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Accommodation Supplement High Expenditure, Low Efficacy

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Affordable Housing for Generations: A Component A and Component B
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Executive Summary

This working paper contributes to Component A and Component B of the Affordable Housing for Generations (AHFG) research programme (Annex A). It suggests that the growth of Accommodation Supplement (AS) expenditure in tandem with falling owner occupation, rising homelessness and persistently unaffordable housing prices and rents raises questions around the value and efficacy of the AS.

Using customised extracts of data from the 2019 Household Economic Survey, this paper:

- reviews the pattern and impact of the AS on housing affordability outcomes for households;
- models the shortfall in household income in relation to housing cost exposure;
- calculates the additional expenditure on AS that would be required to alleviate housing affordability stress either through earnings and benefits, or through addition housing supplement;¹ and,
- comments on potential to redirect housing expenditure to achieve more effective investment across the housing system and leverage improved and sustainable housing outcomes.

In the 2020 budget, almost \$2.4 billion was allocated to the provision of AS. There have been substantial increases in Government expenditure on AS over the last twenty-five years. Even so, many New Zealand households face significant affordability problems.

It is estimated that 361,000 households in 2019 were in housing affordability stress (according to the 30% definition) prior to any Government expenditure on AS. Most (65 percent) AS households are not owner occupiers and mostly rent in the private rental market. Less than half (45 percent) of AS households have very low household incomes of \$50,000 or less. On average, an AS household receives AS of \$4,007 annually.

Government expenditure in 2019 of \$1.7 billion had relatively small overall impacts on the numbers of households in affordability stress:

- The numbers of households with housing costs in excess of 30 percent of household income in 2019 reduces by around 11,700 households when AS is taken into account.
- The number of households in severe housing affordability stress (potentially expending more than 50 percent of their household income) is estimated at 142,900 prior to AS receipt and falls by 13,100 households when AS receipt is taken into account.

AS leaves unaddressed issues of crowding, poor quality housing and homelessness. Those problems can be shifted onto other Government expenditure. Unaffordable rents and homelessness have driven Government's expenditure of \$154,000 daily on emergency and transitional housing in motels by December 2020.

¹ Housing affordability stress occurs when households pay more than 30% of their gross household income (that is, income from all sources) in housing costs.

A further \$3.7 billion would be required over the AS expenditure in 2019 for households in New Zealand to be able to reduce housing costs to 30% of their household incomes. Of that, \$2.4 billion would need to have been directed to households with less than 80 percent of their regional median household incomes.

Overall, we estimate that 38,000 renting households with annual household incomes in excess of \$100,000 attracted \$186 million in AS expenditure.

The inadequacies of the AS will not go away. Its costs will grow as the supply of housing affordable to low income and modest income households continues to decline relative to need. Housing costs will continue to drive very vulnerable, low-income households into housing insecurity while modest income households compete with them for secure rental.

AS provides recipients with additional weekly income, but we conclude that the AS has a minimal impact on the number of households experiencing affordability stress. We suggest that Government AS expenditure could be more effective if some expenditure was directed into other forms of housing assistance that:

- better leveraged household resources;
- stimulated the building of low-cost housing;
- opened pathways for households into intermediate tenures such as shared ownership or full owner occupation; and
- relieves pressure on an under-supplied rental housing stock.

One pathway is through progressive home ownership products. For modest income households with unaffordable housing costs these provide a pathway out of insecure rental. For Government, they could expand the affordable housing stock and relieve pressure on rental supply and rents.

Progressive home ownership or intermediate tenure products have shown significant multiplier effects in relation to public dollars. One Community Housing Provider has been able to generate \$2.90 for every council and Crown dollar contributed to their progressive home ownership solutions.

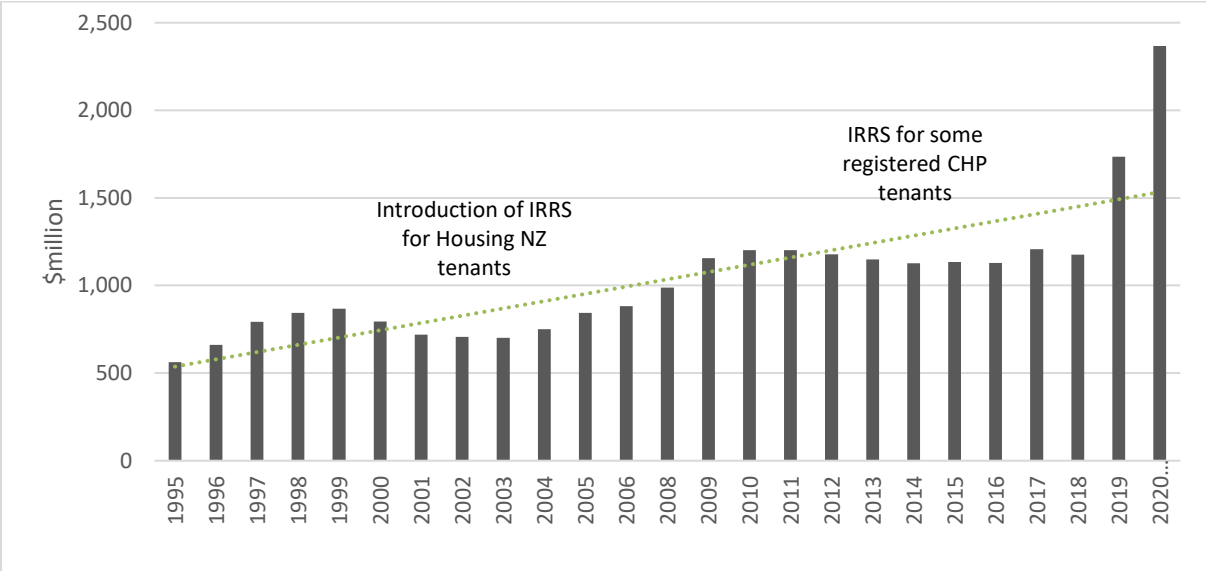
The Labour-led Coalition Government has already committed \$400 million to a Progressive Home Ownership scheme (PHO) with the expectation that up to 4,000 low- and modest- income households could take up owner occupation opportunities through intermediate tenure products.

If AS directed to renting households with median or higher incomes relative to their regions, or households with household incomes in excess of \$100,000, was used to support progressive home ownership products for a period of three years, a further \$558 million could be redirected from Government AS expenditure with the potential to deliver \$1.6 billion of new, affordable homes.

1 Introduction

In the 2020 budget, almost \$2.4 billion was allocated to the provision of Accommodation Supplements (AS).² By way of contrast, around \$2 billion was allocated to housing programmes and services in Vote Housing. The AS remains the core instrument of housing assistance and has done so since the 1990s housing reforms. There have been substantial increases in Government expenditure on AS over the last twenty-five years (Figure 1). Even so, many New Zealand households face significant affordability problems.³ The inability of many households to meet their housing costs even after receiving AS has required successive Governments to make further payments through the social security system. The combination of housing affordability stress, under-supply and homelessness have seen Government investment in more highly subsidised rental public housing places rise as well in substantial expenditure on emergency and transitional housing.

Figure 1: Accommodation Supplement (AS) expenditure (actual 1995–2019 and Budget 2020)⁴



The growth of AS expenditure in tandem with falling owner occupation, rising homelessness and persistently unaffordable housing prices and rents raises questions around the value and efficacy of the AS. Using customised extracts of data from the 2019 Household Economic Survey, this paper:

- reviews the pattern and impact of the AS on housing affordability outcomes for households;
- models the shortfall in household income in relation to housing cost exposure;

² Minister of Finance (2020) *Social Services and Community Sector - Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2021 – Vote Social Development*, Wellington, The Treasury:208.

³ Stats NZ (2020). *Housing in Aotearoa: 2020*. Retrieved from www.stats.govt.nz.

