SOCIAL POLICY AND PARLIAMENTARY UNIT

Working for the eradication of poverty in NZ

REBUILDING THE KIWI DREAM

A PROPOSAL FOR AFFORDABLE HOUSING IN NEW ZEALAND

Front cover photo: Opening of first state house in 1937.
Provided courtesy of Alexander Turnball Library PAColl-5800-49

ISBN 0-9582721-4-X (Paperback)
ISBN 0-9582721-5-8 (Electronic)

Authorised and approved by Commissioner Garth McKenzie, Territorial Commander as an official publication of the New Zealand Fiji and Tonga Territory of The Salvation Army

Rebuilding the Kiwi Dream was produced by The Salvation Army Social Policy and Parliamentary Unit 16b Bakerfield Place Manukau City: Director Major Campbell Roberts, Manager Major Ian Kilgour

The Salvation Army Social Policy and Parliamentary Unit would like to thank their community partner, UMC, for their assistance with the production of this report.

REBUILDING THE KIWI DREAM

A PROPOSAL FOR AFFORDABLE HOUSING IN NEW ZEALAND

Alan Johnson
Senior Policy Analyst

The Salvation Army Social Policy and Parliamentary Unit
June 2007

EXECUTIVE SUMMARY

The role of housing in promoting social wellbeing is generally accepted yet largely ignored by policy makers. Since 1991 New Zealand's housing policy has mainly relied of demand side approaches through the Accommodation Supplement. This approach has not addressed housing need for the poorest 20% of New Zealanders and may even be responsible for the current position in housing with inflated house prices, distorted investment markets and falling levels of home ownership.

This paper is a call to Government to take housing and housing policy more seriously. This can be done by allocating significantly more resource to addressing housing affordability and by accepting the need to institute a range of supply side housing policies which directly increase the stock of affordable houses and directly assist modest income households into home ownership.

The four chapters of this paper discuss the importance of social housing as a vehicle for social reform, considers the economics and politics of housing, the broader role which social housing may fulfil and the responses necessary to bring this role about.

The importance of social housing

Housing can be seen as one of the four cornerstones of social wellbeing and of the social welfare system which supports social wellbeing. Unlike the other three cornerstones of health, education and income support, the provision of housing in New Zealand has commonly relied on the market. This has meant that housing policy and the provision of affordable housing has always been of residual interest to Government and so too have the interests of those who have difficulty gaining decent housing within the market.

The residual nature of housing policy may be changing as New Zealand witnesses a gradual but historically significant reversal in housing tenure patterns. Since the late 1980's homeownership levels have gradually declined to levels of fifty years ago. Furthermore there are predictions of further decline and a resigned acceptance by Government that this is inevitable. Home ownership has supported a number of valued social institutions including providing stable tenure to support stability of families and neighbourhoods and providing an asset base to support people in retirement.

The introduction of the Government backed savings scheme KiwiSaver, signals the beginning of asset based approaches to welfare. While the KiwiSaver may be successful in encouraging New Zealanders to save more, there is some doubt over the value of this scheme in promoting homeownership. It is not realistic to see the KiwiSaver scheme as an alternative to specific policies which promote and support homeownership for modest income New Zealand households mainly because of the significant and perhaps growing gap between household incomes and house prices.

The concept of social housing is somewhat confused and hence contested. Broadly conceived social housing can be seen as housing which is provided outside of the market. This provision is generally through some allocative process which has regard for social need. This provision may also extend to the development, supply and/or ownership of housing outside of the market and by public or not-for-profit agencies. In a narrower sense social housing has been taken to be public rental housing or what has been termed in New Zealand "state housing". There is something of a contest over the use of the term social housing which is in part driven by the fairly derogatory reputation of state housing and the prospect that other forms of social housing are "tarred with the same brush". This has led to the use of other terms such as "community housing" or affordable housing as a way of avoiding such association. Terms such a "community housing" are often a misuse of the concept of community since local communities are often not involved in its location or governance. Affordable housing is not strictly the domain of the social housing sector and indeed there is ample scope for the provision of affordable housing within the market.

The definition of social housing should be seen as a secondary issue to that of what social housing may achieve in social and economic terms. Some authors provide a wide array of policy objectives which may be achieved in whole or in part through social housing. Such a range of outcomes is provided in Appendix 1. It is a principal thesis of this report that social housing has the potential to achieve a wide range of social and economic ends with greater commitment and imagination on the part of Government and housing activists. This report suggests that social housing should be seen as a source of social reforms as indeed it was in New Zealand during the 1930's and 1940's.

The politics and economics of housing

A historic shift in housing policy took place in 1991 with the introduction of the Accommodation Supplement, the introduction of market rents for state houses and through the subsequent sell off of state houses and the Government's home mortgage portfolio. One consequence of this shift has been the gradual decline of levels of homeownership to 50 year lows with further declines predicted in Government reports. Ironically as this decline has taken place New Zealander's housing related debt has risen to historic proportions.

The policy changes introduced in 1991 represented an abandonment of supply side housing policies and a complete reliance on demand side policies and the attendant market responses for the delivery of equitable housing outcomes for low and modest income New Zealanders. The reintroduction of income related rents in 2000 moderated this reliance on demand side policies although within the overall housing market this change has only had a minor impact. For example the 60,000 households which benefit from the fairly generous income related rents subsidies provided to Housing New Zealand tenants represent just 13% of all tenant households and around 30% of all households receiving housing assistance from the state.

A great deal of attention has been paid to house price inflation and increasing unaffordability of housing. There is however a mixed picture around this affordability question. Since 2001 house prices have risen at five to six times the rate of wages and salaries. This trend has tended to drive reports of deteriorating housing affordability. Over the same period however rents have tended to rise at the same rate as wages suggesting that there is not necessarily a deteriorating affordability problem for tenants. What makes the prospect of rapidly rising house prices and fairly stable rents feasible, is the phenomenon of falling investment yields for residential property investors. This yield decline has been apparent since 2002 and is now at the point where the yields from investment in risk free Government bonds are 50% better than those from residential property investment.

Residential property investment is probably not driven by the prospect of current yields but by the promise of future capital gains which may hopefully (for the investor) be untaxed. In addition there are fairly generous tax credits which may be claimed for depreciation (of an appreciating asset) and for the high interest costs which are associated with the high debt levels of many residential property investors. These tax credits and other possible untaxed incomes are the hidden financial cost of the present reliance on demand side housing policies.

For the 1993/94 financial year the Government spent $354 million in Accommodation Supplement payments to 270,000 households. By 1999 this figure had risen to $867 million paid to around 324,000 recipients. During the 2000/01 financial year, income related rents were reintroduced for state house tenants with the consequence that the cost and number of recipients of the Accommodation Supplement fell. However for the 2007/08 financial year the expected cost of the Accommodation Supplement exceeded $900 million and the cost of providing income related rents to 65,000 Housing New Zealand tenants amounted to $465 million. Meanwhile the number of people/ households receiving assistance has remained stable at around 320,000.

Outside of the providing rent subsidies, the Government has made a fairly modest contribution to housing and to social housing. Between 2002 and 2006, Housing New Zealand added a further 6,400 rental units to its stock of managed houses although just over one quarter of these were leased from private investors. At the same time some progress has been made on providing social housing through third parties such as local government and community organisations. However the Government has provided Housing New Zealand with limited additional capital to acquire more houses. Between 2002 and 2006 Government contributed a net $237 million in new capital to assist the its housing agency to acquire additional housing stock. This amount is fairly limited in comparison to the $32.5 billion which the Government has gained in budget surpluses over the same period and the $8.1 billion which it has contributed to the New Zealand Superannuation Fund.

The Government's venture in assisting modest income households into homeownership has also been quite modest. Its Welcome Home Loan scheme is a mortgage guarantee scheme which is intended to open up home ownership opportunities to households which banks would consider to be too risky in commercial terms. The scheme accounted for just over 1% of new home mortgages during 2005/06 and has really only been available for households seeking to buy houses in regions where housing demand is low or falling.

The links between an overheated housing market and the remainder of the economy are well known although perhaps not fully observed. The broader inflationary effects of continuously rising house prices are fairly well understood and the resulting policy and real impacts of these inflationary effects are similarly quite familiar. The current suite of demand side housing policies and related tax policies are however contributing to a set of concerning outcomes in financial markets. Effectively New Zealand's housing market and in particular the house price inflation since 2002 has been financed by rising levels of household debt which has been foreign sourced. For example between September 2000 and September 2006, housing related debt more than doubled in real terms from $63 billion (2006 prices) to $132 billion while total foreign debt increased a more modest 76% from $93 billion to $164 billion. Consequently, housing related debt rose from 58% of all private debt in 2000 to 73% in 2006. Related to this change has been a noticeable shift in household investment focus away from equities and toward housing. This shift is limiting the capital available to local companies to invest in productive activities. For example over the past four years new capital raised on the New Zealand stock market has been around 1.5% of GDP while investment in new housing has averaged 10% of GDP.

The inevitability of these housing and economic outcomes needs to be questioned. A review of history suggests that the current economic conditions cannot really be blamed for the present range of housing outcomes. For example a comparison of economic and social conditions during the 1930's and 1940's when over 30,000 state houses were built in 14 years, provides an interesting insight into the relative importance of affordable housing in recent times. Since the 1940's New Zealand's GDP (in real terms) has increased five fold and has more than doubled (in real terms) on a per capita basis. Inflation rates and terms of trade in the 1940's are similar to those of the recent years and Government's share of GDP is now twice what it was during this earlier period. Given this comparison it is difficult to understand why such low priority has been given to the provision of affordable housing outside of it being a matter of choice.

A broader role for social housing

Housing markets often provide the spatial outcomes for social and economic policies – in both a positive and negative way. New Zealand's social and economic policy since the mid 1980's has led to a widening gap between the rich and poor, between the educated and uneducated and to a degree between Pakeha and Maori and Polynesians This gap is played out in housing markets although it is also witnessed in health, education, crime and poverty statistics, which themselves increasingly have a spatial characteristic. This spatial characteristic is the concentration of poverty and its associated problems of social exclusion and polarisation. Because people have to have a house to live in, housing markets are an important mechanism driving such concentrations.

This realisation of the spatial aspects of poverty and their links to housing policy has made housing policy and particularly public or social housing the focus of poverty reduction programmes. Some approaches to poverty eradication see public housing as the cause of poverty in that it concentrates an "underclass' and creates a ghetto culture of criminality and welfare dependency. This approach seeks to decant the poor or at least to demolish public housing estates in the name of achieving greater social mix. Alternative, and perhaps more enlightened approaches, based around the delivery of education and social support programmes into poor neighbourhoods have met with only mixed success however.

A number of useful lessons can however be drawn from British experiences of social housing policy and its use in addressing social and housing need. These experiences include the need to focus on neighbourhood or community building in housing policy since it is the quality of the local community that contributes more to a person or family's wellbeing than does the quality of their home.

Concepts of social capital also have some value in the design of housing policy although attention should be given to building "bridging capital" which links disparate groups of people rather than "bonding capital" which links homogenous or self defined groups. Such a concern is driven by the need to maintain and enhance social cohesion which is at some risk if housing markets and even social policy condone or even mediate excluding processes. Social capital is however only useful if it provides people with access to physical or financial capital. There is clearly some scope to see housing as a form of such tangible capital and hence as a means of building social capital.

Some doubt exists that it is possible to build and sustain diverse or mixed income communities as a means of maintaining social cohesion. Attempts at maintaining such diversity appear to be brightest when efforts are made to build neighbourhoods with a diversity of housing types and tenures and specific efforts are made to provide housing for the most excluded people and groups.

Responses

Although there is some policy mileage in seeing decent, affordable housing as a means of improving health or education outcomes, the question of why we should invest more into affordable housing is not one of policy efficiency but of social equity. The links between poor health and education outcomes for children and the poor standard and security of their housing are well documented. Generally speaking the same people who suffer from avoidable disease and who fall behind at school are those who live in crowded and damp houses and who move frequently. Relieving their plight and suffering is a question of social justice rather than simply one of where money is more efficiently spent.

Despite the fact that New Zealand has a national housing strategy very little work appears to have been done to consider how many houses will be required in the future, what these houses may look like and where they may be located. Without such basic planning, it is little wonder that no subsequent work has been done around the investments, subsidies, incentives and regulations which will be necessary to bring this supply of housing about.

This lack of foresight and intent is perhaps the most concerning aspect of the current approach to housing policy in New Zealand. While the problem of housing affordability grows more urgent by the day; the absence of a set of coherent and well funded supply side policies and programmes is the most immediate gap to fill if all New Zealanders are to have access to decent affordable housing.

RECOMMENDATIONS

In light of the issues and findings outlined in this document, The Salvation Army recommends the following response:

1. The establishment of a New Zealand Housing Commission, a small and tightly focused state owned enterprise separate from Housing New Zealand and responsible for the management and allocation of funding from the New Zealand Housing Fund.
2. The establishment of a New Zealand Housing Fund. The Salvation Army recommends a substantial annual allocation ($500million - $1billion) by Government to this fund for the building of affordable housing and provision of mortgages for affordable houses. This annual allocation is required to insure a long term sustainable supply of funding for affordable housing. Such a long term commitment would also mitigate against any sudden shocks to the economy which the sudden inflow of capital for affordable housing may cause. This fund would be the source of Government funding for all new affordable housing in the community sector, private sector and Housing New Zealand.
3. The establishment of a Government funded first home ownership programme which annually provides at least 2000 first home buyers with affordable houses. This programme should involve a range of supply side responses including affordable mortgages, shared equity, more generous provision to KiwiSavers saving for their first home and other options.
4. A more tangible commitment by Government to the development, support and financing of the not-for-profit housing sector and iwi/hapu housing projects. In this commitment we believe that it is vital to create a small number of national or regional NGO housing providers which have the capacity to provide significant numbers of affordable houses.
5. A commitment of at least $1 million annually for the development of iwi and hapu housing plans to address rural housing need of Maori.
6. Legislative change to provide for:
   - requirements under the Resource Management Act (1991) for planning agencies to make provision for affordable housing in all regional and district plans,
   - powers under the Resource Management Act (1991) for Councils to impose inclusionary zoning provisions in district planning policies and rules,
   - powers under the Resource Management Act (1991) and Local Government Act (1974) for Councils to receive betterment levies where zoning changes enhance land values and for requirements that these levies be used to purchase land for affordable housing within the district or region.
7. That Housing New Zealand be given the specific role and resources to begin land banking for affordable housing in high growth areas and that this land be made available for the development of affordable housing by NGO and private sector developers.
8. That the Government move to provide incentives to Government, Community and Private sector housing developers that encourage more mixed tenure housing developments so as to avoid the urban stratification occurring in cities like Auckland.

CONTENTS

INTRODUCTION

A long-term commitment to affordable housing does not start with strategies, committees of inquiry and policy discussion documents but with targets, meaningful budgets and a focus on making a real difference to peoples' lives. The evidence of housing need is compelling and the inaction of the past is damming. There is ample international experience to draw from and sufficient people with imagination and goodwill to be able to apply this experience to meet local challenges. As a nation we have the resources to ensure that every citizen is decently housed and as nation we need to renew our commitment to making this prospect a reality.

These are the basic tenets of this paper calling for an increased and immediate commitment by the New Zealand Government to providing affordable housing for modest income New Zealanders.

This call is made by The Salvation Army in the interests of the poorest twenty percent of New Zealanders who have become increasingly marginalised from the mainstream of social and economic life in New Zealand. This marginalisation is as apparent in housing markets as it in New Zealand's crime statistics, our health outcomes and in the results of our education system. This marginalisation is manifested in lives of missed opportunity, in cases of avoidable harm and damage and in communities with little hope.

This paper's key proposition is that social housing should be seen as one of the cornerstones for social reform in New Zealand and that this social reform may have far reaching benefits for New Zealanders in the same way that the social reforms of the 1930's and 1940's did. A critical part to accepting such a reform agenda is seeing housing in its broader context. This would mean that we see housing as being more than a just a roof over our heads or as part of our retirement investment portfolio. Such a broader view would see housing as part of how we build neighbourhoods and communities, of how we support families and nurture children and as part of how we define and redefine the New Zealand way of life.

The overall intention of this paper is to provide a case for a vastly more energetic social housing programme. In this programme social housing is not simply seen as the clichéd crime ridden welfare ghettos of the popular media but as a broad array of opportunities for modest income New Zealanders to live in homes that they may one day own and in neighbourhoods which are safe, sociable and hopeful.

CHAPTER 1. THE IMPORTANCE OF SOCIAL HOUSING

Housing and welfare

During the early 1950's the English sociologist T.H. Marshall provided a strong moral basis for the welfare state based on broader concepts of citizenship and social rights. In his influential work *Citizenship and Social Class*[1] he suggested that the primary focus of and indeed the main justification for the welfare state was to deliver social rights to citizens. Two enduring political questions of the intervening five decades are those of the extent of these social rights and the mechanism for their delivery.

Social rights within the practice of the welfare state in most Western European states have tended to focus on four areas or what Jim Kemeny (2001) (2006)[2] describes as the four pillars of the welfare state. These four pillars are education, health care, income support and housing. The importance of these in terms of people's physical wellbeing and their social participation is well understood as are the inter-dependencies between them[3]. In several respects housing stands apart from the other three "pillars" and it is this exception that is the focus of this paper.

Housing differs from education, health care and income support in at least two fundamental ways. In most welfare states, including New Zealand's, the social rights of citizens are extended to include guaranteed access to education, health care and income support. Access to housing is not guaranteed to New Zealand citizens although such guarantees are a feature of the welfare landscape in other countries such as United Kingdom. In effect the housing related social rights of New Zealand citizens are quite minimal and only relate to guarantees of minimum standards. These standards are rarely monitored to ensure that they are available in practice. This normally means that access to such guarantees as minimal housing quality or legal rights for tenants are subject to people's position in the market[4] and may be seen as little more than residual social

---

1 Marshall discusses three types of rights civil, political and social. He describes social rights as follows: "By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society. The institutions most closely connected with it are the educational system and the social services" Marshall (1950) p8.

2 Kemeny's analysis identifies the fact that housing is the most capital intensive of the four pillars and has almost always been allocated through the market with a residual role for the state. He refers (2001 p.3) to Ulf Togerson's identification of housing as the wobbly pillar of the welfare state particularly since the withdrawal of the state from housing provision from the 1980's onwards. Kemeny makes a useful distinction between what he terms the dualist rental housing markets of counties such as New Zealand where there is a sharp distinction between market and state rental sectors and an integrated rental housing or social rental market policy where a variety of ownership forms are encouraged and attempt made to find an appropriate balance between these.

3 Two recent articles which discuss this point in the New Zealand context are Maani et al (2006) and Grimes et al. (2006). Maani et al consider the link between health outcomes and housing and in particular the incidence of infectious diseases and overcrowding. They show the existence of such a link although suggest that it is mediated in part through income inequality. Grimes et al more or less provide a literature review around the role which housing plays as the "fulcrum" between economic and social outcomes. They cite evidence that such a role exists but suggest that policy responses as a consequence are complex and need to take a systems view rather than necessarily responding to particular housing needs.

4 Minimal housing standards are enforceable under the Health Act 1956 which require residential dwellings to have sanitation and to be in reasonably clean while the Housing Improvement Regulations 1947 set standards for the configuration and size of dwellings. These standards are regulated by local authorities which may prohibit buildings being used as dwellings. The fate of the occupants of such buildings is not the responsibility of local authorities. Legal rights as tenants are provided for under the Residential Tenancies Act 1986 and covered also in anti-discrimination law provided for in the Human Rights Act 1993. Despite these protections reports continue of discrimination on the basis of ethnicity (see Waldegrave et al, 2006, p.29) and health status (see Peace et al, 2002, p.13)

rights. Residual in the sense that it is what is left over after everything else has been addressed or considered.

The second difference between housing and the other three pillars or cornerstones of welfare is around delivery. New Zealand has a strong tradition of delivering education, health care and income support services through publicly owned institutions and through the efforts of public servants. Even after the shift during the late 1980's and 1990's toward a more market based provision of such services, the role of the private sector remains quite secondary to that of the public sector and there appears to be a popular political mandate for this remaining so. By comparison the state's role in housing provision is residual and on current trends appears to be declining further. Moreover, Government's use of demand subsidies to address housing affordability problems and its tax treatment of residential property investment has seen the emergence of private rental housing as the de-facto housing policy of the early 21st century.

Housing and the provision of decent affordable housing to low-income households remains a perennial problem in most welfare states that are based on Anglo-Saxon or other Western European traditions. There is a diversity of views as to why this is so and there is no ideal model of a housing system against which the flaws and failings of our or any other system can be compared. In most systems the market continues to play a dominant role both in determining the overall politics of housing and in providing housing outcomes to most citizens. These outcomes are often inadequate in social terms and particularly in comparison to the other pillars of welfare.

Market housing is often unaffordable for low and modest income households leading to income maintenance programmes which prop families up with income supplements or rent subsidies. The housing people gain in the market is sometimes crowded, cold or damp which leads to a variety of health problems especially for children and older people. Where people have difficultly maintaining their position for reasons of high costs or crowding they may become quite transient resulting in disruptions in their children's health checks,schooling and education. In these ways housing problems lead to higher costs in other parts of the welfare system or more likely additional personal costs for low-income households.

Fading dreams of homeownership

A common feature of most housing systems in English speaking countries is the dominance of home-ownership and other private property rights. This dominance is quite pervasive and can be seen to extend from the fiscal and tax policies of central governments, to the allocation of property and tenure rights and on to the pre-occupation of local government politics with interests of property owning citizens.

This pre-occupation with home and land ownership perhaps has a cultural basis as witnessed by such idylls as the "Kiwi Dream" or the "Aussie Dream" or the "American Dream"[5]. Certainly the shift in housing policy emphasis away from state owned rental housing of the First Labour Government of Peter Fraser to state supported home ownership with the National Government of Syd Holland was a deliberate attempt to build a property owning democracy[6]. This shift probably reflected the underlying cultural values of Pakeha New Zealanders and has probably been one of the most influential social policies of the past half century.

There is an international trend for declining affordability for housing although not necessarily in rates of home-ownership. The causes of this trend are numerous and appear to go beyond somewhat simplistic arguments of the development lobby that land use zoning restrictions are solely responsible[7]. The degree to which this declining affordability is a cyclical or structural phenomenon remains to be seen although it does appear that some market adjustment to houses prices is likely in the short to medium term across a number of countries.

It seems likely that declining housing affordability is related to declining levels of homeownership in New Zealand. This decline can however be traced back at least to the early 1990's while the widening gap between household incomes and house prices is a more recent trend dating back to 2002. These trends are shown below in Figure 2 and Figure 5.

This decline may also be a consequence of a deliberate shift away from home ownership focused housing policies to the so-called tenure neutral policy of the National Party led governments of the early 1990's[8]. These policies in practice have offered only rental housing as a tenure option for low income families.

5 Although each of these "dreams" differ they generally revolve around gaining financial independence through home ownership. This "dream" metaphor is being used in both Australia and the United States by pro-market lobbyists who are advocating against urban planning policies aimed at reducing urban sprawl. The claims they are making is that restrictive land use and zoning policies are responsible for rising housing costs and are limiting opportunities for modest income families to buy their own home in the suburbs and hence achieve the "Aussie Dream" or "American Dream". See Moran, (2006) and http/www.americandreamcoalition.org

6 See Ferguson (1994, pp.177-232) and comprehensive discussion of this policy and its effects.

7 There is an extensive literature around rising house prices and the apparent shift away from long-term market fundamentals around rental yields and income/debt ratios. The cause of these rises is often put down to demographic factors, such as the age bulge of the baby boomer generation and their consumption and savings behaviours, the highly competitive nature of mortgage markets and the ready availability of finance and more mundane factors such as economic growth and the internationalisation of housing markets.

8 During the 1980's the National Party Government led by Robert Muldoon operated an income tax credit saving programme for first home buyers. In 1986 the Labour Government of David Lange introduced a deposit gap programme known as Home Start which provided first time home buyers with an interest free five year second mortgage. By 1991 these programmes had been replaced by the Accommodation Supplement which is a demand side subsidy which supplements the income of low income boarders, tenants or home owners with mortgages. Home owners receiving the Accommodation Supplement have remained low as a result of the inadequate assistance provided. The consequence of this is that the Accommodation Supplement has largely become a rent subsidy for tenants renting in the private sector. See Ferguson, 1994 for a summary of these changes.

Declining levels of homeownership and the prospect that further declines are possible[9] pose a number of quite serious social and economic questions for New Zealanders over the next 20 years. Homeownership has in the past played a number of important social and economic functions that are now being lost or have been lost with declining homeownership rates. These functions include that of providing a basis for social stability at a family and neighbourhood level, and providing financial security in times of adversity and in old age.

The loss of opportunity for modest income families and households to achieve homeownership over the course of their working lives will not of itself deepen the division of interests between owner-occupiers and tenants. This division exists already across such areas as the tax treatment of housing, tenure security and access to the wealth generated in property markets. This loss of opportunity may however broaden the disadvantage that tenants face in terms of financial vulnerability in late middle age and old age as income declines or at least becomes less reliable. Traditionally homeownership has been a buffer against such reversals and the rise in the numbers of tenant households raises the prospect of financial hardship for increasing numbers of elderly people over the next 20 years.

Homeownership is not without its disadvantages and it is important not to gloss over these in the search for an ideal housing policy. Homeownership may drive a highly individualistic and an unsociable society although the ownership of your home per se is not necessarily a prior condition for such individualism[10]. Homeownership can also work against labour mobility and discourage people to move elsewhere in search of work or better prospects. Homeownership can encourage over-investment in the housing stock as houses become a status symbol or the centre for household wealth holding and consumption – simultaneously. In addition not every family or household have the aspirations or the organisational skills and personal qualities to sustain homeownership. The majority of tenant households in New Zealand do however have homeownership aspirations[11].

The decline in levels of homeownership and the prospects of still further declines may represent an important milestone in New Zealand's social development. The broadly based property owning democracy of New Zealand of the second half of the 20th century may be fading. With this fading there is clear potential for widening social and economic division between New Zealanders and a wider divergence in social perspectives amongst New Zealanders. The threat that such division and divergence poses for social cohesion and for the human and social development of the poorest New Zealanders is not known although the prospects do not appear bright.

9 See DTZ (2005, p.100) and their prediction that homeownership rates may decline to 62% by 2016 p.100
10 See Ronald, 2006 for an analysis of the different social perspectives and value sets attached to homeownership in English speaking western homeownership societies and east Asian industrialised countries with high levels of homeownership.
11 A survey of low-income households has found that 54% of tenant respondents desired to own their own home see Smith, L (2005) p.10.

Toward asset based welfare policy

An emerging interest within the social policy debate is around the prospects of building welfare policy around asset ownership rather than the current focus on targeted income assistance. In New Zealand this focus has been advocated by the New Zealand Institute which has quite successfully called for state sanctioned and state supported individual saving schemes as a policy measure to boast savings rates and enhance rates of asset ownership[12]. Asset based approaches to welfare policy emerged out of the United States and in particular around the work of Michael Serraden[13] and his proposals for individualised savings accounts to encourage people to save toward tertiary education study costs, home ownership and retirement. These ideas have recently been picked up in preliminary welfare programmes in United Kingdom.[14]

Asset based welfare suggests that in the design of welfare and other social policies it is necessary to consider the causes of deprivation as well as its consequences. Such considerations lead to a focus on assets and the development and accumulation of assets as a means of improving individuals' wellbeing. Assets and asset ownership are seen to provide a number of advantages to people families and communities including the ability to better manage risk, to plan for the future, to access opportunities, to gain a sense of control and independence and to participate in the local community[15].

Although asset based welfare approaches advocate for a greater emphasis on homeownership within housing policy settings[16], there does not appear to be any evidence to support the proposition that low and modest income households can feasibly save for their home under the new KiwiSaver scheme[17]. Given this prospect it is important to see the KiwiSaver as a complementary policy to an affordable first home homeownership programme and not as a proxy or alternative. In fact KiwiSaver would be best presented as a form of savings for tertiary education for younger people and as a supplementary superannuation scheme for older people.

Asset based welfare approaches are useful in focusing on the role of assets and asset ownership in wellbeing. The proposition that New Zealand has a savings problem and that incentives to encourage savings and savings behaviour are beneficial is also a worthwhile policy focus. However, the design of housing policy to meet these objectives is questionable particularly given the chance that subsidies may not be targeted to housing need but provided to a broad range of recipients, many of whom will gain access to homeownership regardless.

12 See Skilling, 2005 pp. 23-38.
13 Sherraden 1991,
14 Sodha 2006.
15 ling 2004b pp.1-2.
16 Skilling 2005 p.42.
17 The prospects that the KiwiSaver scheme will assist significant numbers of households into homeownership appears remote. These prospects depend on a number of factors such as take up, future household income growth and future house price inflation. The requirement of having to contribute 4% of income to the scheme in order to receive the Government subsidy may limit take up to higher income earners with more disposable income. Although there have been no official forecasts of likely take up, the Government's budget estimates for the next four years of the cost of "kickstart" grants (KiwiSaver Background Information p.3) of $255 million suggests that around 250,000 of the 3.1 million taxpayers are expected to join the scheme.

Defining social housing

In a broad sense "social housing" is housing which exists partially or entirely outside of the market. It exists to meet a social rather than an economic purpose and so is the subject of non-market allocations based on the objectives of its owners or supporters. In general social housing has a not-for-profit element which is not to say that profit or financial advantage is not gained but rather that this is not the primary focus.

