Submission on the NZ Productivity Commission Draft Report on Housing Affordability.

I welcome the general direction of the report, but feel that it still does not emphasise enough, the role of councils and urban planning in creating a housing affordability problem, and does not sufficiently criticise the various pretexts that are constantly advanced for "urban growth containment". There is nevertheless, much to praise about the report, especially seeing how much confusion there is worldwide on these issues, and the report's research and insights are numerous and substantial.

I will specifically address points from the report.

Section 2.1

Page 11. "International factors". I feel that global credit and financial innovations are over-emphasised by virtually all commentators on the housing affordability issue. More on that below.

Page 13. The extremely common argument, encountered here, is that lower interest rates "offset" increased house prices. But this is not fair on first home buyers. More on this below.

Page 16. "Supply Responsiveness". There is considerable scope for improvement in the quality of most of the international research that is available thus far. Research on "supply elasticity" has focused unreasonably on *long run* supply elasticity, when in fact it is short term supply elasticity that matters for housing affordability. Frequently, a delayed but vigorous supply response, is a consequence of already-elevated "planning gain", and shares of it being chased by various levels of government as well as investors. I suggest that the level of "planning gain" is a significant factor that could receive a lot more attention from researchers. Prof. Alan W. Evans is a stand-out in this regard. Evans succeeded Sir Peter Hall as the head of the Spatial Economics Research Centre at the University of Reading.

The focus of researchers on relatively healthy *aggregate* data for "*the USA*", seems to completely miss the fact that the USA has had a serious financial crisis caused by house price inflation in a relatively few cities only, which *cities* data is in fact very unhealthy, concerning short term supply elasticity, land value component of total house price, affordability, and price volatility. USA aggregate data would look even healthier if these cities were omitted, and would be an even clearer indicator of the results of "getting urban land policy right".

Section 2.3.

The Commission's observation that rents remain comparatively stable during a classic supply-restrained property price bubble, because investors add properties to their portfolios in expectation of capital gain rather than rental revenue, is one that needs to be far more widely understood. The Commission is to be commended for this observation.

Section 2.4.

Page 24/25. While we are discussing the average size of new homes, it is worth referencing Patrick Troy, Professor Emeritus at the Centre for Resource and Environmental Studies; Australian National University. I recommend Troy's book "The Perils of Urban Consolidation" published 1996. While Troy is discussing the situation in Australia at that time, some of his observations could provide a basis for scrutiny of NZ data as well.

Troy points out that there is a difference between "houses" and "dwellings" in census data; the focus has been on *data for new houses*, when the *average* Australian *dwelling*, including flats, town houses, etc can hardly be said to have been significantly increased in size due to the sheer size of the existing stock. Also, the "average" size for *new houses* is dragged upwards by a small proportion of extremely large luxury houses for the super rich. Median sizes for new houses are very much lower than the average.

An even worse statistical error, is the fact that many *dual occupancy* "new houses" (eg with a self contained granny flat) are included in Australian statistics as a *single* large house.

Furthermore, the emphasis on "new houses" ignores significant increases in the supply of small "*dwellings*" through the dividing of existing buildings, both houses and commercial buildings, into separate flats. The increase in quantities of these dwellings will have taken up most of the demand that the planners say should be met by "more small *new houses*".

Troy points out that this statistical false position has even been taken by politicians and other advocates arguing that "over-investment in housing" was harming Australia's economy.

Page 26: "....increased penetration of multi-unit dwellings...."

I believe that the following factors have led planners to over-emphasise this phenomenon. 1) The end of a prohibition on inner city living, meant a rapid unleashing of previously uncatered-for demand. 2) Over-construction (during booms) of commercial office space tend to have been "rescued" by rezoning central city areas for residential; this has tended to keep the prices for such accomodation lower than otherwise, at least temporarily. However, this kind of accomodation is now extremely expensive and cannot be expected to be of any assistance to "housing affordability" issues. Planners might be making the elementary mistake of extrapolating earlier "trends" into the future, when the circumstances were unique in the earlier periods being considered.

The first round of submissions to the Commission included points like the following (from Tauranga City Council):

- *More intensive residential development often involves building upwards. The cost of doing so compared with building single level dwellings is much higher. This is especially true for medium to high rise development with concrete and steel construction and underground car parking. A significant density increase is required to overcome these costs.*
- *The final cost of intensive housing product often means that it is only affordable to the upper / luxury end of the market. An intensive product may not compare favourably with the cost of alternatives to this market e.g. detached dwellings unless there is a market premium such as for views or coastal location.*
- *Development finance is relatively expensive and difficult to obtain for this type of housing product. Mortgage lending criteria is substantially tighter for this type of residential product. In particular, minimum deposit requirements are much greater. This reduces the pool of people who can afford this type of product compared to a detached dwelling at the same price.*

The Commission is to be commended for demanding that Auckland's planners explain how they expect increased density to allow for "affordability".

Section 2.5: "Quality of the Housing Stock"

It is quite understandable that the kind of money that used to be spent on replacement /new building /improvements /renovation, is now swallowed up in the inflated cost of the land.

It is perplexing that the Commission's Draft Report does not specifically address the fact that the prices of all property is affected by the prices of new property, just as used cars appreciate in price in any country that suffers from restricted supply of new ones. I concur with the points raised in the Tauranga City Council's submission:

TCC's work on housing affordability also suggests that the high cost of new housing stock, especially the land component of new housing, may go a long way to explaining why the cost of the all houses has increased so much in the previous decade.
The median section price in Tauranga has increased from about $90,000 in 2003 to a current median of approximately $170,000. In a number of the subdivisions in Tauranga where sections are currently for sale, the average asking price for a section is $200,000 or higher.
As section prices rise it is logical to suggest that the land value component of the existing housing stock will also increase, after all an existing house is only a section that already has a building on it. The following conclusions drawn from Council research seem to support this hypothesis:

1) Between 1997 and 2009, 75% of the increase in the capital value4 of the 30,000 dwellings that existed in Tauranga as at 1997 related to the land value component5.
2) Over this period the total land value associated with these properties increased by an average of 181% compared to an increase of only 41% for improvements.
3) In 1997, land value made up only 40% of capital value of these 30,000 properties
4) By 2009 this had increased to 60% of capital value of these properties.
While this does not prove that increased section prices cause the land value component of the existing housing stock to rise, it certainly suggests that this may be true. If it were true, a large part of the increase to aggregate house prices in Tauranga (and in other locations) over the 2000's could very well be explained by the increasing market price for new sections being embedded in the land value component of the existing housing stock.
It would also mean that the affordability of Tauranga‟s entire housing stock, not just new housing stock, depends, to a significant degree, on section prices in new subdivisions.
Likewise, the cost of residential construction is now much higher than it was in the past. In a similar way, this may cause the value of the existing housing stock to be revalued upwards. However the impact of this on value of the existing housing stock is likely to be more muted than the impact of recent increases to section prices because a) construction costs have increased by much less than section prices have and b) houses are depreciate in value unlike land.
TCC urge the Commission to test this general hypothesis given the far reaching effects it would have if it were to hold true in relation to understanding the housing affordability and addressing it.

This effect has numerous implications for both housing affordability and social and intergenerational equity. More on that below.

Section 3.3 "Implications".

It is good that the Commission has emphasised that there are "macro" implications. But the regulations that affect housing supply, are more of an "on/off" switch or a vent "open/closed", than an "influence".

