

---

## Beacon's perspective on affordable housing

### *Factors which affect the affordability of housing*

- 1) The affordability of housing (both rental and owner occupier) is a complex issue. The Commission needs to look beyond supply and demand determinants and consider the quality and performance of existing and new homes, which adversely affects affordability both for the home owner and for the nation as a whole. Over 1 million<sup>1</sup> of New Zealand's 1.7 million homes are poorly insulated and inadequately heated – they are cold and unhealthy. Over 47% of New Zealand's homes have visible evidence of mould. These homes place an unnecessary cost on the occupants of these homes (high heating / resource costs, medical costs and resulting absenteeism from work and schooling) and an unnecessary burden on our health budget with high levels of asthma and respiratory diseases.
- 2) The key factors which influence the affordability of housing in New Zealand are not the cost of a home, but the prevailing income structure and state of the housing market – i.e. heated or not.
- 3) Land prices and lack of land do push prices up but it is clear that considerable land banking is going on in order to keep prices artificially high.
- 4) Another issue is that the greatest profits appear to be being made at the higher end of the market so the developments being built on land released for housing tend to be targeted there, rather than at the more affordable end of the market.
- 5) Part of the problem is that, as a nation, we are over-consuming in terms of housing – i.e. building houses which are too big. Housing statistics show an increasing trend in the size of houses<sup>2</sup> and, despite the shrinking size of our households, most homes built have 3-4 bedrooms.
- 6) This increase in housing size also makes the cost of operating a home less affordable. Larger houses are more expensive to operate and to maintain, as well as adding large additional energy and infrastructure costs to the nation (e.g. water supply services stretched to multiple bathrooms).
- 7) Houses are often unaffordable because of the way people are spending their money – we are value capital gains rather than the use of our homes and therefore don't maintain them.

---

<sup>1</sup>Estimates based on the Census, BRANZ House Condition Survey and Environment Canterbury's Clean Heat Scheme indicate: 60% of houses (900,000) have ceiling insulation of inadequate thickness when compared to the 1978 building code; 700,000 houses have no, or little, wall insulation; 740,000 houses with suspended floors have no underfloor insulation

<sup>2</sup> A recent Commsec report showed NZ homes are the second largest in the world [www.stuff.co.nz/business/world/5485598/Australian-homes-still-the-worlds-biggest](http://www.stuff.co.nz/business/world/5485598/Australian-homes-still-the-worlds-biggest)

- 8) Building cheap houses a long way from services (e.g. on the periphery of Auckland) has a high cost to the individual and the nation in terms of both health and transport costs.
- 9) Overall in New Zealand, there is not a supply issue with houses – we have an oversupply of dwellings when compared to the number of households, but we do have a mismatch between where houses are located and where people can access them. A significant proportion of this oversupply is in the second/third house market, for example, baches being built in places where people have “part time” homes – e.g. Queenstown, Coromandel.

### **Key solutions**

1. Ensure that the Energy Efficiency and Conservation Agency’s Warm Up New Zealand: Heat Smart campaign is continued until all of New Zealand’s cold, damp houses are adequately insulated and heated. Improved performance of these homes will make their operation more affordable and improve productivity of the householders.
2. Ensure that cost of operation and maintenance (including transport) is factored in when considering the concept of affordability – not just up-front capital costs. These costs fall back on the nation and the individual, and solutions need to address affordability across the whole of life.
3. Find ways to release the land banks being held by developers.
4. Keep houses smaller with better design – so they cost less to build, and less to operate.

---

## **Response to specific questions**

### **Question 1**

#### ***How should the Commission think about the concept of housing affordability – its meaning and measurement?***

The Commission has viewed housing affordability in simplistic terms of supply and demand. It overlooks the complexity of our built environment, and fails to consider the issues of housing quality and current poor state of existing housing stock. This poor housing stock places an undue burden on occupants (high resource consumption, high running costs, poor health outcomes, with subsequent impact upon productivity of the occupants), home owners, cities (cost of suburban sprawl in terms of new infrastructure and maintenance of existing infrastructure) and the nation (health and productivity costs).

