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Observing New Zealand's Housing Crisis: Efforts to Produce and Finance Affordable Housing and its Implications for U.S. Policies

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Introduction

Homelessness, overcrowding, and cost burden are common crises facing people with no or low incomes. The number of families who are homeless or struggling to reliably afford a place to live remain at crisis levels across the United States. Replace the reference to the housing crisis in the United States with New Zealand, but picture it to a greater degree. For decades, the United States has maintained public and, increasingly, private investment through a generally consistent housing finance regulatory framework, particularly the Community Reinvestment Act and investment tools like the Low-Income Housing Tax Credit Program. Not-for-profit housing developers have been mainstays in the ownership, development, and sponsorship of affordable housing across the United States and have benefited from public-private capacity-building investments. New Zealand has no such housing finance regulatory framework and has an inconsistent history of supporting not-for-profit housing providers' capacity to develop real estate. The net result is a chronically underfunded public-private investment across the affordable housing continuum. This article provides a cautionary tale to U.S. housing policymakers and stakeholders from another western, albeit smaller, nation facing its own housing crisis and the level to which it is willing to commit development capital resources to meet the needs of those most vulnerable.

This article summarizes a larger report from 2018, “Priming the Pump: Access to Capital and Capacity to House New Zealanders,” identifying factors necessary for New Zealand to enable sustained private capital to support affordable housing development. The country’s government alone does not invest enough capital to meet society’s growing public and affordable housing needs and has not developed a regulatory framework to strategically secure private sector investments. The article also explores not-for-profit housing developer performance and capacity development needs. Readers will learn the implications of not having the necessary policy settings to secure private sector investments and understand capacity requirements for mission-based developers who endeavor to address the crisis.¹ The particular role and capacity needs of community-based organizations provide a clear picture of the community development ecosystem and its needs (Department of Internal Affairs, 2019). This research sought to refine considerations for investing in communities that have exhibited challenges accessing capital and building local capacity.

New Zealand has long shown great pride in its egalitarian spirit, Māori culture, and sporting-outdoor heritage. As a society that promotes its outdoor wilderness and pioneering spirit, the country, in fact, is a fast-growing, urbanized nation struggling to meet the needs of longtime residents and new arrivals. Despite its egalitarian ethos—the idea of “Kiwis helping Kiwis,” a spirit that to some extent remains—large shares of society, particularly Māori and Pacific peoples, live in entrenched poverty and experience greater social deficits in housing, health care, education, and other areas of life. New Zealand, in fact, has greater income inequality and a higher proportion of residents—especially Māori and Pacific peoples, who are homeless or living in insecure housing tenures (defined by cost burden) when compared with the United States. Families across the country² face housing challenges, including lack of affordable stock, poor quality and/or unsafe conditions (referred to as old, cold, and with mold), excessive cost burdens, and the need for financial literacy education and housing counseling.

Efforts to address the New Zealand housing crisis have stalled. Government-led efforts, like KiwiBuild—a 10-year government-led plan to deliver 100,000 new homes across New Zealand in 2017—have been slow to market, build, and sell. High land prices have made KiwiBuild unaffordable to first-time homebuyers; a reset was announced for July 2019, less than 2 years after it launched. The government also struggles to meet the growing demand for social “public” housing for those families who need it. Housing officials and industry stakeholders cite a lack of development capital as a key constraint to resolving the undersupply. Access to affordable, buildable land and a skilled construction labor force are also key development challenges. Smart urban planning and local zoning codes are also key policy matters that the government is reviewing.

Understanding the capacity of mission-based housing developers was a principal element of the author’s research. The community housing provider (CHP) sector serves a variety of roles in providing affordable secure tenure housing: developer, builder, sponsor, and varying forms of tenancy, property, and asset manager. New Zealand has 46 registered CHPs, including Māori housing providers, operating across the country, most of which are primarily supportive service

¹ The author’s 2018 report also looks at government’s history of operating social/public housing and the impact of varying leadership on the current state of the portfolio (Mosley, 2018).

² Aotearoa is the Māori name for New Zealand. The author uses New Zealand throughout this article but notes the cultural significance of the indigenous people and their language.

providers (CHRA, n.d.). Approximately 10 CHPs have the capacity to develop at scale, from 5–10 units to up to about 200–300 units of mixed-income, mixed-tenure residential units every 1 to 2 years depending on their access to public and private financing and land. The capacity of local organizations to secure land and capital is a key component to further local development and community progress. Not-for-profit developer capacity, in particular, has been identified as a crucial element to meeting local need in New Zealand (Housing Shareholders Advisory Group, 2010). Officials see CHPs as a small but influential part of the development sector; however, in the overall demand for housing supply, CHPs struggle for recognition as a valued partner. In fact, most of the recent housing policy innovations, such as inclusionary zoning, shared equity, lease-purchase, and other initiatives, have come from forward-thinking CHPs that have learned lessons from overseas.

Setting the Stage

Demographics and Housing in New Zealand and the United States

Key differences separate New Zealand and the United States. The United States has a landmass almost 37 times larger and has 67 times more people (see exhibit 1); however, the countries have a similar share of those living in cities and suburbs versus rural areas (86 percent urban in New Zealand and 81 percent urban in the United States). The author chose to compare New Zealand and its largest city, Auckland, with California's Los Angeles and San Francisco because the city represents New Zealand's most populous jurisdiction and provides similar comparisons at the state and local levels.

