

Submission of Philip G. Hayward to the NZ Productivity Commission Inquiry
into Uses of Land for Housing

Lower Hutt, 22 Dec 2014

Question 1: Is it helpful to think of the planning and development system as a means of dealing with externalities associated with land use and coordination problems? What other factors should the Commission consider in evaluating the role of the planning and development system?

Land use planning and its dealing with externalities, really needs to be separated into two separate categories. Traditional urban planning did indeed deal with basic public health and safety related issues, and the impact of externalities on neighbours to incompatible activities. This never created any problems with systemic housing affordability and it is not helpful to confuse the central issue we are now confronting, that of housing affordability, with these sensible and harmless historical norms. In fact it is better to refer to this as “zoning”. “Planning” really relates to growth; zoning may be embedded in it, but we properly need to restrict this whole public discussion to the changes in “planning” that have caused so much damage to the economy and society.

Alain Bertaud in his presentations in this country, referred to planners mission creep. Planners do overwhelmingly overlook the distortions to urban property markets that their plans and regulations cause, including unintended consequences and failures to achieve the alleged objective anyway. But the historical and traditional norms for minimising harmful externalities – by zoning - were of minor consequence only. What is of major consequence is the modern fad for “constraining the urban footprint”. The literature regarding the UK’s long experiment with this kind of planning is extensive and utterly damning. The Commission is probably aware of this literature: Cheshire, Overman and Nathan (2014) referenced by the Commission, has a large number of references to this literature and their book is essentially based on it. Cheshire and various co-authors are especially important, as are Alan W. Evans (University of Reading) and various co-authors (perhaps referred to a bit lightly by Cheshire et al due to academic rivalry).

Evans’ papers are beautifully titled; for example:

"No Room! No Room! The Costs of the British Town and Country Planning System" (1988)

"Rabbit Hutches on Postage Stamps: Planning, Development and Political Economy" (1991)

"Shouting Very Loudly: Economics, Planning, and Politics" (2003)

I wish to quote particularly from a 1998 paper by Evans: "Dr. Pangloss Finds His Profession: Sustainability, Transport, and Land Use Planning in Britain".

ABSTRACT

"In this paper, I look at the use of land use planning to promote global sustainability by reducing the use of fossil fuels in transport. The first theme of the paper is that land use planning is an inefficient instrument for this purpose and may actually increase the use of fuel. The second theme relates to land use planning in Britain, where sustainability has been seized on as a justification for existing policies of urban containment. I argue that some of these policies, in particular the designation of greenbelts, actually increase car use and the length of journeys."

From the Conclusion:

"...Land use planning is necessary to deal with the externalities, particularly the external diseconomies endemic in urban life. These externalities may be physical—the notorious smoking Factory chimney—or aesthetic—the desire to preserve open space and the visual environment. These are legitimate concerns of land use planning. But these externalities are spatial in that they are the costs imposed on one group residing or employment in a city by another group. The allocation of land uses seems to be one obvious way in which they can be controlled. But the concept of sustainability arises out of the idea that the consumption of a good by one group will have an impact not on nearby residents, or even on those currently living, but on those yet to be born anywhere in the world. It is the antithesis of the kind of spatial externality for which land use controls were designed, and can clearly best be dealt with by the taxation or other regulation of the fuel and other exhaustible resources that need to be conserved. The policies may, in practice, lead to longer journeys rather than shorter and to a greater use of fuel than would have

occurred otherwise. Thus the policies may serve both to restrict economic growth on the grounds of global sustainability, and to increase fuel consumption, thus achieving the worst of all possible worlds rather than the best.”

Simple fiscal incentives to increase the efficiency of use of land, are recommended by virtually all these authors and by significant experienced urban economists in the US such as Edwin S. Mills and Alex Anas. That is, proper pricing of infrastructure use related to the cost of provision; road pricing; and shifting the burden of taxation off structures and onto land. The consequence of this is that a wide variety of “best ways” of adjusting behaviour to the ends desired in the policy in the first place, occurs, in contrast to the “one size fits all” imposition of a quota of land within which participants in the urban economy must fight price-rationing battles for a share without regard to any factors beyond “the victory of the deepest pockets”.

Planners pursue narrow targets to the total exclusion of overwhelmingly more important considerations such as economic performance and social justice. In so far as they claim to be also considering for these other factors, they are cherry-picking theoretical concepts and presenting “too good to be true” conclusions to their political masters. The Commission particularly needs to condemn in the strongest possible terms, the utter incompetence and presumption to total non-accountability, of the Auckland Council Planning Department. I strongly suggest the Commission recommends a further inquiry specifically into the validity of the Planning School courses by which people are allegedly turned into “professionals”; into groupthink and predetermined agendas prevailing in the department; into the culture of conformity imposed by the Council’s responsible managers; and the impunity of the Council to any sort of standards of objectivity and contestability in the analytical work they produce. Blatant incompetent, non-objective and utterly unprofessional analysis remains standing as the basis for advancing of crucial long term planning in the face of repeated valid criticism, including from officially appointed reviewers/auditors.

“Planning” was done far more competently in earlier eras, usually with input from truly objective professionals like engineers, architects, and economists, before these modern *allegedly specialist* training degree courses were set up and used as the main accreditation source for “planning” professionals. In fact they consist largely of indoctrination into Deep Green ideology, involving the ultimate pursuit when in employment, of narrow utopian targets without regard to the practical need for humanity to alter environments and utilise resources.

I suggest that there will be older professionals who have been shunted aside in the ideological takeovers of Council Planning departments, who need to be restored to key positions, and most of the current staff need to be declared surplus to requirements. The bloat and “jobs for the boys” in the Auckland Council Planning department needs to be quantified and made a public issue, along with the sheer incompetence and culture of impunity that exists.

For some specific criticisms of this incompetence, please refer to one of this author’s guest essays on NZ’s most-followed blog:

<http://www.whaleoil.co.nz/2014/01/sunday-essay-complete-utter-uselessness-intensification/>

Even the traditional planning – more properly, zoning – minimisation of externalities can be handled by private systems of legal covenants, and freedom of choice exercised by people wanting to pay more or less for locations with more or less amenity. However, this has minimal effect on systemic affordability of housing. Houston, the sole example of “leaving zoning to the free market”, does not have a house price median multiple any lower than cities that do not, but nevertheless also do not constrain fringe growth. The median multiple of 3 seems to represent a level of share of household income spent on housing that will be elastic to “savings” in particular features of housing. Over time, as the real cost of land has fallen (yes) and the cost of building has fallen, “median multiple 3 housing cities” have tended to supply larger houses on larger sections for the same real price; and the prices bidden for locations relative to good schools in particular, may have risen as other amenities and attributes of housing fell in cost.

Question 2: Can the current land planning and development system be made to work better to benefit cities throughout New Zealand? Is a different type of planning system required to meet the needs for housing in New Zealand's fastest growing cities?

The urban planning system operated by NZ Councils up until the 1990's succeeded admirably well in providing "median multiple 3" housing markets for several decades. The interesting historical background provided by Bassett and Malpass (NZ Initiative) in "Priced Out! How New Zealand Lost Its Housing Affordability" (2013) is an excellent discussion of this. The simple fact is that New Zealand succeeded in building at least twice as many new houses per year in past decades, when population was considerably lower. Councils had powers not dissimilar to now, only the culture was one of "enabling", not obstructing growth on ideological grounds (and potentially a switch to some measure of *rent-seeking* enabling thrown in in place of enabling of honest supply of housing for honest operating profits).

However, the conditions that have been created, with speculative demand now a major factor, along with expectations of easy access to large amounts of credit, now require much more than an attempt to revert to the old "same power, different attitude". The system most definitely needs to be changed, and changed radically to something resembling the systems that have guaranteed housing affordability in the face of all demand-side pressures that have been thrown against them. I refer to the systems prevailing in the several dozen US cities with house price median multiples that have remained consistently at around 3 (in Demographia analyses, which are largely supported by similarly objective analyses which are all thus far of more limited scope) even while other cities were bubbling to 9+ (as Auckland now is) – it is also noteworthy that in Saiz (2008) measures of elasticities of supply of housing by US metro, finds that these cities have an elasticity factor of around "2" or even higher, with "1" being a kind of tipping point where a housing market is able to be swamped by demand and price inflation triggered, driven by speculation. Ref Albert Saiz (2008) "*On Local Housing Supply Elasticity*". Of course the cities that suffered price bubbles mostly scored below 1.

There are at least 3 papers so far that attempt to devise a formula to explain US metros housing market behaviour, and all of them have to incorporate a factor for “speculative demand” that is *endogenous to low supply elasticity*. The most recent, and therefore the best of these papers because it includes the crucial post-2007 period, is Heeboll and Anundsen (2014) “*Supply restrictions, subprime lending and regional US housing prices*”. Analysts who seek to blame the easy credit for house price volatility are unable to explain away the maintenance of price stability in several dozen US housing markets in the 2000’s, and indeed decades of stability that included some periods of housing-demand-side incentives that would be expected to have caused price volatility if the argument that supply of land has nothing to do with it, was valid.

Question 3: What criteria should the Commission consider in evaluating the current land planning and development system in New Zealand?

The primary criteria the Commission should consider, is the correlation between the imposition of cultures of “growth containment” in Councils, whether explicitly stated as in Auckland’s case with a specific “boundary” policy or not; and the severe historically unprecedented sustained house price inflation of the recent period. It should also treat the Councils arguments in their own defence with the derision deserved given their demonstrated incompetence and presumption of impunity.

Question 4: Would a significantly increased supply of development capacity lead to an increased supply of affordable housing, or would further regulatory or other interventions be required to achieve that outcome?

It would be a huge mistake to assume that merely increasing “quotas” of supply of land for urban growth, will make the slightest difference to the current problems, apart from possibly making the eventual crash more volatile.

In an item published in the NBR May 11 2012, this writer said:

“The NZ Productivity Commission’s (Inquiry into Housing Affordability) findings and recommendations completely fail to identify the *extent of market freedom* surrounding property development and the supply of land for it that is *essential to ensure housing affordability and economic stability*. There is a very real danger (knowing our bureaucracies, more a certainty) that unspecified “releases of land” will not be of sufficient quantity to eliminate the “gaming” by incumbent land owners and land bankers that leads to very high levels of planning gain, and hence may merely shift NZ from being a “housing bubble market” as a consequence of outright under-supply, to one in which over-building is possible along with the price inflation.

Twenty to thirty years supply may in fact be insufficient in some markets; *one single farm* contained the land that has provided *most* of Wellington’s new suburban development in the last 20 years, in Churton Park. But council urban planners who insist that they have “provided enough land for greenfields development to ensure housing affordability” at “five years supply” or even ten or fifteen years supply, are completely ignorant or in denial of reality.”

I have been searching for clear analyses on Spain, for years. There is a lot of mythology about it being perpetuated in absence of good information. Opponents of reform regarding land supply, claim that the Spanish housing bubble proves that “liberal supply” does not guarantee price affordability.

This 2005 paper (well predating the eventual crash) is very clear and confirming of how I understand the mechanisms that lead to oversupply along with unaffordability. It deserves to be better known.

Jaime Sabal (2005) “The Determinants of Housing Prices: The Case of Spain”

[http://proxymy.esade.edu/gd/facultybio/publicos/1311346343068The Determinants of housing prices the%20case of Spain%20.pdf](http://proxymy.esade.edu/gd/facultybio/publicos/1311346343068The_Determinants_of_housing_prices_the%20case_of_Spain%20.pdf)

Note especially:

“...in the particular case of Spain municipalities have a measure of monopolistic power over the supply of land, that must be taken into account. Many local governments own considerable tracts of land that are released for development only when demand pressures reach the point where they can be sold at high (“speculative”) prices, more with a view to replenishing government coffers than for long-term planning purposes. This speculative approach is not a negligible force behind the supply of land in the country.....”

There is also some excellent comments about land supply on page 9 of this IMF paper (page 11 of the PDF):

IMF Country Report No. 09/129

Spain: Selected Issues (2009)

<http://www.imf.org/external/pubs/ft/scr/2009/cr09129.pdf>

“The supply response was slowed by zoning regulations, reinforcing house price increases. House price inflation in Spain deviated significantly from construction and land costs. This is related partly to costly land use regulations.**7**

Land approved for building saw average price increases of 30 percent in 2000–01, while agricultural land increased only 5 percent.**8**

Application processes for building permits are lengthy.**9**

Furthermore, Spain’s land law entitles local governments to 5–15 percent of rezoned sites (for roads etc.). Until 2007 this provided municipalities incentives to keep prices high to benefit from sales of excess land later on (OECD, 2007).**10**

Bureaucracy, segmentation and uncertainty induced by zoning processes aggravate scarcity of developable land further.**11**

Thus, relatively tardy supply translated the sizable demand shock into a doubling of real housing prices between 1999–2007.

Supply is also subject to long building times (Figure 3). Average time between building permit and house completion is around 2 years. Such delays can cause large swings in house prices, in both directions. On a structural basis, Ayuso and Restoy (2006) estimate that 2004 prices exceeded long-run equilibrium values by 24–32 percent. However, prices were only marginally overvalued compared to their short-term equilibrium, which takes supply rigidities into account. At the current juncture, supply sluggishness implies peak housing starts of 2006/07 reach completion in the recessionary period 2008/09. Thus, inventories will keep increasing for some time. This is exerting downward pressure on prices and transacted volumes, because price expectations are now to the downside.”

7 Brueckner (2007), Eicher (2008), Glaeser and Gyourko (2002) or Glaeser et al. (2005).

8 OECD (2005, p. 74), OECD (2007, p. 79) and Ministerio del Medio Ambiente (2008, p. 22).

9 In particular, planning of electricity and water infrastructure is complex and lengthy at 7-10 years (OECD, 2007).

10 From 2007 on legislative changes obligated municipalities to use this percentage of land exclusively for utility provision.

11 Tribunal de Defensa de la Competencia (1993, p. 149 and 1995, p. 37).

And this paper from one Carlos Garriga has some useful data:

http://morris.marginalq.com/UWFRB_2010spring_files/Ms_Boom_Bust_v02_UWCF.pdf

But Garriga, as many others, does not understand that chokepoints in the conversion of rural land to urban use can be the precondition for everything that happens after that: he thinks that Spain “deregulated” land supply and supply increased 30%, and therefore land supply regulations can only be responsible for 7% of the price appreciation that occurred.

This is exactly how I see the half-hearted reforms announced so far in NZ. They are nowhere near enough. It would be better to deliberately constrain supply to zero and burst the bubble with fiscal and monetary and macroprudential approaches – *then* do really *effective* reforms of land supply and promise everyone that there is every intention of prices being kept low and stable from then on. The downside is far more severe in a Spain-type situation where speculative momentum has spilled into bidding up the prices of land under *quotas* (increased though they may be), and actual construction of new housing with a long supply “pipeline” – associated with a post-crash phenomenon of abandoned semi-completed developments.

Really effective reforms now that the problem has developed such substantial demand-side momentum, has to include the ability of the private sector to bypass the local central planners altogether with the planning, finance and execution of the necessary infrastructure. There might have been a time in past decades where Council Planners with a pro-growth attitude, co-operating with developers and generally enabling competition, could keep house prices affordable, but I see no chance whatsoever that this past can be restored. The NZ Initiative’s recommendations of a system like the Municipal Utility District in Texas are absolutely the correct recommendations.

The NZ Initiative’s broader work surrounding the structure of local government is interesting in that it identifies an unusually low share of overall taxation and expenditure, from “local” government in NZ compared to other OECD nations. “Development capacity” almost certainly will have to involve central government providing the regional road network improvement, especially following Bertaud’s sound advice to impose generous rights of way decades in advance of potential growth, just as New York’s Commissioners did in 1813 without having any idea how their city was going to evolve. NZ already has an outlier-high amount of *rural* road network capacity (per capita) and it is

illogical to ignore this potential already-existing framework to which capacity could be added by means of extra lanes and more durable surfacing.

In the urban-economics literature, analyses of “contiguous” development versus “splatter” or leapfrog development, have always concluded, going back decades, that the latter is more efficient. This is because the “best use” for land is far easier to discern after there has already been some development around and beyond it. It is the insistence on “contiguity” that leads to a dense urban carpet effect and in fact makes infrastructure upgrades and expansion and “churn” of land use to more efficient uses, too expensive and disruptive.

