Livingston and Associates

Nelson and Affordable Housing: Need, Demand & Pathways to Making a Difference

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EXECUTIVE SUMMARY

Nelson continues to have unresolved pressures housing for low- and modest- income households. There is a significant misalignment between household incomes, rents and house prices for households with median incomes and below. This has resulted in a pressurised rental stock and some households burdened by crowding.

It is estimated that Nelson has 4,490 households in 2021 for whom the housing market was not delivering (a rise from 4,130 households in 2018). Few of those have access to non-market housing. The number of households in need who find those needs are not met by way of non-market housing provision rose from 3,470 households in 2018 to 3,830 households in 2021.

Some 4,570 Nelson households in 2021 could not afford median rents and an estimated 5,750 private renter households were unable to enter owner occupation even at the lower quartile house price. That is, around 65% of private renter households cannot affordably meet the median rent in 2021. Some 82% of private renters are unable to affordably purchase a home at the lower quartile house price. The production of lower quartile dwellings has also declined.

Nelson has a prevalence rate of homelessness of 161.2 per 10,000 population. The prevalence of severe housing deprivation or homelessness is lower than both its regional neighbours, Tasman and Marlborough. Nevertheless, there are considerable levels of housing stress and severe housing stress.

We estimate that in 2021, Nelson's private renter households in housing stress because of affordability problems was in the region of 3,380 households. That is around 15% of all Nelson households and 48% of Nelson's private renter households. The proportions of private renter households in housing affordability stress have risen in the last two decades. In 2001, around a third (43.1%) of private renter households were in affordability stress. By 2018, 50.3% of private renter households faced unaffordable rent costs.

The proportion of private renter households in severe housing stress moved from 21.1% in 2001 to 27.1% in 2018. They expended half or more of their income on housing costs, primarily rents.

The median weekly rent in Nelson was $168 in 1996 and in 2021 median rent reached $460. That 173% increase surpassed the 124% increase in median household incomes. Both increases are dwarfed by the 402% increase in lower quartile house prices.

Overall, it is estimated that in 2021, there were around 6,860 Nelson households in precarious housing situations.

Nelson's 'intermediate housing market' has expanded from about 59% of Nelson's renter households and 19% of all Nelson households in June 2018, to 66% of renter households and 21% of all Nelson households in June 2021.

It is estimated that the number of households in the intermediate housing market in Nelson increased from 3,970 to 4,630 households between 2018 and 2021. These are substantial numbers of households although the proportional increase of households in the intermediate housing market in Nelson (17%) between 2018 and 2021 is lower than Marlborough (41%) and Tasman (25%). Under-supply of lower quartile house priced dwellings for sale, pressures on rents and rising mortgage interest rates are likely to expand the intermediate housing market over the short and medium terms. Working households unable to enter owner occupation and trapped in high rent conditions is likely to either increase in number or these working households will leave Nelson. This will hasten the structural ageing of the population.

There are substantial numbers of renter households with annual incomes less than $100,000 that could enter into some intermediary or alternative tenure for right price pointed dwellings. These households have resources that could be utilised to provide for better housing solutions for themselves, but also take pressure off the rental market and relieve temporary housing supply and homelessness.

The sustained production of, and access to, affordable housing is dependent on:

1. Commitment to the production and delivery of decent, affordable dwellings.
2. Designs and production costs with right-priced land, labour and materials to produce dwellings at affordable price points.
3. Investment necessary to fund affordable builds which can deliver an adequate income stream.
4. Housing products and financial vehicles that allow households to access housing at an affordable cost.

For Rātā Foundation, like all those interested in investing in or delivering affordable housing, partnering and innovation is required if it is to contribute to resolving Nelson's persistent problems with affordable secure housing. The viability and efficacy of these different vehicles needs to be assessed on a case-by-case basis according to the interests and relationships with potential partners. In particular, Abbeyfield has a strong presence in Nelson. Habitat for Humanity in Nelson is delivering progressive home ownerships and The Nelson Tasman Housing Trust has around 50 affordable rental units.

Nelson is in a period of transition. The Council sold its council housing which served seniors and is developing a Housing Reserves Fund to seed new initiatives. The development of the fund focus and delivery has been subject to significant pressure to deliver funding quickly, particularly grant funding. The result of this has been what appears to have been a 'carve-off' of $2 million through grants: $850,000 for five affordable rental homes has been granted to Nelson Tasman Housing Trust (NTHT) while fourteen dwellings in Stoke have been sought through granting Habitat for Humanity Nelson $1 million. Two will be developed as affordable rentals and twelve will be delivered through Habitat's Progressive Home Ownership (PHO) programme. There is also interest from organisations with national responsibilities and interests. Community Finance is an emerging non-profit with an interest in supporting affordable housing through impact finance.

The issue of how Nelson City Council can get the best value out of the Nelson City Council Housing Reserve is still unclear. It is clear that grants have limited lives in terms of the capital of such a fund. It is also clear that there is significant pressure on backfilling the traditional activities of the existing Community Housing Providors (CHP) sector. It is not clear whether the gap generated for the future in relation to seniors by the sale of Council stock will be filled and by whom. Equally it is unclear, whether the Council would see further partnership around housing possible.

It is notable that multi-unit builds have fallen away of the last thirty years. While retirement villages have a significant representation within building consents, retirement villages are not affordable, nor desired, by most seniors and are not a solution for seniors who are in rental tenures. There may be some beneficial opportunities in the context of its town centre holdings and desire for environmentally driven intensification which would allow the diversification of stock and household provision. There may be opportunities to generate yield and typologies consistent with affordable price points.

GLOSSARY

Affordable housing is where households spend no more than 30% of their gross household income paying rent or servicing the mortgage and non-discretionary costs associated with buying a property.

Housing affordability stress where a household's non-discretionary housing costs are in excess of 30% of their gross household income.

Severe housing affordability stress where a household's non-discretionary housing costs are 50% or more of their gross household income.

Stressed renter household is one paying more than 30% of their gross household income in rent.

Severely stressed renter household is one paying 50% or more of their gross household income in rent.

Housing need is the total number of renter households within a community which require housing assistance to meet their housing requirements. Also referred to as '*Total renter housing need*'.

Other housing need are households experiencing housing stress because of needs beyond housing affordability stress such as crowding.

Unmet housing need measures the total households or a proportion of the total households whose housing needs are not met through provision of Kāinga Ora (formerly Housing New Zealand Corporation), local authority, community housing providers or other non-market housing providers.

Intermediate housing market consists of private renter households who have at least one member in paid employment and are unable to affordably buy a dwelling at the lower quartile house sale price.

Proxy intermediate housing market measure is calculated in this report because data limitations make the calculation of the intermediate housing market difficult. The measure includes all private renters with household reference people aged less than 65 years and unable to buy at the lower quartile house sale price.

Social housing is provided by Kāinga Ora (formerly Housing New Zealand Corporation), some local authorities, and some community housing providers (CHPs).

Stock rents are rents paid by existing tenants to their landlords. Both stock and flow (see below) are market rents.

Flow rents are the rents paid when a tenant enters an agreement with a landlord for a dwelling in which they have not been residing or for which they have not paid rent previously. Usually measured by bond data. Both stock and flow rents (see above) are market rents.

Community housing sector consists of registered housing providers (CHPs) meeting regulated requirements around housing provision and products. The community housing sector provides a diversity of tenures including public housing rental places, social housing, long-term affordable rents, various forms of intermediate tenure housing such as shared ownership and progressive home ownership.

Lower quartile house sale price is the sale price of dwellings a quarter of the way through the ordered distribution of all dwelling sales from the lower end.

Price points indicate the purchase price, or less commonly rent, for a dwelling. For purchase, housing outgoings to service the price point will include the equivalent of a table mortgage and non-discretionary rates and insurance. For rental housing, the rent. For occupation right agreement, non-discretionary fees.

Affordable price points can be set in relation to household income or the income of the person servicing and responsible for the mortgage. See affordable housing above.

Kiwibuild and other measures of price point relative to income are not necessarily affordable for around median and lower household incomes despite being at the lower end of available prices.

For purchased dwellings, the price point is affordable if the household is paying 30% or less of their gross household income in housing costs (rent or the cost of a mortgage required to buy a dwelling assuming a 10% deposit and the current mortgage interest rate (sourced from the RBNZ website).

1. INTRODUCTION

The Rātā Foundation, along with the Wayne Francis Trust, recently commissioned an analysis of affordable housing demand and futures for Ōtautahi. That built on analysis of housing demand for Greater Christchurch but focused on the data pertaining to the urban part of Christchurch City Council's territorial jurisdiction. Rātā Foundation has subsequently asked that we undertake a similar analysis for Tasman, Nelson and Marlborough respectively. Each of these areas are bounded by the jurisdictions of their councils: Marlborough District Council, Nelson City Council and Tasman District Council. Within each a number of areas have also been analysed. Those are as follows:

- Nelson City Council sub-areas:
    - Urban Nelson; and
    - Balance of Nelson District.
- Tasman District Council sub-areas:
    - Urban Tasman;
    - Ruby Bay / Motueka; and
    - Balance of Tasman District.
- Marlborough District Council sub-areas:
    - Urban Marlborough;
    - Tuamarina/Lower Wairau;
    - Picton/Waikawa; and
    - Balance of Marlborough.

This report focuses on Nelson and its sub-areas and has four components:

- New statistical analysis to establish the extent of housing stress in owner occupation and rental sectors in Nelson, demand by dwelling typology and tenure, and housing supply adequacy.
- A discussion of the findings from existing research and research in progress around affordability and the meaning of home for different population groups with a particular focus on young people, seniors, families with young children, and people marginal to the housing stock due to disability.
- An evidence-based comment on the housing typologies and designs that can meet diverse and changing needs.
- An evidence-based comment on the strengths and weaknesses of:
    - Different tenures (including alternative tenure vehicles such as co-operatives) for delivering secure, affordable housing.
    - Mixed developments using diverse dwelling types, tenures and price points.

It is hoped that this analysis will assist the Rātā Foundation in its pursuit of effective investments that strengthen community futures.

The data sources used in this project include:

- Population projections sourced from Statistics New Zealand;
- Customised census data from Statistics New Zealand;
- Property transaction data sourced from the Ministry of Housing and Urban Development and Headway Systems; and
- Interest rate data from the Reserve Bank of New Zealand.

Projections were drawn from the Statistics New Zealand series based on 2018 census and its subsequent imputations. The projections were selected by comparing estimated and projected growth since 2018 with the different projected growth scenarios. The projections for each region are as follows:

- Nelson – Medium growth scenario
- Tasman – High growth scenario
- Marlborough – High growth scenario

The findings for Nelson are briefly summarised in the Executive Summary. After this introduction, the report is structured as follows:

- Section 2 sets out the context and scope of the analysis and the report.
- Section 3 presents data around housing stress in Nelson.
- Section 4 focuses on future housing patterns and demand.
- Section 5 presents data on housing need and unmet housing need in Nelson.
- Section 6 focuses on pathways to meeting Nelson's housing need with a commentary on affordable rental provision and the opportunities presented by offering affordable price points enabling some form of owner occupation and de-pressurising the rental system.
- Section 7 provides an overall comment on making a difference to Nelson's problems with the supply and delivery of affordable housing to the low- and modest- income households on whom the community and economy depends.

2. CONTEXT AND REPORT SCOPE

The 'Top of the South' comprises three unitary authorities: Nelson City Council, Marlborough District Council, and Tasman District Council. Together they are home to 136,380 people or 67,600 households. Nelson has the most concentrated settlement pattern. Its projected growth is lower than both Tasman and Marlborough (Table 2.1 and Table 2.2).

