

# HOUSING AFFORDABILITY

## What is this?

**Measures of “affordability” differ, and take in both rental affordability and home ownership affordability. In general, housing is considered to be affordable when not more than 30 per cent of gross household income is spent on housing costs, including mortgage or rent.<sup>1,2,3</sup>**

This threshold is of greatest concern for those households earning in the bottom 40 per cent of the income range. Housing affordability is lowest among those who are younger, single, have lower incomes or are non New Zealand European.<sup>4</sup>



## Why is it important?

Access to safe and healthy accommodation is one of the most basic of human needs. Home ownership can contribute to positive economic outcomes for communities. The New Zealand government has recently made housing affordability a focus as data has revealed there has been a substantial worsening in affordability.<sup>5</sup> High home ownership rates are associated with increased neighbourhood stability. Home ownership also serves as an investment vehicle, with anticipated growth of equity over time. In thinking of their home as an asset home owners are more likely to maintain and improve their home overtime.<sup>6,7</sup> They are also more likely to take a greater interest in the state of their neighbourhood and to actively participate in their communities. Research has also shown that children of home owners, through having a more stable environment have long terms benefit with regards to learning and a reduction in behavioural issues.<sup>8,9</sup>

Given this there are also issues around identifying the reasons why people may choose not to own a house. Some may choose to rent to provide themselves with flexibility in terms of lifestyle and job choices.

<sup>1</sup> Centre for Housing Research Aotearoa New Zealand (CHRANZ). October 2006. *CHRANZ Fact Sheet Affordable Housing in New Zealand*. Wellington. <http://www.chranz.co.nz/pdfs/chranz-fact-sheet-affordable-housing-in-nz.pdf> Accessed 04.08.11.

Cullen, A. J. 2005. *Urban Intensification and Affordable Housing in Auckland*. University of Otago, Dunedin. <http://www.chranz.co.nz/pdfs/urban-intensification-and-affordable-housing-in-auckland.pdf> Accessed 04.08.11.

<sup>2</sup> US Department of Housing and Urban Development. 2011. *Affordable Housing*. Washington. <http://www.hud.gov/offices/cpd/affordablehousing/> Accessed 04.08.11.

<sup>3</sup> Cullen, A. J. 2005. *Urban Intensification and Affordable Housing in Auckland*. University of Otago, Dunedin. <http://www.chranz.co.nz/pdfs/urban-intensification-and-affordable-housing-in-auckland.pdf> Accessed 04.08.11.

<sup>4</sup> Housing affordability inquiry. March 2012. [http://www.productivity.govt.nz/sites/default/files/Summary%20Version%20-%20Final%20Housing%20Affordability%20Report\\_0\\_0.pdf](http://www.productivity.govt.nz/sites/default/files/Summary%20Version%20-%20Final%20Housing%20Affordability%20Report_0_0.pdf) Accessed 20.03.13.

<sup>5</sup> 9th Annual Demographia International Housing Affordability Survey: 2013 Ratings for Metropolitan Markets. <http://www.demographia.com/dhi.pdf> Accessed 20.03.13.

<sup>6</sup> Department of the Prime Minister and the Cabinet. 2003. *Final Report of the House Prices Unit: House Price Increases and Housing in New Zealand*. Department of the Prime Minister, Wellington. <http://www.dpmc.govt.nz/dpmc/publications/hpr-report/hpr-3.html> Accessed 04.08.11.

<sup>7</sup> Housing New Zealand. 2006. *Area 3- Homeownership*. Housing New Zealand. <http://www.hnzc.co.nz/hnzc/web/research-&-policy/strategy-publications/nzhs/online-version/area-3---homeownership.htm> Accessed 05.08.11.

<sup>8</sup> Haurin, D.R., T.L. Parcel and R.J. Haurin. 2001. *The Impact of homeownership on child outcomes*. Joint Centre for Housing Studies Harvard University. Harkness.

<sup>9</sup> J.M and S.J. Newman. 2003. *Effects of homeownership on children: The role of neighbourhood characteristics and family income*. Federal Reserve Bank of New York Economic Policy Review.