Useful references on this point:

J. C. Ohls and D. Pines, (1975) "Discontinuous Urban Development and Economic Efficiency"; *Land Economics* Vol 51: 306-316

M. Fujita, (1976) "Spatial Patterns of Urban Growth: Optimum and Market"; *Journal of Urban Economics* Vol 3 (3)

John R. Ottensman (1977) “Urban Sprawl, Land Values, and the Density of Development”; *Land Economics* Vol 53: 389-400

S. Titman, (1985) "Urban Land Prices Under Uncertainty"; *American Economic Review*, Vol 75 (3) (June)

Max Neutze, (1987) "The supply of land for a particular use"; *Urban Studies* Vol 25 (5)

Richard B. Peiser, (1989) "Density and urban sprawl", *Land Economics*, Vol 65: 193-204

J. E. Moore and L. Wiggins, (1990) "A Dynamic Mills heritage model with replaceable capital"; *Papers in Regional Science* Vol 61 (1)

Question 6: Are there other local authorities exhibiting good policies or practices in making land available for housing that the Commission should investigate?

Selwyn and Waimakariri already on the Commission's list, are a good choice of inclusion, given their extraordinary recent performance in consenting quantities given the small size of their departments and staff numbers, in the face of demand deflected from Christchurch with *its* notoriously intransigent Planning department, and the failure of government-appointed emergency agencies to do any better. I am not aware of any other rays of hope in NZ. It must be noted though that individual smaller Councils cannot provide the "affordability enabling" that is possible only with *national* standards for performance. While these Councils might be performing impressively for their size, they cannot be a sufficient "vent" for the demand pressures deflected from much larger Councils areas of responsibility. Land bankers and developers are still charging "what an inherently undersupplied market will stand", in the *entire Canterbury region*. Of course the value of remote locations is lower, this is basic urban economics, not "increased affordability".

Question 7: What policies and practices from other countries offer useful lessons for improving the supply of effective land or development capacity for housing in New Zealand?

Australia and the UK supply useful lessons in what *NOT* to do. Australia's government-set-up agencies for controlling land supply, are merely like oligopolists enforcers wearing government uniforms. The UK is the epitome of cluelessness – "5 years supply of land for urban growth"! And the same language is used in NZ's recent Housing Accords, unselfconsciously aping the world's stupidest housing regulators.

Alan W. Evans (2004) "*Economics and Land Use Planning*" noted regarding Portland, that its land prices began inflating just four years after the imposition of a "20 year growth boundary". It is surprising that the basic processes require no more than common sense and some acquaintance with the real world to understand them, yet reams of academic analysis completely miss the invalidity of the "20 year" or other "stated supply period" planning fallacy.

First, there is no guarantee that the owners of land (usually farmland) will be willing to sell it. They may be "attached" to their land. Farmland normally comes on the rural land market due to the desire of its owners for retirement

or relocation or change of lifestyle. The rate at which it does so is low. Therefore, developers seeking land at minimal price uplift over true rural values tend to watch out for such land for sale within driving distance of a city, provided there are no regulatory prohibitions on “splatter” development, such as a UGB. Owners of land remaining undeveloped as “splatter” development occurs around and beyond them, do of course expect a premium to be paid them for their land, but the ongoing conversion of true rural-price land beyond, keeps the land rent curve lower and flatter than if there are constraints.

Second, developers do wish, for rational commercial reasons, to secure sites for future developments while they are still in the process of working on an existing one, which may occupy them for years. This means that land “under development” and “acquired for development” already tends to be around 5-10 years of “supply”.

So it is no wonder, when a “20 year growth boundary” is imposed, that the amount of rural land coming on the market anyway as rural land, within that boundary, comes far short of the quantity required for developers to continue acquiring it at modest cost, and indeed will come far short of the quantity required for growth in any one time frame, period.

Third, under these conditions, the owners of developable land cease to behave like the rational participants in markets that are assumed in economic theory, whereby “the market” merely allocates land to “best use”; and behave instead like the holders of a speculative commodity such as gold. But it is worse than this, because developers need land to stay in business; they are like the actual manufacturers of items that need gold as an ingredient, leading to disproportionately inflated prices of their manufactured products. It is a shame that a basic necessity like “housing” is affected by a similar mechanism.

This is why there is no middle ground, modest land price appreciation, in any market with growth containment policies that actually contain growth; in comparison to unconstrained ones. This is why housing median multiples tend to “sort” at around three for the unconstrained ones regardless of how large the average lots and houses are; while the median multiples tend to “sort” at six and over, and with much greater volatility, in the growth-contained cities –

regardless of how much smaller lot sizes (in particular) and also housing sizes, fall in new developments. The price of land per square foot always undergoes an explosion; never a modest price increase.

Many cities in the USA do not have a planned UGB as such, like Portland or the UK's cities, but local zoning ends up acting exactly like a UGB, with the same consequences for urban land rent. For example, surrounding municipalities with very low density "rural" zoning ensure that an urban municipality hemmed in by them will behave like an urban economy with a UGB. So will an urban economy surrounded by land owned by government and withheld from sale or sold under conditions of exploitation of monopoly power.

The most important factor for urban land rent, is the freedom to convert rural land to urban at and beyond the urban fringe. When there is total freedom to do so, developers in competition with each other literally keep the selling price of lots in "splatter" development to little above the rural land value for which they secured the land, plus the cost of development.

This is why quarter acre lots can end up under \$50,000 in these markets while 1/10 of an acre lots in markets with a sticky process of conversion of rural land to urban end up over \$200,000. This is also why large lot zoning, height restrictions, set-backs and other "anti-growth" restrictions relating to density, do *not* cause market-wide unaffordability in any of the systemically affordable markets. Even a 2-acre minimum mandate does not inflate the price of housing as much as the economic rent that is embedded in every 1/10 of an acre when owners of rural land at the urban fringe possess "holdout" powers. Glaeser, Ward and Schuetz (2006) disaggregated a number of the different effects that force house price median multiples up, and they concluded that minimum lot sizes are responsible for 4% more expensive "housing" for every extra quarter acre of lot size mandated, at least in Boston which was the subject of their study. So obviously this is not a game-changer, and obviously many of the cities with median multiples of 3 and under, have many suburbs with large minimum lot sizes and other "anti-growth" restrictions, without this having affected systemic affordability. These "anti-growth" restrictions are wrongly labelled: they are *anti-density* restrictions. The fastest-growing cities of all are not in the least slowed in their *growth*, by *these* restrictions. The competing

cities with UGB's never have growth anything like as much regardless of how much density they allow.

And when you have large lots that are still relatively affordable, any smaller lots are more affordable still, leading to a still-low median multiple for the city as a whole. The "substitutability" of location via trade-offs between land cost and travel cost keeps the entire urban land rent curve low and possibly flatter as well. This is why CBD condos with a few years of depreciation in the value of the structure, are so amazingly cheap in Houston. Urban planners need to be asked in what way they are "increasing housing choice" if their policies result in prices of CBD condos that are ten times higher than Houston's due to inflated land rents representing 95% of the total package cost instead of 15% of it.

There is a further complexity when a city, like Boston, has zoning which rations the rate of conversion of rural fringe land to urban uses, which causes increased economic land rent – *AND* they have large minimum lot size mandates as well. Ironically, this actually *lessens* the value of raw land sold for development. The fact that home buyers might be prepared to stretch to paying \$300,000 for a 1/10 of an acre lot in a constrained market does not mean that they will also willingly pay \$3,000,000 for 1 acre. There are price-elasticities of demand for space to consider (and it is important to understand that these elasticities are quite different when there is freedom to convert rural land to urban use). Minimum lot size mandates along with a UGB or a proxy for one, actually reduces the prices that the original vendors of land can hold out for.

Of course the same property-rentier vested interests in growth containment will also strongly support upzoning, to the extent of advocates misinforming the public, media and politicians about its effects.

This is why Glaeser, Ward and Schuetz (2006) found that in Boston, which is a median-multiple-6+ city, every added ¼ acre of lot size mandate only inflated the price of housing by 4%. Boston is an unaffordable city, but the *cause* of this is the rationing of the rate of conversion of rural land to urban use. When there is economic rent rather than consumer surplus, house price median

multiples tend to sort at around 6+ even as housing space gets smaller. But when this effect is *accompanied by minimum lot size* mandates, the *economic land rent per dwelling* remains approximately the same order of magnitude, but *per square foot it ends up much lower*. Boston's *large-lot* (on average) housing ends up with a median multiple around 6+; and *so does the very small-lot* housing in the UK.

So we come back to a disagreement over whether upzoning increases affordability, as urban planners seem to unanimously assume? All it does in practice, in growth-contained cities, is allow for more capture of economic land rent by the vendor of any one site. That is not to say, though, that higher economic land rent can be captured just by building a tall building in any old spot, eg out in the country. The necessary condition for this capture of increased economic rent from intensification is scarcity of land supply and absence of "options" to the intensification.

We then end up in a cleft stick; with a UGB/zoning, upzoning creates economic land rent and does not address affordability; without a UGB/zoning, the options for land use *eliminates the requirement for more intense use of sites.....!* This is why a land tax is a no-brainer as the alternative "growth constraining" policy.

In principle, it is actually cheaper to build "out" than "up"; even taking the cost of horizontal infrastructure into account. Charging properly for the horizontal infrastructure won't "remedy" the tendency to build, and develop, "out". The only thing that subverts this reality is artificially inflated land costs. Germany is famous for its pricing of driving through petrol taxes, to the extent that the tax revenue is far in excess of infrastructure and externality cost recovery, but Germany's cities still inhabit a sensible middle ground in density, between the extremes of the USA and the UK. In fact Auckland is already comfortably in the data range for typical German cities density – at around 2500 – 3000 people per square kilometre.

That is not to say that sectors of the economy in which density enhances productivity, won't build "up". Manhattan is the obvious example. NY urban areas as a whole was never growth-contained in the sense of fringe growth, and outside of Manhattan, it is one of the lowest density urban areas on the

planet. This resulted in Manhattan land rents always being surprisingly low in comparison to those in the centre of growth-contained London; indeed, to any UK city. This is because (as Robert Fishman points out in “Megalopolis Unbound”, 1990) there is always the option of locating at lower cost just over the other side of the Hudson River; at lower cost still 10 miles further inland; and finally, at the lowest cost of all on the fringe where rural land is being freely converted to urban use. Seeing the last option is absent in UK cities, the price of all the other options are commensurately higher.

Under these conditions of systemic affordability in the urban area, it is possible that eliminating height restrictions in Manhattan would have reduced the price of apartments – but it just as likely would have increased their average size. Manhattan was once 3 times more densely populated than it now is, even though it only had 1/10 the floor space. People do tend to demand more space as the trade-off against falling urban land rent. New York urban area has started to become unaffordable in recent years because the fringe has run up against strict “rural” zoning in adjacent municipalities. It is too complex to try and predict what will happen to the level of land rent at each location given the very low density that is extant across the entire urban area. Chronic, forced density of all growth for decades, as in the UK’s cities, is *much easier to analyse*. There is actually no incentive for politically savvy property rentiers to build “up” at all in a systemically distorted urban land market.

Advocates of growth containment insist that ***intensification will provide the affordability lost in the process of increasing economic rent.*** This is not supported by real life evidence. Economic rent increases faster than space is traded off, when incomes are rising (as they do and we hope will continue to do).

In reality, the correlation between urban density/average housing space per household, and median/average housing cost, runs in the direction of higher density/lower average housing space = *higher* median/average housing cost. This is the opposite of the correlation claimed by advocates based on *shallow assumptions only*. This is because economic rent increases faster than space is traded off by households, as long as the superabundant lower-cost land in non-urban uses is denied to the urban economy. If that superabundant land supply

is available to the urban economy, the opposite occurs: land rent falls faster than households increase their consumption of space as incomes rise.

Urban economics theoretical literature that matches this reality does exist. Important examples include Robert Murray Haig (1926); Michael A. Goldberg (1970); Dimitris Emmanuel (1985); and William Wheaton (2002).

Emmanuel (1985) coins the term “monopolistically derived minimum land price” to describe the same phenomenon as “extractive economic rent” (per Evans 2004). Emmanuel (and others I can cite) correctly observes that site rents can be elastic to density under the conditions of growth containment. That is, building “up” on a site merely increases the number of households from which a given rent can be “extracted”. This is why you get cities at the opposite ends of the density spectrum, where the median multiple is “15”, average housing unit floor space is 60 square metres, and density is 26,000 people per square kilometre (due to building “up”) – versus a median multiple of “3”, average housing unit floor space of 250 square metres and density of 1,100 people per square kilometre. “Site rents” in the former, are literally *thousands of times higher* than in the latter.

But it gets worse. From the McKinsey Institute's latest Global Report on Affordable Housing: ***in London, 45 percent of land with permission to be developed remains idle***. The UK's waiting list for social housing has 1.8 million people on it; a pitiful 98,000 new units were constructed in 2012; and 400,000 sites with development permission remain undeveloped!

The reason for this is that in these “created scarcity” urban land markets, site owners are thinking like speculators, not like “producers”. Why should they even *bother* to develop their site to maximum potential, or sell it, when its value already embodies the “rights of development” and that value is going up? (And when the crash comes and the value is down, no-one is interested in doing development).

Houston, Dallas and Indianapolis are examples of cities today where impressive levels of intensification in the *right places* is occurring, and this is all occurring for good sound functional reasons, and the capital available for building “up” is higher due to the very low site acquisition costs. The urban land rent curve is low and flat in these cities, and option values anchored in true rural land values

beyond the fringe, ensures that crowding or stacking people does not merely enable extraction of more economic rent per site.

A counter-argument from compact city advocates, is that ***they will succeed in reducing “housing plus transport” costs.*** This is nonsense: the price of housing in efficient locations embodies a capitalised saving on transport costs and time. It is possible to save on “housing plus transport” costs by buying a significantly smaller home at the efficient location – all other things being equal. BUT in a growth-contained housing market, due to the “extractive economic rent” effect, ALL “housing” choices become more expensive even as the average size falls as a matter of necessity simply due to what households can afford. Therefore it is impossible to reduce “housing plus transport” costs with any policies that force up the cost of all housing in this way! *The same “transport cost savings due to location” are capitalised into values anyway* – all that has happened is that the “housing” component of the cost is higher than before!

Time does not permit going into the failures of statistical objectivity that underlie “studies” that claim the opposite of this. I have authored critiques of such studies in NZ, which are published on the “View of Auckland” website, and critiques of such studies in other nations, posted on academic discussion forums.

The basic, non-rocket-science observed real life effects (eg by Bertaud in multiple papers), are that the spatial distribution of population density is forced towards inefficient urban fringe and exurban locations while the *efficient* locations remain the *MOST* unaffordable, unintensified, and unaffordable anyway in the case of any intensification that does occur. The net effect is *longer average commutes and higher traffic congestion.* The UK’s average urban density is some 5 times higher than the USA’s and its average commute time is 50% longer.

Of course we have evidence of a growing epidemic of “housing related health issues” (Philippa Howden-Chapman, Michael Baker et al, numerous studies) – our “bottom of the market dilapidated house” now costs \$400,000+ instead of the \$100,000 that it should be (all the inflation is in the site value – the

structure is essentially worthless). The difference could well be the rebuild cost (or the total replacement with modern townhouses) that is not happening.

Question 9: How easy is it to understand the objectives and requirements of local authority plans? What improves the intelligibility of plans?

The Local Authority Plans are intelligible enough, they are just pursuing the wrong approaches based on the wrong assumptions. The argument that fringe containment is justified by the need to “better utilise existing infrastructure” is made in *very bad faith*, given the impositions then extracted from developers of intensification and brownfields projects, and the lack of transparency surrounding the requirements of the LGA for Development Contribution calculations to be based on actual projected expenditure specifically to provide for growth in each area.

Question 10: Is ensuring an adequate land supply for housing an objective of current District or Unitary Plans? If so, what priority is this objective given?

Current Plans *allege* to ensure an adequate land supply, and are totally wrong, based on ignorance, incompetence and ideological intransigence. Alan W. Evans (2004) *“Economics and Land Use Planning”* noted regarding Portland, that its land prices began inflating just four years after the imposition of a “20 year growth boundary”. It is surprising that the basic processes require no more than common sense and some acquaintance with the real world to understand them, yet reams of academic analysis completely miss the invalidity of the “20 year” or other “stated supply period” planning fallacy.

