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# SUBMISSION ON THE NEW ZEALAND HOUSING STRATEGY BY CHILD POVERTY ACTION GROUP

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## Background to Child Poverty Action Group:

Child Poverty Action Group is a non-profit group formed in 1994, which is made up of academics, 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 currently live in poverty. CPAG believes this situation is unnecessary, and 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.

CPAG believes that the lack of affordable and decent housing for New Zealand's poorest children contributes significantly to their and their families' relative poverty. Our group has an ongoing interest in housing issues and housing policy. In 2003 CPAG published a housing monograph "*Room for Improvement*" which looks at past and present housing policy and their impact on children. This research we believe has pointed to the need for the Government to undertake higher levels of investment in social housing as a critical move against child poverty in Aotearoa New Zealand.

CPAG welcomes the opportunity to make submissions to the New Zealand Housing Strategy discussion document and the associated opportunity for housing issues and policies to be debated in a broader public forum.

## Insufficient commitment to housing

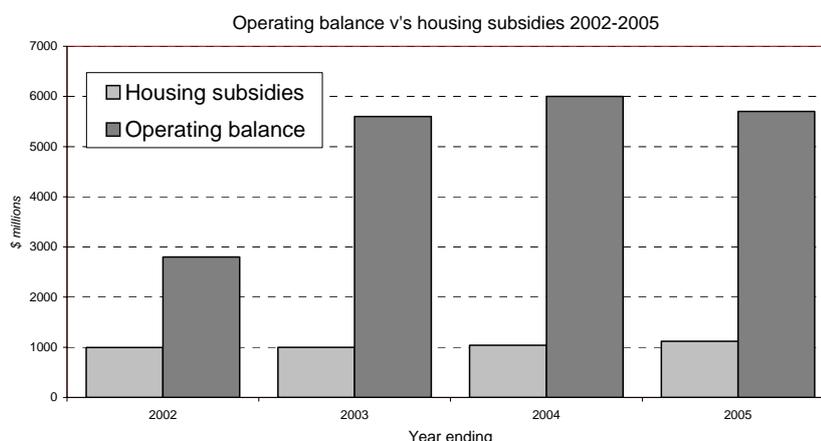
The Child Poverty Action Group does not believe that the Government has sufficiently recognised the importance of the role which housing plays in social wellbeing, particularly in the wellbeing and future prospects of children. The impact which poor housing has on children's health and educational achievement is moderately well documented<sup>1</sup> and is fairly self evident. Yet despite these links and the apparent concern of this Government to address child poverty and to close the gaps between poor New Zealanders and everyone else, there has been very little real financial commitment to addressing housing need.

CPAG is somewhat sceptical that the New Zealand Housing Strategy, as presently constructed will address this fundamental lack of investment on the part of Government. We believe that if the Strategy is to be plausible, it should move beyond being a series of good ideas and include some tangible targets and an indication of the financial commitment needed and offered to achieve these targets.

It is acknowledged that the Government has made some progress in improving the housing position of some of the poorest New Zealanders. The reintroduction of income related rents for Housing New Zealand tenants provided welcome relief to around 50,000 low income households - although it left a further 100,000 households living in similar financial circumstances no better off. The Government's modest state house building/acquisition programme over the past 4 years has not shortened state house waiting lists. In our view it is most likely that the planned programme of around 800 houses per year over the next four years will barely cater for the growth in demand from households with a serious or urgent need.

The continuing policy reliance on landlord subsidies in the form of the Accommodation Supplement and tax relief not only shows a lack of imagination but is estimated to drain in excess of \$1 billion per year<sup>2</sup> from public funds. This money could be used more creatively and more productively in funding public rental housing, third sector housing programmes and in supporting low-income families into home ownership.

