BEYOND RENTING

Responding to the decline in private rental housing

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Executive Summary

Introduction

1 The place of private rental housing

1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions

2 Some future prospects for private rental housing in New Zealand

2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions

3 The current housing policy landscape

3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions

4 Responding to challenges in the private rental market

4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies

Appendices

Endnotes

Publishing Details

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EXECUTIVE SUMMARY

For the past two decades at least, New Zealand has followed something of a default housing policy. This policy has relied on thousands of small-scale, private investors investing in rental housing as the basis for providing housing to new households. Private sector renting thus became the tenure of necessity for those households too poor to afford home ownership, and not poor enough to qualify for state or social housing. Over the past five years two-thirds of new households fell in to private sector rental housing.

This default housing policy no longer looks sustainable. This is because of the poor yields which rents have provided to investors, and the diminishing prospects of capital gains on residential property. Most likely there will still be further investment in private rental housing, but this investment probably won't keep pace with demand. The result will be rents rising faster than household incomes, increasing levels of housing-related poverty and unmet housing need, alongside growing numbers of people sleeping rough on our streets and in our parks and carparks.

This paper considers this prospect and what policy ideas might work in response. The basic argument offered here is that a more deliberate set of housing policies are needed, which will require greater direct involvement by Government. This involvement will be in the provision of more state and social housing, and in the subsidising of home-ownership programmes for modest income households.

The paper begins by considering the place that private rental housing has played in New Zealand's society, including the provision of housing and the accumulation of wealth. It then goes on to consider the prospects of the private rental housing market over the next decade or so. As a basis for considering where we might go as a nation in our efforts to ensure that everyone is adequately housed, the paper provides a brief overview of the current housing policy framework and offers a brief critique of this as well. The paper then concludes with some often quite radical proposals for policy reform.

THE PLACE OF PRIVATE RENTAL HOUSING

A significant but somewhat unmarked trend in New Zealand society over the past 25 years or so has been the gradual decline in rates of home ownership. This rate has fallen from around 74% in 1991 to an estimated 63% today. This fall has meant that more and more households rely on private rental housing. In fact, almost three quarters of new households formed in the past decade most likely have only been able to find housing as private tenants.

This divide around the ownership of housing is a sharp one. On one hand, tenants, as might be expected, have a much worse economic position than home owners and landlords. Tenants have poorer quality housing; they pay more of their income in housing costs and have much less wealth than those who own property. On the other hand, not only have landlords more wealth, but they have managed to accumulate more as house prices and rents have continued to rise faster than wages, salaries, pensions and benefits.

There may, however, be something of a 'contest of rights' emerging with greater academic and policy attention being paid to the quality of rental housing and to the emergence of more strident tenants' rights groups.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

This ‘contest of rights’ drives a re-consideration of private rental housing for at least three reasons:

1. The **emergence of the post-ownership society**, whereby New Zealand is on the road to **becoming a society where less than half the population own everything and where more** than half have little or no material stake.
2. The **economic position of tenants**, where private sector tenants are amongst the poorest people in New Zealand, pay the most for their housing relative to their incomes and have the worst housing outcomes.
3. The **continuing concentration of wealth**, through both the dominance of private property rights and the conduct of public policy that supports these. The most obvious examples of such public policy are: the very light taxation of capital gains from land and real property ownership, and the subsidising of the rental market through the Accommodation Supplement (AS).

As we consider the future role of private sector rental housing, within the broader context of New Zealand’s housing system, it is important that we regard these questions and potential issues that might drive policy change.

SOME FUTURE PROSPECTS FOR THE PRIVATE RENTAL HOUSING MARKET

For the past 25 years, the private rental housing market has been the default setting for New Zealand’s housing policy. Over this period, home ownership rates have declined, in part due to the ending of any meaningful first-time home ownership support programmes. Also, social housing has been residualised—declining steadily from 4.0% of the national housing stock in 2008 to 3.4% in 2017.[1] In other words, private sector rental accommodation is where everyone goes who is not wealthy enough to afford home ownership, or poor enough to qualify for social housing. This group might be seen as the ‘left outs’.

The problem is that this ‘left out’ group of households is not small. Over the five years to June 2018, two-thirds of the new households formed—or around 80,000 in total, where private sector tenant households.

An even bigger problem is that the investment, which has supported this expansion in private rental housing, has relied on the sentiments of thousands of small-scale investors who have invested in private rental housing, despite the low and falling yields that rents offer. The problem here is that this sentiment appears to be driven by expectations of capital gains and such expectations into the future might be misplaced given our position in the property cycle.

If we continue to assume that small-scale ‘mum and dad’ investors will provide the investment necessary to provide sufficient housing for the majority of new households, the question needs to be asked: What scale of investment is required? Answering this is not straightforward as it requires some starting assumptions around tenure patterns, population growth rates and household formation rates. The projections of such investment over the next 10 years are in the range of 40,000–50,000 additional rental units in Auckland and a further 50,000–60,000 across the rest of New Zealand. To provide this additional housing will require annual investment of $3.0–$3.4 billion.

This requirement is in the face of low and falling investment yields from rents. In aggregate, the investment yield on residential rental property across New Zealand is 4% while it may be as low as 2.5% in Auckland.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of ‘landlordism’ and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

These low yields are likely to become problematic for future investment, especially if the promise of further value appreciation diminishes—as appears to be happening. It was the prospect of capital gains on residential property that has allowed property investors to offset, or at least overlook, these low yields, and it seems unlikely that such a stance will continue in an era of stable, or even falling, property prices.

This means that yields will rise, eventually, simply because an ever growing shortage of rental housing will continue to push rents higher. These rent increases most likely will be greater than increases in wages and salaries, meaning that some households will be priced out of the market and forced into overcrowded living arrangements or outright homelessness. The ever-lengthening social housing waiting queue is probably already evidence of this.[2]

At this point the private rental housing market has not so much failed, but shown that its outcomes are far from socially optimal. The need for more extensive State intervention is becoming more apparent and any review of housing policy, including that of tenancy law, should consider the extent and nature of such increased intervention. It is probably now no longer sufficient to review policy in the light of past market conditions and expect that the outcomes will be adequate. A tighter rental market—where landlords have a stronger negotiating position—will be at tenants' expense, regardless of law changes around such things as rent auctions, key money and poor quality housing. Put simply, economic power will trump legal rights, especially when enforcement regimes and legislative penalties are minimal, as they are in current and proposed tenancy law.

THE CURRENT HOUSING POLICY LANDSCAPE

A review of the prospects and policy options for the private rental market needs, of course, to be based in the context of what else is happening in policy and in other housing markets, in order to establish where there is scope for innovation and change. Such scope is considered in Chapter 3.

Some insights that might be drawn from this review of this wider landscape include:

Tenancy law reform—there is some need to recast tenancy law given the passage of time since the original Residential Tenancy Act was drafted, and the changes in the overall housing market since then. The most significant change has been the continuing declines of home-ownership rates and, with this, an increasing number of households having to accept private rental housing as their tenure for life. No longer then can private rental housing be considered as secondary but temporary tenure. This suggests that more attention needs to be given to elevating the status of private sector tenants by offering them greater tenure protection.

Accommodation Supplement—the AS is a clumsy subsidy that offers those receiving it, and taxpayers paying for it, no guarantees that the housing outcomes it pays for are fair, healthy or affordable. While recent increases in the maximums that may be paid under this programme were overdue, they will not provide much relief from likely further rapid increases in rents. There is a need for a radical review of the AS perhaps with a view to better integrating it into other incomes support programmes, such as the working-age benefits, Working for Families and New Zealand Superannuation.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Home ownership subsidies—until the recent increase in the take-up of the HomeStart grant scheme, Government efforts in providing home ownership support were tokenism at best. Even now, the HomeStart programme—at around $100 million annually—is minor when compared with the almost $3 billion due to be spent on the AS and income-related rent subsidies. Furthermore, there is little evidence to support claims that the Welcome Home Loans and HomeStart programmes contribute at all to broadening the range of people/households gaining access to home ownership opportunities.

Public and social housing—is under considerable pressure from growing waiting lists; the legacy of under-investment in public housing; and a pre-occupation with transfers rather than construction. This means there has been little progress to date in coping with this pressure. Plans to expand the stock of social housing by 6,400 over the next four years might be achievable, although early indications of the Government's plans for re-developing the current state house estate suggests that, in reality, new state housing is not a priority. On any account, given the problems with diminishing expectations of further investment in private sector rental housing, it seems likely that waiting lists will continue to grow and will easily consume Government's modest plans for 6,400 additional units by 2022.

KiwiBuild—the income thresholds set for KiwiBuild, along with the absence of any meaningful subsidies and the expectation that current house construction costs are affordable, pose real threats for the success of KiwiBuild. It might evolve that KiwiBuild does little more than replace the market as a source of new housing for higher-middle income households.

RESPONDING TO CHALLENGES IN THE PRIVATE RENTAL HOUSING MARKET

The first three chapters of this paper pose the idea that New Zealanders face four somewhat antagonistic challenges around the private rental housing market. These challenges are:

1. **Concentrating wealth** and rising wealth inequalities that have emerged from recent settings around residential property investment and property ownership more generally.
2. The **poor housing outcomes** experienced by many and, perhaps, the majority of tenants. These poor outcomes include insecure tenure and poor quality housing.
3. **Diminishing availability of private rental housing**, especially for low-income households and families. This restricted availability will in turn lead to rents continuing to rise faster than wages and salaries and cause higher levels of housing-related poverty.
4. The **value for money** and the fairness of current housing subsidies, which will rise from $2 billion per year presently to almost $3 billion by 2022.[3]

While these challenges are not necessarily directly related to each other, they are collectively relevant both to the inequality and poverty faced by many private sector tenants, presently as well as historically, and to the likely prospect that poorer tenants' material positions will deteriorate further without radical interventions by the State. The final chapter offers some ideas for the nature and scope of such responses. These responses are based on the following framework.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Table 1: Strategic framework for addressing challenges from the private rental housing market

STRATEGIC APPROACHES	CHALLENGES			
	Concentrating wealth	Poor housing outcomes	Inadequate supply	Value for money
Reforming tenancy law		▲▲	▼▼	▲
Encouraging private investment	▼		▲	
Subsidising home ownership	▲▲	▲▲	▲▲	
More social housing		▲▲	▲▲	
Reform of rental subsidies		▲	▼	▲▲

▲ positive contribution ▼ negative contribution

Reforming tenancy laws

Proposed changes to tenancy laws appear reasonable in their intent, although perhaps not in their ambition. The proposed reforms have attempted to incrementally extend tenants' rights, but do not really address the broader question of the balance of power between landlords and tenants.

Underlying such a broader question is that of the balance between property rights and social rights. The framing of tenancy law as being more about social rights and less about the mediation of property rights, would have expanded the scope of what is possible and necessary in the reform of tenancy law.

If a broader approach was taken to reform tenancy law, it could, usefully, include the following responses:

- Providing tenants with greater tenure security, such as a requirement for standard long- and fixed-term tenancies (3–5 years) with limits on rent increases and the grounds for landlords to repossess a property.
- Increasing the penalties associated with illegal or prohibited acts, such as retaliation and intimidation as a means of discouraging such behaviours.
- Use of interest from the $500 million of tenants' bond monies held by the Crown to provide tenants' advocacy and support services, rather than funding MBIE to operate the tenancy bond and tenancy mediation services.
- Tighter specification on what a residential rental property is, and has, and requirements for landlords to maintain some form of quality assurance certification such as a building warrant of fitness.

Encouraging private sector investment into rental housing

While the prospects for further private investment in rental housing do not look bright, some of this pessimism is due to the nature of the current investment models. These, for the large part, rely on small-scale individualised investments that are motivated more by capital appreciation than by long-term income growth. The United Kingdom has had some success in promoting alternative private investment models—such as 'build to rent' developments—and these are worth considering in New Zealand. The challenge for New Zealand is to build a private rental sector that is less reliant on small-scale 'mum and dad' landlordism and based more on trustworthy, transparent and value for money corporate investment models.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Subsidising home ownership

Current home ownership support programmes make up only around 8%[4] of all housing subsidy budgets, and there is no evidence that these programmes are lifting rates of first time home ownership.

The unwillingness of Government to include a generous subsidy programme into its KiwiBuild programme will mean that it is only accessible to wealthier middle-class households who most likely could have accessed home ownership through the market. The opportunity costs of capital tied up in KiwiBuild and related programmes will exceed $100 million annually, yet the programme appears to be another form of middle-class welfare and continues the gentrification of state house communities, which was started by the previous Government in Tamaki.[5]

Extended home ownership subsidy programmes—perhaps through well-funded equity share schemes—will extend the reach of KiwiBuild and, if it is of sufficient scale, unleash private sector development to cater for a market that to date has not existed. Indeed, the Government should focus more on supporting modest income households (earning around the median household income not twice it) to achieve home ownership through subsidy programmes rather than facilitating small-scale residential developments and balloting off houses.

More social housing

Previous work on demand for social housing has suggested that New Zealand requires at least another 2000 extra state and social houses each year for the next decade.[6] The Government's present commitment to building 1600 per year for the next four years is clearly inadequate, as witnessed by the growing waiting list which more than doubled in two years.[7] Further extensions of the waiting list appear likely as the private rental housing market proves unable to meet demand due to high costs and low yields. Furthermore, while the Government has promised 6,400 additional public and social houses over the next four years, where these will be built is unknown, given recent announcements around the redevelopment of state housing suburbs that are clearly favouring gentrification and KiwiBuild.

Reform of rental subsidies

It seems likely that rents will continue to rise faster than wages, salaries and benefits and that these increases will stretch household budgets, even with the recent increases in AS entitlements. It is not useful to continue to prime the AS pump in the short-term hope of alleviating housing-related poverty of poorer tenant households. Rather, attempts should be made to radically reform the AS, perhaps by integrating it with other income support programmes—such as Working for Families and New Zealand Superannuation. This integration may promote higher take-up amongst working poor households, and will reduce the high abatement rates which confront beneficiary households as they become more active in the labour market. The basic flaw in the AS is that it does not offer entitlement to housing, but rather a subsidy should a household be fortunate enough to secure housing with the income and other entitlements they have. This means that the AS does not necessarily secure people against homelessness or even poor quality housing and this flaw needs to be addressed in any reform of housing subsidies.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

INTRODUCTION

Why the future of the private rental market is important to us?

The original motivation for writing this paper was the current review of tenancy law and, in particular, the prospects within this review to improve the status and experience of private sector tenants. As the research and analysis proceeded, it became apparent that the question of tenants' legal rights is inseparable from that of their economic entitlements within the housing market. Further, it became apparent that such entitlements are derived not just by prevailing market conditions, but by the institutions that create and sustain these conditions. These institutions include property rights, cultural values and public policies and programmes.

Following this realisation, this project quickly expanded to include some analysis of New Zealand's recent and present housing landscape, and a reflection on what this landscape might look like in ten years' time.

This analysis and reflection concludes that the private rental market will not be able to meet the future housing needs of tens of thousands of New Zealand households. Further, these needs will either go unmet and homelessness will grow, or the State will need to play a far greater role in the housing market than it has done over the past 25 years. This expanded role is well in excess of the present Government's housing efforts.

This paper offers some evidence and justification for this stark conclusion and suggests some possible responses.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

CHAPTER 1
The place of private rental housing

For the past 20 years at least, New Zealand's de facto housing policy has relied on small-scale 'mum and dad' investors to provide rental housing to the majority of new households. It has been a de facto policy because housing policy has generally lacked any intent or real commitment from successive governments. Granted the State has continued to make substantial contributions to supporting the housing of low-income households over the past 20 years, and in the current financial year these will exceed $2 billion. But, this spending is mainly the result of the passive continuation of policy settings that have been in place since 2000, when income-related rents for state house tenants were re-introduced.

This lack of intentionality has not been neutral or benign. It has benefited these small-scale investors/landlords who have gained handsomely from rising property prices. These gains have been supported by tax policy which has ignored capital gains, and by fiscal policy which has injected around $1 billion per year into the rental market in rent subsidies through the AS.

It is by no means clear that this de facto policy, and somewhat casual reliance on small-scale private sector investment, will meet future housing demand from low- and modest-income households. While the private rental market will continue to function—as markets do, there is no guarantee that the outcomes generated will meet expectations that most people have access to acceptable housing opportunities. If this is the case, policy makers will need to look elsewhere for the ideas and capabilities to meet this demand. This search may involve the need for significant reforms to housing policies—reforms that are outside the scope of those presently being offered by Government.

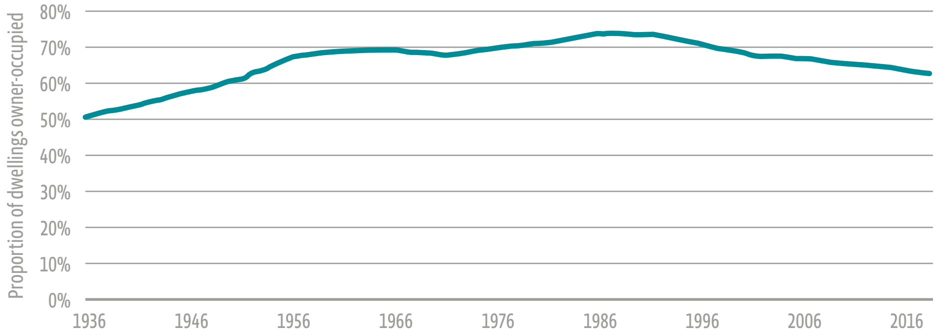
As part of an effort to offer some context to the necessary reforms in New Zealand's housing system, this chapter outlines the recent importance of the private rental housing sector to New Zealand's housing needs, and the economic positions of landlords and tenants.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

1.1 PRIVATE RENTAL HOUSING IN OUR HOUSING SYSTEM

A well known, but perhaps seldom considered, trend is fundamentally changing the structure of New Zealand society. This trend is the decline of the rate of home ownership that has been a consistent since 1991. In 2018, New Zealand's home ownership rate is estimated to have fallen below 63% of households, which is the lowest rate in 65 years. Home ownership rates since 1936 are illustrated in **Figure 1.1**.

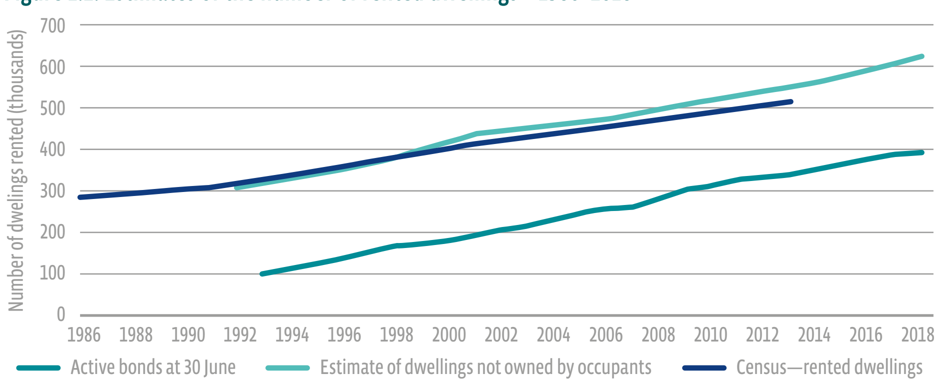
Figure 1.1: New Zealand's home ownership rate—1936–2018[8]



This falling rate means two things for private renting: one is that more people are renting; second is that they are renting for longer periods, including increased renting for the whole of their lives. In 1986, when the Residential Tenancy Act was first legislated, 26% of dwellings were rented, but, by 2018, more than 37% were rented.

