

Aide-mémoire



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

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For: Hon Amy Adams, Minister for Social Housing

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Risk of landlord capture from increases to the Accommodation Supplement (AS)

Key points

You have recently received a Treasury report '*Impact of Accommodation Supplement Increases on the Housing Market*' (T2017/261).

While MSD contributed to, and supports, the broad approach taken in the Treasury report, MSD considers that a firmer conclusion can be drawn from the available evidence.

The Treasury report notes that '*it is uncertain what impact an increase in the AS will have on private rental prices in New Zealand*'. MSD considers there is sufficient evidence to go further and conclude that it is unlikely any increase in AS would result in any significant degree of landlord capture (i.e. would cause an increase in rents).

The risk of landlord capture also needs to be balanced against the risk of continually declining after-housing costs incomes of the lowest-income households in NZ. The combination of increasing rents with no corresponding increases to AS since 2005 have increased housing stress amongst AS recipients. Increases to AS are the best way to directly target support with housing costs to low-income households in the most housing stress.

It is also important to note that any risk of landlord capture from an increase to AS would also apply to any mechanism used to increase the income of low-income households (e.g. increases to benefit rates or Family Tax Credit).

International evidence on landlord capture is mixed but recent New Zealand evidence

A 2015 literature review of international evidence suggested a range of impacts with the magnitude of landlord capture ranging from 30-78%. However, two recent studies have found the impact to be closer to zero.

While there is limited New Zealand research on this issue, a

indicates no significant degree of landlord capture from the 2005 AS increases...

recent study conducted by MSD and Motu has found no evidence for any significant landlord capture of the 2005 increases to AS.

This study indicates the 2005 AS changes that created a new boundary for the Auckland AS area did not:

- have any statistically significant impact on rents paid by recipients in the new area (now subsidised more generously) or;
- have any impact on the number of recipients in the new area (i.e. there was no movement toward the area with higher AS payments).

These findings are supported by the graph in Appendix 1 which shows trends in rents (in real terms) for AS recipients compared to all New Zealand renters between 2000 and 2016. This graph shows that the implementation of the Working for Families package in 2004/05, which included AS increases, did not change the trends in rents (i.e. rents paid by AS recipients did not increase significantly after the changes were implemented which would be expected if there had been any significant degree of landlord capture).

...and any risk of landlord capture would apply to any mechanism used to increase the incomes of low-income households.

Any mechanism that is used to increase the income of low-income households faces at least some risk that some of this additional income is captured by landlords in the form of increased rental payments.

The factors outlined in this note suggest there is little evidence to consider that the risk of landlord capture is any greater with increases to AS than it would be through any other mechanism that was used to increase the incomes of low-income households (e.g. benefits, Family Tax Credit).

AS recipients may be more likely to spend any extra income on essentials like food, clothing and heating rather than on more expensive housing...

As at September 2016 AS recipients spent, on average, 55% of their income on housing. The high degree of housing stress that the AS recipients who will benefit most from the proposed increase are already facing may make it more likely that any additional income would be spent on essentials such as food or clothing rather than on more expensive housing.

When coupled with the costs and resources required to move house, this is likely to dampen any additional demand for housing from AS increases and therefore reduce the risk of landlord capture.

...and a number of other factors reduce the risk of landlord capture.

There are also a range of reasons that MSD consider reduces the risk of landlord capture of any AS increases:

The design features of the AS, particularly the co-payment and maxima

The co-payment means that tenants have to meet 30% of the cost of any extra housing they consume up to the maxima (i.e. the tenants have to pay more if they seek to move to more expensive housing as a result of any AS increases). Tenants also have to meet 100% of costs above the maxima.

Lack of awareness of AS by landlords and tenants

Surveys have shown that many beneficiaries on AS are not aware they are receiving AS (most likely because AS is paid as part of a single payment with benefit and Family Tax Credit payments). If many AS recipients are not aware they are receiving AS they are less likely to respond to an increase in AS by seeking more expensive housing.

Similarly, MSD discussions with landlords in 2006 found very few had any awareness of the likelihood of their tenants receiving AS, reducing the incentive of landlords to attempt to increase rents as a result of AS increases. While a major Budget announcement about AS changes may increase awareness, this would be similar to previous instances where AS has been included as part of Budget announcements (e.g. the 2005 increases). As noted above there is no evidence that the 2005 changes resulted in any significant degree of landlord capture.

Increases to AS would reduce the receipt of TAS which has a higher risk of landlord capture.

TAS pays 100% of accommodation costs (up to a maximum level), as opposed to the 70% of costs which are met by the AS. Shifting households from TAS to AS would therefore reduce the risk of landlord capture as AS recipients contribute to the cost of any additional housing while TAS recipients do not (up to the maximum).

Other factors such as population changes are likely to have a far greater impact on rental prices

Other factors (for example, population change and migration) are considerably more significant in relation to demand for rental housing than any increases to AS, and these are likely to outweigh any effects from changes in subsidies.

Supply for housing is inelastic only in the short-term

The theory behind landlord capture suggests rental increases are likely because supply is inelastic (i.e. it takes time for new supply to come onstream). This is true in the short-term but initiatives already in train such as the Auckland Unitary Plan

should support greater elasticity of the supply of new housing in Auckland in the longer term.

AS increases would also improve the incentives to move out of social housing

Increases to AS would reduce the financial disincentives that currently exist for social housing tenants to move out of social housing to the private rental market.

AS increases would be the first step towards broader reform of the housing subsidy system. While further reform would still be necessary to develop a coherent system of housing subsidies, increases to AS through Budget 2017 would reduce the cost of further reform.

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Appendix 1:

Average real weekly rent paid by AS recipients and NZ houses, 2000 to 2016 (\$2014)