CPAG is familiar with arguments that Government is constrained fiscally and not able to allocate additional funds into housing. CPAG believes that these constraints are to a degree self-imposed, and that the present policy settings show a bias against some low income groups and in particular against children in poor families. The Government's preoccupation with funding the New Zealand Superannuation Fund for example emphasises the security of retirement incomes for middle class baby boomers while ignoring the living conditions and future prospects of tens of thousands of children. This preoccupation in our view lacks vision and disregards the fact that the real wealth of our nation lies in the health and happiness of our children and not in billions of dollars invested overseas.



<sup>1</sup> See for example *Study of Student Transience in South Auckland Primary Schools* – CPAG (2003) and *Reducing Inequalities in Health* – Ministry of Health (2003)

<sup>2</sup> This estimate is based subsidies through the Accommodation Supplement and income related rents for state tenants. The figures in the graph above are taken from the Budgets between 2002 and 2004.

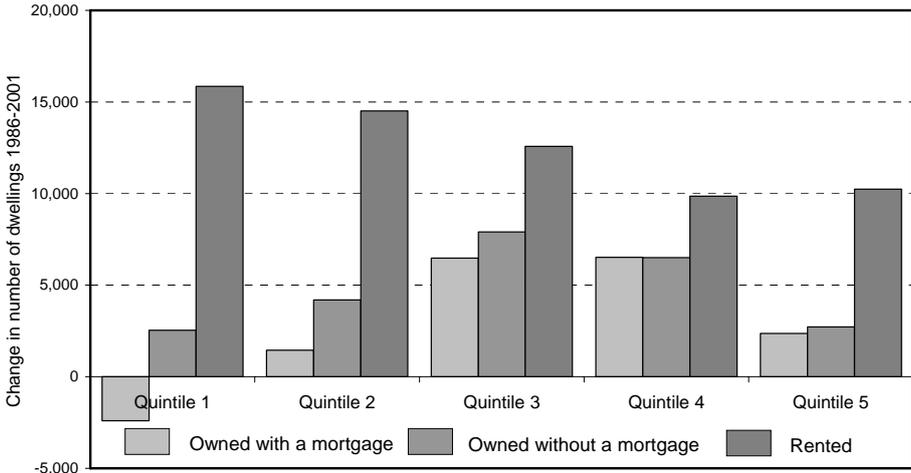
The problem of declining homeownership:

The Strategy discussion document acknowledges the recent trend of declining homeownership and suggests a number of reasons for this. These reasons include changing labour market dynamics, debt due to student loans and house prices rising faster than household incomes. In particular CPAG agrees with the discussion document's suggestion that this declining level of home ownership may be related to competition between low-income would-be home buyers and property investors on one hand and to the removal of home ownership assistance programmes for modest income households on the other.

CPAG however believes that this analysis has failed to adequately acknowledge the underlying impact of a widening income and wealth gap between the rich and poor in Aotearoa New Zealand<sup>34</sup>. This widening gap is a consequence of specific policies such as the benefit cuts of 1991, the erosion of the value of family support payments and the liberalisation of labour markets and the subsequent stagnation in the value of wages for unskilled people. CPAG believes that any argument for policy changes should give some cognisance to historic redistributions rather than simply accepting the consequences of these redistributions as inevitable and inviolate. If a longer-term perspective is taken a compelling need emerges to address equity issues such as those around continuing and compounding inequalities.

The widening income and wealth gap is readily seen in what is happening in housing markets today. For example house prices can only rise faster than the incomes of the households which would live in them if something else is happening within the economy. Furthermore someone can only become a tenant if someone else becomes a landlord. There is some evidence that as the wealthiest 20% of New Zealand households benefited from the liberalisation policy of the late 1980's and early 1990's they began to buy up the homes of the poorest New Zealanders as investments. These investments were often financed through loans backed by the investors' own homes, which began to rise in value in the early 1990's. The wealth effects of these house value increases encouraged many middle class households to leverage their new found equity to buy a "renter" in a poorer suburb. These investments were often negatively geared which was not problematic because any losses could be partially offset by tax credits and in any case the real profit is expected to be in the capital gains from the "renter" – not from the rental income itself.

