

## Submission to the New Zealand Productivity Commission on its housing affordability inquiry draft report.

### 1. Introduction.

My name is Graeme Scott. I am an architect with 37 years experience. I have been a director of ASC Architects Ltd, a large Auckland practice engaged in corporate, commercial, institutional and government projects, for 31 years. We have completed several Housing Corporation projects and I was the architect for McLennan, a proposal for 440 entry-level homes in South Auckland as a joint venture between McConnell Group and Housing New Zealand.

I am also engaged in urban design in Auckland. I have chaired the Auckland Urban Issues Group of the New Zealand Institute of Architects (NZIA), and am currently the Institute's representative on the Urban Design Forum, a cross-disciplinary group of professionals who lobby for better urban environments. I led the NZIA's submission to the Government on reforms to the Resource Management Act in 2009 (and ongoing), and have assisted in numerous submissions and presentations to the Auckland Council.

I'm currently a member of the Auckland Council's Urban Design Panel, and was involved in a minor role in some of the background work on the Auckland Plan.

My OUR website is a side-interest through which I promote discussion on Auckland intensification and transport issues.

### 2. This submission.

The focus of this submission is the Commission's view regarding the green-field expansion of the city at its periphery.

This submission is entirely about Auckland. As New Zealand's only city of scale, it demands a separate analysis and, probably, specific treatment by central government. This is not a matter of parochialism – Auckland's growth and economic vitality is a matter of national importance.

### 3. The Commission's draft report.

The Commission is to be congratulated for a detailed and well-researched analysis of the multitude of issues influencing the supply of housing in this country. We can all agree with much of the draft report, and I certainly support measures to increase the management skills and productivity in the construction industry.

The counter-productive complexity of the planning system is another area where agreement is easily reached, and issues around this were thoroughly aired at the Select Committee hearings on reforms to the RMA. It is unfortunate that the Canterbury earthquakes seem to have stalled progress in this area.

However, regarding the matter on which this submission focuses, the Commission has not stepped back sufficiently from the issues, and appears to have drawn conclusions that align with current central government policies, but for which the evidence base is, at least, arguable.

#### 4. The productivity of cities

While the draft report is about the provision of affordable housing, it is nonetheless presumably part of a larger set of documents to be prepared by the New Zealand Productivity Commission on a range matters affecting productivity in this country.

In the context of the Commission's wider role, and given considerable attention paid in the report to matters around urban form, we should expect at least some reference to the considerable body of international and local work that has been done on the relationship between urban form and productivity.

In New Zealand, for instance, Mare (2008)<sup>1</sup> found that

"It is unsurprising that Auckland's productivity and economic performance is higher than elsewhere in New Zealand. There is a clear positive relationship between urban density and good economic performance the world over – a relationship that is captured in the phrase 'agglomeration effects'.

Maré found that value added per worker in the Auckland region is 30 to 50 per cent higher than that of regions outside Auckland and for Auckland's CBD the premium is even higher (120 to 150 per cent). This is consistent with international research on cities of world scale.

According to one Australian author, the purpose of cities is "to maximise exchange opportunities and to minimise travel."<sup>2</sup> Engwicht uses the term exchange broadly, to encompass not only economic exchange but also social exchange. Urban areas are characterised as places where multiple activities exist in close proximity and through this provide greater access to people, goods and services, which in turn facilitates higher levels of economic, social, and cultural activity. The reinforcing nature of these relationships suggests that urban areas which are able to maximise the benefits of exchange would be likely to be more attractive and productive locations. Realising these opportunities is heavily dependent on accessibility in the broadest sense.

The draft report quotes Edward Glaeser on several matters, but fails to mention his most important views on the future of the city:

"Cities are the absence of physical space between people and companies. They are proximity, density, closeness. They enable us to work and play together, and their success depends on the demand for physical connection. .... [C]ities have grown because technological change has increased the returns to the knowledge that is best produced by people in close proximity to other people.