Exhibit 1

General Demographic Snapshot: New Zealand and the United States

	New Zealand	Auckland	United States	California	Los Angeles	San Francisco
Landmass (km²)	268,021	1,102	9,857,348	423,972	1,213.86	121.4
Population	4,844,400	1,657,200	325,719,178	39,536,653	3,949,776	884,363
Urban (%)	86.3	92.6	80.7	87	100	100
Rural (%)	13.7	7.4	19.3	13	**	**
Māori (%)	15	10.7	**	**	**	**
Pacific (%)	7.4	14.6	7.4	0.4	0.2	0.4
Asian (%)	11.8	23.1	5.2	13.9	11.7	34.2
Native American (%)	**	**	1.0	1.1	0.7	0.4
African-American/MELAA (%)	1.2	1.9	12.6	5.5	8.9	5.3
Hispanic/Latino (%)	**	**	17.3	38.9	48.7	15.3

** Mainly Samoan, other Pacific Islanders—including Māori—and Native Hawaiian.

Notes: Landmass information sourced from Wikipedia. MELAA describes the population that is Middle Eastern, Latin American, and African. For New Zealand, the population share of Hispanic/Latino individuals is included within MELAA.

Sources: United Nations, 2015; Landmass information from Wikipedia and CityMayors.com; Urban population data from World Population Review, Auckland and U.S. Census Bureau; New Zealand population from Stats New Zealand of December 2017; L.A. County 2017 population—U.S. Census American Factfinder

The U.S. population grew 16,973,640 (5.5 percent) from 2013 through 2017; New Zealand's population grew by 351,600 (7.5 percent) during the same period, essentially adding the population of a new Christchurch to the country in a 5-year span. Auckland absorbed 47 percent of this increase (Johnson, 2018). The strong population growth comes mainly from in-migration, with almost 248,000 net new arrivals recorded during this 5-year period, or about a 2.5-percent increase annually (Johnson, 2018).³ States in the United States that recorded the fastest growth in 2018 were Nevada (2.1-percent annual increase) and Idaho and Utah (both at 1.9-percent increase); none of these states is nearly as populous as California (U.S. News and World Report 2018 rankings).

Some of New Zealand's housing characteristics and challenges are similar to those in the United States (see exhibit 2). For example, homeownership, a long-sought goal of families in both countries, has declined in both nations mainly because of substantially increased house values in major urban markets and the inability of household income to keep pace (exhibit 2). In addition to rising house values, population growth and the lack of housing construction have further constrained access to affordable housing for those at the lower income rungs. The shortage of quality affordable homes for those with lower incomes has resulted in overcrowding and higher cost burden. The rate of those experiencing homelessness has been an increasingly visible sign that access to affordable housing is failing. Los Angeles, San Francisco, and Auckland reported percentages of homeless populations that exceed the national averages. The share of homeless people in the United States was 0.2 percent, compared with almost 1.0 percent in New Zealand. Of Auckland's residents, 1.4 percent were visibly homeless compared with 0.9 percent each for

Exhibit 2

General Snapshot: 2017 Housing in New Zealand and the United States

	New Zealand	Auckland	United States	California	Los Angeles	San Francisco
Homeownership Rate	63.2	61.5	64.2	55.2	36.8	43.4
Median Household Income (New Zealand \$)	54,558	61,452	78,668	67,169	54,501	86,265
Median House Value (New Zealand \$)	323,169	700,400	262,643	443,400	549,800	927,400
Median Monthly Rent (New Zealand \$)	1,130	1,421	1,350	1,358	1,302	1,709
Number of Homeless (% of Population)	41,207 (0.9)	23,409 (1.4)	553,742 (0.2)	134,278 (0.3)	34,189 (0.9)	7,499 (0.85)

Notes: United States: 64.2 percent, Fourth Quarter 2017 (U.S. Census); highest was 69.2 percent, Second Quarter 2004; California: 55.2 percent, First Quarter 2018; highest was 60.2 percent in 2006.; there were 28,649 homeless in 2001 and 34,000 in 2006. The estimated ratio of homeless in the United States in 2017 was 17 out of every 10,000 (PIT Estimate of People Experiencing Homelessness by Sheltered Status).

Sources: LA (2018) —So. CA Assn. of Governments. S.F. rate from FRED Economic Data (Fed. Reserve Bank of St. Louis). Number of homeless for New Zealand comes from OECD, Homeless estimate 2015: Number of homeless for Auckland comes from Auckland Council (2017). HUD—The Annual Homeless Assessment Report to Congress: Part 1, p. 8, Exhibit 1.1. Estimate of Homeless Californians (PIT Estimate, p. 12). 2017 Greater LA Homeless Count Results—LA County homeless estimate for L.A.—LA Homeless Services Authority; 2017 San Francisco homeless count—S.F. 2017 Homeless Count and Survey Comp. Report—Applied Survey Research

³ For 2017, the largest sources of in-migration for New Zealand were returning New Zealanders, China, India, the U.K., Australia, and various African countries.

the cities of Los Angeles and San Francisco. The combined number of people who are homeless in these U.S. cities—41,688—exceeds the 41,207 reported across New Zealand.

In an international comparison of housing affordability (the comparison looked at 91 cities with populations of 1 million or more), New Zealand is rated the second least affordable country—measured “severely unaffordable” at 9.0.⁴ Hong Kong is the least affordable jurisdiction at 20.9; the United States overall is measured as moderately unaffordable at 3.9 (Demographia, 2019: 2). Unaffordability, as measured by the ratio of house price to income, jumped in New Zealand from the late 1980s or early 1990s to 2018—from about 2.8 to 6.5—because of rising migration, low housing production, rising home prices, and New Zealand’s prior adoption of urban containment policies. By comparison, unaffordability in the United States rose from 2.6 to 3.5 percent (Demographia, 2019).

According to the Organization for Economic Co-operation and Development’s (OECD) Better Life Index, the United States and New Zealand present similar general housing profiles and pressures. For example,

- Rooms per person: 2.4 rooms: The United States ranked 2/38; New Zealand ranked 3/38;
- Dwellings with basic facilities: The United States at 99.9 percent (ranked 7/38); New Zealand at 99.7 percent (ranked 12/38);

This is juxtaposed to the following example:

- Housing expenditure (ratio of housing cost to household’s gross adjusted disposable income, latest available year): The United States at 18 percent (ranked 7/38); New Zealand at 26 percent (ranked 38/38).

