

REGIONAL
GROWTH
FORUM

Auckland Regional Affordable
Housing Strategy
March 2003

Affordable Housing Strategy March 2003

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Cover photo kindly supplied by Habitat for Humanity,
a Christian organisation assisting low-income households into their own homes

The Regional Growth Strategy attempts to provide for population growth in a sustainable way by emphasising urban consolidation and managing the supply of greenfields land. The Regional Growth Forum wishes to minimise any adverse effects that managing the land supply may have on the Region's already high housing costs. Therefore consideration of housing affordability issues has become a core component of the work of the Regional Growth Forum.

Housing Affordability is strongly connected to the Regional Growth Strategy outcomes and principles particularly:

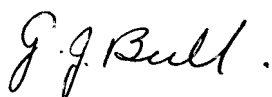
- Housing Choice
- Urban Amenity
- Safe Healthy Communities.

I am therefore pleased that the Regional Growth Forum has endorsed this Regional Affordable Housing Strategy.

The Strategy demonstrates a commitment by the Auckland local authorities to act in partnership with other sectors in addressing housing affordability issues. It forms a high level strategic direction and provides a flexible framework to guide future housing initiatives across the region. It is expected that Councils in the region will develop their own position on affordable housing by drawing on the range of actions and initiatives in this Regional Strategy.

The Auckland Regional Growth Forum initiated development of this strategy in 1999. A wide range of housing organisations in the public, private and voluntary sectors have been involved in workshops, seminars and focus group meetings throughout the process. Addressing the issue of affordable housing effectively is a challenge and I would like to thank all those groups who have given up their time to assist in developing this Strategy.

On behalf of the Auckland Regional Growth Forum I am pleased to make this Regional Affordable Housing Strategy public.



Gwen Bull
Chair, Auckland Regional Growth Forum
Chair, Auckland Regional Council



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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Section 1: Introduction

For the purposes of this Strategy, housing is considered to be affordable if households can access suitable and adequate housing by spending a maximum of 30% of their gross income.

Housing affordability is strongly connected to Regional Growth Strategy outcomes and principles. There are three outcomes that are particularly relevant. These are:

Housing Choice/Affordability

Urban Amenity

Safe, healthy communities.

This Strategy demonstrates a commitment by Auckland local authorities, to act in partnership with other sectors in addressing housing affordability issues.

Development of this Strategy was initiated in 1999. All sectors have been involved in workshops, seminars and focus group meetings throughout the process.

Section 2: Goals and Desired Outcomes

The Strategy has two higher level goals

Goal One	To enable all households in the Auckland Region to live in housing that is affordable.
Goal Two	To encourage affordable housing that is well-located, appropriate to needs, well-designed, integrated into communities, and provides for people's need for choice, security, safety, and good health.

The Strategy has 11 desired outcomes to support these goals. The first two outcomes are overall outcomes. Outcomes 3-11 are supporting outcomes. Outcomes 3-7 relate to the type of affordable housing that is provided while outcomes 8-11 relate to people who have a need for affordable housing.

Overall Outcome: Affordable Housing	All households can access suitable housing by spending a maximum of 30% of their gross income.
Overall Outcome: Security and Stability	Households facing affordability constraints are able to establish themselves in a local community and are not forced into frequent moves by private or state landlords.
Location: <i>Mix</i>	Affordable housing is located across the region and integrated into existing neighbourhoods and new developments.
Location: Accessibility	New affordable housing is located to enable more people to easily access passenger transport, work places, shops, community facilities and other services.
Quality and Design: <i>Appropriate to needs</i>	Affordable housing is appropriate to the specific needs of occupiers – which may be related to age, health, family size/structure, cultural needs, and special needs.
Quality and Design: <i>Well-designed</i>	New affordable housing is designed with an emphasis on energy

	efficiency, health and safety, privacy (both visual and acoustic), and integration into the neighbourhood.
Quality and Design: <i>Sub-standard housing</i>	Existing sub-standard housing is replaced or upgraded to acceptable standards.
Choice and Flexibility: <i>Tenure</i>	Households facing affordability constraints have some ability to choose between renting, home ownership or other forms of tenure.
Choice and Flexibility: <i>Life-cycle</i>	Households facing affordability constraints can choose to move if changing circumstances mean that their current housing situation is no longer suitable (e.g. changing family size, aging, disability etc).
Choice and Flexibility: <i>Discrimination</i>	Age, ethnicity, disability, health, household structure, and other household characteristics are not a barrier for households pursuing affordable housing options.
Choice and Flexibility: <i>Location</i>	Households facing affordability constraints have some ability to exercise their preferences with regard to the location of their housing.

Section 3: Action Areas

The Strategy has Seven Action Areas which are intended to reflect short to medium term priorities.

All sectors have a role to play in implementing these Action Areas.

A range of mechanisms may be used to implement the Action Areas. Mechanisms include **supply side tools** which are intended to increase the supply of affordable housing (for example the provision of state housing); and **demand side tools** which are intended to increase people’s ability to purchase affordable housing. (The Accommodation Supplement is an example of a demand side tool.)

Some initiatives are suggested in the Strategy against each Action Area. The table below summarises the Action Areas and some of the tools which could be used to implement them.

		Tools/initiatives
Action Area One	Support initiatives that will make housing more affordable and accessible “at the margin”.	District Plan rules Construction costs Purchase finance Financial contributions
Action Area Two	Contribute to initiatives which will increase the supply of “social housing” and help to diversify the range of social housing options.	Housing Trusts Joint ventures Incentives Inclusionary zoning ¹ Legislative framework Third sector support

¹ Inclusionary zoning requires a proportion of all developments over a certain size to include an affordable housing component. Inclusionary zoning is used extensively overseas in countries such as the US, Canada and the UK. It is also used in New South Wales. Auckland City Council has undertaken some investigation of inclusionary zoning and received a legal opinion to the effect that it would be possible to construct a justification under the Resource Management Act. However, a legal challenge in the Environment Court would be expected, and the justification would have to be robust to withstand this challenge.

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Action Area Three	Promote well-designed and appropriately located affordable housing.	Design guidelines Design competitions Innovative housing fund Existing suburbs
Action Area Four	Assess and address issues related to existing sub-standard housing and living conditions.	HNZ programmes Minimum standards
Action Area Five	Continue to review regional urban form decisions to explore how sustainable urban form can contribute to reduced housing costs.	Monitor RGS Affordable infrastructure Public transport systems
Action Area Six	Raise public awareness of affordable housing issues and solutions.	Communications/ education package Success stories Advocacy
Action Area Seven	Support research into a range of affordable housing issues; monitor the achievement of Strategy goals and outcomes and review the Strategy as required.	Joint research Co-ordinate local research Review Strategy

Background Information

Appendix 1 examines land-use planning instruments for promoting affordable housing, Appendix 2 sets out housing roles and responsibilities and Appendix 3 explains the special housing challenges facing Auckland. Key points include:

The 1980's saw a shift away from general housing provision to a welfare based model targeting those most in need. The early 1990's saw another shift with the welfare outcomes sought by promoting market solutions to housing affordability problems. The main instrument used was the Accommodation Supplement.

Government has indicated an intention to become more actively involved in housing. Resources are, however, very limited and the emphasis is on "doing differently" rather than "doing more". The most significant policy change so far has been a return to income-related rents for state house tenants.

Local authorities (regional and territorial) have wide ranging powers with respect to housing. Apart from provision of housing for older adults, (and some general housing) most local authorities have limited their role to providing an appropriate regulatory environment.

There is significant potential for local government; the private sector; the community sector and the research/tertiary sector to contribute to better and more affordable housing outcomes, by working in partnership across sectors.

It is not difficult to argue that Auckland is a "special case" with respect to housing affordability. Housing New Zealand waiting lists are the highest in the country; house prices and rent are higher; Aucklanders spend more of their income on housing; and home ownership levels are lower.

The cheapest new house anywhere in Auckland is not likely to cost less than \$175,000. A household earning \$30,000 would be able to buy a house worth about \$155,000 at the most – assuming they could save the deposit and that they receive the accommodation supplement.

The best available estimate suggests that about 6% of Auckland households are paying unaffordable rents – in other words their rental outgoings are more than 30% of their income. More people are likely to be living in sub-standard, overcrowded, or inadequate accommodation.

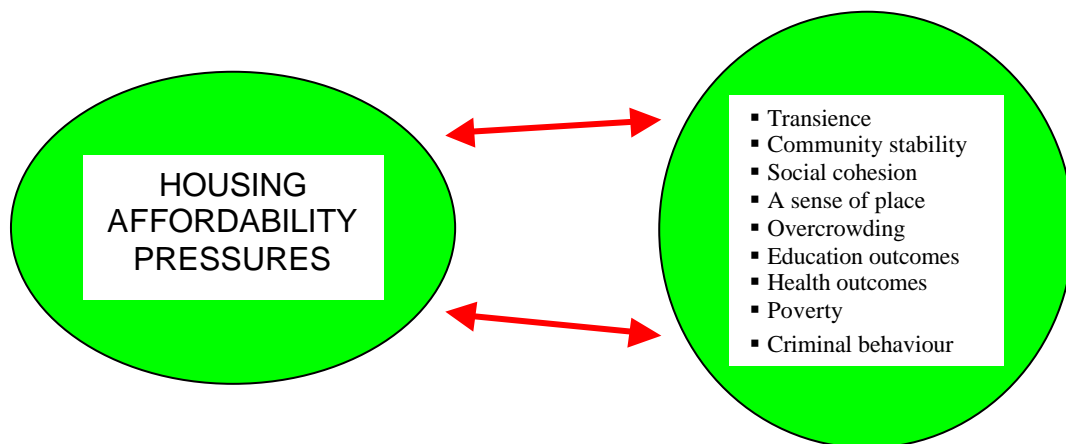
Certain household types are over-represented in statistics indicating housing affordability problems. These include Maori and Pacific Islanders, solo parents, families and older couples. Auckland's diverse population means that there are a lot of households in these categories.

1.0 INTRODUCTION

1.1 Why do we need an Affordable Housing Strategy?

It has been estimated that at least 23,000 households or 6% of all households in the Auckland region are paying unaffordable rents.² If we add to this the number of households living in unsuitable or sub-standard accommodation and low-income households servicing high mortgages, these statistics would look worse. While the return to income-related rents for state housing tenants has assisted some households, the growth in waiting lists for state-owned housing provides ample evidence that many Auckland households face constraints on their ability to purchase adequate housing.

There is growing recognition that good quality, affordable housing is an essential component of strong communities. The health effects of poor housing are the most obvious. If people are forced into poor quality or overcrowded housing this is likely to have a negative impact on mental and physical health. However there is also growing evidence that there is a relationship between housing and a wide range of other factors including educational achievement; crime; unemployment; and family stability.



Intervention in the provision of affordable housing has traditionally been seen as the responsibility of central government. While local government has played a role in provision of housing for older adults this arose out of a specific arrangement with central government³. In general local government's role has been focused on the regulation of housing, through the administration of the Resource Management Act, the Building Act, and other legislation.

The Regional Growth Strategy (RGS) has, however, highlighted, that local government policy can have a significant impact on the affordability of housing. As 'greenfields' development capacity within the urban limits is used up, this could place upward pressure on land prices. This has led to a concern that the RGS may have a negative impact on housing affordability.

In reality the relationship between housing affordability and the RGS is more complex than this. The impact on affordability will depend on the take-up of opportunities for higher density development. In addition the "old model" of urban sprawl may have produced cheaper houses but it also resulted in higher transport costs.

The impetus for this strategy is two-fold. Firstly it signals a willingness of local government to take some responsibility for issues that are related to the Regional Growth Strategy – even if the nature of the relationship is still unclear.

² BERL (1999). Note that this figure is dated and that it does not take into account the return to income related rents for state owned housing.

³ Wellington, Auckland and Christchurch cities were also involved in general public housing initiatives from the 1950's.

Secondly it is consistent with a more general move towards a “partnership-based” approach to addressing a range of social issues. In the health arena, for example, central government, local government and the community sector have come together on a range of issues from building new hospitals to running community safety programmes. Partnerships are also being extended into the private and research sectors. The rationale for partnerships is that these issues are complex, and multi-faceted and can only be effectively addressed by combining the different skills and resources of several sectors.

This strategy, therefore, demonstrates a commitment by Auckland local authorities, to act in partnership with other sectors in addressing housing affordability issues. Although it has arisen out of the Regional Growth Forum process it is intended to be a strategy that all stakeholders can endorse and implement. It establishes as an overall framework with some flexibility for individual stakeholders to make their own decisions about how, and to what extent, they wish to get involved.

1.2 What Is Affordable Housing?⁴

For the purposes of this strategy housing is considered to be affordable if households can access **suitable and adequate** housing by spending a maximum of 30% of their gross income. This definition is consistent with those used by a number of other countries.

This strategy is focused mainly on households in the bottom four deciles (40%) of household income as it is these households who are least likely to be able to afford to purchase suitable and adequate housing. It includes people who are paying rent as well as people servicing mortgages on their own homes.

A key aspect to the definition is that households must be able to access **suitable and adequate** housing. This is intended to include factors such as:

- Design and construction - both visually and in terms of energy efficiency, privacy, quality of materials, safety, neighbourhood integration etc.
- Suitability to the specific needs of the household – such as family size/structure, age of occupants, cultural requirements etc.
- Access to passenger transport, work location, shops, schools and community facilities.

This strategy is also based on the premise that good housing is essential to strong communities. Good housing provides more than just physical shelter and is fundamental to enabling people to participate in community life.

1.3 Relationship to Regional Growth Strategy

The RGS contains several explicit references to housing affordability.

At the highest level there are three outcomes which are of relevance:

- “Housing choice/affordability – improved housing choice and affordability throughout the region.”
- “Urban Amenity – higher quality urban amenity particularly business, residential, shopping and public space areas.”
- “Safe, healthy communities – safer, healthier communities with high-quality readily accessible community facilities publicly and privately provided.”

