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RODNEY'S RAVING

Labour's housing policies may fall short like National's policies did

EXECUTIVE SUMMARY

Maybe reflecting vested interests and complacency, National's housing policies did nothing to solve the affordability problem. In the case of Auckland this is evidenced by section prices having increased 72% since the first tranche of Special Housing Areas was approved in 2013.

Labour is adopting a broader and more hands-on approach to addressing the housing affordability problem including proposing some policies that have the potential to address the most pressing problem: excessive section prices. For a while this was mainly an Auckland problem but it has spread to all growth centres.

Labour should be commended for giving priority to trying to fix the housing affordability problem. However, just as I was rightly sceptical of how much National's policies would fix the affordability problem I believe there are some good reasons for being somewhat sceptical about Labour's policies;

especially regarding fixing the largest problem of excessive section prices.

Labour appears to be falling into the trap of believing higher density housing around transport hubs will provide much more of a solution to the housing affordability problem than it will. Instead of putting top priority on addressing the problem of expensive sections Labour appears to be focused too much on trying to force-feed the market the types of housing it would like to see built.

It is still early days for Labour's housing policies but my sense is that they won't do enough to solve the largest problem. Labour's policies are also likely to crowd out private sector building much more than the government has suggested, as discussed in our pay-to-view building reports. These reports should be a must have for any firms or investors impacted significantly by residential building. Contact me if you want to know more about them.



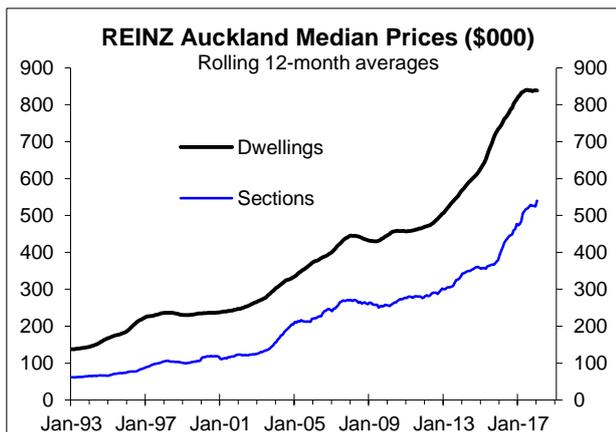
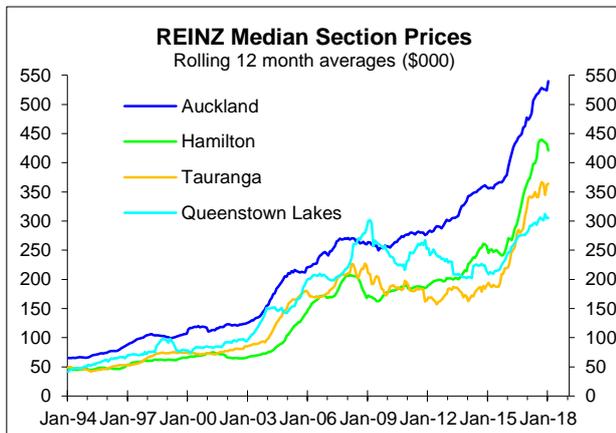
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Lessons from National's housing policies

National failed to reform the RMA significantly and did little to solve the infrastructure funding problem for new housing. Its housing policies ended up relying excessively on Housing Accords and the resulting Special Housing Areas with the focus most but not exclusively on Auckland.

