

Attachment 1

Affordable housing in Auckland

A snapshot report about the need and initiatives to increase low cost housing, assisted rent and assisted home ownership.

November 2018
Prepared by the Community and Social Policy Team



Key take outs

1. Auckland has a severe housing affordability problem. A large and growing share of working families and professionals compete for inferior quality and insecure private rentals with no chance of ever owning a home. The economic and social consequences for Auckland and New Zealand are significant and long lasting.
2. Broad brush initiatives to increase the supply of new homes and bring down development costs are necessary but will not be sufficient to address the stress that working renters are under. Complementary targeted policies are also needed to:
 - a. Increase the supply of lower cost homes
 - b. Improve the quality, affordability and security of renting
 - c. Support partial or progressive home ownership.
3. Several such policies common in overseas jurisdictions look promising. However, debate about their effectiveness highlights the importance of individual design features. High development costs also limit what can be achieved. The most effective affordable housing programmes:
 - Have strong political leadership
 - Involve partnership between different levels of government, not-for-profits and the private sector, with agreed objectives, policies and roles
 - Have objectives relating to both renting and ownership
 - Comprise an integrated package of regulatory and non-regulatory policies
 - Operate at sufficient scale to make a difference.
4. Policy options that deserve further investigation for the Auckland situation include:
 - A retained minimum affordable housing planning requirement with cost-offsetting incentives
 - How parties could work together to extend Kiwibuild
 - Initiatives to facilitate institutional development and management of rental properties (such as Build-to-rent)
 - Legislation to improve rental tenure security
 - Reforms to make the Accommodation Supplement more effective
 - Partial and progressive ownership arrangements such as rent-to-buy, shared equity, co-housing, papakainga and leasehold of public land.
5. Government would own many of these initiatives. However there are opportunities for Auckland Council to leverage its planning, consenting, development contributions policy and grants and Panuku to support some of them.
6. Next steps for Auckland Council are to agree its objectives and target groups, analyse a range of policy options that might best address these, and explore the role it wishes to play. The Council should engage with Government, community housing providers, Māori/iwi and the Property Council on this report and as further work is undertaken.

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Executive summary

This report defines affordable housing as “*a home that a household could occupy for less than 30 percent of its income whether purchasing or renting*”.

Housing affordability is particularly severe in Auckland right now. The high cost of homes means that managers, professionals and working families are swelling the rental market, and over three quarters of tenants can no longer afford to buy their first home. Māori, Pacific Island people, sole parents and retired renters are being forced into lower quality homes, overcrowded situations, the social housing waiting list and homelessness. There is a sharpening divide in the incomes and wealth of renters and home owners.

This has significant, long term consequences for Auckland and New Zealand. Housing investment is constraining investment in other economic activities and social housing and rental assistance are an increasing fiscal burden. Increasing numbers of households in poor quality, insecure and crowded rental homes reduces educational and health outcomes. Young people no longer feel they have a future in Auckland and indeed there are increasing numbers of older people who will not be able to support themselves into a home in retirement.

Multiple factors are causing the decline in housing affordability. Global financial trends, immigration and tax policy have contributed to a rapid increase in demand for homes. Meanwhile land use planning, infrastructure provision and consenting, construction sector productivity and capacity and bank lending criteria have constrained supply. This has led to rapid increase in house prices which has outstripped growth in Aucklanders' incomes.

The Government and Auckland Council have range of broad brush initiatives to address some of these causes. The Government also targets considerable budget to social housing provided by Housing New Zealand and community housing providers.

These policies are necessary but will not be sufficient to alleviate the housing stress experienced by the growing “intermediate housing market” – working renting households that can't afford to buy a home but don't qualify for eligible housing. More targeted policies and programmes common overseas are also required, to:

- Increase the supply of lower cost homes
- Assist households in the private rental market
- Assist partial or progressive home ownership.

The policies are not costless and indeed the high cost of housing affects the size and effectiveness of public subsidies for affordable housing.

The best affordable housing programmes comprise packages of regulatory and non-regulatory initiatives, delivered in partnership between different layers of government and the not-for-profit and private sectors.

1. Introduction

1.1. The scope of this report

In recent years housing affordability has been the number one issue for Aucklanders. Central government and Auckland Council have been pursuing a range of interventions to increase overall housing supply and bring down development costs.

To complement this Auckland Council commissioned two pieces of work focused on more targeted “affordable housing” policies:

1. A Snapshot report introducing the problem, key themes from the literature, international experience and current and planned Auckland initiatives.
2. A Position and Role Report providing the results of collaboration with stakeholders, including an intervention analysis, options and advice on council’s potential position and role in affordable housing.

This is the first of these reports. It defines affordable housing, quantifies Auckland’s housing affordability problem, and discusses targeted “affordable housing” initiatives common across the OECD.

These policies aim to increase lower cost housing and assist rent and home ownership. They include:

- Planning requirements
- Programmes like Kiwibuild,
- Build-to-rent schemes
- Regulation of rental quality and tenure
- Rental subsidies like the Accommodation Supplement
- Rent-to-buy, shared equity, co-housing and Papakainga.

They are initiatives targeted at the “*intermediate housing market*”: working renters who don’t qualify for social housing and can’t afford to buy a home. They can be seen as complementary to social housing, and the broad brush interventions underway to increase the overall supply of new homes and arrest price increases.

The report briefly summarises recent literature and conversations with a few key informants. It does not present detailed information about what is happening in New Zealand or a comprehensive analysis of options. It provides a starting point for Auckland Council to do further work as part of investigating its affordable housing role in partnership with others.

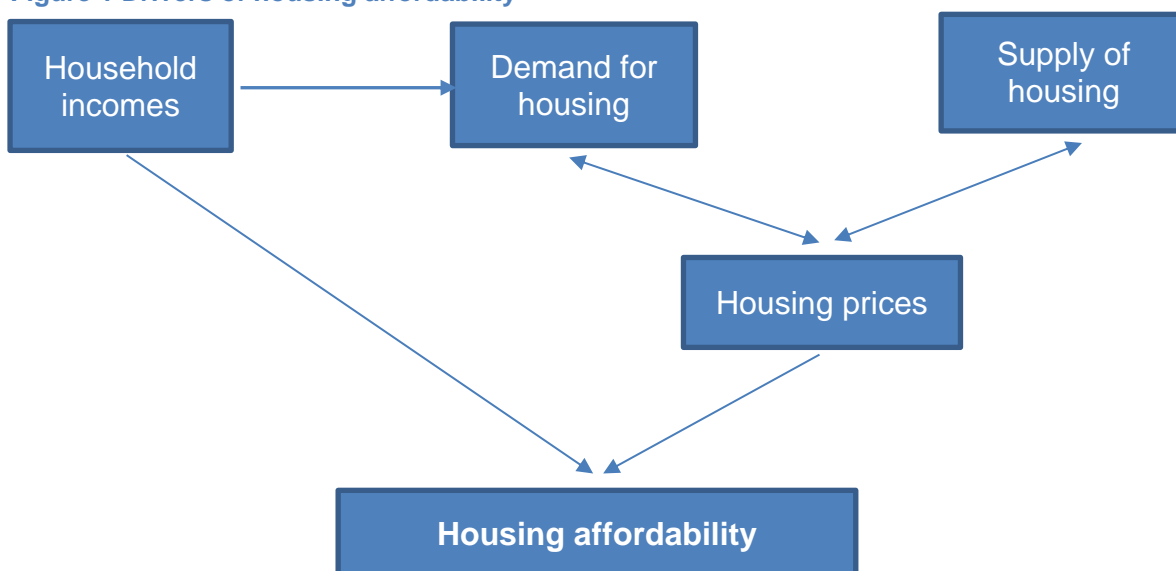
1.2. What is “affordable housing”?

This report defines affordable housing as “*a home that a household could occupy for less than 30 percent of its income whether purchasing or renting*”. It is a definition that is

commonly used by housing researchers worldwide and measurable with New Zealand data¹.

The above definition summarises the relationship between households' ability to pay for housing (incomes) and the price of buying or renting a home. The price of buying or renting a home is in turn a reflection of the balance between demand and supply. Figure 1 illustrates these relationships. When demand for homes exceeds supply as is currently the case in Auckland, prices rise. And when prices rise faster than incomes, affordability deteriorates.

Figure 1 Drivers of housing affordability



1.3. Income/cost measures and other indicators of housing affordability

The Ministry of Housing and Urban Development's Housing Affordability Measure (HAM) is the indicator most closely aligned with the definition in this report. It tracks:

- The share of renter households currently spending over 30 percent of their incomes on housing (HAM Rent)
- "First home buyers affordability": the share of renter households that would have to spend over 30 percent of their income to buy a lower quartile house and service the mortgage (HAM Buy)².

The HAM is not yet as timely as some other measures but stands out for its statistical rigour, its focus on renting as well as buying homes, and its alignment with definitions used by housing researchers worldwide. It is available for Auckland and the Auckland wards.

¹ There is no nationally or internationally agreed definition of affordable housing. The United States and Canadian federal governments and many housing researchers use this definition or the "30/40 rule of thumb" variant of it, which focuses on the lowest 40 percent of income earning households. Affordable housing objectives often also emphasise the importance of homes that are warm, dry, safe and accessible although these things are not possible to monitor in one indicator.

² The HAM Rent and HAM Buy measures are not perfectly comparable, as expenditure on owner occupied homes usually purchases some capital, while rental expenditure does not.

Other measures of the affordability of buying a house for an average household include:

- The simplistic “median multiple” produced by the annual Demographia International Housing Affordability Survey, which divides house prices by incomes to illustrate how many years it would take an average household to pay off an average house. Demographia defines a median multiple of 3 or less as affordable and a median multiple of 5 or more as severely unaffordable³.
- The Massey Affordability Index, which compares average weekly earnings with the median house price and mortgage interest rate.
- The Interest.co.nz Home Loan Affordability Series, which calculates affordability by deducting mortgage repayments from median income for households with two working adults.
- The Auckland Council’s Chief Economist Unit measures house price affordability using a Serviceability Affordability Model that accounts for incomes, interest rates and deposit requirements, for median dwelling prices and median household incomes. This is the measure now used by Auckland Council.

These income/cost measures emphasise the impact that housing costs have on discretionary income and hence households’ ability to pay for food, energy, transport and education and save for retirement. This is a key indicator of wellbeing.

However, households tend to have a threshold beyond which they don’t want to or can’t afford to spend money on housing. They then make adjustments to their housing situations in order to maintain their discretionary income. Because of this it is necessary to track other indicators of housing stress to get a full picture of housing affordability, including:

- Home-ownership rates
- The size and composition of the rental or “intermediate housing market”
- The quality and location of home that people can afford to buy or rent
- Signs of delayed household formation or crowding
- Out-migration to access more affordable homes.

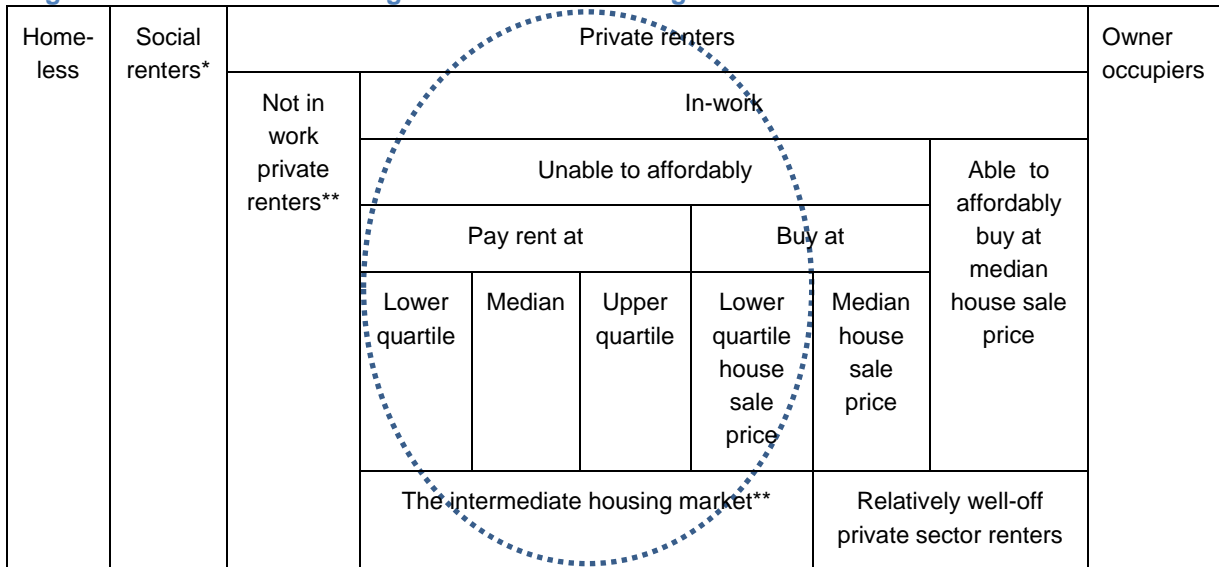
1.4. The “intermediate” housing market and affordable home products

The intermediate housing market is a subset of the households who struggle to afford housing. It is defined as working households in the private rental market who are ineligible for social housing but could not buy a lower quartile home without paying more than 30 per cent of their income to service a mortgage. This is based on a UK concept. Figure 2 shows where this group fits in the broader “housing market continuum”⁴.

