

# **HOUSING AFFORDABILITY** **SUBMISSION**

## **Inquiry into Housing Affordability NZ Productivity Commission**

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### **Submission from:**

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### **The Commission's Approach**

*Q1 How should the Commission think about the concept of housing affordability – its meaning and measurement? Should the Commission focus its work on affordability as it impacts on lower income households or should the focus be broader and examine the market as a whole?*

#### ***Submission 1.***

The commission needs to focus on the market as a whole as there are different ranges of housing that are stepping stones as home owners move up in the property market. The issue is affordability of buying a home based on ones level of income.

*Q2 Does this stylised framework (Figure 1) capture all the important determinants of housing affordability? Are there others that are important?*

#### ***Submission 2.***

Under Supply I assume charges include local Council charges. What also needs to be included is Council delays in processing Consents as this adds to the overall cost of developing. Also a significant impact is the bank lending requirements as they change regularly over time.

Consideration needs to be given to the impact of a capital gains tax plus the removal of tax concessions (no depreciation claims for rental properties) as these will impact on the supply of rental properties into the market.

*Q3 Is there a more appropriate framework for examining the housing market and issues of affordability?*

### **Submission 3.**

#### **Recent trends in housing markets**

*Q4 What factors have caused recent housing price increases? Are some of them temporary?*

#### **Submission 4.**

Don't understand the question as house prices have been declining and building companies have been trying to target the lower end of the market. Were these questions drafted some 2-3 years ago.

*Q5 What evidence is there that there was a 'bubble' in housing prices? Were house prices previously undervalued?*

#### **Submission 5.**

Once again, a strange question. My personal view was the housing market was slightly undervalued and there was a significant demand fuelled to some extent by soft lending requirements and the market became overheated. Now there is a correction occurring.

*Q6 What effects have price rises in housing had on the affordability of home ownership?*

#### **Submission 6.**

Council charges increasing greater than inflation have had a significant impact on affordability. These charges include Development Contribution charges and Building Consent charges. Also some Councils have kept a strict control over land availability for development which has forced a significant increase in land prices.

*Q7 Are median price trends representative of trends within housing sub-markets?*

#### **Submission 7.**

*Q8 What is the best way to segment the market, and are there significant house price variations confined to specific market segments?*

#### **Submission 8.**

Yes, there are significant house variations for specific markets and they tend to be driven by the particular areas within a city.

*Q9 Why have different parts of New Zealand (cities and regions) experienced different trends in housing prices?*

### ***Submission 9***

Simply supply and demand has played a significant part. Growth areas with good climate and amenity values, ie beaches, have experienced significant demand and therefore increases in prices. Then employment has paid a significant part and now affordability along with employment play a significant factor in the decision making of potential purchasers.

*Q10 How should affordability for home buyers/owners be defined and measured, both in principle and in practice (taking account of data availability)? Is it possible to assess affordability using a single measure?*

### **Submission 10.**

There is no simple measure but obviously a percentage of one's take home pay being taken up by mortgage repayments would be a major aspect in the decision making process.

*Q11. What has happened to affordability over time and what has caused this? Is it lower now than at times in the past? Does it reflect different influences to previous episodes of declining/increasing affordability?*

### ***Submission 11***

There are a number of aspects that have impacted over time on affordability. Wages have not risen to any great extent but over that time, the cost of construction and Council charges (out stripping the CPI) have risen significantly and thus eroding one's income.

*Q12 Do affordability trends differ for first home buyers with different income and household characteristics?*

### **Submission 12.**

Yes it does, partially driven by requirements of lending institutions as in some cases they are now asking the first home buyer to verify how they managed to obtain their deposit. The impact of purchasers with student loans are just starting to impact on the housing market.

*Q13 Do they capture adequately, the problems facing those on lower incomes or those in particular locations (such as the urban fringe or rural areas)?*

### **Submission 13.**

*Q14 How should affordability for renters be defined and measured, both in principle and in practice (taking account of data availability)? Is it possible to assess rental affordability using a single measure?*

***Submission 14.***

For me the measure, whether it be renting or owning, is no different. How much can a person afford based on their income after covering the basic fundamentals of day to day living. New Zealanders still have a strong desire to own as opposed to renting.