Table 2.1: Population Projections for Top of the South – 2018 to 2038

Year	Marlborough District		Tasman District		Nelson City	
	Population	Change	Population	Change	Population	Change
2018	48,700		54,000		52,700	
2021	50,800	2,100	56,940	2,940	54,380	1,680
2023	52,200	1,400	58,900	1,960	55,500	1,120
2028	54,600	2,400	62,400	3,500	56,900	1,400
2033	56,600	2,000	65,600	3,200	57,800	900
2038	58,300	1,700	68,300	2,700	58,300	500

Source: Statistics New Zealand

Table 2.2 Projected Number of households in Top of the South TLAs – 2018 to 2038

Year	Marlborough		Tasman		Nelson	
	Households	Change	Households	Change	Households	Change
2018	19,800		21,200		21,310	
2021	20,820	1,020	22,760	1,560	22,260	950
2023	21,500	680	23,800	1,040	22,900	640
2028	22,600	1,100	25,700	1,900	23,600	700
2033	23,600	1,000	27,300	1,600	24,210	610
2038	24,300	700	28,600	1,300	24,490	280

Source: Statistics New Zealand

One of the problems with any population projections, and the reason why care should be taken in treating them as if they are forecasts, is the impact of change population movements which can modify the demographic dynamics of populations. Nelson's ageing population structure, combined with its settlement concentration, means that growth is likely to be strongly related to net population from international migration. Statistics New Zealand's population growth estimates for the 'Top of the South' between June 2018 and June 2021 and the drivers of population growth are set out in Table 2.3.

Table 2.3 Components of 'Top of the South' population growth June 2018 and June 2021

Population Growth Driver	Marlborough	Tasman	Nelson
Natural increase	230	230	210
Net internal migration	640	1,510	-350
Net international migration	1,930	2,060	2,150
Total increase	*2,800*	*3,800*	*2,010*

Source: Statistics New Zealand

Immigration components of population growth are notoriously difficult to model. Dependences on national and global conditions mean that projections in regions such as Nelson need to be treated with care and be subject to on-going reflection as to tracking of population across the short, medium and long-terms. Population growth driven by strong migration gains makes it difficult to project the composition of growth going forward as it may have an influence on fertility rates through the age profile of new settlers and their household composition.

Report Scope

The focus of this report is on Nelson. The analysis focuses on two sub-areas which we refer to as Urban Nelson and the balance of Nelson. These are:

- **Urban Nelson**
  304100 Tahunanui
  304200 Britannia
  305300 Rutherford
  306100 Daelyn
  306200 The Brook
  303800 Marybank
  304900 Toi
  305600 Grampians
  304500 Washington
  304700 Nelson Central-Trafalgar
  303900 Port Nelson
  304600 Tahuna Hills
  304000 Nelson Airport
  304300 Atawhai
  304800 The Wood
  304400 Broadgreen-Monaco
  305000 Nayland
  305100 Aldinga
  305200 Victory
  305400 Maitlands
  305500 Maitai
  305700 Saxton
  305800 Suffolk
  305900 Omaio

306000 Enner Glynn

- **Balance of Nelson**
  303600 Nelson Rural

The statistical analysis in this report builds on and extends the methods developed by Ian Mitchell (Livingston and Associates) on housing trends and futures. The approach to the statistical data analysis has already been applied in other jurisdictions including Greater Christchurch region (that is, Selwyn District, Waimakariri District, and Christchurch City); and Urban Christchurch. Other components of the report draw on both domestic and overseas research and comments on the implications of that research for housing pathways and housing futures. The report comments on:

- Housing pressures arising from the ageing population in Nelson;
- Housing precarity;
- The extent of the affordable housing brake on Nelson's regional economy; and
- Potential for collaboration and leverage around housing in Nelson to address unmet need.

The data presented here, in particular quanta, should be treated as indicative and not as description of precise numbers for three reasons.

- First, all modelling is, as we point out on a number of occasions, contingent on a series of assumptions around conditions, shocks and predispositions which may shift in the future.
- Second, the last two censuses have been affected data collection problems and, for 2018, the use of imputed data.
- Third, the affordability benchmarks used in this report are just that – benchmarks. These are broadly accepted internationally but they should not be seen as mechanisms for targeting assistance to individual households across the income distribution.

As we point out, the effect of housing costs (whether using benchmarks of housing stress or severe housing stress measures) are not the same for households irrespective of income.

The impact on a household of expenditure of more than 30% of gross household income or 50% or more of gross household income is greater for low-income households than for modest income households and for high income households.

In addition, the issue of household income is unavoidably vexed for this type of analysis because of reporting limitations and issues such as assistance through taxation systems as well as taxation impacts.

3. HOUSING STRESS IN NELSON

Nelson has long shown considerable activity around the provision of fit for purpose housing. It retained both a state housing stock and a council stock until very recently. It was a pioneer site in the development of Abbeyfield and still is the location of Abbeyfield's national office. It has had a number of active community housing providers over many decades. More recently, the settlement of Treaty claims has prompted iwi and hapu across Nelson, Tasman and Marlborough to consider how the housing needs of Māori may be better served.

At the same time, Nelson, like many provincial cities and towns has been caught up in New Zealand's housing crisis. The impact of that crisis has been somewhat moderated by the age structure of its population. Regions with older population structures effectively have a 'housing dividend' generated by the active policies of owner occupation and housing investment that prevailed prior to the 1990s housing reforms. Nelson has, consequently, a prevalence rate of homelessness of 161.2 per 10,000 population including those affected by lack of basic amenties. The prevalence of severe housing deprivation or homelessness is lower than both its regional neighbours: Tasman and Marlborough.[1]

Nelson is, nevertheless, marked by a range of misalignments which generate housing stress and contribute to a substantial number of households whose housing needs are not met by the market. Indeed, rising house prices and shifts in the concentration of housing stock have meant owner occupation is beyond the reach of many modest income households. The rental system has, consequently suffered considerable pressure, the burden of which tends to fall on the most vulnerable households.

This section addresses various dimensions of housing stress in Nelson:

- Housing costs and household incomes.
- Housing affordability.
- Crowding.
- Homelessness and precarious housing.

Housing Costs and Household Incomes

Housing affordability comes under pressure when housing costs increase at a faster rate than household incomes. As Table 3.1 shows, both lower quartile house sale prices and median rents have increased in most 5-year periods relative to median household incomes since 1996 in Nelson.[2]

[1] Amore, K., Viggers, H. and Howden-Chapman, P. (2021).
[2] Household incomes are assumed to have increased at 3.5% per annum between 2018 and 2021.

Table 3.1: Median Rents, Lower Quartile House Prices and Median Household Incomes in Nelson

Years	Nelson City		
	Median market rent	**Lower Quartile House Price**	**Median household income**
1996	$168	$114,000	$31,300
2001	$184	$120,025	$33,600
2006	$253	$228,750	$43,900
2013	$321	$283,625	$54,300
2018	$382	$430,000	$63,300
2021	$460	$572,500	$70,180
Change			
1996 to 2001	10%	5%	7%
2001 to 2006	37%	91%	31%
2006 to 2013	27%	24%	24%
2013 to 2018	19%	52%	17%
2018 to 2021	21%	33%	11%
1996 to 2021	*173%*	*402%*	*124%*

Source: MBIE, Headway Systems and Statistics New Zealand

Figure 3.1 shows the very significant increase in Nelson's median rents and lower quartile house prices compared to median household incomes 1996-2021. Notably, Nelson's median household incomes increase over the period (124%) was lower than Marlborough (140%) and the median household income increase found in Tasman (144%). This reflects structural ageing in Nelson which is not offset by entry of younger workers.

Figure 3.1: Increase in Median Rents, Lower Quartile House Prices and Median Household Incomes in Nelson 1996-2021

A similar pattern is evident in relation to median market rents with Nelson's increase being 173% from 1996-2021 compared to 202% in Tasman District and 200% increase over 1996-

2021 in median rents in Marlborough. Nelson had the lowest increase of lower quartile house prices. Nelson's lower quartile house prices increased by 402% compared to Marlborough's increase in lower quartile house price of 458% and Tasman's increase around 454%.

Housing Affordability

Housing affordability is considered compromised when housing costs (rents or the cost to service a mortgage plus other housing costs) exceed 30% of gross household income. When housing costs to household incomes exceed 30%, those households are deemed to be in housing stress. Severe housing stress refers to 50% or more of household incomes being expended on housing costs.

For low- and modest- income households, the impact of housing costs in excess of 30% is more critical than for high-income households. This is because the residual incomes of high-income households may still be adequate to meet the other needs of the household even after housing costs. For low- and modest- income households excess housing costs profoundly affect their ability to meet their other basic living needs.

It has been typically accepted that housing costs for owner occupier households with mortgages may be of marginally higher proportions than for renting households. That is because mortgage payment for an owner-occupied dwelling has been treated as including some pre-saving which offsets future housing costs when household incomes fall in later life and retirement. There is a vast array of research in New Zealand and overseas that shows that this 'pre-saving' vehicle sustains living standards for seniors when they move into retirement through the reduction housing costs and sustained tenure security.[3]

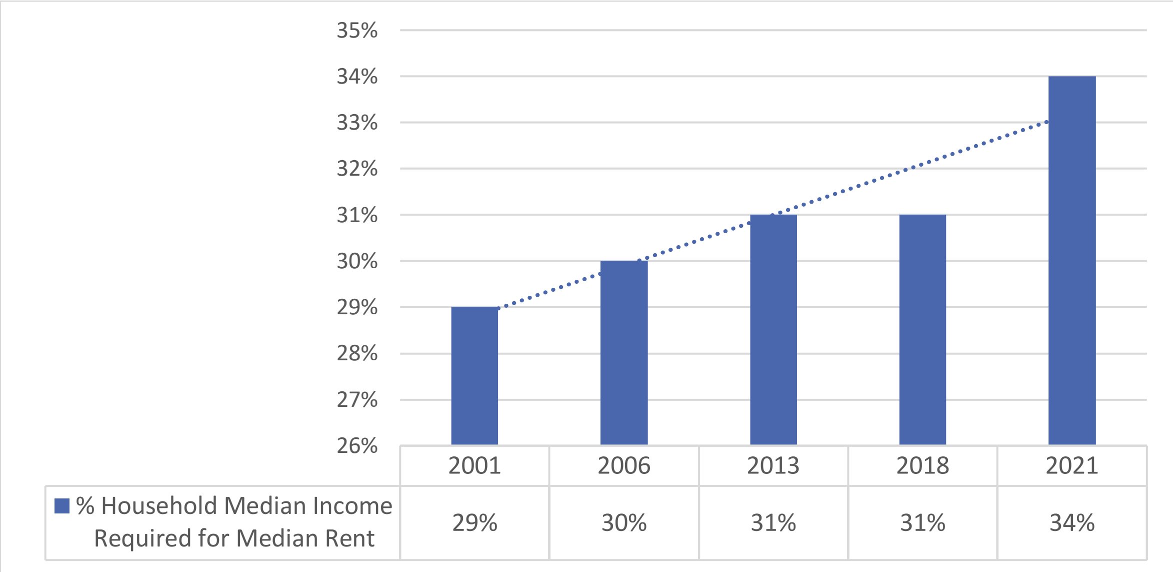
Rental Affordability Trends in Nelson

Over the last 20 years the proportion of median household income required to pay the median market rent has increased in Nelson.

As Figure 3.2 shows the proportion of median household income required to rent at the median market rent was 29% in 2001 and 34% in 2021.

[3] See Saville-Smith (2019) for a brief review of research around impact of owner occupation on living standards for seniors in retirement.

