Using Land for Housing Inquiry

Productivity Commission

Submission by Nigel A. McKenna B.Sc. (hons), MRICS
Development Advisory Services Limited

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About Development Advisory Services Limited

Development Advisory Services Limited (DASL) is an independent property development advisory consultancy specialising in medium density residential development, based in Auckland, New Zealand.

The primary focus of the Company is the provision of creative but economically based development advice from an independent and experienced perspective. Property development is a complex business and requires a wide range of expertise to research, design, cost, analyse and ultimately consent, contract, construct and deliver. DASL has senior and experienced personnel with expertise and qualifications in the areas of demographic analysis, research, valuation, design, master planning, feasibility modelling, cost estimating, contract negotiation, procurement, consent planning, funding, land development, construction and fit out. Our key personnel come from a wide range of backgrounds including property development, project management, residential development, land development, Community Housing Providers, Urban regeneration and UK Housing Associations.

DASL has provided full development advisory services to the Tamaki Redevelopment Company for the preparation of its Tamaki Implementation Plan with a 20 year plan for 11,000 houses and are currently providing high level strategic development advisory services to Housing New Zealand across a range of projects and issues.

We are working in partnership with the New Zealand Housing Foundation to create a mixed tenure development in Avondale and have led the residential master plan for the Huapai triangle one of the first Special Housing Areas (SHA) in Auckland with a master plan for 1,200 houses.

We have provided a range of development advisory services to the Hobsonville Land Company, Todd Property and Auckland Council Property Limited and are currently responsible for the development of more than 1,000 residential units by private sector developers such as Equinox Capital.

DASL has an increasing focus and interest in the area of social and affordable housing and is fully committed to the concept of creating balanced mixed tenure communities.

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About the Author

Nigel McKenna has a first class honours degree in Construction Economics from Trinity University, Dublin as well as a range of under graduate qualifications in Construction Engineering, Construction Management and Quantity Surveying. Nigel was the founding Chairman of the Royal Institute of Chartered Surveyors (RICS) in New Zealand, a founding signatory to the Urban Design Protocol and a member of the Auckland Mayoral Urban Design Review which resulted in the establishment of the Urban Design Panel.

Nigel was a Director of the Auckland Council Property Enterprise Board under Sir John Wells is the current New Zealand Chairman of The Ireland Fund a global philanthropic fund raising entity and is past Chairman of Our Lady Star of the Sea School Board of Trustees. Nigel has received 20 awards for design and development excellence including one from the Prime Minister of New Zealand in 2008 for his contribution to the built environment. His contribution to the development of Auckland was recognised by the Heart of the City with its annual bluestone award in 2007.

Projects for which Nigel has been responsible include the Hilton Hotel in Queenstown, Dockside, Shed 5 and Rydges Hotel in Wellington, the DFS Galleria in the Auckland Customhouse, Metropolis, Beaumont Quarter, Lighter Quay, Sofitel Hotel and the Viaduct Harbour waterfront restaurant precinct in Auckland.

Note: During the Global Financial Crisis (GFC) I had to declare bankruptcy due to the collapse of the Bank of Scotland which was my primary bank funder. Bank of Scotland (a 300 year old bank) collapsed as a result of the GFC. Although Bank of Scotland was taken over by Lloyds, Lloyds in turn was nationalised due to the takeover. The result was the withdrawal of credit from a wide number of developers globally including New Zealand. This withdrawal of credit meant I was unable to complete my primary project in Queenstown known as Kawarau Falls Queenstown, a $1billion mixed use tourism based resort development, although the first stage was completed.

My submission regarding New Zealand's using land for housing is based on my cumulative 20 years of experience as an investor, developer and passionate property supporter.

I have not written an in-depth submission, rather I have highlighted the frustrations and opportunities that both myself and peers within the Industry face on a daily basis and what I believe to be hindering affordable housing in New Zealand.

Disclosure: The Company I am employed by is currently working in an advisory position for Housing New Zealand. Any comments I make regarding this submission are my own personal comments are not reflective of either Housing New Zealand, or the Government. These comments are provided to enhance the conversation regarding housing supply in New Zealand.

1. Scale

Firstly it is important that the Commission needs to understand how scale works scale in New Zealand. We are a small country with a small and weak development industry that is not well equipped or resourced to undertake or provide large ambitious "scale" targets as that in itself tends to distort the market by driving up housing costs.

Conversely scale that does work in New Zealand, where projects are delivered on time and to budget are where you undertake to deliver multiple smaller projects ie doing 100 projects of 20 rather than 10 projects of 200.

This is because big projects get bogged down with everything from infrastructure and planning to resource and politics. Whereas much like a small nimble organisation, smaller projects with the right delivery structures and teams working in a collaborative way can be delivered.

In my professional opinion and experience the number of houses we need to be built and delivered can be achieved if the right collaborative working arrangements are in place. This requires a significant commitment from all of the Council entities.

Scale in New Zealand is relative, and trying to deliver a large number of homes by one or two organisation or in one or two areas will see inefficiencies being incurred because the NZ construction market for the past 50 years has had a more boutique or artisan type approach. Trying to get the industry to change and scale up overnight is not possible.

The Government can do much too future proof itself by looking at the monopolistic cost inefficiencies that exist within the construction industry supply chain and working with the industry to help provide the appropriate supply chain the country needs. However, that conversation will take a number of years and in the meantime the issues of delivery are pressing.

