

**SMARTGROWTH UPDATE**

**Making Housing More Affordable in the western Bay of Plenty**

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**Prepared By:** Antoine Coffin, Tu Pakari Advisor, Andy Ralph, Andrew Mead –Tauranga City Council, Housing Affordability Forum

# EXECUTIVE SUMMARY

The purpose of this report is to provide options on an approach to housing affordability for consideration in the review of the western Bay of Plenty SmartGrowth Strategy.

The report outlines the national and local challenges in making housing more affordable to many New Zealanders. The report uses a percentage of household income as the benchmark for ‘affordability’ and draws on information about Tauranga’s housing market to assist in understanding the scope of the issue locally. Recent information indicates that Tauranga is one of the least affordable places in New Zealand for housing. This has implications for people’s social and economic wellbeing and for the local economy in attracting new business and employment. Recent Government announcements in response to the Productivity Commission Inquiry on housing affordability and other housing initiatives recently announced are briefly outlined to provide a context for central government policy.

The report’s literature review draws from recent published material on housing affordability that illustrates some possible methods for responding to the issue.

The report concludes by outlining some possible ways that SmartGrowth could practicably influence housing affordability in the western Bay sub-region through land development costs, building costs and leadership, ownership, finance and funding arrangements. It is acknowledged that SmartGrowth will have only an indirect influence over the importance of raising household incomes as one method of responding to housing affordability issues. Options for consideration in the SmartGrowth Update project are outlined with possible actions under each option.

The Policy options to be considered are:

**Option 1**: **Status Quo:** This option continues the current role and function of Council’s of maintaining investment in efficient infrastructure reviewing infrastructure levels of service and related development/ financial contributions within the Long Term Plans and annual plans decision making process. The current elderly persons’ housing property portfolio is maintained.

**Option 2: Incremental Improvement:** This optionadds to the status quo actions. It suggests gradual and steady review and appropriate adjustments in planning policy and rules following active engagement of local developers and other interest groups on potential barriers to housing affordability. More efficient use of the current elderly persons’ housing property portfolio is explored.

**Option 3: Proactive Leadership:** This option adds to the status quo and incremental improvement actions.The focus includesstrong advocacy, leadership and facilitation role and actively work with central government agencies, third-sector groups, the development and construction sector and the financial sector to increase the supply of affordable housing in the western BOP sub-region.

The SmartGrowth Update provides an opportunity to review and restate what the role of SmartGrowth is in influencing the complex issue of housing affordability in the western Bay of Plenty.

The report and the options proposed need to be considered alongside the current government emphasis on the issue and in light of the fact that Tauranga is one of the least affordable areas for buying a property in New Zealand, with the average house price being 5.9 times higher than the annual income. (Demographia 2012).

# PURPOSE

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## Definitions

**Housing Affordability**: Is a situation which reflects accepted United Nations global benchmarks, where no more than one third of total household income is used to pay either rental or ownership costs. There are also other ways of expressing the concept. For example, a reference point in the western Bay of Plenty discussion has focused on the cost of a house; under $400,000, although for many $300,000 to $350,000 is the limit. In Māori communities building on multiply-owned land, as part of Papakainga project work, an affordable house is likely to be a lesser price point; maybe $200,000.

**Social housing:** Is the provision of assistance with housing to those who cannot otherwise meet their own housing needs. This assistance can either be ‘in kind’, through to the provision of a dwelling, or ‘in cash’ through the transfer of subsidies to increase housing affordability. In NZ social housing is primarily delivered by central government, to a much lesser extent local councils, Maori Trusts and community housing trusts also provide social housing.

**Development Viability**: Is a risk management tool used by decision makers to reduce the likelihood of key policy outcomes not being implemented. This analysis has been used to assess the risk of higher density housing developments not being built because there is no market demand or confidence due to the development being unprofitable from a cost/rate of return perspective.

## Limitations

This report acknowledges that there are number of stakeholders who have a part to play in making housing more affordable. It is a complex subject and people will see the subject through a number of viewpoints and even define housing affordability in different ways.

This report focuses on the potential delivery of **new** housing in an affordable way as there is little SmartGrowth can do to directly affect the housing market for existing houses including rental housing, except, to the extent that the price of new housing may affect the price of existing housing.

This report does not focus specifically on Māori Housing given that that issue was the subject of a separate report and has been picked up by way of the following action in the ‘Cultural Heritage and Change’ section of the Updated SmartGrowth Strategy;

***Facilitation of Papakainga Development***

* *Provide on-going recognition and support (which may include direct funding) to the Joint Agency Group*
* *Enable low impact urban design requirements that are suitable to Papakāinga developments*
* *Provide assistance with relationship building and approaches to funding providers*
* *Enable Papakainga settlements to include some small scale commercial/retail activity and other community facilities.*

The report has been prepared in collaboration with the SmartGrowth Housing Affordability Forum. This forum was established to investigate the development of housing affordability solutions for the sub-region and comprises representatives from the development community, real estate sector, Housing NZ Corporation, the Population Ageing Technical Advisory Group, social housing trusts, economic development practitioners, local authorities (elected members and officers) urban design specialists and planners.

The authors wish to acknowledge and thank the Housing Affordability Forum and the Maori Housing Joint Advisory Group (JAG) for their support and assistance in preparing this report.

# BACKGROUND

## Affordable Housing in the Current SmartGrowth Strategy

Section 7.2.13 of the current Strategy covers the issue of affordable housing. This section raises a number of growth-related issues that influence the delivery of affordable housing, sets out seven principles and a number of actions. Housing affordability is a matter of social and community wellbeing and of economic wellbeing. For example, economic growth in the western Bay of Plenty is hampered by the inability of some people to access good quality, affordable housing as many of these people are part of a workforce that produces, manufactures or services the needs of the local economy.

