Home Ownership: Continuing dream or an approaching nightmare

Professor David Thorns
School of Sociology and Anthropology
University of Canterbury
Christchurch
New Zealand
David.thorns@canterbury.ac.nz

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Abstract

Home ownership in New Zealand and Australia has long been seen as the ideal tenure. It has been underpinned both by a strong belief that it is the normal tenure and that not achieving this reflects badly on the persons concerned. Up until the 1980s there was also a raft of state polices to encourage and enable home ownership. The neo-liberal turn in the 1980s and 1990s resulted in restructuring of economic directions and changes to tax and macro economic policy setting creating conditions for the growth of greater income inequality and more targeted forms of state assistance in the housing policy area. This moved support largely to demand side assistance with greater reliance on market based solution.

From 1990 through to 2008 the housing market has experienced boom and slump conditions but overall house prices have risen faster than wages creating an “affordability gap”. The continued rise in home ownership now no longer seems assured. In New Zealand, overall rates have begun to fall since 1991 down from 73% to 63% by 2006. More significantly there is growing evidence of a steep decline in the rates of home ownership in the 20-29 and 30-39 year old age groups within both New Zealand and Australia.

The key question this raises is whether this is a structural shift or a short run deferment. Complicating the question is the end of the recent boom and the signs of a recession in the housing market, in part as a result of fiscal policies and the subprime market failure in the US. This has created a downward movement in house prices and increasing housing stress where mortgage costs are still rising due to global instability in credit, credit company failure and inflationary pressures that are being “managed” largely through interest rate rises.

Arising from the changes are significant questions about the long run viability of home ownership and the policy responses that are required to address the decline. Politicians and public sentiment still supports home ownership as the preferred form of tenure for both social and economic reasons. However its attainment may now be shaped even more by intergenerational inequalities and transfers and broader economic and social policy setting than purely housing focused policies.
Introduction

Home ownership has been a central ambition of New Zealand people. The achievement of this tenure status has been equated with reaching “adulthood” and becoming a fully functional citizen. From the 1870s onwards the colonial government favoured freehold tenure and the owning by individuals of title to land and housing (Hawke 1985, Oliver 1968). The towns and cities of New Zealand, as a settler society, grew as a result of immigration rather than rural to urban movement. Housing policies through to the 1970s have focussed on increasing supply which was seen as deficient, as the urban structure had to be created.

In New Zealand and Australia one of the features that has enabled people to exercise some degree of control over their living spaces is the high level of owner occupation. The commitment to home owning is deeply ingrained and has become a significant aspect of the culture of both societies. In government policies and in popular ideology, home ownership has been continually presented as virtuous and beneficial. For example Walter Nash one of the prominent members and Minister of Finance in the first Labour Government in the 1930s stated that:

But I am also a conservative in the sense that I look upon the family as the foundation of the nation. I believe that no nation can prosper or progress where people lack the conditions necessary for a “home” and “home life” in the best and fullest meaning of these words. It is by the toil of their hands, that men live, and by the strength of the family that the race will continue (quoted in Winstanley 63:2001).

The emphasis on “home” and “family” as the building blocks of the nation were seen as underpinned by owning property and ones own “home”. This secured a place where they could establish themselves and then contribute to their local and national communities. It was seen as a bulwark against extremism and potential destabilising doctrines that were prevalent in the 1930s and 1940s on both the right and the left of the political spectrum.
A similar sentiment at the time was expressed by Robert Menzies the Liberal Prime Minister in Australia indicating that these sentiments were across the political spectrum. He stated that:

The material home represents the concrete expression of habits of frugality and saving ‘for a home of ones own’. Your advanced socialist may rage against private property even whilst they acquire it; but one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours, to which we can withdraw, in which we can be among friends, into which no stranger may come against our will……….My home is where my wife and children are; the instinct to be with them is the greatest instinct of civilised man; the instinct to give them a chance in life is a noble instinct, not to make then leaners but lifters ( quoted in Mitchell 78:2000).

The linking of home ownership with family values, security and commitment to the country and locality was thus a strong sentiment underpinning thinking and policy to enhance and support owner occupation. Both politicians reflected the essentially patriarchal view of the times with respect to the roles of women and men in both the family and society. In the immediate post war years both countries encouraged women to return to the home and be wives and mothers after their more extensive participation in the workforce during the war. Thus marriage, home ownership and family formation were encouraged by state policies. The delayed marriage and child birth from the war years and the reemphasis on home and family helped to create the post war surge and the baby boom generation ( post 1945 birth cohort).

