

The Gisborne Housing **Stocktake**

REPORT FOR MANAAKI TAIRĀWHITI AND TRUST TAIRĀWHITI

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Context

Manaaki Tairāwhiti invited Sense Partners to collaborate with stakeholder and write a housing strategy to address a developing housing crisis in Gisborne. The goal was to ensure a co-ordinated approach to catalyse more house building.

As a pre-cursor to delivering the strategy this stocktake assesses the current needs, general environment and barriers to better housing outcomes. The stocktake was presented to a workshop held in Gisborne on October 1 where many stakeholders were brought round the table to discuss the issues, identify what needs to be done and agree an action plan or way forward to deliver better housing outcomes.

Key points

There is a significant housing shortage in Gisborne...

- The waitlist for public housing has risen sharply.
- The waitlist relative to population is the second highest of all Territorial Authorities.

...and housing has become increasingly unaffordable.

- Rents rose by 9% last year.
- The median house price is now 9 times household incomes.
- Home ownership historically falls when the ratio is over 4 times.

Housing supply is very slow to respond

- Housing unable to keep up with demand driven by a surge in population growth, following decades of stability.
- There is a shortage of around 400 homes.
- The impact is most heavily felt by the vulnerable – those in social houses and renters. It will add to increasing demand on HNZC for more housing, and on MSD for more housing support.
- Crowding appears to be increasing, which may lead to increased physical and mental health issues.
- This may increase DHB's costs on preventable diseases.

...there are short term constraints in infrastructure and labour.

- Infrastructure will require a more careful consideration of physical versus financial constraints.
- The experience of Canterbury shows that if there is sufficient demand that increases wages, the labour will arrive.
- But scale matters. Efforts to unlock additional labour should include developing local skills and pushing for construction workers on the Regional Skill Shortage List

...The development economics simply does not stack up.

- Rents are not high enough relative to the cost of building a new house.
- The cost of a new house is too high relative to an old house.
- Since market price signals are not stimulating supply, a more needs-based targeted intervention is required.
- This needs to provide the supply of social and affordable houses the market will not deliver.

There are upsides to Gisborne's small scale and access to finance

- Gisborne is fortunate to have a number of well-resourced local organisations.
- It should be relatively easy to leverage the collective wisdom and financial capability of these organisations through a collaborative approach
- Gisborne could be right-sized for a central government looking to make a step-change in approach to raise wellbeing and living standard for regional communities by providing more

good quality, warm, dry and healthy rental housing more for regional housing provided the local institutions have ambition and co-ordination.

- The government's pilot programme to better co-ordinate agencies to deliver better housing and social outcomes in Hastings may be a replicable model. It demonstrates how a partnership between central government and local groups, including iwi, can identify, prioritise and action specific projects.
- A well-capitalised local authority (GDC's gearing is 2% of assets) and a well-capitalised community trust (TT) can both be leveraged, if desired, to meet a fundamental human need: shelter.

Capital could help fast track infrastructure delivery...

- Right now, infrastructure needs to be funded from development contributions.
- But other models are possible that would bring forward infrastructure delivery to make more readily developable land available.
- This could include funding infrastructure development simply through debt – Gisborne has the lowest debt per ratepayer of any local council in New Zealand

...and capital could make development contributions payable over a longer time

- Capital could be used to in combination with targeted rates to incentive development of existing land holdings
- Future beneficiaries of the infrastructure would pay more rather than developers, increasing feasibility of the infrastructure model that would otherwise be subject to upfront cash constraints of the developer.
- Targeted rates need to be set on the benefit from the infrastructure rather than demand for the new infrastructure

Capital can reduce the premium between new builds and existing houses is critical

- Land is the most uneconomic part of residential development so capital could buy land to invest in development projects as equity
- Even though the price of credit is low increasingly developers face restrictions on the quantity of upfront credit. Local capital, perhaps in return for share of profit, could help ease these restrictions on development.

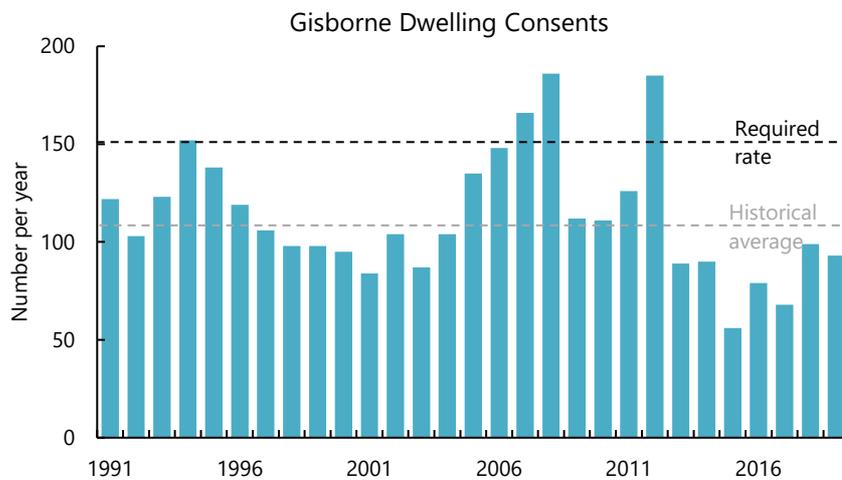
Capital could help bring Build-to-rent to the region

- Gisborne is missing a way to build more desperately needed rental homes, as they do in the United States (multifamily homes) and Europe (build to rent).
- Existing New Zealand initiatives are not common but include the build-to-rent scheme in Hobsonville, supported by the New Zealand Super Fund, Nga Tahu and New Ground Capital.
- Build-to-rent can be high risk in small locations because of uncertainty over future rent streams.
- Capital could underwrite the value of the future stream of loans reducing project risk.

Long-term change needs to shift the development economics

- Long-term outcomes will generally require market-based solutions that change the pace of growth and will take time to achieve.
- These include changing the development equation – reduces costs of building relative to purchasing existing housing stock.
- Too few houses are being built to keep pace with growth ().

FIGURE 1: GISBORNE DWELLING CONSENTS NEED TO AVERAGE 150 PER YEAR, RATHER THAN <100 IN RECENT YEARS



Source: Statistics New Zealand, Sense Partners

Short-term wins are located on the social end of the housing continuum

- Short-term focus needs to be on accelerating and increasing HNZN supply, and leveraging DHB and MSD expenditure in the region, current and projected. Housing related health costs are large (around \$5m in 2016/17 in Tairāwhiti DHB).
- Need to invest in outcomes-based initiatives, centred around housing and wrap around services. So expect a group seeking to change social sector outcomes, like Manaaki Tairāwhiti to be influential.
- Long term aspiration is to have a permissive planning system and smooth infrastructure delivery, that makes it both economic and efficient to build houses for the people of Gisborne. This means reducing the wedge between the high cost of building and the cost of the existing housing stock.
- Progressive home ownership could be a powerful combination of the capital base of Trust Tairāwhiti and the support networks and leadership of Manaaki Tairāwhiti.

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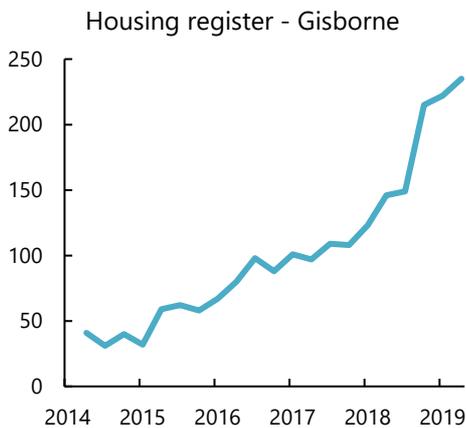
1. A burning platform

Needs are acute

The Gisborne region has acute housing need. There is a significant shortage of housing, which is increasingly unaffordable for many to buy and rent. Average house prices are 9 times average income in the region.

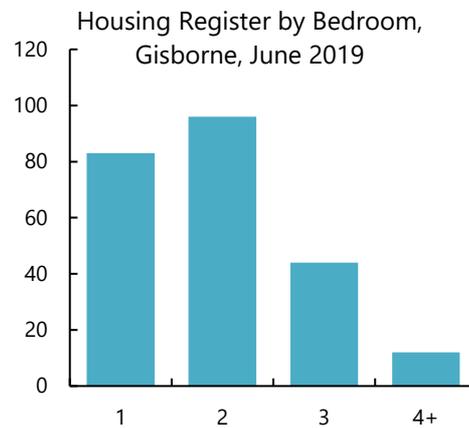
The housing register, which measures the waitlist for social housing, is a handy proxy for housing pressures. The register has grown rapidly in recent years (from less than 50 in 2014, to 235 in June 2019, Figure 2). Much of the demand is for smaller units (Figure 3); much of the housing supply is larger (86% of new housing supply 4 bedroom+).

FIGURE 2: THE HOUSING REGISTER HAS GROWN RAPIDLY IN RECENT YEARS



Source: MHUD, Statistics NZ, Sense Partners

FIGURE 3: MUCH OF THE HOUSING NEED IS FOR 1- AND 2-BEDROOM PLACES



Source: MHUD, Statistics NZ, Sense Partners

Housing needs in Gisborne are acute. Gisborne has the second highest housing register relative to the population of all the territorial authorities in NZ (Figure 4). Second only to neighbouring Napier City. The entire East Coast has intense housing needs that reflect three powerful forces:

- strong population growth,
- rapidly rising housing costs
- slow housing supply.

Demand is outpacing current supply growth

When housing demand outstrips supply, the pressure on housing is greatest for those with the least financial resources. This can lead to over-crowding and homelessness.

