

**Submission to the New Zealand Productivity Commission
on the draft report “Housing Affordability”**

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Introduction:

I am a Planner and Academic with a long-standing interest in the relationship between strategic and local planning and housing, particularly with regard to affordability, sustainability and housing design. I was a member of the Social Infrastructure Project Team involved in the development of the Auckland Regional Growth Strategy 1999 and the Auckland Regional Affordable Housing Strategy 2003; I chaired a working party on Housing Affordability for HNZC as input into the preparation of the first New Zealand Housing Strategy 2005; I was a consultant to Queenstown Lakes District Council in the preparation of its first Community Housing Strategy (HOPE Strategy 2005) and three subsequent District Plan changes; and I was an advisor to HNZC for the development of the Affordable Housing Enabling Territorial Authorities Act 2008.

I am currently undertaking research in two areas relevant to this submission. I am a member of an Australian Housing and Urban Research Institute (AHURI) investigative panel on “Quantifying planning system performance and the national housing reform agenda” (this work is being extended under an Australian Research Council grant for the Australian capital cities); and I am working with Professor Christine Whitehead (Cambridge and the LSE) and Associate Professor Nicole Gurran (Sydney University) on a comparative assessment of planning and affordable housing in England and Wales, Australia and New Zealand.

Thank you for the opportunity to make a submission on the draft report on Housing Affordability. My submission primarily addresses Chapter 7 Urban Planning and Housing Affordability and its associated recommendations. But see my final points on Residential Covenants and the Retention of Affordability.

1. Housing Affordability and Productivity

The draft report lacks understanding of the “prevailing principles and practice of urban planning” (F7.1). Given the remit of the drafters of this report to concentrate on Housing Affordability, it is unfortunate that the wider productivity issues associated with urban planning have not been given any consideration. There is a large and growing body of evidence that supports “prevailing practices and principles”, on economic, environmental, social and cultural grounds. For the purposes of this draft report and this submission, I

would draw your attention to the recent research report on the environmental and infrastructure costs of different forms of urban development in Australian cities. Trubka et al (2008) compare the costs of building new developments on greenfield sites with building on sites within existing infrastructure boundaries for Australia's capital cities. The costs considered include infrastructure provision (ranging from utilities to social infrastructure such as education and health services), transport (including roads and public transport, both capital and operating costs), the costs of greenhouse gas emissions and activity-related health costs

The study estimates that building 1,000 houses on the fringes of the Australian capital cities will cost over AU\$360 million more than for building the same number of dwellings within existing urban areas, considered over a 50 year period (Trubka et al, 2008). Leaving aside greenhouse gas emission costs and activity-related health costs, the additional costs of building 1,000 dwellings on the fringes (compared with within existing urban areas) is estimated at more than AU\$330 million. (Trubka et al, 2008)

Clearly there will be some situations where the existing urban infrastructure is close to capacity, so using this research to assert that building an additional 100,000 dwellings on the fringes of New Zealand's cities is likely to cost an additional AU\$36,000 million compared with development within the existing urban areas, is too simplistic. However, these figures suggest that the true costs of opening up large tracts of greenfield land needs much greater consideration than the draft report has so far given. If "significant tracts of greenfield ... land" are brought "to the market in Auckland..." (R 7.2) there will be very significant additional costs (compared with development sites within existing urban areas).

These significant additional costs will have to be borne by the purchaser of the dwellings (in capital costs), by the occupants of the dwellings (operating costs), by the ratepayer (direct and indirect payments for new infrastructure and transport – capital and ongoing costs), by the tax payer (direct and indirect payments for new infrastructure and transport, GHG costs and health costs), and by businesses and the economy as a whole.

I suggest that the Productivity Commission has regard to these potential cost differentials, that it gives much greater consideration to the true costs of opening up large tracts of greenfield land and that it reassesses its recommendations for bringing forward large tracts of greenfield land in Auckland accordingly.