⁴ Note that this Strategy does not cover “community housing” - housing provided for people with special needs that includes a “care” component.

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There are also two **principles** that are relevant:

- “Enable people and communities to meet their basic needs of shelter, safety, health, education, cultural expression, income, recreation and leisure, to facilitate the health and safety of present and future communities.”
- “Enable a regional growth pattern which can provide a range of housing choice by type, affordability and location.”

As well as explicit references to housing affordability the RGS has implications which are relevant to affordability. These are:

The extent to which the pattern of growth reflected in the RGS will place additional pressure on the cost of housing. The RGS is intended to enable a population of 1.9 million to be accommodated in the Auckland Region by 2050. This is a population increase of nearly 900,000. To achieve this about 70% of new households would have to be accommodated within intensified areas (town centres, corridors and some limited infill). If this level of intensification does not occur then there are likely to be additional pressures on the price of land and, consequently, on the price of housing.⁵

If the uptake of opportunities for intensification is as high as expected this raises another concern. That is, the possibility that low income households will be forced into medium density living (apartments, terraced housing, duplexes etc) because they can afford nothing else. This concern is accompanied by fears that the medium density housing of today will become the urban slums of tomorrow.

While this Strategy explicitly addresses this concern it must be emphasised that affordable housing and medium density housing are not one and the same. A lot of medium density housing recently constructed is aimed at the mid to top end of the market. Cheaper housing is also being constructed but this is probably still not affordable in terms of the criteria used in this strategy – and is likely to be targeted at young couples buying their first house or renting while they save a deposit, rather than families facing long-term affordability problems.

1.4 Process for Developing the Affordable Housing Strategy

This Strategy has been developed as a result of cooperation and collaboration from agencies in all sectors. Key steps along the way have included:

In 1999 the Regional Growth Forum commissioned BERL to prepare a report which outlined how recent trends in the housing market in Auckland have impacted on the affordability of housing. The report assisted in providing an improved understanding of the scale of the affordability issues facing the region, and how this could change over the next 20-50 years. The findings of the BERL report are discussed in Appendix 3.

In September 2000 the Regional Growth Forum hosted a one-day seminar on “Affordable Housing in the Auckland Region.” The seminar involved 150 participants from all sectors including: local, regional and central government; property developers; financial institutions; community-based housing groups; professional bodies (e.g. architects and urban designers); and research organisations.

The focus of the seminar was not only on identifying the issues but also on starting to talk about ways in which the issues could be addressed – with particular reference to overseas examples.

Agencies within central and local government have recently commissioned reports of their own which have been important inputs to this strategy. The timing and content of these reports demonstrates that there is a commonality of approach being taken by various agencies. Key inputs include:

⁵ Unless low take-up is as a result of actual population increases being much lower than projections.

In late 2000, McKinlay Douglas produced a report for Local Government New Zealand, the Ministry of Social Policy and three local authorities, exploring the opportunities for inter-sectoral partnerships to promote affordable housing.

In late 2000 Auckland City Council commissioned Hill Young-Cooper, and Patricia Austin, to prepare a report identifying and evaluating a wide range of mechanisms used internationally to promote affordable housing. This report was released in January 2001.

Housing New Zealand has recently commissioned a series of reports identifying gaps and issues with respect to current practice, and initiating some preliminary work which could form the basis of a national housing strategy (Badcock 2000 (a) and Badcock 2000 (b)).

In March a series of three sector meetings was held to assist with the development of this Strategy. The sector groups included; government and research sector; private sector (developers, planners and designers); and community sector. The emphasis of these meetings was on practical solutions to affordable housing issues. A number of suggestions arising out of these meetings have been incorporated into this draft Strategy.

1.5 Who Is This Strategy For?

Although the Regional Growth Forum has led the development of this Strategy, the process has involved all sectors. It is hoped that agencies in all sectors will endorse the Goals, Outcomes and Action Areas and that the Strategy will provide a starting point for further discussion and development of specific action plans.

The development of this Strategy parallels work being undertaken by central government on national housing initiatives. As this work progresses aspects of this Strategy may be further developed.

GOALS AND DESIRED OUTCOMES

2.0 GOALS AND DESIRED OUTCOMES

This section of the report sets out goals and desired outcomes which form the basis of this Draft Strategy. It is hoped that stakeholders in all sectors will endorse the goals and outcomes. Section 3 considers seven Action Areas for progressing the strategy and a range of mechanisms which could be used to implement each Action Area.

2.1 Goals

This draft Strategy has two goals.

Goal One: To enable all households in the Auckland Region to live in housing that is affordable

This goal is self-explanatory. While it refers to all households the focus of this strategy is on households within the bottom 40% of average household income, as it is these households that are likely to have the greatest level of need.

Goal Two: To encourage affordable housing that is well-located, appropriate to needs, well-designed, integrated into communities, and provides for people's need for choice, security, safety, and good health

The second goal recognises that affordability is only one aspect of housing need. The goal is not only about the physical standard and adequacy of affordable housing but about how well it fits into the Auckland urban environment. Design, amenity, location, and community integration are critical elements, particularly in the Auckland context where the next 50 years are likely to see fundamental changes in growth patterns. If the RGS is successful in its implementation these elements will be important for all new housing but will be a particular challenge to achieve for housing at the lower end of the market. It is also important to recognise that a large stock of affordable housing already exists and that this goal is just as relevant for existing stock.

Finally this goal is also about choice and about households having the ability to make decisions about how to best meet their own housing needs. This includes enabling people to make their own judgments about their needs rather than others deciding what is appropriate for them.

2.2 Desired Outcomes

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

1. Overall Outcome: Affordable Housing

All households can access suitable housing by spending a maximum of 30% of their gross income

This outcome is consistent with the definition of affordable housing used in this strategy. When better information becomes available regarding the number of households facing affordability constraints it could be useful to attach a target to this outcome.

2. Security and Stability

Households facing affordability constraints are able to establish themselves in a local community and are not forced into frequent moves by private or state landlords

The average stay for a household in rental accommodation in New Zealand is about 9 months.⁶ There is increasing anecdotal evidence of a problem of transience in parts of Auckland which is revealing itself through the number of children changing schools frequently. Mark Gosche in a speech to the Real Estate Institute of New Zealand cites examples in his electorate of Otahuhu of children attending 12-14 primary schools in six years. Factors contributing to transience are likely to be people living in unsuitable accommodation, and/or being unable to pay rent and being forced to move on by private landlords.⁷

At sector meetings some people felt that there was an urgent need to review tenant protection legislation. It is possible that the return to income related rents will reduce the problem, assuming that the social allocation system is working effectively so that those with the greatest need (who are probably least likely to be able to operate effectively in the private rental sector) are being housed by the state. Surveys show that security and stability is also a particular issue for older people.

Central government housing policy enhances security of tenure both within state owned rental housing and owner occupied housing.

3. Location: Mix

Affordable housing is located across the region and integrated into existing neighbourhoods and new developments

This outcome has two elements to it – the location of affordable housing across the region and the mix of affordable housing with other housing types. The first element is particularly important. Although Aucklanders have high mobility levels in that they shift house frequently, they often demonstrate strong loyalty to a particular suburb or area. This may be a particular issue for Auckland City which has the lowest home ownership levels of all local authorities and the highest average house values.

The second element is more complex and may require further debate. Although housing in Auckland tends to be somewhat segmented by income group the distances between low-income and higher income areas are not huge. For example the state income housing areas of Glen Innes are adjacent to the affluent “eastern suburbs.”

Until the 1960’s most state owned housing was built within large housing estates. That housing was originally provided for working families but over time has become increasingly targeted towards those in the greatest need. This has resulted in estates being perceived negatively because of the social problems within them.

Greater integration of cheaper housing was sought both through financing people to purchase existing housing stock as well as “pepper-potting” state housing within larger developments.⁸ This is not always

⁶ Ministry of Social Policy, personal communication.

⁷ There may also be other contributing factors such as illegal immigrants shifting to avoid detention.

⁸ Current Housing New Zealand policy is that, where possible, no more than 30% of a development is owned by the state.

GOALS AND DESIRED OUTCOMES

easy to achieve however. There have been examples where developers have struggled to sell housing on the private market if prospective buyers suspect that some of the housing will be sold to Housing New Zealand.

Some people needing affordable housing may actually prefer to live near others in similar circumstances. Friesen et al (2000) in their “Social Atlas of Auckland” point to the geographic concentration of Asians and Pacific Islanders in Auckland. They note overseas studies used to focus on the problems of ethnic ghettos and polarisation but now consider the issue to be more complex. Ethnic concentration may reflect preference rather than disadvantage. While this is not quite the same issue as concentration of low income housing it is relevant, particularly because Pacific Islanders as a group are more likely to face housing affordability problems than the population as a whole.

For others, however, such as older people living in mixed-income areas may be highly desirable. For many older people this may simply mean being able to afford to live in the area that they have always lived in. For those who own their homes, gentrification of an area will not affect them, but for older people relying on rental accommodation it can have a major impact.

4. Location: Accessibility

Affordable housing is located to enable more people to easily access passenger transport, shops and facilities, community services, and work places

This outcome is critical to the RGS and is particularly important for affordable housing as lower income people tend to be more reliant on passenger transport services.⁹ Also lower income people may have a greater need for community based facilities that are accessible without a car. This is likely to be true for a range of household types including older adults and families with young children.

The Auckland Regional Council has recently commenced a programme of monitoring the attitudes of people towards medium residential housing developments. Five case studies were chosen for the first stage of this research. All the case studies were aimed at the middle of the market but the results are still relevant to the lower end. The surveys found that satisfaction levels overall were high but that location was critical. Where housing was poorly serviced both neighbours and residents were highly critical of the developments.

This outcome is, of course, important for all forms of affordable housing from medium density to more traditional lower density. It also has implications for the servicing of existing suburbs as well as for the location of new affordable housing.

5. Quality and Design: Appropriate to Needs

Affordable housing is appropriate to the specific needs of occupiers – which may be related to age, health, family size/structure, cultural needs, and special needs

One of the difficulties of providing state housing is that housing tends to be built to meet the needs of the time and needs can change with changing demographics. For example the current HNZ stock was built to accommodate mainly two parent families. According to Badcock (2000) the current typical HNZ housing profile includes – solo parents; Maori and Pacific Islanders; large families; not working; low incomes; and extended or multi-family. The needs of these groups in terms of household size, numbers of bedrooms etc. may be quite different to the needs of the households that the housing was originally built

⁹ Note that location is not the only factor which determines accessibility to passenger transport services. Accessibility also requires ease of use, ability to change modes of transport and a range of other factors.

for. He also suggests that future housing demand in New Zealand will become increasingly segmented with an older European population and a younger Maori and Pacific Island population. It is important, therefore that the housing stock (both public and private) keeps pace with these changes.

Some interesting work has been undertaken in Queensland on the concept of “universal design” which is about designing houses to meet a range of needs or so that it can be easily adapted to meet changing needs¹⁰. For example one house may be easily convertible to two units, or an additional bedroom may be added at minimum cost. Features such as wide hallways to accommodate wheel chairs are incorporated automatically regardless of the specific households need. These principles may be just as relevant to private sector housing stock as to state housing.

More work may be required on the specific needs of groups in need of affordable housing. For example it was suggested at one of the sector meetings that medium density housing would not be suitable for Maori who, because of their heritage have a greater need for flexible spaces than people of European descent. While Europeans were also seen as desiring their own bit of land it was felt that they would adapt more readily to the concept of medium density living.

While it is important to have a better understanding of the housing needs it is also important not to generalise or to make judgments about the needs of particular groups. For example some families with children may prefer to live in a separate house with a section while others may be happy to live in an apartment as long as there is a park and other family-based services nearby.

6. Quality and Design: Well Designed

New affordable housing is designed with an emphasis on energy efficiency, health and safety, privacy (both visual and acoustic), and integration into the neighbourhood

This is another critical outcome for all affordable housing and will be a particular challenge for medium density affordable housing. This outcome is also integral to the success of the RGS. Although there is strong community support to contain urban sprawl there are concerns about poorly designed medium density housing, particularly at the bottom end of the market, which some people perceive as low income slums or ghettos.

Even in the middle of the market concerns have been expressed that the quality of recently built medium density housing is poor. Particular concerns relate to the external design, lack of privacy and quality of construction. There is some suggestion (e.g. Hill Young Cooper 2000) that the provisions of the Building Act do not adequately address issues that are specific to higher density living.

As the market for medium density housing matures it is likely that prospective purchasers will be more discerning and demand higher quality. A key issue is how to ensure that good design features are provided for in housing that is affordable.

¹⁰ Rather than designing housing to meet specific needs.

GOALS AND DESIRED OUTCOMES

7. Quality and Design: Sub-standard Housing

Existing sub-standard housing is replaced or upgraded to acceptable standards

This will be one of the most difficult outcomes to achieve. The majority of people who need affordable housing will, in the next 10 or 20 years, continue to be housed in housing that exists today. While HNZ has a commitment and budget to upgrade substandard housing there is no easy answer to housing in the private sector. Anecdotal evidence suggests that the problem of sub-standard housing is not restricted to private rentals but extends to home ownership as well.

McKinlay Douglas (2000) highlights sub-standard housing as an issue that no body wants to own. While local government has the responsibility to address any public health issues related to sub-standard housing it is often reluctant to do so because of the financial implications.

In order to implement this strategy there is a need to define what is “acceptable”. In the first instance “acceptable” requires meeting minimum legal standards (as specified in the Health Act and related legislation.) Desirably however, “acceptable” would mean applying current¹¹ building standards (for new buildings) to all housing.

