HOUSING AN AGING POPULATION

The challenges of meeting the housing needs of retiring baby boomers

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HOUSING AND COMPETING SOCIAL VISIONS

The 1949 General Election was fought in part over different visions for how society might develop. The First Labour Government, which was by this time led by Peter Fraser had embarked on an impressive public housing programme and had built over 30,000 houses throughout New Zealand. His party's vision was for more of the same given the critical housing shortage which still existed in post war New Zealand, where young couples were making up for lost time and through their efforts producing the baby boom. Fraser's opponent was Sidney Holland and his National Party promised to make New Zealand a property owning democracy.

Holland and his National Party of course won that ballot and nine of the following eleven elections as well. While in power they more or less delivered on their promise of making New Zealand a property owning democracy. In 1951 61% of dwellings were owner-occupied and by 1991 this proportion peaked at 74%[i] - the highest rate in the western world at the time.

Holland's success in realising his vision was due to three policies. The most memorable was the rehab loans to war veterans through a public agency the State Advances Corporation. These 3% loans along with the opportunity to capitalise on the Family Benefit allowed tens of thousands of young married couples to move into home ownership – often for the first time in their family history. Supporting this state lending programme Holland's government embarked on road building at a scale unprecedented in New Zealand's history. This road building was largely planned and programmed by the National Roads Board, which today is the New Zealand Transport Agency. These works were financed by a dedicated tax on fuel which still exists today, and this financial year will provide Government with around $2 billion in revenue[ii].

The idea of a dedicated tax on fuel to build roads is brilliant, especially if you like roads and the opportunities roads create. It is brilliant because it links users and payers quite directly so it is easy to justify politically. Once justified it can become quite a popular tax in that people paying it can see what value they are getting. But it is also brilliant because it frees up roading engineers to build roads without having to justify their budgets against those of other bureaucrats looking for money to fund public health or public education, for example. In other words, roads and road funding can become quite separate from the reach of politics and democratic accountability.

What roads do, of course, is to shorten space. They improve accessibility, which means two things – we can live, work and play in different places and with the convenience of car use we do not need to stick to linear routes such as those of bus routes and railways. In other words, we can sprawl - we can move out to where the land is cheaper, where the housing is more affordable, and where ordinary folks earning modest incomes can own their own house.

But Sidney Holland got lucky. Cheap oil and rising prosperity made his vision feasible and so New Zealanders moved from rural areas and small towns to become suburbanites.

THE HOUSING –RETIREMENT INCOME NEXUS

A generation later, in 1975, another election was fought over an equally critical issue – that of retirement incomes. In 1974 the Labour Government led by Norman Kirk set up a compulsory contributory superannuation scheme which was designed to pay for much of the retirement income of the baby boomers – the people who grew up in the suburban homes created by Sidney Holland's vision. National under the leadership of Robert Muldoon offered a different vision – the 'pay as you go' vision of this generation's taxpayers paying the retirement income of a previous generation out of their taxes. The baby boomers who knew when they were onto a good thing voted for Muldoon and the compulsory superannuation scheme was unwound and the money paid back.

The issue of housing policy and retirement income policy are related, in part because they are relevant to the two biggest expenses individuals and families face – that is paying for shelter and providing for retirement. While I doubt that this was part of Holland's vision, debt free homeownership in a person's retirement is of course a form of retirement income. If you assume that you will own your own home debt free in your retirement then the amount of money you need to live on is probably one quarter to one third less. Furthermore, if those designing retirement income policy decide that such a scenario should be the basis for setting retirement income expectations then these expectations become more affordable for those who have to pay for them.

This relationship between housing policy and retirement incomes is what British sociologist Frank Castles has termed 'the really big trade off'[iii]. Castle's thesis is that societies such as New Zealand with high levels of home ownership have poorly developed social welfare systems and visa-versa. It is doubtful that National Party politicians of the 1950 and 1960's made a 'really big trade off' - it seems as though the two major policy shifts discussed above occurred in isolation and of course at quite separate times. As a society we have, or rather had, chosen clearly to put resources into home ownership policies ahead of saving for retirement. Although it has never been an explicit policy choice we can easily see on a personal level that such a trade-off is made on the assumption that homeownership is a form of saving for retirement.

