

# Cut to the chase

## Housing affordability inquiry

Final report – April 2012



### Overview

Cut to the Chase summarises the Commission's findings and recommendations to improve housing affordability. In the course of this inquiry, the Commission received around 150 submissions, undertook its own research and held a wide range of meetings and hui.

The inquiry has found many obstacles getting in the way of affordable housing. A number of factors are small though cumulatively important. Other factors are more significant, such as land supply restrictions, the problems with achieving scale in new house construction and inefficiencies, costs and delays in regulatory processes. The inquiry has also identified that the current approach to social housing will not provide the support needed. Having identified the underlying problems, we have set out a number of ways to improve housing affordability. There are no quick fixes. It will require a coherent and concerted push across multiple policy areas.

### Why housing affordability matters

Safe, comfortable and stable housing is important for social cohesion, family stability and individual wellbeing. The home ownership rate peaked at around 75% in the early 1990s but has now declined to around 65%.

Housing affordability pressures are particularly evident in Auckland; this is significant as Auckland's population growth is expected to continue to outstrip that of the rest of the country, accounting for almost half of all new households, in the next 20 years.

Within Auckland, and across New Zealand more generally, the challenge of housing affordability is acute among the young, the single and those on lower incomes, although the manifestations of unaffordable housing are now evident further up the income distribution. Households that once would have transitioned from renting into home ownership cannot afford to buy a modest home, and rental affordability is becoming an issue for those in the \$50,000 to \$70,000 income range in Auckland.

### The Commission's analysis

#### Urban Planning

Urban containment policies have an adverse impact on housing affordability. There is an urgent need to increase land availability, to ease supply constraints and price pressure, particularly in Auckland, where section costs now account for around 60% of the cost of a new dwelling, compared with 40% in the rest of New Zealand. The Commission has found that Auckland's Metropolitan Urban Limit is a binding constraint on the supply of land for urban growth and has increased section prices within Auckland city. High section prices may also explain why new housing is concentrated at the top end of the market – who is going to put a \$150,000 home on a \$300,000 section?

An immediate release of land for residential development would ease supply constraints and reduce the pressure on prices. This could be achieved by bringing significant tracts of new residential land on the urban fringe (greenfield) and urban land that could be redeveloped for housing (brownfield) land to the market. This is particularly important in Auckland, but also in Christchurch, where it is already underway in response to the earthquakes, and in other high land demand areas such as Tauranga and Hamilton. Collaborative approaches with the private sector would help ensure that appropriate land is released, infrastructure-ready and is aligned with market demand.

In addition, councils should ensure that their planning policies, such as height controls, boundary setbacks and minimum lot sizes, are not frustrating more efficient land use. Such policies put a handbrake on greater density and therefore housing supply.

As well, councils should review regulatory processes with the aim of speeding up, simplifying and reducing the cost of consent processes, but central government should also consider the case for reviewing planning-related legislation to reduce the cost, complexity and uncertainty associated with the interaction of the Local Government Act, the RMA and the Land Transport Management Act.

### **Infrastructure costs**

Development contributions are designed to recoup the cost to the local council of expanding existing infrastructure to accommodate new areas of housing (for example, hooking up the water supply and sewerage system). The Commission considers that when applied correctly, they encourage efficient choices in the development, location and investment in housing. However, they can be a source of grievance for some property developers – they are seen as opaque, not efficient and akin to revenue gathering. Charging development contributions would be improved by updating the 2003 Best Practice Guidelines. The Commission suggests a package of measures to improve compliance with the Guidelines and strengthen transparency and accountability of councils in the implementation of development contributions.

### **Building consent costs**

Councils can also affect housing affordability through the way they manage building consents and enforce the building code and regulations. There are widespread perceptions in the building industry that the consent process takes too long and is inconsistent. The Commission has found that it is difficult for many building consent authorities to build or maintain sufficient capacity and capability, and that the performance of the building consent authorities can and should be lifted.

### **Building costs**

Land prices aside, it can cost up to 30% more to build a house in Auckland than it does to build a similar house in Australian cities. The price differential reflects the higher cost of building materials in New Zealand, the small-scale nature of our residential construction sector and the New Zealand preference for 'bespoke' housing. Little can be done about market characteristics which reflect consumer preferences and New Zealand's smallness.