8. Choice and Flexibility: Tenure

Households facing affordability constraints have some ability to choose between renting, home ownership or other forms of tenure

This outcome does not express a preference for a particular tenure but focuses on the importance of *choice*. During sector meetings some people felt quite strongly that home ownership should not be subsidised or promoted while others felt that promoting home-ownership was critical to avoiding the pitfalls associated with relying on the private rental sector. Advantages of home-ownership were seen as:

- Offering stability both for individuals households and for communities
- Fulfilling an aspiration which has long been recognised as common to most New Zealanders
- Increasing the likelihood that people will take pride in their houses and keep them adequately maintained
- Enabling people to acquire some equity and to live mortgage and rent free in their retirement.

Disadvantages were seen as:

- The possibility of delivering people into a negative equity situation where a sluggish housing market means that the value of their house is less than the size of their mortgage.
- Encouraging people to tie up too much money in one investment.
- Cheap entry into home-ownership may be accompanied by shoddy housing that needs high maintenance that people are unable to pay for. Flaxmere was cited as an example of a suburb built because of cheap home loans, that now has serious problems.¹²

For those who can choose between renting and home-ownership, renting will not necessarily be perceived as an inferior option. For those who have no choice, however, renting may well place them at a severe disadvantage.

¹¹ Or higher standards where current standards are inadequate.

¹² Arguably the Building Act should protect against this happening again. However recent publicity about new housing that is rotting, suggests that poor construction methods are to blame.

Rather than focus on home-ownership versus renting there are other tenure forms, some of which provide the advantages of home ownership at a more affordable price. These include:

Shared or joint equity – where the occupant may own say 75% of the house with the other 25% being owned by another party – usually a community sector organisation such as a housing association.

Land lease – where the occupant owns the house and leases the land, again usually from a community organisation such as a community land trust. This form of tenure also assists with the retention of affordable housing, as it is usually land rather than buildings that appreciate in value.

Cooperative housing where the occupants purchase a share of the whole development.

Boarding or lodging houses which may be particularly suited to those with a short-term or temporary need.

These forms of tenure are relatively untested in the New Zealand context although there are small-scale examples such as the Auckland Housing Association which has recently purchased some ex-Council housing in Freemans Bay from Auckland City Council. A small proportion of this is rental housing with the rest operating on a shared equity basis. Occupants own 80% of the capital value while the Association retains ownership of the other 20%.

9. Choice and Flexibility: Life-cycle

Households facing affordability constraints can choose to move if changing circumstances mean that their current housing situation is no longer suitable (eg changing family size, aging, disability etc)

This is related to the outcome about suitability of housing to different needs. If a house cannot be adapted to meet the changing needs of people it is important that they have the flexibility to move to new accommodation which meets their needs. A particular issue is the need to ensure that tenants of state-owned houses are not “trapped” in an unsuitable house because by moving out of the state-owned sector they would lose their income related rent.

Another issue relates to older people who may be living in family homes which are now bigger than they require. Even though these people may not be facing affordability constraints themselves, by moving to a smaller house or flat they may free-up existing stock suitable for a low income family.

Of course some older people may choose to remain in their family homes. This outcome is not about forcing people to move but about ensuring that the full range of choices is available.

This outcome relates not only to matching life-cycle needs with the *type* of housing but with other housing characteristics such as tenure.

10. Choice and Flexibility: Reducing Discrimination

Age, ethnicity, disability, health, household structure, and other household characteristics are not a barrier for households pursuing affordable housing options

This outcome relates primarily to the rental market but is also relevant for households who cannot gain finance because do not meet the lending criteria of financial institutions. The difficulties of gaining finance for development of housing on Maori land have long been recognised and are addressed, to some

GOALS AND DESIRED OUTCOMES

extent, through Housing Corporation lending programmes. Single parents who have some capital (due to sale of an asset) but are on a benefit are another example.

This outcome also requires that planning regulations do not unwittingly discriminate against groups with specific needs. For example, while most councils now allow for Papakainga Housing¹³, there may be other cultural needs that are not provided for.

11. Choice and Flexibility: Location

Households facing affordability constraints have some ability to exercise their preferences with regard to the location of their housing

This outcome is self-explanatory. It is obviously related to the outcome regarding mix of housing. It is also important that this is taken into account in allocating state and local government owned housing.

¹³ “Papakainga” - original home, home base

3.0 ACTION AREAS

This section highlights seven Action Areas which would contribute to meeting the goals and desired outcomes of the Strategy. They are intended to reflect short to medium term priorities. As more experience is gained in this area and as more research is carried out which identifies the scale and nature of the issues facing Auckland, it is anticipated that other priorities will emerge. Section 3.1 provides an overview of the seven action areas, Section 3.2 provides an overview of methods, mechanisms or tools, and Section 3.3 demonstrates how various combinations of tools could be used to implement each Action.

3.1 Overview of Action Areas

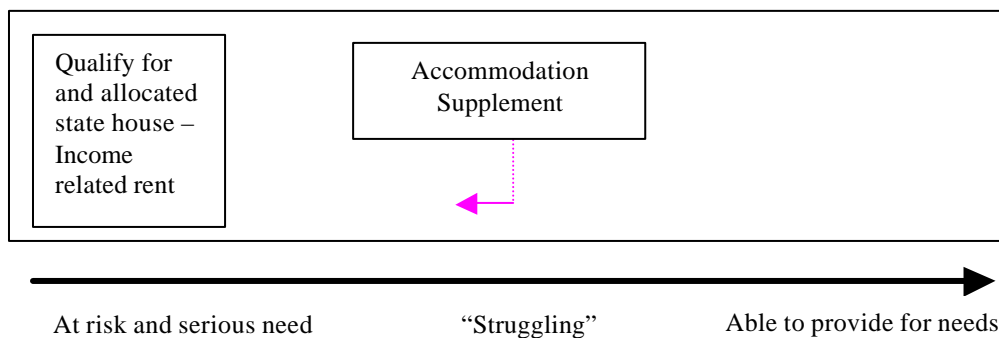
Action Area One: *Support initiatives that will make housing more affordable and accessible “at the margin”*

Contributes particularly to the following outcomes:

1. Affordable Housing
2. Security and Stability
3. Location: Mix
8. Choice and Flexibility: Tenure
9. Choice and Flexibility: Life-cycle

This Action Area is focused on those people who, while they do not have serious or urgent housing need, are never the less “struggling to make ends meet”. This is illustrated in the following spectrum of housing need.¹⁴

Spectrum of Housing Need



Near the right end of the spectrum households have adequate income to be able to provide for their own housing needs. They are able to access suitable housing by spending less than 30% of their gross income. They may choose to spend more than this to purchase a higher standard of housing but this is a choice that they voluntarily make.

State-owned housing is targeted towards households at the left end of the spectrum with the greatest housing needs.¹⁵ For those households allocated to state-owned housing, the return of the income related rent policy ensures that that their housing costs are affordable.

¹⁴ Not drawn to scale

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This Action Area is focused on those in the middle of the spectrum – households which, even if they are receiving the accommodation supplement, are spending more than 30% of their gross income on housing. Most households on this part of the spectrum will operate within the private sector – either through home ownership or private rental.

A realistic target in the early stages of implementing this strategy would be to consider a range of initiatives which would reduce the cost, of housing to this wider group. If this could be achieved the arrow shows that the dotted line would move left, reducing the number of people struggling to make ends meet.

Any initiatives that assist in reducing construction costs, land costs, financial contributions or the costs of complying with resource consents could make a difference to the cost of entry level housing. If the cost of supplying entry level housing can be reduced to some extent this should also have a flow-on effect to existing housing stock at the lower end of the market. It should assist in lowering cost not only house prices but also private sector rents¹⁶.

This Action Area would also include initiatives that increase the ability of people to gain access to finance to purchase a house¹⁷. Preliminary analysis by central government indicates that there is a pool of people who would be able to service a mortgage but are not eligible under normal financial institution lending criteria.

Action Area Two: *Contribute to initiatives which will increase the supply of “social housing” and help to diversify the range of social housing options*

Contributes particularly to the following outcomes:

1. Affordable Housing
2. Security and Stability
3. Location: *Mix*
5. Quality and Design: *Appropriate to Needs*
8. Choice and Flexibility/*Tenure*
9. Choice and Flexibility/*Lifecycle*
10. Choice and Flexibility: *Discrimination*

For the purposes of this Strategy “social housing” is defined as having the following characteristics:

- Provided on a not-for-profit basis by the government or community sectors.^{18 19}
- Allocated to households who have a housing need, using specific criteria.

¹⁵ Theoretically those with moderate and low housing need are also eligible for state-owned housing. In practice the supply of state housing is inadequate to service even all those households with serious need.

¹⁶ Note that private sector rents are already being squeezed downwards because of the return to income related rents for state housing. This pressure is coming from the demand side. Initiatives in this category would reduce costs of housing would therefore have a supply-side impact although there is likely that there would be some time-lag before this was felt.

¹⁷ Providing that mortgage repayments were affordable.

¹⁸ When income related rents were scrapped central government did not provide “social housing” in terms of this definition as state owned housing was provided on a commercial basis.

¹⁹ It could also be provided by the private sector but subsidized by government. While the provider would make a profit, net profit, taking into account the subsidy, would be probably be zero.

- Retained as affordable housing – restrictions on sale by occupants.

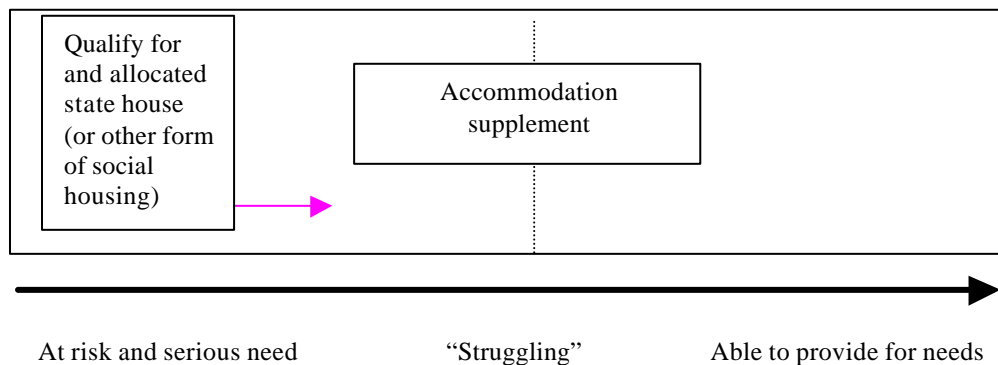
In fact the distinction between private housing and social housing is not absolute. At one extreme is the conventional form of social housing – state owned rental housing. At the other extreme is private sector housing which is freely traded. “Social housing” may, however, include other forms of housing which have both social and private characteristics – for example, private sector housing which has been subsidized and has a covenant on resale. In this Strategy social housing is intended to include anything that is not freely traded in the market.

Social housing tends to be targeted at households with the greatest housing need, whose needs are never likely to be adequately met by the private market. The number of households on Housing New Zealand waiting lists and classified as priority A or B (“at risk” or “serious need”) suggests that there is a need to increase the supply of “social” housing.

The government has made a commitment to increase the supply of its housing stock by 550 houses/units a year during its term. This could include leasing stock as well as ownership. Most of the increase is planned for Auckland. The intent of this Action Area would be to consider ways of supporting government and the “community sector”, in achieving and hopefully exceeding this target.

This Action Area is, therefore, focused on the left hand side of the housing need spectrum – and more specifically on increasing the number of people whose housing needs can be met by “social housing”.

Spectrum of Housing Need



This Action Area is not only about increasing the quantity of social housing but also about increasing the range of social housing options. Most social housing in New Zealand is owned by the state or by local government. As alluded to above there are a host of other options, many of which involve “third sector” ownership and/or management.

Internationally (e.g. UK, Europe and Canada) the “community” sector or “third sector” is a much more active player in the provision and management of “social” housing or other forms of affordable housing. There are a few examples in Auckland including Habitat for Humanity and the recent acquisition of former local government housing by the Auckland Housing Association. A (nationwide) housing trust is also being investigated by the Tindall Foundation. There are a range of possible models including housing associations, housing co-operatives, community land-trusts, co-housing, and housing trusts.

Badcock (2000 (b)) cites major potential benefits from greater community sector involvement in housing. The key lies in being able to leverage additional gains from combining public sector resources with community sector resources which may include voluntary labour, skills and expertise and resources such as land and buildings.

Developing the capacity of the community sector to play a greater role in the provision and management of affordable housing is a key component of this Action Area.

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Although there are some clear advantages to encouraging a “not for profit” sector in the provision of housing, there are also some potential pitfalls. The relationship between Government and the community sector has been investigated through a Working Party established in 2000. One of the major community sector concerns expressed through that Working Party was that the sector is increasingly “dumped” on without adequate assistance or support.

It is very important that third sector initiatives are developed in a way that is consistent with the recommendations of the Working Party report (MOSP 2001) and with the ongoing work of the Working Party.

Several reports including Hill Young Cooper (2000) point out that significant investment would need to be made in supporting the emergence of such a sector and in developing capacity on an ongoing basis. More work is required to determine exactly what this would involve. It is likely that both central and local government would have a role to play.

Another important issue is that some funding would be required. If it is risky for the private sector to provide affordable housing then the same will be true for the “community sector”. With the exception of the profit margin the community sector will face the same costs as the private sector. Some form of financial support will be necessary if this sector is to emerge on a significant scale.

<p>Action Area Three: <i>Promote well-designed and appropriately located affordable housing</i></p>
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Contributes particularly to the following outcomes:

3. Location: Mix
4. Location: Accessibility
5. Quality and Design: Appropriate to needs
6. Quality and Design: Well-designed
11. Choice and Flexibility: Location

This is an important priority for affordable housing – particularly for housing that is at higher than “normal densities”. This Action Area is critical not only for affordable housing but also for the RGS which could be threatened by public rejection of shoddy, and badly located developments which are perceived as potential future urban slums.

