A BRIEFING TO THE INCOMING MINISTER OF HOUSING FROM THE SALVATION ARMY

1. For the poorest New Zealanders, a perfect housing storm is unfolding. Their position in housing markets is deteriorating rapidly to the benefit of wealthier and generally older New Zealanders. Their position is exacerbated by poor housing policy. The Salvation Army urges you and your Government to take urgent action to address this policy failure and the inequalities which emerge from it. This briefing describes this perfect storm and provides suggestions for significant shifts in your Government's housing and related policy.

2. The Salvation Army is an international Christian and social services organisation that has worked in New Zealand for over one hundred and thirty years. The Army provides a wide-range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.

3. We have been involved in the provision of social housing since the 1980's and presently have over 385 units across New Zealand, including 200 in Auckland. Over the past three years, the Army has supported the Government's social housing programme through its participation in the income related rent subsidy programme (IRSS) and through the construction of 110 additional units in Auckland. Presently the Army has 200 of its units within the IRSS programme and a further 46 units under construction in South Auckland. The Army also operates transitional housing contracts where we lease over 500 houses from private landlords on behalf of the Government and presently supports 60 homeless families in such housing in South Auckland.

4. This submission has been prepared by the Salvation Army Social Housing (SASH) which operates the social housing stock for the Army. The submission is represented by Major Campbell Roberts, who is a member of the Board which governs SASH on the Army's behalf.

5. This submission has been approved by Major Gerry Walker the Chief Secretary of The Salvation Army's New Zealand, Fiji and Tonga Territory

The perfect housing storm

6. A perfect housing storm is rolling through New Zealand. This storm is impacting hardest on the poorest New Zealanders, witnessed by rising numbers of people seeking and relying on assistance from the State for their housing needs and in rising rents and rental housing shortages. These are the poorest 20% of New Zealand households which own virtually nothing, rely on low wages or welfare transfers and who are mainly young and disproportionately Māori or Pasifika. You are already familiar with this feature of New Zealand's social landscape.

7. The perfect housing storm is driven by four coincident trends which are unprecedented in our living memory. These four trends are:

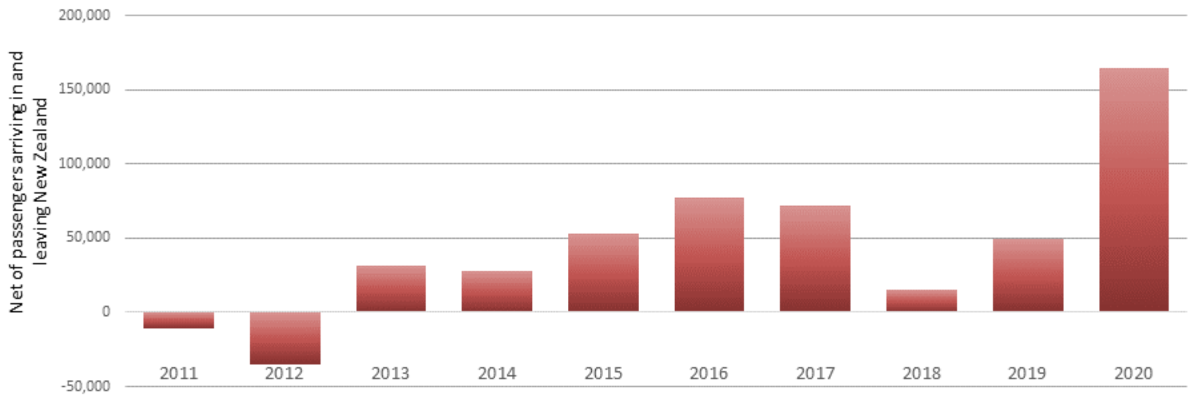
   - a sudden increase in New Zealand's population due to the COVID-19 shutdowns,
   - levels of new house building not matching population growth,
   - interest rate fuelled house price inflation exacerbated by actions of the Reserve Bank,
   - the "stalling" of the private rental housing market.

A sudden increase in New Zealand's population.

8. Media commentary on recent immigration trends has created the impression that migration numbers during the COVID-19 border closures have been relatively modest – especially in comparison with recent migrant numbers[1]. This commentary is misleading as it is based on Statistics New Zealand's definition of who is a migrant rather than on the raw count of the people moving in and out of the country. Such a count – that of the net of passenger movements over New Zealand's borders, is reported in Figure 1 for the ten years to June 2020. This data shows that **during the year to 30 June 2020 164,000 fewer people left the country than arrived**. This figure is more than the sum of the preceding three and a half years.