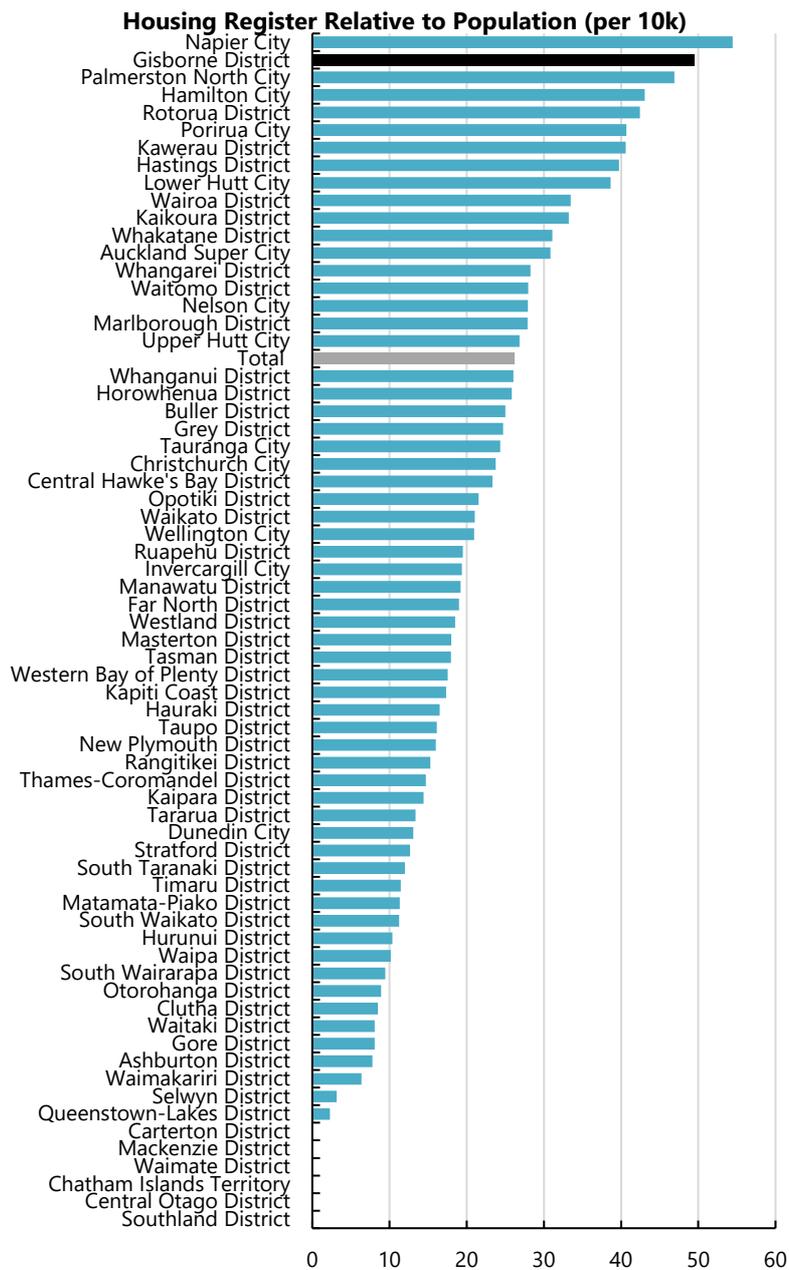
Increasing house prices and rents cascade down the housing continuum, until we see soaring demand for and a waitlist for social housing. While less visible, this is accompanied by increasing housing stress for those who may have otherwise been able to buy a home, and renters. This can show up increased

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assistance through the Accommodation Supplement (up to 16, 178 from 15,705 in June 2018) and other means.

The imbalance between housing supply and demand also needs to be considered across the continuum. When starting from a position of housing shortage, increases in housing supply will tend to be for those who are well-off since building affordable homes is uneconomic, unless there are targeted interventions to increase other types of housing supply.

FIGURE 4: GISBORNE’S HOUSING REGISTER IS SECOND HIGHEST IN PER CAPITA TERMS



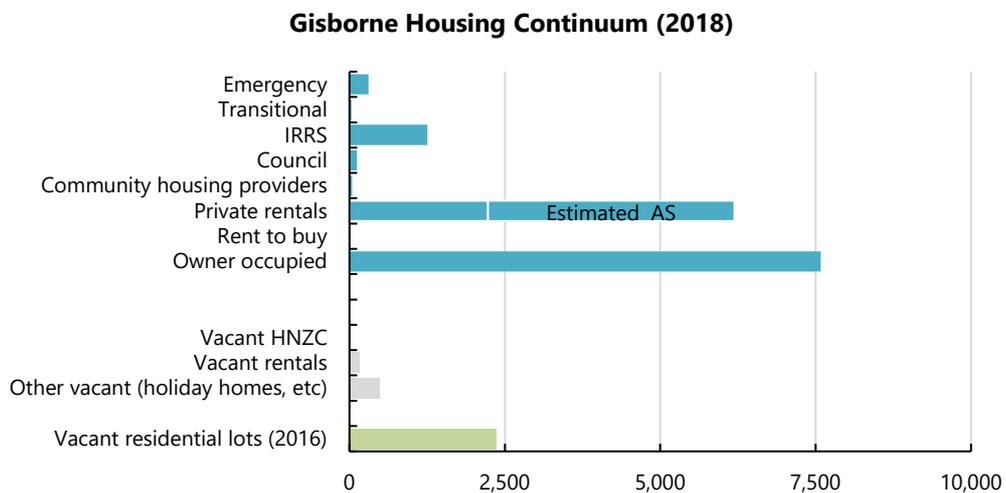
Source: MSD, Statistics NZ

Gisborne’s housing continuum

The housing stock is usually considered across a continuum. This gives us a good understanding of the size and distribution of the housing stock. Our best estimates (for 2018, rounded) and descriptions of each are:

- Emergency & transitional housing (340): Households with urgent and immediate housing needs.¹
- Social/state housing (1,250): We counted IRRS places, which represent households with complex needs and barriers in accessing and maintaining private rentals.
- Assisted rentals (160): We counted council housing (120) and community housing providers (40): households who don’t qualify for public housing but cannot afford market rentals.
- Market rentals (6,200): these are market rentals, but include those accessing Accommodation Supplement (which is not linked to other benefit payments). These households rent, either through choice or because they cannot afford to buy.
- Progressive ownership (15): We counted rent to own programs, for households who can’t afford to buy a house outright (can’t afford a deposit or cannot meet mortgage repayments for a full house).
- Ownership (7,600): Households that own outright or with a mortgage (those with sufficient resources to raise a deposit and meet mortgage repayments).
- We also mapped our best estimates of vacant homes and vacant residential lots.

FIGURE 5: THE HOUSING STOCK IS LARGELY OWNER-OCCUPIED AND RENTALS



Source: Sense Partners estimates from Statistics NZ Census, CHA, MHUD, MSD, HNZC, Valocity

¹ CHPs include Te Runanganui O Ngati Porou Trustee Limited, Te Taiwhenua o Heretaunga Trust, Whatever It Takes Trust Incorporated, The Salvation Army New Zealand Trust, Waiohiki Community Charitable Trust and Habitat for Humanity NZ.

2. Demand for housing

- Housing demand is growing from population growth and ageing population
- Signs that crowding is increasing (housing related health costs around \$5m)
- Economic growth is boosting population growth prospect further; plus seasonal workers
- Tourism demand is a modest additional factor, but sector has high occupancy and falling capacity.

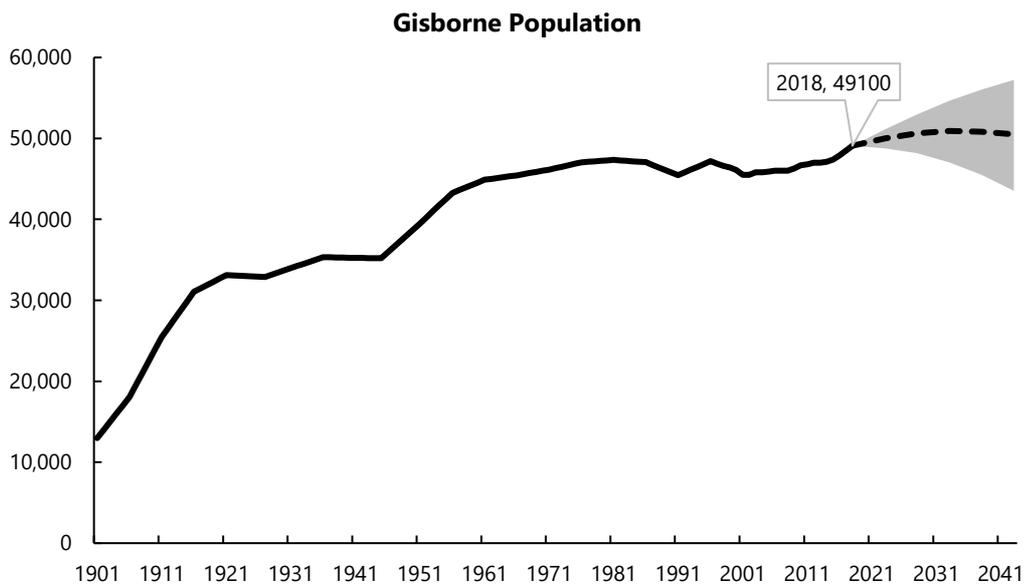
Strong population growth, but potential crowding

Gisborne’s population grew strongly in the latest census (by 9% between 2013 and 2018), after many years of no growth (since the previous high in the late 1970s, Figure 6). This increased the demand for housing.

The population growth acceleration came mainly from increased migration (Figure 7). Data to 2016 suggest it was mainly international migration or returning New Zealanders. Anecdotes suggest regional migration may have also turned positive in recent years, as a growing economy and unaffordable housing elsewhere attracted people to the region.

The number of households has increased, but not as much as we would have expected with an ageing population. Household size had been trending lower in the region along expected demographic patterns, but the household size rose unexpectedly in the 2018 census.