In total numbers of dwellings, or households, this increase is over 330,000, from around 290,000 dwellings in 1986 to more than 620,000 in 2018. Of these 330,000 households around 200,000 might be said to be due to increases in the population and households, while the remaining 130,000 are a consequence of the falling home ownership rate.[9] Various estimates of the number of rental dwelling in New Zealand are offered in **Figure 1.2**. Regardless of how these numbers are collected, it is likely that these additional 330,000 rental units are home for more than 900,000 New Zealanders.[10] This fact, by itself, should give reason to be concerned about the quality of housing these people have access to, and this question is considered below.

Figure 1.2: Estimates of the number of rented dwellings—1986–2018[11]

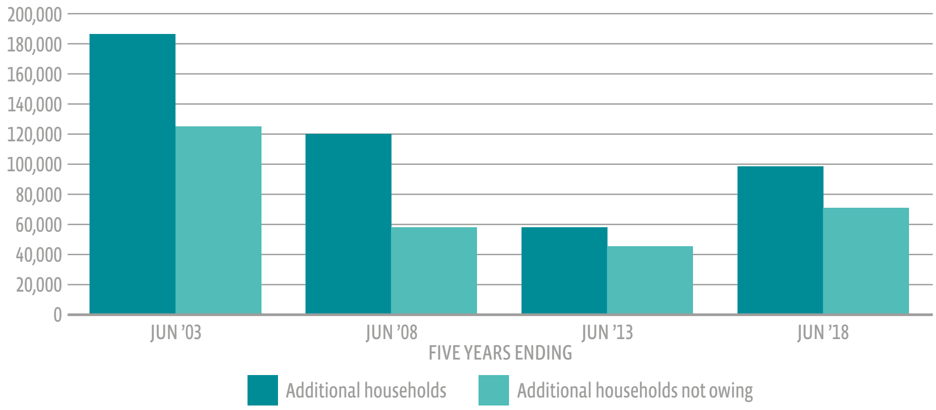


The case that New Zealand's default housing policy has been one of relying on small-scale landlordism is well illustrated by the data offered in **Figure 1.3**. This data reports estimates of the number of additional dwellings added to

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

New Zealand's housing stock in five-year blocks over the past 20 years. These additional dwellings are compared with the additional rented housing stock over the same five-year periods. Perhaps the figures for the past ten years are the most compelling. Since 2008, over 156,000 dwellings are estimated to have been added to the national housing stock and 74%—or around 116,000 of these—are rented dwellings.

Figure 1.3: Additions to New Zealand's households—1988–2018



While these numbers of total rental dwellings include state and other social housing, almost all of these additional rented dwellings are private housing rather than social housing. When the numbers of social housing units are taken off the totals, the real impact of growth of the private rental sector becomes more noticeable. In 1986, there were just over 55,000 dwellings owned by the State, through Housing New Zealand. While there are no reported figures for the numbers of units owned by local councils in the 1990s, the numbers are thought to have changed little between then and the early part of the 21st century, with the exception of the sale off of Auckland City Council housing in the late 1990s. An estimate of the number of council units in the later 1990s is around 10,000. This means that there were around 69,000 state and social housing units in 1998—or around 18% of the rental housing stock and 4.8% of the total housing stock. By 2018 the stock of state and other social housing had reached approximately 84,500 units, which represented less than 12% of the total rental housing stock and 3.9% of the total housing stock. Between 1986 and 2018, the private rental housing stock grew 63%, which is more than twice the rate the housing stock overall and almost three times the growth in the number of owner-occupied dwellings, which expanded by just 18% over this period. This data is summarised in **Table 1.1**.

Table 1.1: Estimates of changes in rental housing stock—1998–2018[12]

	1998	2018	Change
Total rented dwellings	382,400	621,600	63%
Housing NZ units	58,500	64,000	
Local government	10,000	7,700	
CHOs		12,700	
Total private rental units	313,900	537,200	71%
State/social as % of rental stock	17.9%	11.5%	
Total housing stock	1,432,000	1,856,000	30%
State/social as % of total stock	4.8%	3.9%	

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

1.2 THE ECONOMIC POSITION OF TENANTS

Tenants, and those living in tenant households, are far more likely to have low incomes compared with other New Zealanders and to have less wealth and pay a greater proportion of their income in meeting housing costs.

The relative income position of tenant households is illustrated in **Tables 1.2A** and **1.2B**, which reports data from Statistics New Zealand's 2015 Household Economic Survey (HES). Before housing costs are taken into account, private sector tenants make up 45% of all the people in the poorest two income quintiles (on an equivalised household income basis) but make up 33% of the total population. This data is reported in **Table 1.2A**. After housing costs are taken into account, the percentages of people in the poorest two quintiles rise to 47% and to 51% for the poorest quintile alone—see **Table 1.2B**. This larger proportion, after housing costs are taken into account, illustrates the disproportionate impact housing costs have on private tenants' overall income positions. On an after-housing cost basis 57% of the estimated 1.28 million people living in private rental property are in the poorest two quintiles, while just 26% are in the richest two quintiles.[13]

Table 1.2A: Proportion of individuals in each income quintile by their housing tenure—before housing costs[14]

	Q1 (poorest)	Q2	Q3	Q4	Q5 (richest)	% of total
Owned with mortgage	22	37	50	49	53	43
Owned without mortgage	12	11	15	18	30	17
Rented—private	45	45	31	30	17	33
Rented—HNZC and local authority	20	5	2	2	0	5
Other	1	2	2	1	0	1

Table 1.2B: Proportion of individuals in each income quintile by their housing tenure—after housing costs[15]

	Q1 (poorest)	Q2	Q3	Q4	Q5 (richest)	% of total
Owned with mortgage	28	39	51	47	50	43
Owned without mortgage	6	9	11	22	27	17
Rented—private	51	44	31	28	13	33
Rented—HNZC and local authority	15	7	3	1	0	5
Other	1	0	2	2	1	1

An even more skewed picture of inequality emerges when wealth rather than incomes is considered. This picture is offered in **Table 1.3** from data also taken from the HES. This data shows that the median wealth of a tenant household is one-eighth that of the median household income overall and one-thirteenth of the median income of households who own their home through a family trust. Tenant households make up around 35% of households, but just 8% of the household wealth.

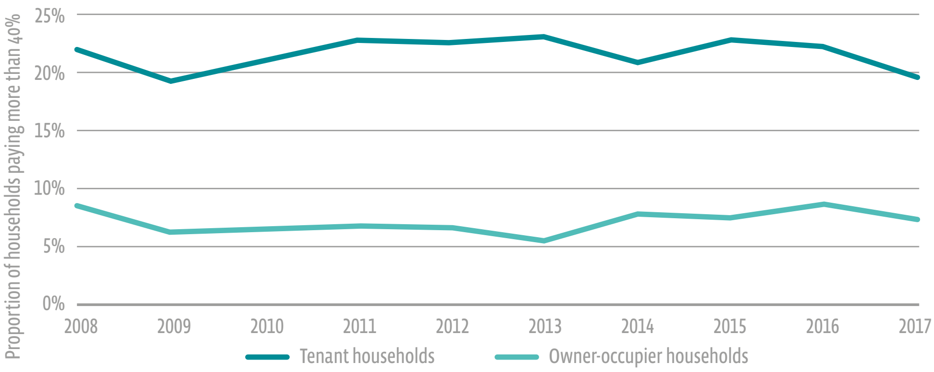
Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Table 1.3: Wealth patterns by tenure in 2015[16]

	Number of households	Total wealth $billions	Median wealth $000	Mean wealth $000	% of households	% of wealth
Owner-occupiers with mortgages	459,000	331	542	720	28%	28%
Owner-occupiers—no mortgage	379,000	400	685	1,056	23%	33%
Occupiers don't own dwelling	582,000	94	50	162	35%	8%
Dwelling owned by family trust	248,000	379	767	1,529	15%	32%
All households	1,668,000	1205	400	722		

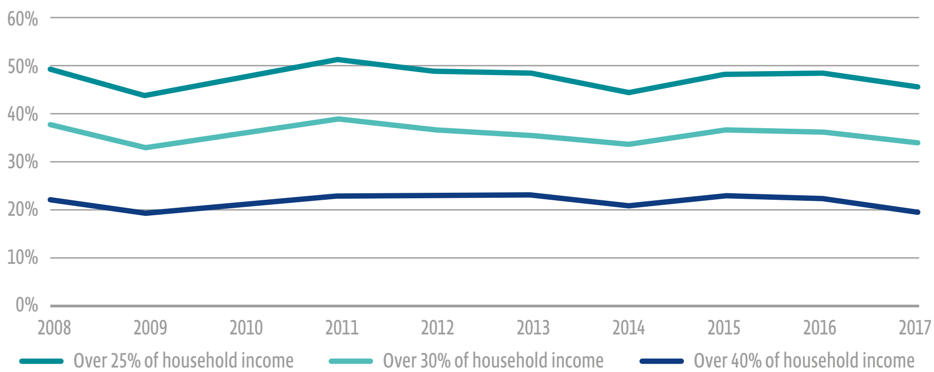
A number of housing affordability measures exist, although a measure which allows comparisons between owner-occupied housing and rented housing is that of the proportion of household income spent on housing. **Figure 1.4** compares the proportion of tenant to owner-occupier households who pay more than 40% of their income to housing costs, for the period 2008 to 2017. This data shows clearly that three times more tenant households pay more than 40% of their income in housing costs than do owner-occupier households. This affordability gap between tenant and owner-occupier households is narrower for less stringent housing costs to income ratio, such as 25% and 30%.

Figure 1.4: Proportion of households spending 40% or more of their income on housing—2008–2017[17]



Evidence of the impacts of rising housing costs on tenants is a little mixed, although there are some indications that rents have risen faster than wages and benefit income. Data from the HES suggests that housing affordability problems are not becoming worse, but are remaining much the same for tenant households at whatever affordability measure you choose. This is illustrated in **Figure 1.5**.

Figure 1.5: Proportion of tenant households spending various income thresholds on housing—2008–2017[18]



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

The HES is, however, a sample survey which will include tenants in social housing who pay income-related rents and, perhaps, long-term tenants who pay below market rents, maybe because the landlord is happy to keep the rent low. Outcomes represented in **Figure 1.5**, however, do not match data that compares reported market rents and incomes. Such a comparison is offered in **Table 1.4** that reports regional rent statistics alongside various income measures for the past ten years. This data shows that incomes have consistently fallen behind rents, especially over the past five years when rents appear to have risen often by more than twice the rate of incomes.

Table 1.4: Changes in weekly rents and incomes—2008–2018[19]

	2008	2013	2018	10 year change	5 year change
AUCKLAND REGION					
Lower quartile rent	278	324	386	43%	23%
Geometric mean rent	351	412	492	45%	24%
WAIKATO REGION					
Lower quartile rent	197	216	259	40%	28%
Geometric mean rent	248	271	328	40%	28%
WELLINGTON REGION					
Lower quartile rent	228	260	292	37%	20%
Geometric mean rent	304	345	393	38%	22%
CANTERBURY REGION					
Lower quartile rent	200	240	270	30%	8%
Geometric mean rent	258	320	348	33%	7%
NEW ZEALAND					
Lower quartile rent	213	245	287	41%	22%
Geometric mean rent	283	325	385	43%	24%
INCOME INDICATORS—per week					
Average weekly wage—employees	761	898	1021	34%	14%
DPB/ Sole Parent Support Payment	264	295	334	27%	13%
NZ Superannuation—single rate	348	404	463	33%	15%

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

1.3 THE RISE OF 'LANDLORDISM' AND THE CAPTURE OF WEALTH

For every tenant household there is landlord, so the flip-side of so-called 'generation rent' is 'generation landlord'. This rise in 'landlordism' is attached to a concentration of wealth and the following discussion offers some evidence of this, although the data available is limited and somewhat equivocal.

Although we have limited data on who landlords are, by and large they appear to be small-scale, do-it-yourself investors who own one, two or three rental properties and often manage them themselves. There are signs of an increasing proportion of what might be called 'professional' or full-time investors becoming residential landlords. A 2003 survey of 818 landlords found that three-quarters of respondents owned three or fewer rental properties, with 42% owning just one and nearly 21% owning two.[20] This survey also found that nearly half (47%) of respondents were aged over 50 years old, while 21% were aged 30 to 39 years old and 26% 40 to 49 years old.[21]

A 2014 on-line survey conducted by the ANZ Bank and the New Zealand Property Investors Federation (NZPIF) of 1,156 NZPIF members, found that just over half (52%) owned three or fewer properties and 22% owned four to six properties. The proportion of respondents who owned three or less properties had declined from 62% in a previous survey conducted in 2011. The 2014 survey reported that 41% of respondents owned their investment property directly (rather than through a company or trust) and 44% had the property managed by a professional management company.[22]

While the 2014 ANZ/NZPIF survey would have been targeted toward landlords who, by virtue of being NZPIF members, identify themselves as being property investors rather than incidental landlords, the pattern remains that private landlordism in New Zealand remains dominated by small-scale 'mum and dad' type investors. From the limited information offered by the ANZ/NZPIF report, it does however appear that larger-scale professional investors are becoming more common in residential property investment.

Rising house prices along with the policies that have supported and enabled these increases have disproportionately advantaged those with wealth and property and, amongst them, of course, landlords. While judgement over the fairness or otherwise of these changes is something of a personal one, it is useful—for the sake of setting a context for tenant law reform—to at least identify their nature and extent.

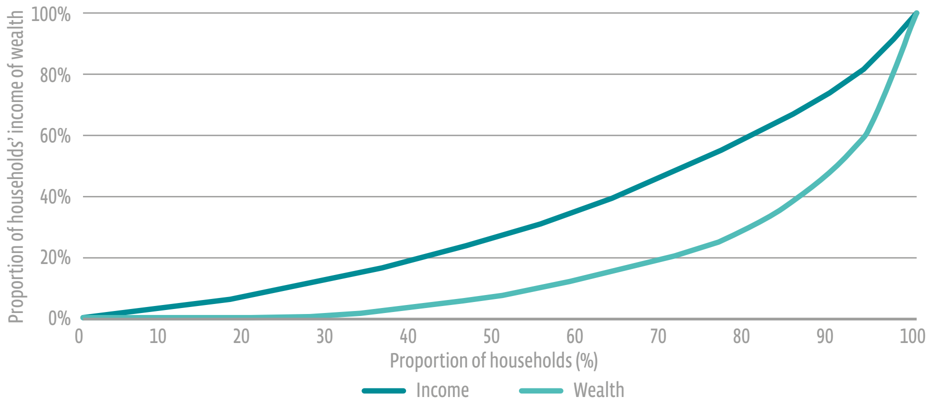
What is interesting in an attempt to identify the nature and extent of wealth distribution in New Zealand, is how little we know. For example, the most recent estimate of the wealth Gini-coefficient dates back to 2004, although recent results from the 2015 HES offers some more up-to-date perspectives.[23] It is the case, however, that wealth in New Zealand is more unequally distributed than income and, quite possibly, surprisingly unequal. A comparison of the distribution of wealth and income for 2004 is offered in **Figure 1.6**. The 2015 survey offers a similar wealth distribution as that reported in **Figure 1.6**, suggesting that wealth inequalities have not worsened over recent times. It is, however, useful to understand what a wealth distribution of this sort means in reality. For example, in 2015 it is estimated that:

- fewer than 10% of households owned 50% of the wealth
- just over 50% of households owned just 8.3% of the wealth
- just over 30% of households had wealth of less than $100,000
- half of all tenant households had wealth of less than $50,000.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Overall, it appears that the wealthiest 10% of New Zealand households own six times more wealth than the poorest 50% of households. This unequal wealth distribution is, however, not uncommon internationally and, in fact, New Zealand ranks in the middle of the OECD in wealth distribution.[24]

Figure 1.6: Wealth and income distribution in New Zealand—2003–2004[25]



This distribution of wealth might be seen as being unproblematic, especially if similar patterns are commonplace elsewhere. A well-known warning against such complacency has been offered by the French economist Thomas Piketty in his popular book *Capital in the Twenty First Century*. Piketty's overall thesis is that the last time wealth inequalities across the Western world were as large as they are now, was on the eve of World War I. He suggests that such inequalities pose a risk for social and political instability and, to avoid this, efforts need to be made to limit the accumulation of wealth into fewer and fewer hands. This thesis is, naturally, not without its critics and criticism and, chief amongst these, are Piketty's deterministic views of technology and institutions, which are bound to respond and change in only certain ways, and his aggregate view of what constituted capital and capital income.[26]

This paper, however, offers two further reasons why existing wealth distributions are problematic—at least in respect of tenancy law. These reasons are to do with the zero sum game of the tenant/landlord relationship and the so-called Matthew Effect.

The Matthew Effect was first coined by American sociologist Robert K Merton and is a reference to the Gospel of Matthew (13:12). The phenomena is commonly observed across many facets of life where '*we observe that initial advantage tends to beget further advantage, and disadvantage further disadvantage, amongst individuals and groups through time, creating widening gaps between those who have more and those who have less*'.[27]

The Matthew Effect may be said to be at play in recent changes in wealth ownership across New Zealand. It might be the case that the proportional holding of wealth has changed little over the past decade so it might be claimed that the gaps between those with wealth and those with none have not increased, but this is not the case if we look at quantitative rather than proportional change. The extent of this quantitative change is illustrated in **Figure 1.7**, which considers overall changes in financial and property wealth since 1998. **Table 1.5** reports this data more precisely for the period March 2008 to March 2018 and estimates the changes over five and ten years in inflation-adjusted terms. Two things stand out in this data: first, is the impact of the GFC on household wealth—effectively household wealth, both in financial and

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

property assets, remained constant for five years following the global financial crisis (GFC); second, is that while growth in wealth has averaged around 8% per annum in real terms since 2013, two-thirds of this growth has been in wealth held in property assets. Between 2013 and 2018, in real terms, the value of housing and land assets grew $277 billion while financial assets grew by $135 billion. In nominal terms, these figures are $305 billion and $163 billion respectively, or close to half a trillion dollars in just five years.

Figure 1.7: Changes in financial and property wealth ($ nominal)—1998-2018[28]

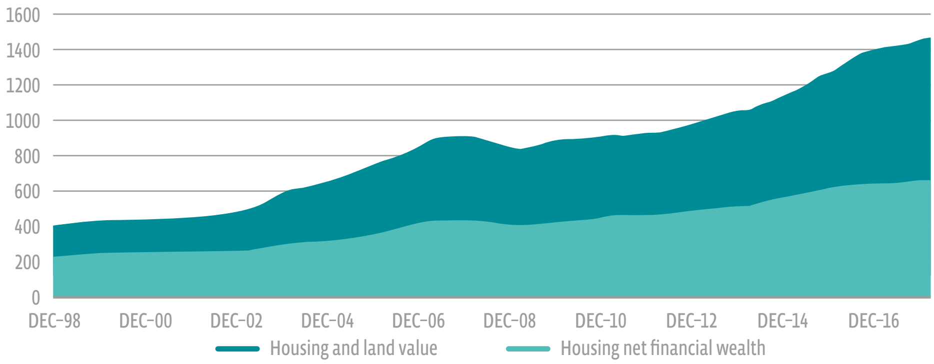


Table 1.5: Changes in household wealth in $billions nominal—2008-2018[29]

	Mar-08	Mar-13	Mar-18	5 year change inflation adjusted	10 year change inflation adjusted
Household net financial wealth	435	502	665	25%	29%
Housing and land value	477	505	810	52%	43%
Total household wealth	911	1007	1475	39%	36%

From the data available, it is difficult to know who owns these financial and property assets and so who has accumulated this wealth. However, given the persistence of wealth ownership over time, it would be reasonable to assume that the bulk of this $468 billion went to those who already held wealth and most likely in proportion to such holdings.[30] Although some mobility in wealth ownership is likely, but even if there had been no change in the structure of wealth holdings over the past five years, under the 2015 ownership patterns the wealthiest 10% of households would have seen their wealth grow by around $235 billion or an average of $1.34 million each. The remaining 90% of households would have received the same amount in total, but an average of just over $150,000 each.

