



JUST HOW BIG IS THE HOUSING PROBLEM?

Evidence of housing stress for low to moderate income earners



ABSTRACT

Housing affordability is a serious issue for a significant number of New Zealand households, covering persons on the social housing waiting list, general beneficiaries, persons living alone, low-waged workers and even some middle-income households.

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Introduction

It is difficult to find good information on the size of the housing crisis, particularly for low to moderate income earners. There appears to be a lack of information on the number of households needing suitable housing or who are financially struggling to pay the accommodation costs of the places they currently occupy. The situation is compounded by a lack of agreement as to what ‘housing affordability’ or ‘housing stress’ means.

This report looks at affordability in terms of an individual’s or household’s ability to pay for accommodation and other essential living costs from the income they receive. Affordable housing is housing where accommodation costs are no more than 30% of gross income. This is an international recognised standard for comparing affordability, particularly for the lowest 40% of income earners. It is also similar to the level of rent charged on Housing New Zealand properties, which is generally capped at 25% of net income. It is consistent with the definition of housing affordability used by the 2010 Housing Shareholders Advisory Group¹, the Centre for Housing Research Aotearoa New Zealand², the Ministry of Social Development in 2005³ and Anglicare Australia in its 2019 *‘Rental Affordability Snapshot’*.

The purpose of this report is to highlight information from a wide range of sources which show that housing affordability is a serious issue for a significant number of New Zealand households, covering persons on the social housing waiting list, general beneficiaries, persons living alone, low-waged workers and even some households earning the median annual household income⁴. Increasingly low and middle-income groups are competing with each other, to access a limited supply of affordable accommodation, particularly rented accommodation. At the same time, barriers to private home ownership have risen for middle income earners, both in terms of rising house prices and the amount of deposit needed to secure a home-loan.

¹ Household Shareholders Advisory Group (2010), *‘Home and Housed: A vision for social housing in New Zealand’* page 13

² Centre for Housing Research Aotearoa New Zealand (2006), Fact Sheet ‘Affordable Housing in NZ’

³ Ministry for Social Development, 2005, *The social report - te pūrongo oranga tangata – Indicators of social wellbeing in New Zealand*, Wellington. Page 68

⁴ Also known as the mid-point. Half of all households have an annual income at or below this point, with a further half of households with an income at or above this point.

The Social Housing Waiting List

The first measure typically quoted in the estimation of housing need is the social housing waiting list. As of March 2019, there were 11,067 households waiting for a public house on the Housing Register⁵. The number of persons on the Housing Register in the Wellington region was 1,252⁶. However, this figure appears to be the ‘tip of the iceberg’ when it comes to housing need.

This is partially due to the screening process carried out for the assessment of eligibility to be put on the list introduced in 2011. Applicants need to be assessed as Priority A or B to be added to the list. In March 2019 almost 9,000 households were assessed as priority A applicants with a “*severe and persistent housing need that must be addressed immediately*”⁷. Whilst the remaining households have been assessed as priority B applicants with a “*serious housing need*” and includes “*households with a significant and persistent*”⁸ housing need. These households are described as “*highly unlikely to be able to access and/or sustain suitable, adequate and affordable alternative housing*” on the Ministry for Social Development’s (MSD) website.

But how bad does housing need to be, to be identified as a ‘serious’ or ‘significant’? An indication of this is given to the categories of applicants which are excluded from the list (priority C: moderate need and priority D: low or no need). ‘Moderate need’ is defined as “*The household is disadvantaged and this is likely to be compounded over time due to the unsuitability and/or inadequacy of their current housing. The household can access and sustain alternative housing with assistance*”. The lowest priority ranking D is defined as “*Households experiencing low housing need for which there are other viable housing options. The household can access and sustain alternative housing without assistance*”⁹.

A person assessed as having low or no housing need (priority D) could also be considered by ordinary people to still have a significant housing need. The identification of ‘temporary staying with friends and family’ as a low housing need under the housing adequacy criteria¹⁰, suggests couch-surfers may struggle to be added to the housing waiting list, unless they have given notice that they need to move on within the next two months. Low or no housing need could also potentially apply to persons residing in garages or larger vehicles, which have not been designed for human habitation.

⁵ Ministry for Housing and Urban Development (2019) *Public Housing Quarterly Report, March 2019* page 10

⁶ Ministry for Housing and Urban Development (2019) *Ibid.* page 15

⁷ This expression forms part of the definition of Priority A in the *Public Housing Quarterly Report, March 2019*.

⁸ These terms form part of the definition of Priority B in the *Public Housing Quarterly Report, March 2019*.

⁹ Work and Income website <https://www.workandincome.govt.nz/map/social-housing/assessment-of-eligibility/housing-need-priority-ratings-01.html> Accessed 13 May 2019

¹⁰ Work and Income website <https://www.workandincome.govt.nz/map/social-housing/assessment-of-eligibility/risk-rating-for-clients-not-living-in-any-accommodation-including-living-in-emergency-housing.html>
Accessed 13 May 2019

Of interest is that persons which are assessed as priority D may also fit the definition of homelessness adopted by Statistics New Zealand in 2009. Statistics New Zealand defines homelessness as “*living situations where people with no other options to acquire safe and secure housing: are without shelter, in temporary accommodation, sharing accommodation with a household or living in uninhabitable housing*”¹¹. Under this definition, persons living in boarding houses and sharing someone else’s private dwelling are considered homeless, whilst these persons may be assessed as having no or little housing need by MSD.

Academic Kate Amore estimated that in 2013, there were 41,000 people homeless New Zealanders¹², a figure over 8 times greater than the number of persons on the social waiting list as at June 2014 (4,630 persons)¹³. Statistics New Zealand identified 2,718 persons living in boarding houses; 11,589 people lived in hotels, motels, and guest accommodation and over 17,000 people living in alternative private dwellings (e.g. mobile dwellings and improvised dwellings/shelters) across New Zealand in 2013¹⁴. On 17 September 2018 it was estimated that a minimum of 3,674 people were living without shelter or in temporary accommodation within the Auckland region.¹⁵

The assessment of housing need by MSD considers five criteria which are adequacy, suitability, affordability, accessibility and sustainability. To be assessed as having a significant or serious housing need (priority A and B), applicants need to achieve a rating of at least three in one category and two in a second (out of a possible four)¹⁶. This suggests that a lack of adequate housing or inability to find accommodation at an ‘affordable rate’ is not sufficient reason by themselves, for a person to be added to the housing wait list. The housing waiting list priorities households facing multiple barriers to private rental accommodation and concentrates on the most needy.

No public information was found on the number of persons which have been assessed by MSD as ‘Priority C or D’. This varies with the statement made by the then Housing Minister, Phil Heatley in 2011 that

“All applicants (A’s, B’s, C’s and D’s) will continue to be recorded on a Housing Needs Register so that we maintain a clear picture of wider housing need”¹⁷.

Nor is there any public acknowledgement that applicants for the social housing register are often pre-screened before any formal assessment occurs. My own experience as a volunteer welfare advocate, making enquiries on behalf of clients who wish to be placed on the housing register, is that callers to the MSD Housing Assessment Unit first need to field

¹¹ Statistics New Zealand (2009) ‘New Zealand definition of homelessness’. Wellington: Author.

¹² Amore K. (2016) ‘Severe housing deprivation in Aotearoa/New Zealand: 2001-2013’

¹³ Ministry of Social Development, (2017) *Social Housing Quarterly Report, March 2017*

¹⁴ Statistics New Zealand (2015) ‘Living outside the norm: An analysis of people living in temporary and communal dwellings, 2013 Census’, pages 22, 28 and 39.

¹⁵ Housing First Auckland (2018) ‘Ira Mata, Ira Tangata: Auckland Homeless Count Report. Point in time count’ 2018 page 7

¹⁶ Work and Income website <https://www.workandincome.govt.nz/map/social-housing/assessment-of-eligibility/calculation-of-overall-priority-rating-01.html> Accessed 13 May 2019

¹⁷ NZ Government (2011) Press release 30 June 2011 ‘New rules for a fairer social housing system’

questions from call centre staff, before a decision is made as to whether they will be given a formal assessment of housing need. The issue of pre-screening is also raised in Alan Johnson's 2019 report '*Are You Well? Are We Safe? State of the Nation Report*'. This report identifies that not all phone enquirers were able to make an application to be placed on the waiting list, after completing an initial phone assessment of housing need and that MSD "*took no records of the volume of such enquiries*".¹⁸

As a consequence, the number of persons who view themselves as being in housing need, or who have made enquiries regarding social housing is likely to be several times higher than the official waiting list.

As a result of administrative changes to the way housing assessments have been carried out, a decrease in the size of the waiting list does not necessarily mean that housing need has decreased or vice versa. Changes in the size of the waiting list may also be the result of how user-friendly the application process is, the perceived likelihood of success in finding a social house and the willingness of applicants to seek help.

In 1998 there were 8,691 applicants on the State Housing Waiting List¹⁹. After the exclusion of lower priority applicants in 2011, the waiting list did not return to this level until June 2018 (8,704)²⁰. Housing New Zealand identified in 2011 that:

*"As at 30 September 2008 there were 3,166 applicants (excluding transfers) on the waiting list with a priority ('A' or 'B') housing need. By 30 September 2011 this had fallen to 1,971. The decline in the waiting list appears to be linked to the introduction of the Corporation's Options and Advice service, which was implemented nationally in June 2010. In the 12 months before implementation, around 56 percent of customers seeking housing assistance from the Corporation had a housing needs assessment. In the 12 months following implementation, this had decreased to 32 percent"*²¹.

I have found no publicly available evidence of monitoring occurring after housing assessment reviews, to check whether Priority C and D applicants were actually able to access and sustain alternative housing options, that they were previously assessed as capable of doing. This point has been raised by housing researcher Philippa Howden-Chapman who stated:

*"Nobody has institutional responsibility for contacting or measuring the still pressing housing needs of those 'Cs' and 'Ds' who are not considered in greatest need and are dropped off the HNZ lists or, more likely, fail to make it on to the list"*²².

¹⁸ Johnson, A. The Salvation Army Social Policy & Parliamentary Unit (2019) '*Are You Well? Are We Safe? State of the Nation Report*' page 79.

¹⁹ Housing Lobby, (2011) Press release 28 June 2011 '*Leave vulnerable elderly State Housing tenants alone*'.

²⁰ Ministry for Housing and Urban Development (2019), *Public Housing Quarterly*, March 2019 page 10

²¹ Housing New Zealand (2011), *Briefing to the Minister of Housing*, December 2011 pages 19 and 20

²² Philippa Howden-Chapman (2015), '*Home Truths – confronting New Zealand's housing crisis*' extract

The Expert Advisory Group on Solutions for Child Poverty pointed out in 2012 that “*There are underlying conflicts in this system. In areas of high need for housing, the assessment will likely be affected by the supply of vacant houses and new house builds. This situation creates an incentive for HNZC to keep its list to a manageable size, rather than reflect serious housing need...*

“*...the true state of housing need is difficult to determine. No data on households requiring housing are collected by any single state agency because assessment is not tied to housing need but to the delivery of a housing product, i.e. rationed state housing and the AS (accommodation supplement).*”

“*This waiting list excludes households defined as having low to moderate housing need; inclusion of these people would see the figure double*”²³.

Carol Aspinall stated in her 2013 Master’s thesis that Housing New Zealand wait lists “*are by no means an accurate reflection of the real level of need (for affordable housing) – both because the length of these waiting lists is actively managed, and because many people do not put their name on the waiting list if they think they have little chance of getting a HNZC tenancy*”²⁴.

