

Greater Christchurch **Urban
Development
Strategy**

**Submission by the Greater Christchurch Urban Development Strategy Partnership
on the New Zealand Productivity Commission's *Housing Affordability Inquiry draft
report (December 2011)***

10 February 2012

To:

Inquiry into Housing Affordability
New Zealand Productivity Commission
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The Terrace
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c/o Bill Wasley: Independent Chair

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Submission:

This is the Greater Christchurch Urban Development Strategy (UDS) Partnership's submission on the New Zealand Productivity Commission's *Housing Affordability Inquiry draft report (December 2011)*. The content of the submission follows overleaf.

Submissions from individual UDS Partners are also being made and may cover more specific issues relating to their territorial areas or functions.

The UDS Partnership would welcome the opportunity for further discussion with the Commission ahead of a final report being presented to Government.

Signed:



Bill Wasley
Independent Chair
Greater Christchurch Urban Development Strategy Implementation Committee

Introduction

This submission is presented by the Independent Chair on behalf of the Greater Christchurch Urban Development Strategy Partnership (“the UDS Partnership”). The Strategy is overseen by the Implementation Committee (“the UDSIC”), a joint committee comprising Environment Canterbury, Christchurch City Council, Selwyn District Council, Waimakariri District Council, Te Rūnunga o Ngāi Tahu and the New Zealand Transport Agency. Further representation from the Canterbury Earthquake Recovery Authority (CERA) is currently being ratified by Council committees.

The Strategy outlines a 35 year growth management and implementation plan for the Greater Christchurch sub-region¹ and is recognised within the CERA *Draft Recovery Strategy for greater Christchurch* as providing a strong basis for developing recovery programmes and plans.

The Productivity Commission is to be congratulated on attempting to identify and evaluate the factors affecting the affordability of housing, an issue which is core to the UDS and which Councils and communities have been seeking to address, particularly in recent years.

Submissions from individual UDS Partners are also being made and reiterate some of the comments made herein as well as covering more specific issues relating to their territorial areas or functions. This submission is intended to provide a strategic response, principally in relation to housing affordability as it impacts, and is impacted by, growth management objectives.

Greater Christchurch and the UDS

Greater Christchurch is the largest urbanised area in the South Island. Historically, the Greater Christchurch sub-region has grown in a dispersed form leading to a number of negative community outcomes. A desire to more sustainably manage future growth across the sub-region resulted in moves by local government in the sub-region to initiate a growth management strategy.

The UDS was developed and adopted by the partner councils (Environment Canterbury, Christchurch City Council, Banks Peninsula District Council², Selwyn District Council, Waimakariri District Council) and Transit New Zealand (now the New Zealand Transport Agency, NZTA) between 2004 and 2007. The goal was to prepare an agreed strategy for the Greater Christchurch sub-region to make provision for sustainable urban and rural development for the next 35 years. The adopted strategy was launched by the Prime Minister in July 2007. The Strategy has now been the foundation for sub-regional planning over three electoral cycles.

Strategy focus

An important feature of the UDS is to provide a sustainable urban form and protect the peripheral rural communities that lie close to Christchurch City. The vision for Greater Christchurch by the year 2041 is a vibrant inner city and suburban centres surrounded by thriving rural communities and towns. Part of this vision is the implementation of an integrated planning process for growth management supported by the efficient and sustainable delivery of new infrastructure.

The UDS supports a fundamental shift in growth management from focusing largely on accommodating low-density suburban residential development in greenfields areas to supporting a compact and balanced urban form that enhances both urban and rural living. It considers the complexity and inter-relationships of

¹ The Greater Christchurch sub-region covers the eastern parts of Waimakariri and Selwyn District Councils and the metropolitan area of Christchurch City Council, including the Lyttelton Harbour Basin.

² In March 2006 Banks Peninsula District Council merged with Christchurch City Council.

issues around land-use, transport, and infrastructure including community facilities, while incorporating social, health, cultural, economic and environmental values.

In order to achieve a sustainable urban footprint for Greater Christchurch, the UDS is predicated on the following key outcomes, an increase in the greenfields suburban density from around 10 households per hectare to 15 households per hectare; and future residential intensification within the existing city urban area being accommodated at densities of 30 households per hectare or higher.

The UDS and Earthquake Recovery

The Canterbury earthquakes of 2010 and 2011, and the continuing aftershock sequence, represent a major challenge to the future planning and well-being of the sub-region. Nevertheless, the tenets of the UDS remain fundamentally unchallenged and have provided a strong basis for both the CERA *Draft Recovery Strategy for greater Christchurch* and the Christchurch City Council draft *Central City Plan*.