Looking internationally at income inequality, measuring the ratio of income to housing costs, New Zealand generally is among the most unequal of the developed countries. The country’s Ministry of Social Development (MSD, 2016) found that, in 2012, New Zealand ranked in the top third of the most unequal countries at 33—the same as Australia, less unequal than the United States and United Kingdom (ranked 40 and 35, respectively), but more unequal than Canada (32). The income inequality and associated housing affordability crisis are linked mainly to the lack of supply for those at all income ranges, resulting in escalating values. Housing affordability across New Zealand, according to public opinion, was the top public policy priority for New Zealanders. (Dodd and Griffiths, 2018). Most Democratic candidates in the 2020 U.S. presidential race have raised housing as a key issue (NLIHC, 2019; CityLab, 2019). President Trump, citing the systemic lack of affordable housing across the United States signed an Executive Order on June 25, 2019, to create a council to eliminate regulatory barriers to affordable housing.⁵ Political attention and efforts to address the dearth of affordable housing in both countries must support strategies that recognize the role of effective policies and regulations that promote production and preservation and reduce income inequality.

⁴ Demographia rating uses the “median multiple”—median house price divided by median household income.

⁵ <https://www.whitehouse.gov/presidential-actions/executive-order-establishing-white-house-council-eliminating-regulatory-barriers-affordable-housing/>.

The United Nations Sustainable Development Goals

The United Nations (UN) developed a set of Sustainable Development Goals (SDGs) to address global challenges, particularly those related to poverty and inequality, adopted by world leaders in 2015. The UN developed the 17 goals to create a pathway enabling a better and more sustainable future, with the goals to be met by 2030.⁶ Sustainable Development Goal 11 focuses on Sustainable Cities and Communities; Target 11.1 of this Goal is to ensure access for all to adequate, safe, and affordable housing and basic services, and to upgrade slums. In July 2019, New Zealand committed to the following indicators to meet SDG 11 and ensure it is responding to its current housing crisis:

- Homelessness—This indicator will show the stability and security of New Zealanders' accommodation. It will measure the number of people without safe and secure accommodation. The specific indicator is being formulated.
- Housing affordability—This indicator will measure the proportion of households spending more of their gross income on housing costs; 22 percent of households in 2018 reported spending over 30 percent gross income on housing costs.
- Housing quality—This indicator will measure the physical condition of accommodations. The specific indicator is being formulated.
- Overcrowding—This indicator measures households living in overcrowded conditions using the Canadian National Occupancy Standard (CNOS), where a household is considered crowded if it needs one or more extra bedrooms to sufficiently accommodate all household members. Data to be available in 2020 (StatsNZ, 2016; NZ-HUD, 2019).

The United States' official SDG 11 goal is to reduce the percentage of occupied housing units in urban areas that are inadequate, measured by a lack of access to improved sanitation facilities. From 2001 through 2015, this percentage decreased from 6.05 to 5.48.⁷ This comparison presents an opportunity for the United States to consider expanding its set of indicators to increase its measure of accountability in addressing its housing crisis; many of these indicators are currently measured. SDG USA and Sustainable Development Solutions Network (SDSN), a global initiative for the United Nations, conduct their independent analysis and track additional housing measures, providing state-level metrics:

- SDG1—End Poverty—Affordable Housing (per 100 extremely low-income renter households)
- SDG 11—Sustainable Cities and Communities—Overcrowded Housing (percent of occupied housing) and Rent Burdened Population (percent).⁸

⁶ For more information on the SDGs, see <https://sustainabledevelopment.un.org/?menu=1300>.

⁷ <https://sdg.data.gov/sustainable-cities-communities/>; American Housing Survey.

⁸ Sustainable Development Report of the United States 2018; SDG USA and Sustainable Development Solutions Network; September 2018.

Accessing Capital for Affordable Housing

Accessing Development Capital in New Zealand

Communities across the United States and New Zealand struggle to provide affordable housing that is safe and secure in tenure. The lack of sufficient public housing and the strain on families and other households living with limited resources to secure private market rentals and homeownership calls for continued and increased investment for affordable housing options. In New Zealand, government and councils have created joint venture development partnerships, such as Tamaki Regeneration Corporation, through which they launched a community regeneration program in South Auckland. HLC (Homes. Land. Community.), a wholly owned subsidiary of Housing New Zealand Corporation (HNZC), continues to pursue large-scale community redevelopment projects designed to include market rate and affordable rental and homeownership opportunities and to redevelop existing public housing. These government, quasi-public, and private sector entities are interested in developing more affordable and mixed-income housing.

The author's previous report, "Priming the Pump" (Mosley, 2018), explored the settings to enable systematic engagement from private capital sectors. Unlike the United States, New Zealand does not have a regulatory framework encouraging strategic investment supporting affordable housing development. In the New Zealand study, it was important to understand what factors are needed to incentivize lenders and investors to participate at a greater level. The author interviewed representatives from banks, private equity firms, foundations, and public pension annuity funds to understand their interest in investing in projects that include public and affordable housing. Banks, some foundations, and limited equity funds currently lend and, to a smaller extent, invest equity, in projects; however, based on the need for added capital, substantially larger and strategic infusion is necessary to address New Zealand's housing pressures. Financiers interviewed (Mosley, 2018) cited several factors that could encourage them to play a larger role, including the following:

- **Rate of return**—Traditionally all actors say they require a market rate of return on their investments as their responsibility to shareholders or board members, but several suggested they'd consider at least no economic loss level as long as there is a social return.
- **Product design**—Lenders stated that the design of a new financial loan or equity product must not be complex or "boutique"; it must be easy for institutions to consider it alongside existing products and tools without requiring substantive changes in business practices and risk measures.
- **Scale**—Lenders, investors, and funders seek, or prefer, large projects (hundreds of units compared with 10–50).
- **Risk**—Parties need a clear understanding and expectation of risk-sharing.
- **Developer/Team**—The developer must have a proven track record.
- **Government**—Each sector expected that government would participate in these projects as a condition but questioned how reliable a partner government would be over the long term.

