

Submission from Wellington City Council – Productivity Commission Inquiry on Housing Affordability

Submission to: **Productivity Commission**

Discussion paper: **Housing Affordability Inquiry (Draft Report)**

From: **Wellington City Council**

Date: **10 February 2012**

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1. Executive Summary

Wellington City Council agrees with the assessment that house prices have risen significantly and at a faster rate than incomes over the last decade and notes that housing affordability, as measured by Massey, has come back down to the 20 year average but is vulnerable to increases in the cost of borrowing.

The performance of the Building Industry was a large factor in the increase in the cost of houses. The Council considers that the report should have more recommendations focused on addressing the price of building, and the performance of the building industry in general.

The Council agrees with the Productivity Commission that urban containment policies affect the release, availability and cost of residential property. However, it is important that this increased cost is not considered in isolation from the benefits that urban containment policies can deliver. Providing for an appropriate mix of infill housing and greenfield development enhances opportunities for public transport use, better, more efficient use of infrastructure, and a quality built environment. Wellington has a population density that allows a prosperous compact central city while also providing large affordable sections outside the centre.

Development contributions, while placing an additional cost on new developments, are not considered to have more than a marginal impact on housing affordability due to their small size in relation to the cost of new housing. In Wellington residential development contributions are generally between \$5,000 and \$8,000 with two catchments around the \$10,000 mark. These charges relate to the cost of providing infrastructure for growth with the largest components being water and roading services. If Development Contributions were not charged to cover infrastructure then rates would have to be increased, this would also impact housing affordability.

The Council supports the introduction of Development Contribution best practice guidelines. Best practice guidelines should help improve the calculation and application of infrastructure charges so that they are more efficient, equitable, transparent, and do not unduly penalise new development.

In many ways the report overlooks the positive role of councils and the report would benefit from a stronger focus on councils as part of the solution, rather than a sole focus on compliance costs. Councils can and are working to ensure residents can access affordable housing in a number of ways. In addition to recognising the important role councils currently play in the direct provision of affordable housing the report would benefit from consideration of the role councils could play in supporting others such as the community sector to provide affordable housing. There will be opportunities for councils to identify sites, bring interested parties together, and assist in consent applications. We recommend that the report looks into the benefits councils and others could bring to a collaborative approach with third sector affordable housing providers.

2. Introduction

Wellington City Council in its strategic vision Wellington Towards 2040: Smart Capital recognises that Wellington's people are the city's greatest asset. Our city's shape and character reflects the people who live in, work in, and visit the city. The Council wants to create a city that is healthy, vibrant, affordable and resilient.

The Council has a keen interest in the affordability of housing, recognising the impacts housing has on health, well being and civic participation. In a liveable city residents require access to affordable housing that meets their evolving needs throughout their lives. Wellington City Council welcomes the opportunity to comment on the Housing Affordability Enquiry Draft Report prepared by the Productivity Commission.

3. The Wellington Context

The affordability of housing in Wellington City is of concern to the Council. As a response to high housing costs and limited options for some within the community the Council provides a significant stock of social housing. The Council provides more than 2,300 social housing rental units targeted to people with low incomes and special housing needs. It is important to note that the affordability of housing is not just about the purchase price. Affordability also includes property maintenance costs, the costs of transportation to work places, schools, etc, accessibility to facilities and services, and costs related to healthy housing such as heating. In 2007 Wellington City Council entered into a \$220 million Memorandum of Understanding with the Government to upgrade its housing properties over the next 20 years.

In addition to direct provision the Council promotes through planning policy a mix of housing types, providing residents with quality choices about where they live — in apartments, townhouses or traditional stand-alone dwellings. Substantial greenfield development is provided for in the northern suburbs, in combination with well-established centres and infill policies. Development is managed through the District plan. Many of the reports findings in relation to urban development and land supply are focussed on Auckland.

The Council recognises the role of other players in providing affordable housing and works with the third sector and Government to provide housing options. The Council is working towards sharing waiting lists with Housing New Zealand Corporation to ensure that those in need of affordable rental have access to the widest possible range of options. The Council also works closely with Community Housing Aotearoa to assist the community sector in the provision of affordable housing where possible. The Council recognises that working in partnership with organisations that provide social and affordable housing, and central Government will be needed to in order to increase the provision of social and affordable housing in Wellington.