³ This ranking is based on research showing that many countries had median multiples of 3 or less until the late 1990s, and such median multiples still persist in parts of North America today.

⁴ Adapted from Mitchell, I. (2015) *Can Work, Cannot Afford to Buy the Intermediate Housing Market*. BRANZ. Wellington. Note that households move in and out of the intermediate housing market with changes in their incomes and house prices or rents.

Figure 2 Intermediate housing market in the housing market continuum



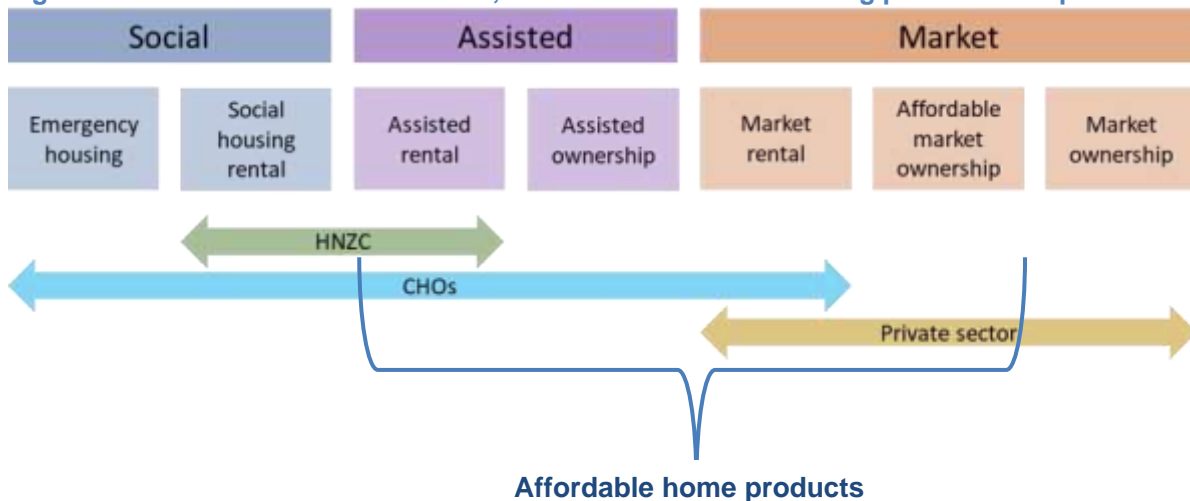
Note: This diagram is not to scale and does not represent the relative size of each group.

*Social and emergency renters are in housing funded via the Government’s Income Related Rent Subsidy

**Includes households receiving the Government’s Accommodation Supplement.

Related to this, affordable home products are needed to serve the intermediate housing market. “Affordable home products” refer to the supply of lower cost homes including low cost homes provided at market rates, assisted rental products, and assisted home ownership products such as rent-to-buy, shared equity, leasehold arrangements and co-housing. Figure 3 shows where affordable home products fit along the continuum from publicly funded emergency housing to market ownership of median/higher priced homes.

Figure 3: Affordable homes and social, assisted and market housing products and providers



This definition of affordable home products excludes subsidised social housing such as that purchased by the Government’s Income Related Rent Subsidy and provided by Housing New Zealand or community housing providers. However, it includes welfare assistance to rent in the private market (eg the Accommodation Supplement). It also includes lower cost market rental and owner occupied homes.

Affordable home products for the intermediate housing market offer a useful focus for Auckland Council. They comprise new solutions targeted at working households that would complement social housing and broad brush policies to increase the overall supply of new homes.

Key messages

1. This snapshot defines affordable housing, quantifies Auckland's housing affordability problem, and discusses targeted "affordable housing" initiatives.
2. Affordable housing is defined as "*a home that a household could occupy for less than 30 percent of its income whether purchasing or renting*". This definition summarises the relationship between households' incomes and the prices (or rents) of homes. Prices and rents in turn reflect the balance between demand for and supply of homes.
3. There are various income/price measures of housing affordability. Other indicators include home ownership rates, the quality of homes that people can buy or rent, delayed household formation/crowding and out-migration.
4. The affordable housing policies discussed in this report are targeted at the "*intermediate housing market*": working renters who don't qualify for social housing and can't afford to buy a home. The policies aim to increase lower cost housing and assist rent and home ownership. They include planning requirements, Kiwibuild, build-to-rent schemes, regulation of rental quality and tenure, the Accommodation Supplement, rent-to-buy, shared equity, co-housing and Papakainga. They can be seen as complementary to social housing, and to the broad brush interventions underway to increase the overall supply of new homes and arrest price increases.
5. The report briefly summarises recent literature and conversations with a few key informants. It does not present detailed information about what is happening in New Zealand or a comprehensive analysis of options. It provides a starting point for Auckland Council to do further work as part of investigating its affordable housing position and role in partnership with others.

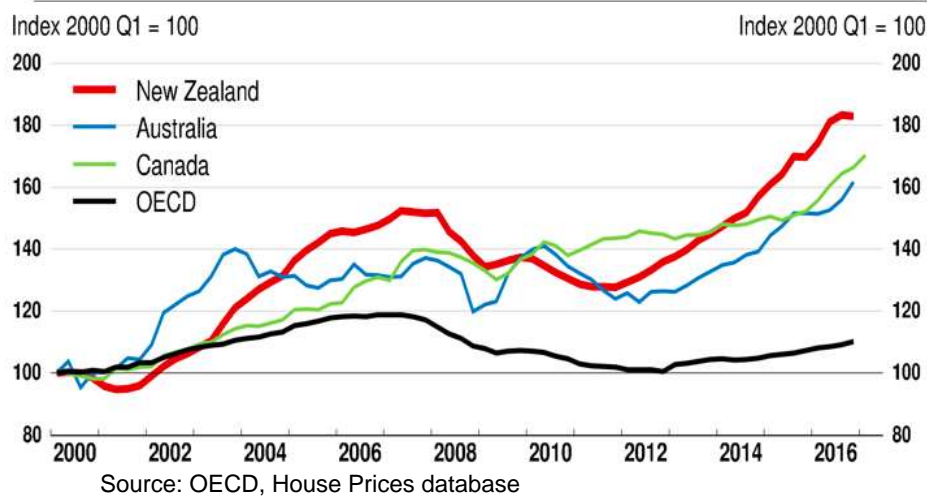
2. Auckland's housing affordability problem

2.1. Auckland's (un)affordable housing problem is severe

2.1.1. Auckland has one of the least affordable housing markets in the OECD

Housing affordability has been deteriorating globally for several decades and is a particular problem in growing cities. New Zealand, especially Auckland, is seen as having a particularly severe housing affordability problem right now because house prices are so high relative to incomes. New Zealand's house "price-to-income ratio" (indexed from the beginning of the century as shown in Figure 4) has increased the most of all OECD countries since 2011.

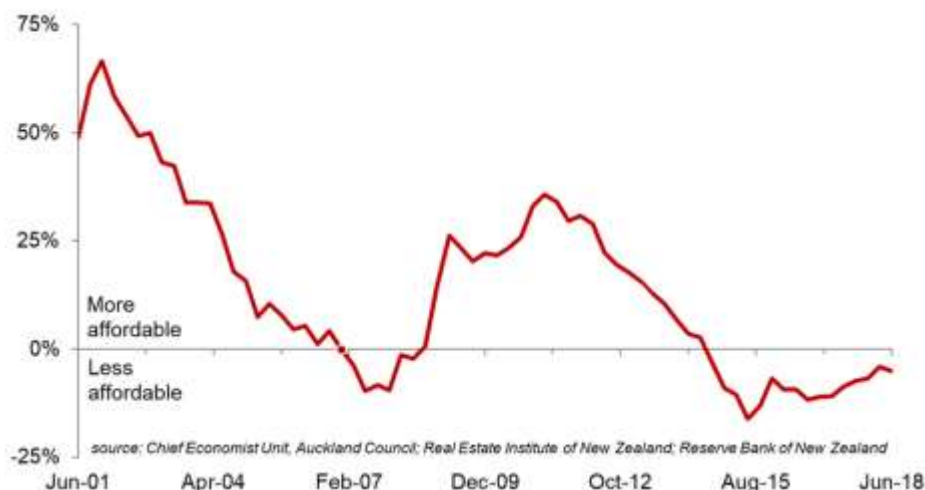
Figure 4: House price to income ratio, select OECD countries 2000-2016



2.1.2. Affordability of buying a house has fallen for average household

Data from Auckland Council's Serviceability Affordability Model shown in Figure 5 shows how buying an average home has become less and less affordable for an average household.

Figure 5: SAM Auckland median house price affordability relative to December 2006

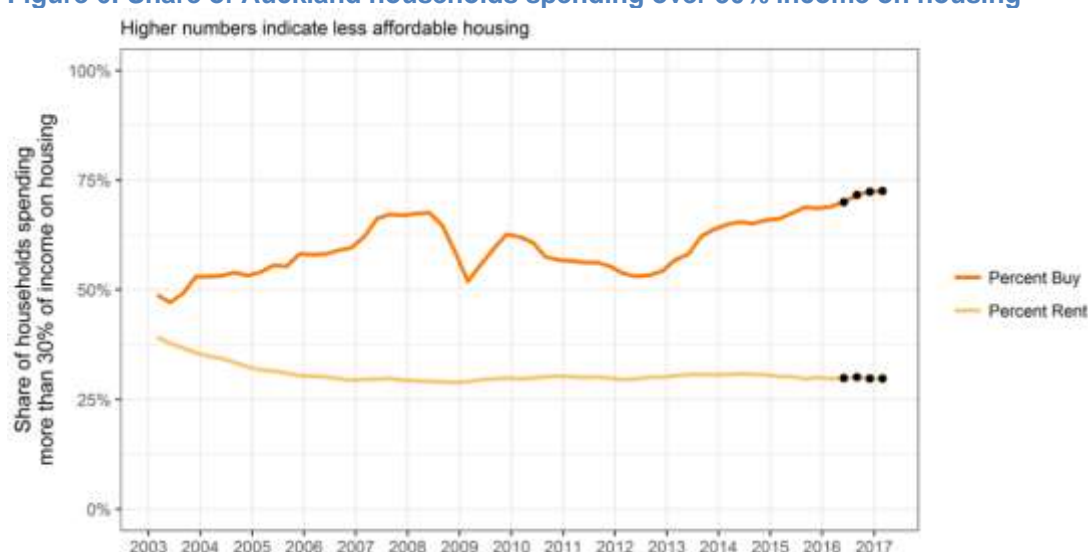


2.1.3. Renting households have maintained their housing spend but a first home is increasingly unaffordable for most

The Ministry of Housing and Urban Development's Housing Affordability Measure shows that about 30 percent of renting households spend over 30 percent of their income on housing (Figure 6, Percent Rent). This is the same as the national rate and has not changed much in ten years.

However, buying a first home has got more and more out of reach. Three quarters of renting households would need to spend over 30 percent of their income to buy a first home (Percent Buy). This is the worst first-home buyer affordability has ever been. It has deteriorated much more in Auckland than in New Zealand as a whole.

Figure 6: Share of Auckland households spending over 30% income on housing



Source: Housing Affordability Measure, Ministry of Housing and Urban Development

2.1.4. Home ownership is declining and renting becoming the new norm

Home ownership rates in New Zealand and especially Auckland have fallen from a high of over 70 percent in 1991 to just under 59 percent today. In the last five years two-thirds of new households have chosen to rent in the private market. Over 40 percent of Auckland households now rent (compared to 36 percent nationwide). More people are renting, and they are renting for longer periods⁵.

The share of intermediate households, defined as working households in the private rental market who cannot afford to buy a lower quartile home, have also increased significantly to about 20 percent of all households in Auckland in 2015⁶.

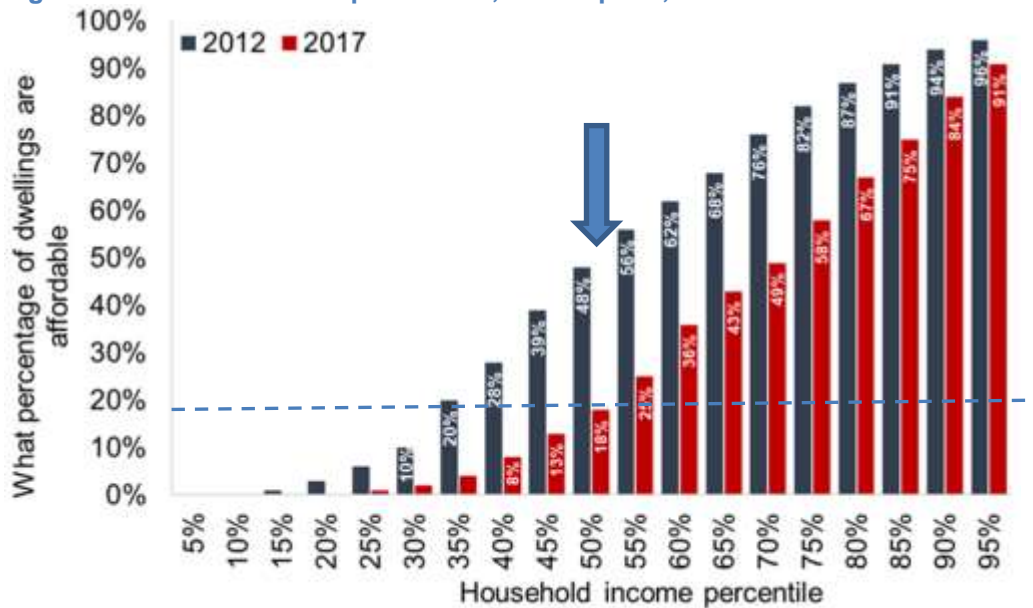
⁵ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. Salvation Army, Auckland.

