Submission on the New Zealand Productivity Commission Housing Affordability Inquiry: Draft Report

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1   Introduction

This submission puts forward the New Zealand Green Building Council's (NZGBC) response to the Productivity Commission's "Housing Affordability Inquiry: Draft Report".

It complements our earlier submission on the Housing Affordability Issue Paper in September 2011. Matters raised in our earlier submission and detailed background on NZGBC and our Homestar™ residential rating tool have not been repeated in this document – rather we have focused on some of the key findings in the Commission's draft report which have a sustainability implication.

2   Key Findings

Some of the Productivity Commissions main findings, relevant to sustainability appear to be as follows:

- It is important that we increase home ownership in New Zealand.
- New Zealanders have traditionally demanded detached housing and this will continue, even for 'empty nesters'.
- We need to 'catch up' with the other OECD countries.
- City limits are an obvious constraint to this 'business as usual' development.

The NZGBC suggests that some of these assumptions, particularly in relation to consumer demand for different housing types, are changing and will change in line with an aging demographic and increasing pressure on resources and cost efficiencies within a home. Proper research into changing consumer tastes and behaviour, as well as extensive information gleaned from examples of desirable cities that are highly sought after, are likely to demonstrate that successful cities maintain a healthy mix of housing typologies, amenities and affordability. Other OECD countries have also been looking to new models of community development, away from the 'sprawl' as characterised by many large American cities.

Further, NZGBC suggests that 'business as usual' is not sufficient and that the discussion needs to move beyond the political into the realm of evidence to back up some of these assumptions. The population of New Zealand is growing and it should be questioned whether the 'business as usual' model of low density suburban expansion is the most economic, as well as environmental and social, approach to meet the needs of a growing population over the long-term. Without considered leadership, New Zealand will simply make the same mistakes as other OECD countries in the pursuit of a simplified solution to affordability.

3   Intensification

Intensification is the most controversial issue facing Auckland's future direction and has longer term implications for other urban centres.

The draft Auckland Plan predicts that Auckland can expect between 700,000 and 1 million new residents over the next 30 years. As a result, between 330,000 and 400,000 additional dwellings will be required by 2040 - an additional 11,000 dwellings each year to meet demand. If Auckland continues to expand following existing suburban settlement patterns it will require approximately 32,000 hectares of new land to be developed over the next 30 years.

The draft Auckland Plan proposes a 75:25 split between growth in existing urban areas and growth in new greenfield areas. Intensification of existing urban areas through increasing housing density is proposed to achieve this growth.

The proposed intensification strategy outlined by Auckland Council has created much debate partially because New Zealand does not have a demonstrable model of good medium density development. We believe there is lack of clarity around the precise implications of intensification options for New Zealand cities. There is also an opportunity to show case best practice and educate and inform public perceptions around quality inner-city living options. Other countries, such as Sweden, can demonstrate quality medium density urban living and it is embraced for the benefits it can bring.

Urban intensification can support an improved urban lifestyle and quality of life but the key to this is good design – of the buildings as well as the spaces surrounding them and access to amenities. Well-designed urban intensification should provide access to good quality public space and provide a catalyst for the creation of urban amenities and public transport systems supporting urban vitality, something Auckland is often criticised for lacking.

Well designed urban intensification and supporting infrastructure can cost less, reduce our carbon footprint, use resources more efficiently, reduce the need to travel by car and conserve rural land for biodiversity and ecosystem services.

Urban intensification can also provide a range of housing choices for a range of age, income and family situations, as international examples have also shown. The development of new medium density housing on urban infill sites is a likely outcome for Auckland but creative policy solutions will also be considered to retrofit 'invisible' density into existing suburban areas. The adoption of the EcoDensity Charter in Vancouver attempts to achieve this, intensifying existing suburbs through initiatives such as laneway housing, basement suites and secondary suites.