This view was reinforced by Rimutaka Member for Parliament Chris Hopkins in 2016-17 who is quoted as stating that the housing waiting list is “*only the tip of the iceberg and, really, they have just made it a lot harder to even get on the waiting list...I think they are carefully massaged to say there is less demand in Upper Hutt. I deal with people every day who are struggling to find a place to live.*”²⁵”

“*Basically the government changed the way Housing NZ's prospective tenants are prioritised and now a lot of needy people don't even qualify.*”²⁶”

Academics who have referred to tightening eligibility criteria for inclusion on the social housing waiting list are Philippa Howden-Chapman and Jeff Mosley. Philippa Howden-Chapman refers to the “*deliberate slimming of waiting lists*” and performing ‘tricks’ with waiting lists “*whereby a considerable proportion of previously eligible households dropped off the waiting list thanks to a much greater number of categorical exclusions to its ‘client-base’.*”²⁷” Jeff Mosley stated in 2018 that “*The need for public and affordable housing is likely much greater (than the official housing waiting list) considering the number of previously eligible households that have been deemed ineligible (not Priority A or B) and have therefore been excluded from the client base despite their level of need or interest.*”²⁸”

²³ The Expert Advisory Group on Solutions for Child Poverty (2012), ‘Working Paper 18: Housing Policy Recommendations to Address Child Poverty’, pages 26 and 29

²⁴ Aspinall, C. (2013), ‘Anyone can live in a boarding house, can’t they? The advantages and disadvantages of boarding houses’, page 175

²⁵ Williams, C. (2017), Article ‘Upper Hutt abandoned by Government when it comes to housing, MP says’.

²⁶ Nicol, J. (2016), Article ‘Housing NZ to sell Trentham sites due to perceived lack of need for social housing in Upper Hutt’.

²⁷ Philippa Howden-Chapman (2015), ‘Home Truths – confronting New Zealand’s housing crisis’ extract.

²⁸ J. Mosley (2018), ‘Priming the Pump, Access to Capital and Capacity to House New Zealanders’ page 23

The dramatic rise in the social housing waiting list over the past two years is also believed by the Salvation Army Social Policy and Parliamentary Unit to be mostly the result of changes in how MSD has received and responded to requests for housing assistance. Commenting “*some argument can be offered that before late 2016 the waiting list was managed for political reasons and MSD operated a somewhat opaque gatekeeping system, which limited access to the waiting list.*²⁹”

Economic and Social Research Aotearoa recently commented that:

“The need for public housing extends well beyond the waitlist to those who are in unaffordable and substandard private rentals, the working poor who are not eligible, and those who are otherwise eligible but have been deterred by the complicated nature of application process. If we take the definition of homelessness to include those living on the streets, in cars, on couches, in garages, and in overcrowded houses the homeless population extends well beyond this waitlist”³⁰.

Even for the lucky few which are placed in rent controlled public housing, there can be significant time lags between being placed on the list and housed. Of the 1,431 applicants placed in public housing in the March 2019 quarter, half had to wait over 107 days (approximately 3.5 months) with an average wait of 172 days (close to six months)³¹. Given public housing’s role as an ‘option of last resort’ (that is, only available to those which have exhausted all other options), a wait of even three months is likely to be difficult. This is because some people need to wait for public housing whilst living in emergency accommodation, which is subject to strict eligibility criteria and typically needs to be renewed on a weekly basis. Clients often need to find their own emergency accommodation and need to demonstrate active searches for alternative accommodation. If alternative accommodation is found, including a place to sleep on the couch of friends or family, they are at risk of being taking off the housing waiting list or having their priority rating (and consequentially their chances of being rehoused) downgraded.

Changes in Social Housing Supply

The ‘2018-2022 Public Housing Plan’ refers to a plan to increase the number of public housing available in the country by 6,400 or 9.5% to 73,628 places by June 2022, of which 712 are proposed for the Wellington region³². Approximately, 2,000 (or 30%) of the additional housing supply is expected to be provided by Community Housing Providers, with the remainder by Housing New Zealand. The vast majority of these additional houses were identified as in the pipeline as of June 2018. In 2018 the number of public housing places in

²⁹ Johnson, A. The Salvation Army Social Policy & Parliamentary Unit (2019), ‘Are You Well? Are We Safe? State of the Nation Report’, pages 63 and 64

³⁰ Economic and Social Research Aotearoa (2019) ‘Budget 2019 Report’

³¹ Minister for Housing and Urban Development (2019) *Public Housing Quarterly Report* March 2019, page 16

³² Ministry for Social Development (2018), *Public Housing Plan 2018-2022*, NZ Government, page 2

New Zealand increased by 1,658³³, whilst the number of households on the housing register rose by over 4,500 or 73%³⁴.

Although it is recognised that households on the official waiting list are not static, and can and do move on and off the list, it is considered unlikely that public housing supply in 2022 would be sufficient to meet the housing needs of Priority A and B applicants at this date, let alone households who housing need is assessed as less severe. The *2019 OECD Economic Survey of New Zealand* refers to the proposed increase in social housing as “insufficient to meet current demand from those with highest need on the waiting list”³⁵.

The Salvation Army Social and Parliamentary Unit stated in 2018 that:

“Previous work on demand for social housing has suggested that New Zealand requires at least another 2000 extra state and social houses each year for the next decade. The Government’s present commitment to building 1600 per year for the next four years is clearly inadequate, as witnessed by the growing waiting list which more than doubled in two years.”³⁶

Carol Aspinall in 2013 identified that there has been a significant loss of social housing over time, with the number of households in social housing decreasing by 30% over the past 20 years³⁷. The Housing Lobby refers to 13,000 State houses being sold off as ‘surplus to requirements’ in 1998³⁸. Jeff Mosley also identifies a more recent loss of approximately 5,000 public houses managed by Housing New Zealand Corporation between 2010 and 2016³⁹. As well as the sale of over 27,000 state houses to existing renters between 1937 and 1975⁴⁰.

Between October 2013 and June 2017 seven properties in the Upper Hutt District were sold under the FirstHome Ownership Scheme as surplus to requirements. Around the country 428 public houses were sold under this scheme⁴¹.

The following graph sourced from the Child Poverty Action Group illustrates changes in public housing supply managed by the state between 1938-2018, based on the number of houses available per 1,000 persons.

³³ Ministry for Housing and Urban Development (2018) *Public Housing Quarterly Report* December 2018 page 2

³⁴ Ministry for Housing and Urban Development (2018) *Ibid.* page 2

³⁵ OECD (2019), *OECD Economic Surveys: New Zealand 2019*, page 176

³⁶ Johnson, A. The Salvation Army Social Policy & Parliamentary Unit (2018), ‘*Beyond Renting- Responding to the decline in private rental housing*’ page 7

³⁷ Aspinall, C. (2013) ‘*Anyone can live in a boarding house, can’t they? The advantages and disadvantages of boarding houses*’, page 9

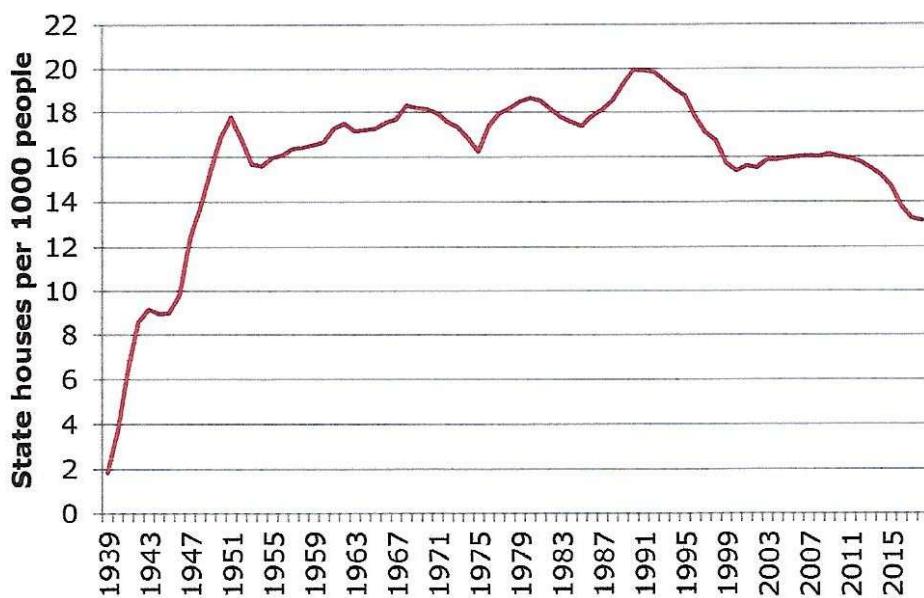
³⁸ Housing Lobby, (2011) Press release ‘*Leave vulnerable elderly State Housing tenants alone*’

³⁹ Mosley, J. (2018), *Priming the Pump, Access to Capital and Capacity to House New Zealanders*’ page 23

⁴⁰ Mosley, J. (2018) *Ibid.* page 56

⁴¹ Housing New Zealand (2017) ‘*Financial Products Quarterly Report, Period Ending 30 July 2017*’ page 5

Estimated total houses managed by the State (incl leases) per 1000 population 1939-2018⁴²



Rumour has it that the supply of public housing is particularly limited in the Hutt Valley within the Wellington region, following the demolition of public housing stock in Epuni, Naenae, Taita, Pomare, Trentham and Timberlea circa 2012; and prior to the completion of 330 new public houses and the refurbishment of a further 383 properties in the Lower Hutt area promised in 2017⁴³.

The disproportionate number of emergency housing grants awarded to persons in the Lower Hutt and Upper Hutt Districts (898 grants or 54% of grants made in the Wellington region) in the March 2019 quarter⁴⁴ indicates that there is likely to be some truth in this rumour. Hutt City Council reported in 2018 that Lower Hutt residents comprised between 46-52% of all emergency housing grants in the Wellington region for the June, September and December 2017 quarters.⁴⁵ As of the 2013 census, residents of Lower and Upper Hutt comprised 29% of the population of the Wellington region⁴⁶.

⁴² McAlister, J; St. John, S. & Johnson, A. (2019) 'Accommodation Supplement: The wrong tool to fix the house', Child Poverty Action Group page 18.

⁴³ New Zealand Government Press Release (2017), 'More homes for Hutt Valley', 4 July 2017

⁴⁴ Ministry for Housing and Urban Development (2019) 'Public Housing in the Wellington Region' March 2019 quarter.

⁴⁵ Pritchard, J W., & Miller, O. (2018) *Homelessness in Lower Hutt, Hutt City Council*, page 14

⁴⁶ Greater Wellington Regional Council website, *Community Profile*

Severe Housing Stress

Rea, D. & Thompson, E. estimated that the number of households in ‘severe housing stress’ at September 2016 was approximately 140,000⁴⁷. This was based on calculations of household income and housing costs for recipients of the Accommodation Supplement (AS). The definition of ‘severe housing stress’ used derives from the OECD and refers to households with weekly equivalised residual incomes less than \$180 per week after paying for housing costs. The report titled ‘*The Impact of Rising Housing Costs on Accommodation Supplement recipients*’ acknowledges that persons in severe housing stress “are likely to find it difficult to afford their housing and pay for other necessities”⁴⁸.

The above report also pointed out that there was a significant number of low-income households which did not receive any form of housing subsidy, including approximately 50,000 persons on an income tested mains benefit⁴⁹. It is unknown why these persons did not receive an AS payment and it is possible that these households are also experiencing severe housing stress.

Just under half (48.9%) of all recipients of the AS (140,449 persons) were identified as in severe housing stress in 2016. The prevalence of severe housing stress was highest for single persons, affecting 85.2% of all single persons receiving the AS. Almost two-thirds (64.9%) of persons receiving an income tested main benefit and accommodation supplement were identified as in severe housing stress⁵⁰.

