



Housing solutions for low to moderate income households

Research Update 2: Solutions identified in overseas research

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Livingston and Associates Ltd
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1. Context

The number of low to moderate-income households with limited equity is on the rise. Those households are often in housing that is precarious or does not meet their changing needs. Their limited assets or equity means they are excluded from public and council housing because they do not meet the very low income or other eligibility criteria. Consequently they are trapped in a housing market that is increasingly unable to deliver secure, affordable housing. Young working households, Māori whanau, seniors in retirement, and households with disabled people are particularly vulnerable to these conditions and their long-term secure housing outlook is poor. These households do not have sufficient capital to access sustainable affordable housing, whether through owner-occupation or renting. Finding secure housing solutions for these households by leveraging their limited but useful assets would relieve pressure on the current rental market as well as public housing. Previous research indicates there are a growing number of households that would benefit from low to limited equity housing models, including forms of ownership, secure rental, or other alternative tenure forms.

The focus of this research project *“Housing solutions for low to moderate income households with limited equity”*, funded by BRANZ from the Building Research Levy, is to build our understanding of how other comparable countries provide housing for these households, including the housing tenure models and the policy and funding settings needed for the success of these models. The research was undertaken by Ian Mitchell from Livingston and Associates limited, Dr Bev James (Public Policy Research), Dr Fiona Cram (Katoa Ltd) and Chris Glaudel (Community Housing Solutions Ltd). In the New Zealand context, we will establish the size, characteristics and locations of these submarkets, test economic feasibility and the level of housing subsidy required, and adopt a systems-based approach to build on our understanding of the opportunities to grow these models in New Zealand. Our focus will be to use the systems analysis to develop potential housing solutions.

This is the second in a series of research updates providing an update on the project’s initial findings. This research update provides a summary of some of the key points identified in our review of overseas literature.

Other research updates include:

- Housing affordability outcomes;
- New Zealand industry perspectives; and
- Housing systems analysis and potential housing solutions in a New Zealand context.

2. The overseas experience

We undertook a selected review of overseas research about affordable housing solutions for low-moderate income households. Housing markets and systems settings vary in the different countries they operate in. This creates challenges when looking at overseas examples of housing solution enablers and relating them to New Zealand. Consequently the following summary comments need to be considered in relation to New Zealand's specific legislative, market, cultural and social environments. Common to all countries reviewed is the focus on the inability of low to moderate income households to affordably buy or rent dwellings at market prices. There are a wide range of solutions operating in different jurisdictions, however they all struggle to operate at scale unless they are backed by a sustainable source of equity and finance which is insulated from changes in government policy associated with election cycles. A good first step is for Governments to set out their vision for affordable home ownership and affordable rental accommodation in some detail, looking at current provision, the risks and the potential scale of demand, target outcomes, funding and supply, according to Whitehouse and Williams (2020).

Swanson (2020) concluded that there were a number of overriding principles factors which should be incorporated into housing policy. Those include: adequate housing is a human right; housing to be considered firstly as a home rather than as an investment; and housing policy should accommodate the whole population across all income levels into appropriate housing within the community in which they live.

The current Government's approach in New Zealand is seeking to increase private sector investment alongside delivery by registered Community Housing Providers, who are mainly not-for-profit and Māori organisations. Benedict et. al. (2022) identified challenges to growing private sector investment in affordable housing for low to moderate income households:

- The private sector had concerns over changing government policy environments and identified a stable regulatory environment and funding (grant) certainty as essential to increasing the scale of private sector investment;
- Affordable housing was not financially feasible without significant government assistance. Private sector investment in affordable housing for low income households will only be enabled by deep capital grants. Where governments are not able to provide capital to underpin housing construction, the potential use of other levers such as government land (leased at pepper corn rents) or the use of planning powers and regulations (such as inclusionary zoning and/or density benefits) will be needed; and
- Returns were not as competitive as standard developments where the units are developed and on-sold. The rise in private sector interest in affordable housing investment reflects the sector's search for yield relative to other potential opportunities. If returns from other assets improve, the appetite from the private sector for low yield affordable housing investments may diminish.

Benedict et. al. (2022) identified a number of international policy/strategy initiatives that have been used to support and increase the supply of social and affordable housing by the private sector for low to moderate income households and rated them to reflect the strength of the evidence supporting their ability to achieve their goals. The outcomes of their analysis are presented in Figure 1.

Figure 1: International models of private sector participation in social and affordable housing supply



Source: Benedict et. al. (2022)

They noted “government backed bonds and loan guarantees have led to the growth of institutional investment in the supply of new affordable housing and models of private involvement in developing new social and affordable housing supply may include the growing build to rent sector. However, analysis of affordable housing solutions suggest there are no easy solutions. The lack of affordability for individual households is mainly because of inadequate income and/or saving relative to market prices/rents/housing costs. The problems around low incomes relative to housing costs can only be addressed by increasing incomes or reducing housing costs in the short to medium term by some form of subsidy and in the longer term by structural change in the housing and related systems.”

Overseas literature suggests a principled approach where affordable housing solutions have a community focus and reflect the housing need at a local level and take into account housing market drivers within the location. The literature identifies barriers and enablers to effective affordable housing solutions and these include:

- Lack of knowledge around alternative housing solutions across the community, households and their advisors and the whole housing system hinders uptake;
- Distinct legal status for alternative tenures (for example, affordable rental and limited equity cooperatives) can enable uptake of these models. In addition, standardised documentation for different

- alternative housing solutions/tenures has improved access to finance and acceptability within housing markets;
- Stewardship of potential occupiers (for example, financial literacy/budgeting, practical home maintenance, obligation of owner occupation courses etc.) of affordable housing programmes can improve outcomes with some models/subgroups;
 - Planning rules and building regulations can limit supply side responses to changes in demand and hinder innovation, particularly for solutions focused on providing residents with their own private space, and also communal amenities and space;
 - Variation in government support in many countries for different affordable housing initiatives have increased providers/developers' operational risk and uncertainty and limited the organisations' ability to grow; and
 - Affordable housing developments which target low to moderate income households have poor financial feasibility without subsidised capital and/or grants

A wide variety of funding models are used overseas to support affordable housing solutions. A range of funding approaches could provide a sustainable flow of capital in a New Zealand context including: inclusionary zoning; Government backed bonds and guarantees as a source affordable finance; and the use of private public partnerships linked to subsidised mixed tenure build to rent models.

3. Contact details

Ian Mitchell
Livingston and Associates Ltd
Mobile: 021 389 335
Email: ian.mitchell@livingstonassociates.co.nz

4. References

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