*Q15 What has happened to rental affordability over time in relation to both house purchase prices and household incomes? Do rental affordability trends differ across different locations or for certain household characteristics?*

***Submission 15.***

Different cities have different levels of rental costs. For example, in Wellington, a house and section worth around \$600,000 would attract a rental income of around \$600 per week, whereas in Tauranga, that same dwelling value would be around \$450 per week.

*Q16 What factors have influenced the price of renting relative to house purchase prices? Are the current rental affordability trends likely to persist, or are they temporary?*

***Submission 16.***

Rental affordability has been impacted by:

- tax concessions removed and therefore less rentable properties and therefore higher demand
- GST increase has had an impact
- Significant increases in rates, insurance etc.

*Q17 What has been the impact of existing government programmes to assist first home buyers?*

***Submission 17.***

From my observations, the programmes have been ineffective.

*Q18 What are the key drivers of the decline in home ownership rates?*

***Submission 18.***

The major driver is affordability. Having bought a home, the cost of owning the home has increased significantly ie GST, rates, insurance, etc and take home pay reducing.

*Q19 To what extent are changes in home ownership levels explained by changing tenure preferences? Have changes in the New Zealand rental market been a factor in explaining declining home*

*ownership rates?*

**Submission 19.**

**Markets for housing**

*Q20 How should housing markets be defined in New Zealand? What are the key factors that distinguish housing sub-markets?*

**Submission 20.**

The key factors that distinguish the housing market is:

- price
- location
- type
- age group

*Q21 Do housing price trends for the various sub-markets differ? Are such differentials sustained or temporary?*

**Submission 21.**

Taking all factors into account, generally it is all market driven.

*Q22 What are the characteristics of investors in housing? How much of the recent activity in housing is coming from small, first-time investors? Has offshore investment been a feature in the New Zealand housing market? What market segments have seen the most investment activity?*

**Submission 22**

Unsure when this paper was compiled as there has been a reduction of activity in the housing market by first time investors for some time now.

There has been some off-shore developers in the New Zealand market for some time, but I don't think they have increased their investments given the significant reduction in the number of building consents.

*Q23 What are the major factors that have influenced recent investor activity in housing markets? Is the perceived risk associated with property investment different to that of other types of investments?*

**Submission 23.**

Once again, a strange question given investor activity has been at an all time low for some time now. There is a perceived risk with property as an investment due to the fact that a number of investors got badly burnt when the property market crashed. Prior to the recession property investment was significant, one just needs to look at all the LAQC's that were formed

*Q24 What effect has investor activity in housing markets had on housing prices and affordability? Has investor activity influenced prices and affordability in all housing sub-markets, or has the effect been concentrated in particular areas such as apartments and medium-density housing in the cities or particular locations?*

***Submission 24***

The lack of investor activity in the property market has been a factor that has impacted more on the level of market activity as opposed to affordability. When the recession hit the demand for apartments and medium density housing dropped significantly.

*Q25 Why is there little institutional investment in the private rental market in New Zealand?*

***Submission 25.***

Rate of return does not make it a viable investment. The private investors have been reliant on a capital gain to offset the lack of return on their investment.

*Q26 What practices of real estate agents impact on housing prices and affordability? Has the effect been significant? Has the recently introduced Real Estate Act 2008 and stronger regulation of agents made a difference to the influence of real estate agents?*

***Submission 26***

None.

No.

*Q27 Is there scope to improve the practices of the real estate sector? If so, how? What would be the effects on housing prices and affordability?*

***Submission 27***

Apart from the fraudulent activity in Auckland where there was a collusion between some valuers and real estate agents where they over-valued properties and thereby had an effect on surrounding values, there has been no real impact by real estate agents. After all, they are driven by market values. Besides of late a significant number of properties have gone to auction and therefore that in itself sets the new market value.

Urban planning, design and land use policies.

