HOUSING AND SENIORS HOUSING – LTP SUBMISSION

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HOUSING STRESS IN MARLBOROUGH

Marlborough is not well positioned as a region in relation to its housing. There are issues related to housing affordability, stock diversity, and stock functionality. The LTP proposals do not address those adequately and understates the profound but under recognized issues in the region.

1. Housing Affordability

Under-supply of affordable housing underpins:
- the precarity of seniors in rent in Marlborough;
- pressure on the public housing stock;
- Marlborough's relatively high prevalence of homelessness. Marlborough lies seventh out of sixteen regions and has a greater homelessness prevalence than Nelson.

These patterns limit the ability of renting and homeless households to move into owner occupation or out of emergency and transitional housing. Arguably, widespread problems of housing cost stress also mean that the power of renters to consume in Marlborough with local businesses is limited by their housing costs.

a. Residential building and housing price points have not allowed younger households seeking owner occupation into the market even among the lowest quartile house prices. As Table 1 shows, in 2003 the proportions of potential owner occupiers who could not get affordable housing in the lowest priced housing in Marlborough was about 46%. By 2018, that had increased to 69% (Figure 1).

b. Marlborough's rents are persistently unaffordable for about 30% and sometimes as high as 35% of renters (Figure 2).

c. Housing costs for renters are significant and unaffordable house prices prevent them from entering more stable owner occupation. It is estimated that rents in Marlborough left 59% of renters with residual incomes after housing costs that were lower than median income households across New Zealand. By contrast, Nelson was only slightly higher with 61% of renters and Marlborough was higher than the national pattern where 57% of renters were left with residual incomes after housing costs lower than median households across New Zealand. If renters in Marlborough attempted to enter owner occupation in the lowest quartile of house prices, it is estimated that in 2018 some 70% of these first time owner occupiers would have lower than median residual incomes.

Figure 1: % of Potential 1st Home Buyer Households Facing Unaffordable Housing Costs to Purchase Lower Quartile Value Home (By quarter 2003-2018)

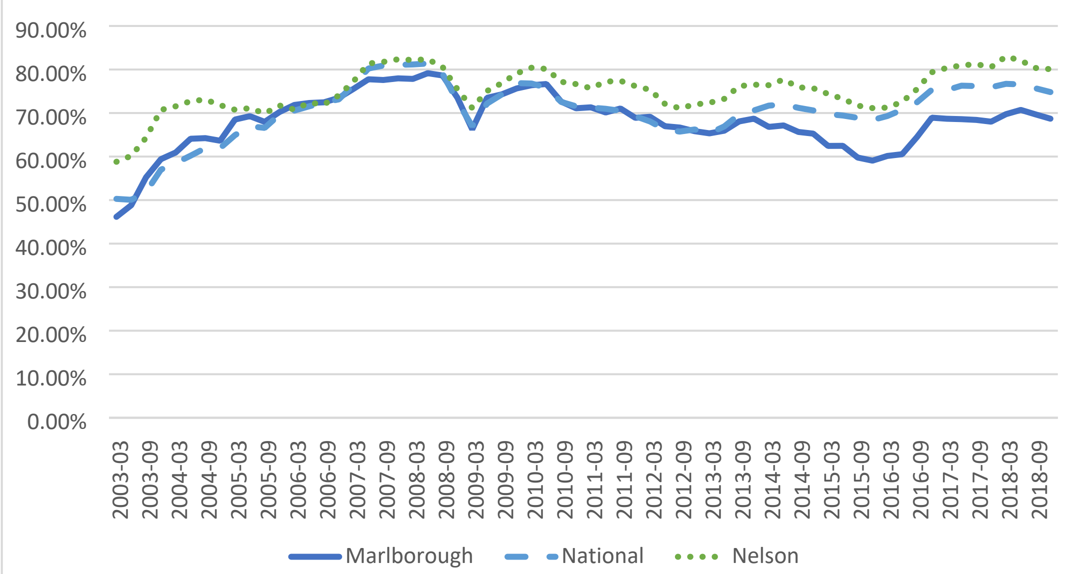
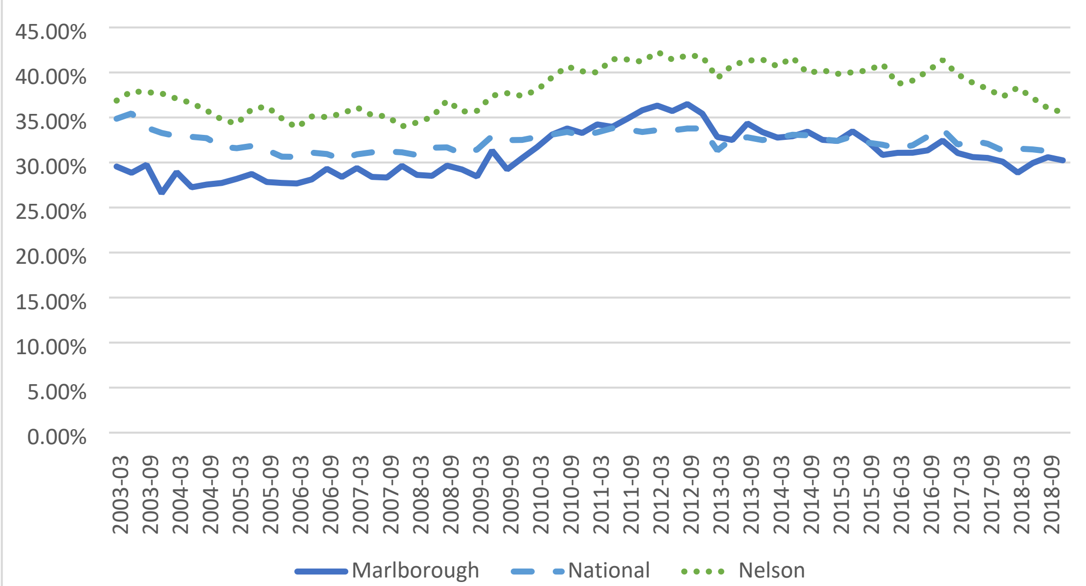