Tenure change in Auckland Region by wealth of communities 1986-2001



<sup>3</sup> The Social Report 2003 – Ministry of Social Development pp 64-73

<sup>4</sup> The graph above is based on CAU based census data. Communities here are defined by CAU's where the wealth of a community is based on its median household income. Quintile 1 is the poorest quintile

This investment activity from middle class households pushed up house prices in working class neighbourhoods and hence pushed home ownership out of the reach of lower-income households. This shift increased subsequent increased demand for rental accommodation and this demand increase combined with the introduction of the Accommodation Supplement, fuelled rapid increases in rents around between 1993 and 1995. The housing position of the poorest 30% of households became one of dependence on the whim of their landlord and on sharply abating benefits.

The real irony associated with the decline in the proportion of households owning their own home is the concurrent rapid increase in housing related debt especially during the mid 1990's<sup>5</sup>. Although fewer households have been able to own or buy their homes, the average per household debt has risen continuously suggesting that those households with mortgages are going deeper into debt to finance either more expensive houses or their residential property investments. Many commentators including the Governor of the Reserve Bank see this as a potentially destabilising element in the housing market and our economy in general. This threat may however be a source of change as well.

The changes seen in housing markets over the past 13 years, CPAG believes, have occurred at least in part as a consequence of policies of the present and past governments. In other words the recent decline in homeownership levels, especially amongst poorer and younger households, is a result of indifferent or ill considered policies reinforcing each other.

The decline in levels of homeownership will, we believe only be reversed through a sustained and integrated policy approach which shifts subsidies from middle class investor/landlords to low-income families. This means that there should be gradual phasing out of the Accommodation Supplement at the same time that there is increasing and ongoing funding for subsidised home loans for low-income families with children.

The Government's present token approach to supporting low-income home-ownership, through mortgage guarantees through Kiwibank, point to what an abysmal failure that such indirect and unfunded policies actually are. The Strategy discussion document claims that the "Kiwibank in Reach" home loans drew over 9,000 inquiries from hopeful would-be homeowners with 1,300 applications, 279 approvals and a mere 129 settlements.<sup>6</sup> Clearly the Government's present low-income homeownership policy is not credible simply because it does not bridge the reality gap between housing costs and family incomes.



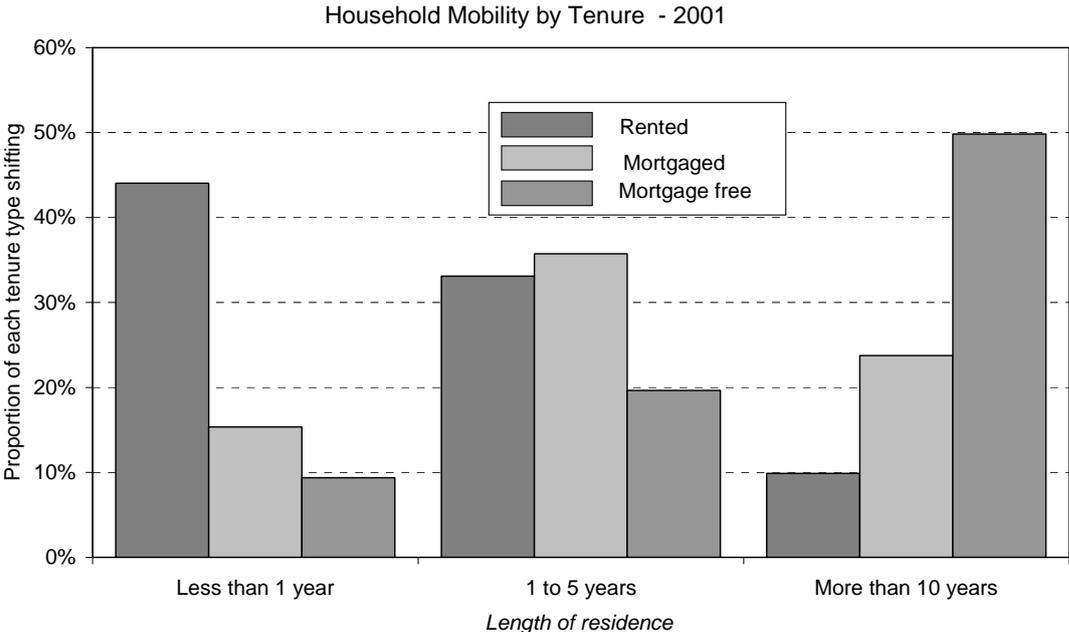
<sup>5</sup> The figures in the graph above are taken from the Reserve Bank and Statistic NZ estimates