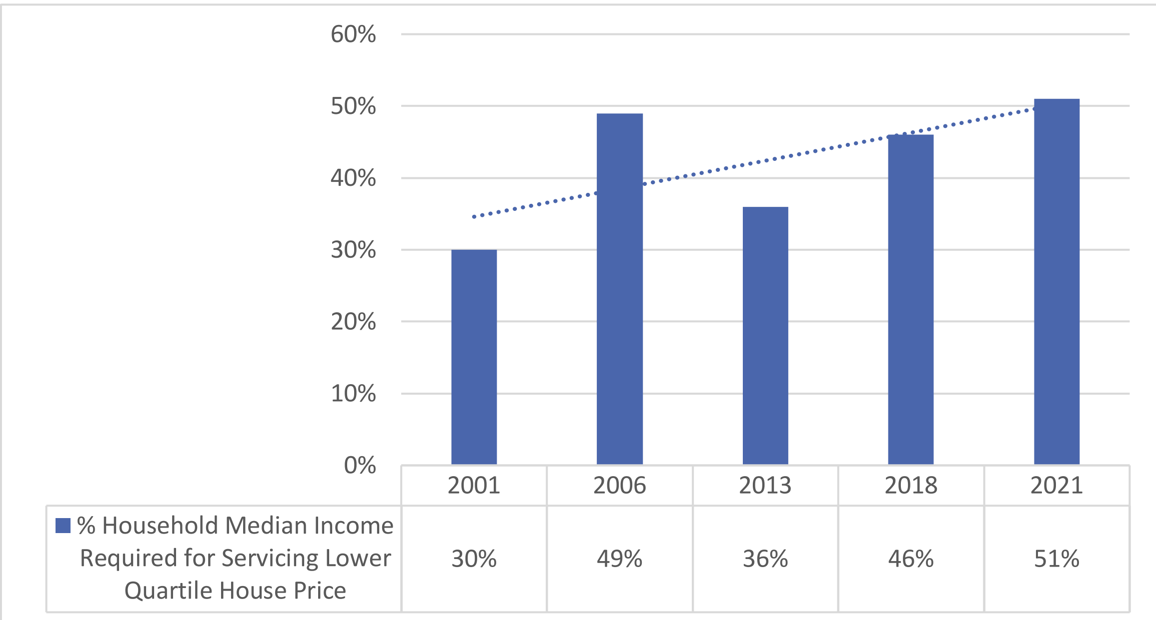
Figure 3.2: The Proportion of Median Household Income (MHI) Required to Rent at the Median Market Rent 2001-2021 in Nelson



Owner Occupation Affordability Trends in Nelson

For many, entry into owner occupation for the first time or subsequent to being out of owner occupation for some time, is usually at or below the lower quartile house sale price. Nelson has shown increased difficulties for median income households in accessing these lower cost dwellings. The mortgage costs for purchase at the lower quartile value was around 30% of income for median household incomes in 2001, but shifted to 51% of household income in 2021.

Figure 3.3: Proportion of Median Household Income (MHI) Required to Purchase a Dwelling at Lower Quartile Value in Nelson 2001-2021



Two explanations are commonly, but typically erroneously, used to explain shifts in owner occupation housing affordability.[4] The first is shifts in interest rates. The second is building costs. It is beyond the scope of this report to detail the dynamics of house prices including lower quartile house prices. Nevertheless, it does need to be noted that house prices rather than interest rates are the primary driver of affordability for low- and modest- income households. Table 3.2 sets out the affordability of servicing estimated low-cost new houses from 1966 to 2013 for households only at 80% of median household incomes and for households at median household incomes.

Table 3.2 National housing affordability for households earning 80% of median household income[5]

The proportion of income required for a household earning 80% of the median household income to service a 25-year mortgage using the estimated low-cost new house price			
Year	**Mortgage Interest Rates**	**House price incorporating average section price**	**House price incorporating lower quartile section price**
1966	5.70%	24%	21%
1971	7.20%	33%	29%
1976	10.00%	36%	31%
1981	14.90%	50%	45%
1986	19.20%	70%	55%
1991	13.70%	59%	50%
1996	10.40%	58%	48%
2001	8.20%	53%	40%
2006	9.60%	76%	58%
2013	5.80%	56%	43%
The proportion of income required for a household earning the median household income to service a 25-year mortgage using the estimated low-cost new house price			
Year	**Mortgage Interest Rates**	**House price incorporating average section price**	**House price incorporating lower quartile section price**
1966	5.7%	19%	17%
1971	7.2%	26%	23%
1976	10.0%	29%	25%
1981	14.9%	40%	36%
1986	19.2%	56%	44%
1991	13.7%	47%	40%
1996	10.4%	46%	38%
2001	8.2%	42%	32%
2006	9.6%	61%	46%
2013	5.8%	45%	34%

Interest rates in 1966 are comparable to interest rates in 2013, but the affordability of servicing a mortgage is significantly different. For households sitting at 80% of median

[4] This section is a replication of the same argument in the Marlborough report and is presented to allow this report to be read as a 'stand alone'.

[5] Saville-Smith (ed) (2019), p.31, data prepared by I. Mitchell, M. Rehm and K. Saville-Smith.

household incomes in 1966, affordability ranges between 21% to 24%. Those proportions are well inside the measures used internationally to measure housing affordability. For an only marginally higher interest rate (5.8% compared to 5.7%) in 2013, the affordability ranges between 43% and 56% for households sitting at 80% of median household incomes.

For households at median household incomes the impact of house prices, compared to interest rates, on affordability is also clear. In 1966 at an interest of 5.7%, households on median incomes could expect that the cost of owner occupation at the lower quartile value took between 17% to 19% of household income. At a very comparable interest rate of 5.8% in 2013, the proportion of a median household income needed to service the purchase of a lower quartile value house lay between 34% and 45%.

In short, whether on a median household income or a lower 80% of median household income and for comparable interest rates, affordability in 1966 was high and in 2013, affordability was low. Interest rates have an impact on household demand among those with marginal affordability to prevailing house prices, but the number of households for whom prevailing house prices are affordable or marginally affordable has reduced.

It is important to recognise that build costs are not the primary driver of long-term declines in new build affordability. Like interest rates, build costs, particularly where there is acute uncertainty about the supply of materials, may exacerbate affordability problems. Nevertheless, in the long run, as Figure 3.4 shows, much of the increase in building costs is nominal rather than real for low-cost dwellings. Notably the apparent increase in real build costs in Figure 3.4 around the millennium, largely reflects a shift in the size of dwellings with movements from low-cost housing sizes from a little over 92 m^2 in the 20th century to 120 m^2 around 2002. That is, the increase is an artefact of shifts in dwelling size. The understated drivers of house prices in New Zealand are:

- The deregulation of banking and an associated flush of liquidity and money supply (Figure 3.5).
- The withdrawal of capital assistance for low-cost housing production in the 1990s.[6]
- The rise of property investors in the residential property market. This is discussed in Section 6.

Nationally, those three factors contributed to a decline in the production of lower quartile new build homes from about 1990.[9]

[6] Saville-Smith (ed) (2019), data prepared by K. Saville-Smith, pp.3-4.

Figure 3.4 Nominal and Real Construction Costs of Low-Cost Dwelling (Excluding Section Price) in New Zealand 1950-2020[7]

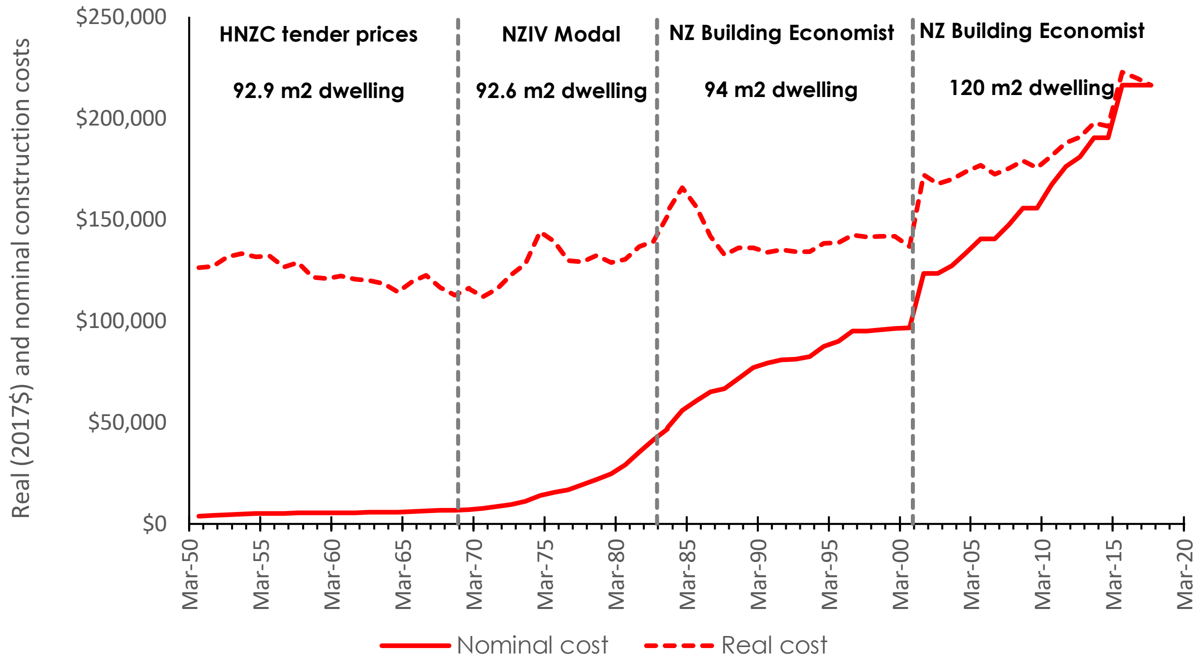
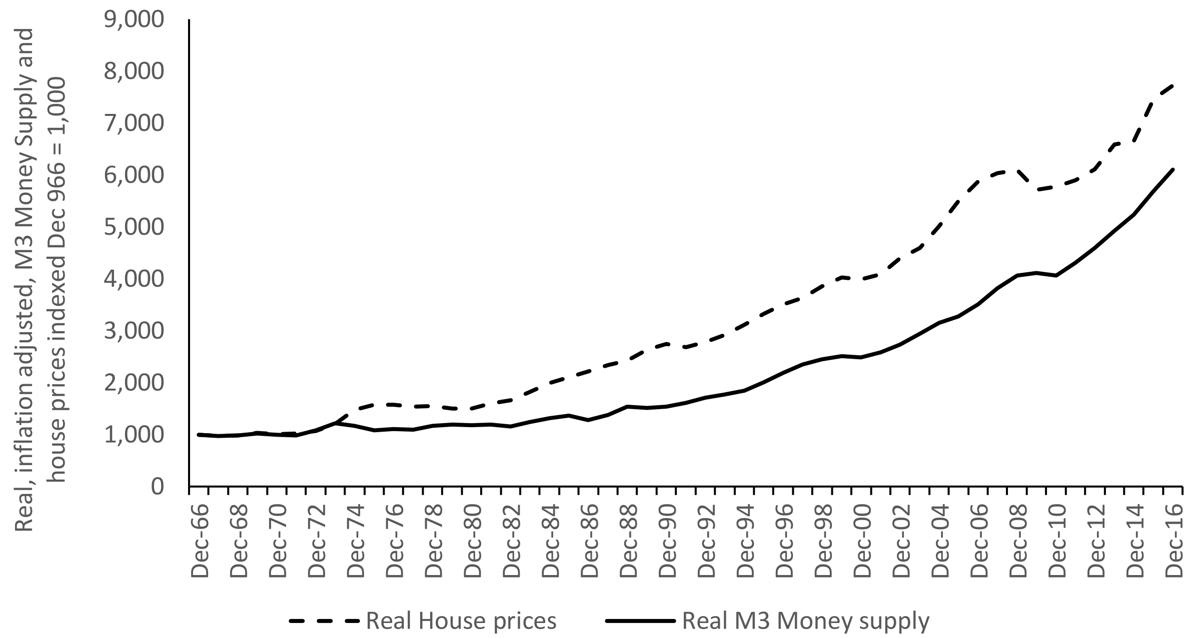