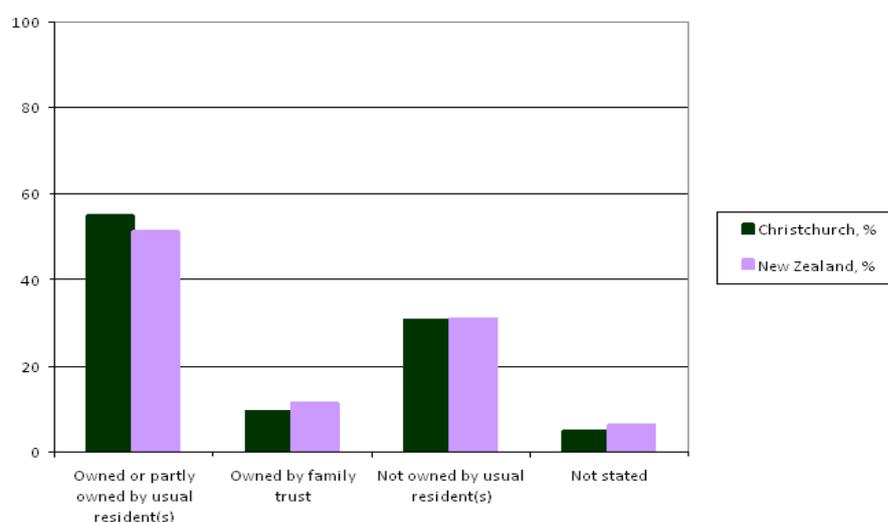
## Data

“Affordability”, while defined to some extent above, is a complex topic. Although rent and mortgage payments may be considered affordable, if the home is in a location which makes it hard for its occupants to access work or school or other services, it is likely other outcomes of their wellbeing will be negatively affected.

The 2013 Demographia Survey revealed that housing in New Zealand was severely unaffordable, houses were now nearly 80% more expensive than the historic affordability housing norm of 3.0. Christchurch’s affordability rating was now at 6.6 and ranked severely unaffordable<sup>10</sup>.

Data from the 2006 Census showed that, nationally, an average 51.2 per cent of dwellings were owned by the usual residents, whereas the average in Christchurch was slightly higher, at 54.7 per cent.<sup>11</sup> The proportion of dwellings not owned by the usual residents in Christchurch (30.8 per cent) is nearly the same as the national average (31.1 per cent).