Such a trade-off or choice is fine for those who have had the opportunity to make it. This is especially fine for those who have made this choice if public policy settings have either facilitated this approach or at least accepted it as the basis for policy design.

But times have changed and circumstances have shifted, some quite predictably and some inevitably.

The affordability of Muldoons 'pay as you go' New Zealand Superannuation scheme is, as could have been easily predicted, becoming a bigger and bigger problem. Each year for the next 15 years or so the numbers of people receiving Superannuation will grow by 25,000 to 28,000 while the expected number of people of working age people will grow by only around 18,000 each year[iv]. Under current Government budget forecasts Superannuation is projected to remain at around 16% of core Crown expenditure ,although over the next four years 45% of all new spending on health, education and welfare will be to fund the $450 million annual increase in the cost of this programme. These forecasts depend on assumptions of reasonably healthy economic growth as well.

A RADICAL SHIFT IN HOUSING POLICY

As mentioned earlier New Zealand's homeownership rate peaked in 1991 when 74% of all occupied dwellings were owner-occupied. Since 1991 this rate has fallen consistently and now stands at 65%. Since 1991 around 400,000 dwellings have been added to the national housing stock and around 55% of these are owned by private sector landlords.

1991 is an important year because this is when there was a radical shift in housing policy as part of the Ruth Richardson's 'mother of all budgets'. This budget announced the commencement of the Accommodation Supplement and with this the desire of Government and more specifically Treasury officials to have tenure neutral housing policy[v]. The problem was, according to Treasury ideologues, that the preceding housing policies preferenced home ownership policies and this distorted peoples' choice. The Accommodation Supplement was designed to be tenure neutral and certainly gave greater assistance to tenants at the time. The extent to which the current tenure patterns are a matter of choice or necessity has never been studied officially, however. The existence of a market outcome is of course an expression of choice although not every market outcome is socially optimal.

Shortly after the 1991 Budget the Government began privatising the Crown's mortgage portfolio which had accumulated over the previous forty years. This was the second biggest privatisation ever undertaken in New Zealand[vi].

The cost of the Accommodation Supplement ballooned out during its first five years in operation but Treasury eventually got a handle on how an unrestricted demand subsidy such as the Supplement works in practice. Today the Accommodation Supplement costs taxpayers around $1.2 billion annually and this cost has changed little over the past five years. A minor reason for this stability is that most recipients are also receiving a welfare benefit of some type and as the number of recipients has declined so too has the numbers of people being paid the Supplement. A more relevant reason is the failure by governments since 2007 to index the maximum payments available to rent inflation and this has quite predictably resulted in a higher proportion of recipients being paid this maximum. In June 2007 just 33% of tenants who received the Accommodation Supplement received the maximum payment available, while by June 2015 this proportion had risen to 54%. In Christchurch this proportion is now over 61%, while in Auckland it is just 45%[vii].

In effect, the Government is bleeding the Accommodation Supplement dry by not indexing it. This is a common way of getting rid of policy that the Government does not like – allow the real value of the payment or subsidy to decline to a point where it is worth hardly anything, and then axe it. It will clearly take some time yet until the Accommodation Supplement is not worth worrying about, but in the meantime this neglect around its administration will continue.

Judging the success of these reforms depends most likely on where you stand in the housing market. The scope for private investors has expanded but at the cost of falling homeownership, especially for younger modest income families. In terms of providing housing, the reforms can be seen as having some success. Certainly the market did not collapse when Government looked to withdraw some form of housing subsidies, although the value of the replacement subsidies grew quickly to prop up a different market outcome. As noted above, over half the additional dwellings provided in New Zealand since 1991 have been provided by private investors.

But this investment is paying quite low yields – generally in the order of 4% to 5%. As well it is paying very little tax. A 2009 tax review suggested then that private rental housing stock was valued at $200 billion yet this investment reported a trading loss of $500 million in 2008/09 and presumably tax credits of around $150 million[viii]. The viability of residential property investment appears to depend on its tax advantages over other forms of investment – so much for the tenure neutrality promised by Treasury officials back in 1991.

Whether or not residential property investment has been based on sound economic fundamentals or on weaknesses in taxation policy will continue to be debated. Some of these weaknesses have, however, been patched up - such as with not being able to claim depreciation as a taxable expense. Other changes such as those around the taxation of capital gains from speculation are more cosmetic than consequential.

