

3 February 2012

Inquiry into Housing Affordability  
New Zealand Productivity Commission  
PO Box 8036  
The Terrace  
Wellington 6143

housinginquiry@productivity.govt.nz.

Dear Commissioners

Te Kaunihera a rohe o Te Tai Tokerau

Private Bag 9021  
36 Water Street  
WHANGAREI 0148  
New Zealand

Phone: (09) 438 4639  
Freephone: 0800 002 004  
Environmental Hotline:  
0800 504 639  
Fax: (09) 438 0012  
Email: mailroom@nrc.govt.nz

**HOUSING AFFORDABILITY INQUIRY: DRAFT REPORT – SUBMISSION FROM [www.nrc.govt.nz](http://www.nrc.govt.nz)  
THE NORTHLAND REGIONAL COUNCIL**

Thank you very much for the opportunity to make a submission to the Productivity Commission on the Housing Affordability Inquiry draft report. The Northland Regional Council welcomes the draft and agrees with many of its conclusions and recommendations. For example:

- that (urban) planning today requires consideration of a wide range of objectives, including environmental management and economic development goals.
- that the task of planning is challenged by the complex array of planning-related legislation
- that a more fundamental review of the related legislative frameworks may also be (and we would say is) required.
- the recognition that improving housing affordability will require small contributions in many places rather than one large solution.

The council is not a provider of housing. However, like most councils, we are concerned about ensuring that there is a range of housing available to meet the needs of Northlanders at levels that are affordable. We see the presence or absence of affordable housing as an indicator of the well-being of Northlanders. We are therefore grappling with many of the issues your report raises (availability of land, the impact of zoning, infrastructure provision and cost, etc.) in developing our new Regional Policy Statement for Northland and preparing our draft Long Term Plan.

**Regional perspectives are different**

The main point of our submission is to request that the report more strongly differentiates between Auckland and other regions in its analysis and recommendations. The relative importance of different drivers of housing affordability and therefore the appropriate mix of solutions can be very different from region to region.

The report focuses to a large extent on the Auckland housing scene. In many ways because of the Auckland situation, with relatively high levels of housing “unaffordability” affecting a large percentage of the New Zealand population, this is understandable. However, what has happened in the Auckland housing market can be considerably different from what has happened in other regions.

For example, the report correctly observes that over the past 20 years section prices have grown more quickly than house prices. It then suggests that a shortage of

available land is the cause of this (page 4 of Overview). An examination of the Northland real estate market would suggest that supply was not an obvious constraint to the rapid rise in section prices that occurred in our region during the 2000s. Consequently the policy recommendation to take a more active approach in making land available is not as important a solution in Northland, given the different drivers, as it is in Auckland. Promoting adequate competition, avoiding land banking and reducing speculative activity are likely to be more important.

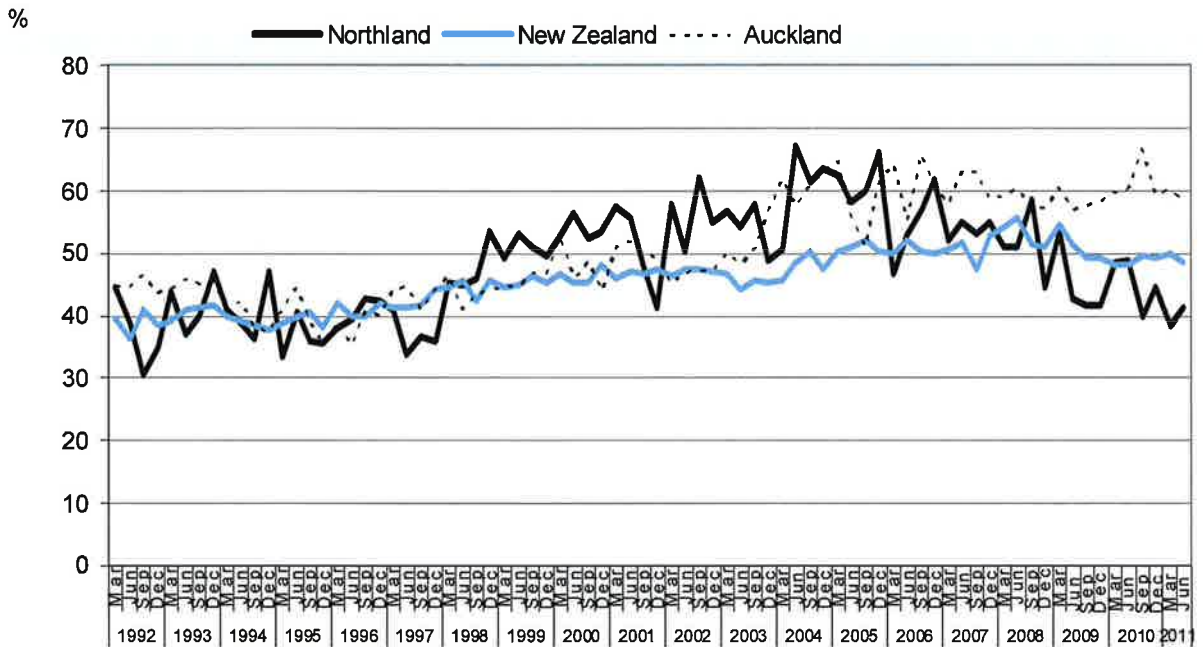
To assist the Commission test the appropriateness of its recommendations for Northland, the council includes below data and analysis that compares Northland, Auckland and New Zealand.