This action area would not be targeted only at the private sector. An article in the Herald on April 14th 2001 is headed “Apartments crumbling in Housing New Zealand ‘Slum’” and refers to terraced housing built two years ago in Otahuhu which is developing problems.

It is, however, important not to overstate the link between medium density and low value. Most recently constructed medium density housing is not pitched at the lower end of the market. And the lowest end of the medium density market tends to be apartments rather than family housing which is probably targeted at younger singles and couples who are just starting out rather than households that have an ongoing need for affordable housing.

The reality is that the existing housing stock will probably continue to be the source of most “affordable housing”. New housing in general does not tend to be aimed at the bottom of the market (unless accompanied by significant subsidies such as in the days of very low interest loans for new home buyers).

Until the Auckland market develops more experience of medium density housing it could even be argued that large developments aimed solely at the low end of the market should be discouraged. It could be

advantageous to encourage good design at the middle to the top of the market in the hope that the same design principles could be adapted to cheaper housing, once the market had matured. Practically this would be difficult because district plans cannot dictate the cost of housing. In addition medium density provides an ideal opportunity to reduce the cost of housing because of the smaller land cost component.

Design input at an early stage of all medium to high density housing developments is highly desirable – but particularly for those at the lower end of the market. Design input should take into account not only aesthetics and privacy, but also a host of other factors including neighbourhood integration; energy efficiency; and adaptability to changing needs. Access to passenger transport and other services are also extremely important although these factors should have been taken into account in identifying, through the district plan, places where medium density residential development could be appropriate.

This Action Area should not be confined to medium density housing or to new housing. Issues around design, neighbourhood amenity, and access to services will be just as relevant for existing housing and for new housing in greenfields development.

Action Area Four: *Assess and address issues related to existing sub-standard housing and living conditions*

Contributes particularly to the following outcome:

7. Quality and Design: Sub-standard housing

Most of this strategy is focused on ways of encouraging an expansion in the stock of new affordable housing. It is important to note however, that most people who have need for affordable housing will continue to be housed in stock that already exists. There is some evidence to suggest that a significant proportion of the current housing stock is poorly maintained or even in a serious state of disrepair. Much of this is likely to be at the lower end of the market in the private rental sector. Owner occupied houses may also fall into this category – particularly if people are stretched to service their mortgage.

This Action Area is focused not only on the condition of the housing but on the living conditions within the house which may involve educating people about topics such as fire safety, sanitation etc.

Action Area Five: *Continue to review regional urban form decisions to explore how sustainable urban form can contribute to reduced housing costs*

Contributes particularly to the following outcomes:

1. Affordable Housing
3. Location: *Mix*
4. Location: *Accessibility*
11. Choice and Flexibility: *Location*

This Action Area could be viewed as a subset of Action Area One – reducing the cost of providing housing. However, for the sake of clarity it has been separated out.

Appendix 3 describes the shift in central government emphasis over the decades from a major provider and financier of housing to the general population, and shaper of urban form, to a welfare based housing model targeted to those with the greatest needs.

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Issues of urban form are now the responsibility of local and regional government. In Auckland the councils have played an active role in developing the RGS by testing a range of future urban growth options. The intensification option was chosen after evaluating these options against a range of social, economic and environmental criteria.

All strategies require ongoing monitoring and review. If the RGS is found to have a significant negative impact on land prices (and therefore on house prices) it may be desirable to consider variations which are still consistent with the overall theme of intensification.

This work should be undertaken in partnership with central government. Although central government shows little direct interest in influencing urban form it continues to make infrastructural decisions that may have an impact on affordability.

Desirably there would be an ongoing commitment by central and local government to work together to continue to test infrastructure and growth solutions that are consistent with sustainable urban form while minimising the impact on land costs and the cost of infrastructure.

Action Area Six: Raise public awareness of affordable housing issues and solutions

Contributes particularly to the following outcomes:

3. Location: Mix

2. Security and Stability

10. Choice and Flexibility: Discrimination

One of the impediments to achieving affordable housing that is integrated into local communities, is people's negative perceptions of both the standard of affordable housing and the type of people who tend to live in that housing. It is important that the intent of this strategy is communicated widely so that people understand that affordable housing can be attractive and well maintained. It is also important that people are aware that there is a very wide range of people and types of households experiencing some level of housing need. This Action Area is about education, communication and advocacy to reduce some of the barriers to, and negative perceptions about affordable housing.

Action Area Seven: Support research into a range of affordable housing issues; monitor the achievement of Strategy goals and outcomes and review the Strategy as required

Contributes to all outcomes.

This strategy has revealed a number of areas in which information about affordable housing is inadequate. These include:

- Information about the nature and scale of current and future housing need. This would require:
- Measuring current need including people living in sub-standard and inadequate accommodation
- Better understanding of demographic make-up of those with housing need to enable better forecasting of future need
- Analysis of dynamics of the problem – i.e. households with long-term versus short-term need
- Better understanding of the needs of specific groups or types of households
- Improved forecasting of housing demand (population growth and immigration)

- Better understanding of dynamics of the Auckland housing market and how changing market conditions affect the supply of “affordable housing”.

Statistics New Zealand (SNZ) is planning work which is of direct relevance. A Housing Survey is planned for 2002 to measure housing affordability, crowding and quality. SNZ is also developing a set of housing indicators which can be measured using existing data sources.

Information about and analysis of innovative solutions and structures for addressing housing affordability issues. Priorities include:

- Analysis of range of “social housing” options including techniques for retention of affordable housing including deed restrictions and covenants; community land trusts and joint equity models²⁰
- Analysis of partnership models including housing trusts, joint ventures etc.

These gaps are identified in a range of sources and there is potential for local government to undertake research in conjunction with central government to help fill these gaps. In some cases this will require reviewing and collating existing research; and in other cases designing new research (or influencing the design of planned new research such as the SNZ research).

This Action Area is also about monitoring the effectiveness of this Strategy in terms of achieving the goals and desired outcomes. Ongoing review of the Strategy will be also be required.

3.2 Methods and Mechanisms

Tools for promoting affordable housing can be categorised as supply -side tools; demand side tools; and supporting tools.

Supply-Side Tools

These are designed to either directly or indirectly increase the supply and/or reduce the cost of housing.

Provision of state rental housing is an example of a supply side tool. It directly increases the supply of housing, and may also result in driving down the price of private sector housing. If state sector housing is provided only for the most needy (who are not catered for anyway by the private sector) it is likely to have a minor impact on private sector prices. If state sector housing provision is more widespread (as it was in New Zealand from the 1930s) then the impact on price is likely to be greater.

Initiatives which help drive down the cost of supplying housing are also examples of supply side tools. For example if affordable housing developments received a rates subsidy this could encourage more affordable housing to be provided by the private sector at a lower cost.

Demand-Side Tools

These are intended to increase the ability of people to purchase (or rent) affordable housing.

Demand side tools include income assistance, low interest or interest free loans, and loan guarantees. The accommodation supplement is an example of a demand-side tool. These forms of assistance should increase the ability of the recipients to purchase or rent housing affordably. Their effectiveness will depend, to some extent, on supply conditions. In a relatively unconstrained market increased demand for housing would be met by an increase in supply of affordable housing. In a highly constrained market the increase in demand could simply drive up price.

²⁰ See Hill Young Cooper et al, 2000

ACTION AREAS

Supporting Tools

These tools are not intended to have a direct effect on housing affordability but should improve the ability of policy makers over time to target assistance.

Examples include research and monitoring. Arguably some of the tools related to issues such as improving design are also supporting tools in that they do not increase the affordability of housing per se, but ensure that affordable housing is provided in a way that meets the needs to the people who live in it, and the expectations of the wider community.

Another way of thinking about methods to address affordable housing issues is in relation to the housing “supply chain.” This is used by Hill Young Cooper (2000) to show the different points at which intervention can occur.

Supply Chain

1. Planning



2. Land



3. Consents and permits



4. Design and construction



5. Community integration



6. Conveyancing and purchasing



7. On-selling and retention

An intervention at the first stage of the supply chain, *planning*, would include high-level strategy such as this Strategy. An intervention at the next stage, *land*, could include supplying cheap land for a housing development. An intervention at the sixth stage, conveyance and purchasing could include the provision of low interest loans.

Several recent reports have focused on tools for promoting affordable housing. The most comprehensive of these is the study by Hill Young Cooper (2000) for Auckland City Council. The Hill Young Cooper report identifies a wide range of mechanisms that have been used overseas to promote affordable housing.

This Strategy does not repeat the material contained in the Hill Young Cooper report (and others such as the McKinlay Douglas report (2000)). Rather it draws on these reports to suggest some practical initiatives for implementing the Action Areas. The intention is not to exclude any methods but to focus on priorities for implementation.

Appendix One, does, however, contain a more detailed discussion of planning related mechanisms for promoting affordable housing. Mechanisms such as inclusionary zoning and density bonuses are used extensively overseas to promote affordable housing. Because New Zealand has a different legislative framework, and a relatively slow rate of economic growth it may be that such tools are less relevant to the New Zealand context. More work may be required on this issue. Appendix One provides a starting point for discussion.

3.3 Implementing the Action Areas

This section reviews the Action Areas by showing how methods and mechanisms could be adopted and combined to achieve each Action Area. It focuses on ways in which all sectors could contribute to affordable housing. The emphasis is on partnership-based approaches. Each Action Area starts with a short statement of the roles that agencies within each sector might play.

A very short summary of pros and cons is provided at the end of the discussion on each initiative. However it is anticipated that the various sectors and agencies involved in implementing this Strategy would undertake their own evaluation of specific initiatives taking into account factors such as cost, risk (various forms), likely effectiveness in terms of strategy goals and outcomes, time-frame, flexibility, degree of community control/influence and implementation issues. For example some initiatives may require co-operation between agencies within and across sectors, while others could be implemented by a particular agency.

Agencies may also want to add to or modify the suggested initiatives under each Action Area.

Action Area One: *Support initiatives that will make housing more affordable and accessible “at the margin”*

Summary Of Possible Roles:

- Central government: income support (e.g. accommodation supplement); lending; land-banking/land provision;
- Local government: Regulatory environment; facilitation of private sector initiatives; lending or guaranteeing loans; land-banking/land provision; brokering.
- Private sector: Innovative construction techniques; innovative finance options
- Community sector: Provider (on a not-for-profit basis)

This Action Area is targeted mostly at private sector housing, although clearly any initiatives that reduce the overall cost of housing would also be beneficial for social housing.

A wide range of mechanisms could be applied to implementing this Action Area – from reducing impediments to affordable housing, through to providing fiscal incentives. However because this Action Area is targeted at private sector housing it is important to note that initiatives may reduce the initial cost/price of housing, but that this will not guarantee the ongoing affordability of that housing when it is resold (retention).²¹ For this reason the mechanisms suggested under this Action Area are related to removing various forms of impediment and encouraging innovation. If policy makers are less concerned about the issue of retention, then some of the incentive based mechanisms suggested under the next Action Area could also be appropriate.

²¹ The issue of retention was less of a problem when state intervention was on a large scale and ongoing. Significant intervention in the housing market over many decades helped keep the price of housing lower than it would otherwise have been.

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District Plan Rules

Under this Action Area councils could review their current rules, including rules about use, bulk and location, car parking requirements etc., to determine whether there are rules which are unnecessarily adding to the cost of housing development.

Given that most local authorities have recently prepared their first district plans under the Resource Management Act it can be assumed that the rules that are in place have been deemed necessary to ensure that environmental standards are maintained. Nevertheless councils are required to monitor the effectiveness of their rules on an ongoing basis. Councils could ensure that “affordability” is included as an explicit criteria in evaluating the effectiveness of district plans. This would enable them to collect information which would help them assess the cost implications of various rules.

In addition ongoing monitoring and review is important as new information emerges about good design practice. Action Area three suggests developing design guidelines focused on how to produce good quality, low cost housing. There should be a link between this work and reviewing district plan rules to ensure that good design solutions are not hindered by a failure of the regulatory environment to accommodate change and innovation.

A brief scan of existing district plans reveals two areas that could be reviewed as a first priority:

- Car parking provisions – current car parking provisions do not tend to vary by location or size of dwelling. In other words the same requirements may be applied to three-bedroom house in the suburbs as to a two-bedroom unit near a passenger transport route. This may be adding unnecessary cost to the medium density developments which are located near transport routes.
- Minor household units: Most district plans include provisions for minor household units. The main exception is Auckland City which does not do so. This is presumably on the grounds that a proliferation of additional dwelling units – often used to generate rental income tends to have an adverse effect in terms of matters such as neighbourhood amenity, design of buildings, infrastructure limitations etc.

Nevertheless minor household units could be quite suited to meeting some forms of housing need. For example “granny flats” can help free up the existing stock of housing while minor household units might also be able to be used to accommodate the need for extended family living.

Allowing minor household units across the board may not be appropriate for Auckland City, however it could be considered in certain circumstances and providing that minimum standards and criteria can be met.

Note that there may be other forms of housing that are not adequately provided for but could fulfil a need for a segment of the population. For example through the 1980’s many councils amended their planning rules to allow for Papakainga housing. Other forms of accommodation such as lodging and boarding houses are often not provided for anymore because of public concern about their social impacts. Nevertheless they may have a role to play in providing particularly for those experiencing short term housing need.

It should also be noted that most Councils provide some relaxation of rules (usually density) for “innovative housing”. In some district plans this is defined in detail while in others there is very little information about what is considered to be innovative housing. Innovative housing will not necessarily be affordable housing, but there may be the opportunity to promote these provisions in the context of affordable housing.

Reducing Construction Costs

Construction costs of affordable housing may be reduced by a variety of techniques such as “self build” (also known as “sweat equity”) and factory built housing. Self-build techniques reduce the costs of labour

because the future owner is involved in constructing the house. Models such as Habitat for Humanity also make use of volunteer labour.

