

# Housing costs and affordability



- Low income households have lower levels of home ownership, particularly in the eight cities.
- Rent prices in most of the eight largest cities are higher than the rest of New Zealand.
- The highest house sale prices are in Auckland, Wellington and North Shore.
- The most affordable cities, in terms of mortgage affordability and weekly rents, are Dunedin and Christchurch.
- The proportion of weekly household spending on housing costs has increased considerably from 1998 to 2001 in some of the eight cities.
- Overall, the numbers of people receiving the Accommodation Supplement is slowly decreasing across all eight cities.

## WHAT THIS IS ABOUT

Housing is the largest component of many households' expenditure and is central to the ability to meet basic needs. When housing costs are too high relative to income, people have less residual income to spend on other essentials such as food, power and health. People facing substantial housing cost burdens may be forced to live in unsafe, unhealthy or inappropriate accommodation to mitigate those costs.

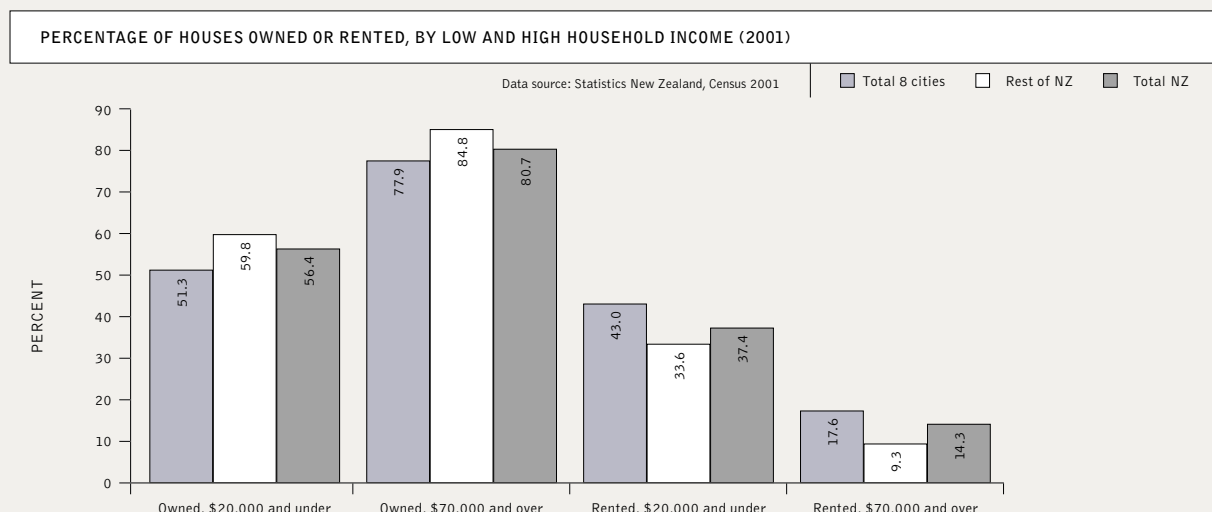
Housing cost and affordability measures presented here outline the relative costs of obtaining housing, and indicate how affordable accommodation is for people in New Zealand's eight largest cities. The measures used are:

- Tenure security and household income
- Residential dwellings sales
- Home mortgage affordability
- Rental affordability
- Income spent on housing
- Accommodation Supplement recipients.

## WHAT DID WE FIND?

### Tenure security and household income

This measure explores the relationship between household income and tenure.<sup>51</sup> The most secure form of tenure is one that is guaranteed over a specified time and that is also affordable. Home ownership is generally regarded as a more secure form of tenure.



<sup>51</sup> As a result of a high number of unspecified household incomes, percentages have been calculated using specified answers only.

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Overall, there is a close relationship between levels of household income, tenure and geographical location. Households with higher household incomes tend to have much higher levels of home ownership than those with lower incomes.