⁴ Compiled by Saville-Smith from successive government budgets. The classification of expenditure and budget changes. Typically, AS has not included housing-related welfare payments used on a discretionary basis to supplement the AS, such as Special Needs Grants. Since 2018 there has been an attempt to do so, although the practices in this regard are not entirely clear.

- calculates the additional expenditure on AS that would be required to alleviate housing affordability stress either through earnings and benefits, or through addition housing supplement;⁵
- comments on potential to redirect housing expenditure to achieve more effective investment across the housing system and leverage improved and sustainable housing outcomes.

We conclude that the AS has a minimal impact on the number of households experiencing affordability stress. We suggest that Government AS expenditure could be more effective if for some households receiving AS, the expenditure was directed in to other forms of housing assistance that:

- better leveraged household resources;
- stimulated the building of low cost housing; and
- opened pathways into intermediate tenures such as shared ownership or full owner occupation.

2 The Accommodation Supplement

The AS has been the primary instrument of housing assistance since the early 1990s and is administered under the Social Security Act. It is a demand driven, individual, untied payment that can be accessed by tenants and by owner occupiers.

Although several countries provide housing benefits, the AS is somewhat different to those typically employed elsewhere:

- First, the AS is designed to provide only partial assistance with the unaffordable gap in a household's housing costs. Individuals frequently find that the proportion of the unaffordable gap covered by the AS is low. This is because AS entitlements are constrained by a complex array of maxima around rent levels and heavy abatement provisions around income from paid work. This contrasts with housing benefit systems typical overseas which fund the full unaffordable gap for accepted dwellings. It also contrasts in New Zealand with the Income Related Rent Subsidy (IRRS), later introduced as an individualised housing payment, tied to provision by either Housing New Zealand (now Kāinga Ora) or, later again, an IRRS-approved and registered Community Housing Provider (CHP). The IRRS is set to fill the entire gap between affordable housing costs and what are deemed to be 'market' housing costs for people prioritised on the Public Housing Register.
- Second, housing benefits elsewhere tend to be directed to renters. In New Zealand owner occupiers as well as renters can access the AS. It should be noted that while this gives the appearance of tenure neutrality, owner-occupiers are less likely to access the AS.

⁵ Housing affordability stress occurs when households pay more than 30% of their gross household income (that is, income from all sources) in housing costs.

- Finally, the AS is an untied payment. The AS is paid directly to the individual tenant or owner occupier. Tied housing assistance is an individual entitlement but it is transferred directly to an individual's housing provider. Overseas, generally housing providers to whom such payments are transferred frequently are required to fulfil specific requirements related to rent setting, dwelling performance and condition, and tenants' tenure security. Payment of the AS has no such landlord or housing provider conditions associated with it.

3 HES extracts and data limitations

The analysis presented here is based on data from the New Zealand Household and Economic Survey (HES) undertaken in 2019. The analysis that follows uses three extracts from the 2019 HES and delivered as customised sets from Statistics New Zealand (Stats NZ):

1. An extract consisting of all households experiencing housing affordability stress. That is, household housing costs exceeding 30 percent of gross household income.⁶ This extract included accommodation supplement payments as part of the household's gross income.
2. An extract of all households for which the AS has contributed to household income over some period in the year and for whom housing costs exceeded 30 percent of household costs prior to receipt of the AS. This extract included data on annual household incomes and housing costs.⁷
3. The third customised extract included the number of households receiving AS by annual gross household income, household tenure, and the AS received over the year.

The estimates derived from the HES have been undertaken by Stats NZ. Those estimates have subsequently been analysed by the authors to establish the impacts of AS on the numbers of households exposed to housing affordability stress.

HES data is considerably more robust now than it has been in the past for three reasons:

- Expansion of the HES sample. The 2019 HES sample size was expanded from around 5,500 dwellings to 28,500 and there was some additional targeted sampling to generate better regional and Māori estimates respectively.
- Refinement and improvement in weightings that better capture the expenditure patterns of low-income households.
- Linking with administrative data through the integrated data infrastructure (IDI) for income from wages and salaries, payments from the government including benefits, and tax.

⁶ Gross household income is pre-tax and includes all income sources unless otherwise stated.

⁷ Annual household incomes and housing costs were used in the analysis.

Nevertheless, because HES is a sample survey, increasing granulation is accompanied by increasing uncertainty and wider ranges of data within confidence limits. That tendency inhibits place-based analysis as well as other forms of multi-variable analysis including ethnicity and household composition. Consequently, the HES extracts analysed only incorporated tenure, gross household income (with and without accommodation supplement payments), location⁸ and the proportion of gross household income paid in housing costs.

There are two aspects of the data that need to be understood in relation to the picture it provides of the AS and issues of housing affordability. First, it should be remembered that AS related income may be associated with a single individual. For instance, a boarder may receive the AS. Equally AS may not be received as a continuous stream of assistance over a whole year. Readers should not become over pre-occupied with this. The percentage of household income that is directed to housing costs includes the income for the whole household not simply the income of an AS holder and similarly the housing costs are calculated for the whole household.

Second, the 2019 HES may not provide a full picture of housing affordability stress among households in New Zealand or even AS expenditure. The 2019 HES estimates 334,000 households received an AS payment. They accounted for around \$1.34 billion in AS payments. However, the New Zealand Treasury reports an expenditure on AS in 2019 in the region of \$1.7 billion. Within the margin of error these amounts are not inconsistent. A proportion may be due to the approach to imputation in the HES itself.

At a national level, there is a small undercount of households which relate to Statistics New Zealand's suppression rules when modelling housing affordability outcomes in some of the smaller centres. This is estimated at approximately 2 percent of total households paying more than 30 percent of their income towards housing costs. We have left the estimates as calculated by Stats NZ rather than scale up the known households in these regions to match the overall total household numbers.

4 Does Government's AS expenditure reduce household numbers in affordability stress?

The 2019 HES estimates that 361,000 households are in housing affordability stress (according to the 30% definition) prior to any Government expenditure on AS. Not all these stressed households received AS either because complex eligibility requirements excluded them or because some households chose to not access AS or were not aware that they could.⁹ Table 1 sets out the impact on the number of households in housing affordability stress before and after Government expenditure on housing assistance by way of AS.

⁸ The incorporation of location has allowed us to analyse household incomes in relation to regional median household incomes.

⁹ Wong, E., and S. Morrissey (2016) *Budget Report: Advice on Personal Tax Cuts for Budget 2017*. Wellington, The Treasury. Retrieved from: <https://treasury.govt.nz/sites/default/files/2017-11/b17-3598626.pdf>; Johnson, A. (2018). *Beyond Renting: Responding to the decline in private rental housing*. Auckland, Salvation Army: Social Policy and Parliamentary Unit; McAllister, A., St John, S., and A. Johnson (2019) *The Accommodation Supplement: The wrong tool to fix the House*, Auckland, Child Action Poverty Group.

Table 1 Impact of AS expenditure on the number of households in housing affordability stress (HES 2019)

AS Expenditure Status	Number of Households by Proportion of Gross 2019 Household Income on Housing Costs			
	At least 30%	At least 35%	At least 40%	At least 50%
Excluding Government AS Expenditure	361,000	269,200	212,100	142,900
Including Government AS Expenditure	349,300	257,600	198,600	129,800

Table 1 suggests that the Government expenditure in 2019 of \$1.7 billion had relatively small overall impacts on the numbers of households in affordability stress. Government AS expenditure reduced the number of housing affordability stressed households by around 11,700 households among those with housing costs in excess of 30 percent of household income.

5 Does AS expenditure mitigate affordability stress for households?

The limited impact on the numbers of households in housing affordability stress is partly due to the AS only partially addressing the unaffordable housing cost gap. That policy setting has been criticised by a variety of commentators in the past as well as by Government officials.¹⁰ Others have, however, argued that partial assistance has allowed housing affordability stress to be mitigated if not resolved. The HES data show, however, that the mitigation effects are limited.

