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TE MANATŪ WHAKAHIATO ORA

# New findings on Accommodation Supplement and housing costs

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MSD Strategy and Insights

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# Summary

For the last three decades, the proportion of low-income households spending large shares of their income on housing costs has grown. The proportion is high in comparison with other countries.

The Accommodation Supplement is a government-provided subsidy for families and individuals with low- and middle-incomes. It helps with a proportion of housing costs, up to a maximum weekly payment that depends on the area where the recipient lives.

In April 2018, the Accommodation Supplement increased as part of the Government's Families Package. Maximum rates were increased everywhere, and more places qualified as areas with higher maximum rates. Before 2018, rates were last adjusted in 2005.

The immediate effect of the 2018 change was to increase average Accommodation Supplement payments. The proportion of Accommodation Supplement recipients who received the maximum level of Accommodation Supplement for their area fell.

Between 2018 and 2021, accommodation costs continued to grow. The proportion of recipients receiving the maximum Accommodation Supplement for their area has increased, from 26% after the April 2018 increase to 38% in June 2021.

## Did the Accommodation Supplement changes contribute to the increase in accommodation costs?

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A concern with housing subsidies is that any increase could go to landlords through an increase in rent, rather than giving extra support to individuals and families.

We commissioned Motu Economic and Public Policy Research to look at this question. This is part of our work programme monitoring and evaluating the Families Package.

The Motu team looked at what happened on each side of the boundaries between areas with larger increases in maximum Accommodation Supplement rates and areas with smaller increases. They examined both total accommodation support and what happened to rents paid by Accommodation Supplement recipients.

Results suggest that, on average, around 90% of the increase in assistance stayed with Accommodation Supplement recipients as extra after-rent income. This broad finding holds for Māori and Pacific Accommodation Supplement recipients.

Long-term trends for the country show no noticeable change in overall average rents around the 2018 changes, or around the previous 2005 adjustment. Accommodation Supplement increases do not appear to be an important driver of the growth in accommodation costs that is occurring.



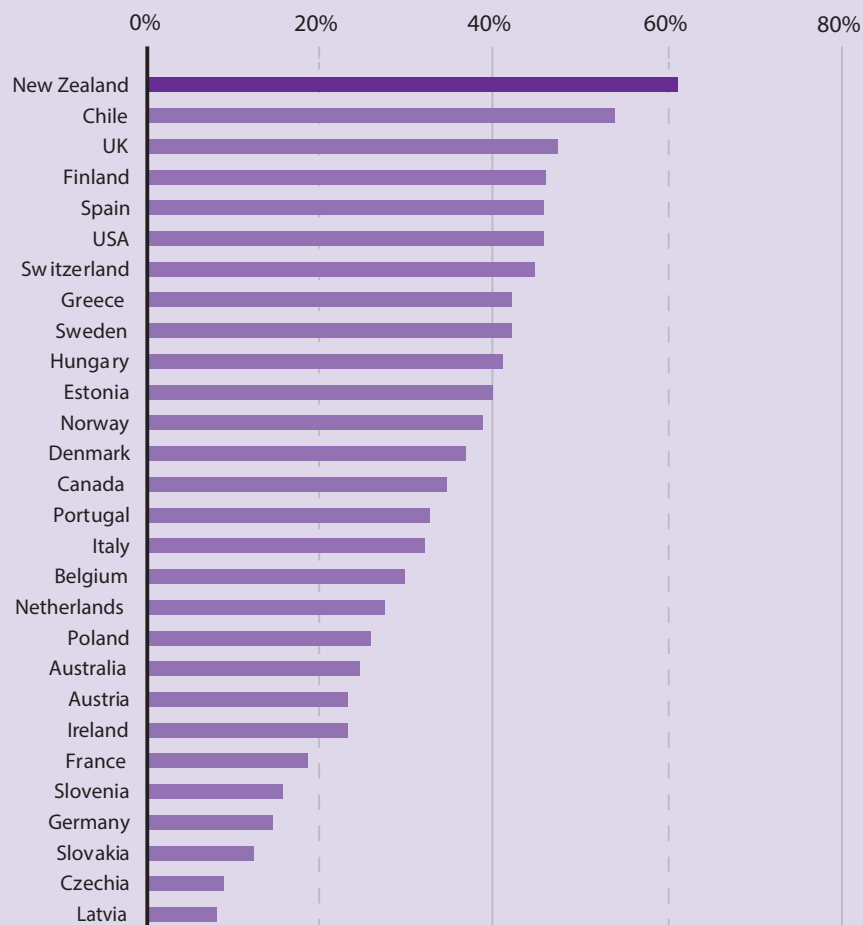
# The proportion of low-income households spending large shares of their income on housing costs has trended upwards for three decades

