



PUB/24

Executive summary: Performance of rental housing v3

A report prepared for Beacon Pathway Incorporated

October 2014



1 Executive summary

This resource brings together the core facts and knowledge, drawn from a range of publications and research, about the performance of rental housing in New Zealand, legislative, policy and social factors affecting it, and how it can be improved.

1.1 The rental dynamic

Any consideration of rental housing needs to take account of the rental dynamic, i.e. the interplay between house quality, the tenant and the landlord. Each is interdependent: actions and changes in one will determine outcomes for the other two

1.1.1 House quality

A substantial body of research shows that New Zealand housing is cold and damp, with temperatures and humidity regularly falling below the World Health Organisation's recommendations. House condition surveys indicate that, overall, rental stock is in the poorest state. At the same time, there is increasing evidence of the adverse impact of poor housing on health, wellbeing, education, welfare and employment. Cold, damp and inefficient housing has been linked to a range of physical symptoms, diseases and injuries, and with a high excess winter mortality rate. Aside from physical health impacts, poor housing has been shown to impact mental health and even educational attainment and lower social status. The links between poor house quality and New Zealand's high incidence of child poverty are well recognised. Alongside this, home heating, energy costs and fuel poverty are key housing issues with implications for health.

The quality of our indoor environment results from the interplay among four parameters: temperature, ventilation, relative humidity and sources of pollution. Beacon research indicates that significant upgrade of our housing stock is required to truly reach the indoor environment quality that supports health, i.e. occupants enjoy WHO temperature and humidity recommendations. House quality to achieve these outcomes includes: a good thermal envelope; no dampness; mechanical ventilation; and efficient heating (no unflued gas heaters). This demands a range of interventions determined by a whole-of-house perspective. House quality also takes into account typology, size and location - when mismatched with tenants, these characteristics can result in overcrowding and additional health needs.

1.1.2 Tenants

Increasing numbers of New Zealanders rely on rental accommodation. This affects households with working parents and children as well as our most vulnerable citizens (impoverished families, children, elderly and the infirm). The make-up of tenants has changed with a new 'intermediate housing segment' of older households, with at least one member in paid employment, including those with children, who cannot afford to buy their home

Approximately half of New Zealand's children under five years of age and 21% of adults over 65 live in rented houses; both are more vulnerable age populations due to their susceptibility to illness and health issues caused by environmental factors. In addition, fifty percent of households in the private rental sector are financially stressed, i.e. they spend more than 30% of their household income on housing. Council stock (1%) primarily houses elderly and disabled tenants. Central and local government and the third sector invest heavily in these families: directly with financial assistance such as Income-Related Rent Subsidy or Accommodation Supplement, or through health and education.

The Housing Shortage Action Group has compiled a housing continuum ranging from extreme need (300 urban, 1000 rural homeless) to substandard/temporary housing (20,000) to state housing (67,700) to private sector rentals (467,700) to home ownership (1,082,200). From this, Community Housing Aotearoa has developed a housing continuum which offers a view of the whole housing market and examines who is involved in which aspects of the market. CHA would argue that all segments of the Housing Continuum must be functioning for a healthy housing market. If a household's journey along their pathway is to be supported then policies and programmes have to be coordinated to avoid creating barriers. Security of tenure and resident choice is valued – a household can remain connected and engaged within a community rather than moving as their needs change.

The recently published Māori Housing Strategy identifies the distribution of Māori across housing with 22,184 HNZ tenants (34.5% of all HNZ), 57,098 Māori receiving the Accommodation Supplement (28.2% of all recipients) and 87,768 Māori households in private rental (19.5% of all private rental households).

1.1.3 Landlords

85% of the country's rental housing stock is in private ownership with the remainder in social housing (i.e. landlords are government, council, third sector). The main owners of rented housing are:

- Private landlords (480,000 units). The majority of people with one or more dwellings in the rental market are largely passive investors in property and do not see themselves as running a rental business in a service industry. They have a low investment in management and the acquisition of the skills necessary to manage tenants or property.
- Housing New Zealand (67,700 units)
- Councils (14,000 units, with Christchurch the biggest holder at 3,000)
- Community organisations not-for profit, third sector (5,000 units, with IHC largest provider at 1,105 units and other 50-100 providers each typically managing 20 units).

New Zealand homes are chronically under-maintained and perform poorly, and rental housing is no exception: few landlords invest in regular maintenance and undertake whole-of-house upgrading.