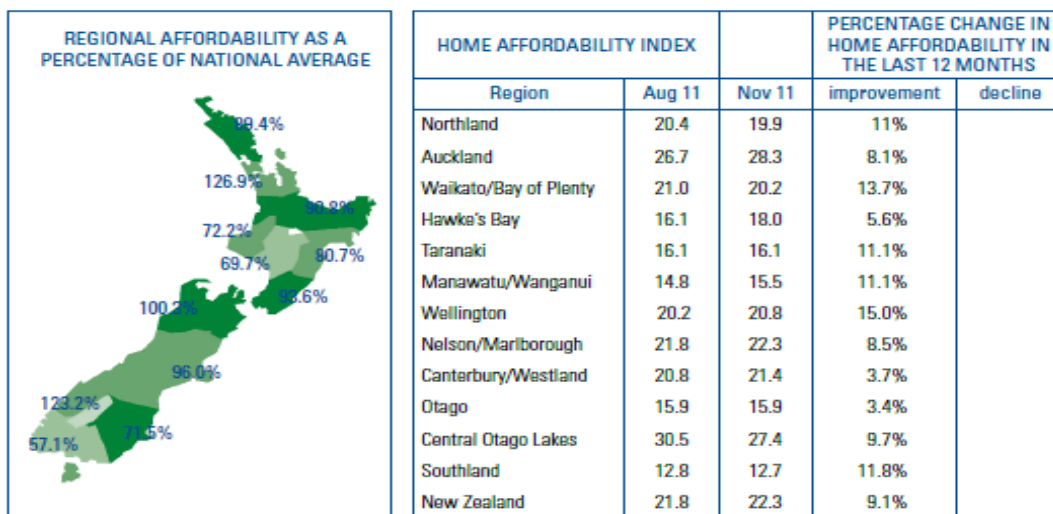
4. Housing Affordability

The Commission found that real house prices in New Zealand are markedly higher than they were a decade ago. The rise in real house prices has been associated with general declines in housing affordability, as indicated by a number of different measures, and in the rate of home ownership. The Council notes that while housing affordability is now moving back to the 20 year average, that this level of affordability is vulnerable to increases in the cost of borrowing and decreases in employment and income.

Massey home affordability index



Housing affordability varies across the country, while some factors that influence affordability will not change across New Zealand, others such as the availability of land will. The Commission could look into the differences and attribute reasons for these differences; this could assist in understanding the impacts of different factors and help to prioritise recommendations in the final report. We note that much of the assessment has a focus on Auckland and does not look in any detail at regional variations.

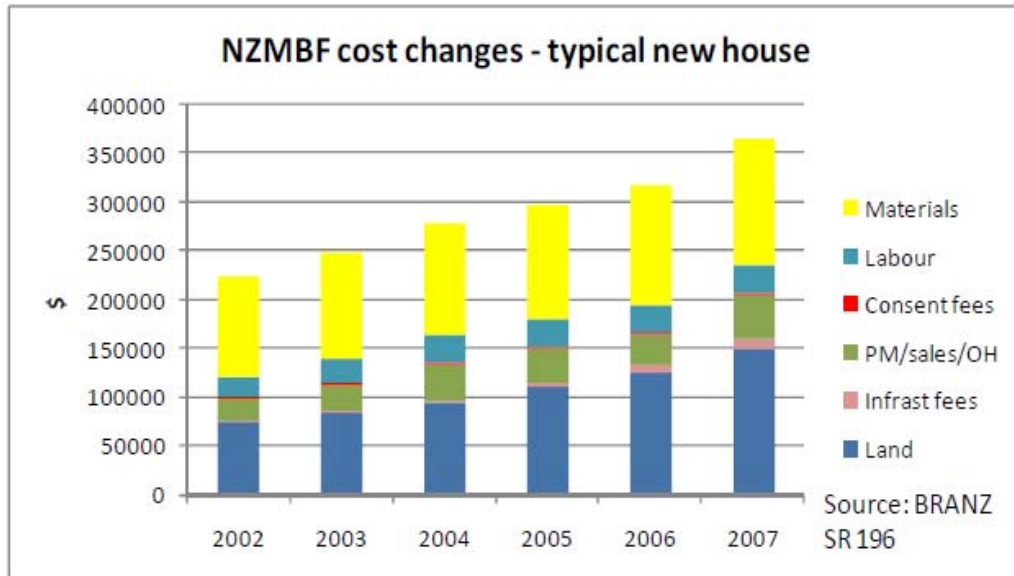


5. Making New Houses more Affordable

For the market to respond to housing demand and build the expected sale price has to exceed the cost of providing that house, therefore the cost of the inputs required to build a house are an important area of focus if houses are to be made cheaper. When looking at the inputs required the materials, land, and labour stand out as the major cost components of providing houses. When looking for ways to make housing more affordable it is worth concentrating recommendations on these components, certainly concentrating on other areas can only be expected to make a marginal difference in overall affordability. The consumer price index shows an increase of 55 percent in the cost of construction from 2002 to 2011.

