

Submission from Wellington City Council – Productivity Commission Inquiry on Housing Affordability

Submission to: **Productivity Commission**
Discussion paper: **Housing Affordability Inquiry**
From: **Wellington City Council**
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1. Executive Summary

Wellington City Council agrees with the assessment that house prices have risen significantly and at a faster rate than incomes over the last decade and notes that housing affordability, as measured by Massey, has come back down to the 20 year average but is vulnerable to increases in the cost of borrowing. The Council recommends that the Productivity Commission consider the affordability issues arising from increasing divergence in income levels.

The performance of the Building Industry was a large factor in the increase in the cost of houses. The Council considers that the report should have more recommendations focused on addressing the price of building, and the performance of the building industry in general.

The Council agrees with the Productivity Commission that urban containment policies affect the release, availability and cost of residential property. However, it is important that this increased cost is not considered in isolation from the benefits that urban containment policies can deliver. Providing for an appropriate mix of infill housing and greenfield development enhances opportunities for public transport use, better, more efficient use of infrastructure, and a quality built environment. Wellington has a population density that allows a prosperous compact central city while also providing large affordable sections outside the centre. The Productivity Commission should consider the value of developing a Population Strategy including considering the geographic distribution of population growth.

Development contributions, while placing an additional cost on new developments, are not considered to have more than a marginal impact on housing affordability due to their small size in relation to the cost of new housing. In Wellington residential development contributions are generally between \$5,000 and \$8,000 with two catchments around the \$10,000 mark. These charges relate to the cost of providing infrastructure for growth with the largest components being water and roading services. If Development Contributions were not charged to cover infrastructure then rates would have to be increased, this would also impact housing affordability. The commission should note that development contributions are generally conservatively set and that there are currently no development contributions chargeable for NZTA or Regional Council infrastructure.

The Council supports the introduction of Development Contribution best practice guidelines. Best practice guidelines should help improve the calculation and application of infrastructure charges so that they are more efficient, equitable, transparent, and do not unduly penalise new development.

In many ways the report overlooks the positive role of councils and the report would benefit from a stronger focus on councils as part of the solution, rather than a sole focus on compliance costs. Councils can and are working to ensure residents can access affordable housing in a number of ways. In addition to recognising the important role councils currently play in the direct provision of affordable housing the report would benefit from consideration of the role councils could play in supporting others such as the community sector to provide affordable housing. There will be opportunities for councils to identify sites, bring interested parties together, and assist in consent applications. We recommend that the report looks into the benefits councils and others could bring to a collaborative approach with third sector affordable housing providers.

The Productivity Commission should have included a much higher consideration of the life cycle costs of housing within its scope. The commission could then have widened its recommendations to include the lifetime affordability of housing.

2. Introduction

Wellington City Council in its strategic vision Wellington Towards 2040: Smart Capital recognises that Wellington's people are the city's greatest asset. Our city's shape and character reflects the people who live in, work in, and visit the city. The Council wants to create a city that is healthy, vibrant, affordable and resilient.

The Council has a keen interest in the affordability of housing, recognising the impacts housing has on health, well being and civic participation. In a liveable city residents require access to affordable housing that meets their evolving needs throughout their lives. Wellington City Council welcomes the opportunity to comment on the Housing Affordability Enquiry Draft Report prepared by the Productivity Commission.

3. The Wellington Context

The affordability of housing in Wellington City is of concern to the Council. As a response to high housing costs and limited options for some within the community the Council provides a significant stock of social housing. The Council provides more than 2,300 social housing rental units targeted to people with low incomes and special housing needs. It is important to note that the affordability of housing is not just about the purchase price. Affordability also includes property maintenance costs, the costs of transportation to work places, schools, etc, accessibility to facilities and services, and costs related to healthy housing such as heating. In 2007 Wellington City Council entered into a \$220 million Memorandum of Understanding with the Government to upgrade its housing properties over the next 20 years.

In addition to direct provision the Council promotes through planning policy a mix of housing types, providing residents with quality choices about where they live — in apartments, townhouses or traditional stand-alone dwellings. Substantial greenfield development is provided for in the northern suburbs, in combination with well-established centres and infill policies. Development is managed through the District plan. While a council can zone land using the district plan, it does not have powers to ensure the owners of that land move to develop it within a timely manner. Many of the reports findings in relation to urban development and land supply are focussed on Auckland.

