

**Todd Property Group Submission**  
**New Zealand Productivity Commission**  
**Inquiry into Housing Affordability**

**1 Introduction**

- 1.1 The Todd Property Group (Todd Property) is responsible for designing and delivering some of Auckland's largest land development projects. These include the 100 hectare new suburb of Stonefields in St Johns, the 160 hectare Long Bay development on Auckland's North Shore and the Ormiston Town Centre to support the emerging community at Flat Bush in Auckland's south-east. Todd Property specialises in undertaking projects of scale that necessarily require provision of a range of housing types and price points for completed dwellings.
- 1.2 These three current projects alone will, over the next 8-10 years, provide the opportunity for over 12000 residents (within a mix of stand alone houses, terraces and apartments) and over 5000 jobs to become established within these newly developed areas. Todd Property has a long term vision that necessitates delivery through differing economic and political cycles. In this respect Todd Property is a keen observer and participant in a range of matters that affect housing markets, particularly in Auckland where affordability issues are at the forefront of many discussions around the provision of housing.
- 1.3 We have expertise in understanding the many factors that contribute to the cost of housing and how these cost factors are translated into demand by the housing market. Housing affordability issues are a result of a variety of factors and therefore require varied responses. Average household income, construction costs, tax differentials, land availability, response times in accommodating demand and community preferences to housing size and type all impact on the cost of housing.
- 1.4 Therefore, while taking a generic approach in its response focusing on particular areas of expertise rather than addressing every question asked, Todd Property welcomes the opportunity to submit to the Commission and believes it can add value to the Inquiry.

**2 A Community Wide Perspective**

- 2.1 Todd Property firmly believes that the Commission should have a broad focus and examine the entire housing market through its Inquiry. While affordability issues are more acute for lower income households housing cost is a significant proportion of expenditure across all income brackets. Reducing the cost of housing will provide greater discretionary income for all participants in the housing market, thereby allowing greater levels of stimulatory expenditure or investment into non-housing sectors of the New Zealand economy. An Inquiry at this level is more likely to allow the Commission to support the overall well-being of New Zealanders.

- 2.2 Another factor for the Commission to consider in its Inquiry could relate to the efficiency of land-use. While possibly being able to be considered under a broad approach to 'Availability of housing land' and 'Planning and land use regulations' Todd Property considers there to be value in specifically investigating the way in which urban land is being used, particularly within new development areas. While there is considerable debate surrounding the use of growth limits/urban containment policies/MUL's etc there has been little discussion about how efficiently land within these limits is being used and in fact efficiency considerations have effectively been dismissed by the Environment Court as a matter of great weight when considering design proposals for new development areas.
- 2.3 The Commission is aware of relatively recent changes to the MUL surrounding Auckland to accommodate residential growth in the Flat Bush area. This extension to the MUL is now being supported by a number of changes to the District Plan to direct the form and quantity of residential development. Unfortunately, in the opinion of Todd Property, the master planning for the Flat Bush area has missed an opportunity to provide a greater level of market accepted residential activity and therefore contributes to increasing unaffordability.
- 2.4 Of the 340 hectares within Stage II of the Flat Bush development only approximately 130 hectares (or less than 40%) is actually available for housing. The vast majority of the remainder has been set aside for roading, reserve and stream protection purposes, in an area where ecological values are not particularly significant. Todd Property is well aware of the need to incorporate accessibility, amenity and environmental protection into land development designs but believes discussions surrounding housing affordability would benefit by examining how to improve the efficiency of urban land use, particularly in greenfield areas where there are considerably fewer constraints to design than previously developed areas.

### **3 Recent Trends in Housing Markets**

- 3.1 There has been considerable increase in housing cost, particularly in Auckland, since approximately the year 2000. This coincides with both the market emerging from the recessionary environment of the late 1990's and the then Regional Council's policy of growth containment taking effect. In this respect, neither housing providers nor the housing regulators were prepared for the latent demand that had been accumulating and a significant supply lag resulted with the market effectively trying to play catch up in the following years. There is the potential for such a scenario to occur again during the next cyclical upswing and given the lead time to change regulatory regimes and to physically prepare new areas for housing it may be too late to prevent this from happening.
- 3.2 A further factor contributing to this is the sheer quantum of cost involved in providing land able to be developed quickly with a degree of scale. Land developers are not in a position to provide say 50 lots able to be developed if these are unable to be sold within a normal return period, the holding costs (including the funding of development and infrastructure costs) are simply too excessive for this to be a viable business proposition. Additionally once demand is established there is a lag of at least 12 months (assuming all consents are in place) in providing a finished dwelling following subdivision and house construction activity. This again inflates prices further due to the unsatisfied demand that has accumulated in the

intervening period. This is considered a much greater issue than land banking as there are relatively few investors who have the ability to hold a non-returning asset for a significant period of time.

