

HOUSING AFFORDABILITY WORKSHOPS

INTRODUCTION

In early 2013 the Construction Strategy Group commissioned BRANZ to conduct an update of its 2008 research in to the component costs of housing in New Zealand^{1 2}. This move was on the back of increasing concerns amongst CSG members about the need to take a long term view about housing issues in New Zealand, and ensuring that current steps being considered by industry and government were underpinned by a robust evidence base, and significantly were also informed by the experience of industry professionals.

Sponsorship was then sought from MBIE to carry out a series of workshops with industry figures identified by CSG. The aim was to provide further insight in to the practical issues being faced by organisations involved in the delivery of new housing. Throughout August workshops were held in Auckland, Christchurch and Wellington with the BRANZ research acting as a springboard for industry discussions. These discussions were wide ranging, looking at both measures currently being mooted and in train by government, as well other steps that could be taken to tackle supply and affordability issues.

CSG recognises that this is a small contribution to a complex area in which a significant amount of work is already being carried out. In this, it welcomes the government's recognition of the economic and social consequences of housing markets that aren't delivering the supply of new homes needed in some of our town and cities. The hope is that the observations from this series of meetings will add further impetus to steps to address housing affordability and inadequate supply.

CSG is also clear that more needs to be done to ensure that our future awareness of housing market conditions is improved. The measures being taken under urgency today are partly as a result of a failure to act earlier, a shortcoming that has been exacerbated by weaknesses in our understanding of housing market drivers. In future the aim should be in a position to respond, as both an industry and government, before conditions deteriorate to the level we are seeing today. It is unfortunate that we had to reach a position where it appears that macro-economic risks to New Zealand were necessary to prompt action.

CSG is also clear that housing affordability needs to be seen in the wider context of an effectively functioning housing market system. Indeed this was a key message from workshop participants. To this end, we would welcome the opportunity to open up a discussion about a vision for housing in New Zealand in to the future.

¹ Page (2013) New House Price Model Update at April 2013.
BRANZ Report E626.

² Page (2008) New House Price Modelling. BRANZ Study Report No. 196

This could encompass the creation and development of fit-for-purpose private and affordable rental sectors, the improvement of existing housing stock, the likely impact of demographic and social change of our housing needs and the delivery of an adequate supply of quality new housing of different typologies in different housing markets. While laudably the government has many initiatives in train that cut across these areas, and indeed a table setting out how the workshop issues align to current activities is included in this report, a long term vision and strategy for housing all New Zealanders is notable by its absence. Such a vision, setting out the contributions expected of government and industry to a successful market, would help provide a platform for investment and delivery that we would welcome.

EXECUTIVE SUMMARY

RECOMMENDATIONS

1. Re-engineer the way developed land comes to market with specific targets for cost and time reduction. Possible avenues for achieving the set target include:
 - a. A nation-wide review of development charges to ensure greater consistency and transparency.
 - b. An examination of the use of development authority vehicles as used in Australia, UK and some regions of the U.S.
 - c. Providing a role for Central and Local Government in the aggregation of brownfields and possibly greenfields land for development.
2. Revise the rules and practices of district planning with targets for cost reductions through such possible avenues as:
 - a. Adoption of a policy for urban planners to use the provision of “affordable homes” as a mandatory priority in their establishment of district plans.
 - b. Providing an override for central Government to intervene where it is considered that local government practices are at odds with affordable home development.
 - c. Ensuring that flexibility exists in the planning and consent processes for allowing better utilisation of home sites in regard to structures on site (eg construction allowed up to the front and side boundaries but in accord with the Building Code) as an aid to urban intensification and lower cost home construction.
3. Develop and promote productivity practices through the Productivity Partnership with the aim of reducing material and labour costs by a minimum of 20 percent utilising:
 - a. Design for increased construction productivity and reduction of material waste.
 - b. Standardisation of some componentry for reduced material costs.
 - c. Better co-ordination and use of trades.