Figure 2: % Renters with Unaffordable Housing Costs 2003-2018 (By quarter 2003-2018)



2. Stock Diversity

Marlborough has a persistently homogeneous dwelling stock, although there is some indication of diverse typologies.

Dwelling size and bedroom numbers: Previous research has shown that there is little diversity in relation to dwelling size. Despite having the highest 'old age dependency ratio' of all regions the New Zealand, the Marlborough construction industry has shown low levels of 2-bedroom builds since 2001.

Providing for a wider range of opportunities allowing households to find the right fit for their needs is important. Size diversity needs to be aligned with a range of price points to ensure modest- and low- income households can realise their latent housing demand.

For instance, retirement villages frequently provide smaller stock units but they are not affordable to many seniors. Occupational right agreements can provide an affordable entry level for seniors who can downsize with significant capital, but there are also significant financial costs associated with non-discretionary monthly payments which have proved problematic for some. It is estimated that only about 13% of seniors 75 years or more will want or be able to afford retirement village living.

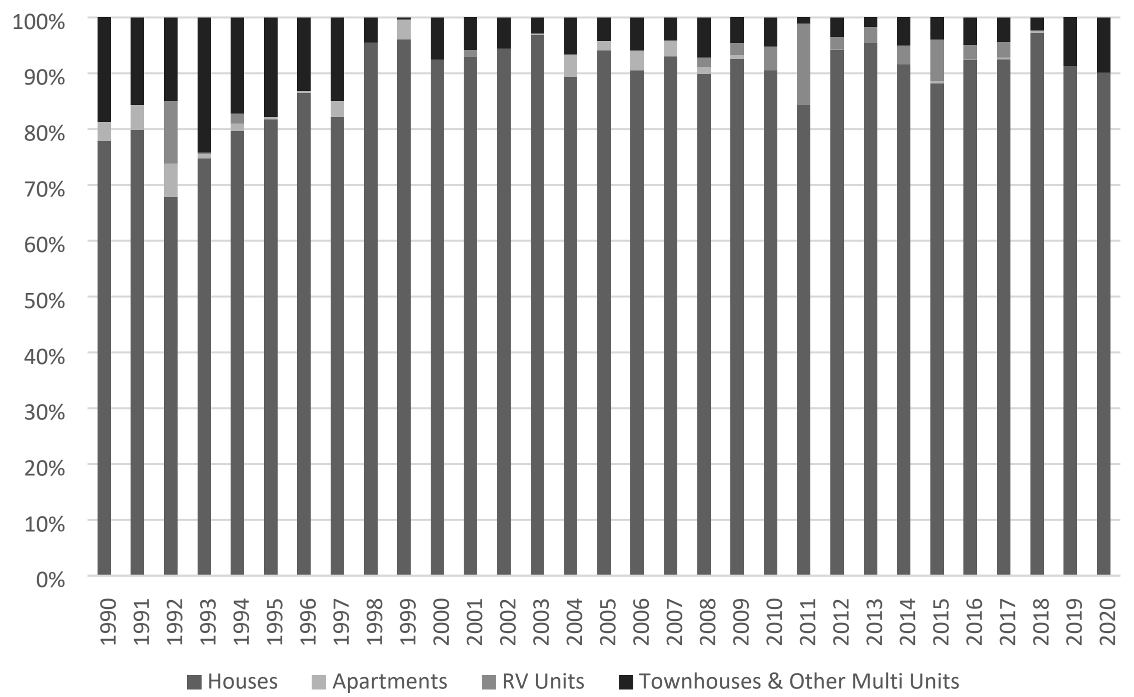
In relation to smaller stock/footprints, it needs to be acknowledged that small size does necessarily translate into lower cost dwellings. The pricing of new builds (as opposed to building costs) is primarily driven by:

- Among private developers/builders by comparative product prices.
- Among not-for-profit Community Housing Providers, the affordability price points of targeted households.

Dwelling Typology: Dwelling typology refers to stand-alone, semi-detached, multi-units (separate street entrance per dwelling but attached), apartments. Apart from apartments, Blenheim is not developing a hugely diversified range of dwelling typologies (Figure 3). Although there is some evidence that desires to increase yield and density by for-profit and non-profit developers and housing providers is resulting in consents for various forms of townhouses and other multi-units.

Whether this delivers substantially decreased dwelling prices to the market or simply expands margins is dependent on a range of factors including the impact on build costs (including resource consenting costs and build consenting costs). Unless there are specific mechanisms to generate housing affordable to modest- and low- income households, then dwelling prices tend to be set by prices for existing dwellings with some discount for some typologies and tenures. For instance, retirement village units typically have price points of around 75% of new build, above medium specification, dwellings of similar size and location.

Figure 3: Building Consents by Reported Dwelling Typology 1990-2020



Dwelling Functionality: Unlike Europe, Australia, Canada, Japan, much of the United States and the United Kingdom, New Zealand's building legislation does not require residential housing to be accessible and functional to people whose mobility is compromised by age or disability.

At the same time, New Zealand has in the LifeMark accreditation a world-renowned system for ensuring that new residential builds can accommodate households who have members or visitors with age or disability related problems. Lifemark standards reduce the costs of home adaptation and modifications.

Research on universal design standards show that their incorporation at the design stage leads to either no or very limited additional build cost. Indeed, low cost social and affordable housing providers, as well as some Kiwibuilds, use universal design and associated Lifemark accreditation.

Marlborough's Community Housing Provider, the Marlborough Sustainable Housing Trust has ensured that its homes are accredited LifeMark. There appears to be otherwise low recognition and accreditation (rather than universal design 'wash') in Marlborough including in council housing. A number of other councils have actively attempted to incentivize universal design through Lifemark accreditation. Those include:

- Hauraki District Council which provides for additional site coverage for Lifemark accredited minor dwellings or Accessory Dwelling Units (ADUs).
- Thames-Coromandel District Council, responding to the high proportion of seniors in their population forecasts, established in 2016 slight extensions of site coverage for independently accredited universal design new builds.

- Palmerston North City Council’s new social housing built over four years is accredited as Lifemark 4.
- Hamilton City Council has just incentivized developers to achieve Lifemark accreditation for residential development in the central city by reductions in development contributions for Lifemark accredited residential developers in the centre.

IMPACTS ON MARLBOROUGH

Housing and the housing stock are at the heart of the region’s social and economic wellbeing as well as the wellbeing of individuals.

Unaffordable housing is a particular problem for any region that wants to expand its economy and retain or grow a productive population into the future. From an economic perspective, unaffordable housing:

i. Acts as brake on and increases the costs of recruitment and retention of key workers including professionals necessary to the expansion of leading-edge industries and to support the delivery of core services.
ii. Exacerbates Marlborough’s rapidly ageing demographic structure by failing to provide affordable housing to young people and young families that allows them to:
    a. save for owner occupation when in the rental market; or
    b. find affordable home ownership that stabilizes their housing futures and commits them to Marlborough.

From a social wellbeing perspective, under-supply of housing affordable to low- and middle-income households press down on the capacity of vulnerable households to find secure housing and contributes to homelessness and unmet demand for public housing. Responding to the latter without dealing with households who can be described as the ‘missing middle’ has risks for the social and economic well-being of communities as well as vulnerable individuals.

