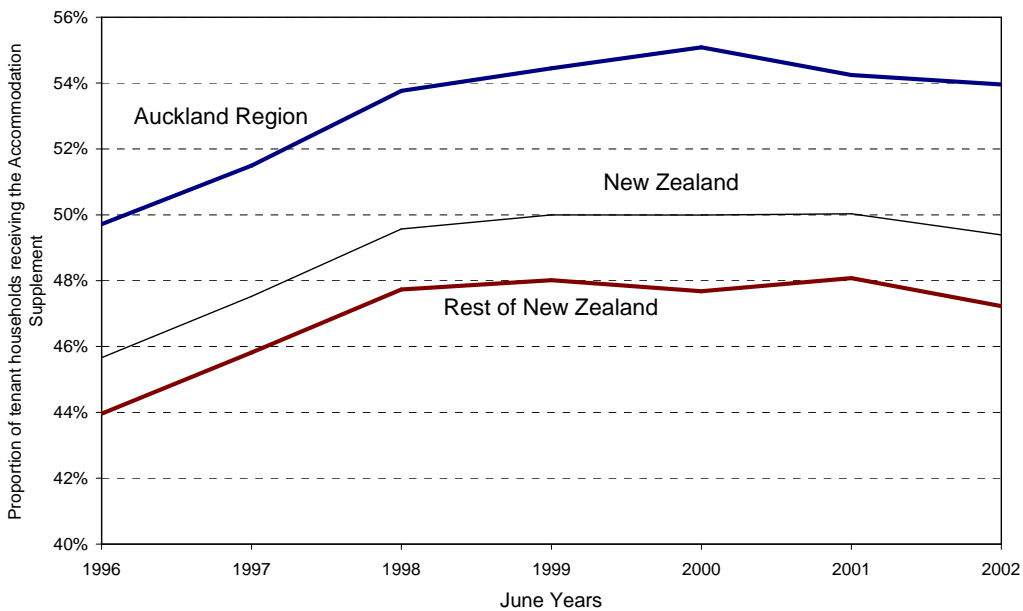
Outside of Auckland, the market-based incomes of these households have declined with the decline in demand for unskilled labour. Whereas the main problem in Auckland is that house prices have risen in response to continuing immigration and to the increasing market incomes of higher income groups. Increased house prices mean higher rents – which of course puts more financial pressure on tenants – but the increased value also limits the sale of rental housing to new home owners.

In the context of reintroducing low-income family homeownership programmes we may simply see a shift in tenure in existing houses with a further squeeze on the remaining and most likely poorer tenants.

The increasing reliance tenant households have on the Accommodation Supplement is ironic given the rhetoric of self reliance favoured by the National Government which introduced the Supplement initially. For example, between June 1996 and December 2001, the number of private tenant households claiming the Accommodation Supplement for rent assistance rose from around 112,000 to 164,000 – an increase of nearly 50% in five and a half years or 52,000. This is about the same as the number of families now receiving income-related rents as state tenants. The growth in the number of tenant households receiving the Accommodation Supplement accounts for nearly all the growth in Accommodation Supplement claims overall - mortgage and boarding subsidy claims have remained stable.

In proportional terms around one in eight of all households in New Zealand relied on an Accommodation Supplement in 1996, rising to nearly one in six households by 2002. This increasing dependence on state handouts for adequate housing is shown below in Figure 26 and Table 10.

**Figure 26: Dependency on the Accommodation Supplement and Income-related rents 1996-2002**



Source: Statistics New Zealand and Department of Work & Income

Figure 26 shows the increasing dependence on housing benefits or direct state provision for tenant households. By including the overall increase in the numbers and proportion of tenant households we can get a complete picture of households' growing dependence on state subsidies for their housing. This picture is presented in Table 10 overleaf.

**Table 10: Growing household dependence on state housing assistance  
1996-2002**

March years	New Zealand		Auckland region		Rest of New Zealand	
	1996	2002	1996	2002	1996	2002
Households dependent on state housing assistance	162,100	206,600	52,200	72,400	109,900	134,200
Dependent households as % of all households	12.6%	14.8%	14.5%	17.5%	11.9%	13.7%
Average annual growth in demand for state assistance 1996-2002	4.6%		6.4%		3.7%	

Source: *Statistics New Zealand, Department of Work & Income, Housing New Zealand Corporation.*

### Continuing inequity

**The housing needs of at least 150,000 households – which may include one in ten New Zealanders - are unrecognised by the State.**

The introduction of income-related rents has in fact done nothing for three quarters of people in need of state assistance for their housing and who rent in the private sector and receive this assistance through the Accommodation Supplement. This fact has been overlooked by many social policy commentators who have been keen to applaud the Government for the introduction of income-related rents. This level of unrecognised need is currently at least 150,000 households and may represent over 400,000 people - around one in ten New Zealanders. Very little has been done to meet their needs outside of the very modest increases in state houses that have been signaled.

The level of need of most of these people appears similar to that of those households which are state tenants and hence fortunate enough to receive higher levels of housing subsidy. For example, the average Accommodation Supplement payout to tenants before and after the introduction of income-related rents remained the same (\$59 per week for NZ and \$84 per week for Auckland). Given that the amount paid out in a Supplement is based on household income and housing costs and given that the average payout did not change after the reintroduction of income-related rents, we can assume that the circumstances of state and private tenants were the same immediately before state tenants moved to income-related rents.

The justification for the introduction of income-related rents for state tenants was to relieve the financial hardship they were facing from market rents. Yet this level of hardship appears to have been similar to that faced by the majority of private sector tenants who receive the Accommodation Supplement then and now.

It is useful to remember that, even though their Accommodation Supplement will increase if their rent increases, households are obliged to pay 30% of any increase in rent from their other income. In the Auckland region during 1996-97 this additional payment in rent amounted to around \$12 per week per household.

Further rent increases ahead of overall inflation appear likely in Auckland at least, given the population pressure on the existing housing stock and rising land prices as a result. These increases will pose an additional burden to low-income households, particularly those living on benefits. Some of this burden may well be picked up through the payment of additional special benefits which of course raises a number of further questions around the fiscal cost of rent subsidies and the poverty trap that they create.



## Where will it end?

The dependency created by rent subsidies such as the Accommodation Supplement is double sided. Both landlords and tenants are dependent on these subsidies but for different reasons. If we consider the after-housing-cost income position of low-income tenant households before the introduction of the Accommodation Supplement and then a few years afterwards, we see that tenants were actually worse off after having their housing more generously subsidised (Friendship House, 1997). At this level the Accommodation Supplement looks like a landlord subsidy since all the benefits of the Supplement went to them in higher rents.

At a slightly broader level the Accommodation Supplement can be viewed as being necessary to maintain the present stock and supply of rental housing. The rapid rent increases between 1994 and 1997 were most likely the result of both push factors such as higher rent subsidies and pull factors such as rising property prices, falling nominal interest rates and changing ambitions and opportunities amongst middle class investors. Rents most likely would have risen even without the Accommodation Supplement – although not to the same extent - and most likely too there would not be the same quantity of housing to be rented.<sup>38</sup> It is most likely that any reduction in the value of the Accommodation Supplement will be met by a decline in the supply of rental housing, and static or even rising rents as supply declines. Tenants would become the biggest casualties of such a change, as many will not be able to find rental accommodation at the price that they can afford. In this way tenants also are dependent on the Accommodation Supplement, not just for present income as landlords are, but also for future housing.

This dual dependency creates a major policy conundrum for the Government. The Government cannot withdraw the Accommodation Supplement or even reduce its value because this would cause immediate and increasing hardship for tenants and would-be tenants, due to reduction of income with no immediate reduction of rent, and major disruption in rental housing markets with disinvestment by landlords. Furthermore the Accommodation Supplement is market driven but not cyclical like other market driven benefits such as the unemployment benefit. This means that demand for the Supplement is not predictable like benefits such as retirement incomes and that it does not wax and wane as unemployment benefits do.

Overall, the Accommodation Supplement will most likely continue to increase in cost because of increasing dependency and rising house prices. Growing income inequality and growing house prices due to population and economic growth drives the dependency.

**Tenants were actually worse off after their housing subsidies increased – all the benefits of the Supplement went to landlords in higher rents.**

## 7. Rent subsidies and future housing policy

### The economics of rent subsidies

Rent subsidies such as those paid to tenants through the Accommodation Supplement have two critical and somewhat predictable economic flaws. Both flaws are related to the supply side of the housing market and to the impact that subsidies have on prices and asset values. Housing has a low supply elasticity (or is inelastic) for low-income groups, meaning that if the demand for such housing rises, the price of the housing will rise faster than the quantity of housing provided.<sup>39</sup> When this occurs in rental housing

markets, the cost of housing rises not just for new households entering the market but for most people renting in that market simply because rents can be adjusted quite quickly by landlords.

The overall impact of the low supply elasticity and the speedy upward adjustment of rents is that landlords can quickly capture the value of any rent subsidy. If the supply of housing is very inelastic, rents can rise faster than the subsidies intended to support tenants. This is what happened in some parts of New Zealand following the introduction of the Accommodation Supplement (Friendship House, 1997) and is consistent with the experience of housing vouchers for low-income households in the United States (Susie, 1998).

The rapid and disproportionate increase in rent has a second tier effect which is common to returns on all forms of real estate and to many other assets as well. As returns rise, the price or value of the asset rises by a similar proportion. This value increase becomes self-sustaining or locked into the policy setting which led to the initial increase. This has occurred with the Accommodation Supplement.

The irony here of course is that rent subsidies end up benefiting landlords and disadvantaging tenants and that there are few, if any, ways in which the Government can reverse the process by reducing levels of subsidies. Regrettably though the situation gets worse still.

The past decade has seen a gradual and persistent increase both in the number of families claiming an Accommodation Supplement and in the average amount that they claim (see Figure 24, Chapter 6). In other words, the dependency problem around the Accommodation Supplement is getting deeper and broader. This dependency trend presents a significant fiscal problem for the Government although in overall social spending terms it may be seen as relatively minor.

In many respects the rise in public spending on housing subsidies is a direct consequence of the growing inequality between rich New Zealand and poor New Zealand.<sup>40</sup> Rising household incomes generally lead to rising house prices as households are able to bid more in the housing market. The relationship between the two is complex, especially in housing markets such as Auckland's that are growing rapidly through immigration. Any group in a community or market which is doing worse than average will have increasing difficulties in the housing market mainly because of the characteristics of the housing supply.<sup>41</sup> If these groups are bid out of the market by higher income groups they only really have three possible responses – either they crowd in, they move to less desirable locations or they take informal housing solutions like living in shacks, garages or caravans. If the wider society does not wish this to happen they must either subsidise peoples' housing or supplement their incomes to allow them to gain access to adequate housing. But what is actually needed is an expansion of the housing supply.

The future of the Accommodation Supplement rests heavily on the likely equality or inequality of incomes across low, middle and high-income groups. It seems likely that the cost of the Accommodation Supplement and the level of its take up will only decline if low-income groups do relatively better in terms of income growth than the middle class. If the income gap between low-income households and middle-income households grows, then most likely there will be a growth in the level of dependency on the Accommodation Supplement. Even if the income gap remains stable, we may see continuing growth in the size of payments made simply because rising property values increase rent levels.<sup>42</sup> Similarly with stable household income relativities we will still have growth in demand for the Supplement due to demographic change such as population growth or shifts in household formation patterns through changing marriage and family dynamics.

Forecasts of the future of the Accommodation Supplement depend heavily on what happens to the income distribution between New Zealand households. Unless there is a brutal policy shift, the experiment with rent subsidies has left the State with high, long-term housing costs. But this money could be used in ways alternative to rent subsidies - there may be no way to avoid the cost but we can decide how we want to pay it. Given their expected longevity, it is worthwhile to take a long-term view of rent subsidies to see if there is a way off the fiscal treadmill that they have become for taxpayers.

## The future cost of the Accommodation Supplement

As discussed above, rent subsidies such as the Accommodation Supplement have three growth drivers:

**Growing income disparity** and the resulting difficulty some groups have in the housing market leads to a widening dependence on state subsidies for housing.

**Economic growth** and its subsequent effect of lifting property market values means tenants will require bigger payouts.