KEY FINDINGS

Development costs

The actual costs of unlocking land for housing development was repeatedly identified as a key issue. Looking more closely, there appears to be a lack of information and understanding about the nature of development costs. It was noted that the component costs of providing utilities and amenities varying significantly around the country, and indeed within districts. It was widely accepted that the cost of land (including the development of that land) is a significant component of the cost of housing and that it has been a pressure point in terms of increases in recent years.

What was not clear was why or how the actual components of the range of land development costs had come under pressure and whether these pressures were justified.

It was suggested that work looking at greenfield costs as opposed to brownfield costs was needed, as was a closer look at the elements that contribute to the price at which land is brought to market.

There is recognition of the need to fund new services, but participants were clear in questioning the consistency and charges levered off developers. Some suggested that the current model was not sustainable and was creating perverse incentives around the economics of the housing that is built on released sections.

It was also suggested that in some areas infrastructure was being “gold-plated” – and that this was contributing to costs.

The government review of the local government role and charging in this space is welcomed. It needs to not only look at the appropriateness of charges and the drivers behind these, but also how charges are applied in different markets/local authority areas. It is accepted that infrastructure needs to be paid but the costs should be appropriate and consistent. The mechanism for delivering development also needs to be more streamlined, with a presumption in favour of supporting and enabling new development. The time it takes to bring a new development to market is a critical issue in relation to the cost of capital and also impacts on the models of housing provision that industry is willing to consider.

High section prices are having a flow on effect in to the cost of the houses being built on them. The valuation model also nudges developers, builders and consumers to maximise the value of the home being built.

Another issue flagged was the potential impact that some caveats and covenants by developers could have on the provision of housing at the more affordable end of the spectrum. From the discussions it was suggested that work is required to better understand whether unreasonable practices are being used, in what numbers and if they are what effect they are having on the delivery of affordable housing. It was noted that caveats aimed at ensuring minimum housing values had been outlawed in other countries such as Australia.

Planning, regulation and typologies

There was broad support for high level unitary and regional planning and improved spatial planning within local government. Workshop participants were however concerned about how these high level plans were being implemented, with observations that their aspirations were being subjugated by district plans and operational practice. It was suggested that there was a disconnect between the outcomes being sought for and by communities at the strategic level and what was then being enabled by district planning regulations and requirements.

An example given was a desire for affordable, higher density housing, but with a set of district planning requirements around site coverage, off-street parking, boundary locations etc that made the actual development of sites to achieve this very difficult. It was suggested that there needed to be more flexibility about the development of land for higher density housing and that the transition from a planning system used to single section stand-alone dwellings could take time and would need support.

The skills of local planners were also flagged as an area of concern, in particular levels of understanding about development economics and the implications of decisions on the feasibility of sites. The counter to this was that there was good support for the planning community where strong relationships had been able to be established and there was a clearer understanding around respective systems and processes. In these instances there was a belief that planners should be enabled to make decisions more decisively – with a concern that planners were limited in their ability to make decisions by other parts of local government with a particular interest in what might be being built.

An issue highlighted by builders was the length of time that it could take from completion of a new home to the new title being issued. Delays in processing this were having a financial impact on the builder and in turn were generating costs that ultimately were being passed on to consumers.

There were strong views expressed around the performance of the current regulatory system. Regulatory and consenting processes were recognised as being inconsistent in their application and processes across the country.

It was suggested that a root and branch overhaul of the system was needed, that not only looked at the vehicle for processing and delivering the consents (for example online consenting) but also what was actually being consented and the level of information required.

It was acknowledged that the liability model (see below) - which appears to leave local government facing the greatest risk - meant that incentives to streamline the model were being undermined by a concerns around insurance and liabilities in the event of both individual and systemic failures. The legacy of weathertightness issues were cited here.

Concerns were also expressed that the regulatory environment is having an adverse and unnecessary impact on productivity and costs. It was suggested that regulatory “creep” had become the norm – with additional requirements and expectations frequently being introduced with poor understanding or analysis about the wider implications of changes (in particular around costs to consumers from either design/material changes or sector productivity).