The Council recognises the role of other players in providing affordable housing and works with the third sector and Government to provide housing options. The Council is working towards sharing waiting lists with Housing New Zealand Corporation to ensure that those in need of affordable rental have access to the widest possible range of options. The Council also works closely with Community Housing Aotearoa to assist the community sector in the provision of affordable housing where possible. The Council recognises that working in partnership with organisations that provide social and affordable housing, and central Government will be needed to in order to increase the provision of social and affordable housing in Wellington.

As population demographics change so will the optimum mix of housing types for the country. The Productivity Commission should look to considering recommendations

that ensure appropriate housing is provided in the future. In Wellington a number of trends present themselves including:

- family breakups
- aging population
- increasing ethnic diversity
- older Women living alone

Household size (number of persons usually resident)	Wellington City						Change 2001 to 2006
	2006			2001			
Usual residence	number	%	Wellington Region %	number	%	Wellington Region %	
One usual resident	16,680	24.6	24.4	15,522	25.1	24.1	1,158
Two usual residents	22,230	32.8	33.4	20,244	32.8	33.1	1,986
Three usual residents	11,895	17.6	16.6	10,761	17.4	16.6	1,134
Four usual residents	10,614	15.7	15.1	9,276	15.0	14.9	1,338
Five usual residents	4,248	6.3	6.6	4,104	6.6	7.3	144
Six or more usual residents	2,046	3.0	3.9	1,902	3.1	4.0	144
Total	67,713	100.0	100.0	61,809	100.0	100.0	5,904

Age structure Service age groups (years)	Wellington City						Change 2001 to 2006
	2006			2001			
Usual residence	number	%	Wellington Region %	number	%	Wellington Region %	
0 to 4	11,109	6.2	6.8	10,638	6.5	7.2	471
5 to 11	14,304	8.0	9.6	14,004	8.5	10.4	300
12 to 17	12,942	7.2	8.6	11,448	7.0	8.2	1,494
18 to 24	25,101	14.0	10.3	21,084	12.9	9.8	4,017
25 to 34	32,556	18.1	14.2	31,554	19.3	15.6	1,002
35 to 49	42,717	23.8	23.1	38,481	23.5	22.7	4,236
50 to 59	19,419	10.8	11.7	17,067	10.4	11.0	2,352
60 to 69	10,953	6.1	7.7	9,645	5.9	7.1	1,308
70 to 84	8,577	4.8	6.7	8,277	5.1	6.7	300
85 and over	1,773	1.0	1.3	1,635	1.0	1.2	138
Total	179,451	100.0	100.0	163,833	100.0	100.0	15,618

Source: IDNZ

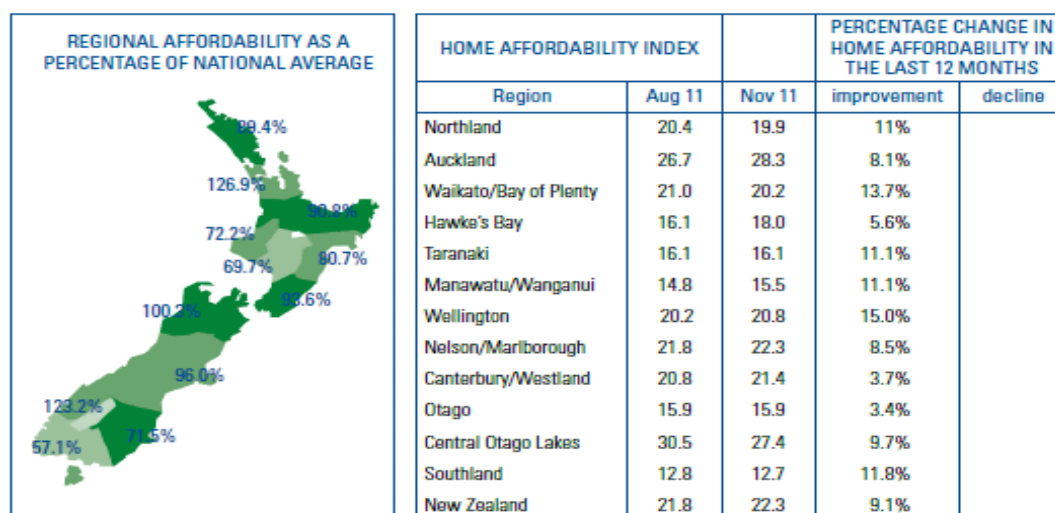
4. Housing Affordability

The Commission found that real house prices in New Zealand are markedly higher than they were a decade ago. The rise in real house prices has been associated with general declines in housing affordability, as indicated by a number of different measures, and in the rate of home ownership. The Council notes that while housing affordability is now moving back to the 20 year average, that this level of affordability is vulnerable to increases in the cost of borrowing and decreases in employment and income.

