



NEW ZEALAND'S MOST
QUALIFIED BUILDERS

Submission to the Productivity Commission's Draft Report Housing Affordability – December 2011

Introduction:

Certified Builders Association of New Zealand welcomes the draft report on the enquiry into Housing Affordability and appreciates the opportunity to comment on this draft report.

This submission comments briefly on various areas of the report that we believe to be important and which we are not in total agreement with the findings as set out in the draft report.

Macroeconomic Factors:

The report comments much on the demand side of the affordability equation. Regarding reference to this aspect it is vital that any affordability measures include realistic full mortgage financing costs. It is obvious that the vast majority of first home buyers are required to be 'debt hungry' in structuring of their first home purchase. With the alarming deterioration of affordability as highlighted in the report many first home buyers are often obtaining family loans, gifts or debt in their structuring of purchase which we are sure is not acknowledged in any of the published measures thus the picture could well be more serious than what has been presented.

One cannot help but wonder if our communities across New Zealand had enjoyed a constant supply of housing stock (either new or existing) what the outcome of the affordability across New Zealand might be. There are obviously many reasons for the lack of the 'right stock, in the right place'. Many of these reasons have been highlighted correctly in the report, but the incremental costs of compliance being loaded onto the various stakeholders in the industry (and ultimately passed onto the home buyer) by both Local and Central Government can do nothing but seriously impede affordability.

One aspect that has only been touched on slightly is the impact of average numbers of people in households. Past experience has always highlighted that only a very small shift in the average household size can have a significant impact on demand (both actual and pent up). Changing cultural and social landscapes of New Zealand have possibly led to a rise in this critical figure but I suspect that this has also been driven by the lack of affordability as young people live at home longer as a method of increasing saving to meet the financial hurdles, so we suspect that future demand is higher than what has been forecast in the report.

Housing Product:

For many years much of the first home buyer demand has been met from the new housing sector. This was driven by the lack of mortgage finance availability (during the 1970 -90) until the deregulation of the banking and finance sectors. This trend has continued as new land tracts have been delivered with lower land costs thus continuing the place of new housing in meeting the need of first homebuyers.

Regrettably this has resulted in 2 key outcomes:-

- In many metropolitan/major provincial areas the location of affordable housing has been at the outer reaches of the city boundaries which results in steep transportation costs to places of work. The outcome is that we have a segment of people who are incurring these costs – as a price of home ownership - who can least afford it.
- The home buying habits and expectations of first home buyers has over a long period of time been set at an unreasonably high level with multiple plan choice/multi bedroom/high specified homes being the norm. Thus the segment of people who should in fact have the least choice (due to affordability) are in fact enjoying a similar level of choice to those who are on their second/third home with higher equities and income levels.

A long term initiative of innovative design (land and dwelling) supported by relevant incentives for the land developer/builder/designer stakeholders in the sector is required. This is not a short term solution but one that over time will reset the expectations of first home buyers and also deliver location relevant options. The building sector is littered with initiatives on this issue over the years all of which have faulted due to a lack of long term commitment by all stakeholders. The goal must be to have 'the right product, in the right location at the right time'

Building Industry Fragmentation: Builders and Sub Trades

The reports point out the fragmentation of the residential building industry. New Zealand is no different in this structure to many other OECD countries, in fact from past experience the number of building companies who hold a market share of more than 10% in any countries are very limited and historically have been able to be counted on one hand.

The low productivity can be attributed to an unclear, fragmented and non aspirational career pathway for new entrants (particularly in the residential sector). This has been borne from a fragmented training framework that has concentrated on the assembly process with little or scant regard to the required business processes of the industry. This has resulted in the lack of incentive (or skill) for builders to grow their business size, which amongst other things brings the understanding of the need to improve productivity.

In addition from past personal experience there is little evidence of the implied equation that housing organizations building larger number of houses are more efficient than the smaller independent builder – in fact we contend the opposite. An example of this is that many of the sub trades that larger builders contract work to are indeed smaller single person enterprises (as

pointed out in the report) who due to the comments above make up the fragmentation of the industry.

Building Industry Fragmentation: Building Materials Supply

The structure of the industry as commented on above also is relevant to materials supply. Due to the market size and market practices there is little (if any) advantage gained by builders of scale. The industry takes a very narrow view which from past experience illustrates larger builders obtaining material supply at costs often higher than builders of single dwellings.

This can partially attributed partially to the lack of scale or over servicing of the market.

Infrastructure Financing:

As outlined in the report, the establishment and development of new land tracts is expensive. This cost is obviously passed on ultimately to the home buyer in the price of land. We believe that there is definitely room for the innovative funding of these costs. There are many examples of this internationally where an alternate approach has been taken which has resulted in reducing the initial cost of land for new home buyers (thus improving affordability). The "Mello Roos" system established in California is one example of this innovation.

We appreciate the opportunity to be able to comment on the draft report as it highlights many of the structural challenges facing our community if we are to continue to provide homeownership to the people of New Zealand.

It is critical that we continue the aspiration of homeownership that is embedded in the culture and values of every New Zealander.

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