Definitions and understandings of social housing tend to vary from country to country. Much of this variation appears to be due to historical factors such as the evolution of housing systems following World War II. The need to agree on a common definition of social housing has become particularly important within the European Union on account of the Altmark ruling by the European Court18. Such a definition has been provided by the United Nations Economic Commission for Europe (UNECE) as part of the proceedings of a social housing conference in Vienna in 2004. This definition identifies characteristics that distinguish social housing from private rental housing. These are[19]:

- Public production support
- Rules for determining rents (outside of market forces)
- Social criteria for the selection of tenants
- Restrictions on ownership of housing stock (eg. Government agencies, local governments, not-for-profit organisations)
- Specific legislation and authorities regulating the activities of social housing providers
- Security of tenure
- Tenant participation.

Noticeably this definition implicitly defines social housing as rental housing. Forms of shared equity within housing associations are being seen as part of the social housing system in Britain[20] although this inclusion is not always accepted[21 22]. This difference is

18 This ruling related to the rights of European states to provide subsidies for public services. The European Court held that it was appropriate for governments to subsidise the provision of public services but not to provide "state aid" to organisations. For social housing providers this poses a significant problem in part because of the practical difficulty in determining the practical difference between aid and subsidy. This difficulty expands with the possibility that governments may wish to give aid to private sector developers and attempt to do so by defining social housing in very broad terms. See discussion by CECODHAS the European Liaison Committee for Social Housing on http//www.union-hlm.org

19 See UNECE 2004, p.12 available at http//www.europaforum.or.at/publication.

20 See Clarke (2004).

21 For example see London Assembly (2006, p.9) for a distinction between social housing as provided by Registered Social Landlords (RSL's) and "intermediate housing" which is equity shared ownership housing provided by housing associations.

22 King (2006, p108) asks the question of the point of social housing in Britain given the Government's emphasis on homeownership and move of housing associations into programmes to promote and provide higher levels of ownership through shared equity schemes.

likely to be a source of some contention for some time particularly if the importance of social housing as a broader social policy tool begins to be realised.

At one level the prospect of having some private and particularly individualised ownership within the sphere of social housing appears contradictory. How is it possible for there to be private ownership of social housing? However, in shared equity arrangements and other forms of shared ownership housing arrangements, the reality is that some part of the housing asset remains in public or common ownership. Presumably this public or common ownership is utilised for some social purpose although this cannot always be guaranteed as it is possible for the individual co-owner to capture additional benefits and in effect privatise the social component of the ownership[23]. Regardless of this potential for occupier capture the prospect that some proportion of a house is owned by another party and for social reasons should allow such housing to be seen as part of the social housing system.

The sector of social housing providers is a clear distinguishing feature in social housing definitions. Effectively there are two sectors active in social housing; the government or its agencies which generally provide public housing and non-government organisations (NGO's) or not-for-profit organisations (non-profits) which provide housing under a number of labels including third sector housing, non-profit housing or community housing. There is however the prospect that the private sector may be involved in social housing either by way of rent controlled housing or through fulfilling a residual role in housing arrangements where the public or community sectors are failing to meet social need.

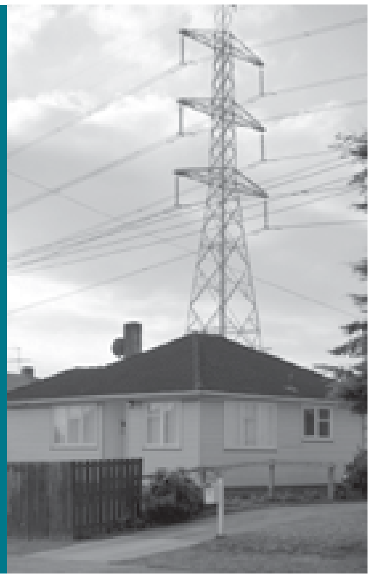
The description of social housing provided by NGO's as community housing is not without its criticisms. This description is however commonly used to describe that part of the social housing spectrum not owned and operated by government or local government agencies. The term community in this context is often misplaced in part because the housing organisations are not community owned but are either owned collectively by the beneficiaries as with housing cooperatives or are owned on a charitable trust model. Furthermore most community housing organisations rarely have a mandate from a local community and are not governed by it.

A useful way of defining community housing or the non-government side of social housing is by its objectives and principles. These tend to follow a fairly common format and include the following[24]:

23 Such a capture arises with leasehold land tenures where value appreciation is not taken into account in long-term agreements. Effectively then the leaseholder captures the value gain and can establish a secondary market where the leasehold has some additional value in a sale to another party.

24 Aims of National Community Housing Forum as set out in the National Community Housing Standards Manual. Available at http///www.nchf.org.au

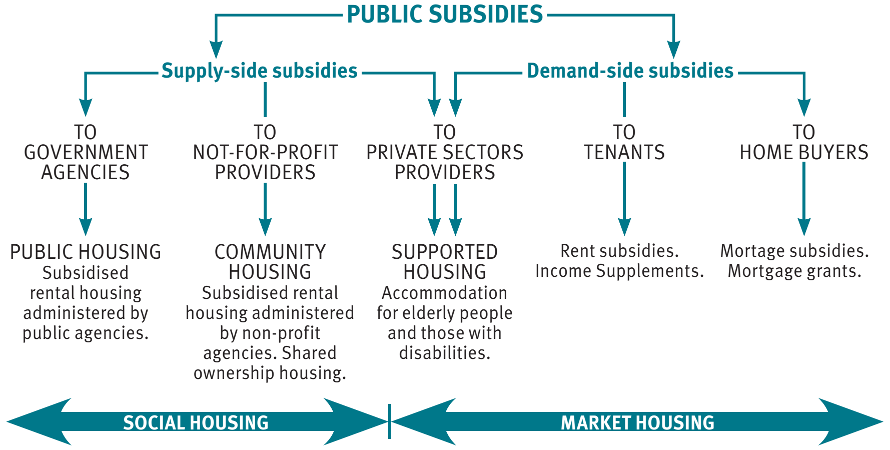
- **Affordability:** To ensure that housing costs do not create hardship for tenants
- **Choice:** To provide people in need of housing with a diverse choice of housing options
- **Responsiveness:** To respond to the needs of individual tenants and their changing circumstances by ensuring that housing is appropriate to tenants' needs and is managed flexibly
- **Security:** To ensure that tenants are secure in their housing, are housed for as long as they wish to be and meet the tenancy agreement
- **Sustainability:** To contribute to successful tenancies and the development of sustainable communities, by being supportive of tenants' wider social needs and building their independence
- **Respect:** To ensure that all tenants' rights are respected and to treat tenants with respect in all dealings
- **Fairness:** To ensure equitable access to community housing regardless of people's cultural identity, gender, disability, sexual orientation, age and household composition; and to treat tenants fairly in all matters relating to their tenancy
- **Participation:** To actively seek the participation of tenants in decisions about their tenancy and the management of organisations
- **Partnerships:** To work in partnership with governments and communities in developing housing and related services which meet tenant and community needs
- **Quality:** To provide the best possible accommodation and housing services to tenants
- **Accountability:** To be accountable to tenants, the community and government for the effectiveness of the service provided and for the use of public funds; and by doing so to enhance the credibility of community housing options.



Social housing advocates and supporters tend to be concerned about social justice issues and are generally drawn from the liberal-left of the political spectrum. Unsurprisingly those who occupy the pro-market and libertarian political positions are less enthusiastic about social housing and present it in quite different terms. These differences are instructive for the way in which social housing can be conceptualised.

British academic Peter King suggests that social housing can be distinguished by two characteristics; that social housing is defined by the fact it is based on what he terms "object" subsidies[25] and that it fails to offer choice[26]. King argues for a shift toward "subject" subsidies which are basically income supplements such as New Zealand's Accommodation Supplement and are paid to low-income households to enable them to purchase housing in the market. Kings "object" subsidies are more or less supply side subsidies which aim to support the supply and suppliers of housing while his "subject" subsidies are demand side subsidies which are paid to people to supply their demand for housing. In effect supply side subsidies are for houses while demand side subsidies are for households. An overview of this distinction and its application across the range of housing policy approaches is shown in the Figure 1 below.

FIGURE 1 – Defining housing policy by subsidies



Where is the value in social housing?

Perhaps the nub of the whole housing policy debate is around the respective roles of social housing and market housing. Within this core debate, is a supplementary and perhaps subsidiary debate around the relative merits of supply side subsidies and demand side subsidies. It can be seen from Figure 1 above that supply side subsidies provide more support for social housing while demand side subsidies are generally based on a reliance on markets to produce desired policy outcomes. The subsidies themselves are mere policy tools while the reliance on markets or bureaucracies to make allocative decisions is really the critical policy issue.

As with most areas of social policy, ideological positions are at the core of the housing policy debate. These ideological positions are often not identified forthrightly. Instead a somewhat arcane and technical debate is waged over the relative merits of certain policies in terms of such things as their programme costs, the efficiencies achieved or the incentive structures established. The debate is thus narrowly focused and the broader issues of economic and social wellbeing are missed. Furthermore the weaknesses in both markets and bureaucracies as allocative mechanisms are glossed over as a particular ideological position is argued for.

25 King, 2006 pp. 33-36.
26 King 2006 pp. 92-96.

The case for social housing should look to go beyond the present limitations of the housing policy debate and consider how social housing may improve economic and social outcomes, especially for the most vulnerable. The case for social housing should also seek to address problems around imperfect markets and imperfect bureaucracies.

Criticisms of social housing and of public housing in particular have often been underpinned by a society's prevailing view of poverty, the poor and of welfare. This is because public housing in many countries, including New Zealand, has become so residual that it is housing of last resort for the poorest people and households. As a consequence the prevailing view of the poor and of poverty is linked to the housing and the neighbourhoods in which these people live. The housing, and more importantly its tenure, is often blamed for contributing to the social and economic problems which may beset low-income communities[27]. Hence the problems of public housing become the problems of poor and often marginalised people and visa versa. This means that it becomes difficult to distinguish valid from biased views of the problems of social housing.

The social role of social housing has changed over the past six decades as its focus shifted and as owner-occupation became the more prevalent and more preferred tenure form. In New Zealand the change of focus for state housing was from one of providing good quality housing to working families to providing subsidised rental accommodation for welfare recipients[28]. This shift represented a changing role from one of improving living conditions for mainstream groups to providing affordable housing for fairly marginalised groups. The provision of affordable housing remains a focus of social housing and is important in itself.

Criticisms of social housing that it limits choice and locks people into particular houses, particular neighbourhoods and particular forms of tenure are fairly commonplace[29]. These criticisms are often a prelude to an alternative policy prescription which is most often based on the use of demand side subsidies. Demand subsidies such as housing benefits, income supplements and housing vouchers are said to extend choice for housing consumers. This choice may however be only theoretical as the circumstances of the local housing market and of the housing consumer are important factors that determine whether any real choice can be exercised[30].

However a similar case can be argued against supply side subsidies for public housing programme[31]. Hence, it would appear that the case for supply side subsidies over

27 Schrader, (2006 pp. 165-169).

28 Gael Ferguson, (1984 pp.233-236)

29 King (2006), Olsen (2006, p.3)

30 Khuddurj et al (2003, pp.25-44) report that households receiving rent vouchers were likely to be worse off for such demand side subsidies if they are large, old, liable to discriminated against or are seeking housing in tight housing markets. Susin (2002) reports that the rent voucher scheme which operated in the US from 1974 had by 1993 delivered $US 5.8 billion in rent subsidies to tenants but cost them $US 8.2 billion in higher rents. This outcome he argued was the result of low supply elasticities for low-income housing.

31 Olsen (2006, p.2) . Khudduri et al. (2003, pp. 47-62.

demand side subsidies depends very much on the local housing market and the nature of housing need. Unsurprisingly the case for supply-side subsidies, and, hence for social housing based on these subsidies, appears to be strongest where the market for low-income housing is the weakest. Where the local housing market is not under growth pressure or is not constrained unduly by land use regulations, demand based subsidies appear to have greatest merit.

Beyond the arguments for and against social housing on economic efficiency grounds is a broader case based on wider policy aims. Bruce Katz and his colleagues[32] in a comprehensive review of United States housing policies suggest that the ultimate goal of affordable housing policy should be to provide "housing that supports and promotes healthy families and communities". To support such a goal they suggest that seven supporting policy objectives are required. These are as follows:

- Preserve and expand the supply of good quality housing units
- Make housing more affordable and more readily available
- Promote racial and economic diversity in residential neighbourhoods
- Help households build wealth
- Strengthen families
- Link housing with essential supportive services
- Promote balanced metropolitan growth.

This goal and these objectives are seen as being highly desirable as the way forward for New Zealand housing policy and certainly go beyond the present focus of housing policy which is almost singularly focused on affordability. The following chapters will set down how a well considered and well resourced social housing sector may achieve these outcomes for New Zealanders.

Over the past decade or so housing policy in the United States and in much of the European Union has tended to expand beyond a single focus on affordability. The direction of this focus is however different on each side of the Atlantic – most likely for historical and political reasons.

In Britain and many other European Union countries social housing is seen as a tool to reduce social exclusion and the risk that this poses for social cohesion. In particular the European Union nations acknowledge the role which housing markets can play in

32 Katz (2003, pp3-5). An excellent summary of policy effects is provided on page viii of Katz's paper and is reproduced as Appendix 1 to this report.

excluding marginalised people and groups. Accordingly these countries have begun to see social housing as a way of addressing such marginalisation often through community development and neighbourhood regeneration[33].

Within the United States the emerging focus of housing policy is somewhat more reactive. The vast majority of housing related public expenditure in the United States is toward home owners' tax relief. There is however a residual interest in seeing social housing investments as a way to recreate decaying inner city neighbourhoods and by doing so attempting to recreate civil society within these neighbourhoods. These efforts remain quite piecemeal although they are the basis for a progressive movement of academics and activists who are seeking to address problems of entrenched and concentrated poverty in inner city and minority communities[34].

There is much to learn from both the Europeans and Americans in the design of a New Zealand social housing system.

33 See Bailey et al (2006), Parr (2006) and Atkinson, R. (2005).
34 See Katz (2004) and Berube (2005).

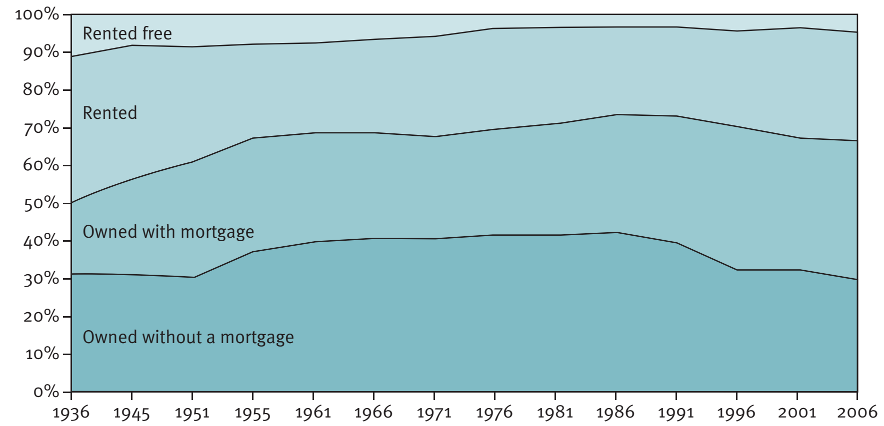
CHAPTER 2. THE POLITICS AND ECONOMICS OF HOUSING

This chapter considers four aspects of housing policy over the past decade or so. These aspects are the changing patterns of housing tenure, trends in housing affordability, the pathway of current housing policy and the impact which housing has had on the wider New Zealand economy. It is argued in this chapter that housing policy is central to the detrimental trends which we are witnessing around falling levels of homeownership, deteriorating housing affordability and rising foreign debt. These trends point to either one or both of two imminent changes. Firstly, the current economic settings around housing and housing markets do not appear sustainable in an economic sense and some adjustment seems inevitable. The extent and timing of this adjustment is the unknown factor and no attempt is made here to speculate on these. Secondly there may be a policy response to these trends and a possible downturn, although the nature of such a policy response is fundamentally a matter of political choice. The prospect of such political choice is the motivation of this chapter as it sets out to critique current housing policy. In particular this critique considers the implications of the impact which indifferent housing policy has both on the living standards of low and modest income New Zealanders and on the performance of the New Zealand economy.

Changing housing tenure patterns

There have been gradual but consistent shifts in New Zealand's housing tenure in New Zealand over the past fifteen years. These shifts are shown below in Figure 2 . The most significant shift has been a decline in levels of homeownership to what amounts to 50 year lows. Accompanying this decline has also been a decline in mortgage-free homeownership also to 50 year lows.

Figure 2: Housing tenure changes 1936-2006



Although the decline in ownership levels from the high of 73.8% in 1991 to 2006 levels of 66.9% may be seen as relatively small, this decline has been continuous and must been be seen as something of a structural shift in the way New Zealanders gain access to housing. Although this structural shift might be explained by a number of factors, two significant changes occurred during this period which make it difficult to accept an argument the changes are merely cyclical or part of a global shift which is beyond New Zealand's influence.

1991 coincides with the beginning of the neo-liberal social policies of the Bolger National Government with its Finance Minister Ruth Richardson's "mother of all budgets" and the move to market focused housing policies based on rent subsidies and market rents for state houses. For over 50 years prior to this year various Governments had pursued a range of housing policies although most featured strong support for homeownership for young families. In 1991 this new and sole reliance on rent subsidies to provide housing assistance for modest income New Zealander's also coincided with the selling off of Government home mortgages in what has been described as one of the most significant privatisations of that era[1]. No specific policies to encourage home ownership existed for the next decade and there were no government led housing development projects which had also been a prominent feature of post World War Two housing policies. Furthermore and as discussed below, the introduction by the Labour led coalition government of the "Welcome Home" mortgage guarantee scheme in 2004 has scarcely had any impact on the home mortgage market.

As shown below on Table 7, New Zealand is somewhat unique in the OECD in this decline in home-ownership levels. This table shows that in most OECD countries homeownership rates have been maintained or have increased since the early 1990's and now stand at levels which are comparable to New Zealand rates in 2006. In many instances such as those of Australia, United Kingdom and United States there have been quite deliberate home-ownership focused housing and tax policies which have combined with high levels of liquidity in global financial markets to provide easy access to housing finance for homeownership. In fact in these countries and many European countries this liquidity and the public's enthusiasm for housing investment has driven house prices up and created problems of housing affordability and rising household debt such as is present in New Zealand.

The decline in New Zealand's home-ownership rates appears to have been more the result of policies and economic conditions of the 1990's than of the 2000's if the data on Figure 2 above and Figures 3 and 4 below are a guide. These graphs show that the sharpest decline in homeownership rates and the sharpest increase in the numbers of rental housing occurred during the late 1990's. Although these shifts were sustained during the first five years of the 21st century the effect of rising house prices during this later period appears not to have reduced home-ownership rates significantly despite the affordability problems which have emerged.

Figure 3: Tenure of housing stock 1991-2006

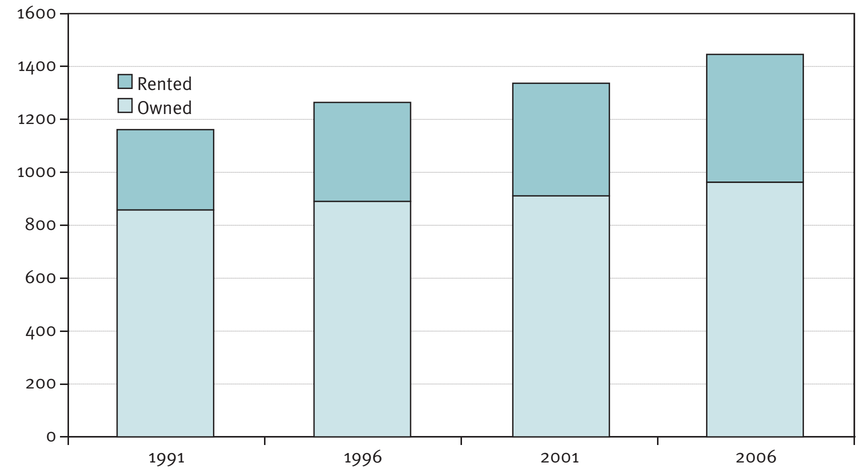
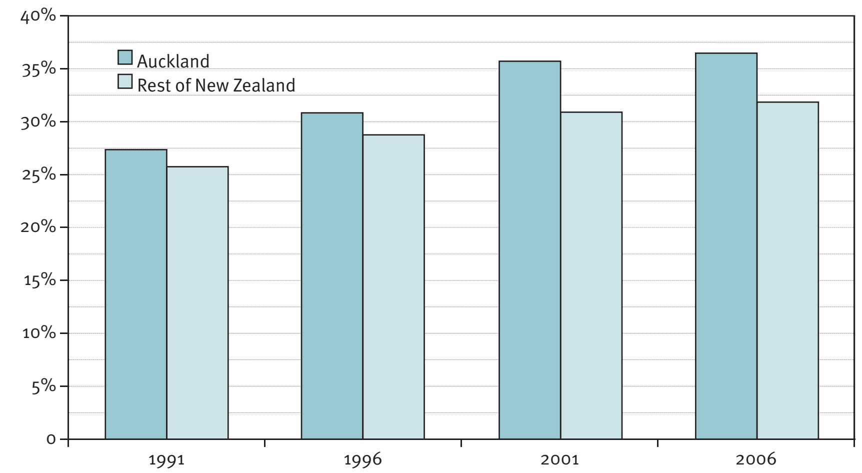


Figure 4 shows that home-ownership rates in Auckland region are nearly 5% lower than for the rest of New Zealand. This "ownership gap" is most likely explained by the higher costs of Auckland's housing and by its comparatively younger population. Figure 4 does however indicate that the "ownership gap" between Auckland and the rest of New Zealand has widened since the early 1990's with the most notable shifts occurring during the late 1990's.

Figure 4: Growth in rental housing 1991-2006



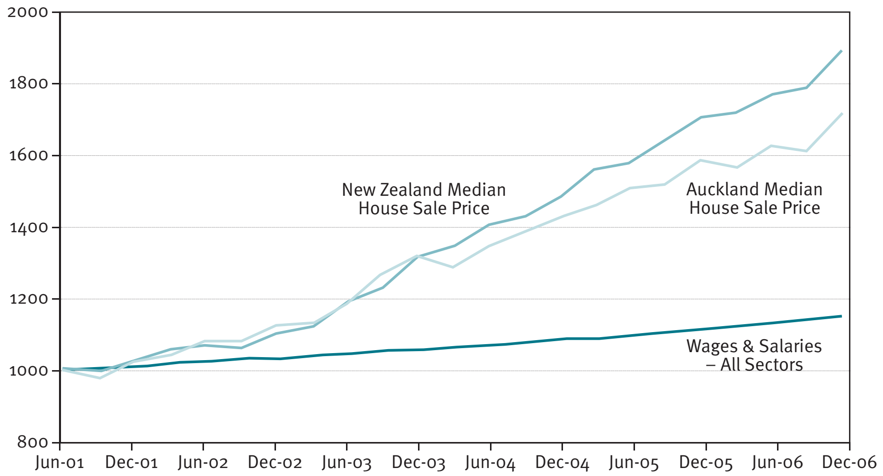
1 See Murphy (1997) for a summary of the introduction of the Accommodation Supplement. Murphy (2000, pp.396-7) reports that privatisation of the New Zealand Government's residential mortgage portfolio amounted to $2.414 billion. This privatisation took place between 1992 and 1998 and accounted for 12.6% of all the privatisations during the 1980's and 1990's.

Issues around housing affordability

A great deal has been written about New Zealand's growing problem of housing affordability[2] such that there is little additional value to be gained by reciting or reworking this issue in any detail in this paper. A broad reflection on the nature of this problem and on the way it is reported may however be of some value if only because this may provide some insights to possible remedies.

Figure 5 below provides a fairly standard analysis of affordability trends for New Zealand housing. This figure shows proportional increases in median house prices since mid 2001 for the Auckland region and New Zealand as a whole. The data shows an 86% and 71% increase respectively in median house prices. This compares with just a 15% overall increase in wages and salaries for the same period. Such comparisons lead to claims that house prices are increasing at a rate which is nearly six times faster than wages and salaries. These claims are of course correct but really say little about the nature of the affordability problem and hence about the nature of any worthwhile responses.

Figure 5: House Prices V's Wages and Salaries



House price to income comparisons pay no account of the actual cost of buying a house given that interest rates, tax policies and mortgage terms also influence the cost of such purchases. Aggregate indicators such as that developed by Massey University's Real Estate Analysis Unit and published as the AMP Home Affordability Index[3] seek to measure the impacts of these wider costs over time. Normally such indicators measure the ability of homebuyers to buy a house at prevailing conditions around house

2 See for example Grimes et al.(2007, pp.31-43); Grimes at al. (2006, pp. 3-23); DTZ (2007, pp.23-57); DTZ (2004, pp.13-36), Hargreaves (various) and Robinson (2006).

3 Available at http://property-group.massey.ac.nz/index.php?.id=1077.

prices, mortgage interest rates and incomes. The relevance of aggregate affordability indicators is of course dependant on how house prices and incomes are viewed. Most aggregate indicators consider median and means as the most useful reference points and so are really only relevant to households which are close to the middle in terms of incomes and housing aspirations. Such indicators are not particularly helpful in identifying the nature of the housing situation of low income households as such households will not be in the market for buying the median value house and most likely are confined to the rental housing market.

Robinson, et al. (2006) provide some useful analysis of recent trends in housing affordability for lower income households[4]. This analysis shows two interesting trends. Firstly, the present declining affordability has followed a period of improving affordability so the overall trend observed appears in part to be conditioned by the length of the review period. For example some analysis suggests that taking longer timeframes indicates a cyclical pattern in affordability rather than a uniform decline in affordability that has been identified in recent commentary. The apparent causes of this cyclical pattern are part of a second relevant trend. It appears for instance that affordability, at least as measured by indicators such as housing costs to household income ratios, change because of contributing factors which often move independently or even in countervailing ways. For example, recent reports of improving housing affordability[5] may be a consequence of rising salaries and wages or of increased government transfers or of relatively static rents, while at the same time house prices have risen.

This complex array of causes and influences mean that observations of declining or improving affordability most likely are not able to identify the significance of change in terms of whether they represent a cyclical change or a structural shift. If changes such as a rising house price to income ratio are merely cyclical in nature it may be argued that subsequent market corrections (such as those of the late 1980's) will bring conditions back to a more tolerable set of circumstances in time and so the preferred policy response is to wait and see. Alternatively if changes such as a rising house price to income ratio are seen as a structural shift, the appropriate policy response may be either to address the underlying cause(s) or to introduce policy and market interventions which address the consequences in a more fundamental way.

Beneath the debate around the affordability of homeownership is the more often ignored issue of affordability for households which are likely to rent. The current media preoccupation with ownership focused affordability measures ignores two possible dynamics of the housing market which may explain changing tenure patterns and

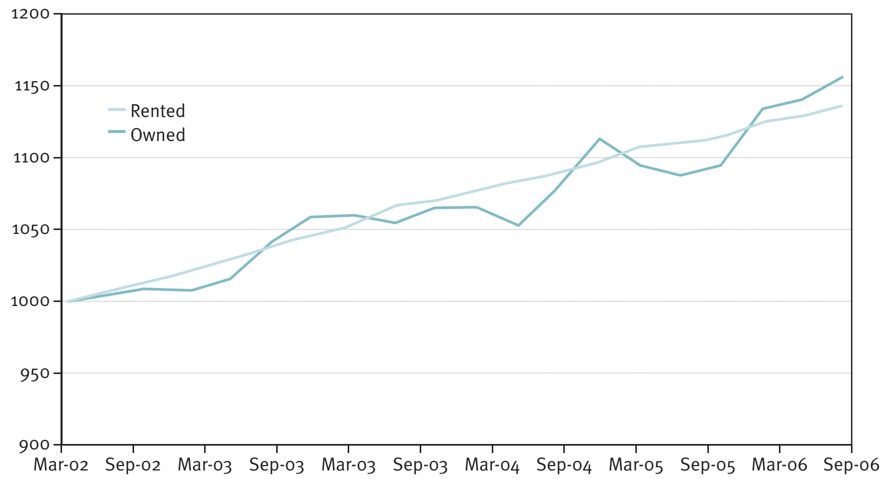
4 See Robinson (2006, p.18) for a comparison of mortgage payments for the lowest quartile priced house and the 20th percentile gross individual income. Further analyses are the percentage of household income paid in housing costs by household type and by ethnicity.

5 Robinson (2006 pp. 23-24) reports improving housing affordability, as measured by income threshold measures, since the later 1990's. The cause of such improvements is not reported.

which point to a fundamental weakness in the present market arrangements. The first dynamic is that recent house price increases may be driven more by property investors and existing home owners trading up in the market than it is new home buyers[6]. The second dynamic is that this activity is not being driven by rental yields or the costs of debt burden but by other factors such as long-term asset growth. As discussed below these dynamics have resulted in a housing market where investment in rental housing appears to be a bad investment and where investment prospects appear poor.