The current Strategy acknowledges that housing affordability is influenced by employment and wage rates, transport costs and the price of land and building construction (as well as a number of other factors). There are a number of organisations involved in providing affordable housing in our community and there is no one, right model. There is an acceptance that the private market, left to its own devices, has been unable to deliver housing affordability, and that central government particularly, has the primary responsibility to provide social housing to New Zealanders. For example, the National Governments recent announcement on adjusting the housing mix in the Hobinsonville project and the Labour Party’s recent policy announcement of building 10,000 houses per annum at a price point of $300,000 each is a political acknowledgment that the private market is not delivering housing affordability for New Zealanders.

Section 7.2.13 has a clearly worded statement regarding Councils’ role in the provision of affordable housing:

*“The position of the two [district] Councils is that affordable housing is ultimately the responsibility of central government and that this cost should not be transferred to the ratepayer.”*

SmartGrowth Strategy and Implementation Plan May 2007, Page 129.

This section also outlines options that were considered by the two Councils but were not supported:

* Inclusionary zoning (require housing developers to provide a % of new houses to be for the affordable housing market),
* Waiver or deferred payment of development contributions, building and resource consent fees,
* Increasing Council’s existing housing stock through market acquisition,
* Council funding of other parties as leverage or seeding capital for projects.

The actions in the current Strategy outline an advocacy role for local authorities and using the regulatory tools to support housing supply e.g. zoning of land to meet population growth, and acknowledging the link between housing and seasonal workforce demand through SmartEconomy. Four of the five actions in the strategy involve research, advocacy and support for external agencies providing social housing rather than focusing on overall housing affordability.

The SmartGrowth partners have not taken financial or leadership responsibility for housing affordability under the current Strategy approach. Instead councils manage their current elderly persons housing portfolios, endeavour to deliver cost effective and efficient infrastructure to support new housing areas in a viable way, and develop planning provisions covering the bulk and scale of houses within a site and the wider neighbourhood that enable a range of housing typologies to be developed.

The Housing Affordability Forum was also convened under the SmartGrowth umbrella to raise awareness and advocate for housing affordability including providing advice to the SmartGrowth partners on housing affordability issues and possible actions. The Housing Affordability Forum has been operating for some time now and has made significant input into this report including contributing experiences, workshop feedback and reference material.

## The national challenge of delivering housing affordability

In recent times there have been a number of housing affordability initiatives acknowledging the complexity and multiple contributing factors to providing and maintaining an affordable housing supply in New Zealand. For example:

* The Commerce Select Committee Inquiry into Housing Affordability in 2007,
* The Affordable Housing : Enabling Territorial Authorities Act 2008 which was subsequently repealed,
* A number of research projects and studies into the issue undertaken by the Housing New Zealand Corporation and the Centre for Housing Research,
* The recently released Housing Affordability Inquiry report from the Productivity Commission, and
* Recent policy announcements by the Minister of Housing and the Labour party on boosting affordable housing delivery.

This national research and analysis, and the political thinking shows that housing affordability is a complicated area of public policy and there are no single or simple solutions to the problem. The recent Government policy response to the Productivity Commission report indicates a number of actions. The National Government is not proposing to have a significant role in the provision of affordable housing (acknowledging the recent announcement in relation to Hobsonville project and the Tamaki Transformation Project), preferring to focus on local government’s role; for example, increasing land supply by zoning more Greenfield and/or Brownfield land for residential development and reducing other regulatory costs and infrastructure costs. It has a strong focus on Auckland where urban planning issues relating to metropolitan urban limits are different from other areas in New Zealand.

**3.3 The local challenge of delivering housing affordability**

The western Bay of Plenty has experienced high population and housing growth over the least 20 plus years. In this period of sustained growth a significant challenge has evolved being the delivery of affordable housing to some sectors of the community. This relates to both rental housing and owner-occupier housing. This problem primarily arose through a long period of housing inflation, especially between the years 2000-2008, that significantly outstripped the rate of income growth, and fuelled the high cost of sections and constructing a new home. It affects the sub-sets of the housing market; private housing, social housing and Maori housing and is particularly difficult for low-medium income households.

The following are comments from two different external advisors on the leadership issues of housing stock in Tauranga City:

* “Strong leadership is the only way to get traction otherwise there are always plenty of reasons not to do it and the status quo with all its problems remains the way things are done with long term costs to be borne by future generations.”
* “The risk for Council is issues like affordability go unresolved unless policy encourages developers to share a wider view.”[[1]](#footnote-1)

Anecdotally, common messages that emerge from local discussion on housing tend to emphasise;

* A lack of appropriate rental housing, particularly at the lower end of the market;
* A general shortage of social housing in the Tauranga area;
* Tauranga is one of the least affordable areas for buying a property in New Zealand, with the average house price being 5.9 times higher than the household's annual income. (Demographia 2012).
* There are expectations regarding house size and quality that may not align with affordability.

The following research illustrates the reality of the situation facing many local people.

**Housing Stock and Housing Demand Report, Tauranga City (2009)**

This report was prepared by Tauranga City Council staff to enable elected members to consider policy options related to housing. The report noted that Council policy needs to consider the wider housing market, based on an understanding of the demographic and economic forces that shape housing demand within the city. Developers tend to focus on the short term profitability and related market segment. A wider policy view means more of a leadership role for Council.

The report applied the 30 -35 % of total gross household income measure of affordability to 2006 census household income information. It noted:

* 64% of households in Tauranga have a household income of $70,000 or less.
* For example, a household unit with an annual gross income of $70,000 would need to spend $132,000 deposit and then have a monthly payment of $1,867 (32%) to buy a $400,000 home
* 66% of the new housing stock constructed in the last five years is greater than $400,000 in value.
* There is over 15 years supply (as at 2009) of Greenfield residential zoned with services delivered or planned, so land supply was not a constraining factor. Supply also needs to factor in the ability of councils to deliver financially sustainable infrastructure.