Low-income households are defined here as households with incomes in the bottom fifth of the income distribution.

High outgoings for housing costs relative to household income are often associated with financial stress for low- to middle-income households. They are also a factor in over-crowding.

MSD's Household Incomes Report (Perry, 2019) looks at trends in housing affordability for low-income households up until 2017/18. In low-income households where everyone is under 65, the proportion with housing costs greater than 40% of their household income increased from around 1/5 to around 1/2 over the three decades to 2017/18. This growth showed signs of flattening out in the five years to 2017/18, though the proportion of low-income households with housing costs greater than half of their household income continued to rise, reaching 40% in 2017/18.

A more recent MSD study (Perry, 2021) provides a comparison with other countries.



**60%** of low-income private renters were in households that spent more than 40% of their income on rent in 2017/18.

**This was the highest rate in the OECD.**

# The Accommodation Supplement is a key way Government supports housing costs for low-and middle-income people

For a useful overview of housing supports and services as at 2018, see the [background paper](#) – *Kia Piki Ake - Welfare Expert Advisory Group (2018)*.

The Accommodation Supplement is a payment that helps families and individuals with low- and middle-incomes with their housing cost.

People are eligible if they have high enough accommodation costs, and meet an income and cash assets test. Recipients don't have to be on any other kind of benefit or superannuation.

The payment subsidises accommodation costs like rent, board, and costs associated with home ownership. It subsidises 70% of accommodation costs above an entry threshold, up to a maximum weekly payment that depends on where the recipient lives, and their circumstances.

Recipients generally pay for:

- all their accommodation costs up to the entry threshold
- 30% of their accommodation costs between the entry threshold and the maximum rate that applies to them
- all their accommodation costs above that maximum rate.

As a result, increases in housing costs are generally only partially subsidised.

Those in Kāinga Ora housing or who are tenants of registered community housing providers are not eligible for Accommodation Supplement, but can instead receive the Income Related Rent Subsidy.

Prior to the 2018 changes, the Accommodation Supplement provided assistance with housing costs for 11% of the population. About two-thirds of recipients were renters. The cost was just over 0.4% of GDP, comparable to a number of other OECD countries (*Hyslop & Rea, 2018*).



# In 2018, the Accommodation Supplement increased as part of the Government's Families Package

The aim was to better align Accommodation Supplement support with growth in local housing costs.

The changes were announced by the previous Government in the 2017 Budget, and were retained by the incoming Government.

From 1 April 2018, the maximum rates were increased across all areas. More places were also zoned to qualify for higher possible maximum rates.

The last time the maximum rates had been adjusted was in 2005.

Accommodation Supplement maximum rates (increase from previous maximum rates in circles):

	Area 1	Area 2	Area 3	Area 4
<b>Single</b>	— \$165 +\$20	\$105 +\$5	\$80 +\$15	\$70 +\$25
<b>Married/partnered without children, Sole parent with 1 child</b>	— \$235 +\$75	\$155 +\$30	\$105 +\$30	\$80 +\$25
<b>Married/partnered with children, Sole parent with two or more children</b>	— \$305 +\$80	\$220 +\$55	\$160 +\$40	\$120 +\$45

For detailed tables showing the new Accommodation Supplement areas, go to:

<https://www.msd.govt.nz/about-msd-and-our-work/newsroom/2017/budget-2017.html>

## The immediate effect of the 2018 increases in maximum rates was to increase the average payment

The proportion of recipients at the maximum rate for their area fell.