2. Housing affordability and smart growth planning

F7.1 asserts that "the prevailing principles and practice of urban planning have a negative influence on housing affordability in or faster-growing cities." This assertion is developed from consideration of a selection of US, UK and Australian research. In response to this assertion it is perhaps worth quoting at length from Buxton and Taylor's very recent (2011) article on Urban Land Supply, Governance and the Pricing of Land as follows:

“... findings on the influence of regulatory planning measures on land prices are variable and inconclusive. Land prices may be caused by both supply and demand side factors, with many factors affecting demand. (Dawkins and Nelson, 2002) There is almost no reliable Australian research on the relationship between regulation, including Urban Growth Boundaries, and land prices. (Gurran et al, 2008)”

I would argue that there is no reliable New Zealand research that establishes a causal relationship between the presence of urban growth boundaries and housing affordability. It is well understood, for example, that housing consumers can drive up housing prices by demanding larger dwellings with higher amenity value or locational attributes, so in order to draw conclusions about the causal affect of containment policies, we will need to develop a much more sophisticated understanding of local housing markets than has been achieved to date in New Zealand.

Amongst other sources, the draft report draws on the United States experience – with a quotation from Anthony Downs (2005) on page 102. However, the draft report ignores the objectives and potential benefits (including fiscal and productivity benefits) of Smart Growth urban planning. I argue that the notion that the planning approach of supporting more compact urban development, via the imposition of urban limits and intensification up-zoning, is the cause of the housing affordability problem is simplistic. Indeed even the quote from Downs states that “Smart Growth policies have caused housing prices to rise more than they otherwise would *in at least some communities* where they have been applied...” That is, it is not a universal occurrence.

The Lincoln Institute undertook an evaluation of the effectiveness of Smart Growth (SG) policies in achieving a multiplicity of goals (with respect to compact development, environmental protection, increased transportation options, housing affordability and net positive fiscal impacts.) It is worth noting that this research is considered to be the most extensive evaluation undertaken (up to 2009) on the USA experience with these SG programmes. The SG policies included growth management policies using metropolitan urban limits and investment in infrastructure and planning to support more compact city development, alongside other policies and programmes that varied considerably between the case studies. The research compared four states with SG programmes (Florida, Maryland, New Jersey and Oregon) with four other states that did not have SG programmes (Colorado, Indiana, Texas and Virginia).

On housing affordability, the research found that the outcomes for housing affordability were somewhat mixed. The four SG states had higher median house values at the beginning of the study period (1990) than the four non-SG states. ***Over the 10 years studied (as the SG policies were implemented) the average increase in median prices was lower in the SG states (31%) than in the non-SG states (51%).***

Three of the four SG states are known to have some form of affordable housing mandate (New Jersey has the strongest programme) or planning regime (such as Maryland’s inclusionary zoning). The fourth state, Virginia, only added an affordable housing

requirement in 2003, after this study period. New Jersey with its strong affordable housing programme performed best overall (ie across all 8 states) in terms of minimising increases in housing cost burdens for both owners and renters. The SG states performed better than the non-SG states in terms of adding a greater share of multi-family units to the overall housing stock, however an increased housing cost burden was found (at the end of the study period), especially for purchasers. This, in part, reflects the higher median prices at the beginning of the study period. And, in addition, the study notes “that these changes in housing cost burdens do not account for any offsetting cost reductions, such as for transportation, that may be associated with smart growth programs” (Ingram et al, 2009) This is discussed further in Point 3 below.

The Affordable Housing Enabling Territorial Authorities Act 2008 did give New Zealand local councils the ability to introduce an affordable housing mandate – similar to that in now operation in the four SG states considered in Ingram’s study. This Act was repealed by the National Government. Repealing this Act has made Smart Growth planning much more difficult in New Zealand in comparison with the four SG states in Ingram et al’s research, and has significantly reduced the ability of local councils to implement coherent housing strategies (as part of spatial planning), that could have resulted in an increase in the supply of affordable housing, both for rental and purchase.