PERCENTAGE OF HOUSES OWNED OR RENTED, BY LOW AND HIGH HOUSEHOLD INCOME (2001)				
	\$20,000 or less		\$70,000 or more	
	Owned %	Rented %	Owned %	Rented %
North Shore	58.2	35.5	81.0	14.3
Waitakere	55.6	38.6	86.1	10.4
Auckland	43.6	50.4	71.2	23.9
Manukau	52.4	40.9	83.8	11.6
Hamilton	45.0	50.1	81.5	14.3
Wellington	46.8	48.1	74.7	21.5
Christchurch	55.1	40.0	82.7	13.2
Dunedin	54.1	40.3	85.0	10.0
Total 8 cities	51.3	43.0	77.9	17.6
Rest of NZ	59.8	33.6	84.8	9.3
Total NZ	56.4	37.4	80.7	14.3

Data source: Statistics New Zealand, Census 2001

In the eight cities, 77.9% of higher income households (over \$70,000 per annum) own their homes, compared to only 51.3% of lower income households (\$20,000 or under). Lower income households are much more likely to rent their accommodation. In the eight cities, 43% of lower income households rent, compared to only 17.6% of the higher income households.

For all income groups living in cities with high housing costs, there is a greater level of renting and less home ownership. For example, in Auckland, households earning over \$70,000 per annum have lower rates of ownership (71.2%) compared to the eight cities combined (77.9%). These same households in both Auckland and Wellington have greater rates of renting (23.9% and 21.5% respectively) than higher income households in cities such as Dunedin (10%).

While housing affordability is a key driver in these patterns, other contributing factors might be the presence in cities such as Auckland and Wellington of higher density housing developments (rented apartments) and of population groups that are traditionally more likely to rent such as mobile young professionals. Auckland also has greater levels of renting among low income households (50.4%) where house pricing precludes ownership. This compares to 33.6% in the rest of New Zealand.

North Shore, which is typically considered a city with high housing costs, has the largest level of low income earners owning their own homes (58.2%). North Shore has a slightly older population, with more retirees than the other cities, many of whom own their own homes without a mortgage. These households are likely to be in the low income category as they do not receive income from paid employment.

## Residential dwelling sales

This measure looks at monthly median residential dwelling sales figures for each of the eight cities.<sup>52</sup> Consistently the highest sales prices have been in Auckland, Wellington and North Shore. This could be due to housing market demand spurred by migrants attracted to work and the concentration of commercial and financial activities in those cities. Five of the eight cities have higher sales prices than the national median. The exceptions are Dunedin, Hamilton and Christchurch.

<sup>52</sup> Median dwelling sale figures calculated by the Real Estate Institute of New Zealand, based on sales volume per month.

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Consistent with national trends, most of the eight largest cities experienced an increase in median sale prices from 1998 to 2002. The most notable increase was in Auckland (from \$265,766 to \$287,582) and this trend is expected to continue as long as mortgage interest rates remain relatively stable.

Median dwelling prices in cities such as Manukau have been kept relatively high due to rapid growth driven by an increasing population (largely through natural increase). Housing supply tends to lag behind increases in demand, which leads to increased median prices in areas where demand is highest.

While the housing market is again picking up in Christchurch, over the last few years the city has experienced a relatively weak market, resulting in limited or no capital gains for many home owners and property investors.

MEDIAN RESIDENTIAL DWELLING SALE PRICE (ADJUSTED) (YEARS ENDED APRIL 1998 TO 2002) <sup>53</sup>					
	1998 \$	1999 \$	2000 \$	2001 \$	2002 \$
North Shore	255,255	275,551	258,638	264,368	271,709
Waitakere	195,195	196,393	207,305	175,766	185,341
Auckland	265,766	267,535	276,407	263,410	287,582
Manukau	235,235	235,471	219,645	227,490	238,095
Hamilton	165,666	160,321	167,818	158,046	156,629
Wellington	275,275	245,491	286,278	269,157	273,109
Christchurch	149,149	155,812	152,024	145,594	149,860
Dunedin	94,595	102,204	100,197	100,575	98,039
<b>Total NZ</b>	<b>160,160</b>	<b>170,341</b>	<b>174,729</b>	<b>170,498</b>	<b>176,471</b>

Data source: Real Estate Institute of New Zealand

Overall, house prices are expected to continue to increase in the eight largest cities, driven by a number of factors including ongoing high net migration flows (particularly from Asia and returning expatriate New Zealanders), increases in personal income and continued under supply of houses (particularly in the Auckland region).

## Home mortgage affordability

The Home Mortgage Affordability Index assesses the relative affordability of buying a home at a point in time. The Index incorporates national and regional average weekly earnings, regional median dwelling price and average mortgage interest rates for new borrowers. The affordability of a home mortgage for a particular region is compared against the national average (represented by 100%); therefore a high percentage denotes less home mortgage affordability.<sup>54</sup>

In line with findings on median house sales prices, the Index shows that the Auckland region remains consistently the least affordable region for accommodation, recording above the 100% national average over five years to 2002. Home mortgage affordability in the Wellington region was above the national average in the June 2001 quarter, although home mortgage affordability improved in the June 2002 quarter. The Waikato/Bay of Plenty region remains consistently close to the national average.

