

Social housing and Wellington

This is an abridged article from Shamubeel Eaquab's presentation to Wellington City Council (WCC) in March 2016.



About Shamubeel Eaquab

Shamubeel Eaquab is a prominent New Zealand macroeconomist and an entertaining public speaker. He is not afraid to share his views. He holds a Bachelor of Commerce with honours in economics and is also a chartered financial analyst. His previous employment includes: Statistics New Zealand, ANZ Bank and Goldman Sachs JB Were – a global investment bank in Auckland. He has most recently been the principal economist at the NZ Institute of Economic Research (NZIER), an independent economic consultancy. Shamubeel has co-authored books on the regional economic divide: "Growing Apart" and the generational divide: "Generation Rent". He is a member of MSD's Housing Assistance Reform Feedback Group and an occasional advisor to Community Housing Aotearoa.

Housing: social & economic wellbeing

Housing is a fundamental human right

Housing is a fundamental human right. This is internationally recognised, for example by the United Nations (UN Habitat; [The Right to Adequate Housing](#)). Access to a warm, dry and secure shelter is a necessity for dignity in life.

But housing is more than a home in New Zealand. It is a sign of status, cultural norms, investment, access to capital for entrepreneurship, and a necessity in retirement.

Housing unaffordable and the poor/vulnerable squeezed

The peripheral drivers trump the basic use of a house as a shelter or home. Housing has become less affordable over time, especially since the early 1990s. As a result, home ownership has been falling since peaking in the 1991 Census and is now at the lowest level since 1956.

Over the same time, housing supply has failed to keep up in fast growing regions.

This is particularly true in Auckland, Wellington and Queenstown.

Sustained slow supply responses matter for house prices, rents and for social equity. When housing supply is slow, the impact is greatest on the poorest and most vulnerable in society. They are excluded through *unaffordability*.

What supply there is, tends to favour the well-off. For example, housing supply has been predominantly houses with four or more bedrooms. But household formation has been mainly in one and two person families.

When there are frictions and imperfections in markets and regulations, the bottom gets squeezed. It's hard to make money from the poor and vulnerable. Often their needs are complex and it is not simply an issue of poverty, but also a host of other complex factors including mental health issues, substance abuse, and so on.

At this poor, vulnerable and complex level; housing needs to deliver more than just shelter, which is unpredictable in demand and difficult to do well and profitably. So the failures in the market to provide housing delivery and regulation, are not surprising.

While the housing supply has tended to be monochromatic, housing demand is in fact varied and complex. I imagine housing demand as a continuum, but admit limited knowledge on the exact size and mobility between the groups. This is because there has been little work done to understand this to date.

Housing is a critical component of city competitiveness

Housing is closely linked to city competitiveness alongside transport. Holding all else constant, these two factors often dictate decision by people and business to live in a particular place.

While Prime Minister John Key has called Wellington a dying city, I don't think this is the case. Being the seat of Government immediately provides the city with an anchor. It is true that previous head offices of large organisations are increasingly choosing to relocate to Auckland (or Sydney and Singapore). It is also true that affordable office space, housing and public amenities, is encouraging a new suite of business to establish in Wellington -Xero, Weta and a host of ICT companies for example. The city is succeeding because it is a hot-bed of smart, talented and diverse people.

A city like Wellington offers and relies on a wide range of people and skills. More often than not high skilled and highly paid jobs also give rise to semi and unskilled jobs; for example in retail, hospitality and personal services. In fact, the semi- and un-skilled jobs are necessary to complete the city. A successful city needs to provide housing, jobs and security for a full continuum of people.