First, there is no guarantee that the owners of land (usually farmland) will be willing to sell it. They may be “attached” to their land. Farmland normally comes on the rural land market due to the desire of its owners for retirement or relocation or change of lifestyle. The rate at which it does so is low. Therefore, developers seeking land at minimal price uplift over true rural values tend to watch out for such land for sale within driving distance of a city, provided there are no regulatory prohibitions on “splatter” development, such as a UGB. Owners of land remaining undeveloped as “splatter” development

occurs around and beyond them, do of course expect a premium to be paid them for their land, but the ongoing conversion of true rural-price land beyond, keeps the land rent curve lower and flatter than if there are constraints.

Second, developers do wish, for rational commercial reasons, to secure sites for future developments while they are still in the process of working on an existing one, which may occupy them for years. This means that land “under development” and “acquired for development” already tends to be around 5-10 years of “supply”.

So it is no wonder, when a “20 year growth boundary” is imposed, that the amount of rural land coming on the market anyway as rural land, within that boundary, comes far short of the quantity required for developers to continue acquiring it at modest cost, and indeed will come far short of the quantity required for growth in any one time frame, period.

Third, under these conditions, the owners of developable land cease to behave like the rational participants in markets that are assumed in economic theory, whereby “the market” merely allocates land to “best use”; and behave instead like the holders of a speculative commodity such as gold. But it is worse than this, because developers need land to stay in business; they are like the actual manufacturers of items that need gold as an ingredient, leading to disproportionately inflated prices of their manufactured products. It is a shame that a basic necessity like “housing” is affected by a similar mechanism.

This is why there is no middle ground, modest land price appreciation, in any market with growth containment policies that actually contain growth; in comparison to unconstrained ones.

Question 11: What steps do local authorities take to ensure that all people potentially affected by land use Plan provisions or changes have the opportunity to comment? How effective and efficient are these steps?

I have *NIL* confidence that Councils take *any notice* of valid and insightful criticisms of Plan components that are ideologically pre-determined and non-negotiable. “Consultation” is a sham. One is reminded of one of the corollaries

to Parkinson's Law: the amount of time spent by a meeting on a topic, is inversely proportional to the importance of a topic. A submitter like myself questioning the validity of the entire Plan, has the microphone cut at the instant of time expiry, while a submitter complaining about a single pedestrian crossing 100 metres in the wrong place, gets 3 times the standard time allocation.

Question 12: What steps do local authorities take to understand and incorporate the views of people who are potentially affected by Plan provisions or changes, but who do not formally engage in the Plan process?

Local authorities, if they try to canvass opinions from people who do not formally engage, are masters at asking leading questions and obtaining "stated preferences" and not asking inconvenient questions; but do not remotely understand or accept the principle of "revealed preferences".

I am prepared to accept the "planners" assertions that "people don't really want as much space any more", but *they* need to accept that leaving it to the market is the perfectly rational course of action. It is a myth that very much of our cities was ever in ¼ acre sections, and 20 years of infill has made them high on non-existent. But I doubt that a high proportion of NZ-ers will end up buying McMansions on ¼ acre sections even if they are an affordable option. Who wants to mow all that lawn every week? Most of the people who might like ¼ acre and possibly larger, are currently on lifestyle blocks very much larger because regulations prevent any sensible middle options between \$300,000 1/10 of an acre inside the UGB, versus a lifestyle block outside it for not a lot more dollars.

The phenomenon in the USA, of swathes of suburbia with ½ acre and larger sections, is an absurd consequence of legal precedents regarding what "exclusionary" local devices are allowed to be used. It also relates closely to the fact that schools are paid for out of local municipal taxes. Therefore the logic is that excluding families with children will help keep local tax burdens lower. And where suburbs are promoted as *having* a good local school, excluding poorer families with potentially under-performing and disruptive children is also regarded as important. But explicit and simple tactics to

achieve this are not allowed, so the device of “large lot mandates” is the de facto and “impolite to mention” surrogate.

Cheshire and colleagues at the LSE have calculated that effective reforms in the UK would lead to an explosion of urban footprints of 70%. That is, the UK would move from around 12% urbanised, to around 19% - still less than Germany and the Netherlands. The Netherlands manages to be the world’s second-highest exporter of agricultural products *by value* in spite of being smaller than Canterbury and more than 20% urbanised. They do this by not worrying about their own “food security” at all; they feed their workforces with cheap subsidised food from the rest of the EU, and export Tulips.

The reason that the UK could have 70% increase in urban footprint while average section sizes would probably double and there would be thousands more of them produced for people quitting apartment blocks, is that actual housing is only a small part of the overall urban footprint anyway. Ironically, there are so much amenities and public spaces that need increasing as people are added to local “housing”, that there is a loss of “space saved” in housing, in the form of public space and so on, that erodes much of the space savings. There is a paper by a Professor Ian Gordon in the 1990’s that suggests that cramming people in *twice as densely* in their actual *housing*, reduces the urban footprint by 7% - *seven percent*.

This is why conversely, even the UK could unleash its people to consume as much land as they want at an affordable cost, which would involve an order of magnitude increase in the space required for *housing*, but would only increase the overall urban footprint by 70%. Now in NZ, we are around 0.7% urbanised and our housing is nowhere near as crammed as the UK’s is, seeing they have been explicitly cramming for several decades longer. So our explosion in urban footprint would be nowhere near as much as 70%.

Question 13: How can the Plan development process be improved to increase the supply of development capacity?

The Plan development process can be improved by legally changing the entire approach Councils take to planning. They need to be restricted to imposing

specified uses on only a minimum proportion of total land supply and there needs to be a presumption of “right to develop” housing and a range of other types of development, on *MOST* legally-procurable land in the *whole country*. The imposed uses need to be guided by Bertaud’s recommendations – legitimate set-asides of space for public uses of land that the market is poor at providing; forestalling high “late acquisition” costs of land to the public; and enabling growth with predictable demarcation of future infrastructure and public space, so that developers can proceed with whatever there is demand for on the “private” spaces.

There should *NOT* be a prescription or a presumption that “X” location must be developed before “Y” will get permission to be, due to some nice contiguity of infrastructure expansion imagined by some desk-driver. Mechanisms to fund leapfrog infrastructure need to be devised outside of Council control altogether. Contiguity is near-irrelevant to real-life operating efficiencies – the 3 waters are *NOT* radial and centralised in the form of their provision and nor should any infrastructure be. It is absurd to be allegedly “reducing the cost of providing water for sprawl” beyond Upper Hutt when the water *COMES from* north of Upper Hutt anyway.....! Or allegedly reducing this cost in locations where millions of litres of water are daily running off the ranges anyway.

One potential solution is allowing small “water boards” to be set up by developers and other private sector operators, that have the power to charge user fees to all developers that decide to connect to *their* network.

“Localism” actually is no guarantee of inter-jurisdictional competition, at least nowhere near the same extent that *freedom of entry into the “supply” side of the market* is. What we have in NZ is a kind of inertia-ridden local government sector almost regardless of size and location – the small municipalities tend to be cosy NIMBY-riddled “rural lifestyle” enablers rather than competitors keeping adjacent large municipalities honest. The ability of developers to set up MUD type bodies to over-ride municipalities controlling large areas of under-utilised land, is a very important factor in the competitiveness of Texas in particular. “Competition” is only half the story in most “markets” anyway. The real essential factor, is the freedom of entry of new “suppliers” into the market. Otherwise you actually don’t have “competition”, you have “oligopoly”.

Question 14: How accurate are local authority assessments of the demand for and supply of land? How well do they reflect market demands and the actual development capacity of land? Are there any good examples of supply and demand forecasts?

I am not aware of ANY local government anywhere in the world that accurately anticipates “revealed preferences” to the extent that they can move in step with the market and achieve the same outcomes the market would have, *particularly* in housing affordability and land rent. The *mere existence of a quota system* is a guarantee that the market will flip to “speculator driven” and to “monopolistically derived land rent”. This is basic economics that is long since accepted in discussions of most markets for goods and services (which are left to the free market on this basis), and *SHOULD be accepted all the more in the case of land for urban use*. It is only freedom of entry of new suppliers, and potentially super-abundant quantities of most goods and services, that enable true competition-led market prices of anything. We would not accept quota schemes and their toxic outcomes in markets for essential foods and we should not accept it in housing.

Germany also has a perplexingly beneficial mixture of policies that I am still trying to understand, that keeps their urban land surprisingly affordable in spite of their economy being so strong. Not as affordable as Houston, but far more affordable than most Anglo cities that have limitations on sprawl. Yet Germany’s cities also have their sprawl rationed to some extent – but do add floor space at 3 times the UK’s rate. Among the factors that might be working to keep their urban land prices affordable, are: the incentivisation of renting, reducing pressures of “ownership at all costs” that tend to afflict Anglo nations; the existence of powers of compulsory acquisition that although used sparingly, tend to limit the greed of owners of greenfields sites and the “holdout” phenomenon that plagues Anglo cities with a growth boundary; the fact that most “rural” land surrounding German cities are small holdings that are numerous in quantity, meaning less greenfields-land-owner oligopoly effect than in Anglo countries where farms are traditionally very large; and lastly, the Autobahn effect – when you can travel by car in multiple directions from a city, at 100+ miles per hour, there are quite a lot of cheap rural towns property markets that are still a practical option of location. Bear in mind that

the amount of land functionally added to a property market with a given centre, increases exponentially in quantity the more of it can be accessed in every direction. As I say at the end of my response to question 62, “it is possible to estimate that the de facto supply of housing at alternative exurban locations might be as much as 50 to 100 times higher under these conditions”.

Fast trains, though, only ever provide access to a few locations (at each stop) on a ribbon route that is predictable and hence gameable by land owners, unless compulsory acquisitions are used – they certainly should be in the case of commuter rail “investments” of public money, otherwise taxpayers money is part of a wealth transfer.

Germany may also have strict prohibitions on foreign investment in their urban property markets – capital flight from China is currently swamping many Anglo nation cities property markets.

Rental housing in Germany is heavily subsidised on the “supply” side, including with tax breaks for landlords, and strongly controlled in allowable rents and rights of tenure – making it an attractive accommodation option. The “rent controls” actually do not have the perverse incentive of reducing the supply of rental housing (like in New York) because investors are enticed into rental property by the subsidies.

Question 15: How well do zoning decisions in District Plans and infrastructure planning in Long-Term Plans reflect demand and supply forecasts?

Zoning decisions utterly fail to reflect true revealed demand preferences because it is impossible for human planners to do so. Planners make assumptions and also collate data on stated preferences and responses to leading-question surveys. Their assumptions do not take into account that everyone cannot possibly have everything they “want”. The market price system is the way that attributes of housing are rationed according to the supply and demand relating to each attribute.

The distorted land rents and housing prices are evidence that the planners are wrong, end of story. Liverpool, UK represents an interesting case of a city with substantial population loss that nevertheless remains substantially more

unaffordable in its housing and with higher land rent by a factor of some tens compared to US affordable cities. This is as scientific evidence as could be found anywhere, that the population are still being deprived by the planners, of the space that they would naturally choose to consume given the option. Price is the single sufficient statistic!

Where the planners do selectively admit some guidance from prices, is in the allegation that the skyrocketing prices of CBD apartments and higher density centrally located housing, indicates an “undersupply” of these. But the skyrocketing prices were consequent on the imposition of the growth boundary policy, and were significantly lower for years when the supply of this kind of housing was lower still. The evidence is that all cities that adopt a strict fringe growth containment policy, distort urban site values in exactly this way. “Differential rent” ceases to be anchored in actual incomes, amenity value, transport and time cost savings, agglomeration effects, etc. and the price of all sites becomes “monopolistically derived” or “extractive”. For reasons that the economics profession is lagging in identifying, the increase in this economic rent has a similar severity “by location”, to the initial differences in land values per unit “by location”. Hence the price of centrally located housing inflates by a much greater factor than that for housing closer to the fringe. Furthermore as discussed in my response to Question 7 and in the appendix included, upzoning increases site rents and does not lower floor rents, under these conditions.

The Productivity Commission’s earlier Report on Housing Affordability included a very interesting time series analysis of Auckland’s urban land rent curve that tends to support what I am saying. I have been pleased to refer academics around the world with whom I am in contact, to this graph.

Question 16: How effective are local authorities in ensuring that the rules and regulations governing land use are necessary and proportionate?

Local authorities have not been effective in ensuring “proportion” in regulations governing land use. They have had decades to get this right in the UK and have steadily caused worse and worse human suffering without a pang of conscience on their part or recognition that they have the slightest responsibility for the situation. I see no hope that planners in NZ will be any

different, especially given the Auckland planning department's actions and demeanour in recent years.

Question 17: What are the characteristics of the most effective processes for testing proposed rules, Plans or Plan changes?

The most effective test processes? I suggest "price". Cheshire et al, both the 2014 book (with Nathan and Overman) and the earlier paper about "The Introduction of Price Signals into Urban Planning" (with Stephen Sheppard), are highly relevant. The focus of those authors is on "planning gain". If land owners are holding out for capital gains of large magnitude before being prepared to sell to a developer, this is utterly unconscionable, and the media is already failing NZ-ers by not drawing attention to this in a systematic, moral-crisis fashion. It is a perversion of the Anglo traditional approach to "property rights", to make this an issue of property rights – it is a *withdrawal of property rights* of the owners of the great majority of land space (i.e. the right to change its use) that delivers powers of extraction of economic rents to a de facto oligopoly.

Question 18: How effective are local authority processes for connecting decisions across the different planning frameworks? Which particular processes have been successful? What explains their success?

The Commission's own comments are sufficient. I suggest that we need to become very suspicious about the likely efficacy of every proposed legislative reform, which has potential to be rigged by bureaucrats, framed in obscure gobbledegook and bureaucratese that MP's do not understand and do not have the patience to engage with, and then gamed by the assorted legal and consultancy vultures just as before. I am *disgusted* with the drafted LGA "reforms" currently in progress. If the 2002 Act merely had a single disputable ambiguity removed (where one section contradicts another regarding the applicability of DC levies) and was made rapidly enforceable in favour of developers, including a firm warning to the judiciary for its failure to correctly apply Parliament's original intentions, there would be nothing wrong with it. The draft reforms are pages too long and do not resolve the very simple

underlying problem. I can supply the Commissioners with a Submission prepared on behalf of a developer that addresses these points in the reform Bill.

Question 19: What impact does transport planning have on the supply of development capacity?

“Transport Planning”, to Councils, means “public transport”, along with possible closure of existing road space to “encourage people out of their cars”. Public transport enables access to only a fractional urban footprint in comparison to automobility, and hence concentrates economic land rent and minimises potentially beneficial demand enabling and other interactions between actors in the urban economy. I think it best that central government does *NOT* legally provide Councils with greater discretion in revenue and funding of “transport infrastructure for growth” – at least not until Councils have been purged of ideologues and useful idiots of the land-rentier interests.

Question 20: Are there examples of effective integration between regional policies and district plans, and what are the features of processes that lead to effective integration?

I doubt there are any “successful” examples, other than in policy impositions that are misguided and serve rentier interests objectives. We need success in the right things, not the wrong things. For example, we need success in housing affordability and traffic congestion reduction. Success in commuter rail transport mode share, is one example of a highly flawed “end in itself” that seems to prevail among urban planners.

Question 21: Do rules or Plan requirements in your area unnecessarily restrict the use of land for housing? Why are these requirements unnecessary? What are the impacts of these rules and requirements?

Rules and Plan requirements in my area and in all major NZ cities do indeed unnecessarily restrict the use of land for housing. These restrictions are unnecessary because:

NZ does not lack land

Rural land is a less productive use of land than urban use and preventing this major change between uses is a significant cause of lost productivity and income growth

Urban economies are turned into “rent-extractive” property markets by rationing of the land supply, and no amount of upzoning and building up will restore the housing affordability lost or address the social injustices created. The term “rent-extractive” is in contrast to property markets where land prices are “differential rents” only, anchored in “option values” including the option value of rural land accessible to the urban economy

Dispersion of employment and amenities, and the formation of new type-specific agglomerations on lower-cost land, is more efficient than forced centralisation/concentration. Forced centralisation is inherently anti-competitive, empowers rentiers, unbalances the economy in the direction of rentier activity versus actual primary economic income – and foregoes an unknown amount of efficient co-location sorting effects, new enterprise start-ups, and household discretionary spending.