Within the United States, workers in metropolitan areas of big cities earn 30 percent more than workers who aren't in metropolitan areas. These high wages are off-set by higher costs of living, but that doesn't change the fact that high wages reflect high productivity. The only reason why companies put up with the high labour and land costs of being in a city is that the city creates productivity advantages that off-set these costs. Americans who live in metropolitan areas with more than a million residents are, on average, 50 percent more productive than Americans who live in smaller metropolitan areas. These relationships are the same even if we take into account the education, experience and industry of workers. They're even the same if we take individual worker's IQ's into account."<sup>3</sup>

Given the weight of research on the links between urban form and productivity, it is surprising to find no reference to it in the draft report, apart from a tangential reference to agglomeration effects in the discussion of 'smart growth' (page 84). The available research does not go so far as to pinpoint with any certainty a particular urban form which correlates to a specifically higher or lower productivity. There are simply too many variables, and the simplistic conclusion that building density will produce automatic productivity benefits is ill-founded.

But nonetheless the linkage between urban density and productivity exists, and we need to look further at how Auckland might grow in order to capture productivity advantages.

## 5. House prices in Auckland

For a given a specific set of market conditions, such as the cost of finance and taxation treatments, the price of a house reflects its desirability as a place to live for potential purchasers. This is commonly referred to as amenity. There are three types of amenity considered when buying a house.

The first is the amenity provided on the site – the size, design and quality of the house, the outdoor amenities such as garden, pool etc, plus solar orientation and views, and the impact of neighbouring properties. Provision of services is also part of this category.

The second is the local amenity provided within walking distance – the shops, parks, schools, the quality of local streetscapes, trees, perhaps a beach or access to major open space, and access to public transport.

The third is the regional amenity – major shopping centres, cinemas and theatres, art galleries and zoos, cafes and bars, regional parks and beaches, airports, and all the other amenities that attract people to Auckland. To which we could add a warm, temperate climate.

While the first level of amenity can be provided in many parts of the country, and the second level can be provided in and around many mid-size towns and cities, the third level amenity can only be provided in a few places, and pre-eminently in Auckland.

When combined with the higher incomes referred to by Mare, the Auckland amenity level will always drive house prices higher than the rest of the country. The draft report gives insufficient attention to the question of amenity, preferring to draw conclusions based on restricted land supply. However, even those conclusions appear unfounded in some instances with reference to the evidence supplied in the draft report.

For instance, on page 17, the graph of land prices as a share of house values shows no relative increase for Auckland when compared to the rest of New Zealand over the period since 1995, while the words above it claim that it shows that “strong land price pressures in Auckland raise questions about the impact of policies aimed at increasing density on housing affordability”.

And on page 41, the Massey home affordability index graph actually shows a decrease in the differential between Auckland and the rest of New Zealand since the late 1980’s, and certainly no dramatic increase that could be blamed on Auckland-specific planning policies.

The NZIA submission on the RMA reforms in which I was involved commented on the affordability issue,<sup>4</sup> noting that the price of raw land was but one of many factors influencing house price increases.

Returning to the difficult question of amenity’s impact on affordability, there are two telling mentions of it in the draft report. One is on page 183 where is noted that “surveys of residential preference indicate that some households which could purchase ‘entry level’ housing continue renting in order to enjoy high amenity locations close to the central city or around the harbour foreshore in Auckland...”

The other is on page 100, quoting Australian research which found that “...fundamental planning policies, such as decisions to contain urban growth by limiting the release of land for urban development, are inherently inconsistent with affordability goals. Containment may affect affordability ....because *the amenity affect of consolidation is positive and so enhances house prices.*” (my emphasis). This is a significant alternate view to the so often cited view of restricted land supply pushing up prices.

It raises a key dilemma which demands further consideration – in our efforts to supply affordable housing, must we deliberately reduce amenity? A 110 square metre builder’s

standard house on a 450 square metre bare section on the outer edge of Massey or Papakura, suitably removed from shops and schools and bus routes, might be affordable by the Demographia criterion, but overall amenity will be low. Social considerations of who will live there, what they will spend on car transport, and what sort of community will emerge there, are important to consider alongside a narrow analysis of affordability.

