Property Council New Zealand

10 March 2008

[Insert address]

Dear [Insert name],

Our current skills shortage and the fact that a record number of New Zealanders are emigrating each week suggests that New Zealand is losing comparative advantage vis-à-vis overseas destinations. As country renowned for its idyllic setting and life-style opportunities, it seems ironic that it has become unaffordable for young New Zealanders to purchase their first home and raise a family. Not only are we unable to attract young skilled workers, we seem incapable of retaining our own.

The flight of young New Zealanders has brought the housing crisis into sharp focus for politicians. However, problem of affordability is not just related to residential development. The question that parliamentarians should be asking themselves is how they can make *property* more affordable.

Affordable property is critical to New Zealand competing in the global market place. It is commercial property investment that creates the jobs. New Zealanders work in shopping centres, strip retail, office buildings, business parks, and warehouses - opportunities that are all made possible by investment in commercial property.

Property Council New Zealand believes that the key issues affecting the affordability of housing are generic, and if addressed, will also improve the investment environment for all types of property.

So why is property unaffordable?

Our Members have identified at least four significant cost drivers, which are inflating the cost of commercial and residential property:

- development contributions;
- compliance costs;
- constrained land supply; and
- insufficient land zoned for high density and height within the city limits.

1. Development contributions:

Purchasers of new homes are increasingly bearing the cost of funding community-wide urban infrastructure funded through development contributions. The use of development contributions by territorial authorities contributes to higher development costs, which are then passed on to the purchaser of the property. A recent study by our sister organisation in Australia (the Property Council of Australia) shows that 25 per cent of the costs associated with producing new housing are made up of

taxes and compliance costs. These additional costs are adding anywhere from $360 to $1,445 per month in mortgage repayments. [1]

Prior to the introduction of development contributions in 2002, urban infrastructure with a long asset life was debt-financed and paid for by the wider community through rates. This allowed for the intergenerational allocation of cost, which reflects the intergenerational allocation of the benefits of asset utility.

The shift in the funding of community infrastructure to new home purchasers denies young New Zealanders access to home ownership. This point has been made repeatedly to territorial authorities throughout New Zealand, who in turn have responded by increasing the amount of development contributions charged to new property owners. Property Council New Zealand contends that the local government sector has extended the application of development contributions far beyond the limit prescribed by the Local Government Act 2002. This reflects the privatization of cost, which is passed on to aspiring young New Zealanders through higher property prices and increased mortgage payments.

The Local Government Act 2002 is clear: development contributions fund the growth portion of capital expenditure. Development contributions cannot be used to fund expenditure required to raise levels of services to existing users or to meet the demand of past growth, also known as 'catch-up'.

2. Compliance Costs:

The cost of compliance and the application of non-tax funding tools by local government has made a significant impact on the cost of property development. The stand-down costs associated with delays in obtaining resource and building consents are unnecessary and uneconomic. Delays in processing building and resource consents are systematic and widespread across the local government sector.

The building and construction industry is also heavily regulated. Much of the regulation extends beyond public health and safety issues and adds to the underlying costs of commercial, industrial and residential property development. All administration costs and procedures relating to the Building Act 2004 (including the Building Code) and the Resource Management Act 1991 need to be examined to see how these costs impact on property development. The Government needs to deliver a more efficient regulatory system that would result in substantial cost and time savings.

3. Constrained land supply

The lack of land available in a number of regional economies in New Zealand is significantly increasing the cost of property development. This is largely dependent on the planning and zoning policies used by regional and territorial authorities.

The impact of land containment (or intensification) is most evident in Auckland, where territorial authorities and the development community have sought to manage population growth and land use within the Metropolitan Urban Limit (MUL). As the population and economic demands on the region continue to grow, pressure on the MUL is developing.

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[1] *Reasons to be fearful? Government taxes, charges and compliance costs and their impact on housing affordability* (2006), Commissioned by the Property Council of Australia, p.2.

Intensification can play a role in limiting some urban problems, such as high infrastructure costs, urban sprawl, and the preservation of farmland. However, intensification also has perverse effects. As the impact of containment flows through to the market, the supply of land available to develop diminishes over time. The Supplementary Stabilisation Instruments (SSI) report to the Governor of the Reserve Bank and the Treasury (10 February 2006) reflected on the impact of supply constraints on land price. The report noted that over the past 25 years land prices across New Zealand have increased twice as fast as house prices, which acts as a constraint on new housing.[2]

4. Insufficient land zoned for high density and height limits within city limits

Land containment is also expressed in terms of restrictions on building height limits. To be sustainable, future New Zealand cities must have greater density – particularly around public transport nodes. To achieve this, there needs to be increased flexibility to enable intensification and raised height levels; especially where the higher building reduces the building site coverage compared to low-rise site coverage proposals. This not only reduces the amount of land needed for any given development, it also increases the supply of residential dwellings. In many instances, local government has failed to raise building height limits, which has in turn inflated the price of development.

Solutions?

Property Council New Zealand is available to assist with drafting workable and pragmatic policy solutions that will make property an affordable investment option for all New Zealanders. We would welcome the opportunity to assist parliamentarians in creating an investment environment free of market distortions that unnecessarily burden New Zealanders with additional compliance costs.

Notwithstanding current and any future proposed policy reforms, without a comprehensive prescription that addresses the regulatory roadblocks to affordable property development, more and more young New Zealanders will be denied the opportunity to own their own home or business. Property Council New Zealand is committed to ensuring that future generations of New Zealanders are not denied the opportunity to own and invest in property. We hope that you share this commitment.

I look forward to working with you to address this most urgent situation.

Yours faithfully

Connal Townsend
Chief Executive

[2] *Supplementary Stabilisation Instruments*, 10 February 2006, p. 23.