

DO HOUSING ALLOWANCES INCREASE RENTS? EVIDENCE FROM A DISCRETE POLICY CHANGE

An Executive Summary of Working Paper 18-10
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SUMMARY HAIKU

Centre of Auckland
had higher housing support
some gains for tenants.

INTRODUCTION

In New Zealand, the Accommodation Supplement benefit is the government's largest direct investment in private sector housing subsidies. It is a cash payment to low income individuals and families, which depends on housing costs, family size and income, housing tenure, and location. Currently, the Accommodation Supplement provides assistance with housing costs for 11% of the population, with about two-thirds of recipients being renters. It costs just over 0.4% of GDP.

A policy change in 2005 subdivided Auckland into two distinct areas. Higher maximum Accommodation Supplement payment rates became available in the central and northern urban area, increasing 28–45%, depending on family size. This change reflected high and rising housing costs in Auckland.

We compare changes in accommodation support and rental costs of recipients living close to either side of the new boundary. This then allows us to examine whether the increase in support led to higher rental costs.

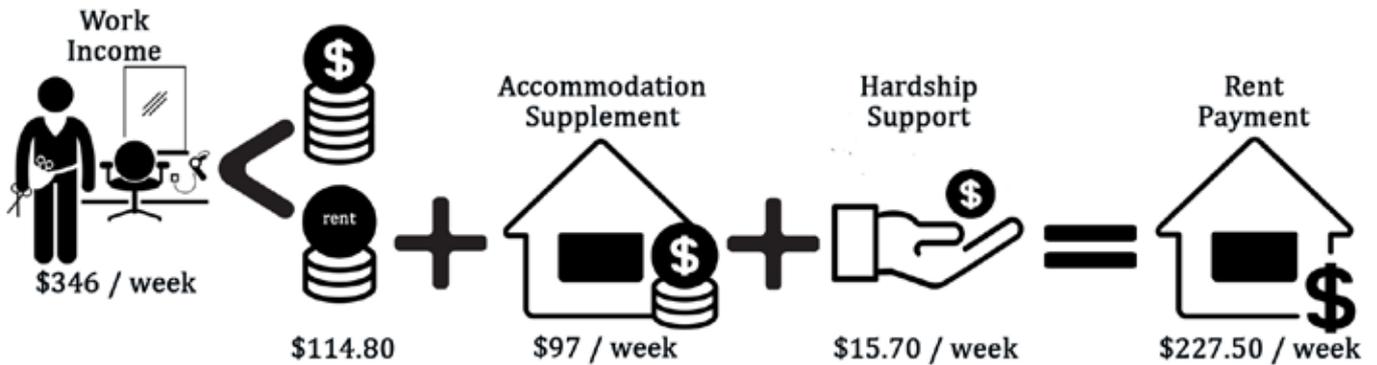
DATA

Our analysis uses data from the Ministry of Social Development that records all Accommodation Supplement since 2003. It is restricted to recipients with an address within 1km either side of the new Auckland area boundary during the two years before and after the policy change date (1 April 2005).

We look only at renters, who make up 57% of all Accommodation Supplement recipients in the wider dataset, and exclude boarders and homeowners. The resulting dataset contains 377,916 monthly records relating to 28,369 distinct Accommodation Supplement recipients.

Single adults form the most common family type, accounting for about one third of all Accommodation Supplement claimants. About three quarters of Accommodation Supplement recipients receive some form of working age benefit support, with about one-third being sole parent families on the Domestic Purposes Benefit. A further 5% are NZ Superannuitants. Most Accommodation Supplement recipients live in the South area (about 60%), 38% live in the West, and only 2% in the North.

The average Accommodation Supplement receipt together with other hardship-related support, covers just about one-half of the average rental cost. So, with benefits, a recipient will need to spend about one third of their income on rent.



METHODOLOGY

There are some apparent differences in both the demographic and financial characteristics across those inside and outside the boundary, implying that the outside is not a perfect control.

We use regression adjusted difference-in-differences approaches to analyse the nature and impact of the policy change. We find no effect on rents in the year following the policy change, perhaps reflecting that it takes time for tenancy rents to adjust.

