

PRODUCTIVITY COMMISSION HOUSING AFFORDABILITY INQUIRY

Submission from the Housing Affordability Forum (Western Bay of Plenty Sub-Region)

INTRODUCTION

The Western Bay of Plenty Housing Affordability Forum is a working group associated with SmartGrowth¹ that was established in 2008 to investigate the development of more affordable housing solutions for Tauranga city and Western Bay of Plenty district (the Western Bay of Plenty sub-region). The affordability of housing has a significant impact on the economic, social, environmental and cultural well-being of the community. It has been identified as a key issue, particularly in relation to:

- The sub-region's projected strong population growth;
- The sub-region's ability to house its workforce and attract new business and skilled people
- The location of housing and employment and their impact on transportation networks;
- The need to protect versatile land resources that provide a strong base for the sub-region's economy;
- Increasing land and housing costs; and
- The level of development contributions required to fund essential infrastructure.

MEMBERSHIP

Membership of the forum comprises representatives of the following organisations and sectors:

- Development community (both current and those planning for future developments)
- Housing New Zealand Corporation
- Planning and urban design specialists
- Real estate sector
- Economic development agency Priority One
- Officers and elected members from Tauranga City Council
- Officers and elected members from Western Bay of Plenty District Council
- Population Ageing Technical Advisory Group (a collaboration between the Bay of Plenty District Health Board and SmartGrowth see footnote) to plan for the social, economic and health implications and opportunities of the ageing population).

PRINCIPLES

The key principles underpinning the establishment of the Housing Affordability Forum were:

- The provision of sufficient affordable housing to provide for low to medium income residents as well as support the region's future labour force;
- Provision of affordable housing requires a collective response from all stakeholders including local authorities, central government, developers etc.

¹ SmartGrowth is the 50 year growth management strategy for the Western Bay of Plenty sub-region. The sub-region comprises the administrative areas of the territorial authorities of Tauranga City Council and Western Bay of Plenty District Council, as well as the area covered by the Bay of Plenty Regional Council.

- Acceptance that, without support and facilitation , the market will be unable to provide adequate affordable housing; and
- Recognition of the diverse housing requirements of residents.
- Housing affordability impacts both for purchase housing and rental housing.

SUBMISSION

We would like to thank the Productivity Commission for the opportunity to submit to the Housing Affordability Inquiry draft report dated December 2011. While we commend the Commission for undertaking this review, we are disappointed with the analysis and recommendations identified in the draft report. There also appears to be an implied consideration that affordable housing equates with social housing. With the widening gap in incomes and increasing housing costs, the requirement for affordable housing now affects middle class and young professionals who are an important part of the modern workforce. This submission makes the following points:

1. Demand Solutions

Whilst the report recognises the complexity and interrelatedness of factors contributing to the affordability of housing, this understanding is not reflected in the recommendations which appear simplistic and lacking balance. While *Figure 1.1 Multiple determinants of housing affordability* on page 5 of the report outlines the issues in terms of both supply and demand, the report primarily discusses solutions that relate to supply (eg availability of land, regulations, cost of infrastructure, construction costs) and has very little focus on solutions from a demand perspective (eg income and employment, availability of finance, tax concessions, demographics, government assistance to home buyers, housing design and quality preferences).

2. Is the Issue Urban Limits or Infrastructure Funding?

A fundamental conclusion of the report is that land prices are the key driver of housing inflation and insufficient release of new land for housing is the biggest source of adverse impact on housing affordability. Tauranga City Council's comprehensive submission to the issues paper released in June 2010 emphasised that **Tauranga has sufficient land within its urban limits for many years and that the main issue in the city is the cost of servicing new developments. Their submission stated that, even if urban limits were removed, it is unlikely the situation would change as servicing constraints would act as de facto urban limits.** Whilst acknowledging that this is just one component of the housing affordability issue, we would like to make the following points:

- Changing urban limits will have little impact on other land purchase costs (eg civil works, consultants, development contributions, other TLA costs, marketing & sales, legal costs, interest and GST).
- While the report notes that greenfield sites tend to be cheaper to build on than infill at similar densities, multi-storey or brownfield, infrastructure servicing costs to greenfield sites in Tauranga are significantly higher than to brownfield or infill sites, where often no additional infrastructure investment is required.
- Infrastructure costs are usually funded through development contributions, rates revenue or loans. High growth local authorities, such as Tauranga, tend to have significant debt on their books and little fiscal capacity to incur these sorts of costs unless it is through significantly increasing rates or by development contributions.