Figure 1 graphs quarterly median section prices as a share of median dwelling prices over the last 20 years, while Table 1 calculates the average share for five four-year periods. All prices are expressed in real terms, deflated by the CPI.

During the first half of the 1990s, the median section price was around 40% of the median house price in Northland, Auckland and for New Zealand as a whole. From the mid-1990s to the mid-2000s, the relative value of section prices to house prices rose in all three markets, reflecting the fact that section prices increased at a faster rate than house prices.

For New Zealand as a whole, the progress upward has been fairly steady, rising from 40% to 50%. In comparison, the relative price of sections in Northland and Auckland increased more quickly, reaching 60% of dwelling prices in the mid-2000s. The greater variation around the trend in Northland reflects the thinner, more volatile regional market. However, since 2007 the relative value of section prices to house prices in Northland and Auckland have diverged: remaining at around 60% in Auckland but falling back towards 40% in Northland.

**Figure 1. Quarterly median section prices as a share of median dwelling prices, 1992-2011**



Source: Real Estate Institute of New Zealand; Statistics New Zealand.

**Table 1. Quarterly median section prices as a share of median dwelling prices, 1992-2011**

Average for the period

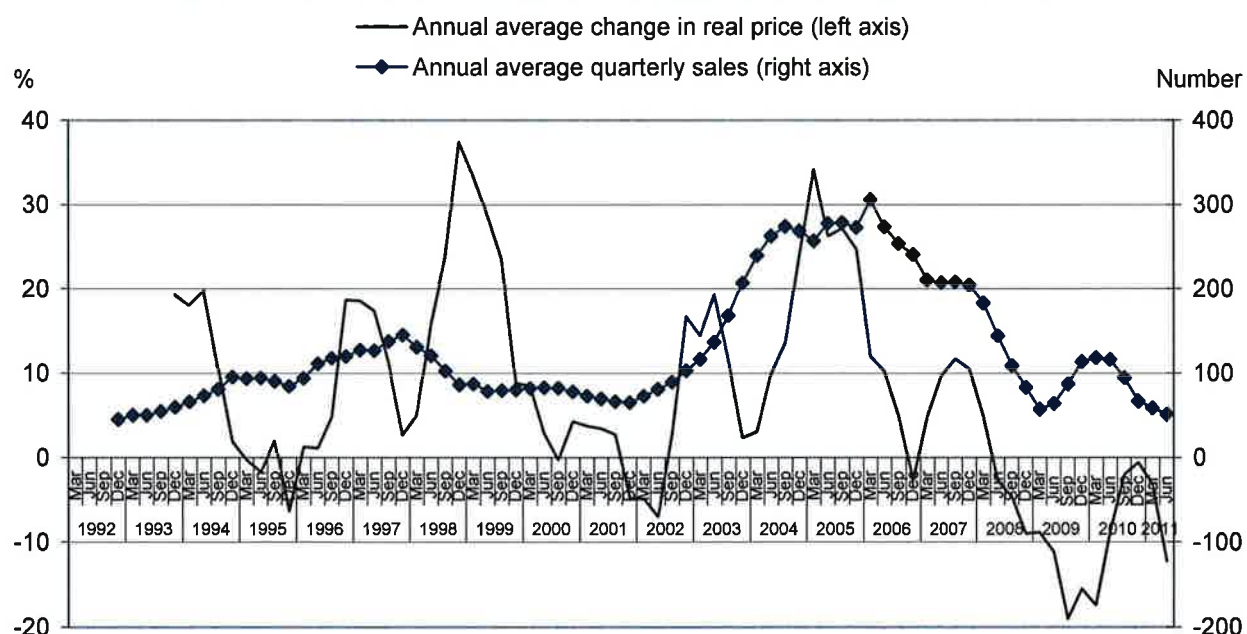
Period (June qtr to June)	Region		
	Northland	Auckland	New Zealand
1992-1996	38.6%	41.5%	39.8%
1996-1999	43.6%	43.3%	43.1%
1999-2003	53.3%	48.2%	46.4%
2003-2007	57.5%	59.5%	49.4%
2007-2011	47.1%	59.6%	50.6%
1992-2011	48.3%	50.8%	46.0%

Source: Real Estate Institute of New Zealand; Statistics New Zealand.

There are two periods in which Northland section prices increased significantly – in 1996-99 and 2003-07 when the real quarterly median sale price for sections rose by 20% and 15% per annum respectively. Given the underlying role the price of land has in the price of houses, it is important to consider the factors that may have caused these, and in particular, whether there are indications of a supply constraint.

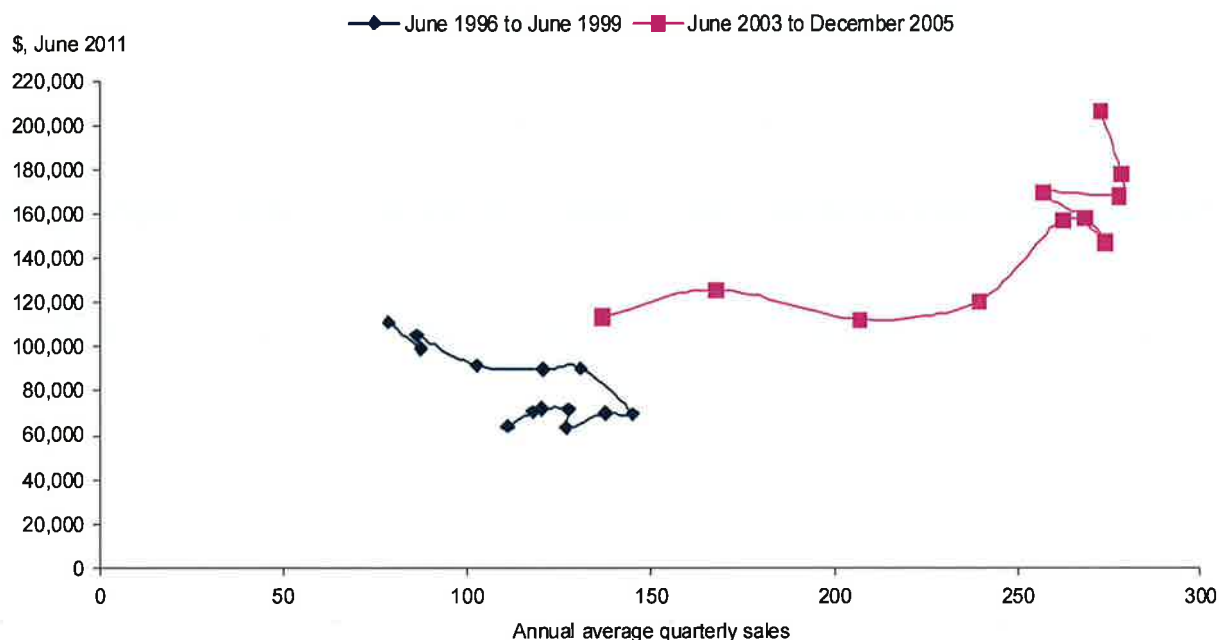
Figure 2 shows the average annual change in the quarterly median real sales price for sections in Northland over the period, measured on the left hand axis. It shows the rapid increase in section prices during 1998 and 1999, and again in 2004 and 2005. The graph also plots the annual average quarterly sales of sections, measured on the right hand axis. It can be observed that the rise in real section prices during 1998 and 1999 occurred during a period in which the number of transactions decreased – from 145 per quarter in December 1997 to 80 per quarter in 1999. In contrast, the rise in prices during 2004 and 2005 occurred during a period in which the number of transactions increased dramatically, from around 80 sales per quarter to around 280. This suggests that supply and demand factors were different in each period.

**Figure 2. Change in real price of sections and quarterly sales of sections in Northland, 1992-2011**



Source: Real Estate Institute of New Zealand; Statistics New Zealand.

**Figure 3. Price and quantity movements during the two periods of rapid price increase, 1992-2011**



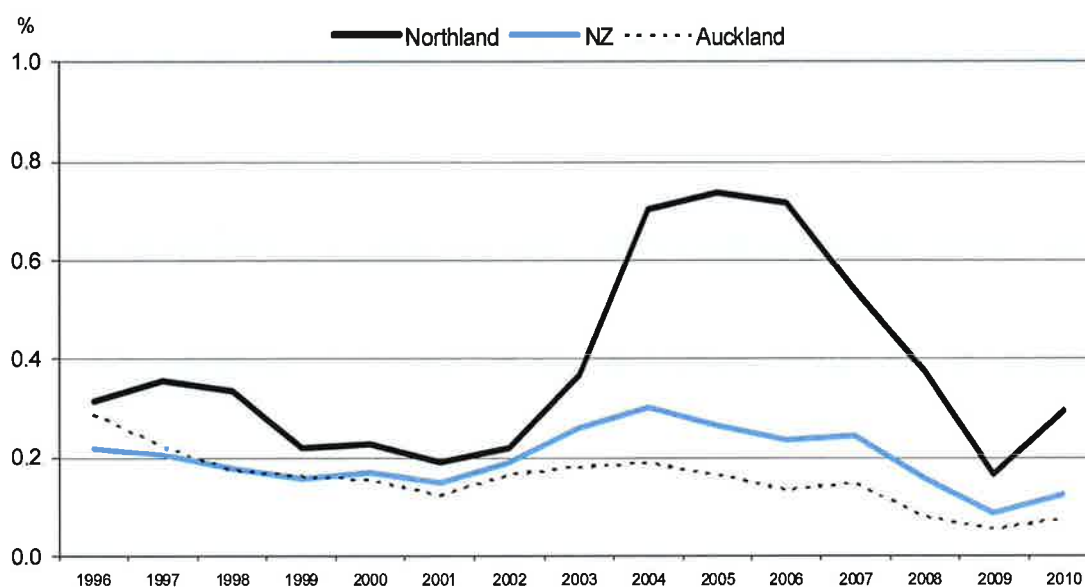
Source: Real Estate Institute of New Zealand; Statistics New Zealand.

The price and quantity movements during the two periods 1996-99 and 2003-05 are mapped in Figure 3. Figure 3 is set out like a basic supply and demand diagram, with price on the vertical axis and quantity on the horizontal axis. The points can be viewed as equilibrium positions between supply and demand for sections in Northland. It is important to recognise that this market represents more than the supply and demand for new sections. Supply also includes existing sections that have not yet been built on, while demand also includes those who purchase sections without necessary the intent to build houses on them. The difference between the two periods is quite distinct.

During 1996-99, the rise in section prices was coupled with a reduction in transactions. One possible explanation for such a development is that there was a constraint on the number of sections available for sale. However, this supply constraint does not necessarily mean that new sections were not being developed and added to supply. It could be caused by owners delaying the sale of sections in anticipation of further price increases.

In comparison, the rise in prices during 2003-05 was coupled with an increase in the number of transactions. This suggests that the demand factors played a more dominant role in causing the rise in prices. This increase in demand is evidenced in Figure 4 which shows the number of section sales per year in Northland measured in comparison to the usual resident population in Northland. During the 2004-06 period there was a huge increase in demand for sections above historical sales levels, with the number of sections sold per year being two or three times the level witnessed in the preceding eight years. While the number of sales includes the same section sold and resold during the year, the graph suggests a large amount of speculative demand activity in the Northland section market. This is also consistent with the large correction in the market that has occurred in Northland over the last few years.

Figure 4. Section sales as a share of usual resident population, 1996-2011



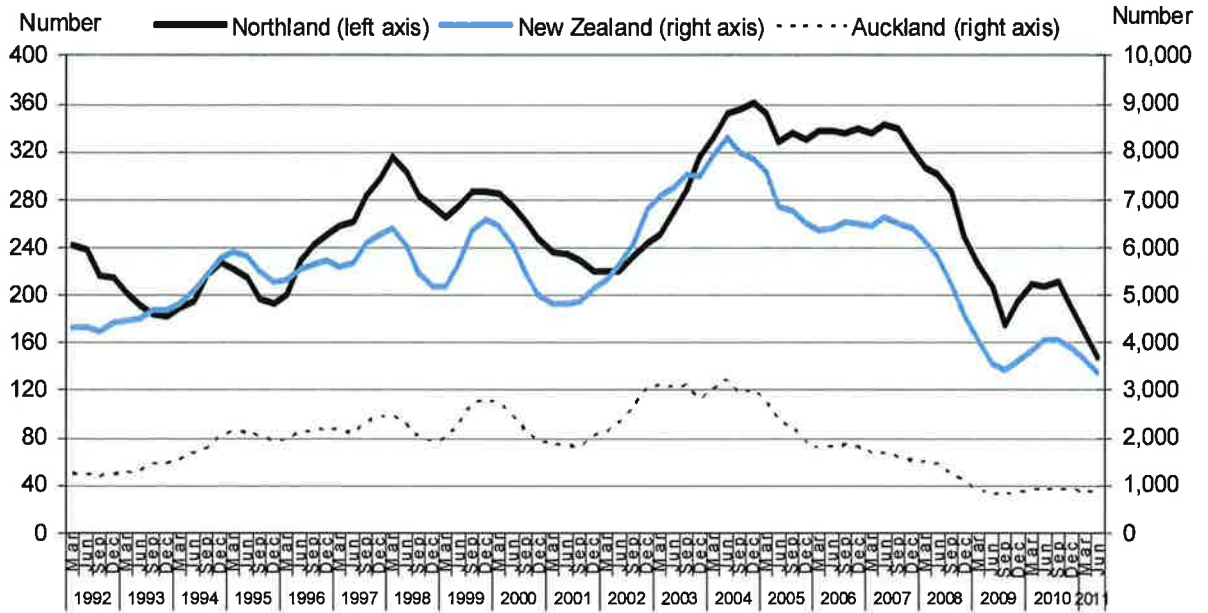
Source: Real Estate Institute of New Zealand; Statistics New Zealand.

Differences between Auckland and other regions also emerge when building consent data is examined. The Commission's report could analyse building consent data in more detail as it is an important indicator of housing supply response and the regulatory environment in place.

Building consent information is available on a monthly basis at regional and local territorial authority level from Statistics New Zealand. These have been aggregated to quarterly data for comparison with the preceding analysis. Figure 5 graphs the number of building consents issued in each quarter since 1992 in Northland (measured on the left hand axis), and Auckland and New Zealand (measured on the right hand axis). Given the large difference in numbers between Northland and Auckland and New Zealand, Figure 6 shows the level of building consents in index form, with the average quarterly number of building consents issued over the three-year period 1992-94 set at 1000.

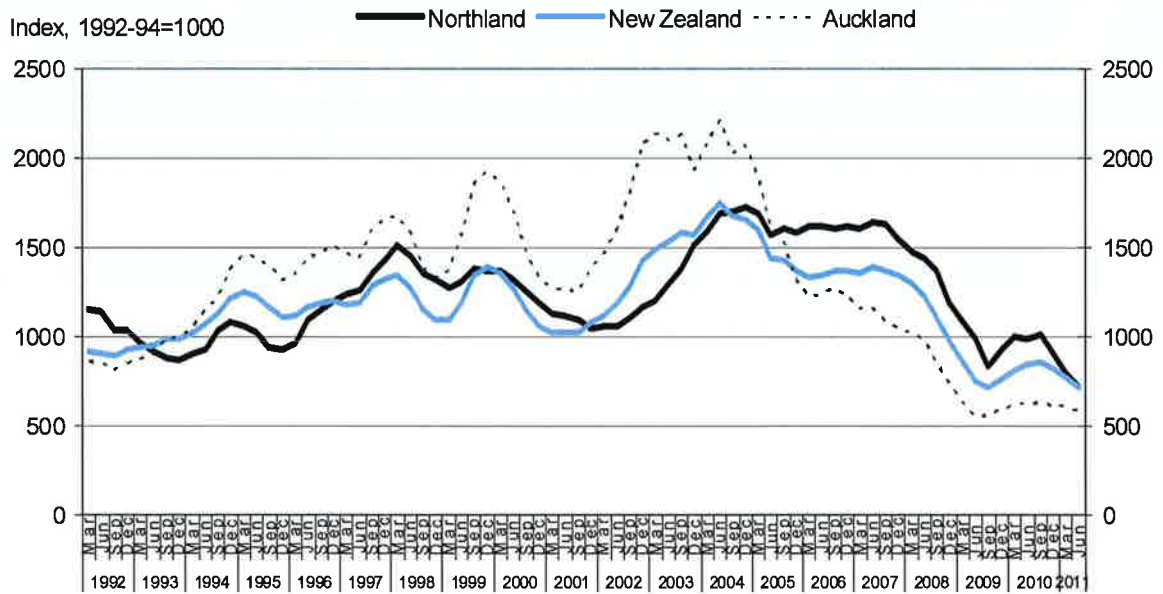
An important difference between the Northland and Auckland housing markets emerges. In Auckland building consent numbers started falling in late 2004/early 2005, prior to the peak in the real median house price in 2007. In comparison, building consents did not start falling in Northland until after the peak in the housing prices was reached in June 2007. The slow down in building consents in Auckland may have been a factor behind the continued rise in median house prices in Auckland as compared to Northland.

