



# Housing affordability

*A paper prepared by the PPTA executive*

## Background

For the 2008 Annual Conference, the Auckland region prepared a paper on the issue of housing affordability, calling for a taskforce to be established to consider the issues.

The Housing Affordability Taskforce was established, with representation from several regions including Auckland. Some of the representatives from other regions had previously lived and taught in Auckland.

For those who live in communities with high average incomes, the perception of relative disadvantage can be strong. The taskforce commends the Auckland region for taking a perspective that allowed them to engage in objective deliberations on a potentially thorny issue. While few come into teaching expecting to reach the earning capacity they might have achieved in the private sector, they recognise other benefits. For many, the prime focus is service. The question is how to prevent teachers in some areas from being forced away from teaching by the impact of the financial stress of house ownership or rental in some areas.

## Measuring housing affordability

Officially, regional housing affordability is measured by comparing median housing costs (house price, mortgage costs and rental costs) to median incomes for the same area.

Since teachers have comparable individual incomes regardless of location, then if we assume that the house price is generally proportionate to all associated housing costs (the size of the deposit, the mortgage cost and associated other costs) then the median house price alone within an area is likely to be a reasonable comparison of affordability within the teacher-only group. This is, however, not strictly accurate, since many if not most teachers will be in double income households and their partners' incomes will be, on average, higher in regions with high median house prices, and affordability will depend upon the total income available to the family.

It is also acknowledged that the cost of purchasing or renting is only one aspect, and that there is a qualitative aspect with respect to the quality of housing you can get for equivalent sums in different parts of a city or different parts of the country.

## Where are the high and low cost housing areas?

Currently, the most expensive housing areas are Central Otago Lakes, Auckland and Wellington. The most affordable housing areas (as measured by average income relative to average house price) are in areas where there is little alternative employment. Southland is the most affordable housing area.



## Housing affordability is not consistent across a region

Housing affordability varies within each area. In June 2008, for example, when the national median house price was \$340,000, Auckland median house prices varied greatly according to the location within the city.

### Auckland median house prices June 2008

District	Median sale price (\$)
Eastern Suburbs	810,000
Milford/Takapuna	730,000
Devonport	710,000
Waitakeres	685,000
Islands Of Gulf	625,000
Albany District	588,000
Eastern Beaches	542,500
Birkenhead	525,000
Mt Eden/Epsom	517,500
East Coast Bays	495,000
Ellerslie/Panmure	484,500
Mount Albert	470,000
Manukau City	442,000
Titirangi	415,000
Mount Roskill	411,800
Upper Harbour	406,500
Glenfield	380,000
Onehunga/Penrose	373,000
Manurewa	361,500
City/Pt Chevalier	352,500
Henderson	338,750
Papatoetoe	320,000
Papakura	320,000
Glen Eden	300,000

Christchurch, Queenstown, Tauranga and Wellington have a similar pattern of distribution of median house prices (although the prices are on average lower). This creates a complication in the use of median house prices, because there is always an element of choice around where people buy or rent homes. Hornby is a more affordably priced housing area within Christchurch, but few teachers choose to live there.

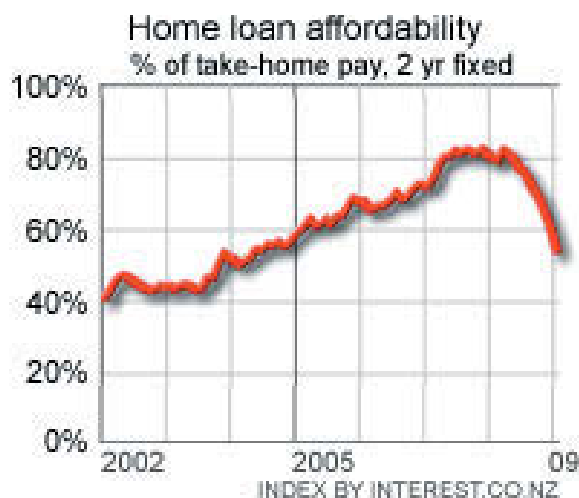
Similarly, since these are median prices, there will be higher and lower priced houses within each district.

None of the major cities are seen to be areas of high housing affordability. The most affordable locations are around towns and centres where there is not a lot of work and often limited prospects. This adds another dimension to affordability. For example, there is one secondary school in the town of Ashburton, some 80km from Christchurch. It is possible to buy a higher-quality property for \$350,000 in Ashburton than for the same price in Christchurch, but often it must be financed from only one (or one significant) income because other family members may not be able to get work in the town at professional rates.