Regardless of what has driven past investment, it seems likely that future investment will face a different set of conditions, which might make the viability of such investment more questionable. These conditions may include a lower likelihood of capital gain alongside diminished expectations of income growth, especially if poorer tenants are being squeezed by Accommodation Supplement rules.

These investment conditions will vary from region to region, and to some extent from sub-market to sub-market. Having some understanding of the trends that might contribute to these various sets of conditions might be helpful in planning for future investment. The remainder of this paper will provide some views of what these trends might look like over the next decade or so.

It appears future demand for rental housing will depend on two things – who needs to be housed and where are they are likely to want to live. A further consideration is around who might be expected to house them – the state through some form of social housing, or the private sector perhaps with some subsidy from the state.

THE SOCIAL HOUSING SIDESHOW

As an aside, the present status of social housing – at least within the imagination of the present Government, is quite discouraging. The Government's social housing reforms are apparently about creating a social housing market through encouragement of so-called community housing providers. These are NGO's such as The Salvation Army and the Nelson Tasman Housing Trust, which own and operate rental housing outside of strict market criteria such as charging market rent or receiving a commercial yield. The problem here of course is that the encouragement being offered is fairly minimal and always has been, so the outcomes have been piecemeal and hard won. The offer of stock transfers has also proved problematic mainly because the Government had visions of a viable NGO housing provider paying a substantial share of the so-called market value for state houses, which may be old and in poor repair. The Salvation Army's own analysis of such a proposal led it to believe that any purchase of state houses even at heavily discounted rates posed significant financial and reputational risk.

Transfers of state housing to NGO's, iwi and hapu organisations and even private investors may yet occur on terms which appear viable but such transfers are not the answer to New Zealand's need for a pool of housing which is safe, secure and affordable for vulnerable people and families. Such transfers will not increase the stock of housing available nor will change its configuration or location to better meet future demand. These transfers are at best a distraction as they shift focus from the real housing challenges – of both the public and private sectors, which is to provide decent quality housing under secure tenure of the right size and form, and in the right locations to meet demand.

FUTURE DEMAND FROM OLDER PEOPLE FOR RENTAL HOUSING

So who will need to be housed?

The single biggest problem with Sidney Holland's vision of a property owning democracy was that not everyone got to become a property owning citizen. In essence, home ownership became and now remains a social cleavage in New Zealand society. This cleavage is determined not just by levels of personal wealth but also through the distribution of property rights around housing tenure, as well as tax policy and even in our economic pre-occupation with mortgage interest rates. In short, our society is geared for the rights and needs of homeowners and real estate property owners. Tenants and the landless have a fairly residual set of rights, such as those allowed for in the Residential Tenancies Act.