The 2019 HES suggests that:

- The number of households in severe housing affordability stress (potentially expending more than 50 percent of their household income) is 142,900 prior to AS receipt and falls by 13,100 households when AS receipt is taken into account;
- 212,100 households were in significant housing affordability stress potentially expending more than 40 percent of their household income in housing costs. The Government's expenditure on AS only reduced that by 13,500 to 198,600 households (Figure 2).

¹⁰ UN Special Rapporteur (2019) <https://www.ohchr.org/en/issues/housing/pages/housingindex.aspx>; Wong, E., and S. Morrissey (2016) *Budget Report: Advice on Personal Tax Cuts for Budget 2017*. Wellington: Treasury. Retrieved from: <https://treasury.govt.nz/sites/default/files/2017-11/b17-3598626.pdf>.

Figure 2 Housing affordability stress outcomes before and after Government AS expenditure at differing annual housing cost to annual household income (HES 2019)

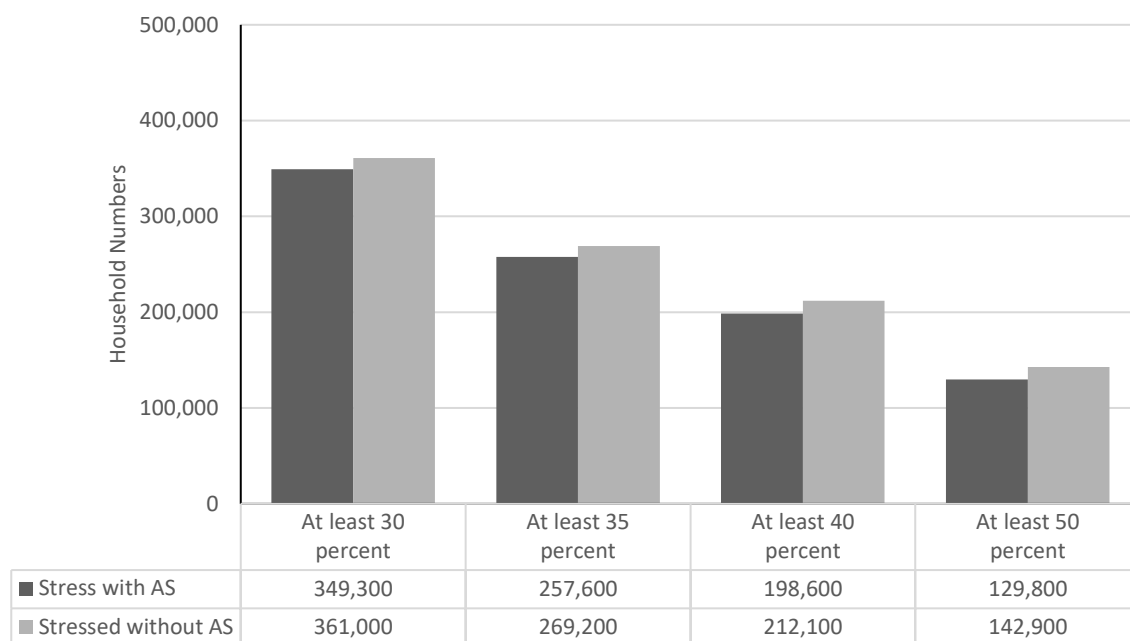


Table 2 shows how that pattern of AS impact is distributed over households according to their incomes in relation to prevailing household median incomes.

Table 2 Households in housing affordability by annual income and impact of AS expenditure (HES 2019)

Household Income in relation to their Region's Median Household Incomes	Change in Number of Housing Affordability Stressed Households			
	Housing Costs at least 30% of Income	Housing Costs at least 35% of Income	Housing Costs at least 40% of Income	Housing Costs at least 50% of Income
Below 80% of median	-11,000	-11,700	-12,700	-13,400
80% to <100% of median	300	300	-700	0
100% to 120% of median	-1,600	-300	-100	200
>120% of median	500	0	-100	-100
Total	-11,700	-11,600	-13,500	-13,100

6 Household characteristics and AS receipt

The following analysis focuses on the households that actually received AS. That is, a set of 334,000 households HES 2019 estimates \$1.34 billion in Government expenditure AS.¹¹

The majority of households receiving AS in 2019, almost two thirds, were not owner occupiers (Figure 3). The vast majority of those households were in rent and we refer to those households as renters or tenants. The owner occupier households accessing the AS tend to be mortgaged.

Figure 3 Number and tenure of households receiving AS during 2019 (HES 2019)

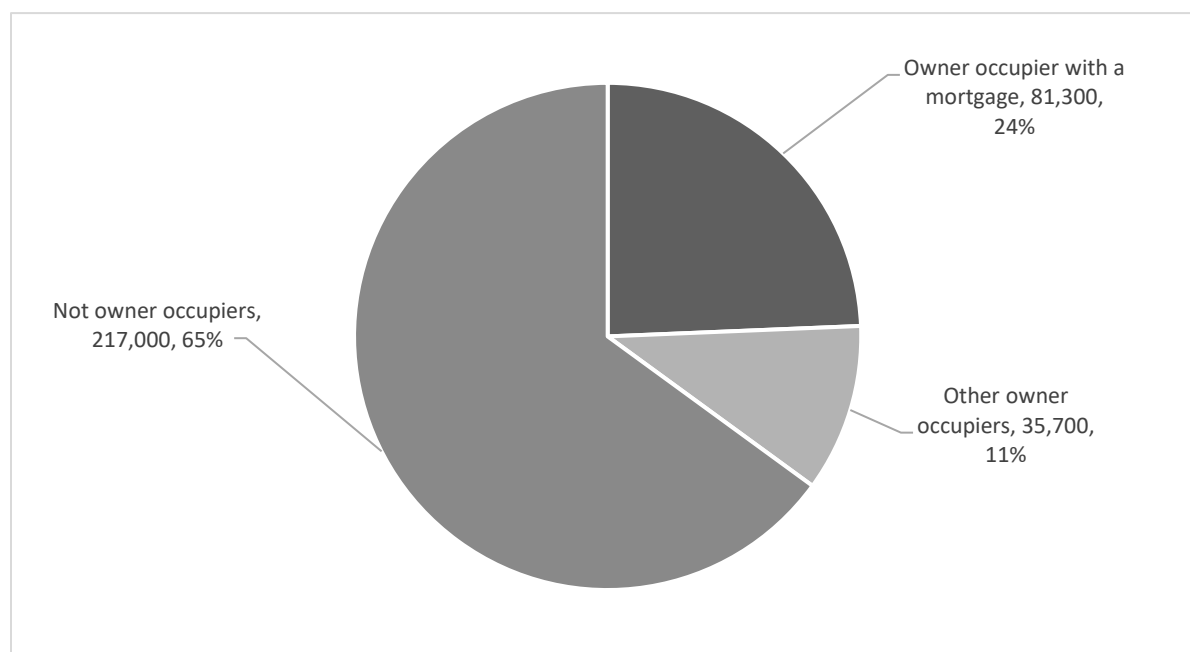


Figure 4 shows that a large minority (45 percent) of AS recipients are in households with gross household incomes \$50,000 or less. Of those very low-income households, around 73 percent were tenants in the private rental sector and, a very small minority, in council or community housing not receiving IRRS. A quarter of AS recipients are in households with household incomes in excess of \$100,000. Figure 5 presents the annual total AS payments by tenure and gross household income¹² in the June 2019 year.

¹¹ This is less than the 361,000 in housing affordability stress which reflects persistent under accessing of the AS by eligible households. The lower value of AS received by households compared to actual AS expenditure is likely to be due to sampling error in the HES estimate, and also some non-response imputation which could lead to inaccuracy/bias in the HES estimate of total value of AS.

¹² Includes the AS and any other Government benefits.

