

**GENERATIONS APART: STRUCTURAL CHANGES  
AFFECTING ACCESS TO HOME OWNERSHIP**

**Blair Badcock,  
28 Grey Street, Wellington 6015  
Tel: 64-4-439 3259  
Fax: 64-4-499 2700  
blair.badcock@hnzc.co.nz**

# **Generations apart: structural changes affecting access to home ownership**

## **Abstract**

Home ownership in New Zealand has fallen by an estimated eight per cent in the last fifteen years (1971-2006). Since 2001, house prices have outstripped mortgage interest rates and real wage growth which has turned the political and policy spotlight onto the drivers of housing inflation and some of the supply-side constraints. In the process, some of the longer-term structural changes now influencing access to home ownership have tended to be overshadowed.

This paper examines these underlying economic and social changes taking place roughly in the space of a generation. Changes affecting demand over time for home ownership will be treated first, including changes in financial markets affecting purchasing power, followed by changes to housing assistance available to first home buyers, and lastly changes to housing supply.

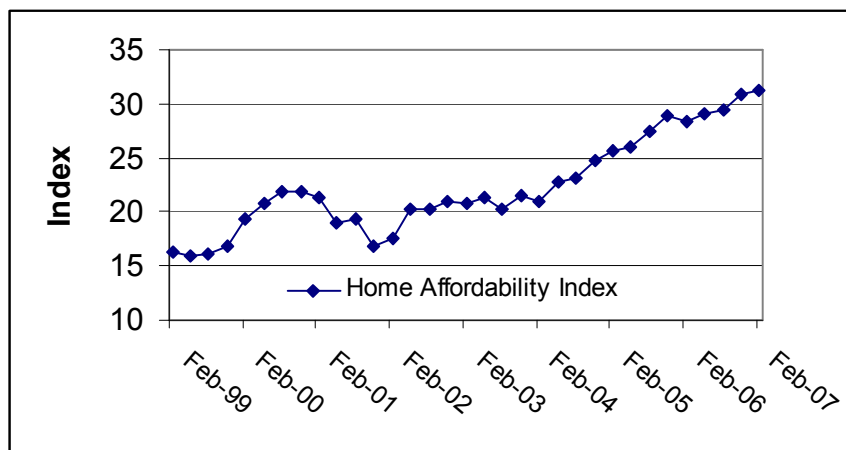
The concluding section examines the impact of these developments upon access and affordability within the owner-occupied sector and draws out some of the long-term implications should the decline in home ownership continue at the present rate.

## Introduction

Home ownership in New Zealand has fallen by an estimated eight per cent in the last 15 years (from 75% in 1991 to 67% in 2006, adjusting for family trusts<sup>1</sup>)<sup>2</sup>. Since 2001, this has coincided with a marked deterioration in home purchase affordability due to a prolonged housing boom. House prices have more than doubled in the last five years.

While this paper concentrates on affordability as a barrier to home ownership, shifts in the preferences and priorities of the present generation of potential home buyers are also contributing to lower take-up (Mulder 2003). What is unclear at present is the extent to which the falling rate of owner-occupation is due to 'choice' rather than 'constraint'.

November 2006 marked the twentieth quarter of decline in the housing affordability index graphed in Figure 1 which takes account of the relativities between house prices, wage rates, and mortgage interest rates. A rise in the index indicates that housing is less affordable. Despite the efforts of the Reserve Bank to subdue house price inflation by progressively lifting the Official Cash Rate during 2006-07, the easing of investment activity in the housing market has taken longer than expected.



Source: Massey University Real Estate Analysis Unit (2006).

Figure 1: Trend in housing affordability, 2000-06

With growth in house prices (76%) outstripping mortgage interest rates (24%) and household income growth (25%) between June 2001 and June 2006, the political and policy spotlight turned to the drivers of house price inflation and the associated cyclical effects. In the same time frame, the median sale price of sections rose by 94%. Apart from noting the boost that higher net migration has given to underlying demand for housing, much of the public focus has been upon supply constraints such as land release policy, zoning regulations, labour shortages, and the cost of building materials.

<sup>1</sup> A 'family trust' is a form of 'asset shelter' that preserves the capital value of the family home in circumstances where, otherwise, a frail parent in residential care would have to sell up to meet a means test to qualify for support.

<sup>2</sup> This estimate is based on recalibrated data developed by the Reserve Bank (Briggs 2006).

