

Delivering greater well-being in New Zealand: policy steps to increase housing affordability

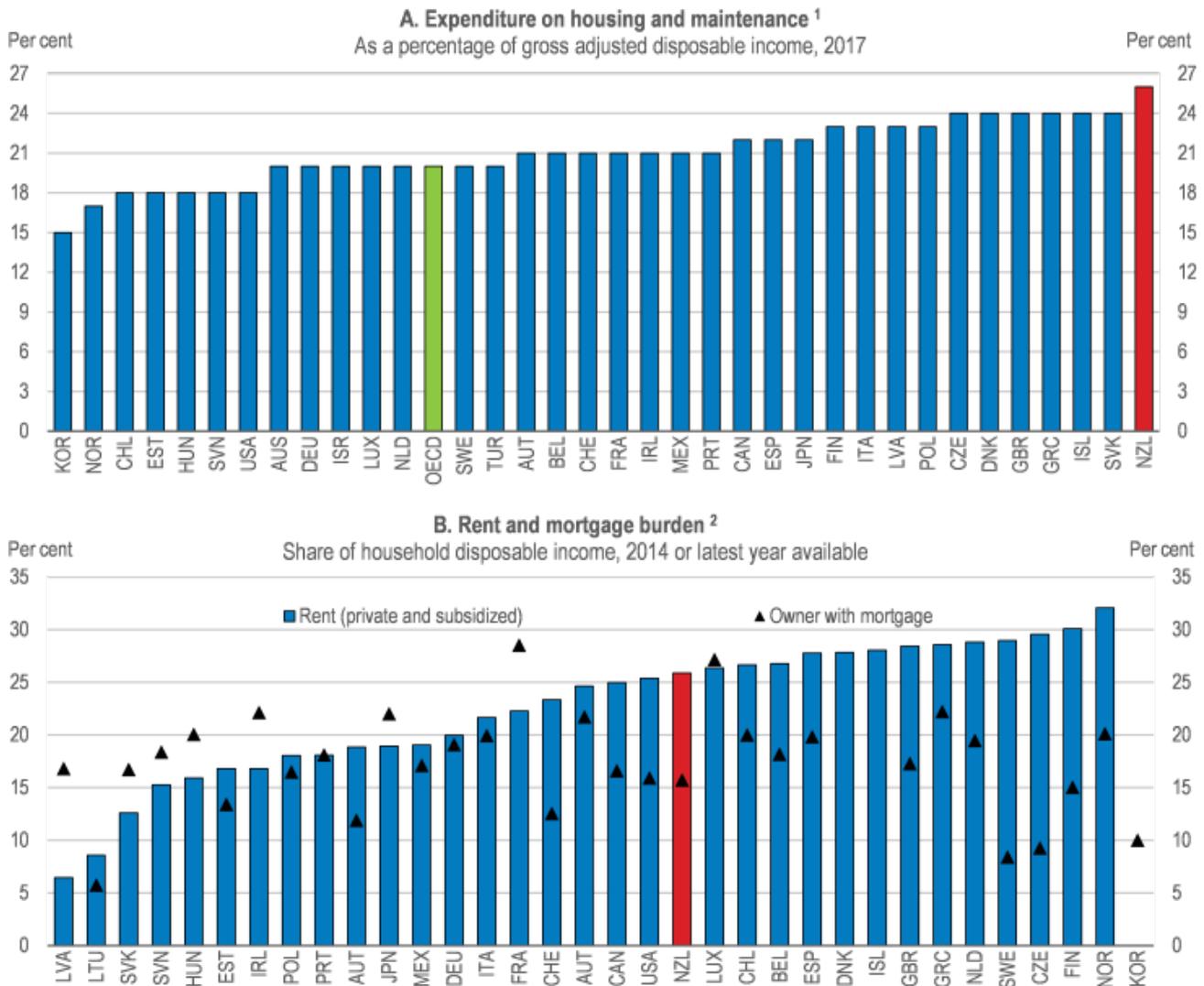
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Over the past two decades, New Zealand has experienced one of the largest house price increases among OECD countries, pushing up housing expenditure as a share of income to very high levels. Affordability for first-time buyers and renters has suffered, particularly in Auckland. This is a problem for well-being as it reduces household finances available for other uses, can harm health through various forms of deprivation such as poor nutrition, and adversely affects labour market inclusion. There are also negative distributional consequences, as increasing property prices benefit owners at the expense of renters.

Weak supply responsiveness in the face of strong housing demand has been responsible for the escalation in prices. Rapid population growth due to net inward migration has combined with record-low interest rates to push up demand. Restrictive and complex land-use planning, infrastructure shortages and insufficient growth in construction-sector capacity has impeded new housing. The result has been persistent growth in the number of people per

dwelling in Auckland, and in the rest of the country too over the past five years.

Housing costs account for a greater share of income than in most OECD countries



1. Includes actual and imputed rents for housing, expenditure on furnishings and equipment, maintenance and repair of the dwelling. Imputed rents are likely to be biased upward for New Zealand because rental properties used as a proxy are not stratified by location, giving a higher weight to Auckland where rental properties are both more common and more expensive.

2. Median of the mortgage burden (principal repayment and interest payments) or rent burden (private market and subsidized rent). In Chile, Mexico, New Zealand, Korea and the

United States gross income instead of disposable income is used due to data limitations.

Source: OECD (2017), How's Life? and OECD, Housing Affordability Database.

Solutions should thus focus on removing barriers to new housing supply. The government has taken a number of promising steps through the establishment of an urban development authority and the Urban Growth Agenda, further implementation of which will be key to achieving its ambitious goals. Strict regulatory containment policies should be replaced with rules that facilitate densification, while infrastructure funding and financing tools available to local governments need to be expanded. The government has also taken a more active role in the delivery of new housing supply through KiwiBuild. Despite taking on considerable risk through underwriting or purchasing new homes, KiwiBuild is yet to deliver a substantial increase in affordable housing. The reset currently underway is a good opportunity to re-focus the programme towards mitigating risks that developers are not well placed to manage, such as aggregating fragmented land holdings.

Better targeting of government programmes (including KiwiBuild) through focussing more on low-income renters would enhance overall well-being. Social housing supply is low by international comparison and there are poor outcomes for at-risk groups, including overcrowding, low quality housing and high

homelessness. Further expansion of social housing in areas where there are shortages has the potential to deliver improvements across a number of well-being dimensions, including health, education and life satisfaction.

New Zealand's desirability as a place to live [cross reference to well-being blog] has contributed to its housing affordability challenges. Policy to support new housing supply and infrastructure where it is needed would allow those New Zealanders who have suffered most from unaffordable housing to better enjoy life in Aotearoa.

References

OECD (2019), OECD Economic Surveys: New Zealand, OECD Publishing, Paris.