1.2 Rental housing market

New Zealand's rental market can be categorised as:

- Social housing: where the landlord is central/local government or “proxies” (e.g. the developing third sector); tenants are recognised as vulnerable and are supported by a range of government agencies; the house quality is managed by landlord asset management programmes (generally of a consistent standard, unclear if high enough to support health outcomes as advocated here).
- Private market: where the landlord is private person; tenants pay market rent with no government assistance; and quality of homes may be actively managed (and achieve very high standard, e.g. new apartments built to code) or not managed at all (with resultant range of quality down to the very poorest accommodation options).
- Mixed rental: where the landlord is a private person; tenants pay market rent but receive government accommodation assistance or support because of very high health needs (so not tied to the house, but may be adversely affected by the quality of the home); and the house ranges in quality as per the private rental stock.

The rental housing market is impacted by challenges faced by the housing market: affordability and supply. Some parts of New Zealand have a shortage of homes as new house construction is below demand from population growth, household size change and migration. Demand for new housing is estimated to rise by more than 20,000 households per year: most of that growth is predicted for the Auckland region. Christchurch is also under severe pressure with loss of stock from the earthquakes and increased demand for rental housing over the repair process. New Zealand has seen a significant decline in housing affordability; real house prices are accelerating faster than income. These high costs make it harder for the renters that were hoping to rent only for a short time while saving to buy a home. Rental housing markets vary across the country, with Auckland and Christchurch under considerable pressure.

A number of interventions have been launched in recent years:

- Five councils (Auckland, Tauranga, Wellington, Christchurch and Dunedin) have trialed a Warrant of Fitness developed by University of Otago, Wellington (UoOW), alongside the New Zealand Green Building Council (NZGBC) in 2014. The aim of the pre-test was to analyse the practicalities, utility and cost of a draft rental WoF scheme. Items on the WoF are recorded as either a pass or fail: a home fails the WoF if 31 criteria are not met. Of the 144 houses assessed, only 6% passed.
- In 2014 HNZ trialed a Warrant of Fitness scheme designed to ensure all houses are meeting a minimum health and safety standard. If the trial is successful, the intention was to complete a Warrant of Fitness for every state house every three years. The Warrant of Fitness is being developed by the Ministry of Building, Innovation and Employment with a Technical Advisory Group.
- A new programme certifies Home Performance Advisors to provide a full assessment, diagnosis and recommendation to homeowners, landlords and tenants suffering from cold, damp or resource-hungry homes. Advice provided is independent and based on best practice, ensuring New Zealanders get the information they need in order to move towards a warmer, drier, healthier and more energy efficient home.
- Rate My Flat is a new enterprise started by Otago University graduates to support the upgrade of Dunedin student rental accommodation. In its pilot stage, the team is currently asking students to rate their flats via an online questionnaire. The aim is to share information about flats within the student community and engage with landlords.
- Homestar™ is New Zealand's only residential rating tool, and while not just for rental housing, it is a housing intervention that could help landlords and tenants share information about housing quality.

1.3 Policy and legislative context

Despite the critical role housing plays in supporting New Zealand families, particularly our most vulnerable communities who have no choice but to rent, the rental housing market is unregulated and fragmented. Institutionally, the rental housing sector is complex: no single central government agency is responsible for housing quality; multiple Ministers have a role in rental housing; formal rules governing rental housing are spread across different pieces of legislation; and, roles are played by several agencies within central and local government. Rental housing is subject to a range of key pieces of legislation, with an associated complex picture of responsibilities divided among four Cabinet Ministers, two Ministries and one Crown Agency as well as Local Authorities and District

Health Boards. A summary of the main aspects of each is available in Annex A: Summary of Legislation. In addition, local government has several important responsibilities for rental housing and acts as both legislator and landlord. The rental housing sector is the subject of significant new policy direction as the government seeks to grow the third sector of Community Housing Organisations. The result is lots of change and uncertainty as new relationships and responsibilities are playing out.

In addition, existing information is scattered: BRANZ and Statistics NZ hold some rental house condition survey data; MSD holds information on tenants receiving Accommodation Supplement; and MBIE holds bond information. Central government agencies are not allowed, due to privacy rules, to align their datasets. The outcome is that no one agency holds all the parts of the jigsaw: home, tenant and landlord. This undermines the development of a good evidence base from which to make policy decisions.

1.4 Barriers and solutions

At first glance, improving outcomes for **social housing** is straightforward as government is active in all parts of the dynamic. In theory the government sets the rules for itself, so it could implement high housing quality requirements, and some would argue, given this market is responsible for our most vulnerable citizens, it should. The Warrant of Fitness is a start in clearing out the houses that are not fit for healthy living. Ideally this is the first step in an asset management programme that builds on good maintenance and progressively intervenes to improve housing outcomes with performance upgrades. The social housing sector would be the easiest place to establish robust knowledge, gather data, and understand how to optimise the parts of the rental dynamic to improve outcomes. In reality, it is more complex. There is not one central government agency managing the dynamic: tenants fall under MSD; HNZ is both landlord and manager of house quality

The **private market** is complex and informal: Anyone who owns a house can be a landlord and the role is sometimes, but not always, backed up by property management. While house quality should meet council safe and sanitary regulations, these rules are rarely invoked and only in desperate situations. Tenants operate in the market with no formal information to underpin their decisions to rent one house over another. Tenants in Auckland and Christchurch have little choice due to the housing shortages in these cities: this will relegate home quality down the decision-making process. Tenants have little easy redress in the private market: they can go to the Tenancy Tribunal or vote with their feet.

