

Housing Costs and Affordability in New Zealand

PREPARED BY

DTZ Research

FOR THE

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RESEARCH REPORT

**Housing Costs and
Affordability**

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1 EXECUTIVE SUMMARY

1.1 Introduction

This report identifies and scopes the key issues associated with housing costs and affordability in New Zealand. Its objective is to generate a set of related housing research projects addressing the issues associated with access to affordable housing in New Zealand and to consolidate and focus the research effort so as to utilise research funding to best effect.

In the recently released *Building the Future: Towards a New Zealand Housing Strategy – A Discussion Document* (NZ Housing Strategy discussion document), housing affordability is a central tenet of the government's vision for housing in New Zealand (Housing NZ Corp, 2004, p. 60). The research topics proposed here are intended to complement the broad direction set out in the NZ Housing Strategy discussion document by providing a sound research based foundation that will ensure policy initiatives and interventions around housing affordability and cost are related to the realities of the market. At the same time it is hoped that the research topics proposed will assist government interventions around affordable housing to the extent that they can be better designed, implemented and measured.

1.2 Housing Affordability

Housing affordability is important for a wide range of reasons. There are significant social implications associated with a continued decline in home ownership affordability both for the households concerned and their communities. Research has consistently found a positive relationship between poverty and housing costs, especially for households in the private rental sector. There is a clear pattern of association between overcrowding and substandard living conditions and a range of adverse health, education and social outcomes. A lack of affordable housing not only poses a threat to the cohesion of the broader society but also imposes significant constraints on the economy as well. Poor housing affordability can impinge on access to labour, can place pressure on wages and salaries and can crowd out other forms of consumption.

Housing affordability has three key dimensions:

- Affordability for renters;
- Affordability for would be home owners; and
- Affordability for existing homeowners.

While recognising the significant subjective issues and associated difficulties around the measurement of housing affordability, various national and other agencies have set objective measures for measuring affordability.

Affordability across a range of measures has reduced for both main forms of tenure in New Zealand over the last fifteen years. Affordability has reduced most significantly for those in rental tenure. The decline in affordability, across both owner occupier and rental tenure, has been most marked in the Auckland Region.

1.3 Affordable Housing Policy in New Zealand

New Zealand in global terms uses a limited array of housing policy interventions to address affordability issues. Government intervention is largely confined to supply side intervention in the form of state rental housing and a demand side accommodation subsidy.

Of the regional councils only the Auckland Regional Council has considered the affordability issue in depth. A number of the major urban territorial local authorities, particularly those facing a growing affordability problem are, however, beginning to look in greater detail at affordable housing e.g. Nelson and Queenstown, as well as most of the local councils in the Auckland Region. Statutory support for a wider role by local government is found in the Local Government Act 2002. Amongst other things the Local Government Act 2002 results in each council (district, city, regional) having a statutory role to promote the social, economic, environmental and cultural wellbeing of communities, in its district or region, in the present and for the future. Some commentators see the Local Government Act 2002 as placing local government, for the first time, at centre stage in terms of identifying housing need and options for meeting that need in their communities (McKinlay Douglas, 2004, p. 17).

We would note, however, that housing policy by itself cannot guarantee desirable housing outcomes. Monetary policy, labour market policy, taxation policy, social assistance and immigration policy have the potential to exercise as much and sometimes more influence on housing.

1.4 Literature Review: Housing Affordability Policy Interventions

Globally, governments have pursued a range of policy interventions. Over the last twenty years demand side interventions have held sway. More recently, however, there has been growing recognition that a suite of policy interventions at the demand, supply and regulatory level can produce the best result in terms of affordable housing.

1.5 Housing Costs

Housing costs have an impact on the ability of households to access sustainable, affordable housing of an appropriate quality. As housing costs increase the cost of home ownership also increases while higher housing costs also adds to the upward pressure on rents in the medium term. The focus of this scoping research was housing costs and affordability. However, our research shows that of the various components (labour, materials and land) that go into the New Zealand house, it has been land value appreciation that has been by far the most significant contributor to housing cost increases over the last ten years. Consequently, it is our view and the literature concurs, that the key ingredient affecting housing affordability is price not cost. That is to say a strong emphasis on the impact of housing cost on affordable housing may not be warranted.

Our recommended research programme, therefore, emphasises affordability rather than cost. However, the significant appreciation in land values over the last decade has clearly had major affordability implications and we are of the view that research into the determinants of land pricing is clearly warranted. Although there appears to be significant differences in construction and material costs between Australia and New Zealand, which are not easily explained, in view of the more important role played by land value appreciation in declining housing affordability over recent years, we would not view it as a priority area for research.

1.6 Gaps in the Research Base

Gap One: Definition

There is a need to develop an understanding of what is meant by housing affordability and come up with some agreed measures and ways to analyse affordability in the New Zealand context. Unless this necessary methodological groundwork is laid it is likely to prove difficult to reach agreement on the exact dimension and geographic extent of the issue. In short, it is necessary for policy makers, researchers and others to be speaking the same language, or to be able at least to understand one another when they are talking about housing affordability.

Gap Two: Measurement

Once the agreed definitions and measures have been developed these should then be tested at a local level and across different groups to determine the depth and breadth of the affordability issue across New Zealand. It is assumed that there is an affordability problem in New Zealand and that it is most pressing in certain geographic locations and for certain socio-economic groups occupying rental tenure. We believe there is a need to quantify, using the agreed definitions and measures, the current position so that the impact of future interventions can be determined.

Gap Three: Identifying the Causes

Once the depth and breadth of housing affordability issues by area and for different groups in those areas have been established the causes of the local variations and the decline or improvement of affordability over time can be analysed. An understanding of the causes of the housing affordability problem at the local level is necessary to enable the development of potential solutions.

Gap Four: Potential Solutions

A comprehensive strategy for the development of likely options for overcoming affordability issues needs to be developed which would provide an appropriate amount of affordable housing to the right individuals and groups in the required locations. Affordability is a dynamic problem and consequently any strategies need to be flexible so they can be adjusted to take into account changes in market conditions.

1.7 Recommended Research Programme

The recommended research programme seeks to do two things. Firstly, address the housing affordability research gaps identified in the previous subsection. Secondly, to be policy relevant it must relate to the broad direction proposed by the NZ Housing Strategy discussion document. That is to say, what does government (central and local) need to know to better design, implement and measure the results of its interventions seeking to improve affordability?

We are proposing three main research strands or topic areas. They are as follows:

Strand One: Affordability Definition and Measurement

This research brief would require the research organisation to:

- Develop, in the context of the New Zealand market, a number of measures of affordability (for renters, first home buyers and owner occupiers) capable of being applied at a local level.
- These measures should be fully traversed with key stakeholders to obtain their buy-in. This acknowledges that there is a range of uses (research, policy and delivery of accommodation support) such measures might be put to.
- Scope the local variation in affordability. This should include focusing on the groups in society who are most exposed to unsustainable levels of housing costs and the implications for the individuals, households and communities affected.
- Provide an in-depth analysis of the trends in affordability, at the local level, for different groups over time. We would suggest that the research emphasis here be on the private rental sector given the importance of this tenure to the achievement of the government's wider housing policy objectives.

Strand Two: Barriers to Accessing Affordable Housing

This research brief would focus on the following barriers to accessing affordable housing:

- Regulatory;
- Governmental;
- Institutional;
- Land values; and
- Other market factors.

Strand Three: Potential Solutions

Research is needed that would investigate the options open to government (central and local) to address barriers to affordability. This should encompass a comprehensive review of techniques adopted both inside and outside New Zealand to address affordability. The outputs from the brief should include the identification of a range of potential strategies, their relative strengths and weakness as well as recommendations, which take into account New Zealand's specific affordability issues. In addition, this brief should address the sustainability of household tenures within New Zealand or affordability over time.

Recommended Research Programme Conclusions

The three research strands we have identified link both to the gaps that this report has identified and also to the broad direction identified in the NZ Housing Strategy discussion document. The first (definition and measurement) and the third (potential solutions) research strands link most closely to the directions in the NZ Housing Strategy discussion document. The second research strand (barriers to accessing affordable housing), however, is not clearly tied in with the proposed actions identified in the NZ Housing Strategy discussion document. It would seem to us that the NZ Housing Strategy discussion document assumes that the barriers to accessing affordable housing in New Zealand are well understood or a given. We are not of this view and believe that an understanding of the barriers to access to affordable housing is a necessary prerequisite before potential solutions can be considered.

2 INTRODUCTION

This report has been prepared for the Centre for Housing Research, Aotearoa New Zealand – Kainga Tipu (CHRANZ). The objective of this report is to generate a set of related housing research projects addressing the issues associated with access to affordable housing in New Zealand and to consolidate and focus the research effort so as to utilise research funding to best effect. A specific aim of the research is to compare New Zealand and Australian residential building costs.

We collected affordability and cost research in a number of ways:

- Reviewed housing research undertaken in New Zealand since 1990;
- Searched the major housing and real estate journals;
- General internet search under housing affordability and cost;
- Scoping exercise of principal international organisations involved in housing research to ascertain what their primary foci or strategic directions are for housing affordability and cost research. The organisations examined included:
 - Australian Housing and Urban Research Institute (AHURI) and
 - Fannie Mae.

Appendix 3 provides a synopsis of the key affordability literature that we have reviewed in compiling this report.

The report is divided into seven Sections. Section 1 presents an executive summary of the reports key findings whilst Section 2 introduces the report. Section 3 provides an overview of housing affordability. Section 4 summarises housing affordability policy in New Zealand. Section 5 provides a review of the literature around housing affordability policy interventions. Section 6 provides our analysis of the impact of housing costs on affordability. Section 7 provides our analysis of the gaps in the research evidence base and identifies potential research topics.

3 HOUSING AFFORDABILITY

3.1 Introduction

This section will serve as an introduction to the issue of housing costs and affordability. As such it will do a number of things. Firstly, it will consider very briefly housing affordability in the context of housing and the rationale for housing policy intervention. Secondly, it will look at how housing affordability has been defined and measured and issues around such definition and measurement. It will be shown that there are a number of ways in which housing affordability can be defined and measured, each with quite specific advantages and disadvantages in operational terms. Thirdly, it will consider why the issue of housing affordability is considered important and fourthly, it will look at the dimensions and indicators behind the housing affordability problem. Finally, it will consider trends in housing affordability in New Zealand.

3.2 Housing, Affordability and Policy Intervention

At a very basic level housing can be seen as a consumption item for satisfying basic human shelter needs. However, housing also fulfils other important roles, such as contributing to people's sense of security and stability, and providing them with an effective base for engaging in family life and with the rest of society. Housing can also provide people with a sound basis by which to pursue their personal aspirations, access community resources (for example, employment, education and/or life style opportunities) and express their cultural values. For owner-occupiers the house is also a store of value and usually their single largest asset. Research suggests that positive outcomes at the household level can collectively contribute to improved outcomes across communities and society in general.

Housing, however, is an area characterised by potential for 'market' failure. Problems such as high transactions costs, the potential for housing to be regarded as a merit good and adverse selection can hinder the achievement of positive housing outcomes for some groups. Also, the housing 'market' (which in reality is a collection of sub-markets defined by price, tenure and location) can be slow to adjust to sudden or unpredictable changes in demand, for example, due to migration surges, higher-than-expected economic growth and cost structure changes.

A desire to overcome or reduce the inefficiencies and inequities in the housing market and deliver socially acceptable outcomes is the key reason why governments in New Zealand, in common with other OECD countries, traditionally intervene to varying degrees in the operations of the housing sector. Governments have also intervened to take a lead in establishing housing standards and reducing the incidence of sub-standard housing. Because housing is so multi faceted, policy issues around housing and housing intervention are complicated.

The main housing policy objectives that governments seek to address can broadly be grouped under the headings of improved access to, adequacy of and affordability of housing. Recognise that these themes are not stand-alone.

Access relates to ensuring that individuals and families have sufficient resources to allow them to gain entry to housing that is appropriate to their needs. Factors that can impact negatively on ability to access housing include supply shortages, poor budgeting and/or organization ability, and discrimination. In the case of home ownership, an inability to save a deposit (e.g. because of a very low income) is an access issue (as well as an affordability one).

Adequacy relates to ensuring that housing conforms to some accepted set of standards, especially in areas of safety and health. What is considered 'adequate' changes over time and so tends to be regarded more in a relative than an absolute sense.

Affordability relates to ensuring that individuals and families can, having gained entry, maintain at least a minimum level of accommodation appropriate to their needs, no matter what their circumstances. Factors impacting negatively on affordability include income, house prices and rents, interest rates, labour market conditions, level of mortgage and rent payments and supply constraints.

Government interventions in the housing market have historically been characterised as either supply side interventions or demand side interventions. That is a subsidy of houses or a subsidy of people. Over recent decades there has been a general shift from supply-side to demand side subsidies although there are still "cogent arguments that can be made for a mix of supply-side and demand-side subsidies as well as counters to some of the arguments" (Green et al. 2003, p. 90).

Housing affordability has three key dimensions:

- Affordability for renters;
- Affordability for would be home owners; and
- Affordability for existing homeowners.

A less important dimension of affordability, but one which should be noted, is that in slow or no growth areas affordability is more a matter of the cost of upgrading run-down housing stock, the relative absence of well paid employment, and the risk of people, if they seek housing through purchase, being trapped by an inability to sell if they wish to move elsewhere in search of (better paid) employment (McKinlay Douglas, 2004, p. 20).

During the late 1980s housing affordability replaced other traditional housing issues such as inadequate supply and quality issues as the major policy focus of national housing programmes in most developed countries (Linneman and Megbolugbe. 1992, p. 369). McKinlay Douglas (2004, p.19) in their review of affordable housing notes, “In each of the jurisdictions¹ we have reviewed, there is an acknowledgement that there is a crisis in the supply of affordable housing.” Moreover, the problems of affordability are often at their worst in major metropolitan areas for people employed in low paid occupations.

According to Linneman and Megbolugbe (1992, p.370) imperfections in the housing system and the relative inequality in income levels have always been at the core of housing policy problems. They argue that while the current housing affordability crisis is rooted in these very fundamentals, the challenge of housing affordability has now extended to population segments once believed immune from affordability problems. “No longer is the housing affordability issue solely the province of very-low-income households; it is now a middle-class issue.”

Linneman and Megbolugbe (1992, p. 370) suggest that the housing affordability issue, in terms of middle class affordability, may be one manufactured rather than real in the light of growing expectations and a reluctance to forgo current expenditure to secure a deposit. They go on to argue, however, that the low-income housing affordability issue is real, but remains an issue of income inadequacy colliding with higher prices required for a dramatically improved housing stock.

According to Fallis (1993 cited in Carmichael et al. 1999) affordability emerged as the key housing issue in countries such as the United States and the United Kingdom during the late 1980s following the move towards more market oriented housing sectors. Whitehead (1991 cited in Freeman, 1997, p.1) suggests that “in the process there has been a fundamental shift away from the discussion of ‘housing need’, a concept grounded in defining social objectives for housing and public sector mechanisms for achieving them, towards affordability, based far more directly on providing assistance for lower income households to obtain the housing they require within a more market-oriented system.”

¹ Australia, United Kingdom, the United States and Canada.

Katz et al. (2003, p.1) writing in the US context suggests that the affordable housing challenge is further complicated by major market and demographic changes under way that are creating sprawling jobs-housing patterns, redefining individuals' and families' housing needs, and creating stark socio-economic differences between the country's regions.

Housing, Affordability and Policy Intervention Conclusions

A desire to overcome or reduce the inefficiencies and inequities in the housing market and deliver socially acceptable outcomes is the key reason why governments in New Zealand, in common with other OECD countries, traditionally intervene to varying degrees in the operations of the housing sector.

The main housing policy objectives that governments seek to address can broadly be grouped under the headings of improved access to, adequacy of and affordability of housing.

Housing affordability has three key dimensions:

- Affordability for renters;
- Affordability for would be home owners; and
- Affordability for existing homeowners.

Housing affordability, however, is about much more than just the ability to purchase or rent and sustain adequate housing at an acceptable cost. It is also about the contribution that housing can make to achieve positive outcomes in education, health, employment and building stronger communities.

3.3 Affordable Housing Defined and Measured

Affordable Housing Defined

There is no such thing as “affordable housing.” Housing, in and of itself, is neither affordable nor unaffordable. Affordability is not an inherent characteristic of housing, but a relationship among housing cost, household income, and a standard of affordability. The term “affordable housing” is at best meaningless and at worst misleading, for it ignores or obscures the central question of who can and cannot afford housing (Stone, 1994, p.443).

Over the last fifteen to twenty years the term ‘housing affordability’ has come into widespread popular usage. Although housing policy statements often include some statement such as ‘the provision of decent housing for all at ‘affordable costs’, governments have often been reluctant to explicitly define what they mean by affordable housing. Bramley (1994, p.10) suggests that the lack of official clarity on definitions reflects inherent ambiguities in the housing affordability concept as well as political caution or expediency. Definition has for the most part been left to academics and practitioners working in the housing sector. Having said that, governments have set objective benchmarks for measuring housing affordability – a necessary prerequisite for intervention.

Before looking at definitions of housing affordability it would be useful to briefly note some of the issues around housing affordability which make definition difficult. First off it is worth asking why we need to define housing affordability? Whitehead (1991, p.872) notes that because markets deliver affordability outcomes that are deemed unacceptable to society, suitable definitions of what is regarded as affordable need to be developed to facilitate operational interventions. Such definitions inherently involve value judgements about not only the quality and merit-good attributes of housing but also about the relationship between housing expenditure and household income and acceptance of the view that housing should represent no more than a given element within that income (i.e. normative affordability – society defines what households should pay).

What follows is a selection of affordability definitions gleaned from both the academic and practitioner literature.

Academic and Practitioner

Affordability according to Bramley (1990, p.16 cited in Hancock, 1993, p.127) means that “households should be able to occupy housing that meets well-established (social sector) norms of adequacy (given household type and size) at a net rent which leaves them enough income to live on without falling below some poverty standard.”

A definition described by Whitehead ”(Maclennan and Williams, 1990a, p. 9 cited in Whitehead, 1991, 872) as the then most quoted affordability definition stated that “affordability is concerned with securing some given standard of housing (or different standards) at a price or rent which does not impose, in the eye of some third party (usually government) an unreasonable burden on household incomes.”

“The answer is that any rent will be affordable which leaves the consumer with a socially-acceptable standard of both housing and non-housing consumption after rent is paid” (Hancock, 1993, p.144).

“A household is said to have a housing affordability problems, in most formulations of the term, when it pays more than a certain percentage of income to obtain adequate and appropriate housing” (Hulchanski, 1995, p. 471).

According to Field (1997, p. 802) affordable housing can be thought of as “physically adequate housing that is made available to those who, without some special intervention by government or special arrangement by the providers of housing, could not afford the rent or mortgage payments for such housing.”

“Definitions of affordability concentrate on the relationship between housing expenditure and household income and define a standard in terms of that income above which housing is regarded as unaffordable” (Freeman, 1997, p.2).

Policy

“The Australian Government’s National Housing Strategy (ANHS) defines affordability as “the notion of reasonable housing costs in relation to income: that is, housing costs that leave households with sufficient income to meet other basic needs such as food, clothing, transport, medical care and education” (Berry et al. 2001, p.10). In looking at affordability issues, the ANHS distinguishes between accessibility, ie the cost of becoming a home purchaser or entering into a rental arrangement, and affordability, ie the ongoing cost of housing in relation to gross income. (Australia National Housing Strategy, 1991, ix).

In the UK, a key guidance statement with respect to how affordable housing might be defined is contained in Circular 6/98 which states “the policy should define what the authority regards as affordable, but this should include both low-cost market and subsidised housing, as both will have some role to play in providing for local need” (Deputy Prime Ministers Office, 2002, p.12). Affordable housing is thus housing that is defined as being ‘affordable’ in the local context, and which covers a spectrum of outcomes including ‘low cost’ and ‘subsidised’.

The New Zealand Housing Strategy Affordability Report published in 2003 as part of the work undertaken developing the NZ Housing Strategy discussion document defined housing affordability in similar terms. “Housing affordability relates to the ability of households to rent or purchase housing in an area of choice at a reasonable price, the capacity of households to meet ongoing housing costs, and the degree that discretionary income is available to achieve an acceptable standard of living. There is an underlying principle that expenditure on housing should leave enough residual income to cover other basic living costs, as well as allowing households to save for irregular but unavoidable costs such as medical and dental care”(Working Party on Affordability Issues, 2003, p.66).

Most, but not all of the preceding affordability definitions, include both an adequacy of accommodation component and a residual income component. These two components can be considered the core of any definition of housing affordability.

It is important to remember that affordability refers both to rental affordability and home ownership affordability. Bramley (1994, p.10) for instance describes affordability as a dual concept. It may be used to refer to middle income, first time housing buyers who face access problems to the mainstream tenure of owner occupation and who are also vulnerable to interest rate variation. Equally, affordability can refer to the provision of rented homes to people with low incomes, and the way in which their rents and benefits alter their residual income.

The normative basis of the housing affordability definition has been widely criticised. Bramley (1994, p.103) notes that normative definitions of affordability tend to define the limits or norms of affordability in terms of certain ratios. He goes on to say that the basis for such ratios is often not very explicit, and may simply refer across to other cases or observed averages or arguments of fairness.

From an economic perspective normative based definitions of housing affordability are inherently flawed. “To us a housing affordability crisis means that housing is expensive relative to its fundamental cost of production – not that people are poor. Affordability advocates often argue for the ability to pay (for example, some percentage of income) as a relevant benchmark, but this again confuses poverty with housing prices. We believe that a more sensible benchmark is the physical construction costs of housing” (Glaeser & Gyourko, 2003, p.21)

Quigley et al. (2004, p.192) argue that economists are wary with the rhetoric of “affordability,” which jumbles together in a single term a number of disparate issues: the distribution of housing prices, the distribution of housing quality, the distribution of income, the ability of households to borrow, public policies affecting housing markets, conditions affecting the supply of new or refurbished housing, and the choices that people make about how much housing to consume relative to other goods. According to Quigley et al. this mixture of issues raises difficulties in interpreting even basic facts about housing affordability.

We conclude by quoting Linneman and Megbolugbe (1992, p.371). “Talk of housing affordability is plentiful, but a precise definition of housing affordability is at best ambiguous.”

Affordable Housing Measured

A wide range of affordability measures is used. These reflect the differing circumstances of people being housed (for example, renters compared to home purchasers); different objectives in attempting measurement (for example, assessing particular affordability configurations compared with changes over time); as well as conflicting views on the validity of different measurement techniques. In this subsection rental housing affordability measures and owner-occupier housing affordability measures will be considered in turn. There are, however, various commonalities between the two tenure types in terms of affordability measurement and these will be noted.

Rental Tenure Affordability Measures

Measures of rental affordability are used in different contexts. As such they sometimes relate to the rent of the dwelling in relation to the position of potential tenants or to the actual expenditure incurred by tenants in particular circumstances. They may also relate to the numbers and proportions of households, who, on some standard, require additional assistance (Freeman, et al. 1997, p. i)

There are two main rental tenure affordability measures, they are:

- The rent-to-income-ratio; and
- The residual income method.

The rent-to-income-ratio takes an individuals or households rent payment as a percentage of their income. The formulae for the rent-to-income-ratio varies according to whether gross or net income is used, whether dwelling rent or rent net of housing allowance is used, and whether utilities and some service charges are included in the rent (Freeman et al. 1997, p iii):

Freeman et al. et al. (1997, p.4) who reviewed the international literature on rental affordability have identified five ways in which the rent-to-income-ratio has been used:

- As a tool for national analysis and policy;
- For setting rent levels in social housing;
- Selecting tenants for these units;
- For setting housing allowances; and
- For determining grant levels.

Freeman's review showed that the rent-to-income-ratio had been used as a tool for analysing the national and regional housing situation in all countries² by housing researchers and in some countries such as Great Britain, the United States and Australia by national housing bodies. They noted that in most countries the rent-to-income-ratio, in an analysis and policy sense, had been used primarily as a tool to monitor trends in housing costs.

In some countries, the rent-to-income-ratio is used to determine rents for properties in the social housing sector (Freeman et al. 1997, p.5). For instance the Australian State Housing Authorities, the sole landlords of public housing in that country, use the rent-to-income-ratio in rent setting. Rents are set to between 20% and 25% of household income and a notional 'rent rebate', administered by the State Housing Authority, represents the difference between the actual rent charged and the market rent. The ratio used varies by State and by household type (Freeman, 1997, p.5). We would note that the Freeman review was undertaken during the mid 1990s. At that time New Zealand operated a demand side subsidy, the Accommodation Supplement, which was applied across rental tenures, including central government social housing. Since the late 1990s, when Labour under various coalition arrangements has been in power, New Zealand has returned to using the rent-to-income-ratio as a tool for rent setting in the central government social housing sector.