## **Question 2**

***Does this stylised framework (Figure 1) capture all the important determinants of housing affordability? Are there others that are important?***

This framework does not address the need to move beyond supply and demand to encompass housing quality and the impact of poor housing quality on New Zealand's productivity, health and quality of life.

## **Defining affordability**

### **Question 10**

***How should affordability for home buyers/owners be defined and measured, both in principle and in practice (taking account of data availability)? Is it possible to assess affordability using a single measure?***

It is not possible to assess affordability using a single measure. Affordability needs to recognise both up-front purchase cost AND ongoing operating costs – including both the direct costs of running a house (energy, water supply, rates, transport to work/school) and the indirect costs (e.g. impacts of poor housing on health, education, days off work, productivity). The EECA Net Benefit Model provides a good example of where the indirect and direct costs of insulation are determined. A similar model should be developed around affordable housing.

Beacon's *National Value Case for Sustainable Housing* quantifies some of the value to New Zealand of sustainable, high performance housing<sup>3</sup>. Conversely, the opportunity cost of not upgrading our housing stock is an unnecessary burden which has a negative impact on New Zealand's productivity.

## **Affordability and the rental market**

### **Question 14**

***How should affordability for renters be defined and measured, both in principle and in practice (taking account of data availability)? Is it possible to assess rental affordability using a single measure?***

It is important to recognise that rental housing is amongst the poorest quality houses in New Zealand, creating substantial burdens on both the tenant (direct resource costs, direct health costs) and the nation (health, productivity, justice costs).

---

<sup>3</sup> Visit: [www.beaconpathway.co.nz/further-research/article/the-national-value-case-for-sustainable-housing](http://www.beaconpathway.co.nz/further-research/article/the-national-value-case-for-sustainable-housing)

A single measure is not suitable to assess rental affordability. A cold, damp, inefficient house with no transport links might be cheap to rent, but the additional electricity and transport costs can easily exceed the rental costs. In the colder parts of the country, it is common for rental households to move out after enduring a winter in a poorly performing house. Fuel poverty (inability to meet the costs of heating) has been estimated by Professor Bob Lloyd of Otago University (based on 2008 electricity costs) to affect 14% of households in Auckland – and up to 47% of households in Dunedin.

Tenants need assistance at time of rental to understand quality and performance. The Department of Building and Housing and EECA have worked with industry to develop the Homestar™ rating tool, a useful measure to assess housing performance. A Homestar™ assessment should be mandatory at the time of rental. We require cars to have a warrant of fitness because we know that poorly performing cars cost more to run. However, home performance is not strictly regulated, despite the significant costs involved and despite the fact that people spend, on average, 75%-90% of time in their home. Equally, a taxi driver requires registration and a special licence to carry passengers, yet there are no minimum performance requirements on rental houses.

## Housing markets and valuing housing quality

### **Question 22**

***What are the characteristics of investors in housing? How much of the recent activity in housing is coming from small, first-time investors? Has offshore investment been a feature in the New Zealand housing market? What market segments have seen the most investment activity?***

A key problem with investors in rental property is that many do not value housing performance and quality. They are interested in only extracting the maximum possible rental income at minimum cost while accessing capital gains. It is notable how low the uptake of Warm Up New Zealand insulation subsidies for rental housing has been. The vast majority of rental houses are owned by ‘Mum and Dad’ renters, rather than professional landlords. Generally (but not always), professional landlords are more likely to invest in the maintenance of their property (and have been proactive in taking up Warm Up New Zealand: Heat Smart grants) than ‘Mum and Dad’ investors.

### **Question 26**

***What practices of real estate agents impact on housing prices and affordability? Has the effect been significant? Has the recently introduced Real Estate Act 2008 and stronger regulation of agents made a difference to the influence of real estate agents?***

The lack of interest in housing quality is reinforced by the approach taken by the real estate industry. Housing performance and quality seems to have little impact on the marketing of properties – where it is “location, location, location” and perhaps a recently done up kitchen and bathroom.

A declaration of housing performance / quality should be mandatory at time of build, purchase and rental. The Homestar™ tool would be a useful method for this purpose.