**Demographic change** – an increase in households with the same or similar income distributions that we have currently will require more payouts.

A forecast of the long-term fiscal cost of the rent subsidies of the Accommodation Supplement has been undertaken and the results of this analysis are shown below in Table 11 (see Appendix 3 for more detail).

**Table 11: Forecasts of Accommodation Supplement Costs - Auckland region & New Zealand 2001- 2021**

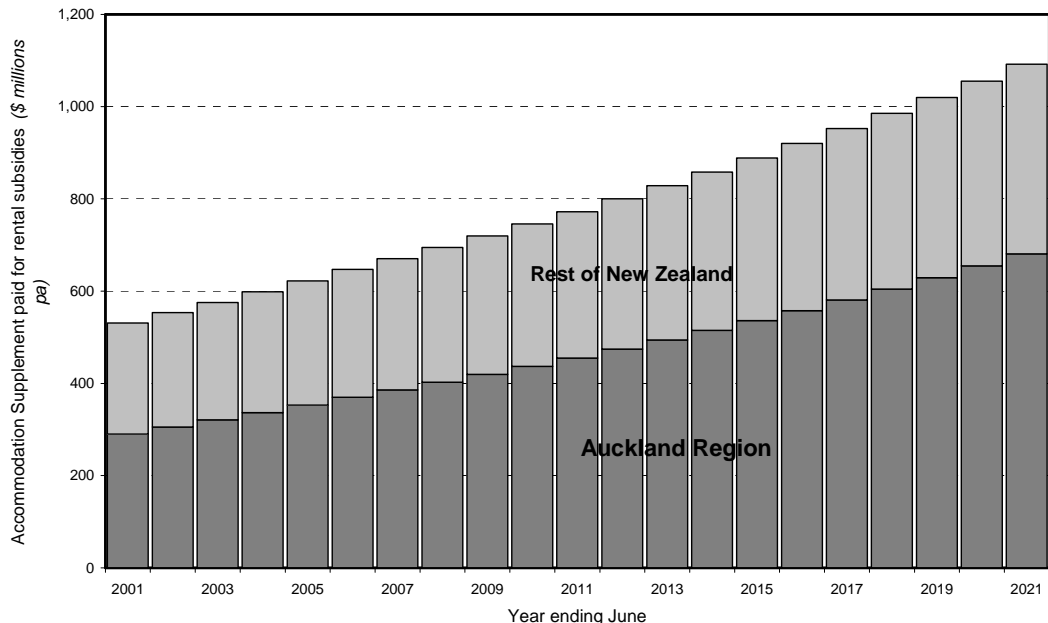
	Auckland region	Rest of New Zealand	New Zealand Total
<b>2001</b>			
Total households	361,000	924,000	1,285,000
Total tenant households	105,000	250,000	355,000
Tenant households receiving AS	52,200	109,900	162,100
Average weekly payment	\$84	\$47	\$59
Annual cost ( <i>\$ millions</i> )	296	241	531
<b>2021</b>			
Total households	561,500	1,114,500	1,676,00
Total tenant households	187,000	323,300	510,300
Tenant households receiving AS	95,100	113,100	208,200
Average weekly payment	\$138	\$70	\$88
Annual cost ( <i>\$ millions</i> )	681	411	1,092
Net present value ( <i>10% DR</i> ) of Accommodation Supplement rent subsidies 2002-2021 ( <i>\$ millions</i> )	3,562	2,545	6,107
Average NPV per household	\$43,400	\$23,875	\$32,375

**The prospect that the cost of rental subsidies will double over the next 20 years is highly credible given that these costs have almost tripled in 9 years.**

Clearly the prospect that the cost of rental subsidies will double over the next 20 years is highly credible given that these costs have almost tripled in 9 years (1993-2002). If allowances for increasing levels of dependency or a rising proportion of tenant households were made the increases in costs would be much higher.

The impact that the Auckland rental housing market will most likely have on the growth in the cost of rent subsidies is shown graphically on Figure 27 below.

**Figure 27: Forecasts of Accommodation Rent Subsidies 2002-2021**



## Beyond rent subsidies

Estimates of the net present value of the Accommodation Supplement both in terms of total public spending and in terms of the average spend per household are an important focus for future policy options. These estimates provide a useful starting point for considering ways in which the Government can get off the fiscal treadmill of rent subsidies without causing huge disruption in rental housing markets and significant stress in low-income households gaining their housing in these markets.

Net present value estimates tell us what a stream of payments into the future (such as the Accommodation Supplement) is worth as one lump sum payment today. These estimates take account of the interest rate that would have to be paid over time if a lump sum payment today was made instead of a stream of future payments. In other words, net present values accept that money is not free to borrow, even for the Government.

Estimates of the average net present value per household indicate that Government could spend from \$61,400 (6% discount rates) to \$43,400 (10%) on alternatives to paying an Accommodation Supplement to an Auckland household for the next 20 years.<sup>43</sup> The question here is what is the best way to spend this amount of money.<sup>44</sup>

## Alternative housing policy options

A discussion of alternative housing policy options is a major exercise in itself and is beyond the scope of a paper of this type. What follows is a basic overview of policy options for delivering affordable, appropriate and adequate housing to low-income people.

Housing assistance for low-income groups can be divided into two broad categories – supply side measures that assist housing suppliers to deliver decent affordable housing to a target population and demand side measures that allow this target population to gain access in their own right generally through the housing market. Kath Hulse in a recent paper to the Australian National Housing Conference (2001) provides an excellent summary of the various types of subsidy options:

**Table 12: Types of supply and demand subsidies**

	<b>SUPPLY SUBSIDIES</b>	<b>DEMAND SUBSIDIES</b>
Paid to:	Financiers, developers, builders and landlords	Consumers – purchasers and renters
Objective:	To lower the cost of producing housing units	To improve the consumer's capacity to pay for housing
Portability:	Subsidy attached to housing units	Subsidy attached to households
Direct subsidies - once only examples	Capital grants to public or community housing	Home purchase grant Payment of initial costs associated with rental (bond/relocation)
Direct subsidies - ongoing examples	Low interest loans to public and community housing developers or private owners/developers Operational subsidies to enable housing producers to charge "below market" rents	Rental subsidy payments eg. rent assistance Mortgage relief schemes
Indirect subsidies - once only examples	Once only depreciation allowances	Capital gains tax exemption on owner occupied housing Stamp duty concessions
Indirect subsidies - ongoing examples	Tax measures such as negative gearing tax credits	Tax relief on mortgage interest Tax credits for renters

The Bolger/Shibley Governments quite effectively shifted the delivery of housing assistance from a mix of supply side (state housing income-related rents) and demand side (former Accommodation Benefit and subsidised lending to low-income families) packages to almost total reliance on demand side options (Accommodation Supplement). The Clark Governments have reintroduced supply side measures through the direct public subsidy of Housing New Zealand to deliver below-market rents for selected tenants through its income-related rents policy. To date they have not instituted any other major alternative policy delivery mechanism. Meanwhile the cost of rent subsidies through the Accommodation Supplement continues to rise.

What is missing from this analysis are the comparisons of how these subsidies may be decided and delivered. For example, are they to be delivered through the public sector via bureaucratic allocation methods or are they to be allocated through the private sector via market allocation processes? Table 13 overleaf provides such an analysis and highlights the settings of present and past housing policies. This analysis also considers the role of the community sector and of collective allocation systems.

It is clear from these frameworks that the options for the delivery of housing assistance are numerous. To date the present Government is only active in two aspects of this framework. These are landlord subsidies through the Accommodation Supplement and direct provision of rental housing through Housing New Zealand and income related rents.<sup>45</sup> Peripheral programmes such as the Community Housing programme and Healthy Homes do not have large comparative budgets and they provide assistance to relatively few people who were already being comparatively well assisted anyway.<sup>46</sup>

The fairly obvious omission in the present policy mix is that of programmes which support and develop third sector or community sector housing options.

**Table 13: Examples of the allocation and delivery of housing assistance**

Allocation method	PRIVATE SECTOR	PUBLIC SECTOR	COMMUNITY SECTOR
BUREAUCRATIC	Rent or mortgage subsidies <u>by the State</u> where housing or mortgages are provided by the private sector but access is limited and determined by administrative rules and processes	Income related state house rents - below market rents for publicly owned housing. Housing Corporation loans – subsidised mortgages provided directly by state agency	Community Housing – state supported sheltered housing operated by NGOs with access determined by state agencies
MARKET	Accommodation Supplement unrestricted entitlement with tenant discretion of housing choice	Residual and diminishing role for public sector as the “landlord of last resort” although on a market basis	Accommodation Supplement tenants of not-for-profit landlords gain same access to rent subsidies
COLLECTIVE	None	None	Delivery by not-for-profit group with allocation decided by them through democratic group processes

## 8. The Cost of Change: Moving to a fairer housing system

### A matter of need or a matter of choice?

Economist and social critic Barbara Ward said in a frequently quoted comment on housing policy that:

*“It is important to state from the outset with the strongest possible emphasis that if a wealthy nation does leave any of its citizens in poor, unhealthy, substandard housing, the issue is one of choice, not necessity. It means that government and people alike have not given the provision of homes the attention and priority which in justice, in humanity, in dignity and in compassion, they require.”(Ward, 1976)*

This is certainly the case in New Zealand today. Although we have few cases of outright homelessness – that is, people living in the streets - we have ample cases of people and their children living in inadequate or overcrowded housing out of personal financial necessity but not out of economic necessity for the State. The question considered in this chapter is that of the likely costs of a decent and fair social housing policy if we as a nation are to become interested in adequately housing all citizens, especially our children.

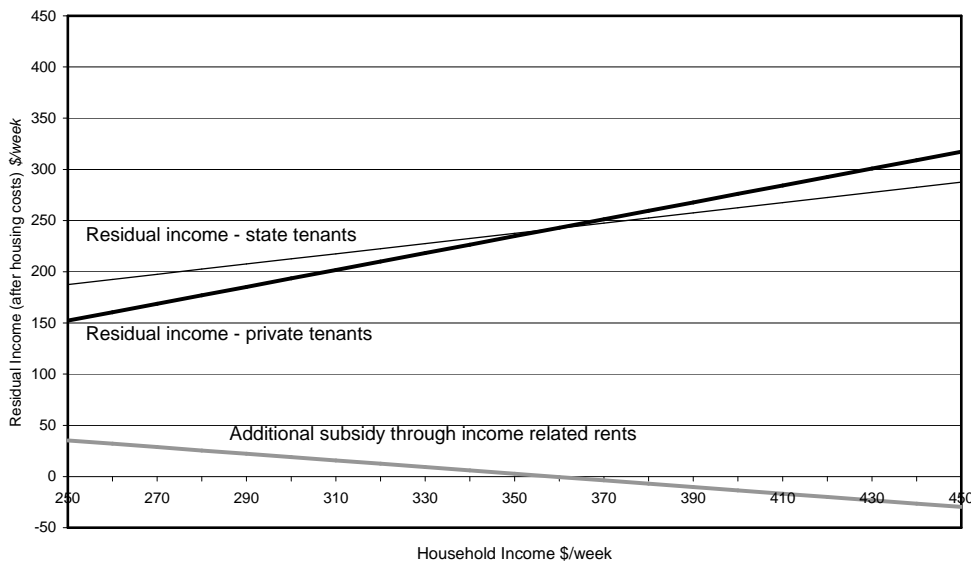
Of course, the answer to such a question is not straightforward. We need to consider the timeframe over which we can realistically improve this nightmare and we need to consider the respective roles of the private, public and community sectors in delivering universally decent housing. This monograph considers the costs of two options. Firstly, the cost of providing all New Zealander requiring housing assistance from the state with the same level of assistance as that enjoyed by state tenants through income-related rents. Secondly, we briefly consider the costs of extending state house building programmes to a point where the demand for housing assistance is met adequately.

Options omitted here for brevity's sake include home-ownership programmes and community based not-for-profit housing organisations known as "third sector housing".

