



Federated Farmers of New Zealand

Submission to the Productivity Commission on the inquiry into Using Land for Housing

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To: The Productivity Commission

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Summary of submission

Federated Farmers welcomes the opportunity to submit to the Productivity Commission's Issues Paper on Using Land for Housing. We agree the Inquiry will be useful and timely given that house prices have continued to rise since the Commission's Inquiry into Housing Affordability.

Federated Farmers has some concerns with the potential implications for New Zealand's productive capacity if further land for housing is developed without considering the impact on our productive capacity, particularly in the area of greenfield development.

Productive capacity is a key factor of difference between the various supply options

Federated Farmers notes total area of land used for farming has decreased 8.5 percent, or 1.3 million hectares over the period 2002 to 2013.

This is a loss of land of equivalent size to the Marlborough and Kaikoura districts combined. While housing will not have been *the* major factor behind this decrease, it will have been a factor, and further housing development poses some additional threat if not appropriately managed.

Federated Farmers asks that the Inquiry distinguish between the various options for additional housing supply (broadly, increasing land supply versus infill or redevelopment) and the implications each option has on New Zealand's productive capacity.

Demand factors are also worthy of consideration

We consider the nature of and drivers for housing demand are also material factors for the Inquiry to consider.

Well managed release of land is the aim

We ask the Inquiry consider the range of tensions councils manage when considering the release of land for housing.

Local government's role in balancing these tensions has significant implications for primary producers, including the imposition of otherwise unnecessary costs or restrictions on productive activities. In addition we note poorly planned development can impose significant additional costs for key infrastructure.

Auckland

Federated Farmers supports the Commission's review into how planning and regulatory approaches may better meet demand in Auckland where the mismatch between forecast demand and supply appears most pronounced.

However, solutions to the issues in Auckland should be applied carefully. Federated Farmers has been involved in, and supportive of, Auckland's Rural Urban Boundary (RUB) and the former Metropolitan Urban Limit (MUL) processes, as they represent the best mechanisms for appropriately addressing reverse sensitivity issues, and for protecting rural productive capacity generally, while seeking to provide for housing development.

1.0 Introduction

- 1.1 Federated Farmers welcomes the opportunity to provide feedback to the Commission's Issues Paper on Using Land for Housing (the "Issues Paper"). We support the Commission's Inquiry into this area, building upon the Commission's 2012 Inquiry into Housing Affordability.
- 1.2 As noted in the Issues Paper, a central finding of the inquiry into Housing Affordability was that constraints on the supply of land, and the slow pace at which land for housing is zoned and released, has contributed to escalating housing prices and declining affordability, in certain areas. It is noted that since these findings, house prices have continued to rise in some areas, especially Auckland.
- 1.3 Therefore the current Inquiry is timely, given the importance of housing, the identified importance of land supply in delivering housing supply, the expectations for continued increases in housing prices and the key role Territorial Local Authorities (TLAs) play in the provision of sufficient land for New Zealand's future housing needs.
- 1.4 These are all key factors accounted for within the Issues Paper. Federated Farmers' concerns stem from what is *not* included in the Issues Paper. Broadly, the discourse around housing provision and the use of land for housing tends to assume there is little to no opportunity cost in freeing up additional land for use of housing, or at least that housing represents the best use of this land.
- 1.5 On the contrary, land bordering current urban areas includes both the most productive and versatile soils for use in primary production. In turn this production and the downstream economic benefits (processing, packaging, etc.) underpin a large proportion of New Zealand's productivity, domestic consumption and exports.
- 1.6 The release of land for housing also impacts New Zealand's productive capacity in other, less obvious ways. Greenfield development, and greater urbanisation into traditionally been rural productive areas, can give rise to pressures which further constrain productive capacity.
- 1.7 These pressures include reverse sensitivity issues and the valuation of land for housing rather than based on its productive use, with subsequent incentives for rural landowners to subdivide or develop, rather than continuing to produce. These issues are discussed further in this submission; overall we consider it is important that the Commission's Inquiry recognise the importance of balancing these tensions and trade-offs at the local level, particularly in relation to further greenfield development.

Summary:

Federated Farmers welcomes the opportunity to submit to the Productivity Commission's Issues Paper on Using Land for Housing.