Tauranga City Council's development contributions regime, where the costs of growth are funded by those that benefit from the investment, has required new infrastructure to be funded through development contributions, which has contributed to the recent increase

in the cost of housing. The only other alternative would be significant rate increases, which would be unpalatable to ratepayers and at odds with Tauranga City Council's user pays philosophy. While there are opportunities for developers to directly fund these bulk infrastructure costs, due to the significant cost, high risk, long pay back periods and current bank financing restrictions, few are able to contemplate this.

- Tauranga City Council focuses on growth in relatively small defined areas to ensure it can maintain a sound financial position and that infrastructure is used efficiently. If more land is serviced, significant unused capacity will exist in infrastructure networks for a long period of time.
- The report appears not to have taken into account the importance of protecting versatile land resources that provide a strong base for much of New Zealand's economy in terms of horticulture and agriculture. These land resources are only going to increase in importance in light of growing returns from food production in the global economy.
- Broader funding options than just rates and infrastructure charges will be required for territorial local authorities to sustainably and prudently manage urban growth in the future. This submission urges the Productivity Commission to take a lead the discussion at a national level on growth funding approaches which could offset the need to require infrastructure charges.
- There is also the issue of land banking by some developers which can increase the cost of land and make the final housing product more expensive.

3. What are the Key Contributing Factors?

The discussion document recognises that housing affordability is a result of multiple, complex and interrelated factors and that there is no single solution, however the recommendations appear quite simplistic and ideologically driven. In particular, the report notes that improvements in housing affordability will come about through many small contributions rather than a single large contribution. However it tends to focus primarily on what local authorities can do to address the issue, with very little analysis of the role of central government, the finance sector, not for profit providers or the development community.

These issues may, in part, reflect the robustness of the research cited to inform the report. On a number of occasions references referred to are not evident in the reference list and the model the Commission has used regarding housing demand and supply at the level of the territorial authorities is not made available, yet appears to be a significant factor in the thinking of the Productivity Commission. These incidences regarding referencing and lack of information raises potential concerns about the quality of the research that has been undertaken.



The pie chart on the previous page demonstrates some of the range of factors that can improve affordability, many of which have not been considered in any detail in the report. Initiatives can be undertaken by central government, local authorities, community housing or iwi trusts, finance sector, developers etc. Some specific examples of ways to increase the provision of affordable housing include:

- Underwrite, guarantee or alternative financial arrangements to reduce interest costs;
- Educate the market and providers about better quality housing form at increased densities;
- Gift, lease land or favourable purchase prices as a means of reducing costs;
- Encourage the development of better quality homes at greater densities at a range of sizes (eg 1, 2, 3, 4 or 5 bedroom, not just the staple 3 bedroom);
- Reduce or delay fees, or alternative provision of infrastructure from central government;
- District Plan provisions that enable affordable housing forms in a range of locations and a range of densities;
- Partnerships to achieve desired housing densities and good quality product and form of housing by joint ventures, public private partnerships, and working with stakeholders to develop integrated planning, design and development; and
- Direct provision of housing, for example pensioner housing or support community housing associations and/or iwi trusts to obtain central government funding for housing/papakainga.
- Central government to work with regional, city and district councils to investigate options to deliver core network infrastructure services more efficiently and affordably. This may also include reviewing currently required 'levels of service' for network infrastructure.

4. Central Government as a Key Stakeholder

With regard to the role of central government, the report states that housing is a significant national issue so it would be expected that central government has a key role to play in the response, particularly in terms of New Zealand's economic development. We would ask that the following points be considered:

- In many cases, the local authority is implementing and enforcing national policy and standards codes and legislation. The responsibility of central government needs to be highlighted in terms of its role in setting the legislation, standards and codes that local authorities are required to implement and enforce. We also suggest that all reviews of legislation that impact on the affordability of housing make this issue a key component of the review. Examples include the Resource Management Act, the Local Government Act (LGA), and the Building Act.
- There is no mention of the role of central government (or local government) to incentivise the building of smaller (ie 2 bedroom) houses, as well as more intensive housing developments.
- While some research has been undertaken on international best practice in the charging of infrastructure by local authorities, no international research is included on how other federal or state governments have incentivised the provision of more affordable housing solutions apart from a brief section on the Reserve Bank's findings on capital gains tax on page 70.