*Q28 What are the relative costs and benefits of intensification and expansion (greenfields development) to urban planning? What research literature and overseas developments are most relevant to New Zealand?*

***Submission 28.***

Market demand by Urban Planners are never considered whereas it is a major factor for developments and developers. When the property recession hit, the developments that were first to go into receivership were all those that had focused on medium density housing.

Reports coming out of Christchurch are that young families do not want to go into medium density but more the traditional 600m<sup>2</sup> sections.

Overseas developments are indicators only and Urban Planners tend to focus on aspects in overseas developments that are the "hottest" trend but are not sustainable, as they tend to satisfy a very narrow part of the market. Kiwis like their quarter acre sections. Urban planners and councils have not taken into consideration what the market want and have been completely driven by other drivers. There has been no market focus yet the developer is the risk taker.

*Q29 How do these different approaches to urban planning support competitiveness and economic growth?*

***Submission 29.***

The intensification has caused a major issue in the market as a lot of developers have gone broke. Urban Planners like intensification because it hopefully makes better utilization of the infrastructure. But, no consideration is given to what the market actually want so, in the end, intensification has been counter-productive to any growth. In some cases significant areas have been zoned for intensification whereas the current market demand is just not there and these are slow to be developed or land taken up in housing.

*Q30 To what extent do these different approaches to urban planning support environmental objectives?*

***Submission 30.***

*Q31 In New Zealand, do home-owners prefer living in dense urban settlements or less dense suburban developments? What are the reasons for this preference?*

***Submission 31.***

Mostly retirees like living in dense urban settlements but those with families prefer a larger section to bring up families. It is these people that are running businesses or working and therefore the major contributors to the growth and development of New Zealand. There is a trend of more people working from home and therefore, small homes on small sections are not appealing.

You also have the issue that more Councils now have a 40% site coverage and therefore, on a small section, say 400m<sup>2</sup>, would mean a house footprint of 160m<sup>2</sup>. Take out the garage of say 40m<sup>2</sup>, leaves a house area of 120m<sup>2</sup> which for a 4 bedroom home, would mean they have to go two-storey which adds another 15-20% to the build costs. So where is the logic when councils talk about affordability??

*Q32 Has there been a reduction in the rate of land release, either at the urban fringe or in in-fill areas? If so, why?*

***Submission 32***

In growth cities there has been very little release of land and therefore, land prices have increased significantly. In-fill has never been an issue but the demand for in-fill is not as great as it is for greenfield.

*Q33 Are local authorities' land release policies enabling or constraining the supply of land for development?*

***Submission 33.***

Those local authorities that were experiencing growth have constrained the supply of land.

*Q34 What is the likely minimum lead time for release and development of new land and housing?*

***Submission 34.***

This will be driven by the state of the New Zealand market. To go through the current consenting process required by the RMA, this would be upwards of 4 years with significant developer dollars at stake.

*Q35 Is land release delayed unnecessarily either by inadequate supply of infrastructure services or a lack of responsiveness on the part of infrastructure service providers? If so, to what extent is this affecting development costs?*

***Submission 35.***

The inadequate supply of infrastructure is driven more by poor planning previously and also the constraints placed on councils with regard to their debt levels.

The process that councils go about providing for the infrastructure is very costly as they go through a tendering process and then the project supervision. For one project a council had spent \$15m on consultant fees and no work had been done nor the tender documents prepared.

*Q36 Are the planning policies that are designed to encourage higher density housing consistent with, and flexible enough to accommodate, changing community preferences?*

***Submission 36.***

Short answer... NO.



*Q37 Is there evidence of 'land banking' by some developers? Is this a problem?*

**Submission 37.**

I am aware in Auckland there is some land banking, and is it a problem... No. Any landowner adjoining future residential growth is in effect a land banker. Look at pony clubs over the years as they have sold up land and just moved a bit further out.

