



External Research Report
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Summary of: Can Work, Cannot Afford to Buy the Intermediate Housing Market

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Livingston and Associates Ltd funded by the Building
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EXTERNAL RESEARCH SUMMARY

Can Work, Cannot Afford to Buy the Intermediate Housing Market

Research Funded by BRANZ
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The Intermediate Housing Market in New Zealand

The housing market outcomes experienced by different communities around the country reflect the changing economic and institutional environment in which they operated. During the 2000s and into the second decade of the 21st century housing markets around the country experienced a significant cycle which peaked in 2008 and subsequently declined.

This bulletin presents a summary of some of the key findings of research currently being undertaken by Livingston and Associates Ltd and funded from the Building Research Levy into the intermediate housing market.

Trends in the relative size of the intermediate housing market reflect renter households' ability to become owner occupiers. In the context of this report the intermediate housing market is defined as households:

- Currently in the private rental market;
- That have at least one member of the household in paid employment; and
- Cannot afford to buy a house at the lower quartile house price under standard bank lending criteria¹.

The results of this analysis suggest nationally, housing affordability was poorest in the middle of the last decade before improving over the next seven years. However, not all regions have followed the same pathway. Auckland is now out of cycle with the rest of the country and has experienced significant declines in affordability since 2013. These trends have a number of housing market and policy implications.

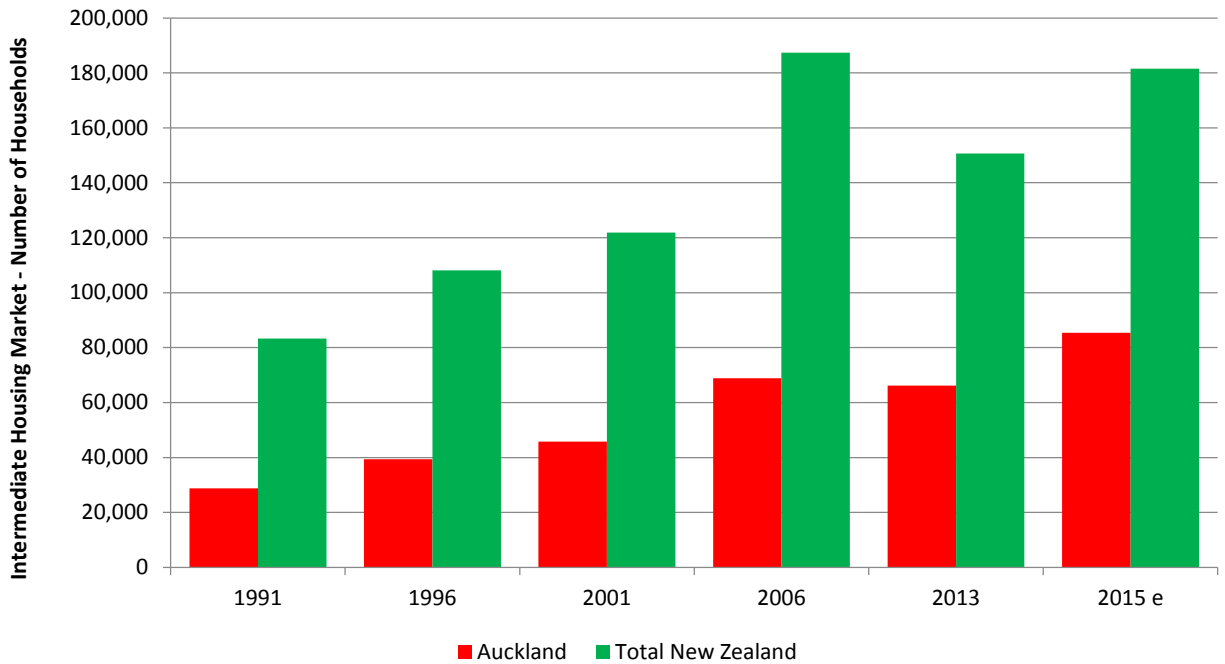
Trends in the relative size of the intermediate housing market indicate there has been a significant readjustment in the relative level of affordability of housing purchases for renter households since 2006. The notable exception to this trend is the Auckland region where the analysis suggests current market trends are unsustainable in both the short to long term. The number of households in the intermediate housing market has increased over the past 24 years by approximately 102% nationally and 182% in the Auckland region. There are now 181,500 intermediate households nationally and 85,400 of these are located in Auckland.

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¹ For the purposes of this analysis bank lending criteria is assumed to include; a 10% deposit, no more than 30% of the household's gross income paid in mortgage expenses.