Clearly the timing and sequencing of development and infrastructure provision may need to be reviewed, however the 35 year provision for growth identified within the UDS provides the appropriate long term settlement pattern within which more immediate recovery planning can occur. A robust monitoring and review framework can then identify the need for any further action in what is, and will be for some time yet, an inherently uncertain environment.

Recovery planning will need to accommodate:

- Government decisions regarding the suitability of land for residential rebuild over the medium term;
- the consequent need for and/or desire of people to relocate within the sub-region;
- the anticipated influx of a temporary workforce to aid recovery; and
- opportunities to support economic recovery, including business growth and relocation.

Work is underway by CERA, in conjunction with UDS Partners to address such matters as part of the ongoing development of recovery programmes and recovery plans. Whilst the significant physical damage and upheaval of communities resulting from the series of earthquakes is a very difficult circumstance to be faced with it does provide an opportunity to instigate positive change faster than may otherwise have been possible.

The Commission's draft report does not focus extensively on this matter however other commentators and sectoral groups have seen the events in Canterbury as a means to promote a more *laissez-faire* approach to urban planning and have identified this a solution to current housing affordability issues.

Other Government Initiatives

The UDS Partnership has previously made submissions on a number of recent Government initiatives which impact directly and indirectly on housing affordability matters, in particular:

- the National Infrastructure Plan (2009)
- Building Competitive Cities: Reform of the urban and infrastructure planning system (2010)

It is trusted that Government consideration of the final report from the Productivity Commission will aim to appropriately balance the need to improve the affordability of housing with associated objectives of creating sustainable communities, enabling integrated and efficient infrastructure planning, and undertaking RMA reforms to streamline the legislative framework which underpins part of this debate.

This submission now comments upon the findings and recommendations contained in the chapter headings of the Commission's draft report identified in bold type below:

- **The housing affordability inquiry**
- **The New Zealand housing scene**
- Macroeconomic factors
- Housing affordability: distribution and trends
- **Population and demographic change**
- The role of taxation
- **Urban planning and housing affordability**
- **Charging for infrastructure**
- Building regulations and affordability
- The performance of the building industry
- **Where housing affordability bites**
- Rural Māori housing

The housing affordability inquiry

The Commission's scope covers both rental and owner-occupied housing. Whilst home ownership is desirable and has been linked to leading to greater engagement of householders in the local community, the overriding issue is one of ensuring sufficient, secure, high quality and affordable accommodation across all tenure types.

The historic and current aspiration for home ownership reflects the cultural bias towards such a tenure type (as in many but certainly not all OECD countries, *cf.* Fig 2.11 p20, NZ housing scene) and is linked to New Zealand's higher percentage of investment in housing compared to other assets as part of household investment portfolios – a love affair with home ownership and investment if you like. Given the arguably structural changes in the housing market over the last decade, an important question that the Commission has only partially addressed is the extent to which housing affordability is best tackled by measures which aim to make home ownership more achievable or alternatively through measures which enhance the supply, quality and desirability of other tenure types.

Whilst the UDS Partnership supports the Commission's statement that "opportunities for improving housing outcomes are likely to be found through small contributions in many places, rather than in any single large 'solution'" (Overview, p4) the recommendations of the draft report seem somewhat unbalanced and, perhaps understandably, orientated to those measures which might appear easiest to implement.

Housing affordability is particularly acute in the lower two income quintiles (who spend a much higher proportion of their income on housing costs) and in the under-40 age group (which has seen the sharpest fall-offs in home ownership) and so a greater focus on such wider measures may also align more closely with changing aspirations or attitudes within these groups.

The New Zealand housing scene

The demand side reasons for the rapid real house price appreciation over the last decade are many and varied, however, interestingly the findings of the Commission's draft report confirm that the housing market supply side response potentially exacerbates the situation regarding housing affordability. The

report (*cf* Fig 2.14 and 2.15 p24-25) highlights that new houses are increasingly in top quartile values compared to the existing stock and the average size of new homes has grown rapidly in recent decades.

It is accepted that few first-home buyers buy such a new home, and part of the reason for higher comparable values is as a result of higher mandatory housing specifications. However, if there is an objective to reduce the entry costs of home ownership then focusing on measures to increase the supply of new housing without addressing this current mismatch in demand and supply sub-markets is a particularly 'long game' as it relies on the churn of households deciding to 'trade up' to then free up existing stock priced closer to levels at which the target section of the market can afford.

Adding to the inertia of the situation is the supply responsiveness of housing investment. The Commission's draft report cites New Zealand as being around average across OECD countries (*cf.* Fig 2.7 Estimates of long-run price elasticity of new housing). Whilst land use and planning regulations contribute to determining supply responsiveness the reported small scale and fragmented nature of the building industry will also be fundamental. Bringing new housing to the market once appropriate zoning is established relies primarily on the capacity and capability of the development and construction sectors.