**The Urban Planning System.**

*Q38 Is the current planning regulatory system more complex and fragmented than it needs to be? Does the planning system include elements that detract from quality urban development and impose unnecessary costs and uncertainty on developers?*

**Submission 38.**

The current planning regulatory system is getting far more complex and therefore extremely expensive, particularly when you have such things as Coastal Policy Statements and Regional Policy Statements that are becoming very prescriptive and then overlayed by District Plans that have a raft of impractical and costly provisions. In the current market councils should be trying to streamline process whereas in actual fact they are adding more and more unnecessary compliance costs

Some urban planning requirements have no consideration of the practical aspects of developing a section or building a home.

*Q39 How could urban planning and development be improved to better integrate strategies for land use, economic development, transport and infrastructure?*

**Submission 39.**

Councils are making rules and policies that are costly and impractical, they tend to take a narrow view as opposed to looking at the wider and longer economic benefit. A key area would be if councils engaged with developers early on to see what the issues are, after all they are at the coal face and aware of the market and its demands.

*Q40 Do local authority planning schemes and approval processes create unnecessary costs? If so, how could they be improved?*

**Submission 40.**

Yes, they do create unnecessary costs, whether it be in fees but also it is the delays in getting the various Consents that just add to the over-all costs, opportunity cost in some cases have been over \$1000 per day.

A recent example for a small medium density home from start of the sale being made until when the person moved in was 5 months. Within that 5 months, 2 months was taken up with the Council Consenting process.

*Q41 Do external or third-party appeal mechanisms unnecessarily delay planning approvals?*

**Submission 41.**

Yes, they do as they add to the cost and the uncertainty of a successful outcome.

**Infrastructure charges.**

*Q42 What infrastructure costs should be recovered through infrastructure charges? Should the costs of providing services such as schools, parks and libraries be recovered via infrastructure charges?*

**Submission 42.**

A Council needs to recognize that growth brings a benefit to a city and this needs to be accounted for in the infrastructure charges. Once Council moves Development Contributions from the RMA to the LGA, charges increased significantly as they were no longer accountable for the quantum of the charges plus in some cases, they were used as a catchup on infrastructure that should have already been provided. Schools place a demand on infrastructure no different to development growth and therefore they should pay.

*Q43 Are current infrastructure charges justified by the efficient cost of providing services? Is there evidence of over-recovery of infrastructure costs?*

**Submission 43.**

The whole Council process is flawed in providing "cost efficient infrastructure", the design, tendering and construction is based around a "gold plated" mentality. Therefore the developer ends up paying.

Yes, there is evidence of over-recovery. In Tauranga they have some \$30 million collected in reserves that has not been spent and they are trying to find projects to spend it on. In other urban areas, they no longer recover contributions for reserves as they have collected sufficient. How is this equitable for those earlier developers.

*Q44 Is the basis for calculating infrastructure charges transparent? Is it subject to undue discretion by local authorities?*

**Submission 44.**

It is not totally transparent but the major concern is that it is beyond challenge. Councils have a large discretion in the apportionment between growth areas and or ratepayers.

*Q45 Are there different regional or local features that justify different approaches to when and how to apply infrastructure charges?*

**Submission 45.**

*Q46 Are infrastructure charges an equitable and efficient way of funding infrastructure services?*

**Submission 46.**

No, they are not equitable, particularly where a large infrastructure item has a life of say 50 years so the developer today will be paying the same amount as the developer in 50 years time. There needs to be introduced intergenerational equity for these types of infrastructure, but this will need support from central government. The principle of growth pays for growth is fine but councils need to give more consideration to the fact that growth brings a significant benefit to the community.

*Q47 Do infrastructure charges become fully capitalised into the value of the land?*

**Submission 47.**

They are a cost of developing the section no different to the raw cost of land being a cost.

*Q48 What alternative methods of funding could deliver fairer and/or more*

**Submission 48.**

**Building controls.**

*Q49 What effect have the 2004 changes to Building Act had on housing prices and affordability?*

**Submission 49.**

They have had a significant increase in building costs – and are they justifiable? Or are they over-the-top reaction to the previous Act and Code that brought about leaky homes.