In New Zealand this strong home ownership sentiment and government support through housing loan schemes administered by the State Advances Corporation, special saving schemes and the ability to capitalise family benefits (used towards the deposit) enabled home ownership to be achieved by low and modest income families. Government loans were directed at first home owners buying new houses through group building schemes which provided entry level housing at a low cost that could be afforded with state loans. This form of funding and building encouraged suburban peripheral growth especially in the 1950s and 1960s (Davison 1994). In the late
1970s the New Zealand Government removed the requirement for loans for first home owners to be tied to the purchase of a new house. The context for this was less favourable economic growth and out migration to Australia which weakened housing demand and reflected the outcome of the slump that occurred after the boom in the early 1970s.

The economic and social reforms of the 1984 Labour Government encouraged a move to greater reliance upon targeted benefits, usually through an income supplement and to increased competition and choice through market provisions (Murphy 1999, Campbell and Thorns 2001/2, Thorns 2000). In respect to housing these policies were resisted through to 1990 when the incoming National Government restructured housing assistance to almost total reliance upon a demand side accommodation supplement (AS) through the Housing Restructuring Act 1992. This Act abolished the Housing Corporation and created a new entity, Housing New Zealand, to manage the rental stock, sold off the mortgage portfolio to the BNZ and created a more market based approach to rent setting in public housing and introduced the AS, an income supplement, as the major form of state support available to low income households (Murphy 1997, Kemp 1998). The AS was available to assist both rent payment and purchase but was income tested and the majority of the funding has gone to assist rental payments in the public and private sectors rather than to assist in home purchase (Thorns 2007).

The raft of supports for owner occupation put in place in the 1950s and 1960s and the underpinning rhetoric was seen by feminists as being patriarchal with fewer women than men sharing access to home-ownership and the prevailing policies emphasising the “male” as the breadwinner and owner of the household (Ferguson 1994, de Bruin and Dupuis 1995). The growth of first wave feminism at the end of the 1960s and through the 1970s challenged these assumptions and built a powerful critique of state policies which led to change in the 1980s and a reworking of the underpinning ideology of home ownership. It was still advocated as the “normal” form of tenure but was less explicitly set within a gendered rationale and the recognition of the housing need of sole parents and single people gained greater attention (Winstanley 2001).
The ideology underpinning home ownership continues to be strongly held. It still emphasises the way in which this form of tenure aids in the creation of stable, secure, thrifty citizens. One writer recently commented:

“Owning your home in New Zealand is considered almost a birthright
A New Zealand tradition, a culture of home owning so embedded in the national psyche that it assumes its own momentum” (Ansley 2001: 18, 20)

This reinforces the idea of home ownership as the “normal” tenure of choice and that not wanting this is somehow a mark of failure. After extensive consultation in 2003 and 2004 the Labour led Government developed a National Housing Strategy which again asserted the importance of home ownership.

For many households, home ownership contributes to positive economic outcomes and associated improvements in health and educational wellbeing. High home ownership rates have positive effects within communities, and are associated with social capital growth and neighbourhood stability. (NZ National Housing Strategy 2004 Discussion Document: 38)

By 2004 there is still the emphasis on family and community building but in addition there is a more explicit recognition of the economic importance of home ownership to enable local economic and social development. This reflects the changed nature of the housing market over this 25 year period that has been characterised by booms and slumps, the increased necessity of dual incomes to “afford” housing and the possibilities that booms create for substantial capital gains for those in the market and increased problems of affordability for those seeking to enter the market. This has been aided in New Zealand where there is no tax on imputed rents, no capital gains tax except for traders in property and no land transfer tax. Home ownership and second home purchase for both “holiday” homes and as a form of investment for retirement have been favoured forms of wealth accumulation. Over the last 6 years this has been marked and during the latest housing boom period has contributed to the rate of price increase.
The positive sentiment towards home ownership was carried through to the final housing strategy document released in 2005. Where it states that:

“Government believes that asset ownership is important to enable people to participate fully in society in that it provides families with greater long run security, control and independence” (p 30).