As shown by the figure below consent fees, development contributions and other council imposed costs make up a very small component of the cost of providing housing.

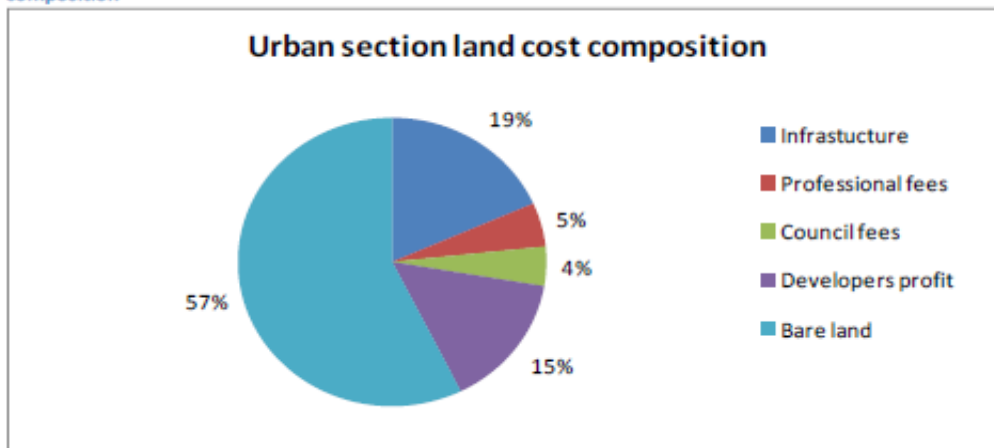
Cost changes in house building as monitored by NZ Master Builders.



The cost of the bare land component of ready to build developed land is influenced by a number of factors, including the supply of land within an area. The cost of land can also be influenced by the functioning of the local market. In Wellington the ownership of substantial greenfield development is provided for in the northern suburbs, although as the majority of this land is in the ownership of two companies, there is little that the Council can do to affect the pace and therefore price at which the land is released for development.

The charges imposed by council's on land development support the costs associated with consenting land and providing infrastructure for it. When seen as a proportion of the section cost council fees are a small component.

Urban land cost composition



Source: <http://www.chranz.co.nz/pdfs/branz-residential-construction-and-costs.pdf>

In Summary

The costs of building a house and developing a section to the point it can be built on are clearly significant factors determining the price of housing. The report comments on the significant rises in the price of labour and materials despite no increase in building productivity. Given this the report would benefit from targeting its recommendations at these factors, despite 11 findings in this area the report only has one recommendation. The report will not be successful if it only offers improvements to a small segment of the cost of housing.

6. Council Focused Recommendations

6.1 Chapter 7: Urban planning and Housing Affordability

Recommendation 7.4:

Territorial Authorities:

- Take a less constrained approach to the identification, consenting, release and development of land for housing in the inner city, suburbs, and city edge
- Adopt a strategy that allows for both intensification within existing urban boundaries and orderly expansion beyond them
- Develop strategies that promote adequate competition between developers for the right to develop land

The effect of urban containment policies on housing affordability

The Council agrees that urban containment affects the release, availability and cost of residential property. However, in response to recommendation 7.4 it is important that this increased cost is not considered in isolation from the benefits that urban containment policies can deliver. The Council has long practised a policy of general containment within the existing urban area, and this is regarded as one of the contributing elements to the high level of activity in the central city and the success of the city's transport network. Wellington has high levels of commuter public transport use, cycling and walking.

Other benefits of urban containment can include greater housing choice; better integration of land use and infrastructure; better accessibility of services; and more efficient use of infrastructure. Over the longer-term these outcomes can deliver cost savings to individuals and public bodies which are significant, including reduced commuting costs and infrastructure delivery and maintenance costs. There can also be social and environmental benefits which are less easily quantified but also significant. Environmental benefits of containing the urban area can include preserving green space such as the town belt, protecting land, water sources and habitats and reduced commuter emissions.