**Figure 5. Building consents for new dwellings, annual quarterly average, number, 1992-2011**



Source: Statistics New Zealand.

**Figure 6. Building consents for new dwellings, annual quarterly average, index, 1992-2011**



Source: Statistics New Zealand.

Table 2 presents average quarterly building consents expressed as a proportion of the average quarterly population change in each of the five periods. It gives an indication of how responsive local authorities have been to demand. A higher number indicates a greater the degree of responsiveness. For New Zealand overall, the ratio is around 0.5 over the period – meaning that one new building consent has been issued for every 2 person increase in population. In Northland, the rate has been much higher. From the mid-1990s to the mid-2000s, the ratio was around 1, indicating that a building consent was issued for every one additional person living in Northland during the period. While building consents for second homes and holiday

dwellings are included, the data suggests regulatory authorities in Northland have not caused any noticeable constraints to housing supply.

In contrast, the ratio is much lower in Auckland, where a new building consent is issued for every three person increase in population. If Auckland is excluded from the New Zealand total then the ratio of building consents issued for population change in Northland is the same as elsewhere in New Zealand over the whole period.

**Table 2. Quarterly building consents for new dwellings as a ratio of quarterly population change, 1992-2011**

Period (June qtr to June)	Region			
	Northland	Auckland	New Zealand	NZ excl
1992-1996	0.39	0.22	0.42	0.78
1996-1999	1.05	0.39	0.67	1.24
1999-2003	1.00	0.35	0.50	0.71
2003-2007	0.92	0.37	0.56	0.74
2007-2011	0.64	0.18	0.38	0.59
1992-2011	0.73	0.29	0.49	0.75

Source: Statistics New Zealand.

Aside from greater acknowledgement of regional differences, the report could be strengthened by creating an example of the possible impacts of alternative policy measures on housing affordability. This would reinforce the point that many small contributions are required. For example, in general the price paid for undeveloped land accounts for 20-30% of a developed section price, with land development, council costs and the developer's profit margin making up the remainder. If changes in zoning reduced the price of undeveloped land by 50%, then the developed section price would reduce by 10-15% (assuming no increase in profit taking). In turn, if the developed section price contributes 50% to the housing price, then a 50% decrease in the value of undeveloped land would translate into a one-off fall in house prices of approximately 5-7.5%. The one-off gain is not large compared to annual changes in house prices. Between June 2007 and June 2011, real median house prices in Northland fell by almost 5% per annum.

Council hopes that the Commission will be able to use some of this data and analysis in finalising its findings and recommendations to ensure that the diversity of the regions is fully captured.

In the effort to improve housing affordability, one issue that should not be overlooked is the fact that the role of local government is much broader than just achieving affordable housing. Our roles and responsibilities (e.g. the focus on sustainable development and community well-being in the Local Government Act and our responsibility to achieve sustainable management under the Resource Management Act) mean that there are many issues, competing values and multiple goals to be achieved. So while affordable housing is one important goal, it sits alongside other goals, such as maintaining and enhancing our environment, improving water quality and its allocation, reducing the costs of infrastructure, and minimising risks e.g. from flooding, and for which "zoning" and other measures that influence the location of development provide positive impacts.

So in looking at the tools to deliver improve housing affordability it is important that a whole of government approach to priority setting and legislative reform is required, with the key purpose aligning the planning processes under the Local Government Act, the Land Transport Management Act and the Resource Management Act, and

removing unnecessary duplication and litigation, while ensuring local needs and values can be met (and quickly) so that councils can respond to the individual requirements of their district, city or region and the changing priorities, emerging pressures and community preferences that lie within them.

Yours sincerely

A handwritten signature in black ink, appearing to read 'CB', with a long horizontal flourish extending to the right.

Craig Brown  
Chairman

A handwritten signature in black ink, appearing to read 'M Nicolson', with a large, stylized initial 'M' and a long horizontal flourish extending to the right.

Malcolm Nicolson  
Chief Executive

A180123