Research that compares markets with no affordability, volatility, and bubble conditions; with "like" markets (in every other respect) show that the difference between these markets is explained almost solely by the short-run elasticity of housing supply. The widely differing housing markets of the USA's cities provide the best illustrative example. More on this later.

The UK's housing price cycle has been the most consistently volatile for the longest, since they began constraining urban growth earlier than most other countries. This condition has obtained through long periods of all sorts of monetary and credit conditions, not at all similar to recent international innovations in finance and credit.

California's cycle had been becoming more and more volatile as more and more councils adopted growth constraints.

Alan W. Evans:

"....the difficulty in determining the exact effects of growth controls has probably been eased over the last 20 years or so as an increasing number of cities, particularly in California, have chosen to adopt forms of growth control. The higher the proportion of an area that is subject to growth controls, the greater is likely to be the effect on prices of the constraint on the supply of land and housing...."

We lack examples of countries with urban growth constraint policies that have managed to *prevent property price inflation by any means*. Alan W Evans references a study of South Korea's housing affordability problem, that shows that even when mortgage credit is in fact almost non existent and young people traditionally save most of the purchase price of their first home, urban growth constraints (green belts, in South Korea's case) result in house prices inflating faster than most young people can save money. The remarkable difference is that this "bubble" is accompanied by an increase in national *savings*, not debt - as young people save towards a rising target, while delaying marriage and child bearing (with consequences for demographics).

But the same cohort of people are locked out of home ownership by supply-distorted urban land markets, whether or not there is "credit" of any kind - tight or loose.

In contrast, historical experience shows that provided housing supply is expedited, it is quite possible to extend "easy credit" without inflating the price of houses at all, leading to a double benefit for first home buyers - low interest rates *and* a small mortgage, leading to earlier total repayment or very small repayments as a percentage of income.

Section 4.2

The concept of "mortgage affordability" is one that can be grossly unfair to first home buyers. The total repayment over a lifetime of a mortgage, is very much higher in the case of a high house price with a low interest rate, than with a low house price and a high interest rate. Given that when land supply constraint is the underlying problem, reduced interest rates and easier credit merely feed into higher house prices, which benefits everyone except the as-yet-to-be first home buyer.

This is quite apart from the equally significant consideration that the buyer in times past of a low price house at high interest rates, quite reasonably expected inflation (as the underlying reason for the high interest rates) to erode both the principal and the repayment in *real terms*, i.e. relative to their inflation-affected rising income.

And it gets better and better for the earlier generation that bought low priced homes at high interest rates: during the typical very long term of a mortgage loan, interest rates can be expected to fluctuate. Over the term of such a mortgage loan (low house price, high interest rate), the likely trend is, and has been, reductions in interest rates. Therefore, previous generations of home buyers under these conditions, have very much come down on their feet, but the current generation cannot expect such good fortune. When interest rates are low in historical terms, cannot one expect them to rise at some stage in the next 20 or 30 years before the mortgage loan is paid off? We can expect a ever-present risk of increased financial distress for literally a decade or two hence, to affect the generation of first home buyers subsequent to about 2002.

The Commission references a number of reports sponsored by the "Australian Housing and Urban Research Institute" (AHURI) but seems to have missed the following extremely relevant one:

Joe Flood and Emma Baker (Flinders University) "Housing Implications of Economic, Social, and Spatial Change" (2010).

"......In the longer term, interest rates must rise back to what the RBA describes as ‘more normal levels’—and beyond these, when ultimately an inflationary situation is encountered. Very rapid declines in affordability can then be expected to emerge from the high prices currently in place, unless incomes have risen to match by that time......"

In the USA, extremely long term fixed rate mortgages are common, but not in NZ. (In the USA, the legally mandated ease of re-financing means that every time there is a temporary bout of low interest rates, almost every mortgagee locks in a low interest rate for the next decade or two.)

Section 5.4 On the aggregate impact of population growth and demographic changes on underlying demand, it is worth referring to Patrick Troy again (in addition to the comments quoted earlier, which are also relevant to this point):

The oft-stated "decline in household size" is distorted by the following (again, I note that Troy's comments relate to Australia, but may be pointers to similar problems in NZ data):

- The period of analysis usually commences from a point where Australia had a serious housing shortage, following the Depression and WW2.

- There were significant changes in the census definitions of "dwellings" and "private dwellings".

- The rural population decreased as a proportion of the total, and at the same time, there was a decline in the rural population related directly to farming and an increase in the rural population related to ex-urban living, holiday homes, recreation and retirement - which of course involve lower occupancy rates.

- The development of retirement villages and homes for elderly people who once would have more predominantly been living with their relatives.

- The disappearance of "boarding houses" and other "non-private" (by census definition) accommodation.

Furthermore, the rise in the proportion of "one and two person households" is often said to require an increase in the quantity of *smaller* homes. But Troy points out that around 50% or more of the "one and two person households", *always have* lived in "smaller homes", in Sydney and Melbourne at least. The fact that the proportion has remained approximately steady, begs the question, what proportion would be "ideal", and how can planners presume to dictate the outcomes?

The quote on page 59 of your Report, from the RBNZ's submission, is very good. It is encouraging to see the RBNZ perhaps catching up at last with the clarity that former Governor Dr Donald Brash had on this subject.

Section 6 "Taxation"

I find the Commission's analysis of taxation implications thoroughly convincing and informative. The Commission will no doubt experience intense criticism from advocates who believe that the taxation factors are the "cause" of housing affordability problems and property bubbles, rather than land supply issues. The Green Party being a typical example. The Commission, and the NZ Government, should stand by the truth on this.

It is very interesting that investment in houses is almost entirely by individuals, which suggests that it is driven by myths that do not convince institutions that have to conduct due diligence on their investments.

It is disappointing, though, that the Commission does not note that pure land taxes, as opposed to taxes on "land and improvements", are more effective regarding social equity, more economically efficient, more effective at keeping housing prices affordable and stable, and have effects on urban form outcomes that "urban growth containment" seeks to achieve, without the damaging distortions to urban property markets. If the advocates of urban growth containment were economically literate, they would support land taxes and pricing of roads and other infrastructure, not blunt instruments like growth boundaries.

The economist Mason Gaffney, in 1964, described growth boundaries as "negative growth containment" policies and land taxes as "positive growth containment" policies.

http://www.masongaffney.org/publications/E3Containment_policies.CV.pdf

On Page 77, the Commission makes an important point, which is unfortunately not emphasised and developed:

"....uplift in market value of existing homes resulting from the GST on new homes.........a step-up in relative position vis-a-vis those who did not yet own a house......"

Yet the Commission does not refer at all to this effect, regarding the impact of development contributions on the price of new homes, or even more importantly, the impact of "planning gain" on the price of new homes. The point was raised very well by Tauranga City Council in their submission. Does the Commission take it as a "given" that everybody understands this point anyway? It *should* be a given, but probably is not.