Growth containment advocates claim that *infrastructure costs and hence local tax/rates burdens will be lower in the long term if we pursue a policy of intensification rather than continued greenfields growth*. There is no evidence to support this assertion.

There might be some validity in the assumption that a “planned from scratch” high density city will have lower infrastructure costs than a lower density city. But we are not talking about a city “planned from scratch”. We are talking about a city that already exists and is already not actually low density in its built form. Intensification, and the addition of infrastructure capacity for it, involves extremely high costs, of access, disruption, land acquisition, demolitions of existing structures, higher capital intensity per unit of floor space serviced, and so on.

Wendell Cox and Joshua Utt (2004) [“The Costs of Sprawl Reconsidered: What the Data Really Show”](#), find the exact opposite of the advocates assumptions, in a study of US metropolitan areas:

“.....The highest density municipalities have higher than average expenditures per capita; the slowest growing municipalities have higher than average expenditures per capita; and the oldest municipalities have the highest expenditures of all per capita.....

“.....Perhaps the most oft-quoted recent research attempting to estimate the relationship between sprawl and infrastructure costs was conducted by a team led by Professor Robert Burchell and funded under the auspices of the federal government's Transit Cooperative Research Program (TCRP). The project included two reports: Costs of Sprawl--2000 and The Costs of Sprawl—Revisited. The Costs of Sprawl--2000 projected that from 2000 to 2025, America would incur \$227.4 billion in gross additional costs for what the study terms "uncontrolled growth" (less dense, more sprawling growth) versus "controlled growth" (more dense, less sprawling growth). This equates to approximately \$9.1 billion in gross additional costs per year.

The figure of \$227.4 billion may seem large. Yet in the context of 25 years and an average population of 115 million households, it is actually rather modest. The \$227.4 billion would amount to only \$80 per household annually...”

(End of quote from Cox and Utt)

It is obvious that these costs are slight in comparison to the costs imposed, unequally, on society, by policies of urban growth containment. Have young voters been asked whether they would prefer \$80 per year higher rates or \$5000 per year higher housing costs?

Question 22: How important is it that rules for development and land use provide certainty?

What is meant by “certainty”? The certainty of a process that can be gamed by rentiers? Or the certainty of a property buyer that they can buy and put a fairly-priced site to efficient use without having to pay an upfront price that incorporates not just the capitalised value of the most intense allowed use of the site anyway, but a “monopolistically derived” such price? The latter requires flexibility and co-operation from de facto monopoly infrastructure

providers, not obstruction. There is nothing worse than the *certainty* of *obstruction*. What is needed is certainty of being able to break out of a de facto racket in favour of holdout site owners.

Question 23: Are rules consistently applied in your area? Is certainty of implementation more important than flexibility?

I do not know about consistency of application of the rules – the outcomes are so bad that if there is consistency, the rules are the wrong ones.

Question 24: Which local authorities have the best approach to implementing land use rules or Plan requirements? What makes their approaches the best?

I wish I knew of a good one in NZ. Perhaps Southland or the West Coast are not as bad as the more major urbanised areas Councils. But we need to be comparing the past with the present “by region”, especially in Auckland, not comparing Auckland now with Southland now. We need to be asking why Auckland had strong housing supply and affordability in 1965, when growth was actually greater. If it could be done then, it should be even easier to do it now.

Question 25: Do second-generation Plans take a more flexible or enabling approach to land use control?

I believe that “second generation” plans in the major cities, are all Trojan Horses for more containment, more rent-seeking powers gifted to site owners, and a worsening crisis in urban property, regardless of the alleged objectives and flowery-sounding platitudes used in such plans.

Question 26: What effect do design guidelines have on the availability of effective land for housing? Are the processes by which land use can depart from a design guideline transparent and applied consistently?

I will quote Ross Elliott, Australian urbanist, on this:

<http://thefingeronthepulse.blogspot.com.au/2014/12/developers-real-city-builders.html>

“...Most of the urban form of any of our major cities was delivered without what we’d call town planning today.

There certainly weren’t legions of planners in government offices trying to exert a command and control influence over community choice by wielding an ideological stick in the form of planning policy. Instead “back in the day” there were a handful of city engineers, and applications for development tended to be approved if they met basic building code and engineering guidelines.

With this absolute minimalist approach to regulatory intervention in urban growth, we created large, efficient cities which somehow got it right. The roads, railway stations, commercial developments, hospitals and all sorts of community facilities and parklands grew mainly in response to market forces - shaped by consumer demand. Where people wanted to live and in what types of homes they wanted to live in created demand that developers responded to. Whole suburbs were developed in this way, and housing was affordable. In response to this, other developers identified opportunities for shopping centres, workplaces and other projects. Transport connections were delivered in response to the market driven locational choice of our urban inhabitants, and with them were developed the medical facilities, community facilities, parks and public spaces that also helped shape the character of our urban form. This largely market driven approach is how most of our major cities were shaped.

Not only was the vast majority of our current urban form delivered without the benefit of complex regulatory planning, but apparently it was so successful that huge swathes of the community now believe that much of it should be protected from any re-development. This is a sweet irony: the structures and precincts that were originally created with a quick ‘how about we put it there’ discussion and approved for construction with basic plans in a matter of days are now the subject of fervent protectionist instincts...

“...The community now views developers with suspicion and somehow we now place our trust in the hands of regulatory urban planners and academics, many of whom have never in their life built so much as a Stratco garden shed. This seems to be a widespread community sentiment which is a great shame because the longer it goes on, the more we are deluding ourselves about how our cities really grow and respond to the needs of their residents.

Developers know the market best. You can assemble as many thinkers and urban planners and futurists in a room as you like but the moment someone has to risk their own money on a project, the room clears. Those left are the ones who truly know what a market wants in a particular location and what they’re prepared to pay. They know the costs of delivery, the risk of time delay and the risk of market change. In this way developers are more acutely tuned to real consumer and business community demand. Their views could be more widely sought and respected in terms of what can work and what won’t when it comes to urban planning. Otherwise we create plans which aren’t based on reality and which – for that reason – are difficult to deliver without excessive taxpayer support...”

(End of quote from Ross Elliott)

If a developer sees commercial potential for the change in use of a parcel of land anywhere, they should be allowed to do it, except for modest amounts of land set aside in specific locations to be preserved for specific reasons. Instead of “nothing goes except what we say”, it should be “anything goes in most places except for sensible protections of a sensible magnitude” plus a few obvious universal basic health and pollution rules.

Design guidelines may be reducing the elasticity of housing supply, but this is only a “still further” reduction from the decisive factor of fringe growth containment, which is what determines that a market is going to be low-elasticity, systemically rent-extractive, and have unaffordable housing. “The impact of design guidelines” is a diversionary issue in relation to the main issue. If there was not a problem due to a land quota system, and design guidelines were still slowing down development so much that supply elasticity fell to below “1”, it would be an easy matter to identify and rectify.

Question 27: How many developers work in more than one local authority? Do variations in planning rules between councils complicate, delay or add unnecessary cost to the process of developing land for housing?

I do not think the problem is so much “differences in rules between areas”, as the prescriptiveness and complexity of rules being too high in all areas. Regardless of which or how many municipalities they work in, developers are at the mercy of a gravy-train of lawyers and consultants to guide them through a minefield of regulatory obstructionism and fee-gouging. Unless there is universal simplicity, “plain English” legal frameworks, and the possibility to do the overwhelming majority of developments without recourse to a lawyer for anything beyond basic titling and conveyancing, we are not doing it right!

Question 28: Which local authority pre-application advice and information services are the most effective for communicating expectations and reducing unnecessary cost for applicants? What makes them effective?

Councils should not be charging for “pre application advice” and the rules should not be so complex and rigged that developers are forced into the position of fall guys being shaken down. This is just the Councils now getting in on the action that is all basically a “share of planning gain/extractive economic rent”.

Question 29: Which processes are most important to applicants for providing consistent and efficient assessments of resource consent applications?

What is important to applicants, is “no bullshit”, and the ordinary Kiwi person in the street would tend to agree. The delays and cost impositions are largely about modern P.C. and neo-pagan bullshit anyway, combined with BANANA-ism, all of which has no place in enlightened civilisation. We are meant to be a secular country, and that should go just as much for religious values about “the environment” as it does for religious values about, say, unborn children.

I think this from Bob Jones is pretty much emblematic:

http://www.nzherald.co.nz/opinion/news/article.cfm?c_id=466&objectid=11321027

Question 30: Have resource consent processing times resulted in unnecessary delays in the development of land for housing? If so, do you anticipate that the recent changes to processing timeframes will address delays?

This is a peripheral issue to the main one of the quantity of land available to be converted to urban use. Too little land with a short application processing time is worse than “enough” land with a long application processing time. “Enough” land in the opinion of this submitter, is “no boundaries at all” – if a developer sees commercial potential for the change in use of a parcel of land anywhere, they should be allowed to do it, except for modest amounts of land set aside in specific locations to be preserved for specific reasons. Instead of “nothing goes except what we say”, it should be “anything goes in most places except for sensible protections of a sensible proportion” plus a few obvious universal basic health and pollution rules.

Question 31: What explains the variation between jurisdictions regarding requests for additional information and use of stop-the-clock provisions when assessing resource consent applications?

Both the amount of discretionary powers granted to bureaucrats, and the extent to which they exercise those powers. Little of this is justified at all. Applicants already have to provide excessive and onerous amounts of information, and further requests are just adding insult to injury.

Question 32: What are the impacts of notification on the supply of development capacity? How could the processes surrounding notification be improved?

Notification tends to be something that will slow down “intensification” the most, and this is already no way to achieve elasticity of housing supply. Councils tend to be ideologically vested in and have ulterior motives for pushing intensification rather than greenfields development, but in the case of

intensification, failures to notify are going to attract the most public backlash. The “Special Housing Area” designations currently ramming through such developments will attract this backlash.

Elastic, price-stabilising “supply” is only achieved via greenfields growth, and obviously there is nowhere near as much need to “notify” and far fewer parties to have negative externalities imposed on them. Notification is another diversion from the main issue.

Question 33: What explains the reduction in the prevalence of pre-hearing meetings?

It sounds to me like developers are working out when pre-hearing meetings are likely to be a waste of time!

Question 34: Which local authorities make the best use of pre-hearing meetings? What factors best contribute to successful pre-hearing meetings?

I don’t know what Councils do this best, but the most likely contributor to successful pre-hearing meetings, is the ideological stance and/or ulterior motives of the Council officers. Hence the developers working out which ones they are wasting their time with, and giving up trying.

Question 35: Does the type of person making the decision on resource consent applications affect the fairness, efficiency or quality of the outcome? What difference (if any) does it make?

If there are much discretionary decisions being made, regardless of who makes them, we are failing to observe the “rule of law” principle that is part of our winning Anglo heritage.

Question 36: Does the use of external experts (for example as independent commissioners or contracted staff) in making resource consent decisions create conflicts of interest? If so, how are these conflicts managed?

There is obvious potential for conflicts of interest, but this is just one element in a major mess of vested interests and rent-seeking and gouging, all of which needs unwinding.

Question 37: What processes do local authorities use for ensuring that consent conditions are fair and reasonable? How successful are local authorities in meeting the “fair and reasonable” test?

I believe that the processes are whim-driven and do not meet “the rule of law” test.

Question 38: In your experience, what impact do conditions on resource consents have on the viability of development projects?

Developers and even minor property owners are having to become master strategists to avoid being caught out paying through the nose for a site and then running right out of capital because of unanticipated conditions being imposed on them, and the same can also apply to unanticipated Contribution charges and fees.

<http://www.whaleoil.co.nz/2014/10/readers-email-housing-auckland/>

Question 39: Which local authorities have been most successful in providing coordinated decisions over applications to use land for housing? What explains their success?

The question regarding “which local authorities” is in the wrong tense. What we should be asking is not “which” local authorities among the current data set of local authorities “have been most successful”, but why we *used* to have house price median multiples of 3, and now we have one of around 9 in Auckland and 6 is common for most “cities”. What we need to compare is not Auckland now with Greymouth now, but Auckland in 1965 with Auckland now.

Question 40: Are there issues relating to the process for challenging or changing decisions which impede the supply of effective land for housing?

By the time the Environment Court is brought in, the damage to “housing supply” has been done. The Environment Court rulings should be given more authority as binding on Councils practices in the future so that the same kind of issues are not being litigated repeatedly with Councils acting as a law unto themselves and trying to outlast developers ability to pay for legal action and sustain the costs of delays. Developers need far more rapid access to enforcement of their rights, and I also suspect that the legal profession has a vested interest in these processes not being rapid.

There is also a disgraceful lack of accountability on the part of Councils to observe the law’s requirements for transparency regarding the derivation of Contributions, and apparently no recourse to the Environment Court over this – or indeed to any Court. I do not know of any Council that is transparently showing nexus between Contributions charges and Planned expenditure on infrastructure for growth. This should be a simple matter of “cost of infrastructure capacity expansion in the catchment area as Planned”, divided by the Planned increase in floor space/titled property space in that catchment area, multiplied by the amount of floor space/titled property space the developer is making application for. What is so hard about this, and why are Councils not simply doing this, other than that they are “making stuff up” and abusing their power over developers?

Judges apparently are putting the onus on developers disputing the levies, to pay for extensive forensic auditing of Council accounts, without Council co-operation (and therefore an impossible imposition), when the law framed by Parliament clearly intended the nexus to be transparent and provable in the context of the Council’s policy and calculations in the first place. Furthermore, judges are deeming that the time to challenge the Council’s Policy, as being the time when the Policy itself was out to consultation; not at the time that prima facie illegal charges are being levied.

Many Contributions charges are a form of shakedown that developers pay to avoid even worse costs of delay. It might also help if there were rapid and low-cost legal processes to secure refunds, recognising that developers are in a position of exploitability due to the cost of delays. Payment is possibly also being deemed by the Councils to be a kind of full and final acceptance on the part of the developer, of the legality of the charges.

Question 41: Compared to other processes of relevance to land release and development, how important is the ability to obtain a Plan change or variation? Why?

Plan changes are the result of “mission creep” by Council Planners. They should not be specifying the use of land everywhere to such an extent that Plan changes need to be sought all the time. If a developer sees commercial potential for the change in use of a parcel of land anywhere, they should be allowed to do it, except for modest amounts of land set aside in specific locations to be preserved for specific reasons. Instead of “nothing goes except what we say”, it should be “anything goes in most places except for sensible protections of a sensible proportion” plus a few obvious universal basic health and pollution rules.

Question 42: How easy is it to obtain a Plan change or variation in your area? What are the major barriers?

I believe the main barrier to achieving Plan changes, is Council officers whims and ideology and possibly ulterior motives of perpetuating the gravy train of consultants and lawyers, as well as the other ulterior motives driving Councils.

Question 43: Do council-led Plan changes or variations help or hinder the supply of development capacity?

A Council that is co-operative enough to simply change Plans in such a way that the supply of land for all uses is being worked out efficiently under market processes, might as well make the Plan less prescriptive in the first place.

Questions 45 and 46: Are there particular aspects of the system, or particular types of infrastructure, that are problematic? What are the opportunities to improve this part of the land supply system?

The urban planning system and provisions of infrastructure operated by NZ Councils up until the 1990’s succeeded admirably well in providing “median multiple 3” housing markets for several decades. The interesting historical

background provided by Bassett and Malpass (NZ Initiative) in “Priced Out! How New Zealand Lost Its Housing Affordability” (2013) is an adequate discussion of this. The simple fact is that New Zealand succeeded in building at least twice as many new houses per year in past decades, when population was considerably lower. Councils had powers not dissimilar to now, only the culture was one of “enabling”, not obstructing growth on ideological grounds (and potentially a switch to some measure of *rent-seeking* enabling thrown in in place of enabling of honest supply of housing for honest operating profits).

However, the conditions that have been created, with speculative demand now a major factor, along with expectations of easy access to large amounts of credit, now require much more than an attempt to revert to the old “same power, different attitude”. The system most definitely needs to be changed, and changed radically to something resembling the systems that have guaranteed housing affordability in the face of all demand-side pressures that have been thrown against them. I refer to the systems prevailing in the several dozen US cities with house price median multiples that have remained consistently at around 3 (Demographia) even while other cities were bubbling to 9+ (as Auckland now is).

