



RESEARCH BULLETIN

Following the money Understanding the building industry's exit from affordable housing production

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New Zealand's housing under-supply is more than a temporary problem of adjustment associated with our so-called 'rock star' economy. Most acute is an under-supply of affordable housing (Johnson, Howden-Chapman and Eaqub, 2018). There have been lots of explanations proffered as to the reasons for under-supply and heated house prices ranging from claims of excessive building and materials costs to land-banking pushing up the costs of development to restrictions and costs arising from district planning and resource management. What has largely been ignored, however, is the NZ Productivity Commission's 2012 report suggesting that the building industry has largely deserted building in the lower value segments of the housing market. This research bulletin suggests an explanation for the desertion of affordable housing is the significant withdrawal of government capital assistance and investment in affordable housing.

Land use planning as a restrictor of affordable housing production

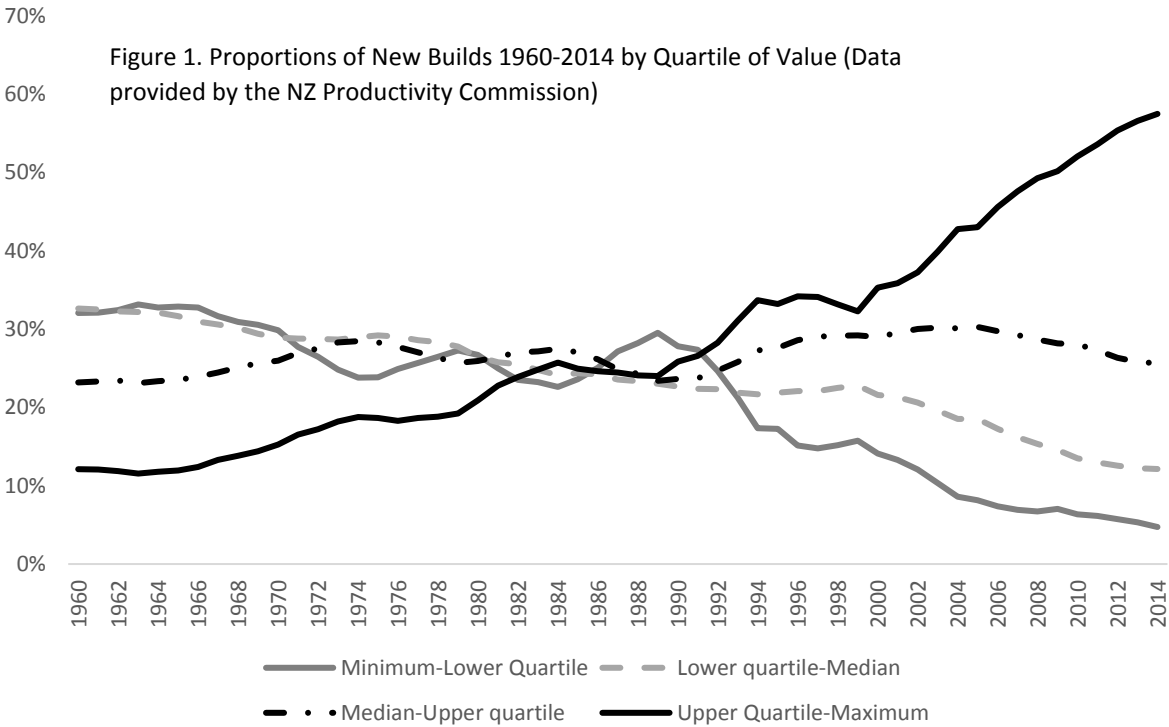
For the last decade the dominant explanations for the under-supply of housing in general and affordable housing in particular have focused on land costs and claims around the restrictive nature of planning and consenting. The primary policy response was the Housing Accords and Special Housing Areas Act 2013 (HASHAA). In areas identified by government as having specific housing affordability problems, councils were asked to enter an accord with central government that would establish special housing areas (SHAs) initiated by developers which could potentially reduce or remove existing rules such as those relating to building heights and densities without consultation with affected parties, neighbours or communities.