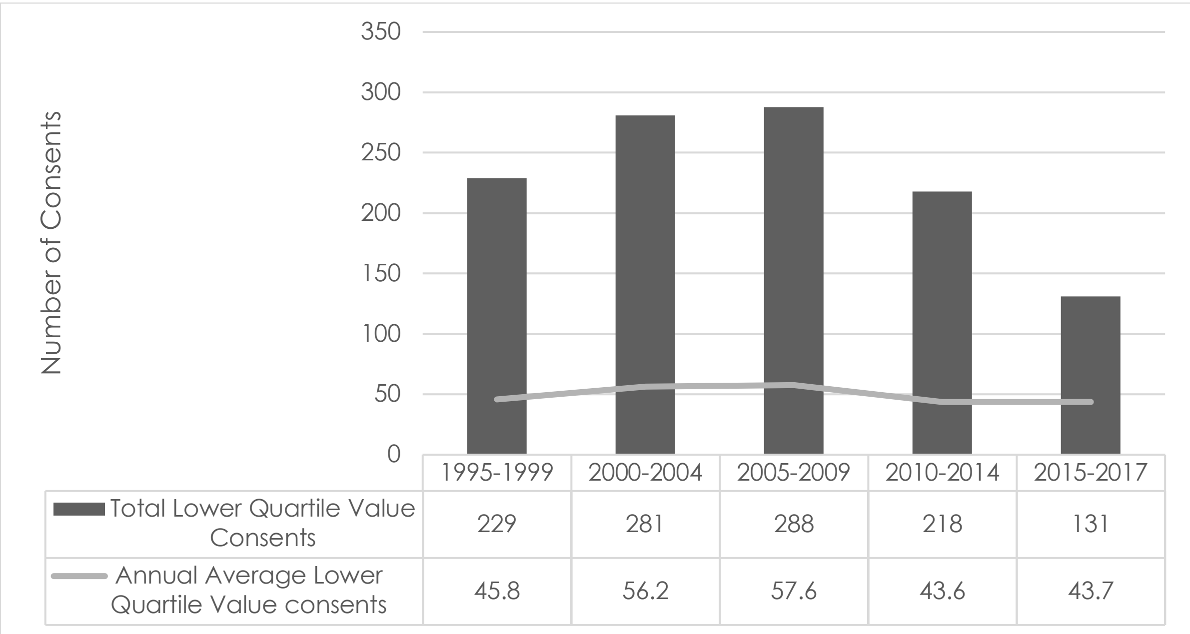
Figure 3.5 Real money supply and housing prices 1966-2016[8]



[7] Saville-Smith (ed) (2019), pp.20ff data prepared by M. Rehm and Ian Mitchell.
[8] Saville-Smith (ed) (2019), pp.20ff data prepared by M. Rehm and Ian Mitchell.

Despite trends nationally, Nelson has seen a decline in apartment building since 1990. There has been a significant rise in units within retirement villages. Access to retirement villages are both restricted by age and, typically, the tenure of future residents. Seniors in rent or still with mortgages find the purchase of occupation right agreements in retirement villages largely beyond their means and monthly fees problematic. Retirement villages acquire and concentrate significant holdings of residential land. Memorials on retirement villages inhibit future land use and release for other residential uses. The impact of retirement villages is evidenced in their rising prominence in building consents from less than 1% in 1990-1994 to 16% in 2015-2020. Apartments peaked as a proportion of all consents in the last decade of the 20th century, and declined substantially thereafter. This is consistent with the movement of the building industry into higher quartile value dwellings and low levels of low-cost dwelling construction.

Figure 3.6 Nelson Building Consents in Lower Quartile Value (LQV) 1995-2017[10]



Stuck in the Housing Market

For some private renters in Nelson, house prices and rents mean they are stuck. As Table 3.4 shows:

- some 4,570 households in 2021 could not afford median rents, and

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[9] New Zealand Productivity Commission (2012).
[10] Saville-Smith, K (ed) (2019), data prepared by M. Rehm p.12.

- an estimated 5,750 private renter households were unable to enter owner occupation even at the lower quartile house price.

Around 65% of private renter households can not affordably meet the median rent in 2021. Some 82% of private renters are unable to affordably purchase a home at the lower quartile house price.

Table 3.3 Private Renter Households Unable to Affordably Rent or Buy in Nelson 2018 and 2021

Unable to Affordably Rent at Median Market Rent				Unable to Affordably Purchase at Lower Quartile House Price			
Private Renters		% Private Renters		Private Renters		% Private Renters	
2018	2021	2018	2021	2018	2021	2018	2021
4,190	4570	63%	65%	5,060	5,750	76%	82%

Housing Affordability Stress for Private Renters

Housing affordability stress is experienced by households that have insufficient income to affordably pay their housing costs. This can occur because either housing costs are high relative to incomes, or incomes in an area or region are low, or a combination of both.

Renter housing stress is defined as those households that are paying more than 30% of their gross household income in rent. Severe housing stress is those households paying 50% or more of their gross household income in rent.

Renter stress is avoided where tenants receive income-related rents, which limits rents to 25% of income in recipient households. Households that access public housing places delivered by Kāinga Ora or specified Community Housing Providers (CHPs) receive income-related rents and are allocated to public housing places from the public housing register administered by the Ministry of Social Development. Accessing public housing places is extremely limited by the prioritisation on the public housing register which is, in turn, caused by a severe under supply of public housing and long term under provision since the 1990s.[11]

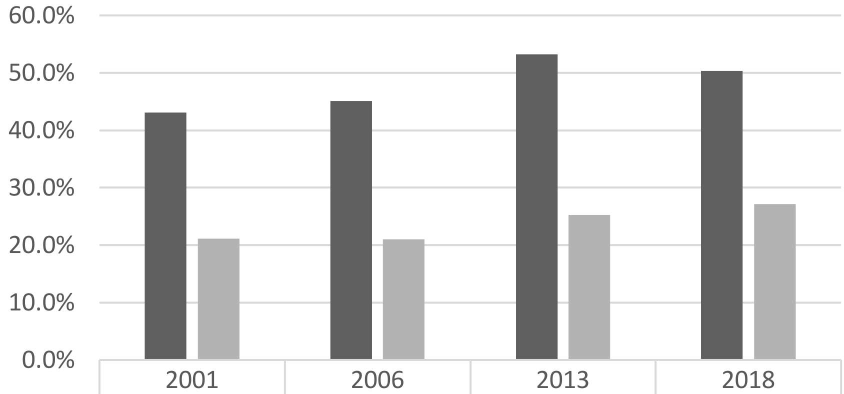
We estimate that in 2021, Nelson's private renter households in housing stress because of affordability problems was in the region of 3,380 households. That is around 15% of all Nelson households and 48% of Nelson's private renter households.

In Nelson, the proportions of private renter households in housing affordability stress have risen significantly in the last two decades (Figure 3.7). In 2001, around two-fifths (43.1%) of private renter households were in affordability stress. By 2018, 50.3% of private renter

[11] See the later discussion of market limits to meeting housing need. Some community housing providers set rents as that affordable limit without receiving income-related rent subsidies from central government.

households faced unaffordable rent costs. The proportion of private renter households in severe housing stress moved from 21.1% in 2001 to 27.1% in 2018. Figure 3.8 and Figure 3.9 show the spatial distribution of affordability and sever housing stress across the Nelson-Richmond conurbations.

Figure 3.7 Proportion of Nelson Private Renter Households in Affordable Housing Stress & Severe Stress 2001-2018



	2001	2006	2013	2018
Stressed (More than 30% of Gross Household Income)	43.1%	45.1%	53.2%	50.3%
Severely stressed (50% or more of Gross Household Income)	21.1%	21.0%	25.3%	27.1%

Source: Statistics New Zealand

The vast majority (93.5%) of private renter households with incomes of $30,000 or less were in **housing stress** in 2018. This has risen from 71.4% in 2001. Some 84.2% of private renter households with incomes of $30,000 or less were in **severe housing stress** in 2018. That compares to 32.7% of low-income private renter households in 2001 (Table 3.4).

Table 3.4 Proportion of Nelson Private Renter Affordability Stress 2001-2018 by Household Income

Gross household income	Stressed (More than 30%)				Severely stressed (50% or more)			
	2001	**2006**	**2013**	**2018**	**2001**	**2006**	**2013**	**2018**
$30,000 or less	71.4%	77.8%	81.3%	93.5%	37.2%	46.5%	60.2%	84.2%
$30,001 to $50,000	12.5%	43.4%	73.7%	85.3%	1.1%	4.1%	14.7%	30.3%
$50,001 to $70,000	2.3%	7.9%	34.5%	46.2%	0.0%	2.5%	2.0%	2.3%
$70,001 to $100,000	0.0%	3.7%	6.4%	8.2%	0.0%	2.2%	1.5%	1.2%
$100,001 to $150,000	0.0%	2.2%	2.8%	1.0%	0.0%	2.2%	0.0%	0.0%
Over $ 150,000	-	-	0.0%	0.0%	0.0%	-	-	0.0%
Total	*43.1%*	*45.1%*	*53.2%*	*50.3%*	*21.1%*	*21.0%*	*25.3%*	*27.1%*

Source Statistics New Zealand

Figure 3.8 Estimated Affordability Stressed Private Renter Households Nelson/Richmond Conurbation 2021