Tenants are unlikely to have featured hugely in this accumulation, given the fact that two-thirds of this accumulation has taken place in an asset class which they most likely do not own. If tenants shared 8% of this accumulation of wealth, as they have 8% of the wealth in 2015, (see **Table 1.3**) this would amount to around $37 billion in total, or an average of $64,000 per household.

The relationship between landlords and tenants can be seen as a zero-sum game, or, at least, one where a benefit to a landlord offers no consequent advantage to tenants. This independence applies to the distribution and accumulation of wealth, where, for example, an appreciation in the value of a landlord's rental property investments confers no advantage to his/her tenants and may even present a disadvantage. In the current political climate, there is no popular expectation that a relationship of shared advantage should ever apply— 'the landlord's gains are his fair and square'.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

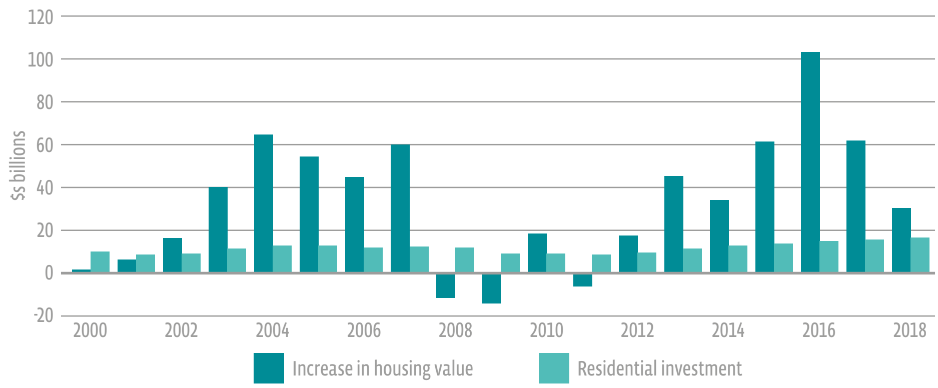
But why should this be so? When we look at the increasing wealth across a society, this might be seen to be the result of the collective contribution of every member of that society through contributions to rising productivity. The distribution of wealth and the way in which it is accumulated by different groups is, however, a somewhat vexed one. It would appear to be the case that without deliberate policy efforts to the contrary, wealth is held inter-generationally and accumulates proportionately to the wealth held. This is especially so with land-based wealth, where the scope for wealth accumulation through entrepreneurial effort or high-risk taking is generally more limited. Thus while wealth may accumulate quickly and disproportionately in the hands of entrepreneurs or those who successfully undertake high-risk investments, land and property ownership are more mundane and less risky so perhaps follow more predictable laws of returns and accumulation.

However, it is the case that land-based wealth accumulation has accounted for two-thirds of the accumulation over the past five years, as illustrated in **Table 1.5**. This capture is not unique to New Zealand and, interestingly, is a particular feature of Anglophone countries.[31]

Table 1.5 does not necessarily give an accurate or fair picture of the extent and source of the wealth gains going to home owners and property investors. For example, some of the wealth gains reported as aggregate figures for both financial and non-financial wealth, have resulted from households saving and re-investing. **Figure 1.8** compares annual changes in the value of housing wealth with the amount of new investment into residential property. Given the data sources, the values of these two variables are not strictly comparable, although the scale of the differences shown here remains valid.[32]

A summary of the data offered in **Table 1.5** and **Figure 1.8** might read as follows: between 2013 and 2018 the total wealth of New Zealand households grew by $468 billion—of this growth 65%, or $305 billion, was due to an increase in housing and land related wealth. Over the same period, total investment into residential construction and land development amounted to $73 billion, which suggests that capital gains in housing and land assets were around $200 to $220 billion, or 45%, of the total wealth accumulation for this period. Judging such a gain as unearned is perhaps debatable, although in most cases it has simply come about through the passive ownership of an asset. Whether or not such gains are permanent remains to be seen because as **Figure 1.8** illustrates well that financial crises, such as the GFC, can wreak havoc on property and land values.

Figure 1.8: A comparison of housing wealth and residential investment—2000–2018[33]



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

1.4 CONCLUSIONS

It is more than 30 years since the passage of New Zealand's major piece of tenancy law—the Residential Tenancies Act 1986 (RTA) came into law. Since then the New Zealand housing market and New Zealand society have changed considerably, and it is not altogether clear that the RTA remains fit for the purpose of regulating the relationship between tenants and landlords and for mediating their respective rights.

The most significant change has been the substantial reliance that New Zealand has had on small-scale private investment into rental housing. Over the past ten years, nearly three-quarters of new households have been housed in private rental housing. This is occurring as greater attention is being given by academics to the quality of rental housing[34] and to tenants' groups to their rights under tenancy law.[35]

This contest of rights is relevant to a re-consideration of private rental housing for at least three reasons:

1. The **emergence of the post-ownership society** whereby New Zealand is on the road to becoming a society where less than half the population own everything and where more than half have little or no material stake.
2. The **economic position of tenants** where private sector tenants are amongst the poorest people in New Zealand, pay the most for their housing relative to their incomes and have the worst housing outcomes.
3. **The continuing concentration of wealth** through both the dominance of private property rights and the conduct of public policy which supports these. The most obvious examples of such public policy are the very light taxation of capital gains from land and real property ownership and the subsidising of the rental market through the AS.

These three challenges are considered in more detail in following chapters.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

CHAPTER 2
Some future prospects for private rental housing in New Zealand

Any review of rental housing policy—whether this review is just concerned with tenancy law or more broadly focused—needs to consider the future prospects of the rental property market.

While policy and regulation may influence markets and the fortunes of those who live and operate within them, markets which are unbalanced or unstable are less likely to be influenced by policy or regulation. In part this is because of mechanisms such as secondary or underground markets, which evolve to overcome problems of excess demand or supply. In the case of the private rental market, a shortage of supply will, by virtue of the market power that this hands to landlords, mean that tenants have fewer effective rights—especially given their insecure tenure. In addition, the private rental market already relies heavily on interventions by the State—through the reinforcement of property rights and provision of significant subsidies, so the effectiveness of such interventions and possible re-design of these interventions rely, in part, on what is likely to happen in this market over the next ten or twenty years.

Present policy and legislation reviews appear to have paid little attention to the likely future shape of the rental property markets. This omission has not only meant that the design of policy and regulation may be disconnected from weaknesses and failures within these markets, but that issues and challenges which policy and legislative reform are expected to address may in fact be aggravated.

The intention of this chapter is to consider the future prospects of the private residential rental market as a background to a more comprehensive review of policy options around tenancy law reform. This consideration will look at future demand for privately rented accommodation, the current financial conditions faced by property investors and the extent of future investment, which is needed, to meet potential demand for rental housing.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

2.1 FUTURE DEMAND FOR PRIVATE RENTAL HOUSING

As noted in **Chapter 1** and specifically in **Table 1**, the stock of private rental housing grew almost 145% between 1986 and 2018. This growth was at a rate which was over twice that of the housing stock overall and almost three times the rate of growth of owner-occupied housing. Over the past five years, rental housing—almost all of which has been private rental housing—has accounted for more than two-thirds of the additional housing stock.[36]

It is difficult to ascertain how this stock of rental housing has come about—whether it has been constructed for sale to investors or purchased off owner-occupiers or other investors. It is certainly the case that rental housing is older and in poorer condition than owner-occupied housing.[37] A recent survey of landlords found that two-thirds preferred to purchase older properties.[38] With the exception of apartments, new dwellings tend to be larger and more expensive than the average of the existing stock, suggesting that this is being built for owner-occupation.[39] It seems likely on balance that the past investment in rental housing has been through the conversion of the least expensive, owner-occupied housing into rented accommodation. The challenge going forward is in the ability to continue such investment patterns in the face of a diminishing stock of candidate properties. Given this, it seems likely that more residential investment properties will be purpose-built for that market, although this depends on the cost of such properties and their likely short- and long-term yields. These issues are considered later in this chapter.

There are a number of influences to consider in answering the question of how many rental dwellings we need over the next ten years, in order to meet demand. The most obvious is the rate of population growth and, within this, the location of this growth. The analysis that follows uses Statistics New Zealand's population and household projections and its quarterly estimates of households and dwellings to build a picture of future demand for rental housing. This analysis is broken down between Auckland region and the rest of New Zealand, given that the growth dynamics in Auckland are different from many other parts of the country and that Auckland accounts for slightly more than one-third of the New Zealand totals and up to half its growth as well.

The parameters for these scenarios are offered in **Appendix 1** and are driven by different values for future population growth, tenure distribution between ownership and non-ownership and average household size.

Summaries of the outcomes from these scenarios are offered in **Figure 2.1** for Auckland and **Figure 2.2** for the rest of New Zealand. These summaries suggest a wide range of possible demand outcomes. For Auckland these are from 25,000 additional units over the next 10 years to 70,000, with a likely range of 40,000–50,000. This equates to an average annual growth in the stock of rental housing of about 2%. For areas outside of Auckland, the numbers of additional units required varies considerably more than in Auckland—from almost none under the low growth, rising home ownership scenario to 90,000 under the falling home ownership, high growth scenario. The most likely range for future demand is in the range of 50,000–60,000 additional rental units over the next ten years, which equates to an annual average increase of 1.2%–1.5%.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Figure 2.1: Projections for increased demand for rental housing in Auckland—2018-2028[40]

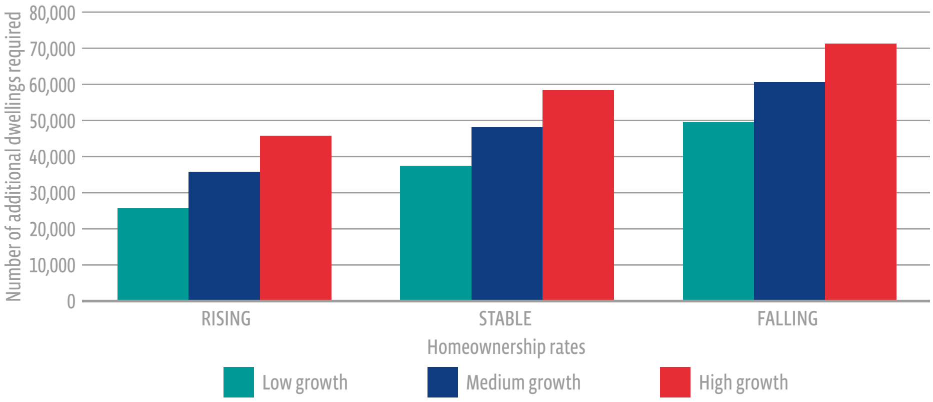
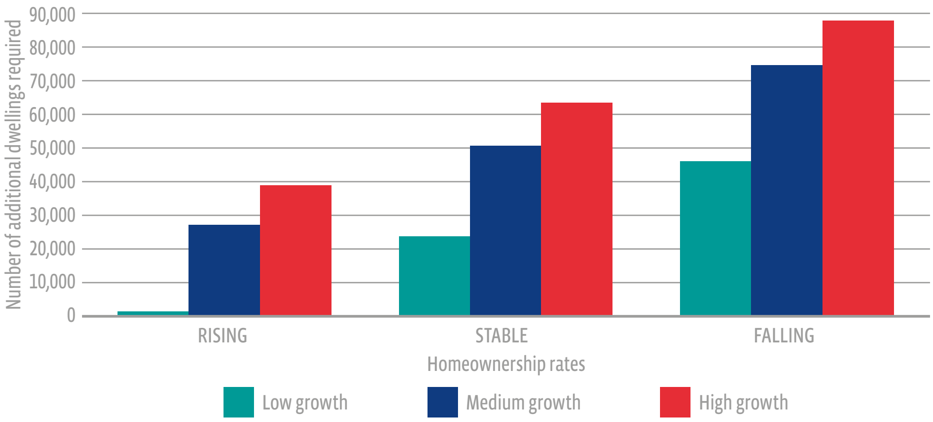


Figure 2.2: Projections for increased demand for rental housing for New Zealand excluding Auckland—2018-2028[41]



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

2.2 THE HOUSEHOLD FORMATION–HOUSING DEMAND TRADE-OFF

Forecasting housing demand—especially effective housing demand—is quite imprecise, in part because at a certain point people/households are price sensitive. This is particularly so for rented properties because rents almost always need to be paid for out of current income, which means that as rents rise relative to incomes people/households become priced out of the housing market. At this point, their demand is no longer effective and becomes latent or unmet. The most common way this happens is when people crowd in or at least form larger households in response to higher rents.

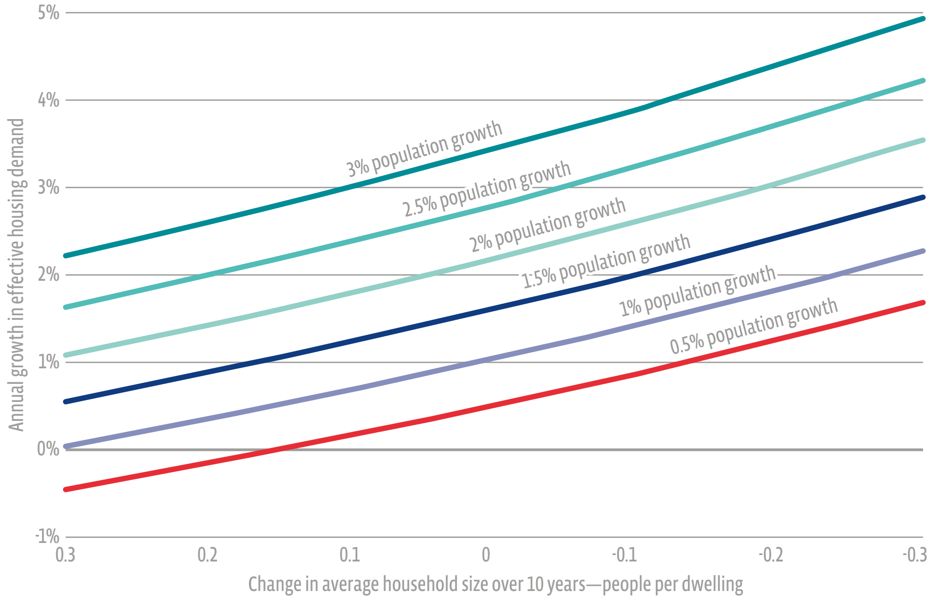
The demand projections offered above are based in part on Statistics New Zealand's projections around average household sizes and in part through scenario building which speculates on possible trends in average household size against various population projections. In such scenarios, it has been assumed that any change in average household sizes is related to the rate of population growth. For example, where there is strong population growth there will be pressure for household sizes to increase slightly, due to the pressure that this growth places on the housing stock and hence on rents. Statistics New Zealand's projections for average household sizes have tended to be somewhat deterministic, in that it is assumed that sizes will fall gradually on account of demographic factors, regardless of economic factors such as cost and affordability.

There is a geometric relationship between changes in average household size and population growth; this allows us to determine what the effective growth in housing demand would be. This relationship is charted in **Figure 2.3** for Auckland, has an average household size of around three people per dwelling, and is based on the idea that average household sizes grow or shrink by a small amount over a 10-year period.

If for example, Auckland's population is growing by an average of 2% per year, while the average household size gradually shrinks by 0.1 people per dwelling over a 10-year period, there will be around a 2.5% annual increase in housing demand. If on the other hand, the average household size is rising gradually by 0.1 people per dwelling—perhaps on account of rising rents and house prices—then effective housing demand will grow by only 1.75% per year.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Figure 2.3: Trade-off between average household size and growth in housing demand



Variables, such as average household size, are, of course, determined by a mixture of economic and demographic factors, and it is difficult to forecast changes in this variable given the complexity of the relationships between such things as household incomes, ability and willingness to pay, cost-quality trade-offs, household formation options and housing availability options. At this point, however, it is worth bearing in mind that the effective demand for housing generally, and for rental housing specifically, is likely to be tempered by the cost of this housing, relative to incomes. Rapid increases in population accompanied with rents rising faster than incomes—as has been seen in Auckland and other New Zealand cities—will place pressure on people/households to increase in size. This pressure, in turn, will partly off-set the expected decline in average household sizes on account of demographic factors, such as increase in singles living together and fewer children. The implication here is that the growth in effective demand—predicted in Statistics New Zealand's household formation projections—may not entirely come to fruition, which means that the increases suggested in **Figures 2.1** and **2.2** may be more subdued.

The mid-range figures suggested in **Figures 2.1** and **2.2** of 40,000 to 50,000 in Auckland and 50,000 to 60,000 across the rest of New Zealand are, however, taken forward into the following analysis.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

2.3 YIELDS FROM RESIDENTIAL INVESTMENT

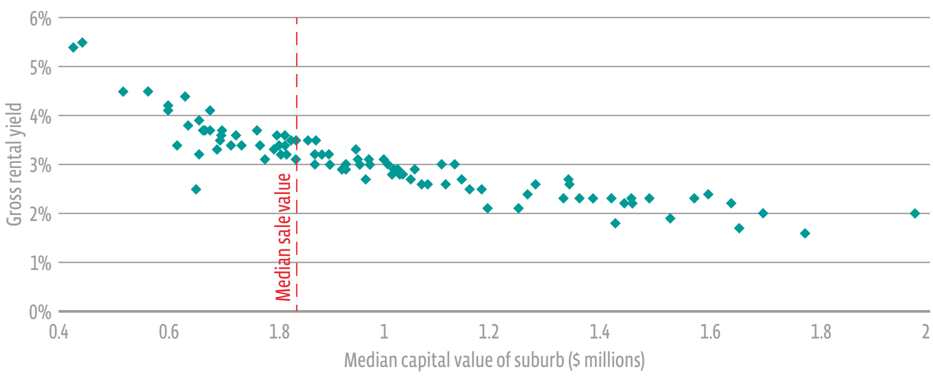
Without the prospect of rising property values and perhaps with this untaxed capital gains, investment in residential rental property makes no sense. The yields from such an investment are relatively low and have fallen consistently over the past 25 years. These trends are illustrated in **Figures 2.4** through **2.8**.

The **Figures 2.4**, **2.5** and **2.6** report recent estimates of the gross yields on residential property by suburb across Auckland, Wellington region and Christchurch City. These show a consistent picture that yields are generally below 5% and, in Auckland's case, mostly below 3.5%. A second story to be drawn from these graphs is that the yields are highest in the suburbs with the lowest house values.

This second trend, of rental yields being higher in lower-priced suburbs, might be explained by a number of features within investor behaviour and decision-making. An obvious one is an expectation that appreciation in house values will be higher in the higher-value suburbs, perhaps because these are more desirable—as evidenced by their higher values. Such an expectation would off-set investors' requirement for an adequate rental yield. A second explanation might be that property values in higher-priced suburbs are dominated by owner-occupiers, while those in lower-priced suburbs are dominated by investors and the drivers of price or willingness-to-pay are different for each.

These explanations may have held in the past, but plainly may not hold into the future. There are at least two reasons for this to be so. The first reason is probably a limit to which owner-occupiers' willingness-to-pay will exceed that of investors', which will mean that further increases in higher priced suburbs may not be as high as those in lower-priced suburbs. This in turn will mean that the attractiveness of these higher-priced suburbs—even for investors—will be lost because the potential for further value increases has dissipated. The second possibility is that lower-priced suburbs become more attractive to owner-occupiers, especially first-time home buyers, because they are lower priced, and because these owner-occupiers are able or at least prepared to outbid investors, house price rises and yield falls.