9. While it is accurate to attribute much of this net increase in New Zealand's population to temporary visa holders being unable to leave New Zealand due to border closures, the reality is that these people need housing regardless of their residency status. This additional housing need places extra pressure on the stock of affordable housing in New Zealand. This pressure is one of the drivers of what appears to be unrelenting increases in social housing waiting lists.

Figure 1: Net numbers of people arriving in New Zealand – 2011 to 2020[2]



Inadequate rates of new house building

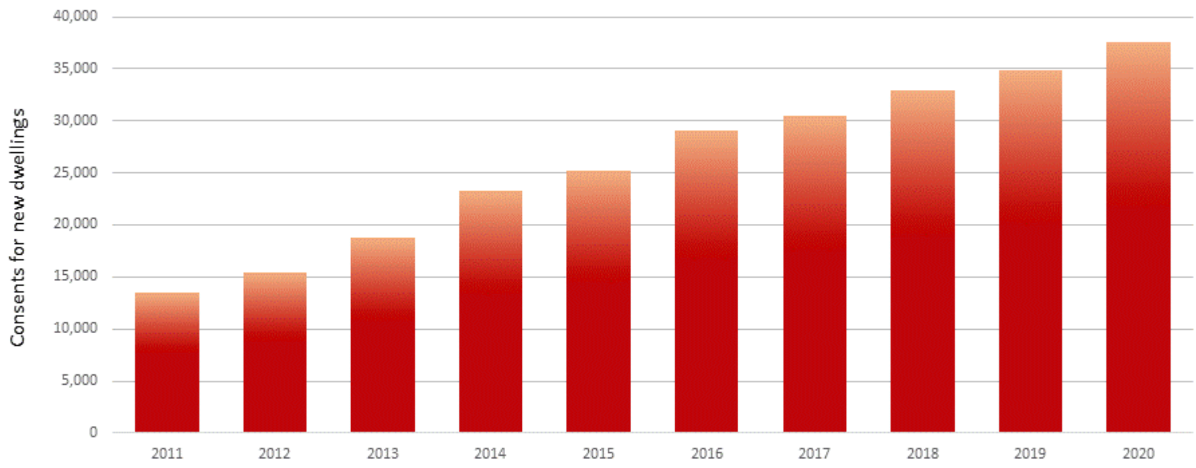
10. Against this rapid increase in the population living in New Zealand, recent house building activity has been at near record levels. Over 37,000 consents for new dwellings were issued during the year to 30 June 2020 – this is the second highest number on record. The trend of consents for new dwellings is provided in the following graph for the ten years to June 2020.

11. New dwelling consents are, however a poor indicator of changes in housing availability. They take no account of the background population growth (which ideally should match growth in the housing stock) or of the fact that houses are being demolished and abandoned continuously.

12. If New Zealand houses are anticipated to last 100 to 150 years with a national housing stock of 1.9 million dwellings then between 13,000 and 19,000 new dwellings need to be built each year to replace those abandoned, destroyed or demolished. With an annual population growth of 1% and current dwelling occupancy rates, a further 19,000 dwellings annually are required to cater for that growth. However, annual population growth over the past decade has averaged 1.7%, and if such a growth rate continues, we should expect to be building around 27,000 new

dwellings each year to cater for this growth. In other words, **the new normal for new house building should be around 40,000 to 46,000 dwellings per year** to cater for population growth and stock replacement. Historic building rates have been woefully inadequate.

Figure 2: Consents for new dwellings – 2010 to 2020[3]