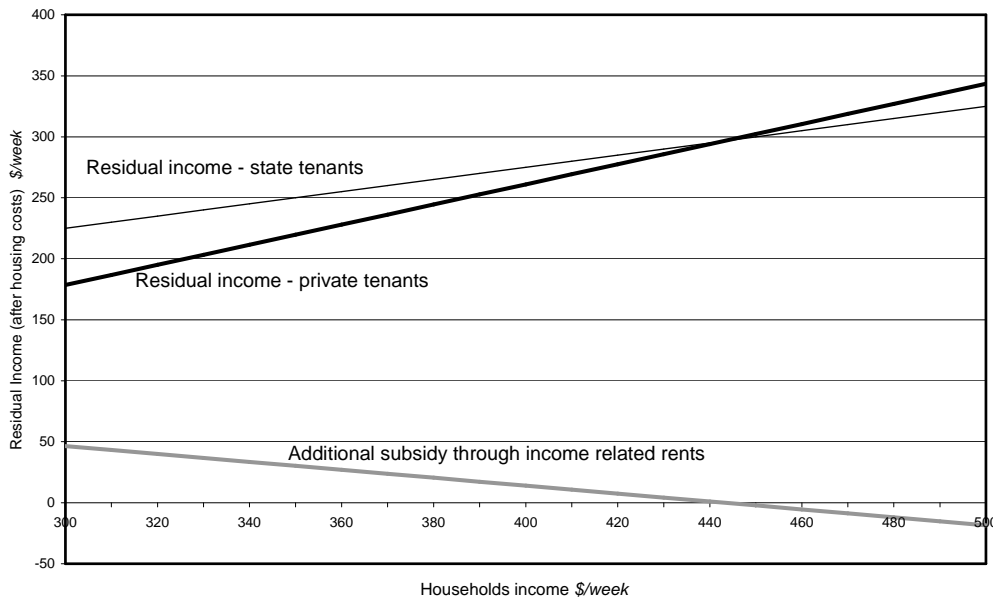
### The cost of equity

A simplistic way of looking at the cost of change is merely to compare the present subsidy gap that exists between state and private sector tenants<sup>47</sup>. Estimates of this subsidy gap are shown in Figure 28 and Figure 29 below for two hypothetical households. The first example is a couple with two children renting a house which would rent in the private sector for \$230 per week. The second example is a solo parent with two children renting a house with a market rent of \$180 per week. These graphs indicate what happens to each of these fairly typical households as they move off the basic incomes that they would receive as beneficiaries.

**Figure 28: Income equivalence of state & private tenants - solo parent with two children renting a house at \$180 per week.**



**Figure 29: Income equivalence of state & private tenants - couple with two children renting a house at \$230 per week.**



The figures behind these graphs are accurate enough for comparison's sake<sup>48</sup>. In both cases (and in most others considered practical) the state tenant is significantly better off over most of the income range considered and over all of the income range likely to arise for the 105,000 households discussed in the previous chapter.

For a couple with two children, the state tenant has \$46.50 per week more to spend after having paid the rent than the same family in a privately rented accommodation. It is not until this family is earning \$440 per week that they are better off as private sector tenants than state tenants. For a solo parent with two children, the state tenant has \$35 more to spend each week after paying the rent than a similar tenant renting from a private landlord. She or he would have to earn \$100 more than a basic benefit income before the state and private sector tenants are on an equal footing. In both cases the private sector tenant households have only 80% of the residual or after-housing-cost incomes of the state tenant households.

There is in fact a huge incentive problem created by income-related rent policies which to some extent is shown in Figure 28 and Figure 29. The level of indirect subsidy given to state tenants through income-related rents declines as incomes rise above the value of the benefit that they would receive given their household structure. This rate of decline or abatement is 50% and is assessed annually after the income is earned. This delayed assessment may limit any effective disincentive and in fact a rent may not rise even after higher past incomes if the current income of the household at the time of assessment has subsequently declined. These circumstances aside, there is still a big disincentive effect with an abatement rate of 50% on income-related rents on top of the other abatement rates that are applied to beneficiaries. This disincentive structure creates a large poverty trap where state tenants have little advantage and opportunity to improve their lot through paid work. They are simply better off financially staying on the dole and remaining a state tenant.

As indicated above in Figure 28 and 29, the income or subsidy gap faced by welfare beneficiaries renting in the private sector and receiving the Accommodation Supplement is in the range of \$35 to \$45 per week. As indicated in the previous chapter, there are 105,000 such households receiving the Accommodation Supplement and another welfare benefit. These figures suggest that the cost of bringing private sector tenants up to the same level subsidy that the Government deems appropriate for state tenants is at least \$200 million per year. This is a minimum estimate for two reasons. Firstly, entitlement to the Accommodation Supplement should be extended more vigorously into households in employment so that the numbers receiving the subsidy may rise at the same time as the amount being paid increases. This extension of coverage may arise anyway if the Supplement becomes more generous because of the increased value of applying for the benefit. Secondly, there will be a market response to such an injection of funds by the State into one market. Almost certainly private sector rents will rise; however, the extent of the increase will depend in part on local market conditions.<sup>49</sup>

If we allow for the likely increase in rents as a consequence of an increase in the Accommodation Supplement and aiming for a final position where state tenants and private sector tenants have the same after-housing-costs income, we would need to spend a further \$150 million on rent subsidies. If we allow for the same additional rent subsidy to households in paid employment who are receiving an Accommodation Supplement already this will require a further \$80 million in subsidies. If we accept the need for a wider net for working households who may be dragged in anyway by the rent increases, this will require a further \$170 million annually in rent subsidies. In other words, it will cost around \$600 million annually to bring private tenants up to the same standard of living as state tenants and to provide wider coverage for low-income families in paid employment. This figure would double the amount spent on rent subsidies through the Accommodation Supplement.

Rather than bringing private sector tenants up to the same residual after-housing-costs

**The cost of giving private sector tenants who are currently receiving rent subsidies the same after-housing-costs income as state tenants would be at least \$430 million per year.**



income as state tenants, it might be argued that equity is achieved when the level of subsidy delivered to people is the same.<sup>50</sup> On a per household basis the level of subsidy involved in the Accommodation Supplement is simply the annual amount paid to households. For state tenants the income-related rent subsidies comes in two forms. Firstly, there is a direct subsidy paid by the Government to Housing New Zealand as a provider subsidy. Secondly, there is an indirect subsidy which is the net cost to the Government of owning Housing New Zealand and not receiving a commercial return on these assets. Estimates of these subsidies are provided in the table below. Income-related rents estimates are based on Housing New Zealand's 2000/01 accounts and are provided in more detail in Appendix 1<sup>51</sup>

**Table 14: Comparison of housing subsidies in 2001**  
***Income-related rents vs Accommodation Supplement rent subsidies***

Subsidy	Weekly average	Annual average	Number of Households
Accommodation Supplement - Auckland	\$84	\$4,370	67,000
Accommodation Supplement – Rest of NZ	\$47	\$2,445	99,000
Accommodation Supplement – New Zealand	\$59	\$3,086	166,000
HNZC tenant with income related rent	\$121	\$6,306	53,600
HNZC tenant without income related rent	\$65	\$3,358	6,300

To bring tenants renting in the private sector to the same level of subsidy as state tenants will require on average a doubling of the amount spent on subsidies – from \$59 per week to \$121 per week. Such a doubling would not be evenly spread across the country given the higher housing costs in Auckland and the fact that the indirect subsidies delivered to state tenants through the Government forgoing dividends from HNZC would be higher in Auckland on account of higher property prices. This doubling is consistent with the amounts of around \$500 to \$600 million annually which would be required to achieve horizontal equity on an after-housing-income equivalence basis as discussed above.

It seems unlikely that Government would double the rate of rent subsidies delivered through the Accommodation Supplement in order to provide horizontal equity for the poorest 100,000 households in New Zealand. It would not even be wise if Government did so, given the spin-off effects of this level of subsidy on housing markets<sup>52</sup> and the further inequalities and poverty traps that would be created as a result. But this should not be a reason for looking elsewhere for options for more equitable longer-term housing policies.

### **The costs of change: state house building**

The comparisons provided above for the cost of moving to equity via income equivalence or subsidy equivalence suggest that the Government faces similar costs providing housing directly or providing higher subsidies within the rental housing market. However the secondary impacts of market subsidies, such as rent inflation, are a good reason to favour the direct provision of rental housing by the state and third sector.

To make a serious dent in the existing inequality between state and private sector tenants the Government will need to accelerate its present state house building activity considerably. The present level of building/acquisition is woefully inadequate and needs to be almost doubled just to match population growth.<sup>53</sup> Effectively the Government is moving to an ever less important position as a provider of social housing.<sup>54</sup>

The number of houses that the Government should buy, build or fund is arguable. As indicated in Appendix 3, even if the rate of dependency of households on housing assistance remains the same over the next 20 years and even if the proportion of people renting remains the same, we will see an additional 2,500 households each year requiring state assistance in order to gain access to housing of even moderate quality. If the Government plans to limit the fiscal stranglehold of the present rent subsidies by building state houses to meet future growth, it will need to build over 2,500-additional state houses each year, 1,500 of which should be in Auckland. This much more than the present effort and is likely to cost around \$400-500 million each year.

## 9. The policy of poverty and the poverty of policy

### The policy of neglect

*"I have several memorable examples of seeing children aged up to 2 years who were bright, happy and friendly and living in very poor families, change their behaviours over a couple of years so that by age four or five, they appear very withdrawn and quiet, with poor language development and poor concentration."* - Dr Nikki Turner

Over the past decade there have been several very good attempts at measuring poverty and the poverty line in Aotearoa New Zealand and much of this work has been covered in the discussion in Chapter 2. Poverty measurements and even poverty definitions are never easy to agree on in part because many people see poverty in terms of third world starvation and not in terms of relative deprivation between those who are marginalised and disaffected in a society and the mainstream of that society. The absolute versus relative poverty debate is in some respects an ideological one and not one which is relevant to discuss here. This paper accepts that relative poverty is a serious issue in Aotearoa New Zealand especially as it affects the development and well being of our children. The increasing incidence of relative poverty has even been acknowledged in official research (Mowbray, 2001).

There does now also appear to be traces of absolute poverty in New Zealand in so far as there are reports of people going hungry (New Zealand Network against Food Poverty, 1999), of people suffering life-threatening health problems due to inadequate housing (McNicholas, 1999) and of increasing numbers of people seeking food assistance for their families.<sup>55</sup>

Against the evidence that poverty is a persistent and perhaps an increasing problem, the present Government appears somewhat indifferent to the well-being of most of the poorest 10% of New Zealanders. This is puzzling given their keenness to reintroduce income-related rents for state house tenants as a social justice measure and given the claims of the Treasurer and Minister of Finance that his government has made

*"sustainable improvements to the lives and living standards of New Zealanders, at work, in their homes and communities, in education and in retirement."* (Cullen, 2001)

Much of the present relative poverty that is endured by the poorest 10% of New Zealanders has a direct link to the actions of the Bolger Government and its promise of a "decent society". This version of the decent society was in many respects delivered through Ruth Richardson's 1991 "mother of all budgets" which brought in cuts to the level of welfare benefits and announced the introduction of the Accommodation Supplement for 1993. The welfare impacts of the benefit cuts were immediate and

apparent. The welfare impacts of the Accommodation Supplement, though predictable, took some time to become apparent.<sup>56</sup>

This effect has persisted and is today ignored by the present Labour Government as part of what may be called a “policy of neglect”. There is some irony that a Government which in 1999 campaigned on the need to reintroduce income-related rents for state tenants has remained so indifferent to the continuing relative poverty of the three-times-as-many families who continue to rent from private sector landlords. This “policy of neglect” is due in part to the intractable problem of attempting to treat people fairly through a two-tiered system of housing assistance. However, as we will see in the following sections, the Government to date has done little if anything to resolve this intractability.

The principle criticism of a two-tiered system of housing assistance is that it offends the ideal of horizontal equity – that is, it treats people in similar circumstances differently. There is some validity in this criticism and it applies as much today as it did in 1991 when the Accommodation Supplement was introduced and state house market rents were announced. Some commentators have attempted to claim that the reintroduction of income-related rents is horizontally equitable<sup>57</sup> although the basis of such claims is questionable when we consider the data present below in Table 15.

