

HOUSING AFFORDABILITY

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SUBMISSION
TO
NEW ZEALAND PARLIAMENT
COMMERCE COMMITTEE
HOUSING AFFORDABILITY
INQUIRY

RESTORING HOUSING AFFORDABILITY

15 JUNE 2007

To:
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Commerce Committee Secretariat
Parliament House
Wellington

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A SUMMARY.....

The processes required on the path to **Restoring Housing Affordability in New Zealand** are not complex.

Within this submission Demographia takes a rather liberal interpretation of the New Zealand Parliamentary Commerce Committee Housing Affordability Terms of Reference, which seeks to explore the “components” of the house price inflation this country has experienced. In working together in finding solutions to this housing affordability issue, it is important the drivers of it are thoroughly understood first. Sound solutions require a platform of sound research.

The *Annual Demographia International Housing Affordability Surveys* are an important step in providing a technically sound and easily understood measure of the 159 (2007 3rd Edition) major urban markets of the United Kingdom, Republic of Ireland, Canada, the United States, Australia and New Zealand.

All the major urban markets of New Zealand have been found to be “severely unaffordable” at overall six times annual gross household earnings – well outside the internationally acceptable maximum of three times household earnings, currently being maintained within forty two North American urban markets.

We were at or near affordable levels during the 1970’s, prior to forced urban consolidation policies being put in place, providing the platform for the unnecessary housing inflation we have experienced since. House prices increasing due to the underlying incomes supporting them is “growth” – but when house prices race ahead of incomes, it is “inflation”.

This submission explores the underlying causes of this inflation and suggests seven key areas to focus on in dealing with this issue, being –

- * Phased Housing Affordability Targets.
- * Liberalizing land use processes.
- * Minimizing peripheral land price distortions.
- * Equitable infrastructure financing.
- * Economic impact analysis.
- * Professional education.
- * Research.

We must work together restoring housing affordability within New Zealand.

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SUBMISSION ON HOUSING AFFORDABILITY

“RESTORING HOUSING AFFORDABILITY”

To: New Zealand Parliament Commerce Committee
Chairman: Mr Gerry Brownlee MP

INTRODUCTION

This submission is from Hugh Pavletich of Christchurch, New Zealand, co author with Wendell Cox of St Louis (Missouri Illinois) United States, of the [Annual Demographia International Housing Affordability Survey](#) – now in its third edition and released 22 January this year. My background and that of my colleague Mr Cox, is outlined within the concluding part of each annual edition. Within this years Survey, we have incorporated a section “Restoring Housing Affordability” which discusses in broad terms the issues Demographia is of the view need to be focused on. Of necessity, the points made had to be “broad” in their approach – as this years survey covers 159 major urban markets within the Anglo sphere of the United Kingdom, Republic of Ireland, Canada, the United States, Australia and the three major urban markets of New Zealand.

I would appreciate the opportunity to appear before the Committee, to speak briefly of the submission, but most importantly, to respond to any questions the Committee may have.

Firstly – I would like to sincerely thank those who took the initiative in getting this important Inquiry underway and the many individuals, both within New Zealand and internationally, who have assisted in working towards finding solutions to restoring housing affordability. With respect to New Zealand, particular mention must be made of the excellent research work by the Centre for Housing Research of Aotearoa New Zealand (CHRANZ), led by Terrence Aschoff and the many individuals associated with this small organisation.

The Bulletin to the CHRANZ February 2006 Report ["Regional Housing Markets in New Zealand: House Prices, Sales and Supply Responses"](#), authored by Dr Arthur Grimes and Andrew Aitken of Motu Economic and Public Policy Research, succinctly gets to the core of the issue within the Introduction –

*“House and land prices have risen in real (CPI-adjusted) terms by 105% and 286% each on average across New Zealand between 1981 and 2004. A strong regional divergence in house and land inflation reflects differences in demographic and economic variables in the regional responsiveness of new housing supply to population pressures. **From the modelling, land prices appear to have made the greatest contribution to the growth in***

house prices. It is recommended that a key policy focus should be ensuring that land prices and construction costs are kept to a minimum, consistent with other objectives (my emphasis). This will require planning and regulatory processes conducive to development of residential land and to the construction of new dwellings”

Due to political inertia at central, regional and local government level, the situation has been allowed to worsen since then.

Wendell Cox and the writer take an independent “facts and figures” approach to urban issues and housing affordability. The Annual Demographia Survey for example, is prepared on an independent and voluntary basis, without external financial support. We are strongly of the view that this important issue transcends politics and political philosophies.

In an endeavour to keep this submission as concise as possible, much of the supporting material referred to is hyperlinked, to allow readers the opportunity to delve deeper in to particular aspects of this issue as they wish. Readers are encouraged to refer to the extensive housing affordability material available on the [Demographia](#) website. This includes the 2007 Demographia International Housing Affordability Survey, the 2006 edition, links through to much of the international research on this issue and regular updates of important news, political developments, commentaries and reports from within the six countries surveyed.

Within this submission I will tend to focus on the political pressures, which in my view, led to the current housing affordability crisis. As a commercial property development practitioner of some thirty years experience, a former industry leader and an international researcher over the past three years – my “perspective” may differ at times from those with experience outside the industry, or from those from a professional or academic disciplines associated with the property industry.

The Inquiry Terms of Reference include the following statements –

To ensure that as many New Zealand families as possible will be able to achieve the traditional Kiwi goal of homeownership at a fair and reasonable price.

And.....

Identify and quantify all components of the cost of housing for first home buyers in New Zealand and examine significant shifts over time.

The Terms of Reference then sets out eleven key areas of interest.

This submission will of necessity take a rather liberal approach in identifying and quantifying all components of the cost of housing. These “components” cannot be considered without adequately understanding the drivers of them. In other words, what caused our urban markets to become severely unaffordable, whilst affordability has been

maintained within the forty two major urban markets of North America, identified within this years Demographia International Housing Affordability Survey.

WHY THE ANNUAL DEMOGRAPHIA SURVEY IS IMPORTANT

For those of us who were active in the property market back in the 1970's, there was a well understood "rule of thumb" that housing should not cost any more than three times annual gross household income and that the mortgage should not exceed two and one half times that income. This guide faded from common usage in New Zealand from the early 1980's, as local authorities became increasingly dilatory in releasing land for housing development and raw urban land costs started the destructive price inflation.

Back in mid 2004, I decided to check out the "affordability" of a number of North American markets and found that they had maintained house prices at or below three times gross annual household incomes. The classic book released in 1991, [Edge City](#) by Joel Garreau, a reporter with the Washington Post, was also a strong influence. His book is important as it provides a dispassionate perspective of the realities of urban development. I then suggested to a number of academics in this country, that we needed to get a survey underway of urban markets within the Anglo world – who responded by saying that the idea was "irrelevant". Fortunately, Wendell Cox, Principal of Demographia in St Louis, USA, thought the idea was "relevant" – which then led to the first Annual Demographia International Housing Affordability Survey, released in early 2005.

This annual survey has now expanded greatly, with the 3rd Annual Edition released 22 January 2007 generating 150,000 downloads through the first week and is still running at large volumes, some five months later. It is being increasingly recognised throughout the Anglo world, as the annual reference on the structural issues relating to housing performance and stress.