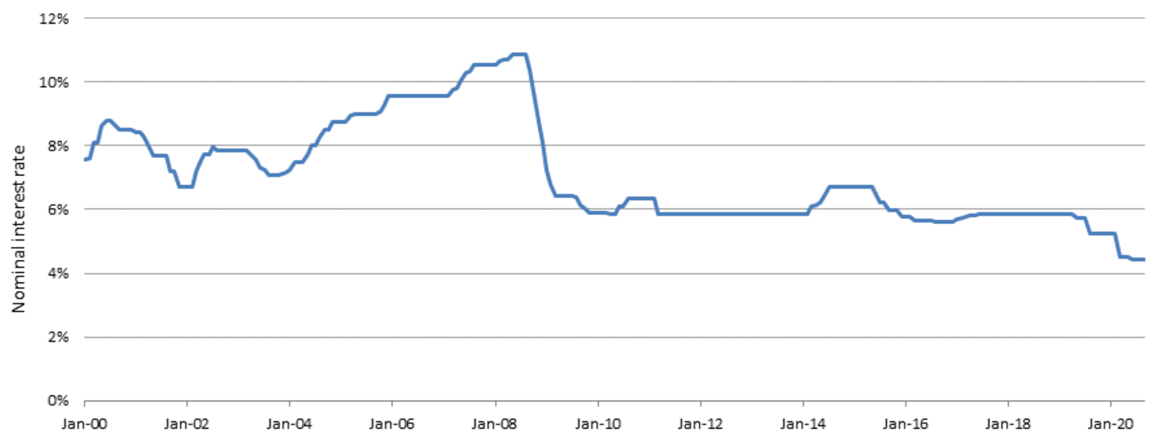


Interest rate fuelled house price inflation and the Reserve Bank

13. For several macro-economic reasons including low demand for debt, massive liquidity in capital markets and the actions of the Reserve Bank, interest rates are at historic lows. Figure 3 below, charts the floating mortgage interest rate over the past 20 years. By mid-2020 the floating mortgage interest had fallen to 4.4% - down about 1.3% on 15 months earlier. Fixed-term rates offered by banks have fallen below 3% per annum.

14. Current rates are the lowest in the 56 years of Reserve Bank data, while interest rates in the United Kingdom are the lowest in 250 years. These are unprecedented times in terms of monetary economics and the quantitative easing of central banks, currently and over the past decade provide no expectation that interest rates will rise any time soon.

Figure 3: Floating mortgage interest rate – 2000 to 2020[4]

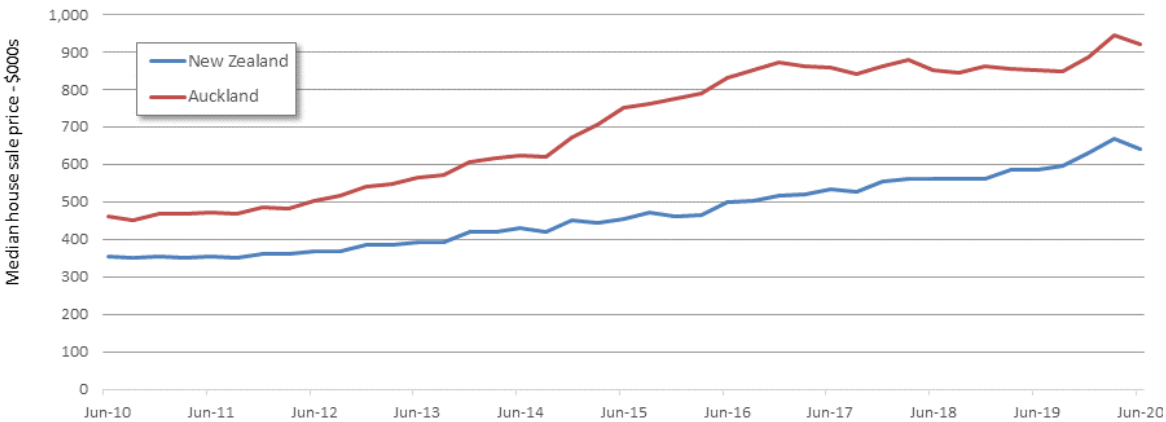


15. Low interest rates inflate asset prices and particularly house prices, and we see this in New Zealand at present. Figure 4 below, records changes in the median sale price of houses nationally and Auckland. **House prices have risen by around 10% over the past year** to new

records almost everywhere in New Zealand. In mid-2020, the median house sale price in Auckland was around $920,000 while in New Zealand as a whole it was $640,000. House price inflation has been exceptionally high in provincial cities where, until now, housing affordability has not been a problem. In Gisborne, for example, the median house sale price rose 47% over the 12 months to September 2020 to $560,000[5].

16. These price changes in regional housing markets are concerning as they portend other changes which will disadvantage low income families and tenant households. We may be seeing these impacts in the growing social housing waiting lists in many regional towns and cities.