The contribution of the built environment to the sustainability of cities will be an important factor in some of these choices going forwards. The NZGBC's environmental rating tools for buildings (Green Star, Homestar and BASE) are already driving improvement at the boundaries between the built environment and urban planning - they include credits for transport, site, amenities, etc.

The next evolution for a sustainable built environment is considering green buildings in context with each other and their surroundings. Resources such as a Communities Rating Tool, as proposed by NZGBC, would be beneficial to the Productivity Commission in planning for the future supply of affordable housing in New Zealand.

The Commission's draft report, places much emphasis on demonstrating how the constraint of supply of land, particularly for greenfield development, has led to increasing the cost of housing. The direct relationship between reduced supply and increased cost is an obvious one, particularly when considered from a paradigm of traditional building techniques and products. Opening up more land to greenfield development will certainly increase supply and possibly alleviate some immediate pressure on land prices. However there are significant issues that need further consideration with this approach.

Firstly, it is not clear that increasing land supply will automatically reduce land prices. Land will still be sold in the current market and developers looking to maximise profits are likely to use existing land prices and a benchmark value for any new land.

Secondly, there are natural limits to expansion. Land, like other environmental goods and services, is a finite resource and boundaries eventually need to be drawn. Rezoning to make more land available, must be accompanied by long term planning which details how the city will continue to grow within those new boundaries and avoid facing a similar situation again in a few years' time.

In summary, NZGBC recommends further consideration of medium/high density housing options for a New Zealand context. Particular attention should be paid to researching existing perceptions and needs of New Zealanders, and to the specific features leading to the success of medium and high density housing in other countries. However it is unlikely that successful international examples will be directly translatable to a New Zealand context. It is therefore critical to consider the specific conditions and requirements of New Zealand alongside successful international examples when identifying medium/high density housing options. These conditions include planning mechanisms, construction costs, land availability, family size, present and future transport links and infrastructure provision.

4   Supply and Demand Model

The commission proposed a supply and demand model to describe the current situation. This is an accurate description of a fixed market. However the potential influence of government and planning authorities to change the demand side should be considered further.

4.1   Supply

Overview, Page 8: NZGBC supports the principle that availability of choice is fundamental to the supply-demand equation. However, we disagree with the assertion that constraining the supply of land for greenfield development directly decreases choice.

The 2006 New Zealand Census revealed that 76% of the Auckland housing stock was standalone houses. Mid-high rise apartments only made up 2% of the housing stock while the remaining 22% consisted of single storey flats and low rise apartments[1]. Standalone houses, which require the largest area per inhabitant, are already well represented in these figures. Therefore it can be argued that controlling the land available will actually increase choice by inspiring creative solutions to house more people within the existing boundaries.

With this is mind, NZGBC suggest that range of choice should be added to the supply side of the model as described on (**page 5**).

4.1.1   Proportion of land value in house price

Page 9, point 5: There are two distinct issues in this point that should be separated into separate points. The first is the land proportion of dwelling price. The second is the performance of the construction industry.

Page 16, Comparison to overseas markets: The NZGBC cautions comparison with overseas markets without the full context of other affordability factors and market trends. It is stated that land value proportions of houses prices in Adelaide and Sydney are 10% and 25% respectively, compared with 60% in Auckland. These figures are only relevant and important if Auckland aims to model itself on these cities. Adelaide and Sydney are both widely spread out settlements requiring large and expensive roading and other infrastructure. The long term affordability of living in these cities is therefore highly dependent on fuel costs.

4.2   Demand

Page 5: The NZGBC suggests that marketing and education are missing from the Demand side of the model. In the form proposed by the Productivity Commission, the supply-demand model reflects a market driven, 'business as usual' approach. NZGBC suggests there is a role for Government and planning authorities to guide development towards a sustainable design. Extensive overseas examples show that the purposeful design of sustainable communities can have positive ramifications for inhabitants but this type of development is not likely to be realised, left to the market alone.

