SUBMISSION ON HOUSING AFFORDABILITY

TO: PRODUCTIVITY COMMISSION

Housing Enquiry

SUBMISSION ON: The housing affordability paper

My name is Brady Nixon. I am Development Manager for a major corporate where I am responsible for property development including development of town centre's and other comprehensive developments in the Auckland region.

I am also a private property developer in my own regard having developed a number of apartment buildings, commercial warehouses and small boutique architectural precinct developments in the Auckland isthmus.

I have developed all manner of property developments from residential subdivisions, stand alone homes, terrace houses, apartments, supermarkets, retail centre's, office buildings, warehouses and have completed a number of major Plan Changes to expand the MUL and coastal rural settlements for residential and commercial purposes.

I have over 12 years experience in property development and have been to the Environment Court on numerous occasions setting case law at many of those hearings. I am presently managing five Environment Court proceedings including appeals and direct referrals.

I make this submission in my own capacity. It does not represent the views of any other person or entity. My interest relates to the success and productivity of the property industry and I seek a reduction in the impediments that are constraining the capacity and implementation of built form primarily in Auckland.

Scope of submission

1. This submission is made with respect to the Housing Affordability paper.

2. In particular this submission will identify a number of inherent issues that I have experienced and for which I believe are inhibiting affordability.

3. I will not go into micro detail (for the sake of efficiency) in this submission but do invite the Productivity Commission to consider my suggestions to investigate aspects of my submission in more depth. I am willing to expand upon the issues raised in more depth if requested.

Reasons for submission

4. Housing affordability is the cumulative result of a number of different issues, including:

(a) It is relative to income of the particular demographic not the average person. This means that affordability is relative to the specific income of an individual. What is affordable to one person is not affordable to the next. It is a subjective issue that is not universally applicable to all people but is more predominant as an issue where incomes are lower and equity is low;

(b) Affordability can be geographically contextualised meaning affordability looks like different things in each location as a sub-environment (for instance affordability in Remuera is a $800,000 apartment versus a $2m home where as affordability in Mangere is an old state house at $280,000 versus a newer house at $400,000). The issue is not simply therefore the aggregate sum considered crudely as the medium multiple house value. What the average house price is across a region or the country is irrelevant. What is relevant is affordability in each location;

(c) Housing affordability is often confused (by mis-interpretation) with the *entry level price* for a first home buyer. By this I mean that the medium house price is contextually argued as expensive when one considers it in isolation for a purchase with a minimum deposit – a scenario more akin to that of a first home buyer (and the annual value of the mortgage required to service that home). However many buyers in any market have equity – either gifted or created over time from previous property purchases – who are not affected as much by the value of the property medium. Because affordability is not such an issue for people with equity I would rephrase the issue of housing affordability and narrow the focus to suggest that the issue is actually the affordable cost of entering the property market;

(d) Unaffordable housing is partially due to the New Zealand property market being awash with speculative purchasers getting rich by bidding up the value of each others homes. New Zealand has a culture of trading and investing in property which creates far more impetus to sell for a profit which pushes up property values. As a subsequent result an ever increasing housing market by nature will eliminate people from participating. I suggest that New Zealander's narrow focus on property for investment and returns is in part affecting affordability. Houses are no longer viewed as simple a place to live, but an investment and a way to make a quick dollar. This culture of profiteering from property is exacerbating the issue;

(e) Unaffordable housing is partially due to the high cost of building materials in New Zealand. I raise this as a significant issue. Some material suppliers in New Zealand are selling materials for significantly higher costs than are sold for in Australia (by comparison). Some building material suppliers would argue that the higher product prices in NZ are the result of *economies of scale* (that NZ is a smaller economy so the costs have to be higher). However there are plenty of business typologies that exist in New Zealand that prove that to be a false statement. The issue at large (in my opinion) relates to the profit margins achieved in New Zealand by building material suppliers – who are operating on higher margins than comparatively are achieved in countries like Australia;