The report identified several significant emerging issues with housing stock in Tauranga City:

* Declining affordability due to declining housing stock in the less than $400,000 bracket.
* A decrease in the proportion of housing stock in the less than $400,000 bracket will further negatively impact on the supply/ demand equation and push those remaining affordable house prices up.
* New housing stock not being reflective of the changing demographic profile –particularly smaller sized house product.
* Land values, housing supply and section size/ cost not reflective of the affordability of Tauranga households (the ability to pay)
* A developer-led view of market need for larger sections, larger houses, restrictive private covenants and public planning provisions work against delivery of smaller section sizes and smaller product.

The Housing Stock and Housing Demand Report discussed two broad options for Council to respond to such issues:

* Option 1:Take a leadership role: actions such as education, facilitation, review regulation, financial incentives, product advocacy
* Option 2: Leave the issues for the market to work through: this approach is likely to continue the deteriorating affordability of housing in this community

The Council resolved to create an informal working group of elected members and staff to work with developers and their advisors on options to address housing stock issues. No further formal action was taken but it is noted that since that time the Housing Affordability Forum has emerged in the role of raising awareness and advocates for housing affordability in the western Bay community.

It is noted that Tauranga City staff are currently updating the Housing Stock and Housing Demand Report using the 2012 revaluations, similarly Western Bay of Plenty District Council will undertake a housing stock and demand report based on 2011 valuations which should be available soon.

A similar report on housing stock and demand was undertaken by WBOPDC which concluded:

* + - * 81% of housing stock built in the last five years is above the median house price of $340,000
      * Katikati and Te Puke have a higher number of houses under $340,000 than anywhere else in the District
      * Most houses sold in the last three years in Katikati and Te Puke were below $340,000 indicating a high demand for intermediate housing
* 59% of households have an income of $70,000 or less, (this includes people over 65 who often have a low income but significant assets)
* More than one-third of income spent on housing costs is regarded as housing stress which can impact negatively on families
* 20% of Maori experience housing stress and many also experience inadequate housing conditions
* Declining home ownership and increasing rental tenure among the Maori population.
* Currently 50% of households are one or two person households, yet 10% of housing stock are one or two bedroom dwellings.

The Western Bay of PlentyDistricttrends in relation to affordability of housing are consistent with Tauranga. Unaffordability of housing is increasing with 80% of houses built in the last five years above median house price of $340,000.

Affordable housing is available in Katikati and Te Puke, across the District 35% of the current housing stock is of a value less than $340,000. Housing unaffordability is most evident in the Kaimai ward, followed by Waihi Beach.

There are very few one to two bedroom dwellings, yet approximately half of households in the district comprise of one to two people.

The local Maori population are more likely to experience unaffordability of housing.

## 8th Annual Demographia International Housing Affordability Survey (2012)

This report is completed annually and provides comparative data for the median price and medium household income for some 325 metropolitan markets internationally. At present there are 8 New Zealand cities including Tauranga-Western Bay of Plenty in the project. The ranking starts from one (1) as the most affordable and descends. The rating is based on the ratio of median house prices to median household incomes. A rating of between 3.0 & under is considered to be affordable, moderately unaffordable 3.1 to 4.0, seriously unaffordable 4.1 to 5.0 and severely unaffordable 5.1 & over.

For the last quarter in 2011, Tauranga-Western Bay of Plenty is currently ranked 290 with a rating of 5.9. (i.e. severely unaffordable).

## Assessment of Development for the Wairakei Urban Growth Area

This report provided an in depth assessment of residential and industrial development feasibility in Wairakei, Tauranga with particular emphasis on the impact of development contributions and land prices on development feasibility.

The report concluded that there are significant development feasibility issues in Wairakei for both residential and industrial development and that these issues would likely to exist in other new urban growth areas that Council might wish to open up for development.

In terms of housing the report concluded that very little affordable owner-occupied or rental housing will be developed for low to middle income households because the cost structure of land development and house construction does not permit this to occur.[[2]](#footnote-2)

To illustrate this point the report provides a number of useful tables such as table 7, Likely distribution of house prices in Wairakei.[[3]](#footnote-3) Table 7 is as follows:

|  |  |
| --- | --- |
| **Price range** | **Proportion of houses** |
| <300,000 | 0% |
| $300,000-350,000 | 4% |
| $350,000-$400,000 | 29% |
| $400,000-$450,000 | 13% |
| 450,000-500,000 | 51% |
| $500,000-550,000 | 3% |
| >$550,000 | 0% |

The Report includes a specific section on housing affordability. It notes that the majority of new houses being built in the Tauranga market (66%) are over a capital value of $400,000. Options identified for reducing the cost of housing are:

* More favourable land purchase terms (e.g. developers pay less for land).
* Delivering more sections by reducing the average section size
* Lower council fees (especially subdivision and building impact fees)
* Building smaller houses
* Using lower cost building materials/specifications or ‘standardising’ building plans (private development covenants may have to be adjusted to allow this).

The Report made a number of recommendations but observed that Council in itself is unable to resolve all these issues, requiring a collaborative and concerted effort by many parties.

Recent financial viability research for Te Tumu, Omokoroa and Te Puke, using the same methodology as applied at Wairakei, has also highlighted similar affordability challenges in opening up housing in these locations (See Assessments of Residential Development Feasibility for Omokoroa, Te Puke, Te Tumu and Wairakei by WBOPDC and TCC for SmartGrowth Update Project).

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## Māori Housing - Papakainga

A paper titled *Māori Demographics and SmartGrowth Targets for Māori Housing* was prepared by Tu Pakari Advisor for SmartGrowth in 2008. It identifies and discusses issues regarding the provision of housing for Māori, in particular tangata whenua of the western Bay of Plenty. Since the inception of SmartGrowth tangata whenua have consistently identified housing affordability as a growing issue for Maori. The projections at the time anticipated Papakainga housing (at its maximum) being an estimated 775 homes for 2,265 – 3,775 people in the next decade (2008 -2018), with many more houses in the long term. It is acknowledged that the 2013 census will assist in further clarifying population demographics and housing demands.

