Submission to the New Zealand Productivity Commission

Housing Affordability

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The New Zealand Housing Foundation

The New Zealand Housing Foundation is a "not profit" charitable housing trust, driven by strong social imperatives to assist social and affordable housing needs in New Zealand, while operating with a strong business philosophy.

The Housing Foundation works to a set of key objectives which are:

- To initiate, facilitate and deliver a range of affordable and sustainable housing options for low income people to obtain secure stable accommodation that meets their needs;
- To be a catalyst/ enabler for integrated mixed tenure housing neighbourhoods which would otherwise not happen;
- To help develop a robust community housing sector that promotes innovative, sustainable housing targeted to those most in need; and
- To work in an open, collaborative way with other organisations, Iwi councils and central government to deliver integrated and affordable housing projects and programmes.

The Housing Foundation funds its operations from a mix of philanthropic funds, Government grants, social and commercial debt facilities on a project by project basis. It doesn't make a profit that it can return as dividends, but it contributes any surpluses it achieves into subsidising community housing projects and the proportional ownership of homes (often for an extended period) it builds and retains for the purpose of social and affordable housing. This subsidy is an essential component for meeting the needs of social and affordable housing; it is retained so importantly it can be recycled to other households with similar housing needs.

Since we were established in 2003 the Housing Foundation has built over 300 affordable homes for households, other community housing organisations and the private sector. In 2010 and 2011 the Housing Foundation built more than 40 homes annually across the Auckland region. All our homes are designed to be affordable for rent and shared equity housing as well as remaining affordable for the household to maintain and live in during the duration of their tenure.

1: Introduction

Housing fulfils the basic human need for shelter, housing is fundamental to economic and social well-being. The housing market has a major effect on the economy and inadequate housing supply, or a poorly functioning housing market can constrain economic growth (Barker, 2004). High housing costs or a shortage of affordable housing can, for example, impact negatively on labour supply by constraining a city's ability to attract and retain workers (Gabriel, Jacobs, Arthurson, Burke and Yates, 2005). Housing affordability and quality have been identified as key factors in city competitiveness (Darroch, 2010). In addition, high debt levels associated with high housing costs can reduce investment in other sectors essential for economic growth (Gabriel, et al, 2005).

Affordable, healthy and secure housing is fundamental to building thriving, stable communities and liveable cities. Unaffordable housing has negative effects on health, education and employment outcomes and affects people's connection to their community (Leggatt-Cook, 2007; DTZ, 2004). Financial hardship resulting from unaffordable housing has a greater impact on low income households than on high income households (Gabriel, et al, 2005; Robinson, Scobie, and Holliman, 2006). Social deprivation, overcrowding and substandard housing tend to be concentrated spatially in some areas. This creates spatial inequalities which can undermine social cohesion and increase crime and anti-social behaviour (Leggatt-Cook, 2007). Probably should state something about leading to business disinvestment, which whilst not a Leggatt – Cook finding is a recognised finding in other work.

Affordability constraints can result in families and households making tradeoffs in relation to housing, which subsequently have a negative impact on their wellbeing. For example, to reduce the rental or purchase cost of a house, a family may move into a dwelling which is substandard, remote, or overcrowded. In the longer term, this choice may mean that the household faces additional costs, such as higher transport or heating costs, and is no better off financially.

Families that move into poor quality or substandard housing are likely to face higher energy costs to keep their house warm and dry and are more likely to experience poor health outcomes (Boardman, 1991; DTZ, 2004; McKee, Wilkinson, Landon, Armstrong, Stevenson, Patten den and McKee, 2001). Well designed, energy efficient housing can improve health, employment and educational outcomes. However progress towards sustainable energy efficient dwellings may be inhibited by an already high cost housing market (Gabriel, et al, 2005).

When housing is in short supply and is expensive, low income families may respond by sharing accommodation to manage cost. This may result in overcrowded households, which in turn can affect the health of household members and may lead to an increased incidence of contagious diseases (Baker, McNicholas, Garrett, Jones, Stewart, and Koberson, 2000).

The social and economic costs of unaffordable housing are not just incurred by individual households; they come at a cost to the wider community, including regional economic development and growth, employers, and central government in terms of the increased public spend on healthcare, welfare and policing (Gabriel, et al, 2005).

An adequate supply of affordable housing that is well located, well designed, healthy and appropriate given the composition and needs of households is critical to the social and economic wellbeing of a community.

Our submission addresses five areas impacting on housing affordability and these include:

- Range of tenures available;
- Land supply (development capacity), house costs, and affordability;
- Building controls, intensification, and development contributions;
- Affordable housing's contribution to society's social infrastructure; and
- Encouraging private sector investment in affordable housing.

The Housing Foundation would like the opportunity to meet with the Commissioners and Commission Officers to further explain and discuss its submission and our experiences that have led to our recommendations.