The 2018 increase to the Accommodation Supplement was estimated to “lift about 14,000 households out of severe housing stress”.⁵¹

The Accommodation Supplement

Another indicator which shows that the problem of a lack of suitable or affordable housing affects far more than just those on the official housing register, is the number of persons receiving the Accommodation Supplement (AS). The supplement was introduced in 1993, although other forms of housing assistance payments existed prior to this date. As of March 2019, 295,410 people received this benefit.⁵² The supplement is defined by the Ministry for Social Development as a “weekly payment to assist people with low incomes who are not in public housing with their rent, board, or the cost of owning a home.” The number of people receiving this payment in the Wellington Region at December 2018 was almost 30,000⁵³.

⁴⁷ Rea, D. & Thompson, E. (2017), ‘*The impact of rising housing costs on Accommodation Supplement recipients*’ page 25

⁴⁸ Rea, D. et. al. (2017) Ibid. page 23

⁴⁹ Rea, D et al. (2017) Ibid. page 7

⁵⁰ Rea, D et. al (2017) Ibid. pages 23 to 25

⁵¹ Morrissey, S. (2017) *Regulatory Impact Statement on Budget 2017 Families Income Package*, page 17

⁵² Ministry for Social Development (2019) *Benefit Fact Sheets*, March 2019 quarter, page 7

⁵³ Ministry for Housing and Urban Development (2018), ‘*Public Housing in Wellington Region*’, December Quarter 2018, page 1

The Child Poverty Action Group reported that “*In September 2016, the total number of people supported by the AS was 535,123 or 11% of New Zealand’s population, including 19% or 194,430 of all children aged 16 and under*⁵⁴”.

Strict eligibility criteria apply to receiving the AS, particularly in relation to income and cash assets. Cash assets are limited nationwide to \$8,100 for single persons and \$16,200 for couples (with or without children)⁵⁵. This cash asset limit is way below the level of savings needed for a house deposit and has remained the same for over 30 years⁵⁶.

Whilst some recipients use the payment to assist with meeting mortgage costs (such as mortgages entered into when the recipient was in a better financial position); the majority of recipients are likely to be permanently locked out of private home ownership. As of September 2016, almost 9 out of 10 recipients (88%) of the AS were either renting or boarding⁵⁷.

Income limits for eligibility and maximum amount of AS paid varies around the country, and is understandably highest for the city of Auckland. For the Wellington region, the maximum amount paid is \$105 per week for a single person and \$155 per week for a couple⁵⁸. The maximums for the AS were last increased on 1 April 2018, and prior to this, there had been no increase since 2005. An increase to the AS was considered by the New Zealand Government in 2008, but dismissed as ‘unaffordable’⁵⁹.

The current AS maxima were identified by The Treasury as being “*based on the 40th percentile of 2016 rents in each Accommodation Supplement area. This is broadly equivalent to 90% of the 2016 median rent in each area.*” For the metropolitan Wellington region this resulted in a \$5 (5%) increase for single persons, \$30 (24%) for two-person households and \$55 (33%) for three or more person households⁶⁰. The cabinet paper did not identify how the maximums for each household size were calculated. For example, whether it was assumed that single people would occupy a one-bedroom flat or would live with other people.

The 5% rise in AS for single persons since 2005 looks particularly small in light of the 9% rise in median rents in the Wellington region over the past year alone⁶¹. The Real Estate Institute of New Zealand highlighted a 68% in median house prices nationwide in the ten years to

⁵⁴ McAlister, J; St. John, S. & Johnson, A. (2019) ‘Accommodation Supplement: The wrong tool to fix the house’, Child Poverty Action Group page 23

⁵⁵ Work and Income website <https://www.workandincome.govt.nz/map/income-support/extra-help/accommodation-supplement/assets-non-beneficiaries-01.html> Accessed 13 May 2019

⁵⁶ McAlister, J. et. al. (2019) page 43

⁵⁷ D. Rea et. al. (2017) ‘The impact of rising housing costs on Accommodation Supplement recipients’ page 12

⁵⁸ Work and Income website <https://www.workandincome.govt.nz/map/deskfile/extra-help-information/accommodation-supplement-tables/jobseeker-support-current-01.html> Accessed 13 May 2019

⁵⁹ Ministry for Social Development (2010), ‘Aide Memoire: Additional advice on Adjustments to Accommodation Supplement’ 18 March 2010

⁶⁰ Office of the Minister for Finance (2017), Cabinet Paper T2017/1373, page 9

⁶¹ CoreLogic (2019) ‘Quarterly Property Market and Economic Update’ New Zealand Quarter 1 2019 page 22.

October 2018⁶². MSD also identified a substantial increase in nominal housing costs of 31% in the ten years to September 2016.⁶³

The small rise in AS for single persons, is of particular concern, as of September 2016, just over half (55%) of all recipients of the AS were single persons⁶⁴. The earlier 2005 accommodation supplement maximums were based on median regional rents back in 2003⁶⁵. There can be no doubt that housing costs for single persons in Wellington have risen by far more than \$5 per week over the past 16 years.

One specific type of single person whose housing and social needs are particularly poorly provided for are expectant mothers. Pregnant women are not entitled to any additional income or housing support compared to other beneficiaries, until their child is born. This is likely to prevent some expectant mothers from accessing suitable accommodation for a young child, until after the child is born. A far kinder approach would be to assist single mothers to access suitable housing, prior to the birth of their child.

The maximum rate of AS currently applies only to very-low income earners. A person working full-time (40 hours) at the minimum wage of \$17.70 per hour in Wellington, is estimated to be eligible for an AS of up to \$27 per week due to income abatements.

Furthermore, it is anticipated that a number of low-income persons in housing stress are missing out on this supplement, due to difficulty in proving accommodation costs. Proving costs is difficult for persons with no-fixed abode and many couch-surfers, as providers may be reluctant to formalise any arrangements for fear of legal or financial (tax) repercussions. Temporary accommodation to friends and family is frequently provided without the knowledge or consent of the landowner. As referred to under ‘severe housing stress’, MSD has identified a large number of persons receiving income tested main benefits, as not receiving any housing subsidy. There is also a possibility that parents are subsidising the living costs of adult children living at home, to a degree that is not financially sustainable.

The number of persons receiving the AS has remained over 260,000 since December 2008, with recipients peaking at over 330,000 persons in December 2010⁶⁶. Between December 2008 and March 2019, the average number of persons receiving the AS was 298,646⁶⁷. This is approximately double the number of AS recipients in 1993⁶⁸. In September 2016, 67% of the recipients of the AS (or 196,600 persons) also received an income tested main benefit⁶⁹.

⁶² Real Estate Institute of New Zealand (2018) Press Release ‘REINZ welcomes Tindall’s comments on housing affordability as prices have risen 67% in 10 years’

⁶³ Rea, D. et. al. (2017) Ibid. page 16

⁶⁴ Rea, D. et. al. (2017) Ibid. page 12

⁶⁵ Office of the Minister for Finance (2017) Ibid. page 6

⁶⁶ Ministry for Social Development (2013), *Benefit fact sheets - National Quarterly Tables* December 2013

⁶⁷ Based on figures taken from the Ministry for Social Development National Quarterly Tables for December 2013 and March 2019

⁶⁸ McAlister, J; St. John, S. & Johnson, A. (2019) ‘Accommodation Supplement: The wrong tool to fix the house’, page 16

⁶⁹ Rea, D. et. al (2017) ‘The impact of rising housing costs on Accommodation Supplement recipients’ page 12

Morrissey, S. highlighted in 2017 that “*the average Accommodation Supplement recipient spends more than half their family income on housing, and the proportion of recipients receiving the maxima has increased from 24 to 44 percent since 2006*”⁷⁰.

Bryan Perry reported “*in June 2016, almost all renters receiving the AS spent more than 30% of their income on housing costs, three in four spent more than 40% and half spent more than 50%*”⁷¹.

Advice from Treasury staff in 2016 confirmed:

“*Officials consider that the existing housing subsidy structure (income related rent subsidy (IRRS), accommodation supplement, and temporary additional support (TAS)) is not fit-for-purpose. AS does not adequately alleviate housing stress, and IRRS and TAS have poor work incentives and are increasingly costly. One of the key factors driving increases to TAS is the increasing inadequacy of AS to cover housing cost*”⁷²“

The report ‘*Accommodation Supplement – The wrong tool to fix the house*’ identifies that the percentage of recipients receiving the maximum rate for the AS was reduced from 53% in 2016 to 24% as of 30 September 2018, as a result in an increase in payments effective 1 April 2018⁷³.

No recent information was found for persons receiving the maxima in the metropolitan area of Wellington. However, Salvation Army identified that in 2013, almost half (46%) of all recipients of the AS in this area were receiving the regional maximum payment rate⁷⁴. Since this time two or more person households in the Wellington region have benefited from a 20% increase or more in the AS in 2018, but little change was made to the rate for the single person.

The AS has been described by the Salvation Army as a “*clumsy subsidy that offers those receiving it, and taxpayers paying for it, no guarantees that the housing outcomes it pays for are fair, healthy or affordable*”. They consider its use should be radically reviewed⁷⁵. In 2013 they expressed the view that successive governments have effectively decided to allow the real value of the AS to be eroded over time by inflation⁷⁶.

The 2017 *Regulatory Impact Statement for the Families Income Package* identified that:

“*Recipients of the Accommodation Supplement have seen their residual incomes fall on average by eight percent since 2006. Some groups, such as beneficiaries, have seen steeper declines. Around 40 percent (approximately 120,000) of recipients spend more than half of their income on housing costs. This indicates housing-related stress*”⁷⁷.

⁷⁰ Morrissey, S. (2017) *Regulatory Impact Statement on Budget 2017 Families Income Package*, page 11

⁷¹ Perry, B. (2018), ‘*The material wellbeing of NZ households...*’ page 25

⁷² Wong, E. & Morrissey, S. (2016) ‘*Budget Report: Advice on personal tax cuts for Budget 2017*’ Page 14

⁷³ McAlister, J. et al. (2019) *Ibid.* page 18

⁷⁴ Johnson, A. (2013) *Give Me Shelter*, pages 56 and 57

⁷⁵ Johnson, A. (2018), ‘*Beyond Renting- Responding to the decline in private rental housing*’ page 4

⁷⁶ Johnson, A. (2013), ‘*Give Me Shelter*’, page 55

⁷⁷ Morrissey, S. (2017) *Regulatory Impact Statement on Budget 2017 Families Income Package*, page 7

The recent report by the Welfare Expert Advisory Group recommended a number of changes to the AS, including a need to index payments to changes to the median regional rental rates⁷⁸. They also identified single people receiving a benefit as ‘particularly disadvantaged’.

The Child Poverty Action Group has also released a recent report on the Accommodation Supplement which concluded “we need to do housing policy differently and reverse the expansion of the Accommodation Supplement by increasing core incomes”⁷⁹. “For those that do receive the AS, it is still simply not enough money to ensure that housing-related poverty is not an issue”⁸⁰. They describe the AS as badly designed, overly-complex, ‘ripe for landlord capture’ and ‘woefully inadequate as an income subsidy’⁸¹. The Child Poverty Action Group consider that the welfare system has long relied on private charity to top-up welfare support.

