

The Intermediate Housing Market in New Zealand

The rapid recent growth and projected continued growth of the intermediate housing market in New Zealand may signal a long-term shift away from home ownership as a mass market, with significant economic and social implications.

Based on research by DTZ New Zealand (Ian Mitchell and Steve O'Malley). This research identifies the current and future demographics and spatial distribution of the intermediate housing market across New Zealand and investigates the market, social and policy implications of the trends identified. The research was funded by the Centre for Housing Research, Aotearoa New Zealand (CHRANZ).

The intermediate housing market (IHM) in New Zealand is defined as 'working households unable to purchase a dwelling at the lower quartile house price under standard bank lending criteria'. The relative size of the IHM is a measure of housing affordability for first-time buyers.

This research profiles the size and nature of the IHM within the private rental market in New Zealand, based on the past three censuses (1996-2006) and finds that, while the problem of housing affordability remains acute for welfare-dependent households, it is now rapidly increasing for younger working households on low to middle incomes. Evidence suggests that this relatively recent growth in the IHM may become a long-term trend, with a growing group of households effectively 'shut out' of home ownership in the next decade. As a result, the private rental market itself is likely to become increasingly pressured, with demand and housing costs rising.

The potential implications of a continued increase in the IHM include: the marginalisation of lowest-income rental households in a more competitive market; growing pressure on Government housing and social support expenditure; and adverse economic and social effects, both for fast-growing regions struggling to accommodate key workers and for long-term IHM households excluded from the economic and social benefits of home ownership.

Key Points

- After a slight decline from 1996 to 2001, the proportion of IHM households in the private rental market more than doubled (from 26 percent to 58 percent) to 2006. In absolute terms, this represented an increase from 72,000 IHM households in 2001 to 187,300 in 2006. This indicates a significant recent decline in housing affordability for moderate- as well as low-income households.
- In 2006, the highest number of IHM households was found in the Auckland region (68,000, which represents 36 percent of the total market) but Christchurch, Wellington and Waikato showed the most marked increases between 2001 and 2006.
- The IHM is concentrated in single- and one- or two-parent households where there are two or fewer income sources in lower-income occupations and the reference person is under 40 years of age.
- Housing supply is not adjusting quickly enough to meet the emerging demand for affordable first-home ownership. As a result, the private rental market is playing a larger and longer-term role for moderate-income households delaying or denied their 'traditional' housing career path into ownership. As rental demand increases, downward pressure on the lowest-income renters is likely.
- 95 percent of New Zealand's housing stock is currently owned by private sector owner-occupiers or investors. However, the recent, rapid growth in the IHM represents a marked redistribution of housing equity and wealth from younger to older generations. Lower-income, one-person and single-parent households are particularly disadvantaged.
- The IHM is projected to continue growing strongly over the next decade to 2016, especially in the Auckland region and upper North Island, while home ownership rates continue declining across all regions as these younger generations age.

- The challenge for policy-makers is to improve the affordable supply of both owner-occupier and secure, quality rental accommodation, with a focus on maintaining the long-term stability and social benefits traditionally associated with ownership.

Findings

International Research Comparisons

New Zealand, the United Kingdom and the United States of America have similar definitions of the IHM demographic (first formulated in the UK in 2000). However, most international analysis has focused on the types of subsidised housing available to this group of working households. In contrast, this report identifies the characteristics, size and geographical distribution of the households themselves across New Zealand.

Changes in the Private Rental Market

The IHM's share of the private rental market increased sharply between 2001 and 2006 in comparison with the other key rental groups: not-in-work and relatively well-off renters. This was due to a combination of significant house price inflation, growth in the size of the overall private rental market and an increase in interest rates, which more than offset the increase in household income over the same period and resulted in a significant decline in owner-occupier affordability.

Market Profile

The IHM is concentrated in major metropolitan and fast-growing regions, in single- and one- or two-parent households where there are two or fewer income sources in lower-paid occupations (e.g. trades, manufacturing, clerks and retail) and the reference person is under 40 years of age. Ethnicity does not appear to be a significant differentiating factor. 84 percent of IHM rental tenures last four years or less. While people living alone make up the largest individual household type (26 percent), at least 37 percent of

IHM households now include children. This represents a minimum of 70,570 IHM households with children. 36 percent have post-secondary qualifications – a more pronounced trend than in 1996. Older renters are still a small proportion but have increased in absolute numbers by over 150 percent since 2001.