Figure 2.4: Gross rental yields on residential properties in Auckland[42]



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Figure 2.5: Gross rental yields on residential properties in Wellington region[43]

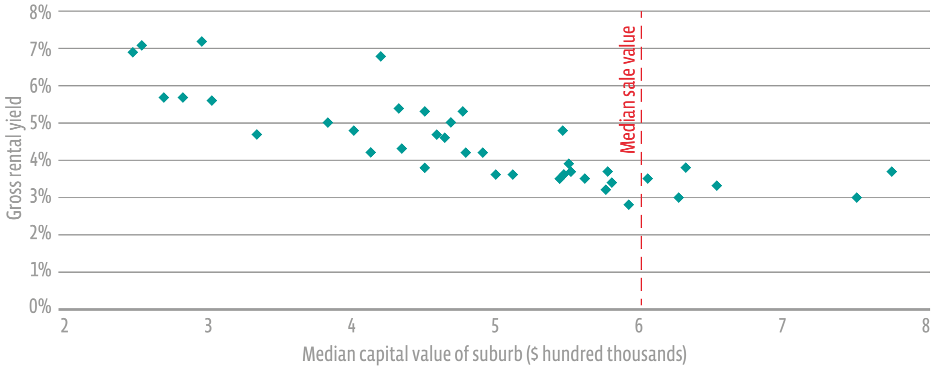


Figure 2.6: Gross rental yields on residential properties in Christchurch City[44]

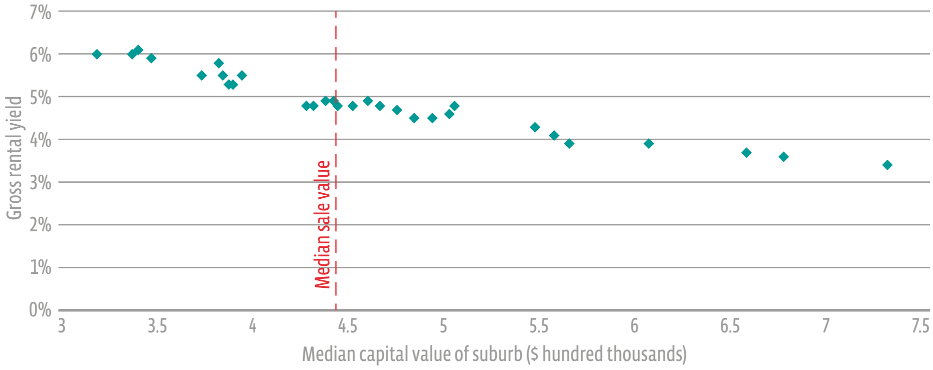
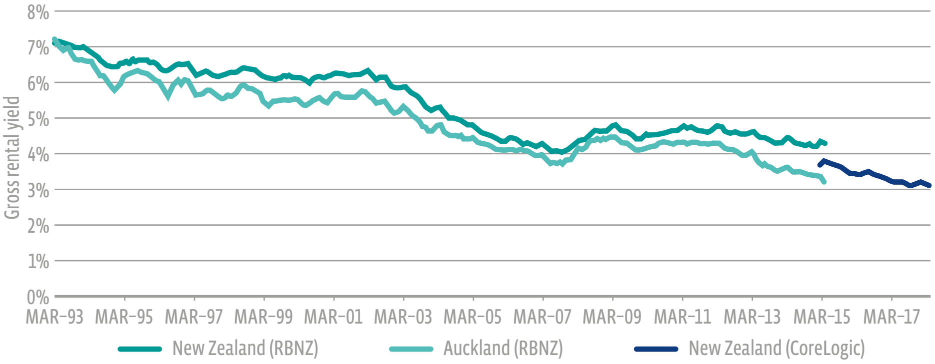


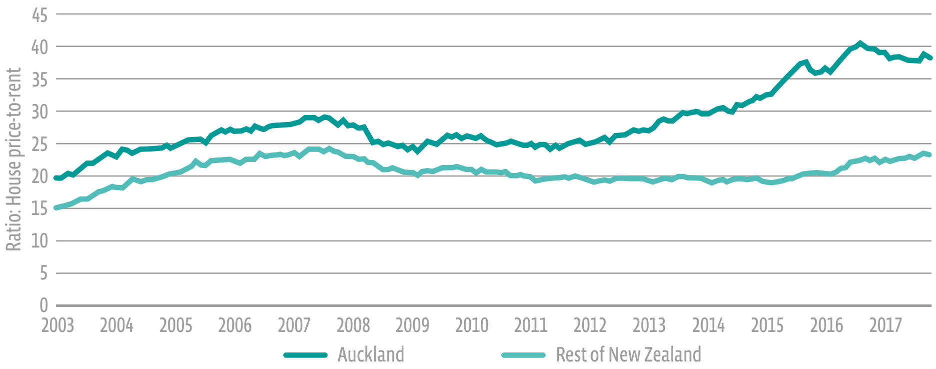
Figure 2.7 illustrates the extent to which gross yields from residential rents have fallen gradually, but fairly consistently, over the past 25 years. This decline has been from around 7% in 1993 to just more than 4% now. In Auckland, as shown in **Figure 2.4**, this yield is probably now around 3.5%, although it may be below 2.5%.[45] The reason for this decline is quite straightforward—rents have not kept pace with house prices and this trend is illustrated in **Figure 2.8**—both for Auckland and the rest of New Zealand, without Auckland. The trend for house prices to rise faster than rents is most noticeable for Auckland, although in aggregate it is barely noticeable over the rest of New Zealand, if taken over the period since 2007.

Figure 2.7: Gross rental yields—1993–2018[46]



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Figure 2.8: House price-to-rent ratios for Auckland and rest of New Zealand—2003–2017



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

2.4 ESTIMATES OF REQUIRED INVESTMENT

Estimating the requirements for future investment in residential rental property is a speculative exercise, given the number of variables involved around which assumptions or forecasts need to be made. As discussed above, these variables include:

- population growth and its geographic distribution regionally;
- household formation patterns and in particular if the average household size is likely to rise or fall;
- tenure mix and the extent to which the current trend for falling home ownership rates will continue.

Also, as discussed above, a mid-range scenario for future demand for rental housing is 40,000–50,000 units over the next ten years for Auckland and 50,000–60,000 for the rest of New Zealand. A broader range of scenarios—based on a variety of outcomes for population growth, household formation and tenure mix—is offered in **Table 2.1**. These scenarios have been labelled 'low' and 'high' and represent two sets of outcomes, which might be seen as consistently cautious or consistently bullish. The 'medium' scenario is simply a mid-range between these extremes and should not be seen to be any more realistic simply because of this.

Table 2.1: Scenarios for future demand for rental housing—10-year projections

	SCENARIOS		
	LOW	MEDIUM	HIGH
Population growth	Low	Medium	High
Average household size	Rising	Stable	Falling
Homeownership rate	Rising	Stable	Falling
PROJECTIONS (number of units)			
Auckland	35,000	45,000	60,000
Rest of New Zealand	25,000	55,000	75,000
All New Zealand	60,000	100,000	135,000

Assessing the extent of investment needed to cater for this demand depends critically on the average unit cost of purchasing or constructing this number of units. Given the low yields reported above, as well as the lower yields for higher-valued properties, it seems reasonable to expect that future investment in rental properties will be into properties valued at significantly less than the median valued property.[47] The median value of residential properties sold in Auckland during the June 2018 quarter was $835,000, while for the rest of New Zealand (excluding Auckland) it was $445,000. These figures relate to all residential properties and not different types of dwellings, such as separate houses, flats or apartments.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Some simplifying assumptions are offered here, in order to be able to arrive at a broad estimate of the overall investment required to meet the demands projected in **Table 2.1**. These assumptions include:

- that around 40% of future rental units supplied in Auckland will be separate dwellings, while 60% of those supplied elsewhere in New Zealand will be flats or apartments;
- that separate dwellings in Auckland will cost $450,000 and flats and apartments will cost $350,000;
- that separate dwellings elsewhere in New Zealand will cost $350,000, while flats and apartments will cost $300,000.

It is possible that these costs are under-estimates given the median values reported above, and that increasingly additional rental properties will need to be purpose-built rather than purchased from the existing stock. This outcome will mean reduced prospects for investors trying to find properties that are valued as less than their replacement cost.

Table 2.2: Estimates of investment needed to meet demand for rental housing—10-year projections

	Cost per unit	No of units	Investment required	Cost per unit	No of units	Investment required	No of units	Investment required
LOW SCENARIO	AUCKLAND			REST OF NEW ZEALAND			NEW ZEALAND	
Houses	450,000	15,000	6.8	350,000	15,000	5.3	30,000	12.0
Flats	350,000	10,000	3.5	300,000	5,000	1.5	15,000	5.0
Apartments	350,000	10,000	3.5	300,000	5,000	1.5	15,000	5.0
Totals		35,000	13.8		25,000	8.3	60,000	22.0
MEDIUM SCENARIO	AUCKLAND			REST OF NEW ZEALAND			NEW ZEALAND	
Houses	450,000	20,000	9.0	350,000	30,000	10.5	50,000	19.5
Flats	350,000	10,000	3.5	300,000	10,000	3.0	20,000	6.5
Apartments	350,000	15,000	5.3	300,000	10,000	3.0	25,000	8.3
Totals		45,000	17.8		50,000	16.5	95,000	34.3
HIGH SCENARIO	AUCKLAND			REST OF NEW ZEALAND			NEW ZEALAND	
Houses	450,000	25,000	11.3	350,000	40,000	14.0	65,000	25.3
Flats	350,000	15,000	5.3	300,000	25,000	7.5	40,000	12.8
Apartments	350,000	20,000	7.0	300,000	10,000	3.0	30,000	10.0
Totals		60,000	23.5		75,000	24.5	135,000	48.0

Table 2.2 provides estimates of the investment required over the next 10 years to meet the projected demands proposed in **Table 2.1**. These investment estimates are based on the three scenarios offered in **Table 2.1**.

The estimates/projections offered in **Tables 2.1** and **2.2** suggest that investment required to meet future demand for rental housing will be between $2.2 billion and $4.8 billion annually, with a more likely requirement being in the range of $3.0 billion–$3.4 billion.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

What are the prospects of such investment eventuating in light of the low yields reported above? A review of investment patterns over the past decade may offer some insights into addressing this question. This review is offered in **Table 2.3** and **Figure 2.9** and is based on data reported in the Reserve Bank's household wealth statistics. A fuller version of this data, showing how it has been estimated, is offered in **Appendix 2**.

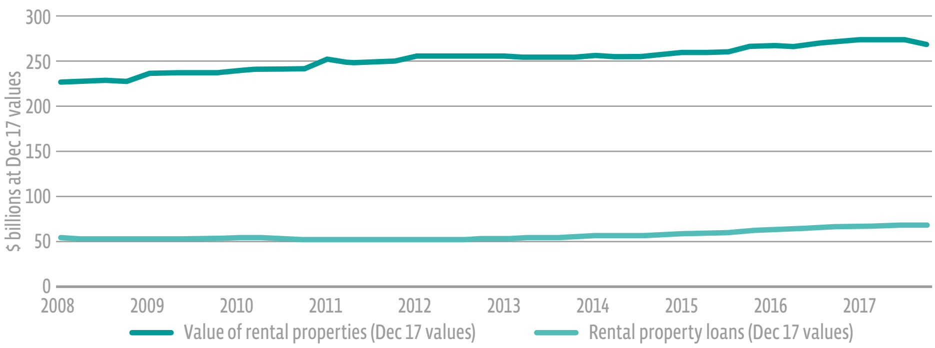
During the almost ten years between March 2008 and December 2017, the total value of households' investment in residential rental properties grew $42 billion in inflation-adjusted terms to $269 billion. Of this additional investment, $13 billion, or 31%, was borrowed, while the remainder was financed from household wealth. Noticeably, however, is the fact that most of these gains occurred during the first five years of this review period, and that households' net equity in rental property did not increase at all (in inflation-adjusted terms) over the past five years or so.

In summary, given the experience of investment patterns over the past decade, it is reasonable to expect that future investment requirements of around $3.0–$3.4 billion annually may be met. However, the experience of the past five years, when most of the additional household investment in rental property has been debt financed, means that the prospect of further investment of this order appears less certain, especially given this more recent history of rising indebtedness and tighter macro-prudential requirements on banks.[48]

Table 2.3: Household investment in residential rental property—2008-2017[49]

	Value of rental properties (Dec 17 values)	Rental property loans (Dec 17 $)	Net equity rental properties (Dec 17 $)	Debt to Equity Ratio
Mar-08	227	55	172	0.32
Mar-13	256	54	201	0.27
Dec-17	269	68	201	0.34
Mar-08 to Dec-17	42	13	29	

Figure 2.9: Households' investment in residential rental property—2008-2017[50]



Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

2.5 CONCLUSIONS

The low yields offered to residential property investors are likely to become problematic for further investment, especially if the promise of further value appreciation diminishes—as appears to be happening. It was the prospect of capital gains on residential property, which has allowed property investors to offset, or at least overlook, these low yields, and it seems unlikely that such a stance will continue in an era of stable or even falling property prices.

This means that yields will eventually rise, simply because an ever-growing shortage of rental housing will continue to push rents higher. These rent increases most likely will be greater than increases in wages and salaries, meaning that some households will be priced out of the market and forced into overcrowded living arrangements or outright homelessness. The ever-lengthening social housing waiting queue is evidence of this.[51]

At this point, the private rental housing market has not so much failed, but shown that its outcomes are far from socially optimal. The need for increased, extensive State intervention is becoming more apparent and any review of housing policy—including that of tenancy law—should consider the extent and nature of increased intervention. It is now no longer sufficient to review policy in the light of past market conditions and expect that the outcomes will be adequate. A tighter rental market, where landlords have a stronger negotiating position, will be at tenants' expense, regardless of law changes around such things as rent auctions, key money and poor quality housing. Put simply, economic power will trump legal rights, especially when enforcement regimes and legislative penalties are minimal—as they are in current and proposed tenancy law.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

CHAPTER 3
The current housing policy landscape

This chapter first offers a framework for considering the current housing policy landscape. It then moves on to describe, or explain, some elements of this landscape and, in doing so, critiques several of these as the basis for the changes proposed in the following chapter.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

3.1 THE HOUSING POLICY LANDSCAPE

Figure 3.1 offers a framework for considering the arrangement and purpose of public policies impacting on housing. This framework is offered as context for the following discussion, which considers how these policies may be reformed or replaced. The light shaded boxes are areas where there is no policy or programme in place. As discussed below, some of the policy positions offered in this framework probably seek non-housing-related objectives more than housing-related ones, but impact on housing outcomes, nonetheless.

Figure 3.1: A framework for current housing policy in New Zealand

	MARKET REGULATION	MARKET SUPPLEMENTATION	MARKET REPLACEMENT
HOUSING QUALITY	Residential Tenancies Act	Home improvement & insulation subsidies	Public rental housing
HOUSING AFFORDABILITY	Rent Controls	Accommodation Supplement	Income-related rent subsidies
HOUSING FINANCE	Reserve Bank L-V ratios	Welcome Home Loans HomeStart grants	State-provided mortgages
HOUSING SUPPLY	Affordable housing planning rules	NGO social housing	Public rental housing KiwiBuild

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

3.2 ELEMENTS OF THIS LANDSCAPE

Residential Tenancies Act

The quality of rental housing, in the broader sense of both its material and social elements, is mediated by the Residential Tenancies Act. The Act regulates the landlord-tenant relationship but, critically, does not provide tenants with security of tenure or protection against rapid increases in rent.[52]

This lack of security of tenure is crippling for tenants' ability to assert their other rights under the Act, since the ability of landlords to end tenancies, with due notice but without reason, provides landlords with considerable power in this relationship. In addition, the quality of the housing being rented is not well related to tenants' rights,[53] although recent amendments to the Act have made smoke alarms mandatory and allow the tenant greater scrutiny over levels of thermal insulation in the property s/he is renting.[54]

Further, recent amendments to the Act also allow the Chief Executive of the Ministry of Business, Innovation and Employment (MBIE) to take proceedings (under s.124A) against landlords for serious breaches of the Act, or for renting property in such poor condition that it posed a serious threat to health. In the first year of operating under these extended powers (1 July 2017–30 June 2018) the Ministry had taken just 10 cases to the Tenancy Tribunal, albeit that these 10 cases related to 180 separate tenancies.[55]

The overall operation of the Act through the Tenancy Tribunal remains dominated by landlords, although much of this system is paid for by tenants. Around 90% of cases taken to the Tribunal are taken by landlords, and about two-thirds of these cases are the landlord seeking to terminate the tenancy (see **Appendix 3**).

Administration of the Act—including the management of tenants' bonds and funding for the tenancy mediation services—is funded by interest from these bonds. The Crown holds in Trust more than $500 million in tenants' bonds[56] and generates in excess of $20 million annually in interest payments. This interest revenue is paid to MBIE to operate its Residential Tenancies and Unit Titles Services. In 2016/17, MBIE received $20.6 million in interest revenue, while it cost $28.0 million to provide tenancy and unit services.[57] However, in 2015/16, Treasury appropriated $32.4 million from the Tenancy Bonds Trust account as unclaimed bonds. This money was contributed to the consolidated fund and could feasibly have been used to provide advocacy services to tenants.

Reserve Bank interventions

The most noticeable housing-related policy intervention undertaken by the Reserve Bank in recent years is the imposition in 2013 of loan-to-value (LVR) requirements on banks involved in residential mortgage lending. At the time of their introduction, in October 2013, banks were limited to having 10% or less of their new mortgage lending at a loan-to-value ratio of 80% or more.[58] Since then, the LVR rules have become a little more subtle and apply different lending benchmarks to owner-occupiers as opposed to investors and the purchase of new or existing properties. On 1 January 2018, new LVR rules required a 35%/5% limit for investors (no more than 5% of new lending to be made at LVRs of 65% or more—in effect, a 35% deposit is required) and a 20%/15% limit for lending to owner-occupiers.[59]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

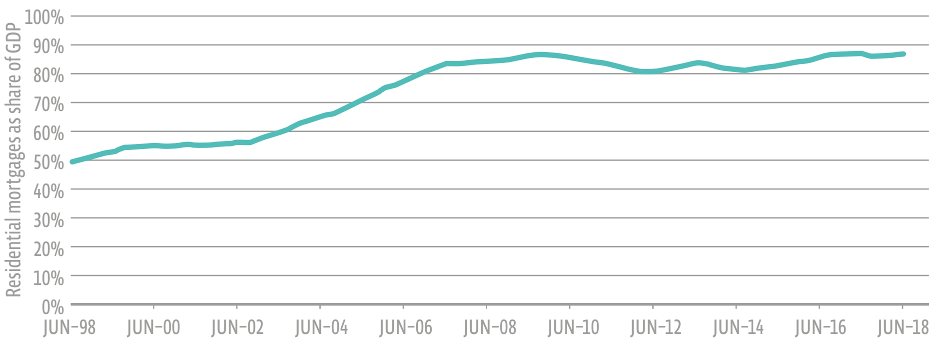
Such policy measures have at least two purposes. The first is the Reserve Bank's concern for the long-term sustainability of the financial system and especially the banking system. In addition and for some time, the Bank has expressed its unease with rising house prices and the rising household indebtedness, which has accompanied this. A sudden correction in house prices, or an increase in interest rates, or both, will leave large numbers of households exposed and possibly lead to freezing up of credit and, so to, an economic slowdown.