<sup>6</sup> The figure of 129 is taken from a media statement by the Hon Steve Maharey on 29<sup>th</sup> February 2004.

While the Strategy discussion paper spends a little time discussing the merits of home-ownership as a social policy, these merits CPAG believes are undersold while the risks and downsides are exaggerated. For instance the discussion document cites an estimate of poverty amongst low-income owner-occupier households in the United Kingdom as an example of the pitfalls and folly of a broad based homeownership strategy.

CPAG believes that rising levels of home-ownership in low-income households will have three significant social policy outcomes which should provide over-riding benefits which offer sufficient justification by themselves for a well-funded and generously subsidised low-income home loan programme. These outcomes are:

- Increased stability in the living arrangements of children, leading to a greater ability to provide necessary health interventions (vaccinations, child health checks, healthy homes retrofits etc) and educational continuity and certainty.
- Stable neighbourhoods and communities as people settle down, social networks are developed and social capital is enhanced.
- Wealth in old age and hence less risk of poverty and fewer demands for State support after retirement from the labour market.



Date for graph taken from 2001 Census

## The housing affordability problem:

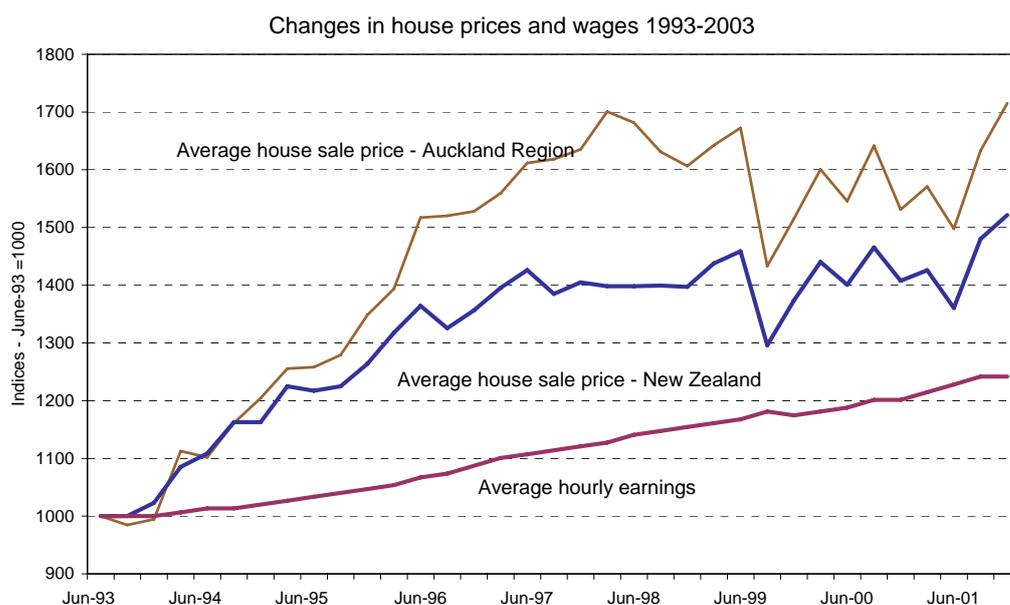
Related to the problem of declining levels of homeownership is that of declining housing affordability. There has been an emerging affordability problem in many of New Zealand's housing markets since the early 1990's<sup>7</sup>. This problem has been particularly noticeable in Auckland and retirement hotspots such as Nelson and the Eastern Bay of Plenty. There are however recent signs of rising house prices in most parts of New Zealand most likely as a consequence of the sustained economic growth of the past five years and the spillover of demand from the market hotspots.