Figure 4: Median house sale price - 2010 to 2020[6]

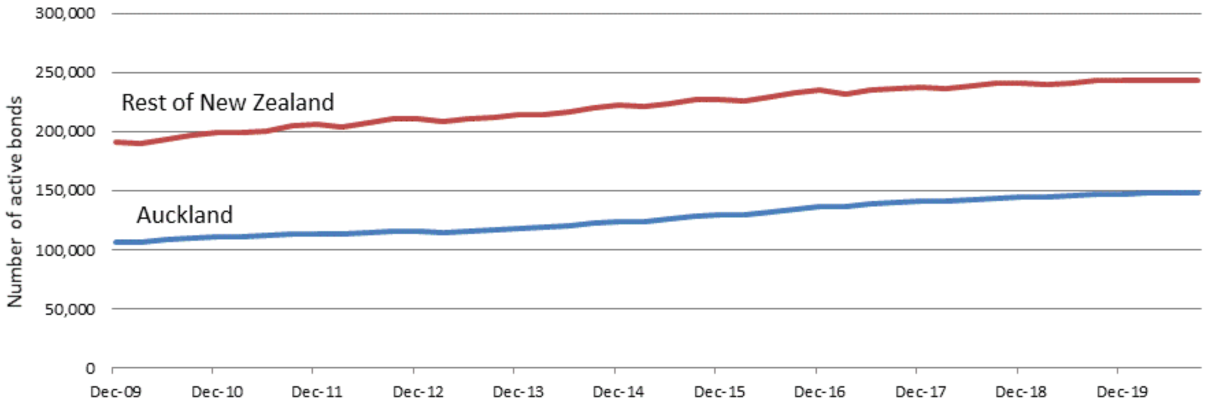


17. That falling interest rates should prompt house price increases is entirely predictable, especially with the policy mix followed by the Reserve Bank. With the official cash rate (OCR) approaching zero some of this policy mix has become impotent as an economic lever which has caused the Reserve Bank to consider what it describes as other "least regrets" monetary policy tools. Such tools include negative OCRs and lending to banks to support this (the Funding for Lending Programme or FLP)[7]. The Reserve Bank sees little need or opportunity to mitigate the effects of "least regrets" monetary policy actions which affect demand for housing. Moreover, the **Reserve Bank only poorly understands that mistakes in its prudential regulation of banks constrain the supply of housing**.

Private rental market has stalled

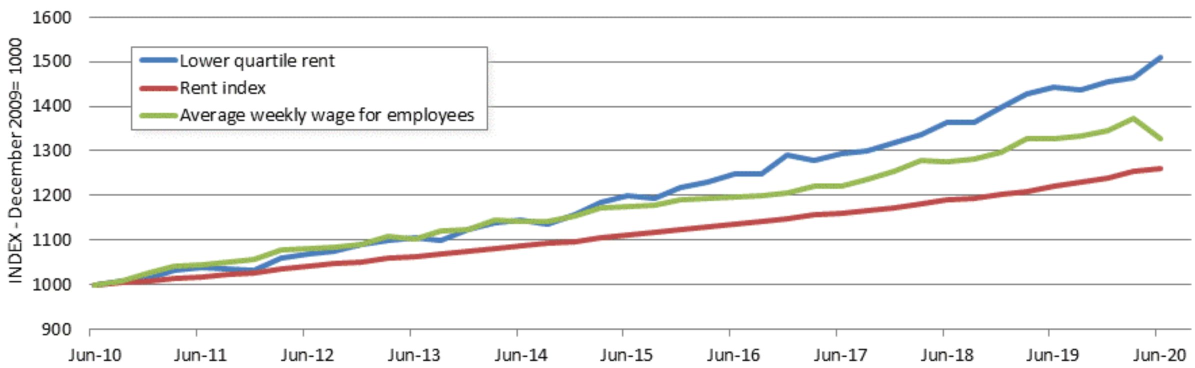
18. Evidence is early and limited, but the private rental market has probably stalled over the past year. By stall we mean that investor interest in private rental housing may have waned and that the **numbers of dwellings available for rent in the private market have not kept pace with population growth and demand**. For example, the numbers of tenants' bonds lodged with Ministry of Business Innovation and Employment flattened off over the past 12 months – rising just 0.2% or by less than 1000 over the year to September 2020. The trends in these numbers are reported in the following graph.