Massey home affordability index



Housing affordability varies across the country, while some factors that influence affordability will not change across New Zealand, others such as the availability of land will. The Commission could look into the differences and attribute reasons for these differences; this could assist in understanding the impacts of different factors and help to prioritise recommendations in the final report. We note that much of the assessment has a focus on Auckland and does not look in any detail at regional variations. The Massey Affordability Index uses median incomes; households with only one income earner due to events such as separation are likely to face increased affordability pressures.



The private sector will become increasingly important if the home ownership rate continues to fall. This may be appropriate for those that wish to invest in other areas than housing. The Productivity Commission should look at the work required in order to provide sustainable housing solutions for renters and assess whether current options in regards to security of tenure are adequate. Tenure choice is inextricably linked to the life cycle/life course of individuals and as such renting may be a desirable long term option for some households. The Productivity Commission

should identify the groups likely to choose renting and explore their housing affordability issues and identify possible solutions where appropriate.

Change in housing tenure and landlord type, Wellington City, 2001 to 2006 (Usual residence)



Source: IDNZ

In some cases the expectations of potential homeowners may have to adjust. First home buyers may have to settle for less expensive suburbs and lower amenity levels in their first house.

The Council notes forecasts show multi-unit housing developments will increase as a proportion of new dwelling construction (DTZ New Zealand 2007). BRANZ found that:

“For horizontally attached units (i.e. a wall in common between adjacent occupancies) the cost in \$ per sq metre of floor area is about the same or slightly less than that for detached houses. However, for vertically attached units (i.e. a floor-ceiling in common) the multi-unit cost is about 10% more expensive in the 10 to 25 unit range which covers the medium density developments expected in the future.”

While the building costs associated with vertically attached dwellings are higher the land use on a unit basis is lower as many dwellings occupy the same land footprint.

Multi-unit building consents					
	Number of consents		\$ per sqm floor area		Detached house only
	Horizontally attached	Vertically attached	Horizontally attached	Vertically attached	
Year ending Dec 2006					
#units per consent					
1 to 6 units	1,016	100	1171	1346	
7 to 9 units	31	15	1458	1529	
10 to 15 units	0	38		1341	
16 to 25 units	0	40		1301	
>25 units	0	35		1315	
Total			1204	1330	
Detached houses only					1171
Year ending Dec 2007					
#units per consent					
1 to 6 units	1,057	129	1230	1423	
7 to 9 units	27	10	1140	1058	
10 to 15 units	0	43		1388	
16 to 25 units	0	33		1437	
>25 units	0	22		1762	
Total			1222	1521	
Detached houses only					1245
Year ending Dec 2008					
#units per consent					
1 to 6 units	841	80	1170	1102	
7 to 9 units	20	2	1250	2410	
10 to 15 units	0	20		1442	
16 to 25 units	0	13		1453	
>25 units	0	27		1432	
Total	861	142	1185	1538	
Detached houses only					1331