The Annual Demographia Survey is based on the "Median Multiple" methodology, recommended by the [World Bank](#) and the [United Nations](#), being one measure within a suite of measures and performance standards put in place by these organisations during the early 1990's. These had been developed by Professor [Shlomo Angel](#) and a colleague, the late Steve Mayo. Angel is Adjunct Professor of Urban Planning at New York University, a senior policy advisor to the Inter American Development Bank and is also the author of a highly regarded book [Housing Policy Matters - A Global Analysis](#). Professor Angel is a regular [presenter](#) on these issues and spoke recently at the United Kingdom Audacity ["All Planned Out"](#) Conference, which was a gathering of many of the leading researchers and advocates on these issues, from around the world. I had only learnt of these measures in late 2006, whilst reading the China Peoples Daily on Line. It would be fair to say I think that they had "gathered dust" within these organisations within the intervening years – and had not been followed up on and developed further, as they should have been.

THE MEDIAN MULTIPLE APPROACH.

The [Median](#) is the middle number of a series of numbers, so that for example if you have five numbers in a series such as 2,4,6,10,20, the median is the middle number, being 6, whereas the average is the total of the numbers, divided by the five numbers provided in this example. So the average of 2,4,6,10 and 20 (total 42) is 8.4. This distinction is very important when we are talking about real estate, because if there is more activity at either the lower or higher end of the market, and averages are employed, the statistical information can be excessively erratic and convey the wrong impression of market trends. Therefore researchers generally employ the “median” approach, when discussing market trends.

The same reasoning applies to incomes. Due to a small number of people and households earning high incomes, averages are avoided and medians are employed, so that a more accurate position is conveyed.

If we are looking at an urban market of say 100,000 households, we want to know what the 50,000th house is worth and its gross annual household income. There will therefore be 49,000 houses above this and 49,000 houses below these figures -the mid point.

Therefore Demographia, the World Bank and the United Nations employ the Median Multiple methodology, where the house price is divided by the gross annual household income, to arrive at a Multiple. Say the household income is \$50,000 and the house price is \$150,000. That means that the house price is three times the household income, so it therefore has a Multiple of 3. If the household income again is \$50,000 and the house price is \$300,000, that means that the house price is 6 times the household income and therefore has a Multiple of 6. Interestingly, New Zealand was the former back in the 1970's, but it has deteriorated to in excess of 6 times earnings now – and will deteriorate even further, until something is done about the problem.

Both the [2007 3rd Edition](#) and [2006 2nd Edition](#) Demographia International Housing Affordability Surveys should be read closely. These Surveys have deliberately been kept concise (around 40 pages for this year's edition and slightly less for last years). Extensive use has been made of endnotes with hyperlinks, to allow deeper research as required.

Within this years survey, you will note overall the median multiple of the urban markets surveyed, that Australia is 6.6; New Zealand 6.0; Ireland 5.7; United Kingdom 5.5; United States 3.7 and Canada 3.2 (data September Quarter 2006). You will note in reading the Real Estate Institute April 2007 [Residential Market News](#) that median housing prices throughout the country have inflated from \$305,000 in April 2006 through to \$349,000 in April 2007 – a staggering 14.42%. At this rate, house prices would double every 4.85 years in New Zealand. A poverty creation programme if ever there was one.

Expressed another way – (as at September last year) for every 10,000 in local currencies of gross annual household income, an Australian would be faced with housing costs of 66,000 dollars, a New Zealander 60,000 dollars, the Irish 57,000 euro, the British 55,000

pound, the American 37,000 dollars and the lucky Canadians just 32,000 dollars. And the even more fortunate people of the ‘affordable’ markets, such as Dallas Fort Worth, Houston and Atlanta can expect to pay just 29,000 dollars, based on 10,000 dollars of household income.. That’s without taking in to account mortgage and associated operating costs.

Within the 2007 Demographia Survey, the multiples for New Zealand major markets of Auckland, Wellington and Christchurch are as follows (again – September Quarter 2006 data) –

	Multiple	Median Household Income	Median House Price
Auckland	6.9	\$57,500	\$395,000
Wellington	5.4	\$61,400	\$331,000
Christchurch	6.0	\$48,400	\$291,000

All the major urban markets of New Zealand are now rated as “severely unaffordable”.

Prior to the Annual International Demographia Surveys being generated, most New Zealanders and Australians were unaware of just how inflated and distorted our urban markets had become. And sadly, it would appear not too many from within the property, planning and banking sectors were in any hurry to draw attention to this issue – obviously, for their own reasons. A survey of this type (which is by no means complex) should have been generated years ago.

The Demographia Surveys were particularly helpful in Australia, where it “reignited” the issue, as outlined within a recent [Australian OnLine Opinion article](#) following the debacle of the 2004 [Australian Productivity Commission Home Ownership Report](#), which pretty much scuttled the housing affordability issue at the time. This Report did have one beneficial result though, in that it bought to the fore, generalist economist’s woeful understanding of urban markets – an issue I will touch on further within this submission (Professional Education).

The Annual Survey has also assisted in stimulating massively heightened research interest globally on urban issues. One leading British researcher told me recently how surprised he is, with the massive build up in interest being shown in urban issues by think tanks and researchers around the world. Belatedly, many are now gaining a better appreciation of the reality, that our urban markets are the major drivers of a modern economy and the massive costs in social, environmental and economic terms of strangling, distorting and inflating them.

THE COSTS OF ELITISM

Excessive political interference and land use planning in historic terms is of very recent origin and something that started in New Zealand soon after the Second World War, with the enactment in New Zealand of the Town & Country Planning Act, during the time when we and Australia were tied to “Mother England”. The bonds were very strong and

best expressed in the words of Sir Robert Menzies, Prime Minister of Australia “Where Britain goes – we go”.

Whilst we and the Australians have much to thank “Mother England” for - with respect to this issue, it is a great pity we caught this particular “British disease”. The Canadians were very fortunate in avoiding this malady, as their ties with Britain have never been as strong as ours here in New Zealand and Australia. Similar thinking has only emerged in the United States over recent times; with [Richard Florida](#) and his [Creative Class Group](#). This largely explains why the overall Median Multiple in Canada is just 3.2, whereas ours in Australia and New Zealand is higher than 6 times.

True creativity is based on reality and discipline and is best illustrated by people with the capacity and energy to solve real problems and “get things done”. These people come from all walks of life. To think of “creativity” in terms of “class” is abhorrent.

There are still strong linkages between Australasian and British planners and many from this part of the world work in Britain at some stage through their careers. If our planners wish to persist in learning what not to do, they should continue travelling to the United Kingdom. If they wish to learn what to do, it would be better for them and the public they are paid to serve, if they travelled to North America (Canada and the United States) instead.

Intrusive and destructive British planning was created to a large extent by the architecture profession. Although enlightened social reformers such as [Ebenezer Howard](#) could be considered one of the early leaders in British planning, as founder of the Garden City Movement, which in time evolved in to the [Town and Country Planning Association](#), increasingly architects such as [Sir Patrick Abercrombie](#) and others began to dominate. We are still living with this influence – and should not be surprised that today’s planning schools are often linked to schools of architecture.

Abercrombie had a low opinion of economists, describing them as “muddlers”. As one leading international planning academic told me recently “economics only corrodes planner’s visions”! This trend of architects dominating urban issues in Britain was also assisted enormously by “state led” desires of the weary British people following World War Two, when the [Atlee](#) Government assumed Government in 1945.

At least in Australia and New Zealand - the influence of architects in politics and planning was driven in large measure by their declining role in the wider property and development markets. Greater affluence following World War Two, triggered rapidly increasing suburbanization (with the US [Levittown](#) leading the way), which in turn spawned the residential production building sector and more demanding and cost focused commercial and industrial development. Suburbanisation should properly be seen as a massive social, environmental and economic achievement, which dramatically improved the quality of life for people.