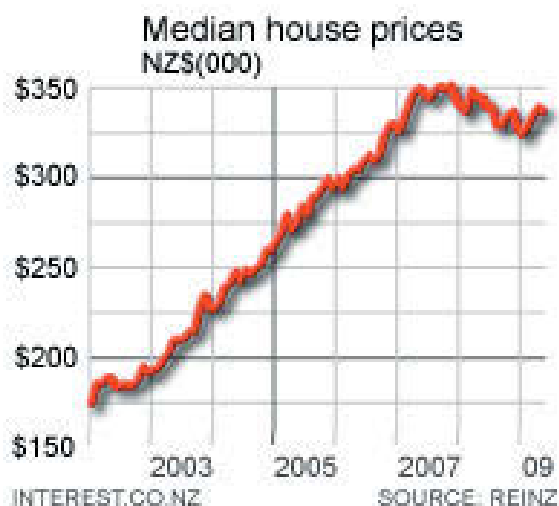
## What has happened to housing affordability?

Although home affordability had deteriorated over several years, it has improved since 2008, fuelled by declines in house prices and mortgage rates. Teachers have also benefited from increases in their take-home pay due to salary increases (4% in July 2008 and 4% in July 2009) and the April 2009 tax cut.

Between 2002 and 2007, the percentage of a standard take-home pay required to meet standard mortgage payments rose from 40% to 83%. By January 2009, this had fallen again to 55%.



House prices dropped by 9% between March 2008 and March 2009.



The Real Estate Institute (REI) reported in June 2009 that the median sale price in May 2009 was \$337,500, down slightly from \$340,000 in April. QV valuation data at that time showed property values were stable.



The REI records indicate that between April and May 2009 median house prices dropped in:

- Waikato/Bay of Plenty/Gisborne (to \$312,000 from \$315,000);
- Hawkes Bay (to \$259,750 from \$270,000);
- Taranaki (to \$261,000 from \$270,000);
- Nelson and Marlborough (to \$330,250 from \$312,000);
- Canterbury/Westland (to \$285,000 from \$295,000);
- Otago (to \$220,000 from \$221,250); and
- Southland (to \$180,000 from \$190,000).

At the same time, median house prices rose in:

- Wellington (to \$380,000 from \$367,500);
- Central Otago Lakes including Queenstown (to \$427,500 from \$400,000); and
- Auckland (to \$450,000 from \$435,000).

Manawatu/Wanganui was unchanged at \$220,000.

On an annual basis, between May 2008 and May 2009:

- Median Auckland sale prices rose to \$450,000 from \$447,500.
- Median Wellington sale prices fell to \$380,000 from \$389,500.
- Median Canterbury/Westland sale prices fell to \$285,000 from \$296,000.

The proportion of houses sold for between \$600,000 and \$999,000 dropped to 10.4%, from 11.6%.

The proportion of houses sold for between \$400,000 and \$599,999 fell slightly, from 23.5% to 23.8%.

The proportion of houses that sold for less than \$400,000 rose to 63.2%, from 61.3%.

Interest rates have fallen by several percentage points over the same period.





Housing affordability is likely to continue to ease as more people move from high fixed interest rates as their terms expire.

At the same time, however, obtaining mortgages has become more difficult. Banks now generally require twice the previous deposit (20% is more common than the previous 10%).

## Rentals

The following data is from April 2009.

Data from the Department of Building and Housing shows weekly rents for two bedroom flats and three bedroom houses in Auckland City fell in March compared with the same month last year. In Wellington City rents rose and in Christchurch City rents remained flat,

The national median weekly rental for a **three-bedroom house** remained unchanged between March 2008 and 2009, at \$310. In Auckland, it fell from \$450 to \$435, while Wellington saw a rise from \$440 to \$470 and Christchurch had a drop from \$325 to \$320.

For a **two bedroom flat** the national median fell slightly to \$245 between March 2008 and March 2009. The median weekly rental in Auckland fell from \$310 to \$300, while in Wellington it rose from \$300 to \$330 and it remained unchanged at \$240 in Christchurch.

## What are the links between housing affordability and recruitment and retention?

The cost of living indices for different parts of the country are similar. The concerns generating the Auckland paper focused on the difference in the costs of buying or renting accommodation and the possible impacts this had on teacher recruitment and retention. This focus on the cost of housing eliminates distracting factors in discussions of the relative cost of living in different areas, such as individual perceptions of relative wealth within the community in which a member teaches (how affluent a person feels compared to those they mix with at work and socially) and, at least to some degree, the issues around the choices individuals make in their lifestyle.