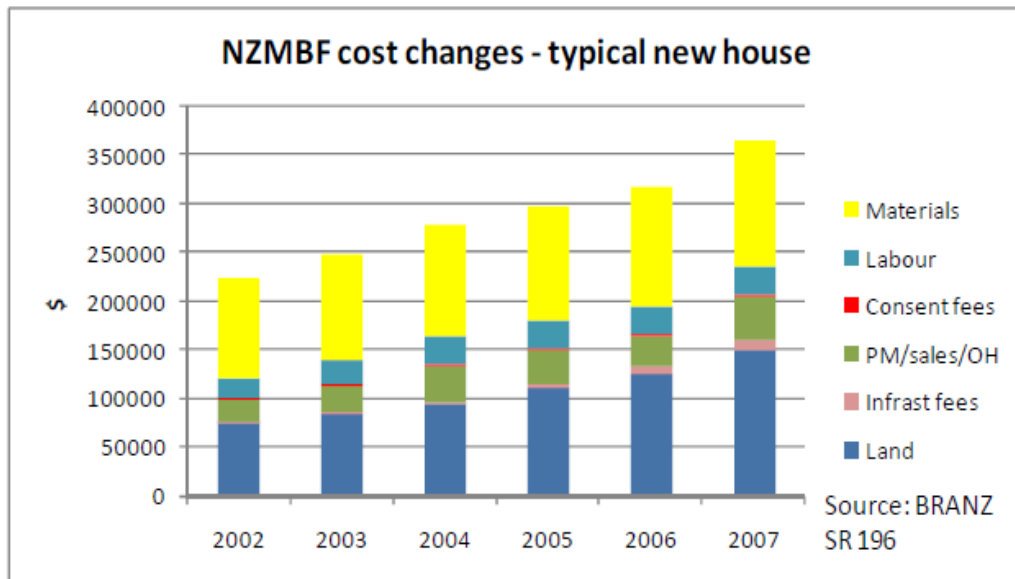
Source: CHRANZ

5. Making New Houses more Affordable

For the market to respond to housing demand and build the expected sale price has to exceed the cost of providing that house, therefore the cost of the inputs required to build a house are an important area of focus if houses are to be made cheaper. When looking at the inputs required the materials, land, and labour stand out as the major cost components of providing houses. When looking for ways to make housing more affordable it is worth concentrating recommendations on these components, certainly concentrating on other areas can only be expected to make a marginal difference in overall affordability. The consumer price index shows an increase of 55 percent in the cost of construction from 2002 to 2011.

As shown by the figure below consent fees, development contributions and other council imposed costs make up a very small component of the cost of providing housing.

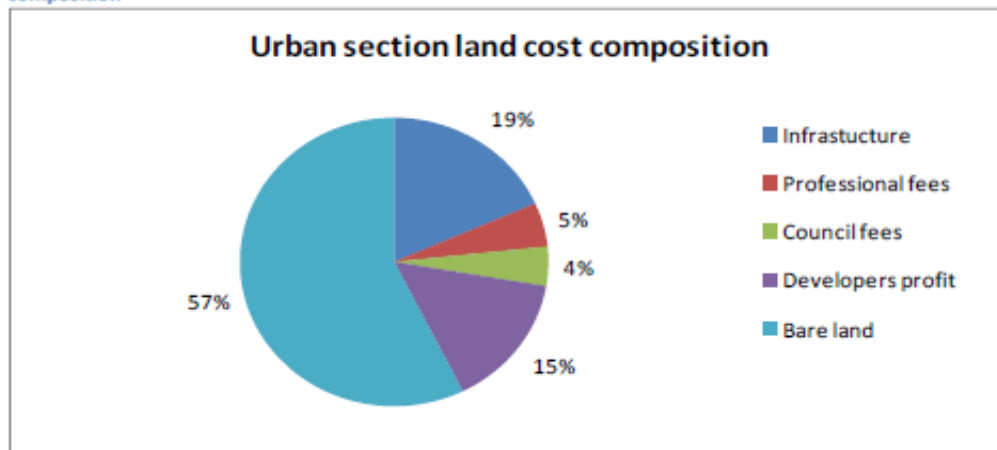
Cost changes in house building as monitored by NZ Master Builders.



The cost of the bare land component of ready to build developed land is influenced by a number of factors, including the supply of land within an area. The cost of land can also be influenced by the functioning of the local market. In Wellington the ownership of substantial greenfield development is provided for in the northern suburbs, although as the majority of this land is in the ownership of two companies, there is little that the Council can do to affect the pace and therefore price at which the land is released for development.

The charges imposed by council's on land development support the costs associated with consenting land and providing infrastructure for it. When seen as a proportion of the section cost council fees are a small component.

Urban land cost composition



Source: <http://www.chranz.co.nz/pdfs/branz-residential-construction-and-costs.pdf>

The Productivity Commission should have a greater emphasis in its report on the issue of the lifecycle costs of housing. These costs have a significant impact on housing affordability. Transport and heating costs are two of the largest ongoing cost components to assess when considering the life cycle costs of a house. Furthermore, the issue of housing affordability must be considered in a wider context of income

levels, health needs, employment and so on. The Commissions focus on the purchase cost of housing does not go far enough.

In Summary

The costs of building a house and developing a section to the point it can be built on are clearly significant factors determining the price of housing. The report comments on the significant rises in the price of labour and materials despite no increase in building productivity. Given this the report would benefit from targeting its recommendations at these factors, despite 11 findings in this area the report only has one recommendation. The report will not be successful if it only offers improvements to a small segment of the cost of housing.

The Council is a strong advocate for developing regional approaches to housing affordability. Communities benefit when they make the decisions that directly affect them and councils should have the autonomy to respond to community needs. Local diversity can reflect differing local needs and priorities.

It is important that Wellington offers the prospect of affordable housing in order to grow and attract residents. The Commission should consider the affect that regional housing affordability is having on the greater question of where the optimal growth areas are.