FIGURE 6: GISBORNE’S POPULATION GREW STRONGLY IN RECENT YEARS AFTER MANY DECADES OF NO GROWTH

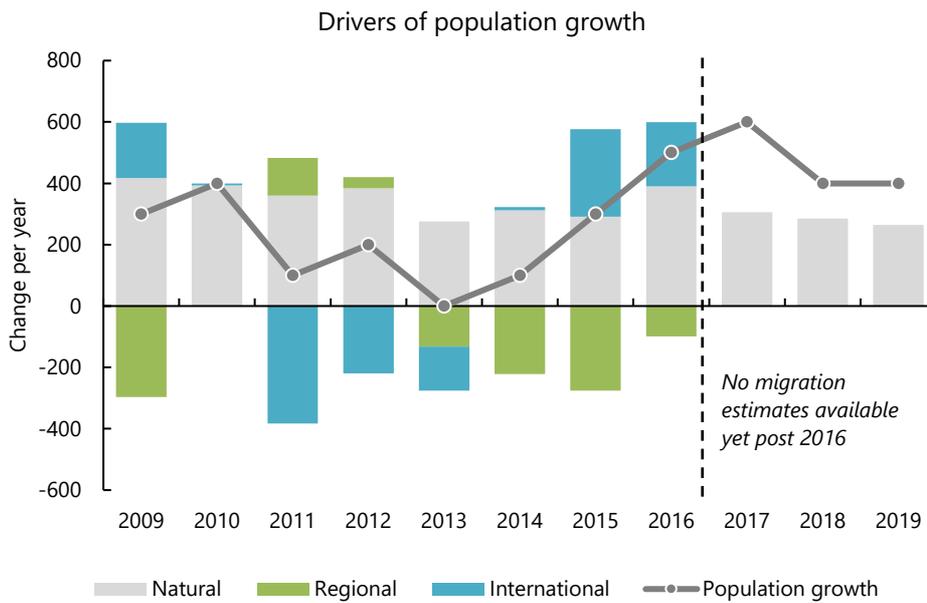


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Source: Polkinghorne, J (2017) NZ Local Population Database, Statistics NZ

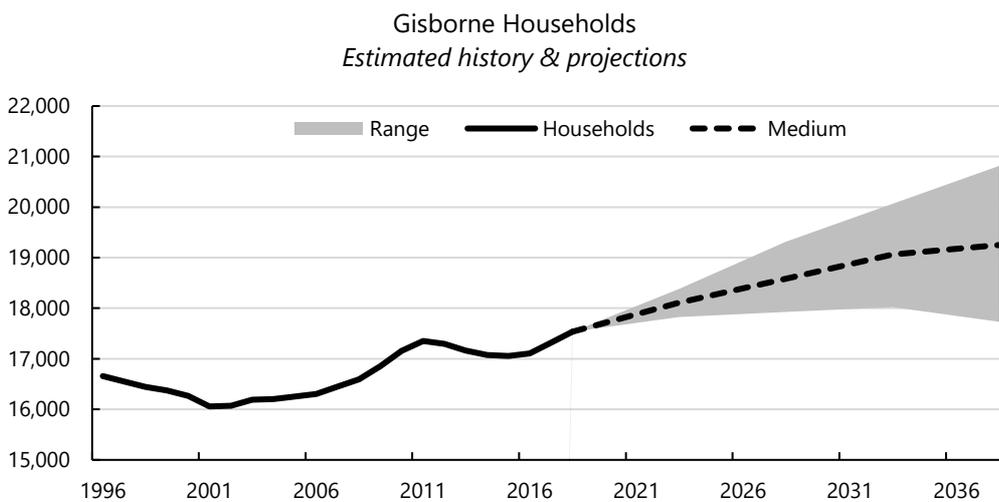
This means there was less realised increase in households, but may indicate increased crowding. Historical data show higher than national rates of crowding in the Tairāwhiti District Health Board. The crowding is concentrated among renters, Māori and Pacific peoples, younger people (children under 5 and 15-24 year olds). This may have gotten worse in recent years. Housing related health costs are large (around \$5m in 2016/17 in Tairāwhiti DHB).

FIGURE 7: POPULATION GROWTH IS ACCELERATING DUE TO MIGRATION



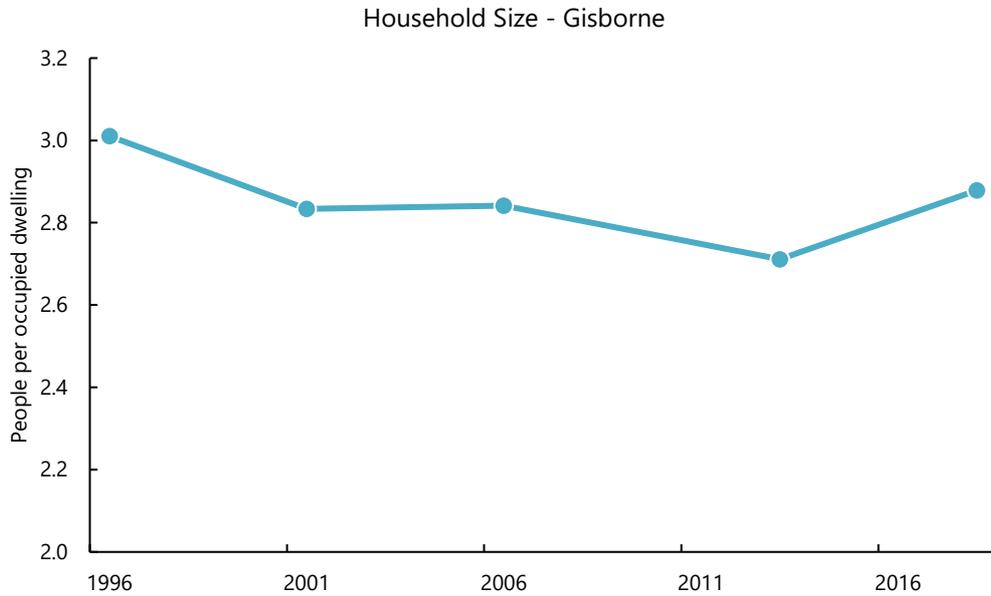
Source: Treasury data insights tool, Statistics NZ, Sense Partners