The Reserve Bank's concern for high house prices and rising indebtedness is shared with most central banks across the OECD. Part of this concern is at a structural level, in terms of the dominance which housing and housing finance is having in national economies. This concern is sometimes expressed as an apprehension around the so-called 'financialisation of housing'.

'*(T)he financialisation of housing has three interrelated key dimensions. A fundamental feature is a shift in the way housing is viewed. Rather than being regarded primarily as a means of acquiring adequate and secure shelter, it is increasingly treated as a commodity and investment. A second aspect is the creation of a policy environment by governments that facilitates and encourages the financialisation of housing. This is done by lessening regulation, creating tax regimes which encourage speculation and deemphasising social housing. The final aspect, globalisation of the real estate market is another central feature.*'[60]

There is strong evidence that New Zealand's housing became more financialised—although this appears to have occurred prior to the GFC—between 2002 and 2008. This is demonstrated in **Figure 3.2**, which reports the total value of residential mortgages as a proportion of GDP. This proportion grew from 56% in mid-2002 to 85% in mid-2008. It is possible that the LVR rules imposed since 2013 have helped contain any further growth of housing-related debt since the recovery from the GFC from 2012 onwards.

Figure 3:2 Residential mortgages as share of GDP—1998-2018[61]



While central bank regulation aimed at the housing market will continue to be geared toward managing financial risk, rather than objectives such as housing affordability; further regulatory effort may be a useful measure to put downward pressure on house prices. For example, recent efforts to target gearing and the risks associated with investors, with the requirement to have tighter LVRs for investors. In New Zealand, further attention might also be given to the structure as well as the extent of investors' debt, although, as discussed above, this may come at the expense of much needed growth in the private rental housing stock. One approach is discussed by Leonhard in the case of Sweden, where the Swedish central bank—the Riksbank—targeted interest-only debt as a source of risk and house price inflation.[62]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

In New Zealand, investors have a disproportionate share of interest-only debt. For example, for the year to 30 June, almost one-half (48%) of investor mortgages were interest only, while just 26% of owner-occupiers' mortgages were interest only. Limits on investors to opt for interest-only debt will possibly reduce risk within the banking system and also subdue future price pressure. This may perhaps rebalance the contest for property between first home buyers and investors—with their tax motives and advantages.

Affordable housing planning rules

New Zealand's local land-use planning mechanism that was used to facilitate the development and retention of affordable housing, has had limited success—though it received significant fanfare from the previous government through the agreement of housing accords and the adoption of affordable housing strategies in several local authority areas.

An example is Queenstown Lakes District Council, which has adopted the use of Special Housing Areas. These are a tool for fast tracking zoning approvals on appropriate areas of land, with an expectation that this will increase land availability for residential development—alongside a negotiated development agreement—which will bring about the provision of more affordable housing. Special Housing Areas are authorised under the Housing Accords and Special Housing Areas Act 2016 and are based on formal accords between local Councils and Government. In Queenstown Lakes District '*(T)he Accord sets out the Government's and the Council's commitment to work together to facilitate an increase in land and housing supply, and improve housing affordability and suitability in the Queenstown Lakes District.*'[63] However, even at a more detailed level, where Council has adopted its *Lead Policy*, this sets out only in very general terms the way in which Special Housing Areas will be identified and adopted.[64]

This approach lacks a legal basis, as it is not possible for Councils under the Resource Management Act 1991 to demand, by way of resource consent, that a developer or land owner provide housing at below market rates. Essentially these planning instruments rely on voluntary agreements between Council and developers/landowners. Such agreement in turn depends on the economic benefits of more flexible re-zoning and infrastructure approvals, offsetting the costs of providing affordable housing. Even if such trade-offs exist and can be negotiated, questions such as: How affordable is affordable housing? Who is this housing affordable for? Also, how this affordability will be retained, remains unresolved. These questions largely remained unanswered in the policy documents of Queenstown Lakes District Council.

Recently announced plans to establish an urban development authority (UDA)[65] is a further variant on the land-use regulation model. UDAs, however, also have the ability to combine infrastructure financing and provision and powers of imminent domain with extended land use planning powers.

The Accommodation Supplement

The AS is New Zealand's main housing subsidy, and this year will cost taxpayers $1.2 billion. The supplement is a demand subsidy, which is designed to supplement an individual's or household's income so that their housing is more affordable. Just over three-quarters of the AS budget is allocated to households that rent in the private sector—this will be around $930 million during the 2017/18 financial year. About 11%, or $130 million, of the AS budget is paid to households

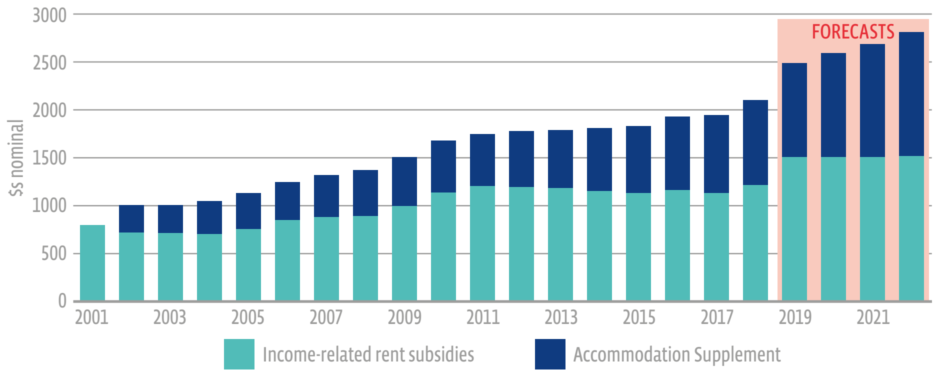
Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

paying a mortgage for their home, while a further 12%, or about $145 million, is paid to individuals who are boarding.

The AS is flawed as a housing subsidy, for a number of reasons. The main one is that it offers no guarantees to those eligible that they will be able to access a house of good quality, or one which they can afford—or even a house at all. The AS is actually an entitlement (to those who qualify through income and residency criteria). To access this entitlement you need access to a house to rent. If you lack other entitlements, such as sufficient other income, credit worthiness or personal attributes which make you attractive to landlords (and not subject to discrimination), then the entitlement to AS is somewhat meaningless. Even if you can access some housing, there is no requirement that this housing will be adequate for your needs and there is no duty-of-care by Government employees administering the AS to ensure that people receiving the payment are adequately housed. Indeed there is evidence that those administering the AS programme have been complicit with slum landlords, by arranging payments directly to them on behalf of vulnerable tenants.[66]

In April 2018, the maximums payable to recipients under AS increased—this was the first increase in over 10 years, a period over which nominal rents rose by more than 50%.[67] This increase will eventually lead to the cost of AS growing to $1.5 billion annually by 2018–2019. Data on past and projected spending on the AS, as well as income-related rent subsidies, are offered in **Figure 3.3**—for the period 2001–2022.

Figure 3.3: Main housing subsidies—2001-2022[68]



Of this $1.5 billion in AS payments, as much as $1.2 billion will be spent on rent subsidies to 160,000–170,000 private sector tenant households.[69] These figures are significant in the context of the private rental housing market overall. Broad estimates of the value of rents paid in the private rental market suggest that this figure is around $10 billion–$12 billion annually.[70] Statistics New Zealand estimates that there are around 650,000 tenant households nationally. Of these, approximately 65,000 are various types of social housing, receiving income-related rents. This means that the private rental housing market comprises 580,000–590,000 dwellings. Overall AS payments reach 25–30% of private sector tenants and these payments represent approximately 10% of rents paid into this market. This is a significant part of what is a significant private sector market.

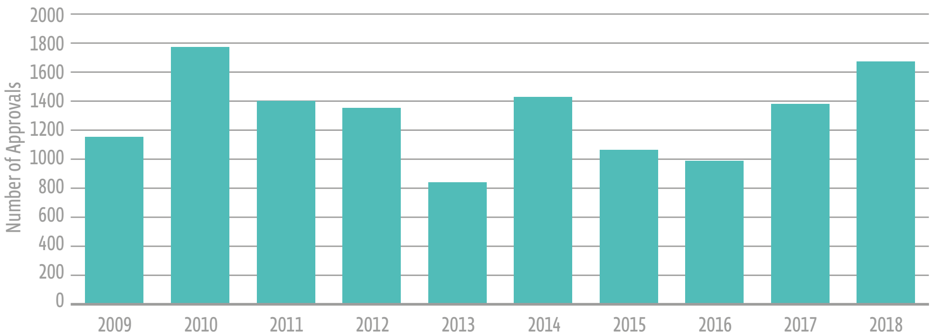
Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Home ownership subsidies

Within the context of $2 billion subsidies for AS and income-related rents, subsidies for home-ownership programmes are comparatively modest at around $100 million annually and somewhat minor in terms of their reach. The two programmes are the Welcome Home Loan programme and the HomeStart grants programme.

The Welcome Home Loan is a mortgage guarantee programme, rather than a lending programme as its name would suggest, which runs as a partnership between the Crown and participating banks. The deal here is that the Crown and banks share the risk associated with lending to mainly first-time home buyers who can only offer lower initial deposits (10% rather than 20%). This is done through a partnership insurance scheme where the Crown sets aside insurance premiums equivalent to 1.2% of the value of outstanding loans made under the programme, while partnering banks match this with premiums of 1% of the value of loans they each hold.[71] In June 2017, the value of guaranteed loans was $1.47 billion, or less than 1% of the total value of mortgages.[72] The numbers of approvals for loan guarantees over the past 10 years are reported in **Figure 3.4**. During the year to 30 June 2018, 1673 guarantee approvals were provided to low-income households, which represented just 7% of the mortgages provided to first-time home buyers during that period.

Figure 3.4: Approvals of Welcome Home Loan guarantees—2009–2018[73]



A more expansive and a more recent home assistance programme is the HomeStart programme. This programme is tied in with KiwiSaver contributions with the value of a cash grant provided to a first-time home buyer, based on the length of time they have been enrolled in a KiwiSaver scheme and whether or not they are purchasing an existing or a new house. The maximum value of such grants is $10,000 for an existing house and $20,000 for new one.[74]

Data on the extent of the HomeStart programme is somewhat mixed. The 2018 Budget reported that $90.5 million was appropriated to the programme for the 2017/18 year and a further $106.1 million was appropriated for 2018/19.[75] However, Housing New Zealand, which administers the programme, reported total grants of $81.1 million paid out during 2017/18 and that a total of $229.3 million has been granted since the commencement of the programme in April 2015.[76] The number of grants provided reached almost 36,200 applications in 2017/18 and has gradually risen from 26,500 in 2015/16—the first full year of the programme. This total for 2017/18 represents 75% of the total number of mortgages reported as being provided to first-time home buyers. However, the actual take-up rate is likely to be considerably less than this because HomeStart grants are made to individuals, while mortgages may be offered to partners or even larger groups.[77] This means, of course, that there most likely are two

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

HomeStart grants for every mortgage to a first home buyer. HomeStart grants may only be reaching half the number of first home buyers securing a mortgage.

The value and effectiveness of these two home-ownership assistance programmes needs to be questioned, especially in terms of whether or not they have any impact in lifting first-time home ownership rates. The Welcome Home Loan programme, in particular, may be doing little to extend home ownership opportunities. Demand for this programme is driven by the participating banks, which refer potential customers to the programme, perhaps as a way of offsetting risk at the public's expense. For example, Housing New Zealand reports '*(L)ender demand for the Welcome Home Loan is a reflection of lenders' own credit policies, as they respond to market conditions and Reserve Bank 'speed limits'. When banks tighten their own lending policies, demand for the Welcome Home Loan increases, as applications fall outside their own lending policies*'.[78]

Public and social housing

Over the past decade, the terms 'state housing', 'social housing' and 'public housing' have been used interchangeably and somewhat loosely. The previous National Party-led Government exclusively used the term 'social housing' to refer to any housing—whether owned by the Government or not— which was allocated on the basis of need, and received an operating subsidy known as an income-related rent subsidy (IRRS). This use was somewhat confusing as it did not differentiate between housing owned by the State through Housing New Zealand—so-called state housing—and social housing owned by local Councils or NGOs. More recently, the Labour Party-led Government has chosen to adopt the term 'public housing' to refer to housing owned by Housing New Zealand. This is somewhat confusing, as local councils own perhaps as many as 7000 dwellings that are rented out on a social basis and which could also be called public housing. However, because they are not subsidised by Government, they are not included in reported figures on public housing.

British housing charity—Shelter—defines social housing as housing that '*is let at low rents on a secure basis to those who are most in need or struggling with their housing costs. Usually councils and not-for-profit organisations (such as housing associations) are the ones to provide social housing*'. The charity further defines that social housing should be:

- affordable
- allocated on the basis of need
- owned and managed by registered provider
- regulated.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Table 3.1: A typology of social and market housing

SUBSIDY	OWNERSHIP: PUBLIC OWNERSHIP	OWNERSHIP: PRIVATE OWNERSHIP
SUBSIDISED	Social housing is subsidised by government and provided by public agency	Social housing is subsidised by government and provided by NGO at no profit or by private company for profit
UNSUBSIDISED	Social housing owned and provided by a public agency and provided at below market rents on a break-even basis	NGOs provided housing at below market rents based on charity models
	⟵ SOCIAL HOUSING ⟶	
UNSUBSIDISED	Publicly owned housing is rented at market rents to tenants	Private rental housing—market rents charged by profit-making businesses.
	⟵ MARKET HOUSING ⟶	

Table 3.2 provides estimates of the numbers of dwellings in each of these categories of social housing, for mid-2017. It is difficult to ascertain, with any precision, the current numbers and distributions of public and social housing, in part because of the transfer of housing from one category of social housing to another—from unsubsidised to subsidised, for example. As well, there is variance in officially reported figures,[79] which make it difficult to gain an entirely reliable picture of the current stock of social housing.

Table 3.2: Estimates of state and other social housing stock—June 2017[80]

	Housing NZ	Local councils	NGO's & others	Total
Receiving IRR subsidies	58,500	0	4,800	63,300
Not receiving IRR subsidies	4,400	7,100	7,800	15,300
Total	62,900	7,100	12,600	82,600

A more recent, though only partial, picture of the current stock of social housing is offered in **Table 3.3**. From this data the total for social housing appears to have risen by 1250 units between March 2017 and June 2018. This picture is, however, complicated by the transfer in July 2017 of 1452 dwellings from the control of Auckland Council into a joint venture entity with Selwyn Foundation, known as Haumaru Housing. The inclusion of this stock into the IRRS pool will take some time as tenancies turnover, and this probably accounts for most of the increase in Community Housing Organisation (CHO) IRRS numbers. It is not possible, from the figures offered in **Table 3.3**, to assess what share of the additional 1250 social housing units are actually new builds. Given the volume of transfers into CHOs from the previously reported social housing pipeline and Housing New Zealand demolitions, it seems unlikely that additional stock added through new builds from early 2017 to mid-2018 is more than 300 units.

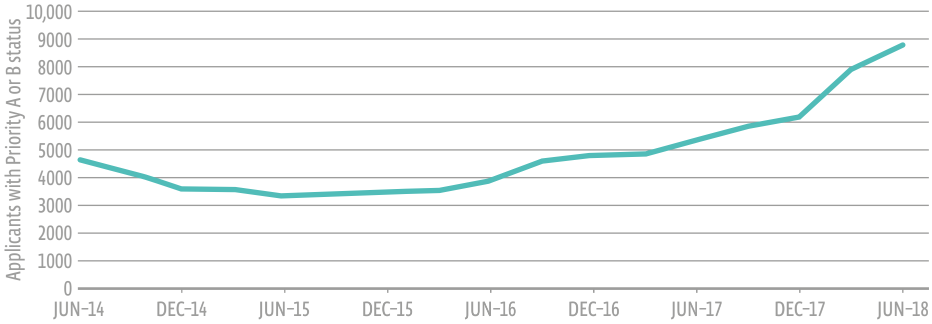
Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Table 3.3 Recent changes in the stock of public and other social housing[81]

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Housing NZ IRRS	59,017	58,277	58,512	58,503	58,821	58,973
Housing NZ market rent tenants	1,659	1,541	1,534	1,602	1,408	1,383
Housing NZ vacant	1,805	1,794	1,267	1,179	1,109	1,444
Total Housing NZ	62,481	61,612	61,313	61,284	61,338	61,800
CHO—IRRS	3,442	4,649	4,787	4,979	5,149	5,339
CHO—Market renters	56	71	87	104	79	89
Total CHO	3,498	4,720	4,874	5,083	5,228	5,428
Total IRRS	62,459	62,926	63,299	63,482	63,970	64,312
Total social housing stock	65,979	66,332	66,187	66,367	66,566	67,228

The other side of the social housing equation is demand. **Figure 3.3** reports changes in the priority waiting list between June 2014 and June 2018. In June 2018, there were almost 8,800 households on the waiting list with either a priority A or B need. This number is 127% higher than two years previously.

Figure 3.3 Priority waiting list for state and social housing—2014–2018



Income-related rent subsidies

The Government pays Housing New Zealand and Community Housing Organisations (CHOs) a supply subsidy known as an income-related rent subsidy (IRRS). This subsidy is nominally based on the difference between what a social housing provider receives from tenants who are paying an income-related rent (25% of net household income) and the market rent which they would otherwise receive.

During the 2016/17 financial year, Government paid $815 million[82] in income-related rent subsidies, of which Housing New Zealand received $758 million or 93% of the total budget.[83] The remaining $57 million was paid to CHOs. Recent trends, as well as forecasts in spending on IRRS, are reported in **Figure 3.3**. Forecast expenditure on IRRS is expected to rise from almost $890 million during the 2017/18 financial year to almost $1.3 billion by 2021/22.[84] This 45% increase is mainly due to increases in per unit subsidies, given that the total IRRS social housing stock is expected to increase by only 8% by June 2020 to around 72,600 units.[85]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

KiwiBuild

KiwiBuild is the Government's flagship housing programme, which aims '*to deliver 100,000 modest starter homes for first home buyers over the next decade. Around 50,000 of these homes will be in Auckland*'.[86] Government has allocated $215 million to run the programme and a further $1.87 billion as a revolving capital fund to facilitate development within the programme.[87] Under the programmes it is expected that 1000 houses will be developed by June 2019, 5000 by June 2020, and 10,000 by June 2021.[88]

There are three key elements to achieving this ambition:

- The development and redevelopment of Crown land including Housing New Zealand properties in order to provide sites for KiwiBuild homes.
- A 'buying-off-the-plans' programme where the Crown underwrites or buys houses from developers at the pre-construction phase and either sells these on or facilitates their sale under the KiwiBuild programme.
- The establishment of an urban development authority, which will have wide ranging regulatory and purchasing powers to lead and facilitate re-development of brownfield sites and development of greenfield sites.

