

Habitat Auckland Submission

Question 1

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?

Question 1 Response:

The focus should be primarily on first home buyers where the impact of the current excessive cost of housing is most widely felt and the social consequences result in a large impact on public expenditure. Measures implemented to enhance the affordability of housing to this group will have flow-on effects to those who remain reliant on the rental stock by releasing more lower-end houses into the rental market with supply and demand effects likely to reduce rentals and improve the quality of the stock. It is also contended that the provision of more affordable entry level housing will have a downwards effect on the prices of higher quality houses as many of the measures that reduce the cost of entry level houses will also impact on the cost of mid-range houses.

Question 2

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

Question 2 Response:

Habitat believes that sustainability factors need to be considered as one of the determinants of housing affordability. While our focus is primarily on keeping the capital cost of a house as low as possible, we also recognise that whole-of-life housing costs need consideration. The challenge will be how to incorporate specification that enhances the running cost of the house while having only a small or no impact on the capital cost of the house at time of construction.

Question 4

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

Question 4 Response:

Habitat believes that the most significant impact on house prices has been the dramatic escalation in the price of land. In Auckland this has been influenced by the constrained Metropolitan Urban Limits in combination with land banking by some developers which restrained supply at the same time as inwards migration and natural population growth increased demand. Other contributory factors included the ready availability of mortgage finance, seemingly uncontrolled increases in compliance costs and levies from the LTA's, building code changes resultant from the Leaky Building Syndrome fiasco and resultant knee-jerk overreactions to it. Escalating property prices in combination with favorable taxation treatment with respect to property transactions also created a market where the purchase of investment units became both fashionable and an almost sure-fire way of making significant capital gains fuelling yet more price escalation. Superimposed on all of these effects have been several Building Code amendments that have enhanced the mandatory specification of all houses to include such things as Residual Current Devices (RCD) on all household power supply and requiring (usually) double glazing to houses even in relatively mild climate zones. The effects of many of these upward price pressures have been more acutely felt at the affordable end of the market where they have been responsible for a much greater percentage price increase than the same effects when applied to mid and upper level housing.

Question 5

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

Question 5 Response:

There was a time when median house prices represented around 3 ~ 4 times the median income. At that level, houses were affordable. More recently that ratio has escalated to around 8 in parts of NZ with some easing through the recession. Property prices are now reported to have recovered and have reached the 2007 peak levels again. It is significant to note though that construction costs have continued to rise in the intervening period giving rise to reduced margins for builders and developers. It is therefore not surprising that construction remains at a low level.

Question 9

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

Question 9 Response:

Habitat Auckland's experience is within the Auckland region. We believe that prices in Auckland have been unduly affected by the MUL and availability of land, the disproportionate percentage of inwards migration to Auckland of remainder of NZ and availability of employment in the region.

Question 10

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?

Question 10 Response:

The most reliable measure of housing affordability is the percentage of total family income (including benefits and supplements) when expressed in relation to the total housing costs. A long-established benchmark is 30%. A secondary measure is to track the median house prices compared with median incomes expressed as a ratio. Ideally, it would be better to track lower quartile, median and upper quartile figures if appropriate data is available. This would allow a degree of segmentation and highlight, we believe, a significantly worse predicament for those in the lower quartile when compared with the other two quartiles mentioned.

Question 12

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

Question 12 Response:

As above, we believe that affordability is a much bigger problem for low- income families with a more negative trend than for those on moderate and higher incomes. For low-income families, the greatest challenge is to find a habitable house at a price or rental that allows for other essential household spending. For mid and high-income families, the challenge relates more to the quality and locality of house they desire to live in.

Question 13

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

Question 13 Response:

Current measures do not adequately capture the level of overcrowding nor the deleterious effects of this problem. Researchers in the field claim that it is almost impossible to accurately gauge the level of overcrowding and contend that it is actually much worse in the lower socio-economic localities than any current statistics (such as census data) indicate. Anecdotal evidence suggests for example that most of the garages in Otara have people sleeping in them. Overcrowding is the result of a number of factors, one of which is the high cost of housing. We also believe that homelessness, now defined to include overcrowding, living in substandard conditions and rough sleeping, should be more officially monitored.

Question 14

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?

Question 14 Response:

The most reliable measure is rental expressed as a percentage of total income, inclusive of benefits and supplements. Analysis should be possible using census data at the meshblock level and comparing median income with median rental. Cooperation from WINZ and IRD would be required to factor in Working with Families, benefits and Accommodation Supplement payments.

Question 17

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

Question 17 Response:

Existing Government programmes have only scratched the surface of the problem. Welcome Home loans are targeted at a segment of the market that is too narrowly focussed and has met with only limited success. Kainga

Whenua loans have been spectacularly unsuccessful despite many Maori having access to land at no cost. The Housing Innovation Fund has generated some additional affordable housing but grants and loans under the scheme have been inconsistently applied to a Community Housing sector that is still in the process of building financial strength and capacity. The sector is awaiting details of new schemes under the newly formed SHU.

Question 25

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

Question 25 Response:

Private rental returns are insufficient, given the value of rental properties, to interest institutional investors who must rely on the rent alone for their investment outcomes. Mum and dad investors seem to have dominated this market in recent years with a significant focus on capital gains to supplement the meagre rental returns relative to debt servicing costs.

Question 28

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?

Question 28 Response:

Intensification can lead to some cost benefits through lower public expenditure on infrastructure, less traffic congestion and reduced consumption of otherwise productive agricultural land. However it also has its downsides including higher development and construction costs, providing a more challenging environment for families, potential health issues (both physical and mental) and less community spirit. Whilst intensified neighbourhoods can be well-designed with provision of many parks and recreational facilities, New Zealand does not have a good record of developing such intensified communities. Furthermore, intensification encouraged by imposition of MUL's will not work but will drive up land prices artificially.

Greenfields developments are largely characterised with the opposite characteristics and remain the preferred lifestyle for New Zealanders with families. However, some of the negative effects can be ameliorated if Greenfields developments are well-planned complete with associated business and industrial districts in close proximity minimising congestion effects. New Zealand has demonstrated better success with its urban planning outcomes for such communities.

Question 32

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

Question 32 Response:

It appears that land-release at the urban fringe has not been made soon enough to ensure a plentiful supply to the market. A guaranteed plentiful supply would result in prices that remain insulated from constrained-supply effects. Landbankers have manipulated release of land such as to maximise land prices. Adoption of a policy to always have enough land released for residential development, well-ahead of it being needed would discourage and nullify this type of landbanking practice. Rezoning of inefficient or outdated urban areas has been hindered by constraints of the ponderous Resource Management Act which places undue emphasis on fringe environmental aspects and scant emphasis on the need for residential land. Tardy and unpredictable handling by LTA's of the Resource Consent process and the imposition of onerous conditions significantly reduces the enthusiasm of developers for otherwise viable and beneficial developments.

Question 36

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

Question 36 Response:

Many of the higher density developments that have occurred in Auckland have been poorly designed and failed to become sell-out successes. The planners failed to incentivise such developments and in particular, failed to provide for favourable neighbourhood environments. Medium density retirement villages do seem to have been successful but many New Zealanders continue to want stand-alone houses on separate, albeit smaller, lower maintenance lots.

Question 40

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

Question 40 Response:

Lengthy processes with unpredictable timeframes, costs and conditions create uncertainty and often unacceptably high levels of business risk. At best, they pre-require higher margins, at worst, otherwise sensible developments do not proceed.

Question 42

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?

Question 42 Response:

Schools should be provided by Government from general taxation, parks should be provided using the Subdivision levy (formerly known as Reserves Contribution) and Libraries could be provided from infrastructure charges. However, these charges should be transparently applied and be progressively recovered as part of the Property Rating system rather than being applied as a lump sum provision as now.

Question 43

Are current infrastructure charges justified by the efficient cost of providing services? Is there evidence of overrecovery of infrastructure costs?

Question 43 Response:

Efficient is not a word that can be used when discussing LTA's. Examination of detailed invoices from LTA's for their services show that even a data input operator is charged out in excess of \$100 per hour. When considered that the pay rate for such a person would be around \$20 per hour, it can be appreciated that \$80 per hour overhead recovery rate is excessive. The lack of Public scrutiny of Council accounts and the lack of an effective Central Government audit of council expenditures guarantees that there will always be over-recoveries. It appears that Development Levies are relatively uncontrolled, escalating at rates well beyond CPI and varying wildly from LTA to LTA. Anecdotally, Development Levies are being justified for anything the Councils can dream up and get onto their long range development plan. Levies are not remitted for projects that subsequently fail to come to fruition.

Question 48

What alternative methods of funding could deliver fairer and/or more efficient outcomes?

Question 48 Response:

It would be more affordable for such costs to be recovered progressively as a rates surcharge for newly developed sites over a pre-determined period. This would make the funds available as required. It would also simultaneously make the Councils more directly accountable to the rate payers. Rate payers collectively, through force of numbers, have more political influence than a small number of property developers who pass on any levies they have been required to pay as a component of the sale price of any property.

Question 49

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

Question 49 Response:

Leaky Building Syndrome did not exist until changes to the Building Codes permitted certain building products to be used. Unfortunately, the debacle caused a massive knee-jerk reaction and led to a much tighter Building Code, judgements against TLA's, the establishment of a Leaky Building Resolution Industry and Builder Licensing. The more stringent building code includes a number of specification changes that have increased the cost of building a house. The judgements against TLA's have left them extremely nervous and unduly conservative with an escalation of consent processing costs and a huge increase in the number of inspections that must now be carried out. More cost. The Leaky Building Resolution Industry charges excessive rates for their "specialised" services. The introduction of Builder Licensing has been poorly conceived and handled and comes at a time when there is a dearth of apprentices in training, when many builders have already left for greener pastures in Australia and when many of the remaining builders will be emigrating to Christchurch for half a

decade or so. The cost of Builders' wages will increase steeply as a result and with that, the cost of new houses also.

Question 50

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?