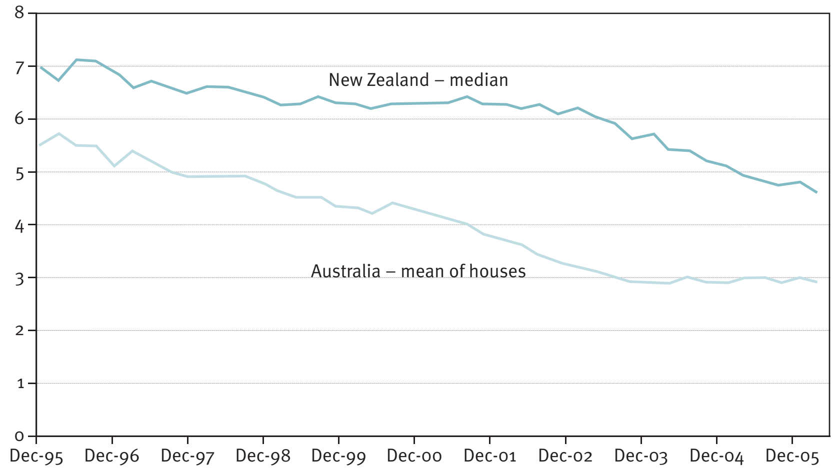
It appears that the affordability of rental housing is not declining but remaining fairly stable. For example Figure 6 below reports the proportional change in rents and in hourly wage rates for the lowest paid industrial sector – accommodation. The basis of such a comparison is that the lowest paid workers are most likely to live in the poorest households and that these households are more likely than others to rent. Figure 6 shows that rents and wages rates for unskilled workers have roughly followed the same paths between 2002 and 2006. This result is similar to that reported by Robinson et al. (p.16) which shows a very stable relationship between rents and net household income for a much longer period between 1991 and 2005.

Figure 6: Real changes in rents and low wages
2002-2006



If rents have stayed in line with incomes and if house prices have risen at nearly six times the rate of wages and salaries, the compensating change must be a decline in the rate of return on rental property investments. This is indeed the case as reported by the Reserve Bank and shown in Figure 7 below. These relatively poor rates of return are based on current market values of residential property and not on the historic cost at the time that the investment was purchased. Nonetheless the relatively poor rates of return alongside an apparent unquenched thirst for further investment by small scale investors has a number of economic implications which are discussed below. What is interesting in the data provided in Figure 7 is that the rate of return for residential property investment in Australia has historically been substantially lower than in New Zealand. This comparison with Australia presents a complex picture which means that the Australian experience may not be directly relevant to New Zealand[7]. However, the pattern of buoyant housing markets, with sustained house price inflation and rising debt burdens is common in both countries and may suggest that returns could fall even lower in New Zealand.

Figure 7: Rental Yields on Residential Properties
Australia & New Zealand 1996-2006



SOURCE: Reserve Bank – Financial Stability Report –November 2006

The fact of rising house prices, static rents and falling returns on rental investments pose a series of questions around the nature of these changes, around their underlying causes and around the stability of the present relationships. These questions are of course inter-related and their resolution point to one of two possible outcomes. Either rents will rise in real terms to improve the rate of return or investors will move away from rental housing as an investment option. Most likely, and, given the nature of market

6 If this wasn't the case housing affordability for first home buyers would not be a problem and ownership rates would not be falling. However there does not appear to be any comprehensive analysis of the causes of rapid house prices increases and the widening gap between house prices and household incomes. Toward this understanding Scobie et al (2007) provide new insights into the nature of household investment in rental property. They report that 7.9% of all households own residential investment property (p.4). Amongst the baby boomer generation ownership of rental property rises to 12.% (p.23). Between the 2001 and 2006 censuses, 45% of all new households or around 49,000 households lived in rental housing while overall only 33% of the housing stock was rented.

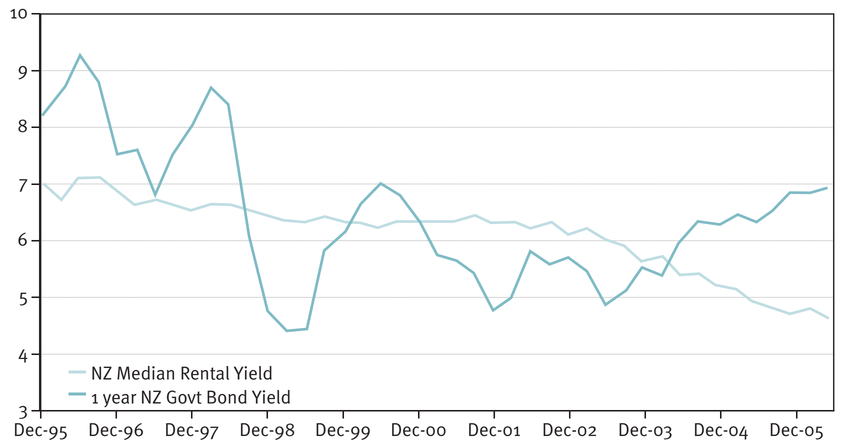
7 A pressing question here is whether the lower rental yields in Australia imply that yields in New Zealand may fall still further. In attempting to answer this question we need to gain an understanding of what motivates investors to accept such low yields given why such yields are normally well below that available from a risk free investment with similar liquidity. For example in both countries the Government bond yields exceed the residential rental investment yields by at least 2%. There appears to be no robust research on what motivates investment into rental housing but conventional wisdom generally asserts that it is the tangibility of the investment, its appeal to lending banks as security and the prospect of capital gains. If these are indeed the motivating factors then the lower yields in Australia may offer little insight as to how much lower yields will fall in New Zealand before investors move away from further investment in rental housing.

adjustments, some of both outcomes will occur. Under this “some of both” scenario as investors’ interest in rental housing investment wanes further investment in rental housing will diminish and some landlords may even exit and realise their capital gains. As this happens rents will begin to rise (relative to wages) meaning that some equilibrium will eventually be achieved where rental yields are seen as comparable to other alternative investments.

The prospect of adjustments occurring as smoothly as this, appears remote for at least two reasons. Firstly, if the ratio of household income to rents has remained fairly stable historically and if declining yields have been unable to force rents up to match house value increases then it is likely to take a significant decline in supply to force this adjustment. Conversely the prospects for sustained investment in residential property does not appear bright even within the present market parameters. The cause for such pessimism is shown in the following two graphs which indicate the rising burden of past investment decisions and relative attraction of other investments.

Figure 8 below compares the median rental yields for New Zealand with the yields available from one year Government stock. Since 2003 there has be a widening margin between the two yields such that returns for Government stock is at least 2% better than rental yields.

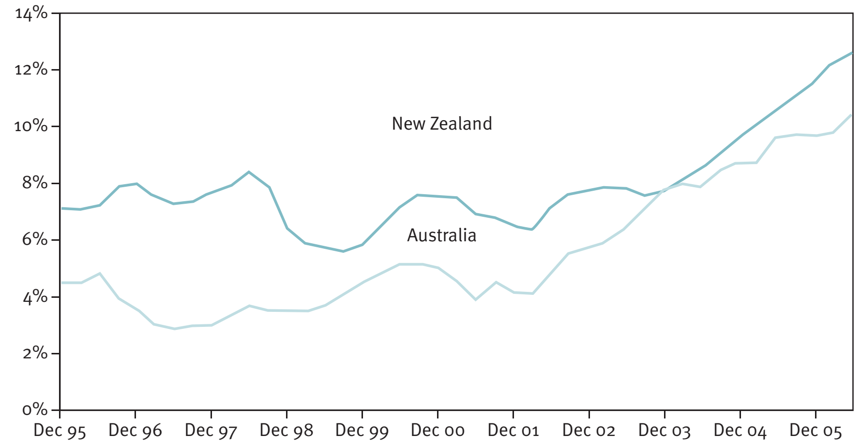
Figure 8: Comparison of Investment Yields
1 Year Government Bonds v Residential Property



SOURCE: Reserve Bank of New Zealand

Figure 9 below reports the proportion of household incomes which must be used to pay interest mortgage. Around 13% of household disposable income is now being devoted to servicing debt, a proportion higher than any time since 1990. Australia is showing a similar trend although the extent of the burden is less.

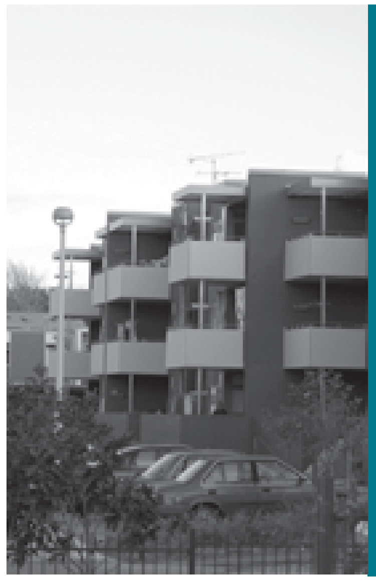
Figure 9: Mortage Debt Servicing Ratios
Australia and New Zealand 1995-2006



SOURCE: Reserve Bank – Financial Stability Report – November 2006

To date there does not appear to have been a comprehensive analysis of the causes for the significant rise in house prices relative to household incomes. Often commentators point to one cause as part of their advocacy for policy change. It seems likely however that there are several causes which together have created a complex and compounding effect on ownership patterns, debt levels and house prices. The following are offered here as likely contributing causes to New Zealand’s housing affordability problems:

- Supply constraints particularly around land availability and capacity within the construction industry.
- Lack of competition in the building supply industry which has brought about higher material costs and a cost plus mentality within the industry.
- Regulatory costs and other compliance costs forced onto the construction industry through the Resource Management Act, Local Government Act and Building Act.
- Global liquidity and the availability of housing finance which provides the necessary debt to fund rising property prices.
- Inequitable tax policy which allows capital gains from housing related investments to go untaxed and has made such investment relatively more attractive as a consequence.
- The economic dominance of the baby boomer generation and their increasing interest in and capacity to make investments for their retirement incomes.



If indeed these are more or less the causes of declining housing affordability, the fundamental problem seems to be one of policy failure rather than of structural or cyclical change. Whether this policy failure is one of having too much or too little policy and regulation is more of an ideological question than a technical one and would be based on whose interests you think should be regulated and whose interests you think should be left unfettered.

Of these causes it is really only the availability of credit and the demographic bulge of the baby boomers which could be seen to be cyclical in nature. Given this it may be argued that markets and aging should be left to run their course and that in time the consequences of excess debt burden and over-investment in housing will be worked out.

Perhaps the key policy question in this whole affordability debate is the question around deciding an appropriate or tolerable adjustment period and adjustment cost that would make a "hands off" approach the most reasonable policy path. If for example the projected baby boomers' sell-off of their housing investments beyond 2015 and certainly after 2025 takes place, house prices will decline making houses more affordable for purchase by first home buyers. The problem with taking such a long-term "cyclical" approach is that in the meantime a generation of low-income home buyers miss out and potentially a proportion of a whole generation of children grow up in inadequate housing.

An adjustment in New Zealand's housing markets appears likely in the short term. The extent and nature of this adjustment is difficult to predict but there is likely to be a real and perhaps even a nominal downward adjustment in house prices. Such a shift will open up opportunities for home-ownership to previously excluded groups. Care should however be taken to ensure that these groups are not left with excessive debt or poorly maintained houses. Any market adjustment provides the opportunity for Government intervention, and planning should be underway now to ensure that any intervention has a long-term perspective and seeks to reverse many of the unfortunate changes of the last 15 years.

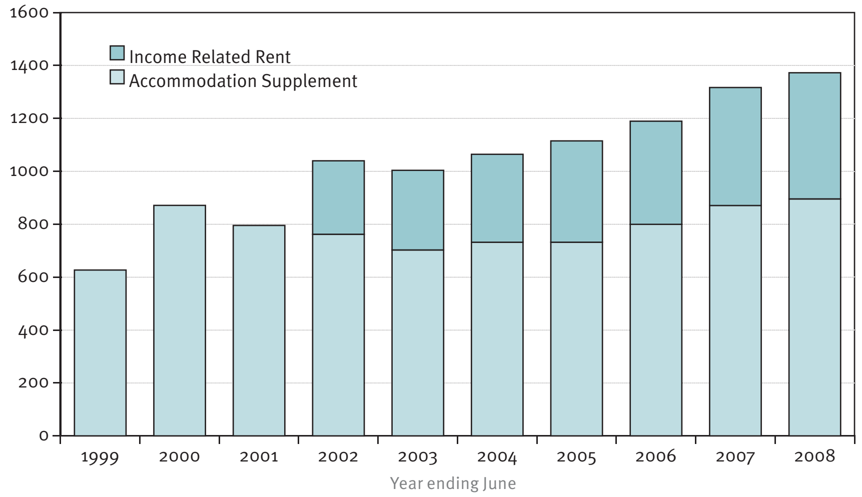
If however there is not a downward adjustment in house prices over the next two years, it appears likely that investment in rental housing will diminish and further pressure for real rent increases will emerge. This is likely to spread and to exacerbate problems of inadequate or crowded housing and in turn give rise to subsequent problems around poor health, educational failure and family violence.

A recent history of housing policy

Housing policy since 2000 may easily be described as benign neglect. The Government's sound financial position and indeed much of the country's economic fortune are unprecedented in nearly three decades. Yet, despite this good fortune little has been done to address problems of housing affordability and to assist young families and modest income New Zealanders into home-ownership. While governments

since 1999 have reversed the quite punitive market rents policy for state houses and have introduced a very modest home mortgage guarantee scheme for marginal first home buyers, very little has been done to provide additional capital to build homes or to offer assistance to purchase homes. Instead governments since 1999 have chosen to continue to provide rent subsidies for private tenants through the Accommodation Supplement and for state tenants through the income related rents policies. The cost of these subsidies has risen from $633 million for the 1998/1999 financial year to an expected $1.37 billion in 2007/08 with the only real beneficiaries being the 65,000 households renting state houses on income related rents.[8] The rising costs of these rental subsidies and of general support for housing policy is shown in Figure 10 below.

Figure 10: Housing Subsidies 1999-2008



The $910 million allocated to Vote Housing in the 2007/08 Government Budget is largely for Housing New Zealand Corporation (HNZC) Ltd's operating budgets[9]. These budgets are largely allocated as a rental subsidy to support HNZC to operate the Government's income related rents policy. Since the reintroduction of income related rents for state houses in 2001 the cost of these subsidies to the taxpayer have risen from $274 million in 2001/02 to an expected $465 million in 2007/08.

Between 2001 and 2006 HNZC has added 6,347 units to the stock of dwelling units which it either owns or manages. Changes in the size and composition of this stock are provided in the table below.

8 Source: Government of New Zealand Financial Statements 1998/99 to 2005/06.

9 Of this $910 million, $332 million is defined as capital appropriations although $221 million is for refinancing of HNZC's third party debt and just $48 million has been allocated for the acquisition of additional state houses. At the same time Government is expecting a payment of $131 million from HNZC in interest payments.

TABLE 1: Changes in Housing Zealand's housing stock 2001-2006

Year Ending June	2001	2002	2003	2004	2005	2006
Leased units	821	1,092	1,492	1,890	2,270	2,611
Publicly owned units	60,229	60,786	62,907	63,434	64,078	64,786
Total "managed units"	61,050	61,878	64,399	65,304	66,354	67,397

Source: Housing New Zealand Ltd Annual Reports

While the number of residential units managed by HNZC has risen, the cost of income related rent subsidies paid by Government has risen at a faster rate . This has meant that the average subsidy per tenant has risen from $4,525 per year in 2002 to $5,920 in 2006. This rise has been accompanied with small increases in the level of rents paid by tenants as their incomes have risen. These increases are shown in Figure 11 below.

The main reason for this increase has been the need to fund increasing depreciation allowances for state houses. Depreciation costs in 2001/02 were $66.6 million while by 2005/06 this cost had risen to $142.6 million. This increase appears to be due to increasing asset values which in turn have been caused by increasing building costs and property values in the broader economy.

From HNZC's balance sheet it appears that its additional housing stock has largely been purchased from operating revenue and specifically from these depreciation allowances. Since the creation of the company in 2001 with the transfer of assets from the former Housing New Zealand Ltd at a book value of $2.9 billion the company's equity has risen by $8.5 billion to $11.43 billion. This increase has largely come about through asset revaluations with only modest capital contributions from Government.

Table 2 below provides a summary of the New Zealand Government accounts for the period 1999/2000 to 2005/06 to illustrate the point of revenue surpluses and fiscal parsimony toward housing. These figures show cumulative operating surpluses of $32.5 billion (on an OBERAC basis) for the five years to June 2006, $8.1 billion of which was invested in the New Zealand Superannuation Fund10 for the purposes of providing retirement incomes to citizens presently in middle age. Over the same period the Government provided just $237 million, or less than 1% of its operating surplus to HNZC by way of new capital to assist with the expansion of the state housing stock.[11]

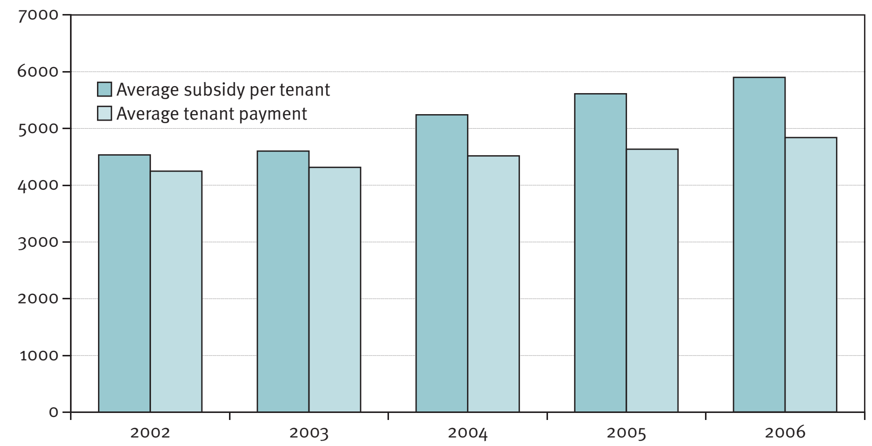
10 Source: Government of New Zealand Financial Statements 2005/06 p.14.
11 Source HNZC Annual Reports.

TABLE 2: Key financial indicators of New Zealand Government 2000-2006

Year Ending June $'s millions	2000	2001	2002	2003	2004	2005	2006
Total Revenue	41,557	45,506	49,979	57,027	60,387	67,065	76,581
Total Expenses	40,128	44,213	47,653	55,224	53,057	60,910	65,084
Operating Balance	1,503	1,358	2,391	1,966	7,424	6,247	11,473
OBERAC[12]	884	2,115	2,751	5,580	6,629	8,873	8,648
Contribution to NZS Fund			600	1,200	1,879	2,107	2,337
Net contribution to HNZC [13]			33[14]	39	(94)	111	148

The very modest capital contribution by Government to HCNZ for the development or purchase of additional housing stock shows up in the quite modest additions to the total social housing stock since 2000. This increase is shown in Figure 11 below and is also reflected in Figure 12. Figure 12 omits the 1,666 units which Housing New Zealand purchased from Auckland City Council in 2003 which in fact represents a transfer of ownership of social housing stock rather than a net addition to this stock. What is pleasing to note from Figure 12 is the increase in funding and priority being given to other housing providers other than HNZC as shown by the 25% of additional units being provided by other providers such as non-for-profit housing organisation and local government.

Figure 11: Housing New Zealand Rents and Rent Subsidies



12 Operating balance excluding revaluation and accounting policy changes.
13 This figure is the net of capital contributions from the owner and dividends paid to the owner in the same year.
14 In 2001/02 Government contributed the assets of the former Housing New Zealand Ltd into HNZC's balance sheet. The nominal value of these assets at the time were $2.856 billion although they were the subject of a revaluation increase of $2.446 billion during this year as well. The $33 million cited here is made up of cash injection of $42 million less a dividend payout of $9 million – Source HNZC 2001/02 Annual Report p.61.

Figure 12: Additional social housing units 2002 – 2006

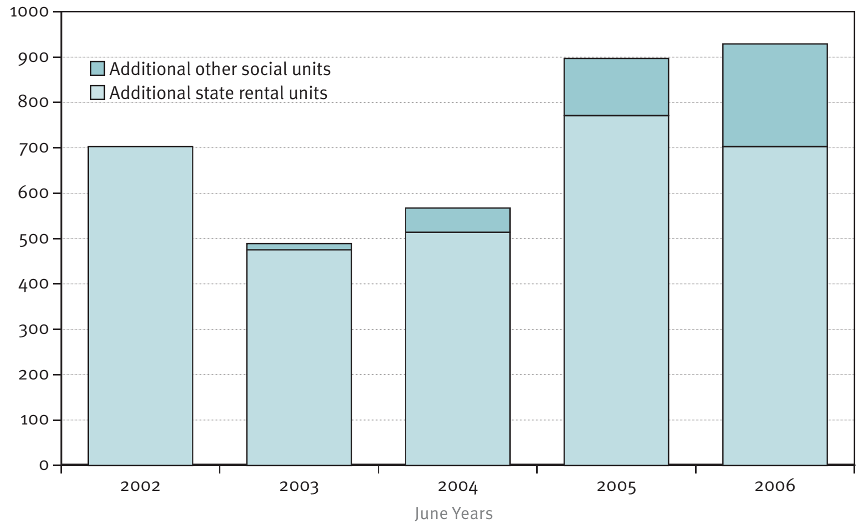
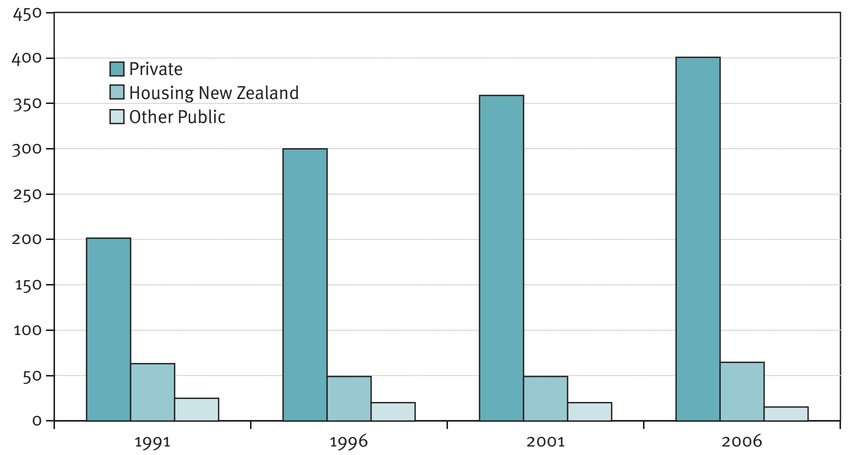


Figure 13 below shows the relative decline of social housing over a 20 year period during which time public policy has favoured demand side policies mainly through the Accommodation Supplement. This graph illustrates the rapid growth in the private rental housing stock since 1991.

Figure 13: Changes in rental housing market
1991 – 2006



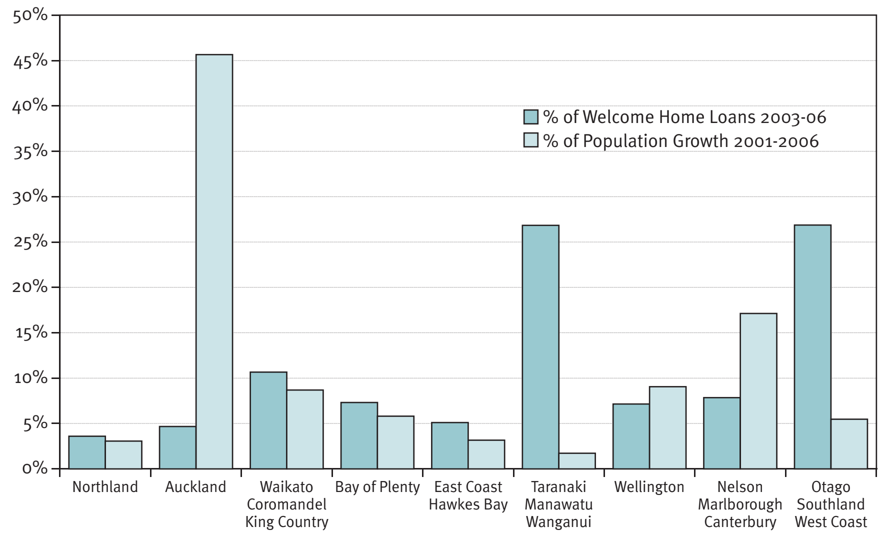
SOURCE: Statistics New Zealand Census

In 2003 the Government introduced a modest home mortgage guarantee scheme known as Welcome Home Loans. Under this scheme people and families who have financial circumstances which make them marginal risks for banks offering conventional home finance are provided with a mortgage guarantee and receive mortgage finance through Kiwibank. The scheme is operated on behalf of the Crown by Housing New Zealand.

By any measure the Welcome Home Loans programme cannot be described as a success. The programme was piloted between early 2004 and June 2005 during which time 963 families and households were assisted into homeownership. For the full 2004/05 year the scheme had a target of providing mortgage insurance for 1450 households but achieved just 597. The 2005/06 year results were scarcely better with just 791 loan approvals or just 1.1 % of the 71,258[15] additional mortgages financed by banks that year.

The poor performance of the Welcome Home Loans scheme is reinforced by the data provided in Figure 14 below. This graph shows the proportional distribution of loan approvals by region and the actual population growth and hence level of housing demand in these regions. Clearly the Welcome Home Loan scheme works better in areas where housing demand is low and hence house prices are more affordable. This means of course that the Welcome Home Loan scheme does nothing to relieve affordability problems in areas of high demand and hence very little for modest income working families who aspire to one day own a home.

Figure 14: Distribution of Welcome Home Loans and Population Growth



15 Source HNZC Annual Report 2005/06 and Reserve Bank of New Zealand

In acknowledging the poor results from the programme up to June 2005 HNZC in its Annual Report for that year suggested that this was due to "adverse market conditions which reduced affordability for the target market". The reality of course was not adverse market conditions but impossible policy parameters which avoided the real question of subsidies to make housing affordable for the majority of renting households and tenant families who still cling to the prospect of one day owning their own home.

Housing and the New Zealand Economy

There is strong evidence that current housing policy settings are having a detrimental impact on the economy and not just through the often cited mechanism of house price inflation and monetary policy[16]. This mechanism of course uses interest rates to dampen demand and often specifically demand in the housing market. The direct consequence of moves to raise domestic interest rates is upward pressure on the exchange rate on account both of New Zealand's poor domestic savings record and what may be termed "global liquidity" or easy availability of funds from high saving Asian and oil exporting countries. Where the dual policy setting of high interest rates and a high exchange rate persist for an extended period the result is reduced competitiveness of exporters and of domestic industries that might otherwise produce goods which are imported. The consequence of this decline in competitiveness is a current account problem which in New Zealand's case has blown out to a deficit exceeding 9% of GDP since December 2006 and more than $10 billion per year since March 2005. In New Zealand's recent history this deficit has been financed through rising foreign debt and increasing foreign ownership of New Zealand's businesses and resources.

While it is incorrect to blame house price inflation and a buoyant housing market solely for New Zealand's current account problems and rising foreign debt, the Government's inability, or at least unwillingness, to control house price inflation and over investment in housing is a major contributing cause to these problems. The seriousness of the impact of house price inflation on New Zealand's economy is for example illustrated by the Reserve Bank of New Zealand's (RBNZ) and The Treasury's recent interest in and study of "Supplementary Stabilisation Instruments"[17] to manage the domestic demand effects generated by the buoyant housing market. These demand effects are seen as being damaging to the tradeable (or globally focused) sector through the mechanism of high exchange rates. Although this study failed to identify any easy answers there perhaps was some irony in the authors' recommendation that;

> *"there could be some merit in encouraging Inland Revenue to have regard to broader cyclical stabilisation considerations when assessing the priority given to the enforcement of existing income tax provisions that make liable for income tax any capital gains on properties (other that those occupied by the owner) purchased with the intent of resale" (p.1)*

In other words there is some merit in the Inland Revenue simply enforcing tax laws.

The "Supplementary Stabilisation Instruments" report offers a number of useful policy measures which could assist in dampening excessive demand for housing although none appear very feasible politically. Perhaps the most feasible is the use of the capital adequacy requirement of banks and the fine tuning of this mechanism to take account of each bank's exposure to mortgage lending risk. Such an approach is discounted by the authors for fear that it may erode *"the operational autonomy of the Reserve Bank in the conduct of monetary policy"* (p.2).

Behind the impact which the housing market is having on the consumption and production part of the economy is perhaps a more serious and longer-term impact on the investment and debt part of the economy. In short, New Zealanders' love affair with housing as an investment has seriously distorted New Zealand's economic structure by reducing savings and directing investment into relatively unproductive assets. These distortions are threatening New Zealanders' longer-term prosperity and New Zealand's economic sovereignty.

The prospect of over-investment in housing is less about the size of the rental housing market as it is about the size and expense of owner-occupied housing and the prices being paid for housing whether for owner-occupation or rental investment. While the question of over-investment is one of judgement, comparisons with our recent history and with the extent of housing investment in other countries would suggest that there is some validity in the argument that many New Zealand households have over-invested in housing.