**Table 15: Provision of Housing Assistance to Tenants – June 2001 by region.**

Region	Total Accommodation Supplement rental subsidies paid <sup>58</sup>	HNZC rental units (estimate) <sup>59</sup>	Households receiving income-related rents (estimate)	Income-related rents as % of total households assisted
Northland	7,155	1,600	1,400	16%
Auckland North	19,291	3,700	3,600	16%
Auckland Central	16,549	9,625	9,300	36%
Auckland South	14,593	11,350	10,800	43%
Waikato	11,618	3,000	2,500	18%
Bay of Plenty	13,545	3,000	2,000	13%
Taranaki	7,117	2,000	1,700	19%
East Coast	8,306	3,200	2,800	25%
Central	9,722	4,000	3,000	24%
Wellington	13,183	7,800	7,000	35%
Nelson	5,805	1,600	1,500	21%
Canterbury	16,503	6,000	5,500	25%
Southern	9,153	3,000	2,500	21%
New Zealand	152,688	59,865	53,627	26%

Source: Department of Work & Income

These data indicate that across New Zealand three in every four people needing housing assistance from the state are not in fact state tenants receiving an income-related rent. There is an urban bias in the proportion of people receiving income-related rents. Nearly half the households receiving state assistance in South Auckland are likely to be state tenants. There are also higher concentrations in Auckland Central and in Wellington. In smaller cities and towns the proportion of low-income tenants receiving state housing assistance through income-related rent is around one in five and one in six.

The majority of households receiving a rental Accommodation Supplement are welfare beneficiaries (90% plus) and the majority of these are households with children. Data is not available to determine the exact numbers although it is possible to take guesstimates of what these figures may be from data from the Department of Work and Income's 2000/01 annual report and Housing New Zealand's 2000/01 and 2001/02 Annual Reports. These guesstimates are as follows:

Of the 285,000 accommodation payments made in December 2001, 164,000 were for rent subsidies, 46,000 were for mortgage subsidies and the remainder, around 75,000, were for boarding subsidies. Of the 285,000 payments made, 92% were paid to people who were also receiving a welfare benefit of some kind.

Around 22,500 Accommodation Supplement payments were made to non-beneficiaries. The bulk of these - probably more than 20,000 - would be paid as mortgage or rent subsidies rather than boarding subsidies mainly because it is unlikely that anyone employed would earn less than the single person's benefit. Of these 20,000 households we should expect a higher proportion of households than the average receiving the Accommodation Supplement to be buying rather than renting their home perhaps at a rate of 50/50 mortgage to renting. This suggests that at the end of 2001 around 154,000 households were relying on a welfare benefit as their main source of income and on an Accommodation Supplement to assist with paying their rent.

In December 2001 there were 1.185 million New Zealanders supported by welfare benefits of which 39% or 465,000 were people over 65 years old living on the New Zealand Superannuation. A further 310,000 were children living in benefit-dependent households.<sup>60</sup> In other words nearly two thirds (65%) of all the people relying on benefits are the elderly or children.

There are about 105,000 households of two or more people which are receiving benefits and which are not state tenants and therefore do not receive income-related rent.<sup>61</sup>

On a proportional basis and allowing for a higher than average number of children in state tenant households, it is likely that around two thirds of the 310,000 children (or 200,000 to 210,00) living in benefit-dependent households are living in households renting but not receiving an income related rent.<sup>62</sup>

The plight of these 200,000 children - or about one in four New Zealand children - is being ignored by the Government as a matter of policy and by social commentators keen to support the Government in its assertion that the re-introduction of income-related rents is the achievement of an equitable housing policy in New Zealand.

## **The poverty of policy**

During its first three years in office from 1999 to 2002, the Labour-Alliance Government followed a conservative fiscal and monetary policy very similar to that of its predecessors back to 1984. This conservatism has gone unnoticed in part because the rhetoric around social policy is different to that of the previous National Government and in part because strong economic growth has allowed some growth in social spending while the overall structure and intent of public policy and government spending has remained unchanged.

This veiled conservatism is concerning not only because it has largely ignored the plight of one in four New Zealand children, but also because it has nothing substantial to offer for the future. There is a poverty of compassion and of courage on the part of the Clark administration in not acknowledging the widening gaps of well-being and opportunity in Aotearoa New Zealand, and in not addressing this continuing inequality through expenditures and programmes that strike at its core. The relief of housing poverty should be such a "core expenditure" given the relationships which exist between children's accommodation and their health status and educational achievement.

The Government's stated long-term fiscal policy is:

“running operating surpluses on average across the cycle sufficient to meet New Zealand Superannuation fund contributions while meeting capital pressures and priorities and managing debt at prudent levels.” (Cullen, 2002)

The Government Budget of 2002 delivered this position as follows

- An operating surplus of \$2.6 billion
- A contribution of \$1,200 million to the New Zealand Superannuation fund
- A decline in debt levels to 31.3% of GDP in 2001/02 with further declines forecast over the next three years
- A decline in Government spending as a proportion of GDP to 33%.

Seen in economic or fiscal policy terms these aims appear moderate, prudent and sensible. The Government is living within its means, putting something away for the future and not taxing productive citizens excessively. Seen in the context of growing social problems such as inadequate public health funding, rising student debt and static or declining living standards for the poorest 20% of New Zealanders, it appears as though the Government has the means to deliver better social outcomes but prefers not to.

The Government's rhetoric on housing policy has changed significantly over the course of its first term suggesting that it sees the reintroduction of income-related rents as the total sum of the changes required in housing policy and housing assistance programmes. For example, in his first Budget Speech in May 2000 the Minister of Finance Dr Cullen put a heavy emphasis on the links between good housing policy and desirable social outcomes.

“The Government is committed to the elimination of poverty. There is widespread agreement that the housing policies of the previous Government were poorly targeted. They resulted in empty state houses alongside overcrowding. Poor housing is associated with low health status and poor educational achievement particularly amongst the young.

From 1 December this year, low-income state tenants will pay no more than 25% of their net income in rent. Around 40,000 households will benefit by an average of about \$40 per week.

This however is a key election pledge of both Coalition partners. It has not been a low cost option but the Government is confident that personal, educational, health, employment and social benefits that will flow from a better housed population will far outweigh the narrow commercial focus that has driven housing policy over the last decade”. (Cullen, 2000)

This emphasis on decent housing policy appears to have vanished shortly after the introduction of income-related rents in December 2000. Housing expenditures and housing issues scarcely feature in the 2001 Budget speech aside from a vague reference to building more state houses. By May 2002 housing did rate a mention although this mention promised only a little. Dr Cullen commented:

“The restoration of income-related rents for state houses has cost an estimated \$257 million over the same period. The Government regards this as quality expenditure. It has significantly increased the disposable incomes of many households as well as exerting some downward pressure on rental prices at the lower end of the housing market.”

In terms of expanding the supply of state houses the 2002 Budget promised.

“Over the next three years, \$54 million has been allocated for the expansion of the rental housing acquisition programme, resulting in a total investment of \$262 million for adding to the state rental stock over the period.”

The 2002 Budget also allocated funds for renovation and retrofit insulation projects in existing state housing and to assist with rural housing development for Maori in Northland, Bay of Plenty and East Coast.

The investment of \$262 million over three years promised in the 2002 Budget was to provide an additional 1,500 state houses or 500 each year with a further increment of 318 houses over 4 years promised in the 2003 budget. The recent Housing New Zealand “*Statement of Intent 2003-06*” mentions only 173 units (p23).

**Government argues that investing to fund the retirement incomes of baby boomers is an investment while adequately housing the boomers' grandchildren is relatively unimportant.**

Whatever the actual numbers this programme is very modest when we consider the background of need. As discussed, above through demographic growth alone, it is likely that each year an additional 2,500 households will require state assistance with their housing.

Clearly the stress of the Government's under-investment in housing is being witnessed most in Auckland. In response to this stress, the Government's agent, Housing New Zealand, is adding just 139 housing units to the stock of housing that is available to house low-income families and households. The remaining stock acquisitions (most of which are leases in fact) are taken from the existing housing stock. This simply recycles tenants and does little to relieve the demand pressure on Auckland's housing stock. Demographic growth over the next decade will see an additional 2000 low-income households each year require state assistance for their housing in Auckland alone. By default this assistance will be through rent subsidies (the Accommodation Supplement) and the re-growth in emergency houses which facilitate low-income households' entry into state tenancies through manipulation of the criteria within the state house allocation system.

A meaningful shift in the emphasis that Government places on housing will require a major increase in funding for the acquisition of new houses in Auckland. If Government is to meet even half the expected demand growth for housing assistance in Auckland it will have to buy or build 750 new houses annually. The likely cost of this would be around \$150 million annually - an extra \$80-90 million on top of their existing acquisition budget of around \$65 million. If Government is to match demand growth in Auckland through direct state provision of rental housing or subsidised loans or through partnerships with third sector housing providers the likely net cost will be \$250-300 million annually. Overall demand for affordable housing throughout New Zealand is likely grow by 2,500 households each year. The cost of housing these households directly through public or third sector housing will be around \$450-500 million annually. The cost of subsidising this additional housing through the private rental market is likely to be around \$20-25 million annually. This is the change-nothing option.

A shift in fiscal priorities of this order is clearly significant particularly if economic growth weakens over the next few years. However in the context of the Government's pre-occupation with funding the New Zealand Superannuation fund, an additional \$250 million is relatively minor. There is some irony here with the Government arguing that setting aside public money in overseas investments to fund the retirement incomes of the baby boomers is an investment while funding adequate housing for the baby boomers' grandchildren is relatively unimportant.

The poverty of present policy, which focuses on short-term fiscal concerns and the needs of an aging population, completely ignores the needs of the young and the longer-term costs of the growing social divide in Aotearoa New Zealand.

Investment in social housing is a means of supporting functional families, of avoiding unnecessary health costs and the associated suffering, and leads to more positive educational outcomes for all our children. As with all investments, the up-front costs are large, but as with many social investments, the longer-term social dividends will be rewarding.

## APPENDIX 1: Estimates of Income Related Rent Subsidies

<i>Year ending June</i>	2002	2004
Rent subsidy from Crown ( <i>\$ millions</i> )	275.6	330.9
Opportunity cost of Crown ownership ( <i>\$ millions</i> )	59.0	60.0 <i>Estimate</i>
Total HNZC tenancies	61,878	63,000
Total HNZC IRR tenancies	54,886	56,000 <i>Estimate</i>
<b>Direct Subsidies</b>		
IRR tenancies ( <i>\$'s per year per tenant</i> )	5,020	5,909
Other tenancies ( <i>\$'s per year per tenant</i> )	0	0
<b>Indirect Subsidies</b>		
IRR tenancies ( <i>\$'s per year per tenant</i> )	953	952
Other tenancies ( <i>\$'s per year per tenant</i> )	953	952
<b>Total Subsidies</b>		
IRR tenancies ( <i>\$'s per year per tenant</i> )	5,974	6,861
Other tenancies ( <i>\$'s per year per tenant</i> )	953	952

2002 figures are sourced from Housing New Zealand Corporation 2001/02 Annual Report

2003/04 figures are sourced or estimated from Housing New Zealand's Statement of Intent 2003-06





## APPENDIX 2: Measuring housing affordability

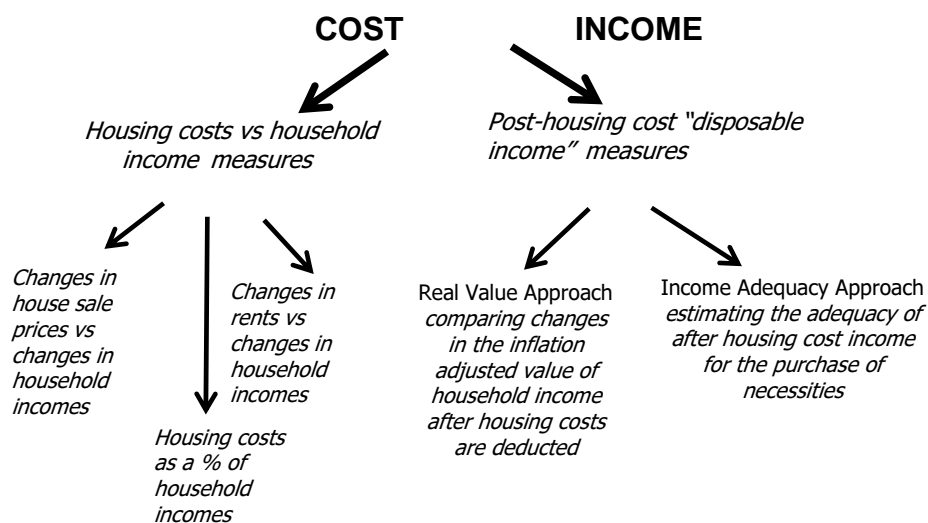
There are three main measures of housing affordability as follows:

- Ownership affordability indexes
- Cost-income measures
- Rent gap measures

**Ownership affordability indexes** calculate an index based on mortgage interest rates, median or average house prices and average individual or household incomes. This index is used in two ways: to compare homeownership affordability over time, and to compare communities or locations. Ownership affordability indices are used by banks and finance institutions to measure demand conditions for housing finance. An example of an ownership affordability index is that developed by Massey University and published by AMP Bank Ltd. Ownership affordability indices measure changes in the affordability of new home ownership. For those with little hope of ever owning their home, this is a redundant measure.