Our submission seeks to ensure the Commission's Inquiry appropriately considers the implications for New Zealand's productive capacity, particularly in respect to greenfield development.

2.0 Terms of Reference and Scope

- 2.1 The Terms of Reference directs the Commission to focus on supply side factors. Notably the Commission is asked to “*examine and report, in a comparative sense, the by-laws, processes, and practices of local planning and development systems to identify leading practices that enable the timely delivery of housing of the type, location and quality demanded by purchasers*” (Terms of Reference, p. 2).
- 2.2 Subsequently the Commission’s focus is primarily on identifying improvements that increase the efficiency of land development for housing, with a particular focus on any processes which may enable a greater supply of affordable housing to be built, with a view to improving the performance in four main areas:
- *policies, strategies, outcomes and processes for urban land supply, including the provision of infrastructure;*
 - *funding and governance of water and transport infrastructure;*
 - *governance, transparency and accountability of the planning system; and*
 - *involvement and engagement with the community.*
- 2.3 The Issues Paper notes the Commission will also consider:
- *what implications leading practices in the supply and development of land for housing have for the range of laws governing local authority planning; and*
 - *what lessons can be learned from recent initiatives such as the introduction of Housing Accords and Special Housing Areas (a policy that aims to expedite housing supply in specific high-growth areas), and the planning, legislative and governance frameworks associated with the rebuild of Christchurch.*
- 2.4 Federated Farmers agrees these are important and appropriate focusses for the Inquiry. However, we note these are very much supply side factors; and while we appreciate this is entirely the point of the Inquiry’s TOR and scope, the Issues paper outlines some clear demand side factors worthy of consideration.
- 2.5 As the Issues Paper acknowledges, trends indicate strong future demand for housing. Projections indicate both fewer residents per dwelling (as demonstrated in Figure 4 - Projected change in New Zealand household types, 2006-2031) and that the dwellings themselves have grown significantly (the Issues Paper notes on page 4 that the average floor sizes for new dwellings have grown from around 110 square metres in the 1970s to close to 200 square metres today).
- 2.6 The Issues Paper also notes “one factor that is likely to be driving the trend toward higher-value new builds is that, with land prices constituting an increasing share of the total value of a dwelling, owners are incentivised to build more expensive houses so they do not undercapitalise the value of the land” (page 4). This rational desire to maximise the return on investment given the relative costs of land is also predicated on the belief that there will be future demand for these more expensive houses, to realise this capital investment on re-sale.
- 2.7 Federated Farmers notes that although New Zealand’s dwelling sizes are relatively larger, these overall trends towards urban expansion and reduced density are relatively prevalent in developed countries. Clearly demand for housing is a material factor, and the nature of housing demand drives the requirements for supply.

- 2.8 Federated Farmers notes that the results from attempts at controlling demand for larger houses in suburban areas is, at best, patchy.¹ We do not consider the review needs to research demand factors in depth; however, we ask that there also be additional or further assessment of the nature of demand, how this demand may vary (for example) between Auckland, and smaller cities or rural areas.
- 2.9 We also consider the drivers for larger house sizes touched upon in the Issues Paper may be worthy of further investigation, particularly how future expectations for house prices may drive current demand for larger housing, and how this may impact strategic concerns in respect to alternative (particularly productive) uses of land.

Summary:

Federated Farmers notes the commentary within the Issues Paper around the nature of, and drivers for, demand for housing in New Zealand.

We consider the nature of and drivers for housing demand are also material factors for the Inquiry to consider.

3.0 Proposed approach

- 3.1 Federated Farmers supports the focus on identifying leading practices in the delivery of these outcomes. We expect that the applicability of these leading practices will differ significantly depending on the pressures, priorities and demand drivers for housing in each region, city or district.
- 3.2 We agree that the territorial authorities and regional councils selected for study should give a good spread of these different pressures or drivers, and the different approaches to providing sufficient land for housing.
- 3.3 Although the Inquiry focusses on identifying the approaches used in relatively high population growth areas, it may be useful to also study territorial authorities with low or negative population growth to assess whether the planning approaches in any way contribute to population issues; this may also provide some balance to what would otherwise be an assessment of high growth territories only, and there is potential lower growth councils may also have useful practices.
- 3.4 Federated Farmers considers there are significant differences between the strategic or productive implications of additional greenfield supply, compared to brownfield development different as a land source.
- 3.5 Similarly, there are significant differences between requiring further land supply, compared to land use options of infill and redevelopment (as outlined in Figure1: *What contributes to the supply of development capacity?*). We ask that the Inquiry distinguish between, and apply different treatment to, the various housing supply options (greenfield, brownfield, infill and redevelopment).

