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Dear Julie,

NEW ZEALAND PLANNING INSTITUTES MEDIA ADVISORY – DEMOGRAPHIA

## **INTRODUCTION**

The New Zealand Planning Institute is to be commended for the above Media Advisory. Whilst of course I disagree with some of the comments, the most important points are that the Institute has come out strongly supporting Demographia and stating clearly that “affordable housing takes its rightful place at the heart of community planning decision making, alongside other key elements such as environmental sustainability”.

We are all agreed on that. It would be fair to say however that we still have some way to go in working through the best paths to restoring housing affordability in New Zealand, whilst protecting and indeed improving our environment. In my view, this will only happen if we commit ourselves to rigorously researching this issue and allowing the evidence to guide us. This important issue deserves nothing less.

The purpose of this letter is to explain how the Demographia International Housing Affordability Survey came about, outline the issues as I see it and expand on the suggestions within the “Restoring Housing Affordability” section of the 2007 Survey.

It needs to be stated from the outset that I am not at all hostile to planners or local government. To progress - in environmental, social and economic terms - requires a solid foundation of good governance. So this is very much about strengthening the foundation.

People should be able to live where they choose – whether it be in the suburban environment, lifestyle blocks or intensive inner city apartments. Paradoxically – by artificially inflating urban land values, the

quality of much of the intensive inner city developments and environment is much poorer than it needs be. If too much is paid for the land – less goes in to the construction and associated environmental improvements.

If you get the land wrong – everything else is wrong.

## **THE SIGNIFICANCE OF THE DEMOGRAPHIA SURVEY**

The Annual Demographia International Housing Affordability Survey came about due to concerns I had back in mid 2004, that New Zealanders and Australians were not sufficiently aware of the massive inflationary distortions of our residential property markets. Normal residential markets should not exceed three times household incomes. We know from this years survey that across the board, Canadians require 3.2 times annual household income to house themselves, Americans 3.7, the British 5.5, the Irish 5.7, the Australians 6.6 and New Zealanders 6.0 times. So we have a massive problem to deal with.

Whilst distortions of this magnitude have extremely serious consequences in environmental and economic terms (dealt with a little later), what really drove me to become involved in this issue back in late 2004 with Wendell Cox - are the social consequences. **The major victims of these market distortions are the young, the poor and the disadvantaged.** As these markets persist in inflating and running ahead of the incomes that underpin them – progressively more and more of these people are unnecessarily being denied their right to the opportunity of home ownership and better quality housing. This will continue until the land supply issue is dealt with.

**This generation of young New Zealanders and Australians is the first that can expect to live in poorer quality housing than the generation that precedes them.** The lucky ones on higher incomes and / or with parental support will only be able to purchase houses of an inferior quality in comparison with what they should be able to purchase in normal markets, achieving median multiples at or below 3.

**As I see it – as New Zealanders and Australians - we all need to work together in finding solutions to this issue – so that over a reasonable time of say 10 years – we restore housing affordability to the international standard of three times household incomes. Is that too much to ask?**

## **SEVEN KEY POINTS TO RESTORING AFFORDABILITY IN NEW ZEALAND**

Within this year's 3<sup>rd</sup> Edition Demographia International Housing Affordability Survey [www.demographia.com](http://www.demographia.com) we suggest seven key points to focus on in this important work of restoring housing affordability. It needs to be noted too, that the findings and recommendations of the survey are underpinned by robust international research. Indeed - we outline much of this important research within the survey itself, with extensive endnotes and links through to key reports and documents. Because the survey covers six nations, the suggested solutions are outlined in broad terms. I will however expand on these as they relate to New Zealand.

**We have been clear within the 2007 Demographia Survey that the issues are not complex, so there is no need for complex solutions.**

**(1) Housing Affordability Targets.** Put in the simplest terms possible – if we do not have credible measures and targets in place in dealing with this issue – we are just talking hot air. The “median multiple” as employed by Demographia is internationally recognised and recommended by the United Nations and the World Bank.

Over the past few months, I have communicated with the Centre for Housing Research of Aotearoa New Zealand (CHRANZ) and the Reserve Bank of New Zealand, encouraging them to embark on a national survey (mirroring the Demographia approach) of all Local Authority areas and significant urban markets, so that the current median multiples and the trends over the past twenty years can be ascertained. This will then illustrate which areas are experiencing housing stress and provide the foundation to allow us to start the process of dealing with this issue.