Figure 5: Active tenancy bonds - 2010 to 2020[8]



19. Recent rent increases are a further indicator of a tightening private rental market. The following graph reports relative changes in the lower quartile rent for New Zealand alongside changes in employees' wages and salaries and the rent index reported in Statistics New Zealand's consumer price indices series. Over the year to June 2020, the lower quartile rent for New Zealand rose 4.4% while employees' wage rose just 0.1%. Over the five years to June 2020, the lower quartile rent rose 25% while wages rose 13%. **We see strong evidence on our frontline to suggest that low income tenants are being squeezed financially by rents rising faster than incomes**.

Figure 6: Indicators of changes in rents and incomes – 2010 to 2020[9]



The rising cost of housing assistance

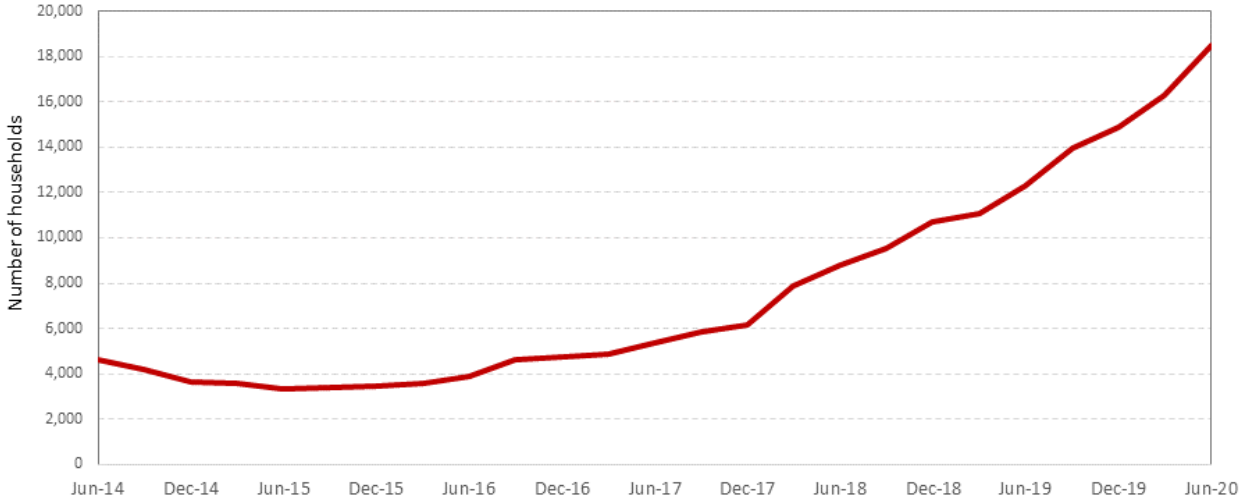
20. This perfect housing storm is playing out in growing demand for housing assistance from the State. The numbers of people receiving emergency housing assistance have risen from under 9,000 in late 2016 when such assistance was introduced, to just under 45,000 households in September 2020. These numbers rose almost 40% over the six months since the first COVID-19 lockdowns. **The total cost of housing assistance and housing related hardship assistance has risen by two thirds between 2016 and 2020 to around $3.5 billion during the year to 30 June 2020.** Details of these increases are offered in the following table.

Table 1: Costs of housing assistance and housing related hardship support – 2016 to 2020 *($millions)*[10].

June years	2016	2017	2018	2019	2020
Accommodation Supplement	1,164	1,129	1,204	1,641	1,708
Income related rent subsidies	755	848	890	965	1,070
Emergency housing SNGs		29	33	93	223
Other temporary hardship support	218	266	292	388	500
TOTAL	2,137	2,273	2,418	3,087	3,501