Summary:

Federated Farmers agrees the councils selected for study should provide a good indication of the range of the range of drivers for additional land and the approaches to providing sufficient land supply.

¹ As noted in, for example, "A Planet of Suburbs", *The Economist*, available at <http://www.economist.com/suburbs?fsrc=scn/fb/te/pe/ed/suburbs>

It may be useful to include territorial authorities with low or negative population growth to assess whether the planning approaches in any way contribute to population issues.

We ask that the Inquiry distinguish between, and apply different treatment to, the various housing supply options (greenfield, brownfield, infill and redevelopment).

4.0 Trends in agricultural production land in New Zealand

- 4.1 Federated Farmers' perspective on the use of land for housing is informed by the potential impacts greenfield development may have on our overall primary production capacity, at a time when the demand for, and arguably the value of, food production is forecast to increase.
- 4.2 The United Nations' World Population Prospects report outlines that population growth is in the vicinity of approximately 74 million people per year, with current United Nations predictions estimating the world population will reach 9.0 billion around 2050 (*United Nations Population Division Home Page*).
- 4.3 These projections offer a significant strategic opportunity to New Zealand as a net food exporter built on an economy with a strong primary production base. The ability to realise this opportunity depends on having productive capacity. One of the key determinants of productive capacity is the amount of versatile/productive land available for primary production.
- 4.4 These strategic considerations are outside of the immediate scope of the Commission's Inquiry. However, the Inquiry can account for these impacts by distinguishing between the various options for additional housing supply (broadly, increasing land supply versus infill or redevelopment) and the implications for New Zealand's productive capacity.
- 4.5 The total amount of land for primary production is already reducing. Figures from Statistic New Zealand's 'Infoshare' website show the total hectares of land used for farming (excludes other primary production including forestry) over the period 1935-2013. Apart from the years 1997 to 2001 when the series was discontinued, this information is continuous over the period.
- 4.6 From the 1930s to around 1970 the number of hectares stayed roughly around 17 million hectares, jumping in the 1970s to 1986 to a high of just over 21 million hectares, before the land area used for farming falls back steadily from this mid-1980s peak, to around 14 million hectares today.
- 4.7 The impact over the period 2002 to 2013 is particularly notable, as outlined in the table below. Over this period the total area of land used for farming decreased from 15,589,885 hectares to 14,262,743 hectares, a decrease of 8.5% or 1.3 million hectares in just over a decade. This is a loss of land of equivalent size to the Marlborough and Kaikoura districts combined.

Year	Total Area of Farms (hectares)
2002	15,589,885
2003	15,435,517
2004	15,504,165
2005	15,305,843
2006	14,865,589
2007	14,700,897

2008	14,559,731
2009	14,726,274
2010	14,579,851
2011	14,569,233
2012	14,393,802
2013	14,262,743

4.8 It would be a stretch to claim that the land lost to farming was solely due to housing development, as alternative land uses (e.g. forestry and expansion of the conservation estate) will have also played a part. Further, the loss of land has (to date at least) been outweighed by both greater productivity and greater value derived from any lost production. Nonetheless, Federated Farmers considers this is a relevant factor for the Commission to consider, when weighing the feasibility and impact of the various options aimed at increasing land use/availability/supply for housing.

Summary:

Federated Farmers considers wholesale land supply for the purpose of housing has the potential to adversely impact on primary production capacity.

Between 2002 to 2013 the total area of land used for farming decreased from 15,589,885 hectares to 14,262,743 hectares, a decrease of 8.5% or 1.3 million hectares over this period.

We consider the potential for further loss of land for farming is a relevant factor for the Commission to consider, when weighing various options aimed at increasing land use/availability/supply for housing.

5.0 Balancing land use tensions at the local level

5.1 There are broader implications for primary producers and primary production of increased greenfield development, outside of the cumulative loss of land.