4.2.1   Diversity

Page 7, Box 3, point 7: The NZGBC agrees that the market needs both depth and diversity. This should mean ensuring more good quality medium density housing options are built close to amenities, to balance the current supply of sprawling lower density.

Page 27, Footnote 17: The traditionally poor perception of medium density and terrace housing in New Zealand is a critical point. The reasons for this perception and options for changing it need to be further explored. A likely solution would be to incentivise and

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[1] As cited by Auckland Regional Council, 2010, *Future Land Use and Transport Planning Project: Future housing demand study*, http://www.arc.govt.nz/albany/fms/main/Documents/Auckland/Aucklands%20growth/Future%2 0housing%20demand%20study.pdf

promote examples of good quality and affordable, medium density housing built close to amenities.

Figure 5.6, Housing Size: Across New Zealand, 72% of households are occupied by families. However, an aging population and changes to the 'nuclear family' are projected to have a continued downward trend in the average household size[2]. While parts of Auckland such as Manukau and Papakura are projected to remain with some of the highest average household sizes in the county, these averages are only 3.0 and 2.7 people per house respectively. Current averages for Manukau and Papakura are 3.4 and 2.9. This implies that relatively few people require large (four or more bedroom) homes. Larger houses cost more to build (both in land area and construction cost) and cost more to operate. Facilitating and encouraging smaller houses should be a key part of improving housing affordability.

4.2.2   Changing Demographic

Figure 5.7, Aging Population: The greater the proportion of population above the age of 65, the lower the average household size. Therefore there is a clear future need to be providing for smaller housing units. Box 16 (page 88) argues that 'empty nesters' will seek a 'stronger sense of domain', implying that baby boomers will aspire to the familiarity of detached housing. This assumption should be carefully considered. Changes in fuel prices, provision of alternatives (such as medium density, aged care units) and cultural and value changes will all influence this traditional paradigm going forwards and have done so in international examples.

4.2.3   Smart Growth

Page 84, Smart Growth: The draft report provides a summary of the smart growth planning approach and concludes that the approach has contributed to decreasing affordability. This is an obvious conclusion in a market where nothing else changes. Constraining supply will increase immediate price as demand continues to grow. The consequence is pressure on affordability and we now have the opportunity to decide how to respond to this. One approach is to fall back on traditional methods of freeing up land to proven development techniques that are lucrative for established company processes (e.g. 50 lot parcels, page 89). An alternative approach is to investigate why attempts at higher density options haven't met expectations (page 94) and to address these issues within existing boundaries.

5   Household running costs

NZGBC strongly supports the view that 'housing affordability' includes both the up-front cost of purchasing a home, and the ability of the household to meet the on-going costs of housing i.e. whole of life costing.

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[2] Statistic New Zealand, Demographic Trends: 2009, Subnational demographic projections: http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/demographic-trends-2009/chapter9.aspx

It is clear that running costs align closely to resource consumption and therefore the efficiency of a home's ability to perform.

The NZGBC/BRANZ Homestar rating tool measures the features of homes that influence this performance including how well houses contribute to the health and comfort of the occupants, efficient use of resources such as energy and water, and the generation of waste.

As Homestar continues to assess and rate homes, comparison can be made between performance features of stand-alone homes and multi-unit or attached dwellings. Initial exploratory work indicates that running cost (including utility bills and transport costs) can be significantly lower in homes when part of the building envelope is shared with an adjoining dwelling.

Page 7, Box 3, point 3: The NZGBC strongly agrees that affordability must include running costs. Running costs include current utility bills (power and water), maintenance and transport but need to also consider anticipated future costs due to changes in climate, legislation, policy, cultural provision, etc. Higher density housing can provide options with lower operating and transport costs, thus reducing living expenses and overall housing affordability[3]. More emphasis should be placed on medium and high density housing as part of the solution for housing affordability.

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[3] Housing New Zealand, 2005, Design Guide: Housing at Higher Densities.