

# SUBMISSION

to the

New Zealand Productivity Commission

From



on

**Using Land for Housing**

**9 December 2014**

**Insurance Council of New Zealand**

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## **Submission on Using Land for Housing**

1. This is a submission from the Insurance Council of New Zealand (ICNZ) on the Productivity Commission's issues paper 'Using land for housing'.
2. ICNZ is the industry body representing general insurers who provide insurance for all lines of insurance except for Life and Health. Our members underwrite cover for about \$600 billion of New Zealanders' assets including all house and contents insurance as well as some council infrastructural assets.
3. The Commission has been requested to undertake an inquiry 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. The Commission should particularly focus on urban growth areas, including any early lessons from the Housing Accords and Special Housing Areas Act 2013, and consider successful international experiences with urban development. The Commission says it will identify councils that are effective in making enough land available to meet housing demand and processes that could be adopted more widely.
4. Insurance for houses and contents is a means by which property owners can transfer risks. Insurers do not provide cover for land; only the structures on the land and the contents of the houses. The only exception to this is the land cover provided by the State through the Earthquake Commission. This cover is limited both in the area of land covered, specific to individual properties as well as the types of risks that are covered. Flood risk is not covered by EQC.
5. ICNZ's interest in making a submission lies in the desire to inform The Commission's consideration about some of the long-term impacts that arise particularly if land is released for housing development to meet short-term demand when that land may be subject to risks over the long-term, such as, increased risk of flooding due to sea-level rise.
6. The Commissioner for the Environment has recently released a report, Changing Climate and Rising Seas: Understanding the Science, which draws on a wide body of scientific evidence to conclude that by 2050 New Zealand will experience a 30 cm sea-level rise. This is unavoidable. A second report due out in mid-2015 will attempt to identify the infrastructure that will be placed at risk by such a sea-level rise.
7. A sea-level rise of this order combined at times of high tides, heavy rain and storm surge will mean that parts of New Zealand will experience more frequent flooding if action is not taken to avert the social and economic damage that will occur.

8. Insurers have a limited ability through annual premium renewals to signal risks that will become more pronounced in the course of the next two to three decades.
9. However, the international experience and to some extent the experience in the Flockton basin in Christchurch, which has been flooded several times as a result of land being lowered by the earthquake series in the city, shows that insurers will respond to repeated damage in ways that reduce cover. Some may exit the flood cover market, some may raise premiums to the point where they become unaffordable for many or excesses get increased to the point where remediation costs become an affordability issue for homeowners.
10. If such events occur and large numbers of properties are affected, then there will be pressure from citizens for central or local government assistance if there is no insurance cover. If this were provided then it would add to the liability on central and local government balance sheets. It would also create a moral hazard by signalling that those who do not pay insurance will be looked after, thereby providing the incentive for those who do insure not to continue doing so.
11. New Zealanders enjoy owning properties close to waterways and the sea. Often these properties command a premium price. This means that the aggregated economic value of risk from natural hazards, such as, those arising due to sea-level rise or other flooding is likely to be higher.
12. There is no requirement on councils to list all hazards that attach to a property on Land Information Memorandum or indeed by any other means. This limits the ability of the market to price properties reflecting the risks that they face. As a matter of principle, prospective buyers, who may take out mortgages for 20-30 years should be well informed of the risks the property faces.
13. The value of land on the perimeter of a city that may be released for housing development will clearly attract more value because of the uplift that it will experience if a house is constructed on it. Some land though may be of poor quality, for instance, it may be particularly vulnerable to liquefaction risk or flood risk or risks that over time will become more apparent and significant as a result of climate change effects such as sea-level rise.
14. When new land for housing is in short supply and demand is strong as we are witnessing in Auckland, it is likely that marginal land will be released for residential development. One response to avert future problems such as those referred to in this submission would be for consenting authorities to modify the rules on how the house is built so it is more resilient and sustainable on that marginal land. Examples of such mitigation include the need for deep foundations and high floor levels. This will increase the cost of construction, but will reduce costs in the future.
15. While building requirements such as those outlined in 14 may be adjusted to mitigate risks on a site specific basis, some risks, like flooding, are not site specific, but create area wide damage. Such damage may include council infrastructure, for example roading, but frequent flooding, for instance, will also impact on the amenity value of properties in the vicinity even though they might be built to a higher floor level. This would likely impact on the value of property. Mitigation therefore needs to be considered on an area wide basis too which will impact on development costs, but are necessary.

16. While the scope of The Commission's inquiry does not cover the Resource Management Act or the Building Act, ICNZ submits that it is important to consider the long-term impacts of using land for housing. This is particularly so if it is The Commission's intention to provide insightful, well-informed and accessible advice that leads to the best possible improvements in the well-being of New Zealanders.
17. If the supply of land for housing is to be increased so that there is sufficient and affordable housing, then solutions should be informed to avoid costly consequences for homeowners as well as central and local government over the medium to long-term.

A handwritten signature in blue ink that reads "Tim Grafton". The signature is written in a cursive style and is positioned above a horizontal line.

Tim Grafton  
Chief Executive