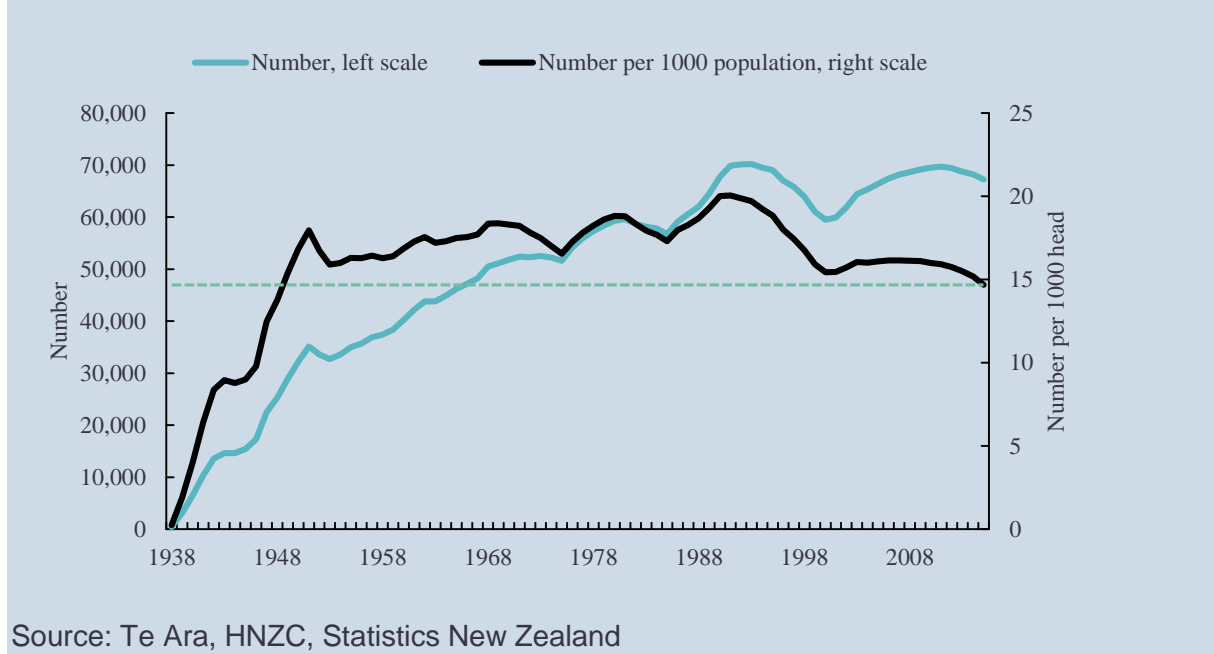
Private sector will not supply housing for the poor/vulnerable

The experience of the past 100 years in New Zealand and internationally is clear. The private sector will not meet the need of the poor and vulnerable. The Government has to step in because the private profit motive is not enough to justify the provision of housing and other services to this group of our community. Wider social benefits that are not compensated to the private sector, also need to be accounted for.

Recognising this, the New Zealand Government set up Housing New Zealand after WWII to provide housing to the most vulnerable and a ladder to home ownership for the middle classes. This included a range of complementary policies like capitalisation of benefits to use as a deposit for a house purchase.

But this active intervention in housing supply has stalled since the early 1990s. The Housing NZ housing stock has not increased since 1991. Relative to population, the state housing stock is now at the lowest level since 1948 – in the first decade of state housing.

Figure 1: Housing New Zealand Stock, 1938-2015



The appetite to house and look after the poor and vulnerable has diminished. It appears to have been replaced by a punitive approach where you owe something to society for being supported in need. Whatever the right approach may be, the result has been clear.

Housing is no longer just shelter, it is much more. It is the other niceties that dominate the housing conversation; not the supply of safe, secure and affordable shelter for all. An island of dignity, a human right.

Few levers for local government to pull

While we may have many conversations about what is right, local authorities are constrained to the set of policy levers or tools available to them.

- **Direct supply or provision of housing..**
- **Land use policies:** By far the weightiest tool in the kit, it can be used, for example, for retained affordable housing provisions in exchange for density and other zoning relaxations.
- **Infrastructure policies:** Significant resources that are high in fixed costs but can be leveraged for good economic and social outcomes.
- **Indirect influence through lobbying central government politics and policy making:** This method would be high impact but local government has low control or influence. By and large, central Government doesn't like local government and sees them as the problem to be solved, rather than part of the solution.

Implications of the latest social housing reform programme

Current position

WCC is unusual among the local government sector. It provides over half of social housing in the city while most other local authorities offer much smaller amount if any, social housing. WCC also received a capital grant in \$220M from the Crown in recent years and comes with binding deliverables and contractual constraints.



Because the WCC does not have access to the IRRS for its tenants, who would otherwise in many cases access this funding, the social housing provided by WCC is a subsidy to the central government from WCC rate payers.

WCC housing at Regent Park

Winds of change

The social housing sector is changing. The largest player, HNZC, remains sidelined. Its funding is constrained and has been hamstrung in its ability to significantly grow its asset base. New initiatives are geared towards selling HNZC to community housing providers who will be able to access Income Related Rental Subsidies. But local government operators are explicitly excluded from accessing this funding. The stated goal is to encourage growth and capacity building in the community housing sector. These new policies are accompanied by increases in annual funding (although capped) for IRRS, but there no new capital funding.

What the changes mean in practice

The final shape and form of the HNZC asset sales are not yet confirmed. So we do not know the full terms of how the social benefits will be valued, nor how covenants to retain sold assets in social housing provision will be compensated.

But we know some broad generalisations.

- First, HNZC will be further neutered. There is not enough in the current set of policies that will increase funding for provision of new supply.
- Second, a big change in the policy is a move of needs assessment from HNZC to the Ministry of Social Development (MSD), which also assesses welfare needs. This aggregation is likely to mean access to full information for clients seeking social housing. WCC should not be in the business of providing housing to those who meet the criteria in MSD's SAS (needs assessment framework).
- Third, the community housing sector is capital constrained. As such, any increases in social housing supply from this sector will depend on their ability to negotiate a cheap price for HNZC asset sales or partner up with other financiers.