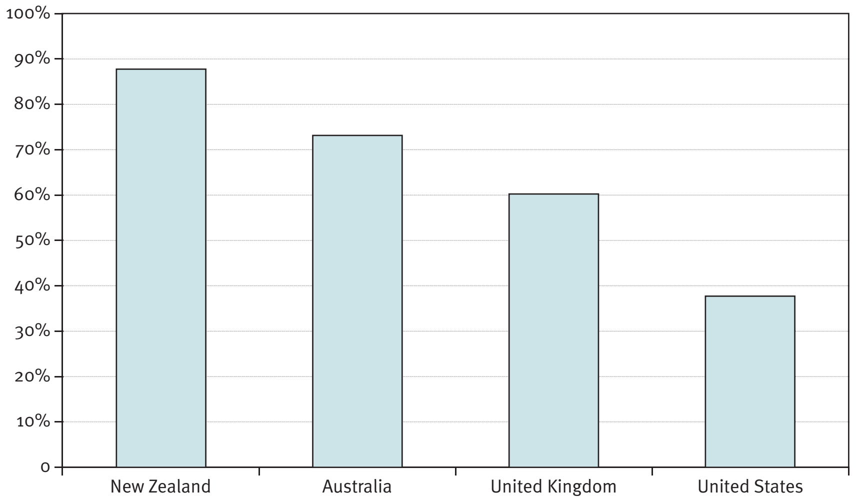
Figure 15 below compares the proportion of household wealth held in housing across four countries. These differences cannot be explained by different levels of

16 The actual relationship between housing markets and monetary policy is quite complex. Under the Reserve Bank Act and the Policy Targets Agreement which it has with the Minister of Finance, the Reserve Bank is required manage monetary policy to achieve price stability as measured by the Consumers Price Index. (CPI). Increasing house prices do not directly affect the CPI but certainly do so in complex and indirect ways. One indirect way is through the price signal that rising house and other property prices send to developers to undertake new development. Such development activity requires the use of materials and construction services and if the demand for such goods and services is strong prices are likely to rise. A further indirect influence is through the so-called "wealth effect" where people who own property begin to feel wealthier as their property values increase. Through this effect people either borrow more heavily to buy additional property or simply borrow to spend – so called equity withdrawal. This increased expenditure is often inflationary since it is not due to any increase in production or incomes but simply a willingness amongst home owners to borrow and spend. Smith, M (2006 p.9) has estimated that this equity withdrawal from residential over the three years between March 2003 and March 2006 amounted to around $7 billion.

17 See Bushnell et al (2006)

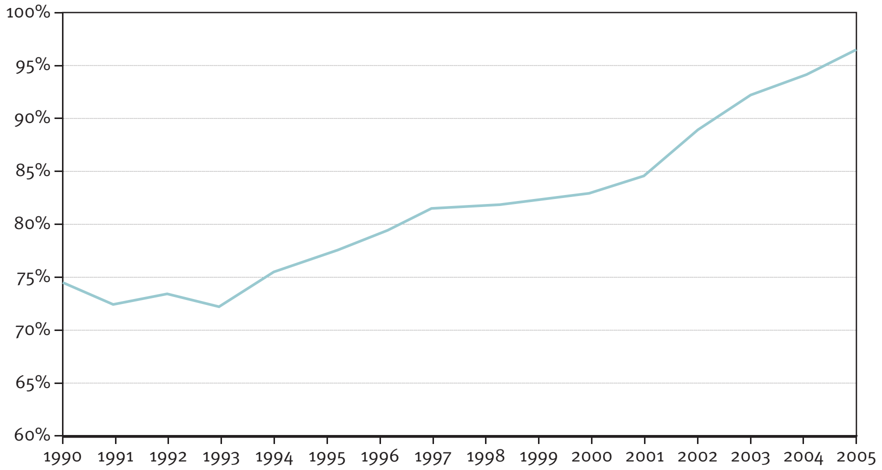
homeownership as homeownership rates are roughly comparable across all four countries as shown in Table 7 on page 85.

Figure 15: Comparisons of household wealth held in housing



The data from Figure 15 above is not dated by the source but most likely reports the period 2002/03. Since that time, it appears that New Zealand's household wealth has become even more concentrated into housing rising to a reported 96% household wealth by the end of 2005 as shown in Figure 16 below.

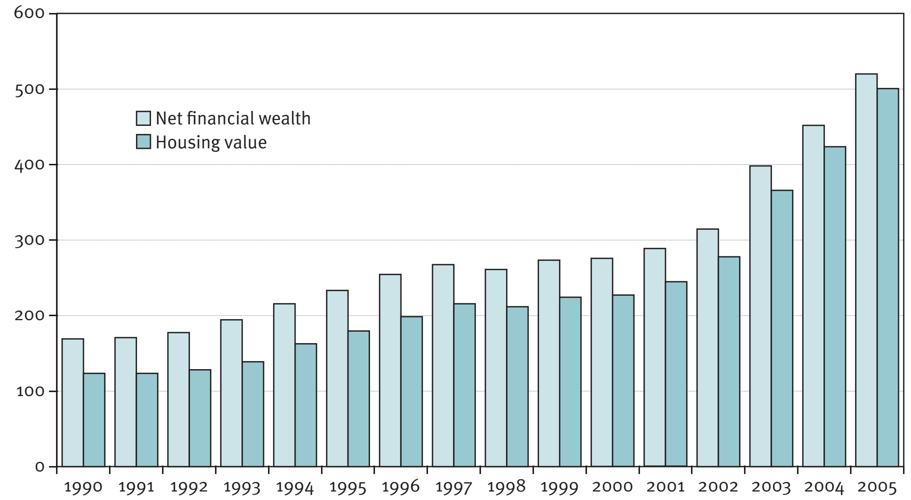
Figure 16: Housing value as proportion of household wealth in New Zealand



SOURCE: Reserve Bank of New Zeland Statistics *December Years*

This increase in the importance of housing as the basis of wealth holding by New Zealand households appears to be due to two trends – the increasing market value of housing and a decline in the net value of financial assets. The impact of the increasing value of housing is shown in Figure 17 below for the period 1990 to 2005. This data shows that between 2000 and 2005 the value of housing assets owned by New Zealand households rose from $231 billion to $506 billion. This increase was more than responsible for the corresponding increase in total household financial wealth from $279 billion to $526 billion. These changes indicate further that the net value of financial assets held by households has actually declined from $48 billion in 2000 to $20 billion in 2005.

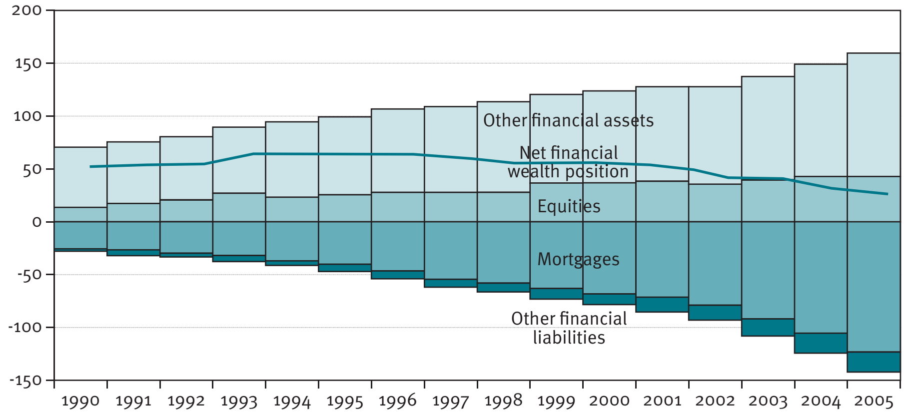
Figure 17: Household wealth and housing related wealth in New Zealand



SOURCE: Reserve Bank of New Zeland Statistics

This decline in non-housing financial wealth of households is due to increasing indebtedness. Between 2000 and 2005, total household indebtedness rose from $78 billion to $142 billion. In real terms (accounting for inflation) this is an increase of 62%. This increase of indebtedness is made up of a 62% real increase in the value of mortgages to $122 billion in 2005 and a 62% real increase in consumer debt. On the other hand net financial wealth of households increased 68% in real terms to $526 billion. This increase was made up of a mere 2.5% in the real value of equities held by New Zealand households to $45 billion in 2005 and a 20% real increase in the value of other financial assets to $117 billion. These changes are shown in Figure 18 below

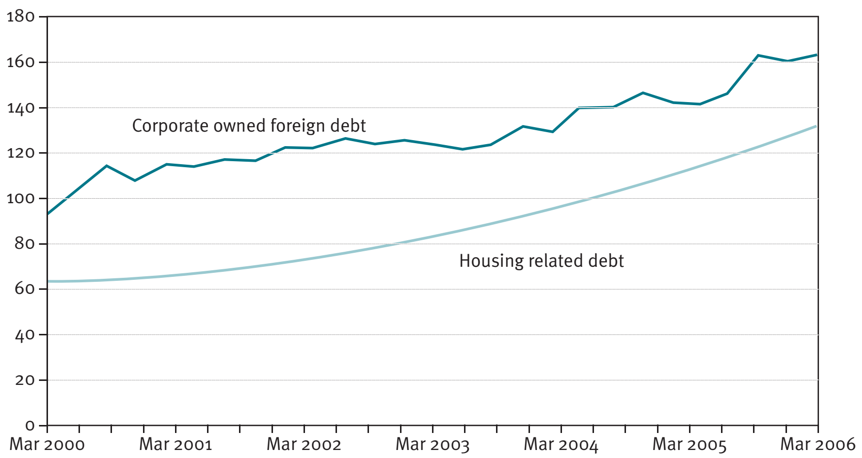
Figure 18: Total financial assests & liabilities of New Zealand households



SOURCE: Reserve Bank of New Zeland Statistics

These changes do not however just affect households but have an impact on the whole economy and its relationship with the rest of the world. Figure 19 compares the rise of private sector or corporate owed foreign debt (mainly banks) with the rise in housing related debt for the period March 2000 to September 2006. Over this period private sector foreign debt rose 48% in real terms from $93 billion to $164 billion, while housing related debt rose 76% in real terms from $63 billion to $132 billion. Correspondingly housing related debt as a proportion of total private sector debt rose from 58% in March 2000 to nearly 73% in September 2006.

Figure 19: Corporate foreign debt & housing related debt in New Zealand



SOURCE: Reserve Bank of New Zeland Statistics

The dominating preference of New Zealanders to own homes ahead of owning companies is most likely the major contributor to the fairly moribund state of the New Zealand Stock Exchange as shown on Table 3 below. This table shows that although the capitalisation of the market has risen appreciably over the four year period to February 2007, the number of listed companies and the number of transactions on the market have declined by 9% and 5% respectively. Furthermore the value of new equity raised has remained fairly stable and accounts for less than 1.5% of GDP. By comparison Reserve Bank figures reporting new borrowings to fund housing purchases of $44.7 billion for the three years to March 2006 represents an average of 10% of GDP.

TABLE 3: Key indicators of the New Zealand Stock Exchange (NZSX)

PERIOD	MARKET CAPITALISATION $'s billions	LISTED ISSUERS	No OF TRANSACTIONS OOO's YE	NEW EQUITY RAISED $'s billions YE
Feb 2004	41.5[18]	191	514	1.523
Feb 2005	66.5	199	539	2.301
Feb 2006	63.6	179	521	2.249
Feb 2007	75.5	173	490	1.971

SOURCE: New Zealand Stock Exchange at www.nzx.com/aboutus/investor/metrics

Effectively New Zealand is on an economic treadmill where investor confidence and investment demand drive up houses prices which in turn drives debt based consumption and demand for new construction. These later trends contribute significantly to inflation which is responded to by the Reserve Bank through tighter monetary policy and higher interest rates which in turn lead to a high exchange rate and eventually to current account deficits. These deficits in turn are partially financed by rising foreign debt. This rising foreign debt has been used in part to fund further investment into housing. The social consequence of this investment rush into housing has been that house prices increases have outstripped wage and salary increases by a factor of 5 to 6 times making homeownership unaffordable for low and modest income households and hence driving down homeownership rates.

Two important questions emerge from this series of related events and impacts. Firstly, why are New Zealanders so keen to buy residential property as an investment? Secondly, what could have been done differently to stop what appears to be an over-investment in housing and an under-investment in equities and other financial assets? One immediate although probably not complete answer is tax.

18 This figure is the March 2004 value, the February 2004 is not available.

Little work appears to have been done on what motivates New Zealander's investment decisions. Traditionally home-ownership has been seen as the first form of investment and savings for households, in part because of the security of tenure which this provided, in part because housing offered a hedge against inflation and in part because of favourable tax treatment and supportive government policies. An aversion to investment in equities may be on account of this preference for real property and because of often poor governance standards which have not had huge regard for the interests of small investor or minority shareholders. Examples of this include the sharemarket crash of 1987, the collapse of Air New Zealand and Transrail and float and quick collapse of Feltex.

70 Years of Progress?

There are a number of possible explanations for the Government's lack of concern for social housing and for affordable housing in general. These explanations have however not really been forthcoming to date. Instead the Government has referred to past achievements such as the reintroduction of income related rents for state houses, or it has overstated current achievements such as the Welcome Home mortgage guarantee programme or offered vague promises such as with the New Zealand Housing Strategy. More direct explanations for the lack of interest in affordable housing should be expected particularly as the extent of the problem becomes better understood and apparently more embedded into prevailing political and social arrangements.

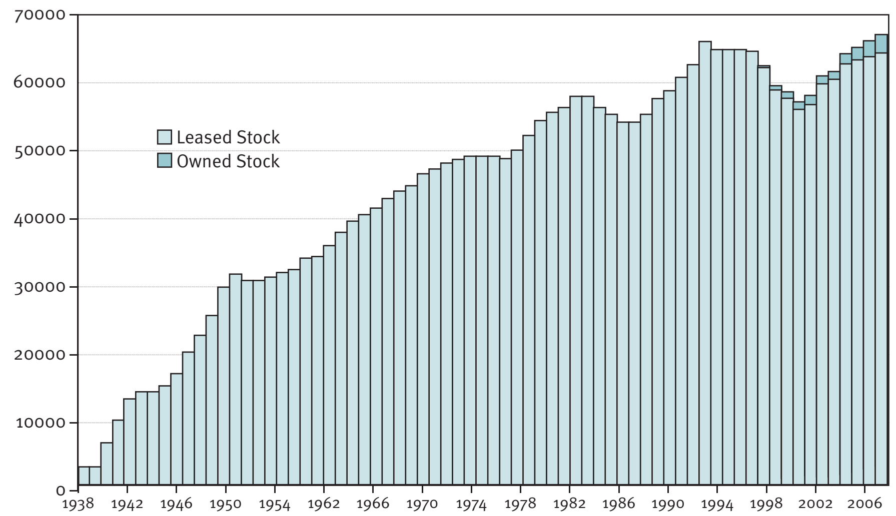
A review of history over the last 70 years of housing policy and in particular a comparison between the policy climate of the present Government and that of the First Labour Government of 1935 to 1949 provides some evidence that the current somewhat residual policy position of the present Government is a matter of choice not necessity.

Figure 20 below indicates changes in the stock of state houses from the advent of state houses in 1938 to early 2006 at which time there were nearly 67,400 residential units managed by Housing New Zealand of which 64,800 were actually owned by the government owned company[19].

Figure 20 below shows what in hindsight was a remarkable achievement whereby almost 31,000 units or nearly half the number of state owned units in 2006 were built in the 13 years between 1939 and 1952. This period was of course at a time of the aftermath of the Great Depression, during the Second World War and in the first years of post-war recovery. By comparison the various Labour led coalition governments since 1999 managed to build or buy just 4600 new state houses in the five years between 2001 and 2006. A review of economic conditions in these two periods supports a view that the comparatively poor social housing record of recent governments is not a matter of economic necessity.

19 Source of figures is HNZC Annual Reports and estimates of leased properties based on figures reported in 2001/02 and reported stock movements since.

Figure 20: Changes in State House Stock 1938-2006

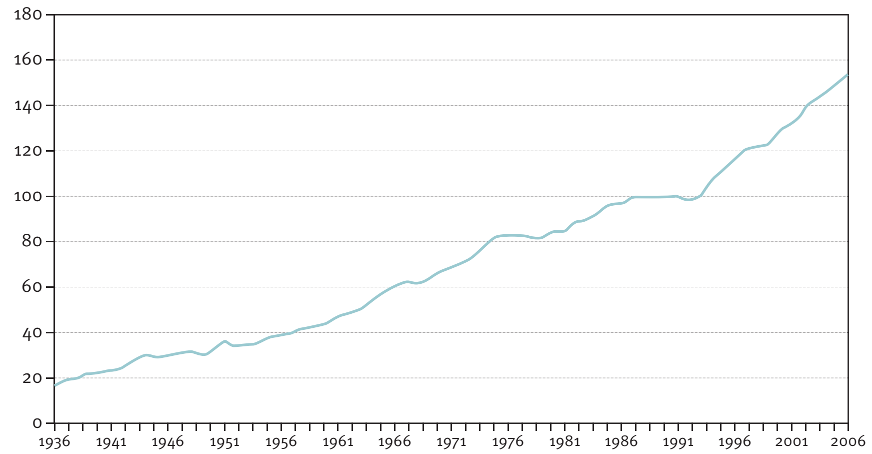


SOURCE: Reserve Bank of New Zeland Statistics

Figure 21 below reports the change in New Zealand's gross domestic product between 1936 and 2006 in real terms or at 2006 prices[20]. This data shows that ay 2006 prices the New Zealand's GDP was just $16 billion in 1936 rising quickly to $34 billion by 1952. In 2006 the national GDP was $152 billion or eight and a half times larger in real terms than in 1936.

Figure 21: New Zealand Gross Domestic Product

1936 – 2006



20 This data is taken from Briggs P. (2003) and updated with data from Statistics New Zealand. Adjustments for inflation have used reported CPI's from Briggs and Statistics New Zealand.

Figure 22 below takes account of population growth over the last 70 years and reports changes in real per capita gross domestic product, once again at 2006 prices. This data shows that per capita GDP in 1936 was just $10,700 (at 2006 prices) rising to $17,300 in 1952. By 2006 per capita GDP had risen by 253% to $37,850.

Figure 22: Real Per Capita Gross Domestic Product in New Zealand
1936 – 2006

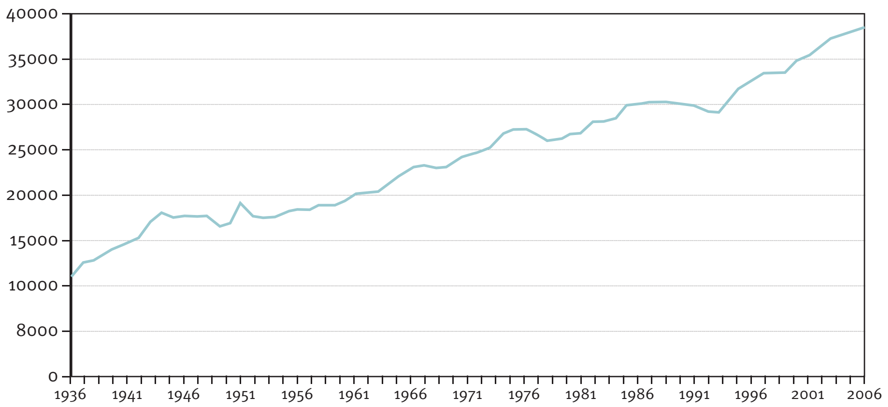


Figure 23 below reports changes in Government expenditure as a proportion of GDP between 1936 and 2006. While these comparisons must be viewed with some caution on account of changing definitions of government expenditures the differences are stark on any account. For example in 1936 Government expenditure accounted for 16% of GDP which was a proportional increase in comparison with expenditure levels during the Depression years. By 1952 and during the post war recovery, Government expenditure had risen to around 23% of GDP. In 2006 Government expenditure accounted for 41.5% of GDP. While these data may be used to argue for less government spending or that Government's share of the economy is too great, these show that governments at the time of the birth of the welfare state and of social housing were comparatively small. Phil Briggs (2003) has undertaken a closer analysis of how Government spending has changed during this period which explains some of this proportional increase. His analysis[21] shows the proportional increases in expenditures on health and income support and the increases in the numbers of people receiving welfare benefits as entitlement broadened and as eligible populations grew. These changes notwithstanding, in relative terms Government expenditure increased two and half times between 1936 and 2005 and in real dollar per capita terms by over eight times.

21 Briggs, P (2003) pp. 109-112

Figure 23: Government Expenditure as % of GDP
1936 – 2006

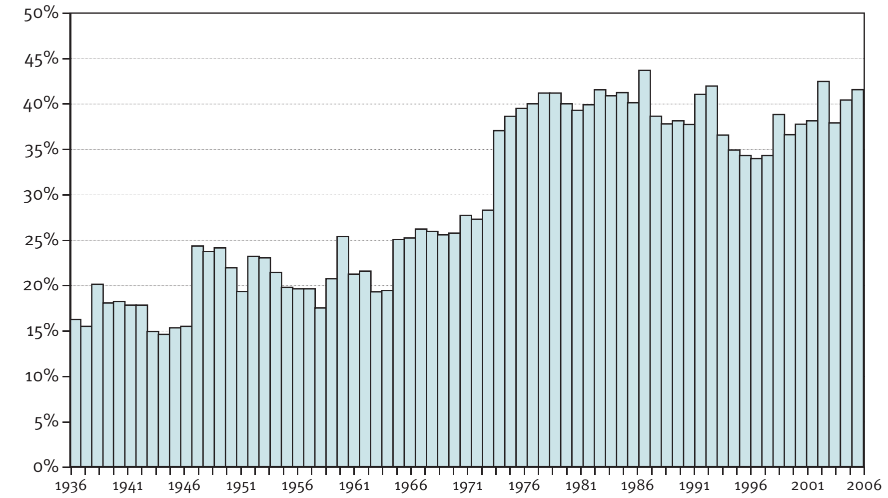
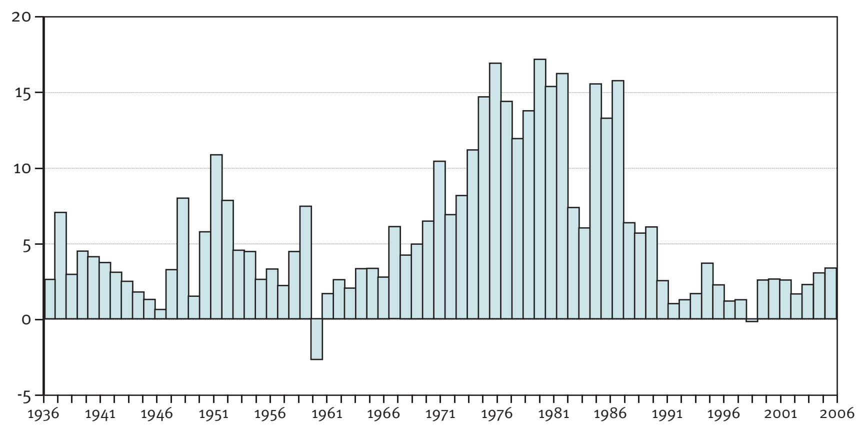


Figure 24 below reports inflation rates between 1936 and 2006. This data series illustrates both the changing economic circumstances of New Zealand over this period and the impacts of various approaches to economic management. Given this variability the usefulness of these data to explain changes in social policy and social expenditures is quite limited. This graph does show however that while inflation during the period 1936 to 1952 was generally higher and more volatile than during the period since 2000 it was not exceptionally so. Although the picture is a great deal more complex than this graph illustrates the fact remains that governments of the 1936-52 era managed to control inflation to tolerable limits of less than 5% annually and at the same time build significantly more public housing than the present Government.

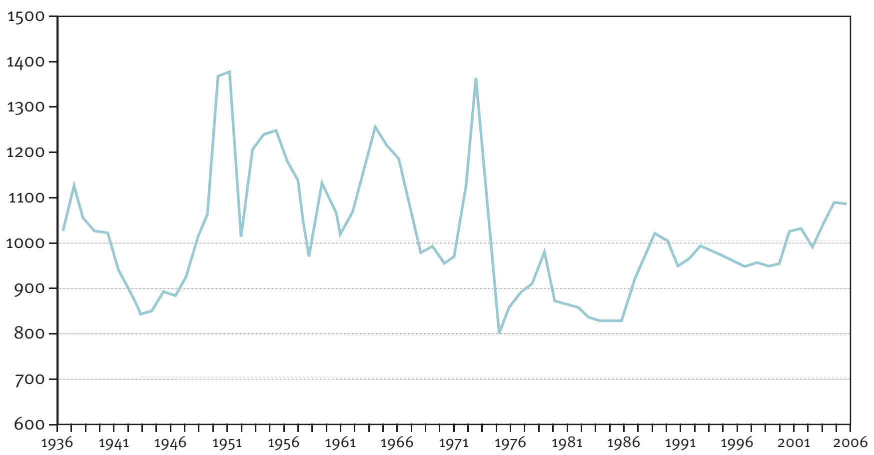
Figure 24: New Zealand Inflation Rate
1936 – 2006



Finally Figure 25 below reports changes in terms of trade for the same period 1936-2006. While the circumstances of New Zealand's trading positions have changed several times during the period under review, Figure 25 shows that New Zealand's terms of trade are similar today is as it was during the period 1936-52 when 31,000 state houses were built. This comparison is not made in order to suggest that there is a relationship between New Zealand's international competitiveness and social investment but in fact quite the reverse; that such investment does not necessarily have to rely on prior improvements in terms of trade. Previous governments have made significant investments in addressing social need and have done so at times when New Zealand's international competitiveness was not remarkable.

Figure 25: Terms of Trade

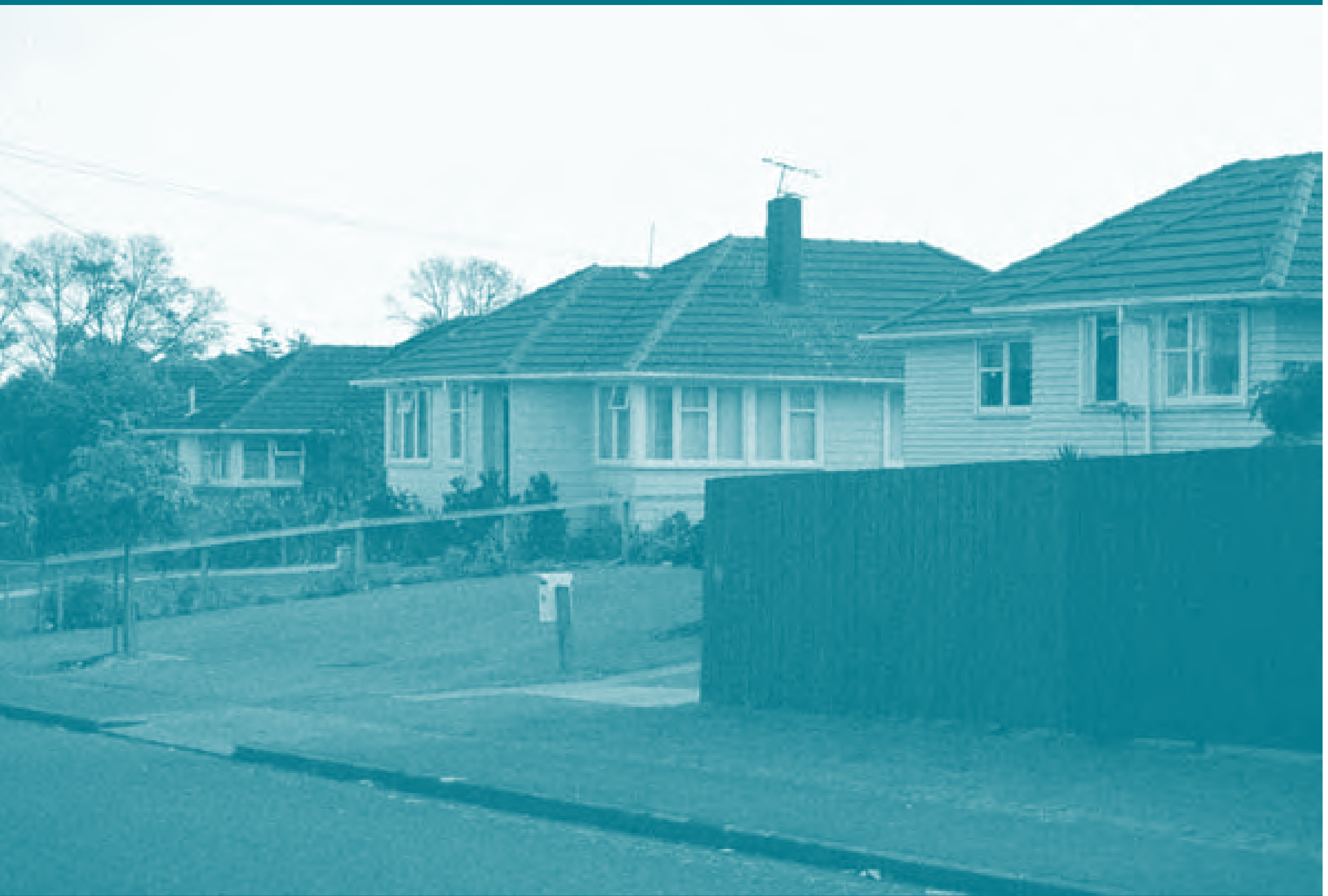
1936 – 2006



Noted British economist Barbara Ward (1976) commenced her book *"The Home of Man"* with a simple statement of housing as a social priority.

> *"It is important to state from the outset with the strongest possible emphasis that if a wealthy nation does leave any of its citizens in poor, unhealthy, substandard housing, the issue is one of choice, not necessity. It means that government and people alike have not given the provision of homes the attention and priority which in justice, in humanity, in dignity and in compassion they require"*

While this is simply a statement of opinion, it quite forcefully poses the question of whether the problem of inadequate housing for the poorest people in a society such as New Zealand is inevitable or simply a result of indifference. Although Governments will always face competing needs and priorities and hence often be liable for accusations of indifference, it is difficult to understand why housing is not a greater priority than it appears to be for the present Government. The economic and fiscal circumstances of the recent period have been at least as good as they have ever been to provide the resources necessary for a substantial investment in social housing. The record of such investment for a Government 60 to 70 years ago and in circumstances far more difficult than present conditions offer the example of what is possible with imagination and courage.