- 3.3 Housing markets and their trends are also not solely dependent on pure economic or fiscal drivers such as market equilibrium factors and cost versus income considerations. Non-quantifiable preferences constitute a considerable portion of the decision of which house and where to buy. In this respect it is difficult to undertake a broad spectrum analysis of the housing market with a purely quantitative approach. Following from this median price trends cannot be considered representative of sub-markets but may be useful as broad indicators.

#### **4 Markets for Housing**

- 4.1 There are a large number of housing sub-markets within New Zealand (as indeed there are world-wide). Regional sub-markets are considered to be almost entirely driven by macro-economic factors, primarily the base size of employment opportunities, which govern demand for living in a particular region. There has been a trend towards consolidation of employment opportunities with lesser service provision in regional areas continuing the rural/urban drift. This is particularly evident during times of economic stress where continuing income levels are dependent on employment opportunities. In times of affluence a greater number of people are able to make a life-style choice to move away from the larger cities.
- 4.2 Geographical sub-markets within cities are very much dependent on the amenities provided (or not provided) within each location. For example, Auckland has known traffic congestion issues and therefore the ability to reduce commuting time is valued driving up land prices for near city locations. Similarly being able to walk to the beach is highly valued with house prices in coastal locations reflecting this. These differentials will continue due to the inherent qualities of different locations.
- 4.3 For this reason solutions to housing affordability should not focus on providing more intensive housing types within areas of low amenity. There is little demand for apartment style living in suburban locations as the perceived disbenefits of living in a smaller dwelling with no associated land are not offset by amenity benefits. This is particularly so given the increased cost associated with the commercial construction techniques required to build above three levels, which are typically twice that of level residential construction on a per metre basis. We have also found that where there are competing products (ie stand alone/terraced dwellings vs apartments) in the same area the demand for the more intensive forms of housing is invariably lower and representative of a much smaller housing market. If there was a choice between a 100m<sup>2</sup> apartment and a 200m<sup>2</sup> stand alone dwelling at a similar price (which is generally the case) the vast majority of the market would prefer the stand alone dwelling. In this respect more intensive forms are the last to go and promoting significant amounts of these types of dwellings in new greenfields areas will do little to alleviate affordability issues in the medium term without a dramatic decrease in the costs of construction.

## **5 Urban planning, design and land use policies/The Urban Planning System**

- 5.1 While there are numerous examples of overseas development models and associated literature Todd Property urges caution in the application of these. During many of our design processes we have been referred to a considerable number of overseas examples/models, none of which are applicable in New Zealand in their entirety. In this respect a specifically New Zealand centric review is required. New Zealand has a unique combination of legislative imperatives, consumer preferences and community value sets and any assessment of overseas examples needs to be undertaken with this in mind.
- 5.2 Land use policies have to consider market demand drivers, such as housing preferences, and be integrated with enabling provisions. In Auckland for example, the MUL was intended to be used as a tool not to simply constrain outward growth but to be used in conjunction with other tools to promote (not simply allow) intensification within the limit. Unfortunately intensification projects within the MUL have not had the same level of commitment from the local authorities as has the protection of the MUL. It has been left to private interests to undertake costly and risky publicly notified procedures to obtain consents/plan changes for intensification even where they accord with regional policy.
- 5.3 Caution should also be applied when assessing previous New Zealand research. Most of the analysis undertaken within this country could not be considered as neutral and tends to be used to support a pre-determined position. Both the Demographia surveys and various reports released by the ex-Auckland Regional Council are examples of this. Land constraining policies do impact on housing affordability, it is the extent of this impact and whether removal of such restrictions will provide part of the solution and at what cost are the real questions that need addressing.
- 5.4 There are costs associated with both intensification and expansion. The direct costs and investor risk are demonstrably higher for large scale intensification projects. Intensification necessarily requires retro-fitting established areas to accommodate a population level not originally designed for. This means upgrading existing infrastructure (replacing and increasing the size of wastewater and water lines, pumpstations, road corridors etc). Major infrastructure facilities (wastewater treatment plants, water reservoirs etc) within New Zealand cities tend to be dispersed with transport routes (arterial roads, motorways, rail-lines) being lineal, therefore the argument that it is more expensive to provide infrastructure in greenfield areas rather than replacing/upgrading existing infrastructure cannot be considered as immutable fact.
- 5.5 The other costs associated with both intensification and greenfield expansion (CO2 emissions, loss of productivity through greater travel times, loss of habitat etc) are not well understood due to relatively low levels of information and previous debates being at philosophical rather than factual level. These costs cannot be isolated when considering solutions to affordability issues. There would appear to be little to be gained by simply making housing more affordable if this came at the cost of quality of life and environmental base-lines.