6. Council Focused Recommendations

6.1 Chapter 7: Urban planning and Housing Affordability

Recommendation 7.4:

Territorial Authorities:

- Take a less constrained approach to the identification, consenting, release and development of land for housing in the inner city, suburbs, and city edge
- Adopt a strategy that allows for both intensification within existing urban boundaries and orderly expansion beyond them
- Develop strategies that promote adequate competition between developers for the right to develop land

The effect of urban containment policies on housing affordability

The Council agrees that urban containment affects the release, availability and cost of residential property. Overly restrictive urban containment policies can drive up land and dwelling prices due to scarcity and transfer demand to neighbouring districts or even out of a region entirely. However, in response to recommendation 7.4 it is important to recognise that if an appropriate balance is struck, urban containment policies can deliver benefits. The Council has a policy of general containment within the existing urban area, and this is regarded as one of the contributing elements to the high level of activity in the central city and the success of the city's transport network. Wellington has high levels of commuter public transport use, cycling and walking. This policy direction is longstanding, with the following forming important context:

- a District Plan dating from the early 1990s that encouraged widespread infill development, effectively consolidating the existing urban area by reducing demand on the fringes
- a development framework for managing growth in the major greenfield development areas in the northern suburbs (2003)

- an Urban Development Strategy was developed that seeks to concentrate new development along a dedicated "growth spine" within the existing urban area whilst still providing for greenfield growth in the northern suburbs (2006)
- the Council is a partner to the Wellington Regional Strategy which has a policy of general urban containment (2007), and
- The Council subsequently promoted plan changes for residential areas and suburban commercial areas as direct responses to the strategic direction set out in the WRS and the UDS (2009)

The Council has taken a considered and strategic approach to these issues, attempting to accurately balance the benefits of urban containment with allowing some greenfield development.

Other benefits of urban containment can include greater housing choice; better integration of land use and infrastructure; better accessibility of services; and more efficient use of infrastructure. Over the longer-term these outcomes can deliver cost savings to individuals and public bodies which are significant, including reduced commuting costs and infrastructure delivery and maintenance costs. There can also be social and environmental benefits which are less easily quantified but also significant. Environmental benefits of containing the urban area can include preserving green space such as the town belt, protecting land, water sources and habitats and reduced commuter emissions.

It is important that the costs and benefits of urban containment policies are properly evaluated to ensure a net community benefit outcome. This is currently provided for by the Resource Management Act, but the quality of cost-benefit analysis varies due to the devolved nature of plan making in New Zealand. The Council considers that greater emphasis on quality cost-benefit analysis is a desirable when making decisions on the release of land for development. This could include more explicit wording in the Act about what is expected of a cost-benefit analysis or a best practice guidance note.

The Council's planning policies attempt to balance growth though distributing growth evenly between the central city, suburbs and Greenfield sites. This approximately means a third of growth in the central city, a third through suburb intensification, and a third on Greenfield sites.

A research study focusing on Melbourne housing and growth 'Assessing the costs of alternative development paths in Australian cities' found that for every 1000 dwellings, the costs for infill and fringe (greenfield) developments are \$309 million and \$653 million respectively (in 2007 Australian dollars) per 1,000 dwellings over 50 years. The study looked at a wide range of costs to the Council, community and owners including costs associated with health, transport, infrastructure and the environment. The Commission should take into account these costs and provide a level of New Zealand specific analysis.

Council role in site development

Councils could play a more active role in assembling brownfield / strategic sites - there are overseas examples where councils play more active roles in bringing together sites (particularly brownfield sites) for redevelopment. These roles can vary from a simple facilitative role (bringing together key stakeholders to drive a solution) to more interventionist roles involving strategic acquisition and redevelopment of sites over time (these generally involve strategic partnerships with commercial

developers). Where a more interventionist approach is used in other countries councils usually have powers to compulsorily acquire land and/or a greater ability to make use of planning to create value uplift. Planning changes throughout most of New Zealand could not be expected to increase the value of land to any real extent. An interventionist approach generally also requires significant investment from councils. If council are charged with promoting adequate competition between developers they will need additional powers to be effective in this role.

It is unlikely that councils (and certainly WCC at this time) will be in a position to purchase brown field sites for housing development. This position may change as a result of further policy work.

6.2 Chapter 8: Charging for infrastructure

Recommendation 8.1:

That the Government update the Best Practice Guidelines to Development Contributions, based on a process that takes account of the experience of both councils and the industry. The principles in the guidelines might be given statutory status by being incorporated into Schedule 13 of the LGA.

Recommendation 8.2:

That the Government leads training to enable councils to enhance their skills in implementing the proposed Best Practice Guidelines for Development Contributions.

