

# Investing in affordable homes

Up to the 1980s, New Zealand enjoyed a steady supply of affordable housing, but now there is a serious shortage in many centres. A National Science Challenge project seeks new ways to address this issue.

KAY SAVILLE-SMITH, CRESA, TEAM LEADER

**AGGREGATE UNDERSUPPLY** of new dwellings has been cited as contributing to New Zealand's high house prices, falling owner occupation and increasing numbers of households burdened with unaffordable housing.

**Lots of new builds, if you can afford one**

While central and local government are encouraging new builds and the release of land for residential purposes, high numbers of residential new builds are not affordable housing for those with limited resources.

Building consent rates in New Zealand increased considerably between 2001 and 2004. If renting households were to look for a first home, 75% would not be able to meet the housing affordability benchmark. Two-thirds of renters were burdened with unaffordable rents.

**Building less low-cost housing**

The key to the apparent contradiction between increased housing stock and the

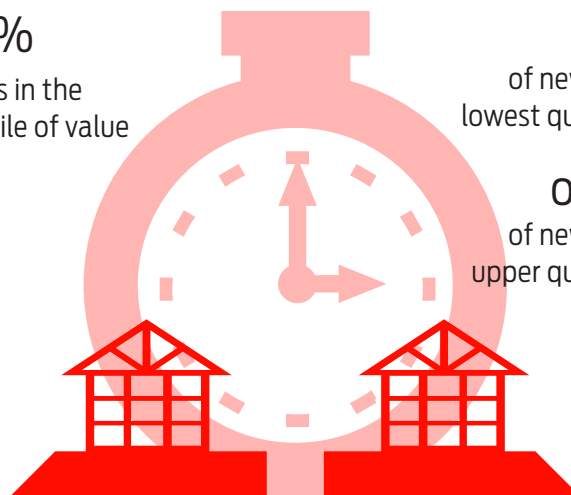
**1960s**

over 35% of new builds in the lowest quartile of value

**2003**

only 8% of new builds in the lowest quartile of value

over 40% of new builds in the upper quartile of value



prevalence of households burdened by unaffordable housing lies in shifts in the investment in and building of lower-cost housing.

In the 1960s, more than 35% of new builds were in the lowest quartile of value. By 2003, only around 8% of new builds were in the lowest quartile of value, with well over 40%

in the upper quartile of value. The downward trend in lower-cost dwelling production has continued.

**Research seeks answers**

Research funded through the National Science Challenge Building Better Homes, Towns and Cities (BBHTC), focuses on two critical and strategic questions:

- What is the demand for and value embedded in a social investment in affordable new builds in the lower quartiles of value?
- How can a building industry that has been engrossed with producing housing in the upper quartiles of value be reoriented to delivering lower-cost housing?

The research highlights the decline in the building industry’s interest in delivering dwellings in the lower quartiles of value, which, until the 1990s, provided for low-income households (see Figure 1). That decline has been accompanied by a fall in owner occupation that analysis reveals as spectacular (Figure 2).

**Shift started in the 1980s**

In the 1980s and 1990s, some argued that New Zealand would benefit from a decline in owner occupation and that renting would:

- release household income otherwise invested in unproductive assets - the home
- reduce household exposure to debt
- facilitate people moving to jobs
- encourage households to spend on other goods and services
- encourage households to invest in stocks, shares and enterprises.

**Rising household debt**

The realities have been somewhat different. The diversion of the building industry away from delivering lower-cost, lower-quartile dwellings has been accompanied by growing ➤