**Cost-income measures** compare changes in household incomes with changes in housing costs. There are two main variants of such measures as indicated in Figure (a) below:

**Figure (a) Cost-income measures of housing affordability**



**Rent gap measures** have been developed by the Affordable Housing National Research Commission in Australia (Affordable Housing National Research Commission, 2001). This considers the dollar gap between three measures of rent as follows:

- *Sustainable rent* – that rent which is required to provide landlords with an adequate return for their investment given the attendant risks and alternative rates of return from other investments.
- *Market rent* – the rent payable in the open market.
- *Affordable rent* – a notional rent which is said to leave sufficient income for a household to afford to live. A conventional standard is said to be 25% of after-tax income although other common ones are 30% of gross or net incomes.

These three measures make use of the same variables. The key difference between them is whose housing experience they are measuring.

Measures comparing housing costs and household income average out the cost of ownership, renting and household incomes across a broad income range. This averaging process hides the

extent of housing-related poverty. It is however possible to focus on the incomes of households in the lowest quartile or two lowest quartiles, although this in turn may obscure variations in housing circumstances faced by these households.<sup>63</sup> Thus, they are of limited usefulness as affordability indicators.

Rent gap measures also provide an indication of the impact of housing costs on lower-income households. These measures have a number of advantages because they identify both absolute and relative need. They are therefore able to focus on particular groups within the housing market. Secondly, they relate income directly to housing costs. Thirdly, they can measure a household's position relative to a predetermined acceptable position, for instance 25% of income in housing rent.

In the analysis in chapter 2 these three measures are used to examine the affordability problems faced by low-income households in Aotearoa, particularly households with children.

### Appendix 3: Projections of dependency on and long-term fiscal cost of public housing assistance

The forecast of the long-term fiscal cost of the rent subsidies of the Accommodation Supplement has been undertaken based on the following parameters.

1. A separation of the analysis into an Auckland region component and a "Rest of New Zealand" component. Rent subsidies into Auckland region make up over half the rent subsidies paid in New Zealand and the growth and demand dynamics are different in Auckland than they are for the rest of New Zealand
2. A rent growth of 2.0% per annum. This growth is in real terms (i.e. an increase after the effects of inflation are taken account of) and is based on the assumption that over the long-term, property values and hence rents will increase by the rate of economic growth.
3. Population and household growth rates according to the medium scenario in the most recent Statistics New Zealand population forecasts. These forecasts are separated for Auckland and the rest of New Zealand.
4. Stable dependency levels. These can be measured by the proportion of tenant households receiving an Accommodation Supplement. For the Auckland region these are around 51% of all tenant households and for the "Rest of New Zealand" they are around 30%.
5. Stable tenure mix – in other words the proportion of household renting will remain the same over the forecast period as they are now.
6. Clearly settings for these parameters can be assessed to be higher or lower than these and some analysis could be undertaken to test the forecasts against changing assumptions. This wider analysis has not been done here mainly because the exercise is a little speculative and the point of the analysis is to gain a broad idea of what the future may hold for the cost of rental subsidies. To gain this broad idea, a conservative approach to the setting of growth factors has been adopted. The results may then be considered to be more of an understatement than an overstatement of the likely costs.

## APPENDIX 3A: Projections of future dependency on housing assistance programmes

### Assumptions

Rent growth rate - Rest of NZ (real)	2.0%
Rent growth rate - Auckland Region (real)	2.5%
Discount Rate	6.0%
Population/household growth forecasts based on Statistics New Zealand medium scenario	

<i>Year ending</i>	Jun-96	Jun-01	June-02	June-03	June-04	June-05	June-06	June-07	June-08	June-09	June-10
Auckland Region - total households	361,000	405,500	412,800	420,100	427,400	434,700	442,000	449,700	457,400	465,100	472,800
Rest of New Zealand - total households	924,000	971,500	979,400	987,300	995,200	1,003,100	1,011,000	1,018,500	1,026,000	1,033,500	1,041,000
New Zealand - total households	1,285,000	1,377,000	1,392,200	1,407,400	1,422,600	1,437,800	1,453,000	1,468,200	1,483,400	1,498,600	1,513,800
Auckland Region - renting households	105,000	130,500	134,160	137,373	140,615	143,886	147,186	149,750	152,314	154,878	157,442
Rest of New Zealand - renting households	250,000	281,800	284,092	286,383	288,675	290,966	293,258	295,433	297,609	299,784	301,960
New Zealand - renting households	355,000	412,300	418,252	423,756	429,289	434,852	440,444	445,183	449,923	454,662	459,402
Auckland Region - dependant tenant households %	49.7%	54.2%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%
Rest of New Zealand - dependant tenant households %	64.8%	48.1%	47.2%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%
New Zealand - dependant tenanhouseholds %	45.7%	50.0%	49.4%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Auckland Region - dependant tenant households	52,200	70,793	72,389	74,181	75,932	77,698	79,480	80,865	82,250	83,634	85,019
Rest of New Zealand - dependant tenant households	162,100	135,475	134,171	134,600	135,677	136,754	137,831	138,854	139,876	140,899	141,921
New Zealand - dependant tenant households	162,100	206,268	206,560	208,781	211,609	214,452	217,312	219,719	222,126	224,533	226,940

<i>Year ending</i>	June-11	June-12	June-13	June-14	June-15	June-16	June-17	June-18	June-19	June-20	June-21
Auckland Region - total households	480,500	488,500	496,500	504,500	512,500	520,500	528,700	536,900	545,100	553,300	561,500
Rest of New Zealand - total households	1,048,500	1,055,700	1,062,900	1,070,100	1,077,300	1,084,500	1,090,500	1,096,500	1,102,500	1,108,500	1,114,500
New Zealand - total households	1,529,000	1,544,200	1,559,400	1,574,600	1,589,800	1,605,000	1,619,200	1,633,400	1,647,600	1,661,800	1,676,000
Auckland Region - renting households	160,007	162,671	165,335	167,999	170,663	173,327	176,057	178,788	181,518	184,249	186,980
Rest of New Zealand - renting households	304,135	306,224	308,312	310,401	312,489	314,578	316,318	318,058	319,799	321,539	323,280
New Zealand - renting households	464,142	468,894	473,647	478,399	483,152	487,904	492,375	496,846	501,317	505,788	510,259
Auckland Region - dependant tenant households %	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%
Rest of New Zealand - dependant tenant households %	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%
New Zealand - dependant tenanhouseholds %	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Auckland Region - dependant tenant households	86,404	87,842	89,281	90,719	92,158	93,596	95,071	96,545	98,020	99,494	100,969
Rest of New Zealand - dependant tenant households	142,944	143,925	144,907	145,888	146,870	147,851	148,669	149,487	150,305	151,123	151,941
New Zealand - dependant tenant households	229,347	231,767	234,187	236,607	239,028	241,448	243,740	246,033	248,325	250,618	252,910

## APPENDIX 3B: Projections of future costs of public housing programmes

### Estimates of the Net Present Value of Rent Subsidies

#### Assumptions

Growth rate in HNZA IRR tenancies	0.0%
Real growth in per unit IRR rent subsidies	0.0%
Real growth in Auckland housing costs	2.0%
Real growth in out of Auckland housing costs	1.0%
Discount Rate =	6.0%

	June-03	June-04	June-05	June-06	June-07	June-08	June-09	June-10	June-11	June-12
Income related rents										
IRR Subsidy-direct & indirect (\$ millions pa)	324	324	324	324	324	324	324	324	324	324
Number of tenancies	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000
Subsidy per tenancy (\$'s per year)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000

	June-03	June-04	June-05	June-06	June-07	June-08	June-09	June-10	June-11	June-12
Accommodation Supplement rent subsidies										
AUCKLAND REGION										
Accommodation Supplement rent subsidies (\$ millions pa)	341	356	372	388	403	418	433	449	466	483
Number of tenancies receiving AS	74,181	75,932	77,698	79,480	80,865	82,250	83,634	85,019	86,404	87,842
Subsidy per tenancy (\$'s per week)	88.45	90.22	92.02	93.86	95.74	97.66	99.61	101.60	103.63	105.71
REST OF NEW ZEALAND										
Accommodation Supplement rent subsidies (\$ millions pa)	342	348	355	361	367	374	380	387	394	400
Number of tenancies receiving AS	134,600	135,677	136,754	137,831	138,854	139,876	140,899	141,921	142,944	143,925
Subsidy per tenancy (\$'s per week)	48.90	49.39	49.88	50.38	50.89	51.39	51.91	52.43	52.95	53.48
ALL OF NEW ZEALAND										
Accommodation Supplement rent subsidies (\$ millions pa)	683	705	727	749	770	791	814	836	859	883
Number of tenancies receiving AS	208,781	211,609	214,452	217,312	219,719	222,126	224,533	226,940	229,347	231,767

	June-13	June-14	June-15	June-16	June-17	June-18	June-19	June-20	June-21	June-22
Income related rents										
IRR Subsidy-direct & indirect (\$ millions pa)	324	324	324	324	324	324	324	324	324	324
Number of tenancies	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000	54,000
Subsidy per tenancy (\$'s per year)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000

	June-13	June-14	June-15	June-16	June-17	June-18	June-19	June-20	June-21	June-22
Accommodation Supplement rent subsidies										
AUCKLAND REGION										
Accommodation Supplement rent subsidies (\$ millions pa)	501	519	538	557	577	598	619	641	663	687
Number of tenancies receiving AS	89,281	90,719	92,158	93,596	95,071	96,545	98,020	99,494	100,969	102,500
Subsidy per tenancy (\$'s per week)	107.82	109.98	112.18	114.42	116.71	119.04	121.42	123.85	126.33	128.85
REST OF NEW ZEALAND										
Accommodation Supplement rent subsidies (\$ millions pa)	407	414	421	428	435	441	448	455	462	469
Number of tenancies receiving AS	144,907	145,888	146,870	147,851	148,832	149,813	150,794	151,775	152,756	153,737
Subsidy per tenancy (\$'s per week)	54.02	54.56	55.10	55.65	56.21	56.77	57.34	57.91	58.49	59.08
ALL OF NEW ZEALAND										
Accommodation Supplement rent subsidies (\$ millions pa)	908	933	958	985	1,012	1,039	1,067	1,096	1,125	1,156
Number of tenancies receiving AS	234,187	236,607	239,028	241,448	243,871	246,294	248,717	251,140	253,563	255,986

## Notes

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<sup>1</sup> The Housing Corporation of New Zealand's "Annual Report 1990/91" reports the Corporation owned 69,983 units in June 1991. The following year the Housing Restructuring Act (1992) restructured the Corporation into a profit focused company known as Housing New Zealand Ltd.

<sup>2</sup> The annual accounts for Housing New Zealand Ltd show a series of asset revaluations which appear to have justified the extraction of Crown equity from the company by way of share repurchases. For example, revaluation of the company's rental housing stock increased the overall value of the company by \$2.22 billion in 1995/96 and a further \$1.08 billion in 1996/97. The extraordinary profits of \$300 million, reported between 1995/96 and 1998/99 represents the additional proceeds of state house sales above the book value of the houses sold. Between 1996/97 and 1998/99 the company paid its shareholder, the Government, \$294 million in dividends. The profits on which these dividends are based appear to come from profits released on the sale of assets and from the cutting back on maintenance expenditures. The core business of Housing New Zealand Ltd – renting houses - never made a profit however, losing around \$3 million annually.