While there has been over $2 billion committed to KiwiBuild, it is clear from the financial settings around the programme that it is not intended to cover subsidies or assistance to households to buy their homes. These settings can be seen as somewhat controversial, given the claim that the programme is about modest starter homes for first-time home buyers. Income thresholds for eligibility to participate in the programme are high, with a single-income household limit of $120,000 and two-income household limit of $180,000. These income limits are twice the median wages—in mid-2018 the medium wage was $52,000 per year and the median household income was $89,000.[89]

Notable announcements of KiwiBuild developments include:

Unitec development where the Crown has purchased a 29 hectare site from Unitec in Mt Albert and plans to develop a 'master planned community' of up to 4000 dwellings,[90] with the price of a three bedroom unit likely to be $650,000, requiring a $130,000 deposit.[91]

Mangere redevelopment where '*(O)ver a period of 10-15 years, 2,700 worn-out state houses will be replaced by 10,000 new homes. This will comprise approximately 3,000 new state houses, 3,500 new KiwiBuild and affordable homes, and 3,500 market homes*'.[92]

Mt Roskill redevelopment which '*will include more than 2,400 modest, affordable KiwiBuild homes for first home buyers, around 3,000 market homes, and more than 3,000 new state homes*'.[93] The number of state houses being demolished for this project is unclear, although one news report which was based on Government's media briefing is that the Housing New Zealand land '*is currently home to around 3,000 state houses*'.[94]

340 Onehunga is a 25 unit apartment, private sector development of studio, one and two bedroom units, which range in price from $380,000–$600,000.[95]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

3.3 CONCLUSIONS

This chapter has offered a brief and current view of housing policy in New Zealand, as a way of situating the private rental market into a wider context. A review of the prospects and policy options for the private rental market needs of course to be based in the context of what else is happening in policy and in other markets, in order to establish where there is scope for innovation and change. Such scope is considered in the following chapter, but for this it might be worthwhile identifying some insights which might be drawn from this review of the wider landscape.

Some insights include:

Tenancy law reform—there is some need to recast tenancy law, given the passage of time since the original Residential Tenancy Act was drafted, and the changes in the overall housing market since then. The most significant change has been the continuing declines of home ownership rates and with this an increasing number of households having to accept private rental housing as their tenure for life. No longer can private rental housing be considered as secondary but temporary tenure, which suggests that more attention needs to be given to elevating the status of private sector tenants by offering them greater tenure protection.

Accommodation Supplement—the AS is a clumsy subsidy that offers those receiving it, and the taxpayers, no guarantees that the housing outcomes it pays for are fair, healthy or affordable. While recent increases in the maximums that may be paid under this programme were overdue, they will not provide much relief and likely further rapid increases in rents. There is a need for a radical review of the AS, perhaps with a view to better integrating it into other income support programmes—such as the working age benefits, Working for Families and New Zealand Superannuation.

Home ownership subsidies—until the recent increase in the take-up of the HomeStart grants scheme, Government efforts in providing home ownership support were tokenism at best. Even now the HomeStart programme, at around $100 million annually, is minor in comparison to the almost $3 billion due soon to be spent on the AS and income-related rent subsidies. Furthermore, there is little evidence to support claims that the Welcome Home Loan and HomeStart programmes contribute at all to broadening the range of people/households gaining access to home ownership opportunities.

Public and social housing is under considerable pressure from growing waiting lists, and the legacy of under-investment in public housing and a pre-occupation with transfers rather than construction. This has meant that there has been little progress to date in coping with this pressure. Plans to expand the stock of social housing by 6,400 over the next four years might be achievable, although early indications of Government's plans for redeveloping the current state house estate suggests that in reality new state housing is not a priority. On any account, given the problems with expecting further investment in private sector rental housing, it seems likely that the waiting list will grow still larger and will easily consume Government's modest plans for 6,400 additional units by 2022.

KiwiBuild—the income thresholds set for KiwiBuild, along with the absence of any meaningful subsidies and the expectation that current house construction costs are affordable for would-be first-time home buyers, pose real threats for the success of KiwiBuild. It might evolve that KiwiBuild does little more than replace the market as a source of new housing for middle- to higher-income households.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

CHAPTER 4
Responding to challenges in the private rental market

The preceding three chapters have posed the idea that New Zealanders face four somewhat antagonistic challenges around the private rental housing market. These challenges are:

1. **Concentrating wealth** and rising wealth inequalities, which have emerged from recent settings around residential property investment and property ownership more generally.
2. The **poor housing outcomes** experienced by many and perhaps the majority of tenants. These poor outcomes include insecure tenure and poor quality housing.
3. **Diminishing availability of private rental housing**—especially for low-income households and families. This restricted availability will in turn lead to rents continuing to rise faster than wages and salaries and cause higher levels of housing-related poverty.
4. The **value for money** and the fairness of current housing subsidies, which will rise from $2 billion per year presently to almost $3 billion by 2022.[96]

These challenges are not necessarily directly related to each other, but they are collectively relevant both to the inequality and poverty faced by many private sector tenants—presently as well as historically—and to the likely prospect that poorer tenants' material positions will deteriorate further, without somewhat radical interventions by the State. This chapter offers some ideas for the nature and scope of such responses.

It would be, however, wrong to frame policy or other responses to these challenges merely as reforms. Some of the responses offered below are not about reforming the private rental market, but rather replacing it with, for example, programmes which promote greater provision of social housing or higher levels of home ownership. Indeed, a viable strategy is to allow the private rental housing market to find a new equilibrium or a place of some stability, and to pursue social objectives—such as access to affordable housing outside of this market.

The need for more radical responses to our current housing crisis should not be understated or trivialised. Serious imbalances have become embedded in our economy as well as in the wider society. These imbalances are the consequence of political neglect and indifference going back at least 15 years. The longevity of this neglect and indifference has probably helped to create an environment where our insight and imagination have become stunted by what we have come to accept as normal. In other words, rising wealth inequalities which go unchecked and untaxed, the precarious lives of low-income workers and tenants and the growing evidence of structural homelessness are now accepted as normal. This can mean that any attempt to deal seriously with such embedded problems can easy be framed as being hopelessly unrealistic and even utopian. This can mean too that apparently expansive and ambitious programmes—such as KiwiBuild, social housing construction and tenancy law reform—are actually quite limited and unambitious. This is because the architects of these programmes have accepted, as a given, the neo-liberal framework that has prevailed and expanded over the past 30 years. The Government's self-imposed Budget Responsibility Rules are a most obvious example.[97]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

4.1 A STRATEGIC FRAMEWORK FOR RESPONDING TO CHALLENGES

In responding to the four challenges posed above, some thought is given here to the mechanisms, or areas of activity, which might offer us opportunities to make a difference. These are described here as strategic approaches and are listed below in **Table 4.1**.

The overall sentiment behind these strategic approaches is that the scale of the challenges we face is so large that past responses will not be adequate and, in fact, may have helped create these challenges. The approaches are, therefore, based on more extensive and expensive interventions by the State and in ways which may be contrary to current policy and political orthodoxies.

Table 4.1 offers some assessment of the impact of each of these strategic approaches on the challenges being posed here. Some approaches will mostly likely contribute to meeting the challenge—such as subsidising home ownership and its impact on wealth distribution, while others are likely to exacerbate the challenges—such as tenant-friendly tenancy law reforms and their impact on future private investment into rental housing.

Table 4.1: Strategic framework for addressing challenges from the private rental housing market

STRATEGIC APPROACHES	CHALLENGES: Concentrating wealth	Poor housing outcomes	Inadequate supply	Value for money
Reforming tenancy law		▲▲	▼▼	▲
Encouraging private investment	▼		▲	
Subsidising home ownership	▲▲	▲▲	▲▲	
More social housing		▲▲	▲▲	
Reform of rental subsidies		▲	▼	▲▲

▲ positive contribution ▼ negative contribution

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

4.2 REFORMING TENANCY LAWS

Proposed changes to tenancy laws appear reasonable in their intent, although perhaps not in their ambition. The proposed reforms have attempted to incrementally extend tenants' rights, but do not really address the broader question of the balance of power between landlords and tenants. Underlying such a broader question is that of the balance between property rights and social rights. The framing of tenancy law as being about social rights, rather the mediation of property rights, would have expanded the scope of what is possible and necessary in the reform of tenancy law.

As discussed above in **Chapter 1**, private rental tenure is becoming more common as the rate of home ownership declines and the proportion of the housing stock held as social housing diminishes. There are now twice as many rental properties in New Zealand as there were in 1986, when the Residential Tenancies Act was first passed. While there have been amendments since, these have been relatively minor or procedural and have not fundamentally reconsidered the role of private rental housing in New Zealand's housing landscape and the status of tenants within this.

Recognising social rights

There remains a clear need to balance the various interests of landlords and tenants in policy and legislation and in particular to decide an appropriate trade-off between tenants' right to decent housing with landlords' right to utilise their property optimally. This is the balance between a right to housing versus the right to buy and sell housing. Because of its age, the Residential Tenancies Act does not have a stated purpose so it would be unfair to criticise it for not considering tenants' right to housing. This should be rectified in any significant re-draft of the legislation and in doing so explicitly efforts should be made to recognise the not altogether complimentary interests of landlords and tenants.

Finding an acceptable and appropriate balance in the rights of tenants or landlords is not simply a matter of balancing property interests; for example, the right of security of occupation and tenure of tenants, with the right of landlords to have reasonable access to their property in order to utilise it in other ways. The reason it is not simply a balance of property rights is because there is an implicit trade-off in the tenant-landlord relationship, where the landlord is foregoing alternative uses of his/her property, in order to provide housing services to the tenant and, by doing so, to derive an income from the property. This is quite different from the notion that the landlord is simply allowing the tenant to use their property until s/he decides an alternative use for it.

It might be seen that the balance of rights between landlords and tenants is not simply then a trade-off in property rights, but also of an exchange of social and economic value—of housing services with an income stream from rent. If this is the case then what do such housing services comprise?

It might, however, be argued that the landlord-tenant relationship is simply one of an exchange of economic value—of accommodation for rent. But this is where the question of social rights can be seen as being especially pertinent: If social values are not also implicit in the landlord-tenant relationship, where do tenants gain any social rights around housing? Moreover, if tenants do not gain such rights through the house they rent, do they have no rights to decent housing at all?

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

It can be argued that landlords as private citizens have no obligations to others to ensure that their social rights are fulfilled. Furthermore, it might be argued that if such rights exist it is incumbent on the State not individuals to protect them and even fulfil them.

This is where the role of the State in the rental property market can be seen as being broader than one of just mediating competing rights, but of also protecting rights.

However, social rights, as these relate to housing, are somewhat vague or non-existent. Internationally these rights are encompassed in the International Covenant on Economic, Social and Cultural Rights (ICESCR).[98] Article 11.1 refers to housing-related rights thus:

'*The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions.*'

New Zealand ratified ICESCR in 1978.

Although many other articles within the ICESCR have legislation in New Zealand, which supports the various rights expected, this is not the case for housing. The most relevant legislative reference to housing-related rights is offered in the Social Security Act 1964, Part 1K, which legislates for the AS. Section 61DH of the Act says that the purpose of the AS is '*to provide targeted financial assistance to help certain people with high accommodation costs to meet those costs*'. This purpose statement says nothing about any right to adequate housing or indeed to any housing. For a fuller discussion on the legislative framework around housing rights in New Zealand see Johnson (2015).[99]

But, even Article 11.1 of ICESCR has some value as a reference point in any re-drafted tenancy legislation, such a reference at least reminds us that decent housing is a fundamental human need and that we operate markets, policies and public programmes to meet this need.

This reference would act as a reminder that landlords become landlords and decide to enter or to remain in the rental property market on the basis that they have both social and economic obligations to tenants. Such an idea is not unusual in markets; for example, an employer has a social obligation to ensure that his/her employee is safe at work and a retailer has a social obligation to ensure that the things s/he sells are safe for consumers.

It might be argued that burdening landlords with some obligation to respect the economic and social rights of tenants will deter further or continued investment in rental housing. This is a 'don't spook the markets' argument. The analysis offered in **Chapter 2** suggests that private investment sentiments might not on any account be sufficient to meet demand for housing from the large group of New Zealand households, which fall through the gap between home ownership and social housing. If this is so then moderating policy and abstracting any broader social value from it, in order to placate expected market sentiment, will achieve little. This is a tactical call on the part of policy makers.

It is, however, important to appreciate that any reference to social rights in re-drafted residential tenancy legislation is not simply a token gesture, but will require at least three substantive changes around how we conceive tenants' and landlords' rights and responsibilities. These three changes relate to security of tenure, housing quality and tenants' procedural rights.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Providing greater security of tenure

Providing tenants with more secure tenure can be seen as a fundamental change to current tenancy law, and one which will acknowledge and establish the social rights of tenants. Under the Residential Tenancy Act, a periodic tenancy may be terminated by the landlord for no reason, with 90 days' notice or as little as 42 days' notice if the property is required by the landlord or his/her family (s.51 and 52). In essence, this is what Morris et al (2017) describe as *de jure* insecurity.[100]

This insecurity tends to undermine all other rights which tenants have under the Act, for the simple reason that an attempt to enforce these rights can easily be met with retaliatory responses from the landlord to terminate the tenancy. Granted such responses are prohibited under section 54 of the Act, but this requires empowered tenants who are prepared and able to challenge a termination notice from the landlord in the Tenancy Tribunal. As noted above and reported in **Appendix 3**, around 90% of cases taken to the Tribunal are taken by landlords, and the majority of these are not even contested by tenants.

There are a number of approaches to extending tenure security for tenants under re-drafted tenancy laws. The excellent paper by Mark Bennett provides a very useful basis for such an extension, drawing as it does from Scottish and Irish experiences.[101] Both Scotland and Ireland have reformed their tenancy law to offer tenants greater security of tenure, and they have done so off a similar legal system and cultural base as New Zealand. The approach of both countries is essentially as follows:

- the law and practices encourages fixed-term tenancies of three years or longer, more or less as the default option;
- fixed-term tenancies are subject to a probationary period of six months, over which time the performance and reliability of the tenant is tested;
- landlords can only seek to have a tenancy terminated before the end of the mandatory term if there has been a serious breach of the tenancy conditions by the tenant or it is required for personal use by the landlord;
- there are rent review rules set down in legislation for the period of the tenancy.

This approach applied to New Zealand's tenancy law would have the advantage of shifting expectations around the permanence of tenancies, potentially encouraging more professional behaviours from landlords and tenants and maintaining landlords' reasonable expectations for alternative uses of their property.

Setting housing standards

It is notable that the Residential Tenancies Act avoids using the words house or dwelling, but instead refers to premises. The Interpretation to the Act makes an effort to define what sort of physical structure premises might be, but it does not venture to define what premises are used for. Residential premises are also defined in the 'Interpretation' as '*a premises used or intended to be used by any person as place of residence*'. This evasion is continued into the body of the Act where in section 45 it is a requirement that the landlord shall:

a) *provide the premises in a reasonable state of cleanliness; and*

b) *provide and maintain the premises in a reasonable state of repair having regard to the age and character of the premises and the period during which the premises are likely to remain habitable and available for residential purposes; and …*

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

c) *comply with all requirements in respect of buildings, health, and safety under any enactment so far as they apply to the premises.*

Essentially then the standards for rental housing are set by reasonableness tests, bearing in mind the remaining economic life of the building being rented out. If a building is nearing the end of its economic life then clearly it is reasonable (under this test at least) to expect it to be of poorer quality than a newer building. The question of the 'reasonableness' of a person living in such a building is not part of the test.

A recent regulatory impact standard considering proposed amendments to the Residential Tenancies Act reported that the '*Tenancy Tribunal relies on the Housing Improvement Regulations in some circumstances when it is applying the "reasonable state of repair" test, but has indicated that updated standards would be welcome*'.[102]

In 2016, changes to the Residential Tenancies Act introduced modest building quality requirements for rental properties. These related to a mandatory requirement to install smoke detectors and a light-handed regulatory approach to push landlords to insulate their houses. At the time this legislation was introduced, it was noted that as many as 100,000 rented houses would not be insulated because of the physical difficulties in doing so.[103] Under current legislation these buildings will remain uninsulated, unhealthy and able to be rented out for the remainder of their economic life.

As mentioned above, tenants have the worse housing and they suffer the most from the poor quality of their housing. This being the case it would seem reasonable—especially if a social rights approach was adopted—to ensure that tenancy law is both more explicit about which housing standards are to be applied to rented housing and that ensuring the liveability of a dwelling is clearly landlord's obligation.

The extent to which quality standards for rental housing should be enforced through such things as warrants of fitness and inspection regimes, needs to be considered against the cost of such regimes and their effectiveness. Given the probable medium-term shortage of rental housing, it seems likely that many rental properties, and landlord-tenant relationships, will remain under the radar—that landlords rent out poor quality accommodation and desperate tenants pick them up. This will mean that licensing and inspection efforts will pick up compliant landlords with good quality housing, while those on the margins go undetected and effectively unregulated. A better approach may be to have clear standards and a more stringent enforcement regime, with heavy penalties for breaches. The recent move to enforcement of standards by the Ministry of Business Innovation and Employment (MBIE) is a useful start although clearer standards may help clarify—especially for tenants' rights are around housing quality.

Empowering tenants

A third area of reform to the Residential Tenancies Act, could be an extensive reform of the institutions behind the Act to ensure that tenants have more power in their relationships with landlords and these institutions. The basis of this possible reform is that tenants are provided with better access to advice and advocacy services so that they are able to better understand their rights and obligations under the Act, and so have a greater ability to assert their rights at mediation and at the Tenancy Tribunal. Furthermore, these advice and advocacy

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

services need to be tenant focused and independent of any state agencies, rather than with the present approach around mediation and independence. Ideally these services can be financed from the interest income from tenants' bonds and the unclaimed bonds—monies, which are presently appropriated by the Crown.

As mentioned above, the Crown holds in trust in excess of $500 million in tenants' bonds. The interest from these bonds, amounts to more than $20 million annually, and is allocated toward the costs of administering the bond system. This is an unusual approach to administering a property rights regime, given that only one party is paying for it and that party is often disadvantaged in the property rights relationship. For example, the Crown provides significant public funding to maintaining such property rights regimes, such as the land title system, insolvency management and corporate records.[104]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

4.3 ENCOURAGING PRIVATE SECTOR INVESTMENT INTO RENTAL HOUSING

While the prospects for further private investment in rental housing do not look bright, some of this pessimism is due to the nature of the current investment models. These for the large part rely on small-scale individualised investments, which are motivated more by capital appreciation than by long-term income growth. The challenge for New Zealand is to build a private rental sector which is less reliant on small-scale 'mum and dad' landlordism and based more on trustworthy, transparent and value for money corporate investment models.

Recent reports offer some news of slight improvements in yields on residential rental properties, as rents rise against static house prices.[105] The same dynamic is working in Australia, which faces similar problems associated with house prices, alongside rents which offer only modest yields.[106] These improvements are to be expected, for at least two reasons: first, house prices appear to have reached the top of the cycle and are now stabilising or even falling slightly—in Auckland at least;[107] second, the growing shortage of private rental housing means inevitably that rents will rise faster than incomes.[108]

Such improvement in yields may not—and probably will not—encourage further investment into rental housing, because it was the prospect of appreciating assets values which was the investment driver. These dynamics do, however, establish a new investment environment, which may be attractive to some investors who are interested in relatively low-risk opportunities with modest yields, alongside modest—but most likely continuous—growth in income. The challenge here is to find these investors or at least encourage this sort of investment.

