

National
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Challenges

**BUILDING BETTER
HOMES, TOWNS
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**Revitalising the production of
lower value homes: Researching
dynamics and outcomes**

Kay Saville-Smith

REVITALISING THE PRODUCTION OF LOWER VALUE HOMES: RESEARCHING DYNAMICS AND OUTCOMES

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Abstract

Aggregate under-supply of new dwellings has been cited as a major contributor to New Zealand's high house prices, falling owner occupation, and increasing numbers of households burdened with unaffordable housing. Central and local government have sought to encourage new-builds and the release of land for residential purposes. But this is not having a substantial impact on the supply of affordable housing. This paper presents the rationale and framing of one of the programmes funded within New Zealand's Building Better Homes Towns and Cities National Science Challenge. That research gives attention to the changing profile of homes produced by the building industry. It traces the pattern of building industry retreat from affordable home building, the factors that prompted that retreat and asks whether there is a benefit in investment in lower value home building and how the building of affordable homes might be revitalised.

Keywords: Affordable housing, building industry

Introduction

After a long period of persistent denial, in 2013 the New Zealand government accepted that New Zealand faced an immediate, and probable worsening of, housing under-supply. The response was an intervention by central government into regionally and locally controlled land-use planning decisions. The Housing Accords and Special Housing Areas Act 2013 (HASHAA) was implemented which identified areas in which housing affordability, measured by median house prices, was deemed as unacceptable. Local government was asked to consent land for development in special housing areas initiated by developers which reduced rules around building heights and densities without consultation with affected parties, neighbours or communities. Intended to enhance housing affordability by facilitating an increase in land and housing supply through reducing land development costs and consenting periods, the then government's response was consistent with a longstanding political narrative. That narrative presented rapid house price increase and housing supply issues as a temporary misalignment of supply and demand exacerbated by a booming economy and immigration but primarily due to rigid and distorting land-use planning regimes, which disincentivize land release and development. The land-use planning narrative is one which New Zealand shares with many other countries including Australia and the United Kingdom (Gurran and Phibbs, 2015; Barker, 2004).

The land-use planning narrative is also one that through natural experiment has shown itself to be largely misguided at best and, at worst, a strategy that has actively avoided addressing persistent and significant under-supply of affordable housing. The HASHAA's operational period has been extended to 2019 because of the low levels of take-up. Moreover, even those Special Housing Areas (SHAs) that have been established have generated low numbers of dwellings, most of which are not affordable for those middle- and low- income households most burdened by unmet housing supply (Murphy, 2016; James, 2018). House prices remain heated and the exclusionary impacts of housing affordability problems first evident in access to home ownership have spread to the rental market (Ministry of Business, Innovation and Employment, August 2017). The NZ Productivity Commission has identified a range of poor outcomes in housing and urban settlements (New Zealand Productivity Commission, 2012, 2015 and 2017).

As a researcher it is tempting to suggest that the problem lies in the politics of research take-up, that researchers have placed in the public arena robust, research-based framing of both the drivers of New Zealand's housing crises and the pathways to its resolution. That is not, however, the case. Even the

most basic empirical data regarding the current state of housing in New Zealand have been fragmentary and difficult to access. The incoming government found its briefings so opaque it commissioned a stocktake on housing in New Zealand (Johnson, Howden-Chapman and Eaquib, 2018).

It is perhaps not surprising that in a small society of less than five million people, the housing research platform and the funding to sustain it has been limited. But as New Zealand's housing problems have increased, there has been a dwindling of both government capacity and capability in housing research as well as public good funding directed to housing research. The New Zealand Housing Commission was disestablished with the housing reforms in 1990/1. CHRANZ, which funded independent housing research was closed in 2011, while public good science funding has been increasingly focused on primary industry, manufacturing and technology (Ministry of Business, Innovation and Employment, 2015:34). The lack of appetite for funding independent research was evident during the development of the national science challenges as a vehicle for concentrating public good funding science on pressing issues for New Zealand. Although housing, our cities and our building industry were identified by the New Zealand public as one of our greatest challenges for the future, those issues were not initially prioritised by government in its selection of National Science Challenges (NSCs) destined for mission led, concentrated, multi-year funding research investment. Only under pressure from housing and building stakeholders combined with persistent problems of housing affordability, falling rates of home ownership, rising rental prices, increasing housing exclusion, homelessness and continuing questions around the performance of New Zealand's housing stock including its new built stock, saw the funding of an eleventh NSC – *Building Better Home Towns and Cities* (BBHTC) – many, many months after the approval of the other ten NSCs.

This paper is concerned with the way in which the sort of research envisaged within the NSCs has not only resourced but refocused research into the dynamics of housing research in New Zealand. It has raised the issue of affordable housing as a research focus rather than simply the pattern of housing affordability and its distributional effects. It has integrated a focus on affordable housing with a focus on the building industry that goes beyond the costs of building materials and productivity. The paper is structured as follows. It describes the BBHTC's programme of research into the building industry and lower value housing production. It comments on the context in which that focus emerged. Finally, it presents some early findings from the research which suggest that for New Zealand it has not been rigidities around public planning but the removal of government capital assistance that has driven the building industry out of producing housing affordable, not only to households likely to have low incomes over the long term, but also to households with future earning potential but in the low income stage of their life cycle.

Research for revitalising the building industry's production of affordable housing

All the NSCs in New Zealand are designed to be mission-led. That is, NSC research is directed to, prioritises and is designed to deliver demonstrable outcomes. NSC research is intended to identify transformational pathways and inspire transformational thinking and action, both through the research process and through research findings. Fulfilling those aspirations is by no means trivial. Some might suggest that such a goal is ephemeral, unmeasurable and unrealistic. The success of the NSCs will no doubt be the subject of debate in the future. There is no doubt, however, that the BBHTC has generated a very different configuration of researchers, research questions and research programmes as it pursues its self-described goals of research supporting:

Built environments that build communities. Its mission is manaaki tangata: Co-created innovative research that helps transform people's dwellings into homes and communities that are hospitable, productive and protective.

The BBHT's objective is to improve the quality and supply of housing and create smart and attractive urban environments through an improved housing stock; meeting future demand for affordable housing; taking up innovation and productivity improvement opportunities; improving urban environments and residents' well-being; and better systems for improved land-use decisions (BBHTC, May 2018).

