



Submission
to the
New Zealand Productivity Commission
on the
Housing Affordability Inquiry
from
New Zealand Chambers of Commerce (Inc)
February 2012

Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand.

Submission

NZCCI welcomes the Commission's draft report and endorses the thrust of its findings and recommendations. House prices and the cost of housing have a significant impact on New Zealand's economic and social performance and the business sector is impacted in many ways both directly and indirectly.

The 2001-2007 house price boom contributed to a number of imbalances in the New Zealand economy including considerably raising the net wealth of home owners while making home ownership unaffordable for many. It is important to note at the outset, however, that the boom has been in the process of self correcting since 2007 without need for government intervention. Notwithstanding this the Commission's report raises a number of important issues that if addressed will enable the more efficient functioning of the housing market and the other factors that contribute to housing affordability and dampen the affect of future exuberance.

This submission from NZCCI comments on the Commission's key findings.

We agree with the Commission's findings that the **tax system** was not a major driver of the house price boom and that no further changes to the tax

treatment of housing are necessary for the specific reason of adjusting house prices.

We accept there is scope to improve the **performance of the building sector** as a means of reducing costs and we endorse the work that is underway to achieve this.

Given the findings of the Commission in relation to Australian productivity comparisons, it may be that there is further scope to improve productivity in New Zealand - in particular identifying the barriers faced by the local construction sector to adopting the more efficient practices of the Australian industry.

We support the Commission's findings that **urban planning** practices are putting upward pressure on house prices and we agree with the recommendation that territorial authorities should take a less constrained approach to the release and development of land for housing.

We recognise the challenges associated with urban sprawl in some areas but think that a more market oriented and flexible approach are better able to address these. For example in many urban areas a trend toward inner-city and inner-suburb living are achieving council goals of higher residential densities without the need for councils to impose harsh constraints on those opting to live further out. It is counter productive and unnecessary to deny individuals with differing preferences the right to develop properties on the city edge.

The right to put land to alternative uses should be upheld unless there is a valid public policy reason to do otherwise.

We support the Commission's recommendations on **infrastructure charges**. It is essential that Development Contributions do not discriminate against building or collect more than is economically justified. Wherever feasible, prices rather than development contributions should be charged for local government goods and services (for example, for water supply) and the use of development contributions should be restricted to public goods. We support the proposal to allow legal challenges to development contributions through a 'merits-based test'.

We support the Commission's proposals to improve **building regulations** which currently impose unnecessary costs to home buyers. For example, government efforts to address weather tightness problems through new regulations should be made with care as these could impose significant and unnecessary costs on the industry while blunting incentives for house buyers to take more care.

We support the recommendations aimed at improving the processing of **building consents** and reducing consent and inspection delays.

We note the Commission has made few recommendations aimed at improving the effectiveness of the government's **social housing** programmes. Such programmes provide transfer payments to needy groups but unless they are based on sound public policy principles, it is likely they will increase the overall costs to the community of housing provision. It is recommended that the Commission takes a closer look at the effectiveness of government's social housing policy.

As well as house prices, key components of housing affordability for most home buyers include economic factors such household incomes and mortgage interest rates yet these have only been touched on by the Commission.

Government can play a role in facilitating competitive **mortgage interest rates** by providing an economic environment conducive to a competitive banking system and to sound monetary policy.

Government policies which aim to improve productivity and raise economic growth are the best way to sustainably raise **household incomes** generally which has a positive impact on housing affordability.

Conclusion

In conclusion, NZCCI welcomes the Commission's draft report and endorses the thrust of its findings. We hope that the final report picks up the proposals put forward in this submission and that the government adopts the Commission's recommendations.