Freeman's review showed that the rent-to-income-ratio is used in a number of countries by public housing landlords as one, often the most important, means of rationing and targeting the scarce resource of government subsidised housing towards lowest income households, and thus keeping higher income households out. According to Freeman (1997, p.5) "administrators have to draw the line somewhere and they do so subjectively, prescribing a certain rent-to-income-ratio."

² The review of rental affordability covered the following countries. The United States, the United Kingdom, Australia, New Zealand, Germany and Sweden

The rent-to-income-ratio is also used to determine eligibility for demand side housing allowances (Freeman et al. 1997, p.6). The trend according to Freeman among Organisation for Economic Co-operation and Development (OECD) countries since the end of the 1970s had been to shift the emphasis of housing assistance from supply-side ‘bricks and mortar’ subsidies to demand-side housing allowances (Freeman, 1997, p.6). Freeman noted that one of the key arguments behind this shift was the supposed greater effectiveness of targeting subsidy to those most in need through demand-side subsidies. Because many countries during the 1970s and into the 1980s had experienced a rapid escalation of the housing allowance bill there was a strong desire, according to Freeman, to constrain this growth. The setting of levels of housing allowance is a key part of these subsidies, for the levels at which they are set determines the degree of targeting and the total subsidy bill (Freeman et al. 1997, p.6). A ratio is prescribed for a particular group of households and the allowance is set to bring households’ ratios to below the prescribed ratio. The ratio is used both to evaluate the need for housing allowances and the outcome of rents plus allowances in terms of household expenditure (Freeman et al. 1997, p.6). In terms of the New Zealand situation at that time Freeman (1997, p.8) observed that it was one English-speaking country where the rent-to-income-ratio was not used at all, explicitly or implicitly, in setting eligibility levels for the Accommodation Supplement.

Freeman’s (1997, p.8) review showed Great Britain to be the only country where the rent-to-income-ratio is used, and indirectly at that, in the setting of grant levels to social housing provision, namely the Housing Accommodation Grant (HAG) paid to housing associations.

Many authors have pointed out a number of shortcomings in using the rent-to-income-ratio as a measure of hardship, for assessing a household’s capacity to pay rent or for targeting housing assistance (Thalman, 2003, p. 291). The Australian National Housing Strategy notes that it “recognises some of the inherent limitations of measuring affordability primarily in terms of housing costs and income and the difficulty of developing a fully ‘objective’ measure” (Australia National Housing Strategy, 1991, ix).

Generic problems identified around the rent-to-income-ratio include:

- Any prescribed ratio is subjective. Rent-to-income-ratio ‘rules of thumb’ were developed without any scientific basis. Who sets standards for the consumption of other commodities as a percentage of income and when does a specified ratio level move beyond affordable to non affordable? (Hulchanski, 1994, Thalmann, 2003, p. 292, Australia National Housing Strategy, 1991, p. 6);
- It does not accurately describe a household’s ability to pay a particular housing costs – some households may not even be able to pay as much as 20% of income and still cover other costs. (Hulchanski, 1994, Bogdon et al. 1997, p. 48);
- The rent-to-income-ratio does not explicitly include the standard of housing quality being referred to, but rather relates to a particular set of minimum standards which are specified by regulation nor does it control for housing quality change over time³ (King, 1994 cited in Freeman et al. 1997, p.2, Bogdon et al. 1997, p. 48);
- The rent-to-income-ratio does not control for differences in preferences. High rent-to-income-ratios may conceal a strong taste for residential comfort. Low rent-to-income-ratios may conceal situations of deprivation (Bogdon et al. 1997, p. 48, Thalmann, 2003, p.292);
- It does not account for differences in housing costs resulting from accessibility premiums or perceived higher neighbourhood quality (Bogdon et al. 1997, p. 48, Australia National Housing Strategy, 1991, ix);
- Rent-to-income-ratios may increase in a situation where in fact more affordable housing becomes available and families no longer need to double up. Looked at another way, the measure cannot indicate the extent to which housing arrangements, such as sharing, which may be unsatisfactory, are resorted to in order to obtain affordable housing (Thalmann, 2003, p.292, Australia National Housing Strategy, 1991, ix);
- For what is essentially a straightforward measure of the ratio between rent and income, there has been considerable debate about which formula to use to calculate the ratio in part because it is being used in different contexts. The choice of formula affects the way the ratio behaves, leading to different perceptions about affordability. There has also been considerable discussion about the need to take account of after tax disposable income rather than before tax or gross income. (Freeman et al. 1997, p.3).
- The rent-to-income-ratio takes no account of upfront costs that renters need to meet such as bond money and rent in advance (Australia National Housing Strategy, 1991, 5).

³ To control for distortions that improvements in housing quality introduce into housing affordability measures, Lerman and Reeder (1987) developed a quality based measure of housing affordability problems based on the cost of housing that just meets the standard of adequacy (cited in Linneman and Megbolugbe 1992, p.372)

Despite all of the issues noted on the previous page the rent-to-income-ratio has the advantage of being easy to calculate and easy to comprehend. In addition, data for computing this measure are readily available from a number of sources. Because the measure is a ratio, it can be easily compared across areas and over time. According to Freeman et al. (1997, p.3) the rent-to-income-ratio measure is the simplest and most common affordability measure, used in some way in each of the countries studied. This is largely due to the lack of an alternative that can be computed and understood with as much ease (Thalmann, 2003, p.292). Hulchanski (1994) concludes that the rent-to-income-ratio can be used in a valid and reliable way for the description of household expenditures and the analysis of trends, but it cannot be used in a scientific way for defining eligibility levels for housing allowances, tenant selection or rent setting. This is because the ratio does not accurately describe a household's ability to pay a particular housing cost.

Residual Income Approach

The residual income approach⁴ addresses one of the most significant criticisms of the rent-to-income affordability measure, that many of the lowest income households cannot afford to pay even 30%, 25% or 20% of their incomes for housing.

Residual income is calculated as net income, less the rent, less a minimum income amount laid out, generally in a country's welfare system (Freeman et al. 1997, p.iii). The use of residual income measures in assessing housing affordability emerges mainly from the discussion of the social security system and household budget standards (Freeman, 1997, p.8). General income policy hardly uses the rent-to-income-ratio. Rather, income assistance commonly relies on estimates of the income families need to pay for a basket of necessities, which includes suitable housing.

A variant of the residual income approach is the 'shelter-poverty' standard (Stone, 1993,1994). Stone advocates the "shelter poverty" standard, a sliding scale on which the maximum proportion of income available for housing varies with income and household size and type. The maximum amount available for housing is disposable income less the cost of achieving a minimal standard of non-housing consumption. If a household actually pays housing costs, which exceed what they are presumed to be able to afford, the household is classified as shelter poor. According to Stone, the rent-to-income-ratio understates the affordability problems of families with children and other larger households in comparison with one and two person households. The rent-to-income-ratio also overstates the affordability burdens of higher income households.

⁴ See Bourassa, S. (1996);

According to Freeman (1997, p.8) the residual income approach is looked at by a number of government and non-government housing institutions, but it is most discussed by academic commentators in relation to the discussion of merit goods. Freeman noted that amongst the countries considered, the residual income measure is rarely prescribed as a specific measure of housing affordability.

While the residual income approach addresses one of the most significant flaws of the rent-to-income-ratio - that not all households can afford to pay a defined percentage of income for housing, most of the other flaws of the rent-to-income-ratio also affect his measure. Philosophically, the residual income approach focuses more attention on income than on housing, since it shows the general inability of certain households to purchase the basic necessities of life (Bogdon et al. 1997, p. 49).

Chaplin et al. (1994 cited in Freeman, 1997, p.23) proposed the combined approach of using both the rent-to-income-ratio and residual income measures, recognising that each measure provides a different perspective to the fundamental interplay between rents, incomes and housing allowances. Freeman and Whitehead (1991 cited in Freeman, 1997, p.23), however, noted that there are difficulties in interpreting the two measures together, for in places results of the two measures suggest conflicting conclusions. They go on to suggest that the two measures have complimentary relative strengths, such that residual income is better at comparing the affordability situation of two household types, whilst the rent-to-income-ratio is better able to measure changes in affordability of one household type geographically and through time.

Home Owner Affordability Measures

There are a number of home owner affordability measures. The most commonly used is one similar to the rent-to-income-ratio and relates average house price to average household incomes⁵.

As with the rent-to-income-ratio a number of problems have been identified around the average house price to average income ratio:

- Monthly home owner costs may be a misleading measure because the true measure for home owners is the user cost, which includes expected appreciation (which, if positive, may offset some high current costs (Bogdon et al. 1997, p. 48, Linneman and Megbolugbe 1992, p.372);
- Ignores other components of ownership costs, including mortgage interest rates and deposit payments. Deposits can result in too high entry-level costs for some purchasers, whose incomes could sustain mortgage payments. While lower interest rates reduce the income necessary to purchase a home, they do not directly reduce the deposit requirements. (Bogdon et al. 1997, p. 48, Linneman and Megbolugbe 1992, p.372);
- It fails to control for locational variations in median income and the mix of homes available for sale (Linneman and Megbolugbe 1992, p.372);
- It is not clear why the housing cost burden should be expected to be constant over time; given the life cycle patterns of housing demand where younger households buy more housing than their current income may bear, based on the expectation of future income growth (Linneman and Megbolugbe 1992, p. 372); and
- It does not control for changes in the quality of the housing stock over time or increased ratios that result from changing tastes for housing amenities (Linneman and Megbolugbe 1992, p.372, Gyourko and Tracy, 1999, p.68).

Two other types of home owner affordability measures are commonly used. One calculates accessibility by calculating the time taken, earning a certain level of income, to build a deposit which will enable entry into the local housing market at accepted equity/loan ratios.

⁵ Alternatively, median house prices to median household income.

The second calculates affordability for existing home owners by a combined measure of interest rates, house prices and income. AMP's Affordability Index is of this type.

Affordable Housing Definition and Measurement Conclusions

While recognising the significant subjective issues and associated difficulties around the measurement of housing affordability, various national and other agencies have set objective measures for measuring affordability.

The Canada Mortgage and Housing Corporation determines a household to be below its "affordability standard" if it spends more than 30 percent of its income on housing costs.

The Affordable Housing National Research Consortium in Australia notes that "affordability is a complex issue, yet it can perhaps best be dealt with using a benchmark know as 'housing stress.' They set a conservative benchmark of 'housing stress' specifically chosen in order not to overstate the problem which shows that households in the lower forty percent income bracket who pay more than 30% of their gross income on housing costs, whether renting or buying, are said to be in 'housing stress' (Affordable Housing National Research Consortium, 2001, p. 2).

How to measure affordability is not specifically defined in the NZ Housing Strategy discussion document, however, it does state that most countries judge housing to be unaffordable if its cost exceeds 25% to 30% of the net income of low-income households (Housing NZ Corp, 2004, p. 15).

It is of interest to note that the New Zealand Housing Strategy Affordability Report published in 2003 stated "a 25% outgoings to income (OTI) or similar 'affordable' threshold is not considered the most appropriate indicator of affordability. Residual income (ie household income less housing costs) adjusted for household composition, can link affordability to standard of living, and is a preferred indicator of housing affordability" (Working Party on Affordability Issues, 2003, p.68)

The Auckland Regional Affordable Housing Strategy states “for the purposes of this strategy housing is considered to be affordable if households can sustain suitable and adequate housing by spending a maximum of 30% of their gross income”(Regional Growth Forum, 2003, p.9). It notes that this definition is consistent with those used by a number of other countries and that the strategy is focused mainly on households in the bottom four deciles (40%) of household income, as it is these households who are least likely to be able to afford to purchase suitable and adequate housing. The Auckland Regional Affordable Housing Strategy includes people who are paying rent as well as people servicing mortgages on their own homes (Regional Growth Forum, 2003, p.9).

We find the affordability measure proposed by the Affordable Housing National Research Consortium (Australia) and the Auckland Regional Affordable Housing Strategy, ie spending no more than 30% of household income on housing by the bottom four deciles (40%), to be perhaps the most useful intuitive working affordability measure, chiefly because it focuses on those lower income households known to face the greatest affordability constraints. The issue, however, of sufficient residual income post housing costs remains.

3.4 Why is Affordable Housing Important?

Housing has profound and often unappreciated impacts upon our lives. It directly affects our quality of life, our health and well being; it determines our transport needs and often our choice of work; it affects our family structures and our friendship networks. Housing also affects our national economic well being: the rate of economic growth and our prosperity. It also influences the distribution of resources between regions, individuals and generations (Baker, 2003, p.1).

Housing affordability is important for a wide range of reasons. Perhaps the most fundamental 'economic' factor is that housing is the single largest expenditure item in the budgets of most individuals and households (Quigley et al. 2004, p.192). Any changes in housing affordability, up or down, can have significant impacts upon other parts of the household budget. Research has consistently found a positive relationship between poverty and housing costs, especially for households in the private rental sector (Affordable Housing National Research Consortium, 2001, p. 16).

Individual households, when faced with insufficient incomes or insufficient residual incomes are likely to trade-off: housing costs against one or more dimension of housing adequacy, for example, by moving into inadequate housing that is overcrowded, or substandard, or in a remote location" (Working Party on Affordability Issues, 2003, p.66).

Overcrowding can give rise to other consequences. It may also transform into outright homelessness, where housing costs become unsustainable (Affordable Housing National Research Consortium, 2001, p. 17). There is a clear pattern of association between substandard living conditions and an increased incidence of poor health, physical and mental. In addition, poor living conditions are associated with other costs to the individuals concerned including underachievement in education, and lack of skills affecting ability to gain employment (Working Party on Affordability Issues, 2003, p.66). The locational concentration of lower cost housing in areas of low employment can reduce the job prospects of households forced by lack of resources to live there (Affordable Housing National Research Consortium, 2001, p. 17). Children living in temporary, overcrowded or otherwise inadequate housing may suffer educational disadvantage. Poor housing leading to poor health can, in turn, adversely affect school attendance and performance. Insecurity of tenure and frequent forced moves will disrupt a child's schooling and may lead to truancy. (Affordable Housing National Research Consortium, 2001, p. 18)

Inadequate housing and associated financial stress can contribute to family breakdown, as well as result from it. According to the Australian based Affordable Housing National Research Consortium, without secure tenure over housing of a reasonable standard, large enough to meet the minimum shelter requirements of a household for its size and composition, normal 'family life' is well nigh impossible to support (Affordable Housing National Research Consortium, 2001, p. 17). By extension, where a household has insufficient resources to meet the barest of necessities, full participation in the normal life of the community is impossible and other problems result (Affordable Housing National Research Consortium, 2001, p. 16)

There is evidence that permanent, secure housing provides the necessary base for 'social capital' (ie the mutual trust and social behaviours) that facilitates civic engagement. Neighbourhood stability, in the sense of low resident turnover, is associated with high levels of social capital and good, basic, housing standards. Conversely, where that social capital disintegrates, so does social cohesion. Where this occurs, segments of the community will experience social exclusion; in effect they will be prevented from full participation in the life of the community. When social cohesion fades, then so does the attractiveness of an environment as a place in which to live and do business. Adequate and affordable housing is a necessary ingredient in the achievement and maintenance of an inclusionary, innovative and productive society (Affordable Housing National Research Consortium, 2001, p. 19).

According to Berry (2003, p.415) a lack of affordable housing not only poses a threat to the cohesion of the broader society but also imposes significant constraints on the economy as well. He has identified a number of reasons why, for economic well-being, housing affordability is important, particularly for urban regions:

- Poor housing affordability can impinge innovation drivers: Successful regional economies risk alienating young, creative workers at the beginning of their careers if the struggle to get a foothold in the local housing market is too great.
- Liveable Cities: "The reality - or even the public perception - of communities rent by polarising differences, visible poverty and homelessness, soaring crime and an impoverished public realm raises strong barriers to the influx of investors and key workers, reinforcing and hardening the emerging patterns of spatial inequality. Housing markets, if left unchecked, may play a central role in this dynamic."
- Access to Labour: "High housing costs can encourage some low-to-medium paid workers to migrate elsewhere in search of affordable housing and sustainable lifestyles, raising the possibility of labour shortages in particular locations and occupations. At a strictly functional level, successful metropolitan economies need plenty of low-paid service workers and medium-paid essential services workers, as well as high paid knowledge workers. Furthermore, there is little incentive for casual and part-time workers to travel long distances from home for short shifts, reducing 'flexibility' in labour markets."

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- Pressure on wages and salaries: “High housing costs contribute to upward pressure on local wages and salaries, which tends to undercut the competitive position of local producers, especially in trade-exposed industries.”
 - Crowding out of other consumption: “High housing costs may crowd out expenditure on other forms of consumption. This consumption constraint may impinge disproportionately on younger people, especially those carrying student debts.”
 - A Key to Community Cohesion: “Poorer households disadvantaged in the labour market suffer reduced effective access to affordable housing. This helps to lock or entrap people in areas where employment opportunities are shrinking, reinforcing their low-income status and further limiting their effective housing choices in a cycle of decline and deprivation. The other major cost to the community of problems caused, at least in part, by inadequate housing, tied to broader exclusionary forces, is the rising fiscal cost to government in dealing with the many resultant social problems.”

Why is Affordable Housing Important? – Conclusions

Housing affordability is important for a wide range of reasons. Research has consistently found a positive relationship between poverty and housing costs, especially for households in the private rental sector. Individual households, when faced with insufficient incomes or insufficient residual incomes are likely to trade-off: housing costs against one or more dimension of housing adequacy. There is a clear pattern of association between overcrowding and substandard living conditions and a range of adverse health, education and social outcomes. A lack of affordable housing not only poses a threat to the cohesion of the broader society but also imposes significant constraints on the economy as well.

3.5 Dimensions and Indicators of Housing Affordability

The literature has identified a range of factors that together contribute to housing affordability:

- Income (ability to pay);
- House prices and rents (payment required);
- Interest rates, nominal and real (mortgage repayments required);
- Labour market conditions (ability to participate);
- Mortgage and rent payments, (savings capacity, ability to increase housing consumption);
and
- Supply constraints (impact of zoning).

We will consider each of these factors in turn focusing specifically on the significant changes over the last ten to fifteen years.

Income

Income directly impacts upon a household's ability to secure housing that is affordable (leaves sufficient residual income), adequate and sustainable.

From a pure economic perspective most economists would dismiss the concept of there being an 'affordability' problem and argue that it is fundamentally an income deficit or income distribution problem (Skaburskis, 2004, p. 120).

Over the last twenty years, in all countries that experienced free-market reforms during the late 1980s/1990s, low income households' incomes have either remained static or fallen, while the top two income quintiles have seen significant gains. And this at a time when for the most part labour force participation has been increasing. In Australia, median household incomes have fallen in real terms between 1986 and 1996, with the falls greater still for households in the lower 40% bracket of income (Affordable Housing National Research Consortium, 2001, p. 8). According to Linneman and Megbolugbe (1992, p.370) sluggish income growth can in part be attributed to global economic restructuring that has relocated large numbers of low-skilled manufacturing jobs from developed countries to the Third World. Burke (2001, p.3) also points to demographic and social processes, for example, an increase in low income households such as singles and sole parents.

Linneman and Megbolugbe (1992) see the affordability problem as primarily income related and only partly due to inadequate housing supply while Feldman (2002, p.2) concludes that the shortage of income is largely behind the housing affordability problem, despite the current focus on housing.

House prices and rents

House price levels and rent levels set the payment required to secure housing. Real, inflation adjusted, house prices have increased in the majority of OECD countries over the last ten years. Low inflation has meant that central banks have been able to reduce interest rates. This has encouraged mortgage borrowing and fuelled house price inflation. The role of private investors has been particularly important in this regard driven by a range of taxation settings favouring such investment. Strong economic growth, full employment and rising wages have played their part. The growth in value has not been evenly distributed around each country. Typically, the larger metropolitan areas have experienced stronger appreciation in values than other areas (DTZ, 2004, p. 103).

In New Zealand real residential property values have appreciated by 2.1% per annum between 1982 and 2002. The strongest growth was experienced in the main metropolitan centres and sunny coastal locations. For example, the real annual growth rate was 3.2% per annum in Auckland, 2.2% per annum in Wellington, 1.8% per annum in Nelson and -1.8% per annum in Southland (DTZ, 2004, p. 98). The ratio of income to house prices has increased for all regions except Southland in the twenty-year period to 2001 (DTZ, 2004, p. 100). New Zealand wide, rents have increased by 166% since 1987 whilst household income for renters has increased by 59% (DTZ, 2004, p. 100).

In New Zealand over the last twenty years median house prices and median rents have for the most part grown at a faster rate than incomes. However, there are significant regional variations. The impact of increasing rents and house prices has been most pronounced on households in the lower two income quintiles, which have experienced declining real incomes over that period. The growing disparity between house price, rents and median income, particularly for lower income households has been a global phenomenon.

As rents and house prices have been increased at a greater rate than incomes, so too has the costs of housing. In New Zealand since December 1981, house construction costs have increased by 260% in nominal terms or 24% in real inflation adjusted terms (DTZ, 2004, p. 100). Linneman and Megbolugbe (1992, p.370) have suggested that as building standards and codes have proliferated and grown increasingly stringent the gap between the cost of producing new housing and the house-buying power of low income US families has widened. They go on to say that low income U.S. households have been plagued by falling real disposable incomes and rising tastes for housing quality, requiring greater proportions of their income to be spent on housing.

Interest rates

Interest rates determine the cost of borrowing for home owners. Over the last twenty years there has been a significant decline in worldwide interest rates. These low interest rates have been a significant factor in fuelling global house price appreciation.

Labour market conditions

Labour market conditions impact upon households ability to participate in the housing market – specifically the ability of those in rental tenure to move into owner-occupier tenure. AHURI (2003, p. 1) for example, have suggested in the case of Australia, that the purchasing behaviour of first home owners is being affected by labour market changes such as increased casual and insecure employment.

Mortgage and rent payments

Current mortgage and rent payments can impact upon savings capacity and the ability to increase future housing consumption. While there is a risk of housing affordability difficulties amongst first home owners if interest rates rise significantly or if there is an unanticipated interruption to their income, many households on lower incomes (primarily private tenants in the bottom 40% of the income distribution) face such high housing costs that they are unlikely to be able to save the money required to become a first home owner. Housing affordability problems in the private rental market can translate into a home ownership accessibility problem (AHURI, 2003, p. 1).

Supply Side Constraints

Supply side constraints refer to the lag in the provision of new supply in response to market demand signals. Supply side constraints are multi faceted. They can refer to factors, which constrain the supply of new housing, for example, building codes and zoning ordinances. They can also refer to factors, which remove low cost stock from the market such as regulation, divestment (more and better alternatives), gentrification and loss or slow growth of social housing.

The Working Party on Affordability Issues (2003, p.70) points to supply constraints impacting on the affordability of housing in a number of ways:

- There is insufficient supply of housing (within the cost parameters) for some low income households, for example, insufficient single-bedroom units; and insufficient supply of housing in some locations, for example, reasonable quality housing in rural locations where populations are increasing.
- Housing that is affordable is not acceptable to the household for 'need' reasons (not preferences).
- Insufficient social housing available. High needs includes some households with members with disabilities, refugees, sole parents and extended families. Mismatch in some areas between affordable dwelling stock and the composition of households.
- Capital constraints on both public borrowing for public housing and investment in private rental housing is contributing to the worsening affordability problems being experienced in the private rental sector.

Dimensions and Indicators of Housing Affordability – Conclusions

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- Mortgage and rent payments, (savings capacity, ability to increase housing consumption);
and
- Supply constraints (impact of zoning).

3.6 Trends in Housing Affordability in New Zealand

We will briefly review here trends in housing affordability in New Zealand from five main sources:

- Housing New Zealand Corporation;
- DTZ New Zealand Ltd;
- Massey University Real Estate Analysis Unit;
- Statistics New Zealand; and
- BERL.

Recognise that the review here is not exhaustive, but merely a synopsis of some of the key trends.

Housing New Zealand Corporation's (HNZC) - Post Election Briefing to the Incoming Minister of Housing, August 2002 (Housing New Zealand Corporation, 2002, p. 20-22).

- In the first half of the 1990s the cost of home purchase and renting were comparatively favourable. Then, during the property boom of the mid-1990s house prices and rents eclipsed the movement in the cost of other goods and services and food.
- Since the mid 1990s, while the price of home purchase has converged with other costs, in the two years to March 2002 the average cost of renting fell by about 10%. This coincided with the introduction of income related rents, but was also due to the easing of other sources of pressure in the Auckland housing market.
- Since the mid 1990s and up until March 2002, house prices and rents increased at a greater rate than the movement in average weekly earnings, and a typical social security benefit. As a result according to HNZC, affordability deteriorated between March 1993 and 1998 and in the period to March 2002 there was no improvement.
- HNZC notes that these figures mask regional differences. For example, housing affordability in Auckland for lower income households has been a continuing issue through the 1990s.
- HNZC notes that “expansion of the social housing stock at current rates will only alleviate housing shortages at the margin and demand will continue to exceed supply.”