Strong views were also expressed about the impact of regulatory change since 2004 and it was suggested that government should conduct a review of the costs and benefits of the changes that have been in place since that time. It was suggested that with the introduction of licensing, a performance based code and better understanding of building systems, that a more risk-based approach to regulation and consenting should be actively considered and accelerated.

Capital

The workshops also suggested that the New Zealand building industry appears to be constrained in its development and productivity by access to development finance/capital. Participants highlighted the development risk for building housing at scale, and the lack of incentives to move from the traditional house building model which enables this risk to be managed (and financed). In this participants were clear that part of the challenge in moving to higher density housing will be as much about capital and financing as it will be about securing planning and approval for the site. It was noted that a real issue in providing more housing through new high density housing was the long development timeframes, and how this has implications around the availability and cost of capital. This in turn increases the overall cost of development which in turn has a flow on effect for consumers. Further work on the effective use of capital by the New Zealand building industry would be welcomed as this may be a significant issue about which little appears to be understood. This could also explore the role that government vehicles could play as investors in the development of new housing provision.

Liability

Workshop participants also discussed the problems associated with the current model for joint and several liability that is in place in the building and construction sector. It was suggested that this remains a barrier for innovation and creates risk adverse behaviour which has costs to consumers and industry. There was recognition of the shortcomings of industry practice (for example around weathertightness) and the need to avoid mistakes of the past. There was a concern however that while lessons had been learnt, the structures in place to address those risks shouldn't remain static and should be open to review and where appropriate change.

Standardisation

There is a range of evidence that highlights the high levels of bespoke housing that is built in New Zealand. This applies to both whole of house design and build, as well as significant levels of customisation within the component parts of the house.

It was agreed that greater standardisation in design and build would lead to more efficiencies and affordability gains as this would expedite the planning and consenting process and lead to supply chain as well as building productivity improvements.

A couple of specific examples were provided around improvements that could come from more standardised materials and specifications within the house. First, the bespoke nature of windows in new New Zealand housing and how a co-ordinated approach to a core of sizes used in most houses would change the manufacturing model favourably. The second example was around new foundation designs post Christchurch. It was noted that every house has a different configuration which means technicians pricing the job uniquely. It was suggested that a series of agreed standard designs would have improved cost significantly.

Consumer expectations

Discussion took place around the size and scope of new housing being commissioned. It is clear that expectations around the size and amenities of new housing has grown in recent years with financial implications. Further work is needed to both understand consumer expectations at the more affordable end of the housing market and to educate consumers about what they may be able to afford in different communities.

It was noted that changing the expectations of first time buyers may be a key part of the affordability equation, in particular championing openness to different types of houses (town houses, apartments etc) and educating consumers to align their housing choices more realistically to their incomes. Work also needs to be done to look at the costs associated with different housing models (such as body corporates if that component of the market is set to grow) and to promote quality housing to a consumer base that may be concerned about the products that have gone before (eg: poor quality density housing). The age of first time buyers and their likelihood of requiring parental/family support is something that should be also being monitored so there is an improved understanding of demand and how this is changing. At the other end of the market, it was noted that downsizing is also a key part of keeping a housing market functioning, but that options for older people who didn't want to move in to supported or retirement living was poorly understood and being catered for.

Land assembly (agglomeration)

A number of workshop attendees were of the belief that further measures were needed to enable land assembly to take place for higher density housing, in particular in existing communities on brownfield land. It was argued that pulling together enough land to make such developments viable was proving difficult because of the considerable time and capital required to assemble the necessary pieces of land. It was also noted that private land owners were able to hold on to sites on a speculative basis to secure maximum sale price as the final piece of the puzzle – a cost which was invariably passed on to the consumer at the end of the development.