Population and demographic change

As the Commission's report states, population growth and demographic change are significant contributors to household formation, tenure choice and thus housing demand. Given the regional variation in such important housing demand drivers it would seem appropriate that the some of the solutions to address the adequate supply of housing (quantum, housing type and location) are also best determined at a regional or sub-regional level.

As part of the development and implementation of the UDS, Statistics NZ were commissioned to establish demographic projections through to 2041 to aid land use planning and future service delivery. These have recently been reviewed and remodelled to incorporate a range of earthquake recovery scenarios ('rapid' recovery to 'slow' recovery). The UDS Partnership would agree with the Sapere Research Group's premise (outlined in the Commission's report *cf.* p57 Box 6 Impact of the Canterbury earthquakes on household projections) that population growth will eventually return to its pre-earthquake trajectory, the main uncertainty being the length of the lag period during which growth is subdued.

Greater Christchurch has a higher proportion of its population aged 65 and over compared to the New Zealand average, with a higher level of home ownership in that group. It is also noteworthy that it has a higher percentage of the population with household income below \$20,000 and a lower percentage over \$70,000.

The UDS demographic data confirms that profound ageing of Greater Christchurch's population is underway with population aged under 60 years to increase by only around 10% over the 35 years to 2041, compared with 100% for the over 60's. Major changes in household composition are also expected. In the longer term little more than 1 in 4 households will include children and 1 in 3 is likely to contain just one person.

These demographic changes have significant implications for household-to-dwelling match, both among the existing housing stock and the future provision of new housing. The comments made above regarding the current specifications for the majority of new housing provision would suggest that these changes are not being sufficiently factored into decision-making within the building industry and so reduces the opportunity for such ageing households to 'trade-down' from larger family houses to release equity and in so doing recirculate this more affordable existing housing stock. It also raises other factors discussed below.

Urban planning and housing affordability

The impact of urban planning on housing affordability is a hotly contested matter and the reports and submission citations referred to in the Commission's report bear witness to that. No doubt there is some truth in many of the assertions made, however there are also clearly misunderstandings or deliberate misrepresentations being made in relation to growth management. The conclusion that there is "*a strong prima facie case that urban planning principles prevailing in New Zealand's growing urban areas, particularly Auckland, have a significant influence on the prices of both new and existing houses*" is unfortunate. Such a strong finding of a causal relationship is not made in other chapters which arguably it could and should be and the growth management approaches across New Zealand are quite different so an apparent reliance on the Auckland experience in drawing this conclusion is somewhat short-sighted.

The UDS Partners had until recently been preparing to give evidence in the Environment Court regarding the merits of a growth management approach which was translated into a proposed change to the Canterbury Regional Policy Statement. Evidence from Tim Hazledine, Professor in the Department of Economics at the University of Auckland, and Marcus Spiller, Director of SGS Economics & Planning in Melbourne, provide useful summaries of the costs and benefits of such an approach. Importantly, neither see the tool of metropolitan urban limits as creating an injurious increase in housing prices so long as they provide for the sufficient land to meet future anticipated demand for a range of housing types. So the Commission should perhaps be less concerned about growth management strategies and urban planning principles *per se*, but focus more closely on the land provision within these processes. The Greater Christchurch UDS identifies land within its urban limit sufficient for 35 years of anticipated growth. It balances the need for higher densities and urban intensification with a pragmatic appreciation of the need to allow a level of further greenfield development to deliver an appropriate range of housing choices. This is very different scenario to that currently exhibited in the Auckland model.

The key consideration here then is surely the adequate provision for a range of housing types and locations to seek to accommodate consumer preferences whilst balancing this with wider community outcomes.

The wider well-being and fiscal objectives of councils requires them to consider the most sustainable manner for growth to occur. Intensification in areas with sufficient infrastructure capacity will have clear financial efficiencies and can help increase the performance and vitality of existing (neighbourhood) centres. In Greater Christchurch this is not a scenario of poorly designed, low amenity, high density apartments but a move to modern townhouse developments which still allow for a degree of light and space but better align with the increasing market segment for households without children. The fact that the building industry is "geared up to build low density housing" (cf p89) should not be a justification for discounting this provision and should be a vital concern for the work of the Productivity Partnership to address.