*Q50 What evidence exists of unnecessary or inappropriate regulation of building? Is there evidence that such regulation is adding unnecessarily to building costs and that the cost of building regulation exceed the benefits?*

**Submission 50.**

*Q51 Compared with overseas, are there specific New Zealand conditions or peculiarities that necessarily require additional or more costly building controls and standards? For example, New*

*Zealand's geography, topography, seismic activity, wind conditions, water quality, etc.*

**Submission 51.**

*Q52 To what extent does the building code encourage or accommodate medium to high density housing?*

**Submission 52**

*Q53 Is there evidence of unnecessary delays in approving building consents? If so, what factors are causing any delays and how could the approval processes be streamlined?*

**Submission 53.**

Yes, there are considerable delays in approving Building Consents:

- refer earlier example whereby home takes 5 months from the start until the person moves in, yet 2 months of the 5 are taken up in the Council Consent process
- attitude of Council staff to change to being more helpful
- send out emails as opposed to letters, to reduce delays
- if a building company can meet all the councils standards they should get preferred treatment to speed up the processing

Performance of the building and construction industry.

*Q54 Are construction costs higher than they need to be? If so, why?*

**Submission 54.**

*Q55 Have rising construction costs contributed to rising housing prices and affordability in New Zealand? Have construction costs increased because the level of building activity has risen more rapidly than supply capability? What other factors are relevant?*

**Submission 55.**

Yes, increased construction costs have been a factor.

*Q56 To what extent is the market structure and lack of economies of scale in the New Zealand market a factor in driving the costs of building materials? What are the barriers to achieving greater economies of scale in New Zealand?*

**Submission 56**

*Q57 Are there any concerns with the level of competition in the building materials market or any other part of the building and construction supply chain?*

**Submission 57**

There is a lack of real competition in the material supply market. A few years ago, there was a builder in one of our subdivisions that got timber cheaper from Australia and that same timber was exported from New Zealand.

*Q58 Why is there not more standardisation in New Zealand's building and construction sector? Is this driven by consumer preferences or industry approach?*

**Submission 58.**

People want choice and so they should. Do we want New Zealand to be known as another Coronation Street ... no.... we want innovation.

*Q59 Have skill shortages in the housing and construction industry contributed to rising housing prices and reduced affordability? Are such shortages temporary or are there long-term issues? Have the costs of skills shortages been more significant in particular regions? What impact will the Christchurch rebuild have on skill shortages in the housing and construction industry nationally?*

**Submission 59.**

*Q60 Are there differences in productivity between residential and commercial construction sectors? If so, what is driving these differences?*

**Submission 60.**

A far to generalized question as within residential you could be comparing standard dwellings, medium residential and apartments. Within commercial you are comparing warehouses to office blocks.

*Q61 Why does there appear to be a high level of rework in the building sector? To what extent is poor quality due to poor design, low skill levels or poor supervision?*

**Submission 61.**

The majority is based around leaky buildings for which the government will not admit too that it was their Building Code/Standards that brought about the problem. At the time, many construction experts warned them but they were ignored and now, as ratepayers and taxpayers, we are paying.

## Population and demographic change.

*Q62 To what extent has immigration influenced overall housing demand? Has it been a significant factor in the recent surge in housing prices? Has the influence of immigration on housing prices been uniformly distributed?*

**Submission 62.**

Immigration has played a part in the demand and therefore, demand brought with it an increase in prices but more significantly has been council charges, land and construction

prices.

*Q63 Where has population growth contributed most to rising housing prices?*

***Submission 63***

To a limited extent.

*Q64 Has population growth been concentrated in the major regional cities? If so, why? Is this changing?*

***Submission 64***

Growth builds on growth and growth also brings employment, ie Auckland.

*Q65 What are the major demographic and social changes that have influenced housing demand? Have these impacted on affordability for first home buyers or affordability more generally?*

***Submission 65.***

*Q66 To what extent have changes in household composition affected the demand for housing?*

***Submission 66.***

None significantly as in some cases the family home is now being used again by the children coming back to live with their parents as they can't afford to rent or buy a home.

*Q67 How have household preferences for housing changed? What future demographic trends will be important in influencing housing demand?*

***Submission 67.***

There is a trend that the home is being used more to work from.