It has been indicated to me that in Australia, architects are involved in just 1.2% of the housing being produced. During 2006 there were around 145,000 residential units built in Australia, which would suggest that architects may have been involved in just 1,740 of them. I would expect it to be fairly similar here in New Zealand. By far the majority of the detached housing and smaller scale multi units are designed by either in house production builder architectural designers or external consultants. With the larger scale multi unit residential and the commercial and industrial developments, the engineering profession dominates. Modern multi unit residential and commercial and industrial developments are often very complex, requiring a large range of sub specialties and skills.

Often with these more complex structures, structural engineers are retained as the lead consultants (reporting to the developer or project manager), with specialist engineers, quantity surveyors, architects and others being retained on a sub consultancy basis.

Generally - engineers (derived from the Greek word for “innovation”) are seen as more aware of the importance of economics and cost control than architects (we need to be careful here that we don’t play to the egos of engineers!). This cost pressure is driven by consumers (whether they be commercial or residential), demanding the best product at the lowest possible price – which is exactly how the system should work. The consumer is sovereign after all.

In New Zealand, the numbers of architects dwindled to such an extent because of their declining market support, forcing them to relax the membership rules for a time some years ago, when they admitted a significant number of architectural designers to the ranks of the Institute of Architects. In fact, quite often the best and most creative architects today, have had nothing much more than architectural design training.

The profession of architecture has been dealt a heavy blow for its elitism, arrogance and disdain for economics and as it has withered, understandably, as a vent the profession has played an increasing role in planning and politics. In other words – “if we can’t get people to support us, we will work through political channels (with planning) to impose our ideas on others”. The “Design Committees” Local Authorities are currently “playing around with” are just one small example of this.

[Robert Bruegmann](#) , Professor of Art History, Architecture and Urban Planning at the University of Illinois at Chicago and the author of numerous books, including the widely acclaimed "[Sprawl - A Compact History](#)" , sheets the blame for forced urban consolidation on “urban elites” contempt for suburbanisation and demonstrates that urban sprawl is a natural process, as old as the world’s oldest cities.

Politicians would understand – as they are often “tormented” by people asking for their support, in imposing products and services on others, not willing to purchase them.

Little wonder then that planning – or more properly land use regulation – is largely driven by “**how things look**” and not by “**how things work**”. We are not likely to see

those with a deep interest in the aesthetics of land use, show any particular interest or concern about housing affordability, simply because they are too often oblivious to the realities of people's daily lives. In fact most of them could best be described as "aesthetes" which is defined as –

"One who's pursuit and admiration of beauty is regarded as excessive or affected".

I will resist the temptation of using any Australian definitions of the word!

THE EMERGING RECOGNITION OF THE NEED FOR CHANGE.

There is however constructive change taking place, as the New Zealand Planning Institute [media release](#) of February this year illustrates by "strongly supporting" the 2007 Demographia Survey, in stating that -

".....affordable housing takes its rightful place in the heart of community planning decision making, alongside other key elements such as environmental sustainability".

I [responded](#) to the New Zealand Planning Institute people, commending them for the responsible and helpful release, with (as usual!) further comments. Its National President, Dr Michael Gunder and I met in Auckland and there have been numerous communications with the Institutes CEO Ms Julie Mackey, who unfortunately will soon be leaving this position. It is my hope that we can work with these people and others in coming months, in exploring ways to get more "**how things work**" training and retraining incorporated within their education programmes. The reality is that most people involved in land use regulatory administration, now realize that "something must be done".

Also fuelling this heightened regulatory activity and the insatiable appetite for ever increased funding within local government, has been the phenomenon known as [Parkinsons Law](#) (the title of a book written soon after WWII by the British Professor C Northcote Parkinson, with great wit and perception). Parkinson explains how "work expands to fill the time available" as bureaucracies (whether they be public or private) require ever increasing staff and financing – just to stand still! We currently have in New Zealand "Parkinsons Law in Overdrive" within the local government sector, caused by earlier amalgamation, legislative changes in 2002 giving local government the "powers of general competence", elected representatives at local level, not being prepared to provide clearly understand guidelines and performance standards for staff to strive for. The important roles of "governance" and "management" are still poorly understood within local government – another issue that needs to be addressed urgently. The reality is that in larger local authorities, the staffs have greater capacity to control elected representatives, whilst in the smaller ones; elected representatives better understand what's going on. Local Government performance does not get the media attention it deserves either.

It appears to me that there are two key issues to address with respect to local government. Firstly – ensure that funding is aligned with the services provided, so that property services are financed by property taxes (rates) and community and social services are financed by income or consumption taxes – for obvious reasons of equity and efficiency. Secondly – it may be desirable, particularly within the larger local authorities, to have Infrastructure Councillors and Community Councillors. Those with commercial expertise may be more attracted to the former, whilst those with an interest in the social and community services stream of local government, may be more attracted to the latter.

However, this hugely important issue is better discussed in another forum.

LEADING TO FORCED URBAN CONSOLIDATION

Understandably, this “elitist culture” was a fertile “breeding ground” for the development of forced urban consolidation policies – sometimes referred to with the [Orwellian](#) term Smart Growth. **Interestingly, there is no reputable research internationally underpinning these policies.** They were essentially “sold” to gullible politicians at local level, on the pretext that starving land supply and consolidating urban markets would “save” money on infrastructure (which it doesn’t) and free up resources (rate payers money) for more “fun things”. Infrastructure issues can become a little tedious and indeed boring for local government. And forced urban consolidation, with its ability to create compounding problems and further work is a bureaucrat’s (and their consultants) honey pot. Local politicians (with more often than not a blissful ignorance of the property market) also find it enormously satisfying with the unwarranted “power” it gives them. The only surprising thing is that we have not seen the degree of “corruption” experienced in other countries, due to these policies.

A local politician or a senior local government employee is indeed very vulnerable to being corrupted, when he or she has the power to move zoning lines on maps, which determines whether a block of land is worth, for example, \$50,000 (say rural) or \$1,000,000 (say raw urban) per hectare.

I am confident that within three to five years, academics will be writing books on how these disastrous policies of forced urban consolidation, gained the political traction they have.

The reality is that [New Zealand](#) , with a land area of 268,680 square kilometres and a population of just 4,177,000 is lightly populated. The [United Kingdom](#) with a land area of 244,820 square kilometres supports a population of 60,776,000, where well less than 10% of its land area is urbanised (they are currently determined to “save” the redundant EU subsidized farm land and live in shoeboxes!). With around 80% of New Zealand’s population or 3,341,000 people residing in urban areas (down to the smallest towns) at an estimated urban density of 1,900 per square kilometre, this would suggest that approximately 1,758 square kilometres of our land area is urbanized – representing around 0.65% of our total land area! This is based on the [Demographia World Urban](#)

[Areas Density Tables](#), which employs methodology used by national census bureaus in the United Kingdom, Canada, France, the United States and elsewhere.

If we wished to urbanise a further 50,000 people around our urban fringes each year (a very big ask) – at the current Christchurch density of 1,900 people per square kilometre, we would therefore require 23.31 square kilometres of additional fringe urban land annually, which would represent 0.0086% of our total land area (again 268,680 square kilometres total NZ land area) annually or less than half a percent (0.43%) of our total land area over the next fifty years. So at best - if we opened up urban land supply now, we may urbanise as much as 1.08% (0.65% currently urbanised plus 0.43% projected to be urbanised) in total by the year 2057.

It is simply not an issue, if we urbanise 1%, 2%, 3% or much more of our land area. Not when there are “real” issues out there - such as poverty, excessively priced and poor quality housing, excessive household debt, excessive interest rates underpinning a ramped up currency, declining homeownership rates and an economy that’s been unnecessarily stifled – simply because we have fallen for the forced urban consolidation myth.