Does the housing affordability measure align with recruitment difficulties? Until major urban schools find it hard to recruit and retain staff, the counter argument is that high-cost housing areas are not a disincentive to teachers.

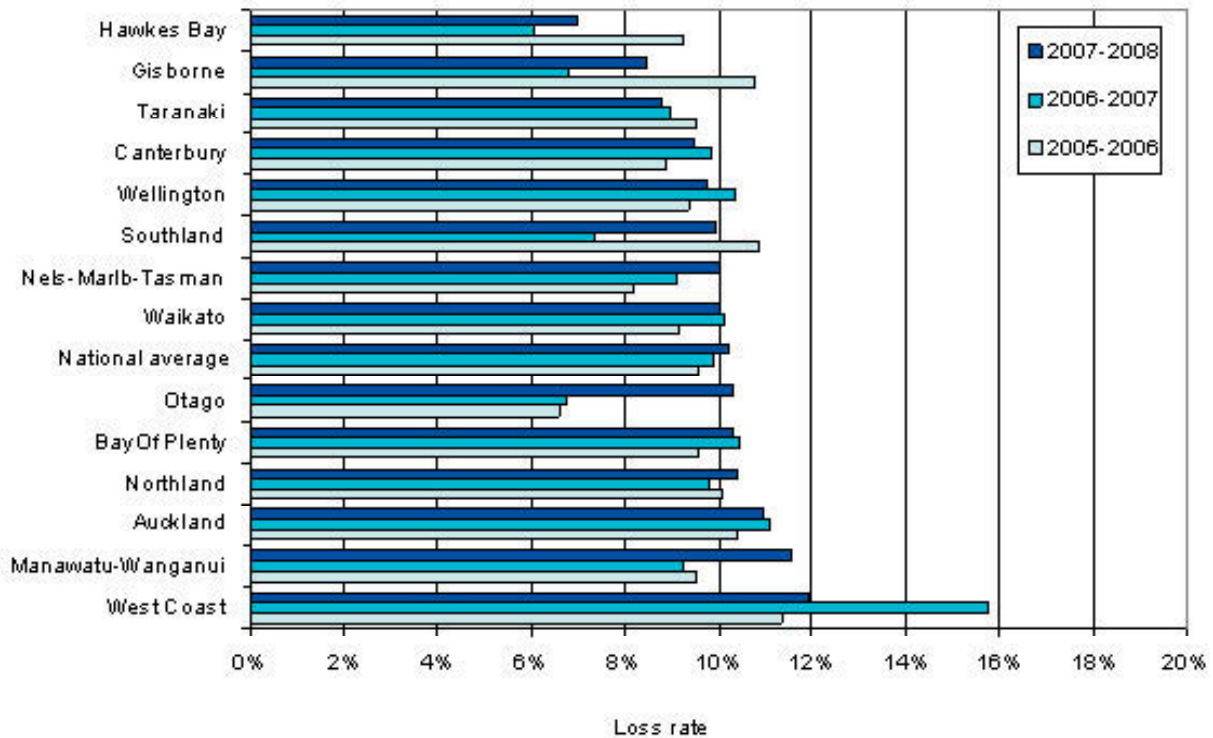
### Retention

Losses in lower housing affordability areas are equivalent to those in higher housing affordability areas.

In descending order, the areas with the highest loss rates were:

- 2007–08: West Coast, Manawatu–Wanganui, Auckland (no breakdown by districts) and Northland.
- 2006–07: West Coast, Auckland, Bay of Plenty and Wellington.
- 2005–06: West Coast, Southland, Gisborne and Auckland.

**Secondary teacher loss rates by region, May 2004–05 to May 2006–07. Data sorted in ascending order of 2007–08 loss rate\*.**



\*Overall loss rate for 2007–08 is 10.2%.<sup>1</sup>

The loss rate measure for 'Auckland' is problematic because it includes South Auckland/ Counties Manukau.

Also, some of the most expensive housing areas, such as Otago, Christchurch and Wellington, are frequently amongst the most stable in terms of retention.

**Recruitment**

A measure of the level of recruitment required is the proportion of advertised jobs relative to the size of the teaching force in an area.

On this measure the regions around Wanganui, Invercargill, Wellington and Whangarei had most recruitment needs in 2008, and Invercargill, Wellington, Whangarei and Hamilton did at the start of 2009.