New Zealand is home to private capital sources, in addition to public pension annuity funds, but the country has seen limited appetite, enticements, or mandates for greater investment to help meet its affordable housing need. Accessing conventional debt capital was not reported to be an issue; however, the uncertainty of government shifts in ideology and priorities brings development pipeline uncertainty for CHPs. Lenders have also expressed concern about serving a greater role given the lack of certainty of long-term government engagement. Two key elements cited as possible reasons for the limited appetite are, first, that most of the main banks are Australian-owned and, although chartered with local governance, are still seen to have a business focused more on Australian priorities. Second, investors and lenders see New Zealand's relatively small population (nearing 5 million) and economic scale as a factor motivating them to invest in other ventures that would provide a reliable and greater rate of return than affordable housing development. To help address the concerns raised by capital providers, the author identified examples of successful financing models used in Australia, the United Kingdom, and the United States, including:⁹

- Housing loan/bond aggregators,
- Infrastructure bonds,
- Social impact bonds,
- The Low-Income Housing Tax Credit program,
- Tax Increment Financing,
- Housing Trust Funds,
- Uplift America Fund,
- Rural Home Loan Partnership/Leveraged Loan, and
- California's Cap and Trade Program.

Specific Capital Development Efforts in New Zealand

On October 1, 2018, the government formed NZ-Housing and Urban Development (NZ-HUD). This new ministry, which consolidated several housing programs from other ministries, focuses on three areas: ending homelessness, creating growth opportunities in urban areas, and creating thriving communities (NZ-HUD, n.d.). One of these key efforts is NZ-HUD's creation of a Housing and Urban Development Authority (HUDA), or Kainga Ora. Through HUDA, the government is creating the pathway to transform cities through streamlined consenting processes, funding infrastructure and development and land assembly (NZ-HUD, n.d.). HUDA is expected to be operational by late 2019 or early 2020.

⁹ The author's full report, "[Priming the Pump: Access to Capital and Capacity to House New Zealanders](#)," describes each of these housing financing tools.

New Zealand's structural response to its housing supply and affordability response is generally framed around quickly infusing new housing supply into cities and creating the mechanism to more quickly redevelop land and communities. Soon after the current government assumed leadership in October 2017, it took several steps to increase and incentivize housing production. First, before it created NZ-HUD, and soon after it came into leadership, the current government launched KiwiBuild in 2017 as an initiative to build 100,000 homes for first-time homebuyers over 10 years. Through this initiative, the government is investing \$2 billion to help catalyze the development of these homes across the country. As of June 2019, Prime Minister Jacinda Ardern's Administration reported 10,497 (10.5 percent of the program goal) homes completed, sold, under construction, or contracted/committed to build; 141 of these homes were actually built.¹⁰ The pace of completion was deemed a failure and key Ministry leadership was changed in early July 2019 to jumpstart KiwiBuild and addresses the backlog of social/public housing construction. In fact, Prime Minister Ardern expanded the number of Ministers with oversight of housing and urban planning from two to five, acknowledging the failures and complexity of housing challenges. The change in Ministerial leadership, however, has not yet created the settings to effectively increase housing delivery, such as the use of public and privately owned land, increasing public financing and incentivizing private sector debt and equity investment, and providing reliable development pathways for developers/builders, including not-for-profit housing providers. Central government, though, is working with local jurisdictions to enable more effective urban planning processes.

Community Housing Providers are advocating for new efforts to bring affordable ownership opportunities to New Zealanders unable to afford a conventional mortgage. Four organizations created KiwiBuy in 2018, a partnership initiative to help create pathways to affordable homeownership and encourage government to do more to enable affordable ownership. KiwiBuy promotes two forms of alternative ownership strategies, shared ownership and progressive homeownership.¹¹ These models, similar to U.S. shared equity and lease-purchase, are seen as a way to leverage KiwiBuild, but also incentivize public and private sector participation; several community housing providers currently offer these types of products. KiwiBuy is an example of the energy and innovation from affordable housing stakeholders to encourage government to help deliver affordable housing on a greater scale.

Separate from this housing reset, New Zealand government had already started a review of its tax code in 2017, in particular exploring the implementation of a capital gains tax (CGT) as a means to temper spiraling house prices. As part of the government's tax working group review of its overall tax policies and structure, the group analyzed and considered ways to address house prices. Specifically, the tax working group recommended taxing vacant residential land and levying the tax locally rather than on a national level (Tax Working Group, 2019). Early analysis suggests that, while the tax may have minimal effect on overall housing affordability, house prices may soften as investors sell properties to avoid paying the CGT, which may open opportunities in the short term for first-time homebuyers. Reports also suggest, however, that rents may increase as investor properties come off the market, further limiting supply (The Spinoff, 2019). The government ultimately decided not to implement the CGT, citing no consensus for it.

¹⁰ For more information, see hud.govt.nz/news-and-resources/news/first-kiwibuild-homes-in-the-bay-of-plenty/.

¹¹ For more information, see <https://kiwibuy.kiwi/>.

New Zealand investors see residential real estate ownership as an attractive, stable investment opportunity, producing a reliable stream of rental income. An increasing number of investors have purchased residential properties as a long-term investment strategy and a “negative gearing” vehicle to offset gains, prompting the government to enact new tax legislation to help balance housing opportunities between these stakeholders and owner-occupiers, particularly those seeking to become first-time homebuyers.¹² Negative gearing in this context is a practice in which investors purchase rental investment properties with borrowed funds even when the net rental income, minus operating expenses, is less than the interest on the borrowed funds; the shortfall from the rental income earned and interest due can be deducted from income taxes (Australian Taxation Office, 2015). The expectation is that the expected reliable long-term capital gains compensates for the short-term losses; Canada and Australia also allowed for this tax deduction (Kenton, 2018). It is recognized as a factor in escalating house prices than would otherwise occur (Equality Rights Alliance, 2011). The country passed loss ring-fencing legislation to mitigate the practice of negative gearing to better control investor-owned property ownership and create conditions enabling first-time homebuyers to purchase (Jolliff, 2018). Loss ring fencing restricts investors to offset rental tax gains only from losses from another rental property rather than from other business activities; residual losses can, however, be carried forward to offset future gains or applied to taxable gains on future sales (Cantin, 2019).