Both organisations are currently in the process of “considering” this request and it is hoped that other organisations and people concerned with this issue, encourage these two organisations to proceed with this important work as soon as possible. The people to communicate with on this issue are the Reserve Bank Governor Dr Alan Bollard [alan.bollard@rbnz.govt.nz](mailto:alan.bollard@rbnz.govt.nz), the RBNZ Statistics Units Manager Rochelle Barrow [rochelle.barrow@rbnz.govt.nz](mailto:rochelle.barrow@rbnz.govt.nz) and the CHRANZ Manager Terrence Aschoff [terrence.aschoff@chranz.co.nz](mailto:terrence.aschoff@chranz.co.nz).

There are also supplementary measures and indicators that need to be considered as well, as outlined within this year Demographia Survey and recommended by the United Nations and the World Bank.

**(2) Liberalizing Land Use Processes.** There is no shortage of land for urban development in New Zealand, with well less than 1.4% of our land area currently urbanized (Australia less than 0.3%). This is a generous estimate, based on an urban density of slightly below 900 people per square kilometre, whereas Christchurch for example has an urban density of around 1,700 people per square kilometre. It is possible that only around 0.75% of our land area is urbanized.

Urbanization in itself is a natural process of human consolidation which should not be hindered in any way. After all – our urban areas are the economic drivers of a modern economy, providing enormous opportunities for social and economic advancement. It is the “forced urban consolidation” (I will refrain from using the Orwellian term Smart Growth) which paradoxically actually inhibits this natural process, forcing greater sprawl as people flee the artificially inflated prices of the major urban markets to outlying smaller centres and nearby rural areas. A Lincoln University Study completed in 2004, indicated at that stage around 6800 new lifestyle blocks are created each year requiring about 376 square kilometres of additional rural land.

To urbanize further land around our urban fringes at current population growth rates, would at best require about 29 square kilometres of rural land and at the current Christchurch density of 1,700 people per square kilometre as a guide, would therefore suggest a further 49,000 people being housed annually. This represents at best one hundredth of one per cent of our total land area per annum being urbanised around our urban fringes. We could not urbanize an additional half a percent of our total land area over the next fifty years if we tried.

This suggests that Local Authorities need to think more in terms of creating open zones around the urban fringes and protecting properly researched environmental areas that are out of bounds for development. The 2006 UK HM Treasury Barker Review on land use clearly illustrated that most people are very confused about the purpose of green belts – but emphatically support the need for more green space within their urban areas. It is likely most New Zealand urban dwellers would support this too. We want green cities. Green belts are a failure.

**(3) Minimizing Peripheral Land Price Distortions.** To date, too many local authorities have either inadvertently (in the case of the smaller authorities generally) or deliberately starved our urban areas of land supply (in the case of the larger authorities for ideological reasons – based on sham research and consultation), so that the remaining scarce land supply has inflated in price hugely from between (as a rough guide) \$3,000 to \$50,000 per hectare for the adjoining true rural (farms – not lifestyle blocks

largely influenced by urban section pricing) to undeveloped fringe raw urban land prices of \$1,000,000 and much more per hectare – artificially distorting the prices by 20, 30 50 plus times as much (the British distortions range up to 500 times – 2006 UK Barker Review). This explains why our section prices in New Zealand (REINZ December month figures) have inflated as follows - 2000 - \$81,000; 2001 - \$85,000; 2002 - \$94,000; 2003 - \$115,000; 2004 - \$135,000; 2005 - \$150,000 and December 2006 - \$165,000. No wonder New Zealanders household debt levels have doubled over the past six years. This relentless and unnecessary artificial inflation in land prices, inflating house prices and inflating rentals will continue until land supply is opened up. No sooner – no later.

It is of vital importance Local Authorities put in place as soon as possible the appropriate regulatory mechanisms and processes, to ensure that regular reviews occur, so that firstly, these pricing distortions are minimised over a reasonable time and secondly, that they do not creep up on us again. Price is the only true and reliable measure of scarcity or abundance – and New Zealand Local Authorities need to avoid the Australian practice of estimating “years of supply” (politicians and planners keeping the prices up for their property business mates – the “unholy alliance”).

**(4) Equitable Infrastructure Finance.** Those owning the infrastructure must be required to purchase it – with the appropriate mix of debt and equity finance. This approach should be phased in over a reasonable period of time. Other providers such as hotels, airlines and taxis do not expect a “capital contribution” when people use their services and nor should public and private infrastructure providers - for both reasons of equity and efficiency.

