

## PROPERTY COUNCIL NEW ZEALAND

### 2008 AFFORDABLE HOUSING POLICY STATEMENT

#### URBAN STRATEGY

#### VISION

To promote a regulatory environment that fosters an adequate supply of housing so that New Zealanders can enter the residential property market at an affordable price.

To advocate for the overhaul of planning and compliance costs levied by local and regional councils, which drive up the cost of property development.

To promote a regulatory environment that contributes to the long-term economic health of communities throughout New Zealand, including an affordable housing market.

#### RATIONALE

The primary goal of Property Council New Zealand is the creation of well-designed, functional, and economically sustainable built environments in New Zealand. A vibrant and prosperous built environment, which evolves through better urban design, will attract more economic activity and investment (domestic and foreign), which in turn improves financial returns. In a competitive global marketplace, ensuring that the cost of living is affordable for the working population is crucial to New Zealand's ability to maintain comparative advantage over other economies.

#### BACKGROUND

The lack of affordable housing is a critical issue facing many first-home buyers in New Zealand. At the most basic level, people need to be able to afford to live and easily commute to their work, study, or to other daily activities. There is also a need for a competitive labour market which can attract and retain skilled workers.

Affordable housing is an important part of making New Zealand a desirable place to live, work, and raise a family. An indicator of an affordable house is when the rent or a mortgage is 30 per cent or less of the household's gross annual income. The World Bank and the United Nations recommend an approach that measures affordable housing by using the "median multiple" (defined as median house price divided by the median household income).<sup>1</sup>

Since the introduction of legislation to provide low-cost housing in New Zealand in 1905, consecutive governments have provided assistance through provision of social housing and/or rent subsidies. However, an affordable housing crisis is emerging, which extends beyond those on the lowest incomes to people on middle-range incomes. This has meant that public policy debate has had to broaden to include the provision of affordable housing. Approaches to addressing the affordable housing crisis have been subject to much debate. Regulatory tools, such as inclusionary zoning, are used in some overseas jurisdictions, for example some jurisdictions in the United States, to increase the supply of affordable housing. However, there is little evidence that supports the effectiveness of this regulatory tool. In many areas, this approach has been ineffective, leading to an artificial increase in the market price for the majority of new housing.

---

<sup>1</sup> See *Promoting Sustainable Human Development*, United Nations, [www.un.org/esa/sustdev](http://www.un.org/esa/sustdev) and *Sectoral Indicators*, The World Bank, [www.worldbank.org](http://www.worldbank.org).

The New Zealand Government has responded to the current housing affordability crisis by introducing a shared-equity scheme and Welcome Home Loans to assist first home buyers in to the residential property market.

In addition, the Affordable Housing: Enabling Territorial Authorities Bill (the Bill) has been introduced to Parliament. The purpose of the Bill is to enable territorial authorities to increase the supply of affordable housing by requiring developers to provide a proportion of 'affordable' houses in a development. There is a significant risk that this approach will distort the housing market and have an adverse effect on the affordability of housing. First-home buyers who do not fit the criteria of "low and moderate income earners", as defined in the Bill, will bear the additional cost of providing affordable housing. For example, a developer is required to provide ten per cent of their residential development as 'affordable' houses. To offset the cost of these houses, the developer will increase the end price of the remaining 90 per cent of the houses in the development. This approach ends up benefiting a small number of people while making the majority of the houses in the affected development less affordable.

## **COST-DRIVERS**

While accepting that demand factors, such as population trends, significantly impact on the market price of residential property, Property Council believes policy intervention should focus on the supply-side factors pertaining to affordable housing. There are the four major cost drivers of house prices, which have also been identified in a number of recent studies.<sup>2</sup> These include:

- development contributions;
- compliance costs;
- constrained land supply; and
- insufficient land zoned for high density and height within the city limits.