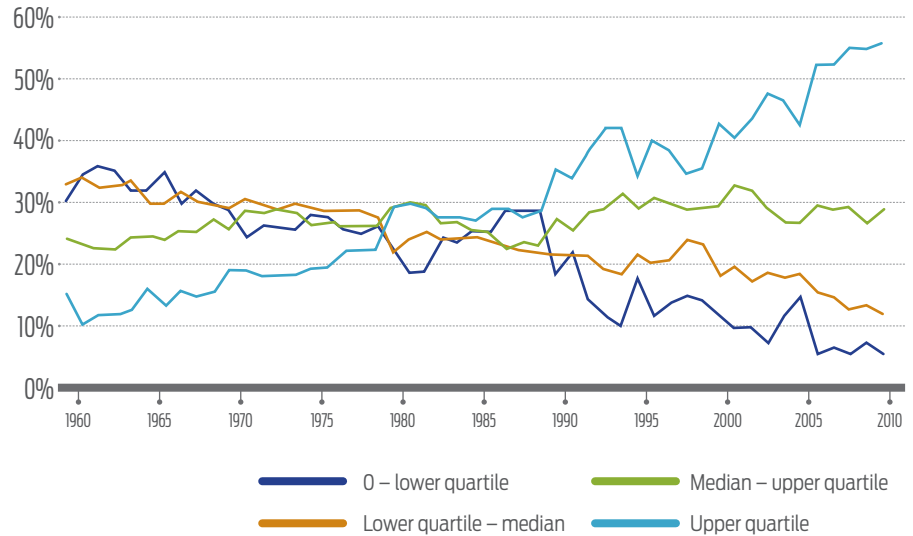


Figure 1: Proportion of new builds in dwelling value quartiles 1960–2010. (Source: Productivity Commission calculation using QV data.)

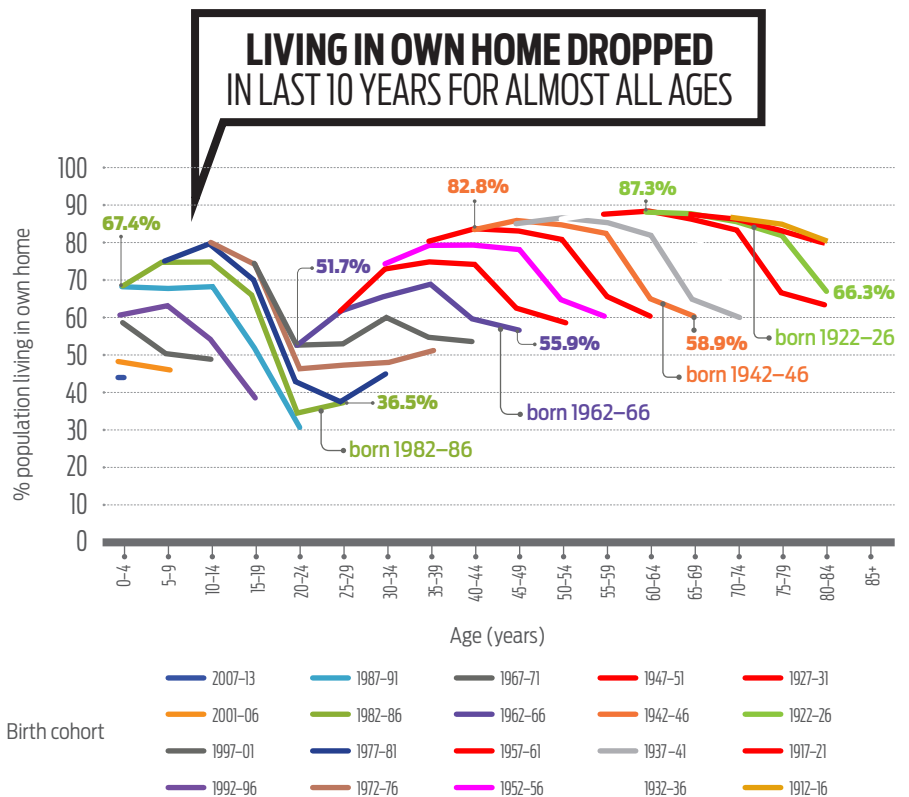


Figure 2: Home ownership in New Zealand by birth cohort for the period 1986–2013. (Source: N. Jackson and B. James, 2016, Home ownership, renting and residence in a home owned by a family trust for the Western Bay of Plenty and total New Zealand, by birth cohort for the period 1986–2013.)

