



Alternative housing tenures – the opportunity for New Zealand

Research Update 1:
What's happened in the intermediate housing market

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Livingston and Associates Ltd
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1. Context

“Housing is fundamental to our economic and social wellbeing and plays a central role in individual and community health outcomes, family stability, and social cohesion. A responsive housing market facilitates labour market mobility, allowing people to move to take up job opportunities and enhancing the productivity of the economy.”¹ Unfortunately, housing markets around the world, including in New Zealand, have struggled to provide adequate, good quality affordable housing with long term security of tenure to meet their populations’ needs. Some housing markets have responded to pressures within their housing systems to provide a range of alternative tenure structures and these responses have varied between countries. New Zealand is also a signatory to a number of United Nations conventions that state households’ ability to access good quality housing at an affordable price is considered a human right.

This research update is the first in a series which presents the results of our research project “Alternative housing tenures – the opportunity for New Zealand” and focuses on recent housing market outcomes and demonstrates the potential need for alternative tenure solutions in New Zealand. The research updates will summarise the results from our analysis of:

- Housing market outcomes (intermediate housing market, renter housing stress, and renter housing need and unmet need);
- Rapid review of overseas literature on alternative affordable housing tenure system base;
- Industry interviews investigating enablers and barriers to alternative tenure housing in New Zealand; and
- System based analysis of the enablers and barriers to the growth of the alternative tenure housing market.

2. Housing market outcomes

Affordable housing is an important factor for economic inclusion of households in the wider economy. Housing generally is a household’s largest single spending item, encompassing mortgage payments for owner occupiers and rents for renter households. Rising housing costs have contributed to growing social and economic disparities with lower income households (those earning less than 80% of their region’s median household income) experiencing the most adverse outcomes. OECD (2018)² analysis demonstrates increased income inequality (measured by the Gini index) based on disposable income after deducting for housing costs. Renters, in particular, have needed to spend an increasing proportion of their income on housing, leaving less residual income to cover other expenditure.

New Zealand has not been immune from the decline in housing affordability. This is the first of three research updates providing an overview of recent housing market outcomes. These updates will discuss trends in the intermediate housing market, renter housing stress, and renter housing need and unmet need. This update focuses on the intermediate housing market.

¹ New Zealand Productivity Commission (2015) Using land for housing. Page 1.

² OECD (2018), “Opportunities for all: framework for policy action on inclusive growth”. OECD publishing..

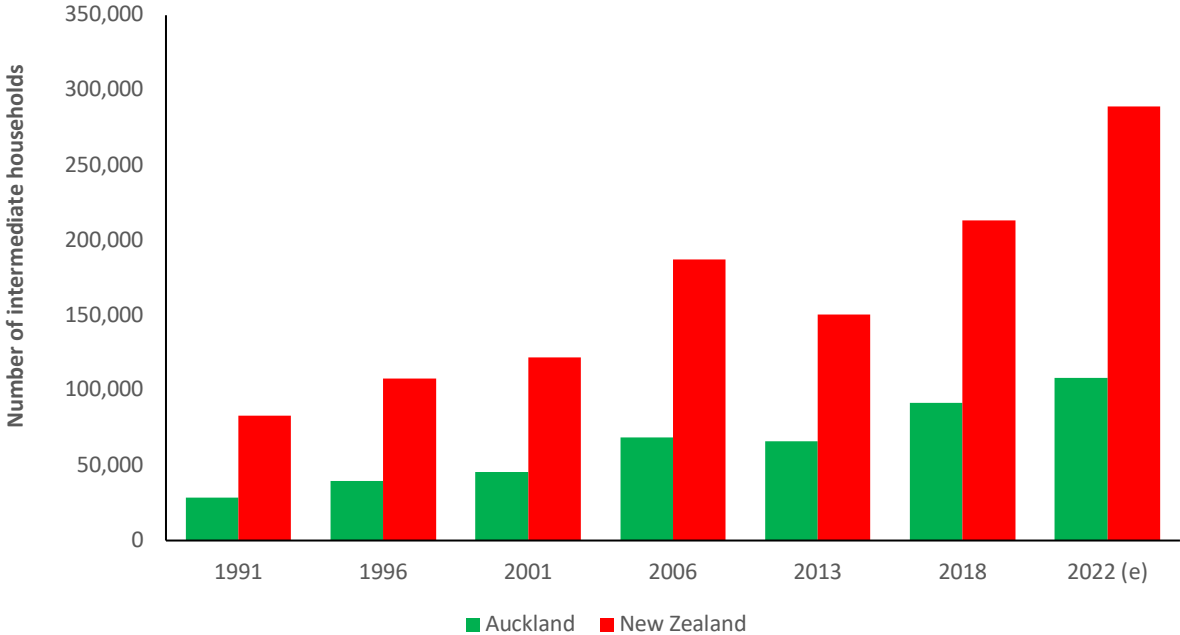
3. What is the intermediate housing market

The intermediate housing market is a relative measure of the affordability of housing for first home buyers. The intermediate housing market is defined as those households:

- Currently in the private rental market;
- That have at least one member of the household in paid employment; and
- That cannot afford³ to buy a house at the lower quartile house price under standard bank lending criteria.

