

LOCAL GOVERNMENT FORUM

29 February 2008

Clerk
Local Government and Environment Select Committee
Parliament Buildings
WELLINGTON

Dear Sir/Madam

AFFORDABLE HOUSING BILL

The Local Government Forum ('the Forum') welcomes the opportunity to submit on the Affordable Housing Bill ('the Bill'). The Forum opposes the Bill and recommends that it should not proceed.

The Forum comprises organisations that have a vital interest in the activities of local government. Its members include Business New Zealand, the Electricity Networks Association, Federated Farmers of New Zealand, New Zealand Business Roundtable, New Zealand Chambers of Commerce, and New Zealand Retailers' Association. The Forum was established in 1994 to promote greater efficiency in local government and to contribute to debate on policy issues affecting it.

The Forum's members are each significant representatives of ratepayers in their own right but the Forum's perspective is to advance community welfare through the advocacy of sound public policy. We believe that local government can best serve the interests of the community and ratepayers by focusing on the efficient provision of public goods at a local level.

The Forum acknowledges submissions on the Bill from individual Forum members.

Status Quo and Problem

There has been much said and written in recent times about the affordability of housing, most recently in the *Demographia International Housing Affordability Survey* which found that New Zealand housing markets are among the least affordable in the countries surveyed¹.

In defining the affordability of a housing market *Demographia* uses a median multiple derived from the average house price divided by average income. It regards a

¹ 4th Annual *Demographia International Housing Affordability Survey: 2008*.

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housing market to be 'severely unaffordable' if the multiple is over 5. According to *Demographia* the major New Zealand housing markets are all in this category. Another definition includes the percentage of net household income spent on housing, where over 40% is considered unaffordable. Again, by this definition most New Zealand housing markets are now in this category.

The Forum accepts that house prices have increased substantially over recent years and that homeownership rates have fallen over a somewhat longer period **but we are not convinced that the issues affecting housing affordability would be addressed by the interventions proposed by this Bill**. If anything, government actions have tended to exacerbate the problem and the Forum submits that this is not a time to make ill-judged interventions that might only make matters worse.

According to statistics by Quotable Value and the Real Estate Institute of New Zealand, increases in house prices are moderating and in fact the trend may well be in decline². Looking ahead, this softness in the market seems likely to continue. On the supply side a large number of newly built houses have been and will continue to come onto the market³ while on the demand side there has been a significant easing in net migration (positive net migration being a major impetus in the housing market)⁴. Tight monetary policy and relatively high interest rates will also continue to keep a lid on demand. With the housing market cooling, household incomes relative to house prices will most likely begin a gradual process of 'catchup'.

The Forum therefore submits that this Committee should be very cautious about taking 'knee-jerk' reactions to a 'problem' that may be in the process of correcting.

Furthermore, the fall in the rate of homeownership has been a longer-term trend⁵ and we believe that it is likely to include elements of demographic change and 'lifestyle choice' as well as issues of affordability. An increasing number of people are choosing to delay home ownership for the same reasons that they might delay marriage and/or having children (e.g., wanting flexibility to travel or change jobs more frequently). Similarly, some people are deciding never to own a home because they would rather invest their money elsewhere (e.g., in more liquid assets).

Again, the Forum submits that this Committee should consider whether matters other than affordability may be affecting homeownership rates and whether government interventions could or should have an influence on them.

The Forum is concerned about some of the specific statements in the Bill's Regulatory Impact Statement. For example, it observes that "*developers are increasingly building new houses with large floor areas and modern amenities*" with

² According to the Real Institute of New Zealand's Market Trends the median house sale price in January 2008 was \$340,000 up 4% from January 2007 but down 3.5% since November 2007. In January 2008 the number of house sales was also down 31% on January 2007 and the median days to sell was up to 49 days, the longest period since 2002.

³ A total of 166,064 new dwelling units were consented over the five years to December 2007. Statistics New Zealand Building Consents Issued, December 2007, Table 1.

⁴ There was a net migration inflow 5,491 for the year ended December 2007, the lowest net migration inflow since 2000 (when New Zealand experienced a net outflow of 11,312). Statistics New Zealand External Migration Statistics, December 2007, Table 11.

⁵ According to historical census data, the rate of home ownership peaked in 1991 at 73.6% and has since dropped back to the levels experienced during the 1950s and 1960s. However, it is important to note that there have been problems in consistently measuring housing tenure due to the treatment of homes owned by family trusts.

the implication that this is a 'problem'. The Forum questions whether there is anything untoward about people wanting comfortable, modern homes and developers catering to this demand. As well as consumer preference inflated land values are also likely to be encouraging the construction of larger well-equipped houses (i.e., to put it bluntly "you don't put a pig's ear house on silk purse land"). This is where the issue of land supply and demand becomes relevant.