5.2 On an individual level, urban housing development in the rural area can negatively impact on farm productivity through reverse sensitivity issues. These issues arise from tensions between the practical realities of primary production on one hand, and the particular expectations of urban housing on the other. This may manifest itself through ‘urban’ expectations for restrictions (or actual restrictions) on noise, smells and light in the rural area, or through poor pest plant and pest animal control from urban, suburban or peri-urban properties bordering rural production areas. These in turn impose further unnecessary costs on rural production.

5.3 Housing development in proximity to rural areas also has the effect of increasing farm values, as the farm land becomes priced according to its development potential for housing rather than the underlying productive capacity of the land area. As the farmer’s income results from the productive capacity of the land, the result is increasing pressure to subdivide or sell the productive land, by both increasing the opportunity cost of production as a land use choice for that land, and to a lesser extent the costs of rates, and the cost of managing urban expectations in the rural area.

5.4 Consolidated urban development also places less pressure on key infrastructure, including less capital and operating costs expended on roading, water supply and sewerage disposal. Ill-considered or poorly planned development may unnecessarily create additional infrastructure costs.

- 5.5 As acknowledged in the Issues Paper, much of the criticism, and many of the current issues with unreasonable regulation of land supply, are due to the first generation of Regional Policy Statements and District Plans. Federated Farmers regularly submits to and deals with farmer frustrations with these planning processes, and we can understand the criticism levelled at what is often unnecessary restrictions on land use for minimal or no justification.
- 5.6 However, in respect to land supply for residential purposes specifically, most regions and territorial authorities are in the process of developing second generation plans, and our experience territorial authorities are better adapting to the need to forecast for and appropriately increase the supply of housing, primarily through an expansion of the areas zoned for residential or rural residential land use, where required.

Summary:

Local government generally, and territorial authorities in particular, must balance a range of tensions when considering the release of land for housing.

Where this involves greenfield development, the implications for primary production can be significant; imposing otherwise unnecessary costs through reverse sensitivity, mismatches between the expectations for and the reality of a peri-urban area, and a failure of residential occupants to meet 'good neighbour' obligations.

Unreasonable and poorly considered development can also impose significant capital and operating costs for key infrastructure.

Federated Farmers view is that these tensions must be managed appropriately, and at the local level. We consider the current second generation plan processes will (as a rule) prove more efficient and effective at balancing these tensions while providing for appropriate land supply.

6.0 Auckland

- 6.1 The standout example of the gap between forecast demand and supply is Auckland. The Issues Paper makes a strong case that demand for supply of land in Auckland will dramatically exceed current proposed supply. We support the Commission's review into how planning and regulatory approaches may better meet demand in Auckland where the mismatch between forecast housing demand and supply is excessive.
- 6.2 Federated Farmers believes any solutions to the Auckland problem should be carefully considered and applied, due to the issues outlined in section 5 of this submission, particularly reverse sensitivity. Federated Farmers has been involved in Auckland's Rural Urban Boundary (RUB) and the former Metropolitan Urban Limit (MUL) processes, ensuring reverse sensitivity issues are appropriately addressed.
- 6.3 This has included, as the Issues Paper outlines on page 13, dealing with 'windfall' issues where current rural land is designated for residential use, subsequently increasing the value of that land and (to a lesser extent) devaluing land outside the areas designated for residential use. The Commission will appreciate this is a contentious issue for our members in Auckland, and yet we support the boundary designation process overall as it represents the best method of appropriately addressing reverse sensitivity issues, and of protecting rural productive capacity generally.

Summary:

Federated Farmers supports the Commission's review into how planning and regulatory approaches may better meet demand in Auckland where the mismatch between forecast demand and supply appears most pronounced

However, solutions to the issues in Auckland. Federated Farmers has been involved in Auckland's Rural Urban Boundary (RUB) and the former Metropolitan Urban Limit (MUL) processes, ensuring reverse sensitivity issues are appropriately addressed. We have supported these processes as they represent the best best mechanisms for appropriately addressing reverse sensitivity issues, and for protecting rural productive capacity generally, while seeking to provide for housing development.

7.0 About Federated Farmers

7.1 Federated Farmers of New Zealand welcomes the opportunity to provide feedback on the Productivity Commission's Inquiry into Using Land for Housing.

7.2 Federated Farmers is a primary sector organisation that represents over 17,000 farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

7.3 The Federation aims to add value to its members' farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices