KIWI INCOME PROPERTY TRUST

9 February 2012

**By Email**

The New Zealand Productivity Commission
c/- housinginquiry@productivity.govt.nz

Dear Sir/Madam

**Report on Housing Affordability**

This is a submission on behalf of Kiwi Income Property Trust ("**Kiwi**") in response to the Productivity Commission's draft Report on Housing Affordability ("**the Report**").

Kiwi is New Zealand's largest publicly listed property trust and holds retail, office and other commercial property assets throughout the country with a current value of approximately $2 billion. Kiwi welcomes the opportunity to submit on the Report and would be pleased to meet with the Commission or its staff to discuss the issues canvassed in the Report and the following comments.

***Introductory Observations***

1. Kiwi acknowledges that housing costs in New Zealand are relatively high and that private investment in the country has tended to be directed to the residential property market to an undesirable and potentially counterproductive extent. Kiwi supports the Commission's efforts to encourage debate about the causes and effects of and the appropriate responses to those trends.

2. Kiwi accepts that housing affordability has worsened in NZ over the long term and considers that the causes are likely to be varied and interrelated. Whilst the overall trend is apparent, Kiwi considers that it is difficult to isolate the extent of the issue and its causes given changes in market and social conditions over time. For example, Kiwi's understanding is that the public now demands a much higher quality and larger size of dwelling than was historically the case. Page 5 of the Summary Report recognises that better houses are now being built than was previously the case. The Report does not discuss in detail, however, the implications of the market preference for bigger and more highly specified houses. That change in expectations and requirements will inevitably have contributed to increased real prices for housing.

3. Kiwi accepts that housing affordability issues are of particular concern in and around Auckland. In that regard, there are specific factors (discussed below) that influence both the supply of and demand for housing in the Auckland area and that contribute to the regional problem. Kiwi considers that the policy settings ultimately adopted for housing in Auckland in particular will need to take account of the long term impacts of particular forms of development and the overall costs that will be generated. For example, the construction of low density housing on the periphery of the built up area would result in additional transportation costs in the long term which would need to be taken into account when calculating the true cost of that option.

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4. Given the long term implications of any policy decisions and the lengthy timeframes over which they are implemented it would be counterproductive for policy settings to be changed along political grounds. Accordingly it is highly desirable that a cross party consensus be arrived at now regarding this issue so that the growth strategy adopted into the future is a robust one.

5. Kiwi seeks a balanced approach to the accommodation of growth in the Auckland region that recognises the need for intensification along with the limitations on retrofitting all or most growth into the existing built up areas. Kiwi accepts that accommodation of the population growth anticipated for the region will require a mixture of intensification in existing urban areas and the expansion of those urban areas, be that on the periphery of the existing urban area, around existing rural villages and towns or in new rural villages or towns.

***The Auckland Housing Market***

6. Kiwi considers that particular market and geographical factors influence the supply of and demand for housing in Auckland and which are not recognised sufficiently in the Report.

7. The demand for housing in Auckland is influenced by the following:

   (a) Auckland is required to accommodate a disproportionate percentage of the country's population growth. That places greater pressure on the supply of houses than is the case elsewhere in the country.

   (b) Immigration adds to demand nationally but does so disproportionately in Auckland. Further, Auckland's attraction to immigrants and the country's economic migrant policies mean that a proportion of prospective purchasers arrive with financial resources that enable them to purchase property at an elevated price.

   (c) The ongoing household creation rate is faster than population growth, which adds to demand for housing.

8. The supply of housing in Auckland is influenced by the following factors:

   (a) The supply of land in and around Auckland is at a premium. Auckland occupies a narrow point of the North Island and the two harbours occupy much of the space in the vicinity of the urban area. The urban area has fully occupied the Isthmus and has spread to outlying land.

   (b) Auckland has a small central residential area (largely located on the isthmus and in Devonport) which is very attractive but is incapable of accommodating all the residents who would like to live there. A significant proportion of the area outside that core area is occupied by the harbours and Hauraki Gulf and cannot be used for accommodation. Other areas such as the volcanic cones are effectively excluded from development because of their ecological and landscape qualities.

   (c) The harbours isolate the core residential area from the peripheral areas. That isolation has resulted in limited road access across the harbours (eg: the single bridge from the CBD to the North Shore). Consequently, the first tranche of secondary suburban areas (eg: Te Atatu) is a significant distance from the residential core. The key road links are congested at peak hours which further increases travel inconvenience.

(d) Once off the isthmus there are further geographical constraints that force development to ever more remote areas (eg: the Waitakere Ranges; Mangamangaroa Creek; Papakura Inlet; the Hunua Ranges; the Okura Estuary catchment; the Gulf Islands).

9. As a result of those characteristics, there is far more demand for residential development in the convenient central suburbs than can be met and hence real pressure on prices in those areas. That pressure will worsen as the city's population continues to grow. That growth displaces demand to the next tranche of suburbs out yet they also have supply constraints (eg: Te Atatu; Glendowie). There is relatively more supply of land at the periphery (eg: in Papakura) but relatively little demand for sections in those areas, even in the current circumstances.

***Peripheral vs Compact Growth***

10. Kiwi has extensive experience in and involvement with urban resource management and planning throughout New Zealand. In light of that experience, it is particularly interested in the following recommendations in the Report:

(a) Item R7.2 on page 205 which reads, *"Bring significant tracts of greenfield and brownfield land to the market in Auckland – identify and assemble land that could be quickly released and identity significant tracts of land with the potential for (say) 50 years development, with at least 20 years worth under preparation for development*"; and

(b) Item R7.4 on page 205 which requires territorial authorities to take a less constrained approach to the identification, consenting, release and development of land for housing in the inner city, suburbs and city edge.

11. That wording suggests that the Commission sees peripheral growth as a significant means of accommodating growth in Auckland into the future. Kiwi considers that a compact urban form is generally efficient and desirable for a city of any significant size, such as Auckland. It is also of particular importance given Auckland's unique and complex geography which exacerbates the inefficiency of peripheral development.

***General Rationale for Compact City Development***

12. Kiwi considers that a compact urban form focussed on nodes and corridors is generally desirable in any city, for reasons of efficiency:

(a) It better enables provision of an efficient public transport system that can serve residential and employment areas.

(b) It promotes walking and cycling which reduces traffic congestion.

(c) It reduces travel distances between parts of the city and by doing so reduces travel time, at least during off peak periods.

(d) It reduces expenditure on major infrastructure such as roads and reticulation systems.

(e) It enables residents to more easily access and thus use major public infrastructure like stadia, theatres, hospitals and tertiary institutions; and avoids the deprivation or duplication that might otherwise occur.

***Auckland's Characteristics***

13. The general benefits of a compact city are magnified in Auckland where the disadvantages of peripheral expansion are exacerbated by geographical characteristics of the region. Promoting a compact city form for Auckland will minimise the increases in private vehicle travel that will inevitably accompany peripheral development.

14. By way of explanation, the following factors influence the appropriate form of development in and around Auckland:

    (a) The Auckland urban area has a long linear north south axis but is relatively narrow.

    (b) The City has not developed a grid roading network, and instead has a small number of critical roads that link the various parts of the city (eg: the Harbour Bridge; the Upper Harbour Highway; the North Western Motorway Causeway; Mangere Bridge; SH1 at Otahuhu; the Panmure / Pakuranga Bridge; and SEART).

    (c) There is very limited opportunity to link separate parts of the city other than by travelling through the urban area and no prospect of a genuine ring road around the urban area. Accordingly the major routes all inevitably serve local, sub-regional and regional functions, which adds to congestion.

    (d) Beyond the isthmus, the bulk of urban development is located some distance from the city centre (eg: around Glenfield and Albany on the North Shore; in Henderson and Ranui in the West; in the band between Howick and Papakura in the South).

    (e) Industrial land is distributed unevenly around the region with the greatest quantity in Manukau; extensive areas in Penrose; and limited amounts in the vicinity of Rosebank Road in the West and Albany in the North. That produces significant tidal flows of workers from residential areas to the employment hubs.

    (f) The majority of urban development to-date has occurred in an inefficient manner with large single house sites still prevalent throughout the City and a predominance of single level buildings fronting main arterial roads.

    (g) Any development on the periphery of the urban area will inevitably be a long way from the city centre and other peripheral urban areas. That will add significantly to travel inefficiency through the city.

***Implications***

15. In the circumstances, peripheral growth alone cannot be a panacea for housing affordability in Auckland as a whole. That is indicated by the current lack of demand for relatively cheap housing in areas like Ranui and for new sections in attractive but remote areas like Hingaia, notwithstanding the overall undersupply. Kiwi considers that this issue needs to be addressed by the Report which currently appears to assume that Auckland is a single housing market and that increasing land supply on the periphery will reduce all prices. That ignores the fact that many Aucklanders are only interested in living in central areas subject to the supply constraints discussed above.