The following authors already referred to above, discuss the point that growth, of itself, causes increases in the value of existing property, and besides this, inflated prices of new houses feed through to existing property as well:

Joe Flood and Emma Baker (Flinders University/AHURI) "Housing Implications of Economic, Social, and Spatial Change" (2010):

"......The impact of city growth on existing dwellings is not commonly appreciated, even though it has been studied in elementary land economics since the nineteenth century......as the city boundary expands the land price curve rises to compensate for the greater travel costs involved (in the standard Muth–Mills model land prices rise by exactly the marginal increase in travel costs, both in terms of actual costs and extra time spent travelling).
The costs of imposing an artificial boundary to growth are also a part of any urban or real estate economics course—although this does not seem to be widely appreciated by Australian policy makers or the media. By blocking natural growth, the price gradient both lifts and steepens as population density increases to give considerably higher land prices within the boundary (Evans 2004, gives a good graphical explanation).
While new housing at the fringe became heavily taxed through developer charges to compensate for the costs of sprawl, all housing internal to the city rose in price also—by at least the amount of the charge (see Flood & Baker 2008). No attempt has ever been made by governments to capture this unearned value increase on existing properties due both to city population growth and to the attempts to contain it. As a result, existing properties have become a better investment proposition than new construction, which is both highly taxed and complex to execute....."

"......If development contributions) are to be used as a form of value capture when land is rezoned urban, then this capture should also extend across the city, since extending the urban boundary causes a price increase in all urban land, not just the land at the boundary....."

".........According to economic theory, there are only three ways to fix a long-term problem of market imbalance: to deregulate planning (thereby increasing the supply of land), to re-regulate finance (thereby restricting demand) or to tax away the artificial gains in land value and reallocate those gains toward those in most need (thereby creating a better match of supply to demand). These are tough measures which may have to wait for tough times before gaining a constituency. However, the alternative is to tolerate the situation and accept lower ownership levels, increasing housing stress, and an ongoing drain on the public purse, while waiting for a US-style market collapse that may emerge during times of economic difficulty......."

These authors have read, and reference, Alan W Evans, who is in my opinion the academic author who should be most paid attention to on these issues.

The Commission needs to explicitly highlight the aspect that intergenerational equity is being distorted against the young *regardless of where the young buy* (or even rent) their first home. GST, infrastructure levies, and "planning gain" all feed through to inflation in the prices of the entire urban property stock. The practical effect of this, is that while local body taxpayers might be avoiding having to fund infrastructure for growth, the oncoming generations of first home buyers are having to pay (mostly via debt finance), far greater total amounts of money than that saved by the entire community of local body taxpayers, effectively for *nothing*.

Professor Robert Bruegmann of the University of Illinois (one of the world's foremost experts on the history of urban form) calls this "the greatest intergenerational wealth transfer in history".

http://www.newgeography.com/content/00452-the-housing-bubble-and-boomer-generation

It might be worth raising the question too, whether GST on new housing that has a council levy component in the price, represents to some extent, a "tax on a tax".

Section 7 - Urban Planning and Housing Affordability

The Commission has begun to direct the focus on this factor that it requires, but the case is in fact much stronger than that made by the Commission, and the position of the advocates and apologists for urban growth containment deserves comprehensive rebuttal, with full public exposure being essential if vested interests are not to hijack the political process with what is little more than propaganda.

Page 89 - The Commission has received some good submissions on the subject of brownfields development and increased urban intensity.

Patrick Troy has some comments on this in the book referenced above:

- "The assumption that there is excess infrastructure capacity in inner city suburbs is frequently erroneous, the various hydraulic services in particular are rarely uniform in capacity and often require upgrading." (Woodhead, 1994 - I can supply the Commission a copy of W D Woodhead's article, "The Economics of Higher Density Housing" if they wish).

- "Increasing the demand for peak-period, centrally oriented public transport services......would likely lead to a further reduction in the quality of the services because they would become even more overcrowded and delays longer, leading to increased deficits in their operations, *especially* should governments succumb to pressures to invest in increased capacity...."

- "The comparisons between inner area redevelopment or consolidation, and outer area lower density development, usually understates the costs of the *disturbance*......the costs of breaking into the existing services such as water supply and sewerage is frequently very high......" Furthermore, there are frequently "limits to capacity elsewhere in the network", and the costs associated with expansion of these limits is often disregarded in comparisons of infrastructure costs.

- "There are two additional *common assumptions* which affect the estimates of savings in infrastructure......

(1) "The population housed at higher density in the inner area will travel to or from the CBD......and the bulk of their commercial and recreational interests will be able to be satisfied by using public transport. All the evidence we now have about the changing employment structure.....and the evidence about recreational and cultural activity patterns, show this to be untrue....."

(2) "The street and subdivisional pattern of the lower density inner areas is appropriate for redevelopment to a higher density. But inner area redevelopment puts more traffic on to parts of the road system that are already congested, unsafe, and very costly to expand....."

- Infrastructure cost comparisons are usually "silent on the issue of relevant standards" (eg open space for passive and active recreation, including the size of school playgrounds)

Troy goes into great detail regarding the potential for new approaches to water runoff, harvesting, supply, use and recycling, waste disposal, composting and mulching, and "at source" waste separation and resource recovery; in new low density development. Potential benefits and cost savings of this nature are never included in comparisons between urban form alternatives.

Troy also suggests that market pricing of water and waste would provide incentives for efficient behaviour, and by extension, local government problems with costs may in fact stem from the *absence* of market pricing of much of the services and infrastructure for which they are responsible.

On the subject of "under-utilised" inner city schools (sometimes raised by advocates of urban consolidation): Troy's solution is to sell or use the (high value) land (and possibly the buildings) for something else, not to use these as an excuse to try and force families back into these areas.

The excellent submission from the RBNZ is quoted at the bottom of page 90 of the Commission's report, regarding "land banking". I feel that this point is not made enough of by the Commission. Besides there being a need to achieve a more competitive situation between developers (as the Commission suggests), there is a need to achieve a more competitive situation between the initial owners of greenfields land. Developers are in fact caught between a rock and a hard place when the owners of greenfields land know they are in a near monopoly position.

Alan W. Evans in "Economics and Land Use Planning" (2004):

"......the usual representation of the supply of land as determined solely by a desire on the part of land owners to obtain the highest current income from a site may be misleading. If we consider the supply of land for a particular use in a period, then the supply curve may be represented as conventionally upward sloping......"

If there is no Urban Growth Boundary, there will be no shortage of property owners further afield who WILL sell at prices similar to agricultural land prices. Evans further points out that if there are delays in obtaining development permissions, etc, (in addition to the presence of a boundary) the amount of land each developer needs to purchase and hold to stay in business, is increased (so that they will not end up with no work in between completing one development and actually beginning the next). This places additional pressures on the "available land supply".

Evans discusses studies that have shown "leapfrog" development to ultimately be more efficient in the long term, because developers can more intelligently decide on the best use of land after the urban area has grown beyond it, compared to when they are expected to develop land "contiguously". Interestingly, Alex Anas and Shlomo Angel also list similar studies, but all 3 academics list different ones to the others, making quite a substantial list when they are combined.

Evans quotes:

Max Neutze, (1987) "The Supply of Land for a Particular Use"; Urban Studies Vol 25 (5)
S. Titman, (1985) "Urban Land Prices Under Uncertainty"; American Economic Review, Vol 75 (3) (June).

Angel quotes:

Richard B. Peiser, (1989) "Density and urban sprawl", Land Economics, Vol 65

Anas quotes:

J. C. Ohls and D. Pines, (1975) "Discontinuous Urban Development and Economic Efficiency"; Land Economics Vol 51 (3)
M. Fujita, (1976) "Spatial Patterns of Urban Growth: Optimum and Market"; Journal of Urban Economics Vol 3 (3)
J. E. Moore and L. Wiggins, (1990) "A Dynamic Mills heritage model with replaceable capital"; Papers in Regional Science Vol 61 (1)

Evans does a very thorough discussion of "planning gain", "premium seeking expenditure", and "deadweight loss" (to the economy), as a consequence of urban growth constraints. Government, councils, the legal profession, landowners, consultants, and developers all seek the maximum possible share of the "pie" that is created ultimately at the expense of the home buyer. Devil's bargains, high commercial risk, politicking, taxation revenue windfalls, etc; most of which is "dead weight loss" to the economy.