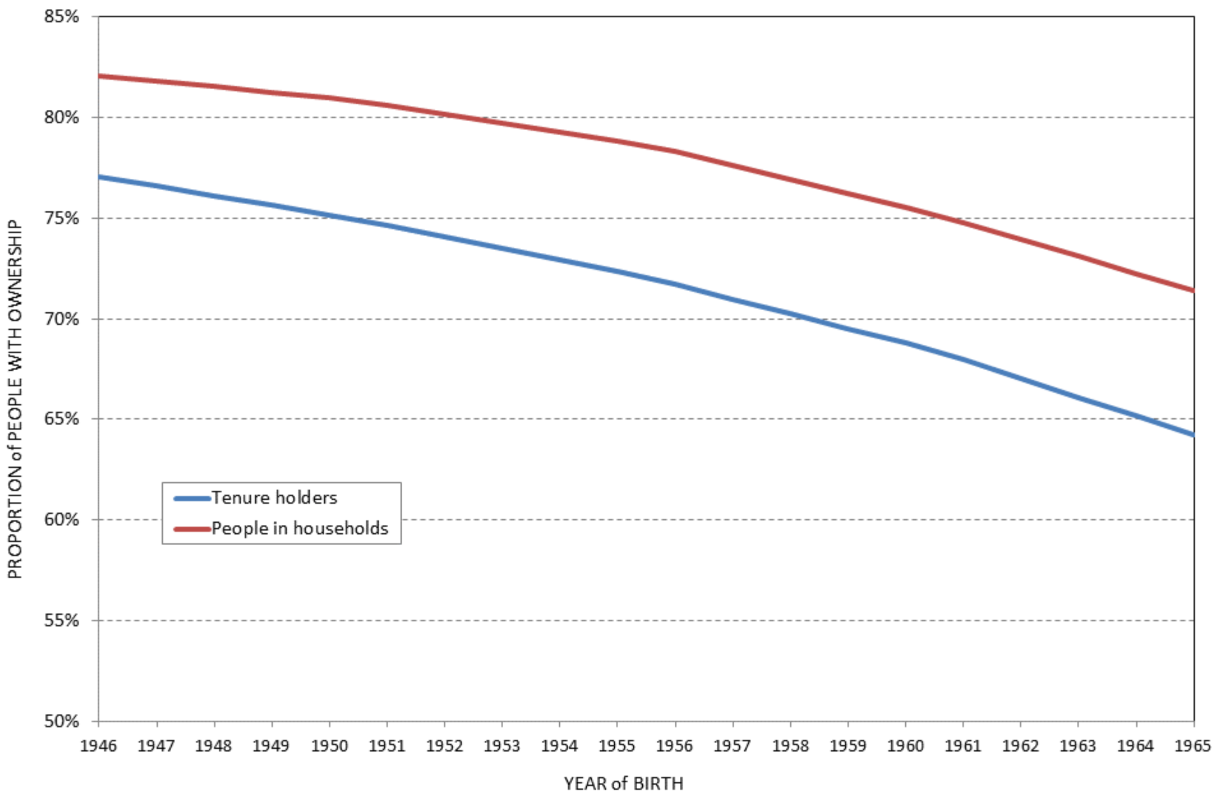
This cleavage is also present in the design of retirement income that is based on the presumption that retiring workers would own their home debt-free and so receive the imputed rent as a form of tax free income. However, as the baby boomers retire an increasing proportion of them have not managed to arrive at debt-free homeownership. Given both the increasing size of this group of people and their probable longevity there is likely to be growing demand for rental accommodation from older tenants who are living on inadequate and to some extent fixed incomes.

The Census offers us two views of personal housing tenure and these views are not entirely compatible. The most commonly reported personal tenure is the tenure of the 'tenure holder' who is anyone over 15 who answers the question. This measurement of tenure provides an upper estimate of the proportion of the population who are tenants. For example, a tertiary student who is living with her or his parents who own their home would be classed as a tenant under such a definition even though her or his tenure is quite different from a classmate renting a flat or apartment. The same definitional problem arises for older people living with relatives.

A second definition is the tenure of the household in which a person lives. While this has a number of problems around how we might define households, this definition more closely reconciles to the actual tenure patterns of dwellings, which is more useful in any exercise in forecasting housing demand.

These two definitions of housing tenure are reported in Figure 1 for the baby boom generation – here defined as those born between 1946 and 1965. Both definitions show declining rates of home ownership as the age cohort gets younger. For example, 82% of those people born in 1946 lived in an owner-occupied home in 2013 while just 71% of people born in 1965 did. This declining rate of home ownership is due in part to life cycle effects – people tend to move into home ownership later in life. For example, on a 'tenure of tenure holder' basis the proportion of those people born in 1965 who report home ownership rose from 57% in 2001 to 64% in 2013. Clearly, however, as a person approaches retirement age it becomes less and less likely that they move into home ownership. Given that the youngest baby boomer (by this definition) was aged 48 in 2013 it would seem unlikely that this cohort will ever reach the rates of home ownership achieved by people born in 1946 or even in 1960. The gradients shown in Figure 1 are not just the result of life cycle effects but of the diminishing prospects of gaining homeownership for younger people. This is one of the legacies of the demolition of home ownership policies by the 1991 'mother of all budgets'. In effect, more and more people will be relying on New Zealand Superannuation without the security and financial benefit of home ownership.