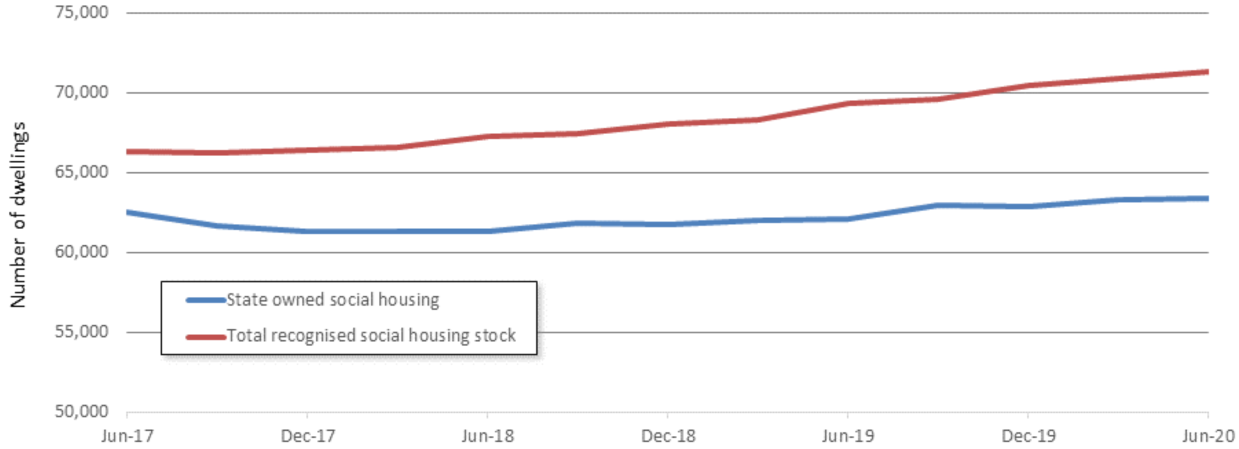
21. **The social housing waiting list has almost reached 20,000 households and has doubled in two years**. This growth is illustrated in the following graph. Early increases in the waiting list were most likely due to a recognition of suppressed demand, but recent increases are a symptom of rental housing shortages in many regional towns and cities. For example, between June 2019 and June 2020, unmet demand for social housing rose 85% in Hamilton and Napier-Hastings, by 77% in Rotorua and 63% in New Plymouth.

Figure 7: Social housing waiting list – 2014 to 2020[11]



22. While there appears to have been credible progress in the numbers of social housing units within the income related rents subsidy (IRRS) programme much of this apparent increase in the supply is from the conversion of NGO and council owned social housing into the subsidy programme. This conversion includes some of those now provided by The Salvation Army under the IRSS programme. Between June 2018 and June 2020 the numbers of tenancies within the IRRS programme grew by more than 4,300 units although only 1800 of these were due to an increase in the public housing stock now owned by Kainga Ora. These trends are reported in the following graph.

Figure 8: Social housing supply – 2017-2020[12]



Some policy proposals

23. We have several proposals for policy change which we offer for your consideration. They are based on five key assumptions for what the medium-term future holds for New Zealand and its housing system. These are as follows:

- historically low interest rates will continue and, if the Reserve Bank does not address even its "least regrets" policies, will continue to fuel house price increases,
- banks will facilitate this house price inflation by lending larger and larger sums to home owners and investors, creating irretrievable moral hazard from the exposure of highly indebted households to interest rate increases and income insecurity,
- accelerated migration will resume once border controls are relaxed, as such flows are essential to New Zealand's current economic growth model and the prevailing narrative around how labour markets should work,
- some investor interest in private rental markets will return although rents will continue to rise faster than wages and benefit levels given the high house prices associated with new investment,
- the cost to taxpayers of housing assistance through cash transfers, rent subsidies to social housing providers and for running Kainga Ora will rise in real terms and as a proportion of Government's social spending.

24. These policy proposals are offered as a set of eight themes which might guide the significant policy shifts which we believe are necessary over the next 12 to 18 months. These themes for shifts in housing policy are as follows:

25. **Minister of Finance direction to Reserve Bank.** The Reserve Bank says it has taken the "least regrets" approach by raising house prices to assist in achieving full employment and stability of the financial system. However, its actions are directly contributing to rising house prices and housing related poverty. Its independence in monetary policy and prudential regulation of banks should not be mistaken for lack of accountability or the absence of checks and balances under the Reserve Bank Act. We note the Minister of Finance's power under s68B of the Act to direct the Reserve Bank to have regard to government policy. The Minister of Finance should direct the Reserve Bank to - be fully transparent in the assessment of its options. This should

include assessment of the distributional impacts across communities; provide six monthly reporting on its efforts to mitigate the negative impacts of its actions on housing and ensure that indeed its actions involve “least regrets”; urgently review its prudential banking standards to correct its mistakes that constrain housing tenure innovation and supply. The Reserve Bank Act Review is underway, and we express our concern that public consultation has been exclusionary given the technical nature of the presentation of issues by officials. We suggest that your Government instructs officials to revisit consultation to ensure that the public is appropriately consulted and your Government fulfils the Crown’s Treaty obligations. Your Government and in particular, **the Minister of Finance should not let the apparent gap between the Reserve Bank’s mandate and housing policy continue.**

