CHILD POVERTY ACTION GROUP INC.

Child Poverty Action Group

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To: Commerce Select Committee Inquiry into housing affordability

We thank you for the opportunity to submit our views to the committee. Child Poverty Action Group formed in 1994 because of profound concern that poverty among families is endemic in Aotearoa-New Zealand and becoming increasingly intractable.

The aims of our organisation are:

- The development and promotion of better policies for children and young people.
- Sharing information and connecting with other groups with similar concerns.

The Child Poverty Action Group comprises a group of academics and workers in the field dedicated to achieving better policies for children. We represent a wide network, and our backgrounders and monographs are widely read and distributed. Our reports *Our Children: The priority for policy* 2001, and 2003 can be found with other background material at our web site www.cpag.org.nz.

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We would like to be heard in support of this submission

[1] Housing affordability in New Zealand is the lowest it has been since the 1980s. The social consequences of a lack of affordability are exacerbated by a rental culture that has historically favoured the interests of property owners over tenants. Consequences of a lack of affordability include transience among families with school-age children, and the fragmentation of communities as short-term tenants with no stake in the neighbourhood come and go. CPAG believes the "ownership society" must be about more than superannuation savings; it must also include the ability of low- and middle-income New Zealanders to put down roots in stable, cohesive neighbourhoods. They are increasingly less able to do this.

[2] Housing is critical to the wellbeing of children. It affects their schooling, their social development, and, most crucially, their health. For many low-income families, especially families on benefits, housing affordability is not about not buying a median-priced house in an average suburb, it is about not even being able to rent in a low-decile suburb. Hence in New Zealand children are being brought up in garages, seedy boarding houses, caravan parks and/or living in unsafe, overcrowded conditions. The effects can be clearly seen at Starship children's hospital, where children's admission rates for readily preventable diseases – diseases that ought not be present in a developed country – remains a national disgrace.

[3] The lack of housing affordability is costing the public purse dearly. In 2006 the Accommodation Supplement cost $810 million, and subsidies to Housing New Zealand cost a further $790 million, to make a total of $1.6 billion dollars. The only real beneficiaries have been the 60,000 households paying income-related rents to Housing New Zealand. Arguably, the Accommodation Supplement is part of the problem, subsidising property investors by insuring the ability of tenants to pay rent. Tax write-offs on investment properties also add to the public burden. Although no figures as to what these write-offs cost appear to be available, the McLeod Tax Review calculated a ballpark figure of $1.6 bn, or about 1.6% of GDP, back in 2001.[1]

[4] There is no one simple reason housing prices appear to have tracked so far ahead of people's ability to pay them. However, it is clear there is a lack of social and political will to deal meaningfully with the issue. Some reasons are listed below.

[5] *Supply constraints around land and capacity within the building industry*: The construction industry has a poor record as regards training workers. In addition, training

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[1] McLeod Tax Review, p. 96.

courses that were once readily available at technical institutes are now difficult to access and expensive. These factors have combined to make skilled workers in the industry highly sought after and relatively well-paid. However, they are still underpaid relative to their counterparts in Australia, and New Zealand has lost many skilled tradesmen overseas. Those that remain command high wages, and this is reflected in building costs.

[6] The highest rate of population growth in New Zealand is in Auckland, putting pressure on available land. The metropolitan urban limit (MUL) set out in the Regional Growth Strategy (RGS) is designed to limit Auckland's sprawl. The RGS has designated suburbs in key public transport nodes (for example Avondale and Otahuhu) as high-growth areas. Development will include construction of higher-density housing, and brownfields development. Prima facie, the MUL is limiting development, however there are opportunities to develop within the metropolitan limits. CPAG generally supports mixed developments in existing areas as lower-cost housing can be integrated into them, and they offer the opportunity for people to live in areas close to family and whanau. For low-income families, informal childcare through whanau and family is used more widely than formal daycare. Mixed developments that enable families to remain close to each other enable whanau to provide valuable support for families with children. We note in passing that the areas designated for intense development are low-income areas with relatively poor access to formal childcare facilities.[2]

[7] *Lack of competition within the building industry*: In common with many industries in New Zealand, the building supplies industry is oligopolistic, so price competition is rare. This means that the normal assumptions of a properly functioning free market do not apply. Timber, concrete and aggregates have few suppliers, and the lack of price competition in the industry contributes to high housing costs. Rising global commodity prices also contribute to high materials costs.

[8] *Ready availability of housing finance*: The global funds market is highly liquid, and New Zealand's high domestic interest rates are attractive to investors seeking to maximise their returns. Readily available finance has helped fuel house price rises as, to date, capital gains and favourable tax treatment have enabled those in a position to borrow (generally people who already own houses) to speculate in anticipation of capital gains. Although the Reserve Bank has raised interest rates in an effort to curb inflation, this has had little effect to date on New Zealanders' willingness to borrow. It does appear at this stage that there is an argument on favour of *lowering* interest rates to deter the inflow of overseas capital, and lower the exchange rate.