The mission-led nature of the BBHTC has required researchers to go beyond the traditional planks of housing and building research in New Zealand. Those have been, first, the housing patterns and issues arising from degenerating affordability including rapidly falling rates of owner occupation, increased dependence on the rental market, poor housing conditions, health implications, and impacts on living standards for people reliant on the rental market. The second plank has been research into land-use and planning impacts on land costs. The third plank has been around aspects of building industry performance, construction costs, voluntary adoption of building performance that is referred to as going beyond code, that is, exceed legislative and regulatory standards. Those research planks have rarely been connected. BBHTC has made those connections by committing some of its funding to a largely neglected aspect of the intersect between housing and the building industry: that is, the production of homes in the lower end of value and homes affordable to lower income households either through home ownership or to the landlords that deliver rental housing to low- and middle- incomes households. In 2017 the BBHTC funded a programme entitled “*Revitalising the production of affordable housing for productive, engaged and healthy lives.*”

The mission-led nature of the BBHTC is evident in the way in which the research is articulated. The research is couched in terms of transformation. It is framed around a question that encompasses not only change, but purposeful change directed to achieving a set of desire outcomes:

How can we reinvigorate the investment in and production of affordable dwellings and restore to households and families access to homes which provide a secure platform for productive, engaged and healthy lives?

The research reflects a view of change and transformation in which there are three-fold knowledge pre-conditions. Those are, firstly, a robust evidential base that tests the merits of any reinvestment in housing in the lower quartiles of value and associated value cases for central and local government, households, housing providers and the building industry respectively. The second pre-condition for knowledge-based change is research that identifies the regions, household segments, and tenures most acutely under-supplied with new-build affordable housing. The third condition for knowledge-based change is research that provides a systematic assessment of the relative merits of mechanisms, instruments, institutional settings and technical pathways in incentivising investment and building activity in lower quartile housing. As a consequence, while the research has a traditional approach to specifying hypotheses, the hypotheses themselves resonate with or are underpinned by a view about those knowledge triggers of change (Table 1).

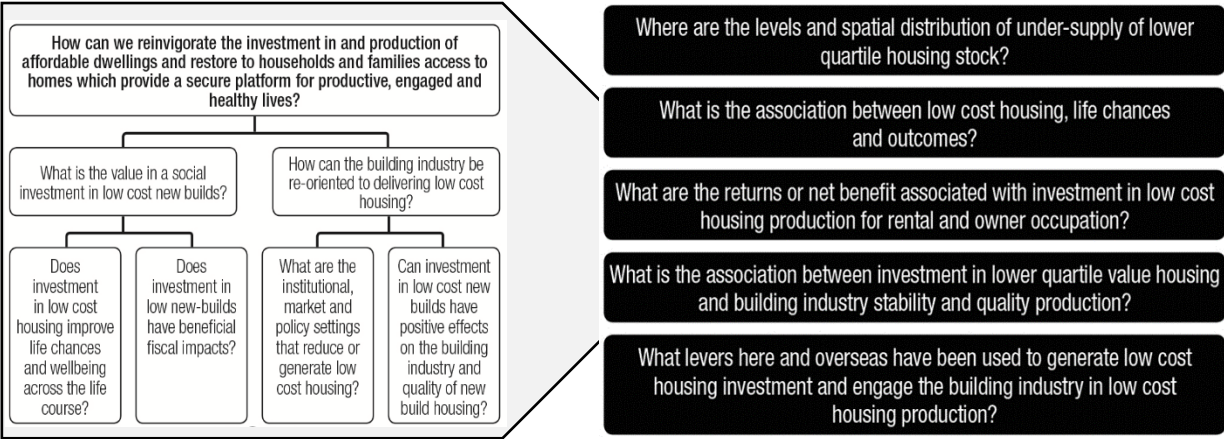
As Table 1 illustrates, the notion of the value case is a central element in the construction of the research programme. The programme explores the dynamics that have led to the decline in the building industry’s interest in delivering affordable housing, which until the 1990s provided for low income households both in public housing and in owner occupation. It asks whether it is either desirable or possible to revitalise the building industry’s interest in producing these lower value homes and who would benefit from the investment that might be required to do so. It is suggested that those benefits may reside in individuals who consume affordable housing, may reduce the fiscal liabilities of government, and, in hypothesis 4, even accrue to other home owners by stabilising and improving the performance of the residential building industry as a whole. Implicit is an acceptance of the value or business case as a tool which informs the decision-making of key stakeholders. The hypotheses also imply that investment in affordable housing, along with the establishment of an array of institutional mechanisms to ensure that investment generates that affordable housing, will be the key transformational pathways.

Table 1. Research hypotheses and their functional referencing

Hypothesis		Mission and transformation category
1	That investment in low cost housing improves life chances and the financial, social and wellbeing of individuals and families across the life course.	Value-case – referenced to individual well-being and productivity
2	That decreased production in low cost housing has been generated by reduced government and household investment in low cost stock associated with institutional, market and policy changes in social investment in housing.	Transformation – referenced to dynamics associated with the decline in affordable housing production and possible pathways for revitalisation.
3	That investment in low cost new-builds has beneficial fiscal impacts for central and local government.	Value-case – referenced to government.
4	That investment in low cost new builds has positive spill-over effects on the building industry and the quality of new build housing production.	Value case and transformation – referenced to potential for improved building industry performance across the residential sector.

A similar concern with transformation and change is evident in the hierarchy of research questions used to operationalise the programme’s hypotheses and connect them to the programme’s research activities (Figure 1).

Figure 1 Research Questions



The *Revitalising the production of affordable housing for productive, engaged and healthy lives* research programme uses a mixed method approach incorporating both quantitative and qualitative techniques. Existing datasets as well as newly generated data are used to explore the questions and hypothesis. The substantive research is organised around five components.

The first research component focuses on the articulation between access to low cost housing, life chances and the outcomes associated with the consumption of low cost housing. It looks at the outcomes associated with housing provision in lower quartiles of value through three activities. There are life course and housing histories with Māori, Pacific and Pākehā (New Zealand born Europeans) using in-depth, semi-structured interviews to generate nuanced understanding of actual life experiences over time. The case frame involves around eighty cases situating life courses within a housing narrative over two to three generations, the first generation of whom were living in low cost housing either in owner

occupation facilitated by a state mortgage, owner occupation in low cost new build, or in social housing. These intergenerational life course and housing histories are designed to establish the social and economic trajectories of up to three generations and the extent to which they were embedded in access to secure, low cost housing.