26. **Tighter regulation of lending on housing**. A vital role of the Reserve Bank is the regulation of bank lending to minimise macroprudential risk within the financial system. Historically low interest rates coupled with central banks’ liquidity support may yet make the perfect housing storm worse. This can occur with the moral hazard which is being created, where heavily indebted home owners face far more significant interest rate risk and who may expect Government support should interest rates rise. As the Reserve Bank considers how it may support banks through term lending, **some influence on what and how banks consequently provide credit should also occur**.

27. **A measured immigration policy**. It is clear that high rates of immigration impact on the demand for housing and public services. If this demand is not provided for shortages result. Over the past decade, New Zealand’s economic growth model has been driven by immigration as a means of generating extra consumer demand and meeting employer demands for labour. This approach has been at the expense of housing provision for low income New Zealanders and tens of thousands of unemployed locals – many of them teenagers. Our aging population requires New Zealand to have an active immigration policy. However, **our migration policy should be more intentional and driven by a sense of what New Zealanders want New Zealand to be in 50 years**. Whatever level of immigration is decided on through an informed public debate, it should be planned for so that there are sufficient houses and public services for new migrants and resident New Zealanders alike. It is crucial that our current problems of homelessness and unmet housing are not blamed on recent migrants but instead on inadequate public policy.

28. **A focus on wealth inequality** – a neglected feature of New Zealand’s economic landscape is large and growing wealth inequality. In 2018 Statistics NZ reported that the poorest 50% of adult New Zealanders possessed less than 9% of household wealth while the wealthiest 10% possessed more than 50% of such wealth. Housing and housing related policies are central parts of this landscape. Reserve Bank figures report that 53% of New Zealanders’ wealth is held in housing and that over the five years to March 2020 housing represented more than 60% of the $540 billion in wealth accumulation. Most of this housing wealth accumulation was untaxed and went to 63% of households which own housing. Such accumulation is something of a zero-sum game because those who don’t own housing have to pay those who do for a place to live. Rising housing values drive higher rents and so redistribute income from tenants to owners. **One of the underlying drivers of the growing social housing waiting list is this growing wealth inequality**. Addressing rising inequality requires, amongst other things that Government shift its tax base toward wealth and away from income tax. We encourage you to reconsider your Government’s stance on its unwillingness to tax wealth instead of income. We

see a tax base shift as the primary way of addressing wealth inequality and the housing poverty, which is related to this. As well such a shift may create more robust growth in our economy from entrepreneurship. We appreciate the Government's reluctance to consider a comprehensive tax on wealth at this stage. Still, we believe that it should remain a policy option for the future as political acceptance of the need for this shift grows.

29. **Encouragement of tenure innovation**. Alternative tenure models such as cooperative ownership, co-ownership, progressive ownership, community land trusts and more institutionalised forms of private rental housing known internationally as 'build to rent' have not yet become prevalent in New Zealand. This may be due to a lack of any real interest by a generation of housing policy advisors to look beyond the dichotomy of private rental and public rental housing as the sources of housing for those on modest incomes. Alternatively, it may be due to the inertia of banks which habitually lend to owner-occupiers and mum and dad property investors and see little advantage in venturing further. While alternative forms of tenure and institutional arrangements may take some time to achieve significant scale, there is still significant value in encouraging tenure diversity as a means of offering more choice, amenity and affordability in housing markets. A mature housing market should have at least 20% of its stock being in alternative tenures. Your Government should **use its Kiwibuild, Progressive Ownership and Residential Development Response Fund to encourage private sector alternative tenure initiatives.**

30. **Meaningful support for NGO and iwi-based housing initiatives.** The NGO social housing sector has never had the full support of Government. This situation needs urgent change. The sector's recent growth in stock numbers is mainly due to the conversion of existing social housing units – many owned by local councils, into income related rent stock. The Salvation Army's recent stock growth is based on its own capital and concessionary lending from a philanthropic trust. The current funding regime, which is based on operating subsidies, will not expand the stock of NGO social housing at any pace because most lack substantial balance sheets to leverage this expansion. The NGO housing sector offers many things which government agencies cannot including being mission driven, having greater flexibility and scope to innovate and having a capacity for the better pastoral care of those they house. **Government should provide meaningful support to both NGO and iwi/hapū-based housing initiatives** through the provision of capital grants and by providing them with access to Government owned land and development opportunities in Kainga Ora's urban redevelopment projects.