The answer to this dilemma is surely to take a more sophisticated view of the trade-offs necessary in the different amenity categories in order to achieve a reasonable price-point for different groups. Apartments, for instance, trade off some dwelling size and much private outdoor area in return for easy access to a variety of urban amenities.

## 6. The Auckland Plan

I support the aspirations of the Auckland Plan. Acknowledging that it was prepared in haste and that it lacks the neighbourhood-by-neighbourhood analysis that would demonstrate (or not) the feasibility of achieving 75% of residential growth over the next few decades within the Rural Urban Boundary, the general thrust of seeking to improve the urban intensity and hopefully the productivity of the city is right.

While overall residential densities in Auckland are moderately high by the standards of new-world developed cities, the city lacks the urban neighbourhoods that are common in larger cities elsewhere and which contribute so much to the amenity of those cities. Such neighbourhoods, mediating between the highly productive central core and the outer suburban areas, are key to Edward Glaeser's previously quoted comments on the productivity of cities.

In Auckland, much of the area that would form mid-rise urban residential accommodation in, say, an American city like Chicago is occupied by heritage suburbs which have become no-go areas for development. But there are still large brown-field or grey-field (low grade and low density housing around 50 or 60 years old) areas near the city centre that should be redeveloped for urban mixed-use neighbourhoods. This is a big topic on which much design work has been and is being done by various people, and which the Commission needs to consider more closely. For while the draft report often includes brown-field land in the overall call for more development land to be made available (pages 88 and 89), there is little understanding demonstrated of the very different conditions that apply to it, or indeed of the different built-form likely to developed on it.

The draft report mentions apartments only in passing, but they will play a key role in providing affordable accommodation in Auckland. Anecdotal evidence suggests there is pent-up demand for 'middle class' apartments, of which there are probably only a few hundred in Auckland at present. These will be free-hold, quite large (compared to 'shoebox' apartments), cross-ventilated, with a generous outdoor terrace or balcony and located at or near established neighbourhoods and transport routes. They will enable people to relocate / downsize their accommodation in the vicinity of their existing home, and free-up under-utilised housing stock. They will offer a more urban lifestyle, increasingly sought-after by aging baby-boomers. In spite of a constrained overall size, they will be seen as offering a high level of amenity in all three categories. This issue is raised on page 88 of the draft report.

At present, the planning difficulties of building such apartments in desirable locations, plus market resistance to any form of multi-unit dwelling, have prevented their being successfully developed. The actions along the lines of those noted below are probably necessary to kick-start this market, which will become strong once it has been shown to work.

At the level of affordable housing, the apartment offers another way to trade-off one sort of amenity (mainly outdoor space) in order to reduce price, while keeping its occupants connected to urban amenities.

## 7. Implementation

So how do we establish new urban neighbourhoods? Very briefly, the Auckland Plan needs to be driven forward by some strong governmental actions if intensification is our agreed goal and the productivity of Auckland is to be lifted. My top five suggestions are:

7.1 Auckland Council needs to acquire the power to designate development areas in brown-field / grey-field locations, including the power to amalgamate land titles and to suspend the provisions of the Resource Management Act.<sup>5</sup>

7.2 The Council needs the ability to enter into public-private partnerships to comprehensively plan and develop these areas, and to include a proportion of affordable housing. The draft report's call for development of the 'third sector' (page 9) in the provision of social housing is strongly supported.

7.3 Planning procedures need to be streamlined for all forms of development which support the Plan's intensification aims, and development and financial contributions need to be waived for the most supportive developments. As noted in the draft report, these contributions are a tax on initial purchasers, and have the effect of raising prices across the whole housing market. Consideration of taxing least the things we want most (such as affordable housing) and of taxing most the things we want less of (such as driving cars on urban motorways) will allow other ways of financing the Auckland Council to emerge.<sup>6</sup>

7.4 Auckland Transport must put in place public transport measures to support intensification ahead of development. Part of the amenity and financial advantage of more urban neighbourhoods is less reliance on the private car, but unless that's possible from the outset, the design of the neighbourhood will be more of a frustration than an attraction.