In addition, where problems of unaffordability arise in tandem with a residential property sector that builds a persistently homogenous stock, there is a limit on the ability of Marlborough to cater for seniors, for people with disabilities, or for people that want to be in multigenerational households, shared living or even living alone.

From an environmental perspective, lack of affordable housing is frequently associated with pressure to expand greenfields, often ecologically fragile, sites as well as sites exposed to adverse natural events. Low density extensions outside current built environments can:

- attenuate costly infrastructure and generate problems of resilience;
- consume limited fertile soils and compromise food security;
- promote high carbon private transport reliance; and
- compromise age friendly built environments and towns where an ageing population structure will see an increasing number of seniors unable to drive.

MDC ROLES AND HOUSING SOLUTIONS

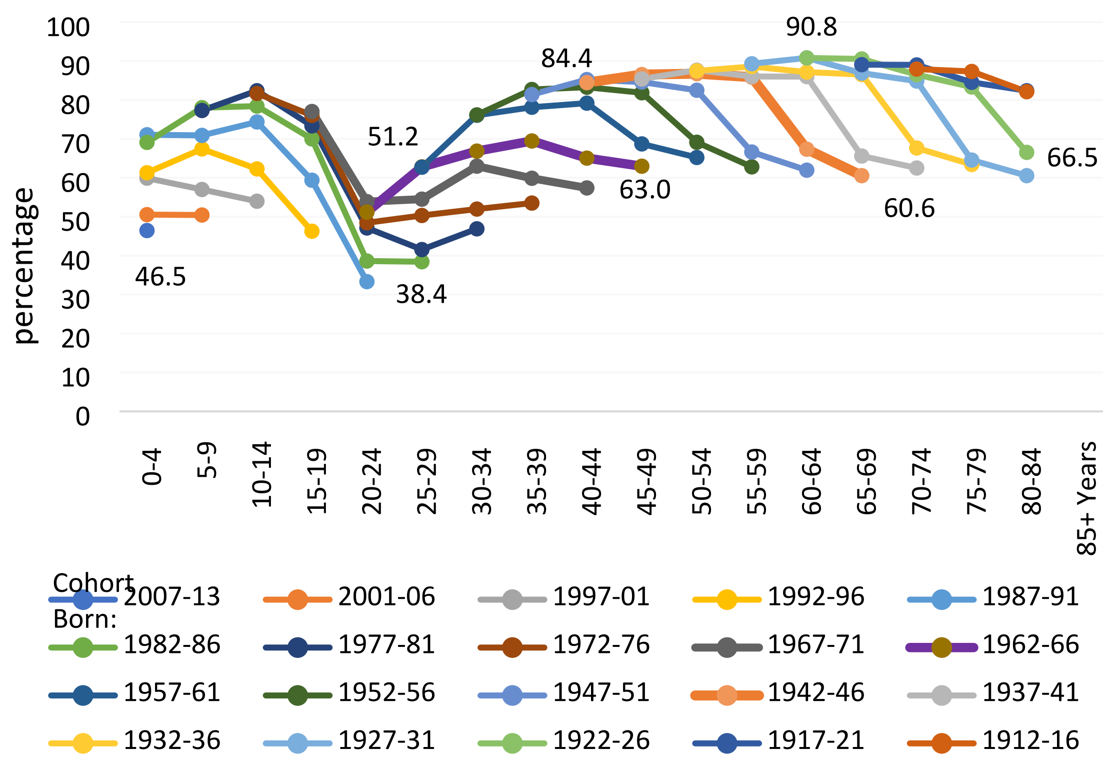
There are a myriad of actors that impact on housing outcomes including central government, council itself, the finance sector, households, landowners and the construction sector. The council itself has multiple roles which directly impact on housing. Some of those relate to legislated functions including but not only the Local Government Act, the Building Act, and the RMA. Some relate to its own ownership of resources including land and housing.

1. Council as a land-owner, housing stock owner

In relation to seniors housing in council ownership, it needs to be acknowledged that the asset as well as the revenue associated with it, represents significant past and current subsidies from central government. Those subsidies are in three forms: Low-cost capital finance; EECA subsidies; and Accommodation Supplements. They also represent an income stream from residents to council.

The demand for seniors rental housing can be expected to increase into the future (Figure 4).