FIGURE 8: POPULATION GROWTH AND AGEING IS INCREASING THE NUMBER OF HOUSEHOLDS



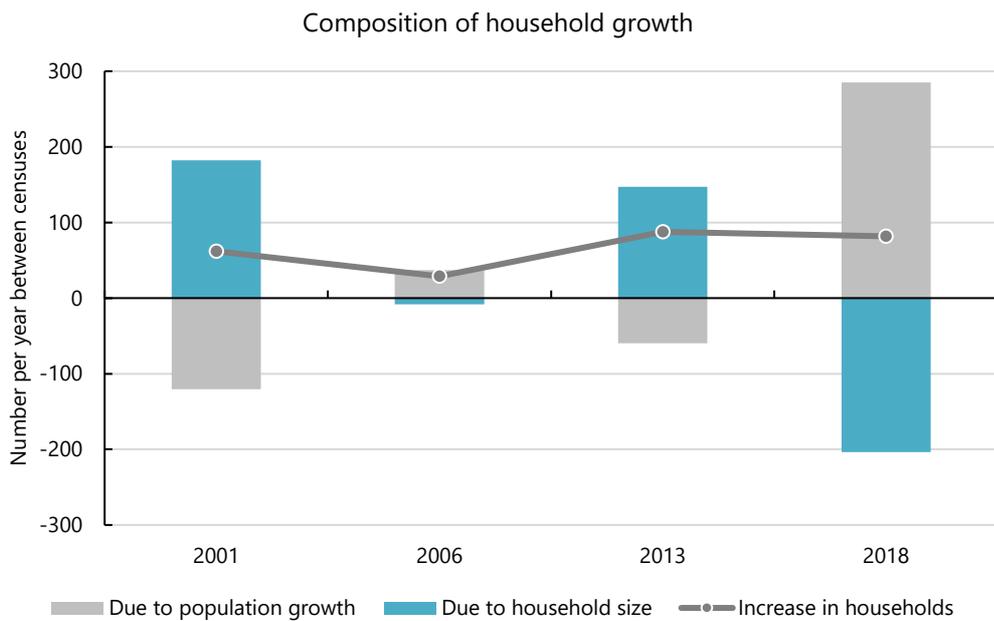
Source: Statistics NZ

FIGURE 9 THE RECENT INCREASE IN HOUSEHOLD SIZE MAY INDICATE CROWDING AND PENT UP DEMAND



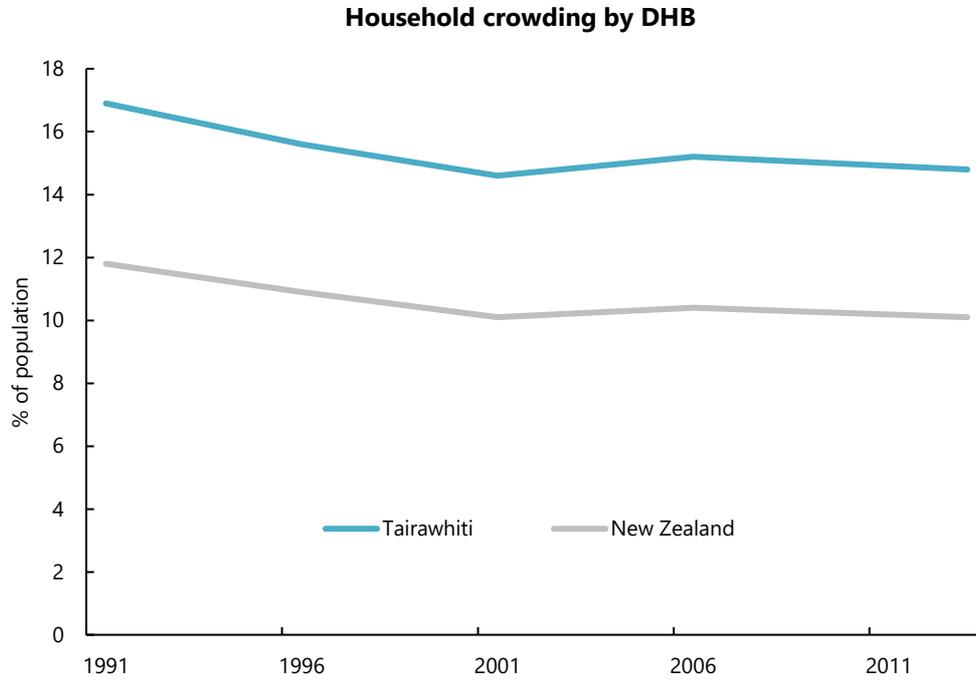
Source: Statistics NZ

FIGURE 10: HOUSING DEMAND IS BEING DRIVEN BY POPULATION GROWTH, PARTLY OFFSET BY RISING HOUSEHOLD SIZE



Source: Statistics NZ

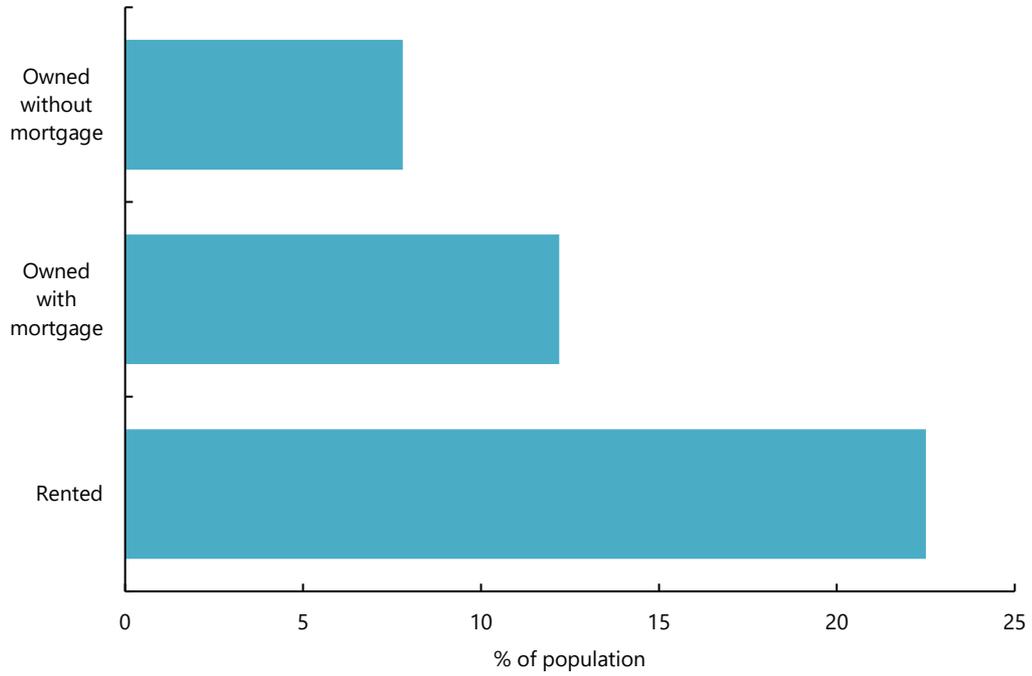
FIGURE 11: CROWDING IS HIGHER THAN THE NATIONAL AVERAGE...



Source: MoH

FIGURE 12: CROWDING IS ESPECIALLY BAD FOR RENTERS

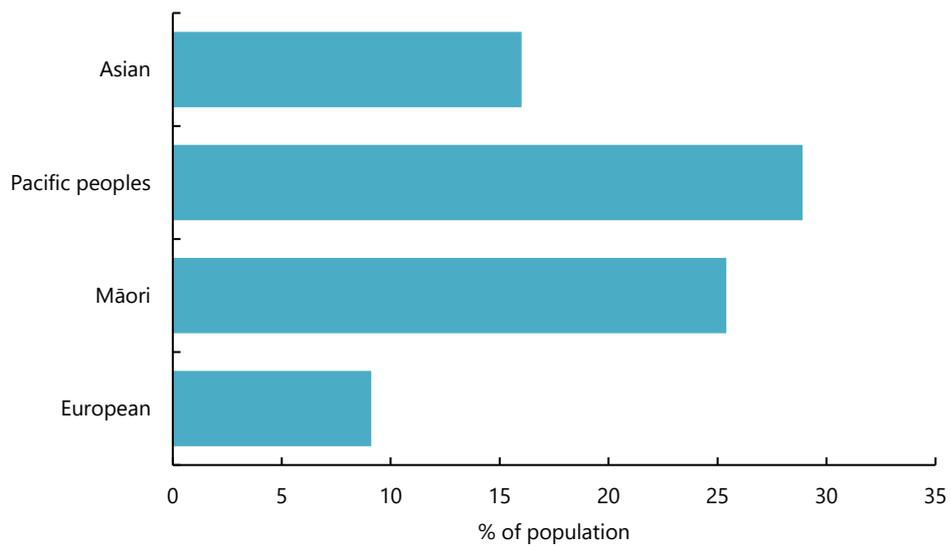
Tairawhiti DHB crowding by tenure (2013)



Source: MoH

FIGURE 13: CROWDING IS WORSE FOR MAORI AND PACIFIC PEOPLES

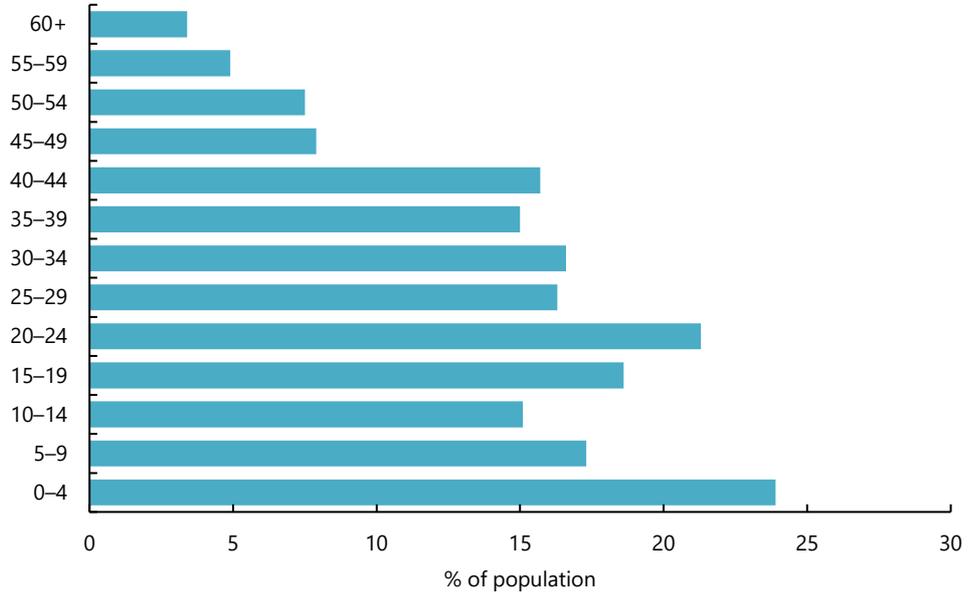
Tairawhiti DHB crowding by ethnicity (2013)



Source: MoH

FIGURE 14: CHILDREN ARE PARTICULARLY AFFECTED BY CROWDING

Tairawhiti DHB crowding by age (2013)



Source: MoH

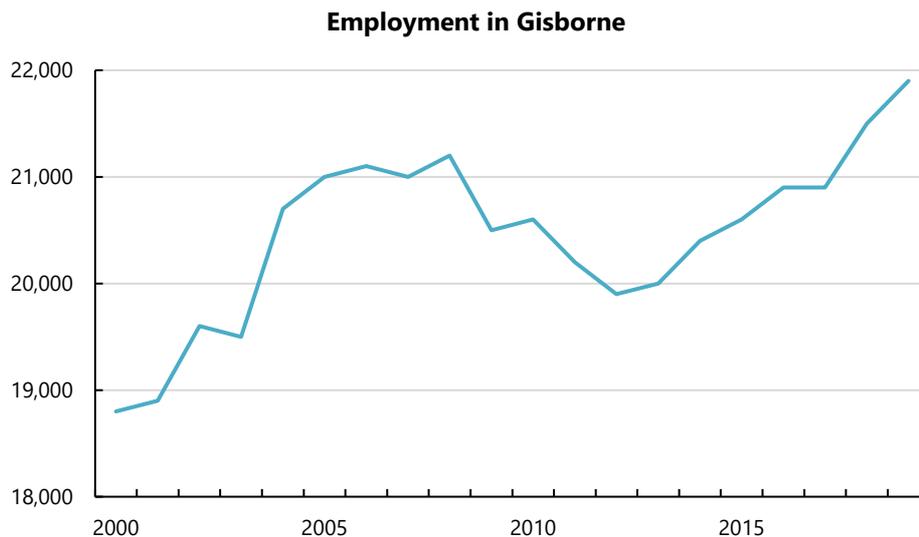
The regional economy has been doing very well

Population and housing demand growth has been boosted by a growing economy. Employment is a good proxy for economic activity. The economy was negatively affected by a long lingering recession from 2009 to 2013, but has since recovered to new highs. The recovery has been broad based and businesses report labour shortages. This is likely to mean continued to demand for workers and thus encourage further migration to the region.

The region creates seasonal work, linked to the local primary industry. There is a related need for accommodation for workers, which is increasingly challenging in a very tight market (very few available rentals; around 2% turnover of the rental stock).

In many regions, seasonal work is not just harvesting, but also pruning, thinning and other maintenance work. This is increasing the length of time accommodation is required, and adding to housing demand.