The intermediate housing market forms an important segment of the housing market. They represent working households unable to affordably buy a dwelling at the lower quartile house sale price. Figure 1 presents the trend in the size of the intermediate housing market in Auckland and nationally between 1991 and 2022.

Figure 1: Intermediate housing market 1991 to 2022



Source: Modelled based on data sourced from Statistics New Zealand, RBNZ, and Headway Systems Ltd

The number of households in the intermediate housing market has increased over the past 31 years by approximately 247% nationally (or a compounded annual growth rate of 4.1% per annum) and 277% in the Auckland region (or an annual compounded growth rate of 4.4% per annum). There are now 289,300 intermediate households⁴ nationally and 108,500 of these are located in Auckland.

³ Housing costs are defined as unaffordable when they exceed 30% of gross household income.

⁴ As at 30th June 2022

Table 1 presents analysis detailing the quantum of the impact of the key drivers of the change in the size of the intermediate housing market between 2006 and 2022.

Table 1: Key drivers of the change in the size of the intermediate housing market - 2006 to 2022

Driver	Change in the number of intermediate hhlds		
	2006 to 2013	2013 to 2018	2018 to 2022
Growth in total households	12,400	18,000	12,900
Growth as a result of tenure change (excluding population growth)	18,700	22,400	15,100
Change in interest rates	-44,800	-5,700	-5,900
House sale price appreciation	33,400	64,500	72,900
Household income growth	-56,500	-36,800	-19,100
Total change	-36,800	62,400	75,900

Source: Modelled from data sourced from Corelogic, Headway Systems, RBNZ, and Statistics New Zealand

Between 2018 and 2022 the majority of the growth in the size of the intermediate housing market was a result of growth in house prices. Table 2 presents the growth in the size of the intermediate housing market between 2018 and 2022 by region.

Table 2: Intermediate housing market by region – 2018 to 2022

Region	Number of intermediate households				Intermediate households as a % of all households		
	2018	2022	Chge in no of hhlds	% chge 18 to 22	2018	2022	% pt change
Northland	5,400	8,100	2,700	50%	7.6%	10.6%	3.0%
Auckland	91,800	108,500	16,700	18%	16.7%	18.4%	1.7%
Waikato	20,800	30,200	9,400	45%	11.8%	16.1%	4.3%
Bay of Plenty	13,800	19,800	6,000	43%	11.3%	15.2%	3.8%
Gisborne / Hawkes Bay	6,700	11,500	4,800	72%	8.0%	13.1%	5.0%
Taranaki	3,400	5,500	2,100	62%	7.1%	11.1%	3.9%
Manawatu / Wanganui	6,700	12,200	5,500	82%	6.9%	12.1%	5.2%
Wellington	24,700	34,700	10,000	40%	12.4%	16.6%	4.2%
Nelson/Tasman/Marl	6,600	8,100	1,500	23%	10.6%	12.2%	1.7%
West Coast	500	900	400	80%	3.6%	6.4%	2.8%
Canterbury	21,500	32,200	10,700	50%	9.0%	12.8%	3.8%
Otago	9,900	14,000	4,100	41%	10.7%	14.4%	3.6%
Southland	1,600	3,600	2,000	125%	3.9%	8.6%	4.6%
Total	213,400	289,300	75,900	36%	11.9%	15.2%	3.3%

Source: Modelled based on data sourced from Statistics New Zealand, RBNZ, and Headway Systems Ltd

The number of intermediate households increased by 36%, or 75,900 households between 2018 and 2022. Over the same time frame the total number of households in New Zealand increased by 6.0% or 108,720. The growth in the number of intermediate households accounted for 70% of the total increase. Provincial centres

experienced the strongest growth in the number of intermediate households between 2018 and 2022. This reflects the stronger growth in house prices in these locations relative to the main centres.

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. The breakdown of the traditional housing pathway 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). This has significant potential fiscal implications for Government in terms of the level of additional support they may need to provide to these households.

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.

In summary, the steady growth of working households unable to affordably buy a dwelling in their local housing market suggests there is a growing need for an appropriately funded policy such as an alternative tenure product to provide households with ownership like outcomes.

4. Contact details

Ian Mitchell

Livingston and Associates Ltd

Mobile: 021 389 335

Email: ian.mitchell@livingstonassociates.co.nz