Instead, the advocates of forced urban consolidation have triggered a “flight to affordability” as lower income people in particular, have been forced out to cheaper land in outlying towns (e.g. Darfield, West Melton, Rolleston, Rangiora, Amberley) and rural areas. A 2004 Lincoln University Study of Lifestyle Blocks found that 6,800 new blocks are created each year throughout New Zealand for about 18,000 people, requiring around 376 square kilometres of land.

So putting aside the outlying towns for a moment – the drivers of forced urban consolidation are generating “splatter” and forcing around 376 square kilometres a year out of farming use, instead of being reasonable and sensible in allowing many of these people to “consolidate” in urban areas and around the fringes, that would at most require 23.31 square kilometres or 0.0086% (less than one hundredth of one percent) of our total land area each year.

To date – there has been no in depth research on the “disruption costs” of these disastrous policies of forced urban consolidation – but it would be fair to say that they are “truly massive”. After all – our urban markets are the engine drivers of a modern economy. Hopefully we will start seeing local and international research on this important issue over coming months. Understandably, the advocates of forced urban consolidation have been in no hurry to generate this research – as it has nothing to do with expanding bureaucratic control and growth.

We do know that the turnover rate of this Lifestyle Blocks is around once every five years, whereas standard urban housing turns over around once every seven years on average. To urban people with no rural experience, these Lifestyle Blocks can appear to be rather enticing and romantic. But for a significant number of them, these Lifestyle Blocks soon turn in to Life Sentence Blocks, as the time and cost of maintaining them

becomes better understood. They are also faced with excessive vehicle running costs to work, friends, schools, shops and the children's activities. Then before long they find that their "friends" are not willing to travel an excessive distance to visit them. The dream soon fades.

Whilst some [research](#) (e.g. within the Rodney Council area) would suggest that those purchasing Lifestyle Blocks are "happy" with their decisions, in my view, the turnover rates tell a different story. It is unlikely too, that survey respondents would be willing to tell researchers that they regretted their decision to purchase. My sense is that these Lifestyle Blocks look "good value for money" (currently they are much easier to create, in comparison with lots / sections around the urban fringes – so the inflation is subdued) in comparison with prices within the urban markets and too often, purchase decisions are made impulsively (the Rodney research indicates this). Many purchasing them are on very low household incomes.

It would be helpful if research could be undertaken - comparing the density of Lifestyle Blocks within say a 40 kilometre radius of our major urban markets, in comparison with the densities around the affordable North American urban markets of a similar size. I would suspect that our Lifestyle Block densities in New Zealand would be substantially higher.

The only real beneficiaries of forced urban consolidation that I am aware of are banks, oil companies and speculators. I touched on these points within a short [article](#) "NZ & UK Labour show the ALP (Australian Labour Party) the way" I wrote back in 2006 for the New South Wales moderate left website . That was following the leading New Zealand monthly general interest publication, "North & South" August 2006 Cover Story "Locked Out" by Virginia Larson, dealing with housing affordability and our Housing Minister Chris Carters subsequent excellent [speech](#) late September 2006 to the Real Estate Institutes National Conference. It is hoped the Minister gets "back on track" again shortly. He needs to.

STIFLING OUR PROPERTY INDUSTRY

This unnecessary forced urban consolidation and "regulatory overload" has hugely damaging consequences for the property industry – again - something those from outside the industry may not appreciate. As a long time practitioner, I will touch on some of these "damaging consequences", but before I do, it needs to be clearly understood that I'm a strong supporter of good governance. After all, good governance is a very necessary foundation for a properly performing property market. Governance however must "add value" in social, environmental and economic terms – not stifle it.

Firstly – excessive regulatory intervention pretty much turns the property development process from a commercial enterprise in to a political and legal quagmire. It is not

uncommon for commercial property developers, such as the writer, to spend around 70% of the project time on the political and regulatory aspects of a development. The other components of the process, such as acquiring the land, negotiating leases, assembling and instructing consultants, negotiating with builders, overseeing the construction and negotiating with end purchasers, may take around 30% of the time. In fact – when construction starts, one pretty much feels that it is about the end of the project!

As the political and regulatory processes (with inquisitorial community hearings and consultation) seem never ending – one gets the distinct impression that the property development process seems to be a “criminal activity”!

With local authorities strangling land supply and inflating land prices, understandably this tends to make projects (whether commercial or residential) riskier and degrades the quality of the development (too much spent on the land forces less finance available for the actual building – meaning poor quality). Without secure and affordable land supply, this tends to further politicise the process. Put rather bluntly – no land – no business.

In properly performing urban markets – land - like concrete, timber and other materials, is simply a component of production and should not be an issue. The builder or the developer is then working in a sound environment, where one can focus on actually getting in place the best quality development, at the lowest possible price (as in the 42 affordable Demographia urban markets) – where the consumer and the wider community are the real winners.

But instead – with “insecure land supply”, the focus of the developer or the builder is distracted to ensure secure supplies of land going forward, at grossly inflated prices. It is not uncommon for ~~then~~ developers / builders to be “carrying” unnecessarily, tens or even hundreds of millions of dollars of land at inflated prices (land banking) – the costs of which are of course forced on to the end buyer. It should not be forgotten that the builder and the developer (essentially property manufacturers) are the “intermediaries” – and simply have no other option, other than to pass these costs on to the end purchaser.

It could be worse I suppose. Just imagine if local government was in building supplies as well? The poor builders would have to store materials for about possibly 200 to 300 houses in the yards, to protect themselves against “scarcities”!

When the local authorities strangle the supply of land around the urban fringes – it puts those holding the scarce land in a very strong negotiating position. Using the word “negotiating” is somewhat inaccurate, as often these “favoured few” (who can too often be “well connected politically”) understandably develop the attitude of “take it or leave it” and wind the prices up. Today – prices for small lots or sections around our urban fringes can easily be \$200,000; \$250,000; \$300,000 or even higher. They should only be a fraction of that – as I will discuss a little further on within this submission.

I should be saying at this point that first home buyers “suffer” because of this. They don’t. The prices are so inflated, that they were shut out of the fringe new housing market long ago.

In turn, this “take it or leave it” attitude, works its way “down the food chain”, as local government, in creating these unnecessary artificial scarcities and failing to act in the wider public interest, has allowed those with the land supply to pretty much “charge what the market will bear”.

The house builders are then put under enormous unnecessary pressure, as they strive to meet their customers’ expectations with these excessive land costs, particularly as the existing housing stock is inflating (currently around 14%) around them as well. The problem is particularly acute in the United Kingdom – something Kate Barker of H M Treasury discussed at length within her important [2004 Housing Supply Report](#) which was followed in 2006 with her [Land Use Planning Report](#) .

With this tighter land supply situation, it means that smaller fringe subdivisions are created and house builders are forced to build small numbers of houses and single infill ones, so that “economies of scale” cannot be achieved. In large measure – that’s why our housing construction sector appears to be around 30% more expensive and less productive than the Australian one currently. As this land supply worsens, eventually the production builders “die” (as happened in New Zealand through downturns during the 1980’s and 1990’s) and the industry “splutters along” with only the less efficient and more highly priced cottage builders remaining. This is currently the situation in Tasmania.

Within a recent National Business Review [article](#) by Chris Hutchings, an Auckland developer and investor clearly outlined the difference in current costs between detached housing on the fringe and the much higher costs for density development. Mr Fermah of the Fermah Group said within the article –

“The miracle salvation of high density housing was an illusion driven by bureaucrat’s who had no idea of costs”.