It is important that the costs and benefits of urban containment policies are properly evaluated to ensure a net community benefit outcome. This is currently provided for by the Resource Management Act, but the quality of cost-benefit analysis varies due to the devolved nature of plan making in New Zealand. The Council considers that greater emphasis on quality cost-benefit analysis is a desirable when making decisions on the release of land for development. This could include more explicit wording in the Act about what is expected of a cost-benefit analysis or a best practice guidance note.

Council role in site development

Councils could play a more active role in assembling brownfield / strategic sites - there are overseas examples where councils play more active roles in bringing together sites (particularly brownfield sites) for redevelopment. These roles can vary from a simple facilitative role (bringing together key stakeholders to drive a solution) to more interventionist roles involving strategic acquisition and redevelopment of sites over time (these generally involve strategic partnerships with commercial developers). Where a more interventionist approach is used in other countries councils usually have powers to compulsorily acquire land and/or a greater ability to make use of planning to create value uplift. Planning changes throughout most of New Zealand could not be expected to increase the value of land to any real extent. An interventionist approach generally also requires significant investment from councils. If council are charged with promoting adequate competition between developers they will need additional powers to be effective in this role.

6.2 Chapter 8: Charging for infrastructure

Recommendation 8.1:

That the Government update the Best Practice Guidelines to Development Contributions, based on a process that takes account of the experience of both councils and the industry. The principles in the guidelines might be given statutory status by being incorporated into Schedule 13 of the LGA.

Recommendation 8.2:

That the Government leads training to enable councils to enhance their skills in implementing the proposed Best Practice Guidelines for Development Contributions.

Recommendation 8.3

That as part of the process of updating the Best Practice Guidelines to Development Contributions, the Government:

- identify information that councils would need to provide in regular reports to demonstrate compliance with the Guidelines
- develop a process for regular auditing of councils to assess their adherence to the Guidelines.

Development Contributions

The focus on development contributions in chapter 8 is largely misplaced in relation to housing affordability. Wellington development contributions while placing an additional cost on new developments are not considered to have more than a marginal impact on housing affordability. In Wellington residential development contributions are generally between \$5,000 and \$8,000 with two catchments around the \$10,000 mark. These charges relate to the cost of providing infrastructure for growth with the largest components being water and roading services. If Development Contributions were not charged then rates would have to be increased, creating a separate set of affordability issues.

Best practice guidelines

The Council supports recommendation 8.1. Best Practice Guidelines that help improve the calculation and application of infrastructure charges so that they are more efficient, equitable, transparent, and do not unduly penalise new development would be a welcome development. The Guidelines would be useful if they covered:

- technical parameters to guide the self and special assessment process

- advice on a mechanism and incentives to reduce disputes
- guidance and a process for resolving conflicts in a low cost way
- operational guidance for council officers
- guidance to provide a level of standardisation across the country where possible

If best practice guidelines are to be fully implemented training in them will be an important component. Therefore recommendation 8.2 will be important if Best Practice guidelines are developed.

6.3 Chapter 9: Building Regulations and Affordability

Recommendation 9.1:

The Department of Building and Housing publish for each Building Consent Authority, the total time taken between receiving applications and finally granting consents and the number of occasions where each BCA has used the 'stop the clock' provision. The Department of Building and Housing audit the 'stop the clock' information from a sample of Building Consent Authorities.

Recommendation 9.2:

The Law Commission give regard in its review of the application of joint and several liability on the incentives faced by regulators.

Recommendation 9.3

The Department of Building and Housing report on its ongoing evaluation of the reforms on the allocation of risks between parties to building work five years after introduction

Recommendation 9.4

The Department of Building and Housing should provide more specific guidance for Building Consent Authorities about what is required for an alternative solution to comply with the Building Code.

Recommendation 9.5

The Department of Building and Housing should review the Multi-proof building consent process with a focus on identifying barriers to its application, and suggesting ways to overcome these barriers.

Recommendation 9.6

Statistics New Zealand consider collecting more information about the quality of New Zealand's housing stock and consumer satisfaction with the residential construction industry.

Question 9.2

What are the potential advantages and disadvantages (and current barriers) to the Consolidation of Building Consent Authorities?