FIGURE 15: THE ECONOMY HAS RECOVERED STRONGLY AND BUSINESSES REPORT LABOUR SHORTAGES



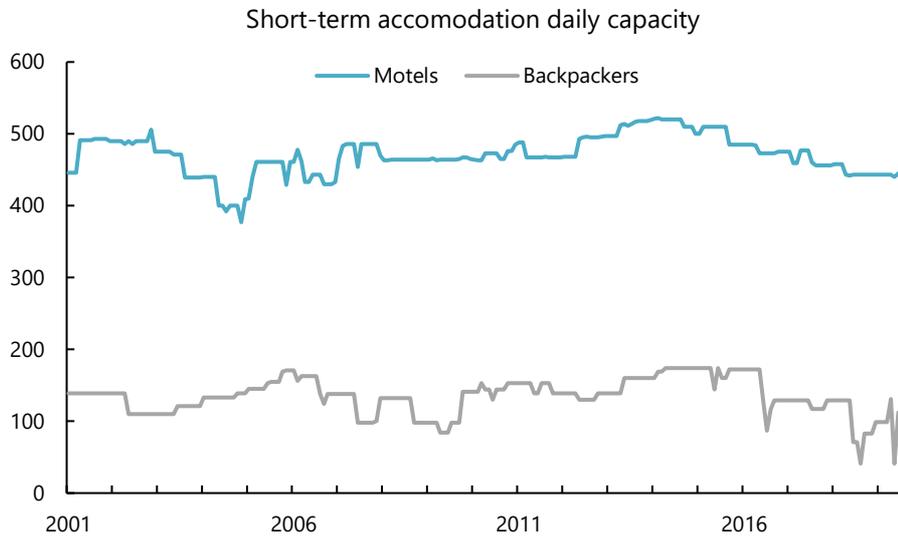
Source: Statistics NZ

...putting pressure on short term accommodation

Short term accommodation capacity to meet sudden changes in housing demand is reducing, with historically high occupancy rates for short term accommodation in the region and declining capacity among motels and backpackers.

FIGURE 16: THE CAPACITY OF MOTELS AND BACKPACKERS HAS REDUCED

Gisborne District



Source: Statistics NZ

3. Housing supply

- Housing supply is slow
- Shortage of ~400 homes
- Building large homes but growth in demand at 1 and 2 person households
- Vacant stock of homes increasing
- The development economics does not stack up

Growth has been slow...

The Gisborne housing stock has grown slowly. Between census periods the increase in housing stock has averaged 85 units (net of demolitions) a year over the last 17 years. The rate of consent issuance is higher, but some consents are not built or replace an existing house.² In the latest Census, some of the consents delayed during the recession have caught up.

Nevertheless, we estimate the housing supply has not kept pace with underlying demand (population growth and demographic patterns) for housing for nearly 15 years. Cumulatively the shortage of housing is around 400 units.

We cross checked our estimate of the housing shortage against other approaches. For example, solving for a historical vacancy rate for the housing stock and household size. They yield a range of estimates from a low of 50 and high of 1,000 units. Most of our estimates cluster around the 400 mark and is our preferred estimate of housing shortage.

There is a growing trend of vacant homes around New Zealand. It is not yet fully understood why this is the case. In some parts, it is because of their use as holiday homes. There is no immediate evidence of increased pressure on the housing stock from AirBnB or other holiday home sites. A search in October showed less than 40 homes listed on such sites. Anecdotally, some investors, particularly foreign investors, may choose to leave their rental properties empty given low yields and risk of costs, instead bide their time on capital gains. Identifying and encouraging the use of empty homes may add to housing supply.³

Part of the housing shortage has appeared because the resources to build homes are directed towards larger homes. Between the 2006 and 2013 censuses, over 85% of the increase in the housing supply was for large homes (4 bedrooms+), but all the growth in demand was from 1 and 2 person households. This is a common challenge across New Zealand and requires lower land prices and greater density requirements to encourage supply of smaller homes. This would both be more right for local demand, as well as freeing up land and labour capacity to build.

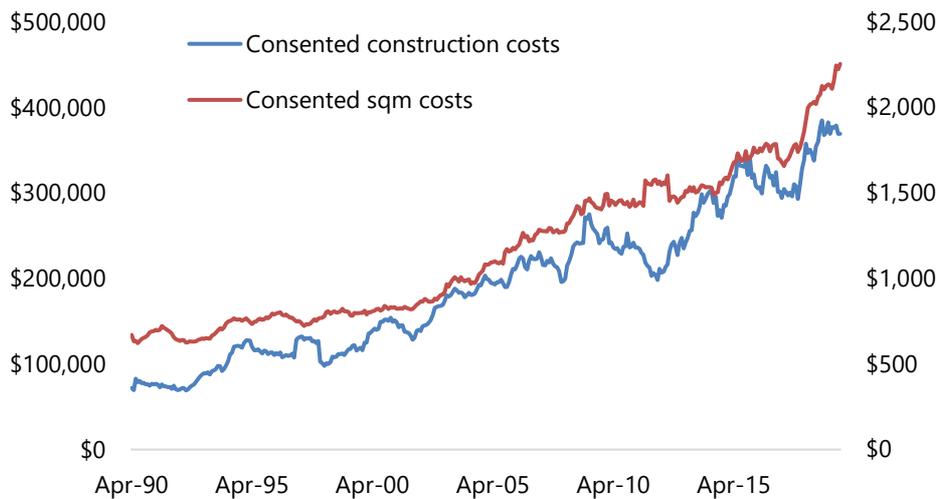
² Statistics New Zealand does not show where across the district new builds are occurring.

³ For example, the UK government New Homes Bonus set out to match any council tax on a property that previously was empty. Others have called for a tax on empty homes.

The development economics is challenging

While the cost to build in Gisborne is comparable to national rates, the cost of a new home is very high compared to prices of existing homes. The cost of land plus build cost (excluding infrastructure, consenting and other costs) for an average new home cost around \$550,000 compared to buying an existing house for around \$350,000. Figure 17 shows consented building costs – about 75 percent of building costs and excluding land – are growing rapidly.⁴

FIGURE 17: CONSENTED CONSTRUCTION COSTS ARE GROWING



The average consented construction cost per square metre in Figure 17 at September 2019 is \$2,250 for 75 of build costs or around \$3,000 a square metre for total costs. But not everyone builds at average costs. Some will build smaller dwellings (around 100-120 metres) on whanau land avoiding land costs for total costs of between \$225,000 to \$250,000. But this analysis implies above build costs for other properties to offset any fraction of the market building at lower costs.

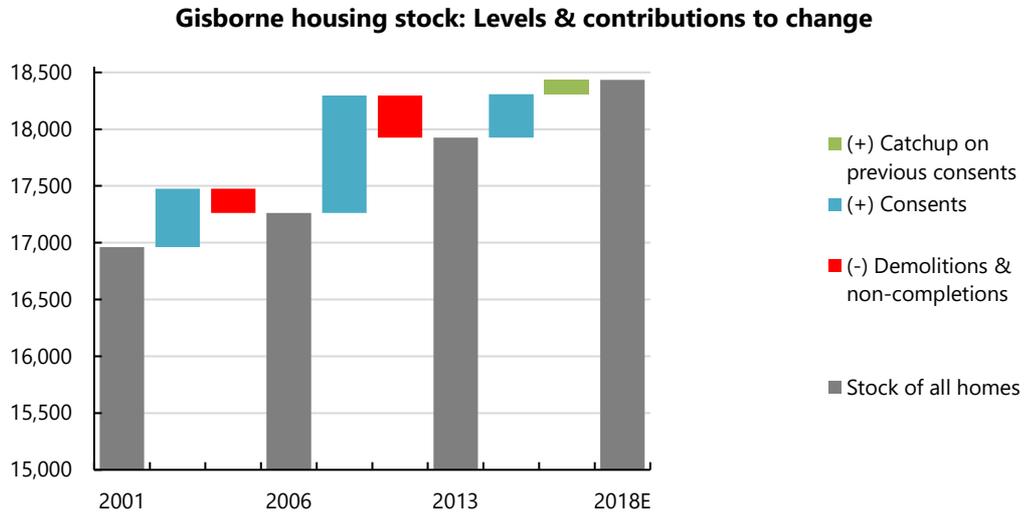
This high build costs means that for a prospective buyer, from a purely price perspective, the incentive is to chase an existing home rather than a new build. Current market conditions are not conducive to significant increases in housing supply, unless land or other costs fall, or those supplying houses have other incentives.

⁴ Consented construction costs are well-known to understand construction costs by omitting earthworks and section development costs, builders' profit, finance, consultant fees (about 25 percent of new build costs). See <https://www.hud.govt.nz/assets/Urban-Development/NPS-UDC/595209f7f3/National-Policy-Statement-on-Urban-Development-Capacity-Price-efficiency-indicators-technical-report-Price-cost-ratios.pdf>

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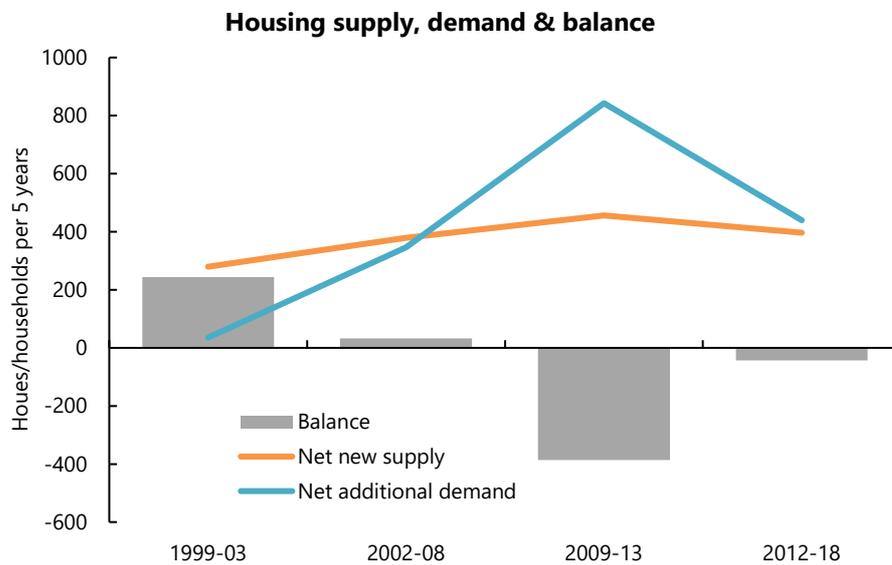
Stakeholders noted anecdotally, challenges in securing labour and infrastructure bottlenecks, which have also slowed housing supply.