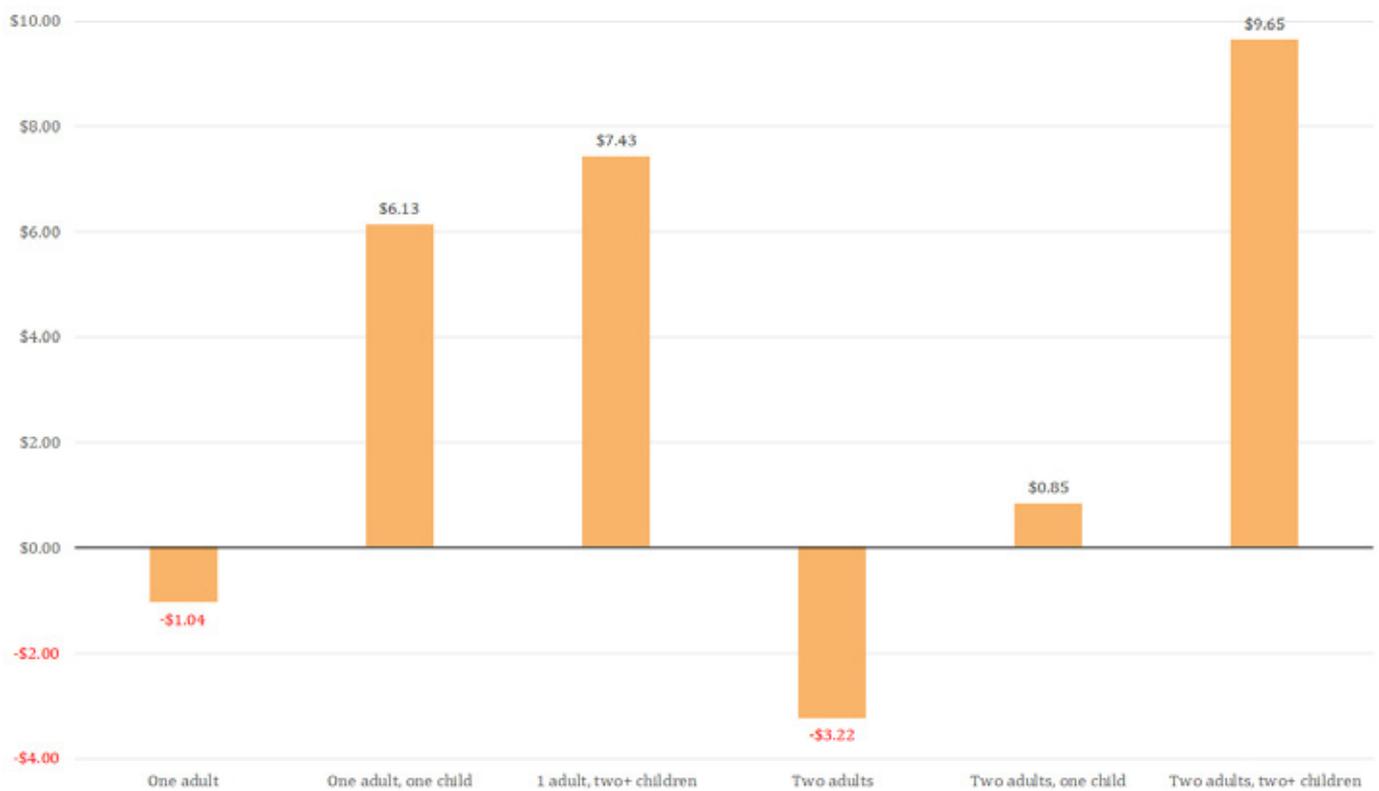
RESULTS

Focussing on the second year after the policy change, on average, accommodation related support payments increased by \$6.81 more for those on the inside compared to the outside, and that rental payments increased by \$2.44 per week.

The effects were primarily concentrated among Accommodation Supplement-recipients around the Southern boundary, and among families with children (particularly sole parent families).