### **Question 27**

***Is there scope to improve the practices of the real estate sector? If so, how? What would be the effects on housing prices and affordability?***

Real estate agents need to develop better skills and understanding of the performance and operation of houses. If the quality and performance was transparent (e.g. through a Homestar™ report, then the market would respond and better quality, higher performing housing stock would be valued. Consumers would understand the issues and costs, and purchase accordingly.

## **Urban planning, design and land use policies**

### **Question 31**

***In New Zealand, do home owners prefer living in dense urban settlements or less dense suburban developments? What are the reasons for this preference?***

There are a range of different types of households and lifestyles in New Zealand. Traditional Pakeha Kiwi families often prefer to live in less dense suburban developments; however, New Zealand has a wide range of different ethnicities and communities who prefer a range of different types of settlements. Dense urban settlements, in particular, suit younger people (e.g. couples without children, students) and also can also suit older households where children have left home. Recent studies looking at the make-up of households in dense urban areas in cities such as Auckland, Wellington and Christchurch have shown that a range of demographics prefer this type of living.

It is also important to recognise that, while some households prefer a less dense suburban lifestyle, they may not prefer this at the cost of a two hour commute to and from work each day.

In addition, many New Zealand households move frequently, and this can often relate to life stage. For a first home, many households are happy to have a smaller dwelling such as a terrace house or apartment.

The key is to provide a range of options for people so that they are able to find the housing typology which suits them.

## Population and demographic change

### Question 68

***Does the apparent mismatch between the increasing average size of dwellings being added to New Zealand's housing stock and the projected shift to smaller households raise any market or policy issues?***

Yes. This is a very significant issue.

Beacon has developed three demonstration high performance homes:

1. One in a mid price range (the Waitakere NOW Home<sup>4</sup>)
1. Two at the affordable end of the market
  - a) one in conjunction with Housing New Zealand (the Rotorua NOW Home<sup>5</sup>)
  - b) one in conjunction with the third sector affordable housing provider, New Zealand Housing Foundation (the NZHF HomeSmart Home<sup>6</sup>).

All of these homes, which performed considerably better than standard new homes and delivered better outcomes for their occupants, are substantially smaller than many new builds today – being 146-150m<sup>2</sup> in size compared with the 2008 average house size of 205m<sup>2</sup>. It is worth noting that in 1990 the average house size was 136m<sup>2</sup>, so this trend for super-sized houses is relatively recent.

It's also important to recognise that size doesn't mean quality. The large homes being built in the market today, as well as being substantially bigger than needed for the future's smaller households, don't meet the needs of today's households either. At the current average price of \$1500/m<sup>2</sup>,<sup>7</sup> reducing a house in size by 10m<sup>2</sup> would fund the cost of substantial thermal envelope (insulation and glazing) improvements and an efficient hot water system – saving the occupants tens of thousands of dollars in heating and hot water costs over the life of the home.

---

<sup>4</sup> Visit [www.beaconpathway.co.nz/new-homes/article/what-is-the-waitakere-now-home-project](http://www.beaconpathway.co.nz/new-homes/article/what-is-the-waitakere-now-home-project)

<sup>5</sup> Visit [www.beaconpathway.co.nz/new-homes/article/what-is-the-rotorua-now-home-project](http://www.beaconpathway.co.nz/new-homes/article/what-is-the-rotorua-now-home-project)

<sup>6</sup> Visit [www.beaconpathway.co.nz/new-homes/article/nz-housing-foundations-homesmart-home](http://www.beaconpathway.co.nz/new-homes/article/nz-housing-foundations-homesmart-home)

<sup>7</sup> Department of Building and Housing. Average house builds

In Auckland it is still common practice to build new houses without double glazing, and the industry norm is to view the Building Code minimum standards as good practice.

This move to larger house sizes seems, in part, to be because many developers prefer to build at the mid–upper end of the market, with larger houses delivering a bigger margin. Many new subdivisions have minimum house size covenants, and there seems to be a lack of focus (apart from in Housing New Zealand and third sector housing organisation developments) on providing smaller, lower cost (in both a capital and operating sense) houses for the lower-mid level of the market. It is the view of Beacon that direct policy actions are required to address this issue.