The paper recommended a focus on finance, land administration and infrastructure for the period 2008 to 2011. The paper concludes that the Papakainga housing programme (an action in the SmartGrowth Strategy) is an important approach to housing affordability amongst Maori. Treaty settlements were not considered a relevant factor at the time the paper was written. Since then significant progress has been made in developing, and now implementing, the Papakainga Housing toolkit as a supportive, comprehensive guide to developing Papakainga in the western Bay sub-region.

# WHAT OTHERS SAY: SUMMARY OF LITERATURE REVIEW

**4.1 Summary of Literature Review Points**

A literature review on housing affordability has been undertaken as part of preparing this paper. The key themes or points noted are:

* Confirmation that there are many matters and stakeholders that contribute to housing affordability
* There are strong social and cultural imperatives underlying home ownership and the housing decisions people make
* There are alternative home ownership models being used internationally that could be considered in New Zealand
* A collaborative approach seems to work best in gaining success (see diagram **Appendix 1**)

The literature review material is presented in three broad themes:

* Land development costs
* Building costs
* Leadership, ownership, financial and funding arrangements

## 4.2 Literature Review: Land Development Costs

**Productivity Commission Inquiry Report – March 2012**

The New Zealand Government asked the Productivity Commission to evaluate the factors influencing the affordability of housing in New Zealand (both rental and owner-occupied) and to examine potential opportunities to increase affordability.

Their report was released in March 2012 and is wide ranging in its enquiry but noticeably Auckland-centric in its commentary. There is a focus on the role of local government in finding solutions and less directive on the role and function of other parties, particularly central government. The Commission noted that here are no quick fixes and addressing housing affordability will require a coherent and concerted push across multiple policy areas.

Some key conclusions related to land development expectations are:

* Urban containment policies have an adverse impact on housing affordability;
* 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;
* Councils should review regulatory processes with the aim of speeding up, simplifying and reducing the cost of plan and consent processes;
* Strengthen transparency and accountability of councils in the implementation of development contributions;
* Lift the processing performance of the building consent authorities;
* 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.

In terms of the role of territorial authorities in land development the following conclusions are noted:

* 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; (Note: this issue is outlined in the Residential Intensification Report);
* Investigate barriers to densification and consider more flexible approaches to achieve a balance between neighbourhood amenity and new development in existing suburbs;
* Develop strategies that promote adequate competition between developers for the sale of construction-ready sections;
* Develop guidelines and training about how to implement the guidelines and establishing a quality assurance process to help councils to implement them effectively and share the lessons from experience;
* Strengthen the incentives for good practice by increasing the legal scope to challenge the way in which councils set and administer development contributions. The Commission favoured improving the scope for mediation as an initial step, with the scope to challenge in the District or Environment Court a future option that could be implemented if mediation does not deliver sufficient benefits

SmartGrowth, Tauranga City Council, and the Housing Affordability Forum made submissions to the Productivity Commission’s inquiry report. The key points were around the lack of leadership from central government on the issue, that the issue was more complex than just releasing more land, and the lack of recognition of the true infrastructure costs related to opening up more Greenfield land supply.

The TCC submission made several fundamental points based on its experience on responding to the challenges of urban growth management. In addition to the key points above some further points were:

* Releasing more land will not necessarily reduce the land price paid by developers; earmarking rural land for urban can inflate the market price for a number of reasons.
* Land cost is typically only a small part of the final cost of delivering sections to the market;
* TCC has already considered lower levels of service for urban infrastructure. This is not likely to be sustainable in terms of community or public health/ environmental expectations in the longer term, and the costs related to retrofitting/ upgrading are high;
* Lead urban infrastructure needs to connect into and be consistent with engineering and environmental standards. There is little capacity for the private sector to fund such lead infrastructure and councils need to address the additional debt that comes with new, lead infrastructure.
* A wider frame of reference to a complex issue is required including methods for increasing wages, salaries and household incomes so that the ability to pay for suitable housing is improved.

As noted earlier (Section 3.2) the Government has released its response to the Commission’s report and a political debate on housing affordability is emerging.

**Hobsonville Land Company**

Hobsonville Land Company (HLC), a wholly-owned subsidiary of Housing NZ Corporation, is leading the planning and delivery stages of the re-development of the 167- hectare former Hobsonville airbase site in partnership with the private sector. The project will result in a community of over 10,000 people living and working at Hobsonville Point.[[4]](#footnote-4) It will include two new schools, employment areas, retail, community facilities and a new ferry connection to downtown Auckland. This project involves Housing NZ, Waitakere City Council and a number of support agencies working collaboratively to bring housing to the market.

According to a Government announcement on Friday 16th November 2012 20% of all new houses at Hobsonville Point will be sold for $485,000 or less. And of these, up to half will be priced at less than $400,000. Overall the development will include a mix of housing choices: apartments, terrace houses and stand-alone homes at different market price points. It is one way of using Government agencies and assets to deliver an affordable housing product and develop commercial solutions for other parts of Auckland.

**Tamaki Redevelopment Company**

The Government and the Auckland Council have recently signed a Heads of Agreement to jointly form New Zealand’s first urban redevelopment company to transform Tamaki including Glen Innes, Point England and Pamure over the next 15-25 years.

The purpose of the Company is to bring together the right public and private partners, and resources, and authority to assist urban transformation in this part of Auckland –primarily by residential intensification. This is an example of urban renewal coordination which will be required if the Auckland Spatial Plan urban intensification aims are to be supported. Housing stock and residential land use is to be optimised using public and private housing resources but there are no details yet on how affordable housing will be delivered. Such approaches overseas usually have an emphasis on a mix of housing typologies and price points to support a diverse community.

## 4.3 Building Costs

**Government Response to the Productivity Commission Housing Affordability Inquiry Report**

The Government has recently released its response to the Productivity Commission recommendations. In terms of the building industry and process some of the key responses noted are:

* Investigate improvements in productivity of the construction sector
* Explore the consolidation of Building Consent Authorities
* A market level enquiry into the construction sector to identify barriers to improving housing affordability
* Review the standards system
* Better education and information to the building sector on materials, designs or methods that may assist reasonable housing costs
* Building Act reforms and possible methods for alternative solutions
* Review the MultiProof building consent process to reduce barriers to implementation.