Recommendation 8.3

That as part of the process of updating the Best Practice Guidelines to Development Contributions, the Government:

- identify information that councils would need to provide in regular reports to demonstrate compliance with the Guidelines
- develop a process for regular auditing of councils to assess their adherence to the Guidelines.

Development Contributions

The focus on development contributions in chapter 8 is largely misplaced in relation to housing affordability. Wellington development contributions while placing an additional cost on new developments are not considered to have more than a marginal impact on housing affordability. In Wellington residential development contributions are generally between \$5,000 and \$8,000 with two catchments around the \$10,000 mark. These charges relate to the cost of providing infrastructure for growth with the largest components being water and roading services. If Development Contributions were not charged then rates would have to be increased, creating a separate set of affordability issues. Development contributions are generally conservatively set and that there are currently no development contributions chargeable for NZTA or Regional Council infrastructure.

Best practice guidelines

The Council supports recommendation 8.1. Best Practice Guidelines that help improve the calculation and application of infrastructure charges so that they are more efficient, equitable, transparent, and do not unduly penalise new development would be a welcome development. The Guidelines would be useful if they covered:

- technical parameters to guide the self and special assessment process

- advice on a mechanism and incentives to reduce disputes
- guidance and a process for resolving conflicts in a low cost way
- operational guidance for council officers
- guidance to provide a level of standardisation across the country where possible

If best practice guidelines are to be fully implemented training in them will be an important component. Therefore recommendation 8.2 will be important if Best Practice guidelines are developed.

6.3 Chapter 9: Building Regulations and Affordability

Recommendation 9.1:

The Department of Building and Housing publish for each Building Consent Authority, the total time taken between receiving applications and finally granting consents and the number of occasions where each BCA has used the 'stop the clock' provision. The Department of Building and Housing audit the 'stop the clock' information from a sample of Building Consent Authorities.

Recommendation 9.2:

The Law Commission give regard in its review of the application of joint and several liability on the incentives faced by regulators.

Recommendation 9.3

The Department of Building and Housing report on its ongoing evaluation of the reforms on the allocation of risks between parties to building work five years after introduction

Recommendation 9.4

The Department of Building and Housing should provide more specific guidance for Building Consent Authorities about what is required for an alternative solution to comply with the Building Code.

Recommendation 9.5

The Department of Building and Housing should review the Multi-proof building consent process with a focus on identifying barriers to its application, and suggesting ways to overcome these barriers.

Recommendation 9.6

Statistics New Zealand consider collecting more information about the quality of New Zealand's housing stock and consumer satisfaction with the residential construction industry.

Question 9.2

What are the potential advantages and disadvantages (and current barriers) to the Consolidation of Building Consent Authorities?

Question 9.3

What are the potential advantages and disadvantages from a contestable market for building consenting and inspection services, either publicly or privately provided?

Stop the Clock provision

The stop the clock provision is used in cases where a building consent has a shortage of initial information or there is a need to supply amended information. The council considers that increased information for applicants including building practitioners and architects on the information needed in order to process building consents would be an effective way of reducing the prevalence of the 'stop the clock provision.' These guidelines could be produced by the Department of Building and Housing. Comparing the prevalence of the use of the provision across building consent authorities as suggested in recommendation 9.1 is unlikely to provide a clear comparison as many factors could influence the rate, such as the complexity of proposed buildings in given districts.

Allocation of Risks

The 'alternate solution' provision is designed to allow building that varies from the norm and acts as the avenue for innovative building designs. There is a significant amount of pressure on councils to act in a risk adverse manner when granting consents. This pressure is due to the liabilities that councils are exposed to if it approves building designs that prove to be flawed. The costs imposed on councils for their part in the approval of 'leaky buildings' are a clear example of the possible risks when a relatively relaxed approach is taken. The council supports the Department of Building and Housing looking into these issues as specified in recommendations 9.3, 9.4 and 9.5.

Housing Quality

It is hard to make judgements about the quality of housing without knowing the state of the housing stock. Increased information on the quality of housing stock would be a helpful step, particularly for understanding the condition of the lower priced rental stock. The productivity commission should specify that information collected on the quality of housing suggested in recommendation 9.6 involves professional assessment rather than an occupant survey. Objective data on the quality of housing would have many more uses than a survey of opinions.

It is worth noting that in regards to specifying the quality of new dwellings Councils have no ability to require standards above the building code. The Building Act (2004) specifies that no other document can require higher building standards than those set out in the building code. This means for example, that a district plan cannot require a green roof or for a development to include greywater recycling.