Question 9.3

What are the potential advantages and disadvantages from a contestable market for building consenting and inspection services, either publicly or privately provided?

Stop the Clock provision

The stop the clock provision is used in cases where a building consent has a shortage of initial information or there is a need to supply amended information. The council considers that increased information for applicants including building practitioners and architects on the information needed in order to process building consents would be an effective way of reducing the prevalence of the 'stop the clock provision.' These guidelines could be produced by the Department of Building and Housing. Comparing the prevalence of the use of the provision across building consent authorities as suggested in recommendation 9.1 is unlikely to provide a clear comparison as many factors could influence the rate, such as the complexity of proposed buildings in given districts.

Allocation of Risks

The 'alternate solution' provision is designed to allow building that varies from the norm and acts as the avenue for innovative building designs. There is a significant amount of pressure on councils to act in a risk adverse manner when granting consents. This pressure is due to the liabilities that councils are exposed to if it approves building designs that prove to be flawed. The costs imposed on councils for their part in the approval of 'leaky buildings' are a clear example of the possible risks when a relatively relaxed approach is taken. The council supports the Department of Building and Housing looking into these issues as specified in recommendations 9.3, 9.4 and 9.5.

Housing Quality

It is hard to make judgements about the quality of housing without knowing the state of the housing stock. Increased information on the quality of housing stock would be a helpful step, particularly for understanding the condition of the lower priced rental stock. The productivity commission should specify that information collected on the quality of housing suggested in recommendation 9.6 involves professional assessment rather than an occupant survey. Objective data on the quality of housing would have many more uses than a survey of opinions.

Building Consent Authority Consolidation

Responding to Question 9.2 there are potential advantages with consolidating Building Consent Authorities, these include achieving a critical mass of the required skills and economies of scale. A Productivity Commission investigation into both the advantages and disadvantages of merging some smaller BCAs with their larger neighbours would be welcome.

A contestable market for building consents raises a number of risks. A BCA would face pressure to both limit the resources committed to assessing a proposal and take a lenient approach to consenting. In a contestable market some BCAs may choose not to participate due to market pressures, this would reduce the ability for owners of properties where consent has led to problems to have an avenue of redress.

6.4 Chapter 10: Performance of the Building Industry

Findings Included:

- During the recent housing boom, the cost of building a standard house has increased at a greater rate than inflation.
- The cost of both building materials and building a standard house is substantially higher than in Australia.

- A trend toward larger and higher specification houses is also contributing to increased costs. Factors driving this trend include changing consumer preferences, the use of covenants and a desire to avoid under-capitalising given current section prices.
- Industry productivity performance is flat-lining, and this is reflected in growing building costs, and evidence of poor building quality. Evidence suggests that the productivity performance of the construction industry over the past thirty years has been poor relative to other New Zealand industries, and relative to other jurisdictions.
- The lack of scale in the New Zealand residential construction industry presents a significant barrier to productivity growth.
- Small builders are less able to generate economies of scale.
- Scale home builders can reduce construction costs through the delivery of standardised housing, but scale building firms occupy a comparatively small share of New Zealand's building market.
- A lack of available land can present a barrier to productivity through inhibiting the development of group home builders and scale developments.
- The fragmented nature of the residential construction industry supply chain presents a number of management difficulties which can result in lower building quality and higher construction costs.
- The National Infrastructure Plan represents a good mechanism for providing, where possible, forward visibility of government investment which is reliant on the residential construction sector.
- Skills issues, particularly at the management level, require attention in order for the residential construction industry to better respond to industry cycles and to improve productivity performance. The Productivity Partnership Skills Strategy is focussing on a number of skill issues, which if addressed, would enable better industry productivity growth

Recommendation 10.1:

Given that the Productivity Partnership has a number of relevant workstreams in progress, and has an established membership of relevant representatives, the Commission considers that it is well placed to develop practical initiatives to improve industry productivity. In particular, the Partnership should develop, in consultation with the sector, practical responses to the supply chain issues.