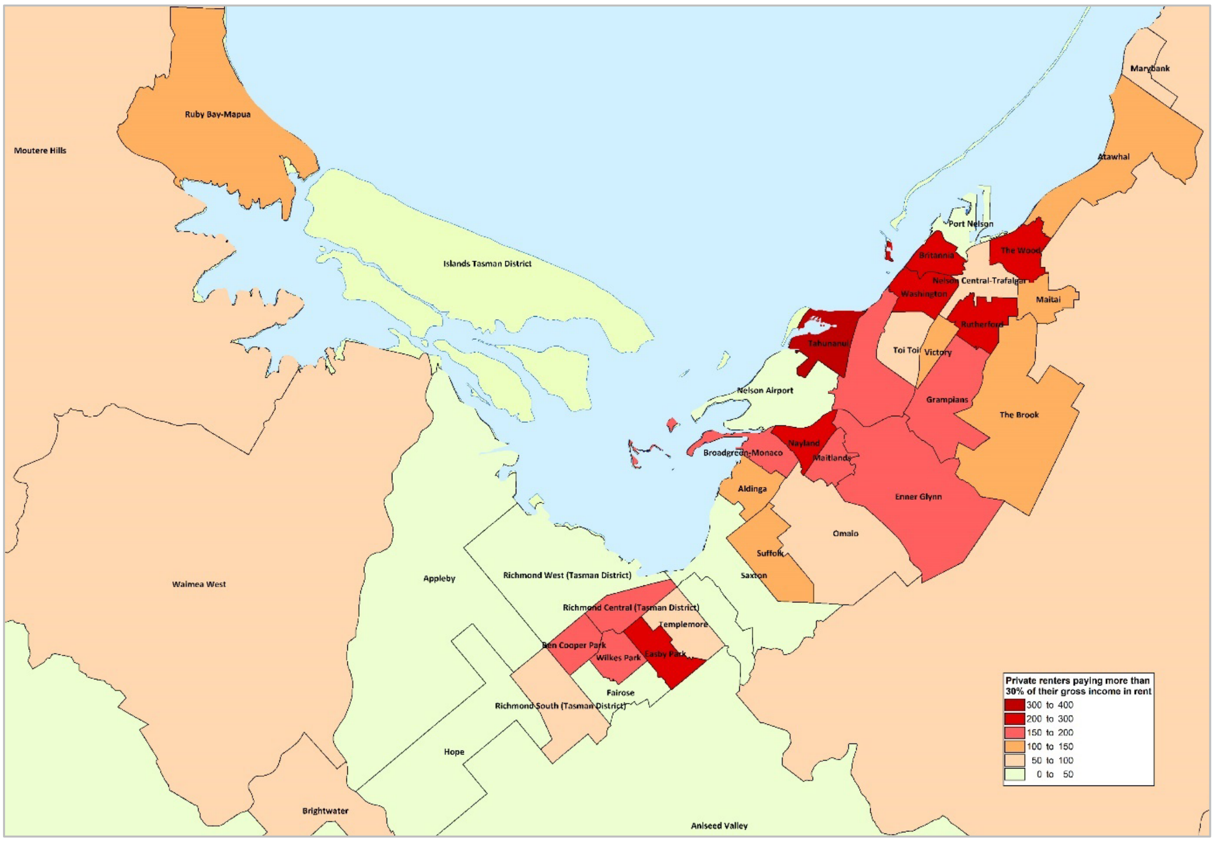
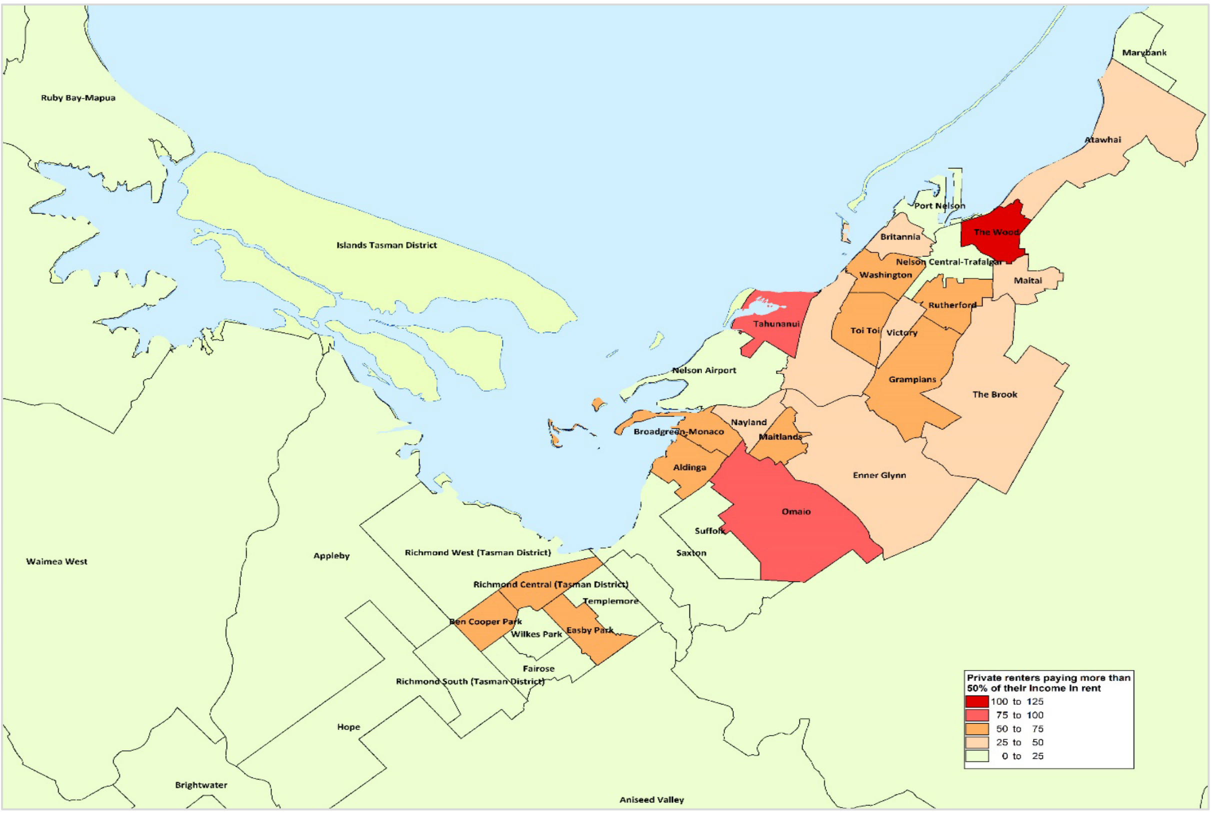


Figure 3.9 Estimated Severe Stressed Private Renter Households Nelson/Richmond Conurbation 2021



Problems of affordability stress are not confined to low-income households. Almost half of the private renter households in the $50,001-$70,000 income band (46.2%) expended more than 30% of their income in rent in 2018, up from 2.3% in 2001.

Affordability related stress has a number of impacts on households. As they spend a higher proportion of their income on housing costs they have less to spend on other items in and beyond the Nelson economy. Affected households face undesirable choices:

- Do they continue to invest in rent, especially where there are prospects of further rent increases, and dedicate excessive amounts of their income in housing costs?
- Do they relocate to poorer quality housing in an effort to reduce rent exposure?
- Do they shift out into other lower cost housing markets, including out of Nelson altogether?
- Do they crowd with other families or individuals?

The Regional Skills Leadership Group has already noted the issues for Nelson-Tasman arising from housing related costs. [12]

Crowding

Affordability problems can lead to crowding as people cluster together in households to reduce the per capita housing cost and to increase the number of incomes coming into a household. Crowding stress can also arise because the housing stock does not 'fit' the household size and composition.

Table 3.5 sets out crowding in Nelson's housing stock for 2018. Private renter households experienced higher levels of crowding than owner occupiers in 2018. This is consistent with the national pattern.

Table 3.5 Crowding in Nelson 2018 [13]

Crowding Characteristics	Owner Occupied Dwellings	Private Rented Dwellings	Total Dwellings
1 bedroom needed (crowded)	48	81	129
2+ bedrooms needed (severely crowded)	222	357	579
Total crowded	*270*	*440*	*710*

Source: Statistics New Zealand – Census

In 2018, Māori and Pasifika households experienced higher levels of crowding than the balance of households in Nelson. This is consistent with national patterns and to some extent reflects the much younger population structure of the Māori and Pasifika populations.

[12] https://www.mbie.govt.nz/dmsdocument/19350-nelson-tasman-local-insights-report-march-2022
[13] Note that there are variations around this figure reflecting the handling around not stated data in relation to either dwelling bedrooms, tenure or household size.

Although the proportion of Pasifika households experiencing crowding is higher than Māori households, the number of crowded Māori households is significantly higher than Pasifika households (Table 3.6).

Table 3.6 Nelson Household Crowding and Ethnicity 2018

	Māori		Pasifika		Other Households	
	Households	% Māori Households	Households	% Pasifika Households	Households	% Other Households
≥Two bedrooms needed (severely crowded)	45	2%	15	5%	69	0%
One bedroom needed (crowded)	174	7%	24	8%	381	2%
Total Crowded	219	9%	39	13%	450	3%

Source: Statistics New Zealand - Census

Precarious Housing and the Intermediate Housing Market

Unaffordable housing and crowded housing are associated with homelessness and precarious housing. There is substantial and persistent evidence that private rented housing tends to be precarious. In the past this has been associated with the very lightly regulated nature of the rental market.

The Residential Tenancies Amendment Act 2019 may see some changes in investor behaviour into the future, but these patterns have not yet become clear. What is clear is that owner occupation followed by rental in public housing and by CHPs tend to be longer term and less precarious. There is, however, also a significant number of people that are in temporary accommodation which is indicative of homelessness.[14]

Tenure and Precarity

Overall, it is estimated that in 2021, there were around 6,860 Nelson households in precarious housing situations.

The least precarious are owner occupiers. Private renter households with sufficient income to affordably buy a dwelling at the lower quartile house sale price also tend to be less precarious. They have more choices within the rental market but also the choice to exit rental and move to owner occupation or some alternative tenure such as 'occupation right' housing such as that found in retirement villages and some other settings.

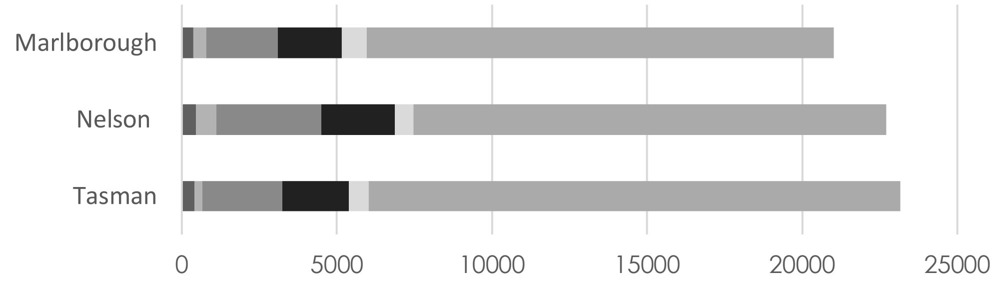
The most precarious are those already homeless or in temporary housing. Stressed private renters paying more than 30% of their household income in rent and unable to affordably buy a dwelling are also very precarious. Private renters paying 30% or less of their household income in rent, but unable to affordably buy a dwelling at the lower quartile

[14] Amore (2019); Amore, Viggers and Howden-Chapman (2021).

house sale price (LQHP), are also precarious because of the lightly regulated nature of the rental market and preponderance of investors in residential property in this country.

Figure 3.10 provides an indication of the pattern of housing precarity in Nelson and its regional neighbours in the ‘Top of the South’.

Figure 3.10 Number of Households by Precarity ‘Top of the South’ Estimated 2021



	Tasman	Nelson	Marlborough
Other	420	450	380
Social	240	660	410
Stressed private renters	2,570	3,380	2,310
Private renters unable to affordably buy	2,150	2,370	2,060
Private renters with tenure choice	637	601	800
Owner occupiers	17,150	15,250	15,060

The exception around renter precarity relates to those in community housing or in public housing places. CHPs are more highly regulated than any other housing provider, including Kāinga Ora. Both Kāinga Ora and CHPs have tenancy security as central platforms of their housing provision.

Tenants in Kāinga Ora and those CHPs delivering public housing places have affordable rental payments with Government subsidising those providers to fully fill the unaffordable gap between affordable rents and so-called market rents. This contrasts to tenants who have affordability problems and receive the Accommodation Supplement (AS) which is designed to fill the unaffordable gap only partially. Some CHPs provide long-term affordable rents, often known as sub-market priced rents, to reduce housing stress for tenants.

Intermediate Housing Market

Intermediate housing markets are defined as private renter households who have at least one member in paid employment, unlikely to be eligible for public housing, and are unable to affordably buy a dwelling at the lower quartile house sale price. Because of data limitations, the size of the intermediate market in Nelson or elsewhere is difficult calculate.

We provide a proxy estimate of the relative size of the intermediate market. That estimate includes all households with reference people aged less than 65 years of age who are unable to buy at the lower quartile house sale price. With low unemployment rates this provides a comparable estimate to the classically defined 'intermediate housing market'.

Nelson's 'intermediate housing market' has expanded from about 59% of Nelson's renter households and 19% of all Nelson households in June 2018, to 66% of renter households and 21% of all Nelson households in June 2021.

It is estimated that the number of households in the intermediate housing market in Nelson increased from 3,970 to 4,630 households between 2018 and 2021. These are substantial numbers of households although the proportional increase of households in the intermediate housing market in Nelson (17%) between 2018 and 2021 is lower than Marlborough (41%) and Tasman (25%). Under-supply of lower quartile house priced dwellings for sale, pressures on rents and rising mortgage interest rates are likely to expand the intermediate housing market over the short and medium terms.

4. NELSON'S FUTURE HOUSING PATTERNS AND DEMAND

The housing patterns of the future depend on a combination of population shifts, shifts in the composition of households, and the supply and cost of dwellings. Some of these are more predictable than others. The structural ageing of populations and, indeed, the housing stock are relatively predictable unless there are significant shocks. Overseas, COVID has had significant impacts on life expectancies. It is unclear what the impact of COVID in New Zealand will be. The future, nevertheless, remains governed by the past. In particular, the 1990s housing reforms saw a major shift in housing access, patterns of tenure (falling rates of owner occupation), and the concentration of stock in the hands of property investors. This has been mediated in Nelson by its ageing population and associated high rates of owner occupation.

Future Household Numbers by Tenure

Owner occupation is declining in New Zealand. This is a structural shift as younger cohorts are increasingly unable to enter owner occupation and it is evident throughout the country. However, in regions without significant urban conurbations, rates of owner occupation have proved more resilient than regions which are effectively main metropolitan centres. There are two reasons for that:

- First, some regions have attracted owner occupying households from other regions, often from metropolitan centres with high price housing settings.
- Second, regions with older population age structures are more likely to have higher rates of owner occupation.