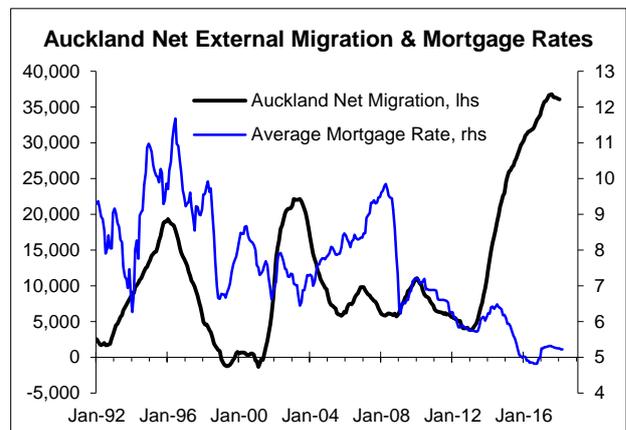
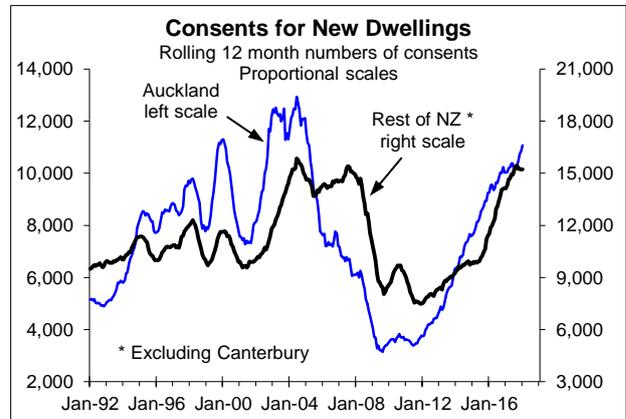
In the case of Auckland, 154 SHAs were approved between 2013 and 2016 offering the potential for around 56,000 new dwelling sites. This did nothing to improve housing affordability. Since the first batch of SHAs was approved in October 2013 the median Auckland section price reported by REINZ has increased 72% (chart below). Section prices have increased lots in all the growth centres. Higher section prices have played a major part in boosting existing dwelling prices (second chart below) and new housing costs.



Superficially National's housing policies were a success if we look at the level of Auckland new dwelling consents that reached a new peak of 11,073 for the current upturn in the last 12 months (next chart). On a relative basis, Auckland consents have been outperforming consents in the rest of the country since 2014. However, it doesn't take much digging to reveal that the real story is very different than this superficial one.

In the first instance, the latest peak of 11,073 consents is still 14% below the peak of 12,937 consents achieved during the previous building boom in the mid-2000s. Interest rates and net external migration are much more favourable currently than was the case in the mid-2000s (second chart below).

Based on the much lower interest rates now than in the mid-2000s, Auckland experiencing the highest net external migration ever and the many SHAs that have reached the construction stage since 2013, the level of building in Auckland should be much higher now than the peak level last decade. Rather than being just over 11,000, Auckland new dwelling consents should be 14,000+.

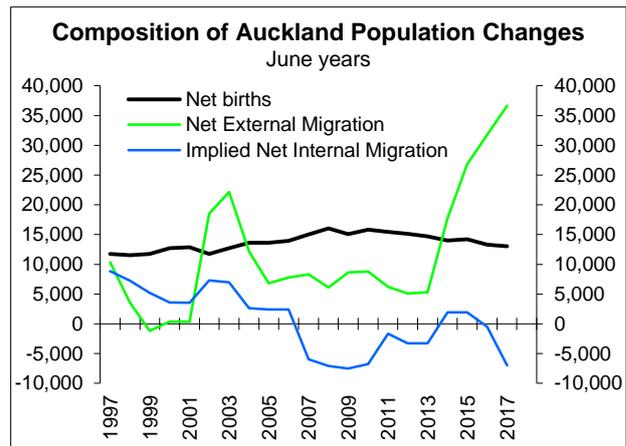


Capacity constraints in building and building-related industries will partly explain why Auckland consents haven't even reached the 2004 peak let alone got close to 14,000. But the more likely reason is that section prices and new housing costs in Auckland have risen to levels that are having a large negative impact on the level of building. The huge increase in section prices means a growing proportion of would-be new home owners have been priced out of the market.



