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A PERSONAL PERSPECTIVE.....

## PUTTING THE “LOCAL” BACK IN TO LOCAL GOVERNMENT

### INTRODUCTION

This paper has been prepared in response to a number of requests for information by people within the media and others, following the article “Planners put wise to wide open spaces” by Alan Woods in the Australian of 23 November 2005, reporting on the start of long overdue land releases for urban development in Melbourne, Sydney and Brisbane, Australia. It would appear too, that there is a significant change of thinking occurring within the Christchurch City Council and its neighbours, with respect to the proposed Greater Christchurch Urban Development Strategy. It is to be hoped that the other major urban areas throughout New Zealand, begin to “wake up” too.

They will need to. What is happening in Australia simply cannot be ignored.

### THE DEMOGRAPHIA INTERNATIONAL HOUSING AFFORDABILITY SURVEY

The writer is a commercial property developer based in Christchurch, New Zealand and was the instigator and researcher of the Demographia International Housing Affordability Survey 2005, led by Wendell Cox of the Wendell Cox Consultancy, St Louis, USA – released during February.

I have spent some 26 years in the industry and led the Property Council in the South Island for a period of four years from soon after its inception in 1991. Over the years I have taken an interest in public policy issues relating to the industry, such as The Resource Management Act (New Zealand’s land use law), local authority financial management and heritage – and have developed extensively on Maori leasehold land.

So it may come as a surprise in how as a commercial property developer, I became involved with housing issues and the Demographia International Housing Affordability Survey. Let me explain.

During April 2004, I was asked to read and comment on the Draft South East Queensland Regional Strategy Plan by Brian Stewart, Chief Executive of the Queensland Division of the Urban Development Institute of Australia (UDIA) of which I happen to be a fellow. The document shocked me, as it appeared to be a near carbon copy of reams of other irrational Smart Growth documents I had read from New Zealand and elsewhere.

I had also been concerned for some time, that the public had not been adequately informed about the seriousness of housing prices escalating at an unsustainable pace. In healthy markets, house prices and incomes should move pretty much in tandem.

By October of 2004, I had teamed up with Wendell Cox of the Wendell Cox Consultancy – and the Demographia International Housing Affordability Survey was created.

This international Survey is the first of its type that we are aware of and also according to the Royal Institution of Chartered Surveyors. It is based on the “median multiple approach” and expresses affordability by illustrating how many years income a household on the median income would require to purchase the median priced house, within the 88 urban areas of the four countries surveyed being – the United States, Canada, Australia and New Zealand. It will be expanded and repeated annually.

Cities with a median multiple below 3 are affordable; below 4 unaffordable; below 5 seriously unaffordable and above that, severely unaffordable. The New Zealand and Australian cities generally scored extremely poorly, in fact, disgracefully so.

Both Wendell Cox and I were well aware of the reality that all urban areas should score at or below 3 – and if they didn't, this was a sure sign of some geographic constraint or poor quality governance. Most of the southern and central urban areas of the United States were comfortably within the “affordable” category.

In fact – below 3, as many of these “international best practice” cities within the United States are indeed achieving around 2.7. Now - as the Australian production residential construction sector is some 10 – 20 % more efficient than the US one, the “international best practice” benchmark, should really be around the 2.4 mark. This view is based on an earlier HIA Report in referring to a McKinsey Study. The founder and former Managing Director of the McKinseys Global Institute, Bill Lewis, discussed this within his recently released book “The Power of Productivity”.

We were also aware, that most urban areas within Australia and New Zealand were affordable or near so, back in 1980.

## HOW DID WE BECOME UNAFFORDABLE?

Why – and how did this happen?

It is impossible within this short paper to answer these questions comprehensively and in any event, the writers' knowledge and experiences are of course limited. I doubt that one can ever be an “expert” in local government – but simply a student of it.

So what follows are the opinions of a “student”.

If there is one thing I have learnt, it is that there are two types of local government in this world – the small and the bad.

Highly disciplined commercial organisations in a fiercely competitive environment have great difficulties with mergers and achieving cost savings. In fact, very few commercial mergers are considered successes over the medium to long term. If it is that difficult for commercial entities – it is even more so for local government. There is an urgent need for sound research on what the optimum size a local authority should be, to get the “local” back in to local government. This will vary of course when all factors are considered

for specific locations. There are some indications from initial research in the United States that those with a population base of around 40,000 perform best.

This issue is extremely important, as local government needs to be truly “local” to be effective and indeed governable and manageable. In fact, we often hear the need for a greater “sense of community” from those associated with local government. It would be most helpful if they assisted with this, by breaking up to smaller units – so that they are more appropriately structured in endeavouring to achieve this.

It is no accident that the local authorities in Australia and New Zealand, with the most intrusive land use regulatory regimes and susceptibility to Smart Growth doctrines, are the largest ones. In fact, the larger they are, generally, the worse they are. Parkinson’s Law in practice where “work expands to fill the time available”. One could even go further than what C Northcote Parkinson said, in that it gives them the scope and time to fantasize as well. Smart growth and excessively intrusive planning are a bureaucrat’s gold mine.

One observes this characteristic less in smaller local authorities. In fact senior managers, who have worked in both larger and smaller local authorities, tell me without exception, how much harder they have to work in the smaller ones. And telling them how pleased one is to learn of this, does not of course please them! But it should please ratepayers – their customers.

The reasons for this are really self evident. A community and its elected representatives of smaller local authorities, have a greater understanding of the performance of their local authority staff, than the larger ones could ever hope to have.

## THE BRITISH PLANNING AND PROPERTY DISASTER

The old style British planning (and its American cousin Smart Growth) is obsolete – and should have been discarded years ago. A recent research report by the UK think tank Policy Exchange, graphically illustrates the sorry state of the British property market and its land use regulatory environment. It can only be described as the disgrace of the Western world.

Not too many Australians and New Zealanders are aware that the average size of the new British home in 1920 was 120 square metres and that today, new British homes are 76 square metres on average and still shrinking each year. I simply cannot comprehend what a 76 square metre (single level say 7.6 metres by 10 metres – or 5 metres, for a two level) is like to live in. Step that out and attempt to understand how say three or four bedrooms are incorporated, within what can only be described as “rats nest” housing.

This is what planners are attempting to force on their communities in New Zealand and Australia. Didn’t our forebears leave the old world, to get away from this sort of environment?

On average, new homes in Canada, Australia, New Zealand and the United States are in excess of 200 square metres and getting larger by about 1% each year.

British housing is considered the worst in Western Europe and the British build rate; at just 3 new houses per thousand people per annum is the equal worst. Normal markets should be achieving 6, 8 and even 9 and some of the “catch up” economies such as Spain and the Republic of Ireland are achieving build rates in the order of 13 to 15 per thousand people per annum.

Interestingly, as the fad of town planning became popular in Britain following the Second World War, both Australia and New Zealand followed to a degree, with flows of planners to and from the “colonies” to Britain.

## FROM PLANS – TO ENVIRONMENTAL MANUALS

New Zealand discarded the Town & Country Planning Act in 1991 and replaced it with the environmental effects based Resource Management Act. But it still has some considerably way to go