

SUBMISSION OF THE SALVATION ARMY TO THE PRODUCTIVITY COMMISSION'S INQUIRY INTO HOUSING AFFORDABILITY

Overview:

The Salvation Army believes that New Zealand is facing a housing crisis which is unprecedented in the past 50 years. This crisis has a number of causes but the biggest problem currently is that its extent and its social importance have not been recognized by either local or central government. This crisis is not just one of affordability as it includes legacy problems and supply issues which are likely to further exacerbate affordability problems over the next decade or two.

In our view this crisis being manifest in at least five ways as follows:

Christchurch earthquakes. The destruction of the Christchurch earthquakes eventually may cost the New Zealand public as much as \$20 billion and may see as many as 10,000 houses destroyed. The recovery and reconstruction of Christchurch will impact on the economy and in particular the construction labour market and building material supply market for at least five years which of course will crowd out opportunity for investment in housing elsewhere in New Zealand.

Auckland's housing shortage: Each year for the past three years Auckland's population has grown by between 20,000 and 23,000 people with just more than half this growth being through natural increase and the remainder of course being the balance of inward migration from overseas and outward migration mainly to Australia. Over this same period (2007-11) the annual average number of new builds in Auckland has been less than 4,000. In effect during this period Auckland has accommodated almost half of New Zealand's population growth but seen less than one quarter of the new house builds. The Salvation Army estimates that Auckland is short at least 12,000 houses over the past three years and our community ministries are beginning to see the effects of this shortage in terms of families seeking help with their housing and them literally having no where to go.

Leaky buildings: There could be as many as 110,000 leaky buildings in New Zealand and consensus put this estimate at around 42,000. (Price Waterhouse Coopers 2009 report to DBH) One estimate of the total cost of the repairs of leaky buildings is around \$11 billion (2009 \$s) but this is based on an assumption of a ten year liability period. For Auckland Council alone this liability could exceed \$1 billion over the next decade. There are a number of other legacy problems around the leaky buildings fiasco which have not really been contemplated yet, such as reality of the ten liability limitation, the failure of private governance arrangements where repair costs begin to exceed the value of the properties and the living conditions in un-repaired dwellings.

Maori housing. There are no reliable estimates of the extent of the rural Maori housing problem although a preliminary report undertaken for Department of Building and Housing suggested that there were as many as 9,600 rural houses in poor condition and in need of repair or replacement. Three quarters of these houses were said to be in Northland. A recent report by the Office of the Auditor General identified the almost complete failure over the past three decades of public policy to address housing needs of rural Maori. Moreover the high housing costs in urban areas, alongside diminished employment opportunities there, may mean that the populations in such areas as Northland, Eastern Bay of Plenty and the East Coast grow and hence place further pressure on the existing and by all account inadequate housing stock,

Housing debt. While New Zealanders' love affair with housing investment has cooled since the onset of the global financial crisis around 2008 we nevertheless have a \$100 billion housing debt legacy which has not only distorted household balance sheets but has distorted New Zealand Inc's balance sheet as well. This legacy is largely a baby boomers problem at the moment but it is unlikely that they will be able to solve it. To date no one has done any serious thinking about what this legacy means for our future economic prospects or about how the burden of this debt will fall over the next one or two decades. It seems unlikely that the housing market, with its somewhat inflated property values, will emerge unscathed by any adjustment so some thought should be given to what a deflating housing market means for housing affordability and availability.

Specific Issues:

In terms of the questions the Commission is asking around housing affordability The Salvation Army would like to raise four specific issues as follows.

Housing availability

As discussed above we are already beginning to see the emergence of a housing shortage in Auckland and perhaps there is a shortage also emerging in Tauranga and Hamilton. Unsurprisingly this is where New Zealand's population growth is occurring. These shortages are linked to migration trends and to date the relief valve for housing pressure has been outward migration to Australia. Relying of such relief into the future is problematic for at least two reasons.

Firstly, the promise of Australia as a land of opportunity may diminish over the next two or three years given problems there around the availability of jobs and houses. There is a fairly direct and almost immediate relationship - especially in Auckland, between migration trends and house prices so it is feasible that any turn around in migration trends will have a quick and noticeable impact on house prices and perhaps on rents. The immediacy of these impacts and the inability to plan for them are concerns which leave both public policy agencies and social service agencies, such as The Salvation Army, vulnerable to excessive demands and to criticism when these demands are not able to be met.