Generally the useful life of infrastructure should be around 100 and as much as 200 years – and the financing structures should reflect this. As the infrastructure ages, it will likely require more maintenance and to extend its life further, there is considerable merit in easing the load on it over time, with lowered urban densities.

The current practice of charging capital contributions is grossly inequitable and inefficient – as the subdivider and builder pass them on with profit margins to the end purchaser. The end purchaser in turn is required to add these costs to the house mortgage and pay it back over an unnecessarily short period of just 20 to 30 years. The infrastructure provider should have the capacity of appropriately debt financing this over a considerably longer term and at a lower interest rate.

This is the how infrastructure is financed within most of the North American markets.

The difficulties Local Authorities are currently experiencing in meeting infrastructure obligations to their communities, is probably caused by the increasing range of activities local government is engaging in. Rates are a property tax and should properly be directed to providing property services. Should local government elect or central government force it to engage in activities not directly related to property services – where user pay is not applicable - these activities should be financed by central government from income tax – for obvious reasons of equity and efficiency.

It is strange to say the least - Local Governments seem to find it that much more difficult to debt and equity financing infrastructure than they did 20 and 30 years ago, when we were considerably less wealthy than we are today. Particularly when one considers the generous rates increases Local Authorities are extracting from their bewildered citizens. There is an urgent need for research on the trends in local government expenditure over this time and the appropriate financing for its range of activities.

**(5) Economic Impact Analysis.** (From the 2007 Demographia Survey). Economic impacts and the attendant longer term social implications should be seriously considered in land use decisions, just as governments prepare statutorily required environmental documentation. Economic Impact Statements

could be used to project future housing affordability (Median Multiples), including their impact on the (local) economy, households and competitiveness.

**(6) Professional Education.** This unnecessary housing affordability crisis should at the very least be a wake up call for the planning community, in that the professions historic aversion to economics is no longer acceptable.

There is an urgent need to incorporate sound economics training within the curricula of the planning schools for students. But current practitioners as well need to be required to participate in further training, so that they better understand markets, development dynamics and most importantly, the costs and benefits of regulatory interventions.

Planning as we know it is of recent origin and it needs to be clearly understood that a society can function without it. Planners therefore need to appreciate that it is up to them to prove how they add value (in economic, social and environmental terms) to the communities they serve.

**(7) Research.** The key question that needs to be asked here is – how can Local Authorities with their communities be best assisted, as they work to restore housing affordability within their local communities?

We have already discussed the importance of getting a National Median Multiple Survey underway as soon as possible. Let's briefly discuss further focused research projects and ideas that need to be considered as well.

**(a) Subdivision Cost Analysis.** Recently the Melbourne based Institute of Public Affairs completed a Report on the Western Australian housing crisis (moderately growing Perth hyper inflated by 42% last year – due to land supply mismanagement) and within this report indicated that the physical on site costs of subdivision and infrastructure work in that State are in the order of \$Aust39,000 per lot or section. The IPA intends to embark on further Reports of other States within Australia during 2007. We need to see studies of this nature get underway as soon as possible in New Zealand. Local Authorities will need this information as they plan ahead, phasing in the appropriate financing structures for infrastructure.

**(b) Comparative Housing Costs and Performance Analysis.** During late 2004 CHRANZ commissioned a Report from DTZ (NZ) Ltd to compare new housing costs of New Zealand with those of Australia and elsewhere. Whilst this study was rather superficial, it found the performance of our residential construction sector trailing its Australian counterpart by a considerable margin. In my view, much of this has been caused by the artificially induced land scarcities during the 1980's and 1990's when our home building industry nosedived and waves of builders left these shores for Australia. These wild swings are hugely damaging to the construction industry's long term performance.

Unfortunately Australia is currently at very real risk of severely damaging the performance (as has already happened in New Zealand due to a longer history of starving land supply) of what was the star performer of the Australian economy – its residential construction sector – as land supply strangulation destroys the efficiencies painstakingly developed over many decades. McKinseys Global Institute some years ago rated the Australian industry one of the best two performers in the world.