⁶ Mitchell, I. (2015) *Can Work, Cannot Afford to Buy the Intermediate Housing Market*. BRANZ External Research Report. Livingston and Associates Ltd funded by the Building Research Levy.

2.1.5. We can't buy or rent what we used to

There is now a large mismatch between household incomes and house sales prices in Auckland. A median income household with a twenty percent deposit can only afford to buy a home in the bottom 18% of sales prices in Auckland. Households in the bottom 35 percent of the income distributions are unlikely to be able to buy anything⁷. As shown in Figure 7, there has been a substantial reduction in what households can pay for since 2012.

Figure 7: Affordable house percentiles, 20% deposit, 2012 and 2017



Source: Chief Economist Unit, Auckland Council; Stats NZ

Increased competition for rental accommodation makes it likely that many households are settling for poorer quality homes or living in more crowded accommodation. The Public Service Association submission to the Auckland Mayoral Housing Taskforce highlights the compromises households are making, including not asking for repairs out of fear that rents will be increased or they will lose their tenancy⁸.

2.1.6. People are delaying household formation, or crowding

There has been a long-term trend towards smaller households in developed countries including New Zealand. This reflects changing household structure, an ageing population and higher average incomes that allow people to buy more space. But in Auckland household size increased slightly between the 2001 and 2013 Censuses, a reversal of this trend⁹. Young people are leaving home later and some households are living in crowded conditions to minimise housing expenditure.

⁷ Chitale, H. (2017) *Who can buy Auckland's houses?* Auckland Council Chief Economist Unit. Auckland

⁸ PSA policy team (2017) *Auckland Mayoral Taskforce on Housing: PSA submission*. New Zealand Public Service Association. Wellington

⁹ Equb, S. (2017) *Inclusionary zoning: the evidence from Queenstown*. Prepared for Community Housing Aotearoa. Sense Partners, Auckland

2.1.7. Aucklanders are leaving for other regions

In recent years the northward drift of people from other parts of New Zealand to jobs in Auckland has turned around. The Treasury estimates about 75,000 Aucklanders have left Auckland since 2013, many of who are working age people rather than retirees. Commentators pin this trend on the increasing unaffordability of Auckland housing relative to other places¹⁰.

The number of people leaving Auckland for other parts of New Zealand is now so large, that it offsets all natural growth from Aucklanders having children. The loss of its residents has been hidden by the sustained influx of new international migrants (some of who presumably later contribute to the flight from Auckland).

2.2. Who is affected and what are the consequences?

2.2.1. There is a sharpening divide between renters and home owners

The rapid increase of house prices has magnified inequality¹¹, both in discretionary incomes and wealth. Those who purchased a home in Auckland before 2015 have benefitted from increasing house values - which has increased their wealth and financial choices - and very low interest rates. Meanwhile, renters have less discretionary income and diminishing prospects of accessing the traditional source of wealth accumulation in New Zealand - property. Tenants are also more likely to live in poorer quality homes, with less security¹².

2.2.2. A larger and more diverse group of Aucklanders is affected

The Auckland Council's Chief Economist Unit finds that the affordability of buying a house (as opposed to owning a house) has fallen across all income groups, with middle-income groups facing the largest declines in affordability of late¹³.

Managers and professionals and working age families have swelled Auckland's rental and intermediate markets. By 2013, "managers and professionals" (legislators, administrators, corporate managers, physical science, engineering, health and teaching professionals) made up 47 percent of the Auckland intermediate housing market compared with 39 percent nationally. Couples with children comprised 32 percent of Auckland's intermediate housing market compared to 24 percent nationally¹⁴. We will need to wait for the release of

¹⁰ Cooper, G. (2018) *Why Auckland's growth is wavering*. New Zealand Herald. Accessed at https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12148026

¹¹ Perry, B. (2018) *The material wellbeing of NZ households: Overview and key findings*. Ministry of Social Development. Wellington

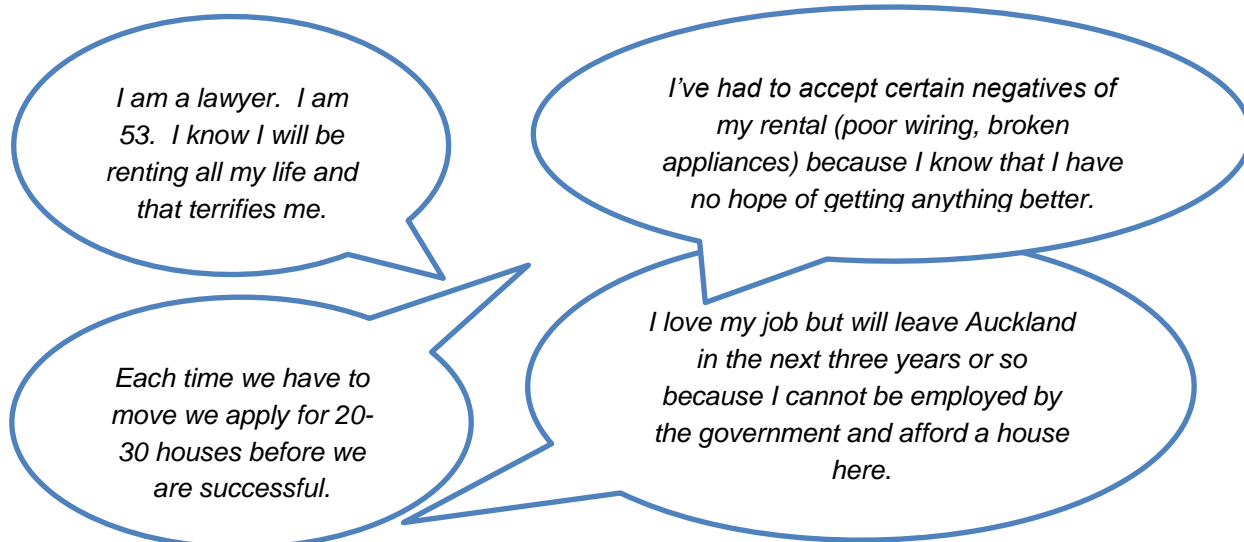
¹² Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. Salvation Army, Auckland.

¹³ Chitale, H. (2017) *Who can buy Auckland's houses?* Auckland Council Chief Economist Unit. Auckland.

¹⁴ Mitchell, I. (2015) *Can Work, Cannot Afford to Buy the Intermediate Housing Market*. BRANZ External Research Report. Livingston and Associates Ltd funded by the Building Research Levy.

new Census data in 2019 to observe what has happened in the last five years but it seems likely that these trends have continued.

Rapidly increasing Auckland house prices during this period have probably outstripped the income growth of many public professionals such as teachers and police officers whose wages are set nationally¹⁵. The Public Service Association's submission to the Mayoral housing taskforce highlights the experiences of many public servants¹⁶:



Middle income households have tended to move in and out of the intermediate market as it expands and contracts over the property cycle and with changes in incomes, interest rates and house prices. Some are now buying later in life and more modest homes. However increasingly these people are being permanently locked out of home ownership in Auckland. They are part of a growing core who have no chance of becoming home owners: renters for life.

2.2.3. But Māori, Pacific Island and fixed income renters are worst off

As middle income households stay in Auckland's' private rental market they are competing with households that have traditionally occupied private rental homes. Some of them are pushed into poorer quality/less secure housing, overcrowded situations, on to the social housing waiting list or homelessness. So while a larger and broader group of Aucklanders are affected by unaffordable housing, the lowest income are most severely affected – and they are disproportionately Māori, Pacific island people, sole parents and retired renters.

The 2013 Census provides the best information about this. It shows that:

- Māori and Pacific homeownership has declined more rapidly than overall home ownership, from an already lower base. By 2013 homeownership rates were 24

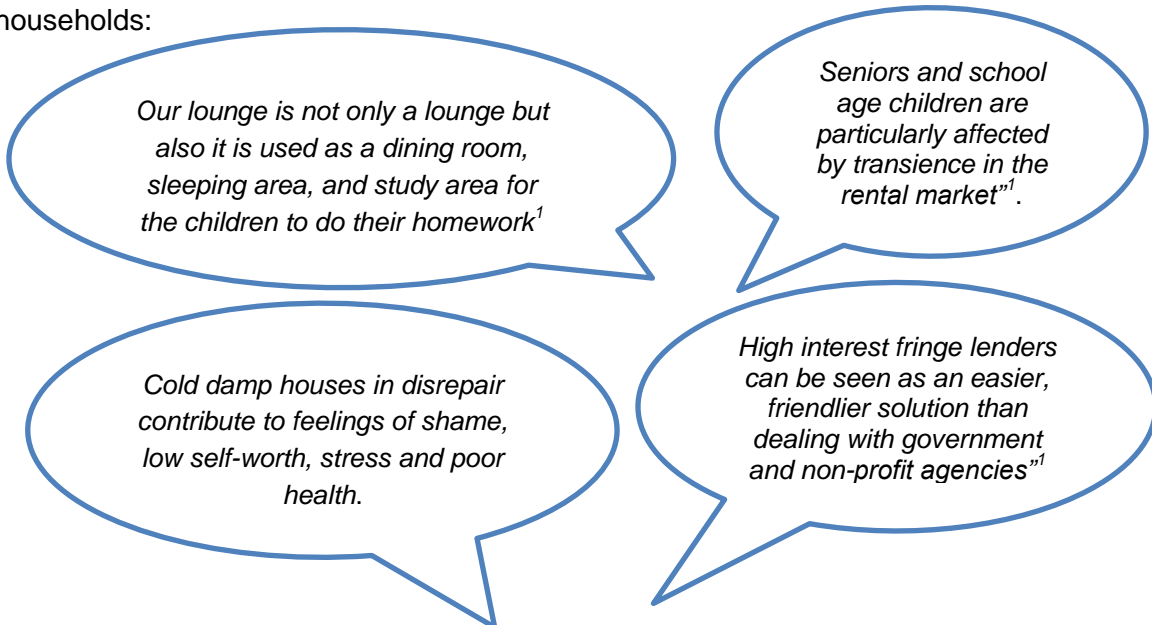
¹⁵ Tuatagaloa, P. (2017) *Affordability of housing in Auckland – Who will teach our children? A discussion paper.*

¹⁶ PSA policy team (2017) *Auckland Mayoral Taskforce on Housing: PSA submission.* New Zealand Public Service Association. Wellington

percent for Māori and 17 percent for Pacific peoples, compared with 54 percent for people of European ethnicity¹⁷.

- At the same time Māori and Pacific families have been squeezed out of social housing and into the private market. Between 1986 and 2013 the proportion renting state housing dropped by 29 percent for Māori and 27 percent for Pacific peoples compared to 16 percent overall. The proportion renting in the private sector increased from 41 to 77 percent for Māori and from 27 to 56 percent for Pacific people¹⁸
- In 2013, 25 percent of Māori and 45 percent of Pacific households lived in crowded homes compared with 20 percent of Asian and 5 percent of European households
- Homelessness in Auckland increased by 35 percent between the 2006 and 2013.

The following quotes illustrate the lived experience of unaffordable housing for these households:



2.2.4. Significant, long lasting consequences for Auckland and NZ

The overall unaffordability of house prices has national economic consequences. These include diversion of investment from productive activities into housing and the risk of a significant housing market correction for the financial sector. Rising demand for social housing and rental subsidies is an expanding fiscal burden. Out-migration of workers from Auckland is also a national economic loss as workers located in Auckland are more productive than workers elsewhere in the country.

The breakdown of the traditional pathway to home ownership in Auckland and the increase in households that will never own a home has consequences for all age groups:

¹⁷ Joynt, J L R., Tuatagaloa, P and Lysnar, P (2016). *Pacific people and housing in Auckland: a stocktake of issues, experiences and initiatives*. Auckland Council technical report, TR2016/027

¹⁸ Johnson, A., Howden-Chapman, P., and Eaquib, S. (2018) *A Stocktake of new Zealand's Housing*. Report commissioned by the Minister of Housing and Urban Development. New Zealand Government, Wellington

- The poorer quality and insecurity of rental housing poses risks to children’s health and educational outcomes. The Ministry of Health also reports household crowding is an important risk factor for infectious diseases such as rheumatic fever, meningococcal disease, respiratory infections, skin infections, pneumonia, elevated blood pressure and increased risk of childhood injuries
- Young people who previously would have expected to buy a home along with starting a family no longer believe they can do this in Auckland
- Retirement income was not designed to support housing for the increasing share of older workers who do not own a home¹⁹.