The second set of activities in this first research component involves statistical analysis of the relationship between new-build low-value housing and outcomes. New-build housing, irrespective of cost or value, is expected to be compliant with or exceed national building standards. In this research low value housing is deemed to be in the lower quartile of market value and affordable to low income households either in secure owner occupation or secure rental. The analysis involves interrogation of both extant longitudinal studies and 'big data', known as the Integrated Data Infrastructure (IDI), largely generated out of the matching of administrative data associated with the business of government. The focus of that analysis is around outcomes in relation to human capital measures, health, residential stability, income and employment but also includes other indicators of well-being where those datasets allow. Continually evolving, the IDI is currently limited both in terms of its time series and scope, but the microdata it holds on individuals and households already consists of 166 billion 'facts' (Statistics NZ, 2018).

The final set of activities in this first component focuses on the experiences of Māori well-being. The indigenous people of New Zealand have had a fluctuating housing history since colonisation. Māori have been disproportionately exposed to the burdens of very poor condition rural housing, overcrowding in town and country, stunted aspirations for home ownership, and alienation from 'home'. This part of the first component explores the connections between low cost housing and new-build impacts for current and future generations of Māori whānau. This focuses on what makes a house a home for whānau Māori and the forms and functions of lower cost new house builds in providing a supportive platform for Whānau Ora, that is the spiritual, physical, cultural, economic and social health of Māori families.

Notably, in this and other research components, the focus is on access to all low cost, affordable housing produced broadly in the lower quartile of house values when built. It embraces both new dwellings in the rental stock and stock directed to low income and low middle-income households for owner occupation. That reflects three characteristics of affordable housing production in New Zealand. The first characteristic is until the 1990s, the longstanding policy of New Zealand governments, irrespective of political party, of supporting home ownership. It was a policy initiated in the 1930s, cemented in the post-war period and prevailing until the housing reforms of 1990/91. The second characteristic is the significant place of secure tenure policies in the delivery of public housing. Those policies differentiated the experience of social housing from renting on what in New Zealand has been a very loosely regulated private market which, in any case, has tended to acquire existing rather than new built stock. The third characteristic, it the importance of public housing and the implicit 'contact' with Pacific people. Many of the public housing estates built in the 1960s were designed to attract and accommodate workers from the Pacific Islands destined for labouring in low paid service sector occupations and New Zealand manufacturing industry. Embracing both low value stock produced both for long-term owner occupation and long-term rental provision is a significant departure from research that focuses on the differences between owner occupation and rental consumption.

The second component of the research programme is concerned with the spatial and tenure distribution of under-supplied affordable housing. Using household housing affordability data drawn from the census, household economic surveys, district valuation rolls, individual property level data, and building consent data, new-build value distribution is being measured as the share of building consent value of new-builds valued within each quartile of the value distribution for the existing housing stock. Analytically, this second component has three parts: mapping the spatial distribution of lower quartile value new builds on a regional basis and analysing the tenure of those new build dwellings; establishing the alignment between the value of lower quartiles of stock and affordability needs of households; and assessing whether the affordability of the housing stock (both new-build and existing) is associated with the number and value distribution of new-builds.

The third component of the research is designed to contribute to our understanding of the value case for revitalising investment and production of housing in the lower quartiles of value. It tests the public value of low cost housing by looking at the net fiscal benefits and wider societal benefits of low cost housing providing secure owner occupation or rental. Attention is being given to establishing the comparative net benefits associated with secure owner occupation and secure rental housing respectively. This component extends and adapts methods previously used to establish the benefits of transitioning to home ownership (Nana, Fareti, Hurren and Dixon, 2017). The focus is on the fiscal exposure arising from individuals living in households with limited means living in secure, low cost housing compared to those living in higher cost housing. Using a scenario method, it involves sampling individuals from IDI datasets and data generated in other components of the programme and will establish differential per capita fiscal costs related to health service consumption, crime, benefits (including the Accommodation Supplement and Income-Related Rent), and government revenues including wage and salary taxes.

The fourth and fifth components of the research turn from the consumption of housing, its distribution and outcomes to explore supply-side dynamics and the production of affordable housing. Component four focuses on the determinants of the building industry's delivery of stock in the lower quartiles of value. This component builds on the recently completed work on community housing procurement practices (Saville-Smith, Saville-Smith and James, 2016). It teases out the factors and conditions that led to the exiting of the building industry from servicing lower resourced households and moving attention to dwellings in the upper quartile of value. It has four strands. The first strand is concerned with understanding the historical shifts in building industry production across quartile of value. Building on analysis of quartile value price points nationally and regionally, this strand will establish the materiality of: specific domestic or international shocks; key demographic trends; changes in institutional settings related to housing, building and finance; changes in housing, building and planning regulation; and, changes in investment policy related to lower quartiles of value new builds with a particular emphasis on investments of local and central government, and the community housing sector. The second strand of component four will involve a property investors survey to establish investors' perceptions of low quartile housing investment in the cost of supplying owner occupiers on moderate incomes and supplying the rental sector. This will include investors involved in lease arrangements with social housing providers. The third strand focuses on the Māori investment and housing sectors and the trajectory and drivers of their investment in housing and the profile of residential stock generated through direct Māori investment. The final strand comprises a set of case studies designed to highlight the changing orientation of builders in production. This involves identifying and analysing company histories, and interviews with builders with longstanding involvement in the production of lower quartile value housing.

Consistent with the mission-led and transformational orientation of national science challenges, the fifth component explores mechanisms to revitalise the production of low cost homes which will deliver the performance and amenities needed by low income households to thrive. Component five focuses on the financial, technical, and planning mechanisms that may be mobilised to deliver good homes with lower quartile values into the owner-occupied stock and the rental stock. Using systematic review techniques combined with in-depth interviews and consensus conferencing, the component is designed to: establish the wider industry benefits and the pathways into re-engaging with the delivery of low cost housing stock; establish the efficacy of current and past practices and policies overseas and in New Zealand directed to generating housing in the lower quartile values and encouraging supply to meet the needs of households with limited resources; assess the acceptability, practicality and implementation requirements around institutional, policy, regulatory or technical solutions to revitalise the investment and production of dwellings in the lower quartiles of value; and, develop an integrated, systems-based strategy for promoting affordable housing through investment in housing in the lower quartiles of value.