The report ‘Accommodation Supplement – The wrong tool to fix the house’ contains a number of example households to show that most households receiving the AS would be in poverty. Poverty is measured in this case as when equalised disposable income after housing costs is less than 60% of the median value for all NZ households. It is calculated that payments would need to be raised between \$50 to \$350 to lift different types of households out of poverty, even when assuming that these households are able to obtain a rental property at the lower quartile rental price.⁸²

“Example benefit-recipient households with children need between 29.8% to 44.2% additional income, in order not to be in poverty... Our example single beneficiaries without dependents need up to 82% additional income in order not to be below the 60% AHC equivalised poverty line.”⁸³”

“The examples above show that the AS, and the income support system in general, have failed to keep incomes close to adequate for many people on low incomes, possibly everyone receiving income-tested benefits, as well as some who receive most of their income from wages. Most of our example households are living in housing affordability stress, and all of those receiving benefits are in deep poverty, well below the 60% AHC poverty line.”⁸⁴

These findings are consistent with the finding in the recent report by the Welfare Expert Advisory Group, that a significant increase in benefit payments is needed for households dependent on benefits to participate in their communities.

⁷⁸ Welfare Expert Advisory Group (2019), ‘Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand’, Page 125

⁷⁹ McAlister, J; St. John, S. & Johnson, A. (2019) ‘Accommodation Supplement: The wrong tool to fix the house’, Child Poverty Action Group page 6

⁸⁰ McAlister, J. et.al. Ibid. page 22

⁸¹ McAlister, J. et.al. Ibid. page 46

⁸² McAlister, J. et.al. Ibid pages 39 and 41

⁸³ McAlister, J. et.al. Ibid page 41

⁸⁴ McAlister, J. et.al. Ibid pages 41 and 42

Temporary Additional Support Payments

The Ministry for Social Development also provides an additional top-up payment to very low-income earners to help them meet essential living costs, known as Temporary Additional Support (TAS). This payment is restricted to persons with almost no savings (cash assets of approximately \$1,100 for single persons or roughly 1.5 weeks salary for a full-time worker on the minimum wage). The maximum payment for TAS is capped at 30% of the applicable main benefit net rate⁸⁵. This works out as a maximum of \$66 for a single person on the Jobseeker Benefit aged 25 years or over⁸⁶.

Even where people are able to show that they meet the income and asset criteria for TAS, it is possible for the payment to be withdrawn on the grounds that it is a ‘temporary payment for hardship’ and client has not proven that they have taken all necessary steps to obtain financial assistance from all other resources to reduce their costs. This criterion has the potential to require all recipients of the payment to never cease searching for cheaper housing.

All recipients of TAS payments are likely to be experiencing house stress, as by its very definition, payment is based on the recipient’s difficulty in meeting essential living costs, such as accommodation. In March 2019, over 64,000 persons received TAS or Special Benefit Payments⁸⁷. Furthermore, not all essential living costs are factored into the calculations of eligibility such as power and transport costs and other unavoidable expenses such as debt repayments, child support and legal fees.

In September 2016, almost 65,000 persons received both AS and TAS payments. Less than one in four recipients of the AS (22%) also received TAS payments⁸⁸. The Auckland Action Against Poverty Group pointed out in 2017 that increases in AS have no net benefit effect for recipients of TAS payments, as TAS payments drop at the same rate that AS is increased⁸⁹. The same point was raised by the Child Poverty Action Group in 2019.

Following the increase in AS maximum rates in April 2018, TAS recipient numbers fell from 72,355 in December 2017 to 60,816 in September 2018 (a decrease of approximately 11,500 persons⁹⁰).

The calculation of AS and TAS payments are particularly complicated for low-waged workers with variable weekly earnings, such as casual workers covering staff absences. These workers are at risk of being both over and underpaid income entitlements and may struggle to make regular housing payments.

⁸⁵ Work and Income website <https://www.workandincome.govt.nz/map/income-support/extrahelp/temporary-additional-support/upper-limit-01.html>

⁸⁶ Some exceedance of the 30% cap is allowed where the recipient has high health costs.

⁸⁷ Ministry for Social Development (2019) *Benefit Fact Sheets*, National Quarterly Tables March 2019

⁸⁸ Rea, D. et. al (2017) ‘The impact of rising housing costs on Accommodation Supplement recipients’ page 12

⁸⁹ Auckland Action Against Poverty, 2017, Press Release ‘Accommodation Supplement increase is a con job’

⁹⁰ McAlister, J. et. al. (2019) ‘Accommodation Supplement: The wrong tool to fix the house’, page 36

The Child Poverty Action Group is of the view that it is not appropriate to rely on TAS payments to ‘automatically assist households in a systemic manner’ because it is “*discretionary, piecemeal and supposedly temporary*⁹¹”.

Special Needs Grants

Salvation Army raised concern in 2013 that successive governments have been more concerned with managing budgets than ensuring households’ after housing costs income is adequate to allow them to meet basic living costs. They argued that “*ongoing reliance on supplementary income assistance such as special needs grants suggests that the present income support regime for those out of work is not sufficient to meet housing and living costs on a sustainable basis*”.⁹²

In the March 2019 quarter 270,834 special needs grants and 181,286 advances of benefit were given, at a combined cost of approximately \$120 million⁹³. Over 17,000 emergency housing grants were given (approximately 188 per day), with another 29,000 hardship grants identified as accommodation related. Food remained the most common item for which hardship assistance was sought (45% of all applications). Since the December 2016 quarter, over \$120 million has been spent on Emergency Housing Grants, and a further \$172 million on other accommodation related Hardship assistance⁹⁴.

The number and value of special needs grants allocated indicates that payments to beneficiaries and low-income workers is insufficient to meet the living costs of a significant number of persons.

⁹¹ McAlister, J; et. al. Ibid. page 35.

⁹² Johnson, A. Salvation Army Social Policy and Parliamentary Unit (2013), *Give Me Shelter*, page 89

⁹³ Ministry for Social Development (2019) *Quarterly Benefit Fact Sheets* – National benefit tables, March 2019

⁹⁴ Ministry for Social Development, (2019), *Quarterly Benefit Fact Sheets* – National benefit tables, March 2019

Housing Affordability for Beneficiaries

The vast majority of beneficiaries of working age living in rented accommodation are expected to be experiencing house stress, because total income received (from the main benefit, accommodation supplement (AS) and temporary additional support (TAS) payments⁹⁵) is not sufficient to keep private rental costs at an ‘affordable’ level at prevailing market rates.

The difficulty experienced by beneficiaries in accessing affordable housing has recently been highlighted in the 2019 Report by the Welfare Expert Advisory Group titled '*Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*'. This report identified a shortfall between \$112 and \$356 per week for different types of households reliant on benefits, between existing benefit incomes and income needed to ‘participate’ in their communities.⁹⁶

- “For a single person receiving a benefit and renting privately, the deficit is around \$130 to \$170 a week.
- For a sole parent receiving a benefit and renting privately with one child aged under 2 years, the deficit is around \$110 a week, and with three children rises to around \$250 a week.
- For a couple receiving a benefit each and renting privately with two children, the deficit is around \$350 a week.

The estimated deficits associated with the spending needed to meet basic costs are smaller but still substantial, ranging from around \$50 to \$230 a week for the example families.

These deficits result in people and families making unenviable spending decisions, such as purchasing cheap food, relying on food banks or going without food, avoiding doctor visits, foregoing children’s involvement in activities, living in overcrowded housing of poor quality or borrowing from high-cost ‘payday lenders’.⁹⁷”

These income deficits for beneficiaries are consistent with the findings of the 2019 report by the Child Poverty Action Group titled '*Accommodation Supplement – The wrong tool to fix the house*', which concluded that many beneficiaries receiving the Accommodation Supplement are in ‘deep poverty’.

The importance of housing costs representing a low ratio of household income is highlighted by the need to pay for other unavoidable fixed costs such as food and power. For the year ending 30 June 2016, the average weekly expenditure on fruit, vegetables, meat, fish and general groceries (not including beverages) was \$141.50 per week and \$46.40 for household

⁹⁵ Sole Parents and Couples with children also receive Working for Families Tax Credits.

⁹⁶ Welfare Expert Advisory Group 2019, '*Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*', Page 96

⁹⁷ Welfare Expert Advisory Group (2019) Ibid. Page 97

energy costs⁹⁸. There is a limit on how much low-income earners can reduce their food and energy bills without adversely affecting their health and wellbeing. It is particularly difficult for people to obtain cheap healthy food without good food storage and cooking facilities. These facilities are less likely to be available in temporary forms of accommodation.

I have calculated that the maximum income that a person on the Jobseeker Benefit aged 25 years or older in Wellington could receive (assuming that they also satisfy the eligibility requirements for the maximum rate of AS and TAS payments) was \$415.36 gross per week⁹⁹. For this person, an affordable rent is considered to be a rent up to \$125 per week. However, it is extremely unlikely that a private rental could be obtained for this price, as even rooms within boarding houses are around \$200 per week. It is not surprising that the most common type of applicant on the Housing Register as at 31 December 2018 was single adult households (5,074 applicants or 44%)¹⁰⁰. With the exception of those recipients who live in public/social housing, it is likely to be extremely difficult for a single unemployed person to live alone and pay an affordable level of rent.

Whilst it may be reasonable to require some types of single beneficiaries to look for shared types of accommodation, it needs to be recognised that not all persons are suited to shared living, particularly when this involves sharing with non-related individuals. Sharing is likely to be particularly difficult for persons with children or those with a health condition. In March 2019, approximately 45% of recipients (60,000 persons) of the Jobseeker Benefit, were considered not fit to work due to existing health conditions or disorders (the most common of which is psychological or psychiatric conditions)¹⁰¹. The recent report by the Welfare Expert Advisory Group recognised that sharing is not an option suitable to all beneficiaries.

Even when couples on the benefit share accommodation, it is difficult to find an affordable private rental. It is calculated that an unemployed couple where both partners are aged 25 years or over and living in Wellington, could receive up to \$672.24 gross per week¹⁰². For this couple, an affordable rent is considered to be up to \$202 per week. However, even in the District of Upper Hutt, the synthetic lower quartile rent was \$326 per week for all types of properties. That is, one quarter of properties had a rent up to \$326 per week, with three out of four properties having rents above this level. The corresponding figures for Lower Hutt and Wellington City was \$314 and \$394 respectively.¹⁰³

The Tenancy Services website shows rental income by suburbs based on bonds received in the past six months ending 30 May 2019. It showed that lower quartile rents for the area of Trentham West, Eldersley and Clouston Park in Upper Hutt¹⁰⁴ was \$330 for all dwelling

⁹⁸ Statistics New Zealand (2016), *Household Expenditure Statistics*

⁹⁹ Based on a Jobseeker benefit of \$244.67, AS of \$105 and TAS of \$65.69.

¹⁰⁰ Ministry for Housing and Urban Development (2018), *Public Housing Quarterly Report* December page 10

¹⁰¹ Ministry for Social Development (2019) *Benefit Fact Sheets*, National Quarterly Tables March 2019

¹⁰² Based on a Jobseeker benefit of \$407.76 (couple rate), AS of \$155 and TAS of \$109.48.

¹⁰³ Ministry of Business, Innovation and Employment (2019) *Territorial Authority, Synthetic lower quartile rents by quarter 1993-2019* Excel Tables

¹⁰⁴ This area was chosen because of its relatively low property rentals for the Wellington region as shown on the rental price comparison website <https://www.enz.org/house-rents-wellington.html>

types, with a median (mid-point) rent of \$420. Only 1-bedroom apartments, flats or bedrooms rented separately had a lower quartile rent of less than \$300¹⁰⁵. However, the supply of these cheaper types of properties is particularly limited.

On the 5 May 2019 a search on Trade-Me was carried out on cheaper rental properties within the entire Wellington region (including Wairarapa). Out of 794 listings, only 59 (or 7%) had a rent of \$300 or less.

