Seniors Housing Market Rents and Rents Settings – Submission to MDC LTP

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1. Seniors are very vulnerable and have constrained incomes – superannuation is predicated on seniors being mortgage free and not paying rents. As a consequence, seniors renting struggle.

2. Research and housing data show:
    a. Homelessness is a very real experience for tenant seniors whether they have become tenants after owner occupation or because they have aged in rent.
    b. Unless rents are affordable seniors struggle with care – dental, prescriptions and eye care. They are very vulnerable to being tipped into residential care which is much more expensive to the community.
    c. Central government continues to deliver housing assistance to seniors through the AS, but this does not fill the unaffordable gap.
    d. Unaffordable rents mean seniors spend less in the local economy.

3. Council housing generally:
    a. While most seniors are in the private rental market, council housing is the only public housing that is targeted to and prioritises seniors.
    b. Councils were provided significant support to build pensioner housing and the asset value of those properties exceeds significantly what councils initially invested in them.
    c. In Marlborough and elsewhere there is confusion about so-called subsidies.

    I make not comment on the situation in MDC because the financials in the LTP do not provide clarity on rent revenue from the rental stock.

    However, on principle, rents are only subsidised by a council if the revenue from rents does not cover necessary expenditure for servicing financing, maintenance and operating costs.

    Rents on existing stock should not be expected to cover generation of funds to build or acquire additional stock.

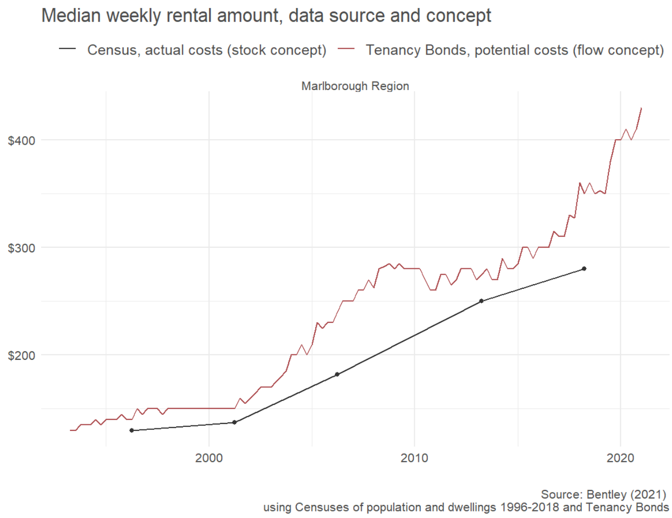
    Nor are rents being subsidized if a council has failed to under maintenance appropriately and is faced by a deferred maintenance cost due to decisions by councils to use revenue from rents for other purposes in previous years.

    While councils may have an opportunity cost associated with retaining rental housing. This is equally true of any asset, but this is not a subsidy to residents in rental housing. The council has made a decision that community wellbeing is served through providing seniors housing.

4. Councils differ in the way they set rents:
    - It is best if low-income people like seniors only have to pay 25% of incomes in rent. This is the internationally accepted standard of affordability for low income households.
    - Some councils calibrate their rents in relation to some concept of market rent and provide a discount to market rents.
    - MDC appears to claim that they discount rents for seniors at 80% of the median market rent for the sort of dwelling they are providing. This claim appears to be incorrect. MDC appears to be setting rents at 80% of flow rents – that is recent tenancy bond indicated rents. This leads to higher calculations of rent than those prevailing in the housing market.

5. Market rents refer to the prices of all exchanges between landlords and tenants. The majority of those are sitting tenants and a small proportion are from new tenants. Bond data deals with the latter and do not represent market rents although they are often (wrongly) referred to as such

by some. If we compare to the two elements of market rents – 1st what are called stock rents and 2nd flow rents – they are frequently (although not always very different). In Marlborough the flow rents (which make up on a small proportion of market rents) have increased very rapidly. In 2018, the flow rent median was around $150 per week more than the stock rent. That is, somewhere in the region of 73% less than the median flow rent. This data are for all stock not simply senior stock but the pattern will be similar.



By using flow rents to calculate pensioner housing rents, MDC ignores prevailing rents in the market. This can have a number of undesirable outcomes:

- It may thrust senior tenants into severe housing stress.
- Where the stock suitable for seniors is so small and there is a clear under-supply, MDC rent resets may support unaffordable rents in that segment of the market.

It is desirable that seniors rents are set to be affordable. However, if the MDC insists on calibrating its rents to the market, it must take a more robust approach to the actual market rents. Or it can attempt to get a balance between attempting to ensure affordability and market rents by using stock rents to drive the 80% of median calculation. The census is the most robust data on stock rents. To take account of changes between census, the discount rate could be set 5 yearly with annual reviews moving by the CPI. Such an approach would take account of movements in national superannuation and avoid periodic and unmanageable shocks to seniors with little prospect of increasing their incomes.