### **1. DEVELOPMENT CONTRIBUTIONS**

Purchasers of new homes are increasingly bearing the cost of funding community-wide urban infrastructure, which is being funded through development contributions. The application of development contributions policies by territorial authorities – regardless of whether or not those policies comply with the statutory requirement with the Local Government Act 2002 (and evidence suggests that in a number of cases they do not)<sup>3</sup> – contributes to higher development costs, which are then passed on to the purchaser of the property. Prior to the introduction of development contributions pursuant to the Local Government Act 2002, urban infrastructure with a long asset life was debt financed and paid for by the wider community through rates. The use of debt funding allows for the intergenerational allocation of cost, which reflects the intergenerational allocation of the benefits of asset utility.

The shift in the funding of community infrastructure to new home purchasers is both inequitable and denies young New Zealanders, in particular, access to home ownership. This point has been made repeatedly to territorial authorities throughout New Zealand, who in turn have responded by increasing the quantum of development contributions charged to new property owners.

The Local Government Act 2002 is clear: development contributions fund the growth portion of capital expenditure. Development contributions cannot be used to fund expenditure required to raise levels of services to existing users, to raise environmental standards, or to provide additions to meet the demand of past growth, also known as 'catch-up'. This argument gave rise to

---

<sup>2</sup> See Jones Lang LaSalle, *Residential and Business Land Prices 1992 to 2007*, May 2007; Arthur Grimes with Andrew Aitken, Ian Mitchell and Vicky Smith, *Housing Supply in the Auckland Region 2000-2005*, Centre for Housing Research Aotearoa New Zealand, 2006.

<sup>3</sup>The High Court ruling that North Shore City Council's development contributions policy is inconsistent with the requirements of the Local Government Act 2002 exposed the widespread abuse of local government sector's ability to charge development contributions for the purpose of recovering growth-driven capital expenditure costs.

the recent judicial review of North Shore City Council's 2004 development contributions policy, in particular the economic efficiency model adopted pursuant to that policy.

The introduction of an appeals system that allows property owners to challenge price gouging by territorial authorities would ensure transparency around the applications of development contribution policies. The Local Government Act 2002 needs to be amended to provide for merit-based appeals in the Environment Court. This would ensure that the development contributions allocated to a development reflected a fair allocation of cost.

#### *Case study: Auckland City Council's development contributions and the inner city apartment market*

Auckland City Council signed off on substantial increases in the development contribution payable by future property owners as part of its 2007/08 annual plan. These charges require development contributions in excess of \$25,000 per unit, **excluding** the public space land acquisition fee which is capped at an additional \$26,000 per unit. This levy is an unavoidable compliance cost that is passed on to first home-buyers, thus diminishing the ability of young families to purchase their first homes.

## 2. COMPLIANCE COSTS

The application of non-tax funding tools and compliance requirements of local government have emerged as a significant new cost driver, which in turn adds to the price of housing. The stand-down costs associated with delays in obtaining resource and building consents lead to unnecessary and uneconomic costs associated with residential building compliance requirements. Delays in processing building and resource consents are also systematic and widespread across the local government sector.

The building and construction industry is also heavily regulated. Much of the regulation extends beyond public health and safety issues and adds to the underlying costs of property development. All administration costs and procedures relating to the Building Act 2004 (including the Building Code) and the Resource Management Act 1991 need to be examined to see how these costs impact on property development. The Government needs to deliver a more efficient regulatory system that would result in substantial cost and time savings.

## 3. CONSTRAINED LAND SUPPLY

Land supply is emerging as one of the most significant public policy debates of the new millennium. The cost of land is significantly influenced by the demand for and the supply of land. While politicians cannot stop the demand for land (which is driven by population and investment decisions), they can influence the supply of land.

As the Supplementary Stabilisation Instruments (SSI) report to the Governor of the Reserve Bank and the Treasury points out, over the past 25 years land prices across New Zealand have increased twice as fast as house prices. The cost of land relative to materials and labour used in construction has been an important cause of rising prices. Increases in land prices drive up the cost of residential and commercial development, which in turn reduces the affordability of development to investors.