Building Consent Authority Consolidation

Responding to Question 9.2 there are potential advantages with consolidating Building Consent Authorities, these include achieving a critical mass of the required skills and economies of scale. A Productivity Commission investigation into both the advantages and disadvantages of merging some smaller BCAs with their larger neighbours would be welcome.

A contestable market for building consents raises a number of risks. A BCA would face pressure to both limit the resources committed to assessing a proposal and take a lenient approach to consenting. In a contestable market some BCAs may choose not to participate due to market pressures, this would reduce the ability for owners of properties where consent has led to problems to have an avenue of redress.

6.4 Chapter 10: Performance of the Building Industry

Findings Included:

- During the recent housing boom, the cost of building a standard house has increased at a greater rate than inflation.
- The cost of both building materials and building a standard house is substantially higher than in Australia.
- A trend toward larger and higher specification houses is also contributing to increased costs. Factors driving this trend include changing consumer preferences, the use of covenants and a desire to avoid under-capitalising given current section prices.
- Industry productivity performance is flat-lining, and this is reflected in growing building costs, and evidence of poor building quality. Evidence suggests that the productivity performance of the construction industry over the past thirty years has been poor relative to other New Zealand industries, and relative to other jurisdictions.
- The lack of scale in the New Zealand residential construction industry presents a significant barrier to productivity growth.
- Small builders are less able to generate economies of scale.
- Scale home builders can reduce construction costs through the delivery of standardised housing, but scale building firms occupy a comparatively small share of New Zealand's building market.
- A lack of available land can present a barrier to productivity through inhibiting the development of group home builders and scale developments.
- The fragmented nature of the residential construction industry supply chain presents a number of management difficulties which can result in lower building quality and higher construction costs.
- The National Infrastructure Plan represents a good mechanism for providing, where possible, forward visibility of government investment which is reliant on the residential construction sector.
- Skills issues, particularly at the management level, require attention in order for the residential construction industry to better respond to industry cycles and to improve productivity performance. The Productivity Partnership Skills Strategy is focussing on a number of skill issues, which if addressed, would enable better industry productivity growth

Recommendation 10.1:

Given that the Productivity Partnership has a number of relevant workstreams in progress, and has an established membership of relevant representatives, the Commission considers that it is well placed to develop practical initiatives to improve industry productivity. In particular, the Partnership should develop, in consultation with the sector, practical responses to the supply chain issues.

Building Industry

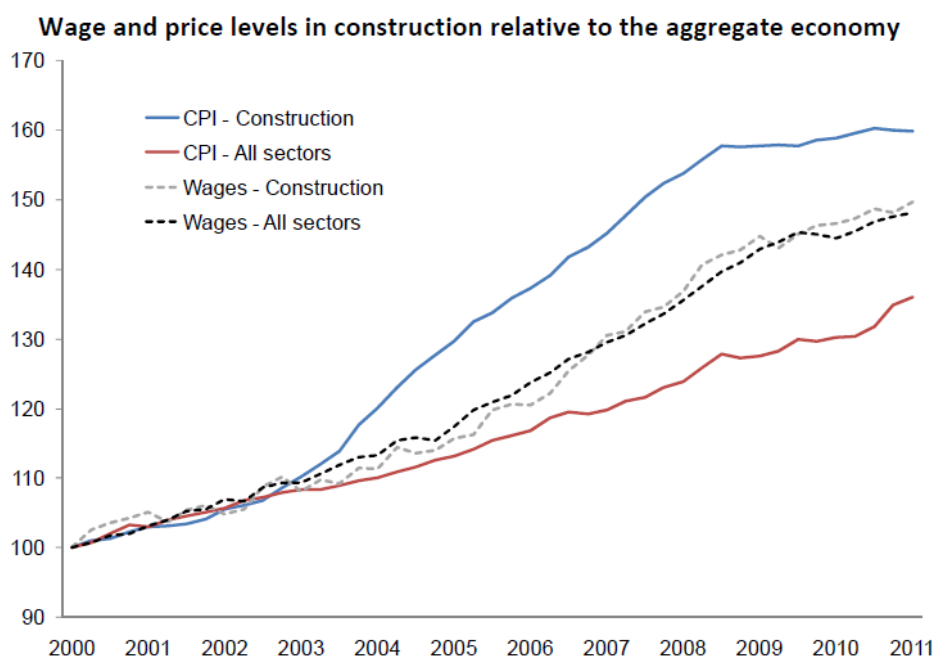
The range of findings in the report related to the performance of the building industry highlights a key reason for the increase in house prices. The final report should include practical initiatives to improve industry productivity as recommendations, even if this is simply indicating the specific areas that require further work.