7.5 Banks must be required to apply mortgage funding in an even-handed way to all residential accommodation. Their criteria overwhelmingly favour mortgage lending on detached free-hold properties at present.

## 8. The Productivity Commission's draft recommendations

Most of the five measures noted above require central Government to assist and cooperate with Auckland Council. The draft report's headline recommendation to speed up suburban development on rural land gives the impression that the Commission, and by implication, the Government, does not support the Auckland Plan.

This is most unfortunate, as only a whole-of-government approach can effect the changes required to the city. It may also be untrue, as a closer reading of the draft report shows good support for brown-field development, presumably more intensively than for stand-alone houses.

The discussion on page 100 regarding the need to strategically consider the trade-offs involved in brown-field versus green-field development is entirely relevant.

It is worth noting the Auckland Plan allows for a very large area of green-field expansion outside the current Metropolitan Urban Limit, not to mention significant areas of new suburban development currently underway at Silverdale north, Hobsonville, Flat Bush and Karaka.

The lobby group representing the land-bankers of Auckland's periphery are powerful and well-funded; no doubt the Commission has heard plenty from them. But I urge the Commission to give explicit support to the Auckland Plan, in principle at least, and to give further consideration to issues around the proposed intensification and how affordable housing fits into the plan.

## 9. Conclusion

Put simply, Auckland needs to develop a higher level of urban intensity if it is to attract and hold the sorts of people we need to lift the economy and increase productivity. It needs a more diverse selection of housing types. New suburban housing at the periphery is part of that, and the city will continue to grow outwards.

But it also needs to grow upwards. As noted previously, this is not to suggest that simply building density will increase productivity. However, we need to respond to changed demographic profiles and lifestyle aspirations of Aucklanders and allow more dense forms of settlement to emerge. At present these are suppressed by every aspect of the development process – land amalgamation, the planning system, taxation, financing and consumer prejudices. This must change, and in a way that improves access to affordable housing for those in the lower end of the market.

Edward Glaeser has analysed the considerably lower costs for middle-class households in spread-out Houston when compared to ultra-dense (central) New York. But he concludes “it’s a bad thing for the country that so much growth is heading to Houston and sun-belt sister cities Dallas and Atlanta. These places aren’t as economically vibrant or as nourishing of human capital as New York. When Americans move from New York to Houston, the national economy simply becomes less productive.”<sup>7</sup>

The evidence is that, if Auckland’s growth is predominantly out into low-density peripheral suburbs, our productivity will continue to lag behind our competitor cities.

The Productivity Commission should consider this carefully before finalising its report.

I’ll be pleased to answer any questions.

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<sup>1</sup> Mare, DC (2008) “Labour and Productivity in Auckland Firms”, Motu working paper 08-12.

<sup>2</sup> Engwicht, D (1999) “Street Reclaiming – Creating Liveable Streets and Vibrant Communities” Pluto Press Australia.

<sup>3</sup> Glaeser, E (2011) “Triumph of the City” Penguin Press NY. Pg 6.

<sup>4</sup> The NZIA submission to the government on the “Building Competitive Cities” document (13 December 2010) includes a comment on the numerous factors in house price, of which land supply is a relatively minor one. It refers to Andre, C (2010) “A Bird’s Eye View of OECD Housing Markets”, OECD Publications, which emphasises financial factors.

<sup>5</sup> For a full discussion of this point, see The Department of Internal Affairs (2008) “Building Sustainable Urban Communities” at [http://www.dia.govt.nz/diawebsite.nsf/wpg\\_URL/Resource-material-Sustainable-Urban-Development-Index?OpenDocument](http://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Resource-material-Sustainable-Urban-Development-Index?OpenDocument)

<sup>6</sup> Refer to the NZ Council for Infrastructure Development “Submission on the Auckland Plan” 31 October 2011 for a discussion on the need for road pricing in Auckland. Also see the submission to the Productivity Commission from David Mead.

<sup>7</sup> Glaeser, E (2008) “Houston, New York has a Problem”, City Journal Vol 18 #3. [http://www.city-journal.org/2008/18\\_3\\_houston.html](http://www.city-journal.org/2008/18_3_houston.html)