In addition, the growing inequality between those that own homes and those that do not is a threat to social inclusion.

2.3. What are the causes?

2.3.1. Multiple causes for the overall decline in housing affordability

Much has been written and said recently about the decline of Auckland’s housing affordability and its causes. Discussion has focused on the impact of key drivers such as:

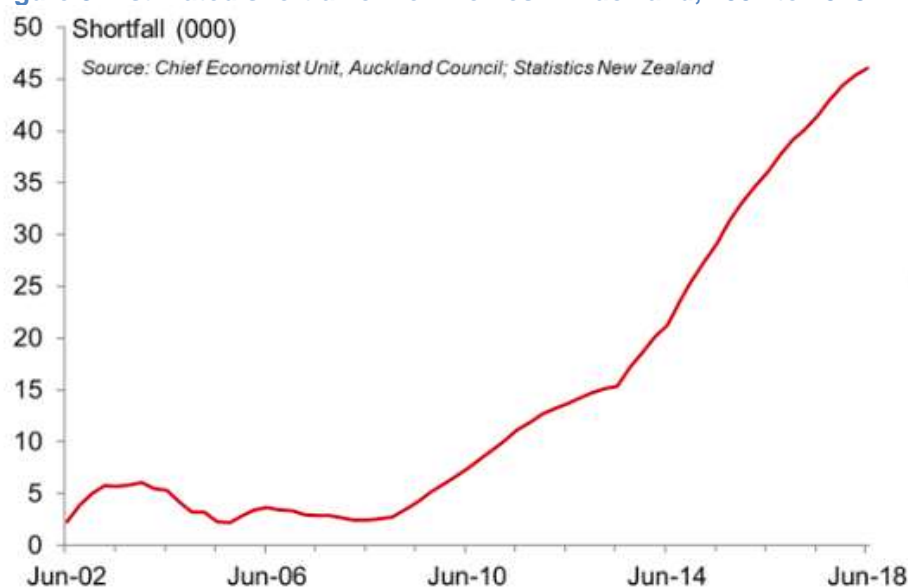
- New Zealand tax policy that incentivises property investment
- Deregulation of world financial markets thirty years ago, and very low interest rates since the global financial crisis, expanding global demand for all asset classes including residential property
- Rapid increase in immigration and foreign investment fuelling demand for additional homes that has outstripped supply
- Planning and infrastructure constraints on development
- Consenting process uncertainties and delays and development contributions increasing the cost of development
- The high cost of New Zealand construction materials and processes
- A low productivity construction sector that is slow to respond in the boom-bust cycle
- Recent tighter bank lending criteria for new construction, especially apartments.

While pundits debate what factor has made the most significant contribution, most would agree that there have been multiple causes, particularly driving a growing gap between the demand for and supply of new homes. Figure 8 shows this gap between demand and supply in Auckland. The growing shortfall (estimated at about 50,000 homes now) is revealed in higher prices for new homes, which flows through to prices for all homes.

Affordability has declined because house price increases have outstripped household income growth. Auckland incomes are low relative to countries that returning expatriate kiwis come from. In addition, the salaries of public servants in Auckland are set nationally. Those on fixed incomes are worst affected.

¹⁹ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. Salvation Army, Auckland.

Figure 8: Estimated shortfall of new homes in Auckland, 2002 to 2018



2.3.2. The demand/supply gap for lower cost housing is acute

The factors that drive the demand and supply of overall housing also affect lower cost housing. However, the undersupply of lower value housing may be even more acute, because:

- The demand for lower cost rental and owner occupied housing has been growing disproportionately as households move down the housing continuum
- The supply of lower cost homes as a share of all new builds has been declining and is now at a very low level
- The overall shortage in new homes is likely to be constraining the recycling of older stock as lower-cost rental units.

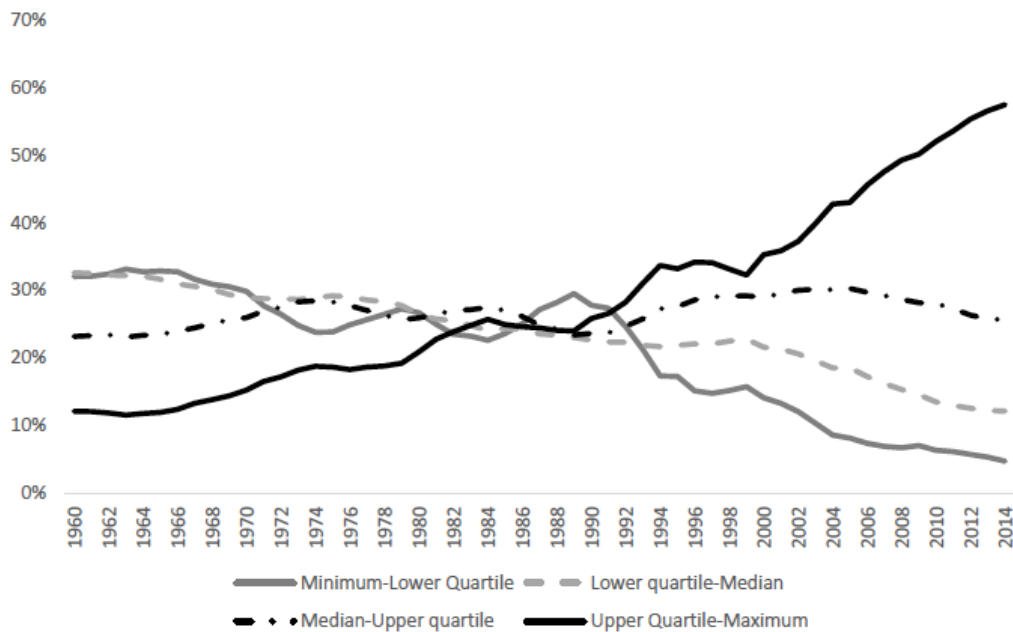
Figure 9 shows that the New Zealand building sector has been producing fewer new lower cost homes and a growing share of new high end homes. New Zealand Productivity Commission data up to 2010 shows similar trends for Auckland (although Auckland's building sector has done a better job than the rest of New Zealand in producing homes for a range of price points).

There are competing explanations for this:

- The increase in land prices and construction costs incentivise the development of higher value product on the land
- Growth in demand for larger and higher value homes and higher profit margins in providing for this²⁰
- The "significant withdrawal of government capital assistance and investment in affordable housing" since 1991²¹.

²⁰ New Zealand Productivity Commission (2012) *Housing Affordability*. New Zealand Productivity Commission. Wellington

Figure 9: Proportions of new house builds by quartile of value 1960-2014



Recent work by the Auckland Council’s Chief Economist Unit shows that since the Auckland Unitary Plan became operative there has been a significant increase in the share of building multi-unit and smaller dwellings close to the rapid transit network²². This has not yet made housing more affordable. Rather, it has helped maintain prices while reducing the average size of dwellings on the one hand, and providing more housing and transport choice on the other.

Prior to the 1990’s, most of the supply of rental homes came from the recycling of the existing stock as households sold and traded up releasing older cheaper dwellings back onto the market. Since 2000, this market filtering system has stalled as overall demand has increased faster than housing supply. So it might seem that New Zealand has done well to increase the supply of private rental homes sufficiently to keep the growth in rents close to household incomes²³.

Some commentators are concerned that a crisis in rental supply may now be upon us as capital gains have stalled, while rental yields (the gap between house prices and rents)

²¹ Saville-Smith, K. (2018) *Following the money: Understanding the building industry’s exist from affordable housing production*. Centre for Research Evaluation and Social Assistance. Research Bulletin. National Science Challenges Better Homes, Towns and Cities. Porirua. (Data provided by the New Zealand Productivity Commission).

²² Norman, D. (2018) *What people want: A plan becoming action*. Auckland Economic Quarterly August 2018, and Martin, S., and Norman, D. (2018) *What are we building and how has it changed?* Insights: Topical commentary on the Auckland economy. Auckland Council Chief Economist Unit. Auckland

²³ Mitchell, I. (2015) *Can Work, Cannot Afford to Buy the Intermediate Housing Market*. BRANZ External Research Report. Livingston and Associates Ltd funded by the Building Research Levy.

have fallen and are very low in Auckland²⁴. In this context the new healthy homes legislation could further disincentivise investors and push up rents.

Key messages

1. Auckland currently has one of the most unaffordable housing markets in the OECD. Rapid house price increases have so outstripped incomes that three quarters of potential first home buyers can no longer afford to purchase. Renting is the new norm for more Aucklanders, including working families, teachers, police and health professionals.
2. There is a sharpening divide between these renters and home owners. Owners benefit from house price appreciation and low interest rates. Meanwhile renters live in generally poorer quality homes with less security, have less discretionary income and are unable to access New Zealand's primary source of wealth accumulation.
3. Young people are delaying household formation and don't see a future in Auckland. Indeed, there is a net loss of Aucklanders to other regions. Low income Māori and Pacific Island renters are being pushed into substandard homes, crowding, and ending up on the social housing waiting list or homeless.
4. The consequences are severe. Significant investment is being diverted from Auckland's productive activities into housing. Cold, damp housing, crowding and frequent moving are all associated with poor educational and health outcomes. Rising inequality contributes to social exclusion.
5. Multiple factors have contributed to declining affordability but fundamentally, supply of new homes has not kept up with burgeoning demand. In this environment the incentive for developers is to produce profit-maximising higher-end housing rather than low cost homes. There is also stiff competition from both buyers and renters for older homes traditionally recycled for rent.

²⁴ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. Salvation Army. Auckland

3. Improving housing affordability

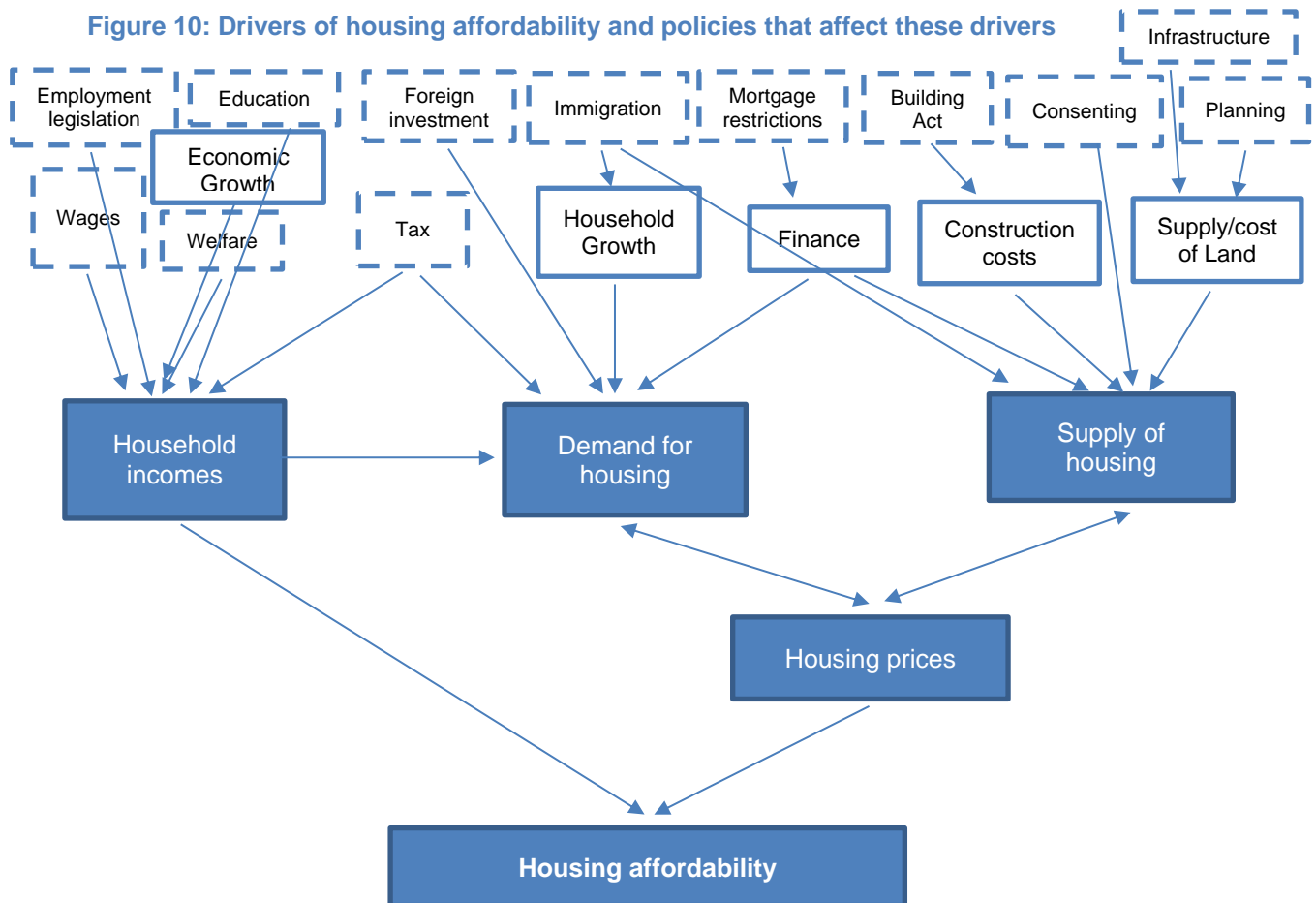
3.1. Broad policies to improve housing affordability

The decline in overall housing affordability is, in part, a global problem with some global causes that are outside of the control of New Zealand’s government or the Auckland Council. However, changes to national and local settings would reduce the severity of Auckland’s overall housing affordability problem, by:

- Moderating house prices, which could be achieved via measures to moderate demand and/or measures to increase supply
- Raising incomes.