The second problem around relying on emigration to Australia as a relief mechanism for our housing market is that it is not much of a population policy. The outward migration to Australia is of concern for at least two reasons and for these reasons we believe that it should be taken more seriously as a policy issue. The first concern is around the problem of who is migrating and what this migration is doing to the age structure and skills availability in New Zealand. It appears to date that ordinary average Kiwis are leaving for Australia so there is no hint of a brain or skills drain yet, although we are of course still losing the skills and energies of the people departing. If and as labour markets tighten in Australia, it seems more likely that the profile of those leaving for Australia will be those who are skilled leaving behind the less skilled in New Zealand. While ordinary average Kiwis are shifting to Australia they are more often young families with adults in the 25-40 age group and their children. This emigration risks the demographic hollowing out of New Zealand as occurred in Ireland in the 1950's 60's and 70's (and as may be occurring there again). As baby boomers head toward retirement, with their expectations of a relatively generous and universal tax payer funded superannuation, this hollowing out presents significant fiscal challenges to Government regardless of the debt which will be racked up over the next few years to fund current operating deficits.

It is The Salvation Army's view that housing policy plays an important part in any population policy which Government may wish to consider. People migrate when their prospects are better somewhere else and housing opportunities form part of these prospects. The Commission has in its discussion rightly identified the problem of falling homeownership rates as a potential problem for the nature of New Zealand society and we share this concern. If families have no stake in New Zealand and if they see no possibility of owning their home and "putting down roots" so to speak, they are more likely to decide to move elsewhere. We are perhaps seeing this behaviour in Christchurch as result of the earthquakes. A housing policy which encourages and supports higher levels of homeownership will in our view contribute to a stakeholder society which will be more balanced demographically and perhaps socially than the one which we appear to be building at present.

The future of the rental housing market

The availability of housing extends of course to the rental market. The Salvation Army is a little critical of the pre-occupation on home-ownership in the Commission's investigation as we see real challenges emerging in the private rental housing market.

Over the past ten or fifteen years the slack in the housing market has been picked up by small scale "mom and pop" investors putting their money (and most often a lot of someone else's money as well) into rental housing. Over the last ten or fifteen years we have seen home-ownership rates fall and the numbers of additional social rental housing remain insignificant. As a consequence at least

half of the new houses provided have been through the private rental housing market. Ironically this investment was most likely not driven by the desire to house people but the motives of reaping capital gains and avoiding taxes. As the property market has cooled and shows few signs of significant real growth in asset values and as Government has reduced the tax avoidance opportunities associated with rental property investment, the attractiveness of continued investment in this sector has diminished and may have even collapsed. As a result we have no default option for our housing investment and as a country we now either have to accept the need for deliberate and substantial public investment in housing or face the consequences of a growing housing shortage and rising real housing costs including rents. The Salvation Army sees no easy answer to this choice and we believe that it has been a combination of luck and neglect which has carried us this far. Our luck is probably running out and our neglect of any meaningful housing policy over the past two decades will now begin to show.

The nature of housing assistance

This neglect of any meaningful housing policy is well illustrated by the somewhat ad hoc and often ineffective set of housing assistance programmes currently being operated by Government.

The *Welcome Home Loan* programme (which is not actually a loan programme but a loan guarantee scheme) has been by any measure a dismal failure. In most years of its operation by Housing New Zealand it failed to meet its own modest targets, it provided housing assistance into areas such as the central North Island and southern South Island where there was no housing demand, it involved less than 3% of the mortgage and perhaps shifted risk from the private sector to the Crown when it did not need to. As the only tangible homeownership assistance programme for the past ten years it has been a joke both in terms of its ambition and its achievements.