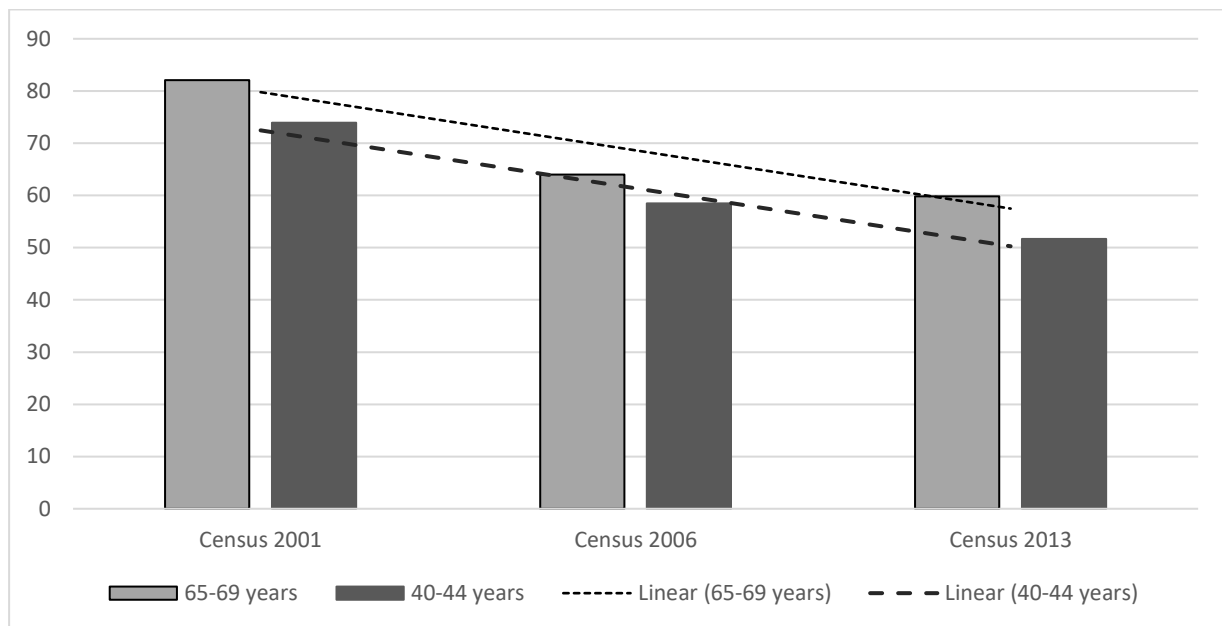
Research context

There can be no doubt that this is risky research. None of the research tasks are trivial. It crosses boundaries in both housing and building research that have been rarely broached in the past. Definitions of key concepts such as lower quartile and affordable housing are contestable and measured in different ways. Already the research has revealed some complexities around the apparently simple data presented by the NZ Productivity Commission around the shift in production from lower quartiles to higher quartiles (NZ Productivity Commission, 2012:6. See Figure 3 below). Nevertheless, the housing crisis for New Zealand is so profound, multi-dimensional and embedded that a circuit breaker in the narratives around its causes, consequences and connections is required. Three points of departure prompted this research programme. The first was the extremely high rates of unaffordability evident in New Zealand and associated homelessness. The second point of departure was falling rates of owner occupation. The third and final point of departure was the New Zealand Productivity Commission's analysis of the value of new builds added to the New Zealand housing stock over the last fifty years or so.

In every region in New Zealand the vast majority of tenants and an even higher proportion of potential first homeowners are burdened by unaffordable housing (Ministry of Business, Innovation and Employment, 2017:15). The high rates of housing unaffordability in both owner occupation and rental shown in Figures 2 and 3 have been accompanied by increasingly vociferous publicly expressed anxiety which merged with anxiety around homelessness as something more than a residual, pathological phenomenon associated with marginal individuals (Johnson, 2017). There has been a rising interest in overseas research on the impacts of affordable and unaffordable housing on a wide range of societal, household and individual outcomes including job creation, human capital development, settlement viability, health, education, welfare and standards of living (Waldegrave and Urbanová, 2016). Interest in previously neglected research into affordable housing under-supply has also been revived. One study of affordable housing under-supply in the Bay of Plenty found that the lack of affordable housing meant forecast regional Gross Domestic Product (GDP) was lowered by around \$280 million and job growth lowered by 12% (6,640 fewer jobs) for 2001-2031 (Capital Strategy and SGS Economics and Planning, 2007). That the Bay of Plenty region is relatively small compared to Auckland, Wellington and Canterbury, all of which have pronounced unaffordability problems is indicative of the size of the potential benefits that cracking the problem of the supply of affordable housing might have on New Zealand as a whole.

Associated with the under-supply of affordable housing and rising house prices has been falling rates of home ownership. Jackson's (Jackson and James, 2016) recent cohort analysis shows over 87 percent of people born between 1927-31 were in owner occupation at the age of 65 years. That is, in the period 1992-1995. It is likely that those born in the period 1972-1976 will, under current conditions, struggle to see 55 percent of the cohort in owner occupation by retirement age. Figure 4 shows the declining proportion of 65-69 year olds in owner occupied dwellings over a little more than ten years. The even greater fall in proportions of 40-44 year olds, those coming towards retirement in two decades time, shows New Zealand's extraordinary withdrawal from a home ownership society. The impacts on children's experiences are profound. Over two thirds (67.4 percent) of children born in the 1982-1986 cohort experienced their pre-school years with their families as owner occupiers. By comparison, well less than half (42.7 percent) of children born 2007-2013, were living in owner occupied dwellings.

