



Affordable Housing in the Bay of Plenty Region: a Solutions Study

Without more affordable houses, the Bay of Plenty (BOP) region will not meet projected economic growth targets. The region has potential for 55,000 additional jobs between 2001 and 2031. These new jobs will support an additional 33,390 households and will require 3,000 to 5,100 affordable dwellings. One-third of employment growth will be in professional and semi-professional positions. Three-quarters of the projected 2031 workforce will be paid less than \$40,000 a year.

Based on research by Capital Strategy and SGS Economics and Planning into the links between housing, work, infrastructure and regional development in the Western BOP (WBOP) and Eastern Bay of Plenty (EBOP) sub-regions. This research was jointly funded by CHRANZ and the Department of Labour.

Households experience 'housing stress' if they are in the bottom two quintiles of income distribution (gross annual household income up to \$30,000) and spend more than 30 percent of this income on meeting housing costs (both rental and owner-occupied). Already, between 7,453 and 8,000 households in the region are experiencing housing stress. There is insufficient lower-priced housing available for this lower-income group, especially in the Western BOP and Tauranga.

The conservative costs to the region of not supplying affordable housing (minimum 3,000 houses between 2001 and 2031) are: 5,000 fewer jobs; a \$500 million drop in projected regional output growth; and \$196m less 'value added'.

Key Points

- Housing stress affects between 13 and 17 percent of all BOP households (41.7 percent of rental households and up to 17.5 percent of owner-occupied homes).
- In percentage terms, housing stress is greatest in Kawerau (16 percent – 21 percent) and Opotiki (17 percent – 22 percent). In absolute terms, the problem is greatest in Tauranga (4,911–6,031 households).
- To meet economic growth targets, total employment is projected to increase more than 70 percent by 2051, with approximately 55,000 additional jobs created between 2001 and 2031.
- Approximately 45 percent of new households created will have a total household income of less than \$50,000.
- The region has a housing affordability gap. Households in the bottom two quintiles of income distribution (gross annual household income up to \$30,000 in 2001 dollars) are effectively locked out of the purchase market (especially in the WBOP region). Many struggle to meet rental costs.
- The region needs proactive local government policies (including inclusionary zoning and urban renewal powers), more investment in 'safety net housing', and a rejuvenated and competitive third sector with one or two sizeable community housing organisations (kick-started with stock transfers from HNZA and local councils).

Findings

Housing stress

Households experience 'housing stress' if they are in the bottom two quintiles of income distribution and pay more than 30 percent of their gross household income on meeting housing costs (both rental and owner-occupied).

Overall, between 8,800 and 11,100 households, or 13 percent to 17 percent of all households, in the BOP region live in housing stress based on 2001 Census data. Housing stress affects both rental and owner-occupied households. Approximately 7,453 households (41.7 percent) of those in rented dwellings and between 1,373 and 3,661 households (6.6 percent – 17.5 percent) in owner-occupied dwellings experience housing stress.

Under the conservative scenario, a household earning less than \$30,000 per year is under housing stress if it incurs more than \$9,050 per year in housing costs. For households earning between \$30,000 and \$50,000 per year (second quintile), the level is \$13,000 per year in housing costs.

Labour force projections and income

By 2051, the WBOP region will be New Zealand's fourth or fifth largest region. Total employment is projected to increase more than 70 percent by 2051, with approximately 55,000 additional jobs created between 2001 and 2031. Kiwifruit, dairy farming and food industries contribute most to national output. Future employment growth sectors are more diverse. One-third of job growth will be in professional and semi-professional jobs. Projected job numbers include: agriculture, forestry and fishing (7,631); retail trade (9,639); property and business services (5,778); manufacturing (5,778); health and community services (4,897); accommodation, cafés and restaurants (4,782); construction (4,048); and education (2,834).

In 2031, approximately 74 percent of jobs will be paying less than \$40,000. New jobs will support an additional 33,930 households, but 45 percent of these households will have an income of less than \$50,000 (2001 dollars).

