

Writer's Direct Dial No. (03) 543 8430
E-mail: dennis.bush-king@tasman.govt.nz
Ref: C786
C554

16 February 2012

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

Dear Sir/Madam

SUBMISSION ON DRAFT REPORT HOUSING AFFORDABILITY INQUIRY

Attached with this letter is the Council's submission on this draft report. I trust its slightly late forwarding will not be an inconvenience to the Commission.

Yours sincerely



Dennis Bush-King
Acting Chief Executive

E:\Dennis Bush-King\Correspondence\Productivity Commission Submission 16-02-12.doc

TASMAN DISTRICT COUNCIL

Submission on Productivity Commission's Draft Report on Housing Affordability

16 February 2012

1 The draft report does not clearly deal with all the influences on housing affordability

Affordability of an urban residential property is a complex function of both demand and supply factors for both land and house construction. Affordability reflects the cost of providing infrastructure connections. Market expectations, the price of residential property, both for owning and renting, are also factors relative to intending households' ability to pay. This relationship is changing as the various factors are in turn influenced by the rates, forms and spatial pattern of household demand, the housing supply, and changes in householders' ability to pay (essentially household income).

The draft report hovers lightly over all the macro factors leading to affordability, and focuses on the most acute location of concern – Auckland. It leads to a finding that its recipe there is necessary for the whole of New Zealand. The reported past 23 year pattern of affordability for both Auckland and for all NZ is cyclical and currently (end 2011) it is slightly higher than that long-run average (fig 4.3 p 41). While the draft raises scenarios for future affordability it is difficult to identify the most likely one; both affordability lowering and raising scenarios are posited using equally plausible assumptions (p 30).

The draft does not disclose all relevant evidence to link housing demand and supply, with changes in affordability. The draft deals generally with the global and domestic demand factors by focusing on the past 15 years of change. The draft has connected all those macro-factors that conspired to produce the early-mid 2000's price boom in NZ with the synchronous affordability decline. But there is little assessment of the risk of recurrence of that state or of a comparable consequence from a different mix of drivers. For example, with the structural connection of the domestic and global equity markets, and the mobility of capital with people, there appears to be no recognition of the drivers for property price inflation simply by domestic property markets being led by the ability to pay by Austroeuroamerican immigrants (given security, economic or lifestyle reasons for coming to NZ). How this might recur or not is not inquired into. At least the draft acknowledges the supply side constraints arising from the construction sector's limited capacity to have alleviated the 2000's price boom.

2 The draft report fails to link planning influences on supply with affordability changes

In analyzing the supply side factors, urban planning processes are identified as a significant source of residential property price growth response, compared with a construction supply response, in dampening price growth in the face of demand factors. The planning system is correctly assessed as a constraint to serviced land release at the margin. From the figures provided (p 17), from 2000 to the present, the cost of residential site land across all NZ rose by ~35% while construction cost rose by 30% over the same period.

However, within the serviced land release process, the subdivider and developer response to demand and price, that completes the land release for construction, is not considered as separate from the planning system. The draft (p 17) conflates this land market process with the planning system in generalizing about the influence of this potential supply constraint on property price and hence affordability. This is a fundamental misunderstanding in the report of property supply dynamics. In Tasman for instance, and Richmond in particular, land has been zoned in sufficient quantity for at least a 20 year lead in period but land owners have drip fed sections on to the market in order to maximize returns.

A question to be answered is whether and how the Commission's housing demand and supply model (not available with the draft) has distinguished at the territorial authority level, the rates of effective land release at the stages of zoning, subdivision, and sites (with or without housing) in relation to household demand, to resolve supply responsiveness.

But the more fundamental inadequacy is the absence in the report of showing the linkage between the effective marginal availability of either residential land or properties (through both planning and market supply processes) with changes in household income, to influence housing affordability.

3 The recommended solutions in the draft report are not necessary and will not be effective in influencing improved housing affordability; and other solutions are not inquired into in the draft report

In Tasman District the Council manages an urban growth demand & supply model for strategic planning purposes under both the Local Government Act and the Resource Management Act. For all the largest urban areas in the District there is at least 20 years supply of residential land either zoned or programmed to be zoned; yet Tasman remains one of the lowest housing-affordable regions in the country. The reasons for this we consider include:

- the inflated value for any land in what is a key destination region, as the legacy of global attractiveness (from the rest of NZ as well as the austroeuroamerican world) and its global ability to pay
- the network services fees (development contributions) currently represent a relatively high marginal public investment rate in lifeline services as a necessary response to a high marginal cost of the services given the large, dispersed settlement pattern, a legacy of services underinvestment, and rising government standards for such services
- despite the influx of wealthier property owners in the last 20 years, the modest median household income of the normally resident population.

Within these influences on housing affordability, the Council considers that the Commission should focus further inquiry, to produce a more complete understanding of the levers that might be effective in improving the housing affordability index, both regionally and nationally.

In relation to development contributions, the report fails to understand that if growth costs are not met through developers meeting a fair share of the growth component, rate payers will continue to fund the cost of trunk services. There may be more merit in acknowledging development contributions for what they are – a tax on development. Like all taxes they are unpopular but necessary. The report infers that perhaps infrastructure provision should be by other than councils; this implies costs will be less yet provides no analysis. The track record of electricity and telecommunication charges since corporatization/privatization does not reflect this experience.

While consenting costs are not a large component of housing cost overall, we would support any effort to reduce compliance costs in relation to consenting under the Building Act and Resource Management Act but not at the expense to the general ratepayer. We note the Government already receives levies in the order of \$16 million per year most of which goes to funding the Department of Building and Housing – where the balance goes only Treasury knows!