Figure 2. New Zealand's tenure revolution indicated by falling proportions of middle aged and older people in owner occupied dwellings 2001-2013

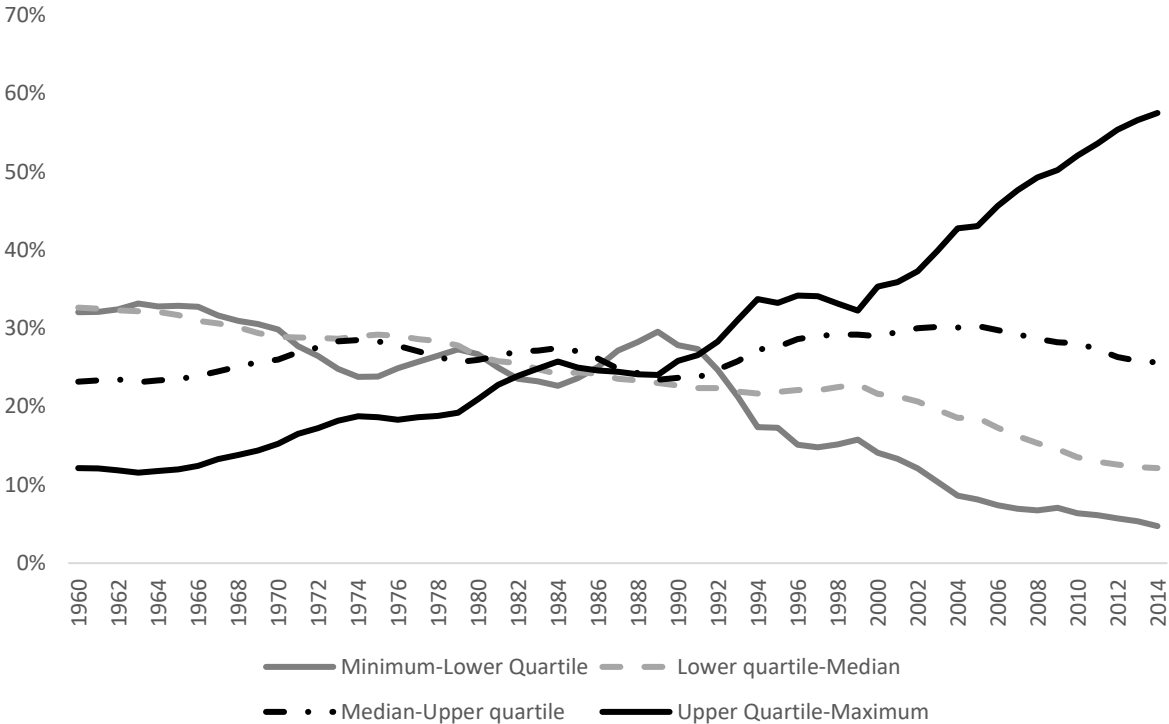


The decline in home ownership reflects, in part, a challenge that emerged in the late 1980s to public policy that promoted the dominance of owner occupation. Some protagonists argued for tenure neutrality in housing assistance. Others argued that a shift to rental housing would have a variety of benefits including: releasing household income that would otherwise be invested in unproductive assets (the home); reducing household exposure to debt; facilitating movement for jobs, encouraging household consumption of other goods and services; and, encouraging households to invest in stocks, shares and enterprises. The reality has been, however, that home ownership has provided households with better and more satisfactory living conditions (StatisticsNZ, 2013). Similarly, owner occupation has been, because of heated house prices, a platform for increased wealth and moves towards asset-based welfare (Murphy and Rehm, 2016: 39-55). Falling rates of home ownership have, consequently, been the mechanism for increased wealth inequality in New Zealand. Over the period of declining owner occupation there has also been increasing debt to income ratios among New Zealand households and has, according to the New Zealand Reserve Bank, fed both increasing reliance among retail banks on home mortgages and rising house prices (NZ Reserve Bank, 2015). In addition, many of New Zealand's support and funding settings, such as residential care funding for older people and older people's pensions, assume high levels of home ownership (Saville-Smith, 2013: 8-11).

Public policy, political debate and public anxiety have tended to focus on the impacts of falling rates of home ownership and unmet housing need or factors allegedly generating those outcomes. The factors most typically attracting attention being: alleged rigidities and costs generated by land use planning; the costs of land and land banking; low productivity in the building industry; and drivers of building costs including material costs, the costs of health and safety regulation, increased standards for building performance embedded in the New Zealand Building Code and undesirable practices in the building industry such as cover-bidding. Only recently has attention been given to the impact of house prices on the price of dwellings coming to market, particularly by way of the application by developers of residual land valuation tools (Murphy, 2017; Saville-Smith and Murphy, 2018). Researchers have not until this research programme given attention to the decline in the building industry's interest in delivering dwellings in the lower quartiles of value despite the 2012 NZ Productivity Commission on housing affordability.

In 2012 the New Zealand Productivity Commission released its report into housing affordability in New Zealand. In a wide-ranging commentary, much of which re-asserted the usual narratives used to explain housing affordability problems in New Zealand, there was a graph largely subsequently ignored. That graph showed the distinct shift in the building industry’s production of dwellings between 1960 and 2014. That graph is reproduced in Figure 3 and presents an analysis of the proportion of new builds falling into four quartiles of housing stock value.

Figure 3. Proportions of new builds 1960-2014 by quartile of housing stock value (Data provided by the NZ Productivity Commission)



According to the New Zealand Productivity Commission, the 1960s saw more than 60 percent of new residential builds falling into the lower two quartiles of value. By the 1980s, the production of new builds was, despite some fluctuation, broadly distributed evenly across the four quartiles of value. From 1990, however, the pattern of new builds showed a seemingly dramatic reversal from the distribution evident in the 1960s. Higher and higher proportions of new builds fell into the higher quartiles of value. According to the New Zealand Productivity Commission, by 2010 more than half of all new-builds were in the highest quartile of value. That trend was accompanied by production in the lowest quartile of value falling significantly. By 2010 less than 10 percent of new residential dwellings were being built in the lower quartile of value. By 2014, less than 20 percent of builds were in the lower half of dwelling value (New Zealand Productivity, 2012: 6).