This includes a shift of considerable powers of financing and installing trunk infrastructure from Councils to the private sector and/or central government agencies.

Question 47: Is there sufficient alignment of incentives for the various organisations involved in the provision of infrastructure to support housing? If not, what could be done to improve alignment?

Councils are probably partly motivated to pursue policies of fringe containment because they can “double dip” regarding the funding of infrastructure in existing built areas, but can’t do this for greenfields growth. Infrastructure in existing built areas, including its maintenance and renewal, is supposed to be funded by rates past and future. However, the lack of transparency that Councils are getting away with regarding DC impositions on developers in intensification projects, means that Councils are effectively shaking down developers to secure funding for what is actually maintenance

and renewal costs. The often-heard argument that *fringe containment* is justified by the need to “better utilise existing infrastructure” is made in *very bad faith*, given the impositions extracted from developers of intensification and brownfields projects.

<http://www.whaleoil.co.nz/2013/07/why-development-contributions-are-a-crappy-tax-rort/>

Total *repeal* of the Contributions policy enabling legislation would remove this particular perverse incentive; but enabling developers to get quick and cheap enforcement of their actual rights as envisaged by Parliament, would go a long way towards it.

There is a significant inter-generational social justice issue involved here as well – we have paid our way as we go with rates, for generations. Imposing upfront exactions “to pay for infrastructure for growth” increases the price of *ALL* property, not just the price of the properties in new developments against which the exactions have been made. *ALL* first home buyers and new business property buyers are therefore paying an equivalent cost to these exactions, only paying the amount as a windfall gain to the incumbent property vendor.

Changing the rules of the game in this way, morally requires some form of rebalancing; either imposing a levy on all existing property owners for the lump sum they did *NOT* have to pay, or granting all first home buyers an ongoing rebate on rates to recognise the injustice against them. But paying as you go rather than upfront, is inherently more efficient on all levels, because the lower urban land prices are, the more that land use decisions can be driven by functional economic considerations such as travel cost savings.

Question 48: Are there differences in the approaches taken between council controlled and private infrastructure organisations (eg, electricity lines companies)? What is the nature of these differences? What explains the differences?

This is a very interesting consideration. I believe that utilities companies largely look to operating revenue to recover the costs of infrastructure, and this is the way all infrastructure should be regarded. Councils obviously are not driven by

the same motivations as utility companies are. Utility companies basically maximise revenue by enabling *maximum customer consumption* of their product. This often means putting in the infrastructure to enable that consumption.

The obvious difference is that utilities *charge for units of their product consumed*, while Councils provide “free” services. Maybe Councils would more happily provide infrastructure that enabled higher ongoing income from user fees, if user fees were the means of payment rather than taxation on property.

But ironically in public transport policy, where user fees are charged, but nowhere near enough to cover the operating costs let alone capital and replacement, the Councils are trying to promote increases in this fiscally-negative service by way of increased “investment” that only *increases the cost per person km of travel due to falling, not rising utilisation rates*. This is illustrative of the power of ideology and/or ignorance, to over-ride the more usually encountered fiscal ulterior motives. They are not so willing to increase their own costs (and hence future rates demands) with provision of any other form of infrastructure, are they?

Question 49: What comparative information about the provision of infrastructure to support housing should the Commission be aware of?

The Commission should be aware of the Municipal Utility District system and the associated system of bond financing of infrastructure - secured over future property tax revenue in new developments - that is prevalent in Texas and other US States.

Another system the Commission should be aware of is the “Latecomer Contribution” policy that is operated in some States, whereby a private provider of major trunk infrastructure and/or one or more of the 3 waters, can install an excess of this in undeveloped areas and be vested with the power to charge developers later connecting to this infrastructure and indeed proceeding with development at all because the infrastructure is there, for a share of the cost.

These systems allow the private sector to break out of Council and government strangulation of land supply due to sheer unwillingness to provide infrastructure for whatever reasons. It should be mentioned that roads are such a vital part of this, that some form of user charging would enable all sorts of efficiencies in the provision of roads. In general, this moves the provision and use of infrastructure in the direction of the incentives currently motivating utilities.

Another aspect would be the considerable use of private sector providers in lieu of property taxes and “free” services. Some services are location-specific, like rubbish collection, so that new developments outside a municipality’s jurisdiction cannot “free ride” on those services. Libraries already tend to try and limit free membership to people in the local-tax-paying area. Those “free” services that residents outside the municipality can free-ride on possibly should not be free or so heavily subsidised anyway – for example, orchestras and operas. In some cases it is assumed, as with tourists, that the net effect of providing certain amenities “free” is beneficial to the locality. If tourists enjoy Wellington’s “free amenities” while not paying local taxes, why not visitors from adjoining municipalities too?

Question 50: Is there evidence that territorial authority debt levels are acting a barrier to the provision of infrastructure for housing in rapidly growing areas?

I argue that the single biggest and still-growing problem with major Councils costs is the cost of public transport subsidies. This is never acknowledged. These costs are crowding out more essential spending and capacity for financing. Compact city advocates argue that ***increased public transport mode share represents a net gain worth all the other costs of a containment policy.*** The reality is that in all cities apart from outlier extremely high density cities in countries with different cultures and actual lack of land space, the subsidy cost per person km of travel on public transport is around 20 to 30 cents: in Wellington it is around 30 cents (Booz Allen Hamilton 2005). However, the *marginal cost of additional riders*, achieved by way of heavy investments in rolling stock, staff, and by way of increased service frequency and route coverage, is *many times higher than this*. This public cost per person km of travel is many times higher than the cost, prior to mode shift, of the car travel

that preceded it. In fact the public cost of road subsidies and externalities to driving, is less than 10 cents per person km of travel, and most of this is the externalities, which are not part of the burden of *public revenue*.

Public transport vehicle utilisation rates involve the reality that vehicles set out on their routes empty, do not fill up with passengers until well into their route, and then have to reposition largely empty at the times of peak demand. Even at these times, their utilisation rates are close to that of cars with only the driver on board. The vehicle dead weight per rider is much higher for PT, especially trains, and the acceleration of this dead weight from frequent stops is an efficiency-killer. Increasing service frequency would need to achieve a ridership increase proportional to the service frequency increase, to maintain the status quo efficiency level, and this never happens. The same applies to increased route coverage.

This is a recipe for fiscal disaster!

The recent NZIER discussion paper “Disruption on the Road Ahead”, had a graph on page 9, of growth in public transport subsidies versus growth in ridership, that speaks 1000 words.

http://nzier.org.nz/static/media/filer_public/c7/ab/c7abccb1-fa2a-4f18-bb3e-382d359cf47c/wp_2014-05_disruption_on_the_road_ahead.pdf

A counter-argument from compact city, public-transport-oriented advocates, is that *they will succeed in reducing “housing plus transport” costs*. This is nonsense: the price of housing in efficient locations embodies a capitalised saving on transport costs and time. It is possible to save on “housing plus transport” costs by buying a significantly smaller home at the efficient location – all other things being equal. BUT in a growth-contained housing market, due to the “extractive economic rent” effect, ALL “housing” choices become more expensive even as the average size falls as a matter of necessity simply due to what households can afford. Therefore it is impossible to reduce “housing plus transport” costs with any policies that force up the cost of all housing in this way! *The same “transport cost savings due to location” are capitalised into values anyway* – all that has happened is that the “housing” component of the cost is higher than before!

Time does not permit going into the failures of statistical objectivity that underlie “studies” that claim the opposite of this. I have authored critiques of such studies in NZ, which are published on the “View of Auckland” website, and critiques of such studies in other nations, posted on academic discussion forums.

The observed real life effects (eg by Bertaud in multiple papers), are that the spatial distribution of population density is forced towards inefficient urban fringe and exurban locations while the *efficient* locations remain the *MOST* unaffordable, unintensified, and unaffordable anyway in the case of any intensification that does occur. The net effect is *longer average commutes and higher traffic congestion*. The UK’s average urban density is some 5 times higher than the USA’s and its average commute time is 50% longer.

“Transport Planning”, to Councils, means “public transport”. Public transport enables access to only a fractional urban footprint in comparison to automobility, and hence concentrates economic land rent and minimises potentially beneficial demand enabling and other interactions between actors in the urban economy. I think it best that central government does *NOT* legally provide Councils with greater discretion in revenue and funding of “transport infrastructure for growth” – at least not until Councils have been purged of ideologues and useful idiots of the rent-seekers.

This goes to the core of what this Inquiry is all about – the use of land. Automobility – roads and cars – are the basic reason that for many decades, first world cities experienced falling land rent, increased housing affordability, an explosion in the “property owning democracy” phenomenon, and increasing “consumer surplus” in housing (houses getting more spacious and higher quality for the same share of income). Besides this, there have been numerous gains in productivity and new types of agglomeration effects.

Highly relevant reading on this point, would be a long “comment” I have submitted to the publishers of THIS item:

<http://www.voxeu.org/article/home-prices-1870>

This comment has been published:

Comment by Phil Hayward, on Knoll, Schularick and Steger, 2014: “Home Prices Since 1870”

<http://www.voxeu.org/comment/105237#comment-105237>

The full text is also included in this submission as an appendix.

Question 51: How variable are the practices and processes around infrastructure charges across different jurisdictions? Does variability complicate, delay, or add unnecessary cost to the process of developing land for housing?

I do not know of a single jurisdiction whose Development Contributions Policy and charging “...explains how contributions are calculated...” to the extent that developers can actually tell that they are paying their fair share of the costs of growth, no more or less. There is a disgraceful lack of accountability on the part of Councils to observe the law’s requirements for transparency regarding the derivation of Contributions, and apparently no recourse to the Environment Court over this – or indeed to any Court. I do not know of any Council that is transparently showing nexus between Contributions charges and Planned expenditure on infrastructure for growth. This should be a simple matter of “cost of infrastructure capacity expansion in the catchment area as Planned”, divided by the Planned increase in floor space/titled property space in that catchment area, multiplied by the amount of floor space/titled property space the developer is making application for. What is so hard about this, and why are Councils not simply doing this, other than that they are “making stuff up” and abusing their power over developers?

Judges apparently are putting the onus on developers disputing the levies, to pay for extensive forensic auditing of Council accounts, without Council co-operation (and therefore an impossible imposition), when the law framed by Parliament clearly intended the nexus to be transparent and provable in the context of the Council’s policy and calculations in the first place. Furthermore, judges are deeming that the time to challenge the Council’s Policy, as being the time when the Policy itself was out to consultation; not at the time that prima facie illegal charges are being levied.

Many Contributions charges are a form of shakedown that developers pay to avoid even worse costs of delay. It might also help if there were rapid and low-cost legal processes to secure refunds, recognising that developers are in a position of exploitability due to the cost of delays. Payment is possibly also being deemed by the Councils to be a kind of full and final acceptance on the part of the developer, of the legality of the charges.

Question 52: Are there particular examples of good practice regarding infrastructure charges?

I would like to know if there are any examples of good practice. If there are, they are in less significant Councils where the country's main problems with housing affordability are not being generated.

Question 53: Are there particular types of development (eg, greenfields, infill etc) that are less costly to service with infrastructure? What evidence can you provide about any variation in infrastructure costs?

The frequently-heard argument that fringe containment is justified by the need to “better utilise existing infrastructure” is made in *very bad faith*, given the impositions extracted from developers of intensification and brownfields projects. Councils are probably partly motivated to pursue policies of fringe containment because they can “double dip” regarding the funding of infrastructure in existing built areas, but can't do this for greenfields growth. Infrastructure in existing built areas, including its maintenance and renewal, is supposed to be funded by rates past and future. However, the lack of transparency that Councils are getting away with regarding DC impositions on developers in intensification projects, means that Councils are effectively shaking down developers to secure funding for what is actually maintenance and renewal costs.

<http://www.whaleoil.co.nz/2013/07/why-development-contributions-are-a-crappy-tax-rort/>

Regarding the most efficient approach in practise, Growth containment advocates claim that ***infrastructure costs and hence local tax/rates burdens will be lower in the long term if we pursue a policy of intensification rather than continued greenfields growth***. There is no evidence to support this assertion. The Productivity Commission, in its Report on Housing Affordability, included some references on this point that were rightly inconclusive. One of the ones they did not mention, was "Population Growth, Density and the Costs of Providing Public Services", by Helen F. Ladd in *Urban Studies*, Vol. 29, No. 2, 1992, pp. 273-295.

REVIEW at:

<http://www.ncsociology.org/sociationtoday/v21/review2.htm>

There might be some validity in the assumption that a “planned from scratch” high density city will have lower infrastructure costs than a lower density city. But we are not talking about a city “planned from scratch”. We are talking about a city that already exists and is already not actually low density in its built form (Auckland is comparable with many European cities density overall, but its density is less efficiently distributed). *Intensification*, and the addition of infrastructure capacity for it, involves extremely high costs, of access, disruption, land acquisition, demolitions of existing structures, higher capital intensity per unit of floor space serviced, and so on. This is especially the case in cities where “geographic difficulties” add to the complexity of development. I have suggested to the Productivity Commission in the past that this is probably a major cause of the low productivity of the property development sector in NZ – the forcing of so much of their activity into locations where the most severe operating difficulties are imposed on them.

Wendell Cox and Joshua Utt (2004) [“The Costs of Sprawl Reconsidered: What the Data Really Show”](#), find the exact opposite of the advocates assumptions, in a study of US metropolitan areas:

“.....The highest density municipalities have higher than average expenditures per capita; the slowest growing municipalities have higher than

average expenditures per capita; and the oldest municipalities have the highest expenditures of all per capita.....

“.....Perhaps the most oft-quoted recent research attempting to estimate the relationship between sprawl and infrastructure costs was conducted by a team led by Professor Robert Burchell and funded under the auspices of the federal government's Transit Cooperative Research Program (TCRP). The project included two reports: *Costs of Sprawl--2000* and *The Costs of Sprawl—Revisited*. The *Costs of Sprawl--2000* projected that from 2000 to 2025, America would incur \$227.4 billion in gross additional costs for what the study terms "uncontrolled growth" (less dense, more sprawling growth) versus "controlled growth" (more dense, less sprawling growth). This equates to approximately \$9.1 billion in gross additional costs per year.

The figure of \$227.4 billion may seem large. Yet in the context of 25 years and an average population of 115 million households, it is actually rather modest. The \$227.4 billion would amount to only \$80 per household annually...”

(End of quote from Cox and Utt)

It is obvious that these costs are slight in comparison to the costs imposed, unequally, on society, by policies of urban growth containment. Have young voters been asked whether they would prefer \$80 per year higher rates or whatever is the cost per household per year, of house prices at \$200,000+ too high?

And the "Costs of Sprawl 2000" paper does not adequately account for the higher longer-term costs of infrastructure because of difficulty of access, disruption, and cost of land acquisition under conditions of higher density and growth containment – it was a study of existing built areas.

Shlomo Angel et al (2012) "Making Room for a Planet Full of Cities" has an excellent discussion of good planning in anticipation of *future need for intensification*; as does Alain Bertaud (2014) already cited by the Commission. It has to start with "rights of way" for expanded infrastructure having been embedded *decades ahead*. If previous generations of Planners did not do this, it is almost certainly cheaper to just let the city spread.

And as it spreads, planning for the rights of way that will be needed in a few *MORE* decades time, should be *done this time*. The lesson should be learned from the Commissioners of New York who in 1813, enacted the Plan of Manhattan's road grid that stands to this day – it was decades before most of it was converted from rural use.

Public Transport “infrastructure costs” are a major cause of fiscal disaster that needs primary focus. Compact city advocates argue that ***increased public transport mode share represents a net gain worth all the other costs of a containment policy***. The reality is that in all cities apart from outlier extremely high density cities in countries with different cultures and actual lack of land space, the subsidy cost per person km of travel on public transport is around 20 to 30 cents: in Wellington it is around 30 cents (Booz Allen Hamilton 2005). However, the *marginal cost of additional riders*, achieved by way of heavy investments in rolling stock, staff, and by way of increased service frequency and route coverage, is *many times higher than this*. This public cost per person km of travel is many times higher than the cost, prior to mode shift, of the car travel that preceded it. In fact the public cost of road subsidies and externalities to driving, is less than 10 cents per person km of travel, and most of this is the externalities, which are not part of the burden of *public* revenue.