2. Separation of Projects

There seems to be no mechanism that separates National Projects from Regional Ones. An example of this being the inability of the Auckland Council to contribute to residential infrastructure due to the current focus on the City Rail Loop which needs to be a Central Govt project. This approach does not provide certainty to the investment/development market.

If there are clear signals around where the government/Local Government demarcation is combined with clear direction of expectations and the application of appropriate leadership regarding infrastructure then the development community will respond accordingly.

Currently the development community has no clear direction due this lack of investment in infrastructure and cannot therefore commit. This in itself does not help provide the scale that the Government is looking for when it comes to development.

Hence the issue of a complete lack of infrastructure and the demarcation of who is doing what and sequencing of projects is lacking. If there was a magic bullet a multi-billion investment into infrastructure would be it.

Quality Net Present Value (NPV) modelling around productivity gains from investing in local infrastructure seem to be lacking at a local government level.

3. Silos

The next biggest issue (in Auckland) is the complete lack of joined up thinking with the Auckland Council entities.

We have a united city (in theory) but a divided Council. Water Care and Auckland Transport are independent entities who see more houses as a problem because it requires them to invest money they don't have!

Again, this is a resource equation and a lack of understanding around productivity gains based on strategic investment decisions. Having quality advice regarding productivity measures would go a long way to solving the issues.

How are we to build houses when the 2 biggest agencies don't have the funding to deliver the infrastructure so they therefore have no choice but to try and prevent or delay development?

4. Wrong Sized Public Good Infrastructure

Auckland Transport has not converted to the requirements of intensification and their new standards are based on old outdated thinking. They will not agree or accept the width or design of roads we need for medium density affordable housing.

While this may not seem like a major issue, it is when it comes to the development mind-set of providing certainty and clarity so as to deliver homes. Again it's an issue that needs to be addressed and a conversation developed as to what do roads look like if we are serious about wanting to achieve affordable housing.

Auckland Council parks Dept. will currently only accept 3000m2 football fields as parks. They refuse to accept pocket parks which are an essential part of intensification (which in turn is a key fundamental platform to creating affordable housing). People are increasingly looking toward quality public amenity that has places for people to sit, think, relax and be connected to Wi-Fi. But the old fashioned thinking that applied when everyone had a 600m2 section of providing large play fields cannot apply to intensified developments where smaller sections are required to provide affordable houses which in turn means families and residents need local small park areas for children to play and for adult to relax, read or simply find some space. Rugby Parks/Cricket etc. have their place, but big open fields are not what people want. They want scale and intimacy that creates people to meet and relax.

The combination of the previous two paragraphs is that affordable higher density (and therefore affordable) housing projects are impossible to get approved because of old outdated thinking.

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5. Development Contributions produce Big Houses

The Development Contributions regime of Auckland Council is totally swayed in favour of large houses because you get charged the same whether it's a one bedroom granny flat or a 5 bedroom mansion. At $30,000 and rising this is a key reason why everyone builds large (expensive) homes.

Flexibility regarding development contributions would still see the Council receive the funds it requires, but again there seems to be no in-depth modelling regarding this type of thinking.

There is modelling regarding the current application, but to my knowledge there has been no productivity research into DC's that takes into account the efficiencies gained by allowing development to be sized to meet demand rather than having to overcome artificial economic constraints such as a flat one size fits all DC regime. Furthermore there seems to be no consistency of DC modelling around the country. All councils seem to be operating in Silos (doing it on their own) and there is an inconsistency which reduces development certainty.

6. Faster

Council processing times are still really slow. The stats won't show it because processing data is skewed to show good results. The reality is bad and while anecdotal research gets done nothing has tangibly happened to improve the situation. The need for multi local government agencies to have to be involved and approve consents means that consents still take forever to obtain.

The negative impact that Veolia has on inhibiting development in South Auckland needs an urgent review. A private Company that needs to minimise and restrict development in order to improve its returns to shareholders is not an appropriate structure if we are to achieve more houses and affordable houses in South Auckland.

7. Covenants

Covenants have negative unintended consequences.

Lots of private suburban residential developments get built with covenants. The problem is that in the future you can never redevelop land for a higher or better use because they produce an artificial distortion at a time that the land use may be changing in that area.

Auckland is covered in covenants.

There needs to be a legislative change to say that Covenants have a maximum life span of say 10 years (to achieve what is required at the time in terms of quality, size etc.) but it should automatically fall away after that period unless the majority of owners vote to reinstate it for say another 10 years.

Covenants will prevent redevelopment in the future.

Land is not static and areas change, trying to mitigate that through covenants has the perverse effect of preventing future change in an area.

DEVELOPMENT ADVISORY SERVICES LTD Level 6, 62 Victoria Street, Auckland City, New Zealand
PO Box 5908, Wellesley Street, Auckland 1141 **Phone** +64 9 377 0333 **Email** info@dasl.co.nz **Online** www.dasl.co.nz

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8. Further Conversation

I am willing to be part of any future group that is focussed on developing productive and efficient approaches to helping provide effective policies, carefully crafted implementation plans and project management advice and experience.

Yours sincerely

Nigel A. McKenna B.Sc. (hons), MRICS.

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