Factory built or manufactured housing literally involves transporting pre-cut homes to a site where they are assembled. The cost savings arises out of the economies of scale in producing a large number of homes at once. A concern with such techniques is whether design standards can be maintained. In the past there has been a very strong tradition of mass housing construction with central government playing a key role in ensuring standards via its lending policies.

While the private sector is likely to be the main innovator in terms of new (physical) construction techniques local authorities may be able to provide design advice that would assist with this. They may also be able to facilitate initiatives involving innovative construction techniques by again ensuring that district plan requirements and processes are not acting as an unnecessary impediment. Local government or central government could play a more proactive role by directly approaching groups already working in this area and developing strategies for making the use of techniques more widespread.

Access To Purchase Finance

Housing New Zealand is already considering options that would assist some low-income families to gain access to finance to purchase housing. Government is constrained in its ability to contribute capital to such a fund however it has initiated discussions with organisations such as the Tindall foundation which had already expressed an interest in setting up some form of housing Trust Fund. This fund might provide finance not only for certain categories of low-income individuals but also for affordable housing projects. There could also be some scope for local government to play a role in such a fund perhaps by contributing a small amount of funding.

Another possibility would be to develop an alliance with a financial institution. The aim would be to persuade the institution to take a more innovative approach to providing finance and to consider possibilities such as:

- Lending for joint or shared equity purchase
- Reducing deposit requirements in some circumstances
- Considering tools such as a “location efficient mortgage” which would enable borrowing higher than the standard threshold for housing located near passenger transport enabling the household to sell their car or use one instead of two cars.

Taking into account the likely life-cycle costs associated with a house in determining the borrowing threshold – for example enabling higher borrowing rates for energy efficient housing

This would require some form of partnership with the financial institution which, in turn, is likely to require some form of risk sharing (such as loan guarantees). Local government has wide powers to guarantee loans and would be well placed to consider this option.

Financial Contributions

Financial contributions can be another significant area of cost for developers. Reductions in financial contributions could be used as a financial incentive to make housing more affordable, however unless there are explicit provisions to ensure that housing is retained as affordable housing such measures are not recommended. Reducing financial contributions across the board for all affordable housing would benefit the developer and the initial home owner/occupier at the expense of ratepayers who would have to fund any shortfall.

There may, however, be scope to review financial contribution provisions to ensure that they provide adequate incentives to develop infrastructural solutions which actually reduce cost. Provisions vary from authority to authority and are often not clearly effects based. For example in Auckland City contributions are levied on a portion of the value of the land for each additional development. On the one hand this may favour lower cost and intensive housing (because of the lower land value). On the other hand, an effects

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based approach could give developers more scope to reduce their contributions by incorporating features that reduce demand on services and facilities such as:

- Stormwater reduction or treatment systems
- Water saving mechanisms or effluent reduction/peak flow avoidance systems
- On-site infrastructure particularly for larger housing developments
- Including communal open space and/or recreation facilities

Action Area Two: *Contribute to initiatives which will increase the supply of “social housing” and help to diversify the range of social housing options*

Summary Of Possible Roles:

- Central government – provider on its own or in partnership; capacity building; third sector support
- Local government – provider in partnership; regulatory environment; advocacy; capacity building; third sector support
- Private sector – developer
- Community sector – provider in partnership; needs assessment and advocacy

Two types of initiatives are considered within this Action Area – initiatives that will increase the stock (and range) of social housing; and initiatives that will help develop the capacity of the community sector to enable that sector to play a greater role in provision and management.

“Not for Profit” Housing Trusts

The use of housing trusts to develop more social housing is a key option to be explored. Any number of models are possible. One possibility is a three-way arrangement between central government, local government and a third party. An independent trust would be established with central government and local government contributing assets. This could be land or it could be existing housing stock. The third party could be an iwi-based organisation or a “third sector” player. The third party may provide some funding (for example from a philanthropic source such as the Tindall Foundation) or may provide the ability to repay a loan through a customer base.

The trust would be charged with undertaking an assessment of housing need in its area or for its target group. This would include an assessment of existing need, household demographics, household growth and the extent to which the private sector will provide. From this some picture of the likely need for social housing – in terms of level and type – should emerge. The trust could then use its equity to borrow and develop housing appropriate to needs.

Combining resources in this way provides ability to leverage more gains than any one party working on its own could. In addition the independence of the trust should give it some stability, particularly if it involves a tri-partite partnership.

Joint Ventures

Outside the trust structure any number of joint venture arrangements are possible. Central government is already working with iwi-based groups and organisations such as Habitat for Humanity – particularly in rural areas. There is the potential to extend similar partnerships into urban areas.

Incentives

Consideration could be given to providing incentives to private sector or community sector developers who build either an affordable housing development; or a component of affordable housing within a development. Private sector development would need to be carried out in partnership with an agency providing social housing such as the Housing Corporation or a not-for-profit housing trust (see above), with an agreement to purchase by the agency at the end of the process.

Overseas examples suggest that incentives often take the form of a density bonus. This is not considered appropriate in the Auckland context as the Regional Growth Strategy is already based on increasing densities in certain areas. Density increases above this, or in areas not targeted for increased density would be likely to have significant adverse environmental impacts.

The two areas which appear to provide the most scope for applying incentives include:

Streamlining Planning Processes:

One of the biggest impacts of district plans on the cost of housing is the cost associated with preparing and obtaining resource consent for developments (including the costs of preparing expert reports, processing fees and holding costs associated with a time delay of up to two and a half years).

Section 94 of the RMA provides the ability for the Council's district plan to specify that a particular type of development (e.g. designed as affordable housing) will be non-notified subject to the proposal meeting district plan requirements that are clearly spelt out. Providing these are met the proposal will be approved within 20 working days.

In this case the provisions for notification would have to include:

- Ensuring that the location is appropriate in terms of proximity to services and passenger transport linkages.
- Very high quality design with requirements such as layout and appearance; privacy; access to sunlight/daylight for neighbours; landscaping etc. very clearly spelt out
- Probably a minimum threshold in terms of site area and numbers of dwellings.

The risk of community backlash against such an idea is quite high. Ideally a project would be undertaken on a trial basis before widespread introduction. Note that a similar idea is being suggested for Auckland City with the introduction of an urban design panel (NZ Herald, April 25th). This is not focused on affordable housing as such but on large commercial and residential developments and is aimed at ensuring that developers get a smooth passage through the consent process if they get a "tick" from the panel.

Note that streamlining of planning processes is already being considered. For example Manukau City Council is currently investigating the possibility of working with Housing New Zealand to facilitate the planning application process.

Financial Incentives Or Assistance In Kind

Incentives could take a number of forms including tax or rate relief, provision of subsidized land, loans or loan guarantees. Three examples are provided:

Financial Contributions - From a local authority perspective significant financial subsidy is unlikely however councils could consider reducing financial contributions for developments containing a social housing component. This would be justified on the basis of the contribution to the "social environment" associated with an affordable housing initiative.

Loan guarantees - Local authorities could support specific "third sector" housing proposals by agreeing to guarantee a loan for a "social housing" development. The McKinlay Douglas report suggests a model

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whereby a third sector group undertakes a housing development which is leased to Housing New Zealand (and therefore qualifies for income related rents) and is leased back to the group to manage. Local government's role in this could be in guaranteeing the loan to the group who would qualify for finance on the basis of the guarantee and the agreement to lease. Central government involvement in this arrangement would be desirable if rental accommodation was involved, but not necessary if the proposal related to a different form of tenure such as a land-lease, shared equity or co-operative scheme.

Provision of land - As discussed elsewhere in the report, the availability of land is a critical ingredient in the provision of affordable housing. Local and central government could support third sector or private sector proposals by donating land, selling it on a subsidised basis, or leasing it (perhaps at a peppercorn rent.) For local authorities this could mean acquiring land or forgoing revenue from the possible sale of land. The extent to which local authorities would want to pursue this option will depend on the individual situation of the local authority. Manukau City Council, for example, already has significant land holdings. Auckland City Council does not have much land but has expressed some interest in pursuing acquisition of strategically located land. Waitakere City Council has undertaken a small amount of land banking in the past and could also be in a position to provide land for housing.

Inclusionary Zoning

Currently there is interest by some Auckland councils in investigating the use of inclusionary zoning – whereby a proportion of all developments over a certain size must include an affordable housing component. (See Appendix One for more detail). Badcock (2000 (b)) also suggests that this technique justifies further investigation. Inclusionary zoning is used extensively overseas in countries such as the US, Canada and the UK. It is also used in New South Wales. The affordable housing component would most likely be sold to government or a housing trust or retained as social housing by a covenant restricting on-sale.

If such a mechanism was introduced it would need to take place region-wide. A very strong case would have to be developed to withstand almost certain challenge through the environment court. If councils are interested in investigating the concept further a first step might be the formation of a small inter-council working party to prepare a scoping report.

Lobbying For Appropriate Legislation To Support Various Forms Of Social Housing

There is currently no legislation in New Zealand that is specifically focused on not-for profit housing associations, housing co-operatives or similar structures. Such an organisation would normally establish itself as a charitable trust. More explicit legislation which addresses taxation issues could be helpful. The Auckland Housing Association, for example, which recently purchased some Auckland City Housing in Freeman's Bay encountered a conservative banking environment combined with a delay of 18 months to sort out GST related issues with the IRD. Having been through this experience the association believes that it has created a "replicable model" and a precedent for others. This is an area that could be further investigated by local government with a view to lobbying for legislative change if necessary.

Third Sector Support Agency Or Umbrella Organisation

Some consideration could be given to setting up a third sector support agency or umbrella organisation which may provide information, assistance and advice to third sector groups and act in an advocacy role. Examples of functions could include:

- Providing legal and financial advice
- Providing assistance with "basics" such as accounting, loan applications etc.
- Providing advice on the range of possible organisational structures and management models
- Providing information about affordable housing techniques
- Coordinating and disseminating research about housing need
- Advocating for a supporting legislative framework (see above)

- Training and mentoring

The agency could be established by individual local authorities, by pooling resources or by combining resources with central government. Badcock (2000 b) notes that workshop discussions hosted by HNZ indicated a preference for such an organisation to evolve “organically”, with government providing financial assistance to facilitate the process. Badcock also suggests the possibility of drawing on the skills of Community Housing Limited, which provides some of these support functions for 350 groups managing community houses. Although general social housing is quite different to community housing some of the underlying principles would be the same.

Action Area Three: *Promote well-designed and appropriately located affordable housing*

Summary Of Possible Roles:

- Central government – lead by example; community consultation
- Local government – design guidelines; community consultation; joint ventures, demonstration projects, finance
- Research sector – contribute to developing design guidelines
- Private sector – contribute to developing design guidelines, joint ventures
- Community sector - advocacy

This Action Area needs to be implemented in the context of other work related to implementation of the growth strategy because design issues extend well beyond affordable housing. For example Auckland City Council has recently developed an urban design guide for medium to high density housing in the strategic growth management areas (Herald April 25th).

Design Guidelines

There is an existing body of work internationally on high quality affordable design – with an emphasis on minimising costs over the life-cycle of the asset. For example Queensland has developed guidelines for SMART housing which focused on the design and construction of affordable housing that is energy efficient, safe and secure and universally designed. Universal design means that it is designed to be suitable for everyone regardless of specific needs/and or easily adapted to meet specific needs. Up-front the cost of such housing is still slightly higher than conventional design however the life-cycle costs are lower.

There is the potential for councils to work with designers and organisations such as BRANZ²² to develop guidelines, appropriate to the Auckland regional context. These guidelines should apply to both medium and lower density housing. They could also be used as the basis of developing criteria for affordable housing developments qualifying for non-notification or “fast-tracking” (see Action Area Two).

Development of design guidelines could also enable local authorities to advocate for a review of standards within the Building Act in cases where current standards may be insufficient (e.g. see Hill Young Cooper 2000).

Design Competitions, Demonstration Projects, Joint Ventures

These are tools that could be used to explore and illustrate the possibilities for well designed, affordable housing. A design competition could be run in conjunction with a demonstration project or a joint venture. The latter would involve some risk and may be best be undertaken in conjunction with an urban housing trust (as described in Action Area Two) or similar.

²² Or others such as the Auckland urban design panel currently being established.

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Innovative Housing Fund

McKinlay Douglas (2000) suggests that a small fund (say \$5 million) could be set up to provide seed funding or funding for business plans for innovative affordable housing developments. This idea could be extended to applying the funding specifically to design input. Councils could consider establishing their own fund to contributing to a larger fund if one emerges. Government is exploring the potential for establishing a capital fund for housing projects and home loans, possibly in conjunction with a philanthropic organisation. If this is established then local government may consider contributing to this fund and earmarking its contribution to design.

Existing Suburbs

It is important that existing suburbs are not ignored. During stakeholder meetings concerns were expressed about suburbs such as Clendon in Manukau City which are relatively new but “at risk” because of factors such as poor facilities and low neighbourhood amenity. It is assumed that councils are aware of, and are addressing these issues in terms of their infrastructural investment and town-centre programmes (for example). Nevertheless it has been included here to highlight the importance of the issue.

Housing New Zealand is currently engaged in projects that span this Action Area and Action Area Five (sub-standard housing). Their “healthy homes” project involves redesigning existing state houses – partly to improve the standard of housing in terms of energy efficiency, insulation etc. – but also to help ensure that the stock is configured to better meet the needs of its tenants.

Action Area Four: *Assess and address issues related to existing sub-standard housing in all sectors*

Summary Of Possible Roles:

- Central government – legislation, research, renewal of own stock
- Local government – enforcement, research renewal of own stock, community renewal programmes
- Private sector – fulfil legal requirements
- Community sector – advocacy

This is likely to be one of the hardest areas to tackle, particularly in relation to the private sector. The first priority may be to link into Housing New Zealand programmes focused on upgrading its own stock. The Action Area would also need to draw on new research to determine the nature and extent of the problem of sub-standard housing.

