

7 January 2012
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Inquiry into Housing Affordability
New Zealand Productivity Commission
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Submission on Housing Affordability Draft Report

Dear Members of the Productivity Commission,

Comment on your draft report

I was encouraged by the analysis and conclusions in your draft report. In the draft report you conclude: *“Probably the single biggest source of adverse impact on housing affordability is the insufficient release of new land for housing”*.

I suggest that in the final report the conclusion is changed to: *“Based on the objective analysis of all the factual evidence available and quantitative research completed on this issue, it is beyond reasonable doubt that the single biggest source of adverse impact on housing affordability is the insufficient release of new land for housing”*.

There are a number of direct and indirect effects on housing affordability that flow from the initial cost of bare land in residential land development projects. These include for example: funding constraints, funding costs, project risks requiring increased target returns, high section prices reducing the viability of smaller & lower cost housing.....

In my submission (#013), I used official data to conclude that section prices had increased significantly more than house price since 1993. If section prices had increased at the same rate as consumer price inflation since 1993, they would average \$74,000 now. In June 2011 the median section price was \$180,000 in New Zealand.

The Demographia International Housing Affordability Survey (2010) is in my opinion the best fact based research completed on this issue. This comprehensive study concluded:

- Housing is affordable when the Median house price does not exceed 3 times the median household income (i.e. 3 years of income to buy a house).

- No markets in NZ satisfy this. Auckland is more than double this (6.4x) and is one of the worst cities in the developed world. The New Zealand average is 5.3x
- Australia is the worst overall (6.1x average and 7.1x average in major cities).
- There is a very strong relationship between land use regulations (how restrictive) and housing affordability.
- In unaffordable markets, higher land prices have been the principal contributing factor.
- In the United States, there are a number of markets that have maintained 'responsive land/housing supply regulations'. These housing markets have maintained affordable housing and been less prone to bubbles and busts than markets where land supply is constrained by physical and regulatory barriers.
- Examples: between 1980 and 2010, in the following cities housing affordability has been maintained below 4.0x income at all times and debt per capita is much lower than other cities (Atlanta, Dallas, Charlotte, Cleveland, Philadelphia, Houston, Raleigh, and Columbia).
- In Texas - Houston and Dallas have not been above 3.0x income at any time in the last 20 years. This has been achieved despite very strong population growth. In Houston, the median house price is currently \$160,000 (about \$200,000 NZD).
- There is a strong relationship between positive net migration growth and improved housing affordability.

The Demographia International Housing Affordability study concluded that More Restrictive Land Use Regulation raises house prices in the following ways:

1. Increases underlying land costs (e.g. in NZ the cost of say \$5,000 of rural land (per section size) increases to approximately \$60,000 to \$100,000 per section for the bare land in a development project).
2. Increases planning and development costs (e.g. cost of studies, consultants etc.)
3. Increased financing costs (function of project duration and other cost components – including the bare land purchase)
4. Encourages more expensive houses (less expensive houses are hard to justify if the section price is excessive).
5. Increases construction costs (less scale and more custom building increases costs per sqm of construction).
6. Encourages "land banking" and reduced competition
7. Encourages land and housing speculation.

Prioritisation and effective implementation

If the final report has a large number of equally important recommendations, it is unlikely any effective change will happen. Priority number one should be: increasing the supply of land to the point that the cost of bare land is reasonable relative to the value of land for rural purposes.

In my view there will be the need to take action initially to create an oversupply shock to bring bare land prices on the fringe of cities down to acceptable levels of no greater than

2 to 4 times the market price for the most expensive rural land use (say \$80,000 per hectare). This is evidenced by the inflated raw land prices that land owners in the Christchurch area, Rolleston and Kaiapoi etc still expect to receive on the sale of their land. There will also need to be some mindset changes within the local authorities.

I suggest that Local Authorities are measured on the average price of bare land sales transactions - to development projects (of residential zoned land). For this to be effective, local Authorities would be required by law to increase the supply of residential zoned land until the average price is less than 2/4 times the rural based benchmark prices.

Yours Sincerely

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