



Housing solutions for low to moderate income households

Research Update 4: Housing systems analysis and potential solutions

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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 fourth 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;
- Solutions identified in overseas research; and
- New Zealand industry perspectives.

2. Housing systems analysis and potential solutions

Our housing systems analysis identified factors contributing to the housing outcomes of low to moderate income households. The data analysis identified the overall outcomes for these households along with the subgroups experiencing the poorest outcomes: renter households generally; older renters and owner occupiers with mortgages; Māori; and households with disabilities. Altogether, 194,000 renter households are paying over 30% of their income towards housing costs (signifying housing stress), with 84,000 of these paying over 50% (signifying severe housing stress).

The growing number of low to moderate income households unable to affordably pay their housing costs reflects a structural imbalance in our housing system. The amount these households can afford to pay is significantly lower than the returns required to build affordable housing developments. The shortfall in returns limits the flow of impact investor and private sector capital to affordable housing providers. Over time this has resulted in poor housing outcomes for low to moderate income households which include large numbers of our essential workers¹. Low-moderate income households face limited housing choices: pay large proportions of their incomes in housing costs; crowd multiple income earners into the same dwelling reducing the ratio of housing costs to income; shift to lower cost housing in the same market if available; or shift to a lower cost housing market elsewhere and hopefully find employment within the associated labour market.

The key area of government support for low-moderate income households has been delivered by the Accommodation Supplement. However this support, although costing over \$2 billion dollar per annum, has proved ineffective at reducing the housing unaffordability experienced by low to moderate income households. The cost of the Accommodation Supplement programme would need to more than double if the desire was to improve affordability outcomes for low to moderate income renter households (Saville-Smith and Mitchell, 2020).

Any policy responses attempting to improve affordability outcomes for low to moderate income households require a commitment to affordability outcomes for households based on the proportion of income paid in housing costs (their ability to pay) rather than on a proportion of market rent. In this approach, housing costs would not exceed 30% of gross household income rather than rents set at 80% of the market median. The relative movements in low to moderate household incomes, housing costs and prices over the last two decades has resulted in affordable owner occupation becoming increasingly out of reach, even with models such as shared equity and a pepper corn land lease. Without sustainable low cost capital and funding tools any potential solutions will remain niche rather than at scale solutions required to meet the clearly documented needs.

¹ See Saville-Smith, K. and Mitchell, I. (2020) "*Accommodation Supplement High Expenditure, Low Efficacy*". Affordable housing for Generations Component A and Component B, Building Better Homes, Towns, and Cities. https://www.buildingbetter.nz/wp-content/uploads/2023/08/Saville-Smith_Mitchell_Dec2020_accommodation_supplement_high_expenditure_low_efficacy.pdf

Responses to provide homes affordable to low to moderate income households should address:

- Access to affordable capital and finance;
- Resource Management reform focused on enabling development capacity within housing markets;
- Local government processes, planning rules and regulations;
- Government Legal settings; and
- Broader Government settings.

Improving access to affordable capital and finance

To address the low yields from affordable housing, attract private investment and grow sources of capital the following actions are recommended:

- Enable mandatory inclusionary housing requirements and other value capture mechanisms to create a capital fund which can be used to subsidise affordable housing developments within the same housing market;
- Subsidise/use incentives to encourage Build to Rent developers to include a portion of the units dedicated for affordable rents. For example, revenue from inclusionary housing contributions could be used to subsidise units within a Build to Rent development providing affordable rental units;
- Establish an affordable housing debt/bond facility backed by a government guarantee to provide affordable housing developers lower cost finance;
- Provide additional funding tools including capital grants to support affordable housing solutions like shared equity and affordable rental programmes. Potentially these could be funded by new revenue sources to complement new funding tools including new tax revenues such as a stamp duty, land tax and/or capital gains tax;
- Provide additional funding for the Whai Kāinga Whai Oranga programme providing a tailored response integrating funding across housing tenures and infrastructure for Māori; and
- Adjust the Reserve Bank's categorisation of community housing providers as investors and associated risk weighting requirements to lower their cost of bank lending.

