

3 August 2011

Auckland District Council of Social Services

Submission to New Zealand Productivity Commission Issues Paper - *Housing Affordability* June 2011

1.0 Introduction

The Auckland District Council of Social Services(ADCOSS) welcomes the *Issues Paper - Housing Affordability* (the "Paper") developed by New Zealand Productivity Commission (the "Commission"). ADCOSS is a networking, educational, co-ordinating and advocating body for about 100 Auckland Isthmus-based social and community service providers. We frequently make submissions on Bills and on discussion documents originating from central and local government bodies. ADCOSS welcomes the opportunity for further debate on this critical national and regional issue. Housing affordability in Auckland is considered an urgent priority issue by ADCOSS."

In particular, ADCOSS welcomes the recognition by the Paper that housing is a critical component in economic, environmental and social outcomes. ADCOSS recommends that the Commission's draft report include consideration of possible cultural differences in definitions of "affordability," and of housing needs and preferences, particularly for Maori, Pacific, migrant and refugee populations.

ADCOSS agrees that housing affordability is determined by multiple, complex, interrelated and cyclical factors and that there are no "silver bullet" interventions or single solutions.

The focus of this submission is on areas of which our members and member agencies have most day-to-day knowledge.

1.1 Summary of recommendations

ADCOSS recommends that priorities are:

1. Developing a suite of New Zealand appropriate and relevant, measurable indicators for housing affordability, including ability to "age in place" or remain independently in one's home, specific affordability issues for disabled people and their families, such as finding accessible housing and/or making adaptations, possible cultural differences in definitions of "affordability," and of housing needs and preferences; particularly for Maori, Pacific, migrant and refugee populations.
2. A New Zealand-specific definition of "overcrowding" with better quantitative data on the scale of the problem and more qualitative research on the reasons, including differing cultural perceptions.
3. Research on the extent to which the Accommodation Supplement has affected rent levels and the wider housing market; and options for more efficient and effective use of the funding to assist home ownership and secure affordable renting.

2.0 Introduction

The Issues Paper is comprehensive, covering the multiple determinants of affordability and poses 87 specific questions. This submission does not attempt to respond to all the questions.

At this stage, ADCOSS' submission focuses on the following:

- Factors influencing housing affordability
- Providing an Auckland perspective
- Identifying gaps in current knowledge and recommending areas for more research
- Identifying effective and innovative mechanisms to address housing affordability

3.0 The Commissions' Approach – Q1-3

ADCOSS welcomes the recognition by the Paper that housing is a critical component in economic, environmental and social outcomes.

The importance of appropriate, healthy and secure housing for a good quality of life is clearly recognised.

Housing is also important for economic and environmental outcomes. A shortfall of well-located, quality, secure affordable housing can affect labour supply and create shortages of essential workers. The location of housing also affects management of the environment, increasing pressure on the carrying capacity of ecosystems because of urban development. ADCOSS strongly supports initiatives to improve the sustainability and economic efficiency of housing design and build.

Housing also affects cultural well-being, with "the home" the core of family life, and a cultural anchor for extended families. ADCOSS recommends that the Commission's draft report include consideration of possible cultural differences in definitions of "affordability," and of housing needs and preferences; in particular for Maori, Pacific, migrant and refugee populations.

ADCOSS also welcomes the Paper's recognition that housing affordability is determined by multiple, complex, interrelated and cyclical factors and that there is no single solution. Improvements in affordability will need to involve, central and local government, the community and private sectors

4.0 The cost of poor quality housing

There is quantifiable evidence on the actual cost to a household of reducing housing costs by living in substandard housing and/or in overcrowded conditions. Manukau has the highest rates of household crowding in the country and the strong link between poor quality and/or crowded housing and poor health outcomes is now well established.

5.0 Recent trends in housing markets – Q8-13

The key trends (relevant to these set of questions) set out below have emerged from a wide range of research reports in Auckland's housing markets.

5.1 Changing demographics and household formation

Within the Auckland region, there is a mismatch between available housing stock and current and projected housing preferences and needs. Although average household size has decreased, average house size has increased. Currently over two-thirds of Auckland's housing stock is three bedrooms or more, although nearly half of all households now consist of only one or two people. Households are projected to continue changing over the next 20 years, with an increasing proportion of couples without children, and a decreasing proportion of two parent families with children, more elderly and the associated disability. Greater housing choice will be needed to respond to these changing demographics.

For example, with an increasing aging population will come an increase in the numbers of people with disabilities. Currently, disabled people and their families and carers have very little housing choice. There is little purpose-built, accessible accommodation and retrofitting is difficult and expensive. A legislative requirement to incorporate universal design standards (such as standard 4121) into all new housing would provide a flexible supply of housing to allow independent living, "aging in place" and better choices for families with a permanently or temporarily disabled member.

Despite the overall trend to smaller households, Auckland has an increasing number of households that are living in overcrowded conditions. In 2006, the incidence of crowding was highest in New Zealand in the former Manukau TLA (10.7%), Porirua (6.7%) and Auckland City (5.6%). 51% of Pacific and 35% Maori households in Manukau were overcrowded. The proportion of children living in crowded households was also highest in Manukau: in 2006, 35% of children under 15 years and 33 percent of 15-24 year olds lived in crowded households.

As discussed above overcrowding can be seen as a form of "hidden homelessness" and the way that low incomes families make housing "affordable." There are also cultural factors, for example, preference for intergenerational living or ethnic-specific housing for older people that require more investigation. Whatever the main drivers of overcrowding, there is a clear need to provide different types and sizes of housing that are high quality, well located, affordable and accessible to meet the needs of Auckland's diverse and aging population, including large, extended and multi-generational families.