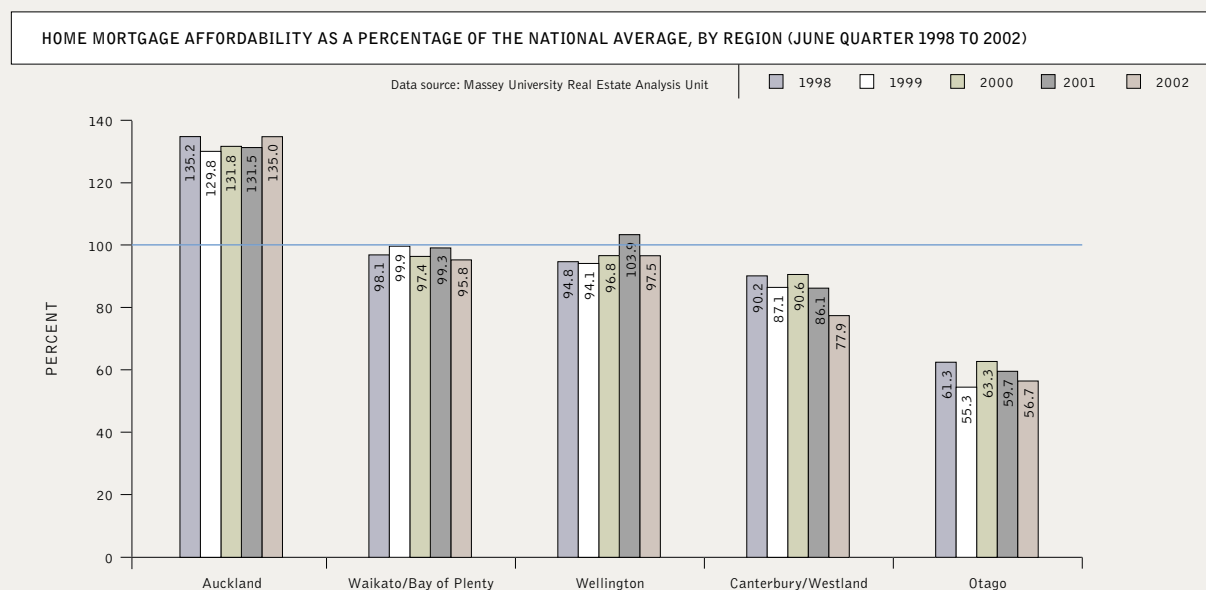
Otago and Canterbury/Westland are the most affordable of the regions that contain the country's eight largest cities. Improvements in affordability in some regions are the result of a comparative increase in income combined with a decrease in first mortgage rates and median dwelling prices. For example, in the seven years to May 2002, median house prices in Christchurch fell by 7.6% and first mortgage rates by 3%, while earnings have risen 15.6%. In contrast, total New Zealand house prices (reflecting the large contribution from the Auckland market) rose 29.6% while earnings increased 13.5%.

<sup>53</sup> Adjusted using March Quarter Consumers Price Index figures.

<sup>54</sup> This Index is produced by the Massey University Real Estate Analysis Unit. Data is not available at city level. The regional boundaries stated here are approximate regional council boundaries. North Shore, Waitakere, Auckland, and Manukau are included in the Auckland Region; Hamilton is included in the Waikato/Bay of Plenty Region; Christchurch is included in the Canterbury/Westland Region; and Dunedin is included in the Otago Region.

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There are significant variations in house prices between cities. The Auckland and Wellington regions are largely built up urban areas and house prices tend to be higher, whereas areas such as Canterbury/Westland include rural bases where house prices tend to be lower. This means that it is likely that the actual Index for Christchurch may be higher than the regional average, though it is still likely to be well below that for Auckland.

## Rental affordability

Rental affordability is a significant issue in the largest cities, particularly for low income earners. This measure shows the median weekly rent level for each city, for all landlord types (i.e. Housing New Zealand, local authority and private), as produced by the Ministry of Housing through its Tenancy Bond Database.<sup>55</sup>

In the year ended June 2002, median rent prices varied between the eight largest cities, ranging from \$250 per week in North Shore to \$143 per week in Dunedin. With the exception of Hamilton, Christchurch and Dunedin, median weekly rents in the largest cities were higher than the national figures.