Figure 4 Gross household annual incomes of AS recipients (HES 2019)

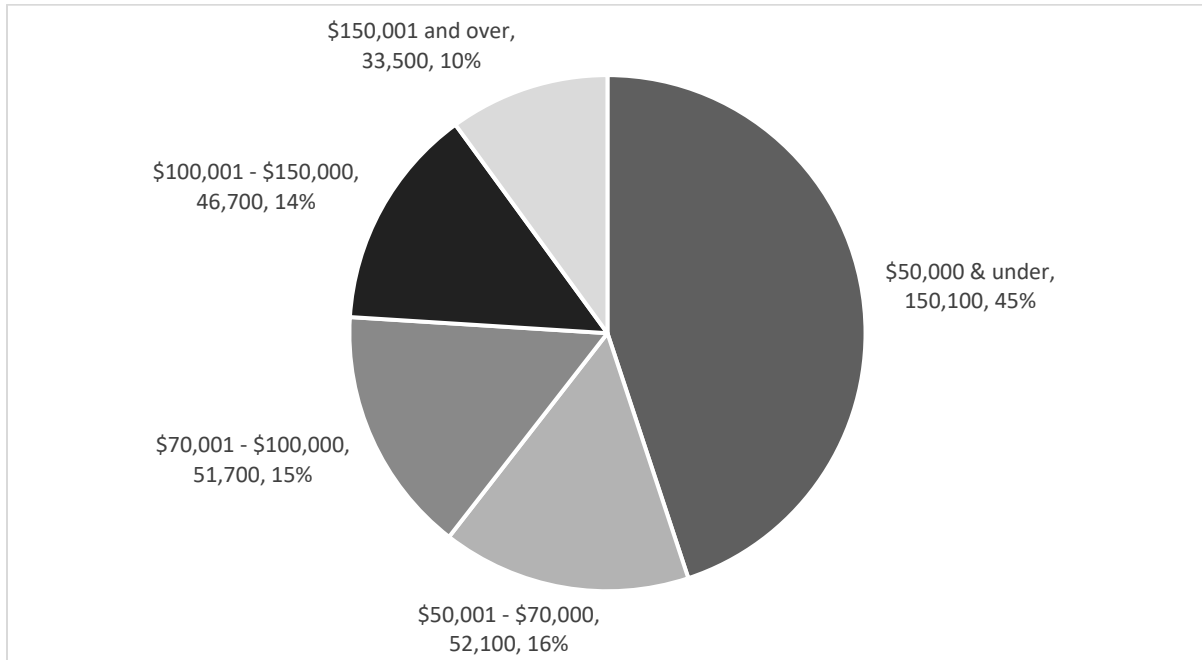


Figure 5 Annual total AS expenditure by tenure and gross household income (HES 2019)

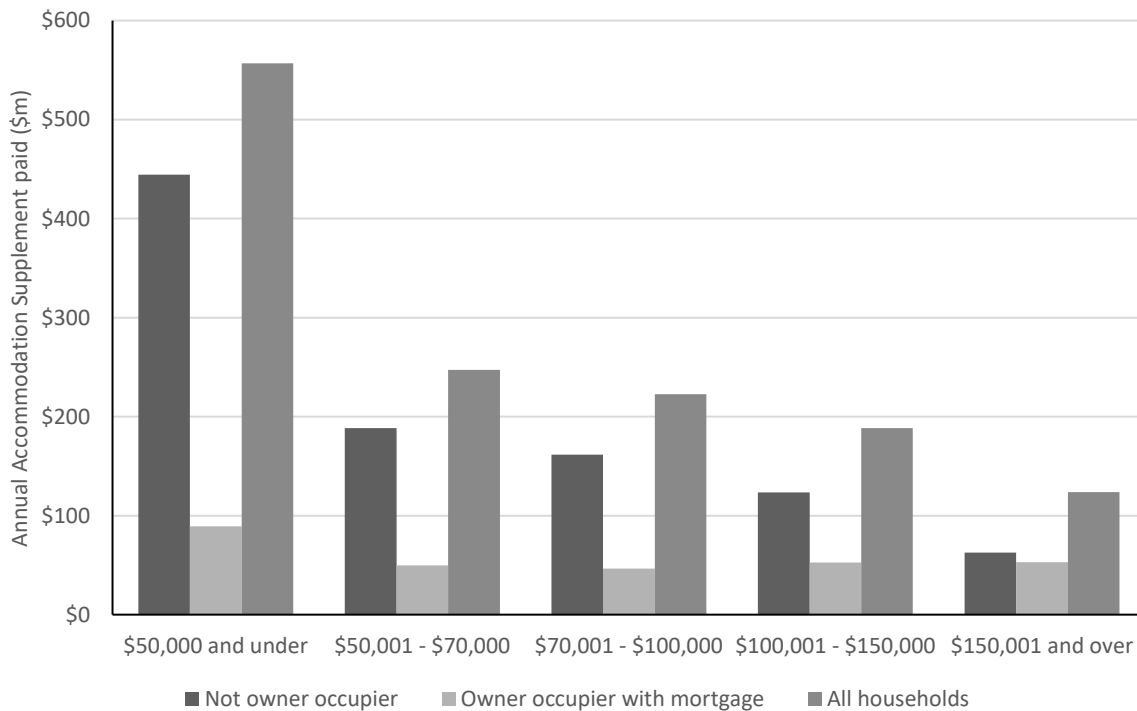


Figure 6 shows that the bulk of AS receipt lies with low- income households. Around 42 percent of AS expenditure was directed to households with incomes of \$50,000 or less. Nevertheless, around 23

percent of AS expenditure, around \$312 million, went to households with incomes in excess of \$100,000. On average, an AS household receives AS of \$4,007 annually. Figure 7 shows the variation in the average receipt of AS across different household incomes.

Figure 6 AS expenditure (\$m) by gross household income 2019 (HES 2019)