Resource Management reform

To increase the efficiency and effectiveness of the Resource Management system to deliver affordable and accessible homes the following actions are recommended:

- Build on existing policy initiatives seeking to reform planning rules and regulations limiting development capacity, particularly within our key growth centres, and ensure development capacity is enabled by investing in infrastructure to support growth;
- Implement an enabling planning framework which incentivises affordable housing, provides consistency across the country, improves the certainty and pace of consenting and enables redevelopment and intensification;
- Address land banking behaviours by utilising a combination of targeted rates on build-ready land, using infrastructure bonds directly linked to the serviced sections, and charging rates on land value only;
- Constrain the use of private covenants which unduly restrict tenures and typologies; and
- Improve the availability and timeliness of data to identify growing diversity and changing housing demand and needs; for example, tenure change, changes in family and household composition, ageing population, prevalence of housing stress in different geographic locations, demographics and segments.

Local government processes planning rules and regulation

To ensure local authorities contribute to the delivery of affordable homes for low to moderate income households the following actions are recommended:

- Build on existing initiatives/reforms and develop new funding and financing tools to ensure timely delivery of infrastructure required to enable both greenfield and brownfield development capacity;
- Ensure local council rules and regulations do not restrict innovation in design,
- Engage with Māori to understand and support their local responses; and
- Incentivise universal design for private homes.

Government legal settings

- Ensure private covenants do not impact on the supply of affordable housing and they do not breach the Human Rights Act, Residential Tenancies Act, Property Law Act or Commerce Act;
- Enable alternative tenures by ensuring appropriate legal guidelines for affordable housing solutions. For example, enact legislation to enable affordable rental and limited equity housing cooperatives and develop standardised agreements and education programmes to encourage their use; and
- Encourage innovative housing solutions such as shared equity, co-housing, and affordable rentals by developing and sharing standardised documents through Tenancy Services.

Broader Government policy settings

To ensure national policy settings support the delivery of affordable homes for low to moderate income households the following actions are recommended:

- Continue targeted financial support for low to moderate income households and review the Accommodation Supplement settings to ensure they are targeted on the neediest households. For example should the current tenure neutral settings continue with payments made to owner occupiers?
- Develop a population strategy to smooth the flow of immigration to better match infrastructure development, enabled development capacity, housing demand and the sector's ability to build dwellings taking into account time lags to complete developments. From a housing market's perspective, it's not necessarily the level of net migration rather it is the rapid swings in net gain/loss which make it difficult for the development/construction sector to respond to changes in the level of growth in demand;
- Establish programmes for older households to enable "ageing in place" by reviewing and improving funds to upgrade their homes for accessibility needs. In addition, policy settings around renters' housing costs, Accommodation Supplement settings and Superannuation payment levels need to be reviewed and adjusted to improve their housing outcomes;
- Follow through on the Crown's commitments, strategy and framework under Te Tiriti o Waitangi; MAIHI Ka Ora – the National Māori Housing Strategy; and the Māori and Iwi Housing Innovation (MAIHI) framework;
- Support housing development on Māori multiply-owned land by addressing legal, structural, and financial challenges, and providing infrastructure funding;
- Develop strategies to encourage partnering or amalgamation amongst providers to overcome scale and expertise constraints which could be enabled by central government funding settings; and
- Continue Government support to increase industry knowledge and capability to deliver models supporting low to moderate income households by standardising documentation and offering training programmes to increase understanding of existing and new models. In addition, continued support for existing budgeting and first-time homebuyer education programs along with debt consolidation programmes would be advantageous.

3. Contact details

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4. References

Saville-Smith, K. and Mitchell, I. (2020) *"Accommodation Supplement High Expenditure, Low Efficacy"*.

Affordable housing for Generations Component A and Component B, Building Better Homes, Towns, and Cities.

https://www.buildingbetter.nz/wp-content/uploads/2023/08/Saville-Smith_Mitchell_Dec2020

accommodation_supplement_high_expenditure_low_efficacy.pdf