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[2] Data from Ministry of Education and Statistics New Zealand.

[9] *Economic dominance of the baby boomer generation*: Baby boomers have enjoyed more favourable economic conditions over the course of their lifetimes than their children and grandchildren, and are in a powerful economic position. This generation is investing for its retirement, and New Zealand's traditional bias towards housing has influenced their investment preferences.

[10] *Tax policy*: CPAG believes the key driver for rising house prices is speculation fueled in part by easy access to finance, but more importantly, by the favourable tax treatment enjoyed by housing investments. When investors can write off expenses and depreciation against rent income, and capital gains are largely untaxed there is little incentive to invest in other, more productive, parts of the economy. Indeed, the bias towards housing investment has had a detrimental impact on the New Zealand stock exchange, which has seen reductions in both the number of listed companies and number of transactions since 2004.[3] The value of new equity raised through the stock exchange accounts for less than 1.5% of GDP, compared with new borrowings to purchase houses, which averaged 10% of GDP for the three years to March 2006. New Zealand does not have a savings problem – it has a housing speculation problem.

[11] For its part, the government's contribution to social housing through Housing New Zealand was a modest $148 million in 2006.[4] Clearly, housing is not a high priority.

[12] The 2001 McLeod Tax Review noted that in 2000 the OECD had identified housing as tax-favoured, and that this had resulted in over-investment in this sector. The Reivew noted that this resulted in artificially inflated house prices, making it harder for poorer people to buy homes.[5] The continued neglect of this favourable tax status has contributed to New Zealand going from relatively high rates of home ownership to home ownership rates now below those of Australia, the UK and Canada.

[13] The McLeod review saw the lack of a capital gains tax and a tax on imputed benefits from housing as the problem. They recommended however that New Zealand not introduce such a complex tax but rather tax equity in housing using the Risk Free Rate Method. (RFRM).[6] Public reaction was "overwhelmingly negative",[7] and the idea was quickly dropped. CPAG believes it should be revisited, with the qualification that tax either not apply to family homes, or apply to owner occupied homes with an exemption of a set limit, say $1 million per person.

[14] As it stands, housing investors do not pay tax on imputed benefits, rather they get to write off interest expenses and depreciation against rent income. And, as noted

[3] New Zealand Stock Exchange data, wwww.nzx.com.
[4] Government of New Zealand Financial Statements 2005/06.
[5] McLeod Tax Review, p. 98.
[6] McLeod Tax Review, p. 32.
[7] McLeod Tax Review, p.98.

above, they pay no capital gains tax. New Zealand is one of the few OECD countries with no capital gains tax, and the OECD has recommended one be introduced. CPAG believes this is a less efficient means of dealing with the problem, and recommends that the RFRM of taxing housing investments be implemented instead.

[15] The building industry's complaint about the lack of land is a red herring. Making more land available in which to sprawl will not stop house prices rising while the drivers for their doing so remain in place. Moreover, we now know that urban sprawl is economically inefficient and environmentally unsustainable. It is incumbent on this generation to plan better urban development within the existing MUL for the sake of our children's future wellbeing.

[16] The ability of baby boomers to borrow to invest in housing almost tax-free is having a severe impact on the health and education of too many New Zealand children. Low levels of housing affordability have resulted in low-income families living in substandard or overcrowded housing in an effort to cut costs. Overcrowding increases children's chances of getting sick or injured, and substandard housing increases their chances of developing debilitating lung and skin infections. Transience arising from constantly shifting to find more suitable rental accommodation disrupts children's education and reduces their stake in the community.

[17] Because they are more likely to live in low-income households, children bear a disproportionate burden of the problems associated with low levels of home ownership, and communities increasingly stratified by socio-economic status.[8] It also disproportionately impacts on Maori, Pasifika and immigrant families, who are already over represented in childhood sickness and injury statistics. In short, New Zealand's lack of housing affordability does not affect all sectors of the community equally.

[18] Nor does it affect all age groups equally. Many baby boomers whose families were unable to afford their own homes had decent housing provided by the state. Indeed, half New Zealand's state housing stock was built in the period 1938-1952. Today, providing affordable housing to families with children is a matter of inter-generational equity, and this generation is no less deserving than its grandparents. New Zealand's housing affordability is not an immutable law of nature, it simply mirrors the economic clout of a specific generation of property investors. Similarly, sick children are a societal choice, and presently our children's health and safety statistics reflect poorly on us. CPAG urges the committee to look again at the tax regime that is driving our

[8] One teacher describes how children at her decile 1 Auckland school talk about living in "a ghetto", and, even before leaving primary school, have mostly given up hope of ever leaving their neighbourhoods. This does not bode well for our future social cohesion.

speculative property boom, and redirect the benefits of reforming it to provide housing for our most vulnerable families.