This may reflect roll growth or local factors (perhaps oddities in the age profile in an area, for example). A measure of the degree of difficulty there is in filling positions is the proportion of advertised jobs which are re-advertised – this reflects more closely, perhaps, the difficulty in filling jobs as opposed to the number of jobs there are to fill.

On this measure, Whangarei, Invercargill, Wanganui and Wellington districts had the greatest difficulty in 2008, and Whangarei, Hamilton, South Auckland, Wellington and Napier had the greatest recruitment problems in 2009.

North Auckland had relatively low levels of re-advertising.

### Regional distribution (according to Ministry of Education local office areas) of vacancies and of re-advertised positions, 2008 and 2009

Ministry of Education local office area	Vacancies (FTE)				Re-advertised vacancies (FTE)			
	2008		2009		2008		2009	
	N	% <sup>a</sup>	N	% <sup>a</sup>	N	% <sup>a</sup>	N	% <sup>a</sup>
Whangarei	21.9	1.2	19.4	1.1	17.9	1.0	9.4	0.6
Hamilton	30.5	0.8	44.0	1.1	8.8	0.2	21.5	0.6
Auckland South	67.6	0.8	67.6	0.8	44.8	0.6	40.3	0.5
Wellington	54.0	1.2	56.2	1.2	34.8	0.7	20.6	0.4
Napier	14.6	0.6	22.3	0.9	7.8	0.3	9.0	0.4
Rotorua	28.9	0.9	21.8	0.7	10.9	0.3	8.0	0.2
Wanganui	50.6	1.5	13.5	0.4	26.2	0.8	7.1	0.2
Auckland North	31.9	0.7	23.8	0.5	9.5	0.2	8.0	0.2
Nelson	14.5	0.8	16.0	0.9	6.7	0.4	4.0	0.2
Christchurch	32.3	0.6	29.7	0.6	9.5	0.2	9.3	0.2
Dunedin	9.6	0.5	10.0	0.5	4.0	0.2	3.5	0.2
Invercargill	15.2	1.4	5.2	0.5	9.1	0.9	0.0	0.0
Total	371.6	0.9	329.5	0.8	190.0	0.5	140.8	0.3

a: Percentage of entitlement positions (FTE) within schools that responded to the survey.

Data from 2001 indicates that the flow of teachers generally is from other regions into Auckland.<sup>2</sup> The loss rate from that region to other areas was not significantly different from the national movement rates.

Wellington, Christchurch and (particularly) Auckland schools absorb many of the trainees from local teacher education courses. Some trainees have moved there (perhaps for their degree studies) and then, having established themselves in the city, have gone into the job market there. But there are alternatives to working in the cities. It appears on the basis of recruitment and retention data that people make the decision to go to the cities and then stay because work is available there.

### A balance of factors

While housing costs may be higher in some areas, these do not seem to be impacting on recruitment and retention in those areas. Other factors must be at work.

Opting for a teaching job is a decision made with consideration of a number of factors. Pay is just one, although most teacher trainees are not aware of the rates they can expect to be paid when they enter training. There is often comparison of average teacher salaries and average salaries in other jobs, but those average figures miss differences between teaching



and other jobs, particularly that all teachers reach the top of their pay scale while other professions have a range of rates and many workers in those professions may not reach the higher levels of their pay range. Members will be aware, too, of the non-salary aspects of the teaching job that contribute to any decision to go teaching.

Opting to work in an urban area with higher cost housing is a further decision, and it is made in a broader context of different packages of conditions. Big cities have advantages in lifestyle that appear to balance the disadvantages around house pricing. For families, too, living in rural areas can mean spouses who are professionals can't get jobs. This can mean teachers there have lower combined incomes than similar families in larger cities.

It can be argued that the balance of conditions lies in favour of urban areas, since the flow of teachers is into these areas rather than out of them. Existing hard-to-staff allowances are largely paid to rural schools.

Care must be taken not to address issues for schools in cities, or in wealthy communities, in ways that exacerbate the existing recruitment and retention difficulties in rural areas or poor communities.

The question then is how to assist members who are struggling with housing costs in the more expensive areas, without tipping the recruitment and retention advantage further towards those areas.

The table below identifies factors that may form part of a fuller consideration of the differences between the urban and rural "packages", and which might lead people to continue to move into and stay in higher housing cost areas.