DTZ New Zealand Ltd in early 2004 prepared a report for the Centre of Housing Research Aotearoa New Zealand titled “Changes in the Structure of the New Zealand Housing Market” which summarised trends in housing affordability in New Zealand since 1980 using a range of sources (DTZ New Zealand, 2004, p.141-152).

- Mortgage costs for households with mortgages increased from 14.3% of household income in 1988 to 20.7% in 2001.
- The proportion of income paid as rent for rented-households increased from 11.5% in 1988 to 16.8% in 2001.
- Total housing costs for renters increased by 166% since 1987 while their income increased by only 59%.
- Housing costs for all tenures (rented and owned combined) increased by 80% while incomes increased by 69% over the same period.
- In 2001 households with mortgages had the highest total housing costs as a percentage of income at 24.2%. The figure for renters was 21.7% and for owner occupiers without a mortgage, 9.7%.
- In terms of the AMP Affordability Index which combines the cost of finance, median disposable income and median house values at a regional level into an index, the trend shows that affordability as at late 2003, was in fact better than it had been in the late 1980s, early 1990s and during the mid 1990s and not greatly different to affordability during the early 1990s and late 1990s.
- Auckland has consistently had the worst regional affordability in the period since 1989 according to the AMP Affordability Index. Wellington closely followed the national average whereas the majority of the other main centre regions had slightly better than national average affordability.
- With the exception of the Nelson/Tasman regions in recent times, the smaller regions in New Zealand have all had consistently better affordability levels than the national average since 1989.

The *Massey University Real Estate Analysis Unit* in late 2003 published a report that focused on household's ability to save the minimum deposit needed in order to purchase a property.

- Information on the savings patterns of New Zealand households was accessed from the Household Economic Survey carried out in 2001 by Statistics New Zealand. The data showed that average weekly savings for all households, from the survey, was \$20.60 and for renter households \$10.20.
- It was assumed that the typical first home purchase would be at the median house price for the region in which the household was purchasing and that the required deposit would be 10%.
- On that set of assumptions the unit calculated, by territorial local authority, the number of years required to save a 10% deposit assuming that savings earned an average after tax interest rate of 4% and that this was accumulated (Table 3.1).

Table 3.1: Years Taken to Accumulate Minimum Deposit for House Purchase

As at late 2003	Monthly Savings		
	\$50	\$60	\$70
Whangarei	26.47	22.22	19.14
North Shore	57.56	48.70	42.21
Waitakere	39.81	33.53	28.97
Auckland	60.98	51.64	44.79
Manukau	48.18	40.66	35.18
Papakura	33.76	28.39	24.49
Hamilton	29.10	24.44	21.07
Tauranga	36.50	30.72	26.52
Rotorua	21.99	18.44	15.87
Gisborne	20.18	16.91	14.55
Hastings	27.42	23.02	19.84
Napier	31.06	26.10	22.51
New Plymouth	22.51	18.87	16.25
Wanganui	11.48	9.60	8.24
Palmerston North	25.36	21.28	18.33
Wellington Region	37.43	31.50	27.20
Nelson	38.13	32.10	27.72
Christchurch	29.7	24.95	21.51
Dunedin	22.86	19.17	16.50
Invercargill	14.82	12.40	10.66
New Zealand	33.91	28.51	24.60

Source: Massey University Real Estate Analysis Unit

According to McKinlay Douglas (2004, p. 10) and we would agree, the assumption that the purchase price will be the median dwelling price may produce an overly pessimistic outcome as the typical first home purchaser is likely to buy a cheaper rather than a dearer property. On the other hand, assuming a 10% deposit may be unduly optimistic.

Statistics New Zealand – Housing Indicators Survey Key Trends

Statistics New Zealand in 2001 initiated a housing indicators project looking at a range of housing indicators, including affordability. Stage one has been completed and the data published. Stage two, which will address indicators that housing statistics users would like developed but for which Statistics New Zealand does not currently have data, is underway.

With respect to affordability the two key indicator streams, which came out of stage one were housing cost indicators and rental costs indicators.

Housing costs:

Statistics New Zealand (2004a) notes that measuring the affordability of housing is complex and inexact. Household composition and choice are significant factors. As the composition of households varies, so does their ability and desire to spend large proportions of their income on housing. Households with dependent children, for instance, may be less able to spend more of their income on housing than households with no dependent children. Furthermore, households with higher incomes are able to exercise more choice over how much they spend on housing costs.

Table 3.2 presents data on the percentage of households by region with housing costs that are at least 25%, 30% or 40% of total net income.

Table 3.2: Household Housing Costs -% of Net Income – as a % of all Households 2000/2001

	Housing Costs as percentage of Net Income		
	25% or more	30% or more	40% or more
Regional Councils			
Northland	20.4%	13.5%	
Auckland	41.4%	32.2%	22.8%
Waikato	32.0%	23.2%	11.0%
Bay of Plenty	24.5%	19.6%	11.8%
Gisborne	21.4%	17.2%	13.7%
Hawkes's Bay	31.9%	26.3%	13.7%
Taranaki	30.2%	24.1%	15.1%
Manawatu-Wanganui	33.0%	23.7%	11.9%
Wellington	31.4%	24.0%	12.0%
Tasman	26.4%	22.5%	
Nelson	34.2%	18.4%	
Marlborough	33.5%		
West Coast	22.3%	17.2%	
Canterbury	32.4%	24.1%	14.4%
Otago	25.5%	21.6%	12.3%
Southland	12.8%	9.5%	
HES Regions			
Upper North Island	27.7%	21.0%	10.5%
Auckland	41.4%	32.2%	22.8%
Rest of North Island	31.7%	23.9%	12.4%
South Island	28.7%	21.4%	12.1%
New Zealand	32.7%	24.9%	14.8%

Source: Statistics New Zealand HES

In the Auckland Region, 22.8% of households spent forty percent or more of their net income on housing related costs. This was one of the highest proportions among all regions. Only 11.8% of households in the Bay of Plenty Region spent forty percent or more of their net income on housing costs, one of the lowest proportions for all regions. In the Canterbury Region 14.4% of households spent forty percent or more of their net income on housing, close to the national figure of 14.8%.

Table 3.3 presents data on the percentage of households by major region and tenure with housing costs that are at least 25%, 30% or 40% of total net income.

Table 3.3: Households Housing Costs-% of Net Income- as a % of all Households by Tenure –2000/2001

	Tenure of Household	
	Households Living in owner occupied dwellings	Households Paying rent for the dwelling they occupy
Regional Councils		
Auckland		
25% or more	32.0%	62.5%
30% or more	24.7%	49.5%
40% or more	16.2%	36.3%
Waikato		
25% or more	21.3%	44.7%
30% or more	13.4%	33.1%
40% or more	5.4%	19.2%
Wellington		
25% or more	19.3%	55.6%
30% or more	14.4%	40.1%
40% or more	9.2%	18.9%
Canterbury		
25% or more	20.5%	73.1%
30% or more	15.4%	49.7%
40% or more	10.5%	22.1%
New Zealand		
25% or more	23.4%	58.0%
30% or more	17.5%	45.2%
40% or more	10.8%	26.3%

Source: Statistics New Zealand HES

Evident from Table 3.3 is the difference in housing costs by tenure. Across the board households in rental tenure are paying a much larger proportion of their net income in housing costs than are those in owner occupier dwellings.

Rental costs:

Table 3.4 presents data on the trend in rent-to-income-ratios by region over the period 1991 to 2001.

Table 3.4: Rent-to-Income -Ratio (%) for Households Paying Rent

	Year		
	1991	1996	2001
Regional Councils			
Northland	22.3%	28.2%	28.5%
Auckland	29.8%	30.6%	30.8%
Waikato	19.9%	24.3%	26.6%
Bay of Plenty	24.1%	28.1%	30.5%
Gisborne	20.3%	29.3%	25.8%
Hawkes's Bay	21.0%	29.4%	27.6%
Taranaki	19.8%	25.5%	26.0%
Manawatu-Wanganui	19.3%	25.5%	24.8%
Wellington	23.0%	26.5%	25.6%
Tasman	19.7%	24.4%	27.4%
Nelson	27.5%	30.1%	31.6%
Marlborough	20.6%	24.7%	24.5%
West Coast	19.4%	24.5%	24.2%
Canterbury	22.7%	27.3%	28.6%
Otago	21.7%	26.2%	26.0%
Southland	16.7%	21.1%	20.2%
Area Outside Region	8.5%	12.1%	14.3%
New Zealand	22.4%	28.4%	28.1%

Source: Statistics New Zealand Census

Across all regions and the country as a whole rent-to-income-ratios have increased since 1991. However, over the period 1996 to 2001 rent-to-income-ratios remained relatively stable which we attribute to the re-introduction of income related rents in the state housing sector.

BERL- Housing Affordability in the Auckland Region Key Trends

BERL in 1999 prepared a report for the Auckland Regional Growth Forum looked at trends in the housing market in Auckland and their impact on the affordability of housing. BERL stated that it is not hard to argue that Auckland is a “special case” with respect to housing affordability (BERL, 1999 cited in Regional Growth Forum, 2003, p.46)

- Auckland has approximately 23,000 state houses, however 5,000 households are wait-listed for state houses.
- More than half of the households on national waiting lists are in Auckland. Of those who have been classified as category A or B priority (“at risk” or “serious need”) 63% are on Auckland waiting lists.
- House prices and rents are higher in Auckland than the rest of the country.
- The gap between house price growth and income growth has been higher in Auckland than the rest of the country. BERL found that between 1991 and 1996 house prices rose by 8.1% per annum (2% per annum more than the rest of New Zealand), while income increased by 2.8%. Interest rates fell during this period but the fall was not enough to offset the rise in house prices. The gap between house price growth and income, can according to BERL, be explained largely by in-migration (both from other parts of New Zealand) and overseas, which places ongoing pressure on demand.
- BERL noted that in 1999 it would not be possible to build a reasonable quality entry level brick and tile house, on a greenfield site anywhere in the Auckland region for much less than \$175,000. In 1999 nearly 40% of households in the Auckland Region had an income of \$30,000 or less. A household earning \$30,000 would be eligible for the Accommodation Supplement. However, they would not get the full entitlement. Assuming this household was able to save a 20% deposit, they could afford to purchase a house worth \$155,000 on a 25-year mortgage, paying an interest rate of 8.5%. Without the Accommodation Supplement they could afford a house only worth \$116,000 (BERL, 1999 cited in Regional Growth Forum, 2003, p. 46).
- BERL found that in 1996, 23,000 households (6% of all households) in the Auckland Region had incomes in the bottom four quartiles and paid rent more than 30% of their gross incomes. This represented a 35% increase since 1991. BERL did not estimate the number of households making mortgage payments in excess of 30% of their income. The Regional Growth Forum Report suggested that in the seven years to 2003 the number of renter households paying unaffordable rents had probably grown, although any growth would have been tempered by the return to income related rents in 2000 (BERL, 1999 cited in Regional Growth Forum, 2003, p. 46).

Trends in Housing Affordability in New Zealand – Conclusions

Affordability across a range of measures has reduced for both main forms of tenure in New Zealand over the last fifteen years. Affordability has reduced most significantly for those in rental tenure.

The decline in affordability across both owner occupier and rental tenure has been most marked in the Auckland Region.

It is worth noting that in terms of the AMP Affordability Index, which combines the cost of finance, median disposable income and median house values at a regional level into an index, the trend shows that affordability as at late 2003, was in fact better than it had been in the late 1980s, early 1990s and during the mid 1990s and not greatly different to affordability during the early 1990s and late 1990s.

It does seem likely, though, that those aspiring to home ownership are facing increased difficulty in crossing the threshold into home ownership as the deposit gap has increased.

4 AFFORDABLE HOUSING POLICY IN NEW ZEALAND

4.1 Introduction

This section will do a number of things. Firstly, it will very briefly outline the evolution of government policy around affordable housing over the last 50 years. Secondly, it will outline current government housing policy (both central, regional and local) as it relates to affordable housing. Current government policy objectives, approaches and concerns around affordable housing will play an important role in shaping the proposed research agenda. In this regard the recently released NZ Housing Strategy discussion document will provide valuable guidance in formulating a strategic framework for housing affordability research in New Zealand. Thirdly, it will review the key concerns of non-government-organisations (NGOs) and the private sector around current and potential future affordable housing policy options. Finally, it will conclude drawing the various strands of government policy together.

4.2 Affordable Housing Policy 1950 to 2000

New Zealand housing policy from the 1930s up until the late 1970s was divided between facilitating access to home ownership through a combination of regulatory and subsidy arrangements (for example, low interest loans, mortgage insurance) and the provision of social housing.

Housing affordability was never an explicit objective of government housing policy during this period. However, improving the affordability of housing for low incomes earners was always implicit in government policy. It was assumed that by focusing on increasing housing supply and increasing the supply of mortgage finance, housing affordability would be advanced. And this, for the most part, did happen. Because the government was a major supplier of housing through this period this tended to keep house prices low and affordable.

Government interventions, particularly during the early decades of the period were loosely targeted. Over time, however, initially as a filter on demand, government began to allocate and charge for housing resources with reference to measures of household need. Thus, various income measures were used to allocate both state rental housing and state housing loans and to set state house rents. A key feature of the housing policies of both Labour and National was the emphasis on families with children. Whether it was to qualify for state rental housing, or for assistance to purchase a home, eligibility was restricted to families with children, with one significant exception, low income older people.

The government's direct involvement in the housing market waned during the 1970s, with state intervention in the housing market increasingly couched in terms of welfare policy. During the 1980s and particularly after the election of the Labour government in 1984, government housing policy increasingly focused on defining 'housing need', and specifically directing resources to those identified with such need. Housing affordability too gained greater currency during the 1980s. In 1988, the Royal Commission on Social Policy reporting increased difficulties with housing affordability over the 1975 to 1986 period.

When the new National government took office in 1990 there was a radical shift in housing policy away from supply-side assistance and in-kind programmes such as subsidised rents and interest rates towards direct provision of income-targeted assistance (Accommodation Supplement)⁶. Underpinning the reforms was a persistent belief that the market was the appropriate mechanism for meeting housing need. In this context the reforms represented a distinct break with a long held tradition of government intervention to overcome market failures (Murphy, 2003, p.120).

A single tenure-neutral programme, which replaced the existing pattern of benefits and supports, was intended to eliminate non-uniform treatment for those needing housing assistance, while a subsidy rate of less than 100% for those on the Accommodation Supplement was intended to provide an incentive for eligible households to reduce their housing costs. Associated with the introduction of the new supplement was the move in social housing rentals to market rates. In effect, the government reduced housing problems to a single issue with housing affordability identified as the major problem facing households (Murphy, 2003, p.120). Moreover, access to affordable housing was seen largely as an issue of inadequate income, to be addressed through income support, rather than something that the state should deal with through physical provision.

⁶ Strong support for this change came from the New Zealand Treasury which had argued from the mid 1980s onwards for an indirect system (Thorns, 2000, p.130).

Notwithstanding the intent of the reforms, issues of housing affordability became more problematic throughout the 1990s, especially for beneficiaries, who faced both increased housing costs and reduced real benefit rates. Murphy (2003, p.121) has argued that the reforms of the 1990s were pursued within an ideological context that ignored the historical specificities of housing markets and in particular ignored issues such as discrimination in the housing market, the inelastic nature of housing supply, the high transaction costs involved in moving within the rental market (especially for low-income groups) and the uneven power relations between landlords and tenants.

The incoming Labour government over 1999/2000 reversed the demand-side reforms of the National government. Specifically, it reintroduced income related rents for state tenants (effective December 2000), stopped the sale of state rental housing and began to rebuild the stock. The Accommodation Supplement was retained for those facing affordability difficulties in the private rented sector. The government had also signalled, without being specific, that it was unhappy at the prospect of further sales of local authority owned housing stock and was interested in exploring opportunities for partnership in the development of affordable housing (McKinlay Douglas, 2004, p. 2).

4.3 Current Affordable Housing Policy.

Central Government

The government delivers a range of both supply side and demand side housing assistance programmes to address affordability.

The key policy interventions are:

- Income related rents for tenants in state rental housing (supply);
- The Accommodation Supplement (demand);
- Mortgage insurance scheme (trial); and
- Third sector and local government housing initiatives.

What follows is a brief overview of each of these interventions and where applicable some comment as to current issues.

State Rental Housing – supply side affordability assistance

State rental housing is targeted at households with the greatest housing need, whose needs are unlikely to be met by the private market. State housing is allocated using set criteria to ensure that it is provided to those in the greatest need. ‘Need’ is defined by HNZA as an inability to access and/or sustain housing that is suitable, adequate and affordable. Eligibility is determined on the basis of residency status, income and assets and need. Once eligibility is established, priority is given to households experiencing housing and financial stress that is severe, urgent and likely to persist over time and who are having difficulty functioning in the private market.

Priority for housing is determined according to placement on the waiting list, which is divided into four segments:

- ‘A’ priority households have severe and persistent housing needs that must be addressed immediately;
- ‘B’ priority households have significant and persistent housing needs;
- ‘C’ priority households have moderate housing needs; and
- ‘D’ priority households are experiencing lower-level housing needs, or are disadvantaged, and/or may be able to function in the market.

Which segment a household is placed into is determined according to a 'priority matrix'. This involves an assessment of the level of risk the household faces by reference to the following need indicators:

- Affordability of current housing, on the basis of the residual income test;
- Adequacy of current housing;
- Suitability of current housing;
- Ability to access housing; and
- Ability to sustain housing.

When a state rental property becomes vacant, or new supply is available, HNZC seeks to match applicants with housing that meets their requirements, with priority being given to applicants with the greatest relative need (ie highest on the waiting list).

The number of households on Housing New Zealand waiting lists and classified as priority A or B ("at risk" or "serious need") suggests that there is a need to increase the supply of "social;" housing. Housing New Zealand Corporation's rental housing numbers have increased by 3,800 since 1999 and now stand at almost 64,000 (Housing NZ Corp, 2004, p. 21). The government is committed to building, buying or leasing over 3,300 additional state houses in the next four years, 73% of those in Auckland (Housing NZ Corp, 2004, p. 21).

The Accommodation Supplement – demand side affordability assistance

The Accommodation Supplement is a form of 'second tier' income support, targeted at specifically addressing housing affordability. It is available to low-income individuals and families (other than state house tenants) who meet certain criteria relating to income, assets and accommodation costs, regardless of their tenure type (they can be renters/borders or homeowners).

Accommodation Supplement subsidises 70% of costs over and above a minimum amount that the individual or family is expected to meet (the 'entry threshold'), up until the amount of subsidy reaches a notional ceiling ('the maximum'). Entry thresholds and maxima vary according to household composition and location. This assistance supplements the main income of the recipient, whether that is 'first-tier' income support (e.g. unemployment benefit) or earned income.

Work and Income delivers the Accommodation Supplement as part of the overall benefit system. People who spend at least 25% of their income on housing (30% for home owners) are eligible for the supplement⁷.

⁷ In 2002/2003 The Accommodation Supplement was paid to over 252,000 recipients at a cost to the government of \$4,740 million (Housing NZ Corp, 2004, p. 17).

Key issues around the Accommodation Supplement identified in the NZ Housing Strategy discussion document were as follows (Housing NZ Corp, 2004, p. 17):

- Changes in housing costs vary across regions and the current Accommodation Supplement boundaries do not accurately reflect recent price movements in some areas;
- Maximum payments rates for different family types have not been reviewed since 1997⁸;
- Increasingly, low income households are turning to the Special Benefit to meet high housing costs. An estimated 37% of all those claiming the Special Benefit are paid the maximum supplement;
- The abatement regime creates work disincentives; and
- The different entry and income thresholds for non-beneficiaries create barriers for some beneficiaries moving into low-income work.

The authors note the recent budget announcements (May 2004) around the Accommodation Supplement. Primarily the significant increases in the Accommodation Supplement, the creation of a new Accommodation Supplement area in central and north Auckland, with new, higher maximum rates in Wellington, Queenstown and Nelson. In short changes announced in the Budget would allow more people to qualify and families with children would be able to earn more before their supplement is reduced.

Mortgage Insurance Scheme –demand side affordability

In the May 2003 budget a 22-month pilot Mortgage Insurance Scheme to be run in partnership with Kiwibank was announced. The scheme, which was launched on 22 September 2003, is designed to facilitate lending to households on modest incomes who do not meet commercial credit criteria but who can, in HNZC's estimation, still support a loan. HNZC is acting as the mortgage insurer and underwriting the loans, which enables Kiwibank to reduce the risk of lending to people who would otherwise not be eligible. Groups who may benefit from the scheme include first-home buyers who are either HNZC tenants paying a market rent, or extended family households who have more than two main sources of household income. The scheme is also aimed at first-home buyers on modest incomes with little or no deposit and second chance buyers, such as those who have suffered a relationship breakdown.

Eligibility is limited to individuals or couples earning up to \$55,000 a year (increased from \$50,000 on 1 March 2004). Households with three or more primary sources of income can earn up to \$100,000 a year. Applicants will need to have a good credit history, be able to afford repayment and meet other conditions. HNZC will allow lending up to 100% of a property's value (ie no deposit) for properties costing up to \$150,000 (increased from \$100,000 on 1 March 2004). A standard 5% deposit will apply for properties over \$150,000 up to a maximum insurable loan of \$280,000.

⁸ An increase in payment rates was announced with the May 2004 budget.

The Mortgage Insurance Scheme is significant in that it represents the first subsidised assistance for lower income households into home ownership since the housing reforms of the early 1990s. The government in justifying the programme pointed specifically to the decline in home ownership rates and the implications for social and health outcomes – security in old age, adequate retirement income, aggregate household savings, and, growth in Accommodation Supplement payments.

Third sector and local government housing initiatives

The government's May 2003 initiatives included provision of a total of \$63 million over four years for third sector and local government housing initiatives. Third sector support would come through the Housing Innovation Fund and support for local authority housing through the Local Government Housing Fund. The initiatives aims are twofold:

- Encouraging local authorities to increase and/or upgrade their housing portfolios through an interest free loan to 50% of cost or in the case of reconfigurations up to maximum of \$30,000 per unit.
- For third sector groups seeking to build or buy social housing, the fund will contribute 85% of the cost.

Regional and Territorial Local Authorities

Intervention in the provision of affordable housing in a welfare sense has traditionally been viewed as the responsibility of central government (Regional Growth Forum, 2003, p.8). This stance has been based on the view that income redistribution properly belongs to the entity, which has access to the income tax base (McKinlay Douglas, 2004, p. 16). However, local government, specifically territorial local authorities, has played an important role in provision of housing for the elderly. This role arose out of a specific funding arrangement (a mix of low interest loans and grants) with central government and was based on the expectation that it would be done largely on a costs recovery basis, that is, at little or no cost to the ratepayer.

The key way in which local government has had an impact upon housing affordability, beyond the provision of pensioner housing, has been via regulatory functions related to urban growth and urban form. Local authorities are required to administer a range of acts including the Resource Management Act 1991, the Building Act 1991 and the Local Government Act 2002.

The Resource Management Act 1991 requires regional councils to prepare a regional policy statement, which may limit where growth can occur in a region. Territorial local authorities must produce district plans, which are likely to contain controls on the location, type and density of housing. While the purpose of these controls is to maintain largely environmental standards they can also have an impact on the affordability of housing (see Subsection 5.4).

Territorial local authorities are also required to administer the Building Act 1991, which is intended to ensure that buildings are constructed to acceptable standards in terms of durability, structure, amenity, safety, energy efficiency, lighting. Note, however, that while standards do have an impact on affordability, they are set nationally by central government rather than locally by local government.

The early 1990s central government housing reforms saw an end to the funding relationship between central government and territorial local authorities. This resulted in territorial local authorities during the 1990s re-evaluating its role in the direct provision of housing. Some, mainly those with small holdings, but including the Auckland City Council, sold their entire stock. Others sold non-pensioner stock and a few have maintained (Wellington City Council) and even increased their stock. Across the country, Wellington and Christchurch are today the largest providers.

As well as continuing to own housing stock a number of territorial local authorities over recent years have begun to explore and consider a potentially wider role for themselves in housing and around the issue of affordability in their jurisdictions. Statutory support for a wider role came with the passing of the Local Government Act 2002. Amongst other things the Local Government Act 2002 results in each council (district, city, regional) having a statutory role to promote the social, economic, environmental and cultural wellbeing of communities, in its district or region, in the present and for the future.

McKinlay Douglas (2004, p. 17) states that in terms of housing, the Local Government Act 2002 means that local authorities obligations now include, to the extent that housing is an issue for its community, the obligation to identify the community's housing related outcomes and to make judgements regarding whose responsibility it is to deliver those outcomes. They go on to state that the Local Government Act 2002 can be seen as putting local government at centre stage in terms of identifying housing need and options for meeting that need.⁹ They caution, however, that because of the significance of the changes wrought by the Local Government Act 2002, from a planning and accountability role to the community outcomes and long term council community plan process, that it will take some years for the Acts intent to be fully achieved.

⁹ This follows global trends where internationally it is increasingly accepted that the development of housing strategies is very much a regional/local matter although still requiring strong central/state government support because it is at that level that the main taxing instruments are held.