**Figure 1 Household tenure type, Christchurch vs. New Zealand (2006 census)<sup>12</sup>**

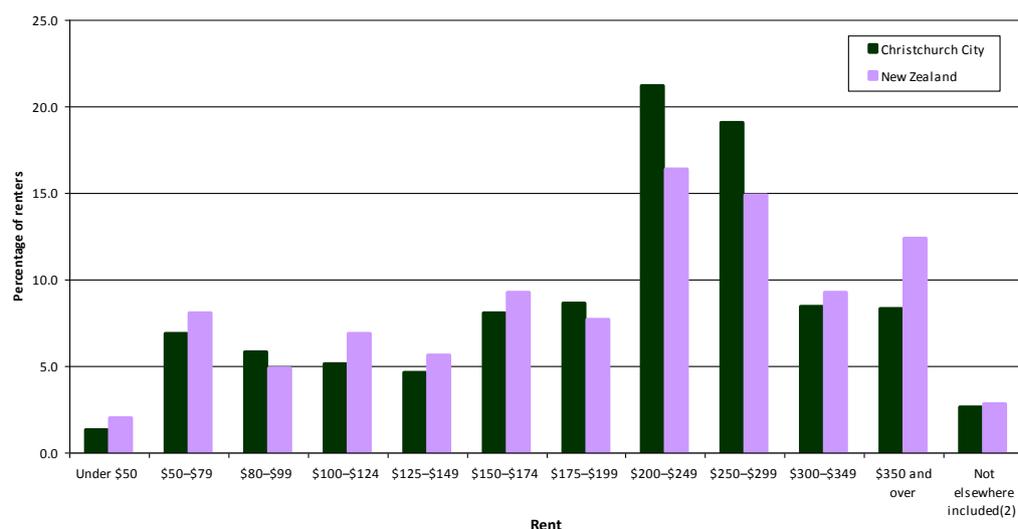


Data from the 2006 Census showed that approximately 30 per cent of Christchurch households were living in rental accommodation, and of these, 40 per cent were paying rent of between \$200 and \$299 per week (58% were paying greater than \$200 per week). This figure is less than 30 percent of the total median income in Christchurch in 2006 (\$962 per week) as the median income looks at all earners not just those renting. As another measure the yearly median rent in Christchurch in 2006 would be \$11, 232, which is more than half of the annual income of 41 percent of people in Christchurch.

<sup>10</sup> 9th Annual Demographia International Housing Affordability Survey 2013: Ratings for International Markets. <http://www.demographia.com/dhi.pdf>. Accessed 09.04.13.

<sup>11</sup> Christchurch City Council. 2010. Statistics and facts on Christchurch: housing. [www.ccc.govt.nz/cityleisure/statsfacts/census/housing.aspx](http://www.ccc.govt.nz/cityleisure/statsfacts/census/housing.aspx) (data from the 2006 Census).

<sup>12</sup> Statistics New Zealand. 2006. Tables about Christchurch City. <http://www.stats.govt.nz/Census/2006CensusHomePage/Tables/AboutAPlace/SnapShot.aspx?type=ta&ParentID=1000013&ss=v&p=v&printall=true&tab=Income&id=2000060> Accessed 20.10.10.

**Figure 2** Weekly rent, Christchurch and New Zealand (2006 census)<sup>13</sup>

More than three-quarters of households in rental accommodation were renting from private owners, trusts or businesses. The remainder were renting from Housing New Zealand (approximately 12 per cent) and the City Council (approximately 5.4 per cent).

The Household Economic Survey for the year ending June 2009<sup>14</sup> shows that the median weekly household expenditure on housing related costs nationally was \$231. The survey found that the percentage of households spending 30 per cent or more of household income on housing costs was significantly higher (33 per cent) for households that did not own the dwellings in which they resided, compared to those that did (12.7 per cent). 2012 data shows that in Canterbury the average weekly expenditure on rent increased 2.5% to \$233 from 2010/11 to 2011/12.<sup>15</sup> Private rents in Christchurch are rising at a steady rate since the earthquakes.

The Ministry of Building, Innovation and Employment's Key Housing Indicators show that average private rents were \$381 as of February 2013. This is a 31% increase compared with August 2010.<sup>16</sup> Rent increases are attributed to a decrease in the supply of new rentals, increased demand from those affected by the earthquakes and increased demand from new workers entering the city.

The Real Estate Institute of New Zealand (REINZ) tracks monthly median house prices. REINZ data show that the median house price in Christchurch has increased by 114 per cent between 1998 and 2009. Median house prices increased in Christchurch by 16% between February 2010 and February 2013.<sup>17</sup> During the same period the median Christchurch household income increased by only 62 per cent.

<sup>13</sup> Statistics New Zealand. 2006. 2006 Census Data: Census of Population and Dwellings. Statistics New Zealand, Wellington.

<sup>14</sup> Statistics New Zealand. 2009. Household Economic Survey (Income): Year ended June 2009.

[http://www.stats.govt.nz/browse\\_for\\_stats/people\\_and\\_communities/Households/HouseholdEconomicSurvey\\_HOTPYeJun09.aspx](http://www.stats.govt.nz/browse_for_stats/people_and_communities/Households/HouseholdEconomicSurvey_HOTPYeJun09.aspx)  
Accessed 19.10.10.

<sup>15</sup> Statistics New Zealand. 2012. Household Economic Survey Year end June 2012

[http://www.stats.govt.nz/browse\\_for\\_stats/people\\_and\\_communities/Households/HouseholdEconomicSurvey\\_HOTPYeJun12.aspx](http://www.stats.govt.nz/browse_for_stats/people_and_communities/Households/HouseholdEconomicSurvey_HOTPYeJun12.aspx)  
Accessed 26.03.13.