Nelson is likely to see a gradual decline of owner occupation associated in part with the death of owner occupying seniors.

Projections show modest growth of household numbers to 2038 in Nelson. Unless current market and policy settings change, the numbers of households dependent on renting and owner occupiers are expected to increase. Nevertheless, there will be a persistent decline in owner occupation and an increase of concentration of housing stock in the hands of property investors. These trends have been experienced nationally. They will be reflected in Nelson with the numbers of households in rental increasing proportionately more than the number of dwellings in owner occupation (Table 4.1).

Table 4.1 The projected growth in the number of households in Nelson by tenure – 2018 to 2038

Year	Total households	Owner occupiers	Renters	Rate of owner occupation
2018	21,310	14,620	6,690	68.6%
2023	22,900	15,670	7,230	68.4%
2028	23,600	16,100	7,500	68.2%
2033	24,210	16,400	7,810	67.8%
2038	24,490	16,490	8,000	67.3%
Change 2018-38	***3,180***	***1,870***	***1,310***	***-1.3% pts***

Source: Modelled based on data from Statistics New Zealand

Household Age Profiles and Change

Table 4.2 presents the projected household growth in Nelson by age of the household reference person between 2018 and 2038. The growth of households with a reference person aged 65 years or older is very pronounced. It is expected that between 2018 and 2038 the numbers of renting households headed by a senior will grow by 1320 households.

Table 4.2 Nelson projected households by age of the household reference person 2018 to 2038

Age of reference person	Total					
	2018	**2023**	**2028**	**2033**	**2038**	**2018 to 2038**
Less than 30 yrs	1,770	1,620	1,510	1,570	1,570	-200
30 to 39 years	2,980	3,240	3,100	2,770	2,690	-290
40 to 49 years	3,930	3,700	3,730	3,920	3,800	-130
50 to 64 yrs	6,390	6,810	6,430	6,090	5,810	-580
65 yrs and over	6,250	7,550	8,830	9,870	10,650	4,400
Total	***21,320***	***22,920***	***23,600***	***24,220***	***24,520***	***3,200***

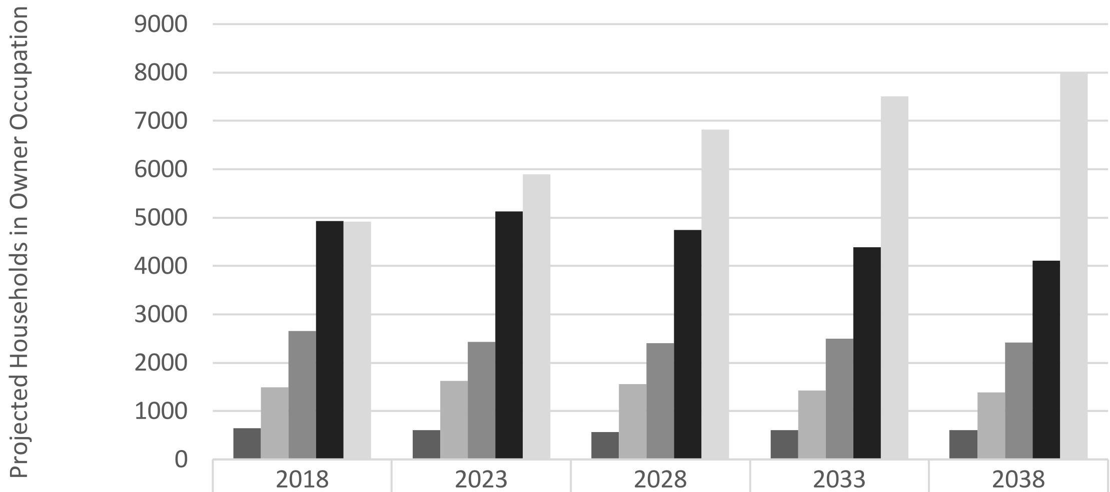
Although the number of owner occupier households who are senior headed is likely to grow more than the number of rented households, the percentage increase in renter households is higher. Renters are expected to account for a larger portion of all households in the future.

The resilience of owner occupation in Nelson resides in two connected phenomena. First, Nelson has a structurally older population which appears not to be substantially modified by in-migration. Second, seniors are more likely to be owner occupiers.

The impact of age on the resilience evident in owner occupation rates in Nelson is clear in Figure 4.1. However, Figure 4.2 also shows the persistence of renting among younger age groups.

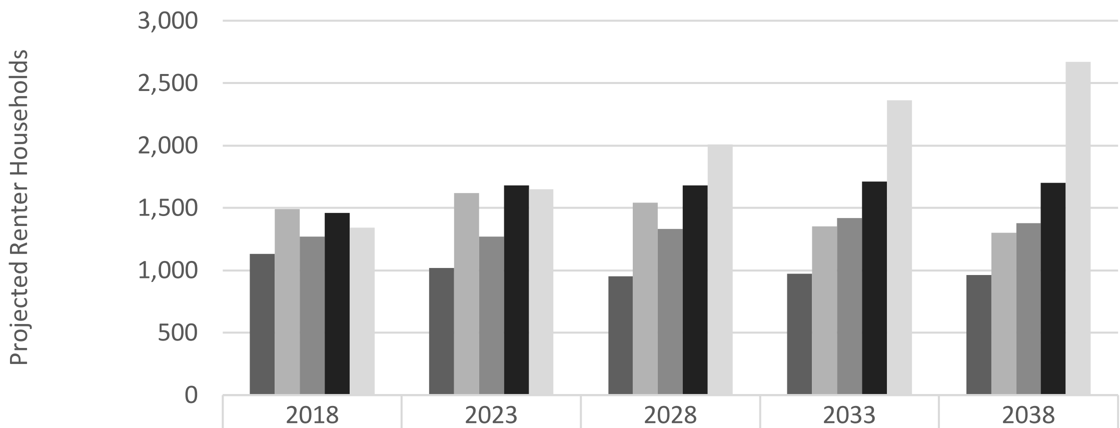
Associated with the exclusion of younger cohorts from owner occupation, of course, is the increased numbers of seniors who will also become dependent on renting in the future. That is a result of younger age groups being excluded from owner occupation. As those cohorts age through their life cycles in rent, so too they will remain in rent as they enter the retirement years of 65 years and more.

Figure 4.1 Nelson projected owner-occupied households by age of the household reference person 2018 to 2038



	2018	2023	2028	2033	2038
Less than 30 yrs	640	600	560	600	610
30 to 39 years	1,490	1,620	1,560	1,420	1,390
40 to 49 years	2,660	2,430	2,400	2,500	2,420
50 to 64 yrs	4,930	5,130	4,750	4,380	4,110
65 yrs and over	4,910	5,900	6,820	7,510	7,980

Figure 4.2 Nelson projected renter households by age of the household reference person 2018 to 2038



	2018	2023	2028	2033	2038
Less than 30 yrs	1,130	1,020	950	970	960
30 to 39 years	1,490	1,620	1,540	1,350	1,300
40 to 49 years	1,270	1,270	1,330	1,420	1,380
50 to 64 yrs	1,460	1,680	1,680	1,710	1,700
65 yrs and over	1,340	1,650	2,010	2,360	2,670

Household Composition into the Future

The key factors that influence household composition are:

- The population structure. Ageing population structures tend to be marked by an increase in unpartnered individuals and, depending on other factors, smaller households including couple only households and people living alone.
- Cultural experiences and expectations. Multi-generational households and households with related kin are less common among Pakeha and more common among Māori, Pasifika and some Asian households.
- Housing affordability and design. Housing that is unaffordable is a driver of over-crowding, but also prompts household compositions designed primarily to distribute housing costs over greater numbers of people within the household. Surges in the numbers of households composed of multiple families, a family and unrelated others, extended kin, or unrelated others respectively may reflect cultural predispositions but they may simply reflect adaptation to material constraints.

Table 4.3 presents the projected household growth by household composition between 2018 and 2038 in Nelson.

Table 4.3 Nelson projected households by composition 2018 to 2038

Household Composition	Total Number of Households					
	2018	2023	2028	2033	2038	2018 to 2038
Couple only	6,770	7,410	7,710	7,910	8,050	1,280
Couples with children	5,490	5,750	5,850	5,960	6,090	600
One parent	2,550	2,540	2,540	2,640	2,650	100
One person	5,400	6,000	6,300	6,500	6,500	1,100
Other	1,100	1,200	1,200	1,200	1,200	100
Total	***21,320***	***22,900***	***23,600***	***24,210***	***24,490***	***3,170***

Figure 4.3, particularly the pattern of change over the period 2018-2038, shows the complexity of the inter-relationships between demographic dynamics and household composition.

Figure 4.3 Projected renter households by household composition in Nelson 2018 to 2038

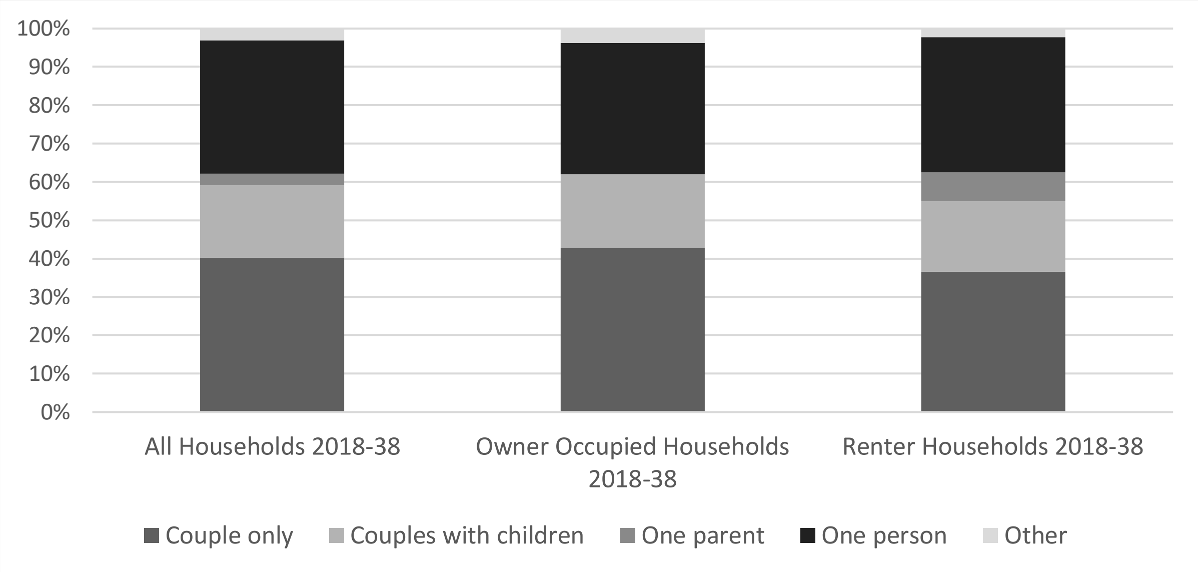


Figure 4.4 shows how those age and compositional dynamics vary according to tenure. Unlike Marlborough where there is considerable differentiation in household composition in the increased numbers of households in different tenures, Nelson shows more muted patterns of household composition across although the increased representation of living alone among renters and one-parent households is distinct (Table 4.4).

Table 4.4 Nelson pattern of projected household composition for increase in households by tenure 2018-2038

Household Composition	All Households 2018-38		Owner Occupier Households 2018-38		Renter Households 2018-38	
	Households	% Households	Households	% Households	Households	% Households
Couple only	1,280	40.3%	800	42.8%	480	36.6%
Couples with children	600	18.9%	360	19.3%	240	18.3%
One parent	100	3.1%	0	0.0%	100	7.6%
One person	1,100	34.6%	640	34.2%	460	35.1%
Other	100	3.1%	70	3.7%	30	2.3%
Total	*3,180*	*100%*	*1,870*	*100%*	*1,310*	*100%*

Dwelling Typologies

This section models the implications of demographic and tenure trends on the demand for dwellings of particular typologies. The critical and most contestable assumption is that the propensity for households with different characteristics (age, household composition and tenure) for different dwelling typologies,[15] remains the same between 2018 and 2038.

