

Too many costly homes

While more new houses are going up, they're not necessarily ones that middle and low-income New Zealanders can afford, leaving the housing affordability crisis unresolved.

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NEW ZEALAND IS BUILDING more homes now than it has in the last 45 years. This is critical to make up the housing supply deficit of recent years, but as Ireland and other jurisdictions overseas have found, building more houses is not the same as building houses affordable to middle and low-income households.

58% of new homes in top 25% of prices

It is well established that New Zealand's building industry has been moving upmarket with higher and higher proportions of dwellings built in the top 25% of house values. That rush to building high-value housing rather than low-cost housing has been particularly pronounced since the 1990s.

By 2014, almost 58% of house new builds were in the highest quarter of house prices. The housing crisis partly reflects that reduction in low-cost housing production.

Price increases even when supply is up

Increasing dwelling production per se does not generate low-cost houses that are

affordable for households. For those using simple supply/demand models to understand pricing, this seems counter-intuitive. Surely if supply increases, house prices will drop?

There are lots of reasons why this is not the case that are outside the ambit of this article, but some examples demonstrate the point.

First, New Zealand saw a sharp increase in house prices in 2003 even in regions characterised by likely depopulation.

Second, even in markets seen as most undersupplied, such as Auckland, there has been a surplus of new dwellings relative to household growth.

Shortage of low-cost houses

In an article in www.interest.co.nz, Auckland University's Michael Rehm also notes that, while over 99,000 new dwellings were built in Dublin between 2002 and 2007, a 27% increase in stock, house prices increased significantly over that time. It was only the global financial crisis that brought a subsequent decline in house prices.

Homelessness, more households with multiple unrelated people as well as households composed of multiple families or families and others and houses persistently empty despite unmet housing needs indicate the low-cost segment of the housing stock is underserved by new builds.

Struggle for low and middle-income households

Associated with the limited production of low-cost new builds has been the development of widespread affordability problems across low-income and middle-income households.

This is particularly the case for those households classically defined as in need of affordable housing - those with incomes at or below 80% of median incomes.

Before 1991, low-cost new builds affordable

Those households were able to afford low-cost new builds in the period prior to 1991. Now they struggle to find affordable housing.

In 1966, a household on 80% of median household income would have typically ➤

been buying a low-cost home at a house price to income ratio between 3.5 and 3.9. By 2013, that house price to income ratio could be expected to range from 7 to 9.3 (see Table 1).

Outgoings now around half of income

For an 80% of median household income with a 25-year mortgage, the outgoings in 1966 required to service the purchase of a low-cost new build could be expected to be in the region of 21-24%. Increasing house prices are reflected in significant housing cost exposure even when interest rates look fairly similar.

Consequently, in 2013, even a lower-quartile value new build at similar interest rates

to those prevailing in 1966 would confront a lower-income household with outgoings between 43% and 56% of income.

Median-income households under housing stress

Issues of affordability affect not only those on 80% of median household incomes (see Table 2). Households on median incomes are showing housing stress in 2013 compared to 1966, even when purchasing at the lower quartile of house/section new builds.

These differences do not reside in more constrained planning regulations, although arguably planning permissions have been more complex and less certain in the post-Resource Management Act period.

Nor, do we find, it is to do with construction costs, although increased footprints have an impact on house build costs. As Table 3 shows, however, while nominal construction costs have risen for low-cost houses, real costs have been relatively consistent since the 1950s. ◀

For more ▶ For further information, download *Revitalising the production of affordable housing for productive, engaged & healthy lives: Integrated report* from www.buildingbetter.nz.



Table 1

National housing affordability for households earning 80% of median household income

YEAR	HOUSE PRICE TO 80% OF MEDIAN HOUSEHOLD INCOME RATIO		% OF INCOME REQUIRED FOR A HOUSEHOLD EARNING 80% OF THE MEDIAN HOUSEHOLD INCOME TO SERVICE A 25-YEAR MORTGAGE USING THE ESTIMATED LOW-COST NEW HOUSE PRICE		
	HOUSE PRICE INCLUDING AVERAGE SECTION PRICE	HOUSE PRICE INCLUDING LOWER-QUARTILE SECTION PRICE	MORTGAGE INTEREST RATES	HOUSE PRICE INCLUDING AVERAGE SECTION PRICE	HOUSE PRICE INCLUDING LOWER-QUARTILE SECTION PRICE
1966	3.9	3.5	5.7%	24%	21%
1971	4.6	4.1	7.2%	33%	29%
1976	4.3	3.6	10.0%	36%	31%
1981	4.1	3.6	14.9%	50%	45%
1986	4.5	3.6	19.2%	70%	55%
1991	5.3	4.5	13.7%	59%	50%
1996	6.5	5.3	10.4%	58%	48%
2001	6.9	5.4	8.2%	53%	40%
2006	9.1	6.9	9.6%	76%	58%
2013	9.3	7.0	5.8%	56%	43%

Table 2

Affordability of lower-cost housing nationally

YEAR	HOUSE PRICE TO MEDIAN HOUSEHOLD INCOME RATIO (MULTIPLE MEDIAN)		% OF MEDIAN HOUSEHOLD INCOME REQUIRED TO SERVICE A 25-YEAR MORTGAGE USING THE ESTIMATED LOW-COST NEW HOUSE PRICE		
	HOUSE PRICE INCLUDING AVERAGE SECTION PRICE	HOUSE PRICE INCLUDING LOWER-QUARTILE SECTION PRICE	MORTGAGE INTEREST RATES	HOUSE PRICE INCLUDING AVERAGE SECTION PRICE	HOUSE PRICE INCLUDING LOWER-QUARTILE SECTION PRICE
1966	3.1	2.8	5.7%	19%	17%
1971	3.7	3.3	7.2%	26%	23%
1976	3.4	2.9	10.0%	29%	25%
1981	3.3	2.9	14.9%	40%	36%
1986	3.6	2.9	19.2%	56%	44%
1991	4.2	3.6	13.7%	47%	40%
1996	5.2	4.2	10.4%	46%	38%
2001	5.5	4.3	8.2%	42%	32%
2006	7.3	5.5	9.6%	61%	46%
2013	7.4	5.6	5.8%	45%	34%

Table 3

Nominal and real low-cost housing construction cost prices 1950–2017

DATE	NOMINAL COSTS		MODAL HOUSE FLOOR AREA	REAL INFLATION ADJUSTED (2017\$)		% CHANGE IN LOW-COST CONSTRUCTION COSTS			
	\$/M ²	TOTAL \$		\$/M ²	TOTAL \$	TOTAL CHANGE OVER 10 YEARS		ANNUAL COMPOUNDED	
						NOMINAL	REAL	NOMINAL	REAL
Dec 1950	41	3,800	93 m ²	1,359	126,224				
Dec 1960	60	5,560	93 m ²	1,315	122,185	46%	-3%	3.9%	-0.3%
Dec 1970	82	7,615	93 m ²	1,210	112,015	37%	-8%	3.2%	-0.9%
Dec 1980	314	29,096	93 m ²	1,409	130,466	282%	16%	14.3%	1.5%
Dec 1990	844	79,379	94 m ²	1,425	133,918	173%	3%	10.6%	0.3%
Dec 2000	1,027	96,510	94 m ²	1,455	136,783	22%	2%	2.0%	0.2%
Dec 2010	1,395	167,449	120 m ²	1,514	181,640	74%	33%	5.7%	2.9%
Dec 2017	1,803	216,304	120 m ²	1,803	216,304	29%	19%	2.6%	1.8%