<sup>16</sup> Ministry of Business, Innovation and Housing. 2013. Key Housing indicators.

<http://www.dbh.govt.nz/UserFiles/File/Sector%20info/key-indicator-reports/2013/kir-housing-market-march-2013.pdf> and Ministry of Business, Innovation and Employment, 2013. *Housing Pressures in Christchurch: A summary of the evidence 2013*.  
<http://www.dbh.govt.nz/UserFiles/File/Publications/Sector/pdf/christchurch-housing-report.pdf>. Accessed 08.04.13.

<sup>17</sup> Real Estate Institute of New Zealand website lists median house prices for the main centres from January 1992 to date.

[https://www.reinz.co.nz/shadomx/apps/fms/fmsdownload.cfm?file\\_uuid=9157839B-A313-03C4-7768-29819783D735&siteName=reinz](https://www.reinz.co.nz/shadomx/apps/fms/fmsdownload.cfm?file_uuid=9157839B-A313-03C4-7768-29819783D735&siteName=reinz)

### Impact on inequalities

Increases in housing costs have a more severe impact on lower and fixed-income households. Rates of home ownership are at their lowest since the early 1950s, reflecting decreased housing affordability and an absence of government funded programmes to support home ownership for modest income households. Māori and Pacific families are disproportionately affected, and as a consequence are most likely to live in inadequate, overcrowded, and unhealthy housing.<sup>18</sup>

The number of rental units available at affordable prices for low income earners has decreased significantly. In February 2013, there was a 60% decrease in rentals under \$300 a week. Ministry of Business, Innovation and Employment identified that many low income residents were facing increased financial hardship and housing insecurity.<sup>19</sup>

Much of Christchurch's older housing stock does not meet current Building Code standards for insulation and other construction standards (see Fuel Poverty and Home Insulation issue paper). There are a higher proportion of lower income households living in rented accommodation compared to higher income households. It is likely that many people on low incomes who own or rent pre-1980s dwellings are living in conditions that do not meet current standards for insulation or weather-tightness. Rental accommodation is seldom retrofitted with insulation as there is usually no mandatory reason to do so, and occupants would have little incentive to undertake it on their own behalf.

### Solutions

Housing New Zealand<sup>20</sup> provides a government subsidised rental scheme to support people who need housing. It owns or manages more than 69,000 properties nationwide, including about 1,500 homes for community groups providing residential services. More than 200,000 people live in these homes. Housing New Zealand also provides services to help people move from renting a home to home ownership. Housing New Zealand supports the Welcome Home Loan programme<sup>21</sup>, which provides first-time home buyers with loans up to \$200,000 with no deposit and up to \$350,000 with a 15 per cent deposit. The Child Poverty Action Group has suggested that an extension of the Welcome Home loan scheme to enable more families in more areas to purchase their own homes would promote better outcomes for children and their families.

The City Council provides low-cost housing to residents through its City Housing programme. City Housing manages over 2640 unfurnished rental units for low-income residents. This accounts for approximately 7 per cent of the rental market in Christchurch.<sup>22</sup> Individuals with incomes no more than \$24,254 annually and couples whose household income is less than or equal to \$37,314 per year are eligible to apply. There is a waiting list for City Housing, with wait times variable depending upon the size of unit required. The social housing managed by the Council also has accessible housing options for people with disabilities, and other special needs.

The New Zealand Housing Foundation is a not-for-profit, charitable trust which provides home ownership assistance to low income households through programmes such as "Home Equity" (where rental payments can be changed to mortgage payments) and "Shared Ownership" (where the cost of the dwelling is shared between the homeowner and the Foundation).<sup>23</sup>

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<sup>18</sup> St John, S., Wynd, D. 2008. Left behind: how social and income inequalities damage New Zealand children. Auckland: Child Poverty Action Group. <http://www.cpag.org.nz/resources/publications/res1213939891.pdf> Accessed 19.10.10.