The retrofit market is immature: landlords have very low awareness of requirements to maintain the asset, let alone performance upgrade interventions. There is low landlord engagement with independent advice and low capacity to fund interventions. The majority of landlords own rental properties for capital gain. This means few make budget allowance for maintenance and upgrades of their rentals. The New Zealand market does not value home performance; land price dominates sale price, which reduces a landlord's financial incentive to invest in upgrades (true for all New Zealand stock).

A Warrant of Fitness is the most often cited solution to rental housing performance. The public debate surrounding the current trials has arguably raised awareness of housing quality among both landlords and tenants. Beacon would argue that while the WoF is an important step to catch the truly appalling accommodation offered for rent, it is a bare minimum. Houses that pass the WoF may still

be cold and damp and deliver poor outcomes for tenants. Ideally, a WoF would be the first step on a longer maintenance and upgrade journey for landlords and their rental houses.

Several issues remain to be resolved in the fledgling WoF initiatives. These need informed public debate and political engagement:

- What is the optimal status for a NZ WoF – voluntary or mandatory?
- Independence – the WoF should be independent of any product or solution.
- Whether mandatory or voluntary, what might a landlord do who fails a WoF?
- What are the potential unintended consequences?

The **mixed rental** segment has an added layer of complexity; the private rental market houses tenants who receive government support. This means government has a real stake in this housing, tenants while not in the social housing sector are still considered vulnerable, and while landlords are managing tenants who may have high needs, they do have some security of rent. While sharing elements of both the private market (technically landlords and house quality are private) and the social housing segment (tenants), this is quite a unique dynamic when considering how to improve housing outcomes.

1.5 Recommendations

Beacon recommends that health and well-being outcomes be considered alongside any Warrant of Fitness. Warrants of Fitness proposed to date are a very low standard, designed to capture the worst stock, which we acknowledge is important. However, homes that pass such a WoF may still be cold and damp, so the health and well-being outcomes sought will not be met.

If a WoF is under serious consideration Beacon strongly recommends there is only one measure for all New Zealand homes. We would also advocate that the WoF is only the first step for New Zealand homes that should all be on a longer pathway towards the warm, dry, efficient homes all residents need. A first step would be to share the Warrant of Fitness developed for HNZ to inform the market and provide leadership that prevents multiple schemes being developed.

A New Zealand Rental Housing Strategy for social housing would improve planning and management of this critical national asset. This would provide essential structure to address the fragmentation of rental housing across ministers, ministries, Acts of Parliament, councils, policies, Community Housing Organisations.

Beacon recommends that all New Zealand rental housing must meet the Building Code by 2025 with a pathway that requires social housing meet the Code, followed by all rental properties in the mixed market (tenant receives a government subsidy) and finally all rental properties (and perhaps all houses!). The trigger could be the sale of the home.

Councils could explore how they might engage with rental housing from within their existing safe and sanitary obligations. Councils could start by interpreting the rules to develop a checklist, trial it on their own properties before engaging with the private sector landlords. Central government could share its insight from decades of providing and maintaining social housing stock with other stakeholders who provide social housing (and ultimately the mixed rental and private market). Government could use the information and insight it has from managing its own stock and

understanding the links between home performance and health, to raise national awareness of warm, dry, well-maintained homes as a means of improving housing outcomes.

Further research is recommended into the best models for improving housing outcomes and a comprehensive analysis of the true costs of New Zealand's poor housing on taxpayer funds, particularly on health, well-being, productivity, resource efficiency (water and energy), affordability.

Greater connectedness is suggested particularly in ensuring information across government, and Beacon recommends that Government considers developing a single agency which holds all parts of jigsaw together: health, building standards, social housing, liaison and support to Community Housing Organisations and tenant support.

Beacon recommends that any upgrade scheme is based on independent whole-of-house advice, so any taxpayer-funded intervention programme that changes performance of homes relies on appropriately trained providers. Certified Home Performance Advisors and Eco-design Advisors in Council provide this type of input to optimise asset management.

In relation to the mixed rental segment, Beacon recommends that central government undertakes research lead some joint initiatives to improve understanding of who in this mixed rental segment is supplying houses to vulnerable tenants and the quality of the homes, with a view to engaging with landlords and transferring the learning from social housing intervention to this market. Given mixed rental tenants are vulnerable, we would recommend government trials an improved mechanism for these tenants to engage with officialdom regarding quality of their home: the current Tenancy Tribunal is recognised as a barrier for tenants