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Question 54: Do development contribution policies incentivise efficient decisions about land use, or do they unduly restrict the supply of land for housing?

Development Contribution policies, according to Colin Clark (1982) “Regional and Urban Location”; Alan W. Evans (2004) “Economics, Real Estate and the Supply of Land”; and other works, represent a “share of planning gain” as long as the supply of land is restricted by explicit boundary policies and/or zoning. In the long term, the alleged share of “costs of new housing” that is what is grabbed by Councils in fees, actually affect the prices that can be gouged *for the original sites*, by the owners of those sites, not the prices that will be gouged out of buyers for the finished product, by developers.

The developers who are often scapegoated for “land banking”, are actually the meat in the sandwich, having to participate in gladiatorial bidding wars to secure sites from owners who have been handed oligopoly powers by Council boundaries and zoning. Developers tread a tightrope of either “paying too much” – to get the site ahead of their competitors – and then going broke – or “not bidding enough”, and not getting sites – which means the end of their business anyway.

Developers themselves are among the “experts” who do not have a clue about this stuff, and have utterly failed to organise any effective lobbying in the general public interest, which actually coincides with the long term interests of their own industry. The industry in the UK has been decimated by the decades of these monstrous central planning distortions of their market since the utopian growth controls of the 1947 Town and Country Planning Act. Hugh Pavletich, co-author of the annual Demographia Housing Affordability Reports,

has been a lone voice of integrity, reason and wisdom in this sector in NZ for more than a decade now.

Upzoning also merely increases site values and the buyers of housing just end up getting something smaller but still just as unaffordable. Hong Kong has 66,000 people per square km and a house price median multiple of 15; there are cities in the USA with 800 people per square km and house price median multiples that have been stable at around 3 for decades.

Subsidies to first home buyers, and low interest rates, also feed to the greatest extent, into higher site values; not into higher developer profits or actual financial advantage to home buyers.

It is quite possible that some of the most intelligent people on this subject, are the big property investors who are reaping thousands of percent capital gain in the value of the sites they hold, as the urban planners distort the market. The potential for corruption is major. Investigative journalists are another group who could do with a bit more expert knowledge on this subject.

It is interesting that DIA (2013) notes that development contributions could be set lower to encourage development by way of intensification, but it is not my understanding at all that this is what Councils are doing in practice. The frequently-heard argument that fringe containment is justified by the need to “better utilise existing infrastructure” is made in *very bad faith*, given the impositions extracted from developers of intensification and brownfields projects. Councils are probably partly motivated to pursue policies of fringe containment because they can “double dip” regarding the funding of infrastructure in existing built areas, but can’t do this for greenfields growth. Infrastructure in existing built areas, including its maintenance and renewal, is supposed to be funded by rates past and future. However, the lack of transparency that Councils are getting away with regarding DC impositions on developers in intensification projects, means that Councils are effectively shaking down developers to secure funding for what is actually maintenance and renewal costs.

<http://www.whaleoil.co.nz/2013/07/why-development-contributions-are-a-crappy-tax-rort/>

Question 55: Are development contributions used exclusively to drive efficient decisions about land use, or are they used to promote broader goals?

The frequently-heard argument that fringe containment is justified by the need to “better utilise existing infrastructure” is made in *very bad faith*, given the impositions extracted from developers of intensification and brownfields projects. Councils are probably partly motivated to pursue policies of fringe containment because they can “double dip” regarding the funding of infrastructure in existing built areas, but can’t do this for greenfields growth. Infrastructure in existing built areas, including its maintenance and renewal, is supposed to be funded by rates past and future. However, the lack of transparency that Councils are getting away with regarding DC impositions on developers in intensification projects, means that Councils are effectively shaking down developers to secure funding for what is actually maintenance and renewal costs.

The “broader goal” that DC revenue is therefore serving, is to keep Councils failure to provide for maintenance and renewal from rates revenue, from being the cause of a future blowout in rates.

Question 56: How effective have the recent changes to development contributions been that were introduced in the Local Government Act 2002 Amendment Act 2014?

It is my opinion from reading the 2014 Amendment Act, that the whole exercise was a total waste of time with regard to where the problem lies with Development Contributions. There have been no changes with regard to Developers means of redress and the cost and speed of this redress, when charged illegal DC’s.

The disgraceful lack of accountability on the part of Councils to observe the 2002 law’s apparent requirements for transparency regarding the derivation of Contributions, and the lack of recourse to the Environment Court over this – has certainly not been addressed. Transparently showing nexus between Contributions charges and Planned expenditure on infrastructure for growth should be a simple matter of “cost of infrastructure capacity expansion in the

catchment area as Planned”, divided by the Planned increase in floor space/titled property space in that catchment area, multiplied by the amount of floor space/titled property space the developer is making application for. What is so hard about this, and why are Councils not simply doing this, other than that they are “making stuff up” and abusing their power over developers?

Judges apparently are putting the onus on developers disputing the levies, to pay for extensive forensic auditing of Council accounts, without Council co-operation (and therefore an impossible imposition), when the 2002 law framed by Parliament clearly intended the nexus to be transparent and provable in the context of the Council’s policy and calculations in the first place. Furthermore, judges are deeming that the time to challenge the Council’s Policy, as being the time when the Policy itself was out to consultation; not at the time that prima facie illegal charges are being levied.

Many Contributions charges are a form of shakedown that developers pay to avoid even worse costs of delay. There is nothing in the 2014 Amendment Act to address these issues; such as rapid and low-cost legal processes to get illegal DC levies cancelled, or to secure refunds later, recognising that developers are in a position of exploitability due to the cost of delays. It should also be illegal for Councils to deem payment of the charges as a full and final acceptance on the part of the developer, of the legality of the charges. I am sceptical that any change to the Councils gouge and the lawyers gravy train, is going to occur from the passing of the 2014 Act.

I can provide the Commission with the Submission I prepared on behalf of a developer, to the Select Committee on the Amendment Act, if the Commission is interested.

Question 57: What is the likely effect of long-term infrastructure strategies on the availability of land for housing?

“Land supply” is meaningless without the infrastructure to serve it – however, there is not “one strategy to fit all urban growth” which is the Councils approach when given a monopoly on infrastructure provision. Really effective reforms now that the housing problem has developed such substantial demand-side momentum, driven by speculation, have to include the ability of

the private sector to bypass the local central planners altogether with the planning, finance and execution of the necessary infrastructure. There might have been a time in past decades where Council Planners with a pro-growth attitude, co-operating with developers and generally enabling competition, could keep house prices affordable, but I see no chance whatsoever that this past can be restored. The NZ Initiative's recommendations of a system like the Municipal Utility District in Texas, are absolutely correct.

The NZ Initiative's broader work surrounding the structure of local government is interesting in that it identifies an unusually low share of overall taxation and expenditure, from "local" government in NZ compared to other OECD nations. "Development capacity" almost certainly will have to involve central government providing the regional road network improvement, especially following Bertaud's sound advice to impose generous rights of way decades in advance of potential growth, just as New York's Commissioners did in 1813 without having any idea how their city was going to evolve. NZ already has an outlier-high amount of *rural* road network capacity (per capita) and it is illogical to ignore this potential already-existing framework to which capacity could be added by means of extra lanes and more durable surfacing.

Giving Councils a greater share of national taxation revenue so as to enable them to provide the infrastructure for growth, merely guarantees that this money will be wasted, primarily on public transport operations and capital replacement. A given large sum of public money spent on either roads or public transport, after a century, has to show for it either a) a whole lot of moving of people around in the past, and a need to spend the same money again to move people around in the present or b) permanent surfaces on which a lot of travel has occurred, for which car drivers pay their own operating and capital replacement costs; and on which such travel will continue to occur with only a minimum of public expenditure per person-km of this travel.

The Commission is well aware of the Municipal Utility District system and the associated system of bond financing of infrastructure - secured over future property tax revenue in new developments - that is prevalent in Texas and other US States.

Another system the Commission should be aware of is the “Latecomer Contribution” policy that is operated in some US States, whereby a private provider of major trunk infrastructure and/or one or more of the 3 waters, can install an excess of this in undeveloped areas and gain the power to charge developers later connecting to this infrastructure and indeed proceeding with development at all because the infrastructure is there, for a share of the cost.

These systems allow the private sector to break out of Council and government strangulation of land supply due to sheer unwillingness to provide infrastructure for whatever reasons. It should be mentioned that roads are such a vital part of this, that some form of user charging would enable all sorts of efficiencies in the provision of roads. In general, this moves the provision and use of infrastructure in the direction of the incentives currently motivating utilities.

Another aspect would be the considerable use of private sector providers in lieu of property taxes and “free” services. Some services are location-specific, like rubbish collection, so that new developments outside a municipality’s jurisdiction cannot “free ride” on those services. Libraries already tend to try and limit free membership to people in the local-tax-paying area. Those “free” services that residents outside the municipality can free-ride on possibly should not be free or so heavily subsidised anyway – for example, orchestras and operas. In some cases it is assumed, as with tourists, that the net effect of providing certain amenities “free” is beneficial to the locality. If tourists enjoy Wellington’s “free amenities” while not paying local taxes, why not visitors from adjoining municipalities too?

Question 58: Do councils in high-growth areas require a greater range of approaches for funding infrastructure?

I strongly concur with the Commission’s conclusions about “betterment levies”, particularly the citation from Henry et al 2010. The creation of land *rent* is a cause of site value appreciation far in excess of actual value created by investments in infrastructure, rising local incomes and agglomeration economies. It has been noted by Cheshire et al in a number of studies, that the cost of land in UK cities has been diverging further and further away from the

cost in comparable US cities with no fringe growth containment, and the factor for the difference is in the *hundreds*. This is not “betterment” – this is “price signals screaming a policy induced famine” in land supply, as Cheshire, Nathan and Overman (2014) puts it.

The contrasting examples of the way Hong Kong and Singapore run their “housing”, is instructive. Hong Kong tends to be a “rent maximiser” more than Singapore – and in Japan, government direct operation in the urban land market as a landlord, at all levels of housing type, is deliberately run on a “cost plus” basis to provide competitive tension in the market and overcome what would otherwise be a very volatile, land-shortage national situation. No-one seems to think of advocating for this in any nation with Anglo-tradition property rights and secure title.

Giving NZ Councils a greater share of national taxation revenue so as to enable them to “provide the infrastructure for growth”, merely guarantees that this money will be *wasted*, primarily on public transport operations and capital replacement. The Councils are the problem, and need to be by-passed, at least until they display evidence of major institutional change.

Question 59: What alternative approaches for funding infrastructure should be considered in New Zealand’s high-growth areas?

The NZ Initiative’s recommendations of a system like the Municipal Utility District in Texas, are absolutely correct; and the Commission really need not look further than that.

But another system the Commission should be aware of is the “Latecomer Contribution” policy that is operated in some States, whereby a *private provider* of major trunk infrastructure and/or one or more of the 3 waters, can install an excess of this in undeveloped areas and gain the power to charge developers later connecting to this infrastructure and indeed proceeding with development at all because the infrastructure is there, for a share of the cost.

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Question 60 and 61: What are the main advantages and disadvantages of having infrastructure vested in Council Controlled Organisations? Does the use of Council Controlled Organisations create challenges with respect to integrated provision of infrastructure to support housing?

The operative term there is “Council Controlled”. The Councils have completely abused and breached the public trust in them and it is time to allow the private sector, under genuinely competitive conditions, opportunity to circumvent Councils rigging of the system in favour of rentiers. The infrastructure may well end up vested in Councils, *after* the private sector has built it in a timely manner in conjunction with *market-driven* growth.

Question 62: Has the National Infrastructure Plan helped promote coordination of infrastructure investment? Is there sufficient integration between central and local government infrastructure planning?

The National Infrastructure Plan is mostly far too little, far too late. We need a National Infrastructure Plan that rebalances growth in NZ to where the benefit-cost is maximised; particularly where the geography makes growth cheaper and urban economies more productive. An amorphous “grid” urban form, where everyone can just take a few right or left turns on the road network to get to every other part of the city, is going to be more efficient than a city stuck in two geographically-constrained corridors with next to no connections between them. No wonder Wellington is so moribund in spite of reaping more spending per capita from central government, by a wide margin, than any other NZ region. NZ is weird for its linear north-south thinking everywhere, when you look at it – even ChCh with room to grow inland, is a corridor with growth spreading up and down the coastal highway. We have minimal connections across the North Island anywhere. Rural towns are ribbon developments on the main road.

A 2012 paper by Peter Gordon, “Thinking About Economic Growth: Cities, Networks, Creativity and Supply Chains for Ideas”, suggests a correlation in US cities, between *dispersion* and productivity, which is the *complete opposite* of what planners are working towards. But think this through: is Silicon Valley an agglomeration? Of course. But it didn’t start in a dense urban area with rules against splatter development – it started on cheap, exurban, lightly regulated land. The brightest urban economists in the UK are pointing out that agglomeration efficiencies are foregone under the UK’s planning system, because agglomerations are of multiple types; and it is necessary for new participants in them to have space to move *in* to, and space priced at what they can afford. Hence the UK does NOT get the kinds of agglomerations forming that you DO get in US cities where splatter growth is the norm, with gradual infill of the left-over land. It is actually not rocket science that this is more efficient. The gradual infill is always dedicated to far more intelligent uses based on what is already starting to grow in the general area, than what “planners” arbitrarily designate land to be used for as their city is forced to grow in creeping contiguous form.

Forcing non-complementary economic activities into a “compact urban footprint” merely maximises the diseconomies and forgoes a lot of the

efficiencies, apart from forgoing a lot of actual business creation and growth that the planners never know they stopped.

Wellington urban area is an absolutely model example of the consequences of cramming everything into the least efficient possible urban form – its congestion delays are an international laughing stock for a city its size – worse than Los Angeles and New York with 30+ times the population.

It is also a related question, how much land comprises the potential supply for a growing city's housing – obviously a city that is surrounded by 360 degrees of abundant land, will have a greater supply than one that is limited to growing only inland from a coastline, or even worse, along a narrow isthmus; and yet most cities, even those with geographic constraints, have had decades of housing affordability. It is probably more a question of these constraints instantly worsening the impacts of growth-containment urban planning relative to less geographically restricted cities. Auckland hitting a median multiple of 9 (forthcoming Demographia Report) is *not remotely justifiable* from the point of view of “amenity”/desirability/agglomeration efficiencies in spite of the claims of the more shamelessly intransigent planners and politicians. It has to be about induced scarcity.

Besides the extent of the multiple directions in which a city can grow, there is the question of the speeds of travel involved. One of the factors that enables Germany to keep its housing surprisingly affordable, is the excellent non-speed-limited autobahn network. Imagine Auckland with rural towns not just north and south of it on inadequate, congestion-plagued main roads, but in every direction and able to be driven to and from at 200 km/h. It is possible to estimate that the de facto supply of housing at alternative exurban locations might be as much as 50 to 100 times higher under these conditions.

Question 63: What impact does heritage protection have on the supply and development of land for housing?

Heritage protection should be managed in such a way as to have minimal effect on the supply of land for housing. There merely needs to be a super-abundant supply of land on which development is presumed to be allowed, and then it does not matter if there are a healthy number of nodes at which

development is not allowed for whatever reason. The City of Aberdeen seems to have had a brainwave more recently, as it now plans for “development fingers” into its Green Belt, and the eventual replacement of the Green Belt in principle with “a network of Green Spaces”.

Question 64 and 65: Are there good examples of local authorities, in areas where there is a housing shortage, working well with landowners who want to build housing for whānau on Māori land? To what extent are Plan change requirements, consultation requirements, or the need for infrastructure, barriers to Māori aspirations for building housing for whānau on Māori land?

I am not acquainted first-hand with these issues; however my suspicion is that if Maori leadership aspired to efficiently utilising their land holdings for the benefit of the people they represent, they would most likely be able to do it and the political establishment would not tolerate obstacles for a moment, in contrast to the position for “other New Zealanders”. Under the status quo they are benefitting from unearned increments in their land holdings as long as there is a planning-induced shortage of land for housing. But there would be an unfortunate unintended consequence if Maori developed their land for housing for Maori only; because this would result in seriously sub-optimal co-location efficiencies.