These examples, give a glimpse of the difficulty that beneficiaries would have in finding an affordable rental property, even when landlords are happy to choose beneficiaries over other types of persons searching for accommodation (e.g. students, retirees and workers). The increased demand for special needs grants is anticipated to be related to the increased difficulties faced by beneficiaries in acquiring affordable rental properties. Furthermore, it is likely that cheaper rental properties which are obtained are more difficult and expensive to keep warm in winter.

A lack of housing affordability for beneficiaries is likely to be contributing to problems with child poverty and persons experiencing material hardship. Academic Michael Fletcher identified approximately 55% of children living in poverty, as living in households reliant on benefits as their main source of income. He is the opinion that child poverty can not be addressed, without increasing the income available to parents reliant on benefits¹⁰⁶. The presentation titled '*The living standards of people supported by income-tested main benefits*' identified 45% of beneficiaries of working age in 2014 agreeing with the statement that they did not have enough money to meet every day needs such as accommodation, food, clothing and other necessities¹⁰⁷.

Presenters also stated:

*"Our data shows that the extent of material hardship among those on a benefit is very high. For example, approximately 28% of those on benefit with children indicated that they have postponed or put off visits to the doctor 'a lot' in order to keep costs down..."*¹⁰⁸.

¹⁰⁵ Tenancy services website

¹⁰⁶ M. Fletcher (2019), Article '*Budget moves not nearly enough to meet child poverty targets*'.

¹⁰⁷ Rea, D.; Benny, V.; Lee W.J.; Smith, C.; and Vandebroucke, B. (2018) '*The living standards of people supported by income-tested main benefits*'. Authors note that data is derived from the 2014 General Social Survey and survey results may not be fully representational.

¹⁰⁸ Rea, D. et. al. (2018) Ibid. slide 9

Housing Affordability for Low to Middle Income Earners

Affordability issues are also clearly affecting low-income workers, particularly single persons, despite their higher earners. For example, it is calculated that a full-time minimum wage worker could earn up to \$735 per week (including a small AS payment). Using the same ratio of 30% as a measure of affordability, an affordable rent is limited to a rent at or below \$220 per week. Very few rental properties are available for this price.

The situation is little better for a single person earning the living wage of \$21.15 per hour in full-time employment. This person would earn \$846 per week, with no anticipated entitlement to AS or TAS payments. An affordable rent would be at or below \$254 per week.

Even going up the income spectrum to the typical employed person, Statistics New Zealand shows the median weekly income from wages and salaries was \$997 per week (or approximately \$25 per hour) in the year to June 2018¹⁰⁹. An affordable rent for a single person receiving this wage is at or below \$299. A rent of \$390 per week, is considered affordable only for a single person receiving a gross weekly wage at or above \$1,300 (equivalent to an hourly rate of \$32.50).

Even for a household receiving the median household income for the Wellington region of \$74,300 (calculated at the time of the 2013 census¹¹⁰), an affordable rent is considered to be at or below \$429. The average rent in the Wellington region for all properties in March 2019 was calculated by MBIE as \$546¹¹¹, with only one in four properties with a rent at or below \$368¹¹².

CoreLogic identified that national rents averaged \$433 per week in the three months to March 2019, and had increased by 6.0% from the previous year¹¹³. The median weekly rent for Wellington was calculated as \$525, and had increased by 8.9% from the previous year¹¹⁴. As stated previously, The Ministry for Social Development identified a 31% increase in nominal housing costs in the ten years to September 2016.¹¹⁵

The 2018 General Social Survey administered by Statistics New Zealand asked people to rate their housing affordability on a scale of 0 (very unaffordable) to 10 (very affordable). A tenth of New Zealanders rated their housing as unaffordable (0-3). Persons most likely to consider their housing to be unaffordable were sole parents (18.2%), adults living in low-

¹⁰⁹ Statistics New Zealand website <https://www.stats.govt.nz/information-releases/labour-market-statistics-income-june-2018-quarter> Accessed 6 May 2019

¹¹⁰ Statistics New Zealand (2013) 2013 Census, *Quickstats About Income* page 37

¹¹¹ Ministry for Business, Innovation and Employment (2019) *Mean rents by region 1993-2019* table

¹¹² Ministry for Business, Innovation and Employment (2019), *Synthetic lower quartile rents by region 1993-2019* table

¹¹³ CoreLogic (2019) ‘Quarterly Property Market and Economic Update’ New Zealand Quarter 1 2019 page 22.

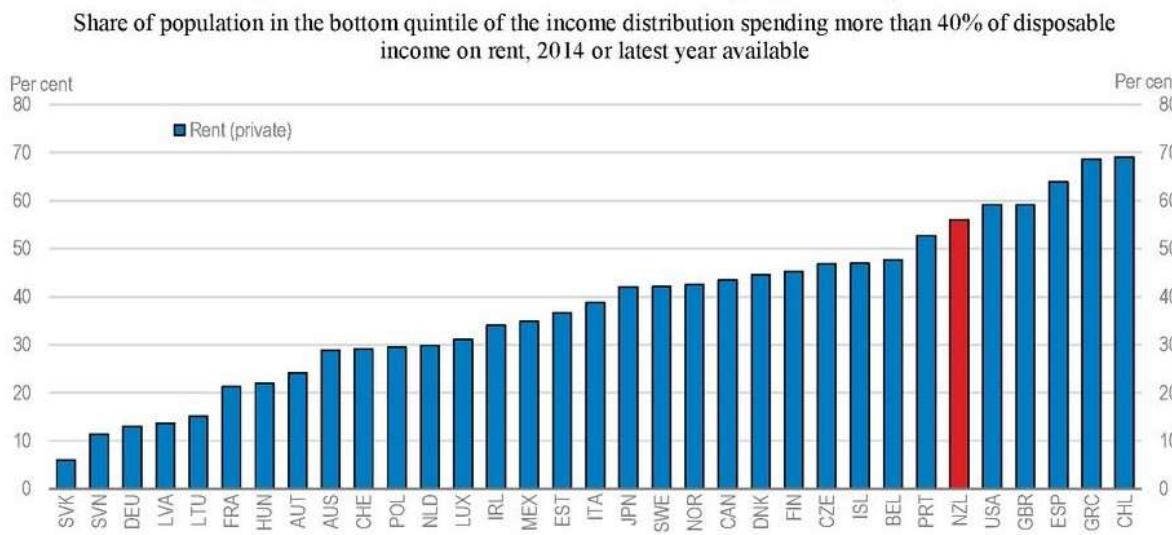
¹¹⁴ CoreLogic (2019) Ibid. page 22

¹¹⁵ Rea, D. et. al. (2017) Ibid. ‘The living standards of people supported by income-tested main benefits’ page 16

income households (below \$30,000 per annum – 14.8%), renters (14.2%), Auckland residents (13.2%)¹¹⁶, unemployed persons (13.2%) and persons with a disability (12.8%)¹¹⁷.

The below graph sourced from the *OECD Economic Survey of New Zealand*¹¹⁸ illustrates that over half of renters in New Zealand with very low incomes (in the bottom 20% of income earners) spent over 40% of household income on housing. This is above average for OECD countries, even when disregarding that statistics for New Zealand are based on gross rather than disposable (after tax) incomes.

Figure 32. Most low-income renters face very high housing costs



Statistics are provided below on the proportion of NZ households spending 30% or more of gross income on housing costs as at June 2018, as well as the proportion of households spending 30% of disposable (after tax) incomes on housing costs in 2016-2017. Both statistics are sourced from economic surveys administered by Statistics New Zealand.

Housing costs as a percentage of Gross Income

Statistics New Zealand confirmed for the year ending June 2018 that:

- “people living in rented dwellings are three times more likely to spend 40 percent or more of their household income on housing costs compared with those in owner-occupied dwellings (21% versus 7.5%)”
- “one-third of respondents said their current household income was either not enough or only -just enough to meet their everyday needs.”¹¹⁹”

¹¹⁶ Statistics New Zealand (2019a) Press Release ‘Renters less satisfied with their housing’

¹¹⁷ Statistics New Zealand (2019b) ‘Wellbeing statistics: 2018 (housing quality and tenure security)’

¹¹⁸ OECD (2019) *OECD Economic Surveys: New Zealand 2019*, page 61. Due to date limitations, data for NZ, USA, Chile, Mexico and Korea are based on gross rather than disposable household incomes.

¹¹⁹ Statistics New Zealand (2018a), ‘Household income and housing-cost statistics’. Key facts.

Across New Zealand about one in eight households (12.1%) spent 40% or more of their total household income on housing costs. This figure rose to about one in five households (22% or 381,900 households) which spent 30% or more. Over one third of households in rented dwellings (200,800 households) had housing costs of 30% or more of household income¹²⁰.

Housing Costs as a percentage of Disposable Income

The MSD report on the '*Material wellbeing of NZ Households*' identified that 28% of all respondents for the 2016 and 2017 Household Economic Survey spent more than 30% of their disposable income on housing.¹²¹ This figure rose to 38-39% for households in the bottom two income quintiles (that is, bottom 40% of household incomes). "*Within the group of low-income (Q1) households (that is, bottom 20% of household incomes) spending more than 30% of their income on housing, there are many spending considerably more than 30%. For example, around one in four (24%) Q1 households spend more than half of their income on housing.*"¹²²

Over half of low-income single person households in the bottom two income quintiles, spent more than half their income on housing costs, with just under half (48%) for sole parent households¹²³. Just over a third (34%) of children in 2014 lived in households that spent more than 30% of their disposable income on housing costs, with 63% of sole parents spending more than 30% of their disposable income on housing costs.¹²⁴

The Welfare Expert Advisory Group recently identified that "*for the bottom 20%, average housing costs as a proportion of average income have increased from 29% to 51% since 1988*" and "*on average, housing costs make up around 45% of expenditure for low-income households*"¹²⁵.

Nevertheless, housing affordability issues for low income earners is nothing new. Statistics show a significant drop in housing affordability occurring in the 1990's. "*Those in the lowest income quintile paid 40 percent of their disposable income on housing from the early 1990's onwards...*"¹²⁶ The proportion of households who have paid more than 40% of disposable income in housing costs has been relatively steady in the ten years to 2017 at around 15 to 16%¹²⁷.

¹²⁰ Statistics New Zealand (2018b), '*Household income and housing cost statistics*' Tables.

¹²¹ Perry, B. (2018) Ibid. '*The material wellbeing of NZ households*' page 24

¹²² Perry, B. (2018), Ibid. '*The material wellbeing of NZ households*' page 24

¹²³ Perry, B. (2018), Ibid. '*The material wellbeing of NZ households*' page 25. Figures exclude persons over 65 and are averaged for 2015-2017

¹²⁴ Ministry for Social Development (2016), '*The Social Report 2016*'

¹²⁵ Welfare Expert Advisory Group (2019) '*Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*', page 39

¹²⁶ The Expert Advisory Group on Solutions for Child Poverty (2012) '*Working Paper 18: Housing Policy Recommendations to Address Child Poverty*', page 9

¹²⁷ Perry, B. (2018), Ibid. '*The material wellbeing of NZ households*' page 24

Back in 2010, Wellington City Council estimated that the total number of households in their administrative area in housing need was 10,188, with this level expected to rise further over the next 20 years¹²⁸. They identified almost 7,000 households paying more than 30% of their gross household income on rent, the majority of which earned less than \$50,000 per year and were single persons or sole parents.

Carol Aspinall identified in 2013 that rents for boarding houses, traditionally one of the cheapest forms of rental accommodation, is often unaffordable for occupants, with over a third of boarders spending more than 50% of their income on rent, and 10% spending over 75% of their income on rent¹²⁹. Even then some boarders find themselves “*trapped in squalid accommodation*” and incapable of accessing more suitable housing options¹³⁰.