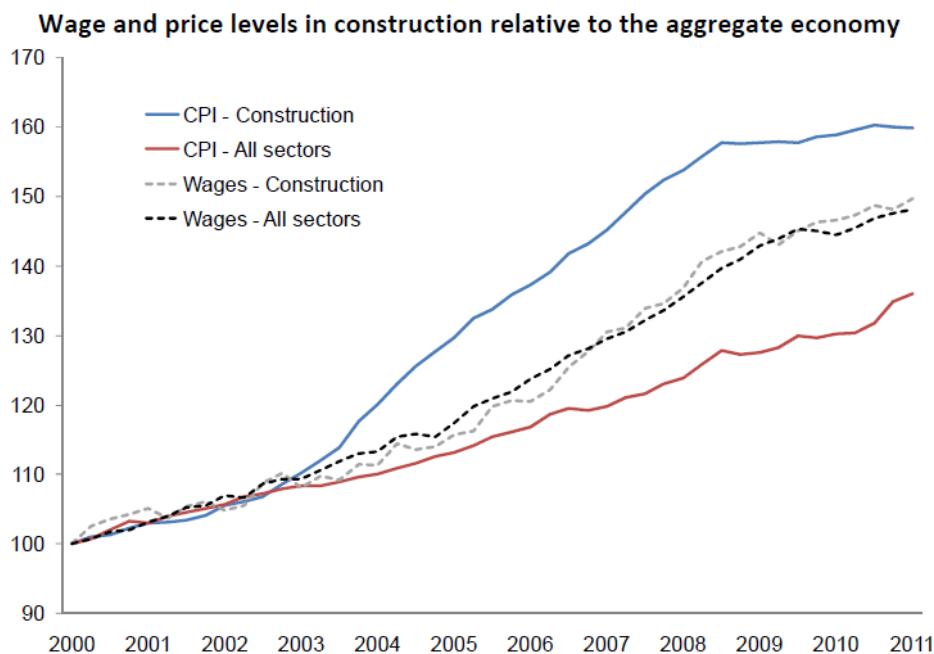
Building Industry

The range of findings in the report related to the performance of the building industry highlights a key reason for the increase in house prices. The final report should include practical initiatives to improve industry productivity as recommendations, even if this is simply indicating the specific areas that require further work.

Recommendations that provide a way of achieving the following would add value to the report:

- Creating the economic conditions for the construction of smaller dwellings in addition to the larger 200 square metre housing currently constructed.
- Reducing the price of common building materials
- Achieving greater economies of scale in construction, overcoming the current barriers
- Increasing labour productivity in construction

The costs of construction are clearly an important factor in increased house prices, the report may fail to improve affordability without a significant focus on this area.



6.5 Chapter 11: Where housing affordability bites

Housing affordability issues tend to be most acute for low-income households. The Council agrees that for some groups in society, the steep increase in real house prices over the 2000s has significantly decreased the likelihood of them being able to purchase their own home or rent comfortably. For these households, there are limited options as:

- Eligibility criteria for state housing have a focus on those with the highest need, in other words the top 5 percent of housing need.
- The accommodation supplement has a maximum subsidy level which leaves some with high housing costs to income
- There are limited home ownership assistance schemes, although KiwiSaver does facilitate saving.

This leaves two groups:

- those who are not eligible for state housing but find the accommodation supplement inadequate
- those with incomes that would previously allow home ownership are now unable to afford home ownership.

The Council provides more than 2,300 affordable rental units targeted to people with low incomes and special housing needs. In 2007 Wellington City Council entered into a \$220 million Memorandum of Understanding with the Government to upgrade its housing properties over the next 20 years. The Council is working with Housing New Zealand to investigate sharing waiting lists to ensure applicants are matched to the most appropriate housing. As social housing demand increases the Council will have to work with third sector social and affordable housing providers and central Government to ensure demand is met.

The Council recognises that while many factors that lead to house prices increasing are out of its control the Council can ensure that it doesn't extenuate the problem through Council policies. Through the District Plan the Council seeks to ensure there is a mix of housing types, providing residents with choices about where they live — in apartments, townhouses or traditional stand-alone dwellings. The council seeks to ensure land availability for housing by zoning for substantial greenfield development in the northern suburbs, in combination with infill policies. It may be appropriate for Councils to consider land availability in their area in combination with the levers Councils have in order to ensure that there is provision for long term housing demand.

Council Role

The report should look at the role of councils in the provision of housing by the third sector. There are opportunities for councils to play a role identifying potential sites and providing planning advice. As indicated by the report successful projects are likely to involve bringing together those with land, building expertise, funding, and property management skills. Councils are likely to have relationships with all these parties combined with clear public good role. Councils could also provide the ability to overcome (and assist others to overcome) obstacles like existing patterns of development and investment, and land fragmentation.