And further.....

“It doesn’t take a rocket scientist to work out that without central, regional and local bodies exerting some control of the costs they are feeding through, that New Zealand house prices will move to a new plateau over the next five years”.

In contrast – the Australian residential production sector is significantly more efficient and it is not uncommon for them to construct standard housing within eight weeks. The “culture” is extremely dynamic and efficient. If a “sparkey” is programmed to start a job at 10 in the morning and doesn’t turn up, he’s fired – and conversely if the “sparkey” turns up and the builder is not ready for him, the builder is fired! At least that’s the “attitude”, although I’m sure that it’s not quite to that extent – at least very often. But the

“pressures to perform” are deeply ingrained within the industry and have been refined over many decades.

McKinseys Global Institute some years ago researched the construction performance in major residential construction markets around the world at a “micro” level and rated the Australian residential construction sector one of the two best performers in the world. The founder of the Institute, William Lewis, subsequently wrote a book [The Power of Productivity](#), where he talks in glowing terms of the Australian residential production sector. We should not forget that there are many New Zealanders (and people from Britain and Europe too) working in the Australian residential production sector. Sadly, many of these people were driven from our country during construction downturns through the 1980’s and 1990.s – due in the main, to local authorities starving the New Zealand urban markets of affordable land. The Australians have not had this land supply problem for as long as we have.

Regrettably – the Australians are at serious risk of destroying these productivity gains, painstakingly built up over decades and generations, due to the unnecessary State Government created land supply “circus” in that country. Already I think Australia housing construction performance has slipped behind that of the “affordable” markets of North America. Let’s hope the political leaders of the State Governments “come to their senses” quickly, and allow the Australian housing construction performance to become a world leader again.

THE AUSTRALIANS - GETTING ON WITH IT.

In my view, the Australian property organisations are probably the most dynamic in the world - in the way they are prepared to engage constructively in political issues and take positions that are in the wider public interest. One cannot speak highly enough of the dedication of the people from the Housing Industry Association (HIA), Property Council of Australia (PCA) and its subsidiary organisation, the Residential Property Council of Australia (RDC), the Urban Development Institute of Australia (UDIA) and the huge volume of quality [research](#) generated by these organisations over the past few years. The Melbourne based [Institute of Public Affairs](#) has also been a major participant, with its landmark report of 2006 [The Tragedy of Planning](#) and numerous other articles and reports on this issue. And community organisations such as [Save Our Suburbs \(SOS\)](#), within the major cities along the eastern seaboard are also playing their part too.

In contrast, organisations associated with the property industry in New Zealand have been rather timid to date – but it is hoped that they will participate more actively going forward. Others from across the wider community need to as well.

Because of the extensive media coverage of this issue in Australia – it is now well understood that the key problem is inadequate land supply, followed closely by excessive taxes and charges and slow processing times.

The Deputy Premier and Treasurer of Queensland, Hon Anna Bligh stated [recently](#) that –

“Our commitment extends to those who are vulnerable and struggle to access the private housing market. It extends to those who rely on affordable rental housing and to those seeking to own their own homes”.

She also recently made it clear where her Governments focus is [now](#) –

“Our government is focused on the barriers to affordability and will implement legislative and policy changes, development approval processes and land availability to cut costs for new housing.”

She needs to act urgently. **What has happened in Queensland can only be described as a public policy tragedy.** It was once the most dynamic and affordable State within Australasia - the State of opportunity. But the chorus for action to restore affordability has been growing, as just some of the recent media reports illustrate - [here](#), [here](#), [here](#), [here](#), [here](#), [here](#).

It is now well known within Queensland and elsewhere, that section / lots around Brisbane cost about \$50,000 more than they do on the fringes of Melbourne as outlined within the Urban Development Institutes [media release](#) earlier in the year, following the release of the 2007 Demographia Survey. Whilst section / lot prices are still excessive on the fringes of Melbourne, they have become absurdly expensive on the periphery of Brisbane – and elsewhere throughout Queensland.

The State of Victoria has in fact been releasing land (but nowhere near enough), as has the ACT.

It is now generally understood, that the land release policies of the Western Australian Government have been a disaster, as residential property prices soared in excess of 35% in Perth during 2006. At least the Government is belatedly starting in to the [process](#) of speeding up the release of new urban land.

It is unbelievable how the dynamic nation of Australia, with such a large land mass (around the size of the United States with a population of 300 million)) and a relatively small population of just 20 million – ever got in to this mess in the first place.

HOW MANY HOUSES SHOULD WE BE BUILDING?

The Demographia Surveys are an excellent “springboard” for exploring urban markets that are maintaining affordability. It is important to recognise this and realise that this important issue is not “theory”.

My view is that urban markets experiencing positive population growth should move between 2.5 to 3.0 Median Multiple through the building cycle. As demand increases, further supply should “kick in” (it becomes profitable for new supply to be provided). The increasing new housing supply should then subdue inflation and as the new supply

exceeds demand, the urban market should then move steadily back towards a Multiple of 2.5. Urban markets with population growth at around 1% annually should be putting in place around 7 to 9 residential units per 1000 population through the building cycle. Those with population growth in the order of 2%, should I think, be putting in place in the range of 10 to 14 new residential units per 1000 population through the building cycle.

It is very important not to unwittingly intervene in the market, by messing around with land supply, unnecessarily imposing costs and disrupting this natural process – because this tends to cause wilder new residential production swings and within a reasonable time, degrades the performance and culture of the construction sector. In other words, it simply makes housing construction unnecessarily more expensive over time.

Using the measure of “residential units per 1000 population” will be foreign to many of those reading this submission. It is in very common usage within Western Europe and provides an excellent measure of the intensity of residential construction between urban markets and across borders. Another common Western European measure is the number of existing residential units per 1000 population.

The above estimates of residential unit production levels should only be considered “indicative” at this stage – as this particular issue needs to be researched further. In estimating it – we focus on three key components, being (a) the replacement of the existing housing stock (b) estimated new household formations and (c) that people per household is slowly declining each year.

The replacement factor can vary, depending on the volume of existing housing stock and the estimated life of it. With our type of construction in New Zealand and Australia, we work on housing having on average a life of 100 years. We have approximately 1.47 million houses in New Zealand – and the natural process of replacement has been retarded for decades, due to inflated land prices. . We know too, that New Zealand’s population is currently growing by approximately 50,000 a year, with around 11,000 net new migrants and a natural increase in the population base (births over deaths) of approximately 39,000. Allowing for the constant trend of diminishing household sizes and one additional house for 2.5 people (to allow for diminishing numbers of people per household), this suggests that around 20,000 additional residential units should be built annually for the increased population, with a further 14,700 replacement units of the existing stock (a rather high estimate due to replacement having been retarded) – bringing the total to an estimated 34,700 new residential units being required annually.

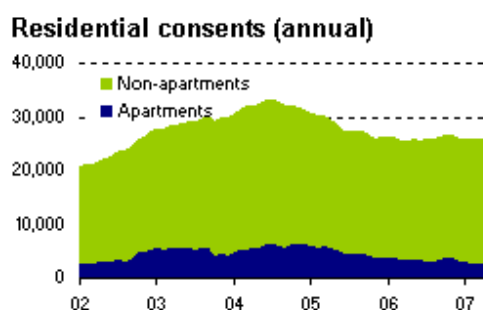
There has been very little discussion of the issue of “obsolescence”. This is in fact very important. There are three types – physical, functional and style obsolescence. As we become increasingly more affluent (and yes – more demanding), this process will likely speed up. We know that new housing sizes in “normal” (i.e. affordable) markets is increasing by approximately 1% a year. So it is important that any new housing stock we put in place has the capacity to be adapted and extended in time, to cope with future needs. So there must be adequate land around it – to assist in stalling its functional and

style obsolescence. These two most often “kick in” well prior to physical obsolescence taking place. Much of the stand alone New Zealand State Housing built from the late 1930’s on by the first Labour Government, is an excellent example of this sustainable approach to development. The Labour leaders of the time - being Prime Minister Michael Joseph Savage, Bob Semple and John A Lee, had no intention of inflicting the inflexible (largely incapable of being adapted to meet future needs), dense style British housing on New Zealanders.