The housing affordability problem superficially at least appears to be the result of house prices rising faster than household incomes. It is difficult to understand why this has happened and how it can be sustained, although there appear to be two likely contributing explanations – immigration and attitudes.

The housing affordability problem is directly related to the rate of population and economic growth in the affected regions. House price rises have historically always been higher in Auckland than anywhere else in New Zealand and this gap has widening over the past decade. Household incomes in Auckland are however not significantly different from elsewhere in New Zealand, which suggests that house price increases there are related more to external drivers than to internal drivers.

The most obvious of these external drivers is immigration. The Auckland region becomes home for around two thirds of new migrants which means that New Zealand's immigration policies have a direct and almost immediate impact on the housing costs of a large minority of Aucklanders who are renting and/or looking to buy a home. This impact is spread through all of Auckland's housing sub-markets as not all migrants are wealthy. The impact of migrants' demand for housing in Auckland is as clearly visible on the streets of Takapuna and St Heliers as it is on the streets of Mt Roskill and South Auckland.

Child Poverty Action Group is not suggesting that the Government should drastically curtail immigration but it is suggesting that immigration policy should not be driven solely by perceived economic advantage. Much of the boom in the Auckland regional economy is consumption led and is fuelled by immigration. This boom has obvious financial benefits to businesses involved in the housing and consumer durables markets and it is easy governments to be deafened by their demands for a continuation of the present policy regime.



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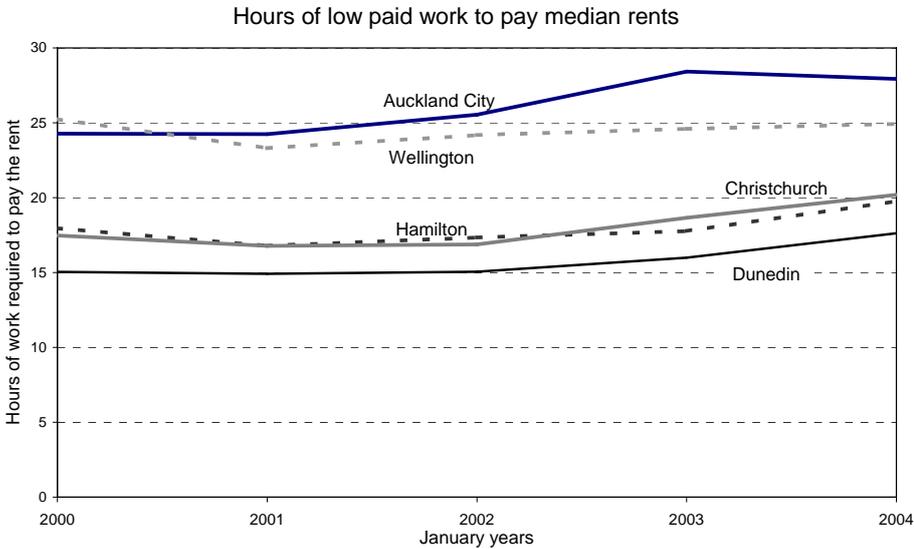
<sup>7</sup> Data sources for the above graph – Quotable Valuable and Statistics NZ

The downside of high levels of immigration is however being felt by poorer families (including migrants) in terms of increasingly unaffordable housing costs. While Auckland's city councils and Central Government alike are rushing to spend billions of dollars on Auckland's roads to alleviate the costs of traffic congestion and urban growth, very little attention has been paid to the deteriorating housing position of Auckland's poorest quarter of households. If present levels of immigration are to continue and if Auckland's urban growth is to be sustained, there needs to be a long-term and well-funded public strategy to provide affordable housing in the Auckland region.