Evans' discussion of "impact fees" concludes that "who bears the cost" varies according to the level of growth constraint. Under high levels of growth constraint, impact fees simply become one portion of the "planning gain" of a level that, itself, is not changed by the impact fees. "Impact fees" thereby become a mechanism by which the local authority beats other various competitors for this "share of planning gain".

The quote from the Todd Property Group on Page 92 of the Commission's Draft Report, is excellent.

The quote on page 93 from the Auckland Regional Public Health Service is nonsense. "....Sprawl delivers poorer health and well-being outcomes....."

High-density, overpriced low quality housing does not deliver superior health outcomes to suburban living - far from it. Higher density is always accompanied by higher levels of *local* traffic congestion and pollution of all kinds. Even if total exhaust emissions are greater in "sprawled" cities, the dispersal of these emissions and other forms of pollution reduces *local* impacts. Furthermore, *low* density and the absence of growth constraints always results in affordable housing and far greater levels of disposable income for improvements to housing and other factors that benefit family health. Children benefit from playing safely in suburban backyards that their parents could afford to provide them.

The submission from "Community Housing Aotearoa" is correct about "dreadful quality" of much NZ Housing, but this organisation probably fails to grasp the role of regulatory induced inflation in the value of the land on which the dreadful quality housing is sitting, leaving buyers (including landlords) without the surplus of income required to carry out improvements. Furthermore, the rate of outright "renewal" of a nation's housing stock is reduced by inflated raw land prices.

The comment quoted from the submission of Saltburn Ltd regarding NZ-ers preferences is unjustified. NZ-ers "who have preferred living in leafy suburbs" have every justification for this preference.

Patrick Troy quotes from Hugh Stretton (1970) "Ideas for Australian Cities":

"....The Australian preference for family life in private houses and gardens is probably intelligent. Instead of despising the suburbs, we should work to improve them. Besides connecting them better to their cities and the countrysides, we should try to end their segregation of rich and poor...."

Troy adds: "Stretton's argument is no less pertinent today......The present consolidation policies serve to deepen the division between rich and poor, to intensify their segregation and mark it with the creation of extensive areas of lower quality built environment...."

".....Australian cities have some significant environmental problems and we should address them. But what seems to have happened is that in place of a considered review of the problems.....we have had what amounts to a *moral panic*. Solutions have been proffered and adopted with scant regard for scientific evidence either about the extent of the problems and their sources, or any understanding of the history of the cities and why they take their form. There is little scientific evidence that the solutions proposed to cope with environmental stress can or will have the beneficial effects claimed. The more extreme activists have played on fear and have offered doomsday scenarios to support their nostrums. Governments desperate for the *green vote* have simply adopted environmental arguments without subjecting them to a conventional prudent sceptical review......"

"....it is possible to reduce demand for infrastructure investment without necessarily reducing urban amenity.....this would require a change in the way most infrastructure services are provided and funded. Such an approach would be neutral as to form of housing but would ensure that the servicing and environmental costs associated with each would be met by the households which occupied them....."

"(Our) figures on average house size are so unreliable that they can form no basis of a sensible housing policy.....the focus on average size of new houses is irrelevant as is most of the demographic justification for consolidation....The arguments about choice of either housing or lifestyle ignore the fact that people already have and exercise choice. The pro choice arguments are based on the promulgation of elitist romantic notions of urban life which are not based on rigorous analysis of what households have or aspire to....."

"....There is no recognition that the suburbs are integral parts of the metropolis, that they always have been and that we cannot consider Australian metropolitan areas without recognising the interconnectedness of the central city to its suburbs - the one cannot exist without the other, because they are not alternatives. The present policy is reactionary because it is predicated on archaic notions of a highly centralised city which fail to recognise the changes which have been wrought on the city's structure as it has grown and new technologies have been adopted......"

The Commission's analysis of international research beginning on page 98 of the Draft Report, is quite helpful. It is good that the Commission has identified such useful analyses as those quoted, from Sir Peter Hall (p 98), Prof Paul Cheshire (p98), the Australian Productivity Commission (p 100) and the UDIA (p 100).

But if anything, the Commission could have read a lot more by Paul Cheshire in particular, and could have usefully derived a lot from Alan W. Evans.

CHESHIRE, Paul, and SHEPPARD, Stephen: "The Welfare Economics of Land Use Planning" (2001)
CHESHIRE, Paul, and SHEPPARD, Stephen: The introduction of price signals into land use planning decision-making : a proposal (2005)
CHESHIRE, Paul, and VERMEULEN, Wouter: "Land markets and their regulation: the welfare economics of planning" (2009)
CHESHIRE, Paul: "Urban land markets and policy failures". (2009)

CHESHIRE, Paul (2009): "Urban Containment, Housing Affordability and Price Stability: Irreconcilable Goals"

EVANS, Alan: "Economics, Real Estate and the Supply of Land" (2004)
EVANS, Alan: "Economics and Land Use Planning" (2004)
EVANS, Alan; and HARTWICH, Oliver: "Unaffordable Housing: Fables and Myths" (2005)
EVANS, Alan; and HARTWICH, Oliver: "Bigger Better Faster More: Why Some Countries Plan Better Than Others" (2005)
EVANS, Alan; and HARTWICH, Oliver: "Better Homes, Greener Cities" (2006)
EVANS, Alan; and HARTWICH, Oliver: "The Best Laid Plans: How Planning Prevents Economic Growth" (2007)
EVANS, Alan; and UNSWORTH, Rachael: "Densities and Consumer Choice" (2008)

On the point made by the Commission regarding the effect of rising incomes on the "rationing" of urban land, there is another paper from some of Cheshire's colleagues at the London School of Economics, that discusses the way these disparities work.

Gibbons, Overman, and Resende (2011): "Real Earnings Disparities in Britain"

This paper describes how rising incomes in Britain have been capitalizing into land rents in recent decades - the relationship between rising incomes and housing costs is one-to-one EXCEPT at the highest income levels and the lowest income levels. The highest income people end up paying more for the housing attributes they want (and still have plenty of disposable income) and the lowest income people end up trapped into paying more of their incomes for less – or simply never becoming home owners and/or never raising a family. Of course we claim, as a society, to care about this "social exclusion".

The Commission's analysis of "US experience" beginning on page 102 is quite inadequate. There is little acknowledgement of the wide disparities in housing affordability and price volatility outcomes between US cities (and to a lesser extent, whole States) that is extremely useful in analysing the very cause and effect that the Commission is meant to be trying to analyse.

It is unfortunate that authors from "think tanks" whose work is frequently regarded as ideologically tainted, have been the quickest off the rank to identify these phenomena, while academia lags seriously behind. The Commission seems to have chosen to reference academic work that is out of date, such as Anthony (2004) which of course analyses data from well before the most serious period of price inflation in the regulatory constrained markets in the USA. While the Commission references Glaeser, Gyourko and Saiz (2008) in other parts of the Draft Report, it is very odd to omit a discussion of the findings of *this* paper in the section on "US experience" itself. This paper being an analytical comparison of US cities by supply elasticity and price volatility.