I suggest that the New Zealand Productivity Commission give serious consideration to giving cities and towns the ability to implement an affordable housing mandate. This would enable the Auckland Council to actually respond to R7.1 (“... show in its final Auckland Plan how it has considered and reconciled affordable housing alongside its other priorities ... ”) in a meaningful way, as part of the Spatial Planning process.

3. Housing affordability and transport costs

There is an additional reason to be deeply concerned (on economic grounds) about the draft report’s recommendations to “bring significant tracts of greenfield ... land to the market in Auckland”(R7.2) in order to address housing affordability problems, without taking into account the true cost of providing quality infrastructure and transport. For many years, Australian cities have encouraged large areas of residential development on the fringes of their cities – which have been specifically developed for the first-time purchaser (often with limited capacity to absorb increases in mortgage payments or other housing related costs). These outer suburbs have suffered from relatively poor provision of public transport (due to the cost of provision of public transport to outer suburbia) and hence have high car ownership rates – necessitated by journeys to work, and to access goods and services.

Dodson and Sipe (2006 and 2008) have undertaken a number of studies on Australia’s capital cities, that have considered an expanded (and more realistic) version of housing costs, that included both mortgage repayments and travel costs. This research has found that far from “home ownership” giving these suburban-fringe families an affordable entry into the Australian dream, travel and mortgage repayments are creating a poverty trap. And that when fuel prices, and hence travel costs, rise in the future this poverty trap will

spread from the fringe suburbs to other suburban areas.

New Zealand cities have followed a similar but less extreme path, with a number of struggling owner occupiers balancing mortgage repayments and transport costs in outer suburban areas, poorly serviced by public transport. A focus on only the housing costs side of housing affordability rather misses the point for these households. A recommendation to bring “significant tracts of greenfield ... land to the market” (R7.2) without consideration of the provision of infrastructure and transport (and all of the associated costs) is either ignoring the significant costs to the ratepayer and taxpayer on greenfield sites, or is ignoring the costs (including transport costs) to the potential first home purchasing households, that supposedly this recommendation is designed to support.

I suggest that the Productivity Commission needs to reconsider how it conceptualises housing affordability – to include both housing costs and transport costs for the householders.

4. How much residential land is needed to improve housing affordability?

R7.2 recommends bringing significant tracts of land in Auckland that could quickly be released for residential development and “identify significant tracts of land with the potential for (say) 50 years’ development, with at least 20 years under preparation for development.”

I would argue that the NZ Productivity Commission should be more cautious in its approach to increasing land supply for addressing housing affordability issues, as this could result in significant public and private inefficiencies. Indeed “Lewis and Neimann (2000) and Glaeser and Ward (2009) found that large land supplies removed the incentive for efficient land use” (quoted in Buxton et al, 2011.)

In 2008, the Department of Building and Housing’s report on the Adequacy of the Auckland Region’s Residential Land Supply found that there was 15 years capacity for 'conventional' housing, 15 years for medium density housing and 22 years for high density housing. This suggests that for the Auckland region at least, there was a sufficient supply of land available (back in 2008), and whilst I am not aware of the current situation there have been a number of District Plan changes etc in the intervening years, and the draft Spatial Plan proposes further movement of the growth boundary. Why do I say ‘a sufficient supply’? It is perhaps worth noting that the UK planning system requires a five- year supply (PPS3). And whilst this is considered by many commentators to be too small a period, longer periods suggested are only in the order of a 7 to 10 year supply. Closer to home. the Melbourne Urban Growth Boundary is based on

a guaranteed 15 year supply of land for development.

No evidence is given in the draft report for recommending specifically 20 years supply of land or 50 years potential for development. The possibilities that this will lead to inefficiencies in development, land banking and land speculation are very real – and will not result in improvements to housing affordability or in productivity gains. Based on UK research on developer decisions and purchasers around the UK's growth areas, (Monk et al, 2008) it is likely that increase in land values in anticipation of planning permission will already have been factored in to existing land banking decisions around almost all of New Zealand's growing urban areas. Higher risk sites (that is those sites which are less likely to be brought forward in the near term – the 50 year potential sites) are likely to be subject to the option to purchase, where the option will be taken up if planning conditions changes. This option will already be factoring in some price increase for the land, irrespective of whether it is eventually developed.