181,500 intermediate households nationally and 85,400 of these are located in Auckland. Figure 1 presents the trends in the size of the intermediate housing market nationally and in the Auckland region between 1991 and 2015.

Figure 1: Intermediate Housing Market 1991 to 2015



Sourced: Modelled from data sourced from Corelogic, RBNZ, and Statistics New Zealand

The proportion of intermediate households located in the Auckland region has increased from 34% in 1991 to 48% of the national total in 2015. The number of intermediate renter households fell between 2006 and 2013 by 36,800. A number of factors influenced the decline. Interest rates fell from 9.55% in March 2006 to 5.86% in March 2013 and household incomes also increased over the seven years between 2006 and 2013. Both of these drivers had a downward impact on the number of intermediate renter households. A number of other drivers had a positive impact on the size of the intermediate market. Population growth and the fall in the home ownership rate both increased the number of intermediate households. At the same time lower quartile house sale prices increased by 25% (on average) between 2006 and 2013.

The relative size of the intermediate housing market varies by region. The relativities of household income, house prices and the size of the in-work private sector renters within the housing continuum all are important drivers. In addition, variations in interest rates also play a key role.

Table 2 presents the trend in the intermediate housing market by region in 2001, 2006, 2013 and 2015 and includes the number of households as well as the intermediate housing market as a percentage of in-work private sector renter households and all households.

Table 2: The Intermediate Housing Market by Region 2001 to 2015

Region	Intermediate Households (IH)				IH as a % of IWPRH ²			
	2001	2006	2013	2015	2001	2006	2013	2015
Northland	4,000	5,100	3,600	4,000	59%	61%	42%	45%
Auckland	45,700	68,800	66,200	85,400	66%	78%	64%	78%
Waikato	11,300	16,500	12,100	14,300	55%	65%	41%	46%
BOP	9,200	12,600	8,400	9,900	62%	69%	43%	48%
Gisborne	900	1,400	700	800	41%	56%	26%	26%
Hawkes Bay	4,200	6,100	4,100	4,500	55%	69%	42%	44%
Taranaki	2,100	3,400	2,500	2,800	40%	57%	37%	40%
Man- Wanganui	4,900	7,800	4,600	4,900	40%	53%	31%	33%
Wellington	14,400	23,300	17,700	19,400	54%	70%	48%	50%
Tasman	1,300	2,100	1,700	1,900	68%	84%	65%	70%
Nelson	1,700	2,700	2,000	2,200	61%	81%	59%	63%
Marlborough	1,000	1,400	1,200	1,300	53%	58%	45%	46%
West Coast	300	700	400	500	23%	38%	22%	22%
Canterbury	15,100	24,700	17,900	21,500	54%	72%	47%	54%
Otago	4,600	8,800	6,100	6,900	41%	65%	43%	46%
Southland	1,000	1,800	1,100	1,200	22%	37%	19%	19%
Total	121,900	187,400	150,600	181,500	56%	70%	50%	57%

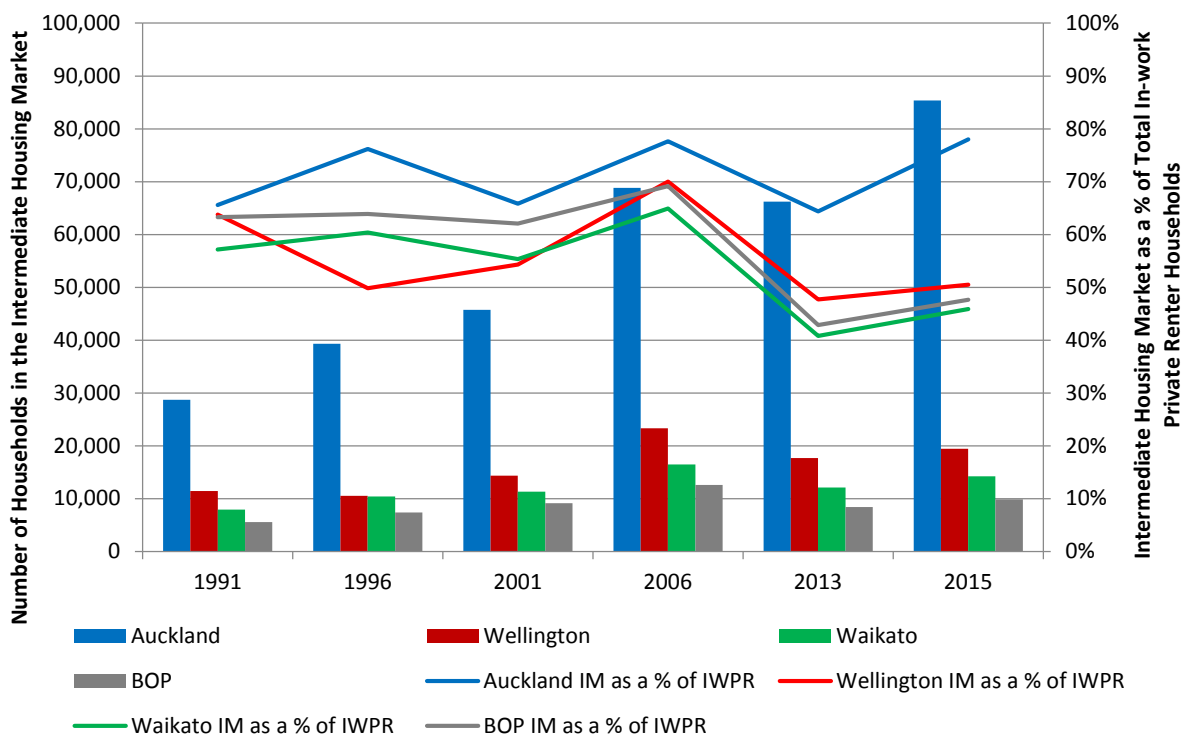
Sourced: Modelled from data sourced from Corelogic, MBIE, RBNZ, and Statistics New Zealand