We again see here the stress on families and the ability to participate fully that comes with “roots “ in a place. The commitment to a local area, that owning brings, is seen as valuable for creating a sound social fabric and building social capital.

In the past 6 years from 2001 to 2007 New Zealand experienced one of its longest boom periods. This has seen home ownership rates falling causing political anxiety and debate as to how the decline can be arrested. The prevailing view is still that this is the tenure system of choice and the continuing ambition of the majority of the population. In 2008 the current Minister of Housing speaking at the Labour Party Conference stressed the political importance for Labour of home ownership:

"The thing about housing is it's a heartland issue for Labour... This is about families, it's about the Kiwi dream, we're not giving up on the Kiwi dream of home ownership."

(Speech to Labour Party Conference by Minister of Housing April 08)

Having shown the enduring importance of home ownership as a social, political and economic objective it is now necessary to turn to thinking about the analysis of this conceptually

**Conceptual Framework**

In the housing research literature houses are seen as exchange commodities, something we “use” to provide us with shelter and as way of creating our sense of identity and ontological security (Dupuis 1992, Dupuis and Thorns 1998). Housing has thus both a material quality with an exchange value due to the housing stock
increasing in capital value and an emotional value carrying meaning (Perkins and Thorns 2003 Gurney 1990, Gorman-Murray and Dowling 2007)

As an exchange commodity the last 25 years have been significant for reinforcing its exchange value. Many New Zealanders are poor savers and the principal asset that many posses is the house that they own or are buying. In times of rapid growth in capital values there has been a tendency to trade up and/or re-mortgage and use some of the “capital” to enhance consumption expenditures. High rates of owning generate considerable speculation about intergeneration wealth accumulation and inheritance and how that money is used across the generations to enhance social and economic opportunities (Forrest and Murie 1995, Hamnett 1999, Hamnett et al 1991, Badcock 2000). In the most recent boom period home ownership is closely linked to asset accumulation, especially during a period when there has been rapidly rising prices. Such rapidly rising prices added to wealth inequalities opening up the gap between owners and renters and between the various segments/sub markets within the housing market. Housing currently makes up 70% of household wealth in New Zealand (Report of the Government House Price Unit 2008). The impact of the 20 years of housing price changes from 1980-2001 has been a doubling of net wealth per capita. However, during the latest boom period from 2001-6 this doubled again showing the significant impact of this boom upon wealth transfers and accumulation. The majority of this transfer is from new entrants, both newly formed households and in migrants moving into the market, to existing “owners” (Arcus and Nana 2005). Further greater per capita income allows choices as to whether some of this is used for consumption expenditure, or to save for future use, for example in retirement, or transfer across generations via gifts and inheritance. Such transfers tend to reinforce existing social inequalities and affect life course opportunities. Macro economic performance is affected by house price changes and the level of investment in housing and other forms of property. The recent volatility in prices has made monetary policy more complicated for central banks, which at the present time, have few levers to control inflation apart from raising official bank lending rates. In New Zealand this proved to have limited impact on the housing boom due to the greater use now of fixed 2-3 year mortgages thus there is a considerable lagged effect from bank rate adjustments.
Home ownership though is about more than money. It is also valued as it provides security, social status and the ability to personalise the property and invest it with meaning. Homes are places of memories and artefacts that are linked to the family/household’s story of themselves and their connection with people and place (Perkins and Thorns 2003, Marcus Cooper 1995). The stress here is upon the non material attributes of housing and the connection with identity, security, independence, civic engagement and the building of social capital.

In understanding how attitudes, life styles and opportunities change over time it is necessary to examine the structure of housing provision, the macro context and the decision and life styles “choices” that are being made. Realising the any set of choices are always constrained ones. The choices we make are always shaped both by the macro policy settings and the individual and household’s housing trajectory. The way that these have been analysed theoretically within the housing literature are through the idea of the housing career and the life course which direct us to a “cohort analysis” (Rossi 1955, Kendig 1984). The time and stage in the life course are critical mediating variables. However, the notion of housing career is limited and for many flawed as it suggests a clear and conscious developmental path whereas for many life is much more messy (Winstanley, Thorns and Perkins 2003 Forest and Kennet 1996).