We refer the Productivity Commission back to the submission by Tauranga City Council to the issues paper, which urged central government to provide local authorities with real incentives to facilitate economic development through making land available for development and servicing this land in a timely manner with appropriate infrastructure. **The current funding**

sources available to territorial local authorities do not provide these incentives. A number of ways central government could assist in this area are outlined, as follows:

- Provide a greater contribution to key infrastructure projects that provide capacity for the sustained growth and development of New Zealand communities and economies and therefore increase tax revenue. One particular example is that the Ministry of Education is currently exempt from paying financial contributions on new schools.
- Currently the LGA precludes setting infrastructure charges that achieve equity over time. This means that future residents are being heavily subsidised by today's community. To provide a level of fairness and equity, charges should be set to increase over time at the rate of inflation.
- The LGA also makes it difficult to align infrastructure charges with developer cash flows, for example enabling development contributions to be charged when sections are sold rather than the time the subdivision is completed. If a development contribution charge could be secured appropriately, an amendment to the LGA would resolve this matter.
- Consider providing special home loans for affordable housing projects.
- Educate the development sector in the need for a range of housing typologies in a range of locations to match the household size and demand.

5. Economic Impact of Housing Affordability

The report focuses almost entirely on the social implications of affordable housing with little analysis of the economic implications. This is particularly noticeable in the summary paper "*Cut to the Chase*", which opens with the statement 'The challenges faced in the social housing sector'. Housing affordability for low and middle income earners is at the heart of our ability to attract and retain our workforce and businesses. It is essential that the issue of housing affordability is seen as much more than a social housing issue in terms of its impact on a significant proportion of New Zealanders.

6. Setting Development Contributions

The report raises questions as to whether the process for setting development contributions is transparent. It makes two recommendations, which this submission addresses individually:

- (a) *That best practice development contribution guidelines be developed to cover when DCs should be used, how they are calculated and how costs should be recovered to clarify local authority decision making.*

This submission would suggest that the differences between each local authority's situation in terms of infrastructure investment required and the complexity of calculating DCs on multi-million dollar projects would make it extremely difficult to develop a 'one size fits all' set of guidelines that would provide additional value to local authorities and the development community. It should also be noted that guidelines have already been developed to assist best practice for development contributions².

- (b) *That development contributions for infrastructure are made reviewable (by developers).*

In our experience, developers working within a specific local authority area are fully cognisant of the development contributions policies that relate to developments they are undertaking. They would certainly not be termed 'lay people', as referenced on page 118 of the report. In the majority of cases, it is not lack of understanding by the developer that is the issue, rather it is disagreement with the actual policy position of the local authority and a lack of ongoing certainty with regard to the level and extent of contributions sought.

² Local Government Know-How: *Best Practice Guide to Development Contributions*, Local Government New Zealand (2003). Note that this was a joint initiative between central government and local government.

It should be noted that financial and development contribution policies are publicly consulted on through annual and ten year planning processes, which in itself provides a review mechanism.

It is important to bear in mind that if growth-related infrastructure costs are not recovered through development contributions, or if the contributions are reduced, then any shortfall will have to be funded by ratepayers. Increasing rates is not a situation that central government, local government or communities are happy with.

7. Auckland Centric

While the report acknowledges that there are housing affordability issues in other areas of New Zealand, the draft report is very much focused on the Auckland market. While there may be some similarities between Auckland and other areas, there are also many differences, particularly in terms of the need for the development of significant new infrastructure to support growth. This is particularly the case with development viability in Tauranga and the Western Bay of Plenty, where there is not the necessary infrastructure in place given the significant growth that has occurred within a relatively short timeframe.

Another issue in Tauranga and the Western Bay of Plenty is the different demographic profile of the increasing population requiring affordable housing from that in Auckland. Different responses to the affordable housing issue are required depending on the local context.

It should be noted that housing affordability is an urban as well as a rural issue. Apart from rural Maori housing, affordable housing for rural areas appears to have been ignored in the Commission's report.

8. Future Housing Trends

While the report acknowledged that net household formation in New Zealand is expected to continue to increase as the population grows and household size becomes smaller, there is little discussion on provision of smaller dwellings (one and two bedroom) as a means of decreasing costs. While the report notes that there are unmet needs for smaller accommodation for those on low incomes and single men with mental health and addiction issues, we believe the needs for smaller accommodation apply to a much wider proportion of society and expect this to increase in light of New Zealand's ageing demographic. This should be supported by all providers.

9. Rental Housing

This submission supports the Commission's conclusion that there is a need for institutional investors in rental housing to ensure security of tenure etc.

10. Social Housing

This submission supports the need to increase the social housing fund and supports the development of the social or community housing sector.

11. Construction Industry

This submission supports initiatives outlined in the report that will increase productivity growth in the construction industry, which is currently fragmented in terms of supply chains and its ability to generate economies of scale. We also believe that some Building Code regulations can affect incentives to innovate with new design, materials or processes

12. Maori Housing

This submission supports the views expressed in the submission from the Western Bay of Plenty Maori Housing Forum regarding Maori housing.

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Signed:

A handwritten signature in black ink, appearing to read "Christine Ralph", written over a horizontal dashed line.

Date:

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