If more complex brownfield development is to become a key element of addressing housing supply then it was suggested that exploring this issue in more detail would be desirable. What are the current provisions, are they effective? What are the actual costs of assembling land for medium and high density housing? It was suggested that government may wish to look at a number of options in this space – first, options around land agglomeration where for example a threshold level of sites in an area had been achieved, second – provision for special purpose vehicles or statutory powers around land assembly/acquisition to be able to apply in designated areas.

Development vehicles such as Urban Regeneration Companies have a strong track record in places like New York City and the UK as special purpose vehicles (SPVs) to champion and stimulate new investment in areas of economic decline and to co-ordinate plans for their regeneration and redevelopment. These have a track-record of operating effectively, in particular in areas where complex planning and market circumstances would present a challenge for usual local authority planning and strategic capabilities.

Urban Regeneration Companies are independent entities established by the relevant Local Authority and government, with the aim of uniting public and private-sector partners. It is encouraging that these Urban Regeneration Companies have proved successful in attracting private investment into targeted areas and in coordinating economic development delivery and funding.

Improve housing supply but also look at the options for people who don't want to/can't own – renting quality/tenure etc

As noted in our introduction, workshop participants were clear that housing affordability should not be seen in isolation from the rest of New Zealand's housing market. It was noted that rented housing provision was very affordable across New Zealand although questions were also raised about quality and tenure security in some parts of the rental market. The gap between home owners and non-home owners was also discussed in relation to asset inequalities and greater understanding about the implications of changing dynamics around home ownership was identified as an area for more work.

The issue of tax incentives for home ownership was also touched on by participants with a number expressing views about the need for controls to dampen speculative activity and also reduce housing's attractiveness as an investment asset class. It was noted that many of the landlords operating in New Zealand are small in scale, but that little was known about the effectiveness of their investments in terms of good use of capital. If taxation around housing is being mooted by political parties as an option then better understanding of the implications of this is needed.

A number of workshop participants were also open about the role that they saw for political leadership, in particular at the local government level, to ensure that the voices of prospective home owners and tenants were being listened to and given the same weighting as existing property owners. It was noted that district plans which were limiting housing development were reflecting local democratic processes but that the voices of those with an interest in protecting the status quo were coming at the expense of potential residents of an area who might not be as well organised or funded. It was suggested that the prospect of a "generation rent" was growing and that this might see growing housing driven inequalities and tensions.

The nature of industry in New Zealand

It was also noted that the fragmented nature of the NZ industry was also contributing to the issue. New Zealand's building industry is characterised by lots of small house builders, predominantly building bespoke homes for single customers. In essence that most new housing is being driven by section by section building. There is little development at scale, and even within the bigger developments houses are built to order rather than built out at any volume. The reasons for this appear to be varied, but the impact is that volume building like that seen overseas isn't taking place in New Zealand. Without scale, it is unlikely that businesses will be fully able to maximise potential efficiencies around labour, procurement, use of capital etc. Businesses appear to be reluctant to grow or expand beyond a model that is able to accommodate the cyclical nature of the sector.

Health and Safety

There is a growing need to understand the costs and benefits of health and safety requirements. It was suggested that current initiatives are failing to segment the building sector sufficiently – for example in not making distinctions between commercial and residential sites. It was suggested that work should be done to look at the actual levels of risk present in the building industry and then look at how best these can be managed. It was suggested that health and safety performance was significantly better in some overseas markets, but that this was being driven by cultural change around practice and responsibilities rather than by requiring additional systems and equipment. It was suggested that New Zealand should do a stocktake around risk levels, look at best practice models from overseas, and then make an industry-wide decisions about how best health and safety should be applied in New Zealand. It was also stressed that the potential of health and safety initiatives and improvements should also be linked to productivity gains.

Cost of materials

The cost of materials was an important issue considered in the workshops and this was a key element of discussions that took place in light of the report from BRANZ looking at the update on a new house typology which is provided as an appendix to this report. This report contains analysis of the change in the component costs of a house over this time period, including analysis of materials costs.

