

10 February, 2012

Productivity Commission  
Draft Housing Affordability Inquiry

By email: [housinginquiry@productivity.govt.nz](mailto:housinginquiry@productivity.govt.nz)

## **NZCID Submission on the Draft Housing Affordability Inquiry**

The New Zealand Council for Infrastructure Development (NZCID) welcomes the opportunity to submit on the Productivity Commission's (the Commission) Draft Housing Affordability Inquiry report.

### **General**

NZCID supports the work of the Commission and considers that the draft report provides a valuable contribution to understanding housing dynamics in New Zealand.

NZCID commends the Commission on development of a broad evidence base and endorses the key findings of the Commission. That is, NZCID agrees that:

- macroeconomic factors, including access to cheap finance and increasing interaction between New Zealand and the world,
- population and demographic change, including increased immigration and "baby-boomers" reaching the zenith of their earning potential,
- favourable, both real and perceived, tax treatment of property investment,
- urban planning, most notably councils' reticence to release land for growth,
- charging for infrastructure, most notably developer contributions,
- building and other regulatory requirements,
- and market challenges, which by and large reflect the small size of the New Zealand economy and traditional approaches to housing delivery,

all played a role in accelerating house prices beyond a sustainable and affordable level over the 2000s.

What is still unclear to NZCID, and what NZCID would like to see refined through the final development of the Housing Affordability Inquiry, is a greater attempt by the Commission to describe and, where possible, estimate the relative impact of each of these factors on house prices (which may vary for different parts of New Zealand) so that local and central government policy responses can be tailored accordingly.

In being asked to "assess the feasibility and implications of reducing or removing" (p. 2) impediments to home ownership, NZCID considers that the Commission has been empowered, and indeed is required, to

advise the Government on what it thinks the quantitative impact has been of the various factors discussed and, furthermore, what the impact will be if these factors are influenced by future policy.

Evidence from overseas suggests a large decline in property values may pose a greater threat to economic stability than a new period of house price inflation. Thus, in the view of NZCID it is important that the Government and councils understand what the impact of their policies is likely to be on house prices within their areas of interest so that a combination of policy responses does not reduce house prices to an undesirable level.

For example, NZCID considers that two of the most convincing observations by the Commission, that macroeconomic factors and land supply constraints have increased house prices, could simultaneously be influenced, either by policy or global developments, the combination of which may result in an unanticipated decline in house prices.

Likewise, NZCID would be interested to know what the impact would be if net immigration increased or decreased; what impact a future capital gains tax may have; what impact removing developer contributions would have; what the result would be if the Government moved to either regulate or increase competition in the building and supplies industry; and even what the impact on national house prices would be if major policy changes occur in Auckland or do not occur there at all.

For NZCID, it is not sufficient that we understand what contributed to the dramatic increase in house prices, but that we must also understand to what extent each factor influenced house prices (and where).

### **Alignment with the Auckland Plan**

A specific issue identified by the Commission which NZCID wishes to express support for, and reiterate the critical importance of addressing effectively, regards the alignment of Auckland Council urban planning as outlined in the Draft Auckland Plan and the findings of the Commission in relation to land release.

NZCID agrees with the Commission's observation that:

- “Constraints upon the release of new residential land creates scarcity, limits housing choice, and increases prices across the market.” (p. 82); and in relation to Auckland specifically,
- “The scarcity of land for new housing is seen in part to be a function of the restrictions on subdivision associated with metropolitan urban limits. But it is also seen to be influenced by such measures as height restrictions on apartments within the urban area, site coverage rules which limit the viability of multi-unit dwellings outside central areas, and constraints on the subdivision of large suburban sections for infill.... The evidence considered by the Commission supports that contention, at least to the extent that enforcing the Metropolitan Urban Limit appears to have constrained the supply of sections in Auckland and that this is reflected in escalating house prices generally.” (p. 90)

NZCID perceives this finding to be inconsistent with one of the central tenets of the draft Auckland Plan:

- “Auckland's growth by 2040 will be accommodated through a 75:25 split between growth in existing urban areas, and growth in new greenfield areas (currently classified as rural land) and rural satellite centres.” (503); and that,

- “To achieve the compact urban form outlined in this Plan, approximately two-thirds of all new dwellings between now and 2040 will be attached dwellings and low, medium and high-rise apartments.” (506)

Consequently, NZCID strongly supports the Commission’s recommendation that:

“Auckland Council show in its final Auckland Plan how it has considered and reconciled affordable housing alongside its other priorities.” (R7.1)

In the view of NZCID, given the strategic significance of housing affordability as signalled by the appointment of the Productivity Commission, proactive government participation will be essential to addressing housing affordability in Auckland. That is, both Auckland Council and the Government will need to work together to agree what should be done and a concerted policy response must follow.

As the highest level planning document for Auckland, the Auckland Plan sets the strategic direction for Auckland and will guide investments, programmes, policies and priorities for not just the Council, but the Government and private sector over the long term. NZCID considers it unfeasible either to implement the findings of the Commission in Auckland independent of the Auckland Plan process or for the Council to overlook the evidence presented in the Commission’s report.

If the Commission’s findings are accurate, house prices in Auckland risk a further period of significant increase unless Auckland Council policies are revised to minimise the cost of new home delivery, including lowering the cost of land.

### **The Tamaki opportunity**

NZCID views the Commission’s report as a catalyst to initiate a coordinated central and local government approach to addressing housing affordability in Auckland, which is shown in the Commission’s report to be avoidably high by both national and international standards.

NZCID considers that redevelopment of the Tamaki area provides the opportunity for the Council and Government to lead improvements in Auckland housing affordability. A wider partnership approach between the public and private sectors to finance and manage new state, subsidised and market housing in Tamaki may substantially improve the way in which housing more generally is provided nationwide, with the ultimate aim of lowering housing costs and improving housing performance for all New Zealanders.

An exemplar housing project in Tamaki, two models of which are outlined in NZCID’s first submission to the Commission, will help:

- spur housing development, which is currently at record lows<sup>1</sup>;
- achieve economies of scale, cited by the Commission as important to reducing construction costs;<sup>2</sup>
- provide a mix of housing suitable for various income brackets; and
- stimulate the third housing sector and its provision of below-market rental property.

<sup>1</sup> National building consents for new dwellings in the 12 months to December 2011 were the lowest since records began in 1965, see *NZ Herald*, Lowest Building Consents in 46 Years, January 31, 2012, [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=10782373](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10782373)

<sup>2</sup> Draft Housing Affordability Inquiry, p. 89.

While Tamaki redevelopment alone will not materially reduce the cost of housing nation-wide, NZCID anticipates that progress there will establish a precedent and platform from which further housing redevelopments may proceed. Over the long term, NZCID expects a strong public commitment to work with and leverage private sector resources, innovation and expertise will increase the supply of affordable housing, thereby contain price rises.

### **Aligning housing and infrastructure investment**

In NZCID's view, a critical reason for progressing redevelopment of Tamaki as an exemplar housing redevelopment programme is the presence there of critical infrastructure. Tamaki is home to two train stations, an extensive park network, schools, as well as two significant town centres. These and other investments and amenities reduce the need for commuting, thereby decreasing the requirement for further investment in expensive transport infrastructure. NZCID wishes to emphasise the importance of aligning housing and infrastructure (particularly transport) investment

An example of poor alignment of infrastructure and housing planning and investment can be seen in Flat Bush, Auckland. The lack of public transport options there limit that area to a private motor vehicle-dominated transport system. Land use plans, meanwhile, have sought to intensify development, leading to an approximate doubling of the number of automobiles per hectare. Smaller sections have delivered only marginally cheaper properties, resulting in higher costs per square metre. There is no evidence that the resulting loss in amenity has helped to achieve wider policy objectives, such as increasing public transport patronage, and there is long term risk that property values decline relative to other areas in Auckland.

In the view of NZCID, despite Tamaki's existing socio-economic challenges, the long term value proposition for this area is more positive than for Flat Bush, one major reason being that transport investment better supports land use plans facilitating greater access and enhancing amenity. Such development provides potential to reduce living cost through reduced cost of housing, but also through improved connection to local amenities and services.

NZCID thanks the Commission for this opportunity to submit on the Housing Affordability Inquiry.