Other legislative changes facing the housing market include a plan to limit or exclude foreign buyers (who have been seen as being responsible for driving up house prices) and a ban on letting fees. Following up on the recommendation to tax vacant, or otherwise unused, land, the Productivity Commission has been tasked to explore options for this effort to encourage infrastructure projects (Vaughan, 2019). The government has also implemented its Healthy Homes Standards requiring landlords to improve the quality of rental housing across the country, focusing on heating, insulation, ventilation, moisture, and drainage and eliminating drafts in their properties.

New Zealand’s willingness to explore, even if it ultimately rejects, changes to its tax code to address its housing challenges is a testament to how far it is prepared to go to make significant steps to face this crisis. While the government did not move forward on the CGT, it will still explore other tax options, particularly those that could incentivize putting vacant land to productive use, such as infrastructure and housing. Policymakers, however, see tax credits or other incentives employed in the United States and other countries as overly complicating New Zealand’s tax system. Several stakeholders interviewed said that tax credits are seen as burdensome, and with the relatively small population, that such a financing tool is more appropriate in more populous countries. The reluctance of successive governments to address increasing residential property investment continues to affect housing supply and affordability. For example, politicians have long debated implementing a CGT on rental investment properties but have repeatedly delayed acting on this and other possible measures that may ultimately ease pressures on housing supply and affordability. Its enactment of loss ring fencing is a step, in lieu of the CGT, that should create balanced access to housing between investors and those seeking to buy their first homes.

¹² New Zealanders generally view owning and managing rental housing as a secure investment strategy due to perceived volatility and risk in traditional stock and bond investments.

Other key elements resulting in New Zealand's housing market shortfalls include inconsistent urban planning, land banking, infrastructure funding, and building sector reliability. Central government and local councils look to updated urban planning to increase density to meet the housing demand, but the lack of resources and pressures on the local consent process, along with land-banking practices by both government and other sectors, have significantly constrained development activity. The building industry is seen as very volatile, small-scale, and subject to upturns and downturns in the economy, with inconsistencies in project funding and land-banking practices. In 2012, The New Zealand Salvation Army's Alan Johnson cited low productivity of the construction sector and lack of competition as also contributing to fast-rising building costs and sales prices between 2002 and 2007, and to some extent in 2008 (Johnson, 2012). During boom times, there are not enough workers, driving up prices to attract skilled labor, and during downtimes, workers are known to leave for opportunities in Australia or leave the industry altogether (Johnson, Howden-Chapman, and Equb, 2018). Those who own, or hold, land—including the government—report that it can only be sold at market value based on New Zealand accounting standards and government rules, which in light of other development costs, including infrastructure, makes building affordably require greater amounts of subsidies, and at greater density.

Accessing Capital in the U.S. Affordable Housing Sector

In the United States, current federal housing policies and regulations continue to drive the major response to address the needs of those who are housing insecure, but since the 1980s, public funding levels have not kept pace with those in need (Kingsley, 2017). The Joint Center on Housing Studies' (JCHS) 2018 State of the Nation's Housing Report cites land prices, increasing construction costs, and regulatory barriers as challenges to developing new affordable housing. For example, regarding affordability, the JCHS concluded in April 2019 that the supply of rental dwellings affordable to low-income families remains insufficient across metropolitan areas and that, without sufficient options, higher-income renters occupy units that could be within reach of households with low incomes (Airgood-Obrycki and Molinsky, 2018).¹³

U.S. Department of Housing and Urban Development's (HUD's) priorities and resources, dating back to the 1970s, have generally shifted from a focus on the production of new public and affordable housing stock toward a portable voucher-oriented approach to housing households earning below 30 percent of area median income (AMI). This shift has helped put emphasis on private and not-for-profit sector development and the housing finance regulatory framework, particularly on the Community Reinvestment Act (CRA) of 1977, government-sponsored enterprises (GSEs), the HOME Investment Partnerships block grant, Housing Trust Fund, and tax-credit incentives such as the Low-Income Housing Tax Credit (LIHTC). In addition to the federal focus on updating and strengthening current regulations, states have created and bolstered their housing financing programs and local jurisdictions are increasing adoption of inclusionary zoning and providing density bonuses to developers building affordable housing.

The United States has benefitted since the 1970s from key legislation and tax policy to promote affordable housing production. Without delving into the history of federal housing policy that

¹³ See also NHLIC's 2018 Gap Report, which reported a national deficit of almost 8 million affordable rental homes.

gave rise to federal interventions, it is important to focus on what these acts, institutions, and tools mean to have an established pathway for public, private, and not-for-profit actors to produce and finance housing and enterprises. The CRA requires federal regulators to ensure that the financial institutions they oversee meet the credit needs of the communities they serve, including low- and moderate-income neighborhoods.¹⁴ The Act's regulations were substantially revised in 1995 to strengthen and expand its reach and effectiveness.¹⁵ The revised regulations provided a greater statistically measured performance in banks' lending; the changes required banks to perform harder to get their grades (Erickson, 2009; Fishbein, 2003). The National Community Reinvestment Corporation (NCRC, 2018) reports that banks have invested nearly \$2 trillion in small enterprise and community development loans over the past 20 years. "About 85 percent of LIHTC investments come from banks, and CRA is a primary motivator," says National Association of Affordable Housing Lenders' (NAAHL) President and CEO Benson Roberts, adding, "It's unlikely that LIHTC would have gained traction without CRA."¹⁶

CRA, which is under review as of this writing, is cited as a key element encouraging private investments into underserved areas. While many stakeholders agree that CRA needs to be improved, it is also important to note the impact when there is no CRA. A recent paper points to consistent research results that lenders are "responsive to the incentives that CRA provides, and that CRA designations matter in a changing financial landscape" (Ding, Lee, and Bostic, 2018: 2). In looking at small business lending for example, the study concluded that banks—from a CRA lens—are sensitive to communities deemed low- to moderate-income (LMI), and borrowers operating there may be treated more favorably (Ding, Lee, and Bostic, 2018).