One of the points made by Glaeser at al in the above paper, is that supply elasticity is extremely important, and that it is only possible to theoretically explain the wide disparities between US cities with "easy credit" and NO bubble, and those with a severe bubble, by making some part of the "demand" *endogenous to supply inelasticity*. This tends to confirm the work of think tanks, such as Randal O'Toole's "How Urban Planners Caused the Housing Bubble" and Wendell Cox's "The Housing Crash and Smart Growth" which do make valid points that should not be dismissed on "ideological" grounds that themselves represent a far worse error in the opposite direction.

Also worth mentioning here, is that Wendell Cox of "Demographia" has done convincing critiques of even the *best* academic analysis, highlighting errors that weaken the findings regarding regulatory growth constraints.

http://econjwatch.org/articles/constraints-on-housing-supply-natural-and-regulatory

Cox is actually respected and referenced by many academics. It tends to be advocates from the opposite end of the political spectrum who "blacklist" Cox's work.

The latest, year 2012 Demographia Report on Housing Affordability in the Anglo world, contains a very useful summary of academic literature, beginning on page 17. There are links within that summary, to further lists of academic papers. Suffice it to say that the Commission has in fact barely scratched the surface of the available academic literature. Even an admission in the final report that this is the case, and that there is far broader academic consensus regarding the vital role of land supply restrictions than what the Commission has specifically identified, would be an advance on the contents of the Draft Report. But the Commission could usefully list the numerous academic references that it so far does not, drawing on the work that has already been done by several collators of such lists.

http://demographia.com/db-dhi-econ.pdf

http://www.performanceurbanplanning.org/academics.html

http://depts.washington.edu/teclass/landuse/references.htm

It is surely vital to the scope of an inquiry like the Commission's one, that literally dozens of cities in the USA, but particularly in the State of Texas, experienced little or no sustained increase in housing prices in spite of the conditions in credit markets and mortgage securitisation and so on that are popularly blamed for the bubble. Elevated demand was met by a rapid "supply" response rather than a "price" response. It should be noted too, that in the era of the "GI Bill" in the USA, not only was mortgage credit heavily subsidised for a large cohort of first home buyers, but "supply" responses were deliberately expedited, leading to a combination of low house price *and* low financing cost. If one analyses this kind of "mortgage affordability", it is several times as affordable as our contemporary misguidedly celebrated "mortgage affordability", repayment of the loan and 100% equity in the home being reached in a fraction of the time, and/or the percentage of household income required to service the mortgage being very much lower.

If politicians truly wish to "help people into home ownership", the real solutions are quite clear.

It is worth noting that now that the US Federal Reserve Bank is trying to stimulate the US economy with low interest rates, "mortgage affordability" in those cities that have always had elastic supply and low housing prices is at almost absurdly helpful levels, causing a fresh construction boom as more and more people take advantage of this combination - while in California, housing prices remain seriously unaffordable in spite of having "crashed" and construction activity, the economy, and population growth, is moribund.

I am aware from copies of correspondence, that academia in the USA and elsewhere is still attempting to come to grips with the near-obvious point that *short run* supply elasticity is vital. It is all very well to "find" that certain cities with "high elasticity" *did* have a price bubble, but when the elasticity is being analysed over 2 year segments, the possibility that high *short run* supply elasticity *completely averts* a bubble, is missed. Once expectations of inflation have set in regarding both fringe land (drip fed supply) and existing housing stock, it seems that an "elastic" supply response occurring "too late", and based on the chasing of "planning gain" by all participants including government, actually makes the eventual crash worse.

Besides the Glaeser et al paper referred to above, the academic Stephen Malpezzi seems to have been clearer than most on the issues surrounding elasticity.

".....supply can be seriously constrained even when increasing housing starts are the norm; it is *price*, not quantity, that is closest to a "sufficient statistic" for the state of the housing market...."

- From "Some International Perspectives on Affordable Housing and Possible Lessons for Korea" (2005):

http://www.kahps.org/study/13-3/08.Malpezzi.PDF

Also useful:

MALPEZZI, Stephen; and WACHTER, Susan: "The Role of Speculation in Real Estate Cycles" (2004)

Advocacy (by Prof Jerry Anthony in a paper cited by the Commission, and many others today), for the *building* of "affordable" housing via mandates etc, misses two vital points. One is that those who benefit from the mandated artificially cheap housing are a small minority who are selected by lottery or favour, to buy those artificially cheap homes, while the market as a whole will remain less affordable because developers have to recoup the cost of the artificially cheap mandated homes via higher prices for the rest of the homes they build. The other point is that "trickle down" of second hand homes is the logical and historically normal way in which most people get on the property ownership ladder.

Prof Nicole Garnett of Notre Dame University has a bit to say about this:

GARNETT, Nicole: "Land Use Regulation, Innovation, and Growth" - Chapter 13 in "Rules For Growth" (2010)
GARNETT, Nicole: "Suburbs as Exit, Suburbs as Entrance" (2007)

Prof Garnett suggests that it is "unseemly" to cut off the process by which home ownership is democratised, just at the point at which previously excluded minorities and lower income earners were becoming beneficiaries of this process.

Prof Thomas Sowell of Stanford University calls this "Green 'Disparate Impact'".

http://www.washingtontimes.com/news/2008/jan/19/green-disparate-impact//?page=all

Stephen Malpezzi, in "Some International Perspectives on Affordable Housing and Possible Lessons for Korea" (2005):

"....submarkets are connected, more or less........what is good for the housing market in general is usually good for low income housing consumers...."

http://www.kahps.org/study/13-3/08.Malpezzi.PDF

I applaud the Commission's Recommendation 7.1, that the Auckland Council be "required to demonstrate" just how their plan will deliver "housing affordability". These people have clearly vested their position heavily in ideological bases, with appalling disregard of authoritative established economic literature and real life experience. The ideological take-over of bureaucracies and educational institutions regarding urban planning, needs to be summarily ended before these people add even worse harm to what they have already done.

The "audit" ("Fine Grain Analysis") of the Auckland Spatial Plan's objectives by Consultants Patrick Fontein of *Studio D4*, and Alistair Ray and Tim Robinson of *Jasmax*, has been most timely meanwhile:

http://voakl.net/2012/01/14/is-the-draft-auckland-plan-a-lemon/

Besides dwelling and land components, "housing prices" *land price components* can be further broken down into "raw land" cost and "cost of development". When one calculates backwards in this way, it becomes evident that the inflation in the "raw land" cost is many times more severe than any of the other factors. This has such a severe effect that no amount of "trade off of section size" compensates for the inflation. The advocates of urban growth constraint are in the habit of claiming that trade-off of size will not only restore affordability, but improve it. This has *never* worked in practice. This effect explains why "affordable housing" cities (mostly in the USA, referring to the Demographia Surveys) also have *far larger average section sizes*, than the "unaffordable housing" cities.

This effect is at its most pernicious when one is considering the cost of traditional "fixer-upper" older depreciated housing, which at one time was considerably cheaper than new housing. Now, the raw land cost component swamps the "structure value" to such an extent that there is simply no low cost option even for young people who are prepared to devote time and toil to carrying out repairs and improvements.

The Commission's point on page 105, re 20 years plus of "land supply" being necessary to ensure affordability, is excellent. The best academic authors such as Alan W Evans and Shlomo Angel, convincingly reach this conclusion in their published work.

