

February 2012

**SUBMISSION OF COMMUNITY HOUSING AOTEAROA
TO THE PRODUCTIVITY COMMISSION'S DRAFT
REPORT ON ITS HOUSING AFFORDABILITY INQUIRY**



OVERVIEW:

Community Housing Aotearoa is the national peak body for the community housing sector in New Zealand. As an organisation we welcome the discussion around housing affordability provided in the Productivity Commission's draft report on its Housing Affordability Inquiry and in particular the emphasis on community housing provision contained in Chapter 11 of the draft report. It is our intention here to comment on just two chapters of the report - Chapter 7 on urban planning and Chapter 11 on the impacts of affordability

CHAPTER 7: URBAN PLANNING

Community Housing Aotearoa (CHA) largely agrees with the Commission's analysis that urban containment policies contribute toward higher housing prices. It does not of course follow that a more expansive urban development regime and more permissive zoning policies, as many submitters to the Commission's are arguing for, will provide affordable housing. There are several good reasons to be doubtful that a more liberal zoning approach will be the panacea to the problems of unaffordable housing in Auckland which is a prospect that many of the advocates for urban expansion seem to be offering. CHA believes that the Commission should be more cautious in its recommendations in support of such policies because we believe that the debate has not been particularly balanced to date.

The reasons CHA believes that the Commission should be more skeptical in its stance toward a more expansive urban development regime are as follows:

- **Location, location, location** - Land is of course locationally specific so one block of land is not a perfect substitute regardless of the regulatory regime in place. This means that the owners of land with locational advantages will be able to extract a premium for it to the point that the market will pay this premium. Clearly with more permissive zoning there is more choice so this premium will be bid down, but it won't be bid away. In turn this means that land for affordable housing will be the least desirable of whatever options are available but it does not necessarily follow that just because there are these wider options that the raw land, the developed sections and the housing built on them will be affordable. Certainly closer analysis should be done on what lower raw land prices mean for the final cost of housing before the lack of affordable housing is blamed on restrictive zoning.
- **Higher land values means other things too** - The implication in much of the commentary on the house price effects of urban consolidation policies is that the additional costs accrue to owners of land within the zoned urban area as some sort of monopoly rent. This may be so in part although it is possible that some of these additional costs reflect other factors such as *'the relative value of high accessibility, efficient service provision, economic vitality and the investment certainty associated with clear planning requirements'*.¹
- **We pay for what we get** - The suburbs and communities created in the least desirable land beyond the current urban fringe are cheapest for a reason - no one else except those without choice want to live there. Such a filtering process runs a real risk of concentrating poverty and unmet social needs.

¹ Gurrin, N. (2008) Affordable Housing: A Dilemma for Metropolitan Planning? Urban Policy and Research Vol 26:1 p109.

- **Who wants affordable housing?** Developers work hard to create a premium for their product and are unlikely to provide for affordable or social housing if they can avoid it. Subtly developers, marketers and new residents create and maintain barriers to the entry of affordable housing through such ploys as minimum lot sizes, building covenants and density limits.
- **Living on the fringe is expensive in other ways** - Living in distant suburbs which rely on the use of cars and long commutes is expensive for anyone but more so for those on limited incomes. This expense is both a money and time one which is not taken account of by those advocating for urban expansion as an affordable option. The financial expense of car dependency and long commutes is likely to rise as energy costs increase.
- **The best laid plans often come to naught** - Despite the rhetoric around integration of planning for land release and delivery of public services this seldom happens in practice. This failure occurs because of the multitude of agencies responsible for delivering such services - each with their own budget priorities, organisational objectives and statutory responsibilities. To expect these agencies to respond quickly to needs created by private developers' decisions to undertake a development is hopeful in the extreme. To see what this failure looks like, consider the experience of people in a far flung affordable suburb in western Melbourne where one resident reported that *'we are effectively 20 minutes from the city but sometimes it can take 40 minutes just to get out of the suburb'* because of the failure to deliver an adequate local street network.²

CHA is especially skeptical of the extent to which development on the urban fringe will accommodate affordable housing unless such housing is in isolated, separate and undesirable locations. Ideally in any greenfields developments there should be some provision for affordable housing, both for reasons of social mix and social justice. Such provision could be imposed by such measures as; inclusionary zones, or through the appropriation or compulsory sale of land for affordable development, or through such techniques as minimum densities, or requirements for large multi-unit blocks thus providing opportunities for affordable housing development for the private and community sectors.