Figure 10 illustrates policies within the control of the government and Auckland Council that affect key drivers of overall demand for and supply of homes (and household incomes).

Figure 10: Drivers of housing affordability and policies that affect these drivers



Indeed they have been reforming many of these settings. Policy reforms to moderate demand include:

- Loan to Value Ratio mortgage restrictions.
- Changes to immigration policy and overseas investment
- The extension of the bright line test for capital gains taxation, and investigations by the Tax Working Group into tax treatment of housing.

Policy reforms to increase the supply of new homes include:

- Resource Management Act amendments, the National Policy Statement on Urban Development Capacity, and the Auckland Unitary Plan which allows much more development
- Auckland Mayoral Housing Taskforce actions focused on infrastructure, consenting, and construction costs.

The government increased benefit payments in the last budget and has also committed to increasing the minimum wage to \$20 an hour by 2021.

It is clear that a range of the policy reforms yet to be made could have significant impact, and will require continued focus of both Government and Auckland Council.

3.2. Policies targeted at the intermediate housing market

Most OECD countries have a range of regulatory and non-regulatory initiatives targeted at the intermediate housing market²⁵, which are designed to:

- Increase the supply of affordable homes
- Assist rental households
- Assist households into partial or full home ownership.

Table 1 shows some of the most common policies against these three objectives.

Table 1: Policies and initiatives that provide affordable homes for the intermediate market

Supply of affordable homes	
Planning requirement	
Public purchase of affordable rental homes Build-to-rent	Incentives to build affordable owner-occupied homes
Assisted rent	Assisted ownership
Quality standards and tenure protection ²⁶ Subsidies for improvements Rental subsidies Rent controls Tax relief (to renters) Tax relief (for landlords)	Grants, tax relief Mortgage assistance Rent-to-buy Shared equity Leasehold Papakainga Co-housing

²⁵ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

²⁶ Regulation of rental quality and tenure security doesn't necessarily improve housing affordability but may improve outcomes for renters.

3.3. Increasing the supply of lower cost homes

3.3.1. Minimum affordable housing planning requirements

Planning requirements of developers to set aside a share of their development for affordable housing have been common in the United States since the 1970's and now apply in over 500 American cities. Such requirements spread to Canada, Europe, India and South Africa from the 1990's and are significant in England.²⁷

All of these planning requirements usually have two interrelated objectives:

1. **Affordable housing:** Increase the city-wide supply of housing available for and within the financial means of low income households
2. **Social inclusion:** Facilitate mixed income or housing tenure communities at the neighbourhood level. This was the primary driver of the first planning requirements introduced in the United States as "*Inclusionary Zoning*". They were designed to offset the "exclusionary" effects of other policies such as planning constraints on apartment building, and gentrification resulting from infrastructure development²⁸.

Different requirements use different definitions of affordable housing, and may demand housing, land or (sometimes) payment in lieu. In some jurisdictions the requirements are mandatory while in others they are voluntary and incentives based. There are many other ways that the planning requirements can vary in their design (see Table 2).

Table 2: Choices in design of affordable housing planning requirement

Coverage	Definition of affordable	Percentage	Delivery form	Retention mechanism	Cost offsets
Mandatory or voluntary City-wide or select zones Minimum development size (eg 15 dwellings?)	Within 30% of income of intermediate market households Relative to market prices Homes reserved for intermediate households	5%? 15%? Determined by overall target, share of intermediate households or development feasibility Site-specific depending on existing tenures and objectives	Home (of different sizes, and for rent, shared equity or ownership) Land Financial contribution On-site or off site allowed	No retention mechanism Covenant Pass to not-for-profit to: -Retain home for rent -Recycle share of capital gain	No cost offsets Faster consenting Delayed development contributions, targeted rates, grants Planning incentives, eg rezoning, density bonuses, parking

²⁷ Ayyagari, R.V. (2018) *Affordable housing through inclusionary zoning – case of Auckland*. A thesis published in partial fulfilment of the requirements for the degree of Master of Environmental Planning. University of Waikato, Hamilton

²⁸ Rather than adopting an inclusionary zoning policy New Jersey has chosen to disallow planning policies that have an exclusionary effect.

Planning requirements are not council subsidies to developers to build lower cost housing. However, councils need to fund any associated cost-offsetting measures.

Affordable housing requirements are sometimes seen as an alternative to planning policies that enable significant increase in overall supply. For example, researchers note the difference between eastern and western US approaches to improving affordable housing: The California state government has generally tried to encourage cities to produce more housing overall, while Massachusetts and New Jersey instead require all communities to meet a target of producing a certain share of housing below a certain price²⁹.

However, affordable housing planning requirements can also mutually reinforce planning policies that enable residential development and a diversity of typologies across the city.

In New Zealand the Environment Court and the High Court have ruled that affordable housing requirements fall within the scope of the Resource Management Act. Two examples of such requirements have been implemented³⁰:

- *The Queenstown Lakes District Council affordable housing requirement operative since 2013. This is triggered by plan changes, and developments in low density zones or which would breach density, height, minimum lot size and coverage rules.*
- *Councils have required affordable housing in Special Housing Area developments.*

3.3.2. Government provision or subsidies to develop low cost homes

In some OECD countries public or community agencies provide affordable housing alongside social housing. Some countries offer developers subsidies or tax relief to build lower cost homes.

The Kiwibuild programme is New Zealand's recent relatively modest introduction to the public provision of lower cost homes that are not social housing. Kiwibuild is not, however, a subsidy programme.

Kiwibuild aims to produce 100,000 new quality affordable homes for median income households over the next decade (half in Auckland), via three mechanisms:

- *Development and redevelopment of Crown land (including Housing New Zealand properties) as mixed tenure sites that include Kiwibuild homes*
- *A "buying-off-the-plans" programme which underwrites or purchases lower cost homes from developers at the pre-construction phase and either sells these on or facilitates their sale*
- *The establishment of an urban development agency with land and wide ranging regulatory and purchasing powers to lead and develop new housing at scale, including affordable housing for intermediate market households to rent or own.*

²⁹ Schuetz, J., Meltzer, R. and Been, V. (2009) *Flavors of Inclusionary Zoning: Comparing policies from San Francisco, Washington, DC, and Suburban Boston*. Journal of the American Planning Association, Vol 75, No. 4. Chicago, IL

³⁰ New Zealand Productivity Commission (2015) *Using Land for Housing*. New Zealand Productivity Commission. Wellington

Developers set the price of Kiwibuild homes within the following price caps in Auckland:

- *\$500,000 for a studio, single bedroom or single plus study home*
- *\$600,000 for a two bedroom home*
- *\$650,000 for a home with three bedrooms or more*

The homes are made available via a ballot to owner-occupier first-home buyers with annual incomes of up to \$120,000 (for an individual) or up to \$180,000 for multiple buyers.

The Government has allocated \$2 billion to Kiwibuild. It aims to work “at the margin”, increasing market provision of quality lower cost homes by demonstrating to developers (and financial institutions) that it is possible to profitably develop them.

3.3.3. Build-to-rent

Private investment in the development and ongoing management of new rental housing is significant in the US. Real Estate Investment Trusts invest in 17 million housing units³¹. Much of this is in “multi-family housing” – apartment blocks – which are built to rent rather than for sale.

Private investment in rental housing is starting to grow in European countries alongside the transfer of rental stock from the public and not-for profit sectors to corporations. Some countries are incentivising such investment through “build-to-rent” programmes. In recent years the UK has facilitated the completion of 16,000 homes with 20,600 more under construction, via two forms of support:

- Development grants of up to 50 percent of development costs – a subsidy to developers
- A government guarantee (not a subsidy) to developers of build to rent projects³².

Some build-to-rent schemes enable tenants to customise their own housing with guaranteed long term tenure. The tenant commits to a multi-year lease for a basic shell funded by the landlord, and is then responsible for completing the interior fit-out in a way that suits them³³.

In New Zealand, rental homes are primarily provided by small-scale investors looking for capital gain and renting their asset out in the meantime. Current tax treatment of housing favours small-scale property investors and penalises commercial development and management³⁴.

³¹ PwC (2018) *New Zealand’s affordable housing dilemma* www.pwc.co.nz

³² Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. The Salvation Army Social Policy and Research Unit, Auckland

³³ Curtis, M. and Brunson, N. (2018) *Building to rent*. BRANZ, Porirua

³⁴ Curtis, M. and Brunson, N. (2018) *Building to rent*. BRANZ, Porirua

3.4. Assisted rental policies

3.4.1. Legislation of rental tenure and quality standards

All countries legislate the relative rights of landlords and tenants: this doesn't necessarily improve housing affordability but it may improve conditions for renters.

The nature of this legislation depends very much on history, cultural and market context. Rental tenure has long been common in parts of Europe (comprising over half of all dwellings in Germany and 40 percent in Denmark and the Netherlands). In these countries local authority entities and not-for-profit organisations are key providers, rental accommodation is better quality and tenants' rights and rents are more highly regulated than elsewhere³⁵.

Most countries also have complementary subsidies for energy efficiency and other improvements to low quality dwellings³⁶.

Rental tenure is also now quite high in New Zealand at around 40 percent compared with the OECD average of 30 percent, however tenants are less protected than in Europe. The introduction of the Healthy Homes Guarantee Act requiring insulation will start to change this. New Zealand also provides an insulation subsidy and grants for heating appliances.

3.4.2. Rent controls

A recent survey found that rent controls are applied in 14 out of 20 OECD countries, often in select cities³⁷. In some jurisdictions rent controls are tied up with public and community provision of rental homes, but in other countries they are applied to the private rental sector. There are a range of design variations: for example:

- German law allows state governments to cap rent increases at no more than 15 percent over a three year period
- Sweden regulates rents according to the dwelling's condition including size, quality, year of construction and standard, and location³⁸.
- 15 cities in California have a form of rent control, but in some this only applies to existing rental stock (not new homes) and while the tenant is occupying the home³⁹.

New Zealand does not control rents and the Government has no plans to do so.

³⁵ Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

³⁶ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

³⁷ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

³⁸ Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

³⁹ Placzeck, J. (2018) *Is rent control working and should we have more or less of it?* Bay Curious. San Francisco, California. Accessed at <https://www.kqed.org/news/11677380/is-rent-control-working-and-should-we-have-more-or-less-of-it>

3.4.3. Rent subsidies

All OECD countries provide income-related subsidies for renting in the private market as a mainstay of their affordable housing programmes. Most pay housing allowances to low income households, but in the United States, Chile and Japan rent subsidies are paid as vouchers to the landlord.

Government spending on these allowances comprises almost 2 percent of GDP in the UK and about 0.5 percent in other countries. They are paid to 23 percent of all households in Denmark, 15 percent in Germany and 18 percent in Australia (but only 1 percent of households in the US)⁴⁰.

Rent subsidies are generally designed as “entitlement” programmes so that applicants who meet the criteria generally receive them, rather than being dependent on available budget. The eligibility criteria and payment rates vary considerably.

New Zealand subsidises rents for very low income households through the Accommodation Supplement. The government spends approximately \$900 million per annum or about 0.5 percent of GDP on this and it goes to 29 percent of rental households in Auckland, 12 percent of all households. However one third of these households are actually in social housing, and 85 percent also receive a benefit or national superannuation – they are not working renters in the intermediate market⁴¹.

3.4.4. Tax breaks

Hungary, Ireland and Italy provide tax relief on paid rent for tenants. Other countries have favourable tax treatment of rental income for landlords. In Germany, Australia, the US and France landlords are eligible for mortgage interest tax relief and/or negative gearing, ie they can offset losses from their rental property against other sources of income.

Some countries have brought together rent subsidies or tax relief with improvements in rental tenure or standards in creative ways. For example, in Italy the Government supports “contratti convenzionati” agreements between landlords and low income tenants, which fix rents below market levels and provide longer tenure terms than required by law, in exchange for rental income tax relief⁴².

Negative gearing will end in New Zealand in 2019.