(f) The issue of housing affordability is partially due to the fact that trading banks do not typically lend beyond 70% on unit titled residential housing (such as apartments and terrace houses). The reason for this in part is that banking covenants (when banks borrow from other banks) generally prohibit loan to equity ratios greater than 70% unless the bank (as the lender) can insure the risk part of the mortgage – which is anything above the 70% threshold. This is possible on fee simple titles but not unit titled housing due to the inherent risk perceived. Property risk is ultimately reduced by exposure to land appreciation. As land appreciates over time eliminates risk diminishes for insurance companies. However unit titled housing typically offers a pro-rata apportionment share of a large land parcel on which many other dwellings are located. As such exposure to capital growth is low meaning the insured part of the mortgage is at a much higher level of risk. Insurance companies simply will not insure mortgages over 70% meaning the banks cannot lend above this threshold. Thus, banks are in effect making it impossible to borrow on smaller cheaper property such as apartments for owner occupiers and thus forcing the market to trade into stand alone homes. This of course acts to push up prices for fee simple titled stand alone homes;

(g) The cost of land –land owners and speculators (who are land banking and therefore speculating on the basis of supply and demand) are pushing up values. This is predominant in the MUL fringe areas and in high demand locations where supply of land for redevelopment is limited. In Auckland there is an under supply of zoned land which means competition for land resources;

(h) Council consolidation policies such as MUL's (Metropolitan Urban Limits). Containment were designed to create intensification but have failed to do so. This means that land values inside the MUL and directly outside the MUL are signigicantly higher than what they should be. Melbourne for example did not adopt a consolidation policy and so Melbourne land prices are fairly low and very stable. Sydney by comparison did engage a consolidation policy and the result is that Sydney land prices have grown significantly to make that city one of the most expensive in the world. In my view this demonstrates the basics of the economic principle of supply and demand;

(i) Regulation – the time taken to consent developments impacts on interest holding costs and these are passed onto the purchasers;

(j) Development and financial contributions – Councils are increasingly putting up costs for these to reduce the cost on the rate payer. This means that house prices increase. A $10,000 fee is $25,000 once margin, holding costs and GST are added. In Auckland many development and financial contributions total $40,000 per dwelling or more;

(k) Expectation – people expect more. 20 years ago we all grew up in houses averaging 140 sqm now we expect 250 sqm, three bathrooms, a media room, two car garages and a pool. Expectations like this are increasing costs;

(l) Incomes – we as a nation have very low incomes. Now that house prices are 2-3 times the value they were 10 years ago we have a nation that has been priced out of home ownership as their incomes have stagnated;

(m) Investors are predominantly using equity in existing property to buy investment property. This means nobody is saving cash and that to me signals that we as a country are not earning enough;

(n) Government assistance for first home buyers is skewed in favour of lower income demographics, yet inherently there are upsides to doing the same for those on higher incomes but who lack the ability to ever generate a deposit large enough. For instance a young couple on $150,000 combined income could not save the $100,000 deposit required for the average $500,000 Auckland house (20% deposit with 80% mortgage). So they miss out, when, the government could be helping them too.People on higher incomes but with no equity are a more reliable and safer bet;

(o) Investors are predominantly after capital gain not long term passive investments. Thus we are fuelling speculative price increases by way of short term returns. We need a national culture change with investment for the long term and retirement as passive income;

(p) There is no institutional investment in residential property because the returns are low and the interest rates high and they require significant management where as commercial is much easier to manage and more stable;

(q) The most influential factor for investment in the housing market has been the boom times. This has created equity and the self perpetuating cycle of this allows for repeat acquisitions as equity increases over time;

(r) Under supply of housing is a myth. We do not have a lack of supply or people without homes. The average statistical shortfall is a misleading assumption with no real truth. Where are the homeless people, the full hotels, the people commuting from other towns, the over crowded existing homes?;

(s) We have a lack of capital gains tax;

(t) Greenfield development is not necessarily affordable. In fact a typical Auckland house and land package will cost at least $650,000 to 900,000. This is the predominantly exclusive domain of second home buyers. Suburban greenfield homes are popular because banks make borrowing to buy one very easy, and the homes are quick and easy to build. Greenfields has an important role to play but it is not the solution to housing affordability and must form part of an integrated solution for housing – particularly in Auckland. Many advocates for Greenfield development are communicating that supply and demand (the restriction of zoned land and the restriction of supply of land) is causing land prices to be high and that the release of more land will relieve pressure. I agree with this principle, but add that it can apply to all land universally – including inside the MUL;

(u) Development Contributions need to be controlled. Rate payers need to pay their way, and Councils should stop passing the cost onto development;

(v) Capital gains taxes should be applied on the sale of property (except the family home) to control speculation

5. I am happy to appear to the Productivity Commission if requested or to provide further information.

Signature:

Brady Nixon

Date: 3 August 2011