## 4.4 Leadership, Ownership, Financing and Funding

**Community Land Trusts**

The Community Land Trust (CLT) model separates two cost elements: the market price of land and the price of the house itself. The model uses a not for profit, tax exempt entity aimed at preserving housing affordability, promoting sound house maintenance and preventing mortgagee sales. The CLT model retains the land in perpetuity and leases land for housing. Homes and buildings are sold to and owned by families, co-operative housing corporations, small businesses and not-for-profit organisations. The CLT retains a first right of purchase over homes, and also controls the resale price using a resale formula in the lease.

The model also works with a range of supporting incentives and local government rules covering getting additional lands through gifts, contributions to affordable housing and acquiring lower priced land. The most apparent key challenge to this model is retaining consistent and affordable finance.

**CHRANZ Report on Affordable Housing (2007)**

The Centre for Housing Research Aotearoa New Zealand (CHRANZ) commissioned research to explore the current role of local government in housing affordability, the potential for optimising local government’s role and activities in facilitating housing affordability, and the barriers and challenges councils face in making home ownership and rental housing more affordable in their areas.

Interestingly, 87% of local authorities surveyed had a portfolio of housing stock, most of which is rental accommodation. The report identified a small number of active approaches used by councils. These included:

* Recognition of the strategic importance of housing for economic and/or social outcomes sought in the Local Government Act.
* Attempts to develop a coherent housing policy framework, and inclusion of housing in planning documents.
* Development of partnerships with the private and community sectors to promote the supply of affordable housing.
* Active investment of resources into housing initiatives including: grants, land banking, land swaps, land leases, rates rebate and lending.
* Improved management of consenting processes and the planning of infrastructure

The report observes that most council’s have limited resources directed to addressing issues around housing affordability at the policy and planning level and there are variable levels of engagement on the issue, despite it often being identified as a social or economic wellbeing matter. Knowledge around the affordability impacts of core council activities appears to be limited.

The Report’s literature review indicates that overseas local authorities use a wide range of approaches, tools, models and mechanisms, and in different combinations, to promote housing affordability. They encompass both regulatory and non-regulatory methods. The key methods are grouped into four categories:

1. Direct provision of housing stock
2. Using council assets to support housing affordability
3. Funding and financing affordable housing
4. Policy, planning and operations

Further, three common success factors identified for local authorities involved in affordable housing are:

1. Political commitment and leadership.
2. Local housing strategies, policies and plans that establish affordable housing goals and implementation processes.
3. Awareness of the impact of their own statutory powers and processes on the housing affordability and willingness to overcome regulatory and planning barriers and find enabling mechanisms.

# SMARTGROWTH UPDATE CONSIDERATIONS

**5.1 How can SmartGrowth Help or Influence?**

The challenges outlined already in this report and the literature review on some ways to address the issue shows the complexity of problem from a public policy perspective. One way of approaching the issue is to break it down into simple terms along the following lines;

The basic proposition is; to make housing more affordable, either:

1. The cost of housing needs to be reduced, or
2. Someone else needs to pay for or subsidise part of the cost through a range of economic interventions. Most of these interventions for example housing subsidies, making mortgage payment tax deductible, providing grants for first home buyers would have to be central government interventions; or
3. Household incomes need to increase.

There is little SmartGrowth can do directly to affect the local housing market for **existing** owned or rented houses. There may be an indirect flow-on effect if the cost of new housing can be lowered through public policy intervention, but the degree of that influence is not clear.

This leads to a key question for the SmartGrowth Update project;

*What role can the SmartGrowth Strategy and the SmartGrowth partners play in to promote housing affordability*?

Or to put it another way;

*What aspects of the housing affordability challenge can SmartGrowth and/or the SmartGrowth partners actually have any meaningful influence over so that new, affordable housing can be delivered?*

If an answer to these basic questions can be agreed that in turn informs a set of actions that can be implemented to support and/ or deliver on that role.

Apart from a facilitative role working with others to continue to explore solutions, the direct SmartGrowth role is limited to ensuring that there is sufficient zoned land available to meet the demand for new housing (noting that there are different views on what is ‘sufficient’), and that there is effective and efficient infrastructure .

There are potential partners who may take a collaborative role with SmartGrowth partners in influencing the delivery of new, affordable housing in the western Bay market. These are Housing New Zealand, Office of Treaty Settlements, Iwi Settlement entities, community housing sector and the development community.

To assist consideration of the complex issue and appropriate responses that SmartGrowth can potentially influence in the western Bay sub-region, three broad areas of focus are suggested for the SmartGrowth Update project:

1. Land development (RMA subdivision and land use) costs and consent process;

2. Building Costs;

3. Leadership, ownership, financing and funding arrangements.

The following table summarises the key inputs into the delivery of new houses, and is based on the development feasibility modelling undertaken for Te Tumu, Omokoroa, Te Puke and Wairakei growth areas. The likely degree of SmartGrowth partner influence is indicated.

|  |  |
| --- | --- |
| **Type of possible influence** | **SG Influence?** |
| Land Development   * Rezoning of land or plan change costs * Resource consent costs and other council charges * Development/ Financial contributions * Land purchase cost * Lot construction costs * Sales costs * Development/ project management costs * Bank/ finance costs * Profit Margins | Yes  Yes  Yes  No, other than good land supply  In small part, through Infrastructure Development Codes  No  No  No  No |
| Building Costs   * Size of houses * Building consent fees * Development/ Financial contributions * Building Code Requirements/ standards * Building materials * Labour * Overheads and other related project costs * Profit margins * Covenants * Bank/ finance costs * Sales Costs | Yes  Yes  Yes  No  No  No  No  No  Indirectly  No  No |
| Leadership, ownership, financing and funding arrangements   * Likely to be only an indirect influence unless a financial subsidy or incentive is provided to the market * Explore housing ownership models * Explore joint ventures and/or public private partnerships * Support education, research and raising awareness * Support Maori housing initiatives | Yes  Yes  Yes  Yes |