Average values of new dwellings have increased but they have increased at the same rate as prices of construction. Increases in values therefore cannot be blamed on houses becoming more extravagant. To illustrate:

- Between the year ended December 2002 and the year ended December 2007 the average value of a new dwelling increased from \$158,700 (\$900 per m²) to \$250,900 (1,278 per m²)⁶. This is a 42% increase in value per m².
- For the five year period from September 2002 to September 2007 the Capital Goods Price Index sub-index for 'dwellings and outbuildings' increased from 1082 to 1523⁷. This is an increase of 40.8%.

The dwelling and outbuildings construction price index increase of 40.8% thus compares very closely to the 42% increase in the average new dwelling's value per m².

What has driven building cost increases? This, submits the Forum, is a key question that this Committee should investigating.

In the Forum's view cost increases have been driven by higher prices of labour and building materials due to market-driven supply and demand (to be expected during a housing boom) but there have also been a number of other factors that are the result of local and central government policies and actions:

- Higher compliance costs and fees under the Building Act 2004 and requirements for new residential buildings (e.g., energy efficiency) that have despite their good intentions pushed up the costs of building a new home;
- The Resource Management Act 1991, which has in many instances delayed developments and imposed high costs on developments;
- Large (and increasing) fees payable by developers to councils (e.g., development contributions under the Local Government Act 2002); and
- The impact of planning restrictions imposed by councils that have **reduced the supply and increased the price of land** (e.g., so-called 'smart growth' policies that have attempted to restrict new subdivisions and make housing denser in order to, for example, encourage people to use public transport). While effective and efficient land-use policy and planning is important it is evident that in some areas there has been a reduced quality of housing (e.g., a proliferation of shoddy high density housing in what were once 'character' areas).

It is these latter issues that government has a role in addressing and we welcome the Prime Minister's commitment that:

⁶ Statistics New Zealand Building Consents Issued, December 2007, Table 1.

⁷ Statistics New Zealand Capital Good Price Index, September Quarter 2007, Table 1.

We will tackle issues in the building consent process which are adding unreasonably to the costs of building a house, beginning with simplifying the design and building consent processes for starter homes⁸.

The Forum encourages the Government to also 'tackle' the other issues raised in the bullet points immediately above.

The Bill

According to the Bill's explanatory note it "*enables (but not requires) territorial authorities to assess the level of affordable housing in their districts. Following this assessment, a territorial authority may, if it wishes, develop an affordable housing policy and implement that policy.*"

Forum considers the Bill to be unnecessary and undesirable.

Most significantly **the Local Government Act 2002 is broadly empowering and it already enables any council to make such an assessment and to develop an affordable housing a policy if it wishes** (subject to consultation with communities). Also, as part of their long-term planning processes councils are required to consult their communities on 'community outcomes' across the Act's 'well-beings' (economic, social, environmental and cultural) and if housing is indeed an issue then it should be picked up through the development of community outcomes.

Although the Bill is intended to be enabling rather than prescriptive, the Forum predicts that in practice the Bill will provide strong encouragement for councils to develop and implement affordable housing policies even in areas outside of Auckland and other high growth areas.

For councils there will be higher costs for policy development, consultation, and administration (which will be passed on to ratepayers) and for developers there will be more stringent restrictions and higher compliance costs (which will be passed onto home buyers). We are disappointed that the Bill's Regulatory Impact Statement does not attempt to quantify these costs.

We are concerned that this **intervention may have the perverse outcome of reducing the supply of new housing** due to development becoming more difficult and less profitable. If supply is reduced it will exacerbate affordability problems as illustrated by overseas studies that Forum members have sighted⁹.

The Bill also provides for councils to be able to address rental affordability. With regard to rental affordability, the Forum considers councils to be in a poor position to know people's incomes so we have consistently argued that they should not be in the business of income redistribution. Local government should leave the provision of 'social housing' to agencies of central government. The Forum therefore opposes this provision.

⁸ Prime Minister's Speech to Parliament, 12 February 2008.

⁹ For example, Reason Public Policy Institute, "Housing Supply and Affordability: Do Affordable Housing Mandates Work?", by Benjamin Powell and Edward Stringham (April 2004) and The Independent Institute, "Below Market Housing Mandates as Takings: Measuring their Impact" by Tom Means, Edward Stringham, and Edward Lopez (November 2007).