Recommendations that provide a way of achieving the following would add value to the report:

- Creating the economic conditions for the construction of smaller dwellings in addition to the larger 200 square metre housing currently constructed.
- Reducing the price of common building materials
- Achieving greater economies of scale in construction, overcoming the current barriers

- Increasing labour productivity in construction

The costs of construction are clearly an important factor in increased house prices, the report may fail to improve affordability without a significant focus on this area.



6.5 Chapter 11: Where housing affordability bites

Housing affordability issues tend to be most acute for low-income households. The Council agrees that for some groups in society, the steep increase in real house prices over the 2000s has significantly decreased the likelihood of them being able to purchase their own home or rent comfortably. For these households, there are limited options as:

- Eligibility criteria for state housing have a focus on those with the highest need, in other words the top 5 percent of housing need.
- The accommodation supplement has a maximum subsidy level which leaves some with high housing costs to income
- There are limited home ownership assistance schemes, although KiwiSaver does facilitate saving.

This leaves two groups:

- those who are not eligible for state housing but find the accommodation supplement inadequate
- those with incomes that would previously allow home ownership are now unable to afford home ownership.

The Council provides affordable rental units targeted to people with low incomes and special housing needs. In 2007 Wellington City Council entered into a \$220 million Memorandum of Understanding with the Government to upgrade its housing properties over the next 20 years. The Council is working with Housing New Zealand to investigate sharing waiting lists to ensure applicants are matched to the most appropriate housing. As social housing demand increases the Council will have to

work with third sector social and affordable housing providers and central Government to ensure demand is met.

The Productivity Commission should note the important role that councils play in the provision of social housing. Wellington City Council is one of New Zealand's largest social housing providers with 2,354 units, housing more than 4,000 tenants. The units provide important social and economic benefits to a diverse range of people in Wellington city. Many tenants are on low incomes, are new migrants, or have physical, social or health disabilities. As part of its upgrade programme Wellington City Council upgraded Te Ara Hou in Constable Street, Newtown. The upgrade won the Sustainable Architecture award in the 2010 Wellington Architecture Awards. Jurors commented that thanks to the new features and improved standards, the newly insulated building envelopes would improve residents' health.

One mechanism to make housing affordable is to enable first home buyers, or community housing organisations, to delay the payment of the land component of the cost of a house for up to ten years. This means owners can start to pay off the mortgage they have on their house. Another might be for central and local government to make leasehold land available to individuals to build on. Other mechanisms should be explored as well.

The Council recognises that while many factors that lead to house prices increasing are out of its control the Council can ensure that it doesn't extenuate the problem through Council policies. Through the District Plan the Council seeks to ensure there is a mix of housing types, providing residents with choices about where they live — in apartments, townhouses or traditional stand-alone dwellings. The council seeks to ensure land availability for housing by zoning for substantial greenfield development in the northern suburbs, in combination with infill policies. It may be appropriate for Councils to consider land availability in their area in combination with the levers Councils have in order to ensure that there is provision for long term housing demand.

As housing affordability declines so does the home ownership rate, this means that a large impact of any decline in housing affordability is felt by both aspiring first time home owners including young couples and other households experiencing housing stress throughout their lives. Households will find it increasingly difficult to afford or maintain home ownership. The Commission should look at mechanisms to make housing acquisition more affordable for these groups. The Commission could consider making recommendations on the increased use of assistance packages to facilitate home ownership.

Those whose incomes fail to increase at a similar rate to the rest of the population will find their current standard of living hard to sustain. Those with the lowest incomes will find suitable housing further out of reach. Any improvement in the general affordability of housing may still fail to allow access to decent housing for these low income groups. The Commission should look at developing an appropriate mechanism for ensuring low income groups can access appropriate housing and consider the affordability issues arising from increasing divergence in income levels.

Households may also find ongoing affordability a problem as the cost of maintaining home ownership rises. Ongoing affordability is affected by the costs of upgrading and maintaining infrastructure, these costs are primarily funded through rates. If the costs of infrastructure rise due to overly expansionist growth policies then the implications of this will also affect housing affordability.

Council Role

The report should look at the role of councils in the provision of housing by the third sector. There are opportunities for councils to play a role identifying potential sites and providing planning advice. As indicated by the report successful projects are likely to involve bringing together those with land, building expertise, funding, and property management skills. Councils are likely to have relationships with all these parties combined with clear public good role. Councils could also provide the ability to overcome (and assist others to overcome) obstacles like existing patterns of development and investment, and land fragmentation.