An implication of Auckland housing becoming more expensive than housing in the rest of NZ is Auckland experiencing a net outflow of people to the rest of the country (blue line, adjacent chart). However, Auckland population growth has still exceeded growth in the rest of the country so a loss of population to the rest of the country can't explain why Auckland consents haven't been much higher recently than has been the case.

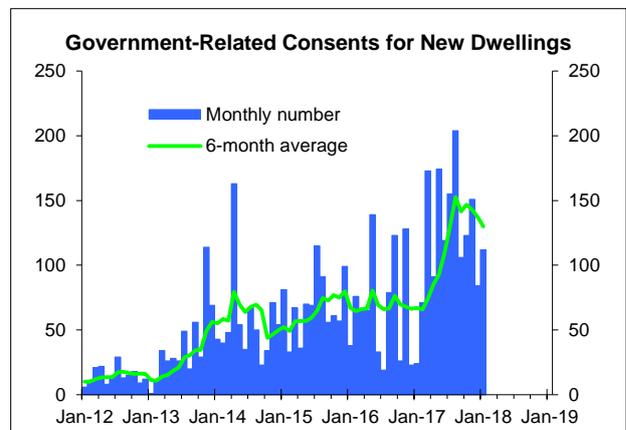
National's policies failed to stop surging section prices making new housing unaffordable to a growing proportion of the population. This has become much more than an Auckland problem and is acute for first home buyers.



It is questionable how much Labour's policies will solve the underlying problem

Labour hopes a range of existing and new policies will solve the housing affordability problem:

- In Auckland relying on the Unitary Plan that allows for more intensive housing and less restrictive limits on the likes of building heights and coverage especially near transport hubs.
- Increased building of state houses that was already underway by National (adjacent chart).
- The KiwiBuild plan to scale up the building of "affordable" new dwellings to 10,000 per annum over three years. This includes 40% "affordable" housing in KiwiBuild subdivisions-developments. More building on government land than National had proposed. Offering long-term contracts to KiwiBuild builders to make lower cost prefabricated housing more viable.
- Probably some sort of rent-to-buy scheme.
- A more coordinated housing and transport plan with the focus on building higher density housing around transport hubs.
- Finding an alternative source of funding for infrastructure so the full cost isn't built up front into section prices (e.g. a central debt fund that can borrow cheaply with the cost covered by targeted rates that spread the cost over many years). This makes much more sense than the full cost being built up-front in section prices.
- Boosting building apprenticeships and making it easier for building firms to import immigrant workers via work visas.
- There have been suggestions Labour should or may make it easier for people to build small dwellings on existing properties like granny flats and petition existing dwellings to make them multifamily dwellings.



Talk of dumping the Auckland urban limit so much cheaper raw land costs are possible seems to have faded. This is in the context of a Motu study a few years ago showing that the urban limit meant raw land costs were 8-9x higher just inside the limit than just outside. But progress on this front is likely if a comprehensive change to funding and paying for new infrastructure is implemented.

Labour's concept of what is affordable is well off the mark. Affordable house and land packages for first home buyers appear to have been defined as \$500,000-600,000 for Auckland and \$300,000-500,000 elsewhere. This does not represent genuinely affordable housing for most first home buyers (link below).

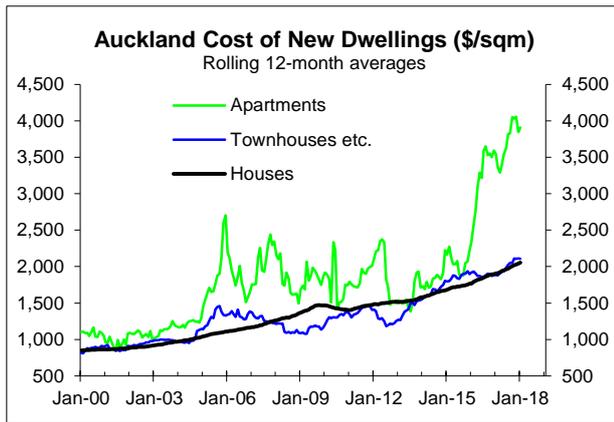
<http://www.newshub.co.nz/home/politics/2018/02/doubts-over-kiwibuild-s-affordability.html>

Labour's plan is focused too much on force-feeding housing to the market without giving top priority to the most important issue, which is getting down section prices. Using taxpayer money to fund building and using government land potentially at subsidised prices to make it work for a period isn't a fundamental, long-term solution.