Overall, it appears median weekly rents have not fluctuated greatly. However, the decrease in rent paid for Housing New Zealand (HNZ) properties may have disguised real rent increases in other parts of the rental market, particularly in private rentals.

**MEDIAN WEEKLY RENTS (YEAR ENDED JUNE 1998 TO 2002)**

	1998 \$	1999 \$	2000 \$	2001 \$	2002 \$
North Shore	269	255	255	247	250
Waitakere	249	240	225	218	222
Auckland	254	250	240	237	245
Manukau	249	240	225	218	222
Hamilton	189	185	176	171	166
Wellington	229	240	245	237	240
Christchurch	179	175	172	166	166
Dunedin	139	145	147	142	143
<b>Total NZ</b>	<b>184</b>	<b>185</b>	<b>176</b>	<b>176</b>	<b>176</b>

Data source: Housing New Zealand

<sup>55</sup> These figures have been deflated using June Quarter CPI figures.

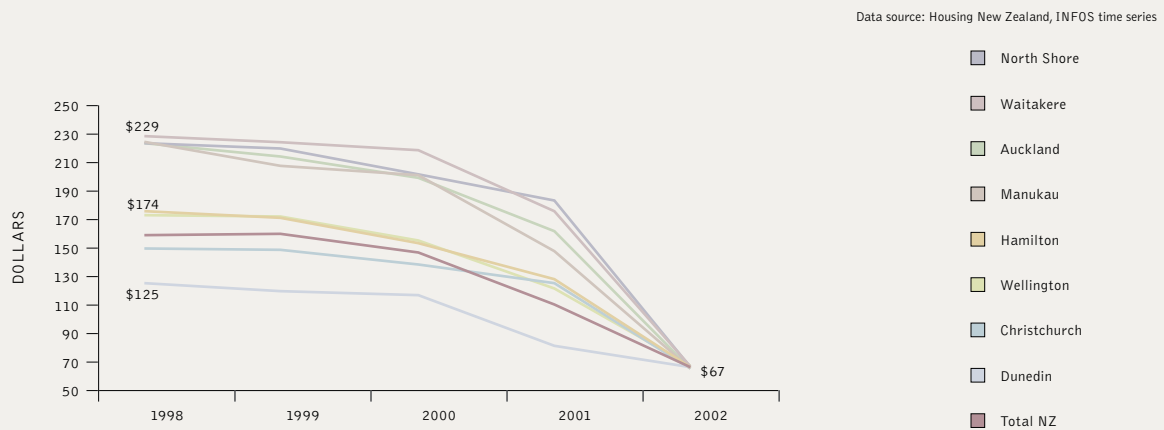
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The following graph illustrates the significant decrease in median weekly rent paid for HNZ properties. The biggest contributor to this decrease was the introduction of the Housing Restructuring (Income-Related Rents) Amendment Act that came into effect in 2001. This Act implemented the Government's policy of setting the rent for people on low income in state houses at 25% of their income (provided they meet specific income and asset tests). This resulted in a closing of the gap between the cities in median weekly rents for HNZ-provided houses, to a median of \$67 per week for each city and nationally.

**MEDIAN WEEKLY RENTS FOR HOUSING NEW ZEALAND PROPERTIES (YEARS ENDED JUNE 1998 TO 2002)**



There are, however, wide price variations in other parts of the rental market. The last three Census years (1991, 1996, 2001) show a considerable increase in the proportion of renters who pay over \$200 per week. A higher proportion of renters in the eight cities pay in excess of \$200 per week compared to the rest of New Zealand. This trend is particularly apparent for the four cities in the Auckland region and in Wellington.

