

Economic and policy analysis of affordable housing

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28 June 2012

Partnerships in Social and Affordable Housing

University of Otago Wellington



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1 Intro

- Adequacy of **affordable** housing stock a wider set of issues than adequacy of **social** housing.
- Social housing a particular subset – ‘ability to pay’ issues
- Widening income inequality -> declining home ownership; shortfall in construction
- Flow thro to pressure on rents; affordable housing market

2 A conventional econ perspective

- Focus is on supply and demand, incentives, and information
- ‘Supply’ emphasises cost factors
 - In Chch, insurance and pricing /segmentation
 - In Auck, capability to deliver higher density projects
- ‘Demand’ focuses on ability to pay, changing demographics

A conventional econ perspective [2]

- Conventional analysis useful BUT
- Under-emphasises some key factors:
 - spillover or externality effects
 - information costs
 - transaction costs
 - regulatory costs
- Will illustrate some of these

Externality effects

- Certain areas develop reputations for poor housing quality
 - Risk of low sale prices can unreasonably deter investment in some areas
- Low density housing imposes external costs on commuters (like congestion)
 - Market overprovides low-density housing which imposes costs on other residents, and underprovides high density housing

Transaction costs

- E.g. cost of assembling complex and fragmented land parcels to enable a significant scale redevelopment
- E.g. consenting uncertainty and process delays

Regulatory costs

- E.g. higher environmental standards, such as for home insulation, and double glazing
- These are desirable for good health and environmental reasons
- BUT they do create an affordability challenge
- To put this issue in perspective, need to take a **broader view** of affordable housing

3 A broader view of the 'economics' of affordable housing

- Affordable housing fulfils important **social and cultural** functions
- Many **health benefits** have **public good** features (though some are private goods)
- Hence the case for minimum quality **standards** (analogous to, say, minimum quality standards for safety and energy efficiency of appliances) or **subsidies**

A broader view [2]

- Housing has significant implications for the **environment**, e.g. carbon emissions arising from its production, location and inbuilt energy use features
- Housing's location and density strongly influence transport emissions
- In short, 'good quality' housing provides a range of 'co-benefits'.

A broader view [3]

- Critical connection: the market will **underprovide** affordable housing provision with significant co-benefits / public good features
- Markets left to themselves do not handle public goods adequately.
- Solution choices are essentially – **tax** housing **without** such public good features OR **subsidise** housing **with** such features

A broader view [4]

- Clear role for government in regulating minimum quality **standards**, and/or **subsidising** good quality affordable housing, in line with public good features.
- Also, society as a whole takes a **longer term view** (a lower discount rate) than individuals. Hence rational for society to subsidise housing insulation, for example, or to subsidise it, but for individuals, it can be a short-term affordability challenge.

4 How are failures/gaps manifested?

- Local authority capability gap: SUDU noted (2008) there are opportunities to develop “model district plan provisions capable of being adapted for specific local circumstances (to encourage public transport-oriented, higher-density areas).”

Gaps [2]

- Also, capability gap in terms of organisations who can put together a package to deliver (and if possible maintain over time) good quality affordable housing at scale in the main (new) housing markets of Auckland and Christchurch

Gaps [3]

- Package elements needed include:
 - Land aggregation & development capability
 - Regulatory issues management & relationship management (government, public)
 - Ensuring public authorities invest in provision of public infrastructure and amenities
 - Tenancy and sales management.

5 What contributes to the gap?

- In past, lack of stable support for housing providers from central govt
- Govt needs reciprocal commitment and expertise, so that govt can develop trust in delivery
 - And able to rely on good management & transparent accountability of the delivery organisation

6 Need for state support

- State needs to draw on a source of funding that is politically low-cost, and this may exclude or limit direct subsidy support.
- Hence the search for other means of ensuring State funding support.

State support options [2]

- A strong case for recycling value uplift, using a **value uplift levy**, as an implicit housing subsidy.
- Note: Much of the value uplift accrues because of provision of public amenities such as roads or rail links, schools, police services and health facilities

Value uplift levy

- If the developer is the **local authority**, this value uplift (capital gain) can be used to finance further development or can be realised (returned to a “trust”) if some units are sold.
- If the developer is a **private sector organisation**, a value uplift levy capturing a proportion of value uplift on privately owned land redevelopment can be used to finance assistance to affordable housing, in the development in question or elsewhere.

Public good benefit

- Vital that any housing 'trust' involved does not fritter away these gains through hidden value release in below-market sale prices, or rent subsidies to non-social tenants.
- Also important any subsidy be used to increase provision of **medium to high density** housing, rather than promoting low-density sprawl

7 Conclusion

- Both conventional econ analysis and broader analysis are useful
- Affordability not the only goal; ultimately, factors such as carbon mitigation and the quality of life of our urban settlements may matter more
- Critical problem seems to be capability gap - organisations who can put together innovative & successful packages

Conclusion [2]

- Creative state support for overcoming this problem will have to address the rub of subsidies – e.g. new ways to capture and use some value uplift to subsidise new affordable housing development

Thank you.



Affordable housing in Vauban, Freiburg, Germany
[Source: skyscrapercity.com]