The Bill's most pernicious provisions however relate to its complete disregard for private property rights. For example, the Bill's explanatory note states that *"there is no limit to the options a territorial authority can consider...[including]...requiring a developer to pay (land or money) to the territorial authority"*. The Forum agrees with Business New Zealand's assessment that this is 'blatant theft' and we totally oppose such a provision.

The Bill also prohibits the use of covenants. The Forum is opposed to intervening in the use of legitimate contractual safeguards for home buyers who want to retain a certain quality or character of neighbourhood and therefore protect their significant investments.

Alternative Options

The Forum is disappointed that the underlying problems around housing affordability have not been considered.

On the **supply side** the costs of development and building are likely to have been substantially increased by:

- Increased costs of labour and building materials;
- Higher compliance costs and fees under the Building Act 2004 and requirements for new residential buildings;
- The Resource Management Act 1991, which has delayed developments and imposed high costs on developments;
- Large (and increasing) fees payable by developers to councils (e.g., development contributions under the Local Government Act 2002); and
- The impact of planning restrictions imposed by councils that have reduced the supply and increased the price of land.

The Forum believes that these supply-side factors have conspired to constrain housing supply and to make new and existing housing more expensive. They should therefore be reviewed to assess how they have impacted on housing affordability.

Another important factor to consider is the use of government funding intended to help people buy their first home. While policies such as the 'Welcome Home Loan' are well-intentioned they are likely to have stimulated demand and have had the perverse outcome of driving up house prices even further. The subsidy for the deposit for a first home purchase through the KiwiSaver scheme may in time have a similar effect.

The Forum agrees with the Prime Minister's observation that there is a limit to these initiatives in her comment with regard to housing affordability *"it's not a problem which can be solved by throwing a lot more money at mortgage subsidies - that would only drive prices up still further"*¹⁰.

The Forum is also concerned that the proposal to introduce a shared-equity scheme will also help drive house prices up. Furthermore the need for the government to get an adequate return on its investment will give it a vested interest in maintaining an appreciating property market.

¹⁰ Prime Minister's speech to Parliament, 12 February 2008.

The use of such **demand-side** policies to assist home buyers should therefore be reviewed to assess how they have impacted and will impact on housing affordability.

Forum members also consider that over recent years the large increases in government spending¹¹ and other policy settings have resulted in a poor productivity performance which has resulted in economic growth becoming more inflationary. Inflationary pressures have required more restrictive monetary policy to control inflation and therefore higher mortgage interest rates, another important factor affecting housing affordability in terms of homeowners' ability to service debt. **There must be a renewed focus on productivity and competitiveness to enable the economy (and therefore people's incomes) to grow at a faster rate without generating inflationary pressures, so easing pressure on mortgage interest rates.**

Importantly, improved productivity and competitiveness and a stronger rate of sustainable economic growth will also help address the problem of New Zealand's relatively low incomes relative to those overseas which is in the Forum's view the other side of the housing affordability equation (especially in a housing market which is becoming increasingly globalised).

The Forum submits that if it is considered desirable for affordable housing to be encouraged by local or central government then the best option is to work within existing legislation and provide guidance, for example through the dissemination of best practice guidelines to assist councils.

We also note that the Commerce Select Committee is yet to report back on its investigation into affordability issues. This Bill is therefore premature and prejudices the outcome of that Committee's investigation.

Recommendations

The Local Government Forum strongly opposes the Housing Affordability Bill and recommends that it **should not proceed**.

Instead the Forum recommends that:

- (a) The impact of the Building Act 2004, the Resource Management Act 1991, large fees payable to councils (e.g., development contributions, under the Local Government Act 2002), councils' use of policies to restrict land for subdivision, and 'demand-side' policies to assist home buyers should be reviewed to assess their impact on housing affordability.
- (b) The Government should ensure that all its policies are aligned with the goal of improving productivity and competitiveness to enable the economy to grow at a faster rate without generating inflationary pressures, thereby enabling homeowners to enjoy lower mortgage interest rates and higher incomes.
- (c) If it is considered desirable for affordable housing to be encouraged by local or central government then the best option is to work within existing legislation and provide guidance.

¹¹ Total government expenditure is forecast to double between 2001 and 2012 (Half Year Economic and Fiscal Update, December 2007).

The Local Government Forum would welcome the opportunity to present its submission to the Committee. Please contact Nick Clark (ph 03 357 9459, e-mail nclark@fedfarm.org.nz) to make the appropriate arrangements.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Don Nicolson', with a stylized, cursive script.

Don Nicolson
Chairperson