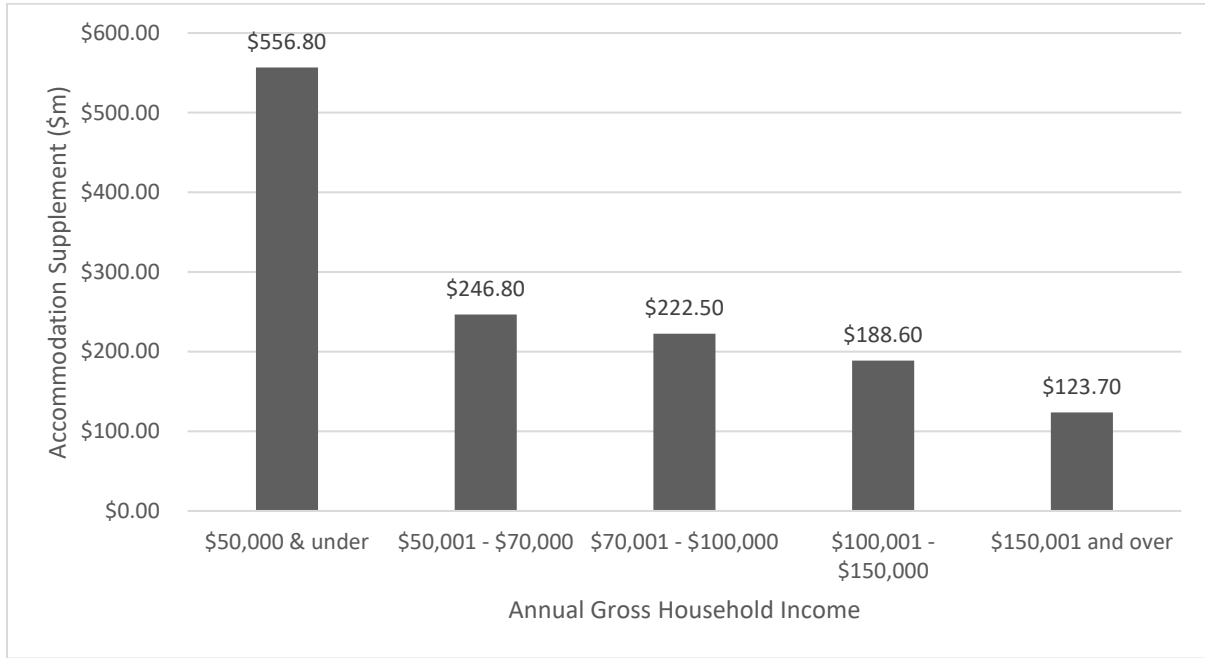
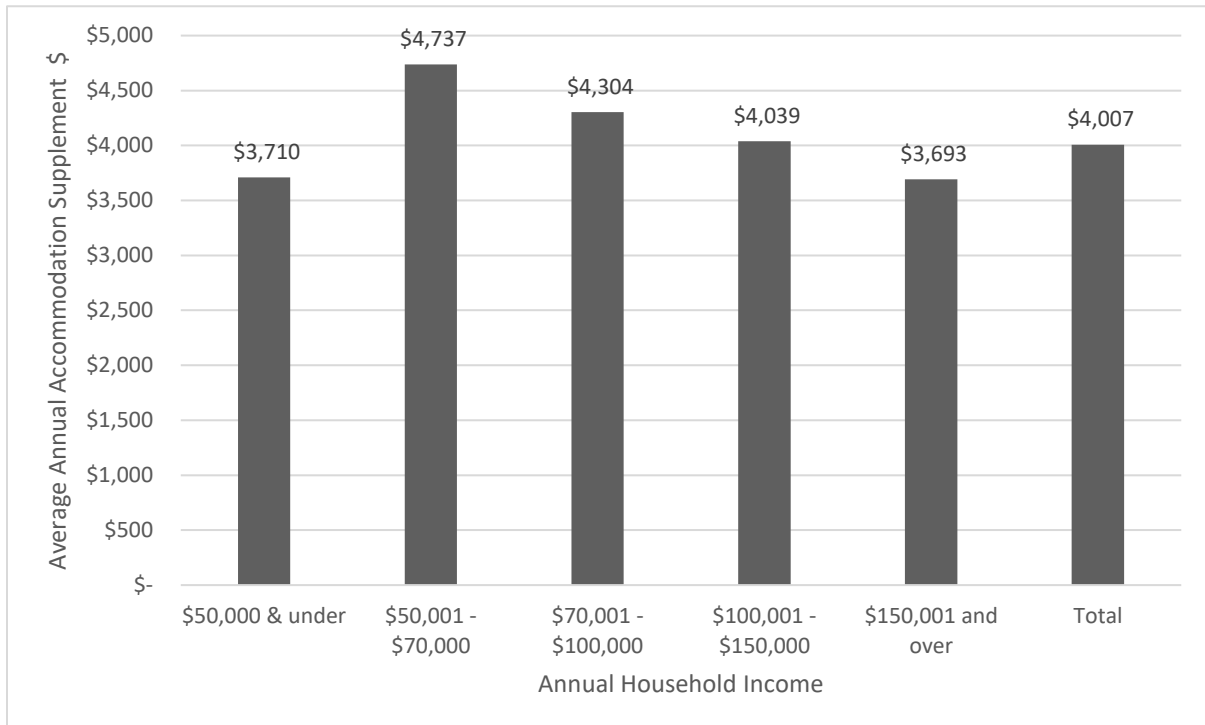


Figure 7 Average annual AS receipt per household by gross household Income 2019 (HES 2019)



7 AS and housing outcomes

In addition to the AS' marginal impact on the prevalence of affordability stress, the AS also leaves unaddressed issues of crowding, poor quality housing and homelessness. Those that do not have formal housing costs cannot access the AS. Moreover, the failure of the AS to meet the unaffordable gap in housing costs encourages crowding. Crowding is used to increase household incomes and reduce the ratio of housing costs to household income. The dynamics of crowding are beyond the scope of this paper, but crowding is associated with poor wellbeing including poor health and education outcomes. While crowding may reduce Government AS expenditure it may also increase Government fiscal liabilities in other sectors.

Similar issues arise around cost-shifting for Government in relation to other forms of housing under-consumption where people in housing need are not eligible for AS. Those include people whose formal housing costs are diminished or non-existent because of homelessness, including couch-surfing, or because they are living in derelict or extremely dilapidated dwellings. Some are increasingly accommodated in very costly emergency or transitional housing.¹³ The Minister of Housing reported that emergency and transitional housing in motels was at a cost of around \$154,000 daily.¹⁴

The deliberate design of the AS not to meet the unaffordable gap means that the reduction in household numbers in stress and the reduction in the stress for households are both relatively small even among low- income households. Certainly, for low- income households, the AS has a more significant impact in reducing the number of households facing affordability problems relative to above 80% of regional median income households. Nevertheless, the 2019 HES data show that 66,000 households earning less than 80% of their region's median gross household income still pay more than 50% of their gross household income (including AS payments) in rent. These AS recipients are in severe housing affordability stress.

Table 3 Number of households receiving AS by gross household income and tenure (HES 2019)

Gross Household Annual Income	All owner occupiers		Not owned		All households	
	Hhlds	AS paid (\$m)	Hhld	AS paid (\$m)	Hhlds	AS paid (\$m)
\$50,000 & under	40,400	\$112.6	109,700	\$444.2	150,100	\$556.8
\$50,001 - \$70,000	16,300	\$58.3	35,800	\$188.5	52,100	\$246.8
\$70,001 - \$100,000	18,100	\$60.8	33,600	\$161.7	51,700	\$222.5
\$100,001 - \$150,000	21,900	\$65.1	24,800	\$123.5	46,700	\$188.6
\$150,001 and over	20,300	\$60.9	13,200	\$62.8	33,500	\$123.7
Total	117,000	\$357.8	217,000	\$980.6	334,000	\$1,338.4

Source: Statistics New Zealand – Household economic survey 2019

¹³ A detailed overview of statistics related to crowding, house condition, homelessness and performance can be found in Stats NZ (2020). *Housing in Aotearoa: 2020*. Retrieved from www.stats.govt.nz.

¹⁴ Hon. Megan Wood, Housing Minister, Question Time, New Zealand Parliament 2 December 2020.

One way to improve the affordability outcomes for households receiving the AS is to increase the incomes of AS recipient households. There are two pathways around income improvement:

- The first pathway is to increase household incomes either in the labour market or through welfare benefits.
- The second pathway is to increase the direct assistance channelled to households by way of the AS.

Both of those pathways are costly. The first would require what must be considered improbable increases in wages, salaries or benefit payments. The increase in income from wage, salaries or benefits to meet housing affordability of no more than a maximum of 30% of household income is in the region of \$12.2 billion dollars (Table 4). That approach would not reduce or even control the current Government expenditure on AS.

Table 4 Household income increases required to reduce maximum housing costs to 30% of gross household income (Modelled from HES 2019 customised extracts)

Gross household income as a % of regional household median	Income increase required (\$billion)		
	Owner occupied	Not owner occupied	Total
Less than 80%	\$2.6	\$5.5	\$8.1
80 to <100%	\$0.6	\$1.1	\$1.7
100 to 120%	\$0.5	\$0.4	\$0.9
>120%	\$1.2	\$0.3	\$1.5
Total	\$5.0	\$7.2	\$12.2

NB: These payments are in addition to current benefits paid (including the AS)

Source: Modelled based on data from HES 2019

Increasing housing supplement payments would also be costly but is more likely to be effective than attempts to increase incomes in the labour market or reliant on benefits. If all households suffering housing affordability stress were to meet the widely accepted standard of 30% of household income on housing costs, an additional \$3.7 billion in a housing support payment would be required. This assumes that housing costs would stay similar. That is, that housing costs will not increase in response to additional housing related assistance. It also assumes that the AS would be calibrated to fill the unaffordable gap and that the AS would be a tied payment (Table 5).