FIGURE 18: GISBORNE HOUSING GROWTH HAS BEEN SLOW



Source: Sense Partners calculations from Statistics NZ data

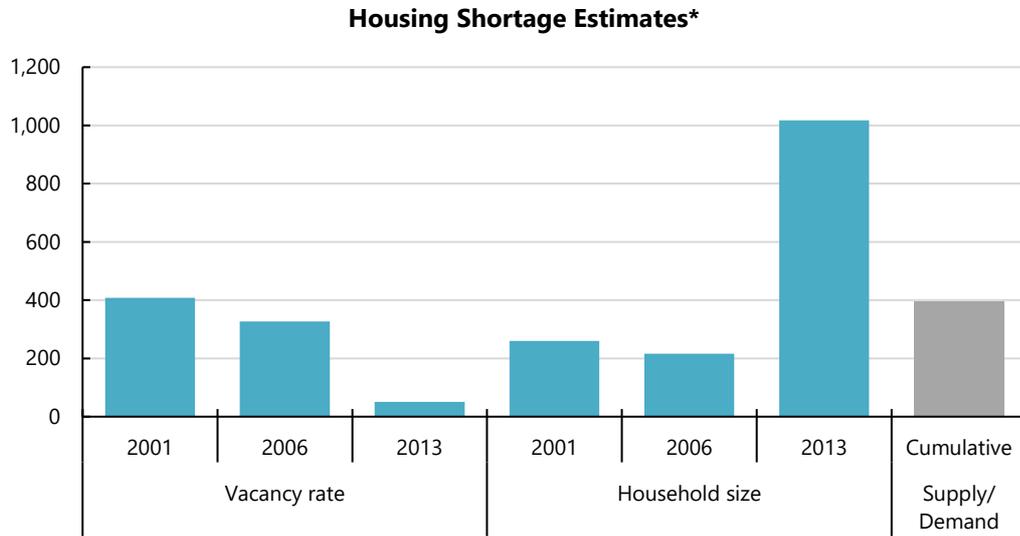
FIGURE 19: THERE IS A CUMULATIVE SHORTAGE OF HOUSES, AS SUPPLY HAS NOT KEPT PACE WITH DEMAND



Source: Sense Partners calculations from Statistics NZ data

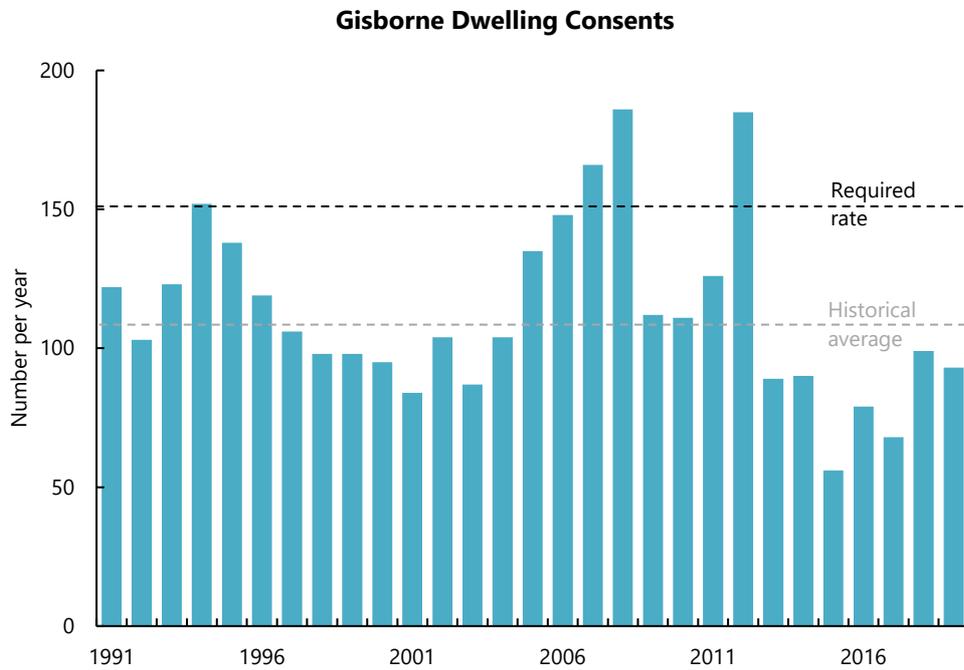
The proposed A&P development at Showgrounds Park will help indirectly by relieving some pressure on the broader housing market but will not a panacea. Broader reforms are needed.

FIGURE 20: WE ESTIMATE A HOUSING SHORTAGE OF AROUND 400 UNITS



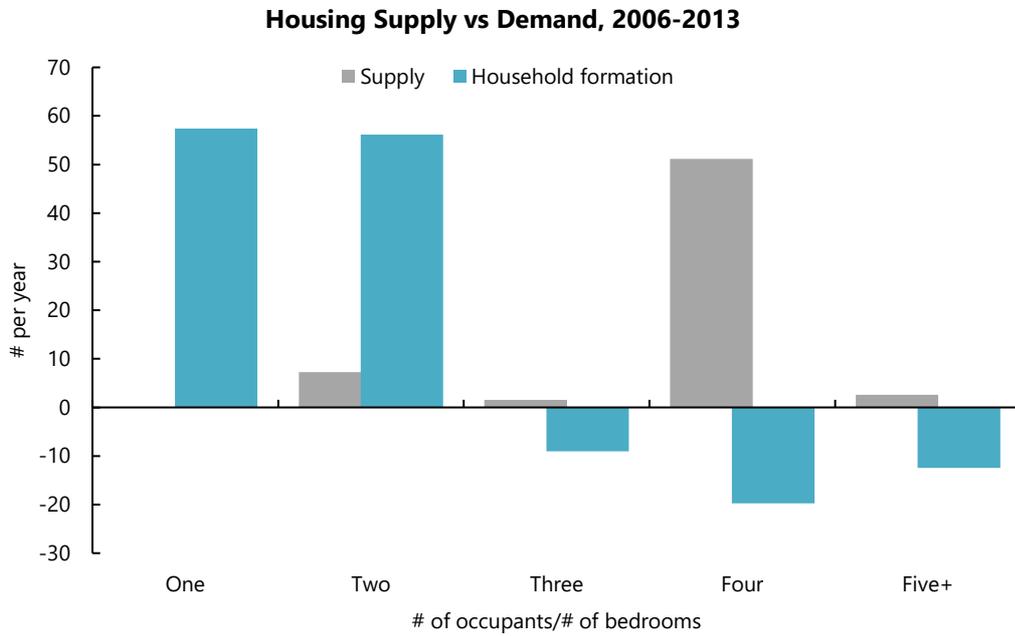
Source: Sense Partners calculations from Statistics NZ data (*by estimating housing stock if previous historical states had prevailed)