CHAPTER 3: A BROADER ROLE FOR SOCIAL HOUSING

Social housing as social reform

In the United States, Britain and some western European countries social housing is being seen in a broader context than simply the provision of housing to low-income people.

Since 1990 there have also been a number of US federal government efforts to improve the quality of life and opportunity within public housing projects through a mixture of physical rebuilding and the reconstruction of social institutions[1]. Overall however social housing and low income housing in general are not afforded a great priority in public policy and public spending within the United States. The consequences of this appear to be entrenched and often concentrated poverty[2].

In the United States the reforms of housing policy have attempted to decant poverty through voucher systems such as the "Movement to Opportunity" experimental programme. This programme offered residents in crime ridden public housing projects an opportunity to move to higher income lower crime neighbourhoods. This experiment is reported to have produced short and long term advantages for the participants. Some questions can be raised however around the context and broader application of such experiments[3].

In Britain there has been an almost generation long shift in social housing away from local authority or "council" housing toward the not-for-profit sector of housing associations. At the same time there has been an implicit emphasis on home ownership which has now been made more explicit with the emergence of shared equity options within housing associations[4].

Over the decade of Tony Blair's New Labour government the emphasis within social housing has shifted in more subtle ways as well. In the late 1990's the British

---

1 Katz (2003 p.12) and Popkin (2004)

2 Swanstrom et al. (2004) report a number of trends in the geographic distribution of poverty including a polarisation between rich and poor neighbourhoods that is contributed to by the decline in the number of middle income neighbourhoods. Poorer people are now also moving to the suburbs although their concentration in inner city areas remains. Orfield and McArdle (2006) discuss the dynamics of population growth and change in Boston and suggest that Blacks and Latinos fail to gain the same housing related advantages as Whites although they may have similar qualifications and incomes. This difference they argue is due to the quality of local schools and the way in which housing markets are segregated leading effectively to segregated schools.

3 Ludwig et al. (2001) report lower rates of youth crime from households moving to higher income and lower crime neighbourhoods while Keels et al. (2003) report long-term improvements in household income and low rates of criminal offending in moving households. While both studies acknowledge the fact that participating households were volunteers, the prospect of this self selection biasing the results has not been discussed. Most likely participating households were aspirational and may not have been involved in criminal activity at all in their old neighbourhoods. These and other studies of the impacts of residential mobility programmes like "Movement to Opportunity" do however prove the point that the qualities of local environments are conducive to the social dynamics and the social outcomes in neighbourhoods. This is a case for less economic and ethnic segregation and moves which create mixed income communities and to reduce the concentrations of social housing. As discussed below there are considerable social and political barriers to such de-segregation on a broad scale.

4 Chapman and Sinclair (2004) and Bramley et al (2002).

government placed considerable emphasis on overcoming social exclusion and saw social housing as a key mechanism for achieving this. This was done in part through a neighbourhood or community development focus to provide and improve social housing. Within this focus there were attempts to gain peoples' engagement and participation[5]. The rhetoric around social exclusion/social inclusion has more recently changed toward a focus on controlling and reducing anti-social behaviours through the government's "Respect Action Programme". Social housing providers have been given wider powers to curb the anti-social behaviours of tenants and have been encouraged to and are using these powers[6].

Arthurson and Jacobs (2003) provide an extensive discussion on the possible policy links between social exclusion and housing particularly within the Australian context. Although they are sceptical that the concept of social exclusion is concise enough as a term to be useful in policy making, they do provide a valuable insight into the nature of exclusion and the role of housing in this. They make a distinction between "exclusion from housing" and "exclusion through housing"[7]. "Exclusion from housing" describes the process leading to homelessness whereas "exclusion through housing" describes the process by which people's housing limits their broader social opportunities. This distinction is important for considering a possible future role for social housing.

Both Page and Berube[8] credit the American sociologist William Julius Wilson with developing a modern theory around neighbourhoods, their decline and regeneration. Wilson's theory traces the causes of decline in poor neighbourhoods to de-industialisation, the rise of technology to replace manual labour and to globalisation of labour markets. Wilson suggests that as former blue collar communities lost well paid industrial jobs during the 1970's and 1980's these were often replaced with less well paid and more casual service sector jobs. These jobs were also often taken up by women while men remained unemployed. This change was significant in terms of redefining gender roles within households and in signalling the decline of the male breadwinner role. Wilson held that this de-industrialisation process led to declining household incomes, declining levels of local business, the exit of young men and more enterprising residents and the start of criminal activity and welfare dependency. At some point in this decline a neighbourhood or community declines to a point where outsiders avoid it and it becomes socially excluded.

5 Page (2006)
6 See the British Government's Communities and Local Government website on http://www.communities.gov.uk. Jacobs et al (2003) also provide and interesting analysis of how housing issues are constructed including the rise in the anti-social behaviour rhetoric.
7 Arthurson and Jacobs (2003) p.25.
8 Page (2006 pp.20-22), Berube (2005 p.21).

Although this account of neighbourhood decline is fairly generalised, similar historical accounts can be applied to the communities of south Auckland, Porirua, Hastings and Gisborne which have been victims of de-industrialisation principally of the meat industry in the 1980's and the car assembly and clothing industries during the 1990's.

What is also noteworthy about Wilson's insight is the spatial or geographic dimension that it gives to poverty and social exclusion although this spatial aspect was fairly observable from the late 1980's on. This spatial dimension has led to a policy focus on neighbourhoods or local communities. Within this context housing and social housing in particular becomes a common focus.

A counter to the neighbourhood effects model of segregation and concentrated and enduring poverty is an equally compelling body of work which suggests that it is family structure rather than neighbourhoods which condition a child's or youth's set of opportunities. For example Xavier Briggs (1998) suggests that the single biggest contributor to a young person's chances to gain employment and avoid crime is to have an employed adult male in their household.

Subsequently Briggs (2004) analyses the neighbourhood effects hypothesis of Wilson and others and compares this with what he terms the "neighbourhood change" model[9]. From this comparison he develops an interesting analytical framework for considering residential mobility especially amongst the urban poor. This framework categorises neighbourhoods according to the extent to which they contribute positive change to a family's life and life chances. Briggs characterises neighbourhoods according to whether they present high social risk and few resources for families living in poor neighbourhoods,"traps"; whether they present moderate risk and resources "stepping stones" or low risk and high resources "springboards". Such an analytical approach provides a useful framework for considering both how poor people interact with their social environments and the possible policy initiatives which may be taken to address social problems within these environments.

This focus on neighbourhoods and on the function of housing within poor neighbourhoods, has an ideological basis to it which is often ignored in the surrounding

9 Briggs distinction between "neighbour effects" and "neighbourhood change" is a little obscure but appears to relate to the direction of causality within the somewhat perennial argument over whether poor neighbourhoods make (and keep) people poor (the neighbourhood effect) or whether poor people make poor neighbourhoods (the neighbourhood change) through mobility of the non-poor and the limited locational choices of the poor.

policy debate. Fundamental to the ideological differences is the interpretation of neighbourhoods and the extent to which poor and socially dysfunctional neighbourhoods and communities are seen in pathological or victimhood terms. For example Ruth Levitas (2004)[10] traces the development of the concept of social exclusion from the 1970's and the idea that poverty is not just about material insufficiency to meet basic needs but is also about resource insufficiency to participate in the wider society. Levitas describes three versions of social exclusion which all have some resonance within the current political debate around social policy. These three perspectives are provided in the table below and follow the format of Arthurson and Jacobs (2003 p.12).

TABLE 4: Letivas's Paradigms of Social Exclusion[11]

PERSPECTIVE	CAUSE OF SOCIAL EXCLUSION	SOLUTIONS
Redistributionist	Poverty and lack of resources to fulfil cultural obligations and social role within the community	Tax funded redistributional policies and programmes around adequate income support. Free access to good quality education and healthcare and open access to social housing
Social integrationist	Unemployment, loss of social networks and lack of appropriate role models	Employment focused training, free child care and sanctions applied to benefit entitlement
Moral underclass	Lack of moral character has led to welfare dependency, criminality and promiscuity.	Limiting access to benefit entitlement and focusing on behaviours of criminal young men and single mothers.

The various approaches to neighbourhood renewal and localised housing responses can usefully be presented against Letivas's framework and this is attempted in the following table.

The focus on neighbourhoods varies considerably between the United States and Britain. Both approaches are informed by clear and enduring evidence that urban poverty tends to concentrate[12], that this concentration is in part related to the delivery of social housing and other housing assistance programmes and that the neighbourhood environment has a significant impact on opportunities and life experiences[13].

10 Levitas (2004 pp.3-4)

11 Levitas, (2004 pp.3-5)

12 Swanstrom (2004) discusses the concentration of poverty in the US into the 100 largest cities although there is now an expansion of this concentration to suburban areas of these cities and not just in inner city areas. By contrast there is a regional north-south division in the concentration of poverty in the UK, Meen et al. (2005) p.15, although there is considerable variation across urban areas with high concentrations in particular neighbourhoods, Berube (2005 p.7). Of some relevance to possible trends in Auckland housing markets, Randolph et al. (2005),report emerging concentrations of low-income people in higher density housing in Sydney's middle ring suburbs.

13 There is some difference of opinion over the extent to which neighbourhoods determine life outcomes for inhabitants – the so called "area effects" or "neighbourhood effects". Berube (2005 pp. 20-24), summarises the "neighbourhood effects" literature for its relevance to British experiences and points both to the strong quantitative evidence

TABLE 5: Approaches to neighbourhood renewal and local housing responses

PERSPECTIVE	NEIGHBOURHOOD RENEWAL	LOCAL HOUSING RESPONSES
Redistributionist	Improve quality of local schools and engage the local community and parents in education. Use housing development as a point of change for neighbourhood renewal. Make neighbourhoods safer by more proactive policing and early engagement with youth offenders.	Focus on extending housing opportunities for the most vulnerable and use housing provision as the basis for other social service interventions.
Social integrationist	Introduce local training and employment mentoring to get long-term unemployed into work. Subsidise child care to allow sole parents to enter the workforce. Focus on encouraging greater social mix through housing interventions.	Introduce low-income homeownership programmes to encourage higher levels of home ownership. Redevelop existing social housing and sell off some to private owners to get social mix.
Moral underclass	Redevelop neighbourhood for gentrification and dispersal of underclass. Provide programmes to reduce drug use, school drop out and teenage pregnancy. More active policing to reduce anti-social behaviours and to deal with law-breaking at a minor level "broken windows theory".	Provide vouchers to encourage people to move to other neighbourhoods Allow social housing to deteriorate and then demolish on account of its poor condition. Redevelop existing social housing and sell off some to private owners to get social mix

The response to these problems in the United States has been along three strands which have tended to take a spatial approach.

- Neighbourhood improvement with an emphasis on providing better quality housing through a host of programmes including:
  - credit insurance schemes via GSE's or Government Sponsored Enterprises to encourage lending to low-income households for homeownership;
  - block grants to state and local authorities;
  - tax credits for developers to encourage them to build affordable housing units
  - housing finance to public agencies and community based housing providers.

supporting the deterministic effect of disadvantaged neighbourhoods and to the need for policy makers to deal with neighbourhood conditions rather than continuing to study causal relationships. This perspective is shared by Katz (2004) pp.10-12, although he suggests that often the resources within and resourcefulness of disadvantaged neighbourhoods is often underestimated. Ellen and Turner (1997) in an admittedly dated article, suggest that the variance of individuals' and families' outcomes and characteristics indicates that other factors are as important to peoples' life outcomes other than the neighbourhood in which they live.

- Expanding opportunities for individuals through rent vouchers and "housing counselling" through such programmes and "Movement to Opportunity" (MTO) which encourage tenants of social housing to seek housing outside of deprived public housing projects and in the private sector.
- Transforming distressed neighbourhoods known as HOPEVI which is achieved through demolition and redevelopment of high rise inner city public housing projects. These are replaced with medium density, mixed tenure, mixed income housing often with further emphasis of wider neighbourhood improvements through school redevelopment and the redesign of public spaces[14].

The British approach to neighbourhoods and to a degree to social housing policy has tended to take more of a systems approach which attempts to consider the contributing causes of neighbourhood decline and social exclusion. This approach has acknowledged the structural causes both for the decline of some communities and their apparent inability to recover from these causes[15]. This approach is consistent with the perspective developed by Briggs with the idea of seeing communities in terms of the risks they pose for inhabitants and the resources which are available to these people to overcome these risks[16].

The British interest in and acknowledgement of structural causes of entrenched and concentrated poverty has extended to ideas of sustainable communities. Within this idea is the distinction between communities which are stable, socially and economically, and those which are declining[17]. This distinction provides some insight into the extent to which social relationships are critical to neighbourhood wellbeing and resilience.

The idea of sustainable communities draws from a rich literature around sustainability and in particular the idea that environmental sustainability requires social sustainability and visa versa. The British government has emphasised sustainable communities as the basis of its strategy for social development and in its approach to housing policy and social housing in particular. Elements of the British Government's definition of a sustainable community are set out in the following diagram.

14 See Katz (2005 pp. 13-22) for a description of these. While Katz has acknowledged some of the shortcomings of these programmes such as the fact that the HOPEVI programme has achieved a resettlement of only 19% of the former tenants in the redevelopment projects there are a number of other criticisms elsewhere of the outcomes of these programmes. For example Cunningham and Droesch (2005) report clear racial discrimination against rent voucher holders and a concentration of 70% of all voucher households in just 21% of census tracts with affordable housing.

15 See Page (2006 pp14-15) to the position and responses of the British Government's Social Exclusion Unit. For example they cite as a contributing cause fro neighbourhood decline the deindustrialisation caused by globalisation and with this the loss of jobs which relied on manual skills and the inability of some communities to adapt because local people lacked the ability, aptitude or access to gain new and often more intellectual skills.

16 Briggs (2004 pp.3-4)

17 Green et al. (2005) consider neighbourhood mobility and the nature or motivators of this mobility as indicators of neighbourhood sustainability. They point to the importance of human capital and social capital (networks, trust and reciprocity) ahead of housing design as the most important contributors to neighbourhood sustainability.

A key element of sustainability is diversity. Diversity can be expressed in social terms as a mix or mixture. This mixture has been applied to incomes, households and housing in such ideas as mixed income communities and mixed dwelling types in housing developments.

Figure 26: Sustainable communities framework

The idea of mixed income communities is a strong theme running through British approaches to neighbourhood and community development and to anti-poverty programmes. As a consequence of this theme, housing policy in general and social housing policy in particular have been heavily influenced by the idea that housing interventions can and should be directed toward greater achievement of mixed or diverse communities. Until quite recently this focus has been ignored as an important direction in New Zealand's housing policy.

Prospects for mixed income communities

Almost by their nature housing markets are about segregation and the division of rich from poor and often young from old and white from brown. As with most markets where there is minimal government intervention, the housing market becomes an expression of our social and personal values. Housing markets are perhaps more important than other markets because they determine where we live, who we have as neighbours and often who our classmates will be. Housing markets therefore become determinants of social outcomes as they determine the sort of social and economic opportunities we have and the social and physical risks we face. This is especially so for children.

There is an extensive economics literature explaining this segregation and why it is rational in economic terms. Much of this literature descends from an original article by Charles Tiebout (1956) which considers the idea of local public goods (which have been called "Tiebout Goods") and local taxes and local expenditures to fund these public goods. Essentially "local" public goods include primary and secondary school education, law enforcement and the provision of parks and public open spaces. Tiebout's idea and one which has been supported by 50 years of subsequent analysis and discussion is that if people have choice they literally vote with their feet and locate in communities which have a range of local public goods which suit their preferences, tastes or aspirations[18]. A key argument along these lines is that people with similar preferences for public goods locate in similar communities. Hence, communities are "homogenous" or occupied by people with similar social values and economic standing.

The idea of local public goods or Tiebout goods has given rise in the United States to vigorous debate around "fiscal federalism"[19]. This is the idea that individual states or local governments such as counties and cities should be free to choose the level of public goods they wish to supply and the level of taxation which should be charged to support these. Voters and consumers are thus free to choose where they live based on this offering.

The constitutional and fiscal arrangements in New Zealand are of course are quite different in that outside of the quite narrow tax and expenditure bases of local government[20] local expenditures on local public goods are quite limited. Local public goods still exist in New Zealand although these are financed centrally by the New Zealand government. Nominally these goods are provided equally although the equality of what is provided and what results is highly questionable[21].

Perhaps the most striking example of local public goods and their impact on housing markets is around the issue of school zoning. There is clear evidence that school zoning has an impact on housing markets and thus on who gets to go to particular state owned and funded schools. An extreme example is probably that around the Auckland Boys Grammar School where houses inside the zone have a premium of up to $100,000[22]. It can be argued that owners of residential property within preferred school zones have captured a private benefit from the reputation and financial position of prestigious state schools. This private benefit is capitalised into house prices within enrolment zones of

18 Tiebout and his subsequent supporters have tended to ignore the capacity of poor communities to tax themselves in order to provide local public goods. This oversight has ramifications for how concentrated disadvantages is viewed and addressed.

19 Fiscal federalism refers to the concept and practice of localising taxation and public expenditures thus requiring regional or local communities to fund their own social and public programmes. Such an approach works against possible re-distributional programmes where localised or concentrated problems are resourced from centrally raised funds.

20 Total local government revenue is around $5.6 billion annually of which $3.2 billion is from rates. (Statistics NZ 2006 figures) This compares with Core Crown Revenue of $56 billion annually (Financial Statements of NZ Government 2006).

21 For example see Appendix 3 provides data which shows that people living in North Shore of Auckland region report significantly less crime than the people of South Auckland but have a noticeable better chance of having their reported crime resolved

22 See Donna Flemings article in the Sunday Herald (10th September 2006) "The $100,000 school zone" which provides comments from real estate agents selling residential property in Auckland City.

these schools. The value of this private benefit may even be more than value of fees paid to attend a private school of similar reputation[23].

Seen in this light, housing markets become a mechanism by which state schools are segregated economically, socially and hence to a degree ethnically as well. This segregation can be seen to provide further incentives for housing market responses leading to yet further segregation toward very polarised urban areas.

Orfield and McArdle (2006 pp.4-5) in the context of Boston describe this cycle of education segregation thus

> *"The system is, of course, built on the interaction of housing segregation and school district boundary lines. In the absence of effective school desegregation policies, location is destiny, and segregated housing for families, reinforced by differential use of private schools produced education that is starkly polarised."*

Cheshire and Sheppard (2004) reflect on the economic consequences of this inter-relationship between school zones and housing market segregation and provide two quite compelling insights. Firstly, they suggest that attempting to reduce segregation and the resultant social exclusion by planning for mixed communities or neighbourhoods is quite futile because the underlying social inequality within a society is the basis of this segregation. In other words if we are concerned about segregation we should be more concerned about income inequality. Cheshire and Sheppard's second insight is that as inequality increases, the price gap between houses in the most desirable suburbs and those in the least desirable houses also increases.

Cheshire and Sheppard (2004) also suggest that residential segregation may actually be beneficial in that it maximises economic welfare although such welfare maximising arguments are arguable[24]. In particular the extent to which segregation is welfare maximising changes somewhat if we look beyond the choices that people make and toward the choices that people have.

It can however be argued that it is not the segregation which drives unequal social outcomes between neighbourhoods and communities but the quality of local public goods available in these neighbourhoods and communities. The most desirable policy intervention may not be to devise ways of desegregating communities but ways of addressing the inequality of local public goods. At the very least this would require

23 See Garry Sheeran's article in the Sunday Star Times (4th February 2007) "House prices force zones rethink" where he estimates that it is cheaper to send your child to a private school than to buy a house in the enrolment zones of prestigious state secondary schools such as Auckland Boys Grammar. He says "There's only one thing that's more expensive than a posh private school education. And that's buying a home in the zone of a high-demand public school that offers "free" state schooling."

24 The common argument of welfare maximisation is based on conventional ideas of Pareto optimality which ignores distributional issues. Social and economic segregation may in fact be Pareto optimal because the wealthy and middle classes are better off in terms of their own needs and satisfactions if they are separated from the poor. With a Pareto optimality based view of welfare the interests of the poor can be ignored because often they are not as numerous as the wealthy and middle class so their losses are cancelled out by middle class gains.

greater attention to and resourcing for the prevention and resolution of crime and the greater resourcing of schools in poorer more vulnerable communities.

Wendy Sarkissian (1976) in a historic study of supposed benefits of social mix reports that these perceived benefits have included[25]:

- Raising standards of the "lower classes" through a "spirit of emulation"
- Encouraging aesthetic diversity and raising aesthetic standards
- Encouraging cross-cultural exchange
- Increasing equality of opportunity
- Promoting social harmony and easing ethnic tensions
- Promoting social conflict in order to foster greater social maturity
- Improving the physical function of cities
- Maintaining stable residential areas
- Reflect the diversity of urban areas

These anticipated benefits are not all complementary and point firstly to quite different perspectives on inequality and secondly to different perspectives on how urban systems function. Some of these anticipated benefits rely on the idea that poverty is a cultural condition which can be relieved by giving the poor the chance to mix with the non-poor so that they (the poor) can be influenced by the good virtues and values of the non poor. Other perspectives for the supposed benefits of social mixed are less generous and rely either of stopping the poor causing trouble or ensuring that the poor are available to do the low-paid low status jobs. Most of these supposed advantages of social mix are not driven either by the need to address poverty and inequality or by the needs and interests of the poor themselves.

Alan Berube (2005) in a generally supportive examination of the prospects and value of mixed income communities provides two useful insights. Firstly he distinguishes between three types of mixed income communities notably:

- **New communities** where there is a mix of market based housing and affordable, perhaps below market or social housing.
- **Existing communities** where poverty is concentrated and possible policy responses can range from alleviating poverty through vouchers and residential mobility, through neighbourhood health education and employment interventions or through transformative actions such as the demolition of existing housing blocks.

25 See Atkinson (2005 p.5) for a discussion of Sarkissian's analysis

- **Existing mixed income communities** where an emphasis should be placed on maintaining income, generational and ethnic mix.

Berube's second insight is around the fact that much of the existing concentration of poverty is a consequence of past social housing policies. Although this is a fairly commonplace observation it has obvious implications for the future of social housing and the prospect of mixed income communities. The key implication is that if social housing in whatever form is to remain relevant as a housing option, then it can only be delivered in either a concentrated or a dispersed form. In other words future social housing can only repeat the practices of the past of concentrating affordable housing into purpose built neighbourhoods (perhaps in the hope of doing better than in previous generations), or social housing can attempt to deal with the challenges of creating mixed income communities. This means of course that whatever the wider merits or prospects of mixed communities they may be a worthwhile and necessary policy focus if only to counter the likely problems associated with concentrations of social housing.

In a good practice guide to building mixed income communities, Bailey et al. (2006) provide some fairly practical and pragmatic solutions on how and what makes a successful mixed income community. This advice is based on British experiences which have generally been in housing developments built by or with housing associations. Their advice includes:

- Focus on the housing needs of the overall community and not just the housing needs of a specific part of the population
- Engage the local community and those to be housed early in the process and certainly before design work is commenced
- Focus on creating housing of a range of scales and on building public spaces and streetscapes which engender safety and social interaction
- Ensure that everyone involved understands the basis of the proposed tenure arrangements and give attention to documenting these arrangements clearly and early on.
- Do not focus unduly on tenure mix but ensure that socially rented housing units are integrated on a side by side basis with other units and not stigmatised by being isolated.
- Focus on building new developments or on comprehensive redevelopment of demolished sites rather than on redeveloping existing developments.

Several commentators on neighbourhood development and redevelopment present neighbourhoods along a spectrum from declining to regeneration[26]. Although such a perspective is more community centred than resident centred, it stills focuses on

26 For example see Berube (2004), Green (2005) and Page (2006)

mobility as an indicator of the wellbeing of and within a community. For example a community is regenerating if people want to, and are moving in. A declining community is one where people wish to, and are moving out.

Although such a distinction as declining and regenerating throws up a number of paradoxes around how neighbourhood or community wellbeing may be improved at a local level, this distinction also provides something of a cautionary tale on the prospects of mixed income communities.

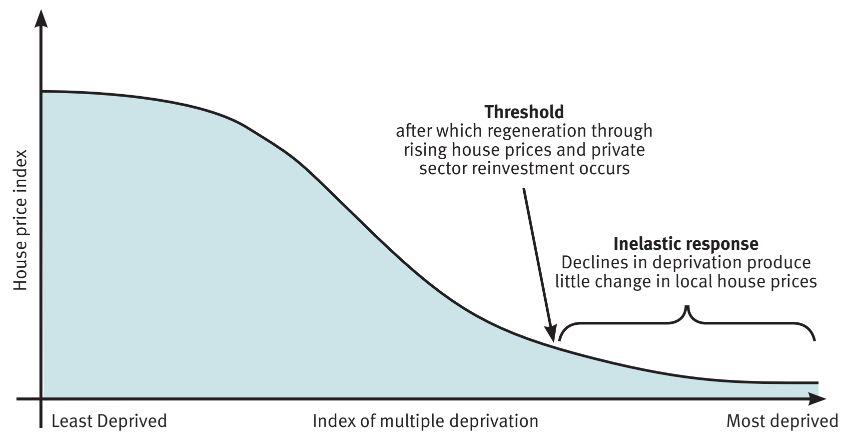
For example if we see a healthy community as one where there is regeneration and where people wish to live, an initial and almost immediate question is that of who gets to have the choice – newcomers or existing residents? If a healthy neighbourhood is one where people wish to move into, then, unless there is an increase in the local housing stock, some people will need to move out. These people leaving may do so by choice (eg. people selling their homes and using their financial equity somewhere else) or by necessity (eg. a reduction in the supply of affordable rental housing). The resulting community may have a greater mix of incomes and may have fewer social problems but this may have been at the expense of poorer people who have been priced out.

The paradox here is that as neighbourhoods improve, house prices will rise and poorer people will get displaced. The cautionary tale is that neighbourhood improvements may actually make low- income people worse off as was shown by the urban renewal programmes of the 1970's in such places as Ponsonby and Mt Victoria then being followed by gentrification.

Another way of considering the conflict between inequality and housing markets is through the analysis of Geoffrey Meen (2004) which is provided on the graph below. Meen suggests that the relationship between deprivation and house prices is not linear but quite inelastic at high levels of deprivation. This means of course that in highly deprived communities, improvements in residents' wellbeing is not matched by increases in house prices until a threshold is reached where further improvements lead to house price increases, reinvestments by the private sector and ongoing regeneration. In this model the prospect of house price increases is seen as a virtuous thing that portends private sector investment. The extent to which low-income people are advantaged by such investment and the mechanism for them gaining this advantage are left unexplained. The prospect of low-income people being priced out of and displaced by such regenerating neighbourhoods has not been considered

Whether or not New Zealand's cities will become increasingly segregated or more mixed along the lines of income, ethnicity and age remains to be seen. Any future segregation is likely to be driven more by future distributions of income than it is by housing policy. Regardless of these income trends it seems unlikely that the very rich and the very poor

Figure 27: Relationship between house prices and social deprivation



will ever have much to do with each other. This means that income mixing will most only likely occur across the poorest two or three quintiles and it is this prospect that will most likely be most realisable objective of diversity programmes and social housing policies. The literature around mixed communities including that on the value and experience of such proposals illustrates a number of quite relevant policy points for New Zealand if and when we attempt to extend social housing and to address social polarisation. These points include:

Be wary of gentrification as a proxy for mixed income communities. Neighbourhoods with mixed incomes may actually be neighbourhoods undergoing gentrification. If this is the case some attention needs to be given to protecting the remaining affordable housing stock as affordable housing.

Add to housing stock. Do not accept that income mixing in disadvantaged neighbourhoods can be achieved simply by changing ownership and tenure patterns. Such changes will most likely result in poor people being displaced by middle income people.

Secure affordable housing. To avoid the displacement effects of gentrification, policy should focus on ways to at least secure and maintain the stock of affordable housing in a neighbourhood.

Look at improving opportunities for poorer people first. Improving the physical conditions of a neighbourhood or the economic opportunities available within a neighbourhood is not necessarily a recipe for addressing entrenched poverty.

Anti-poverty programmes should focus first on improving the social, educational and employment opportunities for poorer people directly perhaps by way of targeted programmes.

Focus on staying rather than coming in. Programmes to improve neighbourhoods should look at what can be done to make the present residents want to stay. People may leave a place because they have to rather than because they want to. Often too long-term residents have the most incentive to stay in a community and can provide the energy and imagination to rebuild communities if given hope and opportunity.

Social capital and social housing

Related to the ideal of social mix and mixed communities is the fairly broad concept of social capital. In some respects social capital becomes the raison d'etre for social mix – for example social mix is one way of building social capital.

Social capital is one of the dominant themes to emerge from social theory and into social policy during the early 21st century. Despite its influence the concept has a disputed lineage and an even more disputed theoretical and practical value.

Robert Putman (1998) is widely credited with popularising and defining social capital although he himself acknowledges the precedents of Jane Jacobs and James Gilmore. A widely quoted definition of social capital from Putman (1995 p665) is:

> *"features of social life- networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives... Social capital in short refers to social connections and the attendant norms and trust"*

While the idea of social capital is perhaps an easy one to grasp it has not necessarily been an easy one to measure. Through his various works Putman suggests that social capital comprises of several elements including

- High levels of civic engagement
- Healthy community institutions
- Norms of mutual reciprocity
- Trust.

