

## **Housing Affordability Submission for the Productivity Commission**

### **1. General Comments**

The Corporation's role is to facilitate housing solutions for those most in need for the duration of that need. The Corporation achieves this by:

- allocating and managing tenancies – including matching applicants with available houses, administering the Income-Related Rent Subsidy, and providing specialised housing support for tenants with multiple or complex needs. This guidance is limited to accommodation matters.
- managing assets to provide a suitable and affordable house to those with the greatest housing needs – including acquiring, maintaining, upgrading and divesting state houses.

If accommodation in all its various forms is expensive the Corporation can expect to facilitate housing solutions for larger numbers of households than otherwise for longer periods of time. For this reason the Corporation is concerned about housing affordability.

In this submission we have included a section that lists potential additional questions (section 2) and more detailed responses to specific questions (section 3).

There are many drivers of house price increases and decreases in affordability. These are fundamentally linked to the increased population, and cost of building and subdividing.

In the shorter term, and from a rental perspective, Housing New Zealand Corporation notes the ability of the private sector to provide housing at low rental yields relative to financial yields. The low yields have restrained both rents and the cost of Government support for housing, through both the Accommodation Supplement and Income Related Rents. Should this situation reverse and rents rise faster than house prices, then it is likely that rental affordability will become a real issue. For this reason the Corporation considers it is timely for Government to consider the drivers of housing costs and whether it is possible to push down the cost of building and subdividing land.

### **2. Suggestions for additional questions**

#### **Changes in quality, functionality, and size of dwellings**

How have changes in quality, functionality, and size of houses impacted on house prices?  
How much of the real increased cost of housing is due to the increased size and additional amenities provided by new housing?

#### **Efficiency/effectiveness of housing**

How is the increasing efficiency of houses over time taken into account in its price? An average house built today is more efficient to run, maintain, and heat than in the past but as a result costs more to build and buy. Should this more expensive housing be viewed as less affordable as over time the increased cost will be recovered in lower running costs? How much of the increased real cost of housing is due to increasing house efficiency and amenity?

#### **Private rental yield**

Private rental yields are low and at present are increasing more slowly than the cost of housing provision. Why is this?

#### **Standardised design**

What is the proportion of individual bespoke house builds relative to high volume standard plan housing? Is this proportion different in Auckland relative to other similar Australian cities, and if so why?

We are interested in this question as it may indicate potential for increased levels of standard or even industrial building.

#### **Cost of building inputs**

There have been reports in the past that some of the building products in Australia are cheaper than in New Zealand, even though they are sourced from New Zealand (wood for example). Is this the case at present?

#### **Building industry**

Often it is said that the building industry is an Australasian industry. To what extent is this the case and if it is true how does this impact on the cost of building in New Zealand?

### **3. Responses to selected questions**

#### **Question 4 What factors have caused recent housing price increases? Are some of them temporary?**

A number of factors are thought to have increased the cost of housing over the last decade. In particular, the:

- increasing population, driven by a surge in inward migration increasing demand for housing and putting pressure on the housing markets in major centres, leading to generally higher housing prices
- increasing demand for new housing allowed builders, sub-contractors, and others in the building industry to raise their margins increasing the cost of building
- increasing demand for housing has raised the cost of sections allowing developers to raise their margins from subdividing
- lower number of people living in each home due to demographic changes, this has increased the demand for individual dwellings and increased house prices

- increasing access to debt funding allowed people to build and upgrade their housing increasing supply to meet the increased demand. The improved housing stock that resulted may explain some of the rise in the median price of houses sold.

Since late 2007 house prices in general have eased back due to the recession and international financial crisis. However, the Corporation does not consider that house prices will fall much further as the undersupply of housing at present will act to support them.

**Q28 What are the relative costs and benefits of intensification and expansion (greenfields development) to urban planning? What research literature and overseas development are most relevant to New Zealand?**

The Corporation has never undertaken an analysis of the relative costs and benefits of developing in a greenfield versus brownfield area.

However, based on previous developments the costs for both options are similar and the Corporation develops where the demand is. Normally, the decision to develop is based on a number of components, and while cost maybe one component taken into consideration, it is not usually the deal breaker.