Contribute to HNZ Programmes

HNZ has placed a priority on upgrading its existing housing stock, much of which is a poor state of repair and/or unsuited to the needs of current or prospective tenants. Badcock (2000 b) quotes a Deloitte’s report which estimates that a minimum of \$1.3 billion needs to be spent on modernising the total HNZ housing portfolio to current acceptable standards. This amounts to more than one quarter of the value of its total portfolio. Badcock (2000 b) points to the need to develop asset management plans that are focused on making a long-term commitment to modernising and upgrading. He also stresses the importance of involving tenants in decisions related to upgrading requirements. The current HNZ budget will allow upgrading of 9000 houses (about 15% of total stock).

Current programmes underway or being considered include:

- Refurbishment - Healthy housing project – insulating and redesigning houses to meet current needs. This is a partnership between HNZ and the New Zealand institute of architects.
- Community renewal/ estate regeneration – a “whole of government approach” to renewal of HNZ estates with serious social problems. A project is due to be piloted in Aranui, Christchurch this year. Badcock (2000 b) discusses the concept of estate regeneration in some depth and stresses the focus on bringing together government, local government, residents, community organisations and the private sector to address a range of housing and related social issues. The community renewal approach should keep the community “intact” and can help strengthen and empower local communities.
- Redevelopment – the demolition and replacement of stock may be considered in some circumstances

There is potential for these programmes or similar to be extended into other sectors. For example:

- Community renewal projects could be extended to cover areas with private housing if local government became an active player. This approach would be particularly suited to areas with a mix of public and private housing.
- Local authorities could consider extending the above programmes to their own housing stock.
- Some local authorities (Manukau and Waitakere) are already involved in a “Healthy Homes” project which has a broader focus than “Healthy Housing” and involves health sector agencies.
- Local authorities could also assist to smooth consent processes for HNZ in relation to HNZ projects.

Enforcing Minimum Standards

In response to concerns by the Tenants Protection Association the Ministry of Social Policy has recently undertaken some work into the possibility of requiring a “warrant of fitness” for rental properties. The possibility of combining this with the direct payment of the accommodation supplement to landlords has also been mooted, Although the MOSP work is not yet publicly available it is understood that the report suggests that the existing minimum standards (mostly in the Health Act) are not being enforced. This is a local authority responsibility. The most likely reason that they are not being enforced is that local authorities are only responding to complaints and that complaints are not forthcoming from private sector tenants because of the “hassle factor” or fear of eviction. In addition local authorities may be reluctant to respond because of the financial implications.

This issue needs further investigation and provides another opportunity for local authorities, together with central government to pool resources to develop a scoping paper or a preliminary report.

A related issue is that there are a confusing range of statutes that have provisions regarding housing standards²³. Some standards apply to new housing, some to all housing whilst others are superseded by more recent legislation. It may be useful for this scoping report to include consideration of whether any legislative change is required to achieve greater clarity about standards and responsibilities.

Action Area Five: Continue to review regional urban form decisions to explore how sustainable urban form can contribute to reduced housing costs

Summary of possible roles:

- Central government - advocacy, provision of infrastructure, partner
- Local government - monitoring, advocacy, provision of infrastructure, partner

²³ Including the Residential Tenancies Act 1986; the Local Government Act 1974; The Building Act 1991; The Health Act 1956; The Fire Service Act 1975; Housing Improvement Regulations 1947; Building Regulations 1992.

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- Private sector – advocacy
- Community sector – advocacy and provision of sustainable community based infrastructure
- Research sector – monitoring, local infrastructure solutions

Monitor Impact Of RGS On The Supply Of, And Demand For, Affordable Housing (Including Land Prices)

As the Regional Growth Strategy is implemented the amount, nature and location of residential development will be monitored. It is important that this monitoring programme links this information to changes in land prices (across the region and in specific locations) in a way that enables assessment of the impact of the RGS on land prices and housing affordability.

If land prices are adversely affected there may be a need to consider alternative growth models, which combined with appropriate infrastructure solutions could deliver sustainable growth at a lower cost.²⁴

An Auckland regional monitoring strategy is currently being developed. This strategy will encompass a range of indicators of to assess the supply of, and demand for, affordable housing.

Ensure That Local And National Infrastructure Solutions Are Affordable

The Auckland Region is facing huge bills for upgrading old infrastructure and the development of new infrastructure. Some of this will be paid for by the taxpayer, some by the ratepayer and some through developer contributions. To the extent that developers pay this will have a direct increase on housing affordability. To the extent that ratepayers pay this will have a greater impact on higher value properties but may still result in rent increases at the lower end of the market – and affect people’s ability to purchase a home.

Housing policy, provision of infrastructure and urban form were once strongly linked in terms of central government decision making. Housing assistance was less welfare driven but more driven by a desire to provide affordable housing, within the suburbs, to everyone –and to support this by good infrastructure enabling easy access to work and other facilities. Arguably unsustainable urban sprawl was the result. However it could also be argued that separation of responsibilities has gone too far and that there is a lack of interest by central government in exploring the relationship between sustainable infrastructure, sustainable urban form and housing affordability.

In implementing this Strategy it is important to get buy-in not only from HNZ which has a direct responsibility for housing (from a welfare perspective) but from other government agencies which may make decisions that affect housing affordability. For example, by improving passenger transport infrastructure government agencies can reduce the degree of reliance on private vehicles. Households who spend less on private vehicle(s) will have more to afford housing. This underscores the need to consider the location of affordable housing in relation to the provision of passenger transport. Creative and sustainable infrastructure solutions which explicitly consider affordability are critical.

Action Area Six: Raise public awareness of affordable housing issues and solutions

Summary Of Possible Roles:

- Central government – education and communication
- Local government – education and communication
- Private sector – advocacy
- Community sector – advocacy, education

²⁴ This is in no way intended to question the current strategy which was developed from information available at the time, and may in the long run prove to be the most effective.

Develop A Communication/Education Package Aimed At “Myth-Busting”

This strategy has highlighted a number of misconceptions about housing need and affordable housing. These misperceptions include:

- People with housing need are the very poor who tend to have a range of social problems.
- Affordable housing means poorly constructed medium density housing which will be the urban slums of the future.

This Strategy tackles this myth from two perspectives – the first in pointing out that most new medium and high density housing will not be targeted at those with a housing need (who will continue, for the most part, to live in existing lower density stock). The second in suggesting that affordable housing (whether low, medium or high density) does not need to be poor quality housing.

There is an urgent need develop a greater public understanding of these issues. This will require a well-designed communication and education strategy.

Publicise Success Stories

As implementation of the Strategy progresses there will be opportunities to publicise success stories – particularly where there are initiatives that have involved cross-sectoral partnerships, innovative design solutions or other innovative techniques.

Action Area Seven: Support research into a range of affordable housing issues; monitor the achievement of Strategy goals and outcomes; and review the Strategy as required

Summary Of Possible Roles:

- Central government – aggregate needs assessment, other research
- Local government – research partner – focus on localised needs, disseminate findings
- Private sector – contribute to research as appropriate
- Community sector – contribute to defining research needs
- Research sector – initiate and contribute to research programmes

Specific research gaps have been identified in this report. There are a range of opportunities for local authorities to contribute to filling these gaps.

Investigate Opportunities For Joint Research

Local authorities, central government, community organisations and tertiary institutions all have an interest in developing better research about the scale and nature of housing needs. As a first step cross-sectoral discussions could be initiated regarding opportunities for joint research projects. Steps would include:

- Developing a research agenda
- Identifying existing sources of data/research (including research currently being planned²⁵)
- Designing new research and monitoring programmes

Badcock (2000 b) suggests developing ties with the Australian Based AHURI (Australian Housing and Urban Research Institute) to increase research capability.

Such as the upcoming Statistics New Zealand work

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Facilitate And Co-Ordinate Locally Based Research

Discussion under other Action Areas suggests that some research into housing need may be carried out at quite a localised level (for example through urban housing trusts addressing housing issues in a specific locality or for a particular group.) Desirably such research would utilise a standard methodology which could be developed by local authorities. This could be based on simplified version of UK guidelines produced by DETR (2000)

Local authorities could also play a role in ensuring that the research findings are co-ordinated and made accessible to others.

Use Research To Review Strategy

The gaps in information about the nature and scale of housing need have created some difficulty for the development of this strategy because it is unclear whether the scale of intervention anticipated by the strategy is appropriate.

The emphasis of this strategy is consistent with the central government approach which is about “doing things differently” and combining resources to gain maximum leverage, without a significant increase in government funding. While it is highly plausible that gains can be made from this approach it is not clear that this will be sufficient.

When more is known about the scale and nature of the issue it may be necessary to update this strategy and advocate for additional resources.

APPENDIX 1: LAND-USE PLANNING INSTRUMENTS FOR PROMOTING AFFORDABLE HOUSING

Internationally, land-use planning instruments are used extensively to promote affordable housing. This Strategy has suggested that there is some potential to monitor and review district plan rules and to consider streamlining planning processes for affordable housing projects. These initiatives would help reduce impediments to the provision of affordable housing but would play little role in actively promoting affordable housing.

The Strategy also suggests that other planning mechanisms such as “inclusionary zoning” could be further investigated. This appendix reviews these techniques in more detail and discusses some of the issues related to their application in the New Zealand and Auckland context.

The techniques outlined in this Appendix would require district plan changes before they could be implemented. Realistically this could take 3-5 years to occur allowing for more detailed investigations before the plan changes are even initiated.

Land-use planning mechanisms are *supply-side* techniques as their intent is to increase the supply of affordable housing. Mechanisms may be mandatory, or incentive-based.

Mandatory Mechanisms

There are two methods which have been used extensively overseas to increase the supply of affordable housing. These are:

Linkage Regulations

Regulations that provide a link between non-residential developments and the provision of housing developments, or financial contributions toward housing construction, are termed linkage regulations. In this way the demand for housing created by employees moving into an area is compensated for through the provision of some local housing. Also where new development takes place, displacing existing housing, business activities can be required to provide affordable housing to compensate for the loss of housing. They usually also have the option of making a “cash in lieu” contribution.

Inclusionary Zoning

This technique requires a certain proportion of housing in a new housing developments to be provide as affordable housing for low-income households. For example all developments over 10 units may be required to provide 20% of this as affordable housing. In some cases the affordable housing can be provided on another site or the contribution made in cash or land. The requirements for provision of a certain level of affordable housing may be offset to some extent with “sweeteners” such as density bonuses, relaxation of other planning controls or fee waivers. The housing units are generally managed by a Housing Trust or similar to ensure that they remain as affordable housing stock.

Both techniques are easiest to implement in the following circumstances:

- Where there is a legislative framework that explicitly provides for them. For example legal challenge to the introduction of inclusionary zoning in New South Wales resulted in the legislative change to clarify the legal status of such tools.
- Where there is a strong and growing economy with plenty of commercial and/or residential building activity. A strong economy would also make the tool more effective.
- Where planning jurisdiction covers a large area to avoid driving development elsewhere.

The main challenges to using such tools in New Zealand would be the difficulty in justifying them under the Resource Management Act; the likely negative reaction from the business sector which may consider

APPENDIX 1: LAND-USE PLANNING INSTRUMENTS

such tools as interventionist, anti-business, and unfair; and the need to adopt and implement such techniques region-wide.

Auckland City Council has undertaken some investigation of inclusionary zoning as a technique and received a legal opinion to the effect that it would be possible to construct a justification under the Resource Management Act. Legal challenge would be almost inevitable, however and the justification would have to be very robust to withstand this challenge.

Linkage regulations would also need careful justification. This may be easiest where it can be demonstrated that there is a direct loss of housing within a business development area (for example because of the transport and community costs associated with displacement of low income households.)

Incentive-Based Mechanisms

These would involve the relaxation of certain District Plan requirements in exchange for the developer building affordable housing or a component of affordable housing as part of a larger development.

Bonuses

Overseas the most common tool in this category is the use of density bonuses – where developers are allowed to build at greater than permitted densities in exchange for providing affordable housing. There may, however, be other possibilities such as reducing car park requirements.

To justify the use of bonuses under the Resource Management Act would require arguing that any adverse impact is outweighed by the benefits of affordable housing.

Density bonuses would be difficult to justify in the Auckland context. The reason for this is that in implementing the Regional Growth Strategy district plans will already be allowing for higher densities in certain locations where growth is being encouraged. To allow for greater density in other areas would risk undermining the intent of the RGS. To allow for greater density in areas already earmarked for higher density would be likely to result in unacceptable environmental effects.

There may be scope for considering other bonuses (such as reduction in car parking requirements), however, to be effective the bonuses would have to involve adequate financial incentive for developers.

Transferable Development Rights

This is a mechanism whereby bonus residential development may be achieved based on a transfer of development rights. The most common use of such a technique is where a developer agrees to forgo development rights in one location in exchange for additional development rights in another location.

In the housing context an increase in floor space/intensity of commercial or industrial development may be allowed if provision of affordable housing²⁶ is made elsewhere. Transferable development rights are really a form of bonus – however the bonus would apply to a different form of development rather than to the housing.

Once again it would be necessary to justify this technique in terms of net environmental benefit (where environment includes people in their communities.)

²⁶ Strictly speaking the provision of affordable housing may not involve forgoing development rights – however it may involve forgoing some profit and the principle is the same.

APPENDIX 2: HOUSING AFFORDABILITY: ROLES AND RESPONSIBILITIES

National Context: Positioning, Structure, And Recent Changes

Central government has traditionally played an active role in housing in this country since the early 1900's and particularly since the 1930's. Intervention has occurred on a grand scale both through the provision of state-owned rental housing and the provision of low-interest loans for first home buyers. In the late 1970's the Housing Corporation was the largest provider of mortgages.