However, industry productivity is flat-lining, suggesting significant scope for improvement. The Building and Construction Sector Productivity Partnership, established in 2010 as a joint industry-government initiative, has a range of initiatives already underway including a skills development strategy. The Commission suggests that it also assist smaller firms to improve their management practices, their procurement processes and the way they engage with sub-contractors.

## Taxation

The Commission does not see a case for changing the taxation of housing in isolation from the tax treatment of other asset classes. The tax advantages attached to housing are not as large as often claimed and seeking to address perceived anomalies outside the context of a broad, first principles review of the tax system could have unintended effects on the housing market and on housing affordability.

## The private rental market

The steep increase in real house prices over the 2000s has significantly decreased the likelihood of some households being able to purchase their own home. There are also many lower income households in the private rental market who struggle to meet housing costs from their income. The quality of rental housing is generally low and the tendency for short term tenancies can adversely affect other social outcomes such as health and education.

Options in this area are limited. Increasing the Accommodation Supplement would be costly and may be appropriated by the landlord through higher rents. Also, the costs associated with mandatory rental housing standards are likely to be passed on to tenants through higher rents. The Commission has focused on strategies to lower house prices to restore the 'missing rung' on the housing ladder, so that households can find their way from renting to home ownership, and ease pressure on the rental market; and the provision of better housing options for long-term renters on low incomes through the growth of the community housing sector.

## Social housing

The total package of housing assistance costs Government about \$3 billion per annum. These costs represent a significant fiscal risk. The Commission is concerned that there appears to be a lack of a clear and coherent policy framework for thinking about what the Government's goals are for this money, how it would judge if it was being effective, and how it will manage both the social and fiscal risks.

State housing is focussed on helping those who have the greatest need. Over time, this has meant state housing has shifted from addressing predominantly income issues, to addressing complex and multiple social issues.

Although the Commission supports the better use of public assets, it is concerned that the way the current social housing reforms are being conducted may undermine the social purposes for which the state is involved in providing housing. Starting the reforms by making changes to state housing without addressing demand pressures and building options for state tenants to 'move on' is generating a risk that those who are reviewed out of state housing will have to accept inadequate alternatives. Coupling redevelopments with a transfer of existing state housing stock to the community housing sector has the potential to deliver better social outcomes.

Social housing is targeted to people with a set of risks or vulnerabilities that predispose them to social and economic disadvantage. The sustainability of these tenants' 'readiness to move on' is contingent not on a change in their level of need, but on addressing the vulnerabilities that create that need. The current model of moving people through different kinds of housing based on an assessment weighted heavily towards housing affordability is not well equipped to address these vulnerabilities.



The intention is that the community sector will address these needs but it is small, fragmented and heavily reliant on philanthropy. A Social Housing Fund has been set up to help build the sector's scale but its size seems unequal to the task.

The focus on scaling up has become almost an end in itself. Significantly more attention needs to be given to integration with other social services, being explicit about how state and community housing will make lasting improvements to the wellbeing of their tenants. Otherwise, there is a significant risk that today's "ready to move on" tenant will become tomorrow's state house waiting list statistic.

## Māori housing

Housing needs are more pronounced for many Māori, who have (on average) lower household incomes and lower financial literacy. Financial literacy education is an important part of any solution to Māori housing needs, especially if a community development approach is taken. Māori inquiry participants identified the social and cultural resources they have that could enable them to overcome the other barriers they faced to affordable housing solutions.

Whānau Ora is the government response best placed to address Māori housing aspirations, through helping whānau plan and by coordinating local public services. The Commission identifies the role it could play, and what it would have to do to be successful.

There has been no lasting response to getting homes built on Māori land because public services, whānau and financial institutions all need to take action. The report identifies ways that this deadlock could be broken.

## What next?

The final report has been provided to Government. The full report is available at [www.productivity.govt.nz](http://www.productivity.govt.nz). The report is the Commission's advice to the Government and responses to recommendations are at the Government's discretion.

### **The New Zealand Productivity Commission**

The Commission – an independent Crown Entity – completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.