² IWPSRH – In-work private sector renter households

Intermediate households as a percentage of in-work private sector renters provides a relative measure of home buyer affordability for renter households. As the percentage of intermediate households increase, the relative affordability declines. Auckland region's affordability is currently (as at 2015) comparable with 2006 and is the only region where affordability has not improved over this time period. The regions with the next least affordable housing ratios are Tasman and Nelson regions. Gisborne, West Coast, and Southland regions had the most affordable housing ratios in 2015.

Figure 2 presents the trend in the number of intermediate housing market households in Auckland, Waikato, Bay of Plenty and Wellington regions together with the ratio of intermediate housing market households to in-work private renter households. Scenario 2 was selected for this comparison as it included both the long term average interest rates and house price growth rates.

Figure 2: Intermediate Housing Market Households and the Ratio to In-Work Private Renter Households in Auckland, Waikato, Bay of Plenty and Wellington Regions



Sourced: Modelled from data sourced from Corelogic, MBIE, RBNZ, and Statistics New Zealand

In Auckland, the intermediate market as a proportion of in-work private sector renters increased to 78% in 2015 while Wellington, Waikato and Bay of Plenty all experienced a significant decline

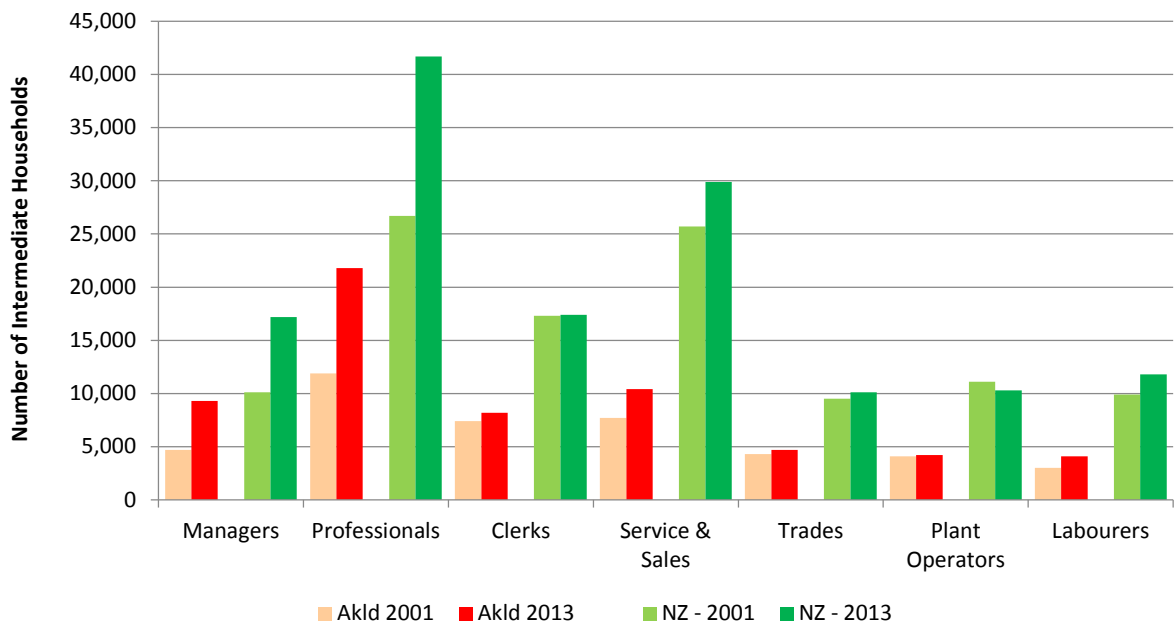
between 2006 and 2013 and only a small increase between 2013 and 2015. The key difference between Auckland and the three other regions was the growth in house sale prices between 2006 and 2015.