⁴⁰ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

⁴¹ Johnson, A., Howden-Chapman, P., and Eaquib, S. (2018) *A Stocktake of new Zealand's Housing*. Report commissioned by the Minister of Housing and Urban Development. New Zealand Government, Wellington

⁴² Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

3.5. Assisted ownership policies

3.5.1. Subsidies or tax relief to support access to home-ownership

Many OECD countries provide some form of subsidy to support access to home-ownership (usually reserved for first-home buyers). There is considerable variety in the form of these subsidies, which include⁴³:

- One-off transfers for the purchase of a house
- Means tested tax exemptions for costs associated with the purchase of a home
- Mortgage tax deductions which are often not means tested (US and the Netherlands)

New Zealand doesn't provide such subsidies or tax relief. Rather the Kiwibuild programme is starting to use public land, powers and guarantees to increase the availability of market rate lower cost homes to median income households.

3.5.2. Deposit or mortgage assistance

Most OECD countries provide subsidized deposits and mortgages or mortgage guarantees to households. Some countries have introduced programmes to avoid foreclosure on homes owned by households in negative equity and/or unemployed/low income home-owners⁴⁴.

New Zealand provides both subsidised deposits and mortgage guarantees:

- *The HomeStart programme is tied in with KiwiSaver contributions. It provides a grant of up to \$10,000 (for an existing house) or \$20,000 (for a new house) to first-home buyers, depending on the length of time they have been enrolled in a KiwiSaver scheme. HomeStart grants supplemented mortgages to 75 percent of first-home buyers in the 2017/18.*
- *The Welcome Home Loan is a mortgage guarantee provided via a risk-sharing partnership between the Government and participating banks, to first home buyers who are unable to come up with a twenty percent deposit. Welcome Home Loans were approved for 7 percent of first-home buyers last year⁴⁵.*

Loan to Value Ratio mortgage restrictions have increased deposit requirements making it much harder for households to buy their first home, especially in Auckland. However this

⁴³ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

⁴⁴ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

⁴⁵ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. The Salvation Army Social Policy and Research Unit, Auckland

has also made new home owners less vulnerable to a housing market bust, falling incomes or increasing interest rates⁴⁶.

3.5.3. Rent to buy

Rent-to-buy schemes are exactly what they sound like. They offer renters an opportunity to save a deposit during the term of their tenure and then raise a mortgage to buy the home they are in. These schemes often provide access to better quality homes, for longer tenure terms and at lower rents than in the market. The purchase price might be set at the beginning of the rental period or adjusted to the market rate at the time of purchase. Sometimes a portion of the rent is converted into equity. Rent-to-buy might also move to a shared equity arrangement. Rent-to-buy schemes provide the landlord with rental income and capital which can be re-invested into affordable housing⁴⁷.

Several community housing providers in New Zealand offer rent-to-buy as part of their suite of assisted home ownership products. They also offer financial planning support and utilise KiwiSaver:

3.5.4. Shared equity

Shared equity programmes are better established than rent-to-buy, particularly in the UK where they are supported by central government as well as the community and private sectors.

They involve a third party (such as a not-for-profit organisation) holding a share in the ownership of a home, to help close the gap between the total value of the house and the share that a household can afford to make mortgage payments on. If the household can save enough they can buy the remaining equity within a prescribed time and staircase into a full market ownership arrangement with the bank. Alternatively the household and the equity holder can share the capital gain made when the house is sold (assuming its price appreciates). This is effectively a substitute for a second mortgage. Often the third party has a close relationship with the household and provides other services (such as financial management) that allows them to take the risk that a bank wouldn't.

Such programmes offer households an opportunity to full home ownership, and equity holders with income that can be re-invested into affordable housing for others.

Several community housing providers in New Zealand offer shared equity as part of their suite of assisted home ownership products. They also offer financial planning support and utilise KiwiSaver:

3.5.5. Leasehold

⁴⁶ Shaar, K. (2018) *Mortgagor Vulnerability and Deposit Affordability in New Zealand before and after the Loan-to-Value Restrictions*. Reserve Bank of New Zealand. Wellington

⁴⁷ PwC (2018) *New Zealand's affordable housing dilemma* www.pwc.co.nz

Long term (100 year plus) leasehold, or land invested as “patient capital” in developments, is a common instrument in the UK and Europe to facilitate the cost effective delivery of housing⁴⁸. Increasing emphasis is being placed on retaining (rather than selling) public land as equity in range of schemes such as build-to-rent. Community Land Trusts are emerging to do this in the US.

New Zealand has some private leasehold housing (including on land owned by churches) but few examples of public land being used in this way.

3.5.6. Papakainga

Papakainga are a group of three or more homes on Māori land, which may be associated with broader support and occupant involvement. The collective ownership of the underlying land and tribal membership means that Papakainga have some similarities with leasehold or co-operative housing developments. Papakainga are affordable because of the shared land and facilities and the not-for-profit focus.

However Papakainga have wider significance; they are part of bringing whanau back to ancestral lands, and they may offer new opportunities to create a future livelihood.

Te Puni Kokiri’s Māori Housing Network began providing grants and other support to Papakainga at the end of 2015: to date it has invested over \$40 million in 158 small scale projects, mostly in Te Tai Tokerau, Ikaroa-Rāwhiti and Waikato-Waiariki rather than Tāmaki Makaurau⁴⁹.

The Auckland Unitary Plan supports Papakainga with enabling policies on Māori land⁵⁰. Papakainga developments have been completed or underway in Orakei, Mangere, Tauranga Moana and Pukaki. However such developments are restricted by the limited quantity of Māori land left in Auckland after the land wars, relative to other regions. This may change as various iwi settle their Treaty of Waitangi claims and receive redress.

3.5.7. Co-housing

Owner-occupier and tenant owned cooperatives develop and maintain lower cost housing for their members because of the absence of developer fees and profit, economies of scale and shared facilities. While the cooperative owns the development collectively, members are often involved in design and development, and have an entitlement to a specific unit and shared facilities. Usually the cooperatives retain rental properties and provide security of tenure through a perpetual lease⁵¹. These arrangements are common in Sweden and Germany.

⁴⁸ Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

⁴⁹ Duckworth, S. Thompson, A., Grootveld, C., Brown, T. and Marama, M. (2018) *Impact evaluation of the Māori Housing Network*. Prepared by Litmus for Te Puni Kokiri. Wellington

⁵⁰ Auckland Council (2018) *Auckland Plan 2050 Evidence Report. Homes and Places*. Auckland Council. Auckland

⁵¹ PwC (2018) *New Zealand’s affordable housing dilemma* www.pwc.co.nz

There are a handful of co-housing initiatives in New Zealand.

Key messages

1. The Government and Auckland Council are pursuing several broad brush initiatives to bring down the overall cost of housing. The government also spends about \$3billion per annum on social housing and the Accommodation Supplement.
2. These are necessary interventions but will not be sufficient to address the stress that working renters are under. There is also a need for complementary targeted policies to increase the supply of lower cost homes and better assist rent and home ownership.
3. Most overseas jurisdictions have a package of regulatory and non-regulatory initiatives, to both improve outcomes for renters and provide pathways to home ownership. These include:
 - a. Planning requirements, subsidies or tax relief for developers and build-to-rent schemes to increase the supply of lower cost homes
 - b. Regulation of rental standards, tenure security and rent increases, and household rental income support
 - c. Grants, tax relief or mortgage assistance for first home buyers, and support for rent-to-buy, shared equity and co-housing arrangements.

4. Who is involved and what do they bring?

In other countries partnerships have formed between different layers of government, not-for-profit organisations and the private sector to deliver targeted housing affordability policies. There is an opportunity to develop such a partnership in New Zealand, with more active involvement by the Auckland Council, and support to grow the roles of community housing providers and the private sector.

4.1. Central government

In most OECD countries central governments legislate and provide much of the funding or tax relief for affordable housing programmes. These functions may be undertaken by state government in countries with federal government systems like Australia, the US and Germany. Differences between local housing markets also means that significant functions may be devolved to local government.

Central government is the primary player in affordable housing in New Zealand. It regulates building standards and the rental market, and delivers the Accommodation Supplement to low-income households, Kiwibuild and the Homestart programme.

4.2. Local government

Local governments play a significant role in affordable housing. In the UK, the National Planning Policy Framework requires local authorities to ensure housing supply, choice, quality, opportunities for home ownership and sustainable, mixed communities. Local authority owned entities also develop and manage social and affordable housing. The Netherlands, Sweden and Germany have also devolved such responsibilities to state and municipal governments⁵². This is consistent with the broad role of local governments in most other parts of the world and transfers to them from central government.

Local authorities can support affordable housing by:

- Leading agreement to affordable housing strategies
- Planning to enable plenty of affordable housing and perhaps requiring affordable housing in new developments
- Providing fast and coordinated consenting
- Deferring development contributions, or other cost off-sets
- Rather than selling public land, investing it in affordable housing developments as a “patient capital” equity share that also provides governance rights⁵³.

There is an opportunity for Auckland Council to explore the role that it and Panuku could play to support new housing affordability initiatives.

⁵² Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

⁵³ Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

4.3. Not for profit sector

Independent not-for-profit organisations combine housing development and maintenance with customised wrap around services for low-income customers.

They are significant players in European countries, as sizeable non-state providers of social housing with roles that are mandated in legislation. In the Netherlands, 75 percent of rental homes are owned by not-for-profit Housing Associations, which let and sell homes and invest in neighbourhood regeneration, public purpose buildings and social programmes. They don't receive direct subsidies, but benefit from government-guaranteed low interest rate loans. There are 1700 housing associations in the UK, while housing associations are the only providers of new social and shared ownership homes in Northern Ireland. Owner-occupier and tenant-owned housing cooperatives are significant in Sweden (where they own 22 percent of the housing stock) and Germany (5 percent).

Central and local governments provide not-for profits with financial assistance and/or access to land, and they also use rental income and sales of fully owned or shared equity homes to re-invest in affordable housing⁵⁴.

New Zealand has a well-established but small not-for-profit community housing sector underpinned by faith-based entities, philanthropists, iwi and Government. There are around 30 community housing providers registered to provide social housing nationwide, and 21 members of the Auckland Community Housing Network. The number of housing cooperatives active in New Zealand can be counted on one hand.

The ability to access Income Related Rent Subsidies (with the recent introduction of longer term contracts) has grown the role of community housing providers in social housing. However, only a few offer affordable housing for rent, rent-to-buy and shared equity schemes at any scale. The others offer a range of support services for a select client group and housing is only one of these. For example in Auckland:

- *Emerge Aotearoa offers mental health, addiction and disability support services*
- *Haumarū provides housing for older people*
- *The Salvation Army provides prison reintegration, drug and alcohol programmes.*

There is an opportunity to grow the role of community housing providers in Auckland to support new affordable housing initiatives. Indeed, the peak body for community housing providers, Community Housing Aotearoa, has set a goal to deliver 85,000 affordable homes by 2030. The sector would need to scale up and build capacity to achieve this, and that requires additional sustainable sources of finance and access to land⁵⁵.

⁵⁴ Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

⁵⁵ Mosely, J. (2018) *Priming the pump: access to capital and capacity to house New Zealanders*. Fullbright New Zealand. Wellington

4.4. Private sector

The private sector is of course a key player in the entire housing supply chain, as land owners, developers, builders and landlords.

In the US private investors are very involved in developing and managing rental homes. In some European countries rental housing is passing from the not-for-profit sector into corporations, with “non-traditional” global institutions investing in both existing stock and new development. Some are investing in off-site manufacture, digital platforms, pre-fabricated and modular housing. Their presence might increase competition and supply and improve quality and maintenance⁵⁶.

In New Zealand there are a few developers that specialise in lower cost housing. The Kiwibuild programme aims to increase this, and is testing what is possible given current development costs. There is also some private investment interest in Build-to-Rent and new building technologies, but achieving sufficient scale will be key to make this work in New Zealand. Private sector involvement in the design of other affordable housing initiatives such as a planning requirement would be key to make them work.

4.5. Māori/Iwi

Māori and iwi organisations could play a significant and distinct role in developing and managing affordable housing for Māori in Auckland. Currently, there are only a handful of Māori or iwi organisations registered as a community housing providers in Auckland, and Papakainga development is very small scale partly because of the small amount of Māori land in the region. However the Tāmaki Collective of iwi involved in extremely successful mixed tenure housing projects in partnership with others at Waimahia and Mangere. There is an opportunity for iwi in Tāmaki Makaurau to invest in a range of affordable housing products for their people when treaty settlements are completed.

⁵⁶ Collins, N. (2016) *Delivering affordable housing at scale: Lessons from Europe*. A report prepared for the Ministry of Business, Innovation and Employment. Beacon Pathway, Auckland

Key messages

1. In other countries partnerships have formed between different layers of government, not-for-profit organisations and the private sector to deliver targeted housing affordability policies.
2. Central and state governments typically legislate, provide tax relief and fund affordable housing. Local governments often lead and coordinate affordable housing strategies for their local areas. They also leverage their planning, consenting, land holdings, development contributions policies and grants to support these strategies.
3. Not-for-profit organisations and co-operatives play a very significant role in many countries, designing, developing and managing affordable housing for rent and progressive ownership. They have an in-depth understanding of the customers and provide various wrap around services. These organisations may take on risk that the public and private sector won't, and their charitable purpose helps to reduce the cost of affordable housing products and ensure they are retained or recycled.
4. The private sector is a key player in the whole housing value chain, as investors, land owners, developers, builders and landlords producing most of the homes in all countries. They make this work commercially within the regulatory, tax regime and subsidies set by the public sector. Large corporate investors are very involved in the development and ongoing management of rental properties in the US.
5. There is an opportunity to develop such a partnership in New Zealand, with more active involvement by the Auckland Council, and support to grow the roles of community housing providers and the private sector.