Table 5 Additional supplement expenditure required to reduce maximum housing costs to 30% of gross household income (Modelled from HES 2019 customised extracts)

Gross household income as a % of regional median	Additional support payments required (\$billion)		
	Owner occupied	Not owner occupied	Total
Less than 80%	\$0.8	\$1.6	\$2.4
80 to <100%	\$0.2	\$0.3	\$0.5
100 to 120%	\$0.2	\$0.1	\$0.3
>120%	\$0.4	\$0.1	\$0.4
Total	\$1.5	\$2.2	\$3.7

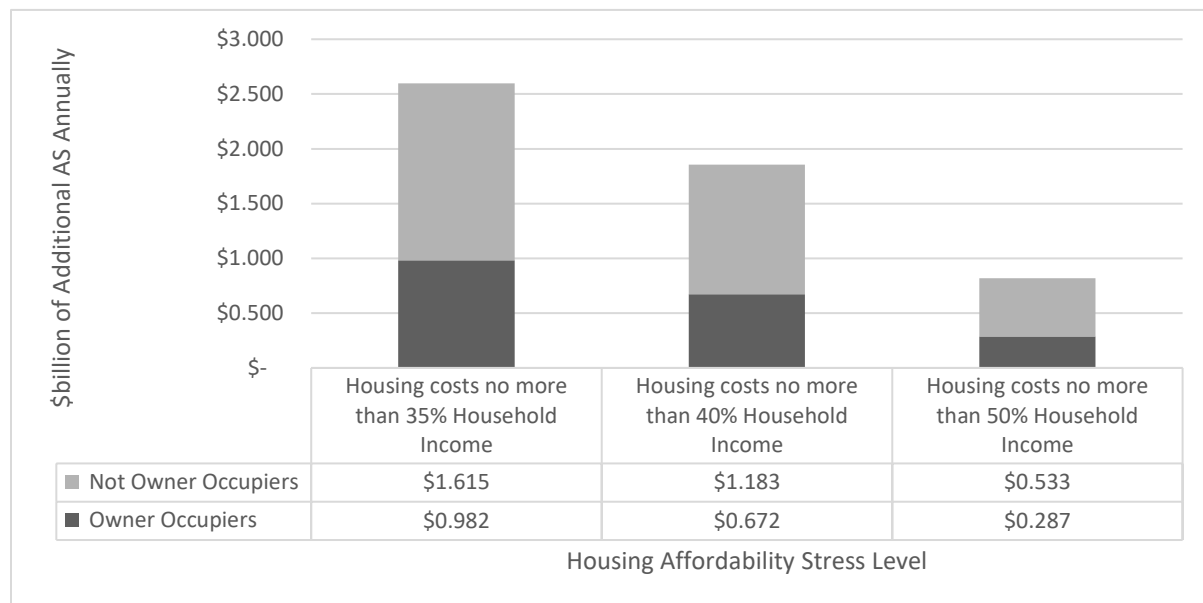
NB: These payments are in addition to current benefits paid (including the accommodation supplement)

Source: Modelled based on data from HES 2019

Additional expenditure required on housing supplement would be lower if higher housing cost/income ratios were acceptable. The annual government expenditure on a housing supplement in 2019 to generate better affordability (in addition to that already expended) is estimated to be a further:

- \$2.6 billion to reduce housing costs to a maximum of 35% of gross household income;
- \$1.9 billion to reduce housing costs to a maximum of 40% of gross household income; and
- \$0.8 billion to reduce housing costs to a maximum of 50% of gross household income (Figure 8).

Figure 8 Additional housing support payments (\$billion) required to reduce housing costs to no more than 35%, 40%, and 50% of gross household income (Modelled from HES 2019 customised extracts)



Despite the under-delivery and falling value of the AS for households, the trajectory of Government expenditure continues upward.

Increases in AS expenditure can be mitigated by reducing access to the AS and levels of entitlement. Arguably this has already been attempted. One manifestation is the persistent under-accessing of AS by those eligible for it. The quantum of under-delivery of the AS to eligible persons has not been reported by the Ministry of Social Development but it is widely accepted that it is a substantial annual amount. In addition, entitlements have been suppressed by, until very recently, leaving the maxima on rents unadjusted and allowed them to become increasingly out of line with real housing costs and prevailing rents.¹⁵

The other option is to further limit AS eligibility by, for instance, excluding households on the basis of their household income alone. As Table 3 shows, around 38,000 renting households and 42,200 owner occupiers with household incomes in excess of \$100,000 receive AS at an annual Government expenditure of about \$312 million.

¹⁵ Johnson, A (2016) A Policy of Cynical Neglect: The slow demise of the Accommodation Supplement. *Australasian Housing Researchers Conference*. Retrieved from <https://www.cpag.org.nz/resources-2/housing/>

It is clear that such an approach would compromise both affordability outcomes and household wellbeing unless other assistance into affordable housing could be provided. It is unlikely that alternative housing assistance would be available through already undersupplied IRR-eligible places on the public housing register accommodated by Kāinga Ora or IRRS registered community housing providers (CHPs). The prevalence of unaffordable housing costs is such that even if AS was only denied to households with incomes in excess of \$100,000, the exclusionary impacts would be substantial. Over 80,000 households whose housing affordability stress is currently somewhat alleviated by AS receipt would be confronted by even more severe affordability problems.

8 Potential to redirect AS expenditure

The inadequacies of the AS will not go away. Its costs will grow as the supply of housing affordable to low income and modest income households continues to decline relative to need. Housing costs will continue to drive vulnerable households into housing insecurity while modest income households compete with them for secure rental. Despite an expenditure of around \$1.6 billion in 2019 and an expected expenditure in 2020/21 of almost \$2.4 billion, 69,800 households were expending in excess of 50% of their incomes on housing in 2019.

An austerity approach to the AS that limits access to it and/or reduces entitlements will merely exacerbate affordability stress, homelessness and housing insecurity. The costs to Government will be felt and paid for elsewhere as they are now. The Government's provision of stop-gap shelter in the form of motels reached 1,067 motel units rented or purchased by late 2020 costing another \$56.6 million on top of the annual expected AS expenditure of \$2.4 billion.¹⁶

Treasury has already stated that the failure of the AS to relieve affordability stress and consequent pressure on other demand side individualised housing assistance (the IRRS and Temporary Additional Support (TAPS)) are simply 'not fit for purpose'.¹⁷ Similar statements have been made by WEAG and the Child Poverty Action Group.¹⁸

While sorting out the AS seems imperative, the AS faces any Government with a conundrum. The AS provides over 330,000 households a little bit more in their pockets. It has the advantage that individuals can access the AS without being 'warehoused' into a public housing waiting list. A substantial, albeit less than half of the household receiving the AS had household incomes of \$50,000 or less. They attract an AS expenditure of around \$557 million. For low-income beneficiary households, the AS acts not so much as a housing assistance but as additional income over and above benefits which have been demonstrated to be insufficient for daily living.¹⁹

¹⁶ Hon. Megan Wood, Housing Minister, Question Time, New Zealand Parliament 2 December 2020.

¹⁷ Wong, E., and S. Morrissey (2016) *Budget Report: Advice on Personal Tax Cuts for Budget 2017*. Wellington, The Treasury. Retrieved from: <https://treasury.govt.nz/sites/default/files/2017-11/b17-3598626.pdf>

¹⁸ McAllister, A., St John, S., and A. Johnson (2019) *The Accommodations Supplement: The wrong tool to fix the House*, Auckland, Child Action Poverty Group; Welfare Expert Advisory Group (2019) *Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*, Wellington, WEAG.

¹⁹ Welfare Expert Advisory Group (2019) *Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*, Wellington, WEAG.