It is notable that until the early 1980's government involvement in housing was not primarily welfare based. Housing policy had a much wider intent in terms of shaping urban form and promoting home ownership. An underlying motivation was to build cities that were cheap to service and would provide a good quality of life. Those in most need benefited, albeit indirectly, because government was a major supplier of state housing (mostly provided for working families) which tended to keep house prices low.

Auckland's rapid suburban growth can be directly linked to the provision of low-interest loans supported by provision of infrastructure by both central and local government. Traditionally home ownership levels have been high in New Zealand (although they are falling) and surveys have consistently demonstrated that New Zealanders have a strong preference for home ownership. It is highly likely that the relative ease with which New Zealanders have, in the past, been able to move into home ownership, explains the strong preference for this form of tenure.

The 1980's saw a shift in housing policy to a welfare based model where the primary aim was to provide for those in most need. Construction of new state housing was reduced and low interest loans were no longer provided for new housing.

More fundamental changes occurred in the 1990's. These included:

- Low-interest loans were no longer provided except under a few highly targeted schemes which were aimed at those unable to borrow in the private sector.
- The housing stock was significantly reduced (by selling off a large amount) and no new housing was built or purchased.
- Housing New Zealand was required to have a commercial focus and to charge market rents to state tenants.
- All households meeting certain criteria received an accommodation supplement to offset their housing costs. The accommodation supplement was available to public and private sector tenants as well as to home owners.

The changes were underpinned by a belief that housing affordability was purely an issue of income adequacy – i.e. that some households did not have sufficient income to purchase suitable housing. There was a concern that state owned rental housing resulted in people being “trapped” in this accommodation for life. By contrast the accommodation supplement was designed to be neutral between home ownership, private rental and state rental.

The current Labour-Alliance coalition government has taken quite a different approach to housing policy. These changes have been driven by:

- A belief that good housing contributes to a wide range of health and welfare outcomes and is critical to strong communities.

APPENDIX 2: ROLES AND RESPONSIBILITIES

- A concern that that accommodation supplement has not been effective, particularly taking into account the cost of \$900 million.²⁷

In July 2001, a new Housing New Zealand Corporation was formed. This brought together the former Housing Corporation, the housing arm of the Ministry of Social Policy, and Community Housing. Policy platforms are still being developed but key actual or likely changes include:

- The return to income related rentals for state house tenants which was introduced in December 2000. This was accompanied by a new social allocation procedure to ensure the prioritisation of those with the most need. As predicted the return to income related rents has resulted in large waiting lists. Nationwide there are nearly 9000 households waiting for a state house.
- A small increase in the stock of state housing has been promised – most of which will be located in Auckland (500 houses per annum). Clearly, given the size of waiting lists, this will be insufficient on its own.
- A priority has been put on the upgrading of existing stock. This includes redesigning housing (for example by adding bedrooms) so that it better meets the needs of current clients, as well as factors such as improving insulation and energy efficiency.
- Maori and Pacific Island housing strategies are currently being developed although details are not yet publicly available.

The new corporation will have a home ownership arm which is a good indication that new initiatives in this area are likely.

The new corporation will also have a partnership arm reflecting the priority that the government is placing on working with stakeholders in other sectors.

Overall the approach that government is taking can be summarised as “doing differently” rather than “doing more” – i.e. attempting to gain maximum leverage from using the existing resources more effectively, by working in partnership with others.

The new approach is still very much welfare driven. Issues related to urban growth and urban form are considered to be local (including regional) government responsibility. While this split may be appropriate it does need to be acknowledged that central government infrastructural decisions (water, roading, etc.) can have an impact on affordability. In other words it is not just government’s direct role in housing that is of relevance to this strategy.

Local Government

Legislative Framework – What Councils Must Do

Local authorities are required to administer the Resource Management Act (1992). Regional Councils are required to prepare a Regional Policy statement which may limit where growth can occur in a region. Territorial Local Authorities (TLAs) must produce district plans which are likely to contain controls on the location, type and density of housing. The number of car parking spaces, the height of buildings, and the distance between houses and their site boundary are other examples of requirements that are likely to be contained in district plans. While the purpose of these requirements is to maintain environmental standards they may also have an impact on the affordability of housing.

TLAs are also required to administer the Building Act (1991) which is intended to ensure that buildings are constructed to adequate standards including a range of factors such as structure, durability, amenity, energy efficiency, safety, lighting, and personal hygiene. Although changes in standards can have an impact on affordability the standards are set nationally, and not by individual local authorities.

²⁷ The evidence on this is mixed. On the one hand, during the period of the accommodation supplement 40,000 new rental properties were created nationwide. Rents have risen slower than house prices – however they have risen faster than general prices. There have been concerns about the level of uptake amongst non-beneficiaries, and about the overall cost of the accommodation supplement which has risen from \$370 million to \$900 million in 2000.

Councils must also administer the Health Act 1956, which requires them to protect and improve public health in their districts. Councils are required to monitor housing conditions as part of this – and to act with respect to sub-standard housing.

Legislative Framework – What Councils Can Do

In administering their regulatory responsibilities Councils can provide advice, prepare guidelines and use other non-regulatory techniques.

Part XXXII of the Local Government Act (1974) provides TLAs with a wide range of powers with respect to housing. These include powers to acquire land for housing, develop land for housing and to sell and/or lease it. TLAs can also advance or guarantee loans for the building or purchase of housing.

Historical Involvement In Housing

Although TLAs have a wide range of powers with respect to housing, the provision of low cost housing has traditionally been considered a central government function.

There have been some exceptions. In the 1950s local government became involved in providing housing for older adults. Also in Auckland, Wellington and Christchurch cities public housing was provided on a larger scale. These initiatives were as a result of a partnership between local and central government. The intent was for local government (funded by central government) to take on a welfare role, enabling central government to focus on its broader housing policy targeted at working families.

In 1972 an informal agreement was entered into which confirmed local authorities role in providing housing for low-income older adults on a cost recovery basis. Funding via low interest loans and grants was provided by central government.

Also in the 1950s some TLAs entered into the provision of housing through urban renewal programmes which involved central government providing low interest loans for the redevelopment of rundown areas. Auckland City housing in Freeman's Bay had its origins in one of these programmes.

Current Position

The early 1990s saw an end to funding partnerships between central and local government, as central government reduced its own role in the direct provision of housing. This has resulted in local authorities around the country evaluating their roles in the provision of housing. Some have sold their entire stock, others have sold non-pensioner stock and a few have maintained and even increased their stock.

Nationwide, Christchurch and Wellington are the largest providers. In the Auckland Region all local authorities with the exception of Rodney, have retained ownership of housing for older adults. Those that have considered divesting this have faced strong public opposition. Region-wide the TLAs own over 3,000 units/houses for older adults with Auckland City Council being the biggest provider (1,600). Auckland City Council also has a small amount of "general housing" stock.

As well as continuing to own housing stock there are indications that councils are starting to take an interest in exploring and defining their wider role with respect to housing. Manukau, Auckland and Waitakere City Councils are all in the process of developing housing policies. It is intended that these policies will dovetail with this Strategy. Auckland City Council, in particular, has undertaken recent work which is very relevant to this Strategy. In late 2000 it commissioned Hill Young Cooper and Patricia Austin from Auckland University, to undertake a review of possible mechanisms to promote affordable housing.²⁸

²⁸ Hill Young Cooper et al, 2001

APPENDIX 2: ROLES AND RESPONSIBILITIES

Private Sector

The private sector is the main provider of housing, mortgages and rental accommodation in New Zealand. As well as playing a critical role in the provision of housing the private sector can also have a significant impact on the affordability of housing. For example investor behaviour, interest rates, and the level of market competition will all have implications for housing affordability. Private sector players include:

- Construction and property development companies
- Financial institutions
- Architects and designers
- Landlords
- Investors
- Associations representing the above industries such as BRANZ and the New Zealand Institute of Architects.

House prices and rentals in the Auckland region suggest that the private sector, on its own, is unable to provide housing that is affordable to a significant percentage of Auckland households. The financial and technical expertise of private sector players is, however, a critical ingredient in any strategy to address housing affordability.

“Community Sector” or “Third Sector”

In many countries the “third sector” plays quite an active role in the provision and management of affordable housing. In Canada, the UK and other parts of Europe, “third sector” housing providers play a key role.

While New Zealand has a very strong community sector, active in a number of areas such as health, this sector has little presence in the housing arena. Existing examples are relatively small scale and include:

Habitat for Humanity which is an international organisation. Habitat’s focus is on building houses for home ownership. It has been operating in New Zealand since 1994 and has built 108 houses, with a further 60 houses planned for this year.

The Auckland Housing Association which purchases some Council housing from Auckland City Council. Most of the stock is owned by the occupiers on a shared equity basis²⁹, with the remainder being rental accommodation.

Iwi and Pacific Island groups. For example Housing New Zealand is involved in a joint venture with Ngai Tai iwi and Habitat for Humanity, building 20 houses at Torere, east of Opotiki. Some Pacific Island churches are also involved in providing housing.

A key focus of this strategy is on the role that the community sector could play in affordable housing.

Research/Tertiary Sector

Auckland has a large tertiary/research sector including institutions such as Auckland University, Massey University at Albany, UNITEC and AUT. This sector is involved in research that relates to affordable housing including:

- Quantifying housing need

²⁹ The occupiers own 80% of the equity and the association owns the other 20%.

APPENDIX 2: ROLES AND RESPONSIBILITIES

- Affordable housing policy and implementation methods
- Affordable housing and good design

Again there is enormous potential to develop partnerships between the research sector and other stakeholders in addressing issues related to the affordability of housing.

APPENDIX 3: HOUSING AFFORDABILITY IN THE AUCKLAND REGION – KEY ISSUES

Overview

Appendix 2 briefly reviews what is known about the scale and scope of the problem of housing affordability, and some of the factors which explain the scale of the problem in Auckland.

It is not hard to argue that Auckland is a “special case” with respect to housing affordability. Although problems exist throughout the country there are a number of factors which suggest that Auckland’s needs have some priority. These include:

Auckland has approximately 23,000 state houses, however 5,000 households are wait-listed for state houses. With an additional 500 state houses a year planned for the Auckland Region, supply is not likely to meet demand in the foreseeable future. More than half of the households on national waiting lists are in Auckland. Of those who have been classified as category A or B priority (“at risk” or “serious need”) 63% are on Auckland waiting lists. Table 1 shows the details.

House prices and rent are higher in Auckland than the rest of the country because land prices are higher.

Aucklanders, particularly those in the bottom four deciles of household income, spend a greater share of their income on housing than in the rest of the country (BERL, 1999).

Home ownership levels are lower than in the rest of the country. In 1996, 69% of Aucklanders owned their home (with or without a mortgage) compared to 71% in the rest of the country (BERL, 1999). Nationwide home ownership levels are falling as young people delay making purchases, placing pressure on the rental sector.

The gap between house price growth and income growth has been higher in Auckland than the rest of the country. BERL (1999) found that between 1991 and 1996 house prices rose by 8.1% per annum (2% per annum more than the rest of New Zealand), while income increased by 2.8%. Interest rates fell during this period but the fall was not enough to offset the rise in house prices. House prices growth between 1996 and 1998 was more moderate, but still higher than the national average.³⁰

This gap can be explained largely by in-migration (both from other parts of New Zealand) and overseas, which places ongoing pressure on demand.

House prices tend to follow a cyclical – boom/bust pattern. The “boom” part of the cycle tends to be accentuated in Auckland which places particular pressure on affordability at this point in the cycle.

Auckland has a greater level of ethnic diversity than other main cities. This has implications for two reasons. Firstly groups such as Maori and Pacific Islander in particular, tend to be over-represented in statistics about housing need. Secondly some ethnic groups may have particular needs – e.g. a need for housing that allows for extended family living.

The RGS provides a framework for future development, based on containing growth largely inside existing urban limits. As yet, other cities and regions in New Zealand do not have strategies of this nature. As described in Appendix 2, there is some uncertainty about the future impacts of the Regional Growth Strategy on housing affordability.

³⁰Growth in house prices compared to income post 1998 has not been analysed. It is probable that income growth has exceeded house price growth during this period.

Table 1: Households on Housing New Zealand Waiting Lists, April 2001

Neighbourhood Unit	Segment A	Segment B	Segment C	Segment D	Total
	<i>At risk</i>	<i>Serious need</i>	<i>Moderate need</i>	<i>Low level need</i>	
Glen Innes	37	92	94	1	224
Grey Lynn	19	60	126	5	210
Mt Albert	26	145	103		274
Mt Roskill	25	143	97		265
Royal Oak	53	88	123		264
Panmure	15	108	85	1	209
Otahuhu	124	371	355	12	862
Otara	11	158	41	3	213
Manurewa	32	365	138	2	537
Mangere	145	284	203	23	655
New Lynn	34	200	206	1	441
Henderson	24	199	148	6	377
Takapuna	30	79	134	10	253
Papakura	10	136	107	4	257
Total Auckland Region	585	2,428	1,960	68	5,041
Rest of New Zealand	333	1,428	2,034	79	3,874
Grand Total	918	3,856	3,994	147	8,915

The Scale and Scope of the Problem

In trying to define the scale of the problem of housing affordability a number of approaches can be taken. The following section sets out a range of measures and/or information which provide several different perspectives on the affordability of housing.

House Prices in Comparison to Affordability Criteria

This sub-section considers the price of a new entry-level house in the Auckland Region and compares it to the ability of a low-income household to purchase that house. While low-income households may have other options such as renting or purchasing an existing house, this comparison provides an interesting benchmark.