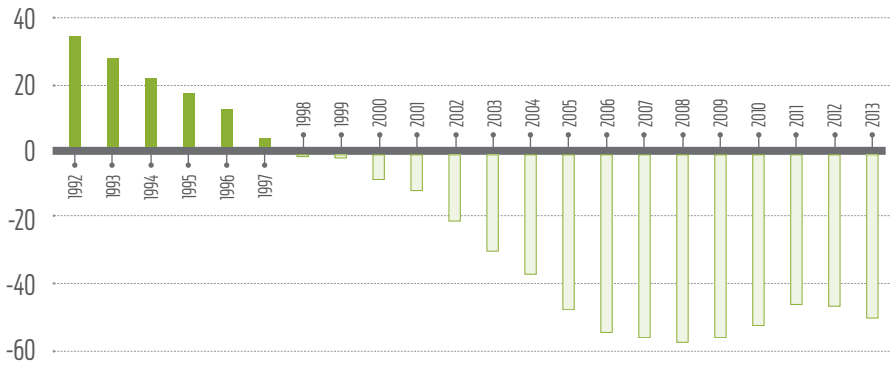


Figure 3: Percentage of household nominal income available after all debt 1992–2013. (Source: Reserve Bank.)

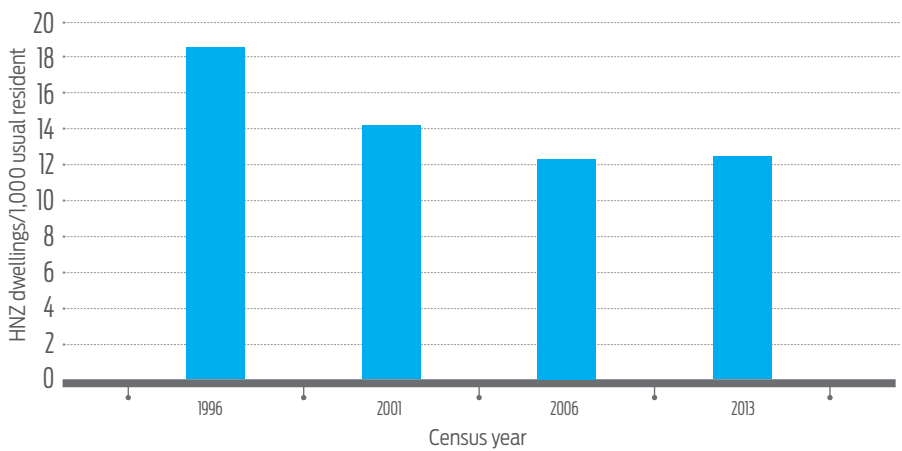


Figure 4: Rate of Housing NZ dwelling supply 1996–2013. (Source: Statistics NZ.)

household debt and reductions in nominal income available after debt (see Figure 3).

**Policy changes pushed builders out**

It is hardly surprising that the building industry took flight from lower-quartile value housing in the 1990s. Before that, government policy settings were directed at incentivising affordable housing. Government invested in new built rental housing for low-income households (see Figure 4). State Advances (and then Housing Corporation of New Zealand) mortgages effectively cemented a partnership between

government and young families to build functional houses for young families to enter home ownership.

A range of smaller, simple, functional on-site and prefabricated dwellings were produced by the building industry specifically for that market. Disestablishment of mortgage and deposit support for both young households and new builds almost undoubtedly squeezed builders out. A decline in government investment in new builds for rental housing also made production in the lower quartiles of value unattractive to the building industry.

**Can't just turn clock back**

New Zealand cannot return to the settings and institutional conditions existing until the 1990s. The mortgage portfolio and financial activities that underpinned State Advances and then Housing Corporation of New Zealand support for low-cost owner occupation and rental provision have been dismantled.

World financial conditions and investment products have also changed. Under those conditions, redirecting the building industry's attention to production for households needing low-cost housing, whether rental or owner occupied, will require a significant, purposeful and cross-sectoral repositioning. This is dependent on evidence that there will be a net benefit in doing so.

**Benefits of low-income home ownership**

Preliminary research by Business and Economic Research Limited suggests that there are considerable fiscal benefits of home ownership among lower-income families. There is potential for skills retention, and capability and financial viability in the building industry could be promoted by investment into lower-quartile value and social housing.

This research tests the practicalities of and pathways to reinvigorating the investment in and production of affordable dwellings. This will restore access to households and families to homes that provide a secure platform for productive, engaged and healthy lives. ◀