

NELSON TASMAN HOUSING TRUST

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What are New Zealand's housing supply needs likely to be in 2016?

In "*Census 2006 and Housing in New Zealand*" (DTZ 2007) the number of households in 2016 is projected to rise by just under 195,000 to 1,747,500. So in order to meet this extra demand for housing in New Zealand over the next ten years we can expect to provide an additional 20,000 dwellings per year.

Tenure projections give an indication of the impact of deteriorating affordability and the decline in home ownership. Home ownership in New Zealand is projected to fall by 5% to 61.9% as a proportion of total households. Only 43,000 additional home owners are expected by 2016, but there will be almost 152,000 additional renting households, or 78% of the total increase. The trend towards renting will be strongest in the Auckland region but also in the Canterbury, Bay of Plenty, Wellington and Waikato urban districts.

Tenure projections by age group demonstrate the impact of lower home ownership among the young. For households under 40, home ownership is expected to decline by 39,000 by 2016, and renting is expected to increase by 44,000. Among those over 65, owner occupation is expected to rise by 73,000 and renting will also rise by 31,000, which represents an increase of 47% over the ten year period. Demand for rented housing will increase across all regions and age groups in contrast to projected demand for owner occupation

Regional projections to 2016 show that these trends are repeated in Nelson, which can expect the highest decline in home ownership (5.9%) among the country's 16 regions. Renting in Nelson is projected to rise by 33%, or an additional 2,000 households, while home ownership will rise by less than one percent, or 330 households. The rise in renting for Nelson is primarily among the under 40's. So the projected outcome of Nelson's well-known affordability problem will be a need for much more rented housing, as home ownership becomes less accessible for younger age groups.

Renting v home ownership

Amid growing concern about falling home ownership and affordability, high interest rates and rocketing house prices, the government has turned its attention to bolstering home ownership. The Welcome Home Scheme, Equity Sharing Scheme and enabling legislation to allow councils to make developers include affordable housing are all interventionist measures to slow the decline in home ownership levels and meet populist demands.

Home ownership, we are told, gives us a sense of security, makes us look after our homes, makes us financially independent and provides us with a constantly appreciating financial asset. So, non-ownership of a home is defined as a 'problem' which needs a solution. By implication, other forms of occupation such as renting or sharing are deemed inferior and undesirable, even harmful to health and wellbeing. Short average

tenancy lengths, social exclusion, poorer mental and physical health, lower incomes and low maintenance standards are presented as indicators of the relative inferiority of renting.

There is nothing intrinsic to renting, however, which causes these outcomes. In Western European countries such as France and Germany, renting is the norm for over half the population, even among the affluent urban middle classes. Whereas our average length of occupancy as home owners in New Zealand is seven years, tenancies in Germany are commonly held for twenty to thirty years and are often passed on to the next generation. Housing is largely seen as a place to live rather than an investment, and there is no causal correlation with poor health or deprivation.

Financially, home ownership is not necessarily a guaranteed path to riches and wellbeing. Negative equity has been a historic feature of housing markets in the past, and can occur again when supply exceeds demand. The current slowdown in sales is a precursor of a cooling market. Paul and Stella Winstanley in *"Buying a home isn't everything: how renting can work for you"* (2006) compared the relative net annual costs of owning and renting a \$300,000 house. They found that the many ancillary expenses of home ownership, such as acquisition fees, insurance, rates, interest loss on a deposit and maintenance costs, combined with high-rate mortgage repayments, can make the assumption of capital gain look risky. The lower annual outgoings and relative flexibility of renting were advantageous. Rents have not kept pace with house prices in New Zealand and the property investment market has become competitive, so many younger people are choosing to rent, rationalising that they can live in desirable locations which suit their employment paths, without the stress of a large mortgage.

So renting can be a choice, not a problem, and when home ownership is simply beyond earning capacity, it is the only option. Ownership is still highly valued among Kiwis, but is increasingly a feature of the older age groups. Ownership rates are very high among the over 40's, who were mainly in the market before it boomed, and are sitting pretty on appreciating assets. But new entrants to the market are under pressure to borrow six or eight times their gross income, adding to the country's heavy debt burden. Ownership through borrowing is illusory in a way, as a bank can foreclose on a mortgage debt and repossess just as a landlord can evict for non-payment of rent. And while rent paid is not recoverable, neither are mortgage interest payments. In a booming property market young people are under great pressure to become first time buyers, but it may not be the right choice for some. Census projections tell us that it is the rental sector which will grow faster, and our tenure pattern will resemble Western European countries as the years pass.

Policy implications

Rather than invoking negative images of renting as inferior to ownership, it may be more constructive to embrace the observable trend in tenure. A policy emphasis on making the rental sector a desirable, pragmatic and accessible option for future generations may be more effective in the long term than finding new ways for them to incur mortgage debt. We need to develop the rental sector in New Zealand in at least two specific ways.

Firstly, in terms of the supply of new rented housing, DTZ (2007) estimates that 152,000 dwellings or \$45.6 billion of additional investment will be needed in the next ten years to meet demand. DTZ concludes that, despite government measures to boost home

ownership and support social and third sector housing, the bulk of demand will be met by the private sector. The private sector is market driven and will respond to meet demand in the market, but will not meet housing need as well as social and third sector housing, so there is a vital role to play for these sectors in the future. It is difficult to quantify this need, but a start can be made by estimating that around 20% of that additional rented housing, or approximately 30,000 dwellings, could be provided by the social and third sectors as affordable housing for people in severe or moderate housing need. This would represent about \$9 billion in investment value over ten years. This would require a major gearing up of the existing Housing Innovation Fund model if that were used as a vehicle for growth of the sector.

Secondly, in terms of management of residential tenancies, we can learn from overseas best practice by developing a more mature legal and professional framework. Two essential features of what we might call an “ethical tenancy” are a) security of tenure and b) a quality standards system. Security of tenure provides tenants with the long term right of occupation except where tenancy conditions are breached. Quality standards are already developed for tenancy management, property maintenance and customer service, with KPI’s and a professional qualification framework. These measures will help to de-stigmatise renting and make it a desirable and acceptable tenure.

In summary, projections indicate that as home ownership rates decline, renting will increase and may become the dominant form of tenure in New Zealand in the medium term. We have the opportunity to accept and embrace this trend and develop the rental sector to provide tenants and landlords with consumer choice, quality, accessibility and professionalism.

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References

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