The *Accommodation Supplement* programme will cost taxpayers around \$1.3 billion this year and while Treasury estimates quite modest real growth in this expense its forecasts of such growth have never been that reliable. The Accommodation Supplement is not the only form of income supplementation going to households to assist with housing cost as there is arguable such assistance wrapped up in Working for Families programmes and in Special Benefits administered by Work and Income. There is some fiscal risk associated with the Accommodation Supplement as the Government's flagship housing assistance programme especially if it remains the default option for providing assistance to households seeking accommodation in the private sector. If the housing shortage in Auckland is not addressed, inevitably rents will rise in real terms (rents have largely kept pace with wage growth to date) perhaps causing more widespread claims for the assistance from struggling households and certainly increasing the average payments being made. On any account the Accommodation Supplement, in The Army's view at least, is a fairly blunt instrument to ensure adequacy of housing supply as it relies on the availability of subsidies to be realized in increased effective demand and for this increase in effective demand to be realized in changes in supply.

The subsidies delivered to Housing New Zealand for *income related rents* for state tenants will be nearly \$600 million this year which is more than twice what they were in 2002. These subsidies have risen as Housing New Zealand's costs have risen and have probably been supported by Governments past as a means of expanding the state housing stock without any specific capital injections for this. Once again this is a fairly haphazard way of expanding the stock of affordable housing and has probably added around 6000 publically owned units over the past 10 years. Income related rent subsidies are the only example of supply side housing subsidies being offered in New Zealand at present outside of the very modest grants which have been provided to community housing providers through the so-called *Housing Innovation Fund*.

The availability of *Kiwi Saver* deposits for purchase of a first home is a welcome innovation that may expand the availability of homeownership to more households. There is potential to leverage this programme more both as means of expanding its availability and as a way of ensuring that the benefits it offers are not captured by agents such as mortgage brokers and real estate agents or else capitalized into higher house prices.

Overall The Salvation Army believes that New Zealand's housing assistance programmes and policies need a radical overhaul and we are beginning policy work on this issue. The existing programmes

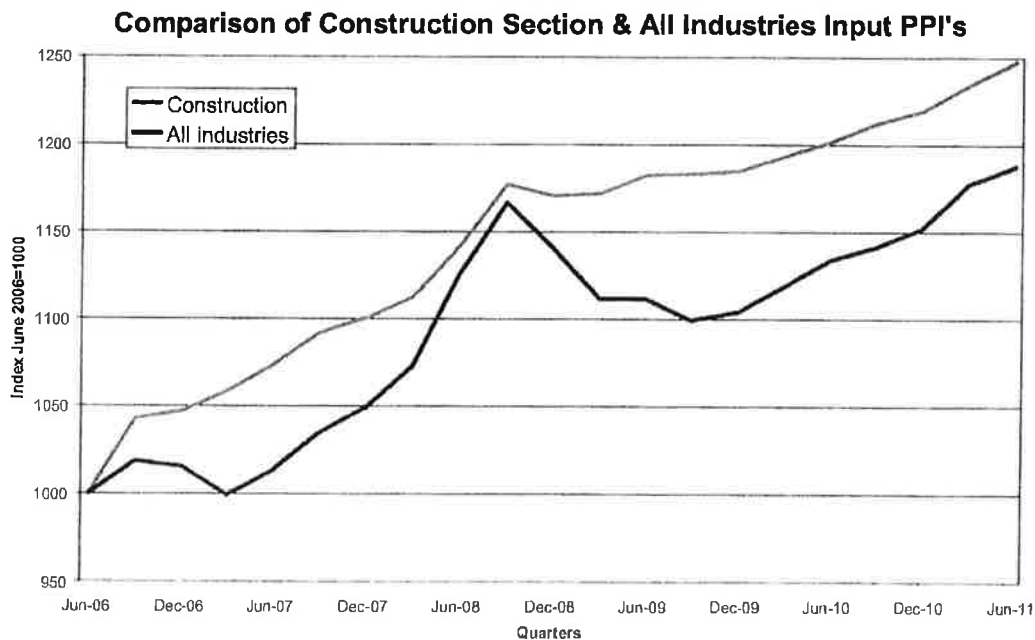
have become more and more expensive and at the same time have not directly addressed issues of adequacy of supply. The existing subsidies have created a dependency both by tenants and landlords which has been locked into the housing market in terms of house prices but which offers little if any hope that future needs will be met. Ideally Government needs to become more deliberate in its housing policy and begin to plan for the provision of affordable housing directly through public agencies such as Housing New Zealand and urban development corporations and indirectly through community housing providers and home-ownership support for modest income households.