	<b>Urban</b>	<b>Rural</b>
<b>costs</b>	Large classes  High housing and rental costs in some parts of the city Parking pressures and fines Traffic congestion Crowding Higher insurance costs	Often multi-level teaching Often teaching outside discipline Increased number of duties/responsibilities within the school (fewer people to share tasks) Professional isolation Long distance for PD opportunities Declining rural rolls – reduced job security Low capital gains on property Higher petrol costs Transportation costs built into price of goods Lack of public transport Travel required to events and entertainment Limited access to support services (ICT, plumbing, car repairs and mechanics, electricians, etc) Less accessible medical services Lack of local career options Partners often unable to find jobs or appropriate work Partners in jobs that pay lower rates than equivalent positions in major urban areas Obligation to support local business More limited choice of services and goods
<b>gains</b>	The reverse of the "rural costs", plus: All hours access to shops and services Universities and teacher training Teacher collegiality (not isolated specialists) Access to national and international events and culture Greater variety of entertainment and clubs Proximity to discount air travel and flight availability Greater range of housing options Greater level of choice Rising rolls – greater security of employment	The reverse of the "urban costs", plus: Slower pace of life Closer community relations





## Addressing housing affordability

### When is housing affordability an issue for individuals?

- At the start of a career when the first home is being purchased and income is at its lowest.
- When there is a family on the way, or planned, and a housing upgrade is necessary.
- When moving into a high-cost housing area from a low-cost area and there is little capital tied up in the home that is being sold.

The problem of high-cost housing is not so intense for established teachers. They are on the property ladder and have an established asset. When a teacher sells a house in a city and moves out to another area, or downgrades for retirement, a considerable net gain is possible.

New employees may well find that raising a deposit for a first home (while paying rent) is difficult, particularly when banks are frequently now asking for a 20% deposit or more.

An established homeowner moving into a more expensive housing area is likely to be servicing a larger mortgage. It is the servicing of that mortgage (and the rental before that while the deposit is raised) that is a drain on a salary.

### When is housing affordability an issue for schools?

Concern about housing costs can arise from the effects that Tomorrow's Schools has had in fracturing workforce planning and coordination and the problems in low decile schools that make them hard to staff.

Low decile schools in urban areas struggle to recruit and retain teachers against competition from higher decile schools.

There used to be a provision for mortgage support from the Department of Education to teachers, but this was removed around the time Tomorrow's Schools was implemented. In the absence of assistance from the Ministry of Education towards making housing affordable for teachers, what practical steps can be taken by PPTA?

#### City allowance

Regional allowances, such as the London allowance in the UK, are seen as divisive and ineffective. They are likely to increase "churn" rather than create stability. They raise questions about whether to fund according to where you live or where your school is located. It is unclear how they might apply in areas where there is a significant drop in housing prices and improvements in housing affordability. The taskforce does not recommend such an allowance be pursued.

#### Pool housing

In the 1970s pool housing was provided around the country, and pockets still remain in more rural areas, but many have been sold off and there are often problems with inadequate maintenance in those that remain. In other cases they are well maintained but not rented to



teachers. Where such houses are available they are often attractive to new teachers as they can flat together, pay off loans and save for their own homes.

There are no longer any significant housing pools or support available to teachers in the major cities.<sup>3</sup>

The taskforce considered whether there was a role for PPTA as a landlord, but does not recommend this approach. With potentially 2000 new teachers entering the system annually, the capacity to generate significant numbers of houses within a short timeframe (even if a policy decision were made to do so) would be very limited indeed unless PPTA took on considerable mortgage liabilities.

### **Credit union and loan rate reduction**

The Taskforce considered whether the PPTA could take on the role of a credit union, but recommends against this.

The capacity of PPTA to provide support for any significant number of mortgages is limited and would increase its exposure to risk. The Housing Affordability Taskforce instead asked the Executive to contact a range of banks to investigate an arrangement that could assist all members, similar to that operated by the Police Association (where a credit union, operated through a bank, provides discounted loans to members at about 0.5% below the market rate).

The advantage of such assistance is that it would be available to all members but those in high-cost housing areas would gain greatest dollar value, as their mortgages will normally be higher. If a lower deposit requirement were part of a package, this would also be of greater absolute value to those seeking a percentage deposit on higher-value houses.

A report on the progress of this investigation will be made to the Annual Conference.

### **Removals provisions**

The STCA contains removal and transfer provisions. It is possible that there could be some enhancement of these proposed as part of the next negotiation round to assist teachers moving into higher housing cost centres. This would also help new teachers, both those who come straight from training and those arriving from overseas. Such a change means looking at assisting teachers throughout the country, with a focus on equity and fairness.

Improvements to the removal support would not affect those who upgrade homes but stay in their location or, currently, those who move without a promotion.