On the other side of the coin, a significant oversupply of greenfield land requiring servicing is likely to result in the inefficient provision and operation of infrastructure. If housing demand is spread thinly over a large number of greenfield areas Councils could potentially face the up-front construction costs for an unnecessarily large number of infrastructure projects, higher debt costs through slower repayment from development contributions for each infrastructure project, and more operational costs. This inefficiency would also relate to slower community formation and the associated slower provision of facilities and services for each area until it reaches the critical mass necessary to support such services and facilities. It would seem counterproductive if measures to improve housing affordability were not cognisant of the wider costs which fall on households, including council rates, and the objective of efficiently building properly functioning communities not just houses. The Commission's report touches on such matters (cf p93 Flow-on effects) but does not make any recommendation further to its Finding 7.3, presumably seeing this as beyond the scope of the inquiry.

Growth management strategies can therefore provide a balanced solution to addressing housing land supply whilst ensuring efficient infrastructure planning (including community facilities). It provides a higher degree of certainty to investment, so reducing the transaction costs of development that are often evidenced through protracted adversarial challenges within RMA processes. And often overlooked is the unstabilising impact on nearby rural productive land uses caused by speculative land purchases on the urban fringe. Hazledine and Spiller identify the issue of externalities (positive and negative) within the housing market, particularly the 'unpriced externalities of suburban expansion', as a fundamental rationale for strategies which seek a more 'welfare maximising and sustainable pattern of settlement'.

The UDS Partnership recognises that other statements and recommendations within the Commission's report try to emphasize the wider picture within this debate, however it is concerned that these messages will be lost through the primary focus on the supposed shortcomings of local authorities, as just one contributor to housing outcomes, and the need for them to adopt a less constrained planning environment.

Charging for infrastructure

Without going into the detail of development contributions the UDS Partnership is keen that the full costs of growth are borne by the developments that require additional capacity, be that in the 'three waters' infrastructure, roading or other needs such as community facilities. The alternative scenario that these costs are borne by the general ratepayer through increases in council rates amounts to an unnecessary subsidy to development.

Whilst the UDS Partnership would welcome updated Best Practice Guidelines to Development Contributions it does not agree that development contributions should be limited to 'major items'. The UDS Partnership would also wish to see further details regarding the proposed statutory status, reporting and auditing mechanisms to be able to provide a view on these areas but would see some merit in their application.

Where housing affordability bites

In the view of the UDS Partnership, this chapter of the Commission's report is perhaps the least well developed and yet is perhaps increasingly the most important area for Government action. Like many other countries, the NZ housing market has arguably undergone a structural change in recent decades that will mean measures to increase housing affordability need to be much broader than simply private home ownership models. This is heightened by radical demographic change that is now underway and the changing aspirations and lifestyles of younger generations.

The Commission's report identifies some of the weaknesses of the current NZ social, community and rental housing sectors and highlights experience from overseas that could be considered here. However, these observations are not brought through with any vigour into the report's findings and recommendations.

Encouraging more institutional investment in the rental sector, establishing a strong 'third sector' for intermediate housing sub-markets and substantially expanding the range and availability of home ownership assistance programmes would help create more diverse housing provision to match the range of demand and affordability constraints of households.

Furthermore, fundamental change in this area could meet associated objectives regarding improving housing quality and household health.

Summary of main submission points

To summarise, the UDS Partnership makes the following key points:

- The issue of housing affordability within the greater Christchurch area is of concern to the UDS Partnership, particularly due to the profound demographic changes that are occurring now and over the coming decades.
- The recommendations in the draft report seem unbalanced, particularly given the Commission's view that "opportunities for improving housing outcomes are likely to be found through small contributions in many places, rather than in any single large 'solution'".
- The bias towards recommendations regarding the release of land for housing and a 'less constrained' planning regime pose potentially significant and unnecessary costs (both financial and well-being) for local councils and their communities.
- The finding (F7.1) that "the prevailing principles and practice of urban planning have a negative influence on housing affordability in our faster-growing cities" is not substantiated by the evidence cited within the draft report and is not supported by the UDS Partnership.
- The chapter on urban planning and housing affordability is too focussed on the Auckland experience in drawing its conclusions and recommendations and would benefit from a much wider analysis.
- The UDS Partnership would welcome updated Best Practice Guidelines to Development Contributions but does not agree that development contributions should be limited to 'major items' as this would be a subsidy to development and would place an additional financial burden on the general ratepayer.
- The UDS Partnership would like to see more directive recommendations within the draft report to wider measures to increase housing affordability (not simply private home ownership) particularly in relation to encouraging more institutional investment in the rental sector, establishing a strong 'third sector' for intermediate housing sub-markets and substantially expanding the range and availability of home ownership assistance programmes.
- The UDS Partnership would welcome the opportunity for further discussion with the Commission ahead of a final report being presented to Government.