The LIHTC is widely regarded as the underpinning of financing U.S. affordable rental housing. In the New Zealand report (Mosley, 2018), the author touted the LIHTC as a successful model of using a tax mechanism, and thus incentivizing private capital, to develop and preserve affordable housing. Its flexible structure ensures local priorities are addressed in a highly competitive investor-pricing, cost-efficient process. The long-term certainty of the LIHTC, leveraging of federal housing programs like the USHUD HOME Investment Partnership Program, and Housing Choice Vouchers has provided a level of funding certainty for developers, lenders, and investors, helping to ensure pipelines of affordable units in cities, rural areas, and Indian Country. Used throughout the United States, between 1987 and 2015, the LIHTC helped finance the development of 2.3 million homes in 38,000 projects (HUD, 2017). The Federal Housing Administration's (FHA) mortgage insurance program provides mortgage credit for large private multifamily rental properties, including LIHTC projects; in FY15 alone, mortgage insurance for rental and cooperative housing covered 192 projects that included 30,412 units for almost \$3 billion. (HUD, n.d.) Collectively, LIHTC, CRA, HUD's HOME, FHA programs and voucher subsidies provide an affordable housing ecosystem. Banks provide equity and mortgage financing via LIHTC and CRA. Financing gaps are addressed by HOME, housing trust funds, and other sources. Vouchers help low-income families reliably afford rent. The net result is a complex, layered, public-private funding and financing

¹⁴ For more information, see https://www.federalreserve.gov/consumerscommunities/cra_about.htm.

¹⁵ Darryl E. Getter, 2019, *The Effectiveness of the Community Reinvestment Act*: Congressional Research Service Report for Congress.

¹⁶ Comms with Benson Roberts, 2019.

system highly reliant on private sector investment, but one that has offered a level of certainty around which developers and investors can forecast a pipeline of projects.

Community Development Financial Institutions (CDFIs) are a growing and vital segment of the capital market providing responsible, affordable lending capital to low-wealth communities and their residents.¹⁷ Part of the U.S. community economic development industry since 1973, CDFIs help finance residential and commercial real estate projects, small businesses, microenterprises, and other not-for-profit firms. From 1985 through 2017, CDFIs have provided \$5 billion in lending to low-income communities and individuals and over \$65 billion overall across the United States, resulting in 2 million homes created, 1.3 million jobs created or retained, and 322,000 businesses and microenterprises developed or expanded. Targeted beneficiaries include those who are low income, people of color, women, and those in rural communities (Opportunity Finance Network, 2017).

Summary

The difference in how New Zealand and the United States approach financing affordable housing is substantial. While both countries have their respective housing challenges, the settings around accessing private sector capital serve an instructive role on the importance of maintaining a regulatory framework to have the private sector participate fairly to help develop and preserve critically needed affordable homes in both high- and low-wealth communities. Most notably, however, in New Zealand, the attention to and investment in social/public and affordable housing varies by governing party. As such, production ebbs and flows, ultimately leaving the government and CHPs struggling to keep pace with the needs of vulnerable families. There is an array of financing methods used internationally to secure private capital, but it is necessary to have “carrots and sticks” encouraging these investments. The New Zealand research clarified the effect of not having a systematic regulatory and financing approach on the country’s ability to deliver sufficient housing. Cities and towns across the country are studying or working to expand inclusionary zoning, ensuring that more production results in greater income-diverse communities. The growth and success of the nascent KiwiBuy initiative will be telling to understand how the country is willing and able to increase affordable housing options.

Building Capacity for Affordable Housing Development

CHP Production and Capacity Building in New Zealand

CHPs are small but recognized agents in New Zealand’s social/public affordable housing framework. Along with HNZC, the government’s main public housing developer and landlord, CHPs are the main entities receiving government funding to deliver public housing.¹⁸ The country’s Ministry of Housing and Urban Development Community Housing Regulatory Authority (NZ-HUD-CHRA) registers CHPs as Class 1 Social Landlords, certifying them to develop and/or

¹⁷ CDFI is a designation made by the U.S. Department of the Treasury CDFI Fund.

¹⁸ New Zealand officially referred to public housing as “social” housing until the current government came to power. Referring to the stock as “public” housing is meant to signal the government’s ideology that it owns the dwellings and is responsible for meeting the needs of vulnerable New Zealanders.

manage social/public housing units. These CHPs and additional housing and service providers, including Māori Housing Trusts and supportive service providers, deliver assistance ranging from emergency shelters to affordable housing rental and ownership opportunities. The Social Housing Reform Program enacted in 2010 was designed to boost CHPs' ability to deliver more of the social/public housing alongside HNZC. This program included a plan to boost CHPs' balance sheets by transferring portions of the social/public housing stock to the not-for-profit organizations to manage. Only one transfer, however, was completed, and the program ended in December 2017 as the current coalition government sought to keep social/public housing controlled, or owned, by the government. Prior governments, mainly national, facilitated the sale of public housing directly to families seeking to own their homes and transferred management to CHPs; this was their method to increase ownership opportunities for families and CHPs' capacity, while also reducing government's liabilities. The current government stopped this practice, solidifying their "ownership" of social/public housing.