16. Accordingly, Kiwi considers that, in addition to opening up an appropriate extent of land on the periphery of Auckland for development, the authorities need to:

(a) Increase the supply of residential accommodation in those areas of high demand (ie: on the isthmus and, in particular, close to the Auckland CBD) through significant intensification. This will ideally occur around major commercial and transportation nodes.

(b) Shift or at least counterbalance the current pattern of demand. That is, the focus on the residential areas close to the CBD needs to be dissipated if possible, with other nodes also becoming attractive to residents. That could be done by encouraging and facilitating the intensive development of localities elsewhere on the isthmus or, ideally, beyond the isthmus (eg: in Albany; Westgate; Manukau).

17. That is what the current Auckland Regional Policy Statement and the draft Auckland Spatial Plan (ie: the "Auckland Plan") endeavour to do. Those documents therefore warrant strong support, albeit accompanied by a dose of realism in terms of the extent to which growth should be directed to the area within the MUL.

18. Kiwi considers that, given the extent of the change in expectations and behaviour implicit in the compact city model and the lack of good templates in New Zealand for such development, it is desirable that agencies like Auckland Council and Housing New Zealand acquire suitable sites and undertake the initial exemplar developments. That will act as a catalyst to further development in the future.

19. The current mismatch of supply and demand in Auckland is an inevitable consequence of changing from a sprawling city to a compact city model. The mismatch is, however, a transitional circumstance and one that will be overcome in time but only if the policy signals remain constant.

***Matters of Detail***

20. Kiwi notes the following matters of detail regarding the Report and suggests that the Commission revisit its work in light of the comments.

21. The text on page 1 of the Summary Report claims that real prices almost doubled from 2000. That appears to be an overstatement as figures indicate that prices have now settled back to an increase of about 160%.

22. The first figure on page 2 of the Summary Report has a horizontal scale that does not change. That distorts the graphs. The horizontal scale in each case would more appropriately be based on, say, deciles instead of dollars. That would give a fairer impression of the changes over time.

23. On page 3 of the Summary Report, the Commission considers rentals. The Report does not consider in detail the current policies governing the role of Housing New Zealand Corporation and whether they have impacted on affordability of and access to housing generally. There are references to HNZC on pages 7 and 12 to 14 of the Summary Report but they do not address those wider policy issues and implications.

24. The graph of new housing distribution on page 5 of the Summary shows that housing investment has increasingly gone into the upper quartiles. The text suggests that the trend will reflect a range of reasons but does not appear to address the following factors:

(a) That the low cost housing boom in the 1960's and 1970's created a pool of low cost housing that still meets demand in that sector throughout much of the country. Much of the housing built in the 1960's and 1970's has remained at the lower end of the value range and is of a quality that would not now be acceptable (ie: much of the lower quartile of housing in New Zealand may now, in essence, be sub-standard).

(b) That a disproportionate amount of the growth and therefore new housing investment in New Zealand is being directed to the Auckland market where because of land prices much of the housing is already in the upper two value quartiles nationally. Thus any new housing in Auckland will inevitably come within those quartiles. By contrast, the lower quartile is now likely to be represented by low growth and economically depressed areas (eg: rural towns rather than cities) where there is little or no demand for new houses. That argument appears to be supported by Figure 7.3 at the foot of page 97 of the Report which shows that new housing in Auckland costs only 10% or so above the city average – ie: the new housing in Auckland is about the average value for the region but is inevitably in the upper quartiles nationally as a function of Auckland's higher prices generally.

(c) The commentary to Figure 7.3 claims that the figures show that constrained land supply, reflected in falling section sales even as prices increased or held firm, has been a contributor to high new prices in Auckland. The issue may be more complex than that. The geographical and market factors related to Auckland discussed above are not addressed in detail in the Report but influence the relative attractiveness of different parts of the city. Anecdotally, for example, the Stonefields development on the isthmus has continued to find buyers (at higher "isthmus" prices) while less expensive peripheral developments are languishing. The focus on land prices on the periphery also relates to traditional free standing houses whilst multi unit development is critical to the compact city model.

Yours faithfully
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**Andrew Buckingham**
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