The reality is that we have been “spluttering along” under building for years – and now require significant “catch up”, to bring the average age of our housing stock up to reasonable levels. One only has to observe the good quality of our cars (where supply is not constrained) parked outside what is too often, obsolete housing (where supply is constrained) – housing stock that should have been bulldozed years ago.

You will recall that I mentioned earlier “build rates per 1000 population” – a measure in common usage in Europe. With New Zealand population of 4,177,000 and an estimated average annual building requirement as outlined above of 34,700 – this suggests a build rate of 8.31 per 1000 population. At a build rate of 9 / 1000, the annual new build would be 37,593 new units. A build rate of 7 / 1000 population indicates 29,235 new units annually. The “swing built rate” should probably be around 8 through the building cycle – for an urban market growing around 1% population annually.

But as the graph from Infometrics below suggests, we are badly undershooting these figures –



It is also worth noting from the above graph, that New Zealanders are in no hurry to move in to dense apartment living, even as local government has done all it can to inflate the prices of land and detached housing prices, to force people in to this type of accommodation. As the saying goes – preference always trumps policy.

But to return to the “build rates per 1000 population” issue - my initial estimates are that we have been under building by approximately 10,000 residential units for many years now (Australia is currently under building by approximately 40 – 50,000 units per year). We need to get our “annual build rate per 1000 population” up around the 9 / 1000 population mark and maintain it at this level for many years to come. There is after all, a large backload of obsolete housing stock to replace as mentioned earlier.

[Ireland](#) (population 4,239,000) - with a population slightly larger than our own, has been ramping up its housing construction for years and put in place 96,000 units last year. This massive ramp up in housing production was caused by the unresponsive planning system of that country (surprisingly mirroring the British system), persistently lagging in releasing sufficient land as the economy expanded rapidly. This triggered property inflation and an unnecessary speculative frenzy, which is now only beginning to subside, as the market is beginning to realize, that these “scarcities” are fading.

The Irish build rate during 2006 was 23 residential units per 1000 population. Spain, with a population of slightly in excess of 40 million and in a catch up phase as well, put in place around 800,000 residential units last year – a build rate per 1000 population of near 20.

There are three state / national markets I like to compare. I refer to them as “the good, the bad and the ugly” - Texas, California and the United Kingdom. Let’s see how land supply strangulation suppresses housing construction –

	The Good TEXAS	The Bad CALIFORNIA	The Ugly U.K
Population (mil)	23.5	36.5	60.8
Pop growth 06	1.8	0.9	0.3
NAHB Residential Units Consented (‘000)	216	150	195
Annual Build Rate Per 1000 pop	9.19	4.11	3.21

The “annual build rates per thousand population” measure illustrates the severity of the problems in California and the United Kingdom. Texas with the smallest population by far, put in place more than each of the other two markets. If, with our population base of 4,177,000, we were currently building at the California rate, we would be putting in place 17,167 residential units annually – and at the British build rate 13,408 (about half New Zealand’s current annual build rate of 26,000). With respect to New Zealand - barely replacement levels in the case of California and below replacement levels at the British rate.

Rather interestingly too – Texas actually put in place more “dense housing” (referred to as “five plus units”) than the much larger California during 2006. Around 2,200 higher density developments for both States with 42,000 units in California and 48,000 units in Texas, according to the [National Association of Home Builders](#) . The reality of course, is that lower land prices stimulate more development and greater volumes of all forms of development. As the old development saying goes “If you get the land wrong – everything else is wrong”.

My view is that the British political culture will not likely have the capacity to deal with the problem (I hope I'm wrong on this score) – and it won't be too long before we see the “Great British Migration” get underway. As the Irish and the Spanish housing markets become increasingly affordable (due to the high build rates) and encourage inwards migration to keep employment levels high within their construction sectors, these countries and others throughout Europe and elsewhere, will be in a strong position to capitalize on the self-inflicted British system – grossly undersupplying and inflating its housing market.

Because our urban markets within New Zealand and Australia are severely distorted and inflated due to artificial land scarcity, we have not had normal building cycles for some years now. Strangled markets inflate, then pause, then inflate again. Our new residential market is largely driven off the back of the artificially inflated equity of existing home owners (something our Reserve Bank is attempting to control by persistently lifting the OCR – currently 8% – but cannot influence significantly), providing a platform for excessive leveraged household debt (now overall around 160% of household incomes). Household debt levels ranged between 50 and 60% during the 1970's. So most of the new residential building is for existing home owners, as those without property and on lower incomes, have effectively been priced out of the new and existing housing market.

HOUSING CONSTRUCTION COSTS IN AFFORDABLE MARKETS.

Our initial research within the affordable North American markets is that standard type new starter housing with land on the fringe, is being put in place at around \$700 per square metre building area (house and land package) and the section / lot component of it is in the order of \$100 to \$150 per square metres building area – suggesting the building component is in the order of \$550 to \$600 per square metre. So, if a new starter home is 150 square metres it would cost \$US105,000 – a 200 square metre starter home \$US140,000. For what we would consider a new house and land package “executive home” the cost would be in the order of \$US1,000 per square metre.

This is why we must focus our attention on the affordable urban markets of North America. On a square metre basis, they are simply the best performers around the world.

A good example of this is [Colonnade Homes](#) based in Dallas Fort Worth, Texas, -which I understand is the 45th largest residential production home builder in Texas. The website is excellent, with plans and outline specifications (referred to as Special Features) provided. One can meander through the huge numbers of production house builders within this State via the [Texas Home Builders Network website](#), to gain a better perspective of pricing and quality for new housing. The [Houston Chronicle Homefront page](#) is an excellent resource to get a sense of the pricing levels for new and existing stock across this particular urban market, as is the [Houston Association of Realtors website](#). Check out other States as well. The reason I suggest the Texas websites, is because of their very high standard and the excellent information provided.

The Americans talk in terms of what housing should cost on a per square foot basis. You will note in reading the Houston Chronicle feature above, that the average rate per square foot for housing in Houston has “climbed” to \$US73.05 per square foot or \$US786.31 per square metre (one square metre equal 10.764 square feet). The “map” of Houston within the Resource Section is excellent – as it provides housing per square foot price guides for the different areas of the Houston region. That means that Houstonians – instead of playing the “property inflation game to poverty” – actually have the income left over, to live decently.

There is of course an urgent need for comprehensive research on what new starter housing should cost on our urban fringes. My initial thoughts are that it should mirror the above figures in New Zealand dollars and with respect to Australia, in Australian dollars too. The major reason for this is that American wages are higher than Australian ones – which in turn are higher than New Zealand wages. Our prices could be slightly higher – but not by much.