Demographic Trends

Intermediate renters have become a more diverse group incorporating more households consisting of couples-with-children and older renters. Increasingly the people living in these households are typically employed in higher paid occupations such as managerial positions and in white collar professions. As these households remain in the market for longer they have the potential to out-compete other households. This means that there is a real possibility that those households that have traditionally relied on the private rental sector could be increasingly marginalised as fewer households transition to owner occupation. The housing circumstance of these households could become more problematic and may result in increased overcrowding and increased demands for housing assistance.

Figure 3 presents the trend in the number of intermediate households by occupation in 2001 and 2013 for Auckland Region and nationally.

Figure 3: Intermediate Market by Occupation



Sourced: Modelled from data sourced from Corelogic, MBIE, RBNZ, and Statistics New Zealand

The increase in intermediate households with people employed as managers or in white collar professions accounted for 77% of the national growth in the intermediate market between 2001 and 2013 and 71% of the growth in Auckland region.

Intermediate Market Outlook

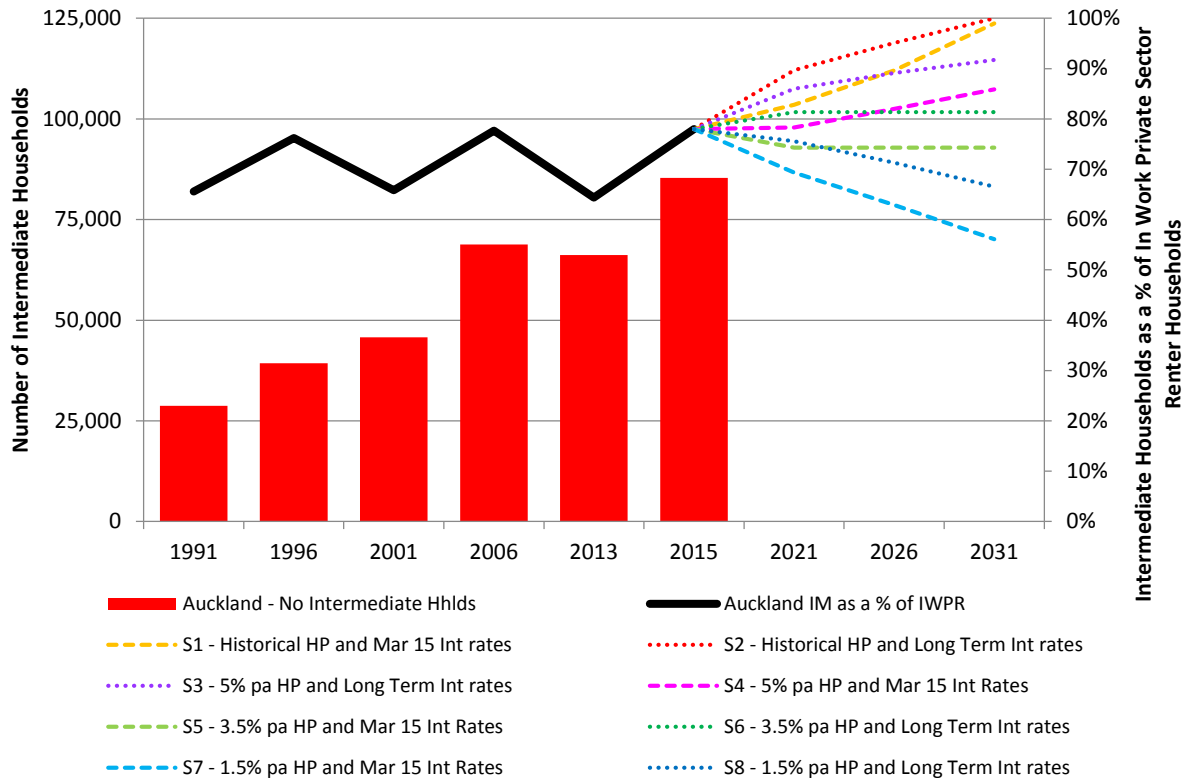
The impact of future trends on the intermediate housing market was also considered. A total of eight different scenarios were developed to improve the understanding of the scenarios implications on the relative size of the intermediate market.