Anthony Downs, as far back as 1994, in "New Visions for Metropolitan America", said the following:

"......for land use regulation to avoid significantly increasing the final price of developed property, the total supply of land of each type designated as available for development in any given period must be a *multiple* of the amount likely to be absorbed during the period. If a locality limits to certain sites the land that can be developed within a given period, it confers a preferred market position on those sites.....If the limitation is stringent enough, it may also confer monopolistic powers on the owners of those sites, permitting them to raise land prices substantially...."

Downs' later books and essays are full of insights, even if he has not specifically revisited the issue of the relationship between fringe growth constraint and the cost of land. He also specifically comments in "New Visions for Metropolitan America", that urban growth constraints are proving at that time to drive up the cost of housing, and *every 10% of price increase "excludes" another 4% of the population*. He also points out:

"....higher housing prices benefit owners of existing units, who make up most of US households and a majority of households in most metropolitan areas. So higher prices do not necessarily cause a net welfare loss to an entire metropolitan area. But higher prices do cause a net regressive redistribution of incomes or wealth or both, within the metropolitan area. To that extent, such policies are socially undesirable...."

Downs more recent works include excellent insights on the "unintended consequences" of land price inflation that occurs in consequence of prescriptive planning and regulation. For example:

Anthony Downs; "A Growth Strategy for the Greater Vancouver Region", 2007:

"......The cost of land poses a key dilemma for urban planners everywhere who want to concentrate jobs together so they can be best served by public transit. Such concentration raises the costs of land near centers; in fact, it would confer a monopoly advantage on landowners who owned such land and could exploit firms trying to locate there. Now firms want to locate elsewhere to cut their land costs.

Planned concentration of jobs in a few centers is not consistent with private ownership and control of land. Some type of collective control over that land would be necessary to prevent monopolistic exploitation of land values. In theory, this could be done with high land taxes in such areas and special zoning rules. But adopting those devices is politically difficult in a free enterprise economy.......

"......A similar but less intensive dilemma concerns land near transit stops, where it would be most efficient to concentrate high-density housing and jobs. That also creates ownership monopolies over such land unless it is specially controlled or taxed. Yet focusing development near transit stops is a key to using more transit....."

Section 8 - Infrastructure Pricing

One factor that contributes to councils current claimed "inability to fund new infrastructure", is decades of ideological aversion to true free market infrastructure provision and/or pricing. Both Patrick Troy and Mason Gaffney, referred to above, discuss the implications of this in their work. There are certainly very good equity reasons for the historical funding of infrastructure out of general rates revenue because of the fact discussed above, that first home buyers end up paying higher prices for all property if infrastructure is charged up front into the prices of new homes (not to mention planning gain). If it is necessary to move beyond the historical "all-ratepayer"-funded model, it would be far more equitable to move to genuine free market pricing and/or provision of infrastructure. Every new property development will be different and there are numerous possibilities for innovative new approaches and more efficient utilisation of land and resources if "price" incentives were present.

It is a sad state of affairs that the advocates of growth containment are so ideologically wedded to blunt regulatory tools like boundaries, when land taxes and market pricing of infrastructure would achieve far superior results, especially with respect to intergenerational equity, the democratisation of property ownership, productivity, and income growth.

A future ongoing liability for infrastructure *use* does not capitalise into the prices of new homes and furthermore into the prices of all existing property, as up-front charges do. These charges would of themselves act both as a constraint on urban growth and an incentiviser of efficient behaviour without having inequitable effects on property values. The single most important thing government can do on this issue, is minimise "planning gain", which is in effect a payment of far greater sums of money than are being "saved" through urban growth containment, for *nothing* - and this cost lands squarely on younger generations regardless of where they buy, or ultimately even rent, a home. If we had introduced laws explicitly charging all young first home buyers a fee to pay for new infrastructure in lieu of local body taxation, there would understandably have been an outrage. But a worse outrage has occurred, and protest is minimal, due to widespread ignorance.

Not only do the buyers of new fringe properties pay rates all their life as well as the upfront costs of the homes they buy, the younger generation of first home buyers pay rates all their life as well as the value of upfront levies being incorporated in the value of *any* home they have bought. Renting a home under these conditions perhaps has less unjust effects on the young, but there is a potential injustice awaiting young renters at all times, should they quite naturally wish to progress to home ownership. The current distortions are in many ways creating new generations of renters, and the government is right to be concerned about the future burden of the accomodation supplement.

As Flood and Baker point out, it is a principle of basic land economics that all property owners within a city gain in land value uplift, from the city's growth. This is independent of the inflationary effect of growth controls and infrastructure levies. Therefore, there is an automatic element of "equity" involved in having all ratepayers fund infrastructure for growth. The case of transport infrastructure is worth discussing here - councils do not seem to care that *all* ratepayers fund transport infrastructure investments whose benefits are actually highly concentrated. To some extent, land value uplift will result in higher rates payments from the property owners who benefit from the infrastructure investment, but pure land taxes would have much more equitable effects, because the value of "improvements" to land dilutes the impact of uplifts that capitalise into *land* rents.

Furthermore, many public transport "investments" are so economically questionable that minimal land value uplift occurs. The economist Colin Clark, in "Regional and Urban Location" (1982) says that public transport subsidies are a wealth transfer to the owners of property at the main destinations of public transport routes, primarily CBD property owners. It would be far more equitable, if council wishes to ease the impact on ratepayers, rather than "upfront" charges for new fringe infrastructure, CBD property owners should be specifically charged via "Special Assessment Districts" (to use a term that is used in the USA) for a large share of the costs of public transport. Maybe then there would be more attention given to the value for money of these "investments". Currently, those capturing most of the benefit do not mind if the benefit is $1 for every $4 of cost, as long as *they* are reaping the $1 and paying 80 cents, with the other $3.20 coming from the whole region's ratepayers and diverted general taxation and petrol taxes. It is also a principle of basic land economics, that value is mostly captured at the destination of transport routes - we need to rephrase public discourse away from the mistaken notion that roads etc are provided "for drivers". This is nonsense - roads (and to a less efficient extent public transport) *bring businesses* staff, customers, and freight.

It is perhaps worth raising the question concerning what councils are actually doing with the development contributions. Councils are generally borrowing money anyway, so the effect of development contributions may be that they are effectively gaining the immediate use of this money while funding the infrastructure spending itself from long term borrowing. The "Municipal Utility District" Bond (MUD) is an excellent compromise that provides the best of all worlds. The Commission should include this option in their final report.

http://www.jbgoodwin.com/knowmud.htm

The submissions and papers quoted on pages 115 and 116 of the Draft Report are good. LGFPCNZ (2010) raises good points, especially re the marginal cost of supply of infrastructure frequently not being met by *existing* users as well as new ones.

The Auckland Council, in the quote from their submission on page 117, display a most revealing level of economic illiteracy:

"......Development contributions are considered to be one of the mechanisms by which Council will be able to *provide affordable housing*...."

This would be like government claiming that a newly introduced sales tax was going to *lower* the cost of living.

Palmerston North City Council refers pejoratively to "profits from development" as if these are excessive, especially related to the levels of "planning gain" that our current system generates. This "planning gain" more often represents a *cost input* for developers, and an increased "holding cost", not part of their profit.

The LGFPCNZ (2010, p. vi) points out that development contributions of around $30,000 are common in certain districts and can generally be expected to be passed forward to home owners and consumers, or backward to the owners of undeveloped land and suppliers of other inputs, including employees.