Often proxies have been used to measure these elements including such things as voter turnout in local elections, hours of participation in community or voluntary activities and levels of trust of neighbours[27]. These elements are of course somewhat inter-related. For example, strong practices of mutual reciprocity will lead to high levels of trust, which in turn may lead to high levels of civic engagement and so on.

27 An interesting article on this topic is that of Norris (2001p.17) which uses various indicators of social capital to make international comparisons of levels of social capital. New Zealand is judged to have the sixth highest levels of social capital although New Zealanders are reported as having high levels of social trust but are relatively less involved in their local community as a volunteer.

For policy the concept of social capital poses two serious questions. Firstly, what is the link between levels of social capital within a community or society and social wellbeing and various beneficial social outcomes? The second policy question revolves around possible policy interventions to enhance or enrich social capital and by doing so enhance social wellbeing. The answers to these questions may perhaps be found in a more indepth analysis of types or dimensions of social capital.

Putman has identified social capital across three dimensions as described in the following table[28]:

TABLE 6: The types and roles of social capital

TYPE OF SOCIAL CAPITAL	TYPE OF PARTICIPATION	CONTRIBUTES TO....	ROLE IN CIVIL SOCIETY
BONDING Ties among people who are similar to each other eg. age ethnicity gender	HORIZONTAL	Social support especially in times of need	Sharing common purposes and interests
BRIDGING Ties among people who are different from one another	HORIZONTAL	Social cohesion Democratic dialogue Civic identity	Dialogue between different interests and views in the public sphere
LINKING Ties with those in authority	VERTICAL	Democratic life Institutional legitimacy Responsive public services	Access to institutions and decision making processes

This division of social capital can be applied at an individual or collective level.

Xavier d Souza Briggs (1998 p.178) has provided some useful applications of social capital into housing policy. He considers social capital from the position of an individual or at the "microlevel" where he describes social capital as a *"resource for individual action that is stored in human relations"*. On this basis he describes two forms of social capital – social leverage which may come in the form of contacts and access to information which allows an individual to "get ahead" and *social support* which are the relationships and resources which people have to "get by" or to cope. Although social support is vitally important to be able to survive poverty in disadvantaged neighbourhoods *social leverage* is essential to gain access to wider opportunities in for example the job market. The most advantageous social leverage that Brigg found was knowing someone with a job.

Briggs' (1998 p.186) analysis points to the differences between bonding and bridging social capital and their respective purposes. For example he suggests that *"having social capital is not simply about how many people you know, how close you feel to*

28 Jochum et al. (2005 p.11)

them and what exchanges you enter together, but about where contacts are in a social structure". This suggests that the value of bonding social capital is limited especially if measures to limit entrenched poverty are considered important.

Lang and Hornburg (1998 p.4) refer to two types of social capital namely *"social glue… the degree to which people take part in group life. It … concerns the amount of trust or the comfort level that people feel when participating in these groups"* and

Social bridges which are *"links between groups. These links are vital because they not only connect groups to one another but also give members in any one group access to the larger world outside their social circle through a chain of affiliations"*.

Naturally the concept of social capital has its critics. Their criticism comes from at least two angles – those that resent the application of the metaphor of capital to social relationships and those who claim that Putman's applications of the concept to social relationships is flawed and misguided.

Ruth Levitas (2004 p.10) criticises the idea that such things as human talents and relationships should be conceived of as capital for the sake of investment returns and economic development. She comments, *"Social capital treats the human interactions and solidarities of daily life that are currently outside the market as investment with implied later pay-off, rather than the stuff of life itself."*

James DeFilippis (2001 p791) provides an excellent summary of the shortcomings of social capital as a social theory. His main criticism is that Putman's notions of social capital ignore issues of power. He argues that *"Putman's view is possible only if you erase the very real material interests that divide us and create a vision of civil society as solely constituted by people and groups with mutual interests".* This proposition is what Zetter et al (2006 p.10) refer to as *"the consensualism of voluntary association and thus the idealisation of community solidarity"* and what Kearns (2004 p.29) describes as *"nostalgic civicness"*.

DeFilippis suggests that the notion of bridging capital is particularly flawed when we consider the question of power. He provides the example of gated communities where deliberate attempts are made by wealthy people to limit contact with poorer people. He suggests that not only does their wealth and status not rely on them having access to bridging social capital but that it may rely on them not having access. This poses something of an inconvenient quandary for Putman and his supporters. If the rich don't need bridging social capital then who does? By deduction bridging social capital must be more important to the poor. If bridging social capital is more important to the poor and where such relationships exist, on what basis do the rich engage with the poor? Is it from charity or empathy or for amusement or profit? Regardless of the motivation there is a power relationship implicit within the concept of bridging social capital which is ignored in Putman's view of social dynamics.

Defilippis' argument does not appear to be against social capital per se. Rather, it is opposed to Putman's incomplete notion of capital and the unconvincing way in which he relates strong social capital to healthy democracies and prosperous market economies. DeFilippis suggests that for social capital to have any value as an idea that might explain economic development (at both a community or national level) then there has to be a way of linking access to social capital with access to economic or financial capital. This, DeFilippis argues, is not possible in poor communities which may have strong ties or bonding social capital but have limited or no access to economic capital. The reason of course is that these communities lack power. DeFilippis prefers to use the idea of capital and social capital as developed by French sociologist Pierre Bourdieu. Bourdieu (1985 p.248) defines social capital as

The aggregate of the actual or potential resources that are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition [29]

Bourdieu pioneered thinking around a broader concept of capital including such notions as cultural capital, symbolic capital and social capital. Firstly, he argues that capital is primarily an economic concept although the question of how individuals or groups gain access to it is a question of social networks and social relationships. Secondly, he argues that capital and power are synonymous and that they are both primarily concerned with production and reproduction (of the society).

For DeFilippis, Bourdieu's notions of capital and social capital have some practical implications in terms of community development. Social capital is only tangible if it describes how people gain access to economic capital. DeFilippis uses this proposition to describe various examples of social capital in the form of community land trusts, mutual housing associations, housing cooperatives and lending circles. All of these ventures are forms of social capital which allow often poor people to gain access to economic capital.

Ade Kearns (2004 p.13) in a critique of the British Government's use of social capital as the basis of for neighbourhood renewal outlines a number of the downsides of social capital. These largely revolve around the limitations and harm of bonding capital. Kearns argues that strong social bonds (ie. bonding social capital) can limit

29 Bourdieu, P. (1985) "The forms of capital in "Handbook of Theory and Research for Sociology Education"' J. Richardson (ed) quoted in Wilson, L. (2005 p.6)

social mobility, exacerbate community conflicts and build very insular, oppressive and conformist communities. Zetter et al. suggest that strong bonding social capital may cut both ways in terms of driving antagonism toward immigration and immigrants on one hand and driving immigrants to rely on bonds and networks within their ethnic or religious group for survival in what may be quite a hostile community or society.

An interesting extension of this notion of the role of bonding social capital emerges from the “insider/outsider” thesis of Assar Linbeck and Dennis Snower (2001). Linbeck and Snower argue that imperfections arise in labour markets on account of the high transactions costs associated with staff turnover and the recruitment and engagement of new staff. For this reason employers are prepared to pay more than the competitive market wage rate to employees simply to avoid these costs. Employees (insiders), will utilise this “market imperfection” to derive a series of benefits from the employer and will look to exclude outsiders who may bid wages down.

Linbeck and Snower (2001. pp 165-166) suggest that the insider/outsider status in labour markets has broader social consequences:

> *These distinctions also translate into social differences. In many developed countries nowadays growing attention is devoted to the phenomenon of “social exclusion”. Some individuals, families and other social groups are excluded from the mainstream networks of social relations within a society. They are typically unemployed or working at temporary, low-grade, or dead-end jobs, and finance much of their consumption out of transfer payments (e.g. from social assistance programs, their parents’ incomes) the black market, or even criminal activities. They often live in the underclass neighborhoods of large cities, with meager social services, poor schooling, and scant police protection. These are the real “outsiders” in society, and their outsider position in the labor market is an important source of their social exclusion. These consequences are sometimes accentuated by rent control, which creates insiders and outsiders in the market for rented apartments as well; this group comprises individuals with poor networks, often as a result of their weak labor market position.*

Jane Ball (2006) extends this insider/outsider idea to social housing using the French experience as an example. Although the characteristics of social housing in France are quite different to those of New Zealand, there is an important lesson to take from the French experience. The French welfare state has been built on notions of solidarity and the idea that society is a form of grand contract where citizens are obliged to support the shared interests of all citizens in exchange for the reciprocal support from fellow citizens[30]. These interests include those around income security, health care and to a

30 These ideals of social contract, solidarity and reciprocity within French notions of the welfare state may have evolved from Rousseau’s ideas of social contract which formed the philosophical basis for the first Republic of France. The basis of the French approach to welfare differs somewhat from that of English speaking countries which has a welfare system based on the idea of rights as argued by TH Marshall and others from the 1930’s on.

lesser extent housing. This notion of solidarity has been institutionalised somewhat in what may be described as state-sponsored solidarity as opposed to informal or voluntary solidarity. The idea of a broad solidarity ignores the prospect of competing interests and the exclusion of some from the solidarity on the basis of difference. The most obvious of these exclusions is around the treatment of migrants or the children of migrants mainly from former French colonies in North Africa.

In the context of this solidarity based welfare regime, Ball suggests that the existing tenants use their occupancy rights as leverage against other low-income groups in much the same way as established employees would oppose the interests of would-be employees and the unemployed. The overall effect is something of a dual housing market for low-income people where those living in social housing receive good quality, secure housing at below market rents while people who are arguable worse off in income and opportunities terms live in less stable and less safe housing in isolated and stigmatized suburbs.

Although the notion of solidarity as an organising concept for social housing has considerable merit the prospect of insider/outside outcomes and inequities which accompany these need to be taken into account.

Geoff Green et al. and others (2005) report on an extensive study of the links between social capital and neighbourhood sustainability in eight neighbourhoods in South Yorkshire in the north-east of England. These neighbourhoods had been the victims of de-industrialization during the 1980’s with the closure of coalfields in the early 1980’s. Although there has been significant employment growth in the wider geographic region during the 1990’s unemployment remained high in many neighbourhoods. It was against this background the Green and his colleagues attempted to measure the sustainability of neighbourhoods and the contributors to this sustainability.

Green et al. (2005 p.1) employ what they describe as the *“four capitals durable housing model of neighbourhood sustainability”* They attempt to measure the asset base of communities according to the four capitals of human capital (educational qualifications and household income), social capital (trust, safety ad reciprocity), environmental capital (visual appeal and physical amenity) and physical capital (housing stock). The quality of these assets is measured against an assessment of whether the neighbourhood is “sustainable”. In this sense “sustainable” is seen in social terms and particularly in terms of whether or not a community is seen as being a desirable place to live and hence able to “sustain” a motivated and engaged pool of local residents.

The analysis of Green et al analysis is useful as a piece of research to guide social housing policy in New Zealand for two reasons. Firstly, they identify the role of the various capitals in building neighbourhoods which are socially sustainable. Secondly, the work develops ideas around diversity as part of the precept of sustainability.

The Green et al study indicates that it is people not place which contribute most to the sustainability (or desirability at least) of neighbourhoods. Human capital increases brought about by inward migration of owner-occupiers contributes most to the improving fortunes of neighbourhoods followed by the level of social capital. Environmental capital was next most important followed by the physical capital of the actual housing stock. Much of these results are probably not surprising. Owner-occupiers and home buyers will most likely have higher incomes and higher educational qualifications and so any change or policy initiative that sees higher levels of owner-occupation in a neighbourhood will most likely see an average increase in levels of human capital. Secondly wealthier people are probably more likely to have a greater sense of wellbeing than poorer people simply because they are more secure financially. It is therefore unsurprising that wellbeing measures rise if more home-owners move into a neighbourhood. Such an improvement in reported wellbeing does not necessary improve wellbeing of existing and perhaps poorer residents and there is the prospect also that home-ownership policies simply displace people and shift problems

What is useful from the Green et al study is the value of social capital as a contributor to social well-being. This result points to the focus of attention in both social housing programmes and in neighbourhood renewal programmes on maintaining and perhaps even building social capital. The actual version of social capital is another matter although the criticisms of Levitas and DeFilippis are instructive and the suggestion of Bourdieu that social capital should be linked to financial capital is compelling.

Toward diverse communities

Diversity is seen as an essential part of sustainability in part because diversity in an ecological sense (ie. biodiversity) is seen as a desirable quality which assists in making ecosystems and habitats robust. The same logic may be applied to social diversity although as we have seen above, in the discussion around mixed income communities, there are social and political limitations to the extent of such diversity. While extensive social diversity may be illusive, the possibility of some level of social and economic diversity may still be seen to be a worthwhile social development goal for at least two reasons. Firstly, the social capital literature suggests that a mix of the various types of social capital is desirable and in particular the enhancement of bridging social capital is necessary in order to maintain social cohesion. Conversely perhaps, too much bonding social capital possibly caused by highly polarised and segregated neighbourhoods may not be useful in part because it may lead to entrenched poverty, deepening marginalisation of already marginalised groups and conflict across boundaries whether these are social or economic. Diverse communities are one way of ensuring that bonding social capital does not become dominant in social relations to the cost and exclusion of other forms of social capital.

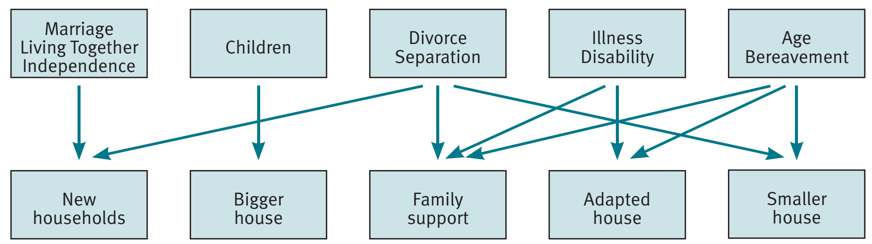
The second value in at least planning for diverse communities is that it offers choice. While social housing policy may not be able to force diversity onto people it can at least provide the houses and the tenures which provide for the needs of a diverse range of people. The take up of these opportunities is to some extent a matter of choice.

Green and his colleagues (2005 p.37) provide some useful insights into the nature of residential mobility – at least in South Yorkshire. They report that much of the turnover of residents in a neighbourhood is due to churn rather than aspiration. In other words, people move to other neighbourhoods because they need housing which suits their changed circumstances rather than because they aspire to living in a better neighbourhood. While some of this churn is unavoidable some of it could be reduced if a broader range of housing types and tenure options where available in every neighbourhood. For example people needing to move to gain employment in another region have to shift while people requiring smaller housing on account of relationship changes may be able to stay in a neighbourhood if suitable housing units are available locally.

A summary of the links between drivers of housing mobility and housing choice is provided in the diagram below. To some extent this diagram complements the Housing Choice Matrix of DTZ New Zealand (2005 p77) which attempts to link decisions around mobility and tenure changes to changing life circumstances.

Figure 28: matching households to houses

Housing changes and life course events



Source: Green at al. (2005) p.41

Intermediate markets and the declining middle class:

The prospects of a broader social and economic role for social housing and of less polarised and more diverse communities rely heavily on including the needs, interests and aspirations of the middle class into the equation. This may be achievable for reasons of what may be one of the most significant social shifts of the 21st century – the decline of the middle class.

Increasing income inequality over the last two decades in New Zealand and elsewhere has been a consequence of the economic rationalism and its attendant policies[31]. In New Zealand two and perhaps three periods of change in income distribution can be can be tracked over the past 20 years. These changes are complex and have been masked somewhat by changing employment patterns which have seen most households spending more time in the paid workforce.

During the decade from 1987 to 1997 New Zealand went through significant economic change brought about in part by the neo-liberal economic policies of the Labour government (1984-90) and the neo-liberal social and economic policies of the National led coalition governments (1990-99). A consequence of the considerable reforms during this period was a sharp increase in income inequality. The cause of much of this rise in inequality can be attributed to job losses and economic restructuring during the last 1980's[32]. Notwithstanding these shifts, this increasing inequality was brought about directly by declining real incomes overall and a rapid increase in income for the richest 10% of households[33].

The period between 1997 and 2004 was generally a period of sustained economic growth, rising levels of employment and generational lows in unemployment rates. This period saw income growth across the board although there is evidence that this income growth occurred because poorer households worked more hours while wealthier households earned more per hour[34].

Income distribution is of course influenced by welfare policies and in particular income transfers. These policies and transfers can often have complex and ironic impacts both on the patterns of income distribution and on the incentives which families and households face[35]. One effect of welfare policies and income transfers is that they flatten the income distribution across the poorest 30 or 40% of households and in particular across households which may be described as beneficiary or welfare dependent households and those that may be described as the working poor[36] [37]. This flattening will often lead to relative losses for middle income groups (relative to

31 For New Zealand commentary see Crawford and Johnston (2004) for the incomes changes for the period 1987/88 to 1997/98 and Hyslop and Yahanpath (2005) for changes between 1998 and 2004. For Australia see Atkinson and Leigh. (2006)

32 See Crawford and Johnston (2004 p.6) and Hyslop and Mare(2003 p.38).

33 See Mowbray (2001 p.63) Table A10.

34 See Hyslop and Yhanpath - Figure A5 p.29.

35 See Phil O'Reilly's speech to the 2007 Social Policy Research and Evaluation Conference and claim that the Working for Families package has created work disincentives for middle income families.

36 Households at very bottom of the income scale are often self employed and do not qualify for income support. Their minimal income status is based on their reported income (for tax purposes) and the accuracy or not of these figures is not known.

37 The introduction of the "Working for Families" and its targeting to households with children who are in paid employment appears to be designed to ensure that there is a sizeable gap between the incomes of beneficiary families and those of families gaining their income from employment. This is to ensure that the incentive to work remains and is not based on the adequacy of incomes for either type of household.

high and low income groups) and with these losses problems of poverty traps and political disaffection.

This problem of poverty traps and disaffection for middle income people may prove to be a defining feature of the political landscape over the next few decades[38] and for a number of reasons.

Western democracies with their mixed economies were by most accounts enormously successful during the second half of the 20th Century. This success can be measured in both economic and social terms through such indicators as increasing incomes, extended longevity, improved access to secondary and tertiary education and increased affluence and material consumption. One important consequence of this progress was the broadening of the middle class to the point that western democracies effectively became middle class societies with material aspirations, liberal social values and an expectation that things would continue to improve for them and their children.

Middle class aspirations and expectations are under threat from a number of directions not the least of which is globalisation. Globalisation has had at least three impacts on the middle class.

- **Loss of well paid jobs** – well paid unionised jobs in manufacturing sectors as national markets were opened up to foreign competition.
- **Increased mobility of capital.** The increased mobility of capital has tended to make Government's more mindful of taxing capital in general and big business in particular. This in turn has shifted the tax burden to wage and salary earners and to consumption.
- **Globalisation of labour markets** has set up a greater disparity of incomes between the very skilled who compete in a global labour market and the unskilled and semi-skilled who are often competing with recent migrants for jobs at relatively low wages.

The overall consequence of these impacts is downward pressure on wages at the bottom end of the labour market and the reliance on the middle class to pay the bulk of the taxes to fund the welfare state[39].

38 The relative declines of the middle class is the source of an ongoing political debate in the United States. The spectre of middle class decline has been a prominent theme of the Democratic Party over recent years. Recent publications of such books as Kevin Phillips (1993) "Boiling Point: Republicans, Democrats and the Decline of Middle Class Prosperity"; Lou Dobbs (1995) "War on the Middle Class: How the Government, Big Business and Special Interest Groups are Waging War on the American Dream and How to Fight Back" and Robert Frank (forthcoming) "Falling Behind: How Income Inequality Harms the Middle Class" have fuelled this interest. In Australia this cause has been taken up Michael Pusey (2003) in his Middle Australia Project and book "The Experience of Middle Australia: The Dark Side of Economic Reform".

39 In New Zealand the reliance on the middle class for paying income tax is apparent in recent data from The Treasury. This data shows that individuals earning over $70,000 per annum make up 8% of all taxpayers but pay 47% of all income tax. Similarly the 3% of taxpayers earning over $100,000 pay nearly the same amount of income tax as the lowest paid 75% of taxpayers who earn under $40,000. See Key Facts for Taxpayers - Budget 2006 at http://www.Treasury.govt.nz/budget2006/taxpayers/

The size of the middle class and the reliance on it to pay taxes has created a vulnerability which Governments are finding difficult to address particularly with an aging baby boom generation. This vulnerability arises around the extent of tax funded entitlements which may be provided to all households including middle class ones. If all social entitlements are broadly available there is a problem around affordability. If entitlements are narrowly targeted there is a problem around poverty traps and the political support which the middle class will provide for public programmes and continued taxation. The trade-off is often made around quality or perhaps in terms of delivery against expectations. In short if the state is no longer able to meet middle class expectations for public schools, health care services and retirement incomes, one result may be the emergence of a two tiered system where the wealthy middle class purchase additional entitlements leaving the less wealthy middle class with few options.

This division of responses together with what appears to be a widening income gap across the labour market may represent a point of cleavage between upper middle class and lower middle class interests; the importance of which may depend on how many people get to be upper and how many end up lower.

In the United States this cleavage between upper and lower middle class is perhaps being witnessed by the demise of middle-income neighbourhoods and the increase in neighbourhoods that are either relatively rich or relatively poor[40]. In New Zealand this cleavage may be around housing tenure as the opportunity of home ownership begins to slip out of the grasp of more and more households. This trend is not being observed in most other western countries as indicated in the table below

40 See Booza et al. (2006) who report that between 1970 and 2000 the proportion of neighbourhoods that might be classified as middle-income declined from 58% to 41% overall and from 64% to 44% in suburban locations. This decline is in part attributed to a polarisation trend where rich people have gone to live in rich neighbourhoods while poorer people have gone to live in poorer neighbourhoods. For example between 1970 and 2000 the proportion of poor people living in middle-income neighbourhoods declined from 55% to 37%.

TABLE 7: Changes in Homeownership Rates for Selected Countries since 1980's

COUNTRY	1980/81	1990/91	2000/01	Most Recent	Source
New Zealand	71.3%	73.8%	67.8%	66.9% (2006)	Statistics New Zealand
Australia	70.1%	67.3%	70.2%	70.0% (2004)	Australian Bureau of Statistics
United States	64.4%	64.2%	66.2%		US Bureau of the Census
Canada	NA	63.0%	64.4%	67.1% (2003)	Canada Housing & Mortgage Corp
United Kingdom	58%	65%	69%	69% (2003)	European Union
France	59%	61%	61%	62% (2003)	European Union
Germany	39%	42%	NA	45% (2003)	European Union
Netherlands	42%	45%	53%	55%(2003)	European Union
Sweden	58%	56%	61%	61% (2003)	European Union
Japan	63.2%	63.2%	63.2%	63.3% (2003)	Ministry of Internal Affairs

What is interesting about the above comparisons is the apparently similar path which Australia and New Zealand appear to be on. In most other countries homeownership rates have been fairly stable or have actually risen sometimes fairly significantly while in New Zealand and Australia they appear to be falling.

Attempts have been made to attribute the slight falls in home ownership rates in Australia to changing lifestyles and in particularly to the delayed marriage or absence of marriage for young adults (20-29 years olds). The argument here is that the decline in homeownership is simply a phasing phenomenon that has been caused by changing marriage and fertility patterns[41]. This effect is plausible in the Australian example given the relatively small decline in home-ownership rates in that country although time will tell.

In New Zealand however it does not appear that the decline in homeownership rates can be attributed solely to changing lifestyles of younger adults although it does appear that

41 Australian Bureau of Statistics (2006) indicated that home ownership rates for the 20-29 year age declined from 47.7% in the 1971 to 44.3% in 2003.

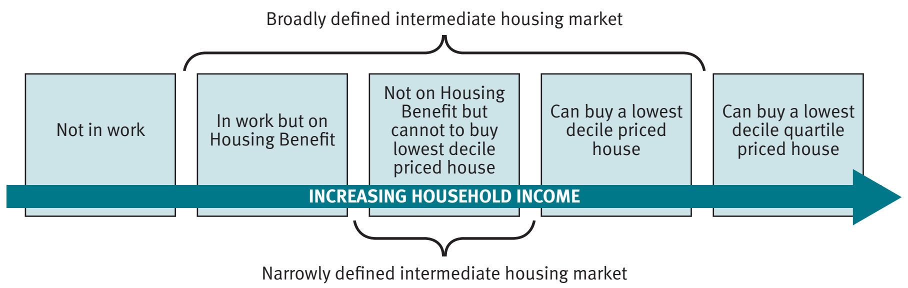
the effect of declining homeownership is being witnessed through the experiences of younger adults. DTZ New Zealand (2005) in a comprehensive report on housing tenure in New Zealand shows that declining homeownership rates are fairly broadly spread across all age groups and household types although the decline is less noticeable for higher income households and more noticeable for younger households[42].

DTZ New Zealand's report is based on 2001 census data. More up to date, data from the 2006 census shows a small although continuing decline in home-ownership rates.

Evidence of peoples' tenure preferences[43] suggests that the decline in levels of homeownership is not a matter of choice but of financial necessity. The key factor in this financial necessity is the widening gap between household incomes and house prices[44]. If housing and homeownership was as affordable in March 2006 (the date of the census) as it was in 1991 and assuming that housing tenure preferences are largely unchanged, there are at least 150,000 tenant households today who would be buying or owning their own home. These households are probably working in average pay jobs and have dependant children. These households form what in the UK is known as the intermediate housing market and in the US as the middle rental market.

Definitions such as intermediate housing markets and middle rental markets are useful for framing the extent to which social housing can and should expand and for uncovering the extent of the housing affordability problem for modest income families and households. Various British housing analysts offer approaches for measuring the extent of the intermediate housing market and hence the extent of their affordability problem. The differences in these approaches appear to revolve around how "affordable" is estimated or measured rather than on the conceptual division of the housing market[45]. Steve Wilcox (2005 p.11) provides a useful graphical description of the intermediate housing market based on his broad and narrow definitions, (Wilcox p.11) as follows.

Figure 29: Defining intermediate housing markets – United Kindom

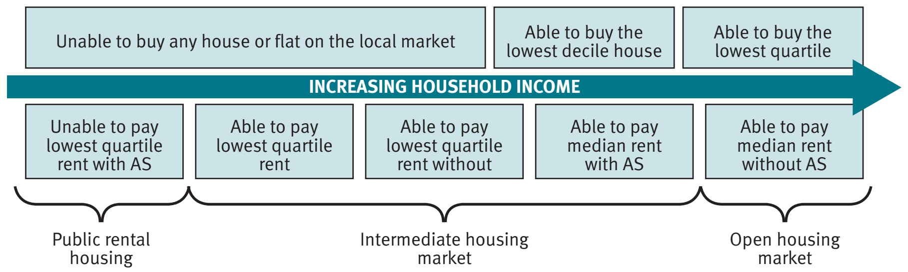


42 DTZ New Zealand (2005) pp.86-89.
43 Both DTZ (2005) and Smith and Robinson (2005) identify New Zealand tenants' aspirations to own their own home
44 See discussion on affordability in Chapter 2 above
45 See Monk (2006), Bramley et al (2003) and Wilcox (2005)

The approach to providing housing assitance in the UK is of course different to that taken in New Zealand so this subdivision of the market is not strictly relevant to New Zealand. This difference notwithstanding, the definition of an intermediate housing market is highly localised regardless of housing policy settings on account of local and regional variations in labour markets and housing markets. In some areas where housing is quite affordable and wages and salaries relatively high, there may not even be an intermediate market. In other places where the labour market is highly segregated between high paid and low paid and where the ownership housing markets and rental housing markets are on different trajectories, the intermediate housing market can be quite complex. An attempt to describe such complexity in the context of New Zealand, and, in particular the Auckland region is provided in the diagram below.

The possibility of defining an intermediate housing market in New Zealand has a number of advantages both for analysing the extent of the housing affordability problem for low and modest income New Zealanders and for conceiving of solutions to these problems in terms of housing and income support policies. A broader concept of social housing which includes options for sub-market rental, shared equity ownership and indexed mortgages could be included in responses to these affordability problems. Such a broader proposition for social housing can also make an important contribution to building social capital and social cohesion as it broadens the constituency of people who have some interest in social housing and challenges the idea that social housing is a byword for welfare housing and the underclass ghettos.

Figure 30: Defining intermediate housing markets – New Zealand



Lessons and take outs

This review of recent literature and policy experience around social housing and community development provides us with some useful pointers for the way forward for social housing in New Zealand. These are discussed below.

The importance of neighbourhoods to wellbeing

Neighbourhoods and their features and characteristics are important determinants of social outcomes although not exclusively so. There are at least two arguments countering the "neighbourhood effects" proposition that neighbourhoods shape social opportunities and social outcomes. The first is that it is difficult to identify the causal mechanisms which translate neighbourhood conditions such as poorly resources local schools into outcomes such as teenage pregnancies or youth crime. That something cannot be identified with any degree of statistical certainty does not mean that it does not exist but rather that it cannot be measured perhaps for reasons of complexity. Certainly the various neighbourhood effects identified and the range of social problems which beset poor neighbourhoods is a complex array of linkages and inter-dependencies which would be very difficult to deconstruct on any account. The unmistakeable observation across all this complexity is that neighbourhoods and communities of poor people generally have significantly more social problems than do middle income or wealthy communities. It would seem quite remarkable that the presence of risks and the absence of opportunities in poor neighbourhoods are not contributing problems to the persistent and often quite concentrated nature of these social problems.