Our review of the role of local authorities in terms of affordable housing policy and future intentions supports the McKinlay Douglas caution. Of the 74 territorial local authorities only the larger urban authorities, specifically those in the Auckland Region, and Nelson and Queenstown have to date developed or in the process of developing policy around affordable housing.

Appendix 1 shows for the main urban Territorial Local Authorities as well as for a number of smaller Territorial Local Authorities with specific affordability issues the status of local policy as it applies to affordable housing.

Territorial local authorities in the Auckland Region have sought to dovetail their local strategies into housing strategy and affordability strategies at the wider regional level. Nelson has developed a Social Wellbeing Policy, which has significant affordable housing component, while Queenstown is in the middle of a four stage research programme which will form the basis for an affordable housing policy and strategy for that area¹⁰. Both areas, like the Auckland Region have faced over the last two to three years very significant increases in house prices. At the same time, the economies of both areas are very dependent on generally lower waged workers, in Nelson supporting primary and secondary industry and in Queenstown supporting tourism. A significant mismatch has arisen in both areas between housing affordability and labour force income.

As previously alluded to, the Auckland Regional Council is the only regional council in New Zealand to have considered the affordability issue in depth to the extent that the Auckland Region has an Auckland Regional Affordable Housing Strategy (Regional Growth Forum, 2003). We would note that the Bay of Plenty Regional Council¹¹ has begun to look at affordable housing as part of its involvement in a wider strategic growth strategy. The remaining regional councils throughout New Zealand, as far as we could ascertain, have given only limited if any thought to affordable housing policy or strategy for their regions. Appendix 2 shows for the regions the status of local policy as it applies to affordable housing.

The Auckland Regional Affordable Housing Strategy is a significant policy initiative and will be considered here in some detail.

¹⁰ The Queenstown Lakes District Council in late June 2004 made available for public comment the Stage One report titled "Housing Affordability in Queenstown Lakes District – the nature and scale of housing affordability issues in the district".

¹¹ In partnership with the Tauranga City Council and the Western Bay of Plenty District Council

Auckland Regional Affordable Housing Strategy

For the Auckland Region development of a Regional Growth Strategy¹² during the late 1980s, early 1990s highlighted that local government can have a significant impact on the affordability of housing (Regional Growth Forum, 2003, p.8). This was specifically highlighted in terms of the Regional Growth Strategy when the relationship between the ‘urban limits’ policy, land prices and subsequent housing affordability was considered (Regional Growth Forum, 2003, p.8).

The impetus for the Auckland Regional Affordability Strategy was twofold¹³ (Regional Growth Forum, 2003, p.8):

- To signal a willingness of local government to take some responsibility for issues that are related to the Regional Growth Strategy; and
- Such an approach is more consistent with a more general move towards a “partnership approach” to addressing a range of social issues, including housing affordability.

The Strategy has two goals (Regional Growth Forum, 2003, p.8):

- To enable all households in the Auckland Region to live in housing that is affordable (focus of this strategy is on households within the bottom 40% of average household income);
- To encourage affordable housing that is well located, appropriate to needs, well-designed, integrated into communities, and provides for people’s need for choice, security, safety and good health.

The Strategy is essentially a strategic plan for creating partnerships to address housing affordability issues across the Auckland region. However, it requires individual local councils to generate their initiatives.

The Strategy has 11 desired outcomes to contribute to achieving the two goals (Regional Growth Forum, 2003, p.8). The first two outcomes are overall outcomes. Outcomes 3-11 are supporting outcomes. Outcomes 3-7 relate to the type of affordable housing that is provided while outcomes 8-11 relate to people who have a need for affordable housing:

- All households can access suitable housing by spending a maximum of 30% of their gross income (overall outcome);

¹² The Regional Growth Strategy advocates restricting growth into rural areas and addressing urban sprawl through urban containment. Key features of the Regional Growth Strategy include a focus on the existing metropolitan area, where 70 per cent of the proposed new dwellings will be built; the encouragement of growth in existing metropolitan areas around town centres and major public transport routes; and a vision of the future in which 25-30 per cent of people in the Auckland Region will be living in multi-unit medium density housing, with the balance in lower density accommodation in suburban or rural areas.

¹³ The Auckland Regional Affordable Housing Strategy is not a statutory document.

-
- Households facing affordability constraints are able to establish themselves in a local community and are not forced into frequent moves by private or state landlords (security and stability);
 - Affordable housing is located across the region and integrated into existing neighbourhoods and new developments (mix);
 - Affordable housing is located to enable more people to easily access passenger transport, shops and facilities, community services, and work places (accessibility);
 - Affordable housing is appropriate to the specific needs of occupiers – which may be related to age, health, family size/structure, cultural needs, and special needs (quality and design: appropriate to needs);
 - New affordable housing is designed with an emphasis on energy efficiency, health and safety, privacy (both visual and acoustic), and integration into the neighbourhood (quality and design: well designed);
 - Existing sub-standard housing is replaced or upgraded to acceptable standards (quality and design: sub-standard housing);
 - Households facing affordability constraints have some ability to choose between renting, home ownership or other forms of tenure (choice and flexibility: tenure);
 - Households facing affordability constraints can choose to move if changing circumstances mean that their current housing situation is no longer suitable, e.g. changing family size, aging, disability (choice and flexibility: life cycle);
 - Age, ethnicity, disability, health, household structure, and other household characteristics are not a barrier for households pursuing affordable housing options (choice and flexibility: reducing discrimination); and
 - Households facing affordability constraints have some ability to exercise their preferences with regard to the location of their housing (choice and flexibility: location).

The Auckland Regional Affordable Housing Strategy identifies seven action areas, which would contribute to meeting the goals and desired outcomes of the Strategy (Regional Growth Forum, 2003, p.19). The Strategy acknowledges that the action areas are intended to reflect short to medium term priorities and states that as more experience is gained in this area and as more research is carried out which identifies the scale and nature of the issues facing Auckland, it is anticipated that other priorities will emerge. The seven action areas are as follows:

- Action Area One: support initiatives that will make housing more affordable and accessible “at the margin”. This action area focuses on those in the middle of the spectrum – households which, even if they are receiving the Accommodation Supplement, are spending more than 30% of their gross income on housing. Most households on this part of the spectrum will operate within the private sector, either through home ownership or private rental. An increase in the Accommodation Supplement, as per the May 2004 budget, would be such an action. Any initiatives that assist in reducing construction costs, land costs financial contributions or the costs of

comply with resource consents could make a difference to the cost of entry level housing. This action area would also include initiatives that increase the ability of people to gain access to finance to purchase a house (Regional Growth Forum, 2003, p.19).

- Action Area Two: contribute to initiatives, which will increase the supply of “social housing” and help to diversify the range of social housing options. Social housing is intended to include anything that is not freely traded in the market (Regional Growth Forum, 2003, p.20). The intent of this action area is to consider ways of supporting central government and the “community sector” in increasing the supply and diversity of social housing.
- Action Area Three: promote well-designed and appropriately located affordable housing (Regional Growth Forum, 2003, p.22).
- Action Area Four: assess and address issues related to existing sub-standard housing and living conditions (Regional Growth Forum, 2003, p.23).
- Action Area Five: continue to review regional urban form decisions to explore how sustainable urban form can contribute to reduced housing costs (Regional Growth Forum, 2003, p.23).
- Action Area Six: raise public awareness of affordable housing issues and solutions (Regional Growth Forum, 2003, p.24).
- Action Area Seven: support into a range of affordable housing issues; monitor the achievement of Strategy goals and outcomes and review the Strategy as required (Regional Growth Forum, 2003, p.24). Work on the Strategy revealed a number of areas in which information about affordable housing is inadequate (Regional Growth Forum, 2003, p.24):
 - Information about the nature and scale of current and future housing need. This would require:
 - Measuring current need including people living in sub-standard and inadequate accommodation;
 - Better understanding of demographic make-up of those with housing need to enable better forecasting of future need;
 - Analysis of dynamics of the problem – i.e. households with long-term versus short-term need;
 - Better understanding of the needs of specific groups or types of households;
 - Improved forecasting of housing demand (population growth and immigration); and
 - Better understanding of the dynamics of the Auckland housing market and how changing market conditions affect the supply of “affordable housing”.

-
- The Strategy also identified the need for information about and analysis of innovative solutions and structures of addressing housing affordability issues. Priorities identified by the Strategy include (Regional Growth Forum, 2003, p.25):
 - Analysis of the range of “social housing” options including techniques for retention of affordable housing including deed restrictions and covenants; community land trusts and joint equity models; and
 - Analysis of partnership models including housing trusts and joint ventures.

Non Government Organisations

A range of Non Government Organisations (NGO’s) have emerged over the last fifteen years in New Zealand with a focus on a broad range of housing issues. The focus initially was very much around advocacy against the housing market reforms put in place by the National government during the 1990s. Since 2000, following the return of income related rents for state rental housing the focus has more specifically been on advocacy around affordability issues for low-income households.

We would note that in many countries the ‘third sector’ plays quite an active role in the provision and management of affordable housing. In Canada, the UK and other parts of Europe, ‘third sector’ housing providers play a key role. There are a few examples in New Zealand of ‘third sector’ initiatives, for example, in Auckland the work of Habitat for Humanity and the acquisition of former local government housing by the Auckland Housing Association. The Tindall Foundation is also investigating a nationwide housing trust (Regional Growth Forum, 2003, p.19).

New Zealand Housing Strategy –discussion document

In late April 2004, the government released *Building the Future: Towards a New Zealand Housing Strategy – A Discussion Document* (Housing NZ Corp, 2004). The NZ Housing Strategy discussion document, development of which is being led by Housing New Zealand Corporation, is intended to provide an overall direction for housing in New Zealand for the next ten years.

The purpose of the discussion document is to gain public and stakeholder views on issues that will be addressed in the final strategy. It summarises the key housing issues facing New Zealand and outlines a proposed plan of action to improve housing, as well as including analysis of the influences on housing markets and policy.

The discussion document is the result of research, debate, planning and consultation that has occurred since late 2001 with a wide range of organisations, individuals and groups with an interest in housing.

According to the NZ Housing Strategy discussion document the government generally has two direct roles in housing (Housing NZ Corp, 2004, p. 15).

- To regulate the housing market and housing quality; and
- To provide housing assistance to lower-income households that have difficulty accessing affordable and suitable housing.

The vision for the housing strategy has been stated as:

That all New Zealanders have access to affordable, sustainable, good quality housing appropriate to their needs (Housing NZ Corp, 2004, p. 19).

Affordability, given the above, is clearly a central tenet (one of three) of the government's vision for housing in New Zealand. Moreover, no longer is the housing affordability issue stereotyped as an issue affecting only very low-income households. Sustainability or ongoing affordability, ie the ability to obtain housing and then to retain it, is another central tenet of the housing strategy vision.

Affordability, is not specifically defined in the NZ Housing Strategy discussion document, however, it does state that most countries judge housing to be unaffordable if its cost exceeds 25% to 30% of the net income of low-income households (Housing NZ Corp, 2004, p. 15).

Six areas for action have been identified in the NZ Housing Strategy discussion document. Each comprises a range of activities, research, programmes and planning over the next five to 10 years. The proposed areas are (Housing NZ Corp, 2004, p. 20):

- Improving housing assistance and affordability by investing in state housing, reviewing the Accommodation Supplement, supporting the growth of alternative not-for-profit housing providers and developing new approaches to improving affordability;
- Developing collaborative responses across all sectors in housing markets under stress;
- Developing and delivering innovative programmes to improve access to home ownership by lower-income households;
- Improving the capability of the private rental sector to provide secure, decent housing to all tenants;
- Improving housing quality through a strengthened regulatory framework and better standards; and
- Building capacity and capability in the housing sector to better respond to diverse housing needs.

Specific objectives surrounding affordability are largely confined to the first three action areas although the affordability theme permeates all six areas to a greater or lesser degree. The action areas with affordability implications can be readily grouped into demand side responses, supply side responses and regulatory responses.

Proposed actions around each of these areas are as follows.

Demand side

- Develop better methods for evaluating trends in housing affordability;
- Review the thresholds of affordability assistance;
- Determine the numbers, location and characteristics of families below the affordability thresholds;
- Review the need for short-term adjustments to the Accommodation Supplement to alleviate the most serious affordability problems;
- Under-take an in-depth review of the Accommodation Supplement in terms of its policy objectives and effectiveness in improving affordability and delivering income adequacy;
- Consider home ownership support for families that can sustain it over time;
- Implement, progressively evaluate and consider expanding the Housing New Zealand Corporation's mortgage insurance scheme to improve access to home ownership for low income families; and
- Investigate the effectiveness of innovative home ownership programmes such as savings incentives, deposit assistance, shared equity and sweat equity models with a view to making recommendations for implementation.

Supply side

- Increase the number of state rentals in areas where demand is high;
- Support expansion of social housing by using Housing Innovation and Local Government Funds to encourage retention, expansion and improvement of social housing stock;
- Explore structural options, such as regional trusts and housing associations that could strengthen and improve the efficiency and quality of social housing provision by local authorities;
- Access and implement opportunities to encourage investment in and financing of social and/or affordable housing by the non-government sector, such as mortgage lenders, philanthropic trusts and socially responsible businesses; and
- Consider the role of employers in improving accessibility to affordable housing needs to be assessed, in consultation with business communities at the local level.

Regulatory

- Trial the use of planning and zoning instruments, such as inclusionary zoning and developer incentives, to increase the supply of affordable housing for rental and for purchase in high pressure areas; and
- Promote the use of local government planning provisions to secure the development of affordable housing.

4.4 Affordable Policy - Conclusions

The overall scale of central government interventions in the New Zealand housing market has reduced since the late 1980s. Today central government intervention is largely confined to supply side intervention in the form of state rental housing and a demand side accommodation subsidy. New Zealand in global terms would appear to use a reasonably limited array of housing policy interventions in addressing affordability issues. The approach of central government to housing affordability is very much welfare driven.

Regional and local government in areas worst affected by affordability problems have been increasingly looking to increase their role to address the issue. This has been facilitated by the passing of the Local Government Act 2002, which has placed local government (regional and local) at centre stage in terms of identifying local housing need and options for meeting that need. While to date, according to our survey, few local government bodies have looked closely at formulating policy around affordable housing, we would expect in the future to see an increasing number doing so. As McKinlay Douglas (2004, p. 18) note, however, different councils quite clearly have different understandings of the nature and extent of both the obligations and potential of the Local Government Act 2002.

In conclusion it is worth noting the following comment from the NZ Housing Strategy discussion document. It notes that housing policy cannot guarantee desirable housing outcomes. "Monetary policy, labour market policy, taxation policy, social assistance and immigration policy have the potential to exercise as much, and sometimes more influence on housing (Housing NZ Corp, 2004, p. 13). We would note too that urban planning policy both regionally and locally can have a significant impact upon housing affordability and it is likely to be in this arena that solutions to the housing affordability issue are sought.

5 LITERATURE REVIEW: HOUSING AFFORDABILITY POLICY INTERVENTIONS

5.1 Introduction

This section will review the literature around housing affordability policy interventions. Note, that the scope of the literature review here is very much a synopsis of key themes rather than a comprehensive treatment. There has been a range of options tried internationally to address housing affordability. Here, policy interventions will be considered in the context of:

- Demand side responses to housing affordability;
- Supply side responses to housing affordability; and
- Regulatory interventions.

Demand side interventions are intended to increase the ability of people to purchase or rent affordable housing. Supply-side interventions are designed to either directly or indirectly increase the supply and/or reduce the cost of housing. Regulatory interventions use local government mechanisms to foster the provision of low-income housing, usually as part of large-scale development.

5.2 Demand Side Responses to Housing Affordability

Demand side assistance involves giving direct assistance to households (subsidising people) with a housing need. In terms of rental housing such assistance includes accommodation supplements, short-term assistance to households threatened with eviction and programmes to help low-income renters search for affordable housing in the private marketplace. They also include measures to assist households into owner occupation such as low interest or interest free loans and loan guarantees. Such forms of assistance should increase the ability of the recipients to purchase or rent housing affordably.

A reoccurring theme in the literature is that their effectiveness will depend, to some extent, on supply conditions. “In a relatively unconstrained market increased demand for housing would be met by an increase in supply of affordable housing. In a highly constrained market the increase in demand could simply drive prices up” (Regional Growth Forum, 2003, p.25). In New Zealand during the 1990s it was widely claimed that the introduction of the Accommodation Supplement acted simply to raise rentals.

Demand-side programmes assume that housing markets, especially private rental markets, will generally provide suitable housing in response to the needs of householders, if householders have sufficient income to participate. Demand side programmes are seen as promoting consumer choice and self-reliance and are usually viewed as more efficient. They cost less (than supply side interventions) in the short term to provide affordable housing to low-income households; and they are more flexible, more portable and able to be delivered at a very short notice to households in need. (Housing NZ Corp, 2004, p. 17).

Katz et al. (2003, p. 86) writing about the US experience around demand side housing subsidies argues that the “overarching lesson that emerges from analysis of federal rental assistance policies is that achieving affordability is highly dependent upon the depth and duration of federal subsidies.”

Katz et al’s comments suggest that very often demand side housing subsidies are neither deep enough or long enough. That has been the experience in New Zealand with the Accommodation Supplement over the last fifteen years, although May 2004 budget measures will go some way to addressing that issue.

The quantum of evidence from most markets, however, would seem to be that demand side subsidies/interventions by themselves, especially when lacking depth and duration, are not sufficient to address housing market failures. This would seem to be especially the case when housing markets are going through a period of significant change in pricing levels.

Thus the Affordable Housing National Research Consortium (2001, p. 20) based in Australia writes that while “conventional economic models of housing markets and rent assistance programs assume that urban housing rental markets are competitive and that rent levels are determined solely by the supply and demand for housing (our research) and information contained in each of the three reports show clearly that such conventional economic models cannot be applied to the current situation. The allocative efficiency of the private rental market in Australia must be seriously questioned.”

Homeownership demand side assistance programs seek to expand access to homeownership. Demand side programs include low-interest-loans; homeownership counselling and deposit assistance programs that help make home ownership more affordable and accessible. In addition, many of the most effective government home ownership initiatives have focused not on specific householders per se but on the availability and cost of mortgage financing.

Home ownership demand side assistance programmes remain popular in the US, UK and Australia although have all but disappeared from the now quite limited suite of New Zealand housing market interventions. In Australia, the First Home Owners Grant (FHOG), a deposit assistance programme set up to address affordability issues of first home buyers in that market has been heavily criticised on a number of fronts. Firstly, it would seem that the lion's share of grant assistance has been secured by reasonably well to do first home buyers. Secondly, the grants seem to have been very quickly capitalised into prices.

5.3 Supply Side Responses to Housing Affordability

According to Katz et al (2003, p.36), over the past decade, far more research has focused on the performance of demand-side assistance than on the performance of the latest generation of supply side strategies. This is surprising in one sense especially given the view that "by addressing the supply side of the affordable housing equation, that mechanism targets the heart of the problem" (Affordable Housing National Research Consortium, 2001, p. 33). However, as indicated earlier the thrust of government interventions in recent years has been very much on the demand side, which logically accounts for the research focus given to that area.

Supply side assistance involves giving a variety of discounts to those people and businesses involved in the production side of the housing sector. Supply side assistance can also be referred to as the market adjustment approach. By adjusting the market directly where failure has occurred, it is implied that the supply of appropriate and affordable housing will be encouraged. Supply-side strategies, driven by governments desire to keep their fiscal commitment to a minimum, have focused on the ways and means of securing affordable supply via the non-government sector. Berry (2002, p.7) writing about the Australian experience argues that given current effective political limits on direct public expenditure, the only way that the stock of affordable housing can be increased substantially to meet the growing need is by attracting more private investment into the low-cost end of the housing market.

Supply side rental programs focus on producing and maintaining housing units that are earmarked for occupancy by low and moderate income households. Examples in the US include the public housing program, the Low Income Housing Tax Credit program and local grants or low-interest loans for non-profit organisations that build or rehabilitate affordable rental housing. Katz et al (2003, p. 86) note that while affordable housing production programs add to the supply, they do not always successfully provide decent-quality housing. Building low-cost rental housing is not enough; owners of such housing need to have both the capacity and resources to maintain and operate them effectively.

One of the main areas of research interest in Australia over recent years has been looking at the barriers which impede expanding investment in affordable housing, particularly by institutions. Some of the more significant barriers identified for institutions include, high risk, high management costs, low liquidity and absence of a reassuring track record (Affordable Housing National Research Consortium, 2001, p. 28).

Researchers' attention has increasingly been focused on avenues and structures that enable a partnership between the private and public sectors (Affordable Housing National Research Consortium, 2001, p. 28). It is hoped that such arrangements will enable governments to access the large amount of investment dollars available in superannuation funds and other institutions. "In so doing, they would acquire the means to address the matter of affordable housing at a much lower overall cost than would otherwise be the case, were they acting without private sector involvement" (Affordable Housing National Research Consortium, 2001, p. 28).

For residential rental investment to be attractive to private sector institutions a number of risk-return criteria need to be met. This means that some level of government assistance is required to bridge the gap between what institutions require and what the market can deliver. In Australia a good deal of research attention has been focused on the ways in which government support could be combined with alternative forms of private financing, with a clear focus on expanding the supply of affordable housing (Affordable Housing National Research Consortium, 2001, p. 28).

Internationally (e.g. UK, Europe and Canada) the 'community' sector or 'third sector' is a much more active player in the provision and management of social housing or other forms of affordable housing (Regional Growth Forum, 2003, p.19). Badcock (2000 cited in Regional Growth Forum, 2003, p. 19) cites major potential benefits from greater community sector involvement in housing. The key lies in being able to leverage additional gains from combining public sector resources with community sector resources, which may include voluntary labour, skills and expertise and resources such as land and buildings. There is a range of possible models including housing associations, housing co-operatives, community land-trusts, co-housing, and housing trusts.

5.4 Regulatory Responses to the Housing Affordability

According to Katz et al (2003, p. 81) writing in the context of the US, regulatory policies are often neglected as potential tools for an affordable housing policy because they do not directly subsidise either housing units or households. He comments that state and local regulations governing land use, residential development, construction standards, subdivision design and property maintenance play critical roles, even when they are not explicitly considered as part of an affordable housing strategy.

In general, local zoning, land use, and building regulations have not had as their primary purpose the promotion of affordable housing. In fact many regulatory regimes have been designed to exclude lower-cost housing and its residents, so as to maximise local property values (Choppin 1994; Pendall 2000 cited in Katz et al. 2003, p. 67). Historically, according to Katz et al (2003, p. 67) local land use and development regulations have tended to undermine the goals of affordable housing policy, whether intentionally (through large-lot zoning, large lot width and set-back requirements for subdivisions, minimum house size) or not. A review of the literature on the impact of regulatory regimes on the cost of housing by Hayward (2003, p.1-7) concluded, among other things, that growth controls lead to sharply higher housing prices, increases land prices and retards general economic growth.

Until at least the late 1980s the established orthodoxy was that the 'affordability' of housing was not a legitimate concern of the land use planning system. However, this view has changed across a range of jurisdictions over the last twenty years. It is seen as having worked successfully in Canada (especially in Vancouver) while in the US the use of inclusionary zoning initiatives has become well established (McKinlay Douglas, 2004, p. 42; Katz et al. 2003, p.70).

Currently in England, two planning-based strategies are used to secure affordable housing. Firstly, the negotiation of site specific quotas of affordable housing within sale housing schemes and secondly, the granting of 'rural exceptions,' usually to housing associations, on non-housing land in and around existing settlements (Gallent, 1997, p.2). In the former case, the research has demonstrated that, despite a limited application of agreements to provide affordable housing, where they are employed, they appear to be effective. (Carmichael et al. 1999, p. 18). Crook et al (2002, p.1) note, however, that the use of planning mechanisms to require developers to make provision for affordable housing works only when there is significant demand in the local housing market. Their research showed that the overwhelming proportion of affordable housing resulting from the planning obligations provisions in England has been in London and the South East, with little in the North, even where there is significant need for good quality affordable housing.

In the U.S. remedies to the exclusionary effects of traditional regulatory regimes have taken three basic forms (Katz et al. 2003, p. 69):

- Reform of zoning requirements, subdivision regulations and building codes to eliminate exclusionary provisions;
- The adoption of explicitly ‘inclusionary’ zoning and land development regulations; and
- Statewide efforts to rein in local exclusionary practices and promote regional strategies for meeting affordable housing needs.

With regard to zoning reform Katz et al’s review of the literature suggests that getting rid of such exclusionary regulations works. In terms of inclusionary zoning, Katz et al cite several studies, which have assessed the effectiveness of various inclusionary zoning provisions, generally concluding that these programmes provide an effective and low-cost way for local governments to encourage affordable housing production. Katz et al note, however, that such programmes generally do not produce housing units that are affordable to the poorest households and relatively few produce rental housing units. Katz et al’s review of the literature shows, however, that the biggest constraint on the effective use of regulatory tools is fragmentation of authority among individual cities and counties. Action at the regional level is often needed to establish and empower regional decision-making bodies and without this level of intervention the use of regulatory tools by individual localities can have only limited impacts (Katz et al. 2003, p. 82).