Critics of the regional ‘smart growth’ and ‘urban containment’ strategies developed to promote sustainable urban development in New Zealand single out ‘land supply strangulation [as the] major cause of the housing affordability crisis’ and suggest that this alone is responsible for shrinking home ownership (Demographia 2007). But the designation of ‘urban growth boundaries’ like Auckland’s Metropolitan Urban Limit generally dates from the late 1990s, whereas home ownership has been falling since the late 1980s suggesting that there are longer-term effects involved as well.

In March 2007, the Commerce Select Committee agreed to an inquiry into housing affordability. Like the Australian Productivity Commission’s inquiry in 2003-04, the Select Committee is concentrating upon the barriers to first home ownership (Productivity Commission 2004). But unlike rents during Australia’s housing boom in the early years of the decade, growth in rents has been relatively subdued<sup>3</sup> probably due to the significant amount of extra investment that has gone into rental property.

As a consequence of the intense interest in market distortions, some of the underlying structural changes in the conditions that are now also affecting access to home ownership in New Zealand have tended to be overshadowed in public debate. For example, there has not been the same degree of analysis of the impact of financial deregulation upon mortgage markets (Ellis 2006; Stephens 2007; Productivity Commission 2004, 41-58), nor of changes in the labour market (Kupke and Marano 2003; Berry 2006), nor of changes to the tax treatment of housing (Productivity Commission 2004, 75-121). The respective contributions of deteriorating affordability and modified family formation – particularly delayed marriage and fertility – to the trend in New Zealand home ownership rates remains an open question (Baxter and McDonald 2004). To what extent can the drop in ownership rates for the traditional home buying cohorts in their 20s and 30s be traced to a generational change in living arrangements, in savings behaviour, and in consumption preferences (Beer and Faulkner 2007; Salt 2004; Yates 2007)?

Only a handful of commentators in New Zealand have given coverage to the longer term changes affecting the demand and supply of housing. The Governor of the Reserve Bank has highlighted the impact of globalisation, liberalisation of financial markets, and global liquidity upon the property sector in a series of speeches (Bollard, 2004; 2005; 2007). One or two submissions to the Commerce Select Committee Inquiry have drawn attention to demographic trends, including a structural lift in net immigration, lower and more stable interest rates, and a structural rise in job security (Alexander 2007).

Given that the home ownership rate has now been in decline for over 15 years, it is likely that these longer-term effects have also been at work predating the impact of the most recent housing cycle (2001-07). At most, estimates derived from Census data indicate

---

<sup>3</sup> For about five years (2001-06), aggregate rents tracked the CPI in New Zealand. Then, in 2005-06, the Accommodation Supplement maxima, which is paid to eligible tenants in the private rental sector, were adjusted upwards to compensate for higher rents in market ‘hot spots’ around the country.

that only 3.6 per cent of the 8 per cent fall in home ownership could have occurred between 2001 and 2006.

What I want to do in this paper is to look more systematically at the broader economic and social changes taking place roughly in the space of a generation in order to better appreciate their contribution to home ownership trends in New Zealand. Changes affecting demand over time for home ownership will be treated first, including changes in financial markets affecting purchasing power, followed by changes to housing assistance available to first home buyers, and lastly changes to housing supply.

Then the discussion turns to the impact of these developments upon access and affordability within the owner-occupied sector. The concluding section draws out some of the long-term implications should the decline in home ownership continue at the present rate.

### **Household budgets: what's changed in a generation?**

A comparative analysis of spending patterns in the 1950s, the 1980s and the 2000s provides a useful starting point. Table 1 shows how housing costs in general, and home purchase in particular have grown as a share of household expenditure: in the case of mortgage repayments by 6.5 times; and in the case of rent, rates and house maintenance by 2.7 times (Collins 2007). This has been made possible more by the fall in the relative cost of food, clothing, and other consumer durables and less by the growth in real income. What Table 1 emphasises is that owner-occupiers are spending more on their homes and that this is stretching some of them financially.