Several conclusions can be drawn from the table and the earlier feasibility modelling work;

* Most of the land development costs are outside the influence of SmartGrowth. The strongest influence on subdivision costs (say 25-30%) will be mainly development/ financial contributions. Even when there is a good supply of zoned land for residential development (as is the case in the western Bay of Plenty) the need to recover infrastructure costs provided by public agencies is a direct influence.
* Almost all of the building costs are not influenced by SmartGrowth. For example the feasibility work indicates that the building cost in Tauranga City for a ‘typical’ house including the Council’s City-wide infrastructure contribution is only around 5% +/- of the build cost.
* Planning provisions may have some influence on what type/ size of house is built on a section and that may influence cost; e.g. allow smaller sections to enable smaller house size

**5.2 Possible Actions for the SmartGrowth Update**

1. **Land Development**

## Additional Residential Land Supply

The Productivity Commission criticised urban containment policies such as the urban limits associated with the SmartGrowth Settlement Pattern, for constraining land availability. SmartGrowth is predicated on providing a good supply of residential land within a defined urban limits line that takes other values into account. The SmartGrowth Update Report *Review of Identified Residential Urban Growth Areas* (November 2012) highlights the estimated 30 years plus supply of identified urban land across the sub-region (at current uptake rates). There are also infrastructure efficiency challenges that influence land supply decision making.

In policy terms there is potential for SmartGrowth partners to reconsider the assumed timing and/or quality of urban land release to the market (compared to the current assumptions). Treaty Settlement lands might also be considered as part of a land supply mix. Zoning land for a specific housing affordability scheme might be another possible method. But in the end, opening up land supply comes at a significant cost to Council to fund bulk infrastructure and that flows into the development contributions and market price.

Recent research on the feasibility of delivering housing at Omokoroa, Te Puke and Wairakei also indicates that there are challenges in delivering housing to these new, Greenfield urban growth areas to the market at an affordable price point under current market conditions. The important point is that SmartGrowth partners are proactive in reviewing their development contributions, infrastructure levels of service and engaging in conversation with the development sector to respond to these types of challenges and exercise prudent financial management.

**Review Development and Regulatory Costs**

A common theme in national and local research and feedback is the financial impact of development contributions, financial contributions and the consenting process on housing delivery. Both TCC and WBOPDC review their respective contributions policies regularly and this practice is unlikely to change; so they are relevant and current. Also, both development contributions and consenting fees are part of a cost recovery policy for the councils, so the only alternative is to subsidise these financial costs through increased rates. Linked to this is that both councils also regularly review their levels of service and their infrastructure development codes to strike the right balance between construction costs and public asset integrity.

There are a series of small policy adjustments that local councils are already doing in their business delivery but they alone would not deliver housing affordability on a large scale.

**Planning Provisions**

The development community feedback also suggests ways to reduce the time and cost of delivering housing:

* Permissive district plan rules that enable smaller dwellings as long as they fit an affordable criteria.
* Increase permitted height in residential areas for multi-level building scope
* Appoint case managers to facilitate affordable housing proposals
* Standard, modular or collaborative house designs and reuse designs – lifetime designs.
* Flexible design/ plan criteria and less prescriptive urban design provisions.
* Provide for a staged payment of development contributions (Both councils already have policy around this in their respective implementation of contributions or other financial management actions).

Both district plans have recently been through an extensive plan review process. In Tauranga the minimum nett site area for an independent dwelling unit is already smaller than many cities at 325m2- subject to other on-site controls, such as height and overshadowing. Both district plans have basic bulk and location controls that are fairly standard throughout New Zealand. How such smaller sites are developed for housing is left to the market, regardless of the price point.

Planning controls to encourage greater residential intensification is the subject of a separate SmartGrowth research report (December 2012). Preliminary information on the feasibility of intensification housing models indicates that additional building height for suburban areas is unlikely to provide any material gain in affordability and may in fact add considerably to construction costs for multi-level typologies. Further, the recent district plan review processes indicate that local communities do have views about housing standards and their local neighbourhood amenity values, so some balance is required in these matters.

The development of policy for “affordable criteria” and related case management and how that is applied could be considered further.

1. **Building Costs**

## Review Development Costs

As noted above there are a series of small policy adjustments that local councils are already doing in their business delivery but they alone would not deliver housing affordability on a large scale.

**Standardised design or building methods**

Some building firms already apply modular or standard design synergies to their construction methods.

**Private covenants**

Many residential subdivisions now use private covenants on house type, cost, materials, landscaping etc that increase building and site development costs. Under current legislation there is little a council can do to stop this practice.

1. **Leadership, ownership, financing and funding arrangements.**

**Explore Housing Ownership Models**

There will always be a proportion of the population who will for matters of choice or circumstance prefer to have rental or lease accommodation. The literature review and liaison with interested parties has identified several alternative financial models that could be explored further. These could include Community Land Trusts, Māori land trusts, Community Housing Trusts and private developers who could deliver affordable housing through different ownership options. A common mechanism is the use of leasehold type arrangements rather than fee simple. In Auckland the Melanesian Mission and its parent the Anglican Church run and extensive leasehold land portfolio in the eastern suburbs.

In the western Bay of Plenty Māori land trusts are already using innovative ways to achieving housing that is both affordable, of good quality and meets cultural preferences, such as retaining land in communal ownership. One example is the recent Mangatawa housing using leasehold estates. There is potential for SmartGrowth to explore the feasibility of such models on a wider front; for example, the Queenstown Housing Trust facilitated by Queenstown Lakes District Council.