- 5.6 As a general comment Todd Property has found the supply of infrastructure to be woefully inadequate, affecting both responsiveness to market demand and direct housing costs for the end product. Long Bay for example has been signaled as a new growth area for some time and was included within the MUL in 1996 with an Environment Court decision ratifying the form of urban development being released in mid 2008. Despite this there is no financial provision for water main installation within the relevant public budgets effectively requiring Todd Property to design, consent, construct and fund the necessary water main to allow development prior to the construction of any dwellings. A similar lack of provision for infrastructure is evident in Flat Bush where there is insufficient electricity supply to enable even the initial stages of the Town Centre development. This is despite planning for the area having been undertaken for more than 10 years. When developing Stonefields (now in its fourth year) Todd Property installed non-potable water lines to every lot to enable water re-use throughout the development, however the necessary public infrastructure to allow these lines to operate has yet to be constructed.
- 5.7 It is without question that the current statutory planning regimes are too complex and fragmented. With the amalgamation of regional and district planning initiatives there is the potential for Auckland to overcome some of these issues, particularly where parochial change-averse sentiment conflicts with regional intensification goals. There is however little evidence to suggest that these complexities will be overcome within a timeframe that will be meaningful in terms of addressing current affordability issues.
- 5.8 There is also inherent conflict in promoting intensification as a concept and the statutory assessment of individual intensification projects. There appears to be little public sector understanding of a relevant assessment context with all projects being filtered through the same purist urban design lense. There appears to be little appreciation that economic and spatial context requires apartment proposals in New Lynn for example to be assessed on a different basis from a similar housing type on the Waterfront. This is not to say that poor quality development should be promoted but rather a planning decision to grant consent or otherwise should not be dependent on a poorly contextualised and qualitative urban design assessment.
- 5.9 The uncertainties as to timing and outcome invariably increases the risks of development projects. In order to retain investment within the sector this uncertainty and risk requires a commensurate return otherwise investment in other sectors becomes more attractive. A modestly costed generic apartment building housing say 50 apartments is likely to cost in the vicinity of \$22m (\$15m construction cost at \$2500 per metre for 50 x 120m<sup>2</sup> apartments, \$4m basement cost at \$1000 per metre and \$3.2m land cost at \$800 a metre). Even a reasonable return profile of 15% before tax requires an annual return of \$3.75m. Consenting delays of 6 months (a relatively short time frame) effectively adds over \$30,000 to the cost of each apartment.
- 5.10 The LTCCP process is a tool currently available to local councils to integrate various strategies, although it does not appear to have been widely used for this to date. LTCCP's have the potential to help define land use and development strategies, govern infrastructure spending imperatives to support these and to determine the most appropriate means of

funding infrastructure spend. This in turn makes Council's priorities clear for the investment community reducing risk and enhancing the investment decision framework.

## **6 Infrastructure Charges**

- 6.1 Even if infrastructure charges were implemented in accordance with well known and accepted principles there is an essential inter-generation conflict created through their application. New infrastructure is designed for a 25+ year life span and provides benefits over this entire period. However, the costs associated with this are recouped at or near the time of construction requiring a one off payment from the developer which is passed on to the resident. The costs of infrastructure charges are factored into the investment decision and clearly contribute to total cost. If a developer cannot recover these costs in addition to a return commensurate with risk a project will not go ahead. Affordability is affected by either further reducing supply or increasing the price of the end housing product.
- 6.2 There are also significant issues associated with the setting of the charges. Charges can only be made where defined scopes and costs for projects have been established. However these inputs are effectively subject to complete Council discretion over both the nature of the works and how they are costed. Levels of service are usually arrived at prior to a costing exercise and are largely driven by Council preferences rather than a meaningful cost/benefit exercise. In the past this has led to numerous examples of 'gold plating' with Council being aware that the costs of this will not have to be met through general rating funds.
- 6.3 We are also aware of numerous instances where the costs of meeting these levels of service have been inflated by asset managers within Councils due to a risk-averse approach to cost management. For example the use of large contingency provisions (over 40% in some instances) inflates the calculated cost of an infrastructure project and therefore the infrastructure charges. While there is a mechanism within the legislation to refund budgeted money not spent on a project this is impractical and provides no incentive for Councils to accurately set budgets in the first instance.
- 6.4 It is considered that greater use of debt funding, including bonds, is an option that could be considered by Councils, particularly for larger infrastructure projects. Future revenue streams (targeted rates, user levies etc) could be ring-fenced as being required for repayment and thereby not affecting Council's wider operating budgets. This would spread the cost of the infrastructure asset over its lifetime to all users. While there is a cost associated with debt the cost of money able to be utilised by the public sector is significantly lower than that afforded to the private sector.

## **7 Conclusion**

- 7.1 Based on previous analysis, investment and development, the Todd Property Group has established views on some of the matters that impact on housing affordability and welcomes any measures to address this issue. Todd Property is available to expand upon or clarify any of the matters raised above and looks forward to continuing to be involved in the work of the Commission.