5.2 Rising house prices and declining home ownership

Over the last 20 years, house prices in Auckland have increased at a greater rate than household incomes. Many OECD countries have experienced similar patterns. A number of explanations have been put forward to explain this rapid increase in house price; reducing supply and increasing land price, high net migration and easy credit conditions.

Recent figures show that Aucklanders, on average, spend a higher proportion of their income on housing than any other region in New Zealand.

5.3 Intermediate housing market

Research has provided evidence of a new market segment - the growing number of households with at least one household member in paid employment that cannot afford to purchase a dwelling in the lower quartile of the Auckland housing market. These households are called the "the intermediate housing market."

The growth of the intermediate housing market has been dramatic in Auckland. In 2006 it was estimated that 64% of Auckland's rental households were intermediate renters facing little prospect of becoming homeowners without some significant assistance. The absolute size of the intermediate housing market increased from 39,700 to 77,110 households between 2001 and 2009.

Household disposable incomes would need to rise by 80% or house prices fall by 40% to return to the point in the late 1980's/early 1990's when households in the intermediate housing market were able to achieve home ownership. As this is highly unlikely to happen in the foreseeable future, more innovative approaches to addressing this issue need to be explored. These should include law changes, including requiring a just cause need to be explored. These should include law changes, including requiring a just cause for eviction for all tenants, in order to provide much greater security of tenure for rented and leased accommodation.

5.4 Increasing housing need

Indicators of increasing housing need in Auckland include:

- During the period 2009 to 2026, the percentage of households in housing need in the Auckland region is forecast to increase from almost 22% of all households to just over 24% of all households.
- In June 2009 50% of all private renter households were under financial stress.

6.0 Housing preferences and choices – Q31, 36

People make trade-offs in housing choices with the most important factors being: Family needs and commitments; Social networks; Access to employment; Affordability; Quality Recreational opportunities and Transport.

For example, research indicates that families and older people generally prefer to stay in or return to established neighbourhoods where family connections are a priority. They might trade-off size and amenity of a house for affordability / home ownership or to be in a particular school zone. Some older people might trade size for a low maintained / "lock up and leave" dwelling; others will prefer to stay in a larger house to accommodate family visits or retain a garden. Current research reinforces the principle of ensuring flexibility and a wide range of choice in housing supply and more research is needed on current trends in housing preferences and trade-offs.

7.0 Performance of the building and construction industry – Q54-56

Housing construction costs have been identified at approximately 50% of the cost of a house¹ and up to 70% depending on the nature of the development. However, research has indicated that there is no significant relationship between construction costs and the level of housing supply and that demand will be met by higher prices. Sustainability and longevity of construction are often not factored into the “true affordability” of dwellings.

Construction costs have risen significantly over the past 15 years. New Zealand construction costs are identified to be about 50% higher than Australia for a similar building, with Auckland being the most expensive in the country. A major contributing factor was the previous housing boom and skills shortages in the construction industry. The narrowing down to having only two companies providing construction materials as well as small players not being able to “buy in bulk” as well as lack of organisation amongst contractors has been identified (by some developers) as driving up costs to a major and excessive extent.

An additional issue identified by the industry is the lack of qualified trades’ people coming through the system. Construction occupations are listed on the long-term skill shortage list. In March 2011, the Department of Housing and Building reported the lowest number of people employed in construction since June 2005. Labour costs- another contributing factor -have been stagnant recently, but are expected to increase because of the demand for housing in Christchurch after the recent earthquakes.

Reducing construction costs requires a multi-faceted response including innovative ways of producing building materials like pre-assembled housing, simplifying building construction methods, acting to eliminate anti-competitive practices in the supply of materials, together with increasing the skilled labour supply through training/apprenticeships schemes. In addition, more research needs to be initiated on key drivers of construction costs.

8.0 The role of taxation and macroeconomic influences – Q69, Q73

As the Issues Paper points out, taxation systems and macroeconomic influences are important influences on housing affordability. These are areas where, apart from advocacy, Council has no impact. However, a number of recent reports advocate for structural reform of the tax system because the current system gives favorable treatment to investment in housing and in other property over other forms of investment; for example, the recent OECD economic survey of New Zealand (2011) identified the tax system as exaggerating the surge in house prices.

9.0 Question 83 Relative costs of renting over owning

Research indicates that a declining majority of New Zealanders continue to prefer home ownership to the rental market. This is because not only home ownership is seen as the main investment vehicle and guarantee of a retirement “nest egg” but also because the rental market and residential tenancy laws currently do not provide the security and amenity households need unless appropriate law changes are made.

Whilst there is some evidence that younger people are delaying homeownership for lifestyle reasons, renting is not the option of first choice for the majority of people. For

increasing numbers of Aucklanders-especially young people- home ownership is becoming unobtainable. This is an area requiring more qualitative research, but in current market conditions, without interventions that we would recommend such as introducing inclusionary zoning or financial products like shared equity schemes, increasing numbers of Aucklanders will be facing a life time of renting. Long-term renting could become a preferred choice, if New Zealand had large-scale rental investors that provided high quality, life-long tenure. Legislation and other mechanisms to provide more secure and longer forms of rental accommodation should be actively explored, in particular amending the Residential Tenancies Act to require a just cause for eviction before any tenant can be required to leave against their will.

ADCROSS also recommends that there is research into the extent to which the Accommodation Supplement affects levels of rent and the wider housing market. Government spending on the Accommodation Supplement is approximately \$1.2b per year². This is, in effect a subsidy to private landlords, and ADCROSS would welcome work on identifying more efficient and effective ways this money would better assist home ownership and secure renting. In particular, the Accommodation Supplement should be restricted to premises that have secured a Warrant of Fitness and where the landlord undertakes not to evict tenants without a specific just cause for eviction.



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