Distinguished from growth control policies are policies designed to manage metropolitan growth. The distinction is important. Growth control policies are designed to limit the growth of the housing stock; growth management policies to accommodate projected development. Growth management strategies globally have faced very significant criticism. Katz et al’s review of the US literature concluded, however, that even areas with strict growth management strategies can continue to produce affordable housing if controls are designed and implemented intelligently. The Auckland Regional Growth forum argued that growth strategies can be consistent with affordable housing objectives, providing an appropriate policy-mix is put in place to enable a supply of low-cost housing to be provided (BERL, 1999, p.6). Nelson et al (2002) have developed the most comprehensive and complete review of the literature on the link between growth management and housing affordability.

To conclude there is substantial research evidence demonstrating that regulatory and planning instruments can have a substantial impact on affordable housing – either restricting the potential for its provision or actively encouraging its provision.

6 HOUSING COSTS

6.1 Introduction

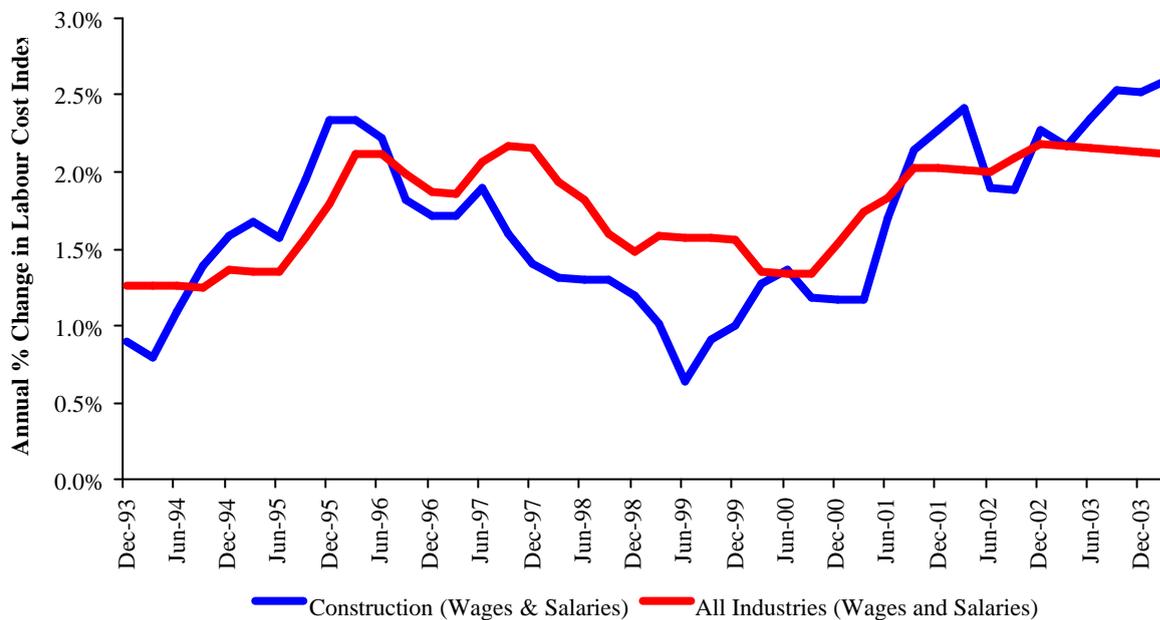
The objective of this section of the report is to address a range of issues associated with housing costs. These include trends in labour costs and the relative productivity of the construction sector, the impact of material and construction costs on housing, whether there are any differences in construction costs between New Zealand and Australia, and the impact of these trends on the affordability of housing. The following subsections are included:

- Labour cost trends;
- Relative productivity;
- Material costs and construction costs in New Zealand and Australia;
- Material choice, relative quality, and the impact on cost;
- First cost versus life time costs;
- Compliance costs;
- Land and subdivision costs;
- Enablement schemes and finance arrangements;
- Environmental features; and
- Housing costs and their impact on affordability.

6.2 Labour Costs

The shortage of skilled labour in the construction industry has recently been quoted in the media as a reason for declining standards and increased construction costs. Figure 6.1 presents the trend in the annual percentage change in labour costs; wages and salaries only, within the construction sector and compare these to the trend in all industry groups combined.

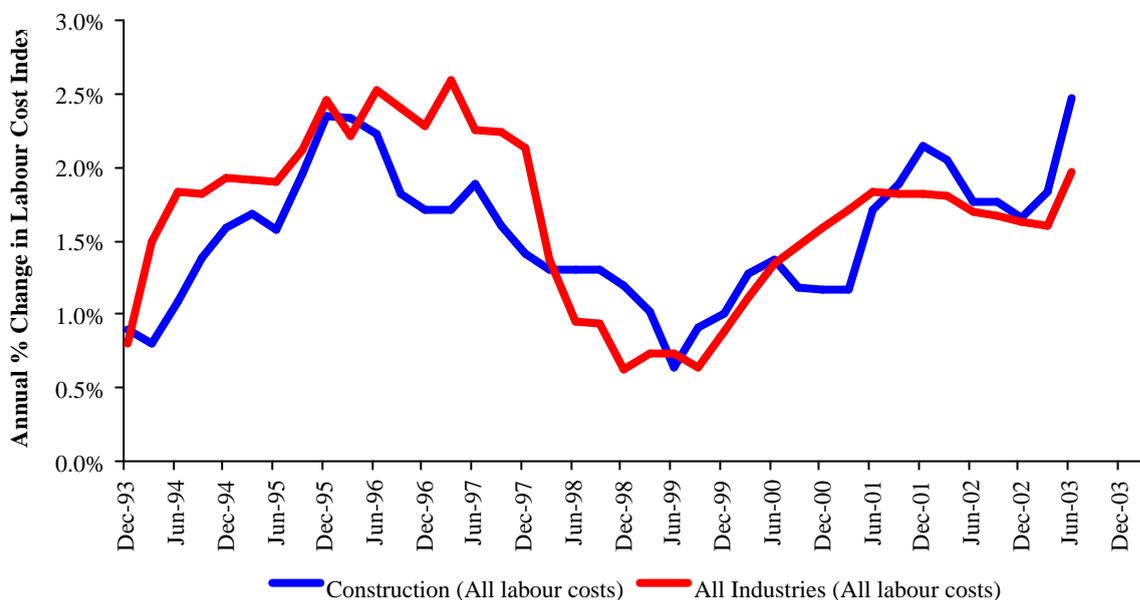
Figure 6.1: Annual % Change in Labour Costs (Wages & Salaries)



Source: Statistics New Zealand

Construction and building wages and salaries have followed a similar trend to the overall average although over the last year they have increased approximately 0.5% faster. Figure 6.2 presents the trend in construction and building labour costs including all non wage costs compared to the trend in all industries combined.

Figure 6.2: Annual % Change in Labour Costs (All Labour Costs)



Source: Statistics New Zealand

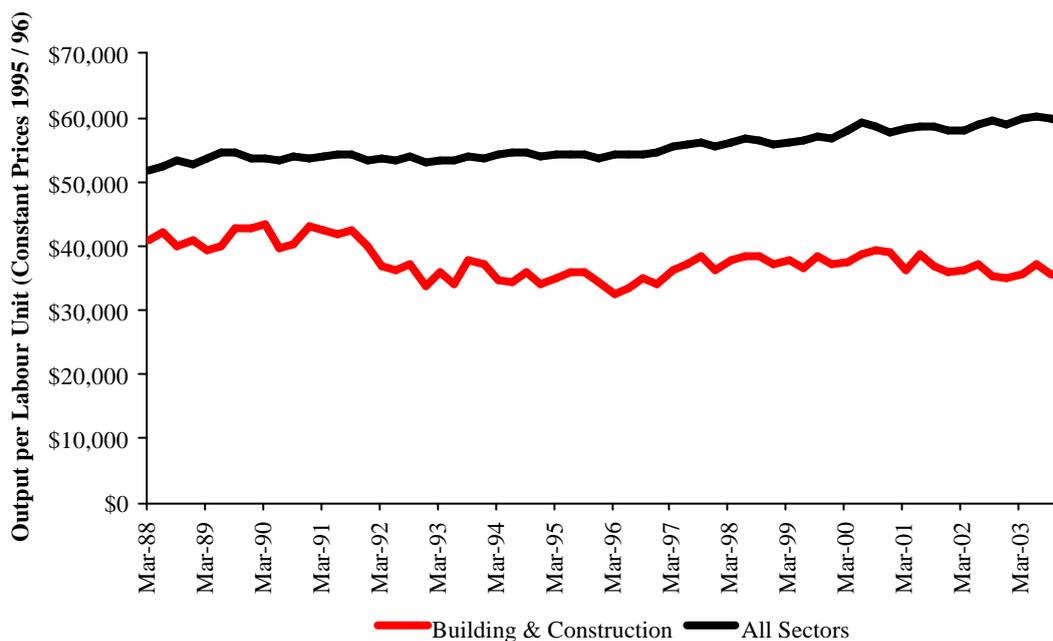
Construction and building sector labour costs, including all non wage and salary expenditure, has followed a similar trend to the national average, although costs have increased at a slightly faster rate than the national average over the last two years.

Anecdotal evidence suggests that the labour costs associated with skilled trades people has increased significantly over the last year. These rates of increase do not appear to be reflected within Statistics New Zealand's series.

6.3 Relative Productivity

The relative productivity of a sector is typically measured as the output per labour unit employed in the industry. Figure 6.3 presents the trend in the output of the construction sector per employee and compares this with the national average for all sectors combined.

Figure 6.3: Relative Productivity



Source: Statistics New Zealand

The relative productivity of the construction sector has not changed significantly over the last fifteen years while the overall productivity per labour unit employed across all sectors has improved.

6.4 Construction and Material Costs in New Zealand and Australia

The objective of this subsection of the report is to present an analysis of the typical cost of building a dwelling in New Zealand and to compare it with dwelling construction costs in Australia.

Construction costs are typically measured in two ways. They can be compared using either input or output type models. Input models typically sum the cost of all the component parts required to build a dwelling to give the total cost. Output models are based around the actual cost of dwellings produced by construction companies.

The results of the two approaches can vary because of different construction techniques employed by builders and their ability to command discounts from suppliers when purchasing construction materials. Both provide useful information about the relative construction costs of housing.

Input Cost Approach

Kenley (2003) examined the differences in the costs associated with the components typically used in the construction of dwellings in New Zealand and Australia. Kenley observed higher material and lower labour costs in New Zealand. He examined the retail costs of the different materials used in construction in Adelaide and Auckland. These two cities being of similar size. He found that New Zealand housing costs were around 50% higher than in Australia. He concluded that something was not right and that the evidence suggested that the construction industry and the methods of construction in New Zealand must be less efficient than in Australia.

He reached a number of key conclusions in relation to the different construction costs between countries. These were:

- First, material costs in New Zealand were more expensive. This could be as a result of our smaller market due to an economies of scale. It does not however explain why timber costs are higher in New Zealand than in Australia. This could relate to higher margins within this sector between the two countries, the quality of the products used, or the economies of scale.
- Second, the nature of the materials used requires more work. The timber used in New Zealand has a lower stress rating and consequently requires more work.
- Third, he concluded that there maybe more individuality in design in New Zealand leading to increased cost.
- The construction industry in New Zealand maybe less efficient. Australians maybe better at production management, sub contractor management, systems rationalisation, innovative materials, and the use of plant and equipment.

He concluded that we must identify the true costs of housing in New Zealand, explore international best practice for design and productivity, and encourage uptake of these by the construction industry.

There are a number of sources of information associated with dwelling construction costs, which are produced on a regular basis. These include:

- Statistics New Zealand publishes a building cost series based on information provided by the Building Economist.
- Maltby and Partners Limited, construction cost managers and quantity surveyors, produce the costs associated with the construction of standard sized dwellings for the Building Industry Authority.
- Rawlinson New Zealand, quantity surveyors, produces an annual publication that includes an analysis of residential construction costs.

Table 6.1 presents an analysis of the building costs for two standard sized dwellings based on Statistics New Zealand's building cost series between 1993 and 2003.

Table 6.1: Dwelling Construction Costs by Region

Region	Standard 94 m2 Dwelling			Executive 149 m2 Dwelling		
	Aug 93	Aug 03	% Chge	Aug 93	Aug 03	% Chge
Auckland	\$787	\$988	25.5%	\$1,035	\$1,220	17.9%
BOP Waikato	\$740	\$903	22.0%	\$960	\$1,100	14.6%
Manawatu / HB / Taranaki	\$737	\$877	19.0%	\$938	\$1,095	16.7%
Wellington	\$770	\$921	19.6%	\$900	\$1,130	22.5%
Christchurch	\$707	\$812	14.9%	\$945	\$1,084	14.7%
Dunedin	\$746	\$852	14.2%	\$953	\$1,083	13.6%

Source: New Zealand Building Economist / Statistics New Zealand

An analysis of these construction costs demonstrates:

- That there is a 22% variation in construction costs between the cheapest region, Canterbury and the most expensive, Auckland, for the standard 94 square metre dwelling and an 11% variation for the executive 149 square metre dwelling.
- The relative size of the difference in construction costs has increased. In 1993 the maximum difference between regions was 11% for the standard dwelling and 10% for the executive dwelling.
- The rate of increase in construction costs has also varied. Auckland experienced the fastest rate of increase followed by the other North Island regions.

Table 6.2 presents an analysis of the dwelling construction costs published by Rawlinsons.

Table 6.2: Rawlinsons New Zealand Housing Costs (\$NZD)

	Auckland	Wellington	Christchurch	Dunedin
Standard House				
<i>Standard Finish</i>				
90m2 to 110m2	850-1050	840-1040	830-1030	850-1050
100m2 to 200m2				
Cedar or weatherboard	1150-1350	1100-1300	1100-1300	1050-1250
Monolithic cladding	1150-1350	1100-1300	1100-1300	1050-1250
Insulated concrete block	1200-1400	1150-1350	1150-1350	1075-1275
<i>Brick Veneer</i>				
90m2 to 110 m2	1200-1400	1150-1350	1100-1300	1050-1250
150m2 to 200m2	1350-1550	1275-1475	1250-1450	1225-1425
Executive House				
200m2 to 600m2	2350-2700	2350-2700	2350-2700	2350-2700

Source: Rawlinson New Zealand (2003)

Rawlinson's construction costs do not have the same variation between regions. Table 6.3 presents Rawlinsons high rise apartment construction costs.

Table 6.3: Rawlinsons New Zealand High Apartment Construction Costs (\$psm)

Standard of Finish	Auckland	Wellington	Christchurch	Dunedin
Medium	1,600-1,800	1,575-1,775	1,575-1,775	1,550-1,750
High	1,850-2,050	1,775-1,975	1,775-1,975	1,750-1,950

Source: Rawlinson New Zealand (2003)

The majority of high rise apartment construction activity has been in central Auckland and Wellington. The construction costs appear marginally higher in Auckland compared to Wellington and the southern main centres.

Table 6.4 presents an analysis of dwelling construction costs published by Maltby's in conjunction with the Building Industry Authority.

Table 6.4: Maltby Residential Construction Costs by Region (\$psm)

Region	Standard 145 m2 Dwelling			203 m2 Dwelling		
	Jan 00	Jul 02	% Chge	Jan 00	Jul 02	% Chge
Auckland	984	1105	12%	885	1014	15%
Waikato	977	1085	11%	877	999	14%
Wellington	987	1086	10%	889	1004	13%
Remainder North Island	958	1080	13%	883	995	13%
Canterbury	958	1083	13%	883	1000	13%
Remainder North Island	935	1094	17%	886	1009	14%

Source: Maltbys

These statistics suggest a smaller variation in regional costs than the series produced by the Building Economist. Over the time period considered by the Building Industry Authority building costs have increased at a slightly faster rate in the South Island for the 145 square metre dwelling and a similar rate for 203 square metre dwelling. These statistics also suggest that building costs have increased at approximately 5% per annum over the two and a half year period.

To provide an indication of the dwelling component costs Maltby's were commissioned to provide a breakdown of their house construction costs.

Tables 6.5 and 6.6 present a breakdown of the dwelling costs by region.

Table 6.5: Dwelling Component Costs for Auckland, Waikato and Wellington

Location	Auckland		Waikato		Wellington	
	\$	% of Total	\$	% of Total	\$	% of Total
Site Preparation	\$3,423	1.8%	\$3,066	1.6%	\$2,896	1.5%
Work Below Lowest Floor	\$12,706	6.7%	\$12,041	6.4%	\$12,196	6.5%
Frame	\$17,774	9.4%	\$17,634	9.4%	\$17,634	9.3%
Roof	\$19,450	10.2%	\$19,253	10.3%	\$19,185	10.2%
Exterior Walls & Finish	\$22,550	11.9%	\$22,254	11.9%	\$22,400	11.9%
Windows and Exterior Doors	\$15,116	8.0%	\$14,986	8.0%	\$15,018	8.0%
Partitions	\$8,954	4.7%	\$8,791	4.7%	\$9,069	4.8%
Interior Doors	\$9,231	4.9%	\$9,114	4.9%	\$9,087	4.8%
Floor Finishes	\$4,254	2.2%	\$4,200	2.2%	\$4,207	2.2%
Wall Finishes	\$5,819	3.1%	\$5,750	3.1%	\$5,765	3.1%
Ceiling Finishes	\$9,058	4.8%	\$8,890	4.7%	\$9,074	4.8%
Fittings and Fixtures	\$13,179	6.9%	\$13,142	7.0%	\$13,122	7.0%
Sanitary Plumbing	\$13,068	6.9%	\$12,962	6.9%	\$12,997	6.9%
Heating & Ventilation Services	\$284	0.1%	\$281	0.1%	\$282	0.1%
Electrical Services	\$9,976	5.3%	\$9,921	5.3%	\$9,933	5.3%
Special Services	\$734	0.4%	\$728	0.4%	\$729	0.4%
Drainage	\$2,060	1.1%	\$2,060	1.1%	\$2,060	1.1%
Exterior Works	\$6,631	3.5%	\$6,705	3.6%	\$7,220	3.8%
Preliminaries	\$8,325	4.4%	\$8,254	4.4%	\$8,355	4.4%
Margins	\$4,579	2.4%	\$4,540	2.4%	\$4,595	2.4%
Contingencies	\$2,812	1.5%	\$2,790	1.5%	\$2,817	1.5%
Total (excl GST)	\$189,982		\$187,362		\$188,641	
Gross Floor Area	203		203		203	
Cost / m2	\$935.9		\$923.0		\$929.3	

Source: Maltbys

Table 6.6: Dwelling Component Costs for Canterbury and Otago

Location	Canterbury		Otago	
	\$	% of Total	\$	% of Total
Site Preparation	\$3,569	1.9%	\$2,974	1.6%
Work Below Lowest Floor	\$11,235	6.0%	\$12,154	6.5%
Frame	\$17,666	9.4%	\$17,596	9.4%
Roof	\$19,310	10.3%	\$19,063	10.1%
Exterior Walls & Finish	\$22,378	11.9%	\$22,203	11.8%
Windows and Exterior Doors	\$14,979	8.0%	\$14,938	8.0%
Partitions	\$9,015	4.8%	\$9,162	4.9%
Interior Doors	\$9,086	4.8%	\$9,037	4.8%
Floor Finishes	\$4,211	2.2%	\$4,157	2.2%
Wall Finishes	\$5,745	3.1%	\$5,648	3.0%
Ceiling Finishes	\$8,876	4.7%	\$8,984	4.8%
Fittings and Fixtures	\$13,074	7.0%	\$13,125	7.0%
Sanitary Plumbing	\$12,961	6.9%	\$12,851	6.8%
Heating & Ventilation Services	\$280	0.1%	\$276	0.1%
Electrical Services	\$9,919	5.3%	\$9,844	5.2%
Special Services	\$727	0.4%	\$718	0.4%
Drainage	\$2,060	1.1%	\$2,060	1.1%
Exterior Works	\$6,886	3.7%	\$7,355	3.9%
Preliminaries	\$8,284	4.4%	\$8,322	4.4%
Margins	\$4,556	2.4%	\$4,577	2.4%
Contingencies	\$2,795	1.5%	\$2,801	1.5%
Total (excl GST)	\$187,612		\$187,845	
Gross Floor Area(m2)	203		203	
Cost / m2	\$924.2		\$925.3	

Source: Maltbys

There does not appear to be any significant difference in the costs associated with the different components used by region.

Output Approach

An alternative strategy for measuring dwelling construction costs is to analyse the price developers are charging for completed dwellings “package or project housing deals”. There are a large number of companies offering package dwelling construction deals in New Zealand. A summary of the standard quality package dwellings available is presented in Table 6.7 and better quality dwellings in Table 6.8.

Table 6.7: New Zealand Package Deals – Standard Quality

Company	\$ House Cost Only	Floor Area (m2)	Cost (\$psm)
<i>Auckland & Northland</i>			
Spaceline	\$236,500-\$312,000	215-260	\$1100 - \$1200
Sovereign Homes	\$130,000-\$182,000	155-215	\$840 - \$850
GJ Gardner Homes	\$200,000-\$220,000	200	\$1000-\$1100
Golden Homes	\$138,000-\$174,000	150-200	\$920 - \$870
<i>Hamilton</i>			
Golden Homes	\$127,000-\$226,000	139-302	\$910 - \$750
Stonewood Homes	\$145,000-\$365,100	140-335	\$1040 - \$1090
<i>Wellington / Paraparaumu</i>			
Keith Hay Homes	\$164,250-\$231,000	129-204	\$1270 - \$1130
Keith Hay Homes	\$72,900-\$132,075	66-139	\$1100 - \$950
Keith Hay Homes	\$23,850-\$66,150	20-56	\$1190 - \$1180
Keith Hay Homes	\$56,700-\$95,850	50-105	\$1130 - \$910
Jennian Homes	\$80,000-\$380,000	150-300	\$530 - \$1270
Kingdom Residential	\$240,000-\$300,000	160-325	\$1500 - \$920
Signature Homes	\$135,000-\$430,000	200	\$680
<i>Nelson</i>			
David Reid Homes	\$216,000-\$432,000	160-320	\$1350 - \$1350
GJ Gardner Homes	\$200,000	180-240	\$1110
<i>Christchurch</i>			
Affordable Homes	\$91,000-\$182,000	72-206	\$1260 - \$880
Stonewood Homes	\$141,160-\$375,060	140-335	\$1010 - \$1120
<i>Dunedin</i>			
David Reid Homes	\$240,000-\$360,000	200-300	\$1200 - \$1200
<i>Invercargill</i>			
Jennian Homes	\$165,000-\$360,000	150-300	\$1100 - \$1200

Table 6.8: New Zealand Package Deals – Medium Quality

Company	\$ House Cost Only	Floor Area (m2)	Cost (\$psm)
<i>Auckland</i>			
Aston Marsh	\$490,000-\$640,000	195-295	\$2510 - \$2170
Dempsey Morton	\$430,000-\$485,000	205	\$2100
Fyfe Homes	\$485,000-\$505,000	200-225	\$2430 - \$2240
Winstone Home Builders	\$260,000-\$400,000	155-220	\$1680 - \$1820
<i>Wellington</i>			
Kingdom Residential	\$300,000-\$600,000	160-325	\$1880 - \$1850

There does not appear to be any significant difference in the costs between regions although a detailed analysis is difficult because of the slight differences between builders in quality and materials used. The majority of the construction costs range between \$850 and \$1,350 per square metre for the standard quality packages and \$1,800 to \$2,550 for the medium quality packages.

The comparison of costs between regions produced mixed results. Some sources of information identified significant differences, whereas the package or project house price statistics indicate little, if any differences. Anecdotal evidence suggests that there are cost differences with Auckland in particular having facing higher labour costs during the current construction cycle. The majority of the input based models identified up to a 10% difference between main centres.

It is difficult to identify any significant difference in construction costs between large and small companies. One would naturally assume that the larger the company the greater the economies of scale associated with the purchase of materials and development of systems to minimise costs. The data collated from package/project house developers does not demonstrate any significant difference on the basis of company size. It is difficult to be certain as the quality and materials used by builders also vary. One could conclude that the efficiencies gained by size are either absorbed into increased margins or alternatively they are relatively small once you compare medium sized organisations with large ones.

We were not able to source any conclusive quantitative information associated with the different margins associated with building construction materials. Organisations considered this information to be commercially sensitive.

Comparison with Australian Costs

Anecdotally it would appear that housing costs are higher in New Zealand than in Australia. Potential differences can be identified using both an input and output model approach. Table 6.9 presents an analysis of dwelling costs from Rawlinson Australia Construction Costs Manual.