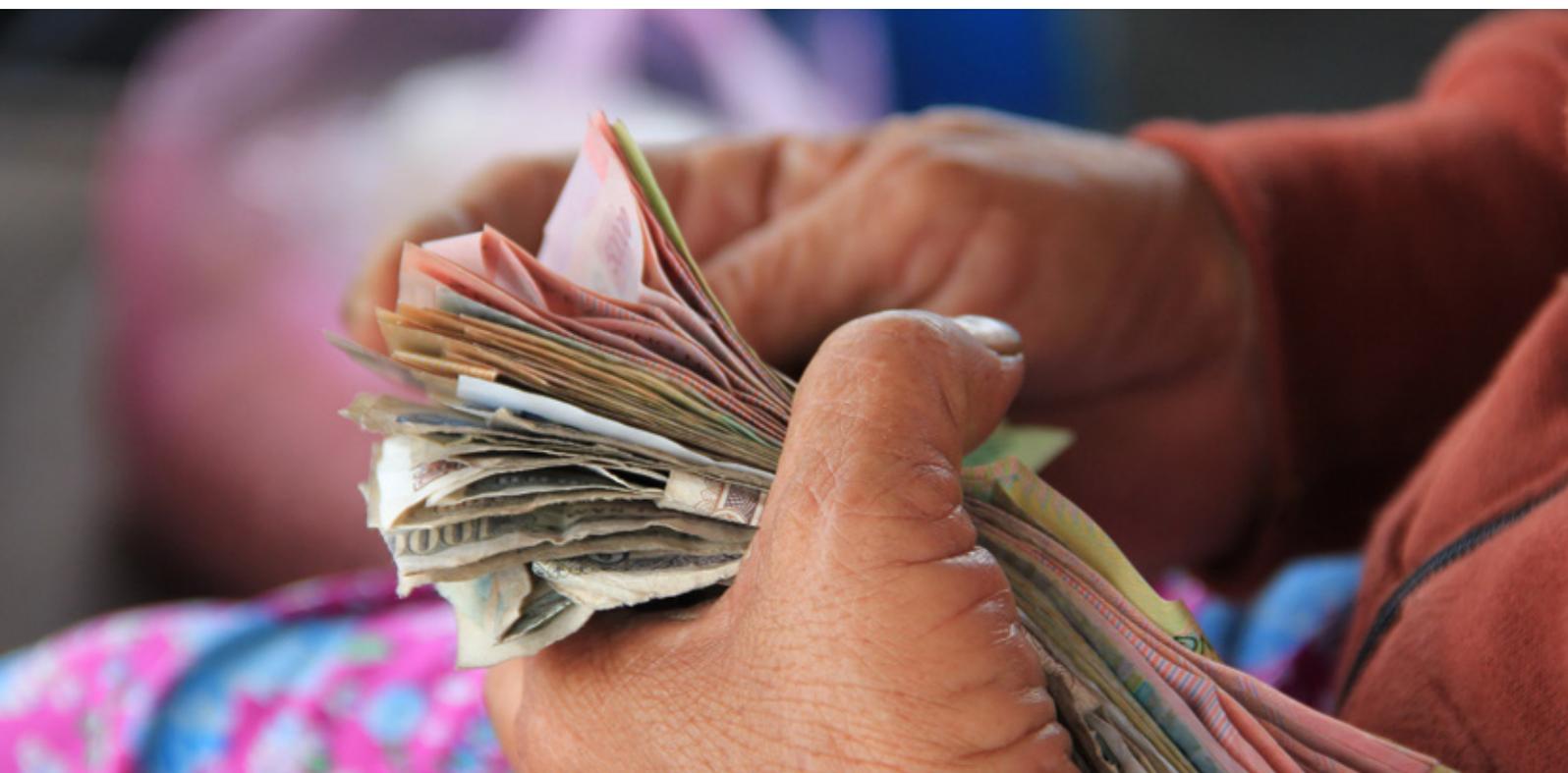
While the fraction of the population receiving the maximum Accommodation Supplement payment were similar across the two areas before the policy (28% outside the boundary and 26% inside), there was a large difference afterwards (30% outside versus 9% inside). Average payments inside the boundary increased about \$8 per week in April 2005, suggesting the policy's direct impact was concentrated in those who received close to the maximum supplement.



Figure 1: Household Rent Increases in 2006/7


Larger rent increases were observed among those who received larger increases in accommodation payments. The impacts on rental payments were most clearly discernible along the southern area of the boundary.

Rent increases were also largely confined to families with children. In particular, in 2006/7 the rent paid by sole parents with children inside the boundary increased 2.3-3.1% per week more than for comparable families outside the boundary. The rent for couples with at least 2 children was 3.1% per week higher. These estimates are statistically significant. In contrast, there was little (or negative) relative change in rent for single persons, and couples with at most one child. This pattern of results suggests potentially strong rent increases for families because of the increase in Accommodation Supplement. However, the results may reflect such families being able to afford either larger or better quality rental accommodation.





IMPACT

The average impact of the policy change was to increase rental payments inside the boundary. In the second year following the policy change, rental payments increased by an average of a third of the increase in the total accommodation support.

Panel data analysis controlling for recipient and tenancy effects shows that most of the increases in rental payments were associated with changes in tenancy, possibly as that is when rent changes mostly occur. We found weak evidence of a reduction in the numbers of people in dwellings inside the boundary, consistent with the idea that increasing rent payments may reflect families' ability to afford better accommodation and reduce crowding.

CONCLUSION

We find that increases in allowances led to small increases in rental payments. Just over one third of the increase in the Accommodation Supplement and related payments was absorbed by rent increases. This implies that almost two thirds of the increase in housing subsidies benefited recipients in the form of higher after-housing costs incomes.

Given our data, it is not possible to ascertain the extent to which these measured rent increases were the result of recipients being able to afford to spend more on housing (possibly leading to lower levels of crowding), or if the policy allowed landlords to increase rents (possibly due to increased housing demand).

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