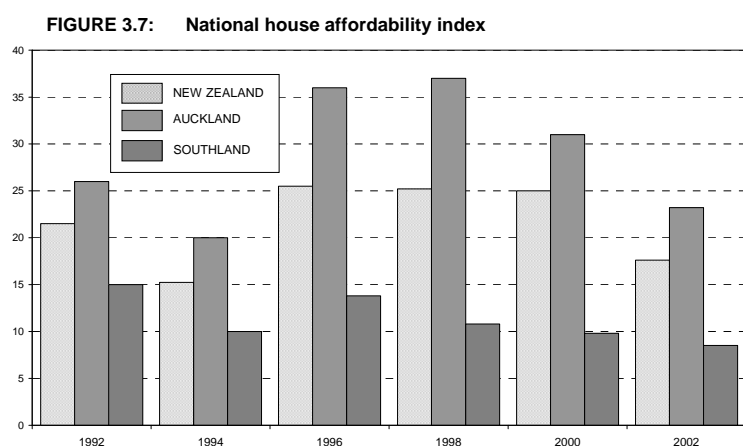
<sup>3</sup> A recent example of this rhetoric is provided in a recent press release (6<sup>th</sup> August 2003) from the Minister of Housing. Under the headline "**Wider role for Housing New Zealand Corporation**" The Minister outlines exactly the opposite – that the role of Government's public housing provider will be allowed to decline into the future. He states that "*the supply of social housing is declining*". Having accepted this position he then admits that "*the availability of private housing for low to moderate income households is limited*" and that "*much of the Corporation's stock is old and needs upgrading*". No solution to inadequate social housing is offered except to suggest that there should be less reliance on the state for affordable and adequate housing. In particular, he suggests that Government's housing agency Housing New Zealand should be "*encouraging communities, government, non-government, iwi and Maori to work together to address housing need, rather than expecting the state to provide all the answers.*" The Minister is silent about where the resources needed to provide the answers to current and future housing problems will come from.

<sup>4</sup> These figures are based on the 2002 Budget Speech by the Minister of Finance, Michael Cullen. The actual official figures for spending on new state houses are a little difficult to tease out, in part because budget figures are aggregated for three years. Housing New Zealand's own reported figures (see HNZC "*Briefing to the Incoming Minister of Housing*") are equally confusing and it is likely that the Board of HNZC are spending more on state house acquisition than the amount being provided directly by Government.

<sup>5</sup> These figures are taken from the Counties Manukau District Health Board's "*Counties Manukau Health Profile*" (2001) and relate to the wider Counties Manukau District Health Board. The Board area is broader than the area defined as "South Auckland", as it encompasses Howick, Pakuranga and several rural communities. The Board's population is about 10% of New Zealand's population with high concentrations of Maori, Pacific and Asian people. The rates cited here would be even more pronounced in some of the specific geographical communities from which people come.

<sup>6</sup> The decile rating of schools refers to a socio-economic ranking given to all schools in New Zealand by the Ministry of Education. This ranking is developed from the most recent census data and calculates a deprivation index which is an attempt to measure the relative deprivation or privilege of a community. These rankings are used to target funding into deprived areas, although only a small proportion of total educational funding is targeted in this way. A decile one school is in the poorest 10% of communities while a decile ten school is in the wealthiest 10%.

<sup>7</sup> This is reconcilable with the AMP Banking Home Affordability Reports because Mowbray uses different methods of data collection and measurement. The Affordability Reports are based on the "National Home Affordability Index" which compares median house sales prices with average weekly incomes and average bank mortgage interest rates to establish changes in the affordability of homeownership over time. Therefore it is based on the average income earner buying a median-price house and does not measure the costs of housing for various income groups, family types or tenants and existing homeowners. The bar graph below provides changes in this index for New Zealand as a whole, for Auckland region and for South Region. This shows that between 1992 and 2002 home ownership has become less expensive (or more affordable) by 18% in New Zealand, 11% in Auckland region and 43% in Southland



Source: Craw, G (2002) "AMP Banking Home Affordability Report" Vol 12(1) AMP Bank Ltd Wellington.

<sup>8</sup> The Household Economic Survey has a sample size of around 3,000 households of which 15-20% are welfare beneficiaries. The estimated error levels are around 5% overall but around 15% for solo parent households and over 25% for Pacific households.

<sup>9</sup> There are a number of approaches to estimating opportunity costs. The use of the Government's borrowing rate as the discount rate represents the lowest opportunity cost that landlords could face. This approach does not of course properly provide for some margin to reflect risk. However, given the high likelihood that house values will appreciate during the course of a landlord's investment, it may be argued that a lower discount rate is appropriate because the risk of a loss is really quite low. This is the justification for using the five-year bond rate and ignoring the returns a landlord might expect from asset appreciation.

<sup>10</sup> Much of the present setting of benefit incomes and in particular the relativity between household size and family types implicit in these settings appears to still be based on work by John Jensen in 1978 (see Jensen (1978) "Minimum Income Levels and Income Equivalence Scales" Department of Social Welfare). Brian Easton (1995) "Poverty in New Zealand: 1981-93", New Zealand Sociology 10(2) suggests that Jensen's equivalence scales assume higher households economies of scale than are reasonable and that this leads to an under-estimation of the cost of raising children in particular.

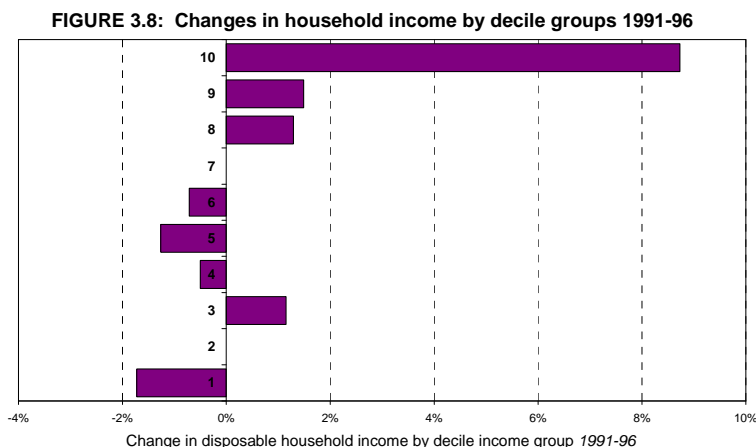
<sup>11</sup> See for example Veit-Wilson (1987) "Consensual Approaches to Poverty Lines and Social Security", Journal of Social Policy, Vol 16 Part 2. Veit-Wilson claims that consensual approaches to the estimation of poverty lines tend to estimate higher lines than data based approaches. The inclusion of people likely to be affected by a social policy in a consensual approach to estimation may be argued to closely match concepts of Rawlsian justice. Given that people are likely to be less generous about what constitutes fair if they know they will be minimally affected by a social policy, it may be argued that the

bureaucratically-defined definitions of equity such as that implicit in the Jensen equivalence scales will understate a minimum adequate income. The consensual approach as undertaken by Waldegrave et al does however have a free-rider problem in that ignoring the issue of how adequate incomes are to be financed (ie. tax-benefit transfers or higher wages) tends to place the question of "how much do you need/want?" in an unrealistic setting where there are no consequences for those answering the question.

<sup>12</sup> Easton (1995) is critical of setting poverty lines against a standard income measure partly because this may be quite arbitrary and partly because if there is a sharp economic downturn, and with this a drop in household incomes the poverty line will drop as well. Waldegrave's work at trying to benchmark an income-related measure against actual expenditure needs overcomes much of the arbitrariness Easton identifies.

<sup>13</sup> Arguably all food bank usage as reported by New Zealand Council of Christian Social Services Council is not simply the result of food poverty but may also reflect poor budgeting skills. However, the Council's quarterly "Summary Reports" present a changing demand for food parcels which is closely follows high housing costs. Moreover clients are predominantly tenant households dependent on welfare benefits.

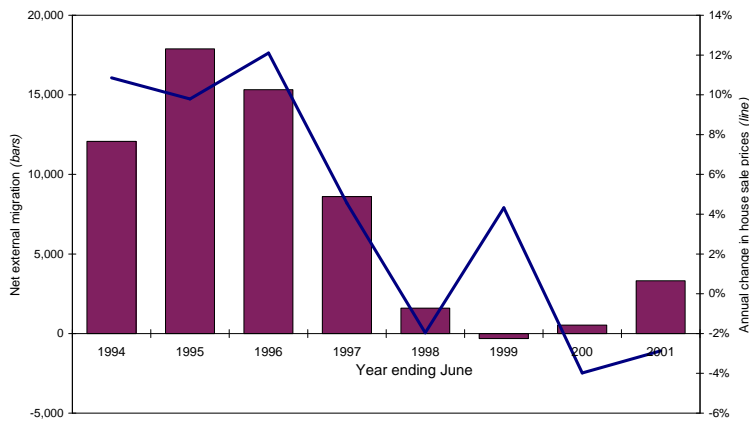
<sup>14</sup> If we are to gain an understanding of why housing affordability has become a bigger problem particularly in Auckland, we have to provide an answer to the question of why house prices have risen faster than average incomes. There are three possible, inter-related reasons for this apparent anomaly. Firstly, household income growth has tended to favour the wealthy. The wealthiest third of households had more money to compete on the property market. In the early 1990s investors took advantage of rapid rent increases, fuelled by the Accommodation Supplement.



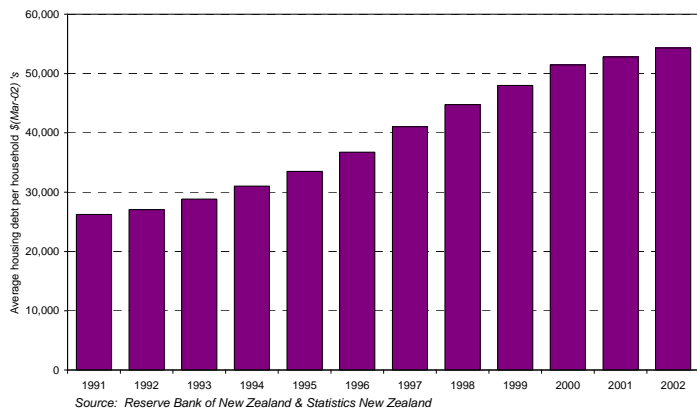
Secondly, income increases coincided with a house price boom particularly in Auckland but also in other northern North Island cities. This house price boom appears linked to the first wave of external immigration as shown in Figure 3.9. The entry of additional buyers into a housing market which has little ability to adjust supply quickly will lead to price increases. These increases in turn act as a signal to developers to undertake further development. In Auckland's case at least, this house price boom increased the equity in existing houses which may have been leveraged to purchase rental properties. Thirdly, there was a rapid increase in housing-related household debt as shown in Figure 3.10. Surprisingly, this rising indebtedness occurred at the same time as a decline in mortgaged homeownership as reported in Chapter 3. This apparent contradiction may be explained in part by changing lending policies where banks offer more flexible finance deals based on home owners' equity, thus consumer debt may be recorded as housing related debt. A second explanation is that rising house values have required higher levels of debt to finance home-ownership particularly for people trading up

in the market. Thirdly it is likely that residential rental property investment is recorded as housing related debt when in fact it is business debt.

**FIGURE 3.9: Immigration and house price increases in Auckland 1994-2001**



**FIGURE 3.10: Housing related debt by household 1991-2002**



<sup>15</sup> These estimates are based on Statistics New Zealand’s household projections and on an assumption that dependency rates will remain similar to what they are at present.