The amount of land that would have to be brought forward for development in order to have any significant impact on housing affordability could be extensive. One leading UK academic researcher is Professor Glen Bramley (Professor of Urban Studies & Director, Institute for Housing, Urban and Real Estate Research, Heriot-Watt University, Edinburgh.) Professor Bramley visited New Zealand 4 years ago, (as a University of Auckland Distinguished Visitor) and spent time in Auckland and Wellington, meeting with staff from DBH, HNZC and other government departments) and is currently working with HNZC developing a model of the NZ housing market.

In a personal communication on the relationship between planning and housing affordability Professor Bramley made the following comment:

“The main relevant finding from my work, consistently through various phases, is that you have to put more land into the system, absolutely and proportionately, to get a given increase in supply. It depends at which point in the pipeline you measure it. My more recent models tend to treat new planning permissions as the exogenous policy influenced input and then see how much new completions you get from a given change in the flow of permissions, and what the consequences are for prices and affordability. In general the picture is that **completions may change at around half of the change in permissions flow, while the affordability effect is about 10%.**”

In other words, releasing large tracts of land for residential development (be they greenfield or brownfield) will not necessarily result in dwelling completions. Much of the output will respond to market conditions at the time of completion, and if demand is high there will be little impact on housing affordability.

This is not an efficient way of addressing housing affordability. It may not even significantly increase the supply of housing, let alone have an impact on housing affordability. Land banking is an important part of the development industry, and land trading companies, that actively seek resource consents in order to increase the value of a land holding, with no intention to undertake any development on that site but rather to increase the overall value of their portfolio, are becoming significant players (for example in the current Sydney residential land market).

It is not at all clear that bringing forth large tracts of land will in fact increase competition between developers. I would suggest that we need a more sophisticated understanding of the operation of the development and building industry in New Zealand. A start is being made on this with recent research on the residential development industry structure in Australia which "... suggests that it is not necessarily competitive and, in some instances, can be highly oligopolistic." (Coiacetto, 2009) Whilst the the findings of this research are not directly applicable to the New Zealand residential development industry, they does suggest key areas that need greater consideration.

I suggest that the Productivity Commission reconsider recommendation R7.2. To continue with the recommendation a strong evidence base is needed that supports 20 years supply, taking into account the full costs of development(as discussed in my point 1), and that provides a more sophisticated understanding of the operation of the residential development industry with regard to competition.

5. The role of developers and housing affordability

Recent Australian experience in bringing forward land for residential development is instructive. The Melbourne urban growth boundary has been moved outwards three times in the last 18 months. The movement of the boundary has not necessarily resulted in a significant increase in the rate of construction of new dwellings, nor in a falling house prices. Indeed commentators have noted that there are thousands of potential residential lots across the city that developers have not completed and taken to market. This is not unexpected, whilst there are fluctuations in demand and as long as the holding costs are low enough.

In this regard I can only concur with the following comment: "Certainly developers are rational actors and will only develop land when it becomes profitable to do so. This may mean holding land for a considerable length of time until the revenue cost balance permits an acceptable level of profit to be secured." (Dr Steven Rowley, Head of Department - Property Studies, School of Economics and Finance, Curtin University,

pers com, 2012)

Unless developers are in some way brought into the provision of more affordable housing – through partnerships or requirements to produce more affordable housing – there is absolutely no incentive for them to pass on any possible cost savings in production or lower land prices to purchasers. If profit margins are higher on higher cost dwellings, then developers would be irrational actors indeed if they did not construct higher cost dwellings and sell at the market price.

This suggests that the Commission might wish to consider a more proactive role for the state (be it central or local government) or some form of intermediary agency (such as land or development agencies, as in some Australian states) if it is concerned with utilizing the most effective and efficient methods to address housing affordability.