Figure one provides a way of thinking about the two dimensions of time periods during which the structures of provision have changed through economic circumstances, market volatility, affordability shifts, government housing policies and general economic settings. Increasingly the interrelation of global and local events from the United Kingdom entry into the European Union in the late 1960s through to the sub prime failures of the US housing finance and mortgages of the 2007 to 2008 periods are significant factors in shaping housing markets. The extent of local/global interconnection in markets has increased due to the economic liberalisation of the 1980s and 1990s. This has affected the extent to which individual nation states can shape their own housing policies and practices. The financial collapses and credit

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1 The subprime mortgage market was an innovation of the late 20th century whereby home loans were issued to people who would not previously have qualified due to poor credit history, inability to make down payment, or low income. Extreme example were ‘ninja’ loans issued to borrowers with no income, no job and no assets (Holland 2008)
crunch beginning in the US but now spreading around the world has caused falling prices across many markets in the past year (Forrest 2007)

Figure 1 Cohorts and Time Frames 1945-2009

![Diagram of Cohorts and Time Frames](image)

Figure 2 shows a version of a housing career that seemed to fit the baby boomer generation with a relatively predictable set of expectation. This particular cohort married, had children, the children then left the family home and they became mortgage free owners with relatively high spending power taking them through to retirement. In this model the asset accumulation gave rise to speculation on how it might be released, and passed on through inheritance. Areas of research that this has stimulated include those of reverse equity mortgages, inheritance patterns and formation of family trusts.
Understanding home ownership trends and changes requires us to take a long view as it is the experience over the life course that is crucial. So for example, the present period of boom conditions has different consequences depending on how long people have owned, how stable has been their partnerships, how often they have moved and where and when these moves occurred. Viewing these experiences by cohort gives a better understanding of the dynamics of housing change and allows both structural factors and individual trajectories to be analysed.

In New Zealand, those born after 1945 who are part of the baby boom generation, experienced very favourable conditions as they benefited from a high degree of state support to enter home ownership and have generally been assisted by the booms that have occurred subsequently that have increased the value of their housing stock (Thompson 1991, Thorns 1993). Their housing related wealth has grown and they look to be well placed to either transfer this or consume this in their retirement. They have
very high rates of ownership without debt entering their 60s. However, the next “generation” entered the market in the late 1970s and through the 1980s at a time when state support was being “targeted” and rolled back, interest rates on mortgages were rising rapidly, the market was characterised by booms and slumps, purchase required increasingly two incomes, and unemployment rose to over 10%.

In the most recent period of 2000 to 2007 it has again been a difficult time to enter the housing market and particularly for first home buyers. The context for this group is one of falling rates and growing affordability problems. The revised housing career model indicates a more varied set of trajectories are now present which give rise to the possibility of more tenure changes and much more varied accumulation patterns and much less certainty (Figure 3). This raises questions as to the continuing utility of the idea of the “housing career as a model for analysing housing mobility (Winstanley, Thorns and Perkins 2003).

Figure 3 Revised Housing Career Model (Morrison 2008)
Further problems with the “housing career model” are that it makes little attempt to disaggregate experiences through the life course on the basis of income, gender, ethnicity and locality. Adding these to the mix creates much more complex life course patterns. In the New Zealand case home ownership rates vary considerably between the European population (76.4), Maori (42.5), and Pacific People 34.1 per cent (2006 census).

Asset accumulation and home ownership are significantly lower amongst women than men with the exception of single older women – many of whom are widows and have obtained control of the assets on the death of a spouse. Differentials across the country have also increased over the past two decades as price increases have varied by region, generally being driven by the larger urban centres, especially the Auckland and Wellington urban areas.

In the next section the focus is on the latest period of change spanning booms and slumps that have seen the rate of home ownership fall steadily from a peak of 73 per cent in 1991.

**Booms and Slumps 1991-2008**

Figure 4 shows the changes that have taken place over the period from 1991 to 2007. There have been two boom periods. The first was in the mid 1990s and the second from 2001-7. The latter was much stronger and led to substantial increases in housing stock values. Both of these booms were associated with periods of economic growth and fluctuations in mortgage rates. These initially fell from 15 per cent in 1990 to under 8 per cent by 1994 then rose again during the boom period to over 10 per cent to fall back to just over 6 per cent in 1999-2000 as the market slumped prior to the most recent boom. During this boom the mortgage rate has risen in response to upward movement in the official cash rate as the Reserve Bank sought to contain inflationary pressure generated by the booming housing market (Figure 5). These upward and downward movements have impacted upon housing affordability over this period.
Figure 4

House Price Value shifts

![House prices and value of housing stock graph](image)

Source: Quotable Value Limited.