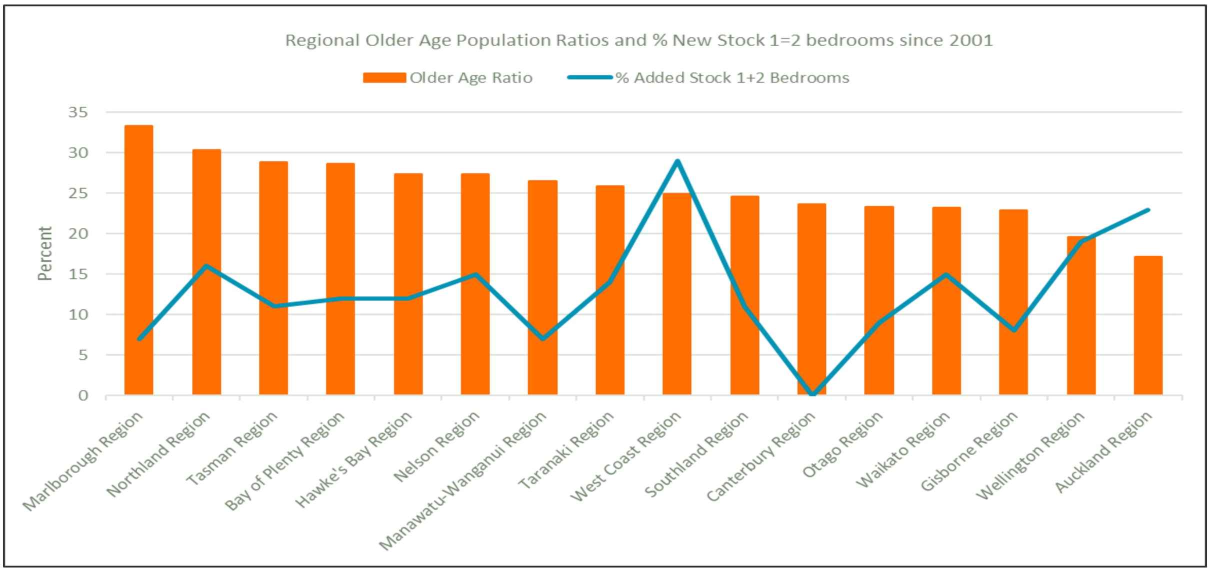
Table 4.5 summarises projected demand in dwelling typologies by tenure in between 2018 and 2038 with current settings driving standalone dwellings, despite a slightly higher propensity by renters to live in multi-unit dwellings. This reflects structural population ageing. Issues of stock and household misalignment have been raised previously in relation to seniors and shown to be pronounced (Figure 4.4).[16]

Table 4.5 Projected dwelling typologies and bedrooms in Nelson by tenure 2018-2038

Year	Owner occupiers				Renters			
	Standalone		Multi-unit		Standalone		Multi-unit	
	2- bdrm	3+ bdrm	2- bdrm	3+ bdrm	2- bdrm	3+ bdrm	2- bdrm	3+ bdrm
2018	2,040	11,220	950	420	1,630	3,190	1,540	320
2028	2,290	12,220	1,110	480	1,830	3,520	1,800	360
2038	2,350	12,480	1,160	500	1,950	3,700	1,970	380
Change 18 to 38	***310***	***1,260***	***210***	***80***	***320***	***510***	***430***	***60***

Source: Modelled based on data from Statistics New Zealand. Numbers are rounded to the nearest 10 in the modelling

Figure 4.4 Regional Age-Ratios 2013 and % Added Stock 2001-2013 One and Two Bedroom Dwellings



[15] Standalone dwellings are defined as single unit dwellings not attached to any other buildings. Multi-unit dwellings include a wide range of dwelling typologies where two or more dwellings are physically attached to each other. Multi-units include duplexes, terraced houses and apartments.
[16] Saville-Smith (2019), p.31

The sale of Nelson Council's pensioner housing stock into Kāinga Ora’s portfolio raises issues regarding the future access of those living alone and senior couples to both affordable rents and right-sized dwellings.

5. HOUSING NEED AND UNMET NEED

This section focuses on the renter households within Nelson that cannot meet their housing needs in the housing market with any Accommodation Supplement they may access. The discussion provides an analysis of housing need among renters ('renter housing need') and identifies the prevalence of renters whose needs are not only unmet by current market settings but who are also unable to access housing by providers who provide affordable housing providers.

That set of households fall into the 'unmet housing need' category.

Total ***'renter housing need'*** is constituted by the following sets of households:

- Financially stressed private renter households;
- Those households whose housing requirements are met by public housing, community housing providers, and council tenants. These are referred to as social housing tenants for the purpose of this analysis; and
- People who are homeless or living in crowded dwellings and includes interim or emergency housing.

It can be represented in the following formula: ***Total renter housing need = stressed private renter households + social housing tenants + other need***.

Previously presented data on housing stress and the intermediate housing market is consistent with an increase in both:

- The total numbers of households for whom the housing market is not delivering affordable housing – rising from 4,130 households in 2018 to 4,490 households in 2021;
- The number of those households in need who find those needs are not met by way of non-market housing provision – rising from 3,470 households in 2018 to 3,830 households in 2021.

Table 5.1 sets out the number of households who both: need additional support to be housed in the market; and have that need unmet. The data suggest that over half of all renters are in housing need and 15.7% of all households are in unmet need in 2021. Renter households in unmet need increased from 2,320 households to 2,700 households.

Table 5.1 Total Renter Need and Unmet Need in Nelson 2018 and 2021

Year	Total need			Unmet need	
	Renter Households in Housing Need	As % of All Renters	As % of all Households	Renter Households in Unmet Housing Need	As % of all Households
2018	4,130	6.7.9%	19.4%	3,470	16.3%
2021	4,490	65.0%	20.5%	3,830	17.4%

Numbers are rounded to the nearest 10. Source: Modelling housing outcomes based on data from census, population projections (Statistics New Zealand), HUD, MBIE, and Kāinga Ora.

Low levels of alternative housing outside the market means that over 85.3% of Nelson households who are not adequately serviced by the housing market in 2021 are in unmet need. This is up from 84% in in 2018.

6. PATHWAYS TO MEETING NELSON'S HOUSING NEEDS

This analysis show that Nelson has long been characterised by housing stress. This has worsened over the last two decades or so in both in the rental sector and in owner occupation. Compared to Marlborough and Tasman, the deterioration in Nelson has been more muted, but that is, in part, due to the higher levels of benchmarked housing stress in Nelson at the base period of the analysis in this report.

There is a growing misalignment between rents and incomes, as well as house prices and incomes. This is likely to continue unless investment in affordable housing can be attracted to Nelson. While it is often argued that 'sunshine' wages and salaries generate this misalignment between housing costs and households incomes, the reality is that median household incomes have increased from 1996 by 124%. The fundamental issue is that both median rentals and lower quartile housing prices have increased by much more. Median market rents have increased over the same period by 173% and lower quartile house prices have increased by 402%.

There is a significant under-investment in non-market housing in Nelson relative to the extent of market exclusion. Although there has until recently been a significant council stock this has been transferred by sale to Kāinga Ora with little immediate expansion of long-term affordable housing. Moreover, for seniors in need of affordable secure rental housing who were not resident in council housing at the time of stock disposal by council, this sale heralds a potentially precarious housing future.

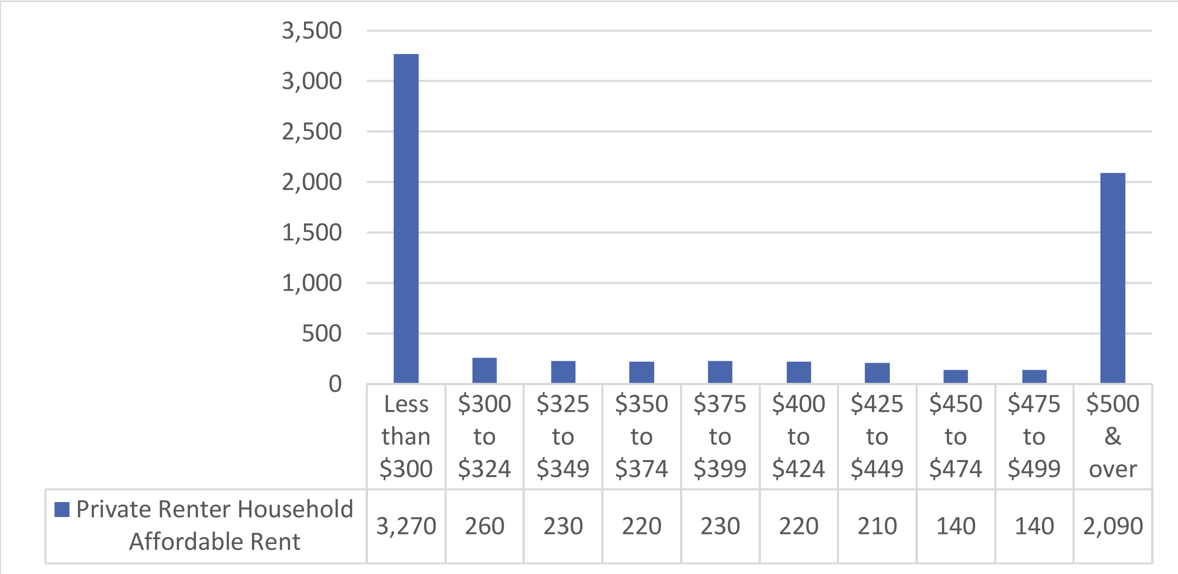
Community well-being and the vibrancy of the local economy is compromised by situations in which the housing costs of substantial numbers of households are excessive. Households experiencing unaffordable housing and severe housing stress are forced to limit their consumption of goods and services. The lack of affordable housing has been repeatedly identified as a barrier to employment, business expansion and local well-being. Those anxieties are supported by the data and analysis in this report.

It is estimated that in 2021 there are around 4,490 households whose housing needs can not be met by the housing market. The vast majority (around 3,830) of those households are not having their housing needs met through non-market housing providers. The intermediate housing market (private renter households who have at least one member in paid employment, unlikely to be eligible for public housing, and are unable to affordably buy a dwelling at the lower quartile house sale price) is growing rapidly.

In June 2018, 59% of Nelson renter households (3,970) and 15% of all Nelson households were in the intermediate housing market. In 2021, 66% of renter households, some 4,630 households, were in the intermediate housing market. That is a 17% increase over 2018 to 2021. This is lower than the proportional increases in the intermediate housing market found in Tasman (25%) and Marlborough (41%).

Figure 6.1 shows, the price points needed for affordable rent are for the most part significantly lower than median rents as measured by flow rents in Nelson. In 2021 those sat at $460 weekly.

Figure 6.1 Maximum Affordable Weekly Rent for Renting Households in Nelson 2021



These statistics suggest there is significant demand (3,270 households) for affordable rental properties in Nelson targeting households with incomes of less than $65,000 per annum (the income required to be able to meet the affordable rent benchmark at $300 per week). The large number of renter households who are unable to affordably pay $300 or more per week in rent have limited options.

However, the affordable rent analysis in Figure 6.1 also shows in excess of two thousand (2,230) renter households who can afford more than $475 in housing outgoings weekly. This suggests that some renters could enter owner occupation if:

- the supply of lower quartile priced housing was adequate and suitable; or
- alternative tenure products such as those typically offered by the community housing sector were available.

If there were affordable alternatives to rental housing, the rental sector could be depressurised both in relation to supply and to price.[17] That involves developing pathways out of rental. Table 6.1 and Table 6.2 provide estimates of the number of Nelson's renter households able to affordably become owner occupiers assuming:

[17] The importance of de-pressurising the rental stock has been recognised in a number of jurisdictions, but perhaps most notable is Germany, which has long epitomised high quality, secure, affordable rental provision. Germany recently returned to assisting in the provision of owner occupation and intermediate tenures as a way of taking pressure of the rental market.