<sup>16</sup> It is important to note here that most low-income tenant households qualify for a Housing New Zealand Corporation tenancy. The extent to which this qualification is not simply hypothetical depends on the chance that a household has of actually being offered a tenancy. Under HNZC’s pointing system about 40% of applicants are assessed as having a severe or significant housing need, and it is generally this group of applicants that gain a HNZC tenancy. HNZC only houses about 40% of the qualifying households. Over the period January 2001 to June 2003 there were about 2,000 applications per month while only about 800 new tenancies per month are let (Source: HNZC figures provided under the Official Information Act). About 60% of those on the HCNZ waiting list were seeking housing in the Auckland Region. (Source: HNZC website)

<sup>17</sup> The high proportion in the “Not Specified” category contributes to a reduced reliability for these comparisons.

<sup>18</sup> In fact 80% of the growth in the under 15 year old population between 1991 and 2001 occurred in Auckland region. On the other hand only 25% of the retired (over 65’s) population growth was recorded in Auckland. Outside of Auckland, the population in child-bearing age groups (20-45 years) actually declined by 18,000, but it increased in Auckland by 67,000. Between 1991 and 2001 the median age for Aucklanders rose from 33.1 years to 34.0 years while for those living outside of Auckland, the median age rose from 33.7 years in 1991 to 36 years in 2001. Unless internal migration



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patterns change significantly, these demographic changes point to increasing housing pressure in Auckland region while housing demand outside of Auckland is likely to be more stable overall.

19 For the sake of the intra-market analysis which follows, this study has ranked Auckland communities in terms of medium per-capita income (as reported in the 2001 census). "Communities" in this context are taken to be census area units. This ranking has been divided into five equal groups in terms of numbers of households and comparisons have been made between each of these quintile groups. The poorest 20% of communities are concentrated in South Auckland while the wealthiest 20% are concentrated in the eastern suburbs of Auckland City and North Shore.

<sup>20</sup> Alison Gray in her 2001 literature review "*Definitions of Crowding and the effects of Crowding on Health – A Literature Review*", Ministry of Social Policy discusses the mixed evidence on the health effects of overcrowding. It appears difficult to link overcrowding directly with communicable diseases such as meningococcal disease and Hepatitis B but stronger links are claimed between increases in household occupancy and the incidence of tuberculosis, asthma, bronchitis and Helicobacter Pylori. Most researchers however avoid claiming causality between overcrowding and these diseases preferring to talk about correlation, strong association or an increase in risk factors. One reason for this uncertainty is the range of other social and physical factors likely to increase the risk and transmission of disease within overcrowded households. These include the physical characteristics of the house such as warmth and dryness and limitations caused by poverty in general, including poor diet and limited access to health services.

<sup>21</sup> The Wellington School of Medicine for example is presently undertaking a longitudinal survey across over 1,200 households in 7 communities to investigate the links between health status and air quality and temperature changes brought about by retrofitting house insulation.

<sup>22</sup> The Canadian National Occupancy standard sets the bedroom requirements of a household according to the following criteria:

- there should be no more than two people per bedroom;
- parents or couples share a bedroom;
- children under five years, either of same or opposite sex, may reasonably share a bedroom;
- children under 18 years of the same sex may reasonably share a bedroom;
- a child aged five to 17 years should not share a bedroom with one under five of the opposite sex;
- single adults 18 years and over and any unpaired children require a separate bedroom.

*The Social Report 2001*. Wellington: Ministry of Social Development p. 124.

<sup>23</sup> In discussing overcrowding, Morrison uses two definitions, a conservative one which defines overcrowding as households where there are more than two people per "living" or occupiable room and a more liberal standard where there are 1.5 people per "living" room. In 1951 4.4% of dwellings and 8.3% of occupants were overcrowded by the conservative standard. The liberal standard figures are 11.7% and 15.9% respectively. By 1991 these overcrowding rates had fallen to less than 1% for both proportion of dwellings and occupants according to the conservative standard and 5% for occupants and 4.5% for dwellings according to the liberal standard. Morrison does however raise a note of caution around definitional problems surrounding the idea of a "living" or occupiable room which may have lead to an overstatement of such rooms since 1981 and hence to an underestimate of overcrowding.

<sup>24</sup> New Zealand's fertility rate declined continuously between the early 1960s and the early 1980s. During the 1980s and 1990s the fertility rate has barely reached replacement (2.1 children per woman) and has generally been below replacement since 1982. It seems likely that the overall fertility rate will decline further as the fertility rates of Maori and particularly Pacific women approach those of European-Pakeha women. This portents fewer children still and smaller households overall. Recently, the average number of children in households with children has increased, partially because families are sharing accommodation. *Data source: Statistics New Zealand*.

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<sup>25</sup> The median age of the population has increased from 29.8 years in 1986 to 34.8 years in 2001. The proportion of the population aged over 65 years has increased from 11.3% in 1991 to 12.1% in 2001 but is projected to more than double as a proportion of the population by the middle of this century.

<sup>26</sup> This estimate is based on the assumption that multi-family and extended family households will most likely have children in them. The figures for couples with children and single parents with children also contain households which have a further non-dependent person living in the household.

<sup>27</sup> Estimates of overcrowding New Zealand-wide, based on the Canadian occupancy measure, are available only for the 1996 census. 2001 figures for Auckland are available, and show a proportional decline (9.1% of children in 1996 to 8.8% in 2001) and stability in terms of total numbers (25,000 to 26,000). From this, it would be reasonable to assume that overcrowding declined proportionally in the rest of New Zealand as well, given that housing pressure is historically greatest in Auckland. Yet, the problem in South Auckland has got worse in real terms, meaning that the area's share of overcrowded households regionally and nationally has grown.

28 There are concerns about accuracy of the census data. A post-enumeration survey was undertaken by Statistics New Zealand a few weeks after the 2001 census, and discusses reasons why the census figures may under-count the actual figures. Fundamentally, the Census and the post enumeration survey use the same data collection techniques so whatever systematic weaknesses there are in the Census these will still be present in the post-enumeration survey. Statistics New Zealand claim that they are different types of survey because the Census relies on the respondent filling in questionnaires while the post-enumeration survey uses face to face interview techniques. However both surveys involve knocking on peoples' doors, asking them questions about their personal living arrangements and relying on them to tell the truth. Both approaches expect people who may have reason to be suspicious or fearful of the Government to accept assurances that the information will remain confidential. These assurances may well be given in a language which is not the first language of the respondent so there is further room for misunderstanding.

<sup>29</sup> Data provided in Table (i) opposite is taken from official counts of people arriving to and departing from New Zealand between 1994 and 2002. The figures report net figures – the overall difference between arrivals and departures for the preceding 12 months. Table (i) suggests, on the face of it, that 63,380 short term visitors have arrived in Aotearoa New Zealand since 1995 and not left. This figure does however need adjustment downward to allow for growth in tourist numbers and possible increases in their length of stay. These two factors will lead to there being more tourists in the country at any one time and so have to be deducted from the net short-term arrivals shown in Table (i). Based on the Ministry of Tourism's "International Visitor Survey" which is a sample survey of around 5,000 visitors surveyed as they leave the country. An estimate of 50,000 short-term visitors staying on in the country since 1995 appears reasonable.

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**Table (i) migration into Aotearoa New Zealand 1995-2002**

Year ending July	Short-term Visitors	New Zealand Residents	Long-term
1995	12,880	-15,680	23,870
1996	18,240	-16,100	29,090
1997	17,800	-14,080	15,870
1998	-3,600	-15,440	-990
1999	-6,590	9,290	-11,380
2000	-2,080	15,810	-10,140
2001	11,010	11,410	-6,760
2002	15,720	13,290	34,580
Total 1995-2002	63,380	9,380	74,140

Source: Statistics New Zealand

<sup>30</sup> Under the Residential Tenancies Act (1986) landlords need provide no reason for their decision to terminate a tenancy agreement/tenancy. Tenants have rights to be treated fairly under the Human Rights Act but the provisions of this Act for providing proof and for mediation where discrimination or prejudice is an element in any action, minimises the rights of tenants. The only real right tenants have to stop landlord aggression is under Section 54 of the Residential Tenancies Act where the Tenancy Tribunal can override an eviction notice (or termination notice as it is the Act) where it believes the notice is retaliatory in nature. Such an action requires the tenant to take a case to the Tribunal and generally will only protect the tenant's tenancy for six months.

<sup>31</sup> The immobility of public housing tenants is seen by many housing commentators as a negative outcome as it is claimed that it limits their ability and motivation to shift to find work. Yet this does not appear to be a problem in New Zealand. For example Suzi Kerr et al ( "*Internal Mobility in New Zealand* " Treasury Working Paper) find that New Zealanders migrate to cities and areas with more dynamic labour markets. Auckland is a special case with higher levels of unemployment, a growing labour market, inward migration from overseas and high housing costs.

In designing its housing policies Government cannot afford to ignore the impact that public housing programmes will have on labour markets and in particular on work incentives. The provision of housing assistance in rural areas where jobs are scarce but housing is of poor quality may simply attract more people into these areas and make the housing situation worse overall. The present focus of the Government on addressing rural Maori housing issues appears to be at the expense of addressing the more expensive and more complex issue of housing in Auckland, particularly South Auckland. Unless the job-housing balance is addressed through appropriate housing policies we may see quite perverse results where labour markets are short of workers because of high housing costs and where housing poverty persists because of the lack of employment.

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<sup>32</sup> This measure estimates the annual turnover of a school's roll, not the transience figure often cited by principals, which is the proportion of Year Six children who did not start at the school as new entrants.

<sup>33</sup> One drawback in the measure is the implicit assumption that all the increase in the school roll is the result of enrolments from New Entrants. A school's roll may increase through population growth in the local area, say through the completion of a nearby housing development. The only way of overcoming such a problem is to ask schools to provide a finer breakdown (by years) of their school roll at the beginning and end of the school year. Such a request was seen as onerous and likely to reduce the response rate.

<sup>34</sup> At the time of the reintroduction of income-related rents if state tenants were in greater need of state assistance, as has been suggested by some commentators such as Stephen Waldegrave, this greater need would have been represented through their receipt of higher Accommodation Supplement payments. The fact that the average value of these payments remained virtually unchanged after one quarter of the recipients exited to a more generous subsidy regime suggests that state tenants and other tenants received that same average level of assistance under the Accommodation Supplement regime. This in turn suggests that they had similar levels of financial need.

<sup>35</sup> The question of basic benefit outcomes is complicated considerably by the payment of Special Benefits. These are intended to be paid to people when their weekly costs are substantially in excess of their weekly incomes. In the past there has been a reluctance on the part of the Department of Work and Income to accept high housing costs as a justification for payment of special benefits. Recent figures from the Department however suggest that 5-10% of Special Benefits paid out in Auckland region are to meet high housing costs. Note that these payments are in addition to the Accommodation Supplement.

<sup>36</sup> Tenant households comprise about one third of the housing market. Housing costs have a 23% weighting in the CPI All Groups. If rents have the same price volatility as mortgage servicing costs this would suggest that residential rents contribute 7-8% to the CPI All Groups. However rents are probably not as volatile as mortgage servicing costs so would be likely to contribute at least 5-6% of the CPI All Groups.

<sup>37</sup> Although there is no data available it is likely that most landlords are in fact claiming tax credits from their rental housing investments. High levels of gearing, together with allowances for maintenance and depreciation as tax related expenses, mean that Government is in fact subsidising private rental housing indirectly through foregone tax revenue.

<sup>38</sup> Without the Accommodation Supplement middle class investors may not have been so keen to buy rental housing in low-income neighbourhoods and house prices may not have risen as much as they did in these neighbourhoods. If house prices had not risen as much as they did, home-ownership would probably have been more accessible for low-income households and the demand for rental housing would not have been as high. It is worth noting that most of the increase in the rental housing stock in low-income neighbourhoods came about through the loss of owner-occupied housing, not through the development of new housing. In other words the "price signal" offered to possible investors by rent increases changed the tenure of existing housing rather than drove new house construction.

<sup>39</sup> Additional demand for low-income housing is focused on the privately-rented lower quality housing. This type of housing is typically housing that other groups don't want. As such, the housing is not normally supplied through purpose-built housing. Unless the rents paid for low-cost houses rise sufficiently to justify investment in new housing, the supply of low-cost housing increases only slowly through expansion into slightly more expensive areas. Because supply does not or cannot expand to cater for increases in demand, prices rise faster than supply increases. Demand increases can arise in several ways. The most common is through demographic growth or immigration.