CHA recommends that the Commission includes a discussion on how affordable housing opportunities might be built into a new urban regulatory regime being argued for in Chapter 7 of the draft report.

CHAPTER 11: AFFORDABILITY WHERE IT BITES

CHA supports the Commission's recommendations and findings around the question of the social impacts of housing affordability aka "affordability where it bites". CHA shares the Commission's pessimism around the ability of the market to deliver a sufficient volume of affordable rental housing to provide sufficient dwellings to accommodate households in the so-called intermediate market. We also support the Commission highlighting this as a policy question and fiscal challenge facing Government. We do not believe that any realism has been brought to the public debate around the lack of affordable housing to date and that politicians and their policy advisors have taken a head in the sand stance to an issue which is growing worse by the week. We see this contribution from the Commission as being overdue and necessary and believe that this part of the report should be highlighted.

The question of stock transfers

CHA members have a number of views around the question of transfers of housing stock between Housing New Zealand (HNZ) and community housing organisations (CHOs). These views are conditioned by where a particular CHO is based. In regions with fairly stable housing markets such as Wellington or in areas where HNZ has only a small, and, by some account diminishing presence, such as Nelson, CHOs tend to advocate for stock transfers as a way of quickly building scale and improving service delivery to tenant households. On the other hand, in regions where unmet demand for affordable housing is high, such as Auckland and the western Bay of Plenty, CHOs tend to advocate for expansion of the housing stock rather than stock transfers. CHOs in Auckland

² See the Melbourne Age's report on Point Cook West at <http://theage.domain.com.au/real-estate-news/5800-more-people-still-no-facilities-20120208-1reto.html>

however see some value in stock transfers from HNZ where there is potential to realise some development opportunities on under-utilised sites.

CHA agrees with the Commission's findings that stock transfers are unlikely to either address the problem of unaffordable housing or improve the viability of the community housing sector if all that is transferred is obsolete, poorly maintained stock in regions of low demand.

The question of stock transfers as an approach to quickly increasing the scale of CHOs needs also to consider the dynamics between HNZ and the community housing sector. A public housing agency such as HNZ and the community housing sector can be seen as competitors so to CHA and its membership it made no sense to expect HNZ to effectively and fairly administer a programme such as the so-called Housing Innovation Fund which ostensibly was designed to develop the community housing sector. It is quite feasible now that if HNZ was instructed by its shareholding ministers to transfer stock to the community housing sector it would act quite commercially and look to offload its least desirable stock and most troublesome tenants - a proverbial poisoned chalice. Ideally if stock transfers are on the agenda then some preliminary thought should be given to the broader affordable housing needs of the regions in which these transfers may take place and to how neighbourhoods and tenants might be advantaged by such transfers.

The question of scale

The Commission has asked CHA about the ideal scale for the community housing sector and of the ability for the sector to achieve this scale. This is something of a 'chicken and egg' question in that any desirable scale should be based on need and on what are seen as appropriate or worthwhile business models.

To some degree the draft report lacks any reference to the extent of need for affordable housing and this absence has meant that the report does not really address the scale of the commitment necessary to address the problem. That being said it is probably not the Commission's job to do this but that of some other agency such as Ministry of Social Development or Department of Building and Housing and CHA certainly appreciates the Commission's initiative in raising these questions in the first place.

Projecting housing need is a vexed problem in part because such an exercise relies on population forecasts which in New Zealand are very dependent on migration flows. As well, housing demand depends on household formation and household formation depends on the interaction of housing availability, household incomes and housing costs. For example, we may not see declining household sizes as the population ages but rather an increasing incidence of multiple generations living together as three or four generations occupy the same house simply because they cannot afford separate houses. This is not necessarily a bad thing although the desirability of such living arrangements depends critically on the suitability of the houses to accommodate such numbers of people.