MSD in July 2014 referred to a new group of homeless persons emerging in a briefing to the then Housing Minister. “*The group comprises low-income people who, as a result of a lack of affordable housing, are resorting to living in boarding houses, camping grounds or cars. This group is increasingly presenting for assistance...*”¹³¹

The Welfare Expert Advisory Group in their 2019 report concluded:

“*Evidence is overwhelming that incomes are inadequate for many people, both those receiving a benefit and those in low-paid work. Current levels of support fail to cover even basic costs for many people, let alone allowing them to meaningfully participate in their communities.*”

“*Of the current housing stock, too many are unaffordable for low-income families, and what is available to them is often substandard, poorly insulated, damp and unhealthy.*¹³²”

This reflects earlier comments made by the Children’s Commissioner in 2015:

“*Housing quality and affordability are big issues facing New Zealanders, and are particularly critical for children in poverty. Some low-income families pay more than half their income on rent. Many cannot afford to heat their homes which contributes to dampness and mould. Poor quality housing and over-crowding are causes of many health issues for children, such as respiratory illnesses and spread of infectious diseases. Healthy housing is particularly important for babies and pre-schoolers as they spend most of their time at home*”¹³³.

¹²⁸ Wellington City Council (2010) ‘A Policy for Wellington City Council’s Social Housing Service’ page 16

¹²⁹ C. Aspinall, (2013), Ibid. ‘Anyone can live in a boarding house, can’t they?’ page 26

¹³⁰ C. Aspinall, (2013), Ibid. ‘Anyone can live in a boarding house, can’t they?’ page 128

¹³¹ Ministry for Social Development (2014), ‘Homelessness in NZ and emergency and transitional housing responses’ page 5

¹³² Welfare Expert Advisory Group (2019) ‘Whakamana Tāngata’ Ibid. Executive Summary pages 7 and 11

¹³³ Children’s Commissioner (2015), *Giving 2 Kids - 50+ Ideas for Investment – Healthy, Safe and Affordable Homes* Chapter 4.

The Australian Experience

Anglicare Australia has recently published a '*Rental Affordability Snapshot*' which examined the affordability of private rentals in Australia for low-income groups. Information derives from a survey of 69,000 private rental listings across the country. It concluded that there was a 'dire crisis' in housing affordability for people on the lowest incomes¹³⁴.

They found that only 2% of rentals were affordable for a single person working full-time on the minimum wage, with the situation worse for beneficiaries of working age¹³⁵.

"Taking the national figures and aggregating them by income type, we find that on the Snapshot day, just four percent of all properties were affordable and appropriate for households on government income support payments. For households on minimum wage (two adults working full-time) it was 26 percent. These results show that finding an affordable and suitable home to rent in the private market is extraordinarily challenging.

...What this Snapshot shows is that finding an affordable home in the private rental market is a complete fiction for people on low incomes. Resourcefulness and sacrifice is the only thing keeping a roof over the heads of many Australians.¹³⁶"

"...Put simply, rent assistance has failed to keep the private rental market affordable¹³⁷."

The report also outlines particular difficulties faced by older persons, who are increasingly reaching retirement age without owning a home. The experience in Australia appears comparable to the New Zealand situation.

¹³⁴ Anglicare Australia (2019) '*Rental Affordable Housing Snapshot*', National Report April 2019 page 4

¹³⁵ Anglicare Australia (2019) Ibid. page 4

¹³⁶ Anglicare Australia (2019) Ibid. page 10

¹³⁷ Anglicare Australian (2019) Ibid. page 14

Rising Cost of Home Ownership

An increasing number of NZ households are facing significant barriers to home ownership as a result of high housing deposits needed to secure a home mortgage, and/or high mortgage repayment costs. Consequently, doubt is expressed over the ability of supply driven responses aimed at increasing the supply of new private housing, to address the shortage of affordable housing for low to moderate income earners.

This issue is alluded to in Treasury Papers from 2017 which states: "*The Auckland Unitary Plan will allow an increase in (housing) supply from current levels in Auckland; however, it is unlikely to reduce the price of housing from current levels¹³⁸.*

Former Housing Minister, Phil Twyford implicitly acknowledged the role of private rental housing in providing affordable housing options, in his recent statement:

"No matter how successful we are in reversing the decline in home ownership, a lot of us are going to be renters for a long time to come, so we've got to make renting work better.¹³⁹"

Residential Property Prices

The Real Estate Institute of New Zealand announced that median house prices across the country have risen by 68% over the last 10 years from \$335,000 in October 2008 to \$562,000 in October 2018¹⁴⁰. Deloitte Access Economics identified a 57% rise in price of houses sold between December 2009 to June 2018.¹⁴¹ CoreLogic reported that the national average property value in the year to March 2019 was \$686,500¹⁴², which was a 2.6% increase from the previous year or 67% rise since 2007¹⁴³. The lower quartile price for housing in New Zealand at April 2019 was \$402,500, with half of all dwellings priced over \$585,000¹⁴⁴.

Stuff News reported on 16 June 2019 that the Treasury had predicted that house prices will rise by an average of 18.3% by 2023. This represents an additional \$125,000 on the average residential house price for March 2019¹⁴⁵.

Within Auckland, the median house price has almost doubled over 10 years, rising from \$435,000 in October 2008 to \$865,000 in October 2018¹⁴⁶. The average property value in

¹³⁸ The Treasury (2017) 'Budget 2017 information papers, Release Document July 2017'

¹³⁹ 1NewsNow (2019) Article 'Government eyes build-to-rent scheme'

¹⁴⁰ Real Estate Institute of New Zealand (2018) Press Release 'REINZ welcomes Tindall's comments on housing affordability as prices have risen 67% in 10 years'

¹⁴¹ Deloitte Access Economics (2018), 'Cost of residential housing development: A focus on building materials' page 4

¹⁴² CoreLogic (2019), 'Quarterly Property Market and Economic Update' New Zealand Quarter 1 2019 page 18

¹⁴³ CoreLogic (2019) Ibid. pages 18 and 19

¹⁴⁴ Interest.co.nz website <https://www.interest.co.nz/property/home-loan-affordability> Accessed 23 May 2019

¹⁴⁵ Te, M. & Bhatia, R. (2019) Article 'House prices nationwide are tipped to soar by 20 per cent over the next four years'.

¹⁴⁶ REINZ (2018) Ibid.

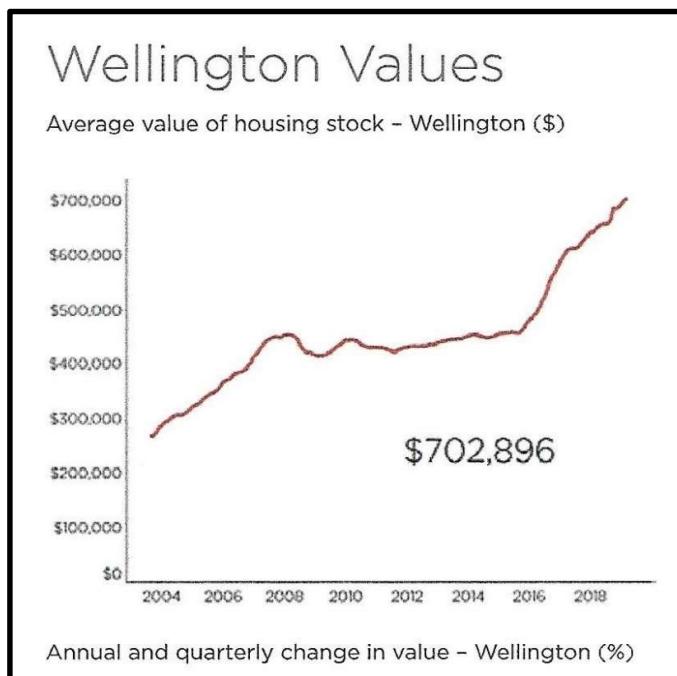
Auckland in the year to March 2019 was slightly over one million (\$1,039,917), and although this has marginally dropped over the past year, is a 91% since 2017¹⁴⁷. The lower quartile housing price in the Auckland region at April 2019 was \$670,000, with over half of dwellings priced over \$850,000¹⁴⁸.

CoreLogic reported in 2019 that:

"There are no longer any suburbs with a median property value below \$500,000 in Auckland. Five years ago, about 20% of all suburbs were below that \$500k threshold. At the end of February 2014, 13.8% of suburbs had a median value of at least \$1m. Now that figure has risen to 48.0."

The average property value in Wellington in the year to March 2019 was \$702,896, which rose 8.4% over the past year and 54% since 2007.¹⁴⁹ The lower quartile housing price in the Wellington region at April 2019 was \$480,000, with over half of dwellings priced over \$615,000¹⁵⁰.

The significant rise in average house prices in the Wellington region over the past 15 years is illustrated on the following graph, sourced from CoreLogic's '*Quarterly Property Market and Economic Update*' for the March 2019 quarter.



The largest increases in average housing value within the Wellington region in the past year occurred in the Wairarapa and the District of Upper Hutt. Average house prices for Upper Hutt in the March 2019 quarter were \$542,220, with a 12.3% increase in the past year and

¹⁴⁷ CoreLogic (2019) Ibid. page 19

¹⁴⁸ Interest.co.nz. (2019b), *Home Loan Affordability Report*, Auckland region, April 2019

¹⁴⁹ CoreLogic (2019) Ibid. page 19

¹⁵⁰ Interest.co.nz. (2019a), *Home Loan Affordability Report*, Wellington region, April 2019

54% since 2007. The only District in the Wellington region with an average house value below \$500,000 was Masterton¹⁵¹, with Masterton situated approximately 100km from Wellington CBD.

Property company OneRoof identified that 14% of resales in Wellington between 2013 and 2018 were within six months¹⁵². Quick resales are known as ‘house flipping’ and is often a sign of property speculation.

Just over 10% of properties sold nationwide had a sale price of \$300,000 or less¹⁵³, with many of these sales occurring outside the major cities.

In the March 2019 quarter, first home buyers accounted for almost a quarter of all housing purchased. The largest group of purchasers was multiple property owners (investors) at 37%. The other large group of purchasers is movers (27%).¹⁵⁴ There has been a significant increase in the proportion of purchases made by first home buyers over the past five years. In 2014 it was reported that multiple property owners accounted for 45% of all house sales, movers another 28% and first-home buyers 19%¹⁵⁵.

For the Wellington region, first home buyers accounted for a third of all purchasers (33%), compared to 35% for multiple property owners and 20% for movers¹⁵⁶ in the March 2019 quarter.

In 2017 it was reported that just over half (51%) of potential first home buyer households in NZ would spend over 30% of their income on housing costs if they were to purchase a modestly priced house, with this figure rising to over two-thirds (68%) of potential first home buyer households in Auckland¹⁵⁷.

The housing market appears to be struggling to supply new dwellings at a price below \$360,000 throughout the country. Properties offered under the Kiwibuild scheme (intended to increase the supply of moderately priced housing) have a maximum price of \$600,000 for Auckland city and \$500,000 elsewhere. Whilst these prices are below median house values for the cities of Auckland and Wellington, they are above what many low to middle income households could afford to purchase.

The ‘15th Annual Demographia International Housing Affordability Survey: 2019 – Rating Middle Income Housing Affordability, Data for Third Quarter 2018¹⁵⁸’ defines affordable home ownership prices as limited to three times annual household income. House prices

¹⁵¹ CoreLogic (2019) Ibid. page 37.

¹⁵² Smith, C. (2019) Oneroof.co.nz ‘Revealed: True extent of house flipping during boom’ published on Oneroof website.