R7.3 does suggest that the Commission might be interested in more collaborative models. However, if the Auckland Council did invest public resources in bringing forth “large scale tracts of land” I suggest that the Commission should also recommend that the Council should take on a proactive role in terms of gaining sufficient public benefits from the development of such sites to outweigh the public input of resources. This could be via a public-private partnership model, common in many American states, and used for example in Canberra and Melbourne, to deliver higher quality affordable and sustainable dwellings for the market and for the social housing sector. (Austin, 2008)

6. The Role of Residential Covenants and their impact on Housing Affordability.

This topic appears to be completely omitted from the draft report.

There is evidence from research (using hedonic regression) in the USA that **residential covenants** (for example, requiring minimum lot sizes, minimum floor areas of dwellings, minimum garage sizes, specific external finishes, restrictions on utilizing dwellings as home and income, restrictions on off-street parking etc etc) **can result in increases to the initial selling price of the dwelling in the order of 6%**. In the USA, the use of residential covenants is not only critiqued for raising house prices for initial purchasers, but is also considered to have class and racial overtones of exclusion. It is worth noting that not only is there an impact on housing affordability, but there is also a negative impact on flexibility of dwelling design to meet changing household circumstances (for example, the possibility of purchasing a smaller dwelling and extending it over time is eliminated with minimum floor area restrictions); and on occupations of residents (for example, via off-street parking restrictions)

The role of residential covenants and their impacts on housing affordability is an area that is under-researched in Australia and New Zealand. A recent AHURI research report (Goodman et al, 2010) identified a high level of residential covenants in new residential areas; the research included an interview with a growth area council planning manager who estimated that 90% of new housing in his area had single dwelling and other covenants on them. Residential covenants are also strongly associated with master planned estates in Australia (Cheshire et al, 2010), an increasing form of development in New Zealand.

In most cases in New Zealand, government (local and national) is unaware of the extent of these residential covenants (there is no formal register, as far as I am aware); or of the impact of residential covenants on costs of production of new dwellings, or on subsequent purchase prices, or on ongoing dwelling operating costs for the owners. In addition, whilst the Affordable Housing Enabling Territorial Authorities Act 2008 did address some aspects of residential covenants (the exclusion of social housing providers), in general I would suggest that the relationship between planning law and property law in this area is unclear. For example, it is now has been established in New South Wales that exclusionary residential covenants are extinguished through new local plans, which override anything inconsistent with the plans. This is not necessarily the case in other Australian states. Nor is it clear that a District Plan change would override a residential covenant in New Zealand.

In this submission, I suggest that the Productivity Commission pays significant regard to the impact of residential covenants on housing affordability and the development of appropriate policy responses to mitigate the impacts of these covenants on affordability.

7. Retaining Housing Affordability and Increasing Tenure Diversity

Whilst the draft report does consider the Social Housing sector, there is little of substance about diversifying tenure options for households or on retaining some level of housing affordability, particularly where public funds or resources have in some way contributed to the development of that housing. I would argue that this is particularly important for the Auckland Council under recommendation R7.3.

Apart from a small experience with shared-ownership (under the 2005-2008 Labour Government and the Gateway homes in the Hobsonville Development, New Zealand has had little experience with developing new forms of tenure. From policy experience in the UK, in much of western Europe, from the USA and Canada, it is clear that the introduction of a diversity of housing tenures and models to retain some level of affordability is an essential component of an efficient and effective response to housing affordability. I know personally of a number of examples of housing developers who were sufficiently concerned about housing affordability to offer for sale residential lots and / or completed dwellings with the anticipation that they would provide affordable housing for first-home moderate income purchasers, only to see the same lots or dwellings change hands at significantly elevated prices soon after. Whilst one could

argue that altruistic behaviour by developers should not be a concern for policy-makers, there is also a case to be made for policy interventions that could ensure more effective outcomes for overall housing affordability.

I suggest that the Productivity Commission pays regard to this issue, of retaining housing affordability and increasing tenure diversity, as it would be highly inefficient for public monies and public resources to be used to produce an affordable housing outcome that solely benefitted the first purchaser of a dwelling, by providing them with a one-off capital gain.

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