Figure 1: Homeownership amongst baby boomers - 2013[ix]

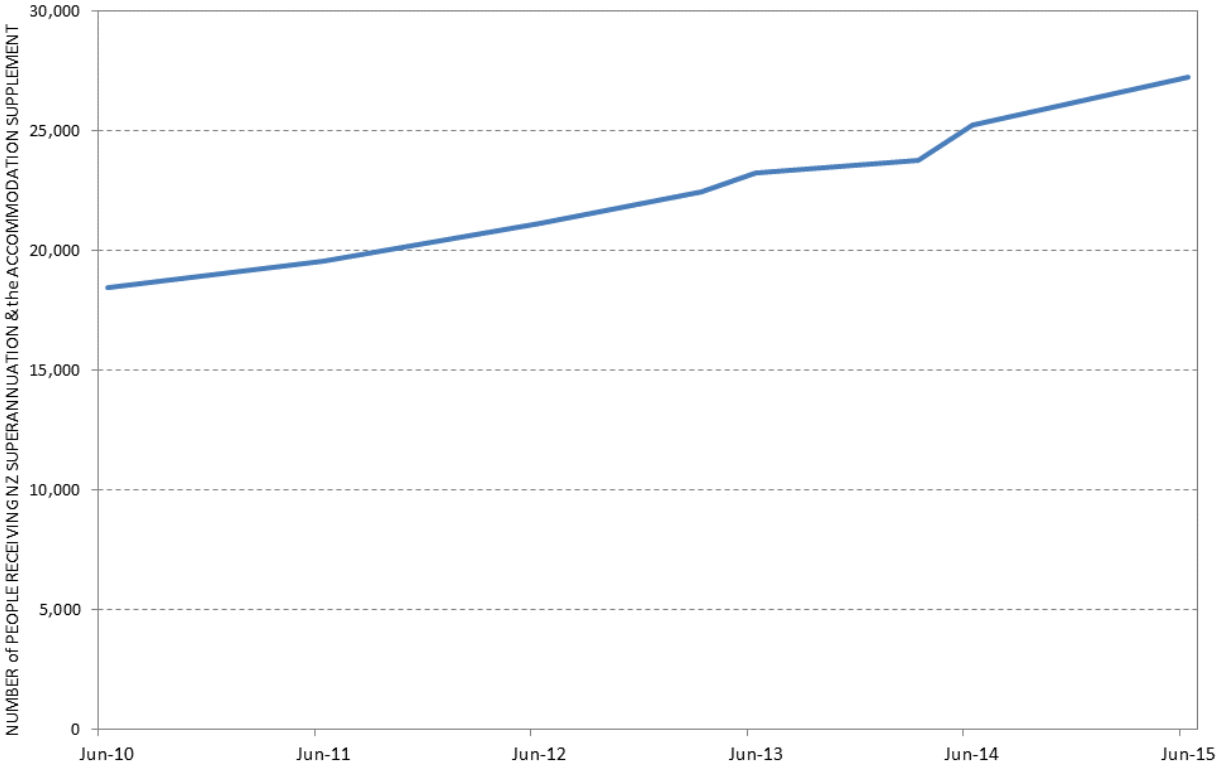


The existence of this increasing demand from retired people for rental housing is being witnessed by increasing take-up of the Accommodation Supplement by Superannuitants. This trend is reported in Figure 2. Over the past five years the numbers of people receiving both New Zealand Superannuation and the Accommodation Supplement as tenants (rather than as boarders or home owners) has grown by 1700 people annually. Over this time the proportion of Superannuitants receiving the Accommodation Supplement has risen from 4.6% in 2010 to around 5.7% in 2015.

Forecasts of future demand from over 65's for housing assistance such as the Accommodation Supplement or social housing is a forthcoming piece of work to be published soon by The Salvation Army's Social Policy and Parliamentary Unit. At this stage two comments are worth making about this demand. Firstly, we are talking about a lot people in New Zealand terms. By around 2026 there are likely to be over one million people aged over 65 years, most of whom will be receiving the New Zealand Superannuation, unless there is a change in entitlement rules beforehand. This one million people will represent around 20% of the population. Secondly, it seems that the proportion of over

65's needing housing assistance will rise progressively over the next decade and might even exceed 10% by 2026. This is on account of the gradients of declining levels of home ownership demonstrated in Figure 1. On any account it would appear that demand for housing assistance from older people will become an increasingly important policy issue over the next decade and it is possible that this growing importance will force a change to how housing assistance is provided.

Figure 2: Tenant receiving New Zealand Superannuation and the Accommodation Supplement



In terms of the actual housing stock this demand from older people is likely to take either of two forms. Older people who don't own their homes will most likely either live in extended family households or as tenants in usually small one or two bedroom dwellings as couples or alone. Either form of demand creates a need for housing which is configured to their needs. If the demand is through extended family living then there will perhaps be demand for accessory housing or semi-independent configurations with additional kitchens and bathrooms. These of course are an anathema to Council planners as they are likely to push up occupancy rates but it seems likely that such arrangements arise informally – especially in expensive markets such as Auckland.