- A mortgage interest rate of 4.5% on a 25-year term;
- The purchaser has a 10% deposit; and,
- The purchaser spends no more than 30% of their gross household income servicing their mortgage.

In both tables, the equity share percentage assumes the occupier purchases a percentage of the dwelling and an equity investor retains the other remaining percentage. Equity share by the resident ranges from 50% to full ownership (100%) assuming a mortgage. For example, 80% assumes the occupier purchases an 80% share of the agreed price for the dwelling and the provider (typically a CHP) retains the remaining 20% ownership.

Table 6.1 presents the total renter household numbers able to affordably buy a dwelling priced at $750,000 and at the lower quartile house price of $572,500 with a range of shared equity margins.

Table 6.1 Estimated Number of Renter Households Able to Affordably Buy a Dwelling priced at $750,000 and the 2021 Lower Quarter House Price ($572,500) by Equity Share in Nelson

	Renter households able to affordably buy by Equity Share				
Purchase Price	**100%**	**80%**	**70%**	**60%**	**50%**
$750,000	790	1,210	1,560	2,040	2,600
Lower Quartile Price	1,530	1,990	2,360	2,910	3,490

Table 6.2 presents the number of renter households with incomes of less than $100,000 annually who could affordably buy under similar conditions and price point. Equity share figures range from 50% to full ownership with a mortgage. That is, 80% figure assumes the occupier purchases 80% of the dwelling and an equity investor retains the other 20% including all renter households.

Table 6.2 Estimated Number of Renter Households Earning Less than $100,000 Annually Able to Affordably Buy a Dwelling priced at $750,000 and the 2021 Lower Quarter House Price ($572,500) by Equity Share in Nelson

Purchase Price	Renter households earning less than $100,000 annually able to affordably buy				
	100%	**80%**	**70%**	**60%**	**50%**
$750,000	0	0	160	480	920
Lower Quartile Price	0	310	680	1,230	1,810

The importance of low-cost housing production is evident in this data. Between 1,530 and 3,490 renter households could affordably access owner occupation at Nelson's lower quartile sale price, but even with a limited 50% share only 2,600 households could do so at a $750,000 price point (Table 6.1).

For renter households with household incomes less than $100,000 annually, share equity of 70% or less would be necessary for a Nelson renter household to access owner occupation on a $750,000 price-point dwelling. Even at 50% of share only 920 renter households could enter owner occupation at the $750,000 price point (Table 6.2). By contrast, 1,180 modest income households could do so at $572,500 price point and a 50% share.

7. MAKING A DIFFERENCE

It is clear that Nelson continues to have unresolved housing pressures for low- and modest-income households inside and outside the workforce. It is also clear that unmet need is increasing and there needs to be a sustained production of and access to affordable housing for the wellbeing of Nelson households facing affordability stress. The data suggest that Nelson will require a diversity of tenure, dwelling typology and price points as pressure rises through an ageing population, an increasing population of seniors with limited disposable incomes, and a younger workforce over-burdened by rental costs and under-supplied with owner-occupation opportunities.

Any organisation seeking to improve the supply and access to affordable housing needs to:

- Ensure it avoids crowding out other actors and providers operating in the affordable housing space. This means ensuring that the focus of activity does not substitute or backfill what others already do or are responsible for.
- Recognise that the decline in the access of low- and modest- income households to owner occupation has driven them into the rental market. Those who previously relied on rentals find themselves in very precarious housing or homeless as others with more resources crowd into the rental stock.
- See housing investment and provision as long-term and having multiplier effects, especially when providing for the intermediate housing market and when collaborating with other providers and investors with an interest in long-term, secure affordable housing. That collaboration could be across tenures.
- Develop vehicles that allow affordable housing providers to either recycle invested capital across multiple households and tenures or by retaining the housing stock as affordable.
- Promote tenures that provide opportunities for households to leverage their own resources and provide an opportunity to stay within the Nelson community.
- Recognise that diversity in stock typology and diversity in tenures provide choice and adaptability.

In making decisions around investment in housing it is important that new builds are affordable to operate whether they are purchased or rented. They also need to be adaptable and functional in the context of changing household needs and be suitable for all ages and stages. It is also important that housing investments and products provide for preferences and choice. In this regard Rātā Foundation needs to be clear about the different nature of preference and choice.

In simple terms, preference refers to the relative desirability of housing and its amenities while choice refers to the decision of selection. It is also important to recognise that abstract preferences do not necessarily determine choices. Nor, indeed, where there is no likelihood of making a choice, are expressed preferences the same as expressed preferences when alternative choices can be made.

Housing preference surveys can be particularly problematic in addressing issues of preference and choice. Such surveys often have significant limitations in representativeness because of selection bias (despite weighting techniques designed to mitigate those problems) and data which does not allow analysts to distinguish between abstract preferences and likely or practical choices.[18]

More discursive and mixed method research with diverse populations have indicated a series of continuities in aspirations and preferences across vulnerable populations and households often struggling to get viable choices in housing markets. These have been summarised in the Urban Christchurch/Ōtautahi report of housing need and futures as:

- *Tenure security*
- *Comfort and warmth*
- *Safety in the home, including a basic level of accessibility*
- *Safety in the neighbourhood*
- *A location that enables access to services and amenities*
- *Sense of control over their living environment*
- *Housing affordability, for both owner-occupiers and tenants*
- *An appropriately sized dwelling to accommodate the household's needs and activities.*[19]

These aspirations and preferences apply irrespective of region. A more detailed analysis of research about preferences and trade-offs is presented in the Urban Ōtautahi report.

It should be noted that the desire for some form of independence and ownership stake in dwellings remains a strong aspiration across age groups, life stages and ethnicities in New Zealand. The research also suggests that affordability problems are rooted in under supply of affordable rents and house prices. Builder, developer, development financiers and real estate conservatism and, sometimes planning regulations, act as barriers to people accessing the housing features that they prefer or need. The result is that in New Zealand housing choices are typically limited and often poorly suited to the functional needs of many households.

Nelson and Tasman have recently released a joint survey of housing preferences which demonstrates the importance of generic dimensions of housing preferences.[20] These are consistent with a raft of research undertaken in New Zealand and elsewhere: the

[18] Jansen, S., H. Coolen, and R. Goetgeluk (eds) (2011).
[19] Mitchell, Saville-Smith and James (2021).
[20] Yeoman, Akehurst and McLean (2021).

importance of sunshine, the desire for both secure housing and security within neighbourhoods from crime and natural adverse events, and connectivity.

It also demonstrates in relation to location, tenure preferences and dwelling typology that responses to these types of surveys tend to be driven by aspiration and preference rather than the practicalities or necessities of choice and decision-making. Free-hold, single storey and detached dwellings remain preferred. These are modified a little through surveying techniques designed to prompt constrained and unconstrained differentiation of preferences by respondents. The direction of travel, for instance, the heightened preference for multi-unit dwellings under constrained choice prompts should be treated as more robust than the quanta itself.

The sustained production of, and access to, affordable, functional housing is dependent on:

1. Commitment to the production and delivery of decent, affordable dwellings.
2. Designs and production costs with right-priced land, labour and materials to produce at affordable price points.
3. Investment necessary to fund affordable builds which can deliver an adequate income stream.
4. Housing products and financial vehicles that allow households to access housing at an affordable cost.

For Rātā Foundation, like all of those interested in investing in, or delivering affordable housing, partnering and innovation is required if it is to contribute to resolving Nelson's persistent problems with affordable secure housing. There are headwinds due to Covid impacts on material and build pipelines which are nationally experienced. Those challenging conditions, however, do provide a hiatus in which partnerships, investment vehicles, and housing products and vehicles for household can be developed.

Those products and vehicles include different tenure vehicles used overseas and some here in New Zealand such as:

- 'Occupation right' agreements are increasingly familiar within the retirement village sector. Nelson is well endowed with an active and longstanding retirement village sector. Retirement villages are, however, viable alternatives for seniors with existing equity and incomes additional to national superannuation.
- Intermediate tenure vehicles already established by community housing providers such as Queenstown Lakes Housing Trust, Marlborough Sustainable Housing Trust, Dwell, the Housing Foundation, Habitat and others as well as heralded in the Government's progressive home ownership programme.
- In Nelson, the Nelson Tasman Housing Trust, a longstanding housing provider, has been strongly focused on building a stock of long term affordable rental houses some of which are subsidised through the income related rent subsidy.

- Rent for own, secure housing in which builds are on land owned by communities and the dwelling is owned by occupants. Again, Queenstown Lakes is a leading actor in this space.
- Abbeyfield arrangements in which shared rentals provide enough rental income for senior housing to be built. Nelson has been on the cutting edge of Abbeyfield development in New Zealand. The Abbeyfield National Office is located in Nelson.
- Papakāinga (usually shared ownership, occupation right agreements or rent). There are significant opportunities here as iwi and hapu begin to focus on housing.
- Unit title developments and buildings.
- Co-housing.
- Co-operatives such as the Peterborough Street Co-operative in Christchurch, provide a New Zealand example. The tradition of housing co-operatives is more widely spread and of longer standing in Europe and Scandinavia.

Unit titles, occupation right agreements and co-housing are not currently strongly 'pitched' at affordable housing for low- and modest- income households. Nevertheless, they can all potentially respond to the declining ability of renter households to affordably buy a dwelling as house prices have increased faster than household incomes.[21]

There are very real opportunities around co-operatives both for worker housing and for seniors. Housing co-operatives are rare in New Zealand but are well established overseas. Mitchell's (2021) modelling suggests that for a region such as Nelson with an increasing population of seniors, co-operatives may offer an opportunity to address the gathering storm around seniors housing. His analysis of returns on 'patient' or friendly capital where co-operatives involve a mix of senior retirees and households in the workforce with modest incomes, suggests co-operatives can provide a modest return on capital as well as have a long-term sustainable budget.

The viability and efficacy of these different vehicles needs to be assessed on a case-by-case basis according to the interests and relationships with potential partners. In particular, Abbeyfield has a strong presence in Nelson. Habitat for Humanity in Nelson is delivering progressive home ownerships and The Nelson Tasman Housing Trust has around 50 affordable rental units.

Nelson is in a period of transition. The Council sold its council housing which served seniors and is developing a Housing Reserves Fund to seed new initiatives. The development of the fund focus and delivery has been subject to significant pressure to deliver funding quickly, particularly grant funding. The result of this has been what appears to have been a 'carve-off' of $2 million through grants: $850,000 for five affordable rental homes has been

[21] Mitchell (2018) references and assesses many intermediary tenure vehicles and their application and potential in New Zealand.

granted to Nelson Tasman Housing Trust (NTHT) while fourteen dwellings in Stoke have been sought through granting Habitat for Humanity Nelson $1 million. Two will be developed as affordable rentals and twelve will be delivered through Habitat's Progressive Home Ownership (PHO) programme. There is also interest from organisations with national responsibilities and interests. Community Finance is an emerging non-profit with an interest in supporting affordable housing through impact finance.

The issue of how Nelson City Council can get the best value out of the Nelson City Council Housing Reserve is still unclear. It is clear that grants have limited lives in terms of the capital of such a fund. It is also clear that there is significant pressure on backfilling the traditional activities of the existing CHP sector. It is not clear whether the gap generated for the future in relation to seniors by the sale of the Council stock will be filled and by whom. Equally it is unclear, whether the Council would see further partnership around housing possible.

There may be some beneficial opportunities in the context of its town centre holdings and desire for environmentally driven intensification which would allow the diversification of stock and household provision. There may be opportunities to generate yield and typologies consistent with affordable price points. While multi-unit dwellings do not necessarily generate affordable price points, it is equally true that low density and low site coverage are problematic for affordable housing development. Intensification and its benefits can be achieved through a variety of building typologies and sizes within a neighbourhood or development.[22]

[22] Popal (2020); Diamond (1976); Taylor (2008).

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