The irony here is that the deteriorating housing position of Auckland's poorest households is not immediately apparent from an analysis of the obvious housing indicators. For example state house waiting lists have risen only gradually over the past two years despite the fact that the Government has added only around 600 units to the state house stock over this time. Furthermore demand for the Accommodation Supplement has not risen at the rate of population growth suggesting that a lower proportion of households now require state assistance with their housing costs. CPAG suggests that any conclusion from this that the housing position of poor Aucklanders is improving is cursory and uninformed.

Trends in state house waiting lists and Accommodation Supplement uptake tend to belie those in other housing related statistics. For example comparisons between weekly rents and hourly wages paid to low-skilled workers suggest that rents have become less affordable over the past three years in Auckland despite rising wages. The sustained high levels of house and apartment building in Auckland Region most likely are not meeting demand at the poorer end of the market in part because new house prices are generally around \$300,000 or more. Furthermore most apartments are not being built for poorer households (ie. those with children) or being built where these households are likely to live.

The limited availability of state houses and their tight eligibility criteria have made it increasingly unlikely that families and households in paid employment will ever gain a state tenancy. The bulk of poor households in New Zealand are employed and earning an income in the labour market. This group of people/households have also historically been reluctant to take up financial assistance through the Accommodation Supplement – a problem which successive Governments have shown little interest in resolving. If Government is to target assistance to the working poor as it has promised in its most recent budget, the low take-up of the Accommodation Supplement has to become an important policy issue. CPAG submits that improving the take-up of a landlord subsidy such as the Accommodation Supplement is not the best means of developing an equitable and effective housing policy.



Data sources for above graph - Massey University Real Estate Analysis Unit and Statistics NZ- QES

## What is to be done?

Child Poverty Action Group believes that the child poverty in New Zealand could be substantially reduced through a purposeful, well directed and adequately funded social housing programme. People surviving on low incomes tell us that their housing costs and the associated insecurity of tenure are the major contributors to their hardship. If Government is genuine in its promise to address child poverty then a well resourced and closely considered social housing programme is a major platform for doing so.

CPAG believes that a decent and adequate social housing programme should involve the following:

**Commitment not talk.** The New Zealand Housing Strategy discussion paper makes numerous suggestions for further study, analysis and consultation. It has taken this Government four years to get to a position of talking about talking about doing something about housing for poor New Zealanders. Over this time the Government has come upon over \$15 billion in financial surpluses and has more or less failed to deliver any tangible progress outside of the reintroduction of income related rents and the acquisition of 3,000 state houses. There is clearly scope to do more and low-income New Zealand families deserve more.

CPAG acknowledges that more work needs to be done on developing sound and integrated policies but believes that the fundamental issue is one of financial commitment. Without an appropriate budget the best policies are pointless.

To this end CPAG submits that Government should make a \$1 billion allocation to social housing initiatives each year for the next 10 years. \$1 billion is a modest start<sup>8</sup>, it is only likely to provide affordable housing for around 5,000 families each year - but it is a tangible and realistic start which over the course of a decade will substantially improve the quality of life and wellbeing of New Zealand's poorest children.

**The need for integrated policies.** By many standards the housing policies of the 1990's can be judged as an abysmal failure – home ownership levels fell, housing related debt rose, housing became less affordable and for poorer people such as Pacific families housing became more crowded and less healthy. There are lessons to be learned from this heedless experiment and a key one is the inter-relatedness of things – the links between labour market policies, welfare policies and housing policies and the impact of these on health and educational outcomes in particular.