Figure 5

Mortgage rates

![Mortgage interest rates graph](image)

Source: RBNZ. The rates are those offered for new customers.

Figure 6 shows the other significant relationship which affects affordability that between wages and housing prices. During the first boom period the rate of wage increase and housing prices were closer together than in the second period when
housing cost increased much faster making housing less affordable. There was in this period a strong growth in house and land prices with real house prices increasing by 80 per cent from 2002-2007 (Grimes et al. 2007).

Figure 6

A further factor driving up housing cost was that of land prices. Rising concern about city growth and the increased attention to the carbon imprint of cities led to the formation of a Government urban strategy that emphasises sustainability. Limiting urban growth and creating more compact urban form has gained support. In the Auckland urban region, New Zealand’s largest, this has resulted in a plan to limit growth and encourage intensification with a consequent flow on effect to land values (Grimes et al. 2007). This increases the land cost proportion of housing leading to the development lobby arguing for less restrictions to lower the cost of land and ease the affordability problem. Although this may solve one problem it does not address the infrastructure costs associated with continued peripheral growth.

Affordability debate
One of the key issues here is that of how to measure affordability. One major survey used by the development lobby is that of Demographia Index which compares the UK, USA, Ireland, Canada, Australia and New Zealand. The metric that is used is that of the ratio of median household income to median house prices. Housing on this basis is unaffordable when the cost is greater that three times the median income. The most recent data for New Zealand and Australia placed both among the most unaffordable countries surveyed with ratios of housing costs to median household income of 6.3. The method used has limitations in that it relies on median prices and aggregate sales data and does not sufficiently differentiate by household type or region. Both of which along with ethnicity are crucial in New Zealand for assessing affordability. A commonly used metric for Government policy discussion is that of the proportion of income used on housing costs (buying or renting). Here the measure used is generally 30% of household income with greater than this indicating housing stress and likely to attract government income subsidy (Accommodation Supplement in New Zealand).

An alternative measure that in boom times may be more useful is that of the cost of access to housing. This shows that during boom conditions costs rise dramatically for those seeking to enter housing as interest rates tend to rise as central banks try and restrain inflation, more “deposit” money is required and rents may also rise reducing capacity to save. Further the debates around affordability tend to focus on the current situation rather than take a longer term view tracking the experience of the household/family over time.

Figure 7 Changing Affordability Rates over time 1988-2007
As we showed earlier it is the life course that shapes housing opportunities more than the current market conditions for the majority of home owners. For example, a New Zealand Ministry of Social Development Reports in 2006 and 2008 (Figure 7) show the increasing proportion of household income going to housing over the period 1988-2007 fluctuated reflecting the booms and slumps that occurred in the overall housing market. Further, the data in Table 1 shows the impact of the increasing costs on the younger age groups with greatest outgoings to income for those between 24-44 and under18 in 2007.

Table 1 Greater than 30% outgoings on Housing Costs
Further Statistics New Zealand data show that for the majority of households affordability expressed as the percentage of income spent on housing improved from the late 1990s\textsuperscript{2}. These figures include those who owned prior to these dates. For this group of owners housing expenditure fell as their household incomes improved during a time of sustained economic growth and high employment. This data show there is a need to be careful with the interpretation of aggregate data and a need to focus on cohort effects over time to reflect both macro structural changes and life stage trajectories\textsuperscript{3}.

As noted previously there are significant ethnic differences in affordability and access to home ownership. Figure 8 provides data on this with Maori, Pacific and other ethnic groups expending a greater proportion of their income than Europeans on their housing costs. For households with at least one Maori member, the proportion of households expending more that 30\% of income on house costs rose from 8\% in 1988 to 36 per cent in1997 then falls to 21 per cent in 2004 before rising again during the boom years to 31 per cent. For Pacific households by 1997 the rate was 48 percent falling back to 23 percent before rising to 30 percent in 2007