There is a number of key variables which will impact on the future size of the intermediate housing market and these include:

- The growth in the number of households in each housing market was assumed to increase in line with Statistics New Zealand medium growth scenario and current pattern of tenure change continues through to 2031;
- Household incomes were assumed to grow at 3.5% per annum;
- Both the current level of mortgage interest rates and their 10 year average; and
- House price growth scenarios used included the housing markets' average annual rate over the last 25 years, 5.0% per annum, 3.5% per annum and 1.5% per annum.

Figure 4 presents the trend in the ratio of intermediate market to total in-work private sector renters in Auckland under all eight scenarios.

Figure 4: The Ratio of Intermediate Housing Market to Total In-work Private Sector Renters in Auckland



Source: Modelled based on data from Statistics New Zealand, Corelogic, RBNZ

If house prices increase at a faster pace than household incomes at best the current ratio of intermediate market households to total in-work private sector renters will remain constant and even under these assumptions interest rates need to remain at their current levels to achieve this outcome. Auckland’s historical rate of house price growth is 6.5% per annum.

In the year to March 2015 Auckland’s house prices increased by 14.9% and anecdotal evidence suggests that the rate of growth has not slowed since. This implies Auckland renters are rapidly being priced out of the market with an unsustainable market dynamic developing. One potential outcome could be further significant declines in the rate of owner occupation (home ownership rate) as higher income households remain renters for longer.

Clearly the current market trends in Auckland are unsustainable.

The objective of the scenarios is not to forecast the future rather the goal is to give an insight into potential market outcomes taking into account variation in key market drivers. Ultimately, if dwellings are to become more affordable to private sector renters, house prices have to increase at a lower rate than household incomes. An increase in the supply of more affordable smaller dwellings in different dwelling typologies could assist with this adjustment.

Potential Implications

The growth in the intermediate housing market and need for adequate affordable housing has implications for economic development. Failure to provide adequate, affordable, local housing options for those in the intermediate housing market can impact upon not only the efficiency of the local labour market and in particular labour availability, but also can lead to sub-optimal settlement and commuter patterns.

The economic consequences of a growing intermediate housing market for the mainstream economy include the growing inability of workers in essential occupations such as police, nurses and teachers to buy in areas in which they work. Again, failure to provide the desired local housing options for these “key workers” can impact upon the efficiency of the local labour market and in particular labour availability in these key occupations.

Declines in renters’ ability to purchase dwellings and subsequent falls in home ownership rates impact on the traditional notions of housing careers. Increasingly renter households are unable to transition to home ownership. Over the last two decades New Zealand has done well increasing the supply of the dwellings in the private rental stock at a pace which has limited the growth in rents to close to the rate at which household incomes have been increasing. To some extent Government has achieved this by not overly regulating the market. Changes in regulations focused on the private rental market could potentially slow the growth in the private rental housing stock and consequently have a positive impact on the rate of growth in rents.

The breakdown of the traditional housing pathway in Auckland is likely to result in a growing number of households who will never attain home ownership. Renter households on fixed incomes, particularly those with people aged 65 years and older, are particularly vulnerable to changes in the level of market housing costs (rents). Consequently one of the issues in need of consideration is how to ensure that there is appropriate affordable housing available to these households. In addition the growth in the number of renter households could place ongoing pressure for the accommodation supplement.

Traditionally, home ownership and the stability it provides has been associated with a range of positive educational, health and social outcomes. A key challenge for government housing policy is how, in the context of a growing intermediate housing market, with growing numbers of life-

long renters, these benefits might also be secured by those unable for reasons of affordability to secure home ownership.

Home ownership has also been one of households' key wealth building strategies. Growth in the intermediate housing market limits the ability of those households (in the intermediate housing market) ability to save and accumulate wealth for old age via home ownership. This has implications for the quantum and type of consumption support Government may have to provide during old age for those confined for most of their lives to the private rental market.

Many of the factors contributing to housing affordability problems arise within the housing system such as the failure to provide an adequate supply of well-located affordable housing. Other contributing factors arise from outside the housing system and housing policy settings. There are no easy answers in developing the appropriate policy responses to these trends, particularly in an Auckland context. It is important that future policy development considers their impact on the housing market whether it relates to issues directly associated with the housing market or in a more general economic context.