Demand for affordable housing

Internal migration and less land are making housing unaffordable. In 2001, four BOP districts were among the 15 least affordable in New Zealand, with Tauranga (4th), Western Bay (8th), Opotiki (11th) and Whakatane (12th.) The WBOP region's population is projected to nearly double over the next 50 years, from 130,000 in 2001 to 284,000 in 2051. This would add a further 68,900 households (to 117,900) by 2051. It is estimated that 11,846 new affordable homes will be required by 2051 across the BOP. By far the greatest number will be required in the WBOP (11,434) and in Tauranga City (9,214).

Labour market links: affordable housing and economic growth

An input-output model estimates future demand for affordable housing based on the projected trajectory of the BOP economy and the resulting increase in lower paid jobs. Conservatively, the costs of not supplying the required 3,000 affordable dwellings (between 2001 and 2031) are a 5,000 decline in job growth, a \$500 million decline in projected regional output growth, and a \$196 million reduction in 'value added'. Taking account of flow-on effects, total job growth would be lower by 6,640, regional output \$721 million lower and 'value added' \$280 million lower.

The affordability gap: income and house prices

The research estimates how much households can afford on either mortgage or rental payments. It concludes that there is insufficient lower-priced housing (both owner-occupied and rental) available for households in the bottom two quintiles of income distribution (combined household gross income up to \$30,000) especially in the WBOP and Tauranga.

For households paying mortgages, the maximum sustainable annual mortgage payment on this income is \$9,000 per annum. The serviceable mortgage at this

level is \$102,500. There are very few houses available in this range. In the combined WBOP region, 3.1 percent of houses are valued up to \$200,000, and 12.6 percent up to \$250,000.

Housing is cheaper in the EBOP; 59.6 percent of houses have values of up to \$200,000, and 72.1 percent up to \$250,000.

Rental options are also constrained. The sustainable weekly rental for a combined household income of \$30,000 is \$173. The average rent for a three-bedroomed house is \$250 – \$285 in Tauranga and \$200 in Whakatane. Families needing more than two bedrooms could only afford to rent in the Kawerau or Opotiki districts.

Intermediate housing market

There is a growing intermediate housing market (IHM) in the BOP. Households in this market typically have income that is too high to qualify for social housing but is too low to meet market prices for house purchase or rental. These households are actively engaged in the mainstream economy in important but low paid jobs that are critical to the region's economic growth. They are finding it increasingly difficult to get good affordable rental accommodation and are effectively locked out of the home ownership market.

Māori-owned land and housing issues

Māori are 23 percent of the BoP regional population (42,630) and 45 percent of the population in the EBOP. There is considerable latent potential for Māori economic development from commercial assets owned by Māori. Constraints on developing multiple-owned Māori land, unsurveyed Māori land, and poor housing condition (particularly in the EBOP and rural areas) require attention.

RESEARCH BULLETIN

FINDINGS CONTINUED

Solutions: proactive local government policies and large community housing organisations

The 27 recommendations highlight market efficiency; opportunities to improve 'safety net' housing and accelerated development of a third sector for community housing.

More proactive local government policies are recommended, including inclusionary zoning, urban renewal powers, and establishment of council controlled organisations (CCOs) to undertake land aggregation and development projects.

Market efficiency issues include: delivery of trunk infrastructure; release of brownfield (infill) and greenfield land; high infrastructure costs; up-front charging; and housing for seasonal and low-skilled workers.

Growing the third sector for community housing is a priority. One or two sizeable, well-supported housing associations would consolidate assets, achieve economies of scale and give greater certainty for institutional investors. Housing associations would have a minimum of 200–500 units (preferably 3,000) kick-started by transfer of government HNZA and council pensioner housing stock. They could leverage off a significant credible balance sheet to raise finance and undertake new developments.

The growing intermediate housing market merits a focused policy response because of labour force requirements and the high cost to the region's economy of a mobile labour force locating elsewhere.

The impact of housing on health, and education about home ownership require attention.

Further Information

This bulletin is based on the report *Affordable Housing in the Bay of Plenty Region: A Solutions Study*. A copy of the report and this bulletin can be found on the CHRANZ website under "Our Publications".

Other useful reports include:

- *Affordable Housing in the Nelson, Tasman and Marlborough Regions: Taking Action* Motu Economic and Public Policy Research (June 2006)
- *Regional Housing Markets in New Zealand: House Prices, Sales and Supply Responses* Motu Economic and Public Policy Research (February 2006)

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