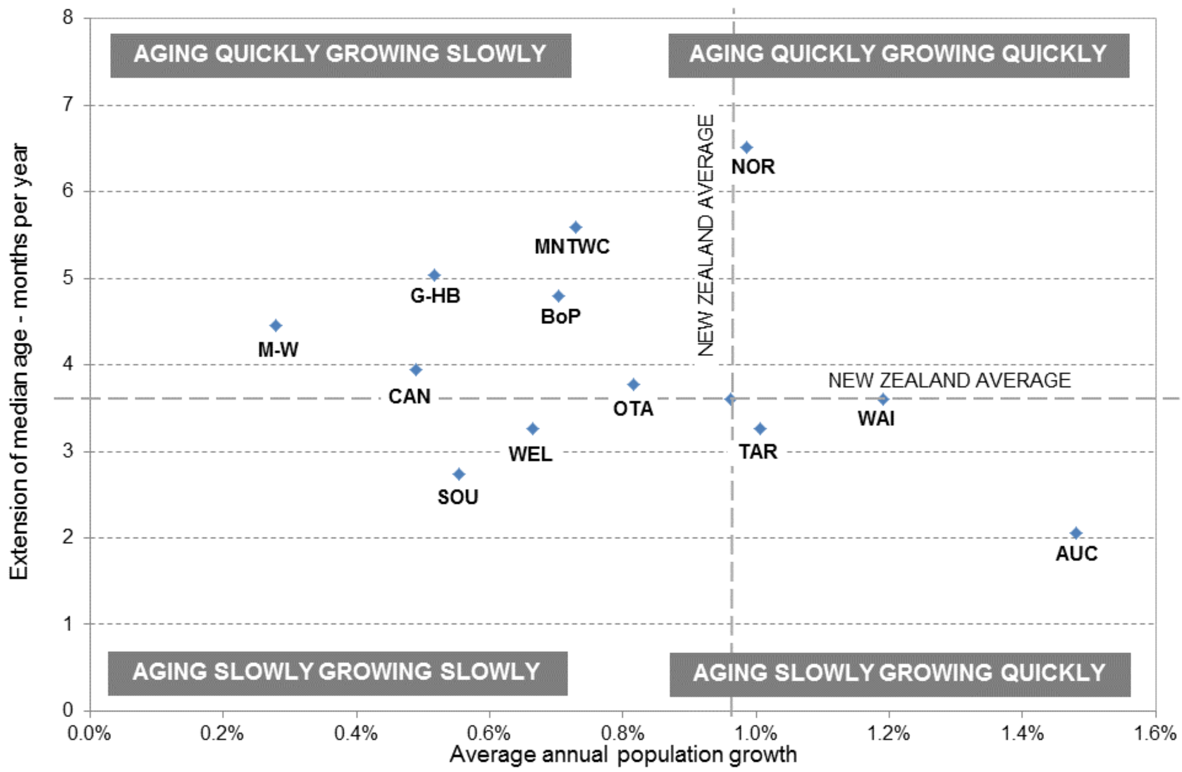
The other type of demand, that of small independent living units, might be met through social housing although it is unlikely that there are sufficient resources allocated to social housing at present to cater for such demand. Catering for such demand is part of The Salvation Army's response to providing additional social housing and while this is a niche within the social housing sector it is a comfortable and growing niche.

WHERE WILL OLDER PEOPLE LIVE?

A recent piece of work published by The Salvation Army's Social Policy and Parliamentary Unit looked at regional disparities[x]. This study showed the extent to which the different regions were on quite different development paths. In effect, we are seeing three or four different New Zealands. There is of course Auckland, whose growth is driven by immigration and its role as New Zealand's only city which comes to being close to a global city. There are the other main cities but principally Wellington and Christchurch, which have experienced some population and economic growth. Then there is the rest of the North Island and the rest of the South Island. The rest of the North Island – outside of Taranaki, is not doing well socially or economically while the rest of the South Island appears to be faring much better.