Question 66: How important is the aggregation of land for housing development? How difficult is it? Do some local authorities have processes in place that make land aggregation easier – if so, which ones, and how?

It is ironic that NZ and other Anglo nations are marked by traditions of Primogeniture in land inheritance, and very large rural land parcels in individual ownership, which leads to a major loss of “competitiveness in land supply” inside a growth boundary compared to European countries where “rural” land is already fragmented into what we would call “lifestyle blocks” (hence the inefficiency of their farming “industry”). Ironically, this effect actually tends to keep urban fringe greenfields land prices *lower* in European countries (Alan W. Evans, 2004). One property developer who bought two large farms in Wellington North in around 1980 has had a near monopoly on

the supply of greenfields housing in Wellington since the 1990's as the Council refused to enable any more leapfrog development.

But we have created fragmented land holdings around our cities in the form of lifestyle blocks, the numbers of which have exploded (as people are priced out of the quarter-acre inside a growth boundary, they can pay a little more and get *20 acres* at what is actually a *fair price* for the land (see NOTE at end of this question). But in so doing, we have also created a monstrous NIMBY sector opposing growth onto *their* "backyards".

However, in Europe, threat of compulsory acquisition for aggregation of land, mostly for *public* uses, tends to keep land owners more pragmatic about holding out too aggressively, either for "no development" or unearned oligopoly "site value capture".

The use of "eminent domain" in the USA, *on behalf of private sector developers*, is very unpopular with the public and almost certainly would be here. However, a majority of land in urban areas is "public" space anyway (when roads are included – Bertaud 2014) so landowners are quite rightly under sufficient threat as they are in the path of urban growth, as to be kept realistic even if compulsory acquisition is not going to be exercised on behalf of private developers. In fact land owners could be provoked to sell to private sector developers sooner, rather than have their land compulsorily acquired later. There is an interesting discussion of this in "The Land Market and Government Intervention"; Alan W. Evans - Chapter 42 in Paul Cheshire and Edwin Mills (Eds.) "The Handbook of Regional and Urban Economics, Volume 3: Applied Urban Economics" (1999).

When it comes to aggregating sites for large scale projects in existing built areas, obviously compulsory acquisition is necessary, and whether the project will proceed at all probably stands or falls on the outcome of the battles between site owners and the authorities, with public opinion being enlisted one way or the other. This is certainly the case even in earthquake-damaged Christchurch and its "Green Frame".

As stated before, Angel et al and Bertaud advocate "good planning" of *Greenfields* growth that forestalls the need for messy and expensive acquisitions in the future.

But ironically, it is cities with low and flat urban land rent curves – due to an

absence of fringe constraints – where all sites everywhere in the city are cheap enough as to not represent anywhere near as significant a proportion of the overall development cost as they do in, say, the UK – and increasingly in NZ cities. We need to regard this as a legitimate solution to all these associated problems, of affordability, churn of land uses, productivity-enhancing changes of land use and new agglomeration formations.

NOTE:

From interest.co.nz:

About 10 per cent of NZ's most productive farmland is now occupied by lifestyle blocks, according to new research by Landcare reports [Business Day](#). The work by Landcare researchers Robbie Andrew and John Dymond showed lifestyle block numbers now numbered 175,000, an increase of 75,000 over the past 13 years and covered an area of 873,000 hectares. Lifestyle blocks occupied 148,000ha (17 per cent) of high-class land, which was defined as land that could be used intensively to produce a wide variety of crops. That is 10 per cent of New Zealand's total area of high-class land.

<http://www.interest.co.nz/rural-news/57591/issues-both-sides-fence-lifestyle-land>

This is an absurdity considering that many owners of such blocks might have been perfectly happy with a far smaller property closer to the city, if the cost per square foot was not *literally tens of times higher* due to a boundary. The figure identified by Grimes and co-authors, relating to *cross-boundary* land price factors, is not the whole story. Land immediately outside a boundary is already inflated in price due to the boundary, over what it otherwise would cost.

Question 67: Is there a need for public agencies that can aggregate land in New Zealand cities? If so, who should establish these agencies? What powers and functions should they have?

I think it would be an advantage to have a single central authority with significant powers in this regard, if only by way of threat to incentivize land owners to be a bit less greedy. I actually thought that such powers already exist under the Public Works Act. However, these have not been exercised in such a way as to minimize land owners price expectations.

I am indebted to Bryce Wilkinson for pointing out the following:

<http://www.linz.govt.nz/crown-property/acquisition-and-disposal-land/land-involved-public-works/landowners-rights-when-crown#sthash.WCP2erWb.dpuf>

Organisations who can use the Public Works Act

In the past only the Crown and local authorities had access to the acquisition provisions of the Public Works Act.

In the 1980s and 1990s many of the activities previously carried out by the Crown and local authorities became the responsibility of statutory organisations such as State-Owned Enterprises (SOEs), local authority trading enterprises (LATEs), other Crown entities and private companies. These organisations are neither government departments nor local authorities, and do not have the power to compulsorily acquire land in the same way as the Crown or local authorities. They must therefore buy land on the open market. The exception is any network utility operator which the Minister for the Environment, through a notice in the Gazette, has classified as a "requiring authority" under the Resource Management Act. A requiring authority is an operator of a service requiring development which includes lines for electricity distribution, roads or pipes for water supply, drainage and sewerage. A requiring authority for a project or work is able to use special provisions in the Resource Management Act to seek the agreement of the Minister of Lands (presently known as the Minister for Land Information) representing the Crown to acquire or take land on the requiring authority's behalf.

Bryce Wilkinson comments:

*“Single purpose regional roading authorities *could be* set up to own and operate regional roads, separated out from local authorities for reasons of focus, transparency and accountability. They could get revenue through shadow tolling or (preferably if economic) electronic billing techniques, as envisaged in CS First Boston’s 1993 report for the NZBR and in Maurice Williamson’s Better Transport Better Roads, proposal.”*

I think an investigation is urgently needed into the prices being paid by Auckland Council for sites associated with the Rail Link project – it is scandalous that the Council has first driven up the cost of all land in the City with its boundary policy, *then* started to spend ratepayers money acquiring significant parcels of it. This should be the cause of an electoral revolt, but investigative journalism is not sufficiently up to speed on these aspects.

In general, the scope for corruption surrounding growth management, zoning and infrastructure investment that benefits CBD locations in particular, is considerable. This writer has noticed acknowledgements of funding support in many “Compact City” and “Transit-Oriented” studies globally, from the Rockefeller Foundation and George Soros’ Tides Foundation in particular – funding of such advocacy makes rational sense from the point of view of the significant property investment interests these “donors” are involved in.

No theory of a massive conspiracy is necessary – it only requires one or two clever major property investors to see which side their bread is buttered on, and start supporting the “right” advocates.

I believe that if a law was passed at the national level mandating compulsory acquisition of all greenfields land within Growth Boundaries, and of sites at locations targeted for intensification under the “Unitary Plan” (or whatever) in the event that the intensification is lagging what the Plan’s assumptions were; and so as to prevent the wealth transfers that occur otherwise; “support” for “save the planet” urban planning would mysteriously vaporize.

Question 68: To what extent do central or local government policies and practices prevent or discourage landowners from selling or developing land for housing?

The evidence in the UK is that the expectation of capital gains, and the immediate capitalisation of development rights into value of sites without actual development being required to realise that value; acts as a major distorter of urban land markets in the direction of speculation and away from functional, economic considerations. The prime driver of this is the growth boundary/compact city policy; in the absence of such policy, the city’s urban land rent curve tends to be low, flat, and anchored. Capital values tend to dominate the total values. This is reversed in the case of a growth boundary being imposed, and by an increasing magnitude the longer the policy is persisted with.

Question 69: How much land in New Zealand is being held in anticipation of future price rises? What evidence is there?

The price rises themselves are evidence that “most of the supply of land (inside growth boundaries and where upzoning and development permissions have been granted) is being *held*”. Much of this is possibly merely work in progress and the sensible securing of the “next site” by developers – the planned supply is barely much greater than this. It is impossible to meaningfully determine intent by means of survey or investigation, and translate that into policy advocacy. We need to stick with price signals.

Question 70: Does the setting of rates on the basis of land value or capital value (that is, including the value of improvements) influence the supply of land for housing? What evidence can you supply?

I can supply no evidence because I do not know of any city in the world with a significant land tax. It appears that in the USA there are differing levels to which taxation is applied to land and to capital improvements, between cities; however I am not aware of any analysis of effect on the supply of land. The correlation in affordability/unaffordability is entirely with the presence or absence of restrictions on supply of land for urban use, with differences in local tax policy making no apparent difference in this respect. There might be differences in the use of land hidden beneath the affordability/unaffordability outcomes, but I know of no study that has investigated this. It would be interesting to do one.

I regard the absence of such an example in spite of the global mania for growth containment, as evidence of the kind of vested interests driving the policy mania. Land taxes *instead* of a growth boundary would be a perfectly valid approach to maximising the use of land, and indeed the popular policy of the boundary is based on even shallower assumptions than the assertions by numerous experts that a land tax *would work* in this way. For example, see Mason Gaffney (1964) “Policies for Containing Urban Sprawl”. The “popularity” of the boundary over against land taxes and proper pricing of infrastructure and its use, is testament to a) the power of the rent-seekers and b) the economic illiteracy of the useful idiot “environmental preservation” advocates.

Question 71: How common is the use of covenants in new housing developments? To what extent are private covenants restricting the supply of development capacity?

Covenants do not systematically affect housing affordability. Only the availability or non-availability of land in other uses, for conversion to housing use, systematically affects housing affordability. See my long discussion of this under Question 7.

Further comments:

I have been dealing for some time, with the flimsy pretexts for “preserving land from urban growth”, and there is absolutely no basis in NZ, less than 1% urbanised, for giving these pretexts any consideration.

Cheshire and colleagues at the LSE have calculated that effective reforms in the UK would lead to an explosion of urban footprints of 70%. That is, the UK would move from around 12% urbanised, to around 19% - still less than Germany and the Netherlands. The Netherlands manages to be the world’s second-highest exporter of agricultural products *by value* in spite of being smaller than Canterbury and more than 20% urbanised. They do this by not worrying about their own “food security” at all; they feed their workforces with cheap subsidised food from the rest of the EU, and export Tulips.

The reason that the UK could have 70% increase in urban footprint while average section sizes would probably double and there would be thousands more of them produced for people quitting apartment blocks, is that actual housing is only a small part of the overall urban footprint anyway. Ironically, there are so much amenities and public spaces that need increasing as people are added to local “housing”, that there is a loss of “space saved” in housing, in the form of public space and so on, that erodes much of the space savings. There is a paper by a Professor Ian Gordon in the 1990’s that suggests that cramming people in *twice as densely* in their actual *housing*, reduces the urban footprint by 7% - *seven percent*.

This is why conversely, even the UK could unleash its people to consume as much land as they want at an affordable cost, which would involve an order of magnitude increase in the space required for *housing*, but would only increase the overall urban footprint by 70%. Now in NZ, we are around 0.7% urbanised

and our housing is nowhere near as crammed as the UK's is, seeing they have been explicitly cramming for several decades longer. So our explosion in urban footprint would be nowhere near as much as 70%.

I am prepared to accept the “planners” assertions that “people don't really want as much space any more”, but *they* need to accept that leaving it to the market is the perfectly rational course of action. It is a myth that very much of our cities was ever in ¼ acre sections, and 20 years of infill has made them nigh on non-existent. But I doubt that a high proportion of NZ-ers will end up buying McMansions on ¼ acre sections even if they are an affordable option. Who wants to mow all that lawn every week? Most of the people who might like ¼ acre and possibly larger, are currently on lifestyle blocks very much larger because regulations prevent any sensible middle options between \$300,000 1/10 of an acre inside the UGB, versus a lifestyle block outside it for not a lot more dollars.

The phenomenon in the USA, of swathes of suburbia with ½ acre and larger sections, is an absurd consequence of legal precedents regarding what “exclusionary” local devices are allowed to be used. It also relates closely to the fact that schools are paid for out of local municipal taxes. Therefore the logic is that excluding families with children will help keep local tax burdens lower. And where suburbs are promoted as *having* a good local school, excluding poorer families with potentially under-performing and disruptive children is also regarded as important. But explicit and simple tactics to achieve this are not allowed, so the device of “large lot mandates” is the de facto and “impolite to mention” surrogate.

The problem then is that if there are no UGB's and the real cost of urban land continually falls (as it has – because the real cost of farmland has continually fallen), the large-lot mandates become less and less effective at actually excluding anyone, especially as the housing ages and depreciates. Poorer families end up moving in, and “there goes the neighbourhood”, as they say. Note that Glaeser, Ward and Schuetz (2006) calculated that every added ¼ acre mandated, increases the ultimate price of housing 4%. So the newest suburbs are now up to 4-acre minimum lot mandates in an attempt to maintain the “exclusionary” effect of adequately pricier lots.

The raw land price is really what affects the added “lawn” cost the most, and of course this raw land price is as low as \$10,000 per acre in the absence of UGB’s. The added *cost of development* from throwing in more lawn, is not a killer. Bear in mind again, that much of a new suburban development is not private sections anyway. The cost of raw land significantly affects the cost of developed sections. The fact that 1/10 of an acre sections are selling for \$350,000+ on the Auckland fringe, is logical given a raw land acquisition cost as high as \$2,000,000 per acre, with some 50% of the initially purchased land needing to be sacrificed to non-saleable roads, parks, etc. In fact as a city grows, Bertaud (2014) cited by the Commission, suggests that only 1/3 of the raw land initially purchased by developers ends up as saleable properties in the overall. Where developments are managing to exceed 50% of the land as saleable lots, due to land cost pressures, the result is extremely unsightly cramming, lacking local green space and flora-provided colour, and likely to be regarded as undesirable locations in the future.

There is NO reason to condemn “covenants”, which are a valuable part of Anglo traditions of political freedom and property rights, on any grounds associated with systemic affordability of housing, or with “efficient use of land and resources”.

Question 72: What are the advantages and disadvantages of the Housing Accords and Special Housing Areas Act 2013 and of its implementation to date?

I regard the Housing Accords and the “Special Housing Areas” as a disgraceful combination of “being seen to be doing something”, while in fact playing to the tune called by the rent-seekers. They are little more than a stitch-up to enable site owning opportunists to avoid the costs of process and NIMBYism. The resulting gain will be banked by them, not passed along to the home buyer, and no effect on systemic housing affordability will result; a crash will occur one day anyway, and “not restricting the supply of housing quite so much meanwhile” might make that eventual downside more volatile, that is all.

There will be a backlash from Aucklanders over the ramming through of high density projects in their backyards.

The rhetoric from Bill English and Nick Smith sounds right – “rendering the growth boundary a nullity” is indeed what is required, and this should have been done in 2008, and explicitly, without all this “talky, talky”, lost opportunity and scandalously worsening damage to the economy and society meanwhile.

See my long discussion of *effective* supply of land under Question 7.

Question 73: Are there wider lessons for New Zealand from the planning and development processes that have been used in greater Christchurch?

I will copy here, in its entirety, a published opinion piece on this point.

National Business Review

August 10, 2012

Land Costs Will Strangle Urban Revival

Phil Hayward

Matthew Hooton is not to be blamed for his ideas on CBD land economics in Christchurch; such ideas are widespread (“What Makes Christchurch So Lucky”? Aug 3).

Restricting the area allowed to be developed, by zoning, does indeed drive up rents and force investors into bidding wars with each other. But the assumption that this leads to the most efficient use of land is wrong.

In fact, the cost of land in these conditions, ends up swamping many much more useful incentives to productivity.

Wealth creation involves the utilization of resources to produce something for which there is demand. Healthy and undistorted land markets reflect the actual dollar value of production and income, in land prices; the distribution of the range of land prices depends on agglomeration efficiencies, transport costs, and “location”.

I do not believe that there is proof anywhere in the academic literature, for the supposition that inflating the price of urban land via regulatory rationing and the creation of monopoly rent, results in enforced “increased efficiency”.

In fact, some have found that inflated urban land prices *limit* the formation of economic agglomerations by “pricing out” enterprises that might otherwise have been included.

New Zealand’s urban economy, including that of Christchurch, was already laboring under the disadvantage of inflated urban land costs due to contemporary planning manias.

