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## **STRICTLY EMBARGOED UNTIL 12 MIDDAY - FRIDAY 16 DECEMBER 2011**

### **Housing affordability – draft report released**

Home ownership will continue to elude many New Zealanders unless bold changes are made to New Zealand's housing market, the Productivity Commission says.

In its draft housing affordability report released today, the recently established Commission has made a number of recommendations aimed at improving housing affordability following extensive research, analysis and engagement.

Commission Chair Murray Sherwin says, "The 2001-2007 housing boom was unprecedented with house prices almost doubling over that period."

"Affordable quality housing is fundamental to successful communities. And it's abundantly clear that for younger people and those on lower incomes there is a missing step on the property ladder, particularly in Auckland. The chances of them ever purchasing their first home are decreasing."

The Commission's key recommendations include:

- The urgent need for more land to be opened up for housing, especially in urban areas, because sections now average about 40% to 60% of the cost of a house.
- Reconsideration of Auckland's draft spatial plan. Auckland faces significant housing affordability challenges and the Commission found its current plan, with a target of accommodating 75% of new homes within existing urban boundaries, will be difficult to reconcile with affordable housing.
- Improved processes for consenting, to speed up the service and lower costs.
- Improving how local council development charges for infrastructure are calculated and applied, including making them reviewable. The Commission found the current model has too much regional variation and is not transparent.
- The Commission considers that there is scope to improve productivity in the home construction sector and endorses the work of the Building and Construction Sector Productivity Partnership, established in 2010 as a joint industry-government initiative.

The Commission found that land prices now account for up to 60% of the cost of a house in Auckland.

"That means new homes tend to be at the top-end of the market. No one is going to put a \$150,000 home on a \$300,000 section," Mr Sherwin said.

The cost of building materials and house construction is also high in New Zealand compared to Australia, and the home construction sector's productivity is flat-lining.

The high costs of building and land are constraining the supply of affordable new houses available for purchase. Yet, New Zealand faces a growing population.

Projections are for around 400,000 new households over the next 20 years, with half of these in Auckland.

"We think it's important to make urgent changes to accommodate what's coming down the line," Mr Sherwin said.

The Commission has found that taxation was not a key driver of the recent housing boom.

The Commission carefully considered the claims that housing is tax advantaged, but concluded that any tax-advantage is much smaller than often suggested.

GST already applies to both rental and owner-occupied housing purchases; local body rates are also a tax; and capital gains on housing are already taxed when those buying and selling houses are 'in trade'.

The Commission invites further feedback on its findings in the draft report until 10 February. For a copy of the Draft Report, including information on making a submission, visit [www.productivity.govt.nz](http://www.productivity.govt.nz)

The final report will be presented to the Government on 16 March 2012.

### **Housing affordability facts**

- Housing is one of the largest sectors of the New Zealand economy. Our total residential property stock has an estimated value of \$625 billion (the equivalent of nearly three times New Zealand's Gross Domestic Product (GDP)).
- Over the course of the 2000s housing boom, real house prices increased by between 70% and 240% across different regions.
- The responsiveness of housing supply in New Zealand is around average in international comparison, but about half as effective as in a number of better-performing OECD countries.
- Land prices now account for, on average, almost 60% of the cost of a dwelling in Auckland and 40% across the rest of New Zealand.
- Construction costs have increased by 30% in real terms in the nine years to 2011.
- The number of households renting with at least one member in paid employment, increased by 150% between 2001 and 2006. Numbers have since fallen slightly but are still significant.

### **About the New Zealand Productivity Commission**

- Established in April 2011
- An independent crown entity with a dedicated focus on productivity
- The Commission carries out in-depth analysis and research on inquiry topics selected by the Government (currently housing affordability and international freight transport services).
- The Commission's aim is to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders.

For further information about the Productivity Commission or its inquiry into housing affordability, please contact:

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