The use of land-use planning as the dominant explanation for decreasing affordability and housing under-supply, especially under-supply of affordable housing, is one that New Zealand shares with many other countries including Australia and the United Kingdom (Gurran and Phibbs, 2015; Barker, 2004). If HASHAA was treated as a natural experiment to test it, the conclusion must be that land use planning restrictions do not appear to be the primary barrier to the building industry's production of dwellings for low- and middle- income families. There have been low levels of take-up of SHA opportunities by the industry. Some developments which are now SHAs, such as Hobsonville, would have been active without the establishment of SHAs. Most importantly, however, SHAs are typically not producing affordable housing accessible to households most burdened by unmet housing need (Murphy, 2016; James, 2018). Notably the exception to this pattern is in Queenstown-Lakes where the council has coupled SHAs with both inclusionary zoning and funding mechanisms for supporting the local community housing provider to develop affordable housing.

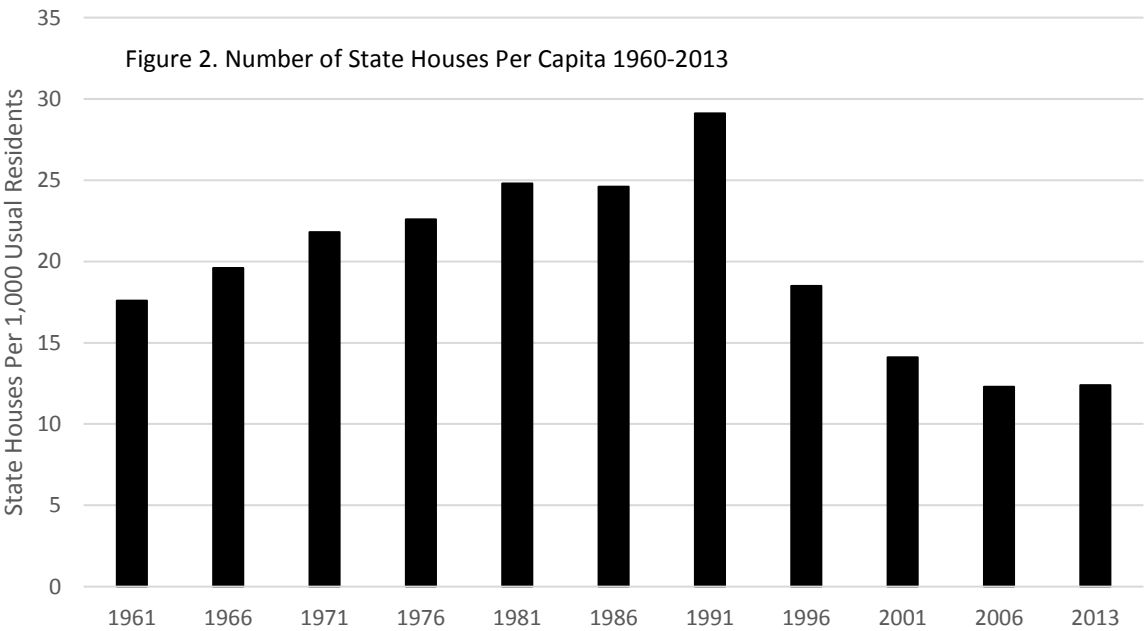
A building industry and the money

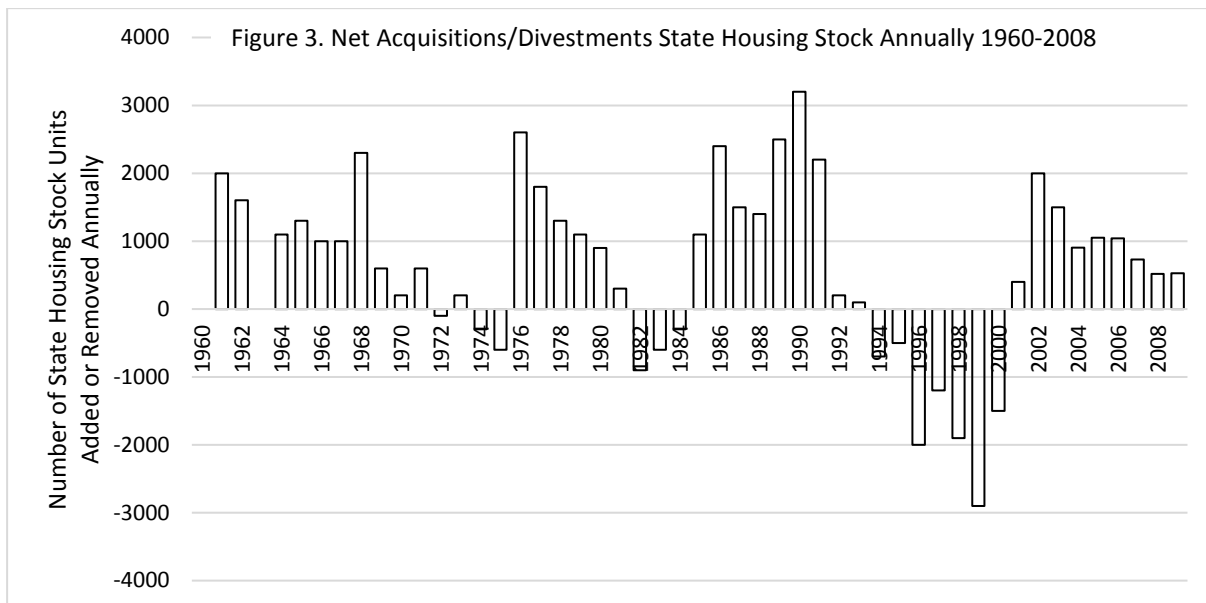
The NZ Productivity Commission data suggest the 1960s saw more than 60 percent of new residential builds falling into the lower two quartiles of value (Figure 1). By the 1980s, the production of new builds was, despite some fluctuation, broadly distributed evenly across the four quartiles of value. From 1990, however, the pattern of new builds showed a seemingly dramatic reversal from the distribution evident in the 1960s. Increasing proportions of new builds fell into the higher quartiles of value. By 2010, that data suggest more than half of all new-builds were in the highest quartile of value.

That trend was accompanied by production in the lowest quartile of value falling significantly. By 2010 less than 10 percent of new residential dwellings were being built in the lower quartile of value (New Zealand Productivity Commission, 2012: 6).

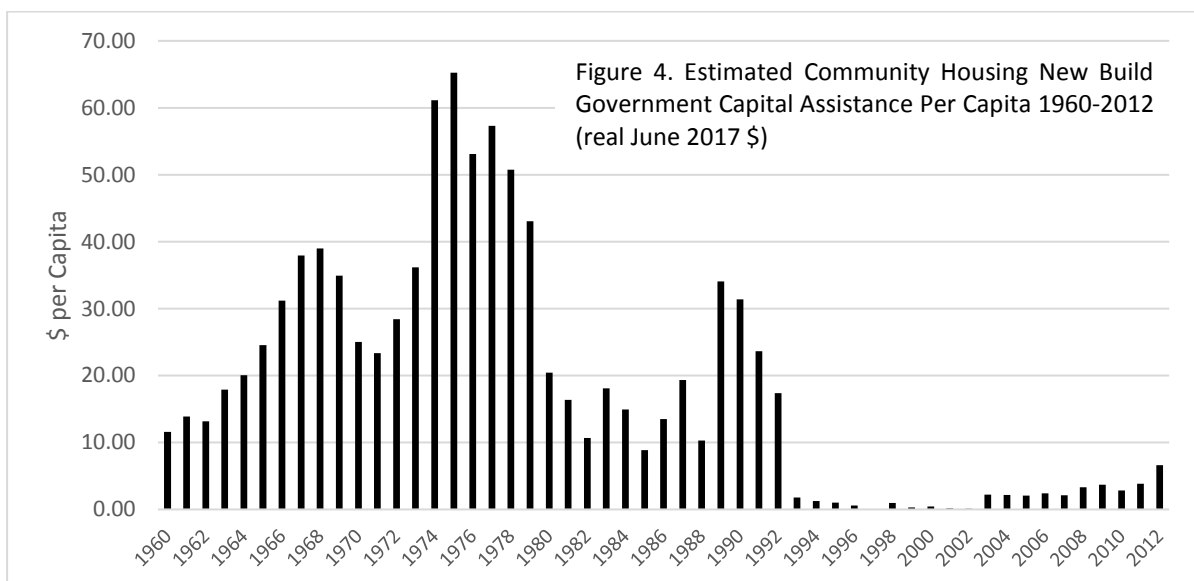


That pattern is consistent with substantial changes in the pattern of government direct investment into affordable housing as well as its capital assistance to both housing providers and families seeking new-build affordable housing. Government investment into public housing, indicated by the number of state houses per capita shows investment peaked in 1991 and saw a subsequent decline (Figure 2). Net state housing additions were typically generated through new builds. There was a pronounced hiatus in the early 1990s (Figure 3).





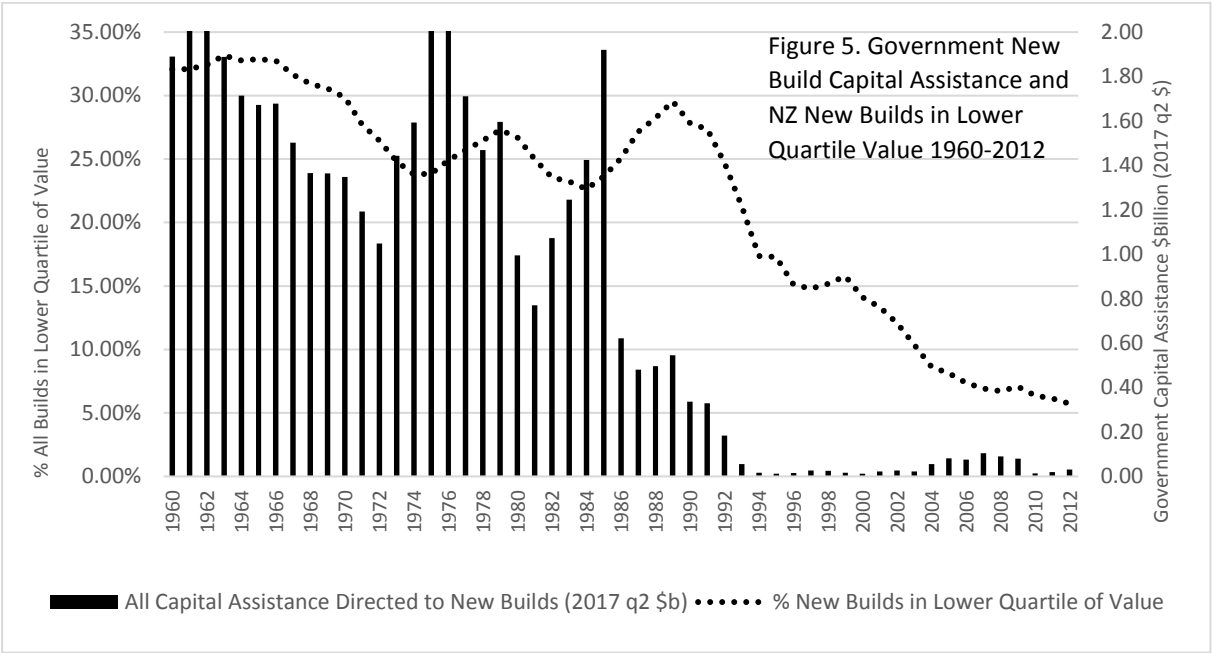
The 1990s also saw a significant decline in funding directed to the community housing sector both on a per capita and an aggregate basis. Peaking in 1975 at \$205 million in 2017 June quarter dollars, the period after the housing reforms implemented in 1991/2 to 2012 saw funding reduced to an annual average of less than \$8 million in 2017 June quarter dollars. That is, less than ten dollars per capita directed to new build housing through capital assistance to the community housing sector (Figure 4).



Declining government capital investment in new builds went beyond the government's state housing programme and its funding of community housing sector new builds. Two other forms of housing support were important to incentivizing new builds. First, families aspiring to home ownership and seeking a deposit for a low cost, new build could access deposit assistance by capitalising their family benefit which was paid in advance. The second form of direct assistance to householders was in the form of mortgage assistance, again directed to modest dwellings within a specified schedule of land and building costs. Direct mortgage assistance ceased subsequent to the 1991/2 housing reforms. There remained a residual underwriting of some retail bank provision of loans through the Welcome Home scheme. That scheme was persistently under-utilised owing to a combination of lack of public knowledge and eligibility and mortgage limits out of line with prevailing house and salary conditions.

In the 1990s government assistance was transformed to be primarily channelled through an Accommodation Supplement (AS) which paid up to 50 percent of the unaffordable gap in housing costs faced by eligible individuals and households. Income related rents (IRR), by contrast, is a supplement tied to a state housing or certain community housing providers and ensures that tenants are exposed only to affordable rents. It is forecast that by 2021, the combined expenditure on demand-side supplements will be in the region of \$2.64 billion. The AS constitutes between 55 percent and 60 percent of future expenditure (Johnson, Howden-Chapman and Equab, 2018:34). There is a certain symmetry regarding the government’s housing assistance. In 1960, the government’s capital assistance directed to new builds was around \$1.89 billion in 2017 June quarter dollars. In 2016/2017 the government’s housing expenditure through the AS and Income-related Rents (IRR) reached \$1.97 billion.

The lack of a dedicated stream of government capital investment which levers both household investment and community sector investment appears to have disincentivised the building industry from the production of affordable housing. While the data related to relative value of new-build production used by the New Zealand Productivity Commission needs to be explored further, the pattern of building industry production of lower quartile value residential builds shows a pattern consistent with that of government capital investment in new-builds primarily channelled through state housing, community housing, capitalisation and mortgage support for low income households (Figure 5).



Conclusion

Meeting New Zealand’s unmet affordable housing demand is not just about building lots of houses. The segment in the market in which houses are built is also important. The 1990/91 housing reforms shifted government housing policy from a mix of supply and demand side policies to a welfarism policy with an untied Accommodation Supplement set to subsidising no more than half of any unaffordable gap in housing costs faced by individuals and families. Although there has been a re-introduction of income related rents for state housing and some community housing provider tenants, for the building industry the regime is hugely distant from the mix which was associated with the building industry’s previously higher and sustained levels of affordable housing production. Part of that mix was welfare subsidies such as the housing benefit and income related rents. The majority was capital investment and assistance to build state housing, to leverage the production of affordable housing through the voluntary sector and councils and support families who are marginal to accessing mortgage finance. It

supported the building of entry level housing by what might be described as the original public, private partnership through family-directed mortgages, section development and deposit support. The data in Figures 1 and 6 suggests that the building industry, like any business sector, sizes itself and targets its activities to where the money lies and where there is certainty rather than risk.

References and further reading

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This research is part of the *Revitalising the production of affordable housing for productive, engaged and healthy lives* BBHTC programme