In general, and depending on the region, greenfield developments can often be significantly more costly as new infrastructure services must be built. In theory, brownfield developments should cost less as it requires connection to existing services. However, in many New Zealand cities this is not the case as existing connections are sometimes almost at capacity and with a limited number of connections available. To utilise these services a higher premium must be paid, increasing the cost of the development .

Greenfield development's start up costs are often higher. However, as land cost is often lower in greenfields, total development costs can still be cheaper than a brownfield development.

The Corporation notes that costs for development in both greenfields or brownfields are relatively high in New Zealand, and costs vary widely across local authorities (in some rural Councils, this cost is lower to encourage development while in some urban centres it is higher so it discourages development other than for those that can afford it).

If development is to be encouraged, then development costs imposed by local authorities need to be reviewed to ensure costs for infrastructure are evenly spread across the local authority, the developer, and community.

It is no coincidence that housing affordability in Australia and New Zealand is so high given that both countries have adopted a sprawling suburban city type as the norm. There is ample evidence that these cities, including Auckland and Sydney, are dispersed and inefficient that they are proving to be an economic drag on the productivity of both countries.

The social aspects of the isolation of lower income families and households is also a problem in sprawling cities. In these cities the economic model is pushing lower income or cheaper housing to the periphery, depriving the central business districts and areas of ready access to the workforce they need to flourish.

For the Corporation the inability to develop its inner suburban land to viable densities under current planning and zoning restrictions has hampered its ability to renew and refresh the housing stock, to the detriment of its tenants. This has led to these areas

becoming demarcated from surrounding suburbs which have been developed to highest standards and best use by individual owners who have different economic imperatives.

**Q30 To what extent do these different approaches to urban planning support environmental objectives?**

Encouraging development in brownfields sites supports good urban design principles and environmental objectives. Brownfield developments ensure close access to services encouraging environmentally positive behaviours such as walking and decreasing vehicle fuel consumption. In contrast greenfield developments are usually located on the outskirts of the town or city centres, increasing travel time to work, education, and shopping areas encouraging more fuel consumption.

**Q31 In New Zealand, do home owners prefer living in denser urban settlements or less dense suburban developments? What are the reasons for this preference?**

Survey work by the Corporation indicates that New Zealanders still support the notion of owning and living on a "quarter acre section". They want a "standalone house" with a yard or garden where the children can play, and have a garage and a workshop. Most New Zealand home owners do not want to live in denser urban settlements unless they are young or older professionals that have experienced living in densely populated cities or for whom it is a lifestyle choice.

**Q33 Are local authorities' land release policies enabling or constraining the supply of land for development?**

Land release policies tend to be more constraining than enabling due to stringent zoning requirements. Allowing for flexible and mixed use zoning requirements would make them more enabling. However, at present there is generally a plentiful supply of sections as a result of the low levels of building.

**Q36 Are the planning policies that are designed to encourage higher density housing consistent with, and flexible enough to accommodate, changing community preference?**

The unpopularity of intensification proposals may partially be a response to some "developer" driven projects such as the Broadway housing developments in Newmarket and the Nelson Street apartment developments in Auckland. A more "mature" urban design approach, based on sound intensive housing schemes such as those found in many European cities may help address these issues. Public education, better planning policies, and improved projects may change community preferences leading to acceptance of developments such as the Beaumont Quarter in St Mary's Bay, Auckland.

**Q37 Is there evidence of 'land banking' by some developers? Is this a problem?**

There is some evidence of land banking by developers creating problems as it drives land costs up when there is high demand and generates unreasonable property prices. Although, this is no solid evidence of land banking the Corporation believes that some large sections of useable land in major New Zealand cities are not developed until demand conditions encourage it.

**Q38 Is the current planning regulatory system more complex and fragmented than it needs to be? Does the planning system include elements that detract from quality urban development and impose unnecessary costs and uncertainty on developers?**

The current planning regulatory system is more complex and fragmented than necessary. The complexity is such, and the administrative processes so demanding, that specialist assistance is generally required. Indeed in many situations, Council will not receive an application unless it has been prepared by a specialist. Where a lay person lodges an application which does not meet the necessary requirements fully, the Council will either not receive the application or perhaps put it on hold. The Council needs to be satisfied that the application can proceed, and this can take weeks or months.