Figure 8 Housing Cost to Income Ratios by Ethnicity

\textsuperscript{2} Statistics New Zealand Data presented to the Select Committee on Affordable housing in 2007.
\textsuperscript{3} Considerable volatility is observable at present with some suggesting as much as a 7\% improvement in “affordability as a result of falling house prices and intereat rates already this year with further falls predicted.
Owner Occupation Rates and Changes in Tenure Patterns

Figure 9 show the rates of home ownership for the period from 1970 to 2003. This indicates that New Zealand, Australia, Ireland and the USA were the leading home owning countries in 1970. The New Zealand rate subsequently peaked at 73 per cent in 1991 and has since begun to fall. This is the only country in this group which shows this particular trend. For all the others growth continued through until 2003. The growth period now seems to have ended as evidence grows of housing stress and collapses of the housing markets as a result of the failures in the US sub prime mortgage market and the weakening of growth in the United Kingdom and Australian markets with consequential impacts on the lower income groups and people trying to access the market for the first time.

In New Zealand the rate has continued to fall from 1991 and in 2001 reached 65.8 per cent and is predicted to reach 61.3 percent by 2016. The pattern of decline is not even across the country with a faster rate of decline in the Auckland region where the rate in 2001 was 64.8 per cent. This is predicted to fall 58 per cent 2016 (DTZ 2005, 2007). Complicating the picture somewhat is the fact that in 2006 Family Trust ownership was identified, previously this would have been hidden within the owner occupation category. This form of ownership represented 12% of all tenure in 2006 showing how
they have grown in popularity as a way of protecting the family asset base accumulated mostly from house ownership.

Figure 9 Home Ownership Rates – Selected Countries

Property owning for investment purposes was boosted by the popularity of purchasing investment properties as a form of investment by baby boomers with spare cash as they move into the ‘cash rich” stage of their life course having discharged the mortgage on their family home. One consequence of this was that rents rose slower than the cost of owning so did not become as unaffordable as buying a house. This opened up further the gap between the costs of renting and buying and contributed to the decline in home ownership over this period. A further factor affecting the cost of new housing was that the market concentrated upon the middle to upper levels. With the average size of households falling but average floor area and number of bedrooms increasing the demand for housing space from middle to upper income dual earning households was a factor driving up the price of new housing (Statistics New Zealand 2007a and b). In the latest boom building focused on meeting the needs of those upgrading housing rather than low cost starter homes for first time buyers.
Aggregate level data is not the most revealing rather what is crucially changing is home ownership propensities which are neither uniform across age-groups, nor uniform for different household types with both the same and with different levels of income (Yates 2007). The structuring of tenure thus needs to be disaggregated so that cohort effects are clearer. One significant cohort effect that has been the subject of attention is the movement of the baby boom generation which has high home ownership rates into retirement. Important research questions here focus on accumulation through the life course of housing wealth and the impact of this on retirement years, wealth distributions and intergenerational equity and transfers and release through reverse equity mortgages (Forest and Murie 1995, Hamnett et al 1991, Venti and Wise 1987).

If the rising cohort has a falling rate of home ownership there may be fewer buyers for houses when the older generation would like to trade down and release equity and move into retirement accommodation such as retirement villages or supported care.

**Figure 10**

This could affect superannuation schemes and wealth expectations in retirement years and the demand for and provision of sheltered accommodation and community based support given the substantial preference for “ageing” in place expressed by older cohorts (Burke 2007, Davey et al 2004 ).
A decline in home ownership rates is now being observed in a number of home owning countries including Japan, Australia and New Zealand in the rising cohort of younger people (Hirayama and Ronald 2007, Burke 2007, Morrison 2008, Yates 2007). In New Zealand rates have declined unevenly across the age groups showing that the impact is being felt most by, those between 25-29 and 30-34. Between 1986 and 2006 home ownership rates fell 17.9 per cent in the 25-29 age group and 17.7 per cent in the 30-34 age group (House Price Unit 2008). The next largest falls were in the 35-39 group 15.5 per cent and the 40-44 at 12.2 percent (Figure 10). The acquiring of home ownership for these younger age groups is thus lengthening with consequences for when they are likely to be mortgage free. Such trends produce quite a different profile of wealth acquisition from that of those who entered home ownership in their early 20s. In the period between the census of 2001 and 2006 the only group to increase their rate of home ownership were those over 75 (MSD Social Report 2008).