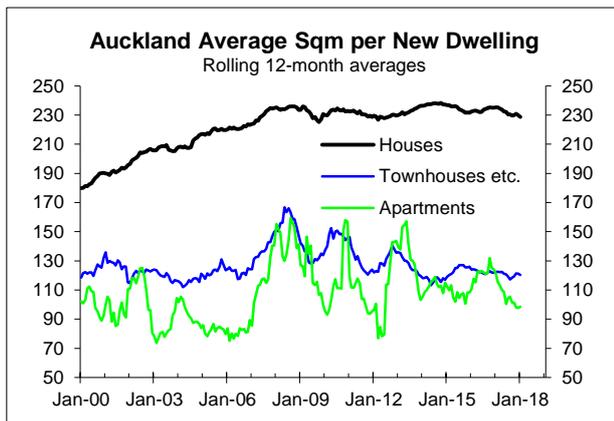


The PM has suggested apartments offer a solution to affordability (link below), but the evidence in terms of building costs contradicts this. The chart below shows the average square metre cost in Auckland for apartments, stand-alone houses and townhouses/flats/units. The building consent data shows the square metre cost for apartments being almost double that of standalone houses and townhouses etc. Proposed prefabricated apartments may offer some solution to this problem.

<http://www.newshub.co.nz/home/money/2018/02/jacinda-ardern-wants-350k-kiwibuild-apartments.html>



The PM and others have also suggested building smaller houses as part of the solution. There is some logic in this in terms of the average new house size in Auckland being around 230 m² versus only 120 m² for townhouses/flats/units and lower generally for apartments (next chart).



If the average new KiwiBuild house is 100 m² it suggests the building cost per dwelling could be around \$200,000 less than the current average of around \$470,000. But if you add on the average section price in Auckland of around \$550,000 this doesn't stack up very well in terms of affordability or common sense. Obviously, building little houses on little sections would have to be part of the solution. But this isn't really addressing the problem of high section and land prices.

With townhouses/units/flats and apartments already much smaller there isn't much scope to improve affordability by downsizing these although there is still some scope.

I see too much focus on building housing to fit the current job distribution and not enough on encouraging industrial-commercial development around the peripheral areas of the city alongside Greenfield residential developments that would reduce the pressure of Greenfield development on existing transport routes/systems.

I see a somewhat misguided belief that building more intensive housing in existing urban areas doesn't come with significant infrastructure costs. Increased population density puts pressure on often ageing infrastructure while retrofitting existing infrastructure like sewerage comes at a high cost.

I see a misguided idea that the market has failed to deliver the sorts of housing people want which partly relates to the misguided view that intensive housing can solve the affordability problem when it has failed to do so. The market and consumers only responding to the environment they face. Cheaper sections in Greenfield subdivisions are critical to reducing land price in general including for higher density housing. I am concerned Labour's policies don't put solving this most important part of the affordability problem at the forefront.

In a growing city like Auckland and also relevant to the likes of Hamilton and Tauranga, it is natural for more intensive housing to make up a growing share of total new building over time. This has been most notable in Auckland in recent years in terms of the growing percentage of new dwelling consents for townhouses/flats/units (chart below). Although this partly just reflects a return to the situation during the last building boom in the early-to-mid-2000s. But even townhouses etc. need land which brings me back to my concern Labour's policies aren't putting enough focus on getting down section prices; at least not yet.