*Q68 Does the apparent mismatch between the increasing average size of dwellings being added to New Zealand's housing stock and the projected shift to smaller households raise any market or policy issues?*

***Submission 68.***

## The role of taxation.

*Q69 How have taxes affected price and affordability outcomes in the New Zealand housing market, especially for first home buyers?*

***Submission 69.***

Taxations (income and GST) most significant influence is on the take home pay which then flows through to what the potential purchaser can afford.

*Q70 To what extent, and in what way, is the tax treatment of investment housing concessional relative to other income earning assets? If so, has this contributed to inflated demand and prices?*

***Submission 70.***

A strange question given the depreciation incentive has been removed and therefore, has stopped a number of investors staying or moving into the residential rental market.

*Q71 Does the New Zealand tax system influence tenure decisions towards or away from home ownership?*

***Submission 71.***

Away.

*Q72 What is the impact of local property taxes (rates) on housing demand? How does the overall burden of taxation on housing in New Zealand compare with other countries?*

***Submission 72.***

Not significant a few years ago, but as Councils' rates have increased far in excess of the CPI, section purchasers are asking more about the level of rates.

## Macroeconomic influences.

*Q73 Has growth in household incomes been a major factor affecting housing demand, prices and affordability?*

***Submission 73.***

Yes, in the past it has but as the growth of income slowed and so has the demand.

*Q74 To what extent have changes in real and nominal interest rates over the last decade stimulated demand and increased housing prices?*

**Submission 74.**

In the boom years, interest had no bearing at all. In a year when we sold over 600 sections, interest rates were around 10% pa. In the latter years, with the net take home income reducing with the increase of all forms of tax, the interest rate features more as a significant cost.

*Q75 To what extent have housing prices been affected by labour market developments including relatively low unemployment rates during the housing boom period and increases in casual employment?*

**Submission 75.**

*Q76 What other macroeconomic factors have influenced housing prices and affordability?*

**Submission 76.**

*Q77 To what extent have housing prices been affected by the recent performance of equity markets?*

**Submission 77.**

*Q78 How have returns on investment in housing moved over time and relative to other assets?*

**Submission 78.**

**Availability of finance.**

*Q79 How has financial product innovation in home lending, and changes in lending practices, contributed to increasing demand for owner-occupied and investor housing, and house prices? Have the levels of financial product innovation and lending practices changed since the economic downturn?*

**Submission 79.**

Home lending practices have had a significant impact as banks reduced requirements significantly which added to the boom and when the market slowed, they made the requirements far more strict which just added to the slowdown.

*Q80 Are capital markets meeting the needs of home buyers, in particular first home buyers?*

**Submission 80.**

*Q81 To what extent is the financial sector overly exposed to property markets? Should this be a problem? Has the cooling in the housing markets since the economic downturn made a difference to exposure levels?*



**Submission 81.**

*Q82 Are household debt levels in New Zealand a concern? Given household debt levels, what vulnerabilities present the greatest risk to capital markets?*

**Submission 82.**

Relative costs of renting versus owning.

*Q83 What are the benefits of owning rather than renting a home, and visa versa? Given the choice, is the preference for renting over home ownership becoming more common in New Zealand?*

**Submission 83.**

It is not so much the benefits, but more the fact the New Zealanders want to own their own home. Building houses bring a significant benefit to the New Zealand economy.

*Q84 How responsive is the demand for owner-occupied housing to changes in rental costs? Do other factors such as borrowing and wealth constraints have a greater influence on home buyer decisions?*

**Submission 84.**

*Q85 Have changes in the costs of renting and ownership caused changes in the level of first home ownership?*

**Submission 85.**

*Q86 Has investor activity influenced the relative cost of renting and home ownership?*

**Submission 86.**

Investor activity has been influenced by the cost of land, construction, rates and interest and now the lack of any tax concessions.

*Q87 To what extent does the design and administration of the Accommodation Supplement influence housing consumption, tenure choices or affordability?*

**Submission 87.**