<sup>40</sup> Evidence of a widening gap between the rich and poor in New Zealand is found in official publications such as “*The Social Report 2001*” (Ministry of Social Policy); Mowbray(2001); O’Dea (2000) “*The Changes in New Zealand’s Income Distribution*” – Treasury Working Paper 00/13

<sup>41</sup> As housing demand increases, the market takes some time to respond in terms of increasing supply so the initial impact to increasing demand is an increase in price. This price increase generally transfers into an increase in land values since land is the scarcest factor in the production of housing. This scarcity value itself is overcome in three ways: higher prices may be sustained in the long-term, development densities increase to offset the high land costs and thirdly, cities expand at the periphery.

<sup>42</sup> Rising residential property values which are not matched by similar increases in rents will encourage landlords to sell their rental housing investment to owner-occupiers and realise the appreciation in asset values. Most often, and particularly in an expanding market, rents will rise to maintain the rate of return that the landlord expects from their investment at the present market value.

<sup>43</sup> The estimates used are based on a discount rate of 10% which is standard for the public sector. In fact, the Government’s real borrowing rate is around 4-6% the real cost of Government spending money on an alternative to the Accommodation Supplement should use a discount rate of around 6%. Table (ii) below shows the outcomes if both a 10% and a lower rate of 6% are used.

**Table (ii) Future Accommodation Supplement Costs at 6% & 10% discount rates - Auckland region & New Zealand 2001- 2021**

	6% Discount Rate	10% Discount Rate
<b>Net present value of total payment (\$ millions)</b>		
Auckland region	5,037	3,562
Rest of New Zealand	3,534	2,545
New Zealand total	8,571	6,107
<b>Average NPV per household</b>		
Auckland region	\$61,400	\$43,400
Rest of New Zealand	\$33,150	\$23,875
New Zealand total	\$45,400	\$32,375

<sup>44</sup> Criticism of such a comparison may be raised based on the claim that the Accommodation Supplement is a needs-based benefit a household is unlikely to receive the benefit for 20 years. The analysis here is based on the assumption that there will be static real incomes for the poorest 20% of households in New Zealand and limited opportunity to change socio-economic position over the next 20 years.

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<sup>45</sup> In July 2003 the Government announced a new mortgage guarantee programme "In Reach Home Loans" which it will offer through its bank, Kiwibank from September 2003. The programme allows 'low-income' households to gain a state backed mortgage without a deposit on houses valued at less than \$100,000, and with 5% deposit on houses valued over \$100,000. The pilot programme will affect 1,800 households and will run for two years. It is available for households with two income earners earning less than \$50,000 per annum, or three or more income earners earning under \$100,000 per annum. Market interest rates will be applied to all mortgages. These income criteria will apply to a large group. For example, from reported household incomes in the 2001 Census 37% of two parent families earned less than \$50,000 gross pa and 24% earned less than \$40,000 pa. The figures for single parent families are 86% and 78% respectively. However even with the purchase of a very modest house in Auckland valued at \$150,000 a family would need to find \$7,500 as a deposit and pay around \$350 per week in housing related costs and mortgage repayments. This would be about \$100 more per week than renting the same property. For families earning around \$50,000 these parameters are probably affordable although it is difficult to understand why a state backed mortgage guarantee is required as banks may have lent anyway. Families earning less than \$40,000, about one quarter of two parent families and three quarters of single parent families, are not likely to find the programme accessible.

<sup>46</sup> The Healthy Homes programme aims to enlarge existing state houses where these have large extended families living in them. This is seen as a way of reducing the health problems associated with overcrowding but does not address the underlying causes of this overcrowding nor the plight of private sector tenants who are more likely to live in overcrowded conditions. Furthermore many of the houses in the Healthy Homes programme are in the older suburbs of Auckland on large valuable sites and are nearing the end of their economic lives. This calls into question the financial wisdom of expensive additions of one or two bedrooms and a bathroom when a whole house for another family could be built at a similar cost.

<sup>47</sup> In this context we are classing tenants of community sector landlords and local authorities as private sector tenants simply because they are treated the same in the present housing assistance policies.

<sup>48</sup> It is accepted that this view is a little simplistic in that the threshold incomes – that is the incomes at which benefits are likely to be paid - are approximate given the additional entitlements families may have through Special Benefits and Family Support programmes. These variations do not limit the relevance of these more general examples.

<sup>49</sup> The extent of any rent increase in response to a subsidy increase is difficult to determine and is theoretically problematic as well. Estimates of the income elasticities of housing supply are quite variable ranging from 0.5 to 1.5%. Even with an income elasticity of 1% and assuming that housing costs are typically 40% of a low-income household's income, we could expect rents to rise by 40% of any increase in total household income. In this example that means that an additional \$200 million paid to tenants as rent subsidies (or any other subsidy for that matter) would increase the total amount paid in rents by \$80 million. Hence the tenants would only receive 60% of the advantage of any rent subsidy increase meaning of course that the dollar value of any subsidy has to be higher to close the gap between private tenants and state tenants. This "leakage" of benefits to private landlords is exactly what happened soon after the Accommodation Supplement was introduced in 1993 and is a strong reason to favour state and not-for-profit provision rental housing for low-income households.

<sup>50</sup> Such an argument of course ignores mainly negative effect that market-based housing policy has had and will have on the welfare of low-income households. It presumes that the poorer welfare position of those in private rental housing, after they have received the same level of subsidy as state tenants, is their fault for relying on private sector housing in the first place.

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<sup>51</sup> Estimates of this indirect subsidy can be a little contentious. The estimate of \$65 per week provided in Table 14 is based on estimates of economic value added contained in HNZC's 2000/01 Annual Report. This estimate includes allowances for capital charges and for the financial costs of asset revaluations. The impact of asset revaluations have been omitted from the estimate in Table 14 mainly because these write-downs are the result of previous governments' market rent policies and the higher asset values that were attributed to HNZC as a for-profit business. Allowing such write-downs as a cost on present tenants is the same as laying the costs for the market rent policies at their feet.

<sup>52</sup> The first impact of higher rental subsidies will be an increase in rents. This, in turn makes housing more expensive for all tenants in the market, subsidised or unsubsidised. It also increases the sale price of houses making it more difficult for households at the margin of homeownership to move out of the rent trap and into mortgaged homeownership.

<sup>53</sup> This estimate is based on Statistics New Zealand's household formation forecasts and on an assumption that the state's share of the total housing stock will remain the same as it was in 2001. The 2002 Budget announced the present Government's plans to buy or have built 500 additional state houses each year for the next three years. By comparison the first Labour Government built 32,238 state houses between 1937 and 1950 (see Ferguson (1994) p.177). In other words, the First Labour Government built state houses at four and half times the rate of the present Government at the end of the Great Depression, during the Second World War and at a time when the economy was about one quarter of the size it is today.

<sup>54</sup> Table 1 p.17 of Housing New Zealand's "*Briefing to the Incoming Minister of Housing – August 2002*" shows that if the current trend continues, social housing (including third sector and local authority housing) will decline from 6% of the total housing stock, or 23% of the rental housing stock, in 2001 to 5.5% of the total housing stock or 17% of the rental housing stock by 2011.

<sup>55</sup> See the New Zealand Council of Christian Social Services quarterly "*Summary Report*" on their Poverty Indicator Project. This project measures and reports demand for food parcels at food banks and records the circumstances of people applying for this food assistance, including housing costs. The data series reported so far shows that demand tends to fluctuate but has declined slightly since the reintroduction of income-related rents for state tenants. Nearly half the people seeking assistance have housing costs which are more than 50% of their net incomes while the majority of applicants have children, are renting and rely on a welfare benefit for their main income.

<sup>56</sup> See for example the paper by Krishnan (2001) "*The Cost of Housing and Housing Support*" - Social Policy Journal of New Zealand (16) which uses official income measures to identify the decline in incomes after housing costs resulting from the introduction of the Accommodation Supplement.

<sup>57</sup> Stephen Waldegrave's (2002) paper "*Allocating Housing Assistance Equitably: A Comparison of In-kind versus Cash Subsidies in New Zealand*" Social Policy Journal of New Zealand (18) attempts to use the relative positions of public sector and private sector tenants in 1991 to argue that the preferential treatment of state tenants did not offend principles of horizontal equity. His argument is largely based on the claim the state tenants had a higher level of housing need and so deserved more generous assistance. He accepts that public sector tenants generally enjoyed higher incomes than private sector tenants receiving the Accommodation Benefit and that state tenants were less likely to be welfare beneficiaries than those renting privately and receiving an Accommodation Benefit. However he rejects such income differences as being irrelevant on the basis that "*it is by no means clear that a higher income translates into a diminished need for housing assistance*". While this may be true, the fact remains that a large part of the housing problem is the inability of households to afford a house which adequately meets their physical and social needs. On this basis a household with more money generally has less need for housing assistance especially when this assistance is a cash or in-kind subsidy.

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Waldegrave claimed that families had a greater housing need and hence deserved greater housing assistance. While this is often true it does not explain why families with the same number of children and on the same level of income were and are treated differently according to who their landlord is. Furthermore Waldegrave ignores the fact that while access rules for state house allocations were and are based on several non-financial need criteria, these criteria of course did not apply to existing state tenants or to successful applicants once they gained the favour of the state as state tenants. Given the higher level of subsidy and assistance provided to state tenants and the absence of any further unmet housing need, state tenants were and are treated more generously than private sector tenants.

<sup>58</sup> Accommodation Supplement data has been sourced directly from the Department of Work & Income.

<sup>59</sup> These figures and those for income-related rents are estimates based on information from HNZC's Annual Report 2000/01. The overall totals are as reported in this report. Detailed data from HNZC has been difficult to gain. This regional breakdown is based on earlier Annual Reports from the company which provided more detail of the geographical distribution of its housing stock. In apportioning the income-related rents by region some account has been taken of the regional housing costs to determine the proportion of HNZC tenants receiving an income-related rent.

<sup>60</sup> In effect this figure is not a measure of the numbers of households but of the groupings used by the Department of Work and Income to assess benefit entitlements. The extent to which this number of "entitlement units" actually represents effective demand for a house in the housing market is not known from the data available. This number is of interest mainly because it is a good estimate of those who may be expected to form a separate household given the economic opportunity to do so.

<sup>61</sup> Of those living on benefits at least 63%, or 743,000, people were living in benefit-dependent households with two or more people. Of these 743,000 people, 483,000 (141,800 households) were not living on New Zealand Superannuation. These households would most likely make up the bulk of the 180,000 beneficiary households receiving an Accommodation Supplement for rent or mortgage payments in December 2001.

Of the nearly 61,000 state rental units available by December 2001 around 90% were occupied by households receiving an income-related rent. While qualification for income-related rents does not require a household to be dependent on a welfare benefit, the entitlement and abatement formulae ensure that people need to be receiving or earning an income close to benefit levels in order to qualify. However with the incentive structure implicit in the income-related rent entitlement rules, it seems likely that the vast majority of income-related rent tenants are beneficiaries. It appears likely that around 65% of income-related rent tenure households officially involve more than one person and are reliant on a welfare benefit for their income. This represents perhaps 36,000 households which are of course included in the estimate above of 141,800 households involving two or more people and relying on a welfare benefit as their main source of income.

<sup>62</sup> This estimate is at odds with a curious claim in Housing New Zealand's *"Briefing to the Incoming Minister of Housing – August 2002"* p.18 that less than 9% of recipients of the Accommodation Supplement are households with children. Such a claim is wildly inconsistent with data which show that 35% or around 310,000 children lived in rental housing in March 2001 and with data that show that around half the tenant households in New Zealand rely on the Accommodation Supplement.

<sup>63</sup> Two classic examples of this effect arise around accounting for the position of state tenants and the elderly. The apparent improvement in affordability levels brought about by the re-introduction of income-related rents for state tenants glosses over the fact that for those privately renting nothing has changed. The relatively low incomes of most elderly people and their relatively low housing costs mask a number of complications. The low housing costs are normally the result high levels of homeownership without mortgages. This circumstance is not characteristic of younger households. Secondly, if the value of imputed rents were added into estimates of household income many of the apparently low-income elderly houses would move into higher income groups.



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