31. **Reform of the housing assistance programmes,** especially the Accommodation Supplement and the Temporary Assistance Scheme. The figures on housing assistance offered above indicate the extent of the failure of many parts of the housing support system to provide households and families with adequate and affordable housing. Temporary additional support and emergency housing grants are a form of a band-aid on the band-aid of the Accommodation Supplement. This system has become ad hoc and administratively complex while creating uncertainty and poverty traps for recipients. **Fundamental reform of housing assistance programmes is required** to address these failings, and this review should be tied into the recommendations of the Welfare Expert Advisory Group which have to date largely been overlooked by Government.

32. **A review of Kainga Ora's organisational and financial sustainability**. We do not believe that Kainga Ora, as it is presently organised and funded, has the capacity or capability to deliver the

scale, speed and sophistication of housing response required to address the current and pending housing shortages. We seriously question why an urban development agency was combined with a public housing provider in the first place. **We have concerns both for the adequacy of operational funding to support social housing and for your Government's reliance on Kainga Ora's balance sheet** to fund the infrastructure upgrades required in the redevelopment of public housing estates, along with the urban development and land supply required to sustain the level of affordable housing needed. We also question why it is best to have a single national provider of public housing and urban development projects when our other public services - such as schools and hospitals, have a local focus and a strong sense of local ownership. Adequate and decent housing is about placed based vibrant and nurturing communities, and we have seen nothing in the experience of centralised state-run housing provision to believe that such communities can be created and sustained by an agency such as Kainga Ora.

Conclusions

33. It is essential to see these consequences of the perfect housing storm not in financial terms but in the context of the wellbeing of households, whanau and communities across the housing system. As noted above, the number of people receiving emergency housing assistance has risen 40% in six months. It seems likely that this number will continue to rise over the next 12 to 18 months on account of past under-investment in social and affordable housing as well the limited capacity of state agencies such as Kainga Ora to respond at scale and speed. Progress beyond mid-2022, in our view, depends significantly on the policy choices made over the next three to six months.

34. We encourage you to consider our advice and to use this analysis and the eight reform themes to reset your Government's housing policy priorities. It is likely that **without substantial changes in housing policy New Zealand will experience the equivalent of the intergenerational scarring, which resulted from the labour market reforms in the 1980s**. We believe that such generational harm should be avoided and that it can be with an imaginative and bold policy programme.

35. The Salvation Army is an organisation which is deeply committed to New Zealand's public good. With our public policy and housing related experience, we are keen to help in such a recasting. Like you, we want to see all New Zealanders adequately housed as soon as possible, and we would welcome an opportunity to discuss these ideas with you and your officials.

Endnotes

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1 See for example the Radio New Zealand news article of 1st October Return of New Zealanders: theme of migration in 2020 – professor. Available at https://www.rnz.co.nz/news/national/427323/return-of-new-zealanders-theme-of-migration-in-2020-professor

2 Source: Statistics New Zealand data on total passenger movements

3 Source: Statistics New Zealand building consent data

4 Source: Reserve Bank of New Zealand Statistics

5 Real Estate Institute of New Zealand (2020) Monthly Property Report: October 2020. Available at https://www.reinz.co.nz/Media/Default/Statistic%20Documents/2020/September/REINZ%20Monthly%20Property%20Report%20-%20September%202020.pdf

[6] Source: Real Estate Institute of New Zealand – Monthly Property Reports and historic sale price data

[7] See the Reserve Bank's recent briefing on alternative monetary policy tools which suggest that it is in preparation for negative OCR's and funding for lending programmes. Available at https://www.rbnz.govt.nz/monetary-policy/alternative-monetary-policy/alternative-monetary-policy-tools#fn1

[8] Source: Ministry of Business Innovation and Employment Tenancy Bond's database

[9] Ibid

[10] Source: New Zealand Government Budgets and Ministry of Social Development's Benefit Data series

[11] Sources: Ministry of Social Development's Social Housing Quarterly Reports and Ministry of Housing and Urban Development's Quarterly Housing Reports

[12] Ibid