¹⁵³ OneRoof (2019) ‘Scramble for affordable homes may be distorting the figures’ published on Oneroof website.

¹⁵⁴ CoreLogic (2019) Ibid. page 23

¹⁵⁵ New Zealand Institute of Economic Research (2014) ‘The home affordability challenge’ page 13

¹⁵⁶ CoreLogic (2019). Ibid. page 36

¹⁵⁷ Joint presentation by Ministry of Business, Innovation and Employment, Ministry for Social Development, The Treasury and Housing New Zealand (2017) ‘Housing – Delivering your housing program’ page 14.

¹⁵⁸ Demographia (2019) ‘15th Annual Demographia International Housing Affordability Survey: 2019 – Rating Middle Income Housing Affordability, Data for Third Quarter 2018

four or more times annual income is identified as seriously unaffordable and house prices five or more times annual income is classified as severely unaffordable.

Even a household earning the median household income of \$83,000 for the year to 30 June 2018¹⁵⁹, a relatively modest house price of \$350,000 would be considered seriously unaffordable. Across New Zealand, house prices are identified as severely unaffordable with a median housing price equal to 6.5 times the median household income¹⁶⁰. Housing affordability for the city of Wellington was identified as similar to the national average in 2019. Median house prices in New Zealand have been at least five times median household income for approximately 14 years¹⁶¹.

A key issue for housing affordability is the slow growth in incomes, particularly for beneficiaries and low waged workers. Economists Shamubeel and Selena Eaqub stated that between 1995 and 2015 land costs rose 73% faster than incomes in their book '*Generation Rent*'.¹⁶²

Even if widespread changes were made to planning provisions nationwide to increase development opportunities, it is likely to remain difficult to reduce the median price of new dwellings below \$300,000, at least without a dramatic shift in the type of dwellings being constructed (for example, a shift away from the construction of larger detached dwellings to small dwellings and apartments).

Whilst the price of land has risen significantly over the past ten years, there has also been a significant rise in construction prices, related to the size and quality of new homes. The cost of building materials alone for different dwelling types in Wellington (even when multiple dwellings are being built simultaneously) was estimated in 2018 at \$198,000 for a two-storey house of 180m² and \$90,000 to \$110,000 for apartments of 75m².¹⁶³ Quotable Value identified that the average cost of building a standard 140m² three-bedroom, one bathroom home in the year to April 2018 was approximately \$265,000 in Wellington and \$280,000 for Auckland. They point out that a range of other costs associated with land development may also apply¹⁶⁴. Even 'flat-pack' or DIY kitset homes are said to have total installation costs of around \$200,000, on top of any land acquisition costs.¹⁶⁵

Developer Ian McComb anticipates the future sale of house and land sections in a yet to be consented subdivision in Featherston, approximately 60km from Wellington CBD for as low as \$200,000. However, these properties could be as small as 30m² and are intended to be constructed as part of a much larger development, providing economies of scale in building construction¹⁶⁶. Furthermore, the benefit of a low house price is likely to be partially offset by higher ongoing transport costs for day to day activities.

¹⁵⁹ Statistics New Zealand (2018), '*Household income and housing costs statistics*'. Excel table.

¹⁶⁰ Demographia (2019) Ibid page 21

¹⁶¹ New Zealand Institute of Economic Research (2014) Ibid. page 13

¹⁶² Coughlan, T. (2019) Article '*When Newsroom briefed the Government on Kiwibuild*'

¹⁶³ Deloitte Access Economics (2018) Ibid. '*Cost of residential housing development*' page 10

¹⁶⁴ Quotable Value (2018) Press release '*Average costs of building continues to rise in main centres*'

¹⁶⁵ Hawkes, C. (2019) Article '*Couple stoked with their Bunnings DIY house but there's competition*'

¹⁶⁶ Fuller, P. (2019) Article '*Tiny homes feature in subdivision*' Upper Hutt Leader Newspaper

In 2015, housing researcher Phillipa Howden-Chapman identified that 5% of new homes are priced in the lowest quartile of house values and 60% are priced in the upper quartile. This is a dramatic change from 1990 when around 30% of new homes were priced in the lowest quartile and a further 30% in the upper quartile¹⁶⁷. Salvation Army also pointed out in 2013 that new builds (other than apartments) tend to be larger and higher quality homes measuring around 200m².¹⁶⁸

Former Housing Minister, Phil Twyford is quoted as saying in January 2019 that

*"It's been more difficult than we expected to really shift developers off their existing business model which is about getting a return on capital from small numbers of mid to high end homes. We are wanting them to build more modest lower quartile homes"*¹⁶⁹.

Whilst the construction of new houses aimed at the upper end of the housing market is likely to lead to housing churn, as residents vacant existing properties for new homes, which frees up existing properties for sale and so on, it is likely to take a significant length of time before properties change hands a sufficient number of times, to bring average house prices down to an affordable level for low to moderate income earners. Furthermore, it is anticipated that homeowners would be less likely to 'trade-up', if they are unable to achieve a profit on their previous home purchase.

Kiwibank economists in August 2018 were quoted on the Interest.co.nz website as *"forecasting a meaningful rise in the house prices into the mid-2020s on the back of continued under-supply of housing that they estimate is about 100,000 nationwide"*¹⁷⁰. This level of undersupply was predicted to take a minimum of 10 years to address. The Real Estate Institute of New Zealand recently referred to a housing deficit of around 104,000 houses countrywide.¹⁷¹ The housing deficit for Auckland was estimated in 2018 as around 40,000 to 55,000 dwellings.¹⁷²

It is doubtful that over 100,000 new properties could be sold on the private market at an affordable rate to all households, that also generates a reasonable return on investment for the property industry. That is, this level of new building is likely to require some form of subsidisation of housing costs to the lowest income earners who do not have the financial capacity to either build up a sizeable housing deposit or pay high mortgage repayment costs.

This point was raised by Campbell Roberts, a founding director of the Salvation Army's social policy and parliamentary unit, who is identified as saying in 2012 that "*there wasn't 100,000 people needing housing if you didn't do anything about making them affordable.*"¹⁷³.

¹⁶⁷ Stock, R. (2015) Article '*Philippa Howden-Chapman highlights NZ's increasingly embarrassing housing crisis'*

¹⁶⁸ Johnson, A. (2013) 'Give me Shelter' page 52

¹⁶⁹ Cooke, H. (2019) Article '*How Kiwibuild fell down and whether anything can be saved from the wreckage'*

¹⁷⁰ Hargreaves, D. (2018) Article '*Kiwibank economists estimate a national shortfall of over 100,000 homes...*'

¹⁷¹ REINZ (2019) Press Release '*REINZ disappointed housing supply not addressed in Budget 19*'.

¹⁷² OECD (2019) Ibid. page 158

¹⁷³ Cooke, H. (2019) Article '*How Kiwibuild fell down and whether anything can be saved from the wreckage'*

Officials from MBIE have highlighted the size of the housing shortfall by pointed out that “*100,000 homes is equivalent to building two cities the size of Hamilton.*¹⁷⁴”

It is considered that single persons face exceptional high challenges to home ownership. The cost of home ownership is the same for single persons and couples and both household types are capable of being accommodated in a one-bedroom property. However, single people typically have significantly less access to financial resources. For the year to June 2018, 89% of single person households in New Zealand had earnings up to median household income of \$83,000. Over half of single person households (56%) had household incomes in the bottom two income deciles (at or below \$37,600). The cost of home ownership, is likely to be out of reach for many single persons, unless they earn high incomes or have acquired significant savings (e.g. from property inheritance).

Single persons are less likely to be able to take advantage of lower home deposits under the ‘Welcome Home Loan’ scheme, because single persons who fall under the income cap are less likely to be able to service a home mortgage. Access to Housing Grants towards home loan deposits, is also reduced.

High Mortgage Repayment Costs

In October 2019 the average first-home buyer took out a home loan of \$389,006.¹⁷⁵

Economist, Shamubeel Eaqub has estimated that first home buyers would need “*at least a \$50,000 deposit to buy the most modest of KiwiBuild homes, as well as paying a mortgage of over \$600 per week for 30 years.*¹⁷⁶” For a mortgage of \$600 per week to stay within 30% of household income, a gross annual household income of \$104,000 is required. This income level fell within the 7th income decile or top 40% of all household incomes in the year to June 2018. Shamubeel is of the view that the Kiwibuild program was always “*doomed to fail* (in its aim of addressing the housing crisis). *Because there were never enough people with sufficient income or the deposit to buy these houses.*¹⁷⁷”

A Stuff News article in 2018 refers to banks requiring a minimum household income of \$72,000 with a 20% house deposit (\$100,000) to obtain a mortgage on a property with an asking price of \$500,000. Whilst the Ministry of Business, Innovation and Employment estimated that a household income of \$121,000 was needed, along with a 10% deposit (\$51,500) to keep loan repayments for a \$515,000 property down to less than 30% of gross income¹⁷⁸. A household income of \$121,000 fell within the 8th income decile or top 30% of household incomes in the year to June 2018.

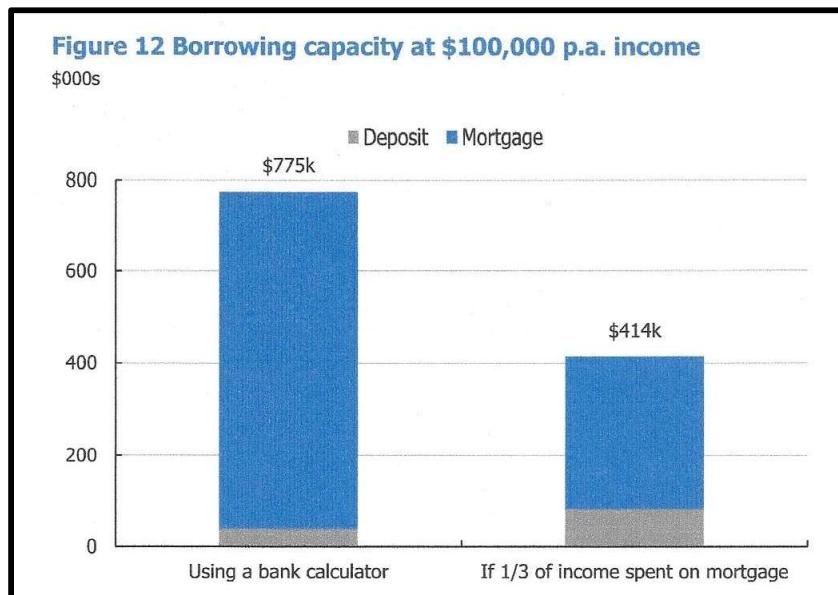
¹⁷⁴ Cooke, H. (2019) Article ‘*How Kiwibuild fell down and whether anything can be saved from the wreckage*’

¹⁷⁵ Edmunds, S. (2018) Article ‘*Here’s why first home buyers don’t actually have it easy*’

¹⁷⁶ Magic radio station (2018), Broadcast ‘*Kiwibuild not aimed at low or middle income households – economist*’

¹⁷⁷ Newsroom staff (2019) Article ‘*Can Kiwibuild be rescued?*’ 27 May 2019

¹⁷⁸ H. Cooke (2018) Article ‘*Kiwibuilds in Auckland unaffordable for many, govt analysis shows*’.



Source: New Zealand Institute of Economic Research¹⁷⁹.

The above graph highlights the difference between the loan amounts that banks were willing to lend in 2014, compared to what would keep housing costs within 30% of gross income for a household with a gross annual household income of \$100,000.