Figure 4: Home Ownership by Birth Cohort, Marlborough District



If it is assumed that the majority of people are unlikely to enter owner occupation after 45 years, Marlborough could expect that in 2031 those turning 65 years will have a significant reliance on rental housing. Around 37% of people living in Marlborough born in 1962-66 could, on current trends, be in rental housing at their 65th birthday. That compares with less than 14% of seniors in Marlborough born in the period 1932-1936 at their 65th birthday.

Council has obviously agreed that more seniors rental housing is required through its own provision and investment. It is important, however, that it gets both direct value and supports seniors living in its housing to contribute to the local economy. That means ensuring seniors stock:

- Has good design for well-performing, resilient dwellings that do not demand expensive modifications or repairs;
- Provides residents with dwellings are not costly to operate with attention given to thermal performance, orientation, and the use of renewable energy solutions;
- Located in areas connected to services and amenities;
- Mitigates the risks of food deserts through the provision and maintenance of vegetable beds.
- Is affordable by the application of appropriate approaches to rent setting. It is clear that the approach to rent setting for seniors housing based on 80% of median using flow rents (bonds) rather than prevailing rents is inappropriate. Flow rents are not representative of market rents and the use of flow rents means MDC is contributing to the inflation of rents in the stocks types used by renting seniors.

As a landowner, particularly within residential zones and within current settlements, it could potentially release of land for affordable residential builds (including opportunities to intensify under-utilised land associated with its own housing stock and other properties).

A number of councils elsewhere are involved in initiatives which retain the land in community hands, while providing opportunities for affordable housing builds by way intermediate tenures financed by households, central government and community housing providers. These include the Waikato Community Land Trust (which is cross-council), Queenstown Lakes District Council, and, potentially, the Nelson Housing Reserve.

2. Council as facilitator of housing builds – doing better than infrastructure provision

The proposed LTP focuses very heavily on the council's role in encouraging landowners (particularly land-banking developers) to release land for new builds. There are a number of barriers to this, including the current use of greenfields land for grapes and associated land values.

Land release through activating the Public Works Act is unlikely to be effective and may be divisive and subject to prolonged challenge. Infrastructure development may increase land release for new builds. This will depend on financial streams for landowners as well as other factors which define the size and speed of bringing dwellings to market. In addition to infrastructure provision by council, zoning rules also have an impact.

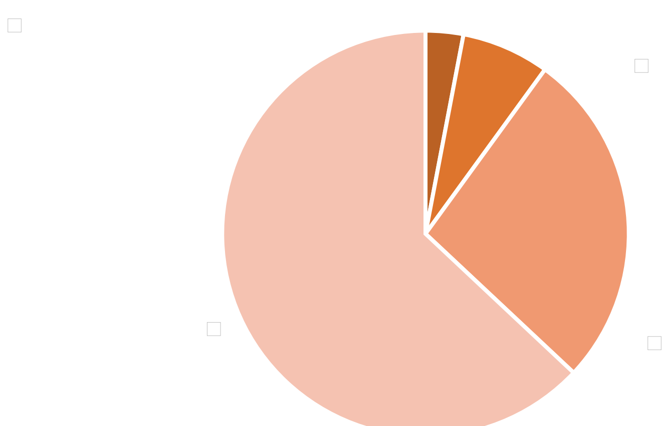
What the council needs to be aware of, however, is that despite claims by economists over the years, the international research shows that increasing aggregate supply does not in and of itself bring house prices down and certainly will not generate affordable dwellings. Indeed, even over-supply may have little impact on house prices where financialized housing markets prevail (as they do in New Zealand). Generating affordable housing requires targeted approaches to stimulate not just land release, but release of land at an affordable price to provide for affordable dwellings.

In this regard, councils face the problem of value uplift. Changing zones and providing infrastructure effectively give landowners windfall gains in relation to land values and exacerbates unaffordability. A public organization, expending the funds of the community, generates a value that becomes appropriated by the landowner without any investment from the landowner to generate that value uplift. Some landowners developing land for residential use, generate further value uplift by way of restrictive and exclusionary covenants. Indeed, the council has itself pursued that path with some of its developments in the past.

Value uplift is a problem when the community can not realise a proportion of that value despite its representative, the council, being the mechanism by which it was created. One council that has been successful in realising a proportion of windfall gains from value uplift has been Queenstown Lakes.