The nurturing role of families is of course an important contributor to social wellbeing and the dysfunction of families is often offered as the alternative explanation for poor social outcomes in poor communities. The variability of outcomes for individuals living in poor neighbourhoods of course points to the implausibility of explaining social outcomes in terms of neighbourhood effects alone. Such universality has never been argued by advocates of neighbourhood effects on any account. The greater explanatory value of family conditions as determinants of individual social outcomes perhaps arises because these individual outcomes and circumstances are a great deal more observable than more general community scale ones.

The value of strong family nurturing to the achievement of good social outcomes is seldom disputed. What is disputed are the causes of dysfunctional family structures and the policy responses which may feasibly address this dysfunction. For example, the observation that the presence of a positive adult male role model in a household reduces the chance of young men committing crime or engaging in risky behaviours does not explain why such role models are often missing from poor households (although they often explain why they are poor) and what can be done to provide such positive influences in the lives of many at risk young people. Although solutions such as a greater focus on morals and values education, or more punitive sanctions against errant parents or more family counselling are often offered as solutions the potential nurturing role of community is more often ignored as a worthwhile solution.

Neighbourhoods as the focus for social housing

Social housing is more than just a group of houses supplied to people outside of market processes but a series of neighbourhoods built around shared space, shared needs and shared interests. Similarly social housing agencies are not simply in the business of developing and managing a housing stock but in the larger business of developing and sustaining communities. Furthermore this broader role is a partnership one which also involves those being housed, local residents and local and central government agencies.

Building social capital through social housing

Social housing has a fairly maligned status in New Zealand which poses both political and practical problems around the adequacy and defensibility of budgets and around the unwillingness for people to have social housing in their neighbourhoods. This marginalisation compounds in quite subtle ways. As social housing and the people who live in it become more excluded they become more marginalised, more maligned and more isolated. The prospect of increasing polarisation and segregation of communities along income and ethnicity lines appears quite feasible and will be brought about through the operation of housing markets on any account.

Concerns for social cohesion are somewhat normative in that there is probably a degree of political and social preference around the existence and extent of social cohesion within a society. It is for example feasible to have a reasonably prosperous and secure society while at the same time having a significant minority of citizens, or as they are normally, ”non-citizens”, on the margin socially and economically. Such a society may be viable economically but not particularly just or inclusive. There is however a threshold beyond which social segregation and economic polarisation are seen by a society to be undesirable whether for concerns about human rights or social justice or just for plain self preservation and self interest. It is at this threshold that concerns about social capital and social housing become relevant to the political mainstream. A critical issue for policy around social housing is where this threshold lies.

While social capital is a contentious and vexed concept it has some intuitive appeal in that any cohesive society relies on a stock of goodwill and trust just to function moderately effectively. The vexed question is how can a society build and maintain social capital particularly in the face of apparently increasing polarisation and entrenched segregation. In addition to addressing the causes of inequality, a critical ingredient would appear to be that of building bridging social capital – that is the social capital which ties disparate groups and disparate interests together in some form of cohesive whole. Picking up on Bourdieu’s proposition that to be meaningful social capital has to provide access to other forms of capital, a role for social housing begins to emerge as a means of building social capital and hence social cohesion.

The role for social housing in building social capital and social cohesion relies heavily on the prospect that a broader coalition of interests can be built around social housing and at the same time that the notion of social housing can be expanded to address the needs of this broader range of interests. In particular social housing has to be resurrected from the image that it is really just welfare housing and only intended for the poor.

If a wider range of social and economic interests can be accommodated within a more broadly conceived social housing sector, the scope to build linking social capital between these interests begins to emerge quite profoundly. Firstly as Bourdieu would require, one basis of the social relationship is a shared access to financial capital in this case housing. Secondly as Putman would suggest another basis for the relationship is a linking between otherwise unlinked groups on the basis of these shared interests. Furthermore these shared interests may be quite direct and quite local in the sense of neighbours sharing the ownership and management of their housing and immediate living environment. With careful management and some vision, this neighbourhood collaboration can be expanded to recognise and support a broader coalition of similar neighbourhoods and communities within a framework of participatory democracy and active citizenship.

CHAPTER 4: RESPONSES AND RECOMMENDATIONS

Housing as an issue of equity

Housing is as fundamental a contributor to the wellbeing of New Zealanders as health, education and income security. In fact effective housing policy contributes favourably to each of these other cornerstones of social wellbeing to the point that there may be a strong nexus between inadequate housing and the risk of illness and educational failure for children[1] and of poverty in old age[2]. While the strength of this nexus is arguable the existence of the relationship is not.

Given this relationship a case can be made for seeing housing policy and social housing in particular as a critical point of intervention for social wellbeing. The strength of such a case rests in part on the strength or otherwise of this relationship but only in part. Such arguments are based on questions of policy efficiency rather than equity and should not be allowed to completely dominant.

For those people in owner-occupation and who are able to exercise tenure choice, housing is not even a social policy issue where as health care, education and income security are. It is probably this prospect which contributes most to the marginalisation of housing as a policy issue. It is also this prospect which means that housing policy is probably more about equity than it is about efficiency since housing policy affects the wellbeing of the less well off and not the general population.

The argument that housing policy is about social equity is strengthened when we consider the clear structural relationship between housing poverty and other social indicators such as low educational achievement and poor health status. These social indicators are not randomly assigned but are attributes of the life experience of low

1 he relationship between poor housing and poor health and educational outcomes is well canvassed and compelling but hardly conclusive. For example Neuwelt and Simmonds (2006 p18) identify that one third of the cases of gastroenteritis in Auckland children occurred in the poorest 10% of neighbourhoods , Rankine and the Auckland Regional Public Health Service (2005 p.17) shows an association between the incidence of meningococcal disease and overcrowding and Howden-Chapman et al. (2007 p.6) report the health benefits of thermal insulation of houses which include fewer doctors visits but no discernable reduction in hospital . Maani (2006) also identifies the link between housing overcrowding and the prevalence of infectious disease but argues that this is also related to income inequality. Khan (2005) reports links between public housing assistance and improved educational outcomes for children and cites the reduced mobility and less crowding and the causal links. The complexity around issues such as health and educational disparities and their clear association with relative poverty means that there is rarely a single explanatory factor for such disparities. The main reason for this is the common inter-relationships between poor educational achievements, low employment status, low household incomes, risky or unhealthy lifestyles and inadequate housing.

2 As tenure patterns change and renting becomes a more common tenure form, the proportion of elderly households renting will of course increase. Traditionally debt-free owner-occupation has been a buffer against inadequate retirement incomes and to some degree the adequacy of publicly provided retirement incomes is based on the high incidence of such tenure within the retired population. As the number of retired households renting increases the adequacy of publicly funded pensions may be tested particularly if the rental housing market overall comes under demand pressure from the younger population. For example see DTZ New Zealand's (2005 p.110) forecasts of changing tenure patterns by age groups which shows declining homeownership rates for the over 65 years age group beyond 2016. In the absence of any deliberate home ownership programmes over the next decade this decline will likely increase as fewer people from younger age cohorts gain home ownership.

income people in general and of Maori and Pacific Island people in particular and of Maori and Pacific Island children specifically. It may be efficient in policy terms to allow such disadvantage to concentrate but it is simply not equitable by any measure of that concept. The reality is that the efficiency argument is never advanced while the equity argument is simply ignored through inconsequential policy and inadequate budgets.

The overall response being sought from this report is that housing and access to decent affordable housing be framed as an equity issue and hence one which is about providing every New Zealander and particularly every New Zealand child with a solid base around which they can build their lives.

A substantial long-term commitment.

An interesting aspect of the New Zealand Housing Strategy is that it says nothing about how many houses need to be built, or where these houses might be and what they might be like. The Strategy is really more about policy than outcomes with the result that it difficult to find any tangible commitment from Government to ensure that every New Zealander has a decent affordable housing.

This absence of a tangible commitment by Government to providing decent housing for every New Zealander appears to be the single biggest contributor to the poor housing outcomes hundreds of thousands of New Zealanders live with. This lack of commitment is also the single most important policy change required to ensure social equity for low income households and particularly for children.

A question which will be difficult to resolve with any consensus, is that around the extent of the commitment necessary to overcoming housing poverty and housing related poverty. This difficulty arises in part because unmet and under-met housing need is hard to measure and even harder to forecast. This difficulty should not be a reason for not trying but is a reason for caution around claims around the sufficiency or insufficiency of particular commitments and budget quantum. In observing this caution, the following estimates of necessary commitment are somewhat conservative and based on plausible assumptions and an acceptance that resolving the present housing problem is a long term project which may perhaps take a generation.

Predicting housing demand and particularly demand for social housing is notoriously difficult due to a large number of factors which contribute to this demand. For example housing demand relies on population growth, family formation and family structure, employment patterns and household incomes as well as the availability and cost of housing. Against this complexity, Statistics New Zealand have made projections of household formation which is a reasonable proxy for housing demand although it depends on the assumption that household formation results in each new household finding a dwelling rather than forming multi-family households for example.

Table 8 below provides a summary of Statistics New Zealand's household projections until 2021 for various cities and regions and New Zealand overall.

TABLE 8: Household Projections 2006-2021

	Actual Dwellings 2006	Projected Households 2021 Medium	Additional Dwellings Required	Projected Households 2021 Low	Additional Dwellings Required
Northland	54,441	67,500	13,059	63,200	8,759
Auckland Region	439,182	621,100	181,918	582,700	143,518
Western Bay of Plenty	55,395	78,000	22,605	70,700	15,205
Hamilton	45,726	60,400	14,674	56,000	10,274
Wellington Region	151,713	182,400	30,687	170,200	18,487
Nelson-Tasman	33,720	44,900	11,180	41,200	7,480
Christchurch	133,746	161,300	27,554	152,900	19,154
Queenstown	8,568	12,700	4,132	10,200	1,632
New Zealand Total	1,454,076	1,842,100	388,024	1,716,900	262,824

Source: Statistics New Zealand [3]

This table suggests that over the next 15 years housing demand will require an additional 263,000 to 388,000 houses or between 17,500 and 25,900 houses annually. Half these houses will be required in the Auckland region.

Between the censuses in 2001 and 2006 110,000 additional occupied dwellings were recorded. During the same period (January 2001 to December 2005) 135,000 building consents were issued. This discrepancy can be explained by the demolition of houses for redevelopment or abandonment of houses in remote areas and by the construction of holiday homes. If this difference between increases in occupied dwellings and new houses built continues, it seems likely that between 21,500 and 31,700 houses will need to be built annually in order to cater for the projected number of additional households. This will require a similar level of building activity as has been achieved over the past five years. In other words the present market conditions in the housing and construction markets are likely to continue for the next 15 years if the projected population growth occurs and if housing markets are to meet expected demand.

The other significant question around demand for affordable or social housing is that over the affordability of housing in the market and the ability of households to pay rents

3 Household projections data is available at http://www.stats.govt.nz/store/2006/06/national-family-household-projections-01-base-21-update-hotp.htm

or mortgages. There is no agreed approach to measuring housing affordability which means that any affordability measure is usually based on some subjective judgement of what is or is not a reasonable proportion of household income to pay toward housing costs. A commonly accepted affordability measure is the proportion of households paying more than 30% of housing income toward housing costs[4]. This measure is itself problematic however and cannot really be applied fairly to different forms of tenure, different types of households and different levels of household income[5].

Some measures of relative poverty suggest that tenant households are generally the worst off financially[6]. This suggests that a less arguable (and more conservative) measure of demand for social housing could be based on the proportion of tenant households in financial hardship or what DTZ (2007 p.25) term under "housing stress". DTZ (p.30) suggest that 32.7% of tenant households in Auckland region were under "housing stress" (30% of gross household income on housing) in 2004. The Social Report 2006 (p.63) reported that 28.7% of tenant households were below a nominal poverty line (of 60% of equivalent median household income) across all of New Zealand also in 2004.

By using the measures of 33% of tenant households in Auckland region and 29% across New Zealand as an indicator of acute housing need, we are able to make some broad estimate of the possible growth in demand for affordable housing in Auckland and elsewhere in New Zealand over the next ten to fifteen years. This estimate is contained in Table 9 below and is based on DTZ's (2007) forecasts of changes in tenure for Auckland and elsewhere for the period until 2016.

4 See The Social Report 2006 p.66.

5 At least three problems arise with the "proportion of income type measures". Firstly, it is not necessarily the proportion of income which is devoted to housing which make you poor but how much you have to spend after you have met your housing costs. Secondly, a tenant paying 30% of their income in rent is generally not as well off as an owner-occupier on the same level of income paying 30% of their income in mortgage payments and also receiving benefits from value growth. Thirdly, for owner-occupiers with mortgages, the use of proportion of income measures ignores the choices made by some households to heavily indebt themselves in order to buy more expensive houses. While such households may be under financial stress as a consequence, their position cannot really be compared with a tenant household with a similar proportion of income ratio but who perhaps have a smaller income in a less expensive house with a lower after housing costs disposable income to live on.

6 See for example The Social Report 2006 which showed that tenants were twice as likely as mortgaged owner-occupiers to be living in financial hardship (p.65), that tenant households were nearly times as likely to be overcrowded (p.69) and nearly three times more likely to be living in relative poverty than mortgaged owner-occupiers (p.63).

TABLE 9: Forecasts of number of households requiring housing assistance

	2001 Actual	2006 Actual	2016 (DTZ Forecast)	2021 (SNZ medium)	2021 (SNZ low)
New Zealand – Dwellings/Households	1,344,021	1,454,076	1,748,020	1,842,100	1,716,900
Auckland – Dwellings/Households	389,661	439,182	562,780	621,100	582,700
Rest of NZ – Dwellings/Households	954,360	1,014,894	1,185,240	1,221,000	1,134,200
New Zealand – Rented Dwellings	432,607	481,902	667,930	703,879	656,039
Auckland – Rented Dwellings	138,606	157,008	234,680	259,000	243,000
Rest of NZ – Rented Dwellings	294,001	342,894	433,250	444,879	413,052
% of tenant households in housing stress – NZ		29%	29%	29%	29%
% of tenant households in housing stress – Auckland		33%	33%	33%	33%
Stressed tenant households – New Zealand		139,752	193,700	204,125	190,251
Stressed tenant households – Auckland		51,613	77,444	85,470	80,186
Stressed tenant households – Rest of NZ		87,939	116,255	118,655	110,066

Data sources: Statistics New Zealand Census and household projection, DTZ(2007)

There are two aspects of these estimates which are worth noting. Firstly, the estimate of stressed households is based on the assumption that the proportion of such households remains constant over time. Historically this has not been the case and is unlikely to be so in the future. The actual proportion of stressed households will vary depending mainly on the relationship between housing costs and household incomes. These factors are very difficult to predict and hence so in fact will the demand for social housing be.

Public policy may of course choose to influence household incomes rather than the cost of housing for low and modest income households. This in fact is the approach behind the "Working for Families" package. The impact of the "Working for Families" on families' wellbeing or indeed its actual take-up has not been reported to date so it is difficult to factor in the impact of this programme on the affordability of housing for low and modest income families. The "Working for Families" package presents something of a two edged sword in addressing housing affordability problems. If take-up of the programme is low then housing affordability problems will persist mainly because working families will not gain access to the additional financial assistance available. The alternative scenario is that take up is significant and that the additional household income provided through the programme flows into housing markets and particularly the rental market pushing rents up. Data at present is not available to determine if either of these scenarios is emerging or if the additional income provided is genuinely making housing more affordable for working families and hence reducing the problem of housing stress.

The second aspect of Table 9 above is the likely extent of growth in demand for affordable housing over the next 15 years even when low growth rates are expected and just the needs of tenant households are taken account of. Table 9 indicates that over the 15 year period until 2021 the number of tenant households under housing stress will increase by around 50,000 of which 28,500 are likely to be Auckland. This Table also suggests that around 20% of all new houses built will need to be provided as affordable or social housing if household income distributions remain the same as they are at present and if we wish to avoid the housing affordability becoming worse. These figures do not address the current housing affordability problem but merely stop it getting worse.

The cost of providing 50,000 affordable houses over the next 15 years at a modest per unit cost of $200,000 is $10 billion or around $700 million annually.

Although the figures on which these forecasts and estimates are based are quite speculative they do point to two prospects. The first prospect is that the housing affordability problem especially for low and modest income families is likely to become worse unless there are policies to address both income adequacy and the supply of affordable housing. While the income supplementation programme known as "Working for Families" may assist some working families to secure affordable housing, the take-up of this programme and its inflationary impacts are unknown at this stage. As discussed below, it doubtful that the housing market is actually building affordable housing and that the private investment market will provide the additional supply of private rental units implied by the forecasts in Table 9. This suggests that a supply response to the affordable housing problem is also required if New Zealand is to avoid further house price inflation.

The second prospect is that the annual price tag of $700 million is affordable under the present circumstances of Government budgets. This sum represents less than 10% of the Government's budget surplus and less than one third of the amounts being invested in the New Zealand Superannuation Fund to secure retirement incomes for the baby boomer generation.

Addressing supply issues:

Two significant changes occurred in New Zealand's housing policy in the early 1990's which signalled a shift from a supply based approach to providing affordable housing to a demand based one. These changes were the privatisation of the Housing Corporation mortgage portfolio and the expansion of the Accommodation Supplement and move to market rents for state houses. The reestablishment of income related rents for state tenants has reversed this trend a little. However, the residual nature of the public sector rental stock and the continuing reliance on the Accommodation Supplement to provide housing assistance means that the emphasis on demand based approaches has not changed much. The irony of this setting is that the Government is unable to exert any influence on housing markets to address problems of house price inflation and is not even able to address the resulting affordability problems for fear of this contributing to further inflation.

Two features of the current New Zealand housing market suggest that a shift to supply side housing policies is required if the problem of affordable housing is to be addressed over the next generation. One feature is the fact that the house building industry is building larger and more expensive housing at the same time that demand for more modest sized and modest cost housing is going unmet. The second feature is the poor returns to private rental housing investment and the prospect that continued investment in this sector may be quite limited unless there is a significant rise in rent or promise of further capital gains.

Table 10 below reports various data from residential building consents for the five years to December 2006. A number of noticeable trends emerge from this data as follows.

- The average cost of building a dwelling has risen 45% over this period. This rate of increase is four times the rate of CPI inflation and 3.9 times the rate of wage and salary inflation[7].
- About two thirds of this increase can be attributed to rising construction costs. The per square metre cost of building a new home has risen from $910 in 2002 to $1200 in 2006, an increase of 32% for the five year period.
- One third of the increase in average house construction costs can be attributed to increasing house sizes. The average house size went from 176m^2 in 2002 to 191m^2 in 2006. In the late 1990's the average house size was around 160m^2 [8].

7 Statistics New Zealand Labour Cost Index All Sectors Salaries and Ordinary Time Wage Rates
8 Source: Business Activities Statistics 2000 Statistics New Zealand p.90.

TABLE 10: Trends in Residential Building 2002-2006

Year Ending December	Number of Consents for New Dwellings	Average Floorspace m²	Average Value $'s	Average Cost per m²
2002	27,208	176	158,703	910
2003	29,914	185	176,038	953
2004	31,423	180	186,360	1034
2005	26,023	191	215,310	1128
2006	25,952	191	229,963	1202

The reason for the trend of bigger houses has not been investigated to date but may be due to rising land prices especially in high growth urban areas such as Auckland the western Bay of Plenty and coastal, retirement and resort locations[9]. It seems unlikely that the market will move toward the construction of more modest housing unless the market at the top and middle of the housing market collapses and/or the demand for smaller houses increases. The question of how and why such demand at the bottom end of the housing market will increase is vexed and is the focus of much of the following discussion.

Figure 8 above indicates the relative returns between investments in residential rental property and risk free government bonds. The reported yield on rental property investment of course just recognises the yield on income and does not take account of the prospect of untaxed capital gains on the eventual sale of the property or of the value of tax credits on account of interest expenses related to these investments.[10]

Table 11 below indicates the extent of the gap which private rental investment is expected to fill over the next ten to fifteen years. For example DTZ's (2007) forecasts suggest that 70% of the new housing in Auckland and 56% of the new housing in New Zealand overall is expected to be owned by private residential property investors. At yields of 4.5% such investment behaviour appears unlikely unless the prospect of further capital gains and favourable tax treatment remains.

By most accounts the prospects of relying on private investment to meet demand for affordable housing do not appear bright. Four basic scenarios emerge as possibilities. These scenarios and their likely impacts and consequences are offered in the table below

9 The basis of a possible relationship between house sizes and land values is that as land values rise the intensity and/or value of the development needs also to rise justify the expense of the land.

10 These tax credits are of course a cost to taxpayers and should be counted as a cost of the current housing policy regime. This cost has not been reported and is probably not even estimated. The extent of this tax expense is probably considerable however. For example assume that 200,000 of the 450,000 rental properties currently in New Zealand carried an average debt of $100,000. At a mortgage interest rate of 8% and assuming that tax credits are claimed at the top marginal tax rate of 39%, the interest expense on these rental properties would be $1.6 billion annually and the tax credits $624 million. Against this Government is expecting to spend $900 million of Accommodation Supplements for the modest income families renting these properties.

TABLE 11: Scenarios for future private rental property investment

SCENARIO	IMPACTS	CONSEQUENCES
Property prices continue to rise maintaining investor confidence of future capital gains	Investment activity continues	Home ownership rates continue to decline and low income families excluded from home ownership
Rents rise to improve yield	Investment activity continues	Affordability problems worsen for modest income tenant households Costs of Accommodation Supplement increases to partially offset rent increase
Property prices remain static	Decline in investor confidence and slow down in investment activity	Shortage of rental housing leading to overcrowding problems
Slowdown in population growth	Decline in investor confidence and slow down in investment activity	Housing supply adjusts more slowly to meet demand and rents stabilise

There is of course a tension between these scenarios which means that none will play out entirely and that the likely outcome will be a mixture of drivers, impacts and consequences. There is however something of a fulcrum between rising property values and rents whereby a decline in one requires a rise in the other in order to maintain investor confidence. The extent to which this balance can be maintained over the next decade is the biggest question around the current de facto affordable housing policy. This policy is one of relying on small scale private investment to provide affordable housing and of subsidising this investment through tenant subsidies and foregone tax revenue.

The viability of the current policy of reliance on private investment to provide affordable housing for low and modest income households needs to be investigated as a matter of urgency. The ability of this approach to provide for future housing demand is highly questionable and the tax and investment implications of the present approach are largely unconsidered.

An integrated supply side programme

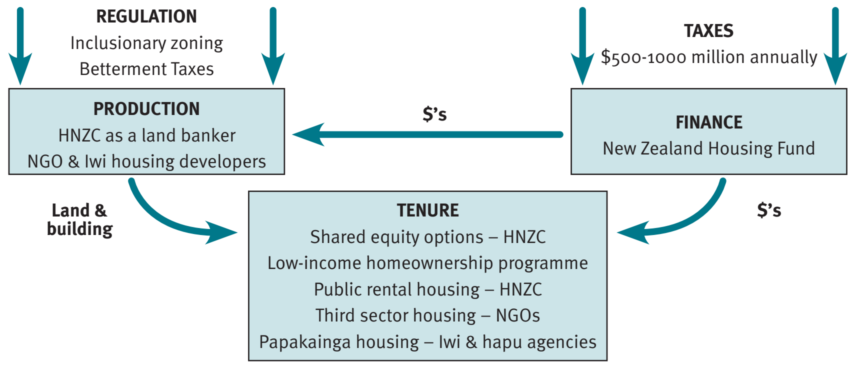
New Zealand's experiment with an almost complete reliance on demand side housing policies has by most measures been a failure. In 1996/97 Government spent $662 million mainly on rent subsidies as its only form of housing assistance and in doing so providing assistance to around 300,000 households. By 2006/07 Government is estimated to have spent $434 million on income related rent subsidies to 60,000 Housing New Zealand tenants and a further $882 million to 250,000 other households in Accommodation Supplement payments. In other words, the cost of public subsidies for housing assistance has almost doubled in eleven years and only 15,000 additional households have benefited. Within this increase is of course the additional and much needed assistance which is provided to state house tenants by way income related rents.

Against this background of rapidly increasing costs of housing subsidies we have seen declining levels of home ownership, house building costs rising at four times the rate of inflation, burgeoning household debt and under-investment in what may be seen to be more productive parts of the economy such as in the farming and the corporate sectors.

These trends point to a need to radically change the direction of housing policy over the next decade. In particular these trends point to the need to recommence a number of supply side housing policies and programmes which over the next decade will improve the affordability of housing for the poorest 20% of New Zealand households.

To be effective these supply side policies and programmes need to be comprehensive and address a number of elements of housing including how housing is financed, produced and owned. As with any supply side approach the measures being proposed below will involve more active intervention by Government in housing markets in much the same way as was done and achieved in the post war era until 1991. A graphical summary of a possible supply side housing programme is provided below.

FIGURE 31: A Supply Side Housing Programme



Key elements of this proposed programme are as follows:

Establishment of the New Zealand Housing Fund

An annual commitment of tax revenues of $500 million to $1 billion is required to adequately address housing need. This commitment will be required for at least the next ten years and perhaps longer depending on population and income changes. This commitment may be made to a revolving fund which will be used to fund affordable housing programmes including the purchase of land, provision of capital to Housing New Zealand for the acquisition of state houses and providing mortgages for low-income home owners, shared equity programmes and NGO's and iwi agencies. This fund may be administered as a separate fund by a board of directors or trustees who would be responsible for its prudent and equitable administration. This fund would be allocated across a number of rival uses and would overcome the monopoly which Housing New Zealand presently has for access to capital from Government. Mortgages for shared equity and low-income homeownership programmes may be administered directly by the fund or via a third party such as Housing New Zealand or Kiwi Bank.

Broader role for Housing New Zealand

It is proposed that Housing New Zealand's role should change quite significantly. Housing New Zealand should continue as the owner and manager of the state owned rental housing stock but should lose its policy advice and NGO funding roles which potentially conflict with its landlord and property management roles on any account. Housing New Zealand should assume a land banking role on behalf of the Crown and may be the best agency to also hold and administer shared equity programmes. Housing New Zealand would bid for funds from the New Zealand Housing Fund although this bidding process may be the subject to an agreed five year housing programme which would include the construction of an agreed number of state houses..

Development of the NGO Sector

A fledging NGO sector of housing foundations, trusts, associations and other not-for-profit operators has to date only gained limited recognition and support from Government. The current "Housing Innovation Fund" is substantially over subscribed and tends to operate at quite a small scale with quite bureaucratic processes which in fact limit innovation. The NGO housing sector can be seen as a major provider of social housing and perhaps even as a housing developer working specifically in the affordable housing market. There is clearly a scale problem within this sector at present with a large number (around 50 to 100 nationally) of quite small operators. Given the complexity of the housing development and management process and the scale efficiencies available in such development and management, there may be merit in fostering the development of three or four major NGO's to undertake development and to provide management services on behalf of smaller NGO's who would own or co-own and perhaps manage local projects. The development of NGO's does need to be approached with some caution on account of the often weak governance structures in place within the NGO sector in general. Some governance structures such as those around charitable trusts can mean that trusts become self perpetuating with limited influence or control by local people or intended beneficiaries. There is significant potential for synergies around housing between the NGO sector and hapu and iwi agencies although iwi or hapu based housing initiatives should be considered as a separate stream of work and opportunities.

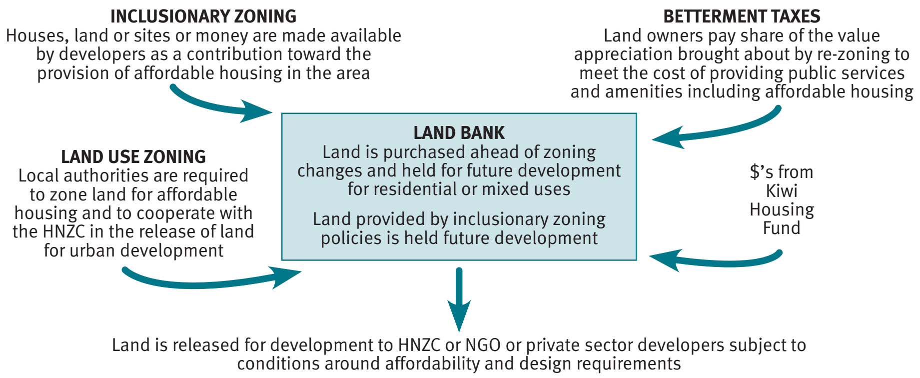
Land availability

Access to suitably zoned and serviced land for the development of affordable housing is a problem for both Housing New Zealand and NGO housing providers. Housing New Zealand faces an additional barrier of local resident opposition which is driven in part by an unwillingness to have low-income state tenants in many neighbourhoods. Land availability and land affordability issues appear to be a significant barrier to the provision of affordable housing in high growth regions such as Auckland and the western Bay of Plenty and in resort regions such as Nelson and Queenstown. Unless a long-term and structural response is taken to overcoming this availability/affordability issue there is little hope of providing affordable housing at any worthwhile scale. In addressing this issue three somewhat inter-related responses are proposed as follows:

- Housing New Zealand is funded to undertake a role as a land banker for the provision of sites for affordable housing.
- A **betterment tax** regime is put in place that will allow local authorities to tax owners of rezoned land for some of the value appreciation brought about by the zoning process. This betterment tax is then provided to the land bank for future land purchases.
- **Inclusionary zoning** may be provided for in the Resource Management Act. Developers may choose to construct affordable housing in partnership with NGOs or contribute land or money to the land bank for future land purchases.

Details of how these responses will interact are provided in the diagram below.