These complications suggest that rather than planning for what might occur given expected demographic and economic trends or forecasts, instead we should be planning for what is necessary and/or desirable in terms of housing and living outcomes for all New Zealanders. Inevitably judgments around questions such as overcrowding and housing stress are based on some assumptions of what is ideal or at least tolerable given New Zealanders' expectations and our economic resources. These assumptions around what is ideal and/or tolerable are however a good starting point for a planning exercise which is looking at housing need³.

Based on assumptions around housing stress and overcrowding a basic forecast of need for social rental housing is offered in Table 1 below.

³ The assumptions loosely incorporated into Table 3 include

- that average household size will rise as housing costs remain high
- that a greater share of houses will be rented than was the case over the past 20 years
- that the indicator of when people require additional assistance with their housing is when their housing costs exceed 40% of their household income
- that the proportion of such households will be around 20% to 30% based on previous analysis undertaken for CHANZ - Darroch (2010) Auckland Region Housing Market Assessment

Table 1: Forecasts of needs for social rental housing

	Auckland	Rest of New Zealand	New Zealand
Forecast population growth 2011-2031	456,700	167,300	624,000
Assumed average household size (<i>people per household</i>)	3.2	2.8	
Number of new dwellings required 2011-2031	142,719	59,750	202,469
Rental housing share of total stock 2006	36.2%	31.9%	33.1%
Assumed share of new stock as rental housing	40%	35%	
Number of new rental stock required 2011-2031	57,088	20,913	78,000
Assumed number of tenant households under housing stress	30%	20%	
Number of tenant households requiring assistance	17,126	4,183	21,309

There are of course a huge number of debatable or simplifying assumptions behind the figures in Table 1 but these figures provide us with what might be seen as a bottom estimate for the additional numbers of households which will require significant assistance with their housing over the next 20 years - in other words the most modest response necessary. What is noticeable here is that 75% of the likely demand is in Auckland.

How these tenant households identified as living under housing stress might be helped is the subject of a much broader debate. If we assume for now that these figures represent the minimum number of additional social housing units required over the next 20 years the subsequent question is around which party provides these. This is where the question of scale of the community housing sector comes in and it does not appear unreasonable to CHA that we might expect this sector to cater for 50% to 75% of all additional social housing units required into the future with HNZ or other public landlords such as Councils providing the remainder. This would mean that the expected community housing sector build could be in the order of 500 to 750 dwelling units per year with 375 to 500 of these being in Auckland. CHA believes that this is achievable within five years as long as the sector has a reliable and adequate funding path to make the necessary investment in organizational capacity worthwhile.

The extent and nature of subsidies required

The Commission has in CHA's view correctly identified the comparative advantages offered by the community housing sector (p.174). The draft report also indicates the problem which the sector has had in finding a viable business model on which to expand. There is no magic bullet to this problem as it simply comes down to the need to pay market prices for new stock, market interest rates on debt and not having other income and the tax incentives to offset operational losses as private sector landlords have done. Given these circumstances and that fact that CHOs engaged in providing rental housing generally look to set rents at 75% to 80% of market rents there is little or no room to move unless the CHOs have substantial levels of equity or interest free debt.

Progress to date in building the stock of community owned social housing units has been limited and interrupted. This modest progress has been blamed on the sector itself with claims, especially by HNZ, that the sector lacks the capacity to grow and to reach scale. CHA believes that this modest progress is due almost entirely to the absence of any coherent and consistent policy to assist CHOs to grow and by the lack of any realistic budgets from Government to support this growth.

In most years of the operation of the Housing Innovation Fund and under its present manifestation under the Social Housing Unit, bids for funding assistance have easily exceeded the funding available by a significant margin. This suggests to CHA that the binding constraint is not within the sector and due to its lack of capacity and ambition but around inadequate budgets and clumsy administration.

A great deal has been made of the importance of balance sheets as the spring board for expansion of the social housing stock. This is the tenor of the Housing Shareholders Advisory Group's recommendations to Government and of the Minister of Housing's perception that stock transfers are a funding mechanism (see p.177 of the draft report). Once again, there are no magic bullets here. Strong equity positions are only able to be leveraged if an individual or organisation has the income to meet debt servicing costs involved. CHOs do not have and will not have strong income streams to support much higher levels of debt if they are to rely entirely on the rent paid by tenants - which as noted in the draft report and above is targeted to 75 to 80% of market.