It is economic lunacy to strangle the urban economy with inflated costs associated with the crucial “land” factor of production, while regarding the rural economy as some kind of sacred cow to be “protected” from “urban encroachment”.

Christchurch’s economy now has to find a whole lot more income with which to meet the cost of new construction. The market had found its own already-stressed level before the earthquakes. A proportion of tenants only *just* managed to pay the rent on dilapidated old buildings sitting on grossly price-inflated pieces of land. Now, the urban economy has to adjust to the rental cost of shiny new buildings built to a stricter-than-ever code, on sites that are still grossly over-inflated.

The CBD “plan” would actually have its prospects *improved* if it included the abolition of all constraints on urban development on the massive quantities of land in Canterbury that are currently off limits, and the adoption of systems of municipal incorporation and infrastructure financing that works so well in the affordable cities of the US. This would bring the urban economic land rent curve in the entire city of Christchurch back to a sensible level and allow for a lot more actual building with the available finance, whether for housing, commercial, or sports stadiums.

I am unconvinced and cynical regarding the “cheering” with which this “Plan” has been greeted. If “the people of Christchurch” really do “want” this, then this is a fine illustration of what some economics writers call “rational ignorance”. It is simply not worth the while of each citizen individually to spend a few hundred hours researching urban economics. Nor would many people

understand it anyway. (In fact the NZ Productivity Commission's recent Report on Housing Affordability noted the predominance of "mom and pop" property investors in NZ in contrast to "institutional" investors, during a speculative mania that has not yet ended. This suggests that even getting involved in property investment is frequently not accompanied by prudent "due diligence").

The other groups whose "rational" behavior is a factor here are politicians and bureaucrats. Unfortunately, with a few notable exceptions, *no-one* puts in much effort that really *is* for the greater good (in contrast to good *intentions*, ignorance, and "capture").

Question 74: What evidence is there that the Land Use Recovery Plan changes are resulting in more land being made available for housing, or allow land to be developed faster?

The *prices* are evidence that what land *was* made available, has been via quota that creates opportunities for land vendors to hold out for prices that embody extractive economic rent and maintain unaffordability in housing.

The consenting and building rates in Selwyn and Waimakariri are evidence that leapfrog sprawl has been deflected an unnaturally large distance to those areas, leading to major losses in efficiency of the urban economy as a whole, at least until many years of further growth, road building, infill and dispersion of employment and amenities enables a better level of co-location efficiencies.

APPENDIX:

Comment by Phil Hayward, on Knoll, Schularick and Steger, 2014: "Home Prices Since 1870"

<http://www.voxeu.org/article/home-prices-1870>

Published:

<http://www.voxeu.org/comment/105237#comment-105237>

I have been working on a hypothesis from a different angle to these authors, and it is encouraging to see others taking an interest in these very important questions.

I agree completely that transport system effectiveness at providing increased access to land, is responsible for reducing land rent. This is surely self-evident; not only is there established literature about this: Robert Murray Haig (1926) *“Towards an Understanding of the Metropolis”* is an early example of a work that includes an intellectual approach to urban land rent and transport system flexibility; but one encounters a certain familiarity with the principle in the writings of non-specialists like Frank Lloyd Wright, Henry Ford and Charles Booth.

There is an extremely helpful overview paper that discusses this and later theoretical advances by Alonso, Wingo, and others – Michael A. Goldberg (1970) *“Transportation and Urban Land Rents: A Synthesis”*.

In an essay published in Quadrant Magazine (Australia) December 2013, I criticised the economics profession for its failure to recognise the realities observable in real estate markets and develop theory that fitted them. My argument is based on the observation that there are two forms of land rent – differential rent and extractive rent. I owe this insight to Alan W. Evans (Emeritus, University of Reading) – it is included in his 2004 book *“Economics, Real Estate and the Supply of Land”*. But I recently was amazed to discover an unjustly-obscure theoretical and modelling paper that approached the question from almost the same way as I have been working. This is Dimitri Emmanuel (1985) *“Urban Land Prices and Housing Distribution: Monopolistic Competition and the Myth of the ‘Law’ of Differential Rent”*.

Emmanuel describes what I call “extractive rent” in his paper, but calls it “monopolistically derived minimum land price”. His approach is based on the

theory of “monopolistic competition”, which is not something I had tried to apply, but it seems to be appropriate to urban land supply. In fact his insight that advanced my conceptual grasp of the problem considerably, is that “differential rent” *itself* becomes monopolistically derived, or extractive. This perfectly harmonises with my observations of housing market reality around the world. The successful “bids” for every attribute of housing (according to location advantage and so on) are progressively derived from the incomes of bidders higher and higher up the income distribution, as the overall urban land market is increasingly dominated by “monopolistic” effects. And the bottom of the income distribution is marked by people excluded altogether from the formal housing market.

I have been pointing out for some years that there is (and has been in the modern history of housing markets) numerous cities with a house price median multiple of 3, and that these cities are all *low* density and with generously sized housing – while cities that are not in this category all tend to have median multiples that are a lot more volatile, and trend around 6 and upwards, along with the housing generally being smaller and “lots” even more so (and density being higher). And in reality, the correlation between urban density/average housing space per household, and median/average housing cost, “by city”, runs in the direction of higher density/lower average housing space = *higher* median/average housing cost. This is the opposite of the shallow assumptions made by advocates of “compact city” planning. This is because economic land rent falls faster than additional space is consumed by households, as long as the superabundant supply of lower-cost land in non-urban uses is freely being added to the urban economy. If that superabundant land supply is denied to the urban economy, by regulations, geographic realities, or lack of automobility in still-developing economies, the opposite occurs: land rent rises faster than households average consumption of space falls, as incomes rise. Paul Cheshire at the LSE, and various co-authors, have noted that this effect underlies the long-developing crisis in housing in the UK since the 1947 Town and Country Planning Act. (I hold that this is also the reason why developing-nation cities increasingly struggle to include latecomers in the urbanisation process, in the formal housing market in cities, in tighter and tighter

accommodation such as the infamous tenements of the first world in the Victorian era. Urban land rent rises with the incomes of those already there, while the rural incomes of as-yet-migrants has been left behind).

I had noted already that density zonings in the cities with growth boundaries (or proxies for them – this can be “rural” zoning, not an explicitly enacted UGB) affected house and lot sizes but not the “price”; and concluded that the evidence is (as Emmanuel says) that *site rent is elastic to density – only* under the conditions of growth containment. For example, lots and house sizes in Boston and Santa Clara are very large on average yet their median multiples are no higher than cities in, say, the UK where permitted densities of development are several times higher and housing unit size several times smaller.

So I have been criticising advocacy that blames low density zoning as a cause of affordability problems, because this is contrary to the evidence, as is the assumption that upzoning and building “up” will provide “affordability” as fringe growth is explicitly constrained in new “Plans”. I have corresponded with a lot of academics about this; I believe Bertaud, Cheshire and Levinson are among those who are clearer on this reality, but no-one has been aware that there is already a theory as thorough as Emmanuel’s one.

But Emmanuel does not emphasise as I have, that there *is* a data set of cities where the process of automobile-based growth and the dispersion of employment and amenities has been so uninhibited that land rent has ended up being almost entirely of the “differential” type undistorted by extractive effects. The urban land rent curve tends to have steadily lowered and flattened in cities that have evolved along these lines. William Wheaton, in “Commuting, Ricardian Rent and House Price Appreciation in Cities with Dispersed Employment and Mixed Land Use” (2002) observes that these effects act in the direction of reducing land rent and reducing commute lengths, even if rebound effects obscure these forces.

In my Dec 2013 Quadrant essay I suggest that in the automobile-based free-spreading cities, housing is marked by “consumer surplus” – that is, as is the case with most goods in a free market, they tend to incorporate more and more attributes for a lower and lower real price or share of income. I believe that this is the case for any city with a house price median multiple of around 3 – which *Demographia* and indeed the UN and other global institutions regards as the gold standard for “affordability”. I hold that the reason for this is that urban fringe and “splatter” development is taking place so competitively that the resulting derivation of the urban land rent curve in those developments, is anchored in a fringe land “rural price plus cost of development plus a *moderate* profit”. This is in stark contrast to the “planning gain” noted to exist on the fringes of UK cities, of a *factor* of 100 to 900....!!

“Option values” mean that the “differential rent” relative to the value of fringe urban land, is what determines the urban land prices everywhere in the city, including the centre. There is a recent paper from New Zealand (Productivity Commission, 2013) which includes a time series of graphs of urban land rent in the city of Auckland during the *recent years* of historically unprecedented “house price inflation”, and this rent curve rose along its entire length, with the size of the “discontinuity” at the growth boundary increased – and this episode followed the enactment of growth containment policies.

Consumer surplus and extractive rent are the opposing manifestations of the same phenomenon. Where extractive or monopolistically derived rent in urban land exists, it is elastic to not just density, but all other attributes of housing. Increased density, cheaper construction, sacrificing of attributes of housing, will merely create more site rent, as will the enduring of un-renewed and un-maintained housing conditions. Extractive economic rent rises to take out any slack in “housing cost” that has occurred in any other attribute of it.

I am not surprised that there are wide disparities in the different markets analysed by Schularick and colleagues, but I am surprised that *so many* of the markets demonstrate a rising price of houses in the second half of the 20th century. My understanding was that home ownership increased considerably in most first world countries because the real price of housing fell; and furthermore, that the reversal of this trend is related to the more recent global mania for “constraining” urban growth. There were several decades where in fact government positively enabled and promoted urban growth with infrastructure investment and planning. This was understood to be serving the objective of home ownership, and improved living conditions relative to pre-automobile dense urban living. Certainly the most volatile period of house price inflation is the IPCC-era anti-automobility phase of urban planning fashion.

There is another complicating factor, though, which is discussed by Goldberg (1970) – which is that consumption of the attributes of housing is in fact *price elastic* to such an extent that households willingly spend a higher proportion of their income than previously, on “housing”, *when they are getting value for money in those attributes*. I would suggest that there is a kind of s-shaped curve relationship in housing markets where this is the case.

So there is a mixture of two completely different “economic rent” effects at work in the apparent increase in housing prices in the second half of the 20th century. If we were to focus completely on *land rent per unit of land space* I would expect to see that this was *falling* in all markets during the era in which automobile based suburban development was a major phenomenon. I know the UK is the exception that proves the rule.

But it gets worse. From the McKinsey Institute's latest Global Report on Affordable Housing: ***in London, 45 percent of land with permission to be developed remains idle***. The UK's waiting list for social housing has 1.8 million

people on it; a pitiful 98,000 new units were constructed in 2012; and 400,000 sites with development permission remain undeveloped!

The reason for this is that in these “created scarcity” urban land markets, site owners are thinking like speculators, not like “producers”. Why should they even *bother* to develop their site to maximum potential, or sell it, when its value already embodies the “rights of development” and that value is going up? (And when the crash comes and the value is down, no-one is interested in doing development).

Where building “up” *did* lower floor rents for some decades *and still does* – is in the presence of *competitive fringe development* that brings housing onto the market at the lowest cost that *developers in competition with each other* can do so on rural land acquired at minimal uplift over rural values. “Option values” from the fringe to the centre takes care of the rest of the urban land market. Houston, Dallas and Indianapolis are examples of cities today where impressive levels of intensification in the right places is occurring, and this is all occurring for good sound functional reasons, plus the capital available for building “up” is higher due to the very low site acquisition costs. Manhattan’s famous skyscraper boom and economic rebalancing from manufacturing to “financial services” occurred under similar market conditions – i.e. rapid, transport-improvements-based urban area spread. Manhattan floor rents are still significantly lower than those of any other “global” city (with the possible exception of Tokyo, due to factors that require another essay in its own right). The value for money in housing options at any given level of travel time to central Manhattan, is far higher than in any other global city and even than that in many secondary cities where very stringent growth containment policies apply, such as in the UK and now Australia.

Automobile based development is more effective than rail based, for reduction of urban land rent, because rails only bring long ribbons of land into supply; the distance/land price trade-off is steeper. Haig (1926) used the term

“friction” regarding the relationship between the transport system and land use. Obviously a door-to-door fast transport method is much lower-friction than one requiring a walk at both ends, waiting times, and possibly transfers as well – especially if we are considering access to “the entire urban economy” from any given point.

Glaeser makes some interesting comments in “Nation of Gamblers” (2013) regarding this.

“.....Almost everywhere, prices in 1970 were below 1950 prices plus this construction cost related price increase. Even after the most stupendous change in America’s mortgage history, and a post-war economic boom, housing prices had gone up less than construction costs would warrant.

The natural explanation for the missing boom in prices after World War II is that there was an enormous increase in housing supply over the same time period. During the 1950s, America permitted 11.84 million housing units, which is roughly the same as America permitted during the twenty-six years from 1920 to 1945. The construction was disproportionately on the urban fringe (Jackson, 1979) and disproportionately in the Sunbelt.

The post-World War II era demonstrated exactly what textbook economics predicts should happen when robust demand meets relatively elastic supply. Quantities rose and prices stayed relatively flat. The relatively elastic supply owed much to the rise of automobile-based living on the urban fringe, which can be seen as either a shift in housing supply or a change in supply elasticity. For example, in an open-city formulation of the Alonso-Muth-Mills model, with supply costs that increase with density, lower transportation costs will increase supply but not change supply elasticity. Yet it is possible that the automobile made supply more elastic as well. On the urban fringe, lower cost, low density housing can be built in massive quantities, essentially using a constant returns-to-scale technology.....

“.....The missing post-war price boom is not a problem for conventional economics, but it does present a challenge to those who seek to explain bubbles as the outcomes of a stable process where readily observable exogenous variables translate into the presence of a bubble. The 1950s had easier credit for homeowners than the 1920s and economic conditions were at least as good. Any model that suggests that there is a stable relationship between either of those variables and price bubbles has difficulties with this epoch.....”

Another extremely interesting discussion is by Nicholas Crafts (University of Warwick) on this site:

<http://www.voxeu.org/article/escaping-liquidity-traps-lessons-uk-s-1930s-escape>

“Escaping liquidity traps: Lessons from the UK’s 1930s escape”

Nicholas Crafts 12 May 2013

Professor Crafts points out that monetary easing in the UK in the 1930’s, WORKED because it had somewhere productive to GO:

“.....Obviously, for the cheap-money policy to work it needed to stimulate demand – a transmission mechanism into the real economy was needed. One specific aspect of this is worth exploring, namely, the impact that cheap money had on house-building. The number of houses built by the private sector rose from 133,000 in 1931/2 to 293,000 in 1934/5 and 279,000 in 1935/6 – many of these dwellings being the famous 1930s semi-detached houses which

proliferated around London and more generally across southern England. The construction of these houses directly contributed an additional £55 million to economic activity by 1934 and multiplier effects from increased employment probably raised the total impact to £80 million or about a third of the increase in GDP between 1932 and 1934. House building reacted to the reduction in interest rates and also to the recognition by developers that construction costs had bottomed out; both of these stimuli resulted from the cheap-money policy (Howson 1975).

Why was house-building so responsive in the 1930s? Two factors stand out. First, the supply of mortgage finance grew rapidly and became more affordable in an economy in which there had been no financial crisis that curtailed lending.

Building society mortgage debt rose from £316 million with 720,000 borrowers in 1930 to £636 million with 1,392,000 borrowers in 1937 when about 18% of non-agricultural working-class households were buying or owned their own homes. In these years, deposits fell in some cases to 5% and repayment terms were extended from around 20 to 25 or even 30 years reducing weekly outgoings by 15% (Scott 2008).

Second, houses were affordable to an increasing number of potential buyers.

85% of new houses sold for less than £750 (£45,000 in today's money). Terraced houses in the London area could be bought for £395 in the mid-1930s when average earnings were about £165 per year. Houses were cheap because the supply of land for housing was very elastic which in turn meant that there was no incentive for developers to sit on large land banks. Underpinning the availability of land for house-building was an almost complete absence of land-use planning restrictions which applied to only about 75,000 acres in 1932 – the draconian provisions of the 1947 Town and Country Planning Act were still to come.....”

It has been noted by the late Sir Peter Hall and others, that the houses built in Britain in the 1930's tend to be highly sought after today for their qualities, which have been increasingly absent in housing developed since.

The importance of these issues justifies a reversal of the current inverse level of theoretical clarity regarding them.

Philip G. Hayward

NZ