The Draft Report is uncertain about the relationship between impact fees and planning gain. Alan W. Evans advances a logical theoretical framework for this. If the level of "planning gain" is higher than the impact fees, the impact fees represent a "share of planning gain", and reduce the price realizable by the original seller of the land to the developer.

If there is no "planning gain" (i.e. no induced scarcity), impact fees will simply be an added cost to the developer, on top of the normal uninflated cost of raw land (probably little above normal agricultural rents).

When there is an UGB and "planning gain" is occurring, the difference in the selling price of land across the boundary is not the whole story. Firstly, it is usual for an "option value" effect to occur in anticipation of future boundary changes, in land immediately outside the UGB. Therefore, the price of this land must be compared also with the price of farmland further afield. (Some authors, I notice, refers to what Evans calls "option values", as "echo values").

Secondly, because the amount realizable by the original sellers of the land is reduced by the anticipated impact fees payable by the developer, and these impact fees are a "share of planning gain", the true "planning gain" is much higher than the differential in raw land prices.

I believe that housing prices in NZ are already affected by "planning gain" to the extent that abolishing infrastructure levies altogether would merely increase the prices realised by the original sellers of greenfields land - unless the issue of regulatory boundaries or proxies for them (Tauranga City Council's submission suggests that infrastructure planning is sufficient) is resolved.

There may also be ways of incentivising growth in local body areas by centrally providing an "infrastructure fund" from a percentage of GST, or perhaps on a strict "per head of population" basis.

On page 123 of the Draft Report, the Commission says ".....the *timing* of the charges discourages marginal home buyers who might otherwise be able to purchase a house if the cost of the infrastructure was distributed over the life of the asset....."

which is correct;

and Finding 8.1 says ".....While housing affordability may be diminished, infrastructure has to be paid for. If implemented well, the charges will reflect the incremental costs of necessary infrastructure, and can encourage more efficient investment and location decisions...."

But the Commission is failing to note the fact that these charges affect the prices of all housing. The following point is good but needs to be taken to a more definite conclusion and emphasised as the true best solution:

".....There is also a general acceptance that some degree of proportionality is desirable, either by way of graduated fees to reflect the level of demand of individual households and avoid the regressive impact of a flat fee *or to provide for the wider community to assume some of the costs of development*......"

The apparent crisis in infrastructure costs probably relates to lack of market pricing and provision. There tends to be more media-political clarity abroad about roads than anything else, on this point - if we provide roads "free", they will become congested. The planners response to this has been to not provide any more roads or capacity improvements. But non-provision seems to be an unacceptable "solution" regarding water, sewerage, and other infrastructure; in which "free" provision and crisis levels of demand versus government "ability to fund" remain.

The Commission's Recommendations 8.1, 8.2 and 8.3 risk becoming just another exercise in bureaucratic navel-gazing and "kicking the can down the road".

The Commission is to be commended for its observation under "Other Matters" on page 127.

"......In terms of improving housing affordability it is anticipated that cost reductions from improving the
processes around development contribution are more likely to be passed through to buyers if sufficient
land is released to increase competition among producers and offer greater choice for consumers of
housing. The Commission therefore sees the advantages of the approach outlined here as part of a wider
revision of planning in the interests of more affordable housing (Chapter 7)....."

Section 9 - Building Regulations.

Section 9.3, page 132: I suggest that mandates re minimum standards for new housing are an exercise in futility if the prices of housing are so high that the rate of retrofitting of improvements (insulation, new plumbing, efficient energy systems, etc) to the existing stock is vastly reduced because there is little discretionary income left after paying for price-inflated land.

Page 137. Innovations and alternative solutions. There would be a lot more opportunity for the industry and home buyers to "take a risk" on innovations, if the price of the land was low. When homes are normally paid off in under 10 years (as in many US cities with low, stable prices) the consequences of an "unsuccessful" innovation in building materials etc are not as catastrophic for the mortgagee.

Page 139. Absence of feedback loops.

".....This point was made strongly in the Commission's meeting with HOBANZ, who argued that if part of an aeroplane failed that information would be circulated around the world in a matter of hours. There seems to be no such mechanism to report defective materials or building processes....."

Obviously this is how the *private* sector works. We certainly have a problem in that councils are setting standards and doing permitting and inspections, but are not acting as an *insurer*. We have an insurance industry and official bodies for disaster rebuild financing, but this industry is not involved in permitting and inspections.

On page 134, the Commission observes:

".......The risk faced by BCAs is compounded by the rule of joint and several liability, which potentially exposes them to the full costs of remediation where building work is subsequently found to be defective. Under jointand several liability, the plaintiff may collect from all or any one of the liable parties until the judgment is paid in full. If any of the liable parties do not have enough money or assets to pay an equal share of the award, the others must make up the difference – the BCAs become, in effect, 'the last man standing'....."

Mumford (2011) is quoted by the Commission on page 139. The move in NZ to "a performance based system" does not seem to have turned out to be any such thing. Councils have reacted to the de facto liability they have, by becoming extremely risk averse and obstructive of progress. Somehow the insurance industry manages to not operate this way. Is there not scope for private sector solutions here? Would airliner crashes be reduced if council inspections were introduced into the process of design and manufacture? And would the development of international air travel be proceeding anywhere near as rapidly?

In section 9.8, page 140, the Commission observes that there are diseconomies invoved in having many small BSA's. But I suggest that "amalgamation" is a mistaken "solution". Private sector and quasi-government bodies that operate accross multiple jurisdictions can provide economies of scale without the diseconomies of political amalgamation. There are apparently dozens of times as many "councils" in France as there are infrastructure providers. The following officially-sponsored study from the USA may be old, but it reaches common sense conclusions that most such studies do not, re the "production" of services and infrastructure versus "provision":

www.library.unt.edu/gpo/acir/Reports/policy/a-109.pdf

Section 10 - Building Industry Performance.

The Commission identifies valid points re economies of scale. But NZ is reknowned for innovative small scale solutions that punch above their weight on the global scale.

I suggest that there are some serious contradictions prevailing in the consideration of these issues. It is often said that we have to have more expensive housing, and cannot have housing produced on large scale quantities because of "lack of flat land" in our cities. But there is no lack of flat land further afield and in less urbanised regions. However, the less urbanised regions tend to be even more anti-growth than the cities - the few residents wish to preserve their "rural heritage" and so on.

I suggest that initiatives are needed at the national level to identify regions in which rapid growth can be accommodated at low cost. One of the little understood features of the "sprawl" of many "car dependent" US cities is the extent to which jobs-housing balance keeps average intra-city travel distances low. (Refer Alex Anas 2011 "Decentralization and the Stability of Travel Time"). There seems to be an assumption on the part of our planners, that people who might live in low cost developments in hinterlands, will drive tens of kilometers to work in the "nearest" CBD. But low land costs and easy permission processes attract employers too. And when housing prices are generally low and employment dispersed, it is far easier for anyone to re-locate efficiently to a new job or other amenity.

High urban land costs actually have the opposite result and efficiencies are lost, contrary to policies of urban growth constraint being alleged to be in the interests of efficiency. (See Appendix). The efficiency of the building industry is just one more thing that would be enhanced by a high level of urban decentralisation into "flatter" land areas.

I also suggest that low building sector productivity might be a consequence of a high level of activity of the "infill development" type. Trying to build structures right in the middle of the bustle of activity of established urban areas, and with minimal room to move and to position and store productivity-enhancing equipment, must involve a sacrifice of productivity. This effect is compounded by terrain difficulties. It is illogical of councils to defend housing unaffordability on the grounds of "terrain" and yet require most new growth not only to be accommodated within that difficult terrain, but to be accommodated within existing built areas.