Rising accommodation costs since 2018 have eroded some of the gains. The proportion of recipients that are at the maximum rate is increasing once more.

The average Accommodation Supplement payment increased from

**\$71**

per week at the end of June 2017

to

**\$95**

per week at the end of June 2018

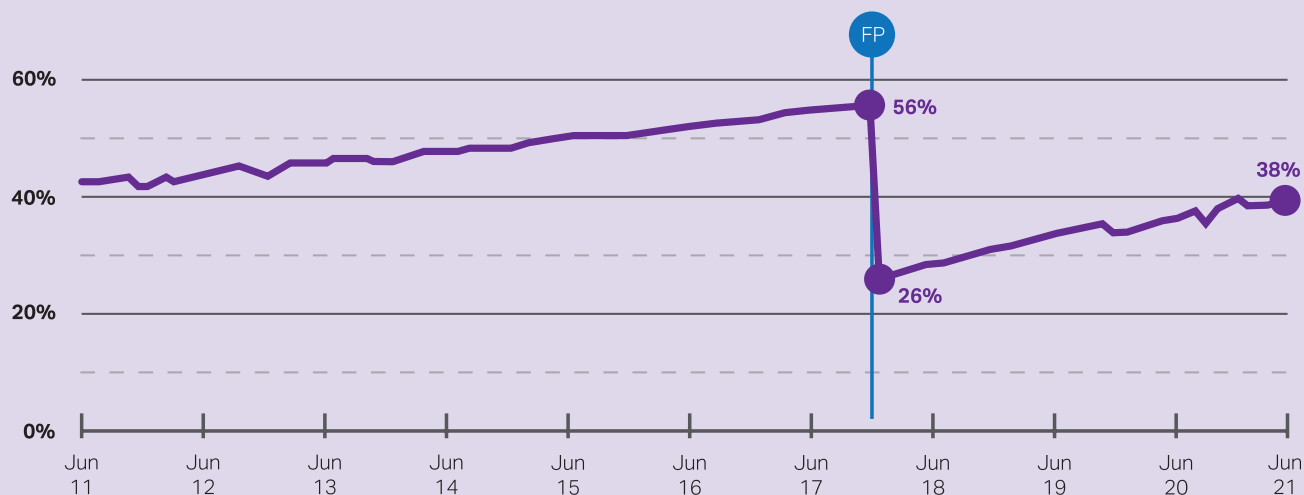
For most recipients, an increase in Accommodation Supplement payments meant more income.

For the minority that also received Temporary Additional Support, the net gain could be partially or wholly offset by loss of that payment.

*When a client has living expenses that are sufficiently high, (eg, high outgoings for rent), Temporary Additional Support can be used to assist Accommodation Supplement recipients. After the increase in the Accommodation Supplement, there was an accompanying fall in Temporary Additional Support. Fewer recipients of Temporary Additional Support needed the maximum possible rate of Temporary Additional Support following the Families Package changes.*

Just prior to the Families Package, 56% of Accommodation Supplement recipients were receiving the maximum rate for their area. This proportion fell to 26% after the April 2018 increases.

Between 2018 and 2021, the proportion of Accommodation Supplement recipients receiving the maximum rate trended upwards again, to 38% in June 2021.



For detailed tables showing the new Accommodation Supplement areas, go to:

<https://www.msd.govt.nz/about-msd-and-our-work/newsroom/2017/budget-2017.html>

# We commissioned Motu Economic and Public Policy Research to look at the question: did the Accommodation Supplement changes contribute to the increase in accommodation costs?

A concern with housing subsidies is that they may go to landlords in the form of higher rents. The Motu study looked at whether there was evidence for such an effect, and if so what was its possible scale.

Although the international literature generally finds housing allowances result in higher rents, there is a lot of variability in the existing estimates. This occurs across and within countries, as well as by estimation method. Higher quality studies find smaller effects.