5. Which initiatives are most effective?

5.1. Overall cost-effectiveness

This report briefly summarises recent literature about targeted affordable housing initiatives, but it does not provide a comprehensive analysis of these. This is part of Auckland Council's next steps.

Packages of policies to achieve multiple objectives, delivered in partnership

Policies are usually assessed for their effectiveness at achieving a particular objective. It appears that most jurisdictions have several objectives, including:

- Improving the quality of homes and security of tenure for renters
- Reducing financial stress for households of different income levels
- Offering households pathways to home ownership
- Improving social inclusion through mixed tenure neighbourhoods.

Because of this literature concurs that the most successful affordable housing programmes in other countries comprise a mix of regulatory and non-regulatory policies. Together these achieve a multiple objectives and benefit different types of households. Programmes often include:

- A retained minimum affordable housing planning requirement with cost-offsetting incentives
- Incentives for developers to build more low cost housing, such as Kiwibuild
- Build-to-rent schemes
- Legislation to improve rental tenure security
- Rental subsidies
- Partial and progressive ownership arrangements such as rent-to-buy, shared equity, co-housing, papakainga and leasehold of public land.

These programmes are provided via public, not-for-profit and private sector partnerships that have clear political leadership, and according to an agreed strategy. Such programmes usually have a significant not-for-profit sector with a secure pipeline of funding, regulatory incentives and access to land..

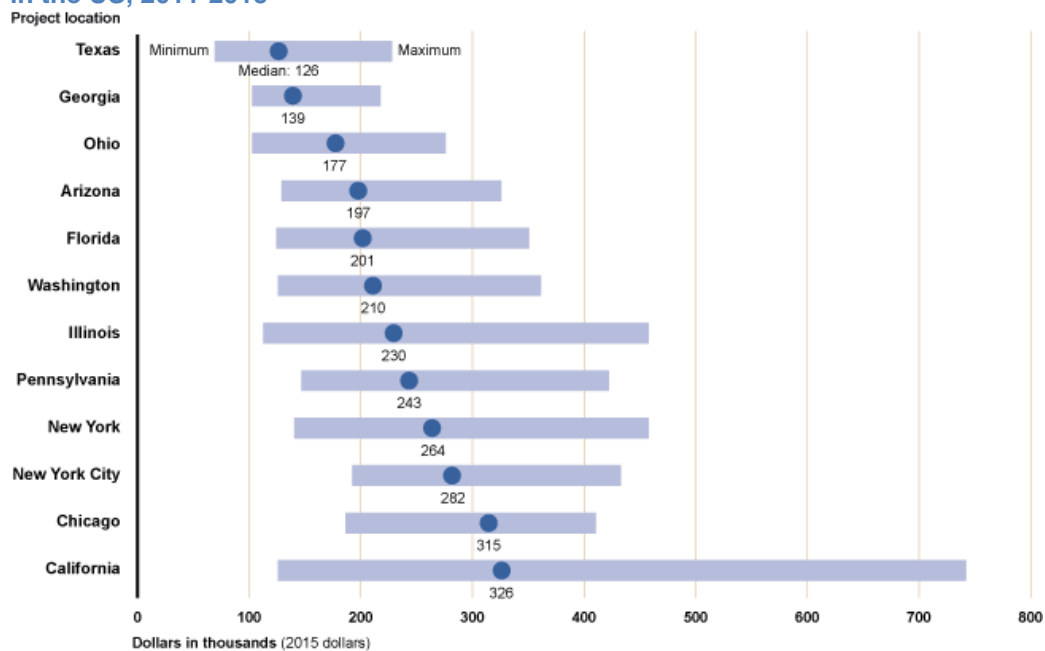
Housing costs limits what the affordable housing policies can achieve

Effectiveness also requires housing affordability policies to be delivered at a scale sufficient to go some way toward addressing the problem. However, none of the initiatives are costless, and indeed high development costs limit what they can achieve.

For instance, evidence from the United States shows that the cost to build new affordable rental units is almost three times as high in California, which has high development costs and high overall house prices, as it is in Texas or Georgia (see Figure 12). Much larger subsidies are therefore needed to provide a single low-cost rental unit in California than in

Texas or Georgia. This in turn limits the quantity of affordable homes that governments and the non-profit sector can afford to provide.

Figure 11: Development costs per new rental home built with affordable housing tax credits in the US, 2011-2015



Source: GAO analysis of data from state and local housing finance agencies. | GAO-18-637
 Source: <https://www.gao.gov/products/GAO-18-637>

High development costs and increasing rents increase the cost of affordable home products, and constrain the number and type of households that governments and the non-profit sector can assist. This is true for:

- Subsidies to develop lower cost homes.
- Government guarantees to increase private supply – as the limits of Kiwibuild show.
- Build-to-rent schemes: When sales prices exceed rents as much as they do in Auckland, rental yield is insufficient to attract investment
- Progressive ownership programmes: The bigger the gap between the house price and the household’s income, the larger the public or community contribution needs to be in each rent-to-buy or shared equity arrangement.
- Planning requirements: Development feasibility constrains what is possible to build and the requirement may affect total supply and prices of non-affordable homes.

As a result, policies to increase the supply of lower cost housing and assist rent and home ownership are not an effective substitute for policies to bring down the overall cost of development. However, affordable housing policies are likely to be complementary to policies to reduce development costs. Lower development costs allow governments and non-profits to provide *more* affordable housing, and affordable housing provision ensures that the benefits of broad cost improvements are shared widely throughout society.

The rest of this section provides a more depth about select policies and initiatives. There is often debate about the effectiveness of individual policies, which reflects the importance of particular design features.

5.2. Minimum affordable housing planning requirements

There is considerable debate about the impact of affordable housing planning requirements. For example:

Are planning requirements an effective way of increasing affordable housing?

- An international review of case studies in USA, Canada, UK, Ireland, France, Spain and Italy in 2010 found inclusionary housing to be “*the best answer to addressing global affordable housing needs*” in the economic and political climate at that time⁵⁷.
- Recent Australian research finds that planning tools, supported by subsidies, leverage significant quantities of affordable housing supply in many parts of the UK, the US and in South Australia. In 2015-16 affordable housing requirements facilitated nearly 13,000 dwellings in England, 43 percent of all of affordable housing. Between 2005-15, 5,485 affordable homes (17 of total housing supply) were delivered through an inclusionary planning target in South Australia⁵⁸.
- A New Zealand Productivity Commission review of international evidence found that affordable housing planning requirements have little impact on the overall supply of lower-priced housing and can create uncertainty, delays and significant administrative costs. The Productivity Commission concluded that “*there is not a strong case for their expansion in New Zealand*”⁵⁹.
- An October 2017 Auckland Council report showed that of 46,793 sites or dwellings consented under the Auckland Housing Accord and Special Housing Areas legislation, 1,353 (2.9 percent) were “relative affordable”⁶⁰ and 2077 (4.5 percent) “retained affordable”⁶¹. This fell well short of targets. Another recent study finds that the median prices inside the Auckland SHAs have increased *faster* than have median prices just outside the SHAs and that they do not appear to have increased the likelihood of affordable transactions⁶².

⁵⁷Mekawy, H.S. (2014) *Role of planning mechanisms in affordable housing delivery: Inclusionary zoning*. International Journal of Development and Sustainability, Volume 3, Number 9. Faculty of Urban and Regional Planning, Cairo University

⁵⁸Gurran, N., Gilbert, C., Gibb, K., van den Nouwelant, R., James, A. and Phibbs, P. (2018) *Supporting affordable housing supply: inclusionary planning in new and renewing communities*. AHURI Final Report No. 297, Australian Housing and Urban Research Institute Limited, Melbourne

⁵⁹New Zealand Productivity Commission (2015) *Using Land for Housing*. New Zealand Productivity Commission. Wellington

⁶⁰Homes for first home buyers priced at at 75 percent of the Auckland median house price.

⁶¹Held by community housing providers and made available to owner occupiers such that their monthly mortgage payments would not exceed 30 percent of the median household income.

⁶²Fernandez, M.A., Bucaram, S. and Sanchez G. E. (2018) *Price Effects of the Special Housing Areas in Auckland*. Auckland

Where do the costs fall?

- Affordable housing planning requirements to produce a percentage of homes within a particular price/cost segment do not necessarily impose costs on individual developments. A range of developers specialise in this segment, and it may be entirely possible for the overall market to profitably produce a greater share of lower value homes than has been the case recently. “Tenure blind design” requirements might make this more difficult. It all depends on the relationship between cost, price and risk profile.
- Modelling undertaken for the Proposed Auckland Unitary Plan in 2013 assumed that an affordable housing planning requirement would have a cost. Nevertheless it suggested that a mandatory requirement would still be “development feasible”, and that any reduction in profitability would be passed on to landowners in the form of lower prices for greenfield land⁶³.
- However, the Auckland Unitary Plan Independent Hearings Panel saw affordable housing provisions as effectively a “tax” on the supply of dwellings that may reduce the supply, resulting in an inefficient/opposite outcome than intended, including increasing prices in another part of the market⁶⁴.
- Research suggests that the market impact depends on the strength of demand and the property cycle⁶⁵. A New Zealand Property Council spokesperson has voiced concerns that a requirement on larger scale developments could particularly disincentive apartment building right now.
- This issue of whether there are costs associated with a requirement to provide lower value dwellings, and who pays for them – known as “incidence controversy” – is a key debate internationally and remains unresolved⁶⁶.

Do affordable housing planning requirements achieve social integration?

- Some research suggests that affordable housing planning requirements are not an effective approach to achieve social integration, especially when alternatives to on-site construction are applied⁶⁷.
- On the other hand, the planning requirements also face criticism from local residents who fear negative impacts on amenity and their property values,

⁶³ Auckland Council (2013) *Affordable housing - Section 32 evaluation for the Proposed Auckland Unitary Plan*. Auckland Council, Auckland

⁶⁴ Auckland Unitary Plan Independent Hearings Panel (2016) *Report to Auckland Council: Hearing topics 053- 069 Residential zones*. Auckland

⁶⁵ Mekawy, H.S. (2014) *Role of planning mechanisms in affordable housing delivery: Inclusionary zoning*. International Journal of Development and Sustainability, Volume 3, Number 9. Faculty of Urban and Regional Planning, Cairo University

⁶⁶ Ayyagari, R.V. (2018) *Affordable housing through inclusionary zoning – case of Auckland*. A thesis published in partial fulfilment of the requirements for the degree of Master of Environmental Planning. University of Waikato, Hamilton

⁶⁷ Mekawy, H.S. (2014) *Role of planning mechanisms in affordable housing delivery: Inclusionary zoning*. International Journal of Development and Sustainability, Volume 3, Number 9. Faculty of Urban and Regional Planning, Cairo University

increased crime, and the characteristics and behaviours of prospective residents. An evaluation of impacts in Queenstown found these fears to be unfounded⁶⁸.

- The Waimahia development is considered a highly successful example of a mixed tenure Special Housing Area (SHA), developed via a consortium between Tāmaki Collective, Te Tumu Kāinga, Community of Refuge Trust (CORT) and the New Zealand Housing Foundation. It produced about 300 dwellings of a range of designs, that provide both rental stability and pathways to ownership targeted at Māori and Pacific Island communities.

Unfortunately, most of the literature underpinning the debate is descriptive, theoretical or correlational. Very little empirical work has been undertaken demonstrating a causal relationship between the planning requirement and outcomes⁶⁹.

In addition, the debate is often more about the impacts of different planning requirement design features and their interaction with local context, than about the effectiveness of a planning requirement per se.

There is some agreement in the literature that in order to be effective, planning requirements should:

- Be mandatory and city-wide, not voluntary or selective
- Define affordable percentages with reference to the incomes of target households and informed by evidence about the local housing market
- Allow a range of delivery forms (eg land, houses or financial contribution) and a range of retention mechanisms, (such as covenants, retention of rental stock, recycling of capital gain in shared equity arrangements)
- Be accompanied by cost off-setting measures such as faster consenting, delayed payment of development contributions, and/or planning concessions⁷⁰
- Provide a significant role for the not-for profit sector in designing and managing the affordable homes and providing wrap around services for households
- Be carefully enforced and monitored by the council
- Be formalised in legal frameworks (eg district plans, legislation) that demonstrate long term commitment.