**PERCENTAGE OF RENTERS PAYING OVER \$200 PER WEEK IN RENT (1991 TO 2001)**



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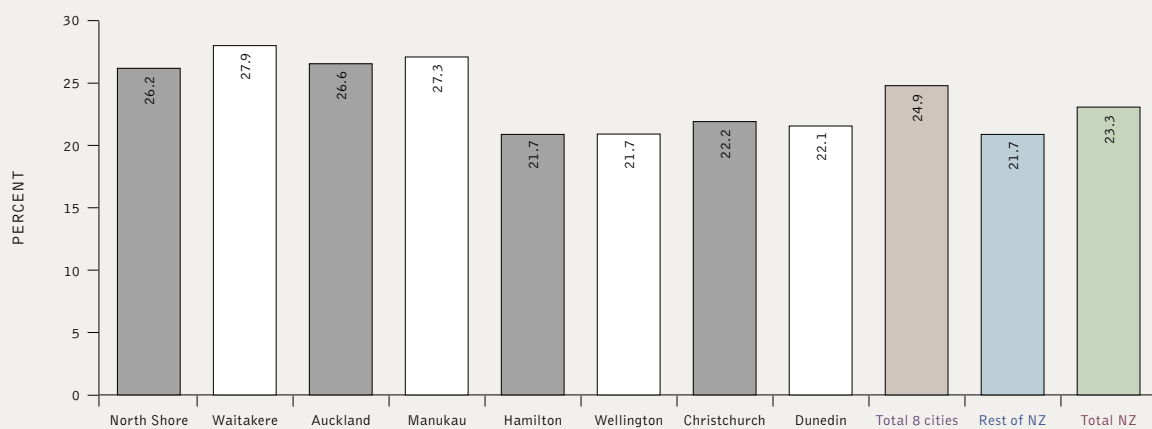
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## Income spent on housing

Housing costs are one of the largest expenditure items in New Zealanders' budgets and are considered to be one of the greatest contributors to deprivation and hardship for people on low incomes. This measure shows the proportion of household expenditure that is spent on meeting housing costs (i.e. rent, mortgage and property maintenance payments).<sup>56</sup> The data is model based. It is produced by combining Household Economic Survey data with auxiliary data from the 2001 Census.

PERCENTAGE OF WEEKLY HOUSEHOLD EXPENDITURE, SPENT ON HOUSING COSTS (2001)

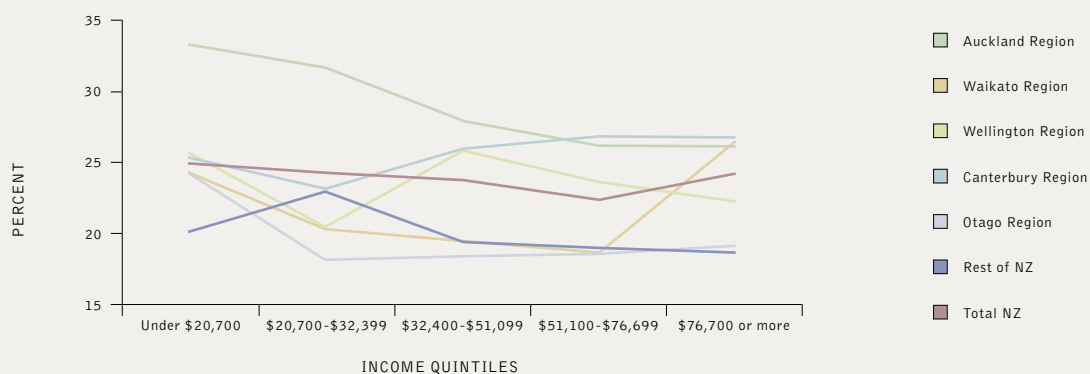
Data source: Statistics New Zealand, Household Economic Survey



In line with housing affordability trends, cities in the Auckland region have higher proportions of weekly spending on housing costs than the other largest cities and nationally. Waitakere and Manukau have the highest proportions of expenditure on housing costs (27.9% and 27.3% respectively).

PERCENTAGE OF HOUSEHOLD EXPENDITURE SPENT ON HOUSING COSTS, BY INCOME QUINTILES, BY REGION (YEAR ENDED JUNE 2001)

Data source: Statistics New Zealand, INFOS time series



The relationship between household income and expenditure on housing costs is shown in the above graph.<sup>57</sup> Typically, the lower the household income, the higher the proportion of total weekly spending on housing costs. This is particularly the case in the Auckland region, where housing costs are high. Lower income earners in the Auckland region spend more of their total weekly expenditure on housing costs than anywhere else in New Zealand.

<sup>56</sup> This excludes net capital expenditure, which is defined as the difference between receipts from housing sales and outlays for housing purchases.

<sup>57</sup> Care is required in making comparisons of expenditure with income from the Household Economic Survey, as the method of surveying income and expenditure does not provide for consistency at an individual respondent level. Respondents in the lower and higher income bands tend to be under-represented in the survey.

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The Canterbury region, which includes Christchurch, is the exception to this trend, with lower income earners spending less of their total weekly expenditure on housing costs than those on higher incomes.