Some workshop participants expressed strong concerns about the cost of materials in New Zealand relative to other economies (notably Australia). There are clear views in some quarters that materials in New Zealand are too expensive, in particular relative to costs overseas.

Other participants were equally vocal in suggesting that the materials market in New Zealand does work well and that barriers to new entrants to the market are low.

It is clear that there are strongly held views on both sides of this debate.

What does appear to be missing is detailed, evidenced based analysis of the materials and supply chain in New Zealand. This would be welcome. We are aware that work is underway in this space through the current MBIE enquiry and there is considerable interest from the industry in the findings of this work.

Given the scale of building work that New Zealand is about to embark upon it was recognised that there is a need to look at this in detail and be clear from an evidenced based position on whether there are specific issues that need to be addressed.

BUILDING ON WORK THAT IS UNDERWAY

Reflecting on the issues put forward by workshop participants, we can see that government is already taking action in many areas. This is welcome.

The alignment between the concerns expressed during this process, and the government's work in-train, provides CSG with confidence that industry and government have a mutual understanding and shared concern about key housing affordability issues. Looking at this breakdown, it is also clear just how complex and difficult the challenge we face is.

Where additional ideas or next steps have emerged from the workshops, these have been listed. It is recognised that some of these may well be issues that have been or are actively being addressed. The implication here may well be that further action is needed to get better information to industry about some of these initiatives.

Workshop Issue Identified	Initiatives already in train	Next steps
Land development	Housing Accord and Special Housing Areas Local Government Act 2002 Amendment Act 2012 (development costs and regulatory responsibilities) RMA reforms	<ul style="list-style-type: none"> • Examine differences between brownfield and greenfield development. • Determine optimal model for delivery of infrastructure for new housing. • Require consistent and transparent pricing. • Review infrastructure pricing in light of increasing density requirements/expectations. • Require publication of costs and enable comparison and benchmarking across local government.
Planning and typologies (urban design)	Housing Accord and Special Housing Areas RMA reforms Geobuild/Online consenting Local Government Act 2002 Amendment Act 2012 (development costs and regulatory responsibilities)	<ul style="list-style-type: none"> • Set tougher targets for processing times and publish local government performance in a league table format. • Rationallise the building consent process across local government. • Review what needs to be consented in the first place. • Accelerate move to online consenting. • Review training for planning community – from qualification through professional development. • Require planning processes to focus on enabling development.
Capital	Business Growth Agenda, Financial Markets Conduct Bill	<ul style="list-style-type: none"> • Carry out a study looking specifically at the use of capital in the residential building sector.

Workshop Issue Identified	Initiatives already in train	Next steps
Liability	Law Commission review of Joint and Several Liability	<ul style="list-style-type: none"> Monitor the final report from the Law Commission due out in 2013.
Standardisation	Prefab NZ, Standards NZ.	<ul style="list-style-type: none"> Explore potential of work amongst major house builders and amongst design communities to identify common components that could benefit from standardisation.
Consumer expectations		
Land assembly (agglomeration)	RMA reforms CCDU	<ul style="list-style-type: none"> Look at lessons being learnt from Christchurch land assembly issues. Carry out analysis in to the effectiveness of overseas models and their applicability to New Zealand.
Improve housing supply but also look at the options for people who don't want to/cant own – renting quality/tenure etc	Social housing reform programme Rental sector WOF discussions	<ul style="list-style-type: none"> Explore interest in developing an overall housing vision/strategy for New Zealand that looks at the respective roles that different tenures can play in meeting housing needs.
The nature of industry in New Zealand	Productivity Partnership	<ul style="list-style-type: none"> Take forward Productivity Partnership research action plan priority 1.1 – How does the industry organise itself, and what is the role of industry bodies?
Healthy and safety	Establishment of Worksafe NZ	<ul style="list-style-type: none"> Carry out a baseline review of existing health and safety issues and risks in the building and construction sector, explore overseas best practice and initiate a national approach to H&S for the industry.
Cost of materials	Residential construction sector market study Government procurement activities around the Christchurch rebuild BRANZ research in to housing costs between a sample of Australian and New Zealand cities.	<ul style="list-style-type: none"> Waiting on publication of government findings from the market study. Waiting on findings from BRANZ research.