FIGURE 21: GISBORNE DWELLING CONSENTS NEED TO AVERAGE 150 PER YEAR, RATHER THAN <100 IN RECENT YEARS



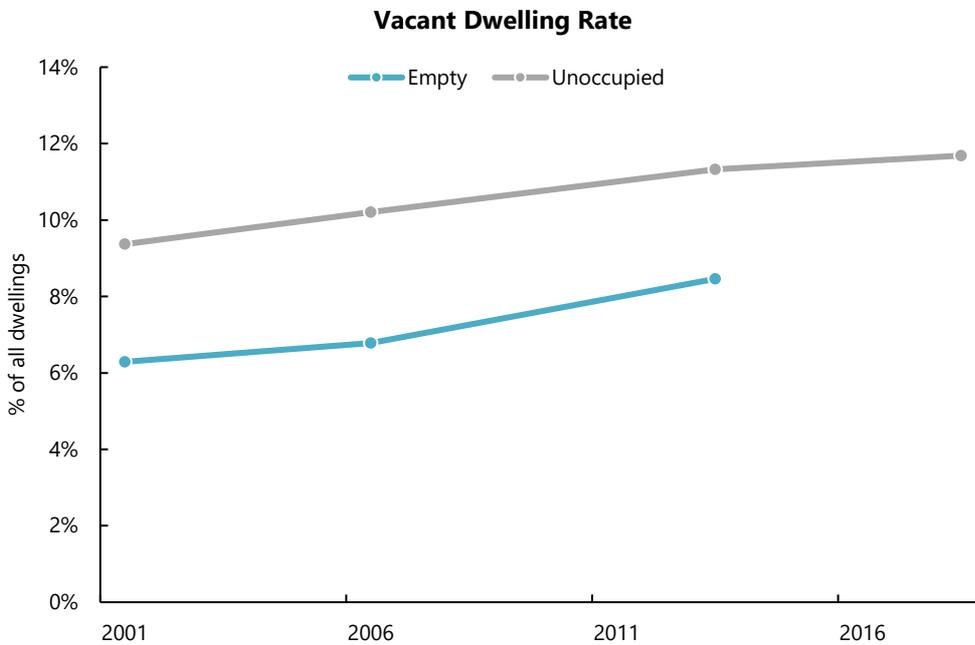
Source: Statistics NZ

FIGURE 22: THE HOUSING SUPPLY IS 85% 4 BEDROOM+; DEMAND IS ALL 1 & 2 PERSON HOUSHEOLDS



Source: Sense Partners calculations from Statistics NZ data

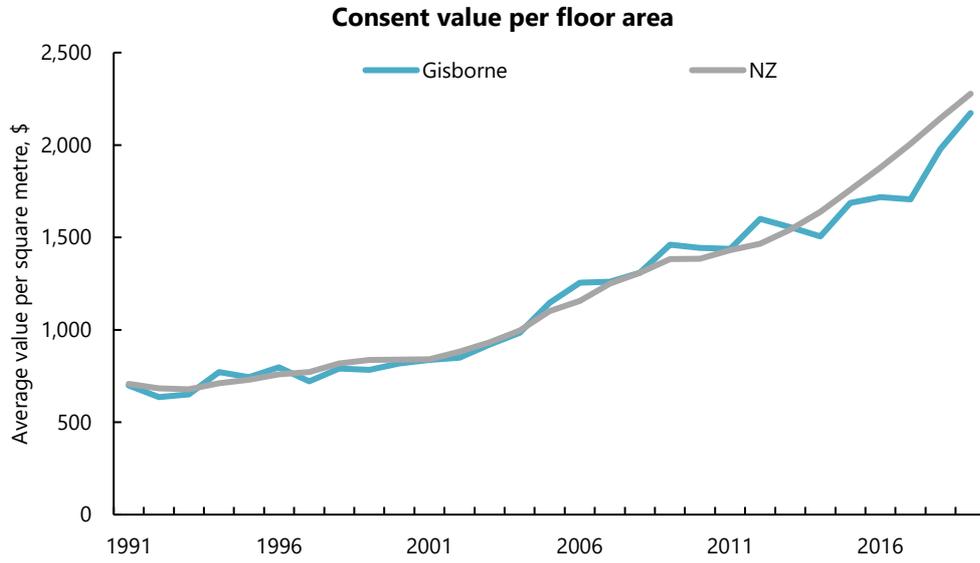
FIGURE 23: RISING VACANT DWELLINGS NEEDS FURTHER EXPLORATION



NB Empty homes and unoccupied dwellings are based on census questions. Unoccupied dwelling includes if the residents are away on census night or the dwelling is permanently empty.

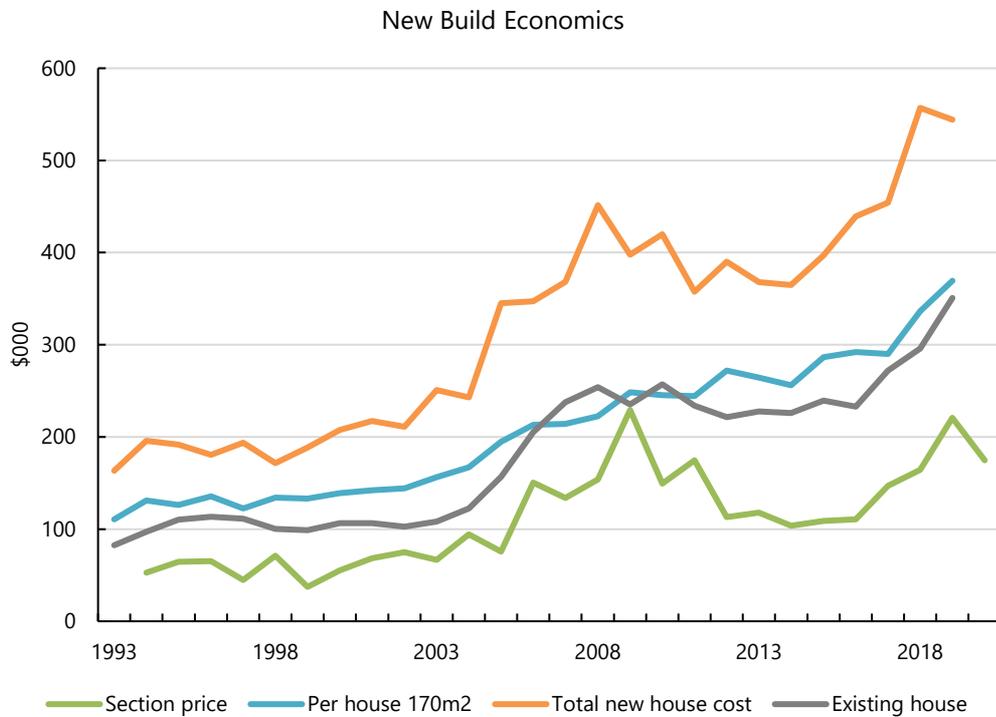
Source: Sense Partners calculations from Statistics NZ data

FIGURE 24: GISBORNE CONSTRUCTION COSTS ARE SIMILAR TO NATIONAL AVERAGES



Source: Sense Partners calculations from Statistics NZ data

FIGURE 25: THE COST OF A NEW BUILD IS VERY HIGH COMPARED TO EXISTING HOMES



Source: Sense Partners calculations from Statistics NZ and REINZ data for Gisborne District

4. Housing affordability

- House prices are very high relative to incomes
- Average rents are affordable
- But masks distribution issues

Median house sales price in Gisborne averaged \$350,000 in the year to June 2019, compared to nearly \$570,000 nationally. This makes Gisborne relatively affordable for those looking to buy compared to many other regions.

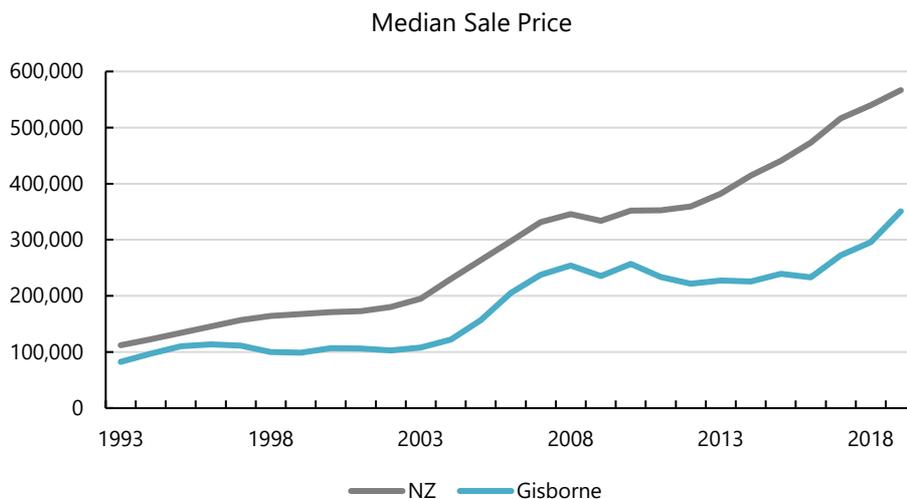
But the prices are high relative to local incomes. The median house price is around 9 times the average household income in Gisborne. Historically, house prices below 4 times incomes were consistent with increasing home-ownership rates.

The high house prices present a barrier to putting together a deposit to buy a home. A 20% deposit is over \$70,000 today. To have saved that deposit, a typical household would have needed to save 5% of their gross income (and kept that money invested in markets) from 2000 – it would have taken 19 years of disciplined savings. So expect people to rent not to buy.

The mortgage repayments are relatively affordable, especially at current very low interest rates. Progressive home-ownership products, for example those delivered by the New Zealand Housing Foundation (see Box A), may be suitable for the region. We should not consider home ownership as a readily attainable target.

Rents appear relatively affordable in the region, taking around 28% of the renting household’s incomes. However, the high prevalence of accommodation supplements in the region and other signs of housing stress suggest the averages may be masking distribution issues.

FIGURE 26: HOUSES ARE CHEAPER IN GISBORNE THAN THE REST OF NZ, BUT RISING SHARPLY



Source: REINZ

Box A: Progressive home ownership

Targeted home-ownership assistance might be worth a closer look

Home ownership has benefits that renting typically can't confer. When people own a home they have security of tenure, and are not subject to the unpredictable decisions of landlords.

But despite the benefits of ownership, many people on lower incomes simply can't afford to buy. Although they are assisted by the state to pay their rent, they don't get the same support for homeownership. Recent house prices movements only exacerbate these constraints.

Mortgage assistance schemes are available (for first-home buyers for example) but on their own these mostly leverage up prices further. The accommodation supplement can also be eaten up by higher rents, unless there is an offsetting increase in housing supply. Thus there is also a case to be made for connecting ownership assistance with home construction.

A small number of community housing organisations have developed "Shared Ownership" in New Zealand to meet some of these needs for individual that don't qualify for government housing assistance but can't afford to save for a deposit for a house.

Some detractors point to equity issues regarding those inside the scheme vs those on the outside. Others question why a match is not made between the bank and household. And the scheme is not without risk. During the GFC, many encouraged into the margin of US homeownership were the hardest hit.

How shared ownership operates

Under the Shared Ownership model, a household purchases a share of the property at a price point they can afford (subject to criteria and conditions). The remainder is owned by the housing organisation with both parties on the property title.

The household organises their own mortgage finance through a bank. They have a smaller mortgage than if they were required to purchase the full property at market value.

As an example, the New Zealand Housing Foundation provide the following example for their Shared Ownership model for a 70% ownership share we apply to a Gisborne new build:

- Property's market value (for Gisborne new build for example) - \$550,000
- Household buys 70% of the property with their mortgage and deposit - \$385,000
- New Zealand Housing Foundation's ownership is the remaining 30% - \$165,000

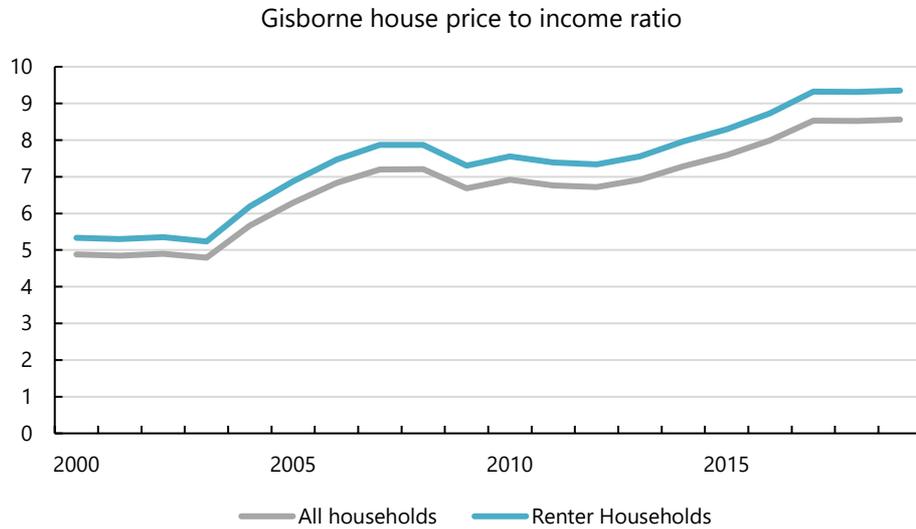
The household can choose to increase their ownership percentage at any time in increments of 5 percent of the market value at the time of purchase.