Queenstown Lakes used the housing accords (and is now seeking clear mandates for inclusionary zoning) to incentivize developers to build. They provided straightforward consenting and certainty in exchange for a small share in the uplifted value of the land and buildings that the Lakes planning regime created. That proportion of value uplift has been variously conveyed in land or monetarized. Value was transfer to a non-profit Community Housing Provider which has delivered and retained over 100 affordable dwellings for low- and modest- income households. Most importantly, the CHP and the council have leveraged those funds. For every dollar of government or council contributed funds, the CHP has been able to generate over almost $3 dollars of housing. That is, $22.78m was transformed into $67m of affordable houses (Figure 5).

Figure 5: $67 million of affordable housing leveraged for low- and modest- income households in Queenstown Lakes (Queenstown Lakes Housing Trust Data 2020)



Realising a share of the value uplift that the council's activities have generated and re-investing that directly in housing recognizes that the housing stock is a long-term asset, arguably infrastructure, for the region.

COUNCIL AS A FUTURES LEADER

The council has considerable influence on setting the expectations people have of their housing and a broader understanding of housing as a key determinant of the region's future. If Marlborough wants economic growth, if it wants a vibrant community of all ages that will carry us forward rather than ossify the region, if we want to innovate, and if Marlborough is to be competitive in attracting young people that will be the high value workers of the future, the council needs to take housing seriously.

To lead, MDC needs to clearly engage to set out the sort of housing stock that will be needed, differentiate its different roles, signal what it will do, and its expectations of others in the investment in and supply of housing in general and affordable housing. It needs to recognize both the place of and limits of housing market in delivering housing in aggregate and affordable housing in particular. It also needs to be clear on conceptual and definitional issues. Infobox 1 provides some internationally accepted definitions of affordability. Infobox 2 provides definitions of different sorts of affordable housing.

Infobox 1: Housing Affordability and Different Measurements

- *Housing costs (usually rent or mortgage) as a ratio of, or proportion to, household incomes. Most frequent* measure 25–30 per cent of household income for very low- and low-income households below 80 per cent of the median income. For those earning above 80 per cent of median income, and owner-occupier families, there is sometimes an argument that mortgage repayment is a form of saving and, consequently, a figure of 30–35 per cent is reasonable.
- *Residual incomes after housing costs.* Housing is unaffordable if housing costs cannot be 'fitted' within a household's remaining income after its basic needs are catered for.
- *House price to household income.* This measure is often used to understand the extent to which house prices are aligned with or outstrip household incomes. It is also a typical 'rule of thumb' prudential guideline found in the housing finance industry and for price-pointing of stock production by the development and building industry.

Infobox 2: Some definitions around housing stock

- Social housing
  - Housing directed to affordable housing for low- and modest- income households, sometimes with a service support element.
  - Typically secure tenure and non-profit well-being directed, not return on capital or commodified for capital or speculative gain
- Public housing – can be a subset of social housing
  - Internationally defined in terms of ownership by public agencies (local or central)
  - NZ public housing places have come to mean housing specifically directed to targeted tenants who are eligible to receive Income Related Rent Subsidies
- Affordable housing stock
  - Stock which households can access without housing stress
  - Housing stress can arise from unaffordability, insecure tenure, crowding, poorly performing and dilapidated housing
  - The most affordable housing in NZ is owner occupied without a mortgage

New Zealand's housing and housing markets are very different from the past. MDC will have to be future thinking and taking opportunities. It will need to leverage housing affordable for the core of the community, old and young. Doing more of what MDC has done in the past will not be enough – this means:

1. Moving away from delivering a limited stock of seniors housing, extending infrastructure, or even zoning.
2. Creating a strategy with clear goals and housing outcomes, realistic appreciation of housing as a determinant of economic and social wellbeing as well as its environmental impacts.

In particular, MDC needs to start:

- Realising the value uplift the council creates through zoning and infrastructure to stimulate and leverage builds that are truly affordable for low and modest income households through partnerships.
- Incentivising the adoption of universal design through site coverage adjustments and streamlined consenting for independently and reputable accreditation.
- Committing to LifeMark 4 or better on all council builds.
- Committing to Homestar accreditation on all its builds.
- Committing to full utilization of its residential potential landholdings.
- Ensure that its rent setting approach to seniors council housing is affordable and fair.
- Facilitating ADUs, consolidation and retitling to:
    - open up land within current urban and town boundaries
    - provide seniors with a wider range of downsizing options.
- Developing a long term housing strategy with implementable work programmes and targets which includes a growth management strategy and identifies where MDC sees Kainga Ora, Community Housing Providers (CHPs) and Iwi within the development the housing stock and provision.