There have been a number of proposals around the way in which the benefit system can be better aligned with the housing and other costs of low- income households.²⁰ These are not rehearsed here. Our final comments are made in the context of a pervasive under supply of housing affordable not only to low- income but also modest income households. They respond to the under-whelming impact of AS expenditure on the numbers of households in affordability stress. Our comments recognise that in 2019, significant numbers of AS recipients were households with incomes in excess of \$100,000. Over 72,000 households received AS when their household incomes are at or above their local regional median household income (Table 6).

Table 6 Households with unaffordable housing costs (30%, 35%, 40% or 50% of gross household income) by proportion of regional median household incomes (HES 2019)

Household Income as Proportion of a Household's Regional Household Income (including AS)	Number of households			
	At least 30%	At least 35%	At least 40%	At least 50%
Owner occupier with a mortgage				
Below 80% of median	65,800	54,400	46,100	35,000
80 to <100% of median	18,200	11,500	7,400	3,300
100 to 120% of median	12,300	6,500	3,900	1,500
>120% of median	35,500	17,500	9,500	3,600
<i>Total</i>	<i>131,800</i>	<i>90,000</i>	<i>67,000</i>	<i>43,300</i>
Not owner occupier (excluding Kāinga Ora households)				
Below 80% of median	139,600	116,900	97,400	66,000
80 to <100% of median	23,600	14,200	8,500	3,200
100 to 120% of median	11,900	5,500	2,900	1,300
>120% of median	10,100	4,800	2,400	5
<i>Total</i>	<i>185,300</i>	<i>141,500</i>	<i>111,200</i>	<i>70,900</i>
Total all households				
Below 80% of median	234,900	195,900	162,800	116,100
80 to <100% of median	42,300	26,200	16,400	6,600
100 to 120% of median	25,000	12,500	7,200	3,000
>120% of median	47,100	23,000	12,100	4,000
<i>Total</i>	<i>349,300</i>	<i>257,600</i>	<i>198,600</i>	<i>129,800</i>

Of particular concern are 22,000 households receiving AS with median household incomes or more in 2019 in the rental market. It is notable that the Public Housing Register over 2019 rose from around 11,000 A and B priority applicants to almost 15,000 over 2019; they are made up of very low-income households that cannot find a place in the rental market.²¹

²⁰ Johnson, A (2018) *Beyond Renting: Responding to the decline in private rental housing*. Auckland, Salvation Army: Social Policy and Parliamentary Unit; McAllister, A., St John, S., and A. Johnson (2019) *The Accommodations Supplement: The wrong tool to fix the House*, Auckland, Child Action Poverty Group; Welfare Expert Advisory Group (2019) Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, Wellington, WEAG.

²¹ <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/index.html#TheHousingRegistersinceJune20182>

Overall, we estimate that 38,000 renting households with annual household incomes in excess of \$100,000 attracted \$186 million in AS expenditure. These households sit at the crux of New Zealand's housing crisis and the long decline in the efficacy of the housing system since the introduction of the AS in the early 1990s. Is there an opportunity to redirect Government expenditure on AS into more productive housing investment that enables these households who are squeezing into the rental market to become more independent over their life course?

At its introduction that the AS would improve the housing system by encouraging households "to find only as much accommodation as they need",²² many in New Zealand have found less than the accommodation the need. Governments have been constrained to find quick fixes to deal with emergency housing and homelessness. Lack of long-term, fit-for-purpose housing has extended the time unlucky households have had to stay in transitional housing. In New Zealand, residential property has become increasingly speculative, financialised and extracted from owner occupation into private rents. The AS, our single biggest item of housing investment, has done little to leverage new supply or provide a pathway to housing independence. Since the 1990s New Zealand has experienced falling rates of owner occupation, declining new-builds and low-cost housing production, and significant under-supply of housing affordable to low- and modest- income households and key workers as well as public housing.²³

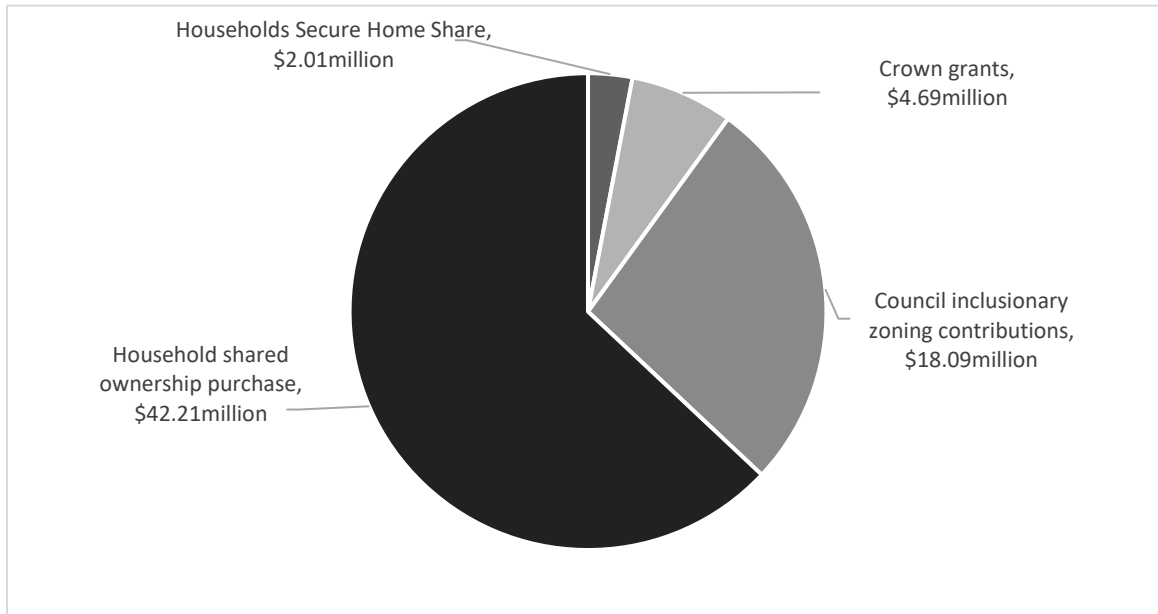
One pathway is through progressive home ownership products. There is little doubt that these intermediate tenure products can be effective in stimulating the production of low cost, secure and affordable housing. Progressive home ownership not only provides a pathway out of insecure rental, it serves to expand the affordable housing stock and can relieve pressure on rental supply and rents. They can also allow for significant multiplier effects.

The latter is evident in, for instance, Queenstown Lakes Housing Trust's (QLHT) financing of new affordable housing for low- and modest- income households. Intermediate tenure products delivered by QLHT leveraged \$4.69 million of Government grants with \$18.09 million of funds from council inclusionary zoning and provided a pathway for households to leverage their own resources. Those solutions together amounted to \$67 million funds for new-builds homes for low- and modest- income households (Figure 9). The multiplier effect of central and local government contributions into QLHT's ownership solutions is 2.9. That is, each dollar contributed by council or central Government, generated \$2.90 from other sources for housing. Perhaps most importantly, low- and modest- income households contributed 63 percent of the value of that new housing stock.

²² Luxton, J (1991) *Housing and accommodation. Accommodation assistance. A statement of Government policy on housing and accommodation*, Wellington, Housing Corporation of New Zealand.

²³ Stats NZ (2020) *Housing in Aotearoa: 2020*. Retrieved from www.stats.govt.nz; Saville-Smith, K (ed) (2019) *Revitalising the Production of Affordable Housing for Productive, Engaged & Healthy Lives: Integrated Report. Report for Building Better Homes, Towns and Cities: Homes and Spaces for Generations*. Retrieved https://www.buildingbetter.nz/publications/homes_spaces/Saville-Smith_Nov2019_revitalising_production_affordable_housing.pdf

Figure 9 \$67 million of funding leveraged from progressive home ownership solutions for low and modest income households in Queenstown Lakes (Queenstown Lakes Housing Trust Data 2020)



Progressive home ownership products have been delivered primarily through a set of non-profit community housing providers. More than 400 households have completed a pathway out of the rental market and into owner occupation through these intermediate tenure products and more that 600 households are currently making that journey.²⁴ The Labour-led Coalition Government committed \$400 million to the Progressive Home Ownership scheme (PHO) with the expectation that up to 4,000 low- and modest- income households could enter owner occupation through intermediate tenure products. That programme is currently on an implementation pathway. The funding is, however, modest compared to a Government annual expenditure on AS.