CHPs, as a sector, seek to increase their scale of development but have been hampered by their size and inability to reliably access capital, land that is developable at a below-market rate, and reliable trades. Community Housing Aotearoa (CHA), the national association for CHPs, has determined that the nation's developers must deliver 15,000 public and 85,000 affordable homes by 2030 in order to meet housing needs. Both lenders and government officials regarded most CHPs as immature and risk-averse, preferring to minimize exposure of their balance sheets to greater debt. Several CHPs are reluctant to jeopardize their core nonhousing operations. The risk tolerance of CHP boards and the basis for their positions need to be better understood to identify under what conditions these organizations may consider developing additional housing. To understand CHPs' current and future development plans, as well as identify their organizational and project-related capacity challenges to deliver this needed volume, the author surveyed CHRA-registered CHPs (see exhibit 3). Responses show that 27 CHPs, including Māori housing providers, currently have plans to deliver 5,640 public and affordable homes within 24 months and another 970 homes thereafter. One explanation for the significantly low long-term production was uncertainty about funding contracts with the government. The results suggested that those CHPs with portfolios in the hundreds of units showed the most appetite for growth. Four CHPs have portfolios of between 2,000 and 3,000 units; 14 CHPs have hundreds of units; and 26 have unit counts below 100.¹⁹ CHPs with portfolios in the thousands planned to develop some units but indicated a future focus on strengthening their assets and property management functions.

¹⁹ CHA database as of May 2018.

Exhibit 3

CHP Reported Capacity-Related Challenges

Organizational Capacity	Project-Related Capacity
Lack of skilled staff and its effect on undertaking required operations, admin, and pursuing opportunities (6)	Financing projects (7)
Ability to address lack of government financial support for development projects—need effective development and financing pipeline and assurances (5)	Developing a project pipeline (6)
Creating and managing effective partnerships (4)	Government purchasing strategy—lack of commitment, continuity, and changing funding/procurement mechanisms (5)
Improve and balance tenancy management with property and asset management functions (4)	Developing and managing effective partnerships (4)
Identifying and training board members (3)	Timing delays in funding decisions (4)
Financial management (2)	Consenting (4)
Addressing councils' capacity to engage and support CHPs in delivering affordable and social housing (1)	Negotiating contracts (3)
Maximizing best practices to ensure efficient and effective outcomes (1)	Securing land, including at competitive pricing with HNZC and HLC (3)
Increasing waiting lists (1)	Review of legislative and regulatory framework (2)
Managing volunteers (1)	Local development contribution costs and facility supply fees (2)
Succession planning (1)	Project management (2)
	Not enough rental supply (1)

Other topics and issues raised by CHPs in the survey include lack of access to affordable land, prohibitive costs and delays for projects in Auckland, delays caused by government turnover, changing government requirements, lack of capital, and the need for CHPs to be seen as well-run businesses. CHPs rely heavily on government funding for delivering public housing in a contractual framework, but the government often sees itself as a partner, which makes the relationship difficult to navigate. Government could promote CHP production by directing HNZC, and its subsidiary HLC, to engage CHPs as co-developers, but without explicit directives from ministers, these entities saw CHPs mainly as a purchaser of improved lots that they could develop themselves; this excluded CHPs from actively participating in a pipeline of large-scale mixed-income residential developments. CHPs also experienced a gap in access to capital funding when the Social Housing Fund ended in early 2014 and when the government began capital support (which existed only for Auckland developments until early 2019) in December 2015; these gaps have left CHPs wary of government reliability to fund projects (Barber, 2017). Dwell Housing Trust's Alison Cadman and staff said that the settings do not provide the ability to develop a pipeline, that the government moves from one policy change to another, and that there is no consistency or traction on policy.²⁰ CHPs see that the government expects them to address capacity building through their contract fee income and other sources.

²⁰ Comms. with Dwell Housing Trust staff.

Other sources of funding for CHPs include government departments and not-for-profit organizations. The Department of Internal Affairs (DIA) offers organizational capacity grants and funding for secondments. Rata Foundation's Karyn McLeod reported that the Foundation's support for and investment in capacity-building efforts have increased significantly since 2017.²¹ The Foundation is looking at practices that build capacity, with not-for-profit leadership development as a particular focus. Several other foundations have committed operating grants to local charitable organizations but have not invested in larger sector-wide capacity-building efforts; several foundations directly finance housing development projects.

The Institute of Directors (IOD) is a New Zealand not-for-profit that supports corporate governance capacity development. IOD provides training and coaching to board or council members to ensure they have the necessary skills to effectively guide their organizations, including understanding their strategic responsibilities, financial management, and other functions. Te Puni Kōkiri (TPK) contracts with IOD to provide board governance training to Māori housing organizations. CHA's technical support subsidiary, Community Housing Solutions (CHS), also provides board development training as part of its array of services.

Funding Capacity Building in the United States

U.S. Government, lenders, and foundations support the capacity of local mission-based community developers. HUD and the U.S. Department of Agriculture (USDA) fund capacity-building activities of community-based not-for-profit organizations through loans, grants, and other project-related financial assistance to further key development priorities. HUD works through three direct grantees, known as intermediaries, that direct support to and invest in community development corporations (CDCs) and other local organizations.²² Several major banks and insurance companies have for decades invested in the capacity of community-based organizations to undertake affordable housing and economic development projects. Finally, several United States-based philanthropies—from those with global initiatives to community foundations—have adopted principals such as double- or triple-bottom-line investing, seeking multiple types and levels of returns and benefits, to meet their mission, diligence in investing oversight, and community impact. For example, one intermediary, the Local Initiatives Support Corporation (LISC), has alone worked with thousands of CDCs and communities since 1979, investing over \$20 billion and delivering almost 400,500 affordable homes and 66.8 million square feet of commercial and community space (LISC, n.d.). CRA, LIHTC, and program-related investments were key factors in these accomplishments.

Summary

New Zealand's CHPs are flexing their muscle to develop, own, and manage housing that is affordable to New Zealanders and to influence housing policy. As New Zealand's central government housing leadership underwent significant changes in the wake of KiwiBuild's failure, community—and Māori—housing providers sought to leverage this change in leadership to come

²¹ Comms. with Karyn McLeod, 2018.