Information from a range of sources suggests that it would not be possible to build a reasonable quality entry level brick and tile house, on a greenfields site anywhere in the Auckland region for much less than \$175,000. This is based on a construction cost of about \$900 per square metre for a 115-m2 house on a 400m2 site, in a location such as Botany Downs. Land prices, and therefore house prices, will be much higher in many other locations. An organisation such as Habitat for Humanity can build a house for \$130,000 - \$140,000 by making use of volunteer labour and no profit margin.

Depending on the location it may be possible to reduce the cost of an entry-level house by building it at a higher density. Terraced housing, low rise apartments, semi-detached town houses and other forms of medium density housing may be achieved at densities of less than 200m2 per dwelling unit. While the land cost component may be reduced by building at higher densities the construction cost component is likely to be slightly higher.

An information pamphlet prepared by the Social Infrastructure Team of the Regional Growth Forum in 2000, showed that nearly 40% of households in the Auckland Region had an income (in 1999) of \$30,000 or less. A household earning \$30,000 would be eligible for the accommodation supplement although they would not get the full entitlement as they earn more than the (net) adult benefit. Assuming this household

APPENDIX 3: KEY ISSUES

was receiving the accommodation supplement and was able to save a 20% deposit, they could afford to purchase a house worth \$155,000 on a 25-year mortgage, paying an interest rate of 8.5% per annum. Without the accommodation supplement they could afford a house worth \$116,000.

This example shows that, while the accommodation supplement does make a significant difference to the purchasing power of this household, that it is not sufficient to buy a new entry level home. Furthermore, at least one third of households living in the Auckland region will have incomes lower than \$30,000.

The Number Of Households Paying Unaffordable Rents

The BERL report found that in 1996, 23,000 households (6% of all households) had incomes in the bottom four quartiles and paid rent of more than 30% of their gross income. This represented a 35% increase since 1991. The report did not estimate the number of households making mortgage payments in excess of 30% of their income.

Auckland City had the highest number of households paying unaffordable rents (12,000 or 9%) followed by Manukau City (5,541 or 7%).

These figures are now 7 years old but they are the most recent available. Over the last 7 years the number of households paying affordable rents has probably grown, however any growth will have been tempered by the return to income related rents. It is not known how many of the 23,000 Auckland state house tenants were paying rents in excess of 30% of gross income – however nationwide approximately 25% of state tenants were paying “unaffordable rents”³¹ The percentage in Auckland would have been higher.

The BERL report projects its figures out to 2016 and 2041. Three scenarios are provided. All assume medium population growth projections. Scenario I assumes that house prices grow at the same rate as income; scenario II that they grow at 0.5% less than income and scenario III that they grow at 1% more than income per annum.

Under the worst case scenario there would be 17,000 additional households in this category by 2016 and 31,000 (compared to 1996) by 2014. This represents a 74% increase to 2014 while the total number of households is predicted to grow by 43%. Under the best case scenario the number is predicted to grow by 14,500 to 2016 which is still a 63% increase. In other words, under all scenarios the number of households paying unaffordable rents is expected to rise faster than the total number of households in the region.

Other Dimensions Of The Problem

The BERL report helps quantify the problem of housing affordability however the figure of 23,000 does not take into account the number of people living in accommodation which is inadequate or unsuitable³². For example it does not include:

- People living in sub-standard accommodation.
- People living in over-crowded accommodation.
- People living in affordable accommodation but facing very high transport costs because of having to commute long distances.
- People living in accommodation ill-suited to their needs. For example disabled people living in accommodation which does not provide adequately for their particular needs.

There are a number of surveys and studies which suggest that the problems of overcrowding and sub-standard accommodation are significant. BERL (1999) notes that detailed meshblock studies show a relationship between overcrowding and the emergence of epidemic diseases. Badcock (2000 (a)) notes the relationship between overcrowding, dampness, poorly heated homes and notified diseases. He also

³¹ Using the definition that this strategy is based on.

³² Unless, of course, they are also paying unaffordable rents.

notes that mapping of notified diseases in Auckland identifies Housing New Zealand estates as areas with significant public health problems.

There is no agreed standard for measuring overcrowding in New Zealand however the Canadian National Occupancy Standard has been used by the Ministry of Social Policy to assess crowding in this country. The Ministry of Social Policy's post election briefing paper (1999) stated that while crowding had decreased nationally between 1986 and 1996, that in 1996 6% of households needed more space (using this standard). These households were concentrated in Auckland, amongst families with children, renters, Maori and Pacific Islanders and low-income households.

Murphy et al (2000) that, while average household size in New Zealand has been falling that between 1986 and 1996 it increased in Auckland. The study concludes that this in part reflects rising house costs. There have also been some studies specifically on the condition of residential buildings. For example Badcock's report quotes the results of a BRANZ survey of 465 dwellings in Wellington and Auckland. This survey found that 1 in 4 buildings were in poor condition, and that 1 in 5 had serious defects.

Affordable Housing and Specific Groups

As well as collecting aggregate data on housing affordability it is essential to have a good understanding as to what demographic and ethnic groups have the greatest housing needs. This information is important to help forecast future need and because different groups may have special housing needs.

A variety of sources indicate that the following groups are more likely to be over-represented in statistics related to affordability problems:

- Maori
- Pacific Island people
- Families with children
- Solo parents (a large proportion of whom are Maori)
- Single person households (likely to be mostly older people on fixed incomes who are renting.)
- Refugees/new immigrants
- Disabled people and people who are chronically ill

A detailed analysis of the specific needs of each of these groups has not been undertaken. For this Strategy to be successfully implemented will require existing information to be brought together, and a better understanding of the needs of specific groups to be developed. A few comments about some groups are made below.

Maori

According to a Closing the Gaps report, Maori (throughout New Zealand) continue to be:

- Less likely than non-Maori to live in an owned house
- Twice as likely as non-Maori to live in rental accommodation
- More likely to live in an overcrowded situation.
- Likely to be spending a higher proportion of their income on rent.

Prior to the 1940's Maori were actually more likely than non-Maori to live in their own home but this trend was reversed by the early 1950's as Maori migrated from rural to urban areas after WWII and found that renting was the only affordable option.

Survey work carried out by Te Puni Kokiri (1998) indicates that despite lower levels of home ownership Maori share the same aspirations as other New Zealanders to own their own homes. Home ownership was

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described in the context of having a *turangawaewae* or a place to belong. It was also seen as satisfying a desire for roots, security and stability.

The Ministry of Social Policy with Te Puni Kokiri has been developing a Maori Housing Strategy. While details of the strategy are not yet known it is likely that it will be based on initiatives that will enable iwi and urban Maori based groups to take a lead role in providing their own housing solutions. Examples are already occurring. For example Habitat for Humanity and HNZ are building 20 houses in with local iwi at Torere, near Opotiki.

Pacific Island People

Like Maori, Pacific Island people are over-represented in statistics which indicate housing affordability problems. In addition Pacific Islanders are far more likely than any group to live in extended family situations. According to the Ministry of Social Policy (1999) 41% of Pacific Islanders lived in extended family situations compared to 3% for the population as a whole. Housing affordability may be a factor in this, however a preference for this style of living is probably also important. The issue is whether there is sufficient affordable housing that is suitable for extended families.

Community-based organisations such as Pacific Island churches are already playing a role in affordable housing. Government has also undertaken some work on developing a Pacific Island Housing Strategy which is likely to build on community based initiatives.

Older Adults

Many older people own their own homes without a mortgage. While they may be struggling to make ends meet, they do not have an affordable housing need in terms of the definitions used in this Strategy. For those older people who are renting, however, paying rent can be a huge burden. Those on fixed incomes may find it difficult to absorb increasing rents. Access to services, facilities and passenger transport is likely to be particularly important to older people. If they are forced to move from an area because they can no longer afford to pay the rent they may also lose access to these services.

McKinlay Douglas (2000) identifies the standard and suitability of local authority housing for older adults as an issue. The report notes that most housing reviews by local authorities (throughout New Zealand) have found that the standard of housing is inadequate. In particular there is an issue about whether the housing is suitable to the needs of the tenants.

Waitakere City Council has recently undertaken a survey of residents of its housing for older adults. This survey found that security, affordability, independence, location, environment and maintenance were key issues for their tenants.

Disabled People

Of all groups with housing needs disabled people are the most likely to have specific housing needs. Their needs will relate to the design and layout of the housing, proximity to passenger transport and to services, and ease of access to these services. Proximity to a town centre and to passenger transport is not enough in itself if it is difficult to access. There are many different forms of disability, each of which is likely to generate special needs.

Housing Market Dynamics

This section has so far identified what is known about the scale and nature of the problem of housing affordability and how that relates to specific groups. The rest of the section attempts to provide some further explanation of underlying causes of the problem by reviewing some of the factors affecting the housing market.

Demand Side

According to the Regional Growth Strategy Auckland has been the fastest growing region between 1991 and 1996 with a growth rate of 12.9% per annum. Population projections suggest that Auckland will continue to grow rapidly and that its population could double in the next 50-60 years.

At the simplest level the demand for housing will be determined by the growth in the number of households. The number of households, and therefore the demand for housing, will grow as new households migrate to the region (from the rest of New Zealand and from overseas). In addition, the formation of new households from the existing population can result in a net increase in the number of households (“natural increase”).

The Regional Growth Strategy notes that immigration has accounted for 35% of growth over the last 20 years, however it accounted for 50% of growth between 1991 and 1996 (a period in which house prices increased rapidly). However the demand for housing is complicated by housing having value as an *investment* as well as being an essential good, providing one of the basic necessities of life. For many households their home will be their biggest asset. It is also likely to be considered an essential part of providing for their future financial security. New Zealanders are also attracted to investing in rental property. While income-earning capability is a factor in this, the expectations of capital gain may be particularly important.

Some commentators claim that New Zealanders tend to “over-invest” in residential real estate (relative to other forms of investment such as shares). There are a number of factors influencing this including:

- A tax-friendly environment (limited capital gains tax and no tax on imputed rent).
- Buying and renting, and/or renovating a property is something that holds particular appeal to New Zealanders with a “do it yourself” mentality.
- The past inflationary environment may have encouraged investment in housing to protect against the effects of inflation. Although inflation is now much lower people may be slow to adjust expectations about house price increases.

What all this means is that the demand for housing is not driven just by household growth, but also by the perception of housing as a good investment – or expectations of capital gain. As a result the demand for housing tends to have a speculative element – as house prices increase, the expectation of capital gains may increase and fuel demand further.

Supply Side

Cost and risk are two key factors influencing the ability of the private sector to supply housing. The cost of supplying a house will depend on the cost of a number of separate components. These are:

Land Cost

Of all components of cost this will vary the most depending on location. Land cost is significantly higher in the Auckland Region than in other urban areas. Within the Auckland Region the cost of land is highest in central Auckland and parts of the North Shore and lower in the more outlying suburbs of Manukau and Waitakere Cities.

Direct Construction Costs

includes the cost of materials and building. These costs will vary with quality but should not vary significantly in Auckland compared to other parts of the country.³³

³³ There could be some variation if labour costs vary.

APPENDIX 3: KEY ISSUES

Indirect Costs

resource consents, subdivision costs, financial contributions, architects, engineers etc. These are likely to range from 10-20% of the construction cost. Some of these costs may vary from area to area. There is little to suggest that these costs are significantly higher in Auckland than the rest of the country, with the exception possibly, of financial contributions in some parts of the region.³⁴

Financing Costs/Opportunity Cost

Interest payable on money borrowed for a development, or interest/income foregone as result of using own capital for a development. These costs will be higher the longer it takes to complete and sell a development. For example there are often complaints that delays in approving resource consents increase the “holding cost” of land.

Profit Margin

the return required for taking a risk. Large developers claim that their profit margins are extremely slim, particularly at the lower end of the market, which is also perceived as being very risky. If this is true the combination of low profit and high risk may discourage developers from catering to this end of the market. On the other hand there are some claims that profit margins are higher than justified because there is monopoly pricing in the construction industry.

Interaction of Supply and Demand

In a market where the demand for housing is increasing, the effect on house prices will depend on the extent to which supply expands to meet demand. If there are supply constraints this will push up the price of housing. If supply is relatively unconstrained it should expand to meet higher demand with little impact on price. There are two factors that may constrain supply:

Time-Lags In The Ability Of The Market To Respond

This may be for a number of reasons including delays in issuing resource consents. Time-lags could be expected to result in short-term increases in prices as people compete to buy existing houses. Note that time-lags may also contribute to the speculative nature of the housing market. If increasing demand and time-lags result in higher prices, this may fuel expectations of capital gains and push prices up further.

Land Scarcity

As land is developed and capacity for more development is reduced the result will be higher land prices. Traditionally, as most land in central suburbs has been developed the price of land increases and development is shifted to cheaper land on the periphery.

Auckland is now in a situation where existing vacant land will be used up in 10-20 years time unless higher intensity development occurs. If intensification does not occur on the scale required, land prices, and therefore house prices are likely to increase further.

Overall the Auckland housing market is likely to be influenced by a range of factors including on-going pressure on demand from growth in the number of households; scarcity of land – at least in central areas; and a tendency for speculative pressure on house prices to be accentuated by buoyant demand and supply constraints. Also of note is that, while house prices tend to be cyclical during “boom” periods they increase rapidly while during “bust” periods they tend to stabilise as people hold property in preference to selling at a capital loss.

More analysis about the key factors driving the housing market would be useful. As well as analysis of aggregate demand there is a need for more information about the dynamics of different segments of the

³⁴ Depending on how Auckland pays for future major infrastructure requirements (and how much these end up costing) there could be a significant future impact on housing affordability.

housing market. For example demand and supply conditions affecting housing in one suburb may be different than those affecting another. Similarly the market is segmented by price. For example in a downturn prices at the top end of the market may fall much more than those at the bottom. The market for owner-occupied housing is also different from the market for rental housing, and the market for apartments is different from the market for houses.

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