The Planning system includes elements that detract from quality urban development and impose unnecessary costs and uncertainty. A flexible system should be encouraged that allows different ways to meet development standards.

An example of the current inflexibility is Councils encouraging intensification around certain city or town centres where amenities are generally within walking distance, but at the same time not encouraging intensification around areas where there is access to transport. A developer wanting to develop in an area outside a Council's growth areas may often have to engage specialists and undertake research to advance developments without much understanding of the probability of success. Even proving a development meets all requirements may not ensure approval particularly if the Council is adamant that it does not want growth in certain areas.

**Q40 Do local authority planning schemes and approval processes create unnecessary costs? If so, how could they be improved?**

The current planning process requires consensus and consultation with various stakeholders adding unnecessary costs. Getting agreement and undertaking consultation can be a lengthy process especially if stakeholders are not local. This process takes time and additional costs for a developer. If applications are lodged without undertaking appropriate consultation and obtaining consensus, the local authority will put applications on hold while these process and consensus are obtained. This process will delay development and each day the application is on-hold is an additional cost for a developer.

Likewise if the application for a development is not correctly lodged or does not address the effects of the development then the application will not be received by the Council. The developer will then have to go back and readdress early issues that were thought settled and ensure that the application is correctly filled in before the Council will receive it. This back and forth process will continue until the Council believes that a complete and appropriate application has been received, and at any time this process can begin again. This adds unnecessary costs and frustrates developers.

Additionally, each local authority has a different process for developers to follow. Councils interpret requirements differently and set different timeframes and consent costs. Having an agreed interpretation of the requirements and a uniform process amongst all Council would be beneficial so that regardless of where a development is the process is the same and there are "no surprises" when applications are lodged. Uncertainty, delays, and risks are costly to developers who already face high levels of market risk. Lengthy planning processes contributes to the cost of subdivisions significantly.

**Q41 Do external or third party appeal mechanisms unnecessarily delay planning approvals?**

Yes, going through the process of appeal can take a long time slowing up the development until the appeal has been resolved. A proposal will not proceed to the next stage until resolution or consensus is reached creating additional costs and prolonging timeframes.

Some third and external parties' appeals are vexatious and Council should be able to eliminate them from the process as soon as possible to allow for the process to proceed faster. Those that lodge an appeal should be required to show that they are genuinely affected and then be allowed to be part of the appeal.

**Q55 Have rising construction costs contributed to rising housing prices and affordability in New Zealand? Have construction costs increased because the level of building activity has risen more rapidly than supply capability? What other factors are relevant?**

Rising subdivision and construction costs, the increasing population and its geographical spread are fundamental causes of rising house prices and falling affordability in the long run. In the short-run other factors can impact on house prices and affordability including surges in population, trade skill supply, access to funding, economic change, and incomes.

**Q59 Have skill shortages in the housing and construction industry contributed to rising house prices and reduced affordability? Are such shortages temporary or are there long-term issues? Have the costs of skills shortages been more significant in particular regions? What impact will the Christchurch rebuild have on skill shortages in the housing and construction industry nationally?**

Skill shortages in the construction industry increase the costs of skilled labour. Skill shortages stem from inadequate training of construction personnel, and the attractiveness of Australia and other international destinations. They are cyclical in nature increasing the cost of building in up-turns and decreasing costs in downturns. Over time there has been a perception that the skill level of trades people within the industry has decreased in line with a reduction in apprenticeships at a time when technology has been accelerating increasing the chances of poor building. Demand volatility in the industry undermines the industries attractiveness increasing the amount of trades people and workers required to stay in it.

Nationally, the Christchurch rebuild may create a skilled labour shortage in some areas as workers relocate to Canterbury where higher demand is likely for some years. Attracting workers to New Zealand for the rebuild is expected to put significant upwards pressure on New Zealand pay rates.