Question 50 Response:

The two examples previously mentioned are relevant. The introduction of RCD's to the power supply of a house increased costs for all houses by around \$500 ~ \$750. Presumably, the aim was to enhance safety around the house. The case was not proven to the public that this was a cost-effective enhancement of the Building Code. Similarly, changes to section H-1 with respect to insulation standards introduced compulsory double-glazing for all new houses built in all Climate zones in NZ, even in the "winter-less north". This change increased basic house costs by around \$4,000 and bigger houses by \$10,000 or more. Once again, the case for this was not proven and the payback period excessively long. The building code has also made the inside of the house more air tight and also the inside of the framing cavity. Retention of well-ventilated framing cavities may have prevented the Leaky Building Syndrome and the air tightness of the inside of the house has increased the incidence of toxic mould formation. These, together with permitting untreated timber to be used in exterior framing of a house have proved to be very poorly conceived provisions.

Question 53

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?

Question 53 Response:

TLA's do not appear to have any client focus but instead seem to focus on policing the Acts they are responsible for and taking very conservative approaches to any decisions that need to be made. Furthermore, the concept of "economies of scale" is negatively applicable. Our experience has been that, prior to amalgamation of the TLA's in the Auckland region, the smaller TLA's eg Papakura District Council and the Franklin District Council were far more efficient in their processing of Building Consents, were much more Client focussed and applied common sense on site. Inspections could be booked for the next day and the inspector would reliably show up on time. The cost of the Building Consent from them was little more than 50% of their bigger brothers' charges. It seemed that as the LTA was bigger, the number of staff increased exponentially and the number of desks over which a Consent Application needed to pass increased accordingly. It also seemed that there was a lack of an appropriate tracking or follow-up system and that their focus was more on finding reasons to send out a Section 34 letter seeking more information from the applicant (enabling them to "stop the clock" on their mandatory processing time limit) than on efficient processing. Thankfully, our experience improved significantly when we started processing our applications through one of the approved private contractors. Regrettably, Council is still involved in the tail end of the process. A further example of unnecessary costs and delays in the Building Consent application process is the use of peer reviews. It seems that Councils want to take responsibility that is not theirs. Typically, we would engage a Registered Engineer to design a concrete floor/foundation and submit a Producer Statement. Council can then require a Peer Review. One memorable example that comes to mind involved a Peer Reviewer requesting an increased foundation specification. Our Engineers then successfully argued their original design with Council who acquiesced and the original design was used with us still paying for the Peer Review in what seemed to us to be a pointless waste of money.

Question 57

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?

Question 57 Response:

There appears to be adequate competition in the retail/wholesale end of the market but insufficient competition in the manufacturing end and insufficient market size to enable globally competitive pricing. Building material prices are significantly lower in real terms in both Australia and USA than in New Zealand.

Question 65

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?

Question 65 Response:

The Baby Boomer generation are now moving into retirement and for almost all, their children have flown the nest. This effect together with increased longevity is resulting in the occupancy per house dropping overall. However, this data masks the trend within the lower socio-economic suburbs where occupancy levels are increasing often because of affordability issues. This is borne out by considering new house construction data from the last year and estimates of Auckland's population growth through the same period. Based on the average number of occupants per dwelling in Auckland, it can be determined that the housing shortage in the city has increased by 5,000 ~ 7,000 in the last year alone. This suggests that much of the shortfall has been taken up by the emergence of more multi-family dwellings, most of which are grossly overcrowded. For these families, their housing is probably affordable though completely unsatisfactory.

Question 69

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

Question 69 Response:

The current taxation regime seems to have encouraged small investors, prepared to take speculative risks, into the property market in order to make gains that until recently have seemed to be almost guaranteed. One of the effects of this has been to put upwards pressure on the values of properties reducing the affordability for first-home buyers when attempting to make their purchase. Care is required if any efforts are made to correct this situation however. It is difficult to say whether the outcome of less favourable taxation regime for residential property investors would be a reduction in values (improving affordability) as current investors exit the market in volume or increased rentals (increasing unaffordability) as investors seek to recover a reasonable investment return. Either way, the market is going to be unattractive to institutional investors unless values drop significantly and stabilise at a level that allows satisfactory commercial returns. With a market unattractive to both mum and dad investors and institutional investors, who is going to provide the required rental stock?

Question 71

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

Question 71 Response:

To a segment of the public, their decision as to whether to rent or buy will be based on economic reasons whether those relate to their ability to raise and service the loan needed to purchase or a conscious choice based on financial analysis of the options available. This first group is likely to be influenced by the taxation system. A much larger segment however still strives for home ownership based on other factors including security of tenure, wealth accumulation, desire for reduced housing costs during their retirement years, the ability to redecorate or remodel and more. This latter group is less likely to be influenced by the taxation system.

Question 72

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?

Question 72 Response:

Property taxes need to be paid by both landlords (therefore indirectly by tenants) and home owners alike. We believe that recovery of levies, currently front-loaded at time of development/construction of the house, has a bigger influence on housing affordability to home buyers than a progressive recovery of levies through increased property taxes.