What might implementation look like

Many providers also provide offer budgeting assistance (for example, by consolidating loans to reduce interest rates) and strong development programmes that encourage and support households to find a path to home ownership. Manaaki Tairāwhiti might be well positioned to help deliver such assistance with capital from Trust Tairāwhiti providing mortgage funding.

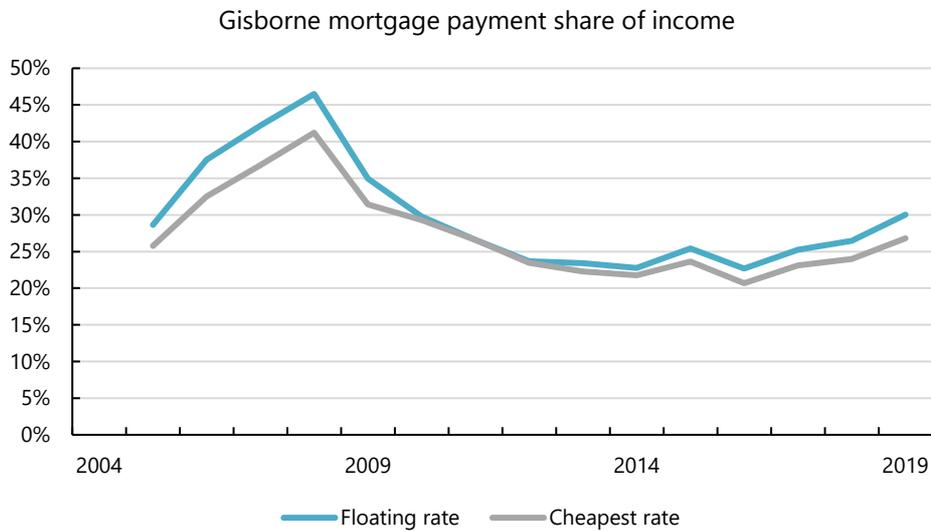
Targeted home-ownership assistance could be part of Gisborne's social housing policy.

FIGURE 27: HOUSE PRICES ARE VERY HIGH RELATIVE TO INCOMES; A 20% DEPOSIT WOULD TAKE NEARLY 20 YEARS SAVING 5% OF HOUSEHOLD INCOME



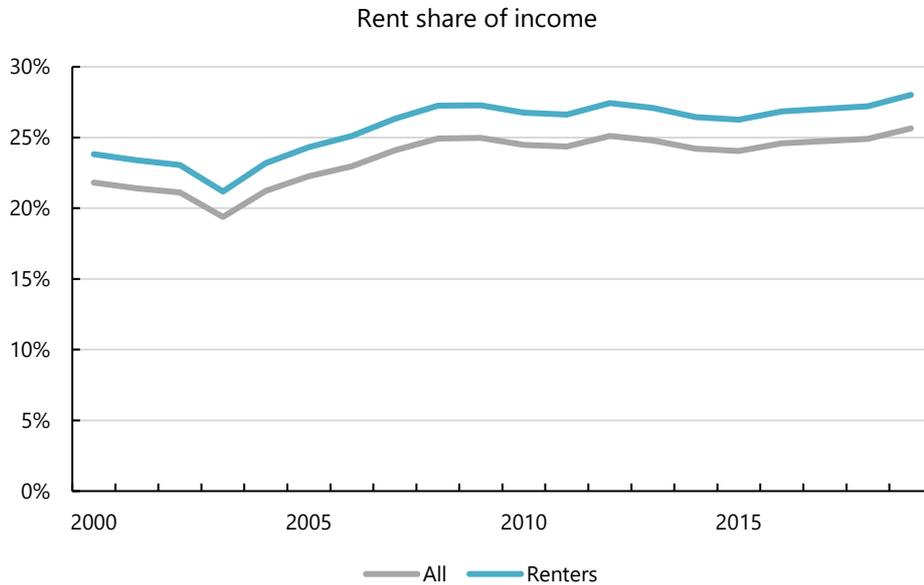
Source: Sense Partners calculations from Statistics NZ, REINZ and MBIE data

FIGURE 28: MORTGAGE PAYMENTS ARE RELATIVELY AFFORDABLE



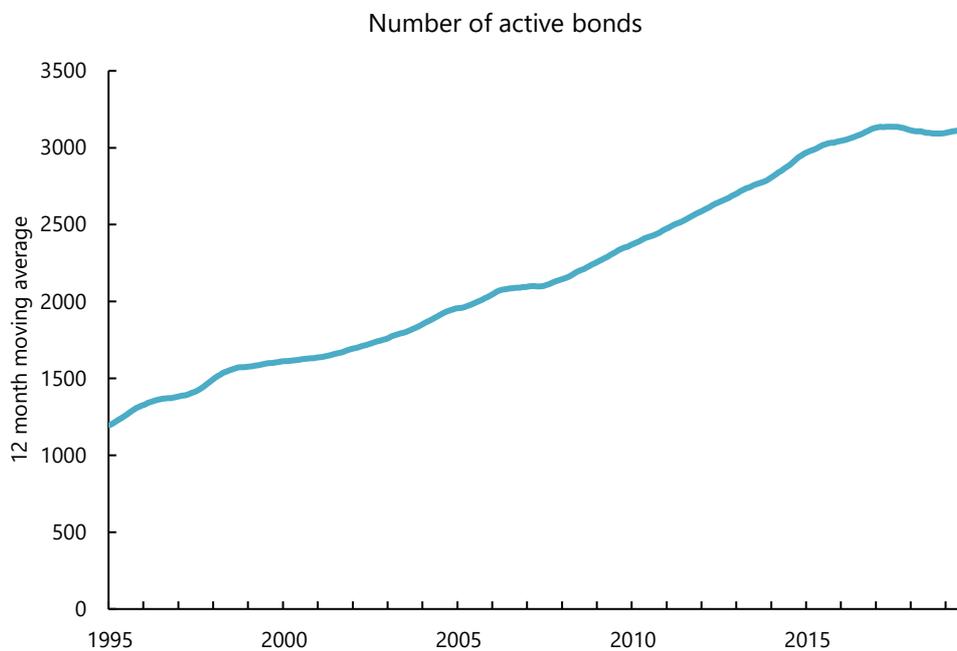
Source: Sense Partners calculations from Statistics NZ, RBNZ, REINZ and MBIE data

FIGURE 29: RENTS APPEAR AFFORDABLE TOO, BUT DOES NOT MATCH SIGNS OF HOUSING STRESS IN OTHER INDICATORS



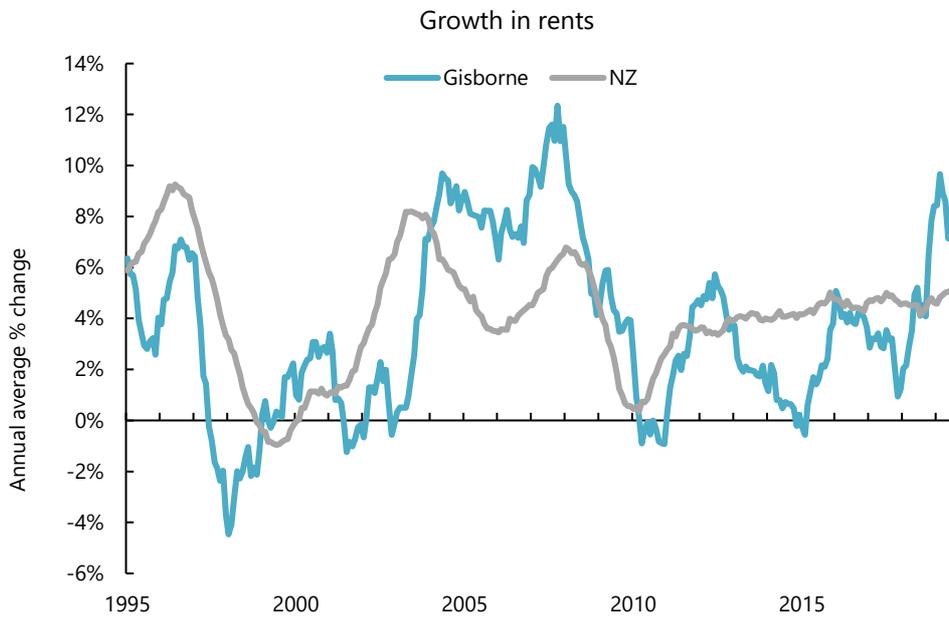
SOURCE: SENSE PARTNERS CALCULATIONS FROM STATISTICS NZ, RBNZ, REINZ AND MBIE DATA

FIGURE 30: THE RENTAL STOCK IS BARELY GROWING



NB Many rentals do not have an associated bond lodged so the indicator is best used to describe change over time rather than the extend of the rental market. Source: MBIE

FIGURE 31: RENTS ARE SPIKING



Source: MBIE

Through many lenses, housing need in Gisborne is acute. Without change, expect growing population demand to only exacerbate the impact of housing supply that has been slow to respond.

Opportunities for impact appear centred on the social end of the housing continuum. Expect changes to the broader private housing market to require long-term interventions and take longer periods of time to realise.