CONCLUSIONS

- Widespread agreement that land prices have been a key pressure point for the increased cost of new homes over the past five years.
- A consensus that effort should be directed at bridging the gap between higher, and rising, land costs and the cost of providing new homes on site.
- The need to closely examine variances across the country in development charges imposed for new brown and greenfields developments and introduce a more uniform approach based on the cost of provision of infrastructure services.
- Calls for an audit and review of the myriad of regulations that impact on the house building industry, including a cost-benefit-impact analysis and better clarity around the delivery of a modern, impartial standards framework. A fundamental overhaul of the regulatory model should be considered.
- Better flexibility is needed amongst territorial councils in the handling of district planning requirements to enable greater land site coverage of new housing when higher density housing is required, especially in urban areas.
- The availability of investment capital appears to be a key constraint in developing a more productive house building sector. Further work is needed to better understand this aspect of the industry.
- There is a need for an evidence based analysis of materials provision and the supply chain in New Zealand – CSG looks forward to the findings of the current review in this space.
- Greater standardisation in design and build could play a role in reducing new housing provision and steps to address this can and should be taken forward by industry.
- Government, at either central or local level, should look at what role it may need to play in the aggregation of land for medium, and high density housing, especially in brownfield areas where urban intensification is desired.
- Agreement that building regulatory and consenting processes across the country are inconsistent with a need for review to look at both the vehicle for processing and delivering consents (eg online consenting) and the level of information required.
- Recognition that liability issues are inhibiting the consent process in that they work against the use of innovative approaches to construction and the adoption of new and innovative practices in both the use of materials and design. (Concerns were expressed about the insurance risks to local government and the role these play in undermining the intent of the Building Code around innovation). Providing better information to consumers to help shape and manage expectations around housing choices.

Acknowledgements:

Sponsored by:



**Ministry of Business,
Innovation & Employment**



CSG are pleased to acknowledge the workshop attendees:

Adam Horvath	Horvath Homes Hawkes Bay
Alex Cutler	NZGBC
Brent Mettrick	Stonewood Homes
Bruce Kohn	BIF
Chris Moller	CMA-U
Colin Chisholm	Fulton Hogan
Connal Townsend	Property Council
Craig Roberts	Design Group
Dave Whitehead	Lifebuilt Construction
David Anderson	Stand Consulting
David Hawkins	Watercare
David Hermans	MFE
Daniel Oliver	James Hardie
Dominick Stevens	Westpac
Evan Davies	Todd Property
Geoff Hardy	Madison Hardy
George Minton	MBIE
Graham Burke	Workzone
Ian Page	BRANZ
Jo Doyle	MBIE
John O'Shaughnessy	Hastings District Council
Justin Burgess	James Hardie
Larry Santy	Placemakers
Lynda Amitrano	BRANZ
Major Campbell Roberts	Salvation Army
Malcolm Hart	Hastings District Council
Marlon Bridge	Watercare
Mary Haggie	Kensington Swan
Mike Fox	Primesite Homes
Mike Fraser	G J Gardner
Mike Greer	Mike Greer Homes
Pamela Bell	Prefab NZ
Paul Bull	Carters
Phil Whittington	Treasury
Pieter Burghout	Fletcher Building
Richard Braae	Dept of Prime Minister
Richard Capie	BRANZ
Richard Harris	Jasmax
Richard Merrifield	R J Merrifield Ltd
Richard Toner	Wellington City Council
Roger O'Neill	Steel & Tube
Ron Pynenburg	Pynenburg & Collins Architects
Stavros Evangelidakis	Aegean Homes
Steve Hart	SCIRT
Tim Robinson	Jasmax
Victoria Troake	Troake Group
Wayne Wright	Woodridge Developments

October 2013