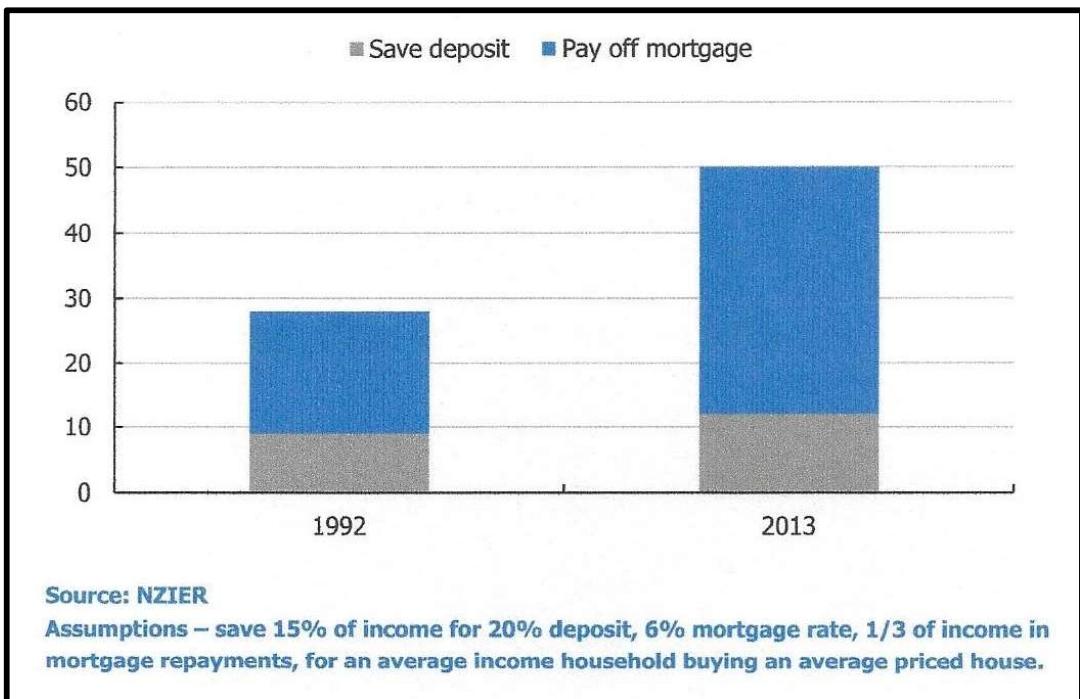
Interest.co.nz's '*Home Affordability Index*' calculates the affordability of purchasing a dwelling at the lower quartile price in various New Zealand cities for a hypothetical first-home buyer couple. The assumed take-home income of this hypothetical couple in the cities of Auckland and Wellington was estimated to require a gross household income of approximately \$107,000, which would put them in the 7th income decile or top 40% of household earners for the year to 30 June 2018.

Of particular concern is that mortgage payments for the relatively well-paid hypothetical first-home buyer couple only just fell within the affordability criteria used by Interest.co.nz for purchasing a relatively cheap property in Auckland. The affordability criteria used was mortgage repayments being below 40% of net household income. This result indicates that homeownership is becoming increasingly out of reach for middle income households.

The substantial debt burden placed on an average household purchasing an average house is illustrated in the diagram on the next page on years to buy a home in Auckland in 2014, sourced from the New Zealand Institute of Economic Research¹⁸⁰. This diagram shows that in 2014 it would take 50 years for an average household to save up a deposit and repay the mortgage off an average priced house in Auckland, if repayments were capped at 33% of household income. As banks are unlikely in reality to offer a repayment period in excess of 25-30 years, it means that an average priced house is unaffordable for a person of average income.

¹⁷⁹ NZIER (2014) Ibid. page 13

¹⁸⁰ NZIER (2014) Ibid. page 11. Home mortgage rates have reduced since 2014.



Reporter Susan Edwards has referred to the debt burden faced by many potential homeowners, even if they are able to get a large deposit together.

“Taking on a debt ten times your annual income is a different proposition to one three times your income, no matter how cheap it is to service.

Interest rates will eventually rise, and those buyers will have to continue to pay off that debt over decades.

Unlike their parents' generation, who had a tsunami of inflation wash away the real value of a lot of their debt, modern buyers are likely to feel the weight of their mortgage debt for much of their working lives.”¹⁸¹

High Housing Deposits

Loan to value ratio lending restrictions for residential properties introduced by the Reserve Bank aim to restrict the number of mortgages where the amount borrowed exceeds 80% of the house value. That is, home deposits typically need to be 20% of the sale price.

Nevertheless, several exemptions to the 20% deposit requirement apply, which are targeted towards first-home buyers. There remains scope for banks to offer home loans with a lower 10% deposit. However, even 10% of the average value of houses in the district of Upper Hutt in the Wellington region is approximately \$55,000¹⁸².

¹⁸¹ Edmunds, S. (2018) Ibid.

¹⁸² CoreLogic (2019) Ibid. page 37 Average house price for Upper Hutt in the 3mths to March 2019 was \$542,220.

Some assistance in saving for a home loan is provided by Kiwisaver¹⁸³ for those who have made regular Kiwisaver contributors. Reporter Susan Edmunds outlined that “*Outside KiwiSaver, if you wanted to save \$75,000 in five years, you'd need to put aside \$255 a week in an investment returning 5 per cent a year*¹⁸⁴”. This is a tough savings goal, particularly for persons who need to rent a property, whilst saving up a house deposit.

A scheme intended to assist first home buyers into the housing market is the ‘Welcome Home Loans’ underwritten by Housing New Zealand. These loans require a 10% deposit and eligibility criteria limit the property price of existing dwellings to \$500,000 in the Wellington region and \$600,000 in Auckland. This amount is below the lower quartile house price for Auckland and just above the lower quartile house price for Wellington as of April 2019. The cap in both cities is increased by \$50,000 for new builds. These loans are available for first-home buyers earning up to \$130,000 a year for a couple or \$85,000 for single persons¹⁸⁵. The couple income limit fell within the 8th income decile (top 30% of household earners), whilst the single income limit was just above the median household income as of June 2018.

Reporter Susan Edwards says that a key problem with the scheme is that “*By the time buyers are in the financial position to consider a purchase, many are earning more than this limit*¹⁸⁶”. Real estate agents in Wellington have also pointed out the difficulty of finding a property relatively close to the CBD under the price limits.

The problem of high housing deposits is most clearly demonstrated by the British Research Report ‘*House of the Rising son (or daughter)*’ which concluded that many first home buyers were dependent ‘on the bank of Mum and Dad’ to access home-loans. They calculated “*it would currently take a 27-30-year-old first time buyer around 18 years to save for a deposit if they relied solely on savings from their own disposable income. This is up from 3 years two decades ago.*”¹⁸⁷

Intermediate Housing Market

Ian Mitchell in 2015 estimated that the size of the ‘intermediate housing market’ in New Zealand at 181,500 households, 47% of which live in Auckland¹⁸⁸. The intermediate housing market is defined as private sector renter households with at least one member in paid employment who are unable to affordably (using no more than 30% of their gross household income to service mortgage expenses) purchase a dwelling at the lower quartile house sale price. Almost 20,000 households in the Wellington region (or 11%) were estimated to be in the intermediate housing market in 2015¹⁸⁹.

¹⁸³ KiwiSaver Home Starter grant and the early withdrawal of funds.

¹⁸⁴ Edmunds, S. (2018) Article ‘*Here's why first home buyers don't actually have it easy*’.

¹⁸⁵ Housing New Zealand (2019) Welcome Home Loan webpage

¹⁸⁶ Edmunds, S. (2018) Article. ‘*Here's why first home buyers don't actually have it easy*’.

¹⁸⁷ J. Wood & S. Clarke. (2018) ‘*House of the rising son (or daughter) The impact of parental wealth on their children's homeownership*’ page 3

¹⁸⁸ Mitchell, I. (2015) ‘*Can Work Can't Afford to Buy – The intermediate housing market*’ page 4

¹⁸⁹ Mitchell, I. (2015) Ibid. ‘*Can Work Can't Afford to Buy*’ page 22

Concluding Comments

There is no single reliable measure of housing need in New Zealand. The social housing waitlist is designed to manage access to a limited supply of social housing, rather than to measure general housing need. The assessment process used for deciding eligibility for inclusion on the social housing wait list, serves to prioritise access to the neediest members of the community.

There is a significant gap in housing services for those persons experiencing housing stress, which do not qualify for listing on the social housing wait list or are languishing on this list. Many low-income persons, particularly beneficiaries cannot realistically access affordable private rental housing without targeted assistance or additional income support.

A high proportion of households with the lowest incomes (bottom 20% of household incomes) have been experiencing housing stress for decades. The longevity of housing stress means that less and less resources are available to these persons over time. Many children in poverty are living in households experiencing housing stress.

There is a significant number of one-person households in housing stress. Many people remain single for significant lengths of time in adulthood. Shared living arrangements are not a suitable housing option for all single persons with modest incomes.

A significant number of households do not have sufficient savings for a house deposit for any type of house purchase. This includes the majority of recipients of the Accommodation Supplement. A significant number of households also do not have sufficient income to make affordable mortgage repayments for a median or lower quartile house value. Home ownership appears particularly challenging for the majority of single persons and households earning less than the median household annual income.

There is a limit on how much new house prices sold on the private market could decrease due to increased public and/or private housing supply. Building costs alone are likely to be over \$200,000 for a detached dwelling and around \$100,000 for an apartment.

Part of the housing affordability crisis is due to slow growth in incomes compared to housing costs (particularly for beneficiaries and minimum wage workers), which limits the amount that housing affordability can be increased without a rise in household incomes. If households lack the means to cover the costs of new housing supply, the supply of new housing will remain constrained.

Addressing the housing crisis must involve an increase in the supply of affordable rental properties. Home ownership is unlikely to return to historic peaks in the short to medium term.

The Accommodation Supplement has not kept pace with housing cost inflation and is insufficient to ensure that recipients are able to secure affordable housing. Temporary Additional Support Payments are also not sufficient to ensure access to affordable housing.

A payment designed to provide ‘temporary support’ in particular periods of hardship, is also not the right tool to provide regular and ongoing housing subsidies.

Few options are available that will help struggling individuals and households access affordable housing within the next two years. Even if governments and community providers committed additional funding to building social housing, a significant length of time would elapse before they are ready for occupation. Increasing main benefits or housing subsidies is one of the few options that could provide immediate relief.

In the absence of additional income support for beneficiaries and low-income workers to access private rental properties, it is likely that homeless numbers will increase and there will be more demand for transitional housing, emergency housing and special needs grants. In addition to increased demand on local support services such as local foodbanks.

Providing an additional weekly housing subsidy to persons facing unsustainably high housing costs in private rental accommodation, is likely to be far more economical than having to pay the cost of placing a higher number of people in emergency housing. In addition to providing a greater range of social and cultural benefits. The average cost of each emergency housing grant in March 2019 quarter was \$1,337¹⁹⁰. In contrast, the Accommodation Supplement provides an average assistance of \$5,170 annually for each household (equivalent to \$99 weekly)¹⁹¹. As grants for emergency accommodation typically cover seven nights, the weekly costs of providing an accommodation supplement is substantially cheaper.

¹⁹⁰ Williams, K. & Tso, M. (2019) ‘23 million in emergency housing grants in just three months’ Dominion Post Newspaper 27 May 2019. Grants typically cover 7 nights of accommodation.

¹⁹¹ NZ Property Investors Federation (2019) ‘The facts about the Accommodation Supplement’ published on Scoop.co.nz on 12 June 2019.

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<https://www.stuff.co.nz/national/politics/113641010/how-kiwibuild-fell-down-and-whetheranything-can-be-saved-from-the-wreckage> Accessed 24 June 2019
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