Redirecting AS expended on renting households with median or higher incomes or those with incomes in excess of \$100,000 presents very real potential to realise desirable outcomes across the housing system. In 2019, those households were expending on average \$45,800 annually on housing costs or \$880 weekly. Over even three years, that approach could release up to \$558 million in Government AS expenditure with the potential to deliver \$1.6 billion of new, affordable homes.

²⁴ This data is as December 2020 and supplied by Community Housing Aotearoa (CHA). Not all CHPs had completed their stocktakes and reported to CHA at that date and this count should, consequently, be treated with caution and may be an undercount.

ANNEX A – Overview of Affordable Housing for Generations

AHFG Objective: To develop effective and practical approaches to alleviating the crisis of affordable housing and housing affordable to key workers through targeted research-based solutions which will sustain people in their homes and communities over generations and contribute to thriving regions.

AHFG Outcomes and Impacts: Are directly aligned to the approved BBHTC NSC Phase 2 Strategy mission and success pathway. It is designed to provide robust science and research-based tools to enable Aotearoa/NZ to achieve:

- Affordable stock for diverse people and thriving communities.
- Affordable housing that works over the life cycle of the dwelling and a housing stock able to support the life courses of multiple generations.
- Solutions that address the limits of housing markets and policy, regulatory and investment settings for accessible affordable housing.

The research has five components (Infobox 1) which combined will contribute to transforming NZ Aotearoa:

From being marked by housing driven inequality, structural under-supply of housing in general, and affordable housing in particular, costly poor building quality and dwelling performance, and homelessness;

To: (a) Having an affordable stock for diverse people and thriving communities delivered through the diversification of design, tenure and locations of affordable housing; (b) Building affordable housing that works over the life cycle of both the dwelling itself and across the life course for multiple generations through reduced energy and water consumption, improved resilience and reduced need for modification; and, (c) Being able to address and mitigate the limits and inequities of housing markets, minimise homelessness, overcrowding, housing insecurity and housing-cost related inequality.

Infobox 1 Research Components
C.A Markets, Housing Distribution and Wellbeing
C.B Price Points for Affordable Housing and Housing Affordability for Key Workers
C.C Meaning of Home & Dimensions of Affordability
C.D Affordable Housing and the Impact of Dwellings
C.E Realising Housing's Public Good - Funding & Developing Fit for People Housing Futures

This cross-organisational, multi-disciplinary team has bicultural leadership and team. Its Māori Researchers caucus interfaces with KTKR *Poipoi te kakano, kia puawai*. Supported by research advisory and practitioners advisory groups, the research has a dedicated website for stakeholders <https://homesforgenerations.goodhomes.co.nz/>.

The research components have been developed through many conversations with stakeholders and researchers. They are:

Component A MARKETS, HOUSING DISTRIBUTION AND WELLBEING: This builds on findings from the Architecture of Decision-making and Lower Quartile Value research in BBHTC Phase I which established: (a) the decline in affordable housing supply was associated with the removal of supply-side targeted investment in affordable housing new-builds; (b) New Zealand's past investment in affordable, secure housing through pre-1990 state housing and income related mortgage programmes mitigated the effects of inequality and improved life chances; (c) unmet housing need has been couched in terms of pathological deficiencies on the part of individuals in political discourse or failure of Government to

target and address homelessness. The latter tendency represents a persistent and widespread narrative that market mechanisms, if uninhibited by land use and industry regulations, are still an effective mechanism to deliver affordable housing.

This component asks:

- Why do prevailing market paradigms struggle to deliver affordable housing and housing affordable to key workers?
- Is housing commodification and financialisation associated with the development of an extractive building and residential property industry in New Zealand and what are its impacts on wellbeing?
- What populations are most vulnerable to the precarity generated by treating housing as a simple consumption good and what are the impacts on wellbeing?
- What array of instruments and housing system configurations are being developed internationally to address crises in affordable housing? What can be demonstrated to be efficacious?
- What needs to change in the political, media and community discourse to take up alternatives to the current narratives?

Component B PRICE POINTS FOR AFFORDABLE HOUSING & HOUSING AFFORDABLE FOR KEY

WORKERS: This component asks:

- What are the regional and Local Housing Market Price Points (rent and owner occupied) for Affordable Housing for households earning at the 40th percentile or below?
- Do those price points vary between Māori, Pacific and 'Other' populations?
- What is the size in selected regional and Local Housing Markets of the current and forecast unmet need for affordable housing (across tenures) for regional and local populations as a whole and disaggregated by Māori, Pacific and 'Other' populations?
- How should we define key workers and do those definitions vary from region to region and locality?
- What are the price points for housing affordable to key workers in selected regional and Local Housing Markets (rent and owner occupied)?
- Do those price points vary between Māori, Pacific and 'Other' populations of key workers?
- What is the size in selected regional and Local Housing Markets of the current and forecast unmet need for key workers for regional and local populations as a whole, disaggregated by Māori, Pacific and 'Other' populations?
- What are the price points for Māori living within each rohe for both those requiring affordable housing and for Māori key workers including ahi kā?

Component C MEANING OF HOME & DIMENSIONS OF AFFORDABILITY This component asks:

- How do people with different cultural attachments, material conditions, place, communities and personal circumstances manage their perceptions, aspirations and practices to balance their desire for home and need for affordability?
- How do they define affordability?
- Are there trade-offs that people would make if given the opportunity to optimize their sense of home and its affordability in relation to:
 - Location?
 - Amenity within dwellings and in the places in which they are situated?
 - Dwelling design?
 - Tenure?

Component D AFFORDABLE HOUSING AND THE IMPACT OF DWELLINGS This component will determine the impacts on housing affordability of dwelling performance, establish the efficacy of market and

regulatory pathways for change; and develop value cases for change. It explores whether better building design, materials, and systems can reduce the operating costs of dwellings over their life cycles. It focuses on three aspects of building performance and costs: durability of dwellings; the functionality and accessibility of dwellings; and the operating costs of dwellings in relation to energy and water consumption.

Its central question is the REAL COST and therefore the REAL PRICE of dwellings? It responds to the significant pressure to reduce the build costs of dwellings. It asks whether 'price-pressing' reflected in the use of lower cost materials, short-life systems, lack of universal design, and avoidance of whole house heating and solar systems merely shift the price of a dwelling into:

- higher maintenance, repairs, modification and renovation costs later in the life cycle;
- increased energy and water consumption costs for householders; and
- other externalized costs associated with poor dwelling performance.

Component E REALISING HOUSING'S PUBLIC GOOD – FUNDING & DEVELOPING FIT FOR PEOPLE

HOUSING FUTURES identifies opportunities to activate investment and sustained funding streams for affordable housing; how to dismantle barriers to affordable housing supply; and how different tenure models promote affordable housing and housing affordable to key workers. It asks:

- What are effective pathways for encouraging investment, sustained funding streams and development for affordable housing?
- How can household and community resources be maximised for affordable housing provision through diversified tenure?
- How can land use planning be harnessed for affordable housing?

The key research activities relate to innovation cases designed to provide exemplars and good practice models for investing in and increasing the supply of affordable housing and housing affordable to key workers. The key innovations are:

- Co-operatives.
- Community land trusts.
- Mixed public, private and community collaborations in provincial areas for developing affordable housing and housing affordable for key workers.
- Affordable housing innovations with multiply-owned Māori land.