A similar challenge faces the United Kingdom and, in 2012, its Government commissioned the so-called Montague Review or the '*Review of the barriers to institutional investment in private rented houses*'. This review suggested that institutional investors had something to offer the private rental market, which was not offered by small-scale investors. This offering included longer-term rental arrangements, a more professional service for tenants and the ability to provide accommodation which was tailored to various rental markets—such as students.[109]

The Montague Review recommended that the UK government consider ways of encouraging the development of and investment in 'build-to-rent' housing. The review suggested the establishment of a taskforce to promote the development of 'build-to-rent', the provision of Government support for this innovation and a proposal that local Council's build the concept into their various land use planning policies and incentives.[110]

Government support for 'build-to-rent' has come in two forms: one, it offered development grants of up to 50% of development costs in a programme known as the 'Build-to-Rent Fund'—which by UK standards this was a modest initiative and eventually supported the development of 4500 units at a cost of £1 billion; the other initiative, was a £3.5 billion state guarantee to developers of 'build-to-rent' projects.[111]

These initiatives have met with some success; for example, by mid-2017 nearly 16,000 units had been completed and a further 20,600 were under construction. Institutional investment in private rental housing through purpose-built developments does, however, remain in its infancy, although it appears promising.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

There is scope for similar initiatives in New Zealand, given that some of the basic parameters support this; for example, continuing low returns on other investments—such as bonds—may encourage investors and especially those with long horizons to consider institutional-type investment in residential rental property, rather than the bricks-and-mortar-type investment of the past. Such investment will be seen as relatively low risk given continuing population growth, rising household incomes and the prospect of modest by steady real growth in rents. Institutional investment models do, however, need to demonstrate that they can achieve economies of scale—perhaps through the development process and property management models in order to be as attractive as the do-it-yourself investment, which has characterised private rental investment to date.

The prospect of substantial State support for private sector investment in rental housing needs to be tempered both with considerations of value for money as well as those of who the likely tenants for such housing will be. For example, if institutional investments in rental housing end up providing middle-class housing, there are fewer justifications than if the housing provided, catered for the working poor for example. This question is considered further in the following discussion on housing subsidies.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

4.4 SUBSIDISING HOME OWNERSHIP

Current home ownership support programmes make up only around 8%[112] of all housing subsidy budgets and amount to around $100 million annually. There is, however, no evidence that these programmes are lifting rates of first-time home ownership. For example, numbers of first-time home buyers has been stable over the past three years at less than 24,000 annually, while the KiwiSaver grants programme has grown modestly in terms of volumes.[113]

It might have been hoped that the roll-out of Government's flagship programme KiwiBuild would lift only a modest number of first-time home buyers, but this appears less likely given the policy settings that are emerging around this programme. Specifically the setting of income eligibility thresholds at twice the medium incomes for households and individuals, and the acceptance of house purchase prices—generally in the range of $500,000–$650,000—mean that the KiwiBuild offering looks little different from what would-be, first-time home buyers can find in the market.

These programme settings are inevitable, given the unwillingness of the Government to offer explicit subsidies to households participating in the KiwiBuild programme. In other words, if you accept that the purchase price of a KiwiBuild house is more or less its market value, then you need high-income thresholds in order to find an audience for the programme.

This unwillingness of Government to include a generous subsidy programme into its KiwiBuild programme will mean that it is only accessible to wealthier, middle-class households who most likely could have accessed home ownership through the market. The opportunity costs of the capital tied up in KiwiBuild and related programmes will exceed $100 million[114] annually, yet the programme appears to be another form of middle-class welfare, and continues the gentrification of state house communities, which were started by the previous Government in Tamaki.[115]

If rates of home ownership are to be substantially lifted from that which emerges from market prices and the existing distributions of wealth and income, then a more expansive Government-led subsidy programme is required. It may be that KiwiBuild does open up home ownership opportunities to households, which would have otherwise missed out; but there is equally the possibility that private sector development and construction activity is crowded out by State backed or initiated developments. It is not clear, for example, how the additional private sector investment arising from KiwiBuild will come about. This is estimated to be $2.5 billion over the next four years.[116] It is, however, notable that in discussing forecasts of the additional private sector investment arising from KiwiBuild Treasury admits it has used MBIE scenarios and assumptions and that in this work '*no allowance is made for capacity constraints or substitution*'.[117]

Extended home ownership subsidy programmes—perhaps through well-funded equity share schemes—will extend the reach of KiwiBuild and, if it is of sufficient scale, unleash private sector development to cater for a market which to date has not existed. This new market will exist because additional households enter the home ownership market simply because they can afford to, on account of the assistance offered them by the State. With the same amounts they are paying in rent, these households could afford to own a substantial share of their home and sustain repayment and meet other outgoings.

Opportunities around shared equity programmes are only limited by the imagination of those designing these programmes, and the extent and nature

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

of subsidies which are considered reasonable. State subsidies in shared equity programmes are not captured by the participating households, as they are in poorly targeted programmes offered at Tamaki and Hobsonville Point.[118] The subsidy is represented by the opportunity cost of the capital the State has tied up in its share of each property. In the case of the State having a 40% equity share in a $500,000 property, such a subsidy/opportunity cost would be in the order of $6000–$8000 per year. This cost will be offset when and if the Crown sells its equity share to the owner, if this share has appreciated in value over the period of the equity share partnership. There is, of course, the risk that values decline in which case there is an additional cost to the Crown on settlement.

The focus of KiwiBuild appears altogether wrong. As noted above, this focus is on facilitating development of land and housing, where perhaps it should be on assisting modest-income households into home ownership. The leadership and guiding hand of the State will still be required if the focus of KiwiBuild shifted thus. This is so for at least two reasons. It is clearly the case that households and families being assisted into home ownership should be protected from buying poor quality housing, which is unlikely to hold its value. If the State is an equity partner its interests are protected by this house buyer protection, as well. This suggests that the Government should set standards for housing which it is prepared to partner in, but it does not mean that the Government should be involved intimately in the development and construction of these houses. Secondly, there are clear market and regulatory failures around the development of greenfield and brownfield sites for residential development—especially in Auckland. These market failures relate to monopolistic behaviours by owners of large tracts, on the urban fringe, land banking and restricting supply. This practice is assisted somewhat by local councils and their restrictions around zoning and infrastructure provision. The case is strong for State intervention to circumvent these behaviours—of both landowner and councils. In light of this, proposals for the establishment of an urban development authority to facilitate land development, for both infill housing and new suburbs, is timely and necessary.

In summary, then Government rather than facilitating small-scale residential developments and balloting off houses, should focus more on supporting modest-income households (earning around the median household income, not twice it) to achieve home ownership through subsidy programmes. KiwiBuild should morph into KiwiBuy, and by doing so the scale of new house building that is required to address the crisis in rental housing will be achieved.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of ‘landlordism’ and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

4.5 MORE SOCIAL HOUSING

Previous work on demand for social housing has suggested that New Zealand requires at least another 2000 extra state and social houses each year for the next decade.[119] The Government's present commitment to building 1600 per year for the next four years is clearly inadequate, as witnessed by the growing waiting list which more than doubled in two years.[120] Further extensions of the waiting list appear likely as the private rental housing market proves unable to meet demand due to high house prices and low yields.

Furthermore, while the Government has promised 6,400 additional public and social houses over the next four years, where these will be built is unknown. This uncertainty arises from recent announcements around the redevelopment of State housing suburbs, where there is a clear preference by the Government for gentrification through KiwiBuild. As noted above in the two regeneration programmes announced for public housing estates in Mangere and Mt Roskill, over the next 10 years it is anticipated that around 6000 State or public houses will be demolished to make way for 18,400 dwellings in medium-density developments. Of these new houses, just 6,300 will be public or social housing.[121]

There does, however, not appear to be an immediate problem with meeting targets for additional social housing units, including those provided by Housing New Zealand. Ministry of Social Development reported that in June 2018 there were 5434 units in the social housing supply pipeline, of which 3085 were coming from Housing New Zealand. Of these additional houses from Housing New Zealand, 2624 were located in Auckland. While the exact time frames for the eventual supply of these additional houses was not reported, it is reported that the Ministry is on track to be supporting 72,000 social housing units by June 2020.[122] Most of these additional public rental housing units are being constructed on Housing New Zealand land, where hundreds of houses have already been removed or demolished.

The current assessment that 2000 additional social housing units are required every year for the next decade may need revision in light of likely constraints in the private rental market. At this stage, it is important that Government moves from its current position of aiming to build or access an additional 6,400 units by June 2022 to ensuring that at least 8,000 social houses are provided by then. The business of counting social houses does, however, appear more difficult than it needs to be and some clarity around new supply is important to have. Current reported numbers and the targets these are attached to fail to acknowledge the conversion of social housing owned by NGOs and local councils into the IRRS programme. These are not additional social housing units and their counting as IRRS units will probably not address the back log of demand for social housing. On this basis and accepting September 2017 as a starting point for a new social housing programme, Government should be aiming to have at least 68,000 public housing units under the ownership/management of Housing New Zealand by mid-2022.[123]

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

4.6 REFORM OF RENTAL SUBSIDIES

The AS is something of a treadmill programme. As a nation, once we are on, it is difficult to get off, because it just keeps moving but the problem is, it is going nowhere. There is no evidence that the $1.5 billion being spent on this income support programme and the $1.2 billion being spent on rental subsidies within the programme is driving additional supply. If the additional $300 million being spent on AS from 2018/19 onwards was instead used to pay the interest on Government debt it would have supported $10 billion in debt, which in turn may have been invested in around 25,000 to 30,000 additional houses.[124] In any future additional allocation to rental subsidies, we face the same choices and the prospect of choosing to build additional houses rather than support existing ones needs to be considered more seriously than it appears to have been in the past.

It seems likely that rents will continue to rise faster than wages, salaries and benefits, and that these increases will stretch household budgets, even with the recent increases in AS. It is not useful to continue to prime the AS pump in the short-term hope of alleviating housing-related poverty of poorer tenant households.

Rather than continuing to use the AS as a means of propping up households with high housing costs, attempts should be made to radically reform the AS perhaps by integrating it with other income support programmes—such as Working for Families and New Zealand Superannuation. Such integration may promote higher take-up amongst working poor households, and will reduce the high abatement rates which confront beneficiary households as they become more active in the labour market.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

APPENDIX 1 Parameters for rental housing demand scenarios

Household projections

These projections are based on Statistics New Zealand's series 'Projected households on a regional base' which is worked off a 2013 base and runs through to 2038. These projections have been updated for the actual household estimates of households for June 2018, which themselves have been taken from Statistics New Zealand's quarterly Dwellings & Household Estimates data series. The projected increments in household numbers between 2018 and 2023 and 2023 and 2028 taken from the household projections, have been applied to the adjusted base figure from 2018.

	2013	2018 F	2018 ADJ	2019	2020	2021	2022	2023
SCENARIO 1: Low growth								
Auckland	498,000	564,500	566,700	577,240	587,780	598,320	608,860	619,400
Rest of New Zealand	1,150,500	1,220,900	1,180,300	1,188,300	1,196,300	1,204,300	1,212,300	1,220,300
New Zealand total	1,648,500	1,785,400	1,747,000	1,765,540	1,784,080	1,802,620	1,821,160	1,839,700
SCENARIO 2: Medium growth								
Auckland	498,000	577,000	566,700	579,720	592,740	605,760	618,780	631,800
Rest of New Zealand	1,150,500		1,180,300	1,193,640	1,206,980	1,220,320	1,233,660	1,247,000
New Zealand total	1,648,500	1,823,300	1,747,000	1,773,360	1,799,720	1,826,080	1,852,440	1,878,800
SCENARIO 3: High growth								
Auckland	498,000	589,400	566,700	582,160	597,620	613,080	628,540	644,000
Rest of New Zealand	1,150,500	1,270,900	1,180,300	1,198,940	1,217,580	1,236,220	1,254,860	1,273,500
New Zealand total	1,648,500	1,860,300	1,747,000	1,781,100	1,815,200	1,849,300	1,883,400	1,917,500

	2024	2025	2026	2027	2028
SCENARIO 1: Low growth					
Auckland	627,360	635,320	643,280	651,240	659,200
Rest of New Zealand	1,225,380	1,230,460	1,235,540	1,240,620	1,245,700
New Zealand total	1,852,740	1,865,780	1,878,820	1,891,860	1,904,900
SCENARIO 2: Medium growth					
Auckland	642,420	653,040	663,660	674,280	684,900
Rest of New Zealand	1,257,820	1,273,560	1,289,300	1,305,040	1,320,780
New Zealand total	1,900,240	1,926,600	1,952,960	1,979,320	2,005,680
SCENARIO 3: High growth					
Auckland	657,280	670,560	683,840	697,120	710,400
Rest of New Zealand	1,289,940	1,306,380	1,322,820	1,339,260	1,355,700
New Zealand total	1,947,220	1,976,940	2,006,660	2,036,380	2,066,100

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Tenure projections

These projections are based on tenure share estimates from Statistics New Zealand's quarterly Dwellings & Household Estimates data series for New Zealand as whole. These estimates show the home ownership rate falling 0.4% annually. At the time of the 2013 Census Auckland region had a home ownership rate 3% lower than the national average rate. This difference has been applied to estimated nation-wide changes since. The scenarios considered here are based on three possibilities as follows:

1. a reversal of the long-term trend of declining home ownership rates by an increase of 0.2% annually,
2. static rates with no further declines and
3. continuing declines in home ownership rates although at a slower rate of 0.2% annually.

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
SCENARIO 1: Rising homeownership rates											
Auckland	40.6%	40.4%	40.2%	40.0%	39.8%	39.6%	39.4%	39.2%	39.0%	38.8%	38.6%
Rest of New Zealand	36.0%	35.8%	35.6%	35.4%	35.2%	35.0%	34.8%	34.6%	34.4%	34.2%	34.0%
SCENARIO 2: Static homeownership rates											
Auckland	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%	40.6%
Rest of New Zealand	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
SCENARIO 3 Falling homeownership rates											
Auckland	40.6%	40.8%	41.0%	41.2%	41.4%	41.6%	41.8%	42.0%	42.2%	42.4%	42.6%
Rest of New Zealand	36.0%	36.2%	36.4%	36.6%	36.8%	37.0%	37.2%	37.4%	37.6%	37.8%	38.0%

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

APPENDIX 2
Value of households' ownership of residential rental property—2008 to 2018

	Housing and land	Housing and land inc rental properties	Value of rental properties	Housing loans inc rental properties	Housing loans excl rental properties	Rental property loans	Net equity rental properties	CPI
Mar-08	476,694	615,796	139,102	158,719	112,456	46,263	92,839	852
Mar-09	436,039	568,231	132,192	163,060	115,804	47,256	84,936	877
Mar-10	465,930	608,658	142,728	168,266	119,636	48,630	94,098	895
Mar-11	457,571	605,236	147,665	170,597	121,365	49,232	98,433	935
Mar-12	465,853	620,637	154,784	172,806	123,096	49,710	105,074	949
Mar-13	505,253	671,586	166,333	180,593	128,727	51,866	114,467	958
Mar-14	544,361	724,665	180,304	190,621	135,791	54,830	125,474	972
Mar-15	591,639	791,166	199,527	200,003	142,626	57,377	142,150	975
Mar-16	677,039	905,368	228,329	215,393	153,643	61,750	166,579	979
Mar-17	770,947	1,030,945	259,998	234,480	167,515	66,965	193,033	1000
Dec-17	798,188	1,067,373	269,185	244,031	175,544	68,487	200,698	1006
Mar-18				247,614	178,708	68,906		1011

	Value of rental properties (Dec17 values)	Rental property loans (Dec17 $s)	Net equity rental properties (Dec17 $s)
Mar-08	226,600	54,625	171,975
Mar-09	237,314	54,207	183,107
Mar-10	240,726	54,661	186,065
Mar-11	252,834	52,970	199,864
Mar-12	255,842	52,696	203,146
Mar-13	255,525	54,465	201,060
Mar-14	256,646	56,748	199,898
Mar-15	260,540	59,201	201,339
Mar-16	267,336	63,453	203,883
Mar-17	274,608	67,367	207,242
Dec-17	269,185	68,487	200,698
Mar-18		68,565	

SOURCE: Reserve Bank of New Zealand—Household balance sheet statistics Table C22

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

APPENDIX 3
Cases taken to the Tenancy Tribunal– 2012 to 2018

Year ending 30 June	2012	2013	2014	2015	2016	2017	2018
Total applications to Tenancy Tribunal	44,803	42,956	43,386	38,847	39,304	na	35,581
Applications made by landlord	41,156	39,264	39,697	35,215	35,299	na	31,030
Proportion of all applications which are made by landlords	92%	91%	91%	91%	90%		87%
Applications by landlords seeking termination of tenancy	27,077	26,960	27,162	22,728	25,785	na	19,384
Cases dealt with by Tenancy Tribunal	36,394	32,860	35,194	32,617	30,298	26,863	20,326

Data supplied by MBIE under the Official Information Act

APPENDIX 4
Summary of first-time home buyers' outcomes

Year ending 30 June	2016	2017	2018
Mortgages to first-time home buyers	23,716	22,832	23,569
HomeStart grants	15,374	16,712	17,699
Welcome Home Loan settlements	993	1,381	1,673

Data sources: Reserve Bank Statistics Table C31 and Housing New Zealand 's Financial Products Quarterly Report

APPENDIX 5
Summary of housing stock changes in Mangere and Mt Roskill redevelopments

	MANGERE REDEVELOPMENT	MT ROSKILL REDEVELOPMENT
Existing state houses	2,700	3,000 approx
New houses proposed	10,000	8,400
Market value houses	3,500	3,000
KiwiBuild houses	3,500	2,400
New social housing	3,000	3,000
Increase in social housing	300	Nil

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

ENDNOTES

1 Johnson, A. Howden-Chapman, P. and Eaqub, S. (2018). *A Stocktake of New Zealand's Housing*, p.28.

2 The social housing waiting list grew by 127% between June 2016 and June 2018, while the waiting list for highest priority applicants (Priority A) grew by 162% between these dates. See Ministry of Social Development (2018) Housing Quarterly Report—June 2018. Available at **https://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/social-housing/housing-quarterly-report-jun2018.pdf**

3 See Budget and Fiscal Update 2018, p.129. Retrieved from **https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2018**

4 Housing New Zealand's *Financial Products Report*, reports total allocation of HomeStart gants for the year to 30 June 2018 at $81 million; against this the 2018 Budget (BEFU 2018) estimated 2017/18 spending on the Accommodation Supplement of $1.208 billion and on income-related rent subsidies of $889 million.

5 For example: a Newshub report of 12/3/17 *'Tamaki housing scrap "They're shifting out the poor"'* notes that the Tamaki Regeneration Project will see the demolition of 2,500 state houses replacing them with the same number and building a further 5,000 dwellings around half of which will be sold at market prices. Retrieved from **https://www.newshub.co.nz/home/new-zealand/2017/03/tamaki-housing-scrap-they-re-shifting-out-the-poor.html**

6 Johnson, A. (2017). *Taking Stock: Demand for social housing in New Zealand*, pp.2–4.

7 Ministry of Social Development (2018). *Housing Quarterly Report—June 2018*, p.10 (reports the priority social waiting list of 3,549 in June 2016, rising to 8,704 by June 2018.

8 Source: Statistics New Zealand's archives of the Official Year Book. Retrieved from **http://archive.stats.govt.nz/browse_for_stats/snapshots-of-nz/digital-yearbook-collection.aspx** and Dwelling and Household Estimates from the Infos database at **http://archive.stats.govt.nz/infoshare/?url=/infoshare/**

9 This type of shift-share analysis is a little arbitrary, as the actual households concerned cannot, of course, be identified and the premise for the split is that ownership rates would have remained constant over the 32 years in question.

10 The number of people on average living in a rented dwelling is not reported in the 2013 Census. However, in archive material from the 1996 Census, it is reported that 809,000 people lived in 290,00 rented dwellings, giving a ratio of 2.78 people per dwelling. This ratio was almost the same as the 2.76 across the whole population of all tenures. In 2013, the average number of people per dwelling is reported as 2.79, and there is no reason to expect that tenants are more or less crowded on average than those people living in owner-occupied dwellings.