Figure 32: Providing land for affordable housing



Low income home ownership programmes

A substantial subsidised home mortgage programme for first time home buyers should be launched as a priority. A number of approaches exist for operating such a scheme including the use of shared equity options to reduce the front end costs of buying a house or simply having interest rate subsidies based on household incomes. In designing a suitable policy framework care should be taken to avoid poverty traps caused by aggressive abatement rates. It may be feasible to weave any home lending programme into the Kiwi Saver scheme and Working for Families packages to strengthen incentives for saving. Mortgages will need to be portable to allow housing mobility and may even be inflation indexed to reduce the overall subsidy costs. It may be feasible to administer such a programme through Kiwi Bank or other banks if this proves cost effective.

Rural Maori housing

Rural Maori housing remains a serious problem and has not been adequately addressed by present policies or those of the recent past. Problems of affordability, financial security, servicing of land and availability of work are almost intractable for policymakers looking to address housing need in rural areas. Most iwi and many hapu organisations appear to be interested in being involved in housing for their people although organisational capacity, land ownership issues and lack of financial resources appear to be significant barriers to realising this interest. While there are no short-term answers to these problems a medium term response may be possible around iwi or hapu housing plans. These plans could be based on a ten year perspective which considers the community development objectives of iwi or hapu as well as the availability of land and skills and the extent of whanau commitment to providing and paying for the required houses. Funding by way of development grants or low-interest loans could be channelled through iwi or hapu agencies and based on these plans. Iwi and hapu agencies might also usefully link up with NGO housing developers or providers for support.

Recommendations

The shortage of affordable housing in areas of high growth and in rural areas with high Maori populations is now a critical problem which The Salvation Army believes will not be addressed by current policies and the present level of commitment by Government. If population growth and other demographic trends continue and if the existing income distributions persist, it is our belief that the problem of affordable housing in New Zealand will become progressively worse over the next decade. In our view there is a great deal at stake if this growing problem is ignored. Most at stake is the potential of tens of thousands of children to become happy productive citizens because they lack decent housing which will keep them healthy and allow them a stable school career.

Most at stake are the dreams and aspirations of tens of thousands of working families who may never own their own home and who may begin to look overseas for opportunity and a fair go.

The Salvation Army believes there is an opportunity for Government to fundamentally reshape New Zealand housing over the next decade at a cost which is affordable. Taking this opportunity will however require courage and patience; the courage to take different approaches and to become more interventionist and the patience to accept that tangible gains will only be achieved within a five to ten year timeframe.

These requirements for courage and patience suggest that a non-partisan – cross party commitment to affordable housing is required and that affordable housing can no longer be a political football but must be a broadly held commitment by all political parties. While political parties will always debate the merits of one approach to affordable housing above another, the need for a long-term commitment and for a range of supply-side responses is critical and should be placed outside the ideological debate around how affordable housing is provided.

The Salvation Army submits that the long-term commitment to housing should be based on the following responses:

1. The establishment of the New Zealand Housing Commission, a small and tightly focused state owned enterprise separate from Housing New Zealand and responsible for the management and allocation of funding from the New Zealand Housing Fund.
2. The establishment of a New Zealand Housing Fund. The Salvation Army recommends a substantial annual allocation ($500million - $1billion) by Government to this fund for the building of affordable housing and provision of mortgages for affordable houses. This annual allocation is required to insure a long term sustainable supply of funding for affordable housing. Such a long term commitment would also mitigate against any sudden shocks to the economy which the sudden inflow of capital for affordable housing may cause. This fund would be the source of Government funding for all new affordable housing in the community sector, private sector and Housing New Zealand
3. The establishment of a Government funded first home ownership programme which annually provides at least 2000 first home buyers with affordable houses. This programme should involve a range of supply side responses including affordable mortgages, shared equity, more generous provision to KiwiSavers saving for their first home and other options.
4. A more tangible commitment by Government to the development, support and financing of the not-for-profit housing sector and iwi/hapu housing projects. In this commitment we believe it is vital to create a small number of national or regional NGO housing providers which have the capacity to provide significant numbers of affordable houses
5. A commitment of at least $1 million annually for the development of iwi and hapu housing plans to address rural housing need of Maori.
6. Legislative change to provide for:
   - requirements under the Resource Management Act for planning agencies to make provision for affordable housing in all regional and district plans,
   - powers under the Resource Management Act for Councils to impose inclusionary zoning provisions in district planning policies and rules,
   - powers under the Resource Management and Local Government Acts for Councils to receive betterment levies where zoning changes enhance land values and for requirements that these levies be used to purchase land for affordable housing within the district or region.
7. That Housing New Zealand be given the specific role and resources to begin land banking for affordable housing in high growth areas and that this land be made available for the development of affordable housing by NGO and private sector developers.
8. That the Government move to provide incentives to Government, Community and Private sector housing developers that encourage more mixed tenure housing developments so as to avoid the urban stratification occurring in cities like Auckland

The Salvation Army believes a long-term commitment to affordable housing does not start with strategies, committees of inquiry and policy discussion documents but with targets, meaningful budgets and a focus on making a real difference to peoples' lives. The evidence of housing need is compelling and the inaction of the past is damming. There is ample international experience to draw from and sufficient people with imagination and goodwill to be able to apply this experience to meet local challenges. As a nation we have the resources to ensure that every citizen is decently housed and as nation we need to renew our commitment to making this prospect a reality.


340

APPENDIX 1: POTENTIAL EFFECTS OF HOUSING PROGRAMMES ON POLICY GOALS

	Rental Housing Assistance		Homeownership Assistance			
	Supply-Side Production	**Demand-Side Vouchers**	**Supply-Side Mortgage Credit**	**Demand-Side Homebuyers Tax Policies and Assistance**	**Supply-Side Production**	**Land Use Regulations**
Preserve and Expand the Supply of Good-quality Housing Units	**Yes** Rental stock has been expanded though more units need to be produced	**Somewhat** May encourage landlords to maintain existing housing	**Maybe** But impact is indirect	**Maybe** But impact is indirect	**Yes** Primary goal of these programmes is expanding owner-occupied stock	**Mixed** Some programmes expand supply while others limit new affordable construction
Make housing more affordable and more readily available	**Yes** But affordability depends on size and duration of subsidies	**Yes** Primary goal is affordability, success depends on household's ability to find units	**Yes** But impact is indirect	**Yes** Enhances buying power but depends on price of housing stock	**Yes** Primary goal of these programmes is affordability and access	**Maybe** Rent control may moderate rent increases in tight markets
Promote racial and economic diversity in residential neighbourhoods	**Rarely** Depends on where new units are located & who is eligible to occupy them	**Possibly** If recipients can find units in diverse neighbourhoods	**Possibly** Depends on locational decisions of buyers	**Possibly** If recipients can find units in diverse neighbourhoods	**Possibly** Depends on the location of units produced and local economy	**Mixed** Some reforms can expand affordable housing in affluent communities
Help households build wealth	**Generally not** Lower rents may lead to increased family assets	**Generally not** Lower rents may lead to increased family assets	**Yes** Depends on house price appreciation and individual borrower circumstances	**Yes** Depends on house price appreciation and individual borrower circumstances	**Yes** Depends on house price appreciation and individual borrower circumstances	**Mixed** Some programmes provide wealth building opportunities while others do not
Strengthen families	**Possibly** But little literature exists to confirm programmes ability to strengthen families	**Possibly** Less impact if units are located in distressed neighbourhoods or occupancy rules discourage family unification	**Yes** But less impact if units are located in distressed neighbourhoods	**Yes** But less impact if units are located in distressed neighbourhoods	**Yes** But less impact if units are located in distressed neighbourhoods	**No**
Link housing with essential supportive services	**Sometimes** When units are designed in conjunction with effective supportive services	**Generally not**	**No**	**Probably not** Unless services are explicitly linked with assistance	**Probably not** Unless services are explicitly linked with assistance	**No**
Promote balanced metropolitan growth	**Rarely** Depends on where the new units are built	**Possibly** Depends on recipients' ability to find units in suburban areas and close to job opportunities	**Unclear** Depends on general population's locational choices	**Unlikely** Possible if recipients can find units in suburban neighbourhoods and close to jobs	**Rarely** The location of units thus far has generally not promoted balanced growth, however neighbourhoods have benefited from homeownership	**Mixed** Zoning and regulatory reforms can promote affordable development in all jurisdictions though some do not

APPENDIX 2:

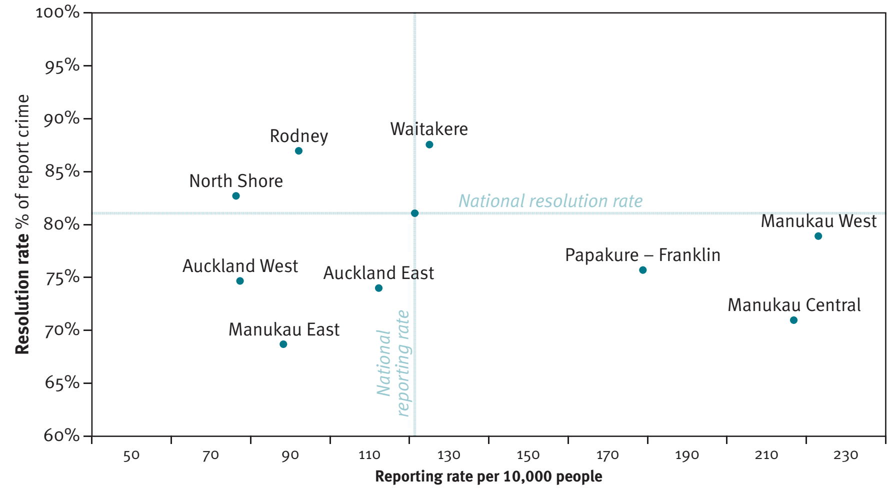
Housing New Zealand Corporation Ltd – Housing stock changes 2001 – 2006

YE June	2001	2002	2003	2004	2005	2006	2007
Opening Stock		61050	61878	64401	65304	66354	67397
Additions							
Newleases		331	441	445	459	389	
Renewed leases		139	109	205	113	80	
Total leases		460	550	650	572	469	
Buy-ins			343	564	550	482	
New Builds			253	69	136	162	
Redevelopments			92	162	241	361	
Relocations			2	0	39	0	
Inter-company transfers			35	21	22	7	
Total owned units		707	725	816	988	1147	
ACC units			1666	0	0	0	
Total Additions Disposals		1167	2941	1466	1560	1616	
Leases expired		189	150	272	166	147	
Total Disposals		339	420	563	510	573	
Net Stock Movement		828	2521	903	1050	1043	
Closing stock	61050	61878	64399	65304	66354	67397	
Total leased	761	1092	1492	1870	2276	2598	
Total owned	60289	60786	62907	63434	64078	64799	

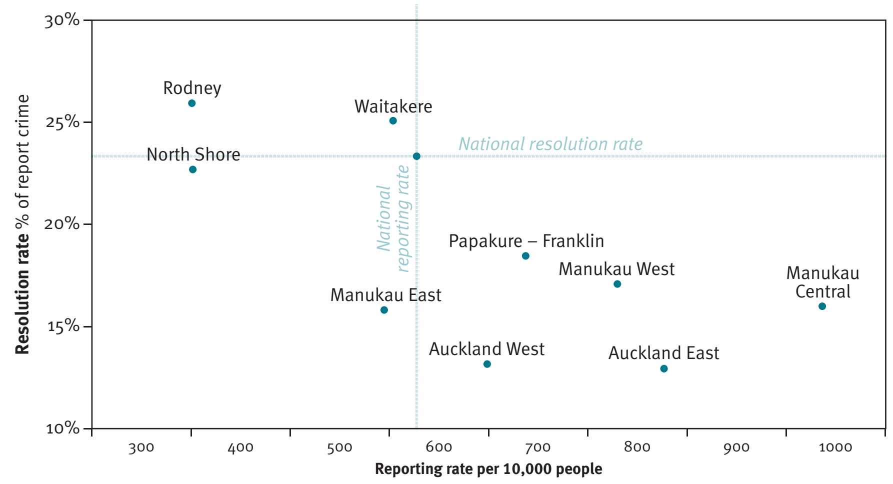
Source: Housing New Zealand Ltd. Annual Reports

APPENDIX 3:

Reporting & Resolution of Violent Crimes in Auckland Region
Year ending June 2006



Reporting & Resolution of Dishonesty Crimes in Auckland Region
Year ending June 2006



BIBLIOGRAPHY:

Arthurson, K. and Jacobs, K. (2003) "Social Exclusions and Housing", Australian Housing and Urban Research Institute.

Atkinson, A.B. and Leigh, A. (2004) "Understanding the Distribution of Top Incomes in Anglo-Saxon Countries over the Twentieth Century" available at http//www.nuff.ox.ac.uk/economics/people/atrknson.html

Atkinson, R. (2005) "Neighbourhoods and the Impacts of Social Mix, Tenure Diversification and Assisted Mobility", ESRC Centre for Neighbourhood Research.

Australian Bureau of Statistics (2006) " Housing for Young Adult Households" in "Australian Social Trends 2006". Australian Bureau of Statistics available at http//www.abs.gov.au/ausstats

Bailey, N. Haworth, A. Manzi, T. Paranagamage, P. and Roberts, M. (2006) "Creating and sustaining mixed income communities - A good guide practice", Chartered Institute of Housing and Joseph Roundtree Foundation.

Ball, J. (2006) "The insider/outsider thesis and its extension to social housing in France". Paper presented at the European Network for Housing Research conference Ljubljana Solvenia July 2006.

Berube, A. (2005) "Mixed communities in England: A US perspective on evidence and policy prospects" Joseph Roundtree Foundation.

Booza, J. Custinger, J. and Glaster, G. (2006) "Where did they Go: The Decline of Middle Income Neighbourhoods in Metropolitan America" Brookings Institution.

Bramley G. Morgan, J. Cousins, L and Dunmore, K. (2002) "Evaluation of the Low Cost Home Ownership Programme" Welsh Assembly Government and Office of the Deputy Prime Minister. Available at www.communities.gov.uk

Briggs, P. (2003) "Looking at the numbers. A view of New Zealand Economic History" New Zealand Institute of Economic Research.

Briggs, X de S. (1998) "Brown Kids in White Suburbs: Housing Mobility and the Many Faces of Social Capital", Housing Policy Debate Vol. 9-1.

Briggs, X de S. (2003) "Bridging Networks, Social Capital and Racial Segregation in America", research paper published by the John F Kennedy School of Government – Harvard University.

Briggs, X de S. (2004) " Traps and Stepping Stones" Neighbourhood Dynamics and Family Well-Being", research paper published by John F. Kennedy School of Government Harvard University.

Bushnell, P. Orr, A. Spenser, G. Blackmore, M. Ng, T and Reddell, M. (2006) "Supplementary Stabilisation Instruments - Initial Report to Governor, Reserve Bank of New Zealand and Secretary to the Treasury" Reserve Bank of New Zealand available at www.rbnz.govt.nz/monpol/about/2452274.pdf

Centre for Housing Research Aotearoa New Zealand (2006) "Fact Sheet – Affordable Housing in New Zealand", Centre for Housing Reseach Aotearoa New Zealand, available at www.hnzc.co.nz/chr/publications.html

Chapman, M. and Sinclair, S (2004) "Opening Doors to Assets – A Review of Equity Shares in Social Housing" paper presented at Housing Studies Association Spring 2004 Conference, available at www.york.ac.uk/inst/chp/hsa/papers.

Cheshire, P. and Sheppard, S. (2004) " Buying into the Best Neighbourhoods" House prices and social inequality" The Economic Journal Vol. 114 No.499 pp.391-6.

Clarke, A. (2006) "Shared Ownership: Objectives and Experiecnes of Policy and Households" paper presented at European Network of Housing Researhers conference, Ljubljana.

Crampton, P., Salmond, C., and Kirkpatrick, R. (2004) "Degrees of Deprivation in New Zealand: An atlas of socioeconomic difference". 2nd Edition. David Bateman Ltd.

Crawford, R. and Johnston, G. (2004) "Household income in New Zealand: The impact of the market, taxes and government spending 1987/88 -1997/98" The Treasury.

Cunningham, M. and Droesch, A. (2005) "Neighbourhood Quality and Racial Segregation", The Urban Institute.

DeFilippis, J. (2001) "The Myth of Social Capital in Community Development" Housing Policy Debate Vol.12/4

DTZ (2007) "The Future of Homeownership and the Role of the Private Rental Market in Auckland Region" Centre for Housing Research Aotearoa New Zealand, available at www.hnzc.co.nz/chr/publications.html

DTZ New Zealand (2005) "Housing Tenure Aspiration and Attainment", Centre for Housing Research Aotearoa New Zealand, available at www.hnzc.co.nz/chr/publications.html

DTZ New Zealand (2004) "Housing Costs and Affordability in New Zealand", Centre for Housing Research Aotearoa New Zealand, available at www.hnzc.co.nz/chr/publications.html

Ellen, I. and Turner, M. (1997) "Does Neighborhood Matter: Assessing Recent Evidence"; Housing Policy Debate Vol.8 Issue 4 pp.833-866.

Ferguson, G. (1984) "Building the New Zealand Dream" Dunmore.

Glaeser, E, and Sacerdote, B. (2000) "The Social Consequences of Housing" Harvard Institute of Economic Research Discussion Paper No 1915; Harvard University Cambridge MA. Avalable at http://post.economics.harvard.edu/hier/2000papers.

Green, G. Grimsley, M. and Stafford, B. (2005) "The dynamics of neighbourhood sustainability", Joseph Roundtree Foundation.

Grimes, A. Aitken, A. Mitchell, I. and Smith. V. (2007) "Housing Supply in the Auckland Region" Motu and Centre for Housing Research Aotearoa New Zealand, available at www.hnzc.co.nz/chr/publications.html

Grimes, A. Aitken, A. (2006) "Regional Housing Markets in New Zealand: House Prices, Sales and Supply Responses" Motu and Centre for Housing Research Aotearoa New Zealand, available at www.hnzc.co.nz/chr/publications.html

Grimes, A. Kerr, S. Aitken, A. and Sourell, R. (2006) "The housing fulcrum: balancing economics and social factors in housing research and policy" New Zealand Journal of Social Science Vo1 pp.65-79 The Royal Society of New Zealand available at www.rsnz.org/publish/kaituitui/2006/05.php.

Hargreaves, B. (various) "AMP Housing Affordability Report" available at http://property-group.massey.ac.nz/index.php?.id=1077.

Housing New Zealand Corporation Ltd (Various) "Annual Reports" available at http://hnzc.co.nz/hnzc/web/abot-us/annual-report/annual-report_home.htm

Howden Chapman, P et al (2007) "Effects of insulating existing houses on health inequality: cluster randomised study in the community", British Medical Journal 26th February 2007.

Hyslop, D. and Yahanpath, S. (2005) "Income Growth and Earnings Variations in New Zealand 1998-2004" The Treasury.

Hyslop, D and Mare, D. (2003) "Understanding New Zealand's Changing Income Distributions: A Semiparametric Analysis" Motu.

Jacobs, K. Kemeny, J. and Manzi, T. (2003) "Power, discursive Space and Institutionalised Practices in the Construction of Housing Problems" Housing Studies Vol 18 No.4 pp.429-446

Jochum, V. Pratten, B. and Wilding, K. (2005) "Civil Renewal and Active Citizenship – a guide to the debate" National Council of Voluntary Organisations, available at www.ncvo-vol.org.uk/publications/showall.asp?id=1512

Katz, B. Turner, M. Brown, K. Cunningham, M. and Sawyer, T. (2003) "Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice", The Brookings Institution Center on Urban and Metropolitan Policy and The Urban Institute.

Katz, B. (2004) "Neighbourhoods of choice and connection: The evolution of American neighbourhood policy and what it means for the United Kingdom", Joseph Roundtree Foundation.

Khadduri,J. Burnett, K. and Rodda, D. (2003) "Targeting Housing Production Subsidies – Literature Review", Department of Housing and Urban Development (US).

Kearns, A. (2004) "Social Capital, Regeneration and Urban Policy", Centre for Neighbourhood Research – Economic and Social Research Council.

Keels, M. Duncan, G. Deluca, S. Mendenhall, R. and Rosenbaum, J. (2003) "Fifteen Years Later: Can Residential Mobility Programs Provide a Permanent Escape from Neighbourhood Segregation, Crime and Poverty" Joint Center for Poverty Research Working Paper 330. Available at www.jcpr.org.

Kemeny, J. (2001) "Non-retrenchment reasons for state withdrawal: development the social rental market in four countries" Institute for Housing and Urban Research Working Paper 40.

Kemeny, J (2006) "Corporatism and Housing Regimes", Housing Theory and Society Vol23 No1 pp.1-18.

Khan, A and Phibbs, B (2005) "Education and Public Housing" paper presented at National Housing Conference and available at www.nationalhousingconference.org.an/downloads/nhc/2005.

King, P. (2006) "Choice and the End of Social Housing", Institute of Economic Affairs.

Lang, R. and Hornburg, S. (1998) "What is Social capital and Why is it Important to Public Policy" Housing Policy Debate Vol. 9 No1 pp. 1-15.

Levitas, R. (2004) "Let's Hear it for Humpty: Social Exclusion, the Third Way and Cultural Capital" , Cultural Trends Vol. 13(2) No 50 pp.1-15.

Linbeck, A. and Snower, D. (2001) "Insider v's Outsider", Journal of Economic Perspectives 15(1) pp. 165-188.

London Assembly (2006) "Size Matters – The need for more family housing in London" Greater London Authority, available at www.london.gov.uk

Ludwig, J. Duncan, G. and Hirschfield, P. (2001) "Urban Poverty and Juvenile Crime: Evidence from a Randomised Housing-Mobility Experiment", Quarterly Journal of Economics Vol 116 pp.655-679.

Maani, S. Vaithianathan, R. Wolfe, B. (2006) "Inequality and Health: Is Housing Crowding the Link?" Motu Working Paper 06-06 available at www.motu.org.nz

Marshall, T (1950) "Citizenship and Social Class and other essays" Cambridge University Press; Cambridge UK.

Meen, G. (2004) "Non-linear behaviour in local housing markets and the implications for sustainable mixed-income communities in England", paper prepared for ENHR Conference at University of Cambridge.

Meen, G. Gibb, K. Goody, J. McGrath, T. and Mackinnon, J. (2005) "Economic segregation in England: Causes, consequences and policy", Joseph Roundtree Foundation.

Meen, G. (2006) "Ten Propositions in UK Housing Macroeconomics – An Overview of the First Years of the Century" paper presented to European Network for Housing Research

Ministry of Social Development (2006) "The Social Report 2006 : Indicators of Social Wellbeing in New Zealand " Ministry of Social Development.

Monk, S.(2006) "Estimating the potential demand for intermediate housing" paper presented at European Network of Housing Researhers conference, Ljubljana.

Moran, A. (2006) "The Tragedy of Planning - Losing the Great Australian Dream" . Institute of Public Affairs.

Mowbray, M. (2001) "Distribution and Disparity: New Zealand Household Incomes" Ministry of Social Policy.

Murphy, L. (1997) "New Zealand's Housing Reform and the Accommodation Supplement Experiment" Urban Policy and Research Vol. 15 No.4 pp. 269-278.

Murphy, L. (2000) "A Profitable Housing Policy: The Privatization of the New Zealand Government's Residential Mortgage Portfolio", Regional Studies – The Journal of the Regional Studies Association, Vol. 34 No.4 pp.395-399.

Neuwelt, p. and Simmons, G. (2006) "A Public health Portrait of Severe Paediatric Gastronenteritis in the Auckland Region" Auckland Regional Public Health Service.

Norris, P. (2001) "Making Democracy Work: Social Capital and Civic Engagement in 47 Societies" Faculty Research Working Paper 01-036 Kennedy School of Government, Harvard University, available at http://ksgnotes.harvard.edu/Research/Wpaper.nsf/PublicTopic?OpenForm

Olsen, E. (2006) "Whither Public Housing?' Testimony before the House Committee on Government Reform , available at http///www.virginia.edu/economics/downloadable papers

Orfield, G. and McArdle, N, (2006) “The Vicious Cycle: Segregated Housing, Schools and Intergenerational Inequality” Joint Center for Housing Studies – Harvard University.

Page, D. (2006) “Respect and Renewal – A study of neighbourhood and social regeneration”, Joseph Roundtree Foundation.

Parr, S.(2006) “The respect action plan – A new approach to the most challenging families” paper presented at 2006 conference of the European Network for Housing Research.

Peace, R., Kell, S., Pere, L., Marshall, K. & Ballantyne, S. (2002) “Mental Health and Independent Housing Needs – Part 1”, Ministry of Social Development.

Popkin, S. Katz, B. Cunningham, M. Brown, K. Gustafson, J. and Turner, M. (2004) “ A Decade of HOPE VI: Research Findings and Policy Challenges” The Urban Institute and The Brookings Institution.

Putman, R. (1995) “Tuning in, tuning out: the strange disappearance of social capital in America” Political Science and Politics 28:4 pp 664-83.

Putman, R. (1998) “Forward” to special issue on social capital, Housing Policy Debate. Vol. 9 Issue 1.

Randolph, B. Bunker, R. and Holloway, D. (2005) “The Social Impacts of Urban Consolidation: The Case of Sydney, Australia”, City Futures Research Centre – University of New South Wales.

Rankine, J (2005) “Health and Housing in Auckland: A Survey of Selected Research” Auckland Regional Public Health Service.

Reserve Bank of New Zealand (2006) “Financial Stability Report – November 2006” Reserve Bank of New Zealand available at www.rbnz.govt.nz/finstab/fsreport/.

Robinson, M. Scobie, G. and Hallinan, B. (2006) “Affordability of Housing: Concepts, Measurement and Evidence”. New Zealand Treasury.

Ronald, R. (2006) “Individualism and Privatistic Housing Consumption in Eastern and Western Homeownership Societies”, paper presented to European Network for Housing Research.

Sarkissian, W. (1976) “The Idea of Social Mix in Town Planning: an Historical Review” Urban Studies 13(3) pp. 231-246.

Schrader, B. (2006) “The Other Story-Changing Perceptions of State Housing” New Zealand Journal of History 40,2 pp 156-170.

Scobie, G. Le, T. and Gibson, J. (2007) “Housing in the Household Portfolio and Implications for Retirement Saving: Some Initial Finding from SOFIE”. New Zealand Treasury.

Sherraden, M (1991) “Assets and the poor: A new American welfare policy” ME Sharpe.

Skilling, D. (2005) “Opportunity for a Lifetime: Building an ownership society in New Zealand”, Discussion Paper 2005/2; New Zealand Institute.

Skilling, D. (2004b) “Its not just about money: The benefits of asset ownership” Discussion Paper 2004/2; New Zealand Institute.

Skilling, D. and Waldegrave, A. (2004a) “The wealth of a nation: The level and distribution of wealth in New Zealand”, Discussion Paper 2004/1; New Zealand Institute.

Smith, L. and Robinson, R. (2005) “A Home I Could Own – The housing aspirations of low-income clients of Salvation Army”, The Salvation Army Social Policy and Parliamentary Unit.

Smith, M. (2006) “What do we know about equity withdrawal by households in New Zealand’ Reserve Bank of New Zealand.

Sodha, S. (2006) “Lessons from Across the Atlantic: Asset Building in UK” , Institute of Public Policy Research.

Susin, S. (2002) “Rent Vouchers and Price of Low Income Housing”, Journal of Public Economics Vol 83 pp 109-152.

Swanstrom, T. Casey, C. Flack, R. and Dreier, P. (2004) “ Pulling Apart: Economic Segregation among suburbs and Central Cities in Major Metropolitan Areas” , The Brookings Institution.

Tiebout, C. (1956) “A Pure Theory of Local Expenditures”, Journal of Political Economy Vol. 64 pp.216-24.

UNECE (2004) “Social Housing Conference – Summary Report” . United Nations Economic Commission for Europe, available at europaforum.or.at/publication.

Waldegrave, C., King, P., Walker,T. & Fitzgerald, E (2006) “Maori Housing Experiences – Emerging Trends and Issues”, Centre for Housing Research Aotearoa New Zealand.

Ward, B. (1976) ‘The Home of Man” Penguin Books

Wilcox, S. (2005) “Affordability and the Intermediate Housing Market: Local measures for all local authority units in Great Britain”, Joseph Roundtree Foundation

Wilson, L. (2005) “Social exclusion and social capital in northern Adelaide: the role of social networks in reproducing social inequality”, paper presented at Social Change in the 21st Century Conference – Queensland University of Technology.

Zetter, R. Griffiths, D. Sigona, N. Flynn, D. Pasha, T. and Beynon, R.(2006) “Immigration, social cohesion and social capital: What are the links?”, Joseph Rowntree Foundation.

ABOUT THE AUTHOR

Alan Johnson BTP, MPhil (Hons)

Alan Johnson is a Senior Policy Analyst at The Salvation Army Social Policy and Parliamentary Unit. Alan has an academic background in town planning and economics and has lectured at the University of Auckland and Unitec, in planning, economics and social policy. He has extensive policy and management experience in both the local government and community sectors with a particular interest in housing, urban economics and community development. Alan served as a Manukau City Councillor for fourteen years and as a director of the Counties Manukau District Health Board for three years, He lives in South Auckland and is active in that community on issues around education, sport and housing.

SOCIAL POLICY AND PARLIAMENTARY UNIT

Working for the eradication of poverty in NZ

SOCIAL POLICY & PARLIAMETARY UNIT
New Zealand, Fiji and Tonga Territory
Phone (09) 262 2332, Fax (09) 262 4103
P.O. Box 76-075 Manukau City, Auckland