The Motu team used unevenness in the size of the increase in maximum rates across areas as the basis for their study (Hyslop and Maré, 2022).

They looked at what happened on each side of the boundaries between areas that got larger increases and areas that got smaller increases in maximum rates. They examined total accommodation support and what happened to rents paid by Accommodation Supplement recipients.



Recipients on the side of the boundary with larger increases in maximum rates were estimated to receive on average about \$14-19p/w more in accommodation support relative to recipients on the other side. This includes support from both Accommodation Supplement and Temporary Additional Support.

Recipients on the side with larger increases in maximum rates were estimated to have an average 'raw' rent increase of about \$9p/w more relative to recipients on the other side. However, once changes in the composition of recipients and the boundary areas were controlled for, there were only small differences in rent increases on the two sides.

# **Recipients who stayed in the same home didn't experience any extra increase in rent on the side of the boundaries with larger increases in maximum rates**

The Motu team looked in more detail at what explained changes in the composition of recipients. They found new recipients with higher rents on the side of boundaries with larger increases in maximum rates explained the larger increase in rents in those areas.

For recipients who did not move and who continued receiving Accommodation Supplement throughout the study period, average rent increases were almost the same on the two sides of the boundaries.

It is not possible to say for sure whether the rent increases for tenants who moved represented 'pure' price increases associated with increased rents for the same housing. Other possible explanations are:

Incoming recipients could afford to spend more on better quality housing.

Incoming recipients could afford more suitable housing with more room and less crowding.

Increases in rents were more likely to happen when tenancies change.



# Motu's results suggest the 2018 increases in Accommodation Supplement did not go to landlords via an increase in rents charged to tenants

Controlling for changes in the composition of recipients and the boundary areas, the results suggest that **after two years around 90% of the extra increase in assistance was kept by Accommodation Supplement recipients as an extra increase in after-rent income.**

Overall, the proportion was

**91%**

for Māori recipients, the proportion was

**87%**

for Pacific recipients, the proportion was

**96%**

The pattern of results was broadly consistent over most areas, socio-demographics, family-type, and benefit-status subgroups.

## **Sensitivity testing and additional analysis did not change the conclusions**

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The overall results were similar using an extended sample period (April 2010 – May 2021 instead of April 2016 – March 2020).

Using tenancy bond data to analyse wider rent market effects of the policy showed even weaker effects on rents.

Further analysis showed only weak evidence of recipients directly affected by the policy changes – those who were at the maximum rate before the 2018 change – having stronger rent increases.

**An earlier study that looked at the 2005 increase in maximum rates had higher estimates of the impact on rents, but reached the same broad conclusions.** That is, most of the rise in accommodation support from an increase in maximum rates is captured by tenants in the form of increased after-rent income. Any capture by landlords in the form of increased rent is modest (Hyslop & Rea, 2018; 2019).

# Long-term trends for the country show no noticeable change in overall average rents around the 2018 changes, or around the previous 2005 adjustment to the Accommodation Supplement maximum rates

Taken together with the new findings from the Motu study, longer-term trends suggest Accommodation Supplement increases are not an important driver of the current growth in accommodation costs.

This graph shows long-term trends based on:

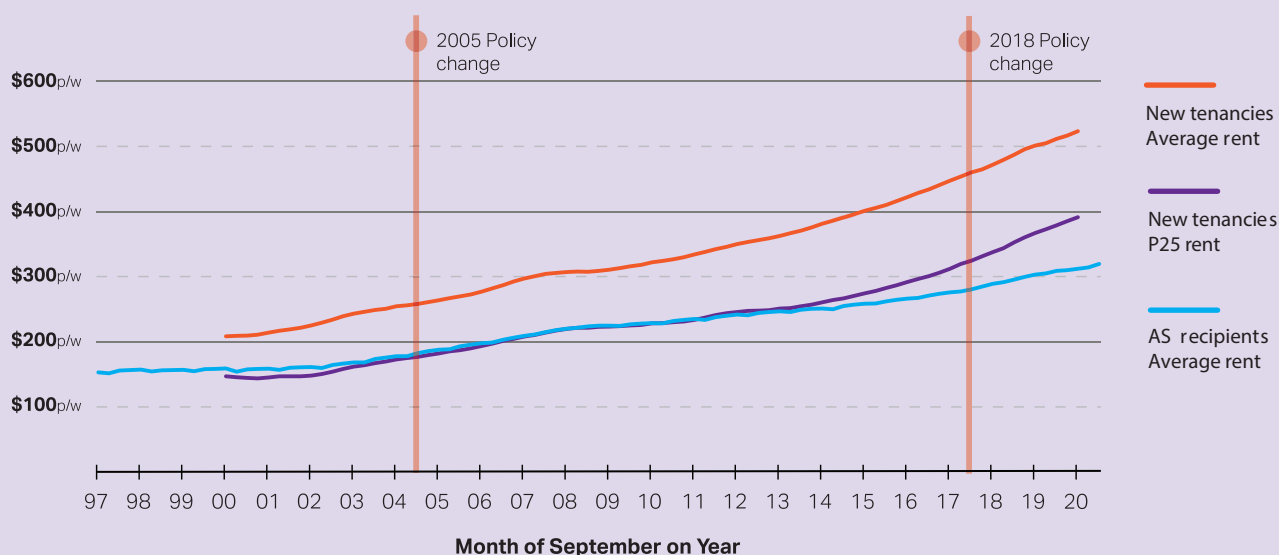
- rents paid by Accommodation Supplement recipients
- rents paid in new tenancies, from Tenancy Bonds data – the 25th percentile (P25) marks the top of the bottom quarter of new tenancy rents.

The average rent of Accommodation Supplement recipients corresponds closely to the 25th percentile of new tenancy rents until about 2013. After that, the 25th percentile of new tenancy rents increased faster than the average rent of Accommodation Supplement recipients.

Over the 20 years to September 2020, the average annual increase in rents for Accommodation Supplement recipients was 3.4%, compared to 5.0% for the 25th percentile of new tenancy rents, and 4.7% for the average new tenancy rent.

Accommodation Supplement increases do not appear to be an important driver of the long-term growth in rents that is occurring. There is no noticeable change around the time of 2018 changes, or around the time of the previous 2005 adjustment to Accommodation Supplement maximum rates. **Instead, it appears trend increases in rents started 2-3 years before each of these dates.**

### Average Weekly Accommodation Supplement and New Tenancy Rents - All areas



## For more detail

Graham, S., & Arnesen, L. (2022). Monitoring the Families Package and Changes to Income Support from 2018 to 2021. MSD. Available at: <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/families-package-reports/families-package.html>

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Hyslop, D. R., & Rea, D. (2019). Do housing allowances increase rents? Evidence from a discrete policy change. *Journal of Housing Economics*, 46 (December), 101657. <https://www.sciencedirect.com/science/article/abs/pii/S1051137718302602>

Hyslop, D., & Rea, D. (2018). Do housing allowances increase rents? Evidence from a discrete policy change (Motu Working Paper 18-10). Motu Economic & Public Policy Research. Available at: <https://www.motu.nz/our-research/>

[population-and-labour/individual-and-group-outcomes/do-housing-allowances-increase-rents-evidence-from-a-discrete-policy-change/](https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/population-and-labour/individual-and-group-outcomes/do-housing-allowances-increase-rents-evidence-from-a-discrete-policy-change/)

Kia Piki Ake - Welfare Expert Advisory Group (2018). Welfare and Housing Interface: Context and Background on Housing Assistance. Background Paper. Available at: <http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/9a26de9b94/Housing-interface-context-report-010419.pdf>

Perry, B. (2019). Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018. MSD. Available at: <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/household-incomes-1982-to-2018.html>

Perry, B. (2021) Housing affordability for renters and owners: International comparisons. MSD. Available at: <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

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<https://www.stats.govt.nz/integrated-data/>.