Possible changes could include:

- increasing the legal fee refunds and providing more support while selling homes;
- extending the period of rent subsidy; and
- a review of the rates applying to removals to more closely align them with actual current costs.



## High Priority Teacher Supply Allowance and Staffing Incentive Allowance

The High Priority Teacher Supply Allowance (HPTSA) and Staffing Incentive Allowance (SIA) are two allowances that can be paid to teachers in hard-to-staff schools.<sup>4</sup> They might be enhanced, as they target schools with recruitment and retention issues (which may be related to housing costs).

Some possibilities are:

- A sliding scale, which increases year by year.
- The automatic inclusion of decile one and two schools.
- The targeting of the HPTSA to decile one and two schools and raising the SIA payment to the level of HPTSA, and allowing other schools to make application for it if they are not decile one or two but have staffing recruitment or retention problems.

Part of the SIA criteria should be an assessment of the possible impact of removing the allowance after three years – this would avoid recruitment or retention collapse after the three-year payment period ends.

## Bonding mechanisms for beginning teachers

Bonding helps new teachers to get rid of their student loans and more quickly focus their funds on rental or mortgage costs. There is already a component of bonding as part of previous government policy, and this is to be expanded from 2012 with the announcement in the 2009 Budget of the voluntary bonding scheme.

The taskforce considered linking the bond to a home deposit, in the form of a lump sum housing loan of \$20,000, rebated over four years. Such a lump sum would mean that the rest of the deposit on a median-priced Auckland house would then be comparable with the full deposit required for a home priced at the national median level.

The rebates could be on a sliding scale over four years to encourage more than two years' service, since in the third year teachers lose their timetabled advice and guidance time and are then under more pressure. Incentives to stay beyond that point are very useful, and four years would give long enough for a good grounding in the job. The bonding would be linked to remaining in the service rather than in a particular school, since new teachers are often employed in temporary positions as relievers, or it could be linked to hard-to-staff schools.

For the purposes of such a payment, "new" teachers would be those in their first four years of service in New Zealand. This would include people retraining as teachers after other careers in New Zealand, and teachers from overseas who are newly-employed as teachers in New Zealand.

The payment could be uplifted at any stage in the four-year period and the abatement period would begin from the point that that occurred. This would allow a degree of flexibility to address individual circumstances. For example, it would allow a teacher who is employed on a fixed term in the first year of employment to subsequently uplift the payment when a



permanent position is found in another area, and have the abatement over the second to fifth years of service.

There is no proposal to restrict either the value or the location of the home that is purchased.

As most teachers are already in situ, this won't resolve the housing affordability issue on its own, but as part of a package of support it may start to address the problem faced by new teachers.

## Recommendations

- 1 That the report be received.
- 2 ~~That PPTA seek to work with a partner bank to provide a homebuyer, mortgage and housing support package for PPTA members.~~
- 3 ~~That the 2010 STCA round include a review of the transfer and removal provisions.~~
- 4 ~~That all teachers in decile one and two schools be eligible for SIA or HPTSA assistance.~~
- 5 ~~That the value of the HPTSA and SIA be increased.~~
- 6 ~~That there be a claim in 2010 for a home deposit lump sum of \$20,000 for teachers in their first four years of service in New Zealand, which can be abated over four years of service.~~

## Endnotes

1. Monitoring Teacher Supply: Survey of staffing in New Zealand schools at the beginning of the 2009 school year, Ministry of Education.
2. At the time of writing the Ministry of Education had failed to respond to a request for more recent data.
3. State servants on transfer used to receive support in terms of access to low rent accommodation from the Department of Housing. That support was withdrawn in the 1990s.
4. See clauses 4.12 and 4.13 of the STCA, and clauses 3.21 and 3.20 of the ASTCA.

## Decisions from the 2009 Annual Conference



### Housing Affordability

1. That the report be received; and
2. That the 2010 STCA and ASTCA bargaining round include a review by the Association of the transfer and removal procedures with an emphasis on:
  - Increasing the value of legal fee refunds and provide more support while selling houses; and
  - Extending the period of rent subsidy; and
  - Reviewing the rates applying to removals to more closely align them with actual current costs; and
3. That all teachers in decile one and two schools be eligible for the SIA, HPTSA or ASHPTSA; and
4. That the value of the HPTSA, ASHPTSA and SIA be increased.
5. That there be a claim in 2010 for a home deposit lump sum of \$20,000, for teachers in their first four years of service in New Zealand, which can be abated over four years of service.