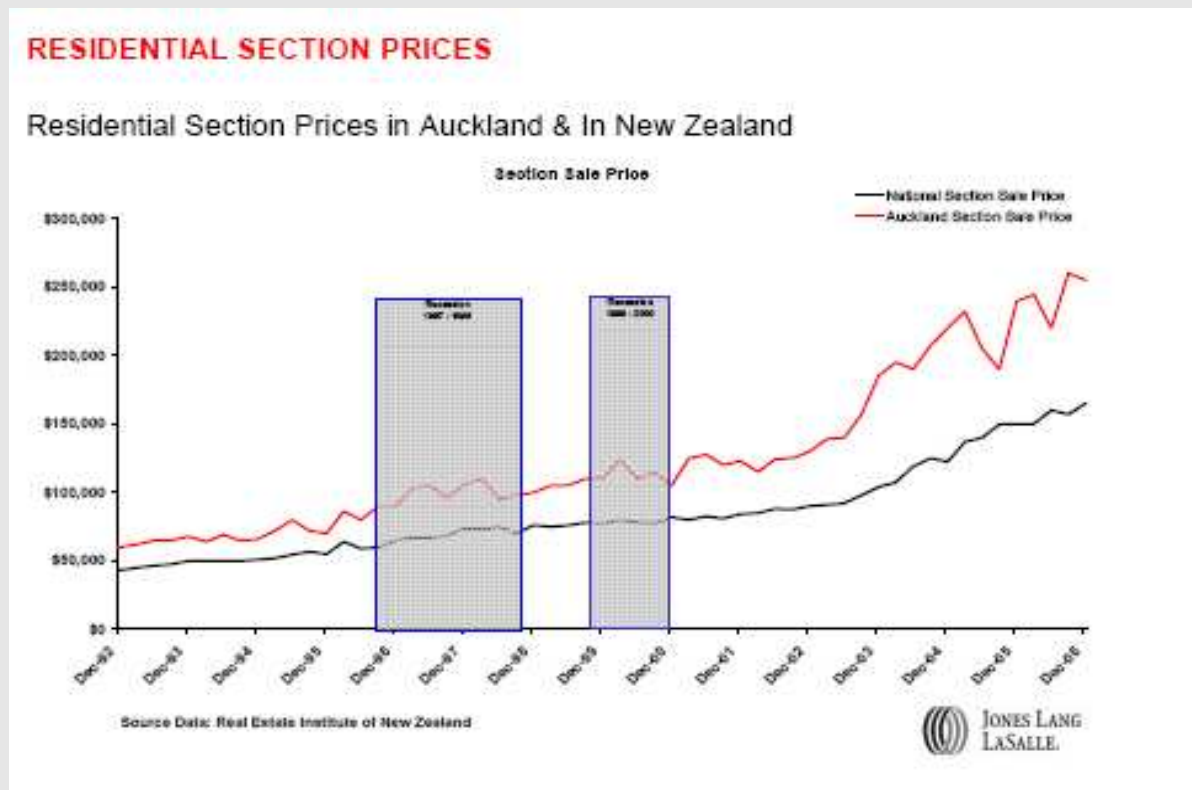
Increasingly, land containment policies are being applied in a number of cities and region in New Zealand. The land containment philosophy is put into effect via restrictions on the development of land beyond a well defined urban boundary. The availability of land is greatly dependent on the planning and zoning policies pursued by regional and territorial authorities.

City, district and regional planning policies need to be overhauled to provide for the orderly and co-ordinated development of greenfields land as the market requires it. Any Regional Growth Strategy should be informed by real-time residential and commercial land demand and supply information, which assists in the forecasting of medium and long-term price trends.