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2: Range of Tenures

Households in New Zealand still have strong preferences for owner occupation over renting, Beacon Pathways (2010) and DTZ (2005). Over time the relative costs of renting and owning have changed with rents increasing approximately at the same rate as household incomes over the last 20 years whilst house prices have increased at a significantly faster rate. This trend has resulted in significant barriers for households, wishing to make the transition from renting to owner occupiers.

New Zealand, like a number of other countries only has a limited range of tenure types commonly available. This was not so important when housing affordability was not a significant issue for the majority of households. However, as housing affordability deteriorated over the last 20 years particularly for middle income households the traditional housing cycle has become more complex.

There is a number of potential strategies/policy options available to try and mitigate the decline in affordability. These including policies focused on addressing the underlying affordability issues, such as lowering housing costs, to policies that mitigate the effect of the decline in affordability. For example, encouraging the use of a larger range of tenure options may assist more households step up the tenure ladder and become owner occupiers. These include tenure options such as "rent to buy" and "share equity" schemes which to date have only been used in New Zealand by a limited number of third sector and not for profit organisations but are a more common approach in several overseas jurisdictions.

Government has provided limited support for these initiatives through its Housing Innovation Fund programme, however to date these organisations have struggled due to a lack of resourcing and programme continuity to scale their operations to reach more households. Typically these organisations lack affordable capital and Government programme certainty which constrains their ability to expand their supply of dwellings. An expansion of these organisations' operations would benefit communities by increasing rates of home ownership and stability.

We note that the recent formation of the Social Housing Unit within the Department for Building and Housing and the Government's announcement that it will increase its funding for affordable housing to $40m per annum and make provide for multi-year funding agreements may achieve some of these goals.

Our recommendation is that more resources are directed towards third sector and not-for-profit affordable housing organisations with the objective of increasing the scale of their operations and increasing the scale of new affordable housing.

3: Land Supply (Development Capacity), Housing Costs and Affordability

Barker (2004), identified housing supply constraints including development capacity as a significant influence on house prices and hence affordability. There are two important aspects to supply side considerations. First, the total quantum of development capacity can influence the market's ability to respond to changes in supply. Second, especially in the short term, the relative sluggishness of the market's ability to respond to changes in demand is equally as important. MacLennan (2008) suggested "*Rising demand with inelastic supply has meant significant increases in real land prices and in consequence, increased 'economic rents' for land and home owners. Sluggish supply appears to be an inherent feature of housing systems but there are cross country and cross period differences in response patterns. These can arise from planning differences, infrastructure shortages, and market failures."(Page 10).*

Therefore there are two important considerations, first to ensure that there is sufficient total development capacity and second, that there is adequate development capacity which can be developed immediately with few, if any, impediments. The Office of the Deputy Prime Minister UK (2005), Buxton and Scheurer (2007), Urban Development Institute of Australia (2011), and other overseas studies all suggest that there needs to be adequate development capacity within the urban area and careful consideration needs to be given to how readily developable the land is in terms of the constraints which limit its potential for development. In addition, a minimum of 15 years of capacity across of a range of development types (greenfield, infill, brownfield, and intensification) needs to included within the urban area. The capacity limits need to be regularly reviewed with adjustments made so that capacity does not fall below 15 years. If the capacity is reviewed every 3 years and the review process takes two years then 20 years worth of supply would be required on the completion of each review.

Historically, housing market considerations have not been a key issue for transport and infrastructure investment, and economic developments have not considered housing outcomes. Moving forward, there needs to be greater integration between the planning of all aspects of the urban area to minimise barriers and constraints associated with urban development and renewal. For example, the release of rezoning of greenfield land or targeting the redevelopment of brownfield sites should occur at the same time as transport and infrastructure plans are released detailing the timetable the planned infrastructure upgrades for these locations.

Our recommendation is that Councils must ensure they have a minimum of 20 years worth of development capacity across all development types (including affordable housing), the development capacity is regularly reviewed and more capacity allocated as it is developed, and a core of immediately available capacity is available (3 to 5 years worth of supply) to respond to changes in demand.

4: Building controls, intensification, and development contributions

Local authorities use the provisions within Resource Management Act to plan and manage the way in which an urban area develops. As part of the planning regime they have levied development contributions on developers to pay for infrastructure (or upgrade existing infrastructure) required. The way in which these levies are calculated varies significantly across the different local authorities. How and who pays for the infrastructure used by a development has been well debated over the last couple of decades. Rather than traverse these issues, it is our view that the way in which the levies are collected should be reviewed.

Typically, levies are charged as upfront payments which developers treat as a cost and increase the price of a new dwelling. There is a number of other alternative approaches that could be employed which may produce more affordable outcomes. For example, rather than collecting a levy upfront a special rate could be charged across the properties benefiting from the new or upgraded infrastructure which collects the cost of the asset over its effective life. This would reduce the initial cost to the developer while still collecting the same infrastructure tax overtime.