Table 6.9: Australian Residential Construction Costs – Rawlinsons (\$ps m)

	Adelaide	Brisbane	Melbourne	Perth	Sydney
Australian Dollars					
Project House					
<i>Basic standard – brick veneer</i>					
90m2 to 110 m2	625-665	680-720	850-890	575-615	810-850
120m2 to 140m2	580-630	645-695	825-875	555-605	775-825
<i>Medium std brick veneer</i>					
120m2 to 140m2	675-730	765-820	955-1010	610-665	890-945
160 to 190m2	655-710	740-795	920-975	585-640	865-920
Individual House					
<i>Tiled roof 150m2 to 350m2</i>					
Medium Standard	810-870	915-975	1145-1205	870-930	1090-1150
High Standard	1125-1275	1305-1455	1580-1730		1485-1635
Prestige Standard	1530-1730	1790-1990	2095-2295	1740-1940	1960-2160
NZD Equivalents					
Project House					
<i>Basic standard – brick veneer</i>					
90m2 to 110 m2	714 - 760	777 - 823	971 - 1017	657 - 703	926 - 971
120m2 to 140m2	663 - 720	737 - 794	943 - 1000	634 - 691	886 - 943
<i>Medium std brick veneer</i>					
120m2 to 140m2	771 - 834	874 - 937	1091 - 1154	697 - 760	1017 - 1080
160 to 190m2	749 - 811	846 - 909	1051 - 1114	669 - 731	989 - 1051
Individual House					
<i>Tiled roof 150m2 to 350m2</i>					
Medium Standard	926 - 994	1046 - 1114	1309 - 1377	994 - 1063	1246 - 1314
High Standard	1286 - 1457	1491 - 1663	1806 - 1977		1697 - 1869
Prestige Standard	1749 - 1977	2046 - 2274	2394 - 2623	1989 - 2217	2240 - 2469

Source: Rawlinsons (2004)

Table 6.10 presents a comparison of the relative construction costs associated with high rise apartments in Australia and New Zealand from Rawlinsons.

Table 6.10: Australian High Rise Apartment Costs (\$psm)

Finish	Adelaide	Brisbane	Melbourne	Perth	Sydney
<i>\$AUD</i>					
Basic	1300-1375	1210-1285	1560-1635	1270-1345	1420-1495
Medium	1425-1500	1300-1375	1690-1765	1355-1430	1530-1605
High	1760-1885	1595-1720	2095-2220	1715-1840	1880-2005
<i>NZD Equivalent</i>					
Basic	1490-1570	1380-1470	1780-1870	1450-1540	1620-1710
Medium	1630-1710	1490-1570	1930-2020	1550-1630	1750-1830
High	2010-2150	1820-1970	2390-2540	1960-2100	2150-2290

Source: Rawlinsons (2004)

New Zealand high rise apartment construction costs typically ranged between \$1600 and \$2000. These appear to be approximately 10% higher than Australian costs. A more in-depth analysis is required to determine whether the differences relate to the quality of materials used or alternatively whether they are as a result of different construction techniques or industry efficiencies.

Table 6.11 presents a comparison of the cost associated with package/project houses in Australia and New Zealand.

Table 6.11: Project / Package Housing Costs

	Floor Area Range (m²)	Dwelling Cost (\$NZD psm)
<i>New Zealand</i>		
Basic Standard	140 to 300	\$850 to \$1,350 (NZD)
Medium Standard	150 to 350	\$1,800 to \$2,550 (NZD)
<i>Australia</i>		
Basic Standard	145 to 400	\$570 to \$850 (NZD)

It would appear that the New Zealand costs are approximately 50% higher than the Australian product. It would appear from the promotional literature produced by these construction companies that the buildings are similar. However, a more detailed study would be required to ensure that we are comparing like with like and the actual causes of the differences.

In summary, there would appear to be significant differences in construction costs between New Zealand and Australia. There are a number of potential reasons for these differences. It is beyond the scope of this assignment to determine the causes of the differences and this analysis clearly identifies this as an area for further analysis.

6.5 Relative Quality and the Impact on Cost

As the quality of the materials used within a dwelling increase typical costs also increase. A significant proportion of dwellings built are of superior standard and larger floor areas than the housing costs associated with affordable housing. The difference in costs relative to the materials used can be seen in the earlier subsections of this report demonstrating the difference in cost per square metre for the different sized and quality buildings in Table 6.1 and 6.2

To demonstrate the variability of the housing costs used we commissioned Maltby's to provide a breakdown of the actual costs associated with a number of residential construction projects they had been involved with over the last two years. The results of this analysis is presented in Table 6.12

Table 6.12: Variability of Housing Costs

Component	Minimum		Average		Maximum	
	Total	\$ psm	Total	\$ psm	Total	\$ psm
Site Preparation / demolition	\$1,146	\$7	\$17,849	\$68	\$53,216	\$182
Work Below Lowest Floor Finish	\$6,710	\$59	\$35,726	\$129	\$106,158	\$273
Frame	\$784	\$4	\$8,693	\$32	\$18,777	\$66
Structural Walls	\$3,445	\$11	\$27,205	\$114	\$43,960	\$314
Upper Floors	\$3,600	\$22	\$19,603	\$73	\$33,383	\$160
Roof	\$13,441	\$75	\$59,353	\$199	\$160,148	\$536
Exterior Walls & Exterior Finish	\$24,017	\$160	\$66,522	\$242	\$155,314	\$417
Windows and Exterior Doors	\$9,390	\$82	\$53,658	\$191	\$97,720	\$366
Stairs and Balustrades	\$4,340	\$17	\$16,956	\$70	\$49,217	\$305
Partitions	\$4,235	\$19	\$18,117	\$66	\$35,866	\$115
Interior Doors	\$8,143	\$52	\$20,713	\$75	\$39,089	\$116
Floor Finishes	\$4,804	\$18	\$18,754	\$68	\$41,966	\$123
Wall Finishes	\$2,891	\$6	\$18,920	\$71	\$48,104	\$156
Ceiling Finishes	\$125	\$1	\$12,945	\$45	\$32,192	\$71
Fittings and Fixtures	\$16,150	\$55	\$43,973	\$171	\$95,969	\$358
Sanitary Plumbing	\$12,205	\$46	\$29,297	\$121	\$62,178	\$444
Heating and Ventilation Services	\$4,550	\$20	\$14,060	\$57	\$27,242	\$170
Electrical Services	\$10,995	\$68	\$31,152	\$118	\$59,656	\$233
Vertical & Horizontal Transport	\$14,511	\$47	\$25,317	\$187	\$36,122	\$328
Special Services	\$1,555	\$4	\$3,718	\$17	\$10,728	\$50
Drainage	\$6,833	\$23	\$12,731	\$48	\$40,717	\$97
Exterior Works	\$804	\$6	\$36,708	\$133	\$79,040	\$226
Sundries	\$22,275	\$202	\$22,275	\$202	\$22,275	\$202
Preliminaries	\$10,054	\$74	\$32,233	\$121	\$53,244	\$251
Margins	\$15,835	\$88	\$38,776	\$144	\$70,967	\$276
Contingencies	\$15,753	\$82	\$42,306	\$173	\$78,064	\$350
Total (excl GST)	\$226,975	\$1,721	\$636,242	\$2,394	\$914,334	\$5,015
Gross Floor Area	110		280		452	

As demonstrated in Table 6.12 the relative costs per square metre vary significantly with the quality of materials used within the dwelling. These results provide an extreme example, however the difference between low cost high maintenance materials and better quality more sustainable materials is an area, which needs further investigation.

6.6 First Cost versus Life Time Costs

The notion of life cycle costing is generally recognised as a valuable tool for comparing alternative building designs and materials. This should enable operational / maintenance cost benefits to be evaluated against initial cost increases. However, a host of practical difficulties exist and consequently its use within the construction industry does not appear to be wide spread. Numerous publications are available about the life cycle cost approach, however, only a limited amount of the literature is directly relevant to New Zealand.

Wilkinson, Boon and McCreath (1995) examined three areas associated with life cycle costing in New Zealand's construction industry. These were:

- The potential use of life cycle costing as a decision tool;
- The extent of the current use of life cycle costing; and
- The barriers to its greater use during the design process.

They concluded from their study that industry acknowledged that the use of the life cycle costing approach was a useful tool as part of the decision making process, however, in many instances practitioners relied on their informal examination of the costs or used the payback method of analysis. They considered this as sufficient to facilitate effective design making decisions. The discounted cash flow approach for life cycle costing was not widely used.

The key impediment to the use of life cycle costing by building companies targeting the affordable housing sector of the market is that typically, the households buying the dwellings, face a significant challenge crossing the hurdle price. By this we mean that households often have difficulty in accumulating the deposit while having sufficient capacity to service the debt associated with the purchase. The higher the purchase price the harder it becomes for households to buy the house. Consequently, the developer faces the challenge of not wanting to increase costs whilst providing a reasonable product. Using better quality products, to reduce ongoing life cycle costs may make their product less competitive. If price is the critical factor households maybe prepared to accept higher life cycle costs if it means that they can purchase their own dwelling. At the same time this may mean their housing costs over the duration of their tenure maybe higher.

There appears to be no in-depth studies examining the initial cost compared to life cycle costs issue for the materials typically used in the construction of houses in New Zealand. This is a potential area for further research.

6.7 Compliance Costs

The relative level of compliance costs associated with both the subdivision of land and the construction of dwellings can impact on housing costs and consequently affordability.

Lambert (2002) examined the impact of government imposed costs on new housing in Canada. He concluded that they were substantial. His research examined levies, fees, charges and taxes on the development of common types of new housing in 30 municipalities. He concluded the overall burden of these charges on new housing was significant and equate to approximately 14% of the cost of a modest new single detached house.

Glaeser and Gyourko (2003) view was that homes are expensive in high cost areas primarily because of government regulation, that is, zoning and other restrictions on building. According to this view, housing is expensive because of artificial limits on construction created by the regulation of new housing. This hypothesis implies that land prices are high, not due to some intrinsic scarcity, but because of man-made regulations.”

ACIL’s (2002) report for the Urban Land Institute of Australia also examined the impact of land costs on affordability. They concluded:

- Government requirements, charges and levies related to the provision of infrastructure were significant contributors to the cost of developing land;
- The Government directly contributed to the cost of development through taxes and charges;
- The public sector continues to dominate the provision of urban infrastructure and in the few areas where the provision of these services have been privatised householders have benefited from lower prices and improved services;
- Developers appear to have carried an increasing share of the costs of establishing urban infrastructure; and
- Government policy associated with the release of land for urban development and the standards imposed by government has an impact on land values. Higher or stricter standards have a significant impact on development costs whilst restricting the supply of land for urban development and increases bare land values.

They concluded that new homebuyers were subsidising the costs of infrastructure and social facilities that benefited the wider community.

Table 6.13 presents the results of a survey of a number of New Zealand local authority consent charges.

Table 6.13: Building Consent Survey Results

Local Authority	Survey Response
Whangarei District	\$1,600
Rodney District	\$1,500/\$3,000 (Typically depends on notification required)
North Shore City	\$3,295
Waitakere City	\$1,446 (incl. PIM)
Hamilton City	\$1,800-\$1,900 (incl. PIM)
Gisborne District	\$1,500
Masterton District	\$1,118 (including PIM) plus drainage and plumbing of \$162
Kapiti Coast District	\$1,378 to \$2,033 (including PIM)
Hutt City	\$1,830 (including PIM)
Nelson City	\$1,300-\$1,600
Christchurch City	Approx \$2,000-\$2,500
Southland District	\$887

NB: These costs were based on a 200 square metre dwelling costing \$300,000 to build

There appears to be a significant variation in the level of compliance costs associated with the building of a dwelling in different locations around the country. Although the costs are a minor proportion of the total cost even small variations around the margin can impact households ability to access housing.

In addition, we also asked about the level of fees associated with non-notified subdivision consent for a 5 hectare residential subdivision, with an average section size of 750sqm and a total realisation of \$12 million. The results and the basis for the calculation of the fees varied significantly between locations to such an extent that it was not possible to make an easy comparison of the costs between different locations other than to observe that typically in the areas of fastest growth in the upper North Island the costs appeared to be higher than in low growth areas.

6.8 Land and Subdivision Costs

ACIL (March 2002) concluded that the rising cost of residential land has reduced housing access for many Australian families. For every \$10,000 increase, per section, in the cost of developing residential land, 240,000 Australian households (4 percent of income earning households) are no longer able to afford the basic house/land package. Consequently, land and subdivision costs can have a significant impact on housing affordability at the margin.

Subdivision costs can vary significant between sites. The shape, size, and contour of the site all can have a significant impact on the costs associated with subdivision. In addition local Council requirements can also have an impact. The results of our investigations of typical land subdivision costs are presented in Table 6.14.

Table 6.14: Land Subdivision Costs

	Estimated Cost per Section	Proportion of Total Cost
Earth works	12,500 to 17,500	28%
Roading and services	25,000 to 35,000	57%
Council fees (non notified)	1,000 to 2,000	2%
Professional fees	2,000 to 4,000	6%
Other costs	2,500 to 5,000	7%
Total cost excluding developer reserve / infrastructure contributions	43,000 to 63,500	100%

Source: DTZ Research

The level of reserve and or infrastructure contribution required by different councils varies significantly. The results of a survey of a number of local authorities are presented in Section 6.8. Developer's profit margins vary significantly. Typically, developers target profit margins in the range of 15% to 25% of total section realisation, which reflects the level of risk associated with these investments over a full property cycle. Profit levels can be significantly higher during periods of strong demand when sections sell quickly. In the soft part of the cycle it is not uncommon for sub dividers to show significant losses, particularly if they have a high level of debt.

Table 6.15 presents the range of median section values for a sample of local authority areas in 1993 and 2003.

Table 6.15: Average Section Values

Local Authority	Median Section Sale Price		% Change	
	Dec 1993	Dec 2003	Total % Change	Annual % Change
Whangarei	\$52,471	\$91,057	73.5%	5.7%
North Shore City	\$83,934	\$214,866	156.0%	9.9%
Manukau City	\$81,431	\$169,740	108.4%	7.6%
Hamilton City	\$47,884	\$79,272	65.6%	5.2%
Tauranga	\$55,243	\$96,297	74.3%	5.7%
Palmerston North	\$55,352	\$68,013	22.9%	2.1%
Kapiti Coast	\$48,741	\$80,916	66.0%	5.2%
Wellington City	\$63,777	\$135,065	111.8%	7.8%
Nelson	\$58,180	\$165,485	184.4%	11.0%
Christchurch	\$60,550	\$139,598	130.5%	8.7%
Dunedin	\$28,872	\$51,025	76.7%	5.9%

Source: QVNZ

The rate of appreciation of land values varies between locations. Potential reasons for the range of outcomes includes:

- Differing levels of population growth and hence demand;
- Restricted land supply for subdivision either as a result of council policy and/or topography; and
- Council's policies and standards associated with subdivisions including standards required, section size and development density considerations, and whether consents have to be notified

The variability of section value appreciation is an area, which will impact on the relative affordability of housing between regions. Consequently, the factors influencing the relative appreciation in values, particularly in areas of housing stress or declines in affordability are an area for future research.

Councils have the ability to influence the amount of land available for subdivision into sections or sites available for medium to high-density developments. Auckland Region's current growth strategy has the potential to impact on the availability of residential sections. The underlying objective of the strategy is to restrict the urban sprawl of the greater metropolitan area within certain pre determined boundaries hence restricting supply whilst at the same time encouraging the intensification of development around a number of growth corridors and within the CBD. The objective is to maximise the use of the existing infrastructure and to minimise costs.

Auckland Region is being proactive in trying to address the issues associated with how it will grow over the next twenty years. Regions facing the growth pressures that Auckland has in recent times, need to develop strategies and be proactive otherwise growth patterns become unstructured and move with the market of the day which may not reflect the best medium to long term alternative for the region.

One consequence of the strategy is to restrict the supply of sub-divisible sites on the fringe of the city. As the supply of available sites is subdivided land values are likely to continue to escalate. This being a function of supply and demand particularly if Auckland continues to experience the levels of population growth that it has over the last ten years. Eventually, this is likely to force first homebuyers out of the traditional single attached dwelling market and into medium to high-density style developments.

The terraced housing phenomenon experienced in Auckland during the mid 1990s was a good example of this type of trend. Auckland City Council changed the use associated with their mixed-use zone to allow residential developments. This allowed developers to build medium density houses on sites that were previously preserved for commercial and industrial uses. It provided an opportunity to build units, typically selling for between \$200,000 and \$300,000, adjacent to suburbs where standalone dwellings were selling for in excess of \$700,000. This provided first homebuyers the opportunity to enter the market in areas they preferred to live in however could not afford a traditional dwelling. It also resulted in a significant number of cheaply constructed buildings in South Auckland.

Unfortunately the demand drivers softened in the late 1990s, the market for the units became saturated, developers' standards declined to maintain margins while at the same time issues associated with the weather tightness of the cladding typically used became apparent. This resulted in a rapid decline in the number of units developed. However, this trend did demonstrate that when allowed the market could respond to changes in regulation to meet demand in non-traditional configurations.

6.9 Enablement Schemes and Finance Arrangements

Dwellers in conjunction with financiers have developed a wide range of different strategies to assist households on the margin into purchasing one of their units. Typically two key issues exist and these are the size of the deposit and the affordability of the repayments.

One strategy that has been commonly used is to reduce the initial monthly repayments to be paid by purchasers by effectively capitalising a proportion of the interest payable onto the capital value of the loan. For example, say without the scheme a purchaser would have to borrow \$100,000 at 7% interest. To assist them into the dwelling the developer can reduce the monthly repayment by taking the present value of half the interest payable for the first three years and add it to the total value of the loan. Now the purchaser will pay a lower nominal interest rate for the first three years. Effectively the finance rate maybe the same. The underlying assumption being that in three years time the households income should have increase and consequently their ability to meet the increased cost of servicing the loan.

There are a larger number of variations around this theme. Typically, the end result is the purchaser's repayments will equate to the same present value, it's just the mix and the timing and size of the repayments that vary. The overall strategy associated with these methods is to reduce the initial debt financing levels to enable the household into the dwelling assuming that their financial position will improve before the debt servicing costs increase at some future date. In today's lower inflation environment this will not always be the case.

6.10 Sustainable Housing and Environmental Features

The development of sustainable built environment within our cities is an important objective. Current government housing strategy is to develop an urban design protocol, which is being led by the Ministries of Economic Development and Environment. This will address issues associated with Government policy on the impact of intensification, improving urban design, improving the sustainability of the built environment and increasing access to affordable housing. Issues that will be addressed include building design and standards, location and accessibility to transport, local identity, cultural expression, energy efficiency, waste minimisation, and the relationship with the natural environment.

These are important issues and will have a natural impact on housing costs and consequently affordability. Improving the standard and efficiency of buildings typically reduces ongoing housing costs whilst increasing initial costs. Consequently, it can have a significant impact on households at the margin ability to access affordable housing unless the initial costs are subsidised.

The Foundation for Research Science and Technology has sought proposals for research into the “Built Environment”. Certainly this is an area, which is important to the community as a whole. Government needs to ensure we as a nation develop in a sustainable way whilst taking into account the impact that controls and regulations may have on households ability to access housing. This inter-relationship is an area for further research.

Braconi, (1996) Suggested housing professionals increasingly believe that environmental regulation has become too bureaucratic and complex, too prone to political manipulation, and somewhat insensitive to broader social considerations. Friction between the housing and environmental communities has been exacerbated by social and economic factors that have rendered adequate housing less affordable to many Americans.”

Environmental requirements affect housing affordability in three principal areas. Environmental reviews affect the “soft” costs of housing development, including technical and legal expenses and short term financing charges, while substantive environmental standards tend to raise both the “hard” costs of development and the operating costs of housing.” (Braconi, 1996,85).

6.11 Housing Costs and Their Impact on Affordability

Housing costs have an impact on the ability of households to access sustainable affordable housing of an appropriate quality. As housing costs increase the cost of home ownership also increases while higher housing costs also adds to the upward pressure on housing rents in the medium term.

There have been two major enquiries in Australia in the last thirty years into the impact of housing costs on the price of housing. The Parliament of Australia's Senate Inquiry into Housing Costs in the 1970s and in 2004 a more focused review by the Productivity Commission of Australia into the impact of government charges on housing prices.

Both of these reports indicated that housing prices are fundamentally a function of the supply of and demand for, in the first instance developed residential land, and in the second instance housing. These reports emphasise that if land and housing prices will not support a particular housing cost structure in a particular location, then the development industry simply stops supplying new housing until such a time as the price increases until the relevant housing cost structure can be supported.

The two reports stated that in most circumstances reducing costs, (or in the second study government charges), is unlikely to have any significant effect on prices and hence affordability, and may simply deliver a windfall gain to developers. In the case of the Productivity Commission report the suggestion was that State Governments could do more to assist affordability by focusing on increasing the available supply of developable residential land.

Both of these reports follow the classic economics approach, which argues that houses are expensive because land is expensive. According to this view, there is a great deal of demand in certain areas, and land, by its very nature, is limited in supply consequently the price of housing must rise. Traditional models, such as the classic Alonso-Muth-Mills framework, take this view (Glaeser and Gyourko, 2003, p. 22).

Table 6.16 presents the trend in housing costs for three locations around New Zealand.

Table 6.16: Trend in Housing Costs

	North Shore		Christchurch		Dunedin	
	1993	2003	1993	2003	1993	2003
Land Value (Ave \$ Section)	\$83,900	\$214,900	\$60,600	\$139,600	\$28,900	\$51,000
House Price	\$110,200	\$138,300	\$99,000	\$113,700	\$104,400	\$119,300
House land Package	\$194,100	\$353,200	\$159,600	\$253,300	\$133,300	\$170,300
Land Component %	43%	61%	38%	55%	22%	30%
Deposit (20%)	\$38,800	\$70,600	\$31,900	\$50,700	\$26,700	\$34,100
Total Loan	\$155,300	\$282,600	\$127,700	\$202,600	\$106,600	\$136,200
Monthly Repayment	\$1,123	\$2,043	\$923	\$1,464	\$771	\$984
Hhld Income Required @ 30% Margin	\$44,900	\$81,705	\$36,921	\$58,576	\$30,820	\$39,378
Hhld Income 1991 & 2001	\$45,800	\$61,800	\$34,900	\$45,300	\$35,700	\$41,600
<i>Required Household Income as a % of Average Household Income</i>	98%	132%	106%	129%	86%	95%

NB: These figures assume a 140 square metre house built with construction costs in line with Table 6.1, a 25 year mortgage with monthly repayments at 7.25%.

The focus of this scoping research was housing costs and affordability. However, if changes over the last ten years in the cost of the various components (labour, materials and land) that go into the New Zealand house are looked at it is the appreciation in land values that has been by far the most significant contributor to housing cost increases over that period.

Consequently, it is our view and the literature concurs, that the key ingredient affecting housing affordability is price not cost. That is to say a strong emphasis on the impact of housing cost on affordable housing may not be warranted. However, the significant appreciation in land values over the last decade has clearly had major affordability implications and we are of the view that research into the determinants of land pricing in New Zealand is clearly warranted.

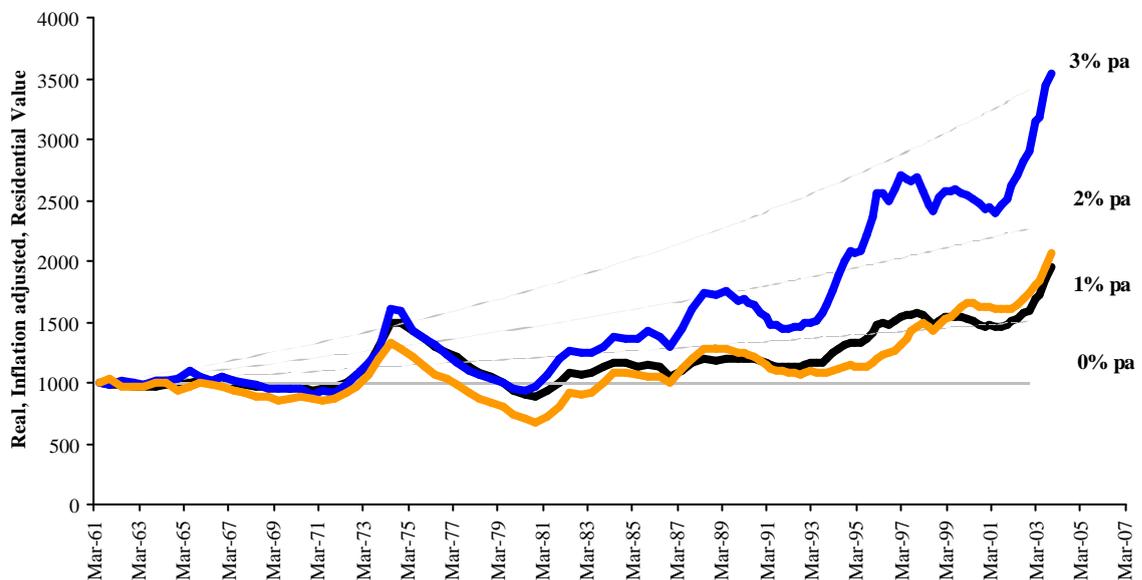
Table 6.16 as well as showing the significance of each housing cost component on overall cost also illustrates how the increase in housing costs can have a significant impact on affordability. For example, for every \$10,000 increase in costs increases the debt servicing by \$72.28 per week, assuming a 25 year loan with monthly repayments and 7.25% interest rate. This relates to increased cost of \$867.36 per year. If we assume that a bank lending criteria is that they will not lend more than 30% of a households gross income than this means that household income has to increase by \$2891.20 for every \$10,000 increase in costs to maintain their relative affordability. This will have a significant impact on the number of households that can access housing.