<sup>19</sup> Ministry of Business, Innovation and Employment. 2013. *Housing Pressures in Christchurch: A summary of the evidence 2013*. <http://www.dbh.govt.nz/UserFiles/File/Publications/Sector/pdf/christchurch-housing-report.pdf>. Accessed 08.04.13.

<sup>20</sup> See <http://www.hnzc.co.nz/hnzc/web/home.htm> for more information.

<sup>21</sup> See website at <http://www.welcomehomeloan.co.nz/> Accessed 20.10.10.

<sup>22</sup> Christchurch City Council. 2007. Social housing strategy. Christchurch: Christchurch City Council. <http://resources.ccc.govt.nz/files/SocialHousingStrategy-docs.pdf> Accessed 20.10.10.

<sup>23</sup> See New Zealand Housing Foundation. <http://www.housingfoundation.co.nz/>

As part of the discussion document on Resource Management in March 2012, The Ministry for the Environment has highlighted housing affordability as a key issue and is proposing that planning regulations are improved through greater provision of national direction with requirements on councils on providing adequate land supply for 10 years growth for those areas which are expanding.

Environment Canterbury has also released its draft on land use recovery and includes as one of its priorities the need to ensure that there is sufficient residential land available, sufficient temporary accommodation and to make provision for affordable and social housing.

### *Data limitations*

Affordable housing is a complex topic with a number of variables (for example, what makes housing affordable is not only income needed to rent or have a mortgage but also the ability to afford utilities and have access to services such as schools). Although there is much international discussion on “affordable” housing, there are several definitions as to what makes housing affordable dependant on the needs and expectations of different countries and their communities.

The Department of the Prime Minister and Cabinet published “House Price Increases and Housing in New Zealand”<sup>24</sup> in March 2008 which provides national data on a variety of related topics including income, house prices, costs of building and land. However the report has little regional or local information.

Detailed data on the relationship of household income and home ownership or rental for Christchurch was not available through the Statistics New Zealand or REINZ web sites at the time of writing. Some of the data is conflicting, making it difficult to define “affordability.”

### *Connections with other issues*

Asthma, Employment, Fuel Poverty and Home Heating, Household Overcrowding, Income.

### *Impact of the earthquakes*

*As time passes and these papers are updated the initial sections on the impact of the earthquake are going to be kept as an archive of what we thought the situation was at the time. Updates are provided where possible.*

#### **As at March 2013**

In the aftermath of the earthquake, there has been an increased demand on both the property and rental markets. This has in turn increased rents in the city especially for short-term rentals when residents of earthquake damaged houses need to move out of their houses whilst repairs are being made. This has meant that those on lower incomes need to spend a greater proportion on housing which has made more housing options less affordable. This may have also meant that people need to travel further if they cannot locate cheaper accommodation near their work or schools.

Loss of social housing capacity has meant NGOs are finding it increasingly difficult to place clients into rental housing especially as those housed on a short-or medium basis are remaining longer.<sup>25</sup>

#### **As at November 2011**

Since the earthquakes people have been affected by a variety of factors including loss of income while still having to pay rates and mortgages and/or rent on properties that are uninhabitable. Those whose properties are in the red zone (land is unable to be remediated) may be unable to purchase new homes as the cost of the land is not covered by insurance, the government has

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<sup>24</sup> Department of the Prime Minister and Cabinet (DPMC). 2008. *House Price Increases and Housing in New Zealand*. Department of the Prime Minister and Cabinet, Wellington. <http://www.dPMC.govt.nz/dPMC/publications/hpr-report/index.html> Accessed 9.08.11.

<sup>25</sup> Ministry of Business, Innovation and Employment, 2013, *Housing Pressures in Christchurch: A summary of the evidence 2013* <http://www.dbh.govt.nz/UserFiles/File/Publications/Sector/pdf/christchurch-housing-report.pdf>. Accessed 08.04.13

identified a package for homeowners to recompense them for this loss. Some will be affected by difficulties or the inability to obtain insurance cover on new homes.

With the loss of houses and land due to earthquake damage there is also the issue of the availability of rental and/or properties for sale. Ensuring affordable housing is available in the future should be included in the rebuild approach.

Compiled by Community and Public Health.