²² For more information, see HOME Community Housing Development Organization (CHDO), HUD Exchange, and [USDA.gov](https://www.usda.gov).

together in July 2019 to develop themselves into a sector. Through a housing conference, a CHP promotional video, and a series of planned convenings with public and private stakeholders, these providers are articulating their role, not as a vendor, but as a regulated partner with a distinct track record of delivering community-oriented delivery and housing policy. These organizations are developing a sector-wide approach to increase production, strengthen property and asset management, and deepen their capabilities. The government's new housing leadership has signaled their support to the housing providers' aspirations to be recognized as capable providers and policy shapers.

Investing in CHPs' capacity is essential if the sector is to continue to grow and reliably provide dynamic, effective community-based housing. New Zealand's central government currently provides minimal capacity-building support.²³ CHPs seeking to increase their scale of development or further hone their tenancy and property/asset management functions need access to sources of capital as well as the ability to charge all applicable development and management fees. The evidence of the not-for-profit sector's growth in the United States shows the promise and effect of a focused and well-regulated investment and supportive ecosystem that also invests in capacity building. Having consistent regulatory and funding expectations has enabled developers to envision, plan, and execute and to meet the needs of those most vulnerable.

Recommendations and Observations

The following are recommendations and brief observations that the author shared with the Minister overseeing housing policy and delivery, other key officials, and not-for-profit stakeholders in New Zealand. Although these recommendations and observations respond directly to New Zealand's situation, they can easily be adapted for other countries.

Recommendation 1: Commit to long-term engagement and consistency in housing policy settings and programming. The nature of planning and developing affordable housing requires committed and consistent long-term policy support and investment.

Recommendation 2: Create a permanent public investment fund to help finance public and affordable housing development. A fund that is "insulated" from political term lengths would help create a level of funding certainty to developers to plan a pipeline of projects designed to meet current and forecasted demand. Private, philanthropic, and faith-based investors could invest in this pool to help ensure the government's commitment to a multisector funding partnership. The government alone does not have the funding to deliver all the new supply for public and affordable housing. It must actively participate in long-term funding collaboratives to ensure multisector investment and realize the funded outcomes, meeting SDG and Treasury metrics, and create mutually agreed-upon financial and social return benchmarks for developers under a multisector investment pool.

Recommendation 3: Invest in community housing development partner capacity to ensure expected growth and housing production, outcomes, and quality. Develop and strengthen not-for-profit capacity-building infrastructure. Create pathways to ensure the participation of nonpublic

²³ The New Zealand government has committed capacity-building funding related to Māori housing production.

partners in community revitalization projects (starting with initial planning), particularly when government wholly owned subsidiaries and public joint ventures own or manage these projects.

Recommendation 4: Promote and incentivize innovation and creative capital by replicating existing models.

Recommendation 5: Invest in housing education and transitioning households from emergency/transitional housing and public housing toward market-rate homeownership. Success would be more assured by mandating financial and housing education with benchmarks.

Conclusion

New Zealanders consider themselves to be 10 to 15 years behind the United States in addressing housing challenges, but the two countries face very similar crises of housing insecurity, across all incomes in most urban centers and particularly for those at the lowest income strata. Despite significant differences in how affordable housing is financed and who develops it, the net effect is that both societies have struggled to develop effective long-term consistent strategies to increase and preserve supply while also ensuring that households with the least means can affordably rent or own housing that meets their needs. New Zealand's efforts have gone only so far in developing housing at the needed scale. The country has researched housing programs and models, created a new ministry and consolidated related functions, and launched efforts like KiwiBuild. Prior history shows that, when the government changes party leadership and creates or recreates ministries and shifts portfolios, it has the net effect of temporarily slowing or stopping development for months. With national elections occurring every 3 years, the potential change in government results in a periodic braking of social/public—and now affordable—housing production.

This research shows that efforts to maintain and increase housing production for those who are vulnerable are highly dependent on government direction and investment and ultimately lack consistency and reliability. Citing international examples to engage private sector investment to leverage public funding and acknowledging that no regulatory framework exists to require private sector investments in projects serving vulnerable families and underserved communities, the author recommended that the government commit to long-term engagement and settings to signal its certainty in this industry. Private capital representatives suggested that they would consider investing at a higher scale, and with some added flexibility, in affordable housing, if the government would commit to long-term engagement, provide transparent intentions, and agree to risk sharing. Private sector capital providers report that, although they acknowledge the social benefit of making capital available at a discounted rate, they must deliver a market rate of return on their investments and that New Zealand has no requirements that they consider a below-market return in lieu of social benefit. The United States, in contrast, created housing policies, regulations, and financing mechanisms to produce and preserve affordable housing. While the United States generally does not keep pace with the needs of those who are housing insecure, the current housing system provides a financing framework, albeit complex, for developers to plan and execute a pipeline of projects, consistently and reliably working with public and private sector investors.

This article provides the United States with a cautionary tale of the difficulty in securing private sector investments from New Zealand, which lacks the consistent funding and regulatory framework that—like CRA—has existed for decades. This tale means that the United States should maintain (and strengthen) its existing regulatory framework after seeing what happens in a country that doesn't have one. U.S. not-for-profit housing developers, as a sector, have decades of evidence showing the effect of delivering affordable housing relying on fairly consistent settings from public sector agencies, the private sector, and foundations. Current U.S. capacity-building efforts should be continued and increased to help ensure that this sector continues to evidence the effect of its development work and effectively leverage public-private investments.

There are opportunities for future comparative research, with topics including the following—

Housing-Related:

- Economic analysis of future social benefit to family and society from households living with secure tenure in affordable, safe, and warm homes.
- Best valuing land to purpose for affordable housing.
- Evidence of construction trade labor programs that effectively recruit and retain trainees.
- Strategies to enable greater development for indigenous peoples and other cultural and racial minorities.
- Evidence of financial literacy and housing counseling programming.
- Comparative analysis of barriers to secure housing from societies with and without fair housing laws.

Capital Investment-Related:

- Further analysis of the impact of housing regulation on catalyzing affordable housing development.
- Modeling housing financing tools in a no to low regulatory environment.
- Performance of the social impact of investing in producing affordable housing.

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