The increase in section values has caused a significant decline in the affordability of housing to first time purchasers on the North shore. The proportion of land costs to total costs went up on the North Shore from 29% to 46% over the ten year period. This trend is less evident in Dunedin.

Policies, which impact on the supply of land, are likely to have an impact on the affordability of housing within a city. In addition, planning controls, which limit the locations within a city on which medium and high density housing can be built also impact on housing costs. These issues also need to be offset against the costs of providing infrastructure and environmental concerns of the wider community.

Property values also move in cycles. During periods of high demand values for both improved property and section values and rents increase. This has a significant impact on housing costs. Figure 6.4 presents the trend in real, inflation adjusted dwelling values in Auckland, blue, Wellington, gold and nationally, black, between 1961 and 2003. The graph also presents different annual compounded growth rates for comparison purposes.

Figure 6.4: Real House Value Trends



Source: QVNZ

Values, and consequently costs and affordability, do vary over time due to a large variety of factors. Typically these included population pressures, restrictions on supply, and variations in the cost of credit, supply demand balance in relation to development activity.

The increases in land values flow through to housing costs particularly in the new housing market. As demonstrated in Table 6.16 land value appreciation has had a greater impact on new housing costs than construction prices over the last ten years. Consequently, successful strategies employed by metropolitan areas to manage the supply and consequently availability of land in the medium to long term as well as the implication of restricted land supply in locations such as Auckland are areas for potential further research.

7 RESEARCH GAPS & RECOMMENDED RESEARCH PROGRAMME

7.1 Introduction

The objective of this section of the report is to pull together the information traversed in the body of the report to identify the gaps in the research base and recommend a research programme that addresses these gaps. At the same time the research topics proposed here are intended to complement the broad direction set out in the NZ Housing Strategy discussion document by providing a sound research based foundation that will ensure policy initiatives and interventions around housing affordability and cost are related to the realities of the market. At the same time it is hoped that the research topics proposed will assist government interventions around affordable housing to the extent that they can be better designed, implemented and measured.

7.2 Gaps in The Research Base

At this point in time, we do not have an explicit, agreed measure of housing affordability. Consequently, we do not have a good understanding of the size of the issue, nor are we able to quantify the causes of the apparent decline in affordability. Before we can consider potential solutions, a good understanding of the quantum and causes of the problem is necessary.

Gap One: Definition

There is a need to develop an understanding of what is meant by housing affordability and come up with some agreed measures and ways to analyse affordability in the New Zealand context. Unless this necessary methodological groundwork is laid it is likely to prove difficult to reach agreement on the exact dimension and geographic extent of the issue. In short, it is necessary for policy makers, researchers and others to be speaking the same language, or to be able at least to understand one another when they are talking about housing affordability.

Gap Two: Measurement

Once the agreed definitions and measures have been developed these then should be tested at a local level and across different groups to determine the depth and breadth of the affordability issue across New Zealand. It is assumed that there is an affordability problem in New Zealand and that it is most pressing in certain geographic locations and for certain socio-economic groups occupying rental tenure. We believe there is a need to quantify, using the agreed definitions and measures, the current position so that the impact of future interventions can be determined.

Gap Three: Identifying the Causes

Once the depth and breadth of housing affordability issues by area and for different groups within those areas have been established the causes of the local variations and the decline or improvement of affordability over time can be analysed. An understanding of the causes of the housing affordability problem at the local level is necessary to enable the development of potential solutions.

Gap Four: Potential Solutions

A comprehensive strategy for the development of likely options for overcoming affordability issues needs to be developed which would provide an appropriate amount of affordable housing to the right individuals and groups in the required locations. Affordability is a dynamic problem and consequently any strategies need to be flexible so they can be adjusted to take into account changes in market conditions.

7.3 Recommended Research Programme

The recommended research programme needs to do two things. Firstly, address the housing affordability research gaps identified in the previous subsection. Secondly, to be policy relevant it must relate to the actions proposed by the NZ Housing Strategy discussion document to address the areas identified as the key foci of the strategy. That is to say, what does government (central and local) need to know to better design, implement and measure the results of its intervention to improve affordability?

We are proposing three main research strands or topic areas. They are as follows:

Strand One: Affordability Definition and Measurement

This research brief would require the research organisation to:

- Develop, in the context of the New Zealand market, a number of measures of affordability (for renters, first home buyers and owner occupiers) capable of being applied at a local level.
- These measures should be fully traversed with key stakeholders to obtain their buy-in. This acknowledges that there is a range of uses (research, policy and delivery of accommodation support) such measures might be put to.
- Scope the local variation in affordability. This should include focusing on the groups in society who are most exposed to unsustainable levels of housing costs and the implications for the individuals, households and communities affected.
- Provide an in-depth analysis of the trends in affordability, at the local level, for different groups over time. We would suggest that the research emphasis here be on the private

rental sector given the importance of this tenure to the achievement of the government's wider housing policy objectives.

Strand Two: Barriers to Accessing Affordable Housing

This research brief would focus on the following barriers to accessing affordable housing:

- Regulatory;
- Governmental;
- Institutional;
- Land values; and
- Other market factors.

Regulatory Issues.

These include among other things, the impact of the Resource Management Act on housing affordability. That is, the way in which regional and local councils implement the Resource Management Act and how that flows through into the availability of residential land, land values and housing costs.

Government Considerations

In the past government policy settings, both general and housing specific, have played a significant role in furthering housing affordability in New Zealand. The issue that needs to be addressed here is how government policy settings have influenced housing affordability in the past and whether current policy settings and interventions are improving housing affordability or acting as an impediment to housing affordability.

Institutional Issues

Are there any institutional-structural factors within our economy that is limiting the supply of affordable housing in areas of greatest housing stress?

Land Values

The focus of this scoping research was housing costs and affordability. However, if changes over the last ten years in the cost of the various components (labour, materials and land) that go into the New Zealand house are looked at it is the appreciation in land values that has been by far the most significant contributor to housing cost increases over that period (Table 7.1).

Table 7.1: Trend in Housing Costs

	North Shore		Christchurch		Dunedin	
	1993	2003	1993	2003	1993	2003
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Land Component %	43%	61%	38%	55%	22%	30%
Deposit (20%)	\$38,800	\$70,600	\$31,900	\$50,700	\$26,700	\$34,100
Total Loan	\$155,300	\$282,600	\$127,700	\$202,600	\$106,600	\$136,200
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Hhld Income 1991 & 2001	\$45,800	\$61,800	\$34,900	\$45,300	\$35,700	\$41,600
<i>Required Household Income as a % of Average Household Income</i>	98%	132%	106%	129%	86%	95%

NB: These figures assume a 140 square metre house built with construction costs in line with Table 6.1, a 25 year mortgage with monthly repayments at 7.25%.

Consequently, it is our view and the literature concurs, that the key ingredient affecting housing affordability is price not cost. That is to say a strong emphasis on the impact of housing cost on affordable housing may not be warranted. Our recommended research programme, therefore, emphasises affordability rather than cost. However, the significant appreciation in land values over the last decade has clearly had major affordability implications and we are of the view that research into the determinants of land pricing is clearly warranted. Although there appears to be significant differences in construction and material costs between Australia and New Zealand, which are not easily explained, in view of the more important role played by land value appreciation in declining housing affordability over recent years, we would not view it as a priority area for research.

Market Barriers

Is the market responding appropriately to the demand for affordable housing or are their issues that typically deter developers from providing affordable housing. This should also address issues associated with the impact that the increase in the flow of capital has had on the supply of affordable housing in both the private renter and first home buyer markets.

Strand Three: Potential Solutions

Research is needed that would investigate the options open to government (central and local) to address barriers to affordability. This should encompass a comprehensive review of techniques adopted both inside and outside New Zealand to address affordability. The outputs from the brief should include the identification of a range of potential strategies, their relative strengths and weakness as well as recommendations, which take into account New Zealand's specific affordability issues. In addition, this brief should address the sustainability of household tenures within New Zealand or affordability over time.

Recommended Research Programme Conclusions

The three research strands we have identified link both to the gaps that this report has identified and also to the broad direction identified in the NZ Housing Strategy discussion document. The first (definition and measurement) and the third (potential solutions) research strands link most closely to the directions in the NZ Housing Strategy discussion document. The second research strand (barriers to accessing affordable housing), however, is not clearly tied in with the proposed actions identified in the NZ Housing Strategy discussion document. It would seem to us that the NZ Housing Strategy discussion document assumes that the barriers to accessing affordable housing in New Zealand are well understood or a given. We are not of this view and believe that an understanding of the barriers to access to affordable housing is a necessary prerequisite before potential solutions can be considered.

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Appendix 1: Territorial Local Authorities – Affordable Housing Policy

Appendix 1: Local Territorial Authority Affordable Housing Policy Statements and Strategies

	Question 1: Council has policy or partial policy which addresses the issue of affordable housing	Question 2: if no to Question 1 is the issue of housing affordability likely to be one which the Council might in the near future formulate policy around	Comment
Rodney District Council	No. See comment	See comment	Rodney District Council (RDC) participates in the Auckland Regional Growth Forum and Steering Group and has input into affordable housing issues through this regional forum. The council has recently adopted its draft (Long Term Council Community Plan) LTCCP 2004-2014 and has indicated it will prepare a community development framework/strategy over the next couple of years. This strategy will address housing and the council's role in housing. The RDC's future land-use planning takes account of the need to ensure a sufficient supply of land (shortages increase land values and affect the cost of housing) together with integrating land-use and transportation (access to public transport reduces travel costs affecting affordable housing).
North Shore City Council	No. See comment	See comment	The North Shore City Council (NSCC) participated in the preparation of the Auckland Regional Affordable Housing Strategy published in March 2003. The NSCC endorsed the strategy and as one of its 'City Blueprint' projects intends to undertake some work in 2005 looking at the council's response to the strategy. The NSCC intends making a submission on the NZ Housing Strategy discussion document. The North Shore City Council was one of the territorial local authorities for whom McKinlay Douglas prepared a report titled "The Role of Local Government in the provision of Affordable Housing" which was published in March 2004.
Waitakere City Council	No response	No response	The Waitakere City Council (WCC) participated in the preparation of the Auckland Regional Affordable Housing Strategy published in March 2003.

Appendix 1: Local Territorial Authority Affordable Housing Policy Statements and Strategies continued

	Question 1: Council has policy or partial policy which addresses the issue of affordable housing	Question 2: if no to Question 1 is the issue of housing affordability likely to be one which the Council might in the near future formulate policy around	Comment
Auckland City Council	No. See comment	See comment	The Auckland City Council (ACC) participated in the preparation of the Auckland Regional Affordable Housing Strategy published in March 2003. In 2001 the Auckland City Council commissioned Hill Young Cooper Ltd to produce a report looking at policy approaches to the provision of affordable housing.
Manukau City Council	No. See comment	See comment	The Manukau City Council (MCC) has endorsed the Auckland Regional Affordable Housing Strategy and has developed a draft MCC Affordable Housing Action Plan. Two projects were endorsed in April 2003 as priorities for the Council's Affordable Housing Action Plan in 2003/04. (a) Develop a strategy for Housing for Elderly that will provide better choice, quality and effectiveness in delivering on Council's policy of ensuring affordable housing is available to needy elderly people in the City. (b) Develop proposals for meeting Council's diversity objectives in the Flat bush area.
Hamilton City Council	No. See comment	See comment	Volume 1 of the Hamilton City Council's proposed Long-term Council Community Plan (LTCCP) 2004-14 contains a set of community outcomes (p.27-29). Outcome 13.4 states, "Hamilton's residents are aware of, and have access to a variety of quality affordable housing options". Volume 2 of the Council's proposed LTCCP also contains remission and Postponement Policies for rates. The HCC also has a housing policy focused on the elderly and disabled which aims to "provide appropriate, affordable housing to older people and people who meet the eligibility criteria as set down in the Housing Services Operation Manual.

Appendix 1: Local Territorial Authority Affordable Housing Policy Statements and Strategies continued

	Question 1: Council has policy or partial policy which addresses the issue of affordable housing	Question 2: if no to Question 1 is the issue of housing affordability likely to be one which the Council might in the near future formulate policy around	Comment
Tauranga City Council	No. See comment	See comment	No specific policies on affordable housing. However, two major pieces of strategic work currently underway. "Tauranga Tomorrow" is a community outcomes process required under the Local Government Act 2003 (LGA). One of the outcomes, "Vibrant lifestyle city built in harmony with its landscape" has the following action attached – "More pro-active planning to encourage alternative forms of development, adequate housing supply, and an adequate variety and choice of housing types and price ranges". The Tauranga City Council is a party to the SmartGrowth planning initiative see also Bay of Plenty Region.
Porirua City Council	No. See comment	No. See comment	Housing New Zealand is the dominant landlord in the city, owning 49% of the rental tenure properties in the city.
Upper Hutt City Council	No. See comment	No. See comment	Upper Hutt City is relatively more affordable than Wellington City, with a high level of home ownership. Affordability has never raised its head as a major issue.
Hutt City Council	No. See comment	No. See comment	Council does have three policies titled 'Housing for the Socially Disadvantaged', 'Allocation of Rental Housing' and 'Allocation of Housing Units to the Socially Disadvantaged'. These policies provide pensioner housing and some accommodation assistance to certain community groups.
Wellington City Council			The Wellington City Council was one of the territorial local authorities for whom McKinlay Douglas prepared a report titled "The Role of Local Government in the provision of Affordable Housing" which was published in March 2004.

Appendix 1: Local Territorial Authority Affordable Housing Policy Statements and Strategies continued

	Question 1: Council has policy or partial policy which addresses the issue of affordable housing	Question 2: if no to Question 1 is the issue of housing affordability likely to be one which the Council might in the near future formulate policy around	Comment
Christchurch City Council			
Dunedin City Council			The Dunedin City Council was one of the territorial local authorities for whom McKinlay Douglas prepared a report titled "The Role of Local Government in the provision of Affordable Housing" which was published in March 2004.
Queenstown District Council	No. See comment	See comment.	The community plans (for all nine towns within the district) express a strong concern about the increasing affordability problems facing people and the consequent effects that this is having in terms of the diversity of the community, the economy i.e. ability to attract and retain good staff. The council has embarked on a four-stage housing affordability study. Stage 1 was completed at the end of June 2004 and looks at the current and projected nature and scale of the affordability problem facing Queenstown. Stages 2-4 will look at possible policy responses and solutions. As a result of Stages 2-4, it is highly likely that provisions around this issue will be inserted into the council's policy and planning documents.

Appendix 2: Regional Council's – Affordable Housing Policy

Appendix 2: Regional Government Affordable Housing Policy Statements and Strategies

	Does council have a policy or partial policy which addresses the issue of affordable housing?	If no, is the issue of housing affordability likely to be one which the Council might in the near future formulate policy around?	Comment
Northland	No	No	Main focus is on environmental management
Auckland	Yes	N/A	The Auckland Regional Affordable Housing Strategy was published in March 2003. The Strategy has two higher level goals a) to enable all households in the Auckland Region to live in housing that is affordable and b) to encourage affordable housing that is well-located, appropriate to needs, well-designed, integrated into communities, and provides for people's need for choice, security, safety, and good health. The Strategy has 11 desired outcomes to support these goals.
Waikato	No	No	
Bay of Plenty	Partial	N/A	The Western Bay of Plenty Sub-Region (Tauranga City, Western Bay of Plenty District Council and Environment Bay of Plenty) released in October 2003 'SmartGrowth' a growth management strategy for the area. The draft strategy addresses the growth issues around affordability, outlines a number of principles around affordability and proposes a two-pronged action around affordability.
Gisborne District Council	No	No	
Hawkes Bay	No	No	
Taranaki	No	No	Re Question 2, Highly Unlikely
Manawatu-Wanganui			
Wellington	No	No	
West Coast	No	No	District Council issue – if at all. Houses prices on the West Coasts at the lower end of the market are reasonably affordable anyway.
Canterbury	No	No	

Appendix 2: Regional Government Affordable Housing Policy Statements and Strategies continued

	Does council have a policy or partial policy which addresses the issue of affordable housing?	If no, is the issue of housing affordability likely to be one which the Council might in the near future formulate policy around?	Comment
Marlborough	No	Yes, but currently uncertain as to what shape/form that policy response might take.	Housing affordability is an issue with the Marlborough District Council. However, have as yet to formulate policy. Considerable interest surrounding the issue from Community Sector Groups. Issue centred around affordable housing to meet needs of the labour market, in particular the needs of the seasonal Labour market. Over the last couple of years some work has been undertaken to ensure contractors have secured accommodation prior to the season beginning. Support person from Work and Income sent in. Maybe an income problem? Also downstream affect for the broader rental market. Recent work by the Marlborough District Council shows no shortage of land for housing on Blenheim urban fringe. 'Talking Heads' initiative – three district councils across the top of the South Island have initiated a Regional Outcomes Indicator project – housing, very much part of this. Source: Tim Leyland.
Nelson City Council			The Nelson City Council's Social Wellbeing Policy has a section which addresses housing. The objective is to improve opportunities for Nelson residents to access quality affordable housing.
Tasman District Council	No	No	
Otago	No	No	Unlikely that the Otago Regional Council would develop policy around this issue, as it is not a specific function of regional councils under the Resource Management Act 1991 (RMA). Territorial local authorities are more likely to consider the issue as they have a specific function under Section 31 of the RMA for controlling the subdivision of land.
Southland	No	No	Affordable housing not really an issue in Southland by comparison with other regions.