The affordability of owner-occupier housing, as measured by the relative size of the IHM, declined across all regions between 1996 and 2006. The least affordable regions in 2006 included Tasman (IHM households 72 percent of the private rental market), Marlborough (71 percent), Auckland (64 percent), Nelson (63 percent) and Canterbury (62 percent). The most affordable regions included Otago (47 percent), Gisborne (45 percent), Taranaki (42 percent), Manawatu-Wanganui (42 percent), Southland (34 percent) and the West Coast (30 percent).

Projected Growth

Six scenarios were developed to project the relative and absolute size of the IHM in 2011 and 2016. These factored in varying assumptions of nominal house price growth and interest rate changes, as well as income growth. The overall conclusion is that the size of the IHM is unlikely to fall in terms of the number of households, however it may decline as a proportion of total households.

With the exception of the scenario predicting negative nominal house price growth, the absolute size of the IHM is likely to continue to increase in 2016 under all scenarios, particularly in Auckland and the upper North Island. The total estimated numbers of IHM households in 2016 vary for each scenario: 165,100 under negative growth to 282,332 under high nominal house price growth. The most likely scenario, 'low nominal house price growth', predicts 219,051 IHM households in 2016.

Market, Social and Policy Implications

If current trends continue over the next decade, as projected, the increasing diversity and tenure length of all renters will see a growing expectation for a wider range of secure-tenure, quality rental accommodation located near employment, transport and services.

With a private rental market dominated by small-scale investors, supply shortages and increased rents are possible. This could significantly increase pressure on Government expenditure on the accommodation supplement, housing support and social services.

As low- to middle-income renters delay or are denied ownership, traditional renters such as the young, those on low incomes and single parents may be increasingly 'out-competed' and marginalised. This downward pressure could result in poorer living conditions, insecure tenures and a growing need for Government housing assistance.

The increasing difficulty for 'key workers' to rent, let alone buy, affordably near where they work will have economic and social consequences, especially in fast-growing regions reliant on low-wage industries, but also in the mainstream economy as higher-paid workers in 'essential' occupations are affected.

Long-term IHM households – including older renters and those with children – face the risk of exclusion from the traditional wealth-building and social benefits (e.g. educational and health) associated with home ownership. This presents major inter-generational policy challenges to Government, particularly in the Auckland region where the greatest growth in the IHM is predicted.

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Policy Implications

Under current conditions, the IHM will continue to grow and diversify, challenging Government housing policy settings. This means the bulk of demand will continue to be met by an increasingly pressured private rental sector supported by the accommodation supplement. The potential adverse economic and social implications of this trend are wide ranging.

Responses include:

- Examining planning and regulation options to improve the efficiency of the housing market in the short term (such as minimising construction and land costs), to help IHM households into ownership.
- Increasing the longer-term supply of owner-occupier and rental accommodation through planning mechanisms (such as the Affordable Housing: Territorial Authorities Act, 2008), Crown land initiatives and developer incentives.
- Adjusting the incentives available to residential investors with the aim of moderating house price growth over the longer term.
- Investigating alternative models of housing provision, including community housing and institutional investment in the private rental sector, to increase the supply of affordable owner-occupier and rental properties.
- A long-term policy focus on enabling private market renters to access quality accommodation and secure tenancy arrangements that offer similar social benefits to ownership.

Further Information

This bulletin is based on the report *The Intermediate Housing Market in New Zealand*. A copy of the report and this bulletin can be found on the CHRANZ website under "Our Publications".

Other useful reports include:

- *On the Falling Rate of Home Ownership in New Zealand* (February 2008) Scott Phillips Ltd.
- *Affordable Housing: The Community Housing Sector in New Zealand* (September 2007) Capital Strategy/SGS Economics and Planning.
- *Local Government and Affordable Housing* (August 2007) Centre for Research Evaluation and Social Assessment/ Public Policy & Research.
- *Affordable Housing in the Bay of Plenty Region – A Solutions Study*. (August 2007) Capital Strategy/SGS Economics and Planning.
- *The Future of Home Ownership and the Role of the Private Rental Market in the Auckland Region* (March 2007) DTZ New Zealand.

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ACKNOWLEDGEMENTS This research bulletin was produced by the Centre for Housing Research, Aotearoa New Zealand (CHRANZ). The CHRANZ Board gratefully acknowledges the financial and other support provided by Housing New Zealand Corporation.

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