Also, an underlying shift has taken place in the propensity to consume and the way consumption is financed. In the space of a generation, with readily available credit, a culture of saving has been replaced by a culture of borrowing. In particular, over the last five years, the household sector's debt servicing as a percent of disposable income has climbed to 140%; and as a result of the 'wealth effect' created by asset price inflation, housing equity withdrawal has gathered momentum (Reserve Bank 2007, 4)

**Table 1: What's changed in a generation?**

Weekly household expenditure (\$2003-04)	1954-55	1981-82	2003-04
Mortgage payments	12.40	41.70	81.40
Rents, rates & house repairs	49.70	99.40	135.20
Power and fuel	22.10	20.20	28.10
Private transport	80.10	113.40	107.20
Fresh produce, meat & fish	67.70	58.40	41.80
Home appliances	35.90	30.10	63.90
Clothing & footwear	110.60	55.70	30.60
Total spending *	817.20	823.10	888.40

Source: Easton, B (1967) for 1954-55; Statistics New Zealand for 2003-04.

\* Selected categories of consumption only. Household size was 3.8 in 1954-55, 3.1 in 1981-82, and 2.7 in 2003-04.

### **Changes affecting demand for home ownership**

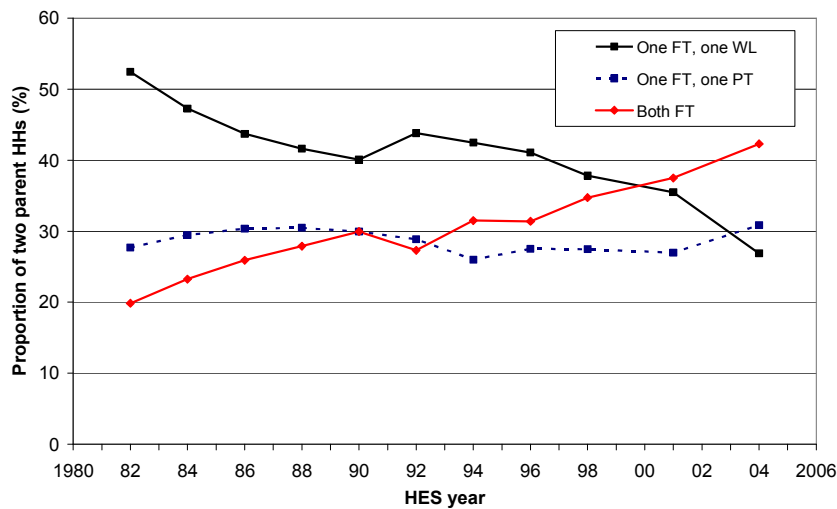
The impact of generational change in Australia and New Zealand upon housing demand, and particularly access to home ownership, has been reasonably well documented (Badcock and Beer, 2000; Beer *et al.*, 2006; DTZ New Zealand 2005; Winter and Stone 1998; Yates 2007). The socio-demographic transition occurring since the 1970s has entailed the growth of 'working couples', more singles living alone and families headed by a single parent, and ageing of the population.<sup>4</sup>

At the same time, during the 1980s and 1990s, wide-ranging adjustments were taking place in the labour market. The Employment Contracts Act (1991) in New Zealand paved the way for a shift from collective to individual bargaining in the workplace. Along with 'casualisation' and an erosion of job security, this has contributed to a lowering of the real incomes of many unskilled and semi-skilled workers. While workforce participation rates have rebounded to the high levels of a generation ago, jobs are no longer as secure. Because of this, the greater uncertainty that now accompanies paid work (permanent, contract, casual or self-employed) is influencing the attitudes and decisions of first home buyers (Kupke and Marano 2003).

Figure 2 shows how the dominant employment status of two parent households has shifted from those headed by a 'breadwinner' in the 1960s and 1970s to those with two earners (whether both full-time, or one full-time and one part-time). This has led to a growing bifurcation between one and two-income households with significant implications not only for home purchase but for repayment of a housing loan. For example, the latest Household Labour Force Survey indicates the following differences in the median income of 25-34 year old households: single adult, with children: \$28,632; single adult, without children: \$39,035; couple, with children: \$60,000; couple, without children: \$80,869. What has changed in a generation is that a single income is seldom enough to buy and pay off an entry-level home in many regional housing markets.

---

<sup>4</sup> While this paper concentrates on affordability as a barrier to home ownership, shifts in the preferences and priorities of the present generation of potential home buyers also contribute to lower take-up.



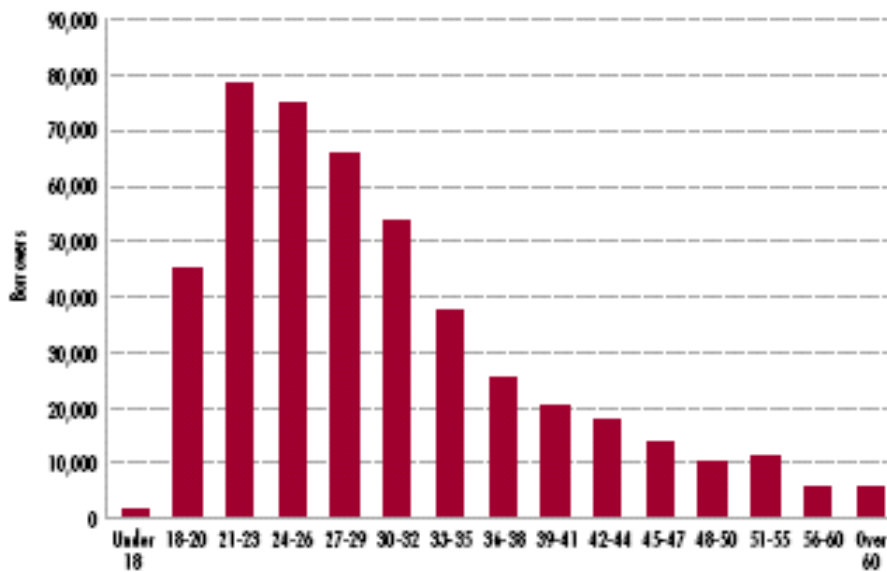
Source: Perry, B (2007).

Figure 2: Change in workforce participation in two-parent households 1980-2006

The expansion of tertiary education that has taken place since the early 1990s, coupled with the introduction of the Student Loan Scheme, is another underlying influence upon the demand for and access to home ownership. Tertiary student numbers nearly doubled between 1994 and 2005 – from 254,000 to 504,400. Over 20%, or 666,000 fifteen year-olds have used the Student Loan Scheme (Inland Revenue 2006).

Students under 30 years with loans represent one third of the population between 15-30 years which, in the past, has included the prime home buying cohorts (Figure 3). While the median loan balance in June 2006 was \$10,650, 20% of students owe more than \$20,000. The forecast average repayment time is about nine years.

This will continue to produce ‘pipeline’ effects as students leave university and college with debt in the dominant home-buying years. In particular, with the rapid growth in the last decade of wananga catering for Māori students, many of whom left school early and are returning as mature-aged students with families to support, repaying student loans is likely to take precedent over buying a home.



Source: Inland Revenue

Figure 3: The concentration of student debt in prime home-buying years

### Changes in financial markets affecting purchasing power

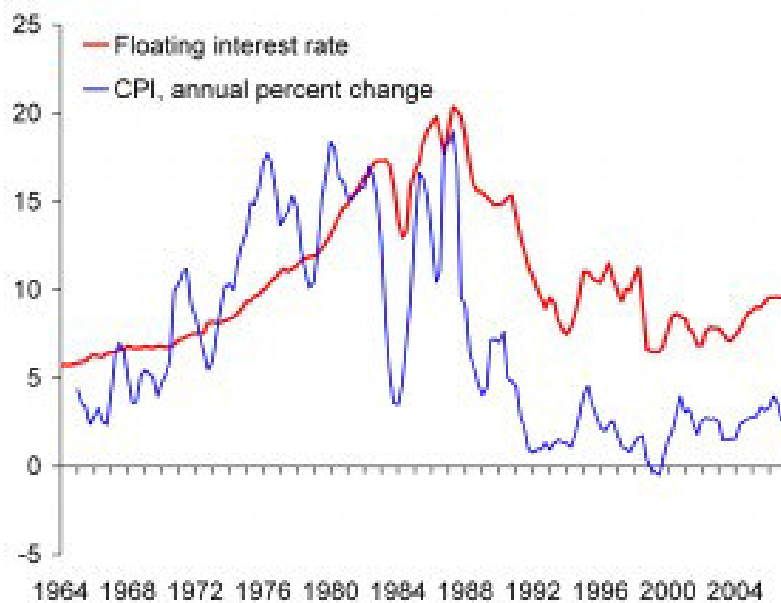
The liberalisation and deregulation of international and domestic financial markets have fundamentally altered the terms and conditions applying to mortgage lending in New Zealand. Most of the changes to deregulate New Zealand's finance and banking sector occurred in the mid 1980s. Prior to that mortgage finance was subject to direct controls and therefore was effectively rationed.

In 1984-85, controls on interest rates for lending and deposits, and guidelines on the expansion of credit were removed. In late 1984 controls on overseas borrowing were relaxed and shortly after the New Zealand dollar was floated. The result of these and other changes opened the way for much greater bank competition in order to increase market share in the household sector. Mortgage brokers began to appear, linking mortgage providers and borrowers (Reserve Bank 2007, 9).

Significantly, over the last decade, following the crash in US high tech stocks, the sharp easing in US monetary policy, and the recovery and growth in current account surpluses in the East Asian and oil-exporting countries, overseas savings have poured into the New Zealand economy. This has been generated by the attractiveness of interest rates in New Zealand relative to global interest rates. While domestic rates have ranged between 7-9% since 2000 (Figure 4), they have been close to zero in Japan for six years, the Euro has moved in a range between two and four per cent, while US interest rates dipped to one per cent in 2003.

Yet, despite the current spread between domestic and foreign rates, by the beginning of the 1990s the cost of borrowing in New Zealand (along with inflation) had returned to

levels last seen in the early 1970s (Figure 4). ‘Overall, the general fall in interest rates in the 1990s, coupled with the effects of financial deregulation, resulted in higher demand for mortgage finance and a widespread desire on the part of households to live in a better house’ (Reserve Bank 2007, 8). Close to one half of these property owning households are outright owners and therefore are well placed to borrow for other investment purposes (Scobie *et al.*, 2007, 4). Thus owner-occupiers have borrowed against their existing equity to either improve their homes, to ‘trade up’, to buy second homes, or to invest in rental property.



Source: Reserve Bank (2007), based on data from Statistics New Zealand

Figure 4: Movement of mortgage rates and inflation

### Changes to housing assistance for home buyers

Throughout the middle decades of the 20<sup>th</sup> Century, Labour and National governments ‘subscribed to the same material vision of New Zealand society’ (Fergusson 1994, 177) but held differing views on how to go about getting there. In 1949, in a return to the policies of the 1920s, an incoming National Government shifted the focus from state housing to home ownership as the preferred form of tenure. A generous public lending programme that tied State Advances loans to home building paved the way for the creation of a ‘property owning democracy’. In a fifteen year period, owner-occupation grew by eight per cent – from 61% in 1951 to 69% in 1966.

Following its return to power in 1957, the Labour Government introduced a 3% concessionary loan for families earning less than £1,000 a year and gave low-income families the right to capitalise the family benefit – a universal benefit paid to the mother of each child – towards the deposit. In the early 1960s, two-thirds of home loans were

3% rebated or concessionary loans but this had declined to 12% by 1969-70 (Ferguson 1994, 196). In the peak year when 24,300 residential building permits were issued (1962), 52% were funded by the state. By 1972 this had declined to 28%. Figure 5 shows the drop in the rate of annual additions to the total dwelling stock that occurred from the mid-1970s.

Home ownership peaked at about 75% in the late 1980s. In 1979, the lending policy of the Housing Corporation, formerly State Advances, was changed to encourage better use of the existing housing stock and to discourage urban sprawl. Thereafter loan applicants with a 20 per cent deposit were free to choose between new and existing houses.

In the mid-1990s, the State Advances mortgage portfolio was sold down and since then government support for home purchase has been limited to a range of targeted lending products to assist households that do not meet normal commercial lending criteria. A Welcome Home Loan scheme has provided 2,750 insurance-backed loans since 2003. A shared equity scheme is being developed for piloting in the Auckland housing market. In July 2007, the Government introduced a voluntary work-based savings scheme, KiwiSaver, that will provide deposit assistance to participating first home buyers.

### **Changes to housing supply**

In 1953, the National Government introduced policies to support the building industry including a Group Building Scheme to guarantee the purchase of homes built by smaller builders, and subsidised loans that limited dwellings to 150 square metres, a single storey, and three bedrooms (Ferguson 1994, 181). This made 'entry level' homes affordable.

With rising expectations and living standards, the average amount of floor space consumed per occupant has almost doubled since the 1960s when it was about 37 m<sup>2</sup> (DTZ New Zealand 2004). By the early 2000's the floor space provision per person in newly built dwellings was about 72m<sup>2</sup>, while the quality and finishing of new dwellings has improved appreciably. As a result, a higher proportion of the new houses being added to the stock – and this includes more apartments and townhouses – are high quality homes beyond the reach of first time buyers.

Analysis of industry trends in Auckland (DTZ New Zealand 2006) revealed that developers and home builders have largely abandoned the 'entry level' segment of the market on the grounds that the cost of land has undermined profitability. Therefore, in 'greenfield' subdivisions, builders are erecting larger homes for the upper end of the market. Buyers are typically couples with household incomes over \$70,000 and while they are 'trading up' tend not to have children.

Even though the supply-side has been remarkably responsive to housing demand, with housing starts reaching a 30-year high in 2004-05 (Figure 5) and the industry stretched beyond its capacity, some 'bottlenecks' in the supply chain emerged (Motu Economic and Public Policy Research, 2007). Developers complained about rising land and building costs as they waited for councils to grant resource and subdivision consent and to get infrastructure and essential services into place. For their part, councils pointed to

the part played by developers who reserve large tracts of land for future needs, thereby creating artificial scarcity and driving up land prices during a property boom.



Sources: RBNZ, Statistics New Zealand

Figure 5: Annual change in the rate of home building

### **Impact on access to and affordability of home ownership**

With the building of demand pressures in the housing market in the early 2000s, escalating house prices began to take over from mortgage interest rates as the primary determinant of housing affordability for home buyers.

This has been accompanied by a significant change in the 'mix' of borrowers that the banks now lend to. Firstly, an inflated generation of 'baby-boomers' (1945-65) has reached peak earning years. Outright owners are in a majority and are now able to lever against their equity to either 'trade up' or invest in other property for retirement. Property investors have increased market share, 'crowding out' first time buyers.

With the 2006 Census data now available it is possible to report home ownership trends over the last 20 years (DTZ New Zealand 2007). Between 1986 and 2006, home ownership rates have fallen:

- in every region of New Zealand, but especially Auckland (-10.2%) and Nelson (-11.0%);
- for all household income groups in the range \$0-10,000 (-22.5%), \$10,001-20,000 (-12.9%), \$20,001-30,000 (-11.2%), \$30,001-50,000 (-17%), \$50,001 and over (-14%);

- for every age cohort, but especially 25-29, 30-34, and 35-39 year olds (by -17.9%, -17.7%, and -15.5% respectively);
- for every type of household, notably 'One parent with children' (-15.0%);
- for all broadly defined ethnic groups, particularly for Asian (-12.6%), 'Other Ethnic Groups' (-14.0%), and Pacific peoples (-10.4%).

### **Longer-term implications of declining home ownership**

Paradoxically, at a time of such strong economic growth and plentiful mortgage finance many prospective first time buyers in the 'intermediate market' cannot afford to buy. Although there are signs in the last quarter of 2007 that upward pressure on house prices is finally easing in response to monetary tightening, this will not make for more affordable housing in the short-run. Even in the longer-run it is difficult to see a change in conditions necessary to arrest, let alone reverse the decline in home ownership. If the trend persists, the home ownership rate could possibly fall below 65% by 2011. This would mean that 80,000 fewer households would be home owners than if the 2001 rate of home ownership applied (Housing New Zealand Corporation 2005, 31).

Does it matter that increasing numbers of New Zealanders can't afford a stake in the ownership society? Some of the longer-term implications of declining home ownership include:

- greater dependence of non-owners upon life-time renting, leaving some elderly and poorer families vulnerable to the vicissitudes of the private rental market;
- less financial security for non-owners in retirement, including exercising the option to convert their equity in home ownership;
- greater concentration of housing wealth<sup>5</sup>;
- the potential for inter-generational transfers to amplify housing access and income inequality<sup>6</sup>;
- increase in the fiscal outlay on the Accommodation Supplement.

Lastly, if the benefits of home ownership can be taken as given, what are the costs to families and society of missing out? And what has to change to current forms of housing provision and tenure arrangements to make some, if not all, of these benefits accessible to non-owners?

---

<sup>5</sup> Scobie et al., (2007) estimate that there is a five-fold disparity in the net housing wealth of couples in the 45-54, and 55-64 year age groups between quintiles 1 and 5.

<sup>6</sup> Over half the households purchasing for the first time in the UK received some form of assistance from parents or relatives to help bridge the deposit gap (Tatch and Pannell 2006, 1).

## References

Alexander, T. (2007) Housing Affordability. Submission to the Commerce Select Committee Inquiry 7 May 2007

Badcock, B. and Beer, A. (2000) *Home Truths: Property ownership and housing wealth in Australia* (Melbourne: Melbourne University Press).