The present take up of the funding programme offered by the Social Housing Unit is based on CHO's existing equity and philanthropic funding. As a business model CHA believes that this is probably not sustainable over the medium term. This is in part because CHOs will eventually burn their equity positions by taking on enough debt to soak up their existing income streams leaving little opportunity for further borrowing. The capacity of the philanthropic sector to continue to meet the need for further equity grants to CHOs at the level they are contributing now is probably limited as well. As a business model, the current proportion of equity contribution coming from the State for new projects is definitely not scalable to the size of programme anticipated in Table 1 above.

CHA's initial modeling suggests that equity contributions of 65% to 70% of a project's costs are necessary if CHOs are to work off a sustainable business model which relies entirely on rents paid by tenants. Such a business model would expect philanthropic contributions of around 5% of project costs and borrowing of 25% to 30%.

Given the scale of the likely future demand for social housing as suggested in Table 1, CHA estimates that the community housing sector will require capital grants from the State of between \$100 million and \$150 million annually and that this level of funding is committed to on a rolling three yearly basis in order to allow for the planning and assembly of projects. This estimate does not include any allowances for a viable rural Maori housing programme and in fact CHA believes that rural Maori housing and social housing budgets should be appropriated and accounted for separately for clarity and certainty. This estimate of \$100-150 million annually is three to five times more than the 2011/12 budget for community housing through the Social Housing Unit but should be seen as the barest minimum of response to the need for affordable housing.

Can the sector reach scale?

As discussed above the community housing sector has failed to reach scale because of inadequate budgets, inappropriate policy and an unrecognized conflict of interest with HNZ's role in these. CHA's members believe that many of their organisations can reach scale over a three to five year period if a workable policy framework was put in place and if credible and reliable budgets were available.

The community housing sector appreciates the extent of the challenges it faces in reaching a scale where it can build 500 to 750 dwellings annually. The sector already has competent managers involved in CHOs who know the territory of affordable housing as well as anyone in New Zealand. The sector appreciates that it needs to improve its governance structures and practices and acknowledges that ineffective governance is a risk if significantly larger budgets became available. Through CHA, the sector has developed a viable quality assurance programme and we are keen to see that standards are put in place to regulate the sector and that these standards have some level of recognition and endorsement from Government.

CHA's members do not however believe that there is an ideal size for a community housing organisation as some who observe Australian and British experience may suggest. The reason for this is threefold. Firstly, running social housing involves a number of quite different types of operations - some financial, some physical and some social. Not all of these operations have the same scale economies which mean that as an organisation grows, economies of scale and diseconomies of scale may come into play at the same time. Secondly, it is possible for CHOs to contract out some aspects of their operations either to the private sector or to jointly owned organisations which have the right scale and focus to do the job. Examples here include property management, tenant recruitment, procurement and audit. Finally, there is a trade-off between organisational efficiencies and effectiveness when an organisation is looking to achieve social objectives. Big is not always best, particularly if some of the social objectives being pursued are to more closely meet tenants' needs and to build social cohesion at a neighbourhood level.

In answering the question of scalability a qualifying question should be asked - the scalability of what? CHA's membership are firmly of the view that CHO involvement in social housing should be as the owner and manager of housing stock as well as the deliverer of services to tenants where this is necessary or appropriate. We certainly do not see the role of community organisations being limited to managing tenants and the problems they have or may cause while another party, be it a private investor or public agency own the property. Such a role simply shifts much of the operational risk around social housing to an NGO and away from the owners and in our view will not be a sustainable model.

CONCLUSIONS:

Community Housing Aotearoa appreciates the profile which the Productivity Commission has given to the community housing sector and its potential in the draft report. We have within this submission attempted to answer the questions raised by the Commission around the role and prospects for the community housing sector. These answers are however tentative and rely on a number of assumptions which can easily be criticised. CHA welcomes future debate around these assumptions and around the role which the community housing sector may play in providing modest income New Zealanders with decent, secure and affordable housing. Like the Commission, CHA sees affordable housing as one of the biggest challenges facing New Zealand at present and we are excited by the discussion which the Commission has raised in this report and congratulate you for that.