On page 164, the point that boom - bust cycles affect industry productivity is a very good one. But the Commission suggests that the building industry should learn to cope better with boom - bust cycles.

It should be noted that boom - bust cycles are far more volatile when urban growth is constrained and urban land prices inflated. Alan W Evans, Paul Cheshire, and other academic authors in the UK, note that in the UK, the price response to boom - bust cycles has steadily become more volatile while the "construction" response has become weaker and weaker and the construction industry (and its employment levels) has steadily shrunk and become concentrated into the hands of fewer and fewer players.

The submissions that the Commission quotes on page164 onwards make valid points, and it is not reasonable to respond that the building industry needs to achieve the impossible. The new trend to extreme cyclical volatility is something that has unreasonably been imposed on the building industry with little or no responsibility for this attaching to the industry itself. It is true that even with land supply issues reformed as necessary, there would still be cyclical variation due to the response to demand being mostly in building and less in prices; but the industry's very survival is far more assured.

Section 11 - Where Housing Affordability Bites

Many submitters (eg the Catholic Diocese, quoted on page 172) are clearly ignorant of the fact that demand side subsidies feed through into higher prices, only if supply is constrained. The best of all worlds is quite possible to achieve with unconstrained supply - low housing prices, low rents, and subsidies that do not affect prices or rents, maximising the benefit of those subsidies.

The worse the inflation of housing and rent costs through supply constraints, the stronger the perverse incentives become for people to remain unemployed or underemployed and in social housing or receiving the accomodation supplement. This is a major problem in the UK, where the "marginal tax rate" is effectively well over 100% in some situations, when being employed and paying for one's own housing is compared with being unemployed, receiving a welfare benefit, and occupying social housing. This situation is probably developing in NZ, if it does not in fact already exist. If this is not currently a focus of political attention, it should be.

It is not surprising that rental housing is often of "poor quality" (page 183) given the cost of land versus structures discussed above.

The Commission's finding that Institutional involvement in rental property is low, (page 185) is an important finding. It is very interesting that investment in houses is almost entirely by individuals, which suggests that this investment is driven by myths that do not convince institutions that have to conduct due diligence on their investments. I suggest that if NZ's urban land prices were brought back to as low as possible a level by regulatory reform and non-distortionary funding of infrastructure, more stable and sensible "price to earnings ratios" of rental properties would eventuate, leading to greater institutional involvement. The Commission's "Q11.4" asks "what is required" - I would suggest little more than reform that addresses the underlying distortions in urban land markets.

The Commission analyses the situation regarding Maori Rural housing, which is not really a "housing affordability" issue. "Overcapitalisation" is often the norm with truly rural new housing, but I suggest that Maori housing, if it is situated in regions where "regional planning" is driving up the prices of rural housing located within a "long commute" of a major city, could become significant, both as a source of investment earning for Maori and as an ameliorater of the planning-driven inflation in prices. But if the NZ government manages to restore housing affordability through reform, this opportunity for Maori land will diminish.

A "best use" for Maori land, would be for "new cities" that attracted employers by low costs as well as providing affordable housing.

APPENDIX: Unintended Consequence Number One under Urban Growth Constraint Planning

A highly relevant outcome of urban growth containment policies that erodes *system-wide* efficiency is identified by Patrick Troy in “The Perils of Urban Consolidation”:

"........The present policy has had the perverse result of increasing density of dwellings at the fringe......”

And later in the book:

".......A high proportion of the new high density housing is now occurring on the fringes of the city. This is a direct outcome of government policy and produces the perverse doughnut effect of an annulus of high density housing ringing the lower density middle suburbs. The greater accessibility claimed for inner suburban consolidation does not occur...."

Whatever the cumulative reasons for it, the graph of Portland's "Spatial Distribution of Density" on page 12 in this paper by Alain Bertaud, should have "planners" asking what result they really want? Increased density at the fringe but NOT nearer the CBD?

http://alain- bertaud.com/ images/AB_ The%20Costs% 20of%20Utopia_ BJM4b.pdf

This is because lower income households have been forced by higher land values, to accept smaller homes further away from the CBD; as Bertaud says:

".......instead of being able to make a trade-off between distance and land consumption. ...."

"........the practical outcome of a positive density gradient is longer trips for more people....."

"...... As predicted, land prices are going up because of the supply constraint imposed by the UGB, developers respond by developing higher density housing in the vacant areas between the limits of the current built-up area and the UGB. This of course has a tendency to reverse the slope of the gradient.... .....In the long run, the higher density which will built-up on the vacant land along the UGB will increase the accessibility of suburban shopping malls at the expense of the relative accessibility of the CBD. This is not the outcome that the planners intended.... ..."

Another useful quote on the same subject, is from Jan Breuckner, "Urban Growth Boundaries: An Effective Second-Best Remedy For Unpriced Traffic Congestion?"

".......failure of the Urban Growth Boundary to appreciably raise densities near employment centers is the main reason for its poor performance, and this failure will persist regardless of whether the city has one or many such centers..... ."

http://www.socsci. uci.edu/~ jkbrueck/ course%20reading s/ugb.pdf

This is additional to the already commonly understood phenomenon of “leapfrog” commutes from remote rural towns, and indeed development in those areas, due to the “metropolis” itself being unaffordable. Even if the planners are granted “regional” powers to prohibit rural “leapfrog” development, the effects observed by Troy, Bertaud and Breuckner, mean a reduction of efficiency of the operation of the metropolis itself.

The findings of Anthony Downs and the other authors of the famous “Costs of Sprawl 2000” Report are directly relevant here. That is, the more expensive houses are relative to incomes, the more incentive there is for households, especially first home buyers, to locate further away from CBD's, because the savings on housing costs are greater than the additional cost of travel (assuming employment is in the CBD). Therefore, planners should start with policies that minimize the basic price of urban land, consequent on which *other* elements of “smart growth” strategies will be a lot more successful. Downs himself has continued to emphasise that the "Costs of Sprawl" Reports have been selectively interpreted and quoted, with advocates missing the most important points.

Anthony Downs; "Can Transit Tame Sprawl?" Jan 2002:

".....In "The Costs of Sprawl 2000", a recent study conducted by Rutgers University, the Brookings Institution and several other organizations, part of the research examined how housing prices vary with distance from the regional downtown of each metropolitan area. Although only a few areas were analyzed, the study showed consistently that prices of similar homes tended to decline about 1.2 to 1.5 percent per additional mile from the regional downtown, except where proximity to the ocean had more influence on prices—as in Southern California. Meanwhile, longer-distance commutes added to fuel and travel-time costs by about the same amount per mile in every region. The study also found that per-mile housing-cost savings from added commuting distance were much larger in regions with absolutely very high housing costs than in those with absolutely low housing costs. Therefore, it was more likely to be economically worthwhile for households to move further out to gain cheaper housing in high-housing-cost regions such as the San Francisco Bay and Boston areas, than in low-housing-cost areas......."

Downs writes several paragraphs on this point in his 2004 book, "Still Stuck in Traffic". In this book, he also draws the delightful analogy that attempting to address resource use and emissions by changing urban form, is like trying to change the position of a picture on the wall by moving the wall rather than the picture.

Yours faithfully

Philip G. Hayward
2 McEnroe Grove
Naenae
Lower Hutt 5011