Another strategy to be employed is a betterment tax. For example, when an area's zoning is changed so that it allows for more intensive development the underlying land values increase (provide demand exists for a more intensive use). Under the present institutional settings the benefit of the increase in value is enjoyed solely by the owner of the property. Betterment tax regimes capture some of the increase in value for the public good. The tax can then be used to pay for some of the infrastructure costs, increase the level of amenity provided within the area and specifically enable a proportion of affordable housing to be provided as part of the new development. One approach is to tax the betterment from the date betterment taxes are inferred by way of a targeted annual rate rather than as a one off tax.

Our one concern is that this may increase rates and increase housing costs for low to medium households; hence the compelling need to ensure provision is made within the betterment tax for the provision of affordable housing within the community. This may require a change in the RMA to avoid unnecessary litigation between developers and councils.

Our recommendation is Councils should develop other strategies to collect development levies such as betterment taxes and targeted infrastructure rates rather than charge upfront levies to reduce the cost of the initial development associated with a dwelling.

5: Recognising Affordable Housing's Contribution to Society's Social Infrastructure

The third sector and not for profit organisations make a significant contribution to a community's social infrastructure by providing good quality affordable equity sharing, rent to buy and rental dwellings. In many countries the provision of affordable housing is recognised as key (social) infrastructure and its provision is incentivised to be provided. These benefits are not recognised when Councils allocate development contributions and other levies on community housing developments. Typically, affordable housing providers pay the same levies as other developers despite their contributions to the community's social infrastructure.

There is a number of ways affordable housing providers add to a community's social infrastructure. These benefits flow from increasing home ownership rates and providing new good quality affordable rental stock. The benefits include:

- There is a strong link between home ownership, and better educational outcomes and future income prospects for resident children (Haurin et al, 2001);
- Home owners tend to have more civic engagement, higher trust in others, and a positive sense of community (Roskruge et al, 2011);
- Home owners tend to have higher standards of living in retirement (Ministry of Social Development, 2008);
- The quality of housing is closely linked to health outcomes (Howden-Chapman et al, 2007);
- Research by the Joseph Rowntree Foundation indicates that achieving a spread of household incomes through the provision of affordable housing within a community is more likely to achieve social and community interaction and a greater sense of cohesion and vibrancy than when household incomes are in the same band throughout the community; and
- The same research also found that planned mixed income communities are likely to attract a wider and more sustainable range of local shops, services and facilities.

Affordable housing developments achieve these benefits by providing access to home ownership to households who would otherwise not afford to purchase their own new dwelling through rent to buy and shared equity tenure. In addition, affordable new rental stock also provides desirable social outcomes.

Whilst they make positive contributions to the social infrastructure these benefits are not recognised when infrastructure costs are calculated as part of a development contribution. Consequently, affordable housing providers are forced to pay a higher cost than appropriate because these benefits have not been recognised in the past. This limits the capital available to affordable housing and results in fewer affordable houses being developed.

Our recommendation is Councils should recognise the social infrastructure benefits associated with affordable housing and that development contributions should be adjusted to reflect both the costs and benefits associated with new affordable housing units.

6: Encouraging Private Sector Investment in Affordable Housing

Private sector investment in affordable housing is relatively rare in OECD countries without significant subsidies. Significant state and federal tax credits are used in the United States of America to encourage institutional investment in residential rental property. Other strategies such as inclusionary zoning are used in a number of jurisdictions to effectively force developers to include affordable housing units in their developments. The previous Labour led coalition provided local authorities the opportunity to develop such strategies under the now repealed Affordable Housing: Enabling Territorial Authorities Act (2008).

Overseas experience suggests that without significant incentive or subsidy, the private sector is not likely to invest in affordable housing. If government policy was to encourage private sector investment in affordable housing, a strategy which could be adopted is to develop similar schemes to the National Rental Affordability Scheme (NRAS) currently available in Australia and the Canadian Mortgage and Housing Corporation mortgage backed securities model.

The national rental affordability scheme (NRAS) is an Australian Government initiative to stimulate the supply of 50,000 affordable rental dwellings by June 2012. Successful NRAS applicants are eligible to receive a National Rental Incentive for each approved dwelling. These dwelling are then rented to eligible low and moderate income households at below market rates.

The NRAS Scheme seeks to address the shortage of affordable rental housing by offering financial incentives through tax credits per dwelling over 10 years to the investment sectors thus attracting private sector investment into the affordable housing market.

NRAS scheme aims to:

- Increase the supply of new affordable rental housing;
- Reduce rental costs for low and moderate income households;
- Encourage large scale investment and innovative delivery of affordable housing.

The Canadian Mortgage and Housing Corporation (CMHC) is a government sponsored enterprise that assists Canadian's in to home ownership that they can't otherwise achieve in the private market. CMHC uses the capital markets to source lower cost mortgage funds for low-income home buyers. It now has over 45,000 investors through participation from institutions and the public with C$27bn of mortgage backed securities sold. It delivers monthly returns of principal and interest to investors with a Crown guarantee on timelines of instalments.

Our recommendation is Government should consider developing an affordable housing strategy which includes approaches similar to the NRAS scheme in Australia and the mortgage backed security model in Canada..

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