Retaining existing housing assets within Council ownership or extending the portfolio to meet additional demand contributes to meeting social housing needs. Central government is currently in the process of building the capability of the third sector (e.g. community housing trusts) which may offer an opportunity for third sector groups to work with councils in relation to existing or expanded social housing portfolios.

## Explore JVs and Public Private Partnerships

Joint ventures and public-private partnerships are possible under the existing legislative framework (Note this may not be so easy under the proposed Local Government Act amendments). The issue for the SmartGrowth Council’s is whether it is within the wider public interest to facilitate the supply of affordable housing using public resources or capital, as well as risk management. The Hobsonville Project and the Tamaki Transformation Project outlined above shows what can be done with the right policy framework and collaborative effort.

Feedback from stakeholders has suggested the idea of a public-private partnership to establish a house factory; iwi (supply timber, leased land), Polytechnic (labour, training and qualifications), councils and private sector (bulk purchasing power), funding (regional infrastructure fund).

## Support Education, Research and Raising Awareness

There is a significant amount of published research and information relating to housing affordability. It would be advantageous to have this material much more widely available. This could be facilitated by a work programme linked to the SmartGrowth web site or part of a separate collaboration between the Housing Affordability Forum and Maori Housing Forum.

There are a number of stakeholders who already promote a range of housing designs to promote housing affordability. Active promotion of design competitions, pilot housing projects, awareness campaigns of the benefits of different housing types and medium density, innovative housing designs or standardisation of housing packages have also been suggested as methods of promoting wider awareness and education.

Research into housing preferences and the decisions people may make to access their housing choice has been done in several cities but not in the western Bay of Plenty. Undertaking local research would add useful information on housing preferences to influence builders, banks, developers to encourage an increase in the provision of a range of hosing types, and could be part of the development of a housing affordability work programme.

## Supporting Māori Housing Initiatives

Several Māori housing projects are emerging in the western Bay that can be considered innovative and leading for New Zealand. They are small scale at present and require considerable human resources, but momentum is increasing as is the skills and experience in undertaking Papakainga developments.

The Joint Agency Group (JAG) currently oversees the monthly Papakainga workshops assisting to date approximately 20 land trusts to develop Papakainga structure plans on Maori land in the sub region. JAG has been very successful in attracting capital funding for Papakainga.

* JAG assisted Rangiwaea in obtaining a grant of $1.2 million from the Social Housing Unit to build 5 houses due to start in 2013.
* In August 2012, capital funding of $1million was approved by the Social Housing Unit to build 5 houses in 2013.
* There is a current application seeking assistance of $8 million from the BOPRC infrastructure fund to assist 6 land trusts with capacity to build 200 homes.
* There is a current proposal from another trusts seeking capital funding to build 21 homes in 2014.

Treaty Settlements offer additional opportunities including land acquired through the settlement process, first right to buy options of HNZC stock for settlement tribes. The SmartGrowth Update should acknowledge the potential to leverage off relationships with central government to unlock these rights earlier rather than later. Further detail on these is included in the SmartGrowth Update *Post Treaty Settlement Development Perspectives Report*.

# CONCLUSION

There has been significant research conducted internationally and nationally on this issue. However, progress in addressing housing affordability in New Zealand is slow, partly due to the complexity of contributing factors and the lack of willingness at all levels to address this issue collaboratively.

Also New Zealand governments in recent years have been reluctant to return to some of the earlier means of ensuring people are adequately housed. For example, the state producing an adequate supply of rental housing to meet demand or lending funds at a lower rate than the market interest rate to provide housing access for a greater number of people.

Given the Government’s post GFC financial situation it is unlikely that there will be any significant housing affordability interventions in the foreseeable future part from small-scale social housing initiatives. The Government’s focus is on returning its accounts to a position of financial surplus.

This SmartGrowth Update project provides an opportunity to review the role of SmartGrowth partners and other strategic groups in influencing the complex issue of delivering affordable housing in the western Bay of Plenty. It is also acknowledged that there are already a number of housing initiatives and funding packages that have gained some traction, albeit on a small scale in the sub-region. The challenge is whether the collaborative entity that is SmartGrowth can strongly influence the delivery of affordable housing outcomes on a wider scale given the breadth of the problem.

This paper suggests that there are some aspects that affect the cost of new housing that SmartGrowth could influence, these being aspects of:

* Land development costs
* Building costs
* Leadership, Ownership and Funding

In simple terms, to make housing more affordable either the cost of housing needs to be reduced or some party needs to pay for at least part of the cost, through active intervention. SmartGrowth has only an indirect influence over raising household incomes to assist people to meet their housing needs.

The Policy options to be considered are:

**6.1 Option 1: Status Quo**

This option continues the current role and function of council’s of maintaining investment in efficient infrastructure.. The current elderly persons’ housing property portfolio is maintained.

**6.1.1 Examples of actions aligning with Status Quo approach**

Land Development Costs

* Continue the current practice of maintaining investment in efficient infrastructure, reviewing infrastructure levels of service and continuous review of related development/ financial contributions within Long Term Plans and Annual Plans.
* Continue phased timing of development contributions payment on a case-by-case basis

Building Costs

* Continue phased timing of contributions on a case-by-case basis
* Continue interim case managers or “package of plans” to facilitate affordable housing projects in a consent process.

Leadership, Ownership and Funding

* Retain Council housing stock in Council/third sector and upgrade condition of units to an acceptable rental standard where required.

**6.2 Option 2: Incremental Improvement**

This optionadds to the status quo actions. It suggests gradual and steady review and appropriate adjustments to in planning policy and rules following active engagement of local developers and other interest groups on potential barriers to affordable housing delivery. More efficient use of the current elderly persons’ housing property portfolio is explored.