Building costs

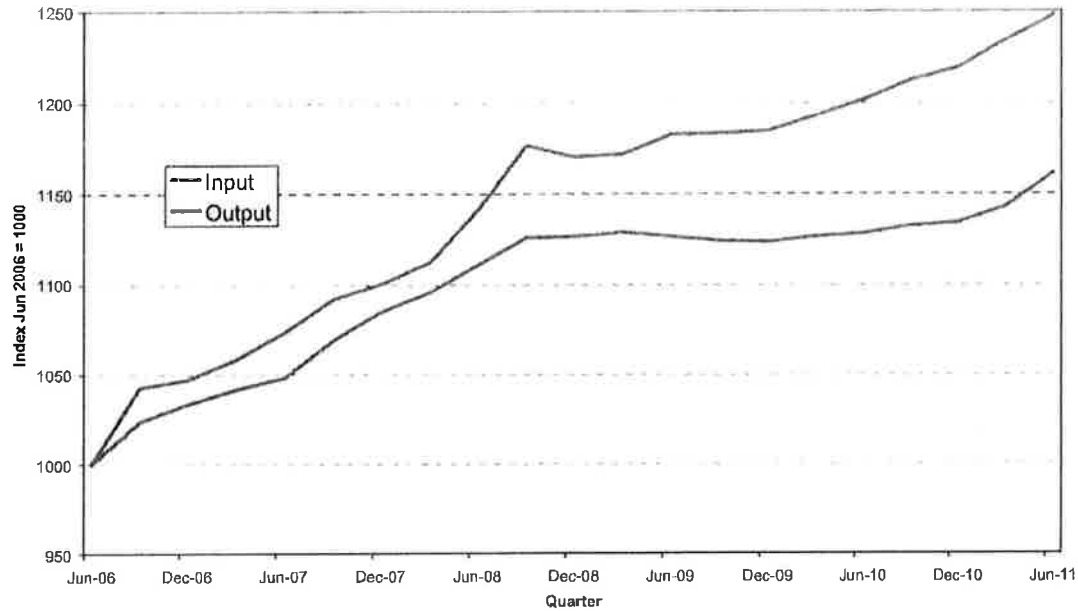
The Commission is right to focus on building costs and in particular on construction and land costs and on the impacts of regulation on these costs. It is apparent to us that the regulators of building consents in local authorities have become very risk adverse in the wake of the leaky buildings fiasco and that they pay little regard to the costs of compliance and delay which they impose on builders and consumers. It may also be the case that land use planning in Auckland has forced up land prices although we believe that the actual story is more complex than the which land owners and developers offer.

What is missing from the Commission's focus on building costs is the cost of building materials and The Salvation Army believes that some attention should also be given to this area. Many elements of the building materials supply industry are controlled by duopolies (eg cement and building steel) and it may be argued that other parts of this sector behave as oligopolies. There has to our knowledge been no comprehensive assessment undertaken of the structure of the building material industry to determine its competitiveness or otherwise.

The attached graphs compare the producer price indices of the construction sector and all industries over the past five years. These show clearly the extent to which inputs into the construction sector have moved ahead of outputs from that sector and of inputs across all industries. The explanation for such differences is likely to be complex and will most likely include the costs of regulation, land and perhaps labour. Without closer analysis however the New Zealand public will never know why it is that construction costs appear to continuously run ahead of incomes and other prices and so contribute significantly to our housing affordability problems



Construction industry PPI's



Summary

In summary The Salvation Army believes that the questions being asked by the Productivity Commission around housing affordability are appropriate although we suggest that the Commission pays more regard to the future of the rental housing market and to building material costs. New Zealand's housing problems are not however solely around questions of affordability in our view. The housing legacy we have inherited, both good and bad, is not solely the outcome of markets and individual's decisions and choices. This legacy is also the result of public policies and programmes which have been both deliberate and neglectful. On the positive side these policies and programmes aspired to create a society where as many New Zealanders as possible owned their own home and where all neighbourhoods were great places to grow up in. We believe that such aspirations are still worthwhile and worth striving for. We ask that the Commission considers how we might re-embrace these aspirations as a national community.