I am of the view that with our current population growth rate of slightly in excess of 1% per annum, our annual build rates should move between about 7 (about 28,000 units) to 9 (about 36,000) units per 1000 population annually through the normal building cycle as our Median Multiples move between 2.5 to 3.0 – allowing sound development ratios where around 25% goes to the lot / section and 75% to the actual building works. Not the perverse 50% plus going towards the land, degrading the new house quality, as is

the case at the moment. Rental vacancies should not fall below 5% to ensure inflation is not triggered and provide a cushion as demand increases. Currently we are only building at the rate of 6 units per 1000 people on an annual basis (around 24,000) suggesting that we are currently putting in place at least 10,000 less residential units per annum than we should be.

Ireland (the Celtic Tiger) – a country similar in population to ours has a current build rate of about 23 per 1000 people annually (near 100,000 units) as it plays catch up with other developed countries. This massive catch up in construction is due to the Irish authorities failing to ensure adequate land supply through the early stages of the Irish economic renaissance. The Texas current annual build rate is 9.25 per 1000 (205,000 units), Houston near 10 per 1000 (50,000 units) and Australia - a land supply starved 7 (140,000 units). Australia is currently under building by approximately 40,000 to 50,000 residential units per year. Britain with a population of 60 million is near three times the population of Texas and Australia. Sadly, Britain is only getting in 165,000 “shoeboxes” (average size 76 square metres) annually, or less than 3 units per 1000 population. Britain is currently at or near under replacement levels (some wits think their shoeboxes will have to last at least 1,600 years now – my estimate – eternity!). When these severely suppressed build rates and house sizes are brought together - Britain on an equivalent population basis, constructs around 10% of the residential floor space Texas does per annum. It appears intent on re-creating feudalism.

A comparative analysis of the Australian and New Zealand residential construction sector should properly be carried out by a reputable Quantity Surveying firm with a deep knowledge of both markets. It is important to ensure that the figures are backed up with check pricing from actual development / building projects and peer reviewed by other development and construction specialists, prior to the Reports completion.

Again – it seems likely the Centre for Housing Research of Aotearoa New Zealand (CHRANZ) and the Reserve Bank of New Zealand are the best placed to commission this important research work.

**(c) Learning from Affordable Housing Markets:** It is interesting that the Annual Demographia Survey is now on its 3<sup>rd</sup> Edition – and to date there has been no initiative taken by organisations and people from throughout Australia and New Zealand concerned with this issue, to organise study tours of selected successful affordable markets identified within the survey. One would think that New Zealanders may have learnt something from the leaky housing fiasco, where these problems occurred earlier in Canada and the United States – and instead of learning from these experiences – we chose to remain ignorant and elected to repeat the same mistakes here.

We need to learn about the regulatory approaches employed within these markets, infrastructure financing techniques and construction methods and performance – to see what can possibly be adopted or adapted to suit New Zealand conditions. I would like to know, for example, how they manage to build new starter homes with land in Houston for \$US700 per square metre – so that a new home of 100 square metres (1,100 square feet) costs \$US70,000 – 200 square metres (about 2,200 square feet) costs \$US140,000 – suggesting house build costs in the order \$US550 per square metre. It is likely the same development / construction performances would be mirrored in the other growing affordable urban markets identified within the 2007 Demographia Survey.

## **FORCED URBAN CONSOLIDATION. A DEAD DUCK. FORGET IT.**

Within this letter I will refrain from pointing out the failures of forced urban consolidation – as the evidence is so clear and overwhelming in social, environmental and economic terms, that it has proven itself to be a complete failure. I must say though - I am rather surprised in how it ever got the political traction it did – without a skerrick of reputable or credible research to underpin it.

## **NEED FOR QUALITY PUBLIC DISCUSSION AND DEBATE.**

It is heartened in the way both the print and electronic media of New Zealand have dealt with this issue to date. Special mention must be made of the work of Virginia Larsen of North & South (who's August 2006 cover story "Locked Out" contributed enormously in getting this public discussion underway in New Zealand), Anne Gibson of the New Zealand Herald, Chris Hutchings of the NBR, Rob Stock, Rod Oram, Greg Ninness and Ruth Laugesen of the Sunday Times; Matt Philp of The Press, Owen Poland of TV1, Michael Daly of the Press Association, Eran Dondas of the Christchurch Star, Bob Dey of BD Central and the people from the Nelson and Marlborough papers.

For reasons I don't understand, much of the Australian print media property reporting of this serious issue seems to lack sorely needed analytical and investigative focus. These issues are not complex and the print media has an obligation to its communities to delve in the structures and political pressures currently seriously damaging the performance of the important housing sector.