**Case Study: Land containment theory in the Auckland region**

The Auckland region is constrained by the Auckland Regional Council’s (ARC) land containment policies; achieved through enforced compliance with the Metropolitan Urban Limit (MUL). As the population of the Auckland region continues to expand, inevitably attention turns from protecting rural land to managing the negative consequences of population growth and intensification, including the cost of land development within the MUL. While intensification can play a role in limiting some urban problems, such as high infrastructure costs associated with low density urban sprawl, the move to intensification also creates perverse new urban phenomena such as land banking, higher entry costs to residential and non-residential land development and ownership, and the potential for loss of amenity.<sup>4</sup>

The market price for houses in the Auckland market is being distorted by an artificial price floor in the form of land containment, which restricts the supply of land. The restriction in the supply of land (demonstrated both in terms of limits on the amount of greenfields land available to develop and height limits) is increasing the cost of land, which flows through to the end price. This in turn impacts on the ability of aspirant house-buyers to afford the given residential property.



Since the early 1990s, house prices have doubled in Auckland’s property market and the national property market. The rate of increase has been particularly steep since 2002. Changes in housing prices in Auckland generally reflect changes in the broader national price trend. House prices in Auckland have been historically higher than the national average. The current residential property boom started in 2001.

<sup>4</sup> Property Council defines ‘land banking’ as restricting the sale of undeveloped land within the MUL for the purpose of driving up land price, thus providing the land owner to a higher capital gain at the point of divestment. Such behaviour reflects the land owner speculating against planning and zoning rules as opposed to demand and supply within a given market.

<sup>5</sup> Jones Lang LaSalle, *Residential and Business Land Prices 1997 to 2007* (commissioned by the Property Council of New Zealand), May 2007, p.5.

In December 2006, median prices were \$420,000 in Auckland compared with the national index at \$330,000. The median sale price in Auckland increased 63 per cent between 2000 and 2005. It rose 75 per cent between 2000 and 2006.

NB: The chart includes the effect on house prices of immigration, accommodative interest rates, buyer's tolerance of higher levels of debt, more lenient lending standards for home mortgages, buyer's preference for larger house sizes, increasing amenities and tax policies (which confirm advantages on residential investment over other forms of investment).

#### 4. INSUFFICIENT LAND ZONED FOR HIGH DENSITY AND HEIGHT WITHIN CITY LIMITS

Land containment can also be expressed in terms of restrictions on building height limits. Greater consideration needs to be given to increasing flexibility for intensification and raising height levels in district plans; especially where the higher building reduces the building site coverage compared to low-rise site coverage proposals. This not only reduces the amount of land needed for any given development, it also increases the supply of residential dwellings needed within any given urban environment.

Developers can achieve economies of scale through a combination of increased height limits and large enough land parcels, which increase the number of residential units. The increase in the number of dwellings can serve to abate the increase in the development cost per-unit. However this outcome needs to take into account the urban sustainability principles codified in Property Council's Urban Sustainability Policy. Larger development zones, increased height limits, greenfields residential developments and infill housing all contribute to the increase in the supply of housing, thus helping to offset the market price of dwellings (and assist with affordability).

One way to address the problem of urban sprawl is provide attractive alternatives for people to live. Since the 1990s, residential town centres have intensified with varying degrees of success. However, rather than being a place where people are forced to live because of limited affordability elsewhere, town centres need to be attractive and exciting places where people *want* to live. A more rigorous and coordinated review of town centres is needed by territorial authorities and the development and planning community. Research has shown that it makes commercial sense to invest in town centres and higher density developments. A one per cent increase in population density is shown to lead to a two per cent increase in productivity.<sup>6</sup>

Territorial authorities should also be more proactive in encouraging development in areas or localities requiring rejuvenation. This could be achieved by rezoning "run-down" areas and providing incentives in District Plans and the territorial authority investing in local infrastructure.

---

<sup>6</sup> *Spatial Wage Disparities: Sorting Matters* cited in *Why Cities Matter*, Committee for Auckland, p.2.