The current projections suggest that the number of owner-occupier households in older age groups will increase and those under 40 are likely to decline by 17 per cent by 2016 (DTZ 2005). Younger households have been particularly affected as the cost of entering the housing market has risen with increases from 2000 to 2005 of 39-60 per cent (Grimes et al 2007) and from 1996 to 2005 from 88 per cent to 131 per cent being sustained in the Auckland regional market. These changes may represent a lagged or permanent structural change. However, further research will be required to answers this question adequately (Morrison 2008).

Australian data show a similar pattern of decline in age specific home ownership rates for younger households. From 1976-2001 there was a 11 per cent decline in home ownership rates amongst the 25-29 year old group moving the rate down from 54 per cent of the age group to 43 per cent. A 10 per cent decline was observed for the 30-34 group down from 67 per cent to 57 per cent and a 6 per cent fall for the 34-39 group (Yates 2007). As in New Zealand it was the baby boomers generation that benefited most from home ownership and there is growing concern that the current rising generation will not be able to make their way into home ownership given the high cost of entry. Further the implication of a concentration of land and housing accumulation for overall levels of inequality, wealth distributions, transfers across
generations and investment in the economy have significant distributional consequences and reinforce existing patterns of social inequality. Some specific factors that created upward pressure in Australia included changes to the capital tax regime and the introduction of the First Home Owner grants to compensate for the introduction of a goods and services tax in 2000. Boom conditions in the early 2000s dramatically increased the house price to income ratio again in Australia as in New Zealand making housing for many aspiring owners unaffordable.

New Zealand has significant differences in home ownership rates by ethnicity. In 1986 the European rate was 76.4 per cent and by 2006 this had declined to 70.5 per cent. However, for the Maori population the rates were 49.2 per cent and 42.5 per cent in 2006 and for Pacific peoples the fall was from 44.4 per cent down to 34.1 per cent. So a similar trend has occurred across all major ethnic groups but starting from a lower base. A declining rate further opens up the gap between those owning across the major ethnic groups that comprise the New Zealand population. The cost of entering appears to be the most crucial factor across all groups as these have been rising steeply during the latest boom period up by 60 per cent from 2000 to 2005 and over the ten years from 1996 -2005 131 per cent.

In recent New Zealand research one outcome of these changes identified is the emergence of an intermediate market defined as working households unable to purchase a dwelling at the lower quartile house price under standard bank lending criteria. ‘The relative size of the Intermediate Housing Market (IHM) is a measure of housing affordability for first time buyers. (DTZ 2007, 2008). This group falls outside state assistance but has too low an income and accumulation potential to access the home ownership market as the cost of entering is prohibitive. The size of the intermediate market provides an indicative measure of the number of households being left behind by the housing market as they can no longer afford to buy a dwelling. The data show that the size of this market fell from 1996 to 2001 largely due to a 3.3 per cent fall in interest rates but then increased by 239 per cent between 2001 and 2006 due to a combination of higher house prices up 72 per cent and a steady increase in interest rates” (DTZ 2007, 2008). The IHM numbers, therefore, more than doubled from 72300 to 187,000 between 2001 and 2006. Of this total 36 percent were in Auckland. The IHM is concentrated in single and two parent
households where there are two or fewer income sources, references person is under 40 and in lower income occupations. The size of this sector of the market is predicted to grow considerably over the next decade to 2016 as a consequence of the recent boom and emerging downturn in the economy and housing market take effect. The total estimated numbers by 2016 could be between 165100 and 282332 depending on whether an assumption of low or high nominal house price growth is made (DTZ 2008)

**Crash or Adjustment – Policy Response**

The cooling of the boom and the downturn in prices has been as dramatic as the rise. The failure of the sub prime mortgage market in the USA and the string of failures of financial companies and institutions taking place across housing markets globally have led to a housing slump. In New Zealand, over the past two years there has been, a string of failures of finance and investment companies leaving many investors with frozen funds or facing substantial losses of investments. Many of the failures have been in the consumption sector, hire purchase on goods and motor vehicles, but this has now flowed through into the housing sector. People who over committed themselves on the assumption that house prices were going to keep rising are now being forced to sell at a loss. House prices have already fallen 7 per cent this year and some expect that at least a 20 per cent fall may occur before the market “corrects”. Predictions are difficult in the growing climate of financial uncertainty with the latest failure in the US of Lehman Brothers (fourth largest investment bank on Wall Street) and Merrill Lynch taken over by the bank of America September 2008) coming hard on the heels of the federal bail out of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Mortgage Association) Americas largest mortgage guarantee corporations. Financial failures and confidence in the bank system has now become global in its impact. The effects of these failures and the decline in confidence, because of the increasingly interconnected world of global finance are being felt in the Australian and New Zealand housing market. This will affect the money available for loans through the banking system and the cost and also impact upon house building industry with already a decline in building activity and permits becoming apparent. This in turn is leading to speculation that there will be a
future housing shortage. Interest rates are likely to continue to be high and although housing prices will fall it is difficult to estimate the length or depth of the current slump or when and if affordability will improve for those seeking to enter the housing market for the first time.

This raises questions about changing nature of homeownership rates. Are we seeing a structural shift created by global economic changes and the booms and slumps of housing markets or is it the result of cohort life course changes? Such changes are part structural and part related to life cycle choices and career mobility which for some now involves trans-national migration. Or are they simply a case of deferment until condition once again become more favourable. A further factor in the deferment argument in New Zealand is the impact of the repayment of student loans. Although these are now interest free the principal still has to be paid once the person with the loan enters the New Zealand workforce.

With respect to New Zealand government polices there has been an expansion of the public rental stock\(^4\), but this still accounts for only 5.5 per cent of all housing. The demand side assistance is still the most significant housing support programme linked with the tax credit system of working for families. These do provide income support and thus contribute to reducing housing costs. For those seeking to enter the home ownership market credit is likely to get harder to secure in the wake of the credit crunch and higher initial deposits will be required by a more nervous banking system. Consequently the possibility for low income households to save enough to move into home ownership will further decline creating a growing pool of people for whom rental will be a long term option. Building an adequate pool of private rental stock for this sector will be a major challenge. Government initiatives to address the deposit gap have included welcome home loans, trialling equity share schemes in some of the most expensive locations and introducing kiwi saver that enables a proportion of the saving, after a defined period, to be used towards a deposit. The extent of the fall in house prices and mortgage costs and the path of wage growth are critical as to whether this will be sufficient to enable a tenure move by the lowest income households and those making up the growing “intermediate” housing market.

\(^4\) Current holding 69000 rental units which is 80% of all social housing – and 5.5% to total housing stock
Each of the future scenarios would have different outcomes. The dilemma for public policy is that so much uncertainty exists it is difficult to work out the “best” options. One thing is clear that the “experiment” with using monetary policy by the central banks as the only lever to control inflation within a national context appears to have failed to avert the instability in the housing market or dampen down its surges.

The New Zealand Housing Strategy, which is the guide for government policy settings, has embraced a need to link housing and broader economic policy and has moved to investigate ways of trying to create more low cost housing for purchase and rent. These have included the Housing Affordability legislation, introduced into Parliament at the end of 2007 and passed into law in 2008, that seeks to encourage Local Councils to take initiatives around mixed use development and include some component of “affordable housing” in new developments. The government itself is now once again embarking on new development projects on land released from other public use and community renewal of areas of older stock and run down facilities. This greater degree of intervention makes a further shift from the policies pursued during the 1990s which were largely reliant on market mechanism. Many of these initiatives are in danger of being overwhelmed by the rapidly changing market conditions as the effects of the global credit crunch bite.

Significant questions arise about the long run viability of home ownership under the changed conditions of the post boom credit squeeze and the range of policy responses that could address the declining rate of home ownership. Politicians and public sentiment in New Zealand still supports home ownership as the preferred form of tenure for both social and economic reasons. However, its attainment may now be shaped even more by intergenerational inequalities and transfers and broader global and local economic and social policy settings than purely housing focused policies.

5 Affordable Housing: Enabling Territorial Authorities Act

The Affordable Housing: Enabling Territorial Authorities Act 2008 (the Act) gives territorial authorities new enabling powers to require developers to either: include affordable housing in their developments, make payments towards the cost of providing affordable housing elsewhere, or provide land for the construction of affordable housing.
Policies relating to tax, economic development, sustainability, labour markets and income support are as significant in ensuring housing is affordable and that people can exercise choices as to their tenure preferences as specifically housing policies. Working towards whole of government solutions requires greater integration across public policies to meet the needs of an increasingly diverse population.

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