Of the eight cities, Dunedin and Christchurch appear to be the most affordable cities in terms of housing costs. Home mortgage affordability for Otago is the lowest for the regions containing the largest cities. This region is experiencing an upward trend due to comparative increases in income levels and decreases in first mortgage rates and median dwelling prices.

Dunedin has the lowest median weekly rent level of the eight largest cities followed by Christchurch and Hamilton, all of which are under the national median. In addition to this, low income earners in Christchurch have the highest levels of home ownership and rented dwellings, followed closely by those in Dunedin.

## Accommodation Supplement recipients

The Accommodation Supplement is a weekly payment to welfare beneficiaries and low income earners who are spending a high percentage of their income on rent or mortgage payments.<sup>58</sup> The amount of supplement received is determined by factors such as the individual's income and assets.<sup>59</sup> This measure looks at the number of people who are receiving the Accommodation Supplement as a percentage of the total population in each city.<sup>60</sup>

In areas where the proportion of people on low incomes is high, the proportion of state housing to rental dwellings is high, and there are high rates of Maori and Pacific Islands people, then the number of Accommodation Supplement recipients also tends to be high.

In the year ended March 2002, Hamilton, Waitakere and Manukau had the highest proportion of residents receiving the Accommodation Supplement while North Shore had the lowest.

In cities where housing costs are high relative to other cities, such as North Shore, people on low incomes face greater affordability issues that may result in them being priced out of these areas. The regional maximas set by the Government are often not sufficient to offset these higher costs. Furthermore, there is no allowance made within the Supplement maxima for variations within regions and cities.

ACCOMMODATION SUPPLEMENT RECIPIENTS AS A PROPORTION OF CITY POPULATION (YEARS ENDED MARCH 1999 TO 2002)								
	1999		2000		2001		2002	
	Number	%	Number	%	Number	%	Number	%
North Shore	8,809	4.6%	9,361	4.9%	8,829	4.5%	8,687	4.4%
Waitakere	16,398	9.6%	15,935	9.2%	14,877	8.4%	14,912	8.2%
Auckland	33,587	8.8%	34,121	8.9%	25,496	6.6%	25,190	6.3%
Manukau	29,862	10.4%	31,946	10.9%	25,663	8.6%	25,262	8.2%
Hamilton	12,035	10.2%	12,574	10.6%	11,179	9.4%	10,851	8.9%
Wellington	11,637	6.9%	11,216	6.6%	8,900	5.2%	8,786	5.0%
Christchurch	28,448	8.8%	29,231	9.0%	24,458	7.5%	23,333	7.0%
Dunedin	8,489	7.1%	8,605	7.2%	6,925	5.8%	6,483	5.4%
Rest of NZ	155,349	7.5%	160,090	7.7%	138,081	6.6%	130,871	6.2%
Total NZ	304,614	7.9%	313,079	8.1%	264,408	6.8%	254,375	6.5%

Data source: Ministry of Social Development

<sup>58</sup> A high percentage is considered 25% of the individual's income spent on rent or 30% of the individual's income spent on mortgage payments.

<sup>59</sup> This also takes into account the household size and the level of regional maxima payments available to the individual depending on the geographical region in which they live.

<sup>60</sup> Annual household estimates, and annual age-sex population estimates at city level were unavailable at the time of this report. Estimates such as these may give a more accurate reflection of the population that is eligible to receive the Accommodation Supplement.

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Overall, the proportion of those receiving the Accommodation Supplement is decreasing across all eight cities as well as nationally. This trend has been occurring since 1994 and may in part be due to the completion of rent reviews for Housing New Zealand tenants who had become eligible to receive assistance. New Zealand has also been experiencing reasonably strong economic growth in recent years, which has contributed to employment growth. In turn, this has helped to reduce unemployment and welfare numbers.

In general, Maori and people of 'Other' ethnicities (including Asian) have higher percentages of their ethnic group receiving the Accommodation Supplement than Pacific Islands people and Europeans. This is most notable in Hamilton and Manukau where 18.7% and 17.3% respectively of the people receiving the Supplement are of these ethnicities.

Pacific Islands people are more likely to have larger households, perhaps with more adults contributing to housing costs, which may reduce individual eligibility for the supplement. Pacific Islands people are also more likely than Maori to be in low income paid employment than on welfare benefits. People of European ethnicity in all of the largest cities are under-represented. Averaged across the eight largest cities, less than 6% of Europeans receive the Accommodation Supplement.