If Auckland Council wishes to pursue an affordable housing planning requirement it would be essential to undertake a thorough analysis of a range of options. This should include development feasibility modelling to evaluate the likely impact over the property cycle on land prices, overall supply of homes, and distribution between typologies, tenures and price

⁶⁸ Eaub, S. (2017) *Inclusionary Zoning: The evidence from Queenstown*. Report for Community Housing Aotearoa, Sense Partners, Auckland

⁶⁹ Fernandez, M.A., Bucaram, S. and Sanchez G. E. (2018) *Price Effects of the Special Housing Areas in Auckland*. Auckland

⁷⁰ The planning concessions that are commercially advantageous depends on type of development and market, and how enabling the Plan already is. Many developers may not want density bonuses.

points. The Council should engage with Government, community housing providers and the property sectors as part of this work.

5.3. Public provision or subsidies to develop affordable housing

There is clearly a gap in the New Zealand housing market with most developers building at the high end, while social housing is only for extremely low income households. However, the Government might be very nervous about subsidising low cost housing in that gap. Public subsidies for housing are very expensive especially with the rising cost of building housing. The Government spent \$815 million on Income Supported Rent Subsidies for social housing in the 2016/17 year and this is forecast to increase to almost \$1.3 billion by 2021/22: but most of the increase is to cover increases in per unit subsidies⁷¹.

The Kiwibuild programme is attempting to use public land, powers and guarantees (but not explicit financial subsidies) to produce 100,000 affordable houses. The programme appears to be successfully getting developers to build and banks to finance quality homes at lower cost, but these homes can only be made available to households with above median incomes and a significant deposit. Accordingly the programme is being criticised for being a “form of middle class welfare” rather than assisting lower income households into home ownership.

5.4. Build-to rent

Build-to-rent schemes developing in Europe, and large scale private investment common in the US, appear to increase the supply and the quality of rental homes and management. This could offset some of the risk and neglect associated with the small scale provision of private rental homes in New Zealand.

There is emerging interest in build-to-rent investment in Australia and New Zealand. However, low rental yields (rental income relative to development costs) especially in Auckland right now mean that investors are looking for clever ways to reduce costs. This includes partnerships with public and community land holders and innovative construction techniques. PwC predicts that a five percent rental yield would be sufficient to attract this type of investment if it can establish a large portfolio of assets and secure management rights⁷².

5.5. Legislation of rental tenure and quality standards

Legislation of rental tenure and quality standards do not improve housing affordability but may improve outcomes for renters. The Salvation Army argues that New Zealand needs to go further to reform tenancy law, particularly to provide for longer and more guaranteed terms of tenure. The Army points out that the ability for landlords to terminate tenancy for no reason undermines other tenancy rights provided in the legislation as well as causing

⁷¹ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. The Salvation Army Social Policy and Research Unit, Auckland

⁷² PwC (2018) *New Zealand's affordable housing dilemma* www.pwc.co.nz

stress and insecurity. It also recommends tightening up on the enforcement of the new healthy homes legislation requiring insulation⁷³.

However, the OECD notes that tenancy and rent protection needs to strike a balance and should not discourage the supply of rental housing⁷⁴.

5.6. Rent controls

The OECD suggests that regulating rents may make it more difficult for the private sector to offer good-quality rental housing to low income households⁷⁵.

In San Francisco, 15 percent of rental apartments were withdrawn from the market in the 18 years after rent controls were introduced⁷⁶. Rent controls don't apply to new developments there and developers warn that if they did it would seriously reduce the construction of new apartments. However the partial coverage of rent controls creates several distortions:

- It benefits older and more established households but younger and more mobile households are penalised because they pay high market rates
- It incentivises renters to stay put in apartments even when these don't match their needs.

5.7. Rent subsidies

Housing allowances can have fewer distortionary effects on residential and labour mobility than the provision of social housing and can be reduced when household incomes increase. However, this can make them a "benefit trap": The reduction in housing benefits when households earn additional income is estimated to tax away more than half of the wage increase in Israel and Luxembourg and more than one fourth in Finland, Germany and New Zealand.

There is evidence in the US, UK, France, Finland and New Zealand that rental subsidies in markets not subject to rent controls can be also captured by increasing rental prices making them less effective in addressing rental affordability, and increasing the fiscal cost of such subsidies per household⁷⁷.

⁷³ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. The Salvation Army Social Policy and Research Unit, Auckland

⁷⁴ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

⁷⁵ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

⁷⁶ Placzeck, J. (2018) *Is rent control working and should we have more or less of it?* Bay Curious. San Francisco, California. Accessed at <https://www.kqed.org/news/11677380/is-rent-control-working-and-should-we-have-more-or-less-of-it>

⁷⁷ Salvi del Pero, A., Adema, W., Ferraro, V. and Frey V., (2016) *Policies to promote access to good-quality affordable housing in OECD countries*. OECD Social, Employment and Migration Working Papers No. 176. OECD, Paris

The Salvation Army argues that the Accommodation Supplement should be reformed by integrating it with other income support programmes to address some of its shortcomings⁷⁸.

5.8. Rent-to-buy, shared equity, public leasehold and co-housing

The range of assisted ownership schemes described in this report all offer creative ways of offering intermediate market households a chance at home ownership, and all the benefits that this provides over renting in New Zealand. These benefits include greater security, better quality shelter, the right to own a pet, and the ability to accumulate wealth.

While in some countries private sector entities play some sort of role, these schemes seem to require significant involvement of not-for profit organisations and some public subsidy or support. They involve taking risk that a bank would not take, and/or accepting a lower financial return on assets. This means increased public expenditure and also limitations as to the number of households and income levels that could be assisted.

Soon to be published research by Livingstone and Associates for BRANZ will investigate these programmes in detail.

5.9. Papakainga

Despite the Auckland Unitary Plan supporting Papakainga developments, there have only been a few in Auckland. This is partly because of the limited amount of Māori land left in Auckland after the land wars.

The Independent Māori Statutory Board's draft *Kāinga Strategic Action Plan* suggests several initiatives that could increase Papakainga developments⁷⁹:

- Creation of customised mortgages and mortgage assistance that doesn't rely on individual land ownership for security
- Amending the Auckland Unitary Plan to allow Papakainga developments on general land and reserves adjoining Māori land.

⁷⁸ Johnson, A. (2018) *Beyond renting: Responding to the decline in private rental housing*. The Salvation Army Social Policy and Research Unit, Auckland

⁷⁹ Independent Māori Statutory Board (2018) *Kāinga Strategic Action Plan 2018*. Auckland

Key messages

1. Several targeted affordable housing policies common in overseas jurisdictions look promising. However, debate about their effectiveness highlights the importance of individual design features. For example, it appears that in order for planning requirements to be effective, they should:
 - Be mandatory, not voluntary or selective
 - Allow a range of delivery forms (eg land, homes, financial contribution) and retention mechanisms
 - Be accompanied by cost offsetting incentives.
2. High development costs limits what affordable housing policies can achieve.
3. The most effective affordable housing programmes:
 - Have strong political leadership
 - Involve partnership between different levels of government, not-for-profits and the private sector, with agreed objectives, policies and roles
 - Have objectives relating to both renting and ownership covering a spectrum of household incomes
 - Comprise an integrated package of regulatory and non-regulatory policies
 - Operate at sufficient scale to make a difference.

6. Conclusions and next steps

Auckland has a significant housing affordability problem.

The Government and Auckland Council are addressing many of the broad brush settings affecting overall demand for and supply of housing that contribute to this problem. At the same time, the Government provides some \$3 billion in social housing subsidies and assistance targeted at the lowest income households.

While these policies and initiatives are necessary they will not be sufficient to ameliorate the housing stress experienced by the growing number of working rental households who don't qualify for social housing and can't afford to buy a low cost home.

This report has reviewed a range of programmes targeted at this "intermediate housing market" in other countries. They are designed to:

- Increase the supply of low cost housing, including by the market
- Provide assistance to rent
- Assist partial ownership or pathways to full ownership.

Some of these programmes offer opportunities for New Zealand and Auckland to fill what is currently a gap in our housing policy. They could complement existing policies to bring down development costs and increase housing supply.

The most successful affordable housing programmes in other countries comprise a mix of regulatory and non-regulatory policies that achieve a range of objectives and are applied across the housing continuum. These programmes are provided via public, not-for-profit and private sector partnerships that have clear political leadership, and according to an agreed strategy.

Based on a review of recent literature, policy options that appear to deserve further investigation for the Auckland situation include:

- A retained minimum affordable housing planning requirement with cost-offsetting incentives
- How parties could work together to extend Kiwibuild
- Initiatives to facilitate institutional development and management of rental properties (such as Build-to-rent)
- Legislation to improve rental tenure security
- Reforms to make the Accommodation Supplement more effective
- Partial and progressive ownership arrangements such as rent-to-buy, shared equity, co-housing, papakainga and leasehold of public land.

However, first Auckland Council needs to be clear about what its objectives are, and which households it wishes to assist. It needs to consider what scale of intervention it is prepared to make and how it wishes to work with other parties.

The next steps for the Auckland Council would be to:

- Use this snapshot report to undertake targeted engagement with central government, the Auckland Community Housing Providers Network, Iwi/Māori, and the Property Council around this snapshot report
- Undertake a more in-depth intervention analysis of key affordable housing initiatives presented in this report, including feasibility modelling of a range of planning requirement design options
- Incorporate the results of the intervention analysis and stakeholder engagement in a report on roles for council and others.

Key messages

1. Auckland has a severe housing affordability problem. Broad brush policies underway to increase overall housing supply and arrest price increases are necessary but will not be sufficient to address the stress that working renters are under. There is also a need for complementary targeted policies to increase lower cost homes and better assist rent and home ownership.
2. This snapshot report has highlighted some policy options that appear to deserve further investigation as part of a system response for the Auckland situation:
 - A retained minimum affordable housing planning requirement with cost-offsetting incentives
 - How parties could work together to extend Kiwibuild
 - Initiatives to facilitate institutional development and management of rental properties (such as Build-to-rent)
 - Legislation to improve rental tenure security
 - Reforms to make the Accommodation Supplement more effective
 - Partial and progressive ownership arrangements such as rent-to-buy, shared equity, co-housing, papakainga and leasehold of public land.
3. Next steps for Auckland Council are to agree its objectives and target groups, analyse a range of policy options that might best address these, and explore the position and role it wishes to play.
4. The Council should engage with Government, community housing providers, Māori/iwi and the Property Council on this report and as further work is undertaken.

Appendices

Appendix 1: Glossary

TERM	DEFINITION FOR THE CONTEXT OF THE REPORT
Affordable housing	A home that a household could occupy for less than 30 percent of its income whether purchasing or renting.
Intermediate Housing Market	Private sector renter households with at least one member in paid employment who are unable to affordably (using no more than 30 percent of their gross household income to service mortgage expenses under standard bank lending criteria) purchase a dwelling at the lower quartile house sale price for the local authority area.
Standard bank lending criteria	Standard bank lending criteria includes a 10 percent deposit, 25 year table mortgage, and one year fixed mortgage deposit rate, with no more than 30 percent of the households' gross income paid in mortgage expenses.
Affordable home products	Lower cost homes (included those provided by the market), assisted rental housing, and homes fully or partly owned via assisted ownership arrangements
Assisted ownership	Arrangements that provide pathways to partial or full home ownership, including rent to buy, shared equity, Papakainga, owner-occupied homes on leasehold land and co-housing.
Assisted rental housing	Rental housing that is either: <ul style="list-style-type: none"> • Subsidised via a Government benefit paid to households that meet income criteria– eg the Accommodation Supplement, or • Provided by the non-profit-sector to low income households at better terms (eg quality, tenure security) than the market.
Social Housing	Rental accommodation subsidised by the Governments' Income Related Rent Subsidy, and provided by Housing New Zealand or community housing providers for very low income households that meet a range of criteria.
Emergency Housing	Temporary accommodation and support subsidies for individuals and families who have an urgent need for accommodation because they have nowhere else to stay, or are unable to remain in their usual place of residence. Includes temporary overnight accommodation and short term stays of approximately 12 weeks.
Overcrowding	Statistics New Zealand primarily uses the Canadian National Occupancy Standard to analyse overcrowding rates from census data. In this standard, children under five of either sex may share a bedroom but children between five and 18 should only share a room if they are of the same sex. Couples and people 18 and over are also allocated their own bedroom. The household is defined as crowded if these conditions are not met. This is "structural" overcrowding based on the number of people in the household.
Homelessness	Homelessness is defined as a living situation where people with no other options to acquire minimally adequate housing are: without shelter, in temporary accommodation, sharing accommodation temporarily with a household, or living in uninhabitable housing (Statistics New Zealand, 2015).

Appendix 2: Key informants

KEY INFORMANT	ORGANISATION
Andrew Beauman, David Hermans and Rob Murray	Ministry of Housing and Urban Development
Brenna Waghorn	Panuku Auckland Development
Chris Glaudel	Community Housing Aotearoa
Dominic Foote	Auckland Community Housing Providers Network
Ian Mitchell	Livingstone and Associates
Jennifer Joynt and Mario Fernandez	Research and Evaluation Unit, Auckland Council
Matt Paterson	New Zealand Property Council
Shamubeel Eaqub	Sense Partners
Wayne Knox	Te Matapihi He Tirohanga Mō Te Iwi trust.

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