There is a need to consider all the various branches of a social housing programme in totality and to consider this totality within the social and economic context of New Zealand. For example ill-timed housing policy can be inflationary while policies around access can potentially create inequalities and disincentives. CPAG welcomes the suggestion that further work should be done on developing housing policies but believes that this policy development should be integrated and inspired by an overarching principle.

**The goal of homeownership.** CPAG submits that the overarching principal or goal of a New Zealand Housing Strategy should be that of supporting all New Zealanders' ability to own their own homes. There is an irony that those who caution against a broad based home ownership strategy almost always own their homes. CPAG acknowledges that home ownership is not the most desirable tenure for all New Zealanders but suggests that all New Zealanders, tenants and owners alike, will benefit from a broader owner-occupier base than the one we have at present and the one we look like having into the future. A sustained emphasis on homeownership allows pressure to be taken off

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<sup>8</sup> It should be emphasised that this \$1 billion is the total annual investment required. As such, it does not represent the costs to government of servicing that investment, which would be not only a fraction of the investment capital but will also be offset by substantial cumulative reduction in Accommodation Supplement spending and income from rents, albeit income related ones.

rental housing markets and eventually for the budgetary focus to shift from landlord subsidies to more democratic levels of wealth distribution.

Elements of a social housing strategy should include the following:

**An Auckland housing strategy** should be developed that provides in some detail how and where low-income Aucklanders will be housed into the future. Recent efforts at this by Auckland councils lack any credibility because they were quite non-specific as to who was to make the necessary investments and where. CPAG believes that an Auckland housing strategy is a matter of urgency; it should be completed within 12 months and funded from the 2005/06 financial year.

**A rural Maori housing strategy** should also be developed over the next 12 months detailing expected budgets, delivery and assistance models and addressing land, skills and industry capacity issues. The ongoing national disgrace which is rural Maori housing requires such urgency in the name social and historical justice.

**Subsidised home lending programmes for low-income families** should be offered within the 2005/06 financial year. These could be offered through Kiwibank or through a mortgage agency within Housing New Zealand. Capital funding should come from Government surpluses and these should be invested in a *New Zealand Housing Mortgage Fund* which may eventually be built to a value where it could be a sustainable fund offering lower cost mortgage assistance to low-income New Zealand families.

**More state housing** should be built to at least keep pace with levels of urgent or extreme demand. There is clearly a need for more state houses in Auckland and this should be factored into the Auckland housing strategy.

**Home loans for state tenants.** As a means of improving the turnover and availability of state houses, state tenants should be offered subsidised home loans to purchase other houses with state assistance. Eventually state housing may come to be seen as a pathway to home ownership for low-income families.

**Income related rents for third sector housing providers.** Housing New Zealand's present attention on third sector housing providers such as housing associations and trusts is a distraction. While third sector providers have capacity and organisational problems, their main problem is a finance one. This can be overcome by allowing third sector housing providers long-term access to the income related rents subsidies given to Housing New Zealand Ltd by the Government. Such a move provides a certainty of income which makes third sector housing groups bankable; it also ensures that poorer tenants benefit from their activities and that Housing New Zealand faces some competition in the provision of social housing.

**Home advisory services** should be offered either by Housing New Zealand or community agencies to ensure that tenants and would-be home buyers are not exploited by unscrupulous landlords, developers or agents. A shift in policy emphasis toward homeownership will lead to a variety of market responses and it is important to avoid the prospect that low-income families purchase poorly maintained or over priced houses.

Child Poverty Action Group welcomes the potential which the proposed New Zealand Housing Strategy offers for carving out a new future for housing in New Zealand. We see the strategy as the ideal opportunity for the Government to make a real difference to the lives and life opportunities of poorer New Zealand children in much the same way as its predecessor did during the 1930s and 1940s. We look forward to the opportunity to contribute to further policy development and to seeing progress.