In other words – we should over a reasonable time, start seeing new starter homes (house and land packages) of 150 square metres through to 200 square metres, being put in place around our urban fringes at \$700 per square metre or \$105,000 to \$140,000 (in 2007 dollars) Currently – we are not even getting the sections / lots in for that! **To re establish this level of affordability would take many years - and the process of enhancing productivity performance within our residential production building sector can only start – if we get on now and deal with the artificial land scarcity problem.**

To assist in this regard, a number of us within New Zealand, Australia and the United States intend within the next few months, to embark on a detailed Study of new fringe housing costs for Dallas Fort Worth, Sydney and Auckland.

RESTORING HOUSING AFFORDABILITY

Within the 2007 Demographia International Housing Affordability Survey (Page 23), we set out seven key areas that should be focused on in restoring housing affordability, within urban markets that are currently experiencing housing stress. They are as follows –

- The need to set housing affordability targets.
- Liberalizing land use processes.
- Minimizing peripheral land price distortions.
- Equitable infrastructure financing.
- Economic impact analysis.
- Professional education.
- Research.

Because the survey covers six countries, the suggestions made are of necessity broad. With this submission, I will expand on these suggestions where required, as they relate to New Zealand.

It is my view that the process of restoring housing affordability should properly be a local community responsibility. Central (or State) Governments role should be to put in place the necessary guidelines and provide the support – with social and economic measures via the Local Government Act – and environmental measures via the (environmental effects based) Resource Management Act. **Housing Affordability Targets based on the Median Multiple (and other supplementary measures) need to be put in place, so that local authorities create the environment so that housing affordability can be restored to three times annual gross household incomes on a reasonable phased basis over a period of ten years.**

There needs to be mechanisms put in place to assist local authorities that fail to meet these phased targets – to the extent - some may need to have their regulatory powers taken from them and replaced by an outside agency for a time, until the phased targets are “back on track”.

Regional and local government must know clearly, that this is a serious issue and that they owe it to their communities, to work collaboratively with central government in addressing this issue.

THE NEED TO SET HOUSING AFFORDABILITY TARGETS.

Put rather bluntly, we are simply talking “hot air” with respect to this issue, if we do not have robust, clearly understood and workable measures and indicators in place, to assess housing performance and stress within local authority areas and individual urban markets.

One of the major reasons for getting the Demographia Surveys underway was to start in to the process of putting in place sound and responsible measures. We must not forget that the reason why this housing affordability problem “got out of hand”, was because much of the information was of such poor quality – to the extent - “inflation” has been sold to the public as “growth”.

A good place to start in the development of workable measures and indicators, is the [World Bank](#) and [United Nations guidelines](#) referred to earlier and as referenced within the 2007 Demographia Survey.

As I see it, the Median Multiple should be seen as the Key Indicator, with other social and economic Supplementary Indicators underpinning it. It is important too – that they are as simple as possible, so that they are readily understood. After all – this is not a complex issue (although some would like to make it so – due to either a lack of understanding or their own self interest – too often both). In researching these issues globally, I have found the British “gifted” at making the simple – complex - and this I would suggest, is a major reason why progress on this issue is slow in that country.

In Australia to date - there has been reluctance (particularly by the private sector) in getting Median Multiple Surveys underway of local authority areas at State level and instead there have been instances of convoluted and meaningless Indicators being

generated, in a vain endeavour to mask the problem. These people need to realize that the days of “masking” are over.

Also in common usage in Australia is the “years of land supply” measure, which is unhelpful and misleading, as it deliberately avoids dealing with the artificial raw land price inflation caused by unresponsive zoning. Better to deal head on with these fringe zone price differences as outlined further on within this submission. We sometimes rib the Australians in pointing out the “years of supply” method is the Rolls Royce approach. Plenty of Rolls Royce’s available – but no Ford’s or Holden’s!

I would suggest that the following Indicators should be considered –

(a) Key Indicator – Median Multiple Survey of all Local Authorities and larger urban markets on an annual basis. The first survey needs to illustrate the trends in Median Multiples over the past 25 years or so, within each of the surveyed markets.

(b) Supplementary Indicators – Urban Markets -

(i) Urban Markets – Peripheral Land Price Difference Ratio – between the “true rural” and the “raw urban” (prior to subdivision works commencing). The reason why the term “true rural” is used is to avoid the current artificial pricing of fringe land not yet zoned for urban use. In setting the appropriate ratios, further research work would be required of the affordable North American markets, to ascertain what a realistic ratio should be. In other words, how much more has to be paid (above rural use) to “trigger” a sale of farmland for urban subdivision. To keep these ratios to a minimum, “leapfrogging” must be allowed. My initial thoughts are that to “trigger” sales in an open and flexible (allowing “leapfrogging”) market, no more than an additional 20% should be paid. Therefore this would be stated as 1.0 : 1.2 True Rural / Raw Urban – or whatever realistic ratio is put in place following further research. The current “artificial scarcity values” are the key issue to be dealt with of course. These must be constantly reviewed.

Better still – treat the fringe rural land as “open zone” and zone it at the time of development, as is the case with most of the affordable North American urban markets.

(ii) Housing Stock Quantity per 1000 population. As indicated earlier, this measure is used extensively in Western Europe and is helpful in assessing whether an individual market is under or over built. It would appear on this measure that we are “under built” in comparison to Western Europe and Ireland, for example. Again further research is required on this issue.

(iii) Annual Build Rate per 1000 Population for local authority areas and larger urban markets – current – and trends over the past 20 years or so. This would assist in gauging how suppressed (or otherwise) construction is currently and has been historically, within local authority areas.

(iv) Floor Space per Person. This would be a very useful measure in assessing the extent of overcrowding within individual markets. It also provides a “rough guide” on the age of the housing stock, as new stock is generally increasing in size by about 1% annually.

(v) Average Age of Housing Stock with Decadal Age Band Graph. This would assist in gauging the quality of the existing stock and in assessing how much of it is due for replacement, both now and in the future.

(vi) Residential Vacancy Rates. Somewhat surprisingly, it appears to me that there are no regular surveys undertaken on this issue of the New Zealand urban markets. Again, this information is important in assessing the intensity of demand and if there is sufficient supply to subdue rental inflation. Rental vacancies should not fall below 5% of the stock, as this tends to stimulate excessive rental inflation.

There is always the temptation to “create” countless numbers of measures, but my strong view is that it is best to stick with a small number of readily understood ones. After all -the only reason for the measures, is to provide a foundation to allow us to get on the path to generate more affordable (which will in turn will mean better quality) housing over time.. You will note for example, that I have not mentioned build costs ratios or measures as part of the small number of measures set out above, The reason for this is that as land supply opens up, the residential construction industry will become more efficient (simply due to competitive pressures) and in any event, the changes in the Median Multiple and Peripheral Land Price Differences will, with the other measures, tell us as much as we need to know.

LIBERALIZING LAND USE PROCESSES.

The key issue here, is that Local Authorities must get the message “loud and clear” that it is not in the wider public interest, to artificially inflate land prices and degrade the existing residential stock and residential construction performance. Artificially inflating land prices simply does not have any benefits in social, environmental and economic terms. There is no reputable research from anywhere around the world supporting forced urban consolidation.

Further to this – housing in environmental terms is a very clean use in comparison with most farming and horticultural uses. There is no need whatsoever for housing development consenting processes to be time consuming and unnecessarily costly.

MINIMIZING PERIPHERAL LAND PRICE DIFFERENCES.

The recently released CHRANZ Report [Housing Supply in the Auckland Region](#) sets out suggested steps requiring consideration with respect to releasing land and other matters, in an endeavour to ease the housing pressures within that region. No doubt CHRANZ and the report authors will be able to advise the Committee of the response to date from the relevant authorities.