11 Data from Census and Statistics New Zealand's Dwellings and Households Estimates data series. Tenancy bond numbers are from Ministry of Business Innovation and Employment's Tenancy Bond Division dataset. Retrieved from **https://www.mbie.govt.nz/info-services/housing-and-property/sector-information-and-statistics/rental-bond-data/**

12 These estimates are based on Statistics New Zealand's Dwellings and Households Estimates data series, stock numbers reported in Housing New Zealand's Annual Reports and the stock of other social housing units taken from Johnson, Howden-Chapman and Eaqub (2018) *A Stocktake of New Zealand's Housing*, Table 22, p.74.

13 Perry, B. (2017). *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2016*. Table B7, p.39.

14 Ibid Table B6, p.38.

15 Ibid Table B8, p.40.

16 Statistics New Zealand Household Net Worth 2015, Table 4:01. Household net worth by household characteristics.

17 Statistics New Zealand Household Economic Surveys.

18 Ibid.

19 Rents data is taken from Ministry of Business Innovation and Employment's Tenancy Bond database and is based on monthly averages over the preceding 12 months to June. Wages data is taken from Statistics New Zealand's Quarterly Employment Survey and is the reported total (ordinary time and overtime) earnings for employees. Benefit and NZ Superannuation data is from Social Security Regulations.

20 Saville-Smith, K. and Fraser, R. (2004). *National Landlords Survey—Preliminary Analysis of the Data*, Figure 2 p.7.

21 Ibid Table 1, p.5.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

22 ANZ Property Focus—October 2014, p.7.

23 Perry (2017), p. 213 and Table L.1.

24 Perry (2017), p.214 and Table L.2, which provides an international comparison of the wealth share of the wealthiest 10% of households.

25 Perry (2017), p. 213 and Table L.1.

26 For example: Acemoglu, D. and Robinson, J. (2015). The Rise and Decline of General Laws of Capitalism; *Journal of Economic Perspectives*, 29:1, pp.3–28. Argue that Piketty's analysis does not allow for the fact that technological development does not follow a smooth and pre-determined pathway and that institutions do not adapt to meet such challenges as adequate income distributions. Rognlie, M. (2015) *Deciphering the fall and rise in the net capital share*; Brooking Economic Papers, suggests that Piketty's claim that the share of income going to capital failed to note that much of this shift is due to increasing returns to housing and not to what may be considered more productive capital.

27 Rigney, D. *The Matthew Effect: How advantage begets further advantage*; New York, Columbia University Press: New York, 2010, p.1.Print.

28 Data from Reserve Bank of New Zealand's Key household financial statistics, Table C21. Retrieved from https://www.rbnz.govt.nz/statistics/c21

29 Ibid.

30 Perry (2017). p.214 appears unable to source New Zealand studies on the persistence of wealth holding, but cites an Australian study which showed that over an eight year period, 59% of those in the wealthiest decile in 2002 were still in it in 2010 and 77% of those in the top decile in 2002 were in one of the top two deciles in 2010. Only 9% of those in the top decile in 2010 were in the bottom three deciles in 2002.

31 See a discussion on the financialisation of housing in: Aalbers M. (2017) The variegated financialization of housing ; International Journal of Urban and Regional Research DOI:10.1111/1468-2427.12522 pp. 542–553 and Morris, A. (2018). *The financialisation of housing and the housing affordability crisis in Sydney*; Housing Finance International—Summer 2018, pp.63–69.

32 Data on housing wealth is taken from the Reserve Bank's household financial statistics, while the residential investment data is taken from Statistics New Zealand's national accounts data series. All values offered in this graph are nominal and are for the June years.

33 Ibid.

34 See for example the work of He Kainga Oranga—the Housing and Health Research Programme at the Wellington School of Medicine. Retrieved from http://www.healthyhousing.org.nz

35 For example: see *The Plan to Fix Renting* campaign being run by Renters United. Retrieved from https://www.rentersunited.org.nz/plan/

36 Statistics New Zealand's Quarterly Estimates of Households and Dwellings. Between June 2013 and June 2018 the stock of dwellings is estimated to have grown by 117,500 or which 80,000 were either rented or provided rent free.

37 White, V., et al. (2017). BRANZ 2015 *Housing Condition Survey: Comparison of house condition by tenure*. BRANZ Report SR370. Figure 5, p.9 reports that of the 560 houses surveyed 75% of those rented were constructed prior to 1979, while 59% of owner-occupied housing were.

38 Witten, K., et al. (2017). *The New Zealand Rental Sector* BRANZ Report ER22. p.10.

39 For example: the average size of a new house is around 200–210 m2, while 25 years ago it was 150–160m2—Source: Statistics New Zealand Building Consent dataset.

40 These projections are based on Statistics New Zealand's household and population projections and scenarios around possible changes in home-ownership rates and average household sizes.

41 Ibid.

42 Quotable Value Rental Analysis. Retrieved from https://www.qv.co.nz/property-trends/rental-analysis. Data downloaded in August 2018.

43 Ibid.

44 Ibid.

45 Corelogic (2018). *Quarterly Property and Economics Report—New Zealand Quarter 2, 2018*, p.17.

46 Reserve Bank (2015) *Financial Stability Report—November 2015*, Figure a.3; and Corelogic (2018) *Quarterly Property and Economics Report—New Zealand Quarter 2, 2018*. p.17.

47 Source: Reserve Bank of New Zealand Financial Stability Report—November 2017, figure 2.6. Data available from https://www.rbnz.govt.nz/financial-stability/financial-stability-report/fsr-november-2017

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

48 The most recent change to mortgage lending rules occurred on 1st January 2018 when tighter restrictions were placed on lending to investors. See the Reserve Bank's approach to regulating loan-to-value relationship in mortgage lending. Retrieved from **https://www.rbnz.govt.nz/financial-stability/loan-to-valuation-ratio-restrictions**

49 Reserve Bank of New Zealand Household balance sheet data, table C22. Retrieved from **https://www.rbnz.govt.nz/statistics/c22**

50 Ibid.

51 The social housing waiting list grew by 127% between June 2016 and June 2018, while the waiting list for highest priority applicants (Priority A) grew by 162% between these dates. See Ministry of Social Development (2018) Housing Quarterly Report—June 2018. Retrieved from **https://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/social-housing/housing-quarterly-report-jun2018.pdf**

52 For example: section 51 of the Act sets out the time periods which apply under various circumstances should the landlord or tenant wish to terminate a tenancy but not reason for such a termination is required. Section 25 of the Act makes provision for a tenant to challenge a rent increase proposed by his/her landlord in the Tenancy Tribunal but the Tribunal is only required to set a lower rent where that proposed '*exceeds the market by a substantial amount*'.

53 The Act does not define a place of residence as a dwelling with specific qualities, but rather refers to the property rented by a tenant as a premises which includes '*any mobile home, caravan, or other means of shelter placed or erected upon any land and intended for occupation on that land*' (s.2). Section 45(1)(b) of the Act only requires that the landlord '*provide and maintain the premises in a reasonable state of repair having regard to the age and character of the premises and the period during which the premises are likely to remain habitable and available for residential purposes*'.

54 These obligations are set down in sections 138A and 138B of the Act and were introduced by the Residential Tenancies Amendment Act 2016.

55 Information supplied by MBIE on 9/08/18 under the Official Information Act 1982.

56 The Financial Statements of the Government of New Zealand for Year ended 30 June 2017, reported that the Crown held $509.1 million in trust in tenants' bonds, p.123.

57 MBIE Annual Report for 2016/17 p.105 and p.130.

58 See Reserve Bank news release. Retrieved from **https://www.rbnz.govt.nz/news/2013/08/limits-for-high-lvr-mortgage-lending**

59 See Reserve Bank announcement. Retrieved from **https://www.rbnz.govt.nz/financial-stability/loan-to-valuation-ratio-restrictions**

60 Morris, A. (2018) *The financialisation of housing and the housing affordability crisis in Sydney*. Housing Finance International; Summer 2018, pp.63–67.

61 Source: Reserve Bank Statistics Tables C5—Sector Lending and Table M5 Gross Domestic Product.

62 Leonhard, A. (2018). *Regulation of the Swedish housing market*. Housing Finance International; Summer 2018 pp.70–74.

63 See the description of the Special Housing Areas and the Accord at **https://www.qldc.govt.nz/planning/special-housing-areas/**

64 See Queenstown Lakes District Council Lead Policy. Retrieved from **https://www.qldc.govt.nz/assets/Uploads/Planning/SHA/LEAD-POLICY-as-updated-for-28-June-2018-Hawea-SHA-Full-Council-meeting....pdf**

65 See NZ Herald article of 30/08/18 '*Government set to override Unitary Plan in bid to build more Auckland homes*'. Retreived from **https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12116466**

66 See, for example, the 2016 case of slum landlord Sanctuary Homes renting out garages as emergency housing, with the MSD making payments directly to them on behalf of tenants and solicited tenants at MSD offices. See the Newshub report. Retrieved from **https://www.newshub.co.nz/home/new-zealand/2016/07/predatory-property-managers-renting-out-auckland-garages.html**. This practice continues with Wiseguys which offers dormitory type accommodation in Kingseat, South Auckland under quite exploitative and unsafe conditions. See TVNZ report at **https://www.tvnz.co.nz/one-news/new-zealand/horrible-mothers-shocking-allegations-over-treatment-her-son-mens-refuge-near-auckland**

67 Ministry of Business Innovation and Employment—Tenancy Bond data base—based on average mean rents report for new tenancies for the years ending 31/03/07 and 31/03/18.

68 New Zealand Government Budgets—most recently Budget Economic & Fiscal Update 2018, p.113.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

69 These estimates are based on detailed data on the Accommodation Supplement supplied to the author by Ministry of Social Development on a customised basis. This data suggests that approximately 77% of AS payments by value are paid to tenants to assist in meeting rents, and that 66% of AS payments in number are made for rent subsidies. In mid-2018 around 285,000 people received an AS payment. The 160,000–170,000 estimates of the number of tenant households receiving AS is based on making an allowance for the fact that some payments are made separately to couples who share a house/tenancy.

70 This estimate is based on a comparison of data on mean rents reported by MBIE Tenancy Bond Division data and Statistics NZ's estimates of the numbers of tenant households—around 650,000. Some allowance has been made here for the fact that recent rents are not likely to be representative of average rents overall especially when rents in social housing are taken into account. The estimates of $10 to $12 billion annually is however consistent with National Accounts data from Statistics NZ which puts the total value of housing and housing utility services at $33 billion (YE Mar18) and the fact that around one third of households are renting.

71 Housing New Zealand Annual Report 2016/17, p.86.

72 Data on guaranteed loans from Housing New Zealand Annual Reports and data on mortgages from Reserve Bank statistics, Table C22.

73 Source: Housing New Zealand Annual Reports.

74 See eligibility criteria. Retrieved from https://www.hnzc.co.nz/ways-we-can-help-you-to-own-a-home/kiwisaver-homestart-grant/

75 Vote Building and Housing 2018, p.63.

76 Housing New Zealand (2018) *Financial Products Quarterly Report for the period ending 30 June 2018.*

77 Ibid, plus Reserve Bank statistics, Table C31.

78 Housing New Zealand Annual Report 2016–17 p.47.

79 For example Housing New Zealand's 2016–17 Annual Report (p.17) reports a total stock under its management/ownership at 30 June 2017 of 63,276, yet MSD's Social Housing Quarterly Report—June 2017—reported that Housing New Zealand had 61,612 dwelling at this date. See Table 3.3 of this report.

80 Source: Johnson, A. Howden-Chapman, P. and Eaqub, S. (2018). *A Stocktake of New Zealand's*. Table 4.1, p.27.

81 Ministry of Social Development' Social Housing Quarterly Reports. Retrieved from https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/housing-quarterly-report.html

82 Budget Economic and Fiscal Update 2017, p.113.

83 Housing New Zealand Annual Report 2016/17, p.56.

84 Budget Economic and Fiscal Update 2017 Table 6.2, p.130.

85 Ministry of Social Development Housing Quarterly Report—June 2018.

86 Ministry of Business Innovation and Employment website at https://www.mbie.govt.nz/info-services/kiwibuild

87 Vote Building and Housing 2018, p. 40 and p.42.

88 Press release, by the Hon. Phil Twyford, of 4 July 2018, '*Door opens to affordable home ownership*.' Downloaded from https://www.beehive.govt.nz/release/door-opens-affordable-home-ownership

89 Source: Statistics New Zealand Incomes Tables. Retrieved from http://nzdotstat.stats.govt.nz/wbos/Index.aspx?_ga=2.74703632.322572810.1536844058-1616466095.1502477398

90 See *Unitec land for housing* factsheet. Retrieved from https://www.interest.co.nz/property/92812/housing-and-urban-development-minister-says-29-hectares-unitec-land-mt-albert-will-be

91 See https://www.interest.co.nz/news/93736/ardern-admits-650000-three-bedroom-kiwibuild-home-will-still-be-unaffordable-too-many

92 Press release, by the Hon. Phil Twyford, of 13 July 2018, '*Mangere redevelopment means 10,000 new homes*'. Downloaded from https://www.beehive.govt.nz/release/mangere-redevelopment-means-10000-new-homes

93 Press release, from the Hon. Phil Twyford, of 9 September 2018, '*Thousands of new homes in Mt Roskill redevelopment*'. Downloaded from https://www.beehive.govt.nz/release/thousands-new-homes-mt-roskill-redevelopment

94 See *Stuff* article of 9 September 2018. Retrieved from http://www.scoop.co.nz/stories/PA1809/S00113/thousands-of-new-homes-in-mt-roskill-redevelopment.htm

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

95 Press release, by the Hon. Phil Twyford, of 13 September 2018, '*KiwiBuild apartments in Onehunga to be balloted*'. Downloaded from https://www.beehive.govt.nz/release/kiwibuild-apartments-onehunga-be-balloted

96 See Budget and Fiscal Update 2018, p.129.

97 These rules include maintaining Core Crown Debt to 20% of GDP (Rule 2) and maintaining Core Crown Expenditure to 30% of GDP (Rule 4). See the rules at https://www.labour.org.nz/fiscalplan-brr

98 Available at https://www.ohchr.org/Documents/ProfessionalInterest/cescr.pdf

99 Johnson, A. (2015). *Every child's right to housing*, in Child Poverty Action Group's *Welfare fit for families in a changing world—Summit Proceedings* pp39–46. Available at https://www.cpag.org.nz/assets/Summit/151029SummitProceedings.pdf

100 Morris, A. Hulse, K. and Pawson, H. (2017). Long-term private renters: Perceptions of security and insecurity. *Journal of Sociology*, 53(3), pp.653:669.

101 Bennett, M. (2016). *Security of Tenure for Generation Rent: Irish and Scottish Approaches*. Victoria University of Wellington Law Review 47, pp.363–384.

102 Ministry of Business Innovation and Employment (2016) *Regulatory Impact Statement: Smoke alarms and insulation in residential rental properties*. Clause 10.

103 Ibid clause 56.

104 For example: Vote: Business Science and Innovation 2018 (p.5) under Commerce and Consumer Affairs budgets for the 1918/19 year provided for departmental expenses for the Official Assignee functions ($17.6 million); Registration and granting of intellectual property rights ($21.2 million) and Registration and Provision of Statutory Information ($43.4 million).

105 See Greg Ninness' article *Residential rental yields appear to have bottomed out and are starting to rise as capital gains dry up and rents rise*. Retrieved from https://www.interest.co.nz/property/94851/residential-rental-yields-appear-have-bottomed-out-and-are-starting-rise-capital

106 See for example data from CoreLogic Australia, which shows residential property yields in Sydney and Melbourne at around 3%. Retrieved from https://www.businessinsider.com.au/australian-property-rental-yields-2018-1

107 See the Real Estate Institute of New Zealand's *Monthly Property Report* for August 2018, which showed that Auckland house prices rose 1.4% during the previous 12 months compared with an increase of 6.2% across the rest of New Zealand. Retrieved from https://www.reinz.co.nz/Media/Default/Statistic%20Documents/2018/Residential/August/REINZ%20Monthly%20Property%20Report%20-%20%20August%202018.pdf

108 See data offered on Table 1.4.

109 See Department of Communities and Local Government (2012) *Review into the barriers to institutional investment in private rented homes*. Paragraphs 14 to 17. Retrieved from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/15547/montague_review.pdf

110 Thomas, R. (2017). *Institutional investment into the private rental sector in the UK—coming of age*. Housing Finance International—Winter 2017, pp.42–47.

111 Ibid p.44.

112 See endnote 4 above.

113 Appendix 4 provides details of first home buyers' outcomes for the three years to 30 June 2018. While there has been a modest 15% increase in HomeStart grants between 2016 and 2018, the total number of mortgages provided to first time home buyers remained constant at just under 24,000.

114 This estimate is based mainly on the $2.1 billion of Crown capital tied up in the KiwiBuild programme and the application of an interest cost of 5%.

115 Media releases by the Minister of Housing and Urban Development on the planned large scale re-development of Mangere (13/07/18) and Mt Roskill (09/09/18), indicated that these projects involve the demolition of 5,700 '*worn out state houses*', their replacement with 18,400 new dwellings of which 6,500 will be KiwiBuild properties, 6,500 market price properties and 6,000 social housing units.

116 This estimate is from an Aid Memoire titled '*Impact of KiwBuild on Residential Investment Forecast*' dated 14 May 2018 to the Ministers of Finance and Housing and Urban Development from Peter Gardiner manager Forecasting Treasury. This document has previously was posted on Treasury's website at https://treasury.govt.nz/publications/information-release/key-documents-budget-2018-information-release on 30 August 2018 but has since been removed. The author can supply a copy of this document if required.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

117 Ibid p.2.

118 The Axis Series programmes operates in Hobsonville Point and is a ballot system for selling smaller more affordable dwellings, which are valued between $450,000 and $650,000. To enter the ballot participants must be NZ residents and have a joint household income of less than $130,000. They are also obliged to retain the dwelling for at least two years after purchase. No information is available on take-up, subsequent sale off or the profile of participants in this programmes. See Axis Series website at **https://axisseries.co.nz/about**

119 Johnson, A. (2017). *Taking Stock: Demand for social housing in New Zealand*, pp.2–4.

120 Ministry of Social Development (2018). *Housing Quarterly Report—June 2018*, p.10 reports the priority social waiting list of 3,549 in June 2016 rising to 8,704 by June 2018.

121 See a summary of these figures in Appendix 5.

122 Ministry of Social Development (2017) Housing Quarterly Report—December 2017, p.4.

123 This figure of 68,000 units in Housing NZ's ownership by mid-2022 is based on an estimated stock of 61,300 in September 2017, the Government's own 2018 Budget target of 6400 additional social housing units over four years and the probability that the great majority of these additional units will be provided by Housing New Zealand.

124 This calculation is based on an assumption of long-term Government borrowing rate of 3% and construction and land costs of housing built at scale of $330,000 to $400,000 per dwelling.

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

Executive Summary
Introduction
1 The place of private rental housing
1.1 Private rental housing in our housing system
1.2 The economic position of tenants
1.3 The rise of 'landlordism' and the capture of wealth
1.4 Conclusions
2 Some future prospects for private rental housing in New Zealand
2.1 Future demand for private rental housing
2.2 The household formation—housing demand trade-off
2.3 Yields from residential investment
2.4 Estimates of required investment
2.5 Conclusions
3 The current housing policy landscape
3.1 The housing policy landscape
3.2 Elements of this landscape
3.3 Conclusions
4 Responding to challenges in the private rental market
4.1 A strategic framework for responding to challenges
4.2 Reforming tenancy laws
4.3 Encouraging private sector investment into rental housing
4.4 Subsidising home ownership
4.5 More social housing
4.6 Reform of rental subsidies
Appendices
Endnotes
Publishing Details

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