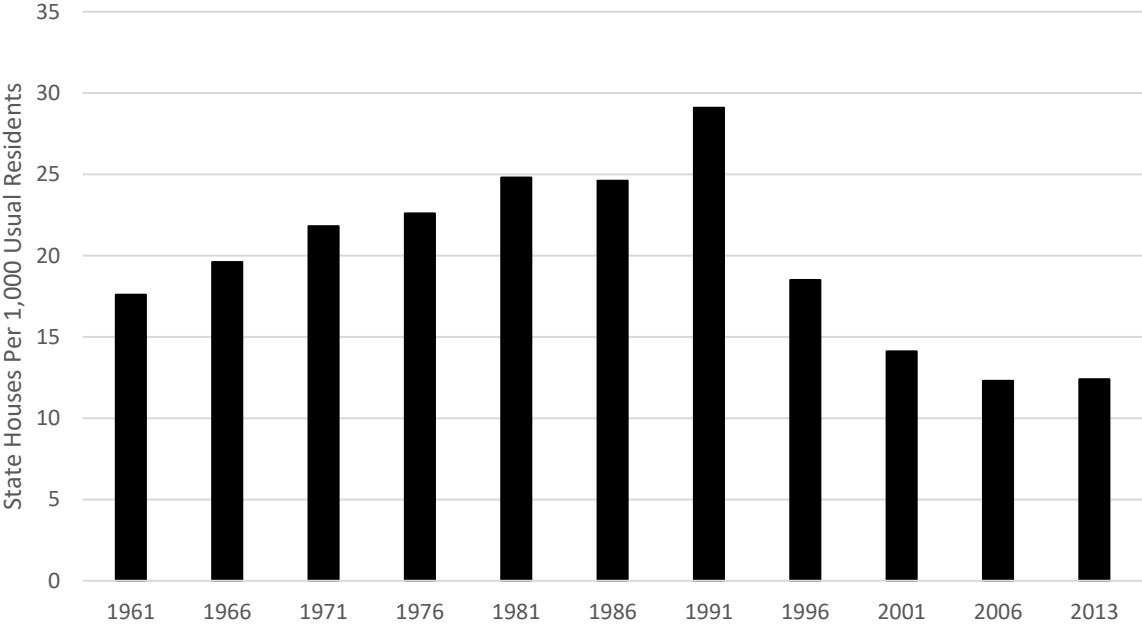
The significant increase in house values in the market over that time makes the shift from lower quartiles of value to higher quartiles of value all the more extraordinary. Yet, and despite researcher preoccupations with falling home ownership, housing affordability and homelessness, the figures released by the New Zealand Productivity Commission had little impact on researchers. Until this programme little attention has been given to the dynamics that saw the building industry leave the low-cost segment of the housing market. While attention has been given in New Zealand and elsewhere to outcomes associated with home ownership relative to rental housing, little attention has been given to the benefits, or otherwise, of investment in low value new-builds for rental provision with secure tenure (Nana, Fareti, Hurren, and Dixon, 2017; Waldegrave and Urbanová, 2016).

Similarly, while some have noted the articulation between the priority and assistance given to home ownership and the building industry’s production of lower value dwellings, this has not been systematically quantified. Equally little attention has been given to understanding the building industry’s production patterns and investment in new build rental housing. Consequently, there are unaddressed questions related to the outcomes and life chances associated with access to low value, secure dwellings irrespective of tenure. There are questions, too, around the extent to which the smoothing out of cyclical lows in construction represented in government support for low cost housing helped to the building-industry to retain skills and capability, remain financially viable without turning to predatory and undesirable practices such as voluntary liquidation to avoid liability and debts, and problems with building performance and quality.

Early Findings

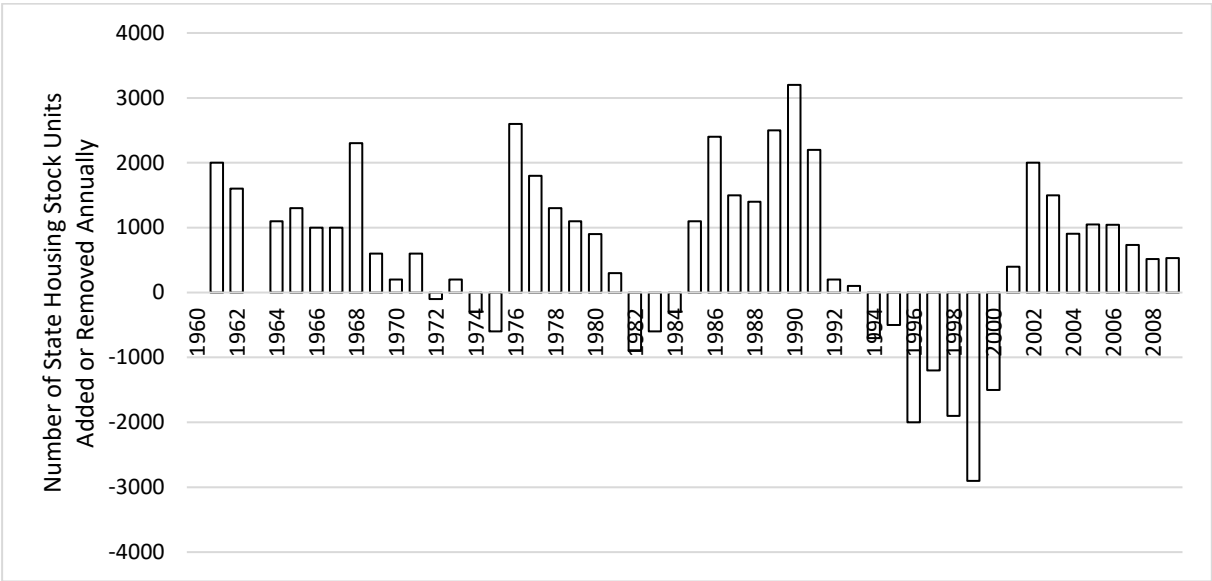
Revitalising the production of affordable housing for productive, engaged and healthy lives is a two-year programme and is still within its first months of implementation. An analysis of government capital assistance for the building of affordable housing, both in the rented sector and in the owner occupied sector, gives a compelling alternative narrative about affordable housing under-supply as well as a picture of a building industry disincentivised in its production of lower value stock. An analysis of government investment into public housing, indicated by the number of state houses per capita shows investment peaked in 1991 and saw a subsequent decline (Figure 4).