Baxter, J. and McDonald, P. (2004) Trends in home ownership rates in Australia: the relative importance of affordability trends and changes in population composition Final Report No. 56, Australian Housing and Urban Research Unit

Beer, A. Faulkner, M. and Gabriel, M. (2006) *21<sup>st</sup> Century Housing Careers and Australia's Housing Future: a Literature Review* (Melbourne: AHURI)

Beer, A. and Faulkner, D. (2007) 21<sup>st</sup> Century Housing Careers and Australia's Housing Future, presentation to the 2<sup>nd</sup> Australasian Housing Researcher's Conference Brisbane.

Bollard, A. (2004) What's happening in the property sector?, speech to the Property Council of New Zealand, 2 September 2004, Rotorua

Bollard, A. (2005) Housing debt, inflation and the exchange rate, speech to the Employers and Manufacturers Association (Northern) AGM 2 November 2005

Bollard, A (2007) Easy money: global liquidity and its impact on New Zealand, speech to the Wellington Chamber of Commerce, 15 March 2007

Briggs, P. (2006) *Family Trusts: Ownership, Size and their Impact on Measures of Wealth and Home Ownership*. Reserve Bank of New Zealand DP2006/06, Discussion Paper Series, Wellington

Collins, S. (2007) Housing costs dwarf 'luxuries' *Weekend Herald* 5 May 2007: A1.

Demographia (2007) *3<sup>rd</sup> Annual Demographia International Housing Affordability Survey: 2007, Ratings for Major Urban Markets*

DTZ New Zealand (2004) *Changes in the structure of the New Zealand housing market*. Vol 1.

DTZ New Zealand (2005) *Housing tenure aspirations and attainment* (Wellington: CHRANZ and Building Research).

DTZ New Zealand (2006) *Affordability of newly built housing (2000-2005) – Supply-side dynamics*. Unpublished report.

DTZ New Zealand (2007) *Census 2006 and Housing in New Zealand*. (Wellington: CHRANZ).

Easton, B (1967) *Consumption in New Zealand 1954-55 to 1964-65*.

Ellis, L (2006) *Housing and Housing Finance: the view from Australia and beyond*, presentation to Reserve Bank workshop on Housing, Saving and the Household Balance Sheet' 14 November 2006. [www.rbnz.govt.nz](http://www.rbnz.govt.nz)

Ferguson, G (1994) *Building the New Zealand Dream* (Palmerston North: Dunmore Press).

Housing New Zealand Corporation (2005) *Building the Future: the New Zealand Housing Strategy*.

Inland Revenue (2006) *Student Loan Scheme Annual Report to 30 June 2006*.

Kupke, V. and Marano, W (2003) *How changes in the labour market have affected first time home buyers*. AHURI Research and Policy Bulletin [www.ahuri.edu.au](http://www.ahuri.edu.au)

Motu Economic and Public Policy Research (2007) *Housing Supply in the Auckland Region 2000-2005*. CHRANZ (for HNZA and DBH).

Mulder, C.H. (2003) The housing consequences of living arrangement choices in young adulthood, *Housing Studies* 18 5 703-19.

Perry, B. (2007) *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2004* (Wellington: Ministry of Social Development).

Productivity Commission (2004) *Inquiry into First Home Ownership. Report No. 28*. AGPS: Canberra

Reserve Bank (2007) *Submission from the Reserve Bank of New Zealand to the Commerce Committee on the inquiry into housing affordability in New Zealand*

Salt, B. (2004) *The Big Shift*. South Yarra: Hardie Grant Books

Scobie, G., Le, T. and Gibson, J. (2007) *Housing in the Household Portfolio and Implications for Retirement Saving: Some Initial Findings from SOFIE*. New Zealand Treasury Working Paper 07/04.

Stephens, M (2007) Mortgage market deregulation and its consequences, *Housing Studies* 22, 2 201-20.

Tatch, J. and Pannell, B (2006) Will the real first-time buyers please stand up? *CML Housing Finance* 03/2006

Winter, I. and Stone, W. (1998) *Social polarisation and housing careers. Exploring the interrelationship of labour and housing markets in Australia.* Working Paper No. 13 (Melbourne: Australian Institute of Family Studies).

Yates, J. (2007) Has the great Australian dream ended? Centre for Public Policy Conference 21-22 February 2007-07-20