One of the most compelling findings from the analysis was the different ways in which the regions were aging and growing. This analysis is presented in summary in Figure 3, which is taken directly from the report. This analysis shows a range of recent trends in the rates at which regions are growing in population and aging in terms of extending median ages. Because of population sizes some regions have been combined in this analysis – Marlborough, Nelson-Tasman and West Coast is such a combined region.

Figure 3: A comparison of growth and aging of regional populations 2004-2014[xi]



The relatively fast aging of some regions and equally slow aging of others is due of course to migration. The comparison between Northland and Auckland is most noteworthy here. For example, between the 2006 and 2013 Censuses the median age of the Northland population extended from 38.6 to 42.7 years, a rate of aging of 6.5 months every year. Over the same period Auckland's median age extended from 33.9 to 35.1 years, an aging rate of just 2.1 months each year. The reason for this difference is almost entirely migration – young people leaving Northland for Auckland and older people leaving Auckland for Northland.

It is, of course, no surprise that older people migrate from expensive housing markets to less expensive ones around the time of their retirement and often this migration is to sunnier, warmer climates such as those offered by Northland, Nelson and the Bay of Plenty.

This migration pattern is likely to accelerate over the next decade as the baby boomers begin their real retirement – that is when they finally leave work. This pattern is likely to be different for those who own their homes and those who do not. Homeowners clearly have more choice and it seems likely that they will move to places closer to attractive environments such as coastlines and mountains. Tenants have fewer choices and it seems likely that they will simply shift to smaller towns where the rents are relatively cheaper.

Whatever patterns evolve this migration can be seen as a god send for much of regional New Zealand. These patterns are what will sustain housing markets, often in the face of very low rates of natural increase in regional populations.   These patterns will bring with them some challenges for which we have no previous experience. For example, it seems possible that some communities will almost have half their population aged over 65 years old. The challenges both for the delivery of services and for sustainable leadership are at this stage unknown, although some regions such as Nelson-Tasman already have a lead in dealing with these.

CONCLUSIONS

It seems likely that the aging baby boomers will have a significant and perhaps even profound impact on the nature of housing demand, and in particular on demand for housing assistance. The threshold of one million people aged over 65 years old around 2026 is worth focusing on, if only for the sheer scale of the other changes around growing dependency and migration that this threshold promises.

Opportunities for property investment to cater for this shifting, and in some case growing demand, will abound. Its seems more than likely that even with a Government which is committed to supporting the housing needs of poorer older people the majority of housing needed will be provided by the private sector. The extent to which such provision will be supported by public subsidies remains to be seen, although it does appear that a recasting of existing housing assistance policies is overdue if we are to avoid the very real prospect of older people living in poor quality and unsatisfactory housing.

Endnotes

[i] See Table 1 p.14 in Morrison, P. (2008). *On the Falling Rate of Homeownership in New Zealand*. Centre for Housing Research Aotearoa New Zealand.

[ii] The Budget and Fiscal Update 2015 forecasts revenue of $1,265 million from road user charges and $972 million in petroleum excise taxes. Some of the road user charges are vehicle licensing fees etc.

[iii] Castles, F. (1998). The Really Big Trade-off: Home ownership and the welfare state in the new world and the old. *Acta Politica* 33(1) pp. 5-19.

[iv] These figures are taken from Statistics New Zealand's most recent population forecast and the median scenario within this forecast.

[v] Luxton, J. (1991.) *Housing and accommodation*: a*ccommodation assistance.* A paper by the then Minister of Housing which accompanied budget announcements in 1991.

[vi] Murphy, L. (2000) A profitable housing policy? The privatisation of New Zealand government's residential mortgage portfolio, *Urban Policy and Research* 15.4 pp. 247-256.

[vii] These figures are from customised data on the Accommodation Supplement supplied by Ministry of Social Development.

[viii] See Tax Working Group (2010) *A tax system for New Zealand's future: Report of the Victoria University of Wellington Tax Working Group.* p.26. Available at http://www.victoria.ac.nz/sacl/cagtr/pdf/tax-report-website.pdf.

[ix] This data is from Statistics New Zealand Census data set. Data on the tenure of the household in which people live was provided by Statistics New Zealand as a customised data request.

[x] Johnson, A. (2015). *Mixed Fortunes: the geography of advantage and disadvantage in New Zealand*. Available at www.salvationarmy.org.nz/socialpolicy

[xi] Ibid Figure 5 p.34.