In fact I would go so far as to say that of the six nations and 159 urban markets (remember a good number of these urban markets are bigger in population terms than New Zealand itself) surveyed – the New Zealand media is currently the clear leader.

I suspect this is because Kiwis really do care.

I wish I could say the same about economists and property commentators.

Regrettably - we do not at this stage have any skilled and competent urban economists in New Zealand – or Australia for that matter. Dr Alan Moran of the IPA in Melbourne and our Dr Arthur Grimes of Motu Research in New Zealand are leading the charge in up skilling in this important and too long neglected specialty of economics.

It would be fair to say most other generalist economists interested in this issue have some considerable way to go in understanding urban economics. Sadly – a small number of them are still wrestling with the significance and findings of the Demographia Survey – after the third annual edition. The public commentary is often of such a woeful standard - to the extent many of these people are still referring to property inflation as growth and persisting with the illusion that interest rates have a major influence on property prices. As the great Milton Friedman said "You can teach some people economics for 20 years – and they still wouldn't get it". I suspect this may be because too many of them are bamboozled with models (of the economic variety) and theories, but seriously lack any practical or micro understanding of this important issue. It is hoped these people will make every attempt to study this subject of urban economics as soon as possible.

These people need to better understand the serious consequences of artificial urban market inflation and in how it changes and overstimulates market behaviour (shifting from a real wealth creation to a speculative cowboy economy – as is the case at the moment), triggers ineffectual (as far as the property market is concerned) and harmful Reserve Bank responses with unnecessary interest rates increases, leading to an overvalued currency and current account deficits which in turn inflicts enormous unnecessary damage on our export sector.

They may like to ponder why the Greater Houston urban market with a population of 5.2 million and a GDP / GAP of around \$US220 billion (twice New Zealand's at about \$110 billion) has a total residential property market value less than New Zealand's in US dollars (at current exchange rates).

Thankfully at this stage - the serious and damaging consequences of property inflation appear to be better understood by the general public, politicians, planners and the media.

## **NEED FOR RESPONSIBLE POLITICAL LEADERSHIP**

Unfortunately - our Housing Minister, Hon Chris Carter appears to have weakened, as he's moved since around August last year when the focus was clearly on supply. I'm referring here to his comments within the cover story "Locked Out" of the August issue of North & South, his letter to me (available Sydney website [www.thenewcity.info](http://www.thenewcity.info) Pavletich article) and subsequent address to the Real Estate Institute. In fact I commended the Minister publicly at that stage and am currently enduring the "I told you so" taunts from certain individuals from across the political spectrum – including disappointed Labour Party supporters.

It all seemed to go off track about the time he spoke to the Local Government New Zealand people during late 2006. An event incidentally that was to be organised by Local Government New Zealand, but instead was held under the auspices of an Australasian Housing Management organisation.

It would appear that the representative body of the Local Authorities – Local Government New Zealand – has not adequately grasped the widespread community concern regarding housing affordability. It is not uncommon for these representative organisations to take on a life of their own and it would appear member authorities need to better monitor the performance of this organisation.

I still have confidence in Housing Minister Chris Carter [chris.carter@parliament.govt.nz](mailto:chris.carter@parliament.govt.nz), because I am of the opinion that he cares deeply about this issue and intends to do all he can to restore housing affordability in New Zealand. And I will ignore his political sky larking 'naughty developer' comments in this weekend's media – and refrain from responding with infantile "naughty planner" drivel. It needs to be said that others such as Philip Heatley [philip.heatley@parliament.govt.nz](mailto:philip.heatley@parliament.govt.nz), National Party Housing Spokesman; Gordon Copeland [gordon.copeland@parliament.govt.nz](mailto:gordon.copeland@parliament.govt.nz) of United Future and I am sure many others within the New Zealand Parliament do care deeply about this issue as well. This issue transcends philosophies and political affiliations. I do urge other New Zealanders to express their views by emailing these people – and of course their own Members of Parliament and Local Authority Representatives.

It is to be hoped that before too long - our Housing Minister Chris Carter will again focus on supply and provide the cross party leadership - so that we can start on the path to restoring housing affordability in New Zealand.

Please pass on my warm regards and thanks to the leadership of the New Zealand Planning Institute for its Media Advisory. Feel free to distribute and comment on this letter as you wish.

Yours sincerely,

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