Figure 4. Investment per capita state housing stock



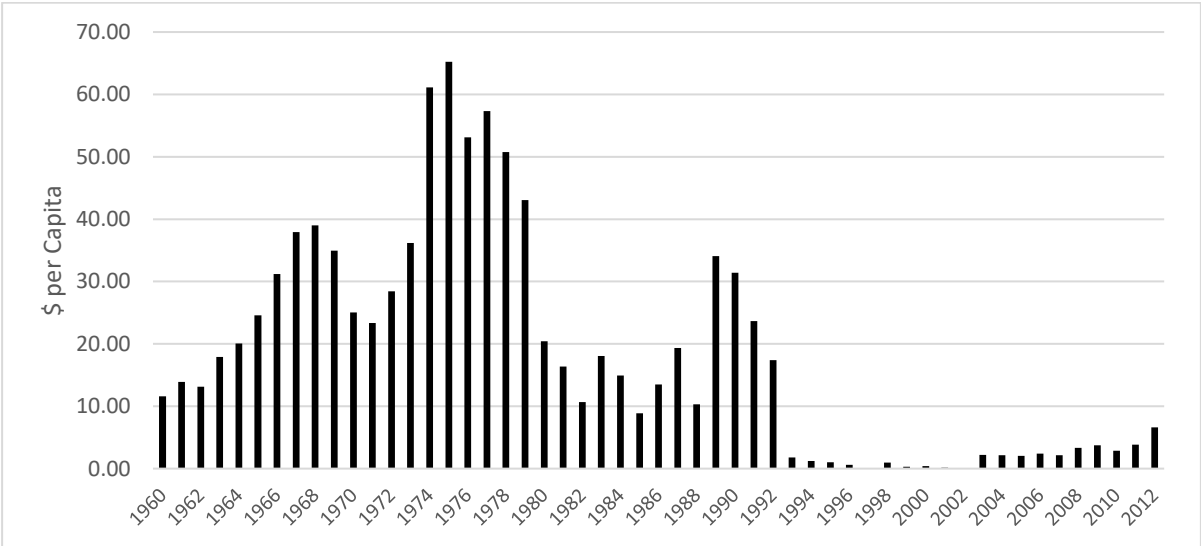
To better understand the impact on the building industry it is useful to look at the annual addition or disposal of the state housing stock. Stock additions were new builds and they showed a pronounced hiatus in the early 1990s (Figure 5). The net divestments of stock evident in Figure 5 in certain years does not, of course, inevitably mean that there was no state housing production in that year. There could conceivably be a scenario in which state housing portfolio management saw a significant building programme to replace older stock which was divested. Expenditure data, however, shows a coincidence between periods of net divestment and low levels of government capital expenditure in new build housing programmes of any kind. The 1990s, for instance, saw an extended period of state housing divestment. It also saw a significant decline in funding directed to the community housing sector and capital assistance to low income households.

Figure 5. Annual expansion or decline of state housing stock units annually 1960-2008



Analysis of government funding to the community housing sector targeting new-builds shows a significant decline both on a per capita (Figure 6) and an aggregate basis. Peaking in 1975 at \$205 million in 2017 June quarter dollars, the period after the housing reforms implemented in 1991/2 to 2012 saw funding reduced to an annual average of less than \$8 million in 2017 June quarter dollars.

Figure 6. Community Housing New Build Government Capital Assistance per capita (real June 2017 \$)



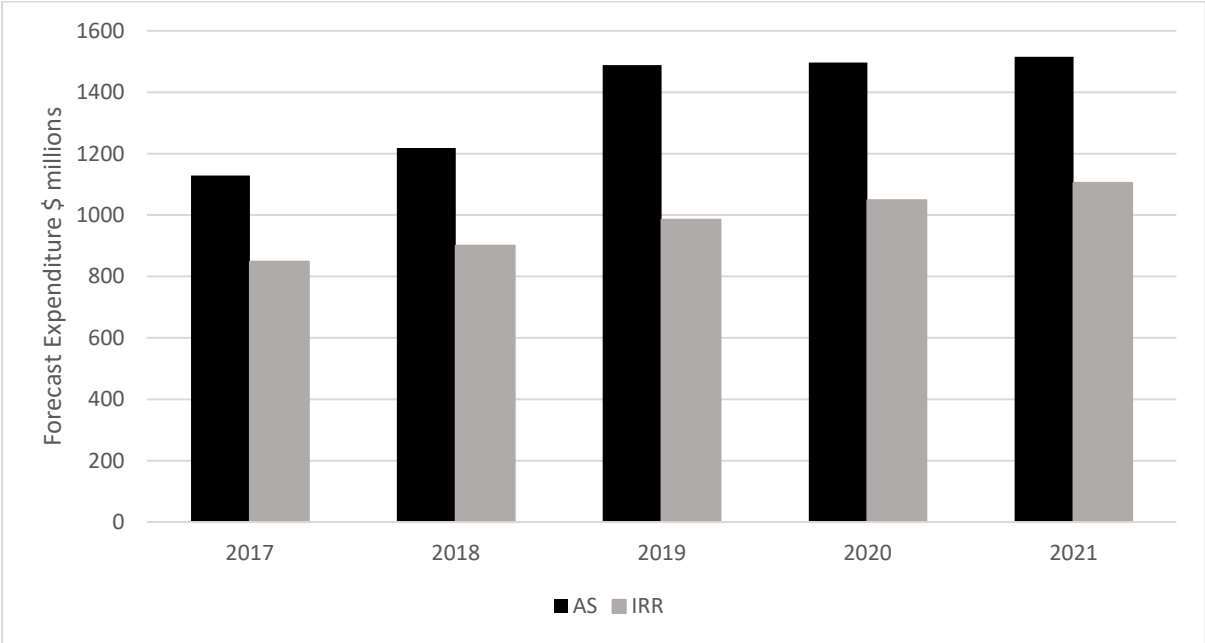
The community housing sector encompasses a wide variety of housing providers typically offering rental accommodation but also providing shared ownership and rent-for-buy as well as various forms of temporary, transitional and emergency housing. In the immediate post-war period community housing was strongly associated with the charitable and voluntary sectors. Often it was associated with religious organisations. The 1970s and 1980s saw a burgeoning of specialist housing delivered by a range of organisations including iwi and runanga dedicated to Māori housing, disability advocates, local councils and organisations with international connections such as Habitat and Abbeyfield. The community housing sector has frequently been accused of having limited impact on housing provision and an

inability to deliver housing at scale. The community housing sector itself, however, has argued that its inability to ‘scale-up’ has largely arisen from uncertainties around funding and a lack of capital investment. The latter appears to have substance. Recent research has found that many community housing providers are skilled in procurement under conditions rarely faced by others procuring housing from the building industry (Saville-Smith, Saville-Smith and James, 2017).