Indirectly, I have heard from a good number of sources within the Auckland region, that the relevant authorities are not even willing to consider the report. If this is in fact the case, the Committee needs to discuss this issue further with the people involved and explore ways to best deal with unacceptable “communication failures” of this nature.

I share the view of the CHRANZ Report that steps must be taken as quickly as possible to open up land supply. How it is done (as explained earlier) should properly be the responsibility of each local authority (with the support of central government), as it works in consultation with its community, in achieving phased Housing Affordability Targets.

The residential construction industry will need the foundation of much lower section / lot prices as quickly as possible around the urban fringes, to lift building volumes up to a normal range and improve construction performance and cost, so that within ten years, its performance is in line with affordable markets elsewhere. This process needs time.

EQUITABLE INFRASTRUCTURE FINANCING.

It is indeed interesting how local authorities that engage in the practice of artificially strangling land supply and deliberately reducing the numbers of fringe subdivisions substantially, seem to experience the greatest difficulty providing infrastructure (yes – I am being funny!). Logically – with less new subdivision, it should be easier for them to cope, but in fact the reverse appears to be the case. Yet within the affordable markets of North America, infrastructure is rarely an issue - and if it is – in relative terms a minor one. A good number of these affordable North American markets are coping with annual population increases of 2% and above.

The reality is that land supply strangulation is an indication that there are serious performance weaknesses with the governments (whether local, state, central) involved. There is a strong relationship between the intensity of land supply strangulation and the quantum of the “new house purchaser infrastructure charges” – often misleadingly referred to by local government as “developer charges”. As the “property manufacturers” or intermediaries, the developers and builders simply pass these costs on (with profit margins of course) to the new house buyer. They have no other option.

It is more efficient and equitable for those who actually own the infrastructure, to be responsible for the appropriate financing of it. The new house owners do not of course own this infrastructure.

Appropriately – most of the new infrastructure should be debt financed on a reducing basis by the infrastructure provider over its life span. As the infrastructure ages, it will likely require greater maintenance and the debt financing structures should take account of this. Large corporate infrastructure providers (whether public or private) should also have the capacity to finance the infrastructure on significantly more attractive terms and at lower interest rates, than new home owners.

New home owners are often “stretched” financing and debt financing and it is simply unnecessary, inequitable and inefficient to force them to additionally finance assets owned by large corporate (whether public or private) infrastructure providers. It is often in the interests of home owners to pay back their mortgages as soon as they can (say within 15 to 30 years), so that they are in the strongest position possible to meet future requirements, such as their children’s education and their own retirement needs. It is simply not appropriate to “tangle up” the longer term infrastructure debt financing, with the considerably shorter term new home debt financing.

What also needs to be explored is what is known as "[Municipal Utility Districts](#)" or MUD’s sometimes employed in parts of the United States, such as in Florida, Georgia and Texas (and no doubt others), where a subdivider “packages up” negotiated components of infrastructure and community facilities within a subdivision, arranges the debt financing of them and transfers it - as a package - to the Local Authority.

ECONOMIC IMPACT ANALYSIS.

Refer 2007 Demographia Survey “Restoring Housing Affordability” Section, Page 23.

PROFESSIONAL EDUCATION.

The New Zealand Planning profession has very similar problems to those being experienced by Australian Planners as outlined within the 2004 Planning Institute of Australia’s [National Inquiry](#) Into Planning Education and Employment. Low morale, high attrition rates and staff having to work within “toxic environments” were just a number of the problems identified within this rather candid report. Regrettably, there does not appear to have been any significant consultation with the property industry.

The situation was summed up by one senior planner (Page 29).

“There were other comments made that not only pointed to more complex legislation being the problem, but over-regulation by planners themselves, with one senior planner saying:

“My experience suggests a nasty ‘destructive spiral’ caused by new planning schemes being made unnecessarily complex, containing too much padding and basically over-regulating development unnecessarily. This over-regulation then captures a much wider range of applicants in the net, requiring the highest level of public consultation and development assessment. This in turn increases workloads on DA teams and planning committees, creates demand for much more red tape and paper work, increases costs for everyone and leads to delays. All of this then upsets applicants, who then take out their frustration on Council staff, elected representatives and Council Mayors. (It) leads to complaints to Planning Ministers and so on, goes the spiral.”

The Lincoln University (Canterbury NZ), Environmental Management Group, which is responsible for the training of people embarking on a career within the regulatory

divisions of local authorities (and allied career streams), outlines its role on its [website](#). Part of it states –

“Throughout the world people continue to be faced with serious and changing environmental problems. These problems present great challenges to care for the environment and natural resources.

The use of natural resources to serve both short term and long term needs in urban and rural communities raises complex issues such as environmental and cultural integrity, community security, efficiency and equity, sustainability and conflicts of values and ethics in general. It also raises important issues, regarding the ongoing impacts of colonisation on Maori and indigenous communities worldwide and their desires to manage and use their resources, according to their own cultural and political frameworks. The significance of these concerns is increasingly recognised at national and international levels. Furthermore, it is now recognised that such issues can seldom be resolved by a single agency or discipline.”

And further.....

“The Environmental Management Group provides professional education and the development of research skills at a postgraduate level for positions of responsibility in areas of environmental management, environmental policy, resource studies and transport studies. New Zealand Planning Institute accreditation has been granted to some of the degree programmes associated with these areas.”

My view is that this is where the problems start. Bear in mind that youngsters of 17 or 18 years of age, just out of secondary school, with mostly no life experience are launched in to this rather high octane philosophical and “scatter gun approach” environment. I would much prefer it, if there was more focus, so that with a mix of theory and solid practical experience, they are taught to administer the enabling Resource Management Act 1991 (note the obsolete and repealed Town & Country Planning Act is still incorporated within the curricula) and allied legislation to “add value” in environmental, social and economic terms, to the communities they are paid to serve.

If they have an interest in saving the planet, whales, snails, butterflies and all that sort of stuff, I would much prefer they did this outside work hours, in their own time. The young - with high hormone levels - must never be denied the opportunity to firstly take articulate positions that irritate the preceding generation and develop convictions for things they wish to believe in. Often - its these same people who contribute significantly in future years, as the hormone levels come back to reasonably manageable levels and they develop – through experience (the best teacher) – better judgement.

I do not profess to have a sufficient knowledge of education – as my formal education finished in the fifth form (School Certificate), with a short stint at Lincoln University for a Wool - classing Certificate – which required a good liver rather than a good brain.

The economics and the property valuation professions will also need to play their part too. A significant reason why this housing affordability crisis developed in the first place was because the business sector failed to adequately articulate the consequences of property inflation - sometimes simply for what was wrongly and naively seen as reasons of self interest – to the extent many persisted in referring to “inflation” as “growth”.

This came about partly because the planners (quite often deliberately) failed to involve these other disciplines within the urban policy making process (I have never been asked in to the Christchurch City Council for example. No wonder I’m so shy!). Economics only corroded planners’ visions! But the “visioning” (dreaming) days are over.

Both these professions will need to quickly develop a sound understanding of “micro” urban economics, based on the United Nations, World Bank and Demographia measures, so that they are in a position to better assist those involved in regulating our land markets.

RESEARCH

Within “The need for Housing Affordability Targets” section above, suggested measures are provided as tools to assist in getting the process of restoring housing affordability underway. There is a need for these measures to be employed in researching the performance of all local authority areas and significant urban markets, as soon as possible.

As indicated earlier, this issue is not about “theory”. And it is not “complex”.

It is very important too for us to learn about urban markets that have managed to maintain internationally acceptable levels of affordability – to see what we can adopt or adapt to suit our conditions in this part of the world.

ENDS

Words – 12,739 approximately.