Appendix 3: Synopsis of Key Housing Affordability Literature

Housing Affordability – Key Literature Synopsis

Research Title	Source	Author	Synopsis
The Affordability of Adequate Housing	AREUEA Journal, 15 (4), 389-404, 1987	Lerman, DL and Reeder, WJ.	A “quality-based” measure of housing affordability problems employing the cost of housing just meeting adequacy standards is proposed as an improvement over the conventional “high” rent-to-income criterion
The Affordability of Australian Housing	Issues Paper – National Housing Strategy No.2, Australian Government Publication Services, Canberra, 1991	Australia National Housing Strategy	This paper examines affordability measures; identifies household types facing what can generally be regarded as unacceptably high housing costs; and suggests in conjunction with possible policies contained in other Issues Papers, policy directions to assist low-income home purchasers and renters, including the adoption for policy purposes of a housing affordability benchmark.
From Need to Affordability: An Analysis of UK Housing Objectives	Urban Studies, 28 (6), 871-887, 1991	Whitehead, CME.	Article discusses the principles that lie behind the concepts of need and affordability and the ways in which they have been defined. It then traces the development of policy and debate in the UK with respect to both need and affordability.
Housing Affordability: Myth or Reality?	Urban Studies, 29 (3/4), 369-392, 1992	Linneman, PD and Megbolugbe, IF.	Paper focuses on housing affordability. The authors rely primarily on the US experience to articulate the affordability issue, but draw examples of public policy intervention more broadly from other developed countries. Concludes that housing affordability is partly a real issue and partly an issue manufactured by middle class and affluent young adults. Argues that housing affordability for low-income families remains primarily a problem of income inadequacy.
‘Can Pay? Won’t Pay? Or economic Principles of Affordability	Urban Studies, 30 (1), 127-145, 1993	Hancock, KE.	This paper examines the possible meanings of the concept of ‘affordability’ in connection with individuals’ housing costs. It begins with an overview of definitions in current usage and concludes that current practice would benefit from an analysis of the concept based on economic first principles. The main purpose of the paper is to propose a set of analytically more meaningful definitions than many of those currently employed.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
An Affordability Crisis in British Housing: Dimensions, Causes and Policy Impact	Housing Studies, 9 (1), 103-125, 1994.	Bramley, G.	This paper argues that the British housing system experienced a crisis of affordability in the late 1980s and early 1990s, manifested in several distinct ways. A combination of circumstances produced this crisis, including changes in demography, income distribution, housing supply and tenure, but financial deregulation was particularly important.
The Concept of Housing Affordability: Six Contemporary uses of the Housing Expenditure to Income Ratio	Housing Studies, 10 (4), p. 471-492, 1995	Hulchanski, DJ.	This paper questions 'affordability' as a concept for analysing housing problems and as a definition of housing need. With a focus on the North American usage, the paper identifies six distinct ways in which the housing expenditure-to-income ratio is being used as an assumed measure of affordability. The paper concludes that the ratio can be useful as a valid and reliable quantitative indicator in housing research and analysis however, it is a misleading and invalid indicator of either housing need or the ability to pay for housing.
Financing Affordable Housing in the United States	Housing Policy Debate, 6 (4), 785-814, 1995.	Wallace, JE.	This article addresses the problem of the gap in affordable housing in the United States and the efforts being made to address the gap. At issue are the forms of federal financial support for affordable housing and the relative roles of private, for-profit suppliers; local public housing agencies; and nonprofit, community-based developers in providing affordable housing.
Environmental Regulation and Housing Affordability	Cityscape: A Journal of Policy Development and Research, 2 (3), September 1996, 81-106, 1996.	Braconi, FP.	This article surveys environmental regulations affecting housing development and operation and analyses the ways in which they have enhanced housing and community design through more rigorous planning techniques. At the same time, environmental regulations may have raised the cost of housing in certain regions of the country through the effects of intergovernmental finance. The article shows that the impact of housing costs can be reduced by streamlining review procedures, limiting the scope of review to matters affecting the physical environment, and considering more carefully the fiscal effects of environmental policies.
The Provision of Affordable Housing by Local Government	Research Report (B.Plan), University of Auckland, 1996.	Hodgetts, M.	This research report provides suggestions and proposes how local authorities can assure their weakest citizens adequate housing. It sets out the actions councils can take to directly or indirectly provide affordable housing for the disabled, senior citizens and low income groups.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Economic Shifts and the Changing Homeownership Trajectory	Housing Policy Debate, 7 (2), 293-325, 1996.	Hughes, JW.	Article describes and examines two of the underlying forces behind the upswing in home ownership in the U.S. during the 1988-94 period, demographic aging and improved levels of affordability – as well as the impact of immigration and minority lags. Post-1988 home ownership rates initially rose because of an aging demography. But gradually, the new affordability became part of the dynamic. The new affordability was driven by the decade-long slowdown and weakening of housing prices, lower post-recession interest rates, and accelerated job creation following the period of “jobless” economic growth.
Gifts, Down Payments, and Housing Affordability	Journal of Housing Research, 7 (1), 59-77, 1996.	Mayer, CJ and Engelhardt, GV.	Article explores the role of gifts in helping first-time buyers purchase homes. The evidence shows that financial constraints are important in explaining the increased reliance on gifts, with the receipt of a gift being negatively related to income and wealth and positively related to median house price.
Indicators of Local Housing Affordability: Comparative and Spatial Approaches	Real Estate Economics, 25 (1), 43-80, 1997	Bogdon, AS and Can A.	This paper focuses on the measurement of local housing affordability problems. A number of different housing market indicators are offered that help identify the magnitude and nature of housing affordability problems and their geographic distribution. The paper develops measures of the spatial distribution of affordability problems and implements measures of the mismatch between the demand and supply of housing affordable to the lowest income households.
Building Consensus for Affordable Housing	Housing Policy Debate, 8 (4), 801-832, 1997	Field, CG.	Article discusses the breakdown of previous national consensus around affordable housing. Suggests that if progress toward affordable housing is to be made, proponents will have to recast the way they operate within this new environment. More than new financing plans or recommendations for regulatory relief are needed. Attention must also focus on the processes by which groups address divergent interests and come to agreement.
Rental Affordability: A Review of International Literature	Discussion Paper 88, Property Research Unit, University of Cambridge, 1997	Freeman, A, Chaplin, R and Whitehead, C.	The research undertook a literature review on rental affordability placing the British debate in a wider international context. In particular the research focused on: which types of organisations prescribe affordability measures and for what reason; what measures they use, and the strengths and weaknesses of these measures; the nature and quality of data employed; and important strands in the current debate on affordability.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Planning for Affordable Rural Housing in England and Wales	Housing Studies, 12 (1), p. 127, 1997	Gallent, N.	This paper explores some of the problems faced by planning-led rural housing initiatives since the issuing of government guidance in 1991 and 1992 (ie the 1991 Circulars and PPG3/PPG3 Wales). A range of difficulties has undermined confidence in the strategy and a key problem has been the lack of certainty resulting from poor development plan coverage in England and Wales.
Low-Income Renter Housing: Another View of the Tough Choice	Journal of Housing Research, 8 (1), 27-51. 1997	Murray, MS.	This article describes a method that offers an alternative view of the affordability, quality and crowding choices facing low-income renters. It provides a method for determining the probability that a low-income renter household will secure acceptable shelter
Low Cost Home Ownership Initiatives in the UK	Housing Studies 13 (4), 567-586, 1998.	Bramley, G and Morgan, J.	Paper evaluates low cost home ownership (LCHO) initiatives in the UK, considering value for money, sustainability and potential demand. Potential demand is linked to affordability, value for money for the consumer and awareness and acceptance of an initiative. Value for money from a government viewpoint is related to the relative cost of the initiatives and the extent to which each initiative meets government objectives. Sustainability of an initiative depends on it being sufficiently well targeted to meet government objectives without targeting being so tight as to constrain demand too severely.
Affordable Housing in the Auckland Region: Issues, Mechanisms and Strategies.	A report prepared for the Auckland Regional Growth Forum, 1999.	BERL	This report explores the potential impact of the Draft 'Regional growth Strategy' (RGS) on housing affordability in the Auckland Region. The report also identifies a range of possible mechanisms to address housing affordability issues. It notes that changes to current laws may be required to implement some of the mechanisms.
Affordable housing provision by legal agreement: a study of their use in Scotland	Aberdeen Papers in Land Economy, 99-04, August 1999.	Carmichael, K, Flint, L and Slater, AM.	This article considers the use of planning agreements to secure affordable housing in Scotland. It focuses on their legal limits, policy context and concerns about their use. The research reports a limited use of agreements in Scotland. Local authorities, house builders and housing associations all have mixed views as to how appropriate planning agreements are for the provision of affordable housing. The advantages and disadvantages of all planning mechanism available to achieve affordable housing are also compared and tabulated. The paper concludes that while there is a role for the use of agreements in certain circumstances, improvements in their application are required.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
A Look at Real Housing Prices and Incomes: Some Implications for Housing Affordability and Quality	FRBNY Economic Policy Review September 1999	Gyourko, J and Tracy, J.	Asks the question, is a home of a given quality from ten years ago, more or less affordable today to a household similarly situated to the type of household that occupied the home a decade or two ago? Concludes that relatively low-income occupants of lower quality home still face affordability problems, despite the prolonged economic expansion of the 1990s. Notes, that the data suggests that the quality of lower end homes continues to decline. In terms of higher end homes and their upper income occupants the data suggest that affordability has remained relatively flat and certainly not declined.
Residential Building Codes, Affordability, and Health Protection: A Risk –Tradeoff Approach	Harvard University, Joint Centre for Housing Studies, W99-1, March 1999	Hammitt, JK, Belsky, ES, Levy, JI and Graham, JD.	Article argues that residential building codes intended to promote health and safety may produce unintended countervailing risks by adding to the cost of construction. Higher construction costs increase the price of new homes and may increase health and safety risks through “income” and “stock” effects. By comparing risk reductions with induced increases, code officials could give systematic weight to “affordability” concerns about new codes and quantitatively assess whether codes may inadvertently increase health risks to general or high risk populations.
Affordability Crises in Housing in Britain and Japan	Housing Studies, 14 (1), 99-110, 1999	Yamada, Y.	Argues that affordability problems are based on the double monopolistic character of land as a commodity. Therefore removing these double monopoly aspects should be given highest priority in current housing policy. In this instance, the main role of the government is to remove the speculative aspect of land and home ownership by means of controlling the double monopolistic aspects of land
Affordable Housing and Urban Planning	In Environmental Planning and Management in New Zealand, edited by Memon, PA and Perkins, HC, 2000	Austin, T.	Chapter considers affordable housing and urban planning. Concludes that there is a range of planning mechanisms that could be considered to provide affordable housing. States that inclusionary zoning is perhaps the most controversial of a range of planning mechanisms that could be adopted by local councils and notes that its adoption in New Zealand will depend on political acceptability and it may have to surmount legal challenges as has occurred in the US. Austin states that it can be viewed an extension of the existing mitigating effects approach (a central part of the Resource Management Act); it is a market mechanism linking the true costs and benefits of development to the developer and the community.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Affordable Housing in Australia: Pressing Need, Effective Solution	Affordable Housing National Research Consortium, 2001	Affordable Housing National Research Consortium	Outlines policy options for stimulating private sector investment in affordable housing across Australia. Argues that a new strand of national policy is needed, one that clearly targets the supply-side of the housing market, and emphasises a wholesale financing solution designed to close the 'investment gap' in low cost housing. After canvassing the requirements of the investment community, looking at overseas examples, and considering a host of possible avenues the Consortium proposes a new private-public partnership, one it suggests would meet the needs of the wider community, the Government and financial sector.
Policy Approaches to the provision of Affordable Housing	A report prepared for the Auckland City Council, January 2001.	Austin, T. and Hill, Young and Cooper	This research considered affordable housing policy interventions and mechanisms. Its aim was to provide Auckland City with a wider range of tools than currently used with which they could progress policy development on affordable housing strategies. Two key questions were addressed in the research. Firstly, what policy interventions and mechanisms can be used to ensure that there is an adequate provision of quality and appropriate affordable and low cost housing throughout Auckland, especially in the Strategic Growth Management Areas, and in particular around transport nodes and secondly, what aspects of existing legislation are hindering the development and maintenance of low cost affordable housing – either for sale or rent?
Where Will They Live: Metropolitan Dimensions of Affordable Housing Problems	Harvard University, Joint Centre for Housing Studies, Wo1-9, September 2001	Belsky, ES and Lambert, M.	Article discusses the need to consider the provision of affordable housing in a metropolitan context. This appear first examines the current state of affordable housing in the United States. The problem of providing affordable housing is then discussed within a regional context. Finally, the many barriers to creating regional solutions to these problems are examined and some of the efforts to topple them are reviewed.
Policy Options for Stimulating Private Sector Investment in Affordable Housing Across Australia: Stage 2 Report, Identifying and Evaluating the Options.	Prepared for the Affordable Housing National Research Consortium, 2001.	Berry, M., Hall, J. and Carter, G.	This report provides an assessment of the range of possible mechanisms or approaches to the stimulation of private sector finance for affordable housing. The framework developed comprises three components; the delivery and management mechanisms; government support options and financing options. Private sector financing is required because governments do not have the necessary capital resources to expand the Commonwealth State Housing Agreement fully capital funded model and the Rent Assistance program to the level necessary to significantly deal with the deteriorating affordability situation identified in the Stage 1 report of this study.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Policy Options for Stimulating Private Sector Investment in Affordable Housing Across Australia: Stage 1 Report outlining the Need for Action	Prepared for the Affordable Housing National Research Consortium by AHURI, 2001.	Berry, M and Hall, J.	This report presents the findings of stage 1 of a larger project looking at ways of encouraging greater private sector involvement in the provision of affordable housing in Australia. The report firstly, documents the nature and scale of the housing affordability problem in Australia, concentrating on the period since the mid 1980s. It notes factors responsible for the intensification of affordability problems and housing stress during this period. It identifies the current barriers to private sector and non-government finance for affordable housing, and outlines recent and continuing changes in the public policy environment, relevant to the challenge of improving housing affordability.
The Housing System and the Celtic Tiger: The State Response to a Housing Crisis of Affordability and Access.	European Journal of Housing Policy 1 (1) 79-104, 2001.	Memery, C.	The paper sets the context for economic growth in Ireland and then examines how the lack of planning for housing provision in a period of sustained economic growth assisted in creating a housing crisis during the late 1990s early 2000s.
New Approaches to expanding the Supply of Affordable Housing in Australia: An Increasing Role for the Private Sector.	AHURI, 2002	Berry, M.	The key policy challenge generating this research was the need to explore ways of more effectively attracting significant volumes of private investment into the provision of affordable housing, to complement existing government programs in the area. This research project poses and answers a number of key questions intended to inform this challenge. What are the options for private sector financing of affordable housing? What are the main barriers and inducements currently facing key players who are or could be involved in affordable housing provision? What policy instruments would be necessary to reduce current barriers and/or improve current inducements to effectively attract (significantly) more private investment into affordable housing provision?

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Affordable Housing Project Background Paper	Brotherhood of St Laurence in partnership with Committee for Economic Development Australia, 2002.	Berry, M.	The purpose of the paper is to inform a discussion of potential stakeholders about the investment in and development of affordable housing. The paper explains why affordable housing is of critical economic and social importance. Describes how current policy approaches and settings are failing to deliver. Reviews a number of new policy approaches that promise to reverse this trend.
The Affordable Housing Shortage: Considering the Problem, Causes and Solutions.	Federal Reserve Bank of Minneapolis, Banking and Policy Working Paper 02-2, August 2002	Feldman, R.	Article attempts to measure the size of the affordability problem, identify its underlying causes and, put forward treatments that policymakers should consider. Concludes that a shortage of income is largely behind the housing affordability problem despite the current focus on housing.
Why is it Important to Boost the Supply of Affordable Housing in Australia – and How Can We Do it?	Urban Policy and Research, 21 (4), 413-435, December 2003	Berry, M.	Paper attempts to answer the questions – why do we need more affordable housing and how can we get it? Paper argues that declines in affordability in Australia during the 1990s raises serious economic and social questions, especially in relation to the prospects and welfare of younger Australians. Argues that a lack of affordable housing has negative consequences for the competitiveness and efficiency of the Australian economy and for the maintenance of social cohesion in society. Argues that existing housing policies, are not working to offset or reverse the trend of declining affordability. Suggests that new policies are required, especially those that would attract more private investment into the affordable end of the housing market.
The Planning System and Affordable Housing in Scotland	Paper presented at Lothian Housing Forum/Heriot-Watt University Seminar, 6 Dec 2002	Bramley, G.	Paper draws on a wide range of UK sources to review the literature on planning system and affordable housing in Scotland. Details a number of messages that can be drawn from local and national practice.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Planning gain and Affordable Housing.	Joseph Rowntree Foundation, 2002.	Crook, Y et al	This research aimed to evaluate the effectiveness of the policy of achieving additional affordable housing through the planning system by: clarifying the numbers of additional affordable houses secured in England, and regional and other variations in these numbers. Assessing the effectiveness of the processes by which affordable housing is secured. Looking at the costs involved and who pays for the affordable housing provided. Evaluating how the use of planning obligation approach is helping to achieve affordable housing policy objectives.
Delivering affordable housing through planning policy	Deputy Prime Ministers Office, UK, 2002.	Deputy Prime Ministers Office.	This reports reviews how planning and affordable housing policies in the UK are being implemented (set out in Planning Policy Guidance note 3: Housing and Circular 6/98. Planning and Affordable Housing) and the ways in which affordable housing secure through planning policy is being delivered. The report addresses a range of issues in respect of the use and implementation of the policy across five English regions. Based on the findings, it includes examples of, and recommendations for, better practice in using existing policy guidance to best effect to deliver affordable housing.
Financing affordable housing: an assessment of methods.	Research Project (Mplan Prac), University of Auckland, 2002.	Larsen, B.	This study assesses potential methods for the provision of finance for affordable housing in the Auckland Region. Methods examined include: Housing Trust Funds; Cross subsidisation within projects; Low income Housing Tax Credits; Real Estate Turnover Tax; betterment Tax; Tax Incremental Finance; Linkage Regulations/Taxes; Affordable Loan Products; and Location Efficient Mortgages. Larsen states that the Real Estate Transfer Tax and Tax Increment Financing appear to have the potential to make a significant contribution to providing the finance necessary to meet the region's future needs for affordable housing.
Setting rent with reference to tenants' affordability: public housing rent policy in Hong Kong	Journal of Housing and the Built Environment 17: 409-418, 2002.	Ngai Ming Yip and Kwok Yu Lau	This paper argues, using public housing in Hong Kong as an example, that while affordability seems to be a simple and appealing principle in rent setting, implementing such a concept is far from straightforward. Notwithstanding the popularity of affordability in housing policy discourse, the concept is not well formulated. Nor is there a consensus on what the threshold indicator of affordability (un-affordability) should be.
Essential Function Bonds: An Emerging Tool for Affordable Housing Finance	Harvard University, Joint Centre for Housing Studies, W03-2, February 2003	Apgar, W and Whiting, EJ.	This report summarises the findings of a Joint Center for housing studies survey of the use and performance of Essential Function Bonds (EFBs). EFBs are issued to finance the construction and substantial rehabilitation of affordable housing or other community facilities owned by state and local housing finance agencies.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
The Impact of Building Restrictions on Housing Affordability?	FRBNY Economic Policy Review June 2003	Glaeser, EL and Gyourko, J.	Examines the role of zoning in US house costs. Paper concludes that the US does not uniformly face a housing affordability crisis. In the majority of places, land costs are low (or at least reasonable) and housing prices are close to (or below) the costs of new construction. In places where housing is quite expensive, building restrictions appear to have created these high prices.
Rethinking Local Affordable Housing Strategies: lessons from 70 Years of Policy and Practice	Discussion paper for the Brookings Institution Center on Urban and Metropolitan Policy and The Urban Institute, Washington DC, 2003.	Katz, B and Turner, MA.	To help state and local leaders design fresh solutions to today's affordable housing challenges, the two sponsoring organisations of the report joined forces to examine the lessons of seven decades of major policy approaches and what these lessons mean for local reforms. The report finds that past and current efforts to expand rental housing assistance, promote home ownership and increase affordable housing through land use regulations have been uneven in their effectiveness in promoting stable families and healthy communities. The findings suggest guiding principles for local action, with important cautions to avoid pitfalls.
Hard at Work for Workforce	Urban Land, September 2003, 2003.	Myerson, DL.	Article considers issues around supply of workforce housing and where affordable housing is located.
Let's get Efficient About Affordability	Housing Facts and Findings, 5 (1), 2003	Nelson, AC and Bell, CA	Short article which discusses the interaction between transportation costs and housing affordability. Argues that housing cost income ratios can be lowered when household locates close to place of work or mass transit. Suggests that reconsidering affordability and offering related incentives for "location-efficient" housing choices could be a win-win strategy for policy makers not only in terms of affordability but also in terms of limiting sprawl and traffic congestion, revitalising urban areas and strengthening city tax bases.
Auckland Regional Affordable Housing Strategy	Regional Growth Forum, March 2003, Auckland, 2003.	Regional Growth Forum	The Auckland Regional Affordable Housing Strategy was published in March 2003. The Strategy has two higher level goals a) to enable all households in the Auckland Region to live in housing that is affordable and b) to encourage affordable housing that is well-located, appropriate to needs, well-designed, integrated into communities, and provides for people's need for choice, security, safety, and good health. The Strategy has 11 desired outcomes to support these goals.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Government regulation and changes in the affordable housing stock	Fed. Reserve Bank New York Econ. Pol. Rev. 9 (2), 45-62, 2003.	Somerville, CT and Mayer, CJ.	This paper looks at the relationship between government regulation and the dynamics of the low-income housing stock. Instead of focusing on the effects of supply restrictions, both explicit and implicit, on new construction, this paper examines how they affect the filtering process. This approach looks at how regulation affects the probability that a rental unit currently deemed affordable will become unaffordable, owner occupied, or demolished, relative to staying affordable. The paper finds that regulation does matter: when new construction is more constrained, as measured either by a lower supply elasticity or the presence of certain regulations, affordable units are more likely to filter up and become unaffordable, relative to remaining in the affordable stock.
Affordable Housing in Canada: a search for a new paradigm.	TD Economics, 2003.	TD Economics.	Argues that many recent government initiatives around affordable housing are not grounded in a proper analysis of the problem. The authors argue that the ultimate solution to the affordable housing problem is to raise market incomes and develop a more effective and equitable income transfer regime to help lower-income households avoid the perils of the proverbial low-income trap. Notes that as these are necessary longer-term objectives, complementary actions will be required in the interim.
'House poor' or simply 'poor'?	Journal of Housing Economics 12, 291-317, 2003.	Thalmann, P.	The purpose of this research was to show how households that need housing aid and those that need income support could be identified more precisely. In place of the common rent-to-income-ratio, it uses a residual income indicator with indicators of over-consumption and over-paying for housing services. The indicators are computed for a sample of renter households in Switzerland, one of the countries with the greatest share of rental tenure.
Affordability Report, A report to the Housing new Zealand Corporation.	Housing New Zealand Corporation, 2003	Working Party on Affordability Issues	The housing affordability work-stream used the Statistics New Zealand Housing Indicators Project work as a basis for their discussion on the issues surrounding housing affordability. The six dimensions of housing adequacy: affordability, suitability, habitability, tenure security and freedom from crowding and discrimination were felt by the group to cover the non-monetary aspects of affordability. In addition the affordability work-stream further divided the 'suitability' dimension into two components: suitability of the dwelling and suitability of the location. The affordability work-stream identified a number of short term, long term and research goals around each dimension.

Housing Affordability – Key Literature Synopsis Continued

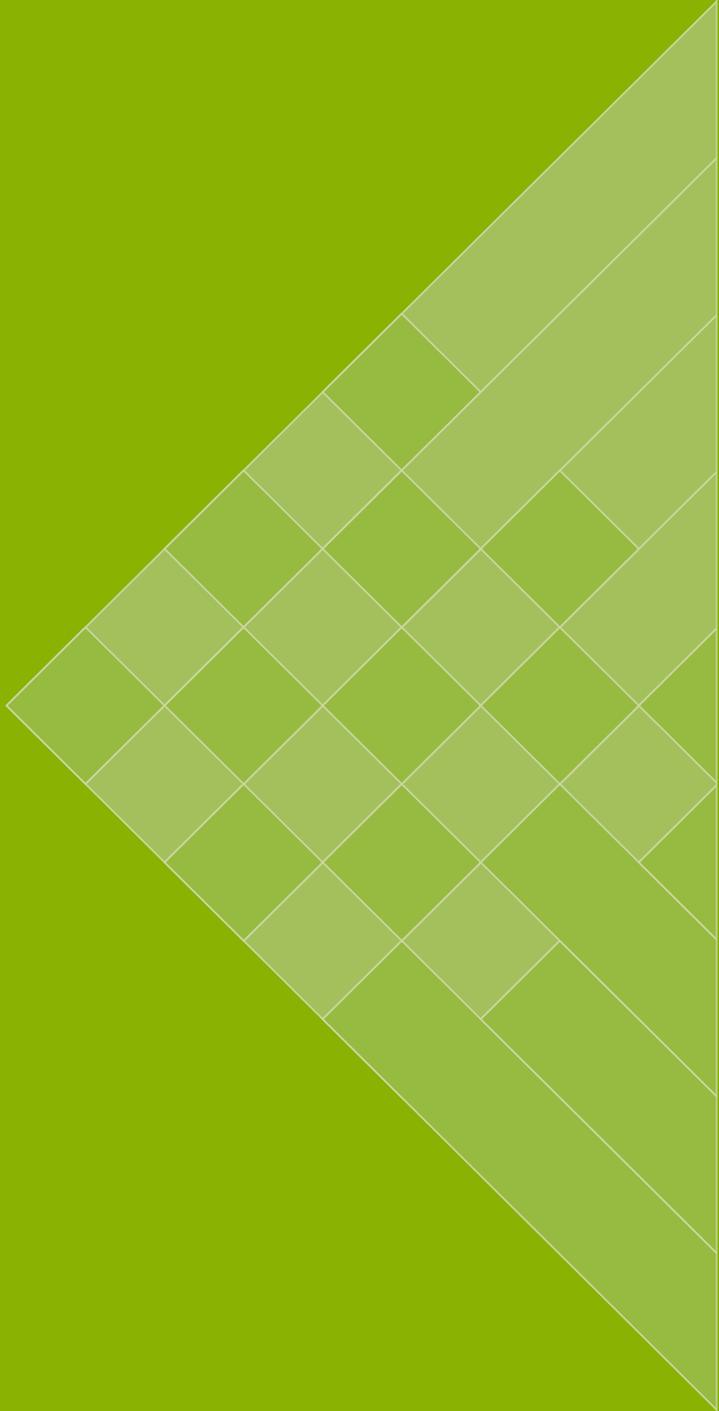
Research Title	Source	Author	Synopsis
Housing Affordability in Queenstown Lakes District – the nature and scale of housing affordability issues in the district	A report produced for the Queenstown Lakes District Council, 2004	Austin, T. and Hill, Young and Cooper	Research looks at the nature and scale of housing affordability problems in the Queenstown Lakes District. The report notes that between 2001 and the end of 2003 the district has experienced a dramatic surge in land, house and rental levels. A further feature of the market is that there are few affordable options. Based on 2001 household income data, up to 50% of new households are likely to be experiencing some form of rental or ownership affordability problem. The report notes a number of factors that mean that continued rises in prices can be expected in the future, and that housing affordability will increase as an issue, even if the house market does cool of in the short term. The report concludes that some form of intervention is warranted. The project is the first stage of a four stage project. Subsequent stages of the project will develop a Housing Affordability Strategy
Review of Housing Supply: Securing our Future Housing Needs	Report for the Chancellor of the Exchequer and the Deputy prime Minister, London, 2004.	Barker, K.	The overall objectives of the review were to: 1) achieve improvements in housing affordability in the market sector; 2) a more stable housing market; 3) location of housing supply which supports patterns of economic development; and 4) an adequate supply of publicly funded housing for those who need it. The review makes a number of recommendations to improve the responsiveness of UK housing supply.
Measuring Housing Affordability - Draft	AHURI Workshop, Housing Affordability, November 2004	Burke, T.	This paper looks at the problems of measuring and conceptualising housing affordability and the uses to which such measures are put. This paper includes, first, a new method of measuring affordability, the budget standard method, and second, raises concerns that those involved in housing have become trapped by the current affordability measures and need to move on to new ways of thinking about affordability.
Home ownership: tenure of choice?	Master of Public Policy, Victoria University of Wellington, 2004.	Carne, S.	This work explores New Zealand's past reasons for supporting home ownership as the most efficient way of meeting its housing policy objectives, and sets that history against the coincidental home ownership fall of 6% when the state withdrew its involvement. Consideration is given to the possibility that the fall in home ownership rates is predominantly attributable to demographic changes, but the study concludes that it is a contributing factor. The consideration of affordability issues and the changes to housing policies led to the conclusion that these have played a greater role in the fall of home ownership rates.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Changes in the Structure of the New Zealand Housing Market	A report produced for the Centre for Housing Research New Zealand, Kainga Tipu, 2004.	DTZ New Zealand.	This report analyses the housing sector in New Zealand and changes in it over the last twenty years. The report includes analysis of empirical data and commentary at both a national and where appropriate, regional level. It looks at housing stock, housing production, supply and exchange, housing finance market characteristics and trends since 1981, housing access, consumption, needs and demand. It also considers housing policy and the regulatory environment.
Building the Future: Towards a New Zealand Housing Strategy – A Discussion Document	Housing New Zealand Corporation, 2004.	Housing New Zealand Corporation	This discussion document forms a key part of the process towards the New Zealand Housing Strategy. The New Housing Strategy, development of which is led by Housing New Zealand Corporation, will provide an overall direction for housing in New Zealand over the 10 years to 2015. The purpose of the discussion document is to gain public and stakeholder views on issues that will be addressed in the final strategy. It summarises the key housing issues facing New Zealand and outlines a proposed plan of action to improve housing, as well as including analysis of the influences on housing markets and policy.
The Role of Local Government in the Provision of Affordable Housing	A report prepared for Local Government New Zealand, 2004	McKinlay Douglas Ltd	Report examines the role of local government in the provision of affordable housing. It considers the role of local government in housing and the impact of the Local Government Act 2002. It identifies themes from the international experience and points of relevance for New Zealand. It goes on to examine the potential role of local government in the provision of affordable housing and looks at options for future action.
Is Housing Unaffordable? Why Isn't More Affordable?	Journal of Economic Perspectives, 18 (1), 191-214, 2004.	Quigley, JM and Raphael, S.	This paper reviews trends in housing affordability in the U.S. over the past four decades. There is little evidence that owner-occupied housing has become less affordable. In contrast, there have been modest increases in the fraction of income that the median renter household devotes to housing. The article finds pronounced increases in the rent burdens for poor households. The article explores the low-income rental market, analysing the importance of changes in the income distribution, and in housing quality in affecting rent burdens. We conclude that zoning and land use restrictions are more important factors driving up rents. The article also sketches out some policies that might improve housing affordability.

Housing Affordability – Key Literature Synopsis Continued

Research Title	Source	Author	Synopsis
Decomposing Canada's growing Housing Affordability Problem: Do City Differences Matter?	Urban Studies, 41 (1), 117-149, January 2004	Skaburskis, A.	Examines the role of eight factors that affect the prevalence and incidence of housing affordability problem: geography, demography, migration/immigration/ethnicity, income recipients, income source, employment and education. Changing employment levels and sources of household income are the most important factors in explaining the prevalence and growth of housing poverty and housing affordability problems. White single parents have the highest incidence the growth of the problem is mostly in the young non-family households. Migration, immigration and ethnicity play a role that is independent of the other factors. City and regional differences are negligible after the effects of the factors common to all cities have been accounted for.



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