Declining government capital investment in new builds goes beyond the government’s state housing programme and its funding of community housing sector new builds. New Zealand’s housing policy was strongly shaped by its support for owner occupation until the housing reforms of 1991/2. That support took a variety of forms including lending to the building industry for land development as well as the government’s own development of low cost sections accessed by first home owners. In terms of direct assistance to households, two forms of housing support were most important. First, families aspiring to home ownership and seeking a deposit to a low cost, new build could access deposit assistance by capitalising their family benefit which was paid in advance. The family benefit was a universal benefit. The second form of direct assistance to householders was in the form of mortgage assistance. Those were variously and successively delivered by way of the State Advances Office, the Mortgage Corporation of New Zealand, the State Advances Corporation, various Māori affairs agencies, and the Housing Corporation of New Zealand. Direct mortgage assistance ceased subsequent to the 1991/2 housing reforms. It was replaced by underwriting some retail bank provision of loans under the Welcome Home mortgage scheme, a scheme persistently under-utilised owing to a combination of lack of public knowledge and scheme eligibility and mortgage limits out of line with prevailing house and salary conditions.

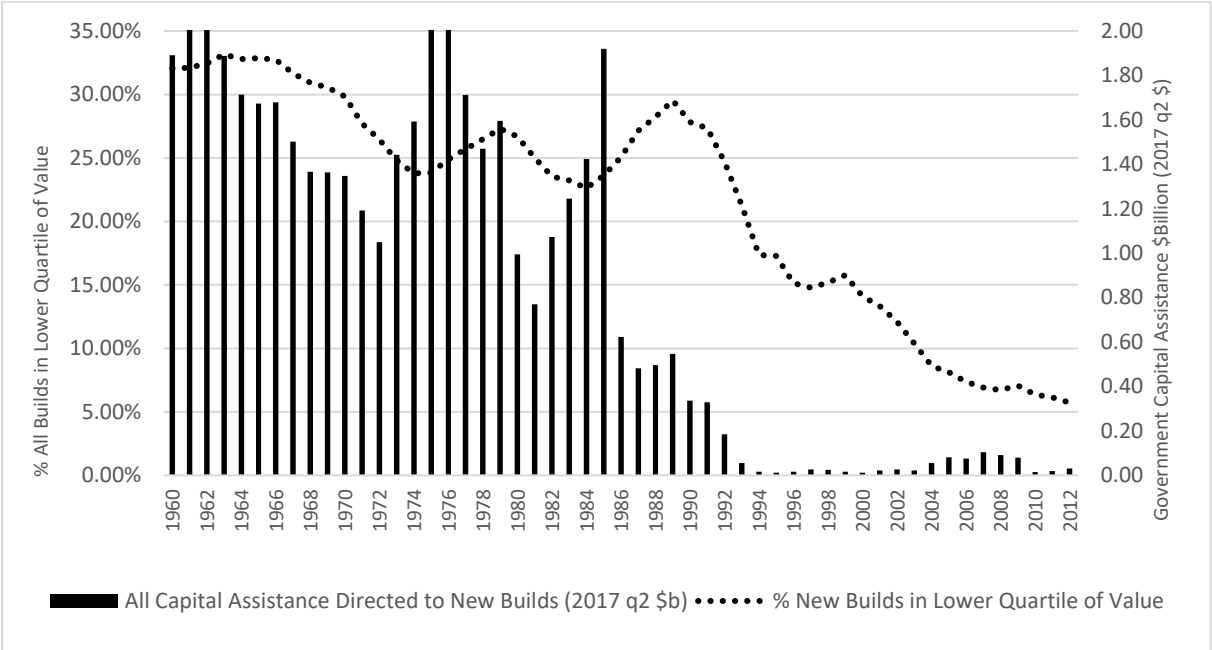
In the 1990s government assistance was transformed to be primarily channelled through an Accommodation Supplement (AS) which paid up to 50 percent of the unaffordable gap in housing costs faced by eligible individuals and households. Income related rents (IRR), by contrast, is a supplement tied to a state housing or certain community housing providers and ensures that tenants are exposed only to affordable rents. It is forecast that by 2021, the combined expenditure on demand-side supplements will be in the region of \$2.64 billion. The AS constitutes between 55 percent and 60 percent of future expenditure (Figure 7).

Figure 7. Government expenditure on accommodation supplements and income-related rent subsidies (Johnson, Howden-Chapman and Equab, 2018:34)



There is a certain symmetry regarding the government’s housing assistance. In 1960, the government’s capital assistance directed to new builds was around \$1.89 billion in June quarter dollars. In 2016/2017 the government’s housing expenditure through the AS and Income-related Rents (IRR) reached \$1.97 billion. The lack of a dedicated stream of government capital investment which levers both household investment and community sector investment has effectively disincentivised the building industry from the production of affordable housing. While the data related to relative value of new-build production used by the New Zealand Productivity Commission needs to be explored further, the pattern of building industry production of lower quartile value residential builds shows a pattern consistent with that of government capital investment in new-builds primarily channelled through state housing, community housing, capitalisation and mortgage support for low income households (Figure 8).

Figure 8. Estimated government capital assistance to new builds and proportion of all new builds delivered as affordable housing¹



Conclusion

The outcome related research in the *Revitalising the production of affordable housing for productive, engaged and healthy lives* programme will take some time to deliver data and even longer to analyse and interpret that data. Nonetheless, the early findings on government capital assistance provide insights into the conditions under which affordable housing production thrives. In New Zealand the construction of public housing was an important platform for the building industry’s involvement with lower value housing production suitable to low- and low middle- income households. Important, too, was government capital assistance to the community sector to provide housing to groups marginal to the housing market. In the New Zealand context, however, it was the capital assistance to households delivered through capitalisation of family benefits and the provision of mortgage assistance which appears to have been the primary mechanisms by which the New Zealand building industry was attracted to producing dwellings in lower quartiles of value. As that capital assistance withered so the building industry ‘followed the money’ to the upper quartiles of value, over-supplying the wealthy and

¹ Capital assistance data compiled from successive NZ Yearbooks, annual reports of government corporations and agencies, and successive budgets. Data related to builds in lower quartiles of value provided by the New Zealand Productivity Commission.

tempting some middle income families into risky indebtedness in dwellings larger than either needed or desired.

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