**6.2.1 Examples of actions aligning with Incremental Improvement approach**

Land Development Costs

* Continuous review and improvements in planning policy and process in relation to housing delivery

Building Costs

* Consider developing flexible design criteria and review of density rules to allow smaller dwellings on smaller lots

Leadership, Ownership and Funding

* Review Council policies to support social housing. Investigate the potential to offset Council fees for social housing proposals
* Explore the potential for more efficient use of the council’s elderly persons’ housing property portfolio.
* Develop and initiate education and awareness programmes and initiatives on affordable housing e.g. benefits of smaller dwellings
* SmartGrowth lobby central government to provide financial levers such as tax incentives, to encourage a greater flow of capital investment into affordable housing projects

**6.3 Option 3: Proactive Leadership**

This option adds to the status quo and incremental improvement actions.The focus includesstrong advocacy, leadership and facilitation role and actively work with central government agencies, third-sector groups, the development and construction sector and the financial sector to increase the supply of affordable housing in the western BOP sub-region.

**6.3.1 Examples of actions aligning with Proactive Leadership approach**

Land Development Costs

* Specifically target land release for potential housing affordability projects
* Incentivise affordable housing projects by targeted reduction or waiver of development/ financial contributions and offsetting these by use of rate funding
* Provide a more enabling consenting framework for affordable housing projects that meet specific criteria.

Building Costs

* Facilitate the sharing of information on collaborative designs, reuse designs and lifetime design.
* Incentivise affordable housing projects by targeted reduction or waiver of Development/ financial contributions and offsetting these by use of rate funding
* Provide a more enabling consenting framework for affordable housing projects that meet specific criteria.

Leadership, Ownership and Funding

* Investigate regional and national funding opportunities including funding partners as a source of lower cost funds.
* Work with Housing NZ Corporation and other crown agencies to identify large blocks of Crown land and Council land which could be made available for affordable housing projects. Investigate the potential for public/ private partnerships using such lands.
* Support development of a business case for post settlement land to be developed including bulk stock transfer of Housing NZ Corporation property.
* Allocate resources for housing preference research in the western Bay sub-region to better understand the demand drivers for affordable housing.

# APPENDICES

**Appendix 1: Importance of collaborative approach to housing affordability**

**Appendix 2: Home Loan Package Information**

*Welcome Home Loans*

Welcome Home Loan don't require a deposit for loans of $200,000 or less. You may be able to borrow more in certain areas and you'll still only need a deposit of just 15% of the amount over $200,000. There are common eligibility conditions however the loan includes some social criteria such as a borrower must live in the house, earn less than 85,000 and a household less than 120,000.

*Kainga Whenua Loans*

The Government has moved to broaden the criteria for Kainga Whenua loans, which will make building on multiply-owned Maori land easier. As Maori land frequently has many owners, banks and financial organisations can be reluctant to lend, because of the difficulty they face in taking security over land with multiple owners.

The Kainga Whenua home loan, available through Kiwibank, aims to resolve these difficulties by allowing owners of Maori land to build on their land. Housing New Zealand takes security over the house – but not the land, and insures the loan, so that a borrower is able to access finance to build, buy or re-locate a home on their multiple-owned Maori land.[[5]](#footnote-5)

You can borrow up to $200,000 to build, buy or re-locate a house on your multiple-owned Maori land. Kiwibank will provide the loan, and Housing New Zealand will insure the loan for Kiwibank. A Kainga Whenua loan is secured only against the house, not against the house and land as with most home loans. You can now earn up to $120,000 a year for one borrower. Two or more borrowers can earn up to $160,000.

|  |  |
| --- | --- |
| Previous criteria | New criteria |
| Kāinga Whenua loans have been  available only for first home buyers (or those in a similar financial position to first home buyers) | Previous and current home owners can  now apply |
| All borrowers had to live in the house | Only one borrower needs to live full time in the house and other members of a  whanau, not living in the house, are able to contribute to the loan repayments. |
| Previous income cap  85,000 one or two borrower  120,000 three or more borrowers | New income cap:  $120,000 – one borrower  $160,000 – two borrowers |
| Loans only available for building, buying or re-locating homes on multiple-owned Māori land. | Loans can be granted for repairs and maintenance to existing homes on multiple-owned Māori land. |
| Māori Land Trusts excluded from loans. | Māori Land Trusts eligible for loans. |

*Bay of Plenty Regional Council Infrastructure Fund*

The Bay of Plenty Regional Council has recently announced a Regional Infrastructure fund. This fund is designed to provide additional capital funding to assist with the development of major infrastructure projects in the Bay of Plenty region. It aims to help to accelerate infrastructure projects, improve the outcomes and quality of projects, or increase the scope of projects. Council has set aside up to $38 million for external infrastructure projects, over the nine years between 1 July 2013 and 30 June 2022.[[6]](#footnote-6) This funding is a component of some $200 million that has been earmarked for infrastructure. This is a potential source of funds for infrastructure that supports affordable housing. The fund is competitive and a successful application is likely to involve significant financial commitments from SmartGrowth and other partners likely as part of a *new project* rather than business as usual infrastructure.[[7]](#footnote-7)

Kainga Home Loans, Fact Sheet, 16 October 2012

[www.boprc.govt.nz](http://www.boprc.govt.nz) – announced 20 August 2012

Bay of Plenty Regional Council. Regional Infrastructure Fund - Frequently Asked Questions. 14 September 2012

1. Martin Udale, Property Developer and consultant and Neil Gray, consultant Advisor. [↑](#footnote-ref-1)
2. Martin Udale, Essentia Consulting Group with Christine Jones, Andrew Mead & Frazer Smith, Tauranga City Council. Assessment of Development Feasibility for the Wairakei Urban Growth Area. P4 [↑](#footnote-ref-2)
3. ibid. p28 [↑](#footnote-ref-3)
4. *www.hobsonvillepoint.co.nz* [↑](#footnote-ref-4)
5. Kainga Home Loans, Fact Sheet, 16 October 2012 [↑](#footnote-ref-5)
6. [www.boprc.govt.nz](http://www.boprc.govt.nz) – announced 20 August 2012 [↑](#footnote-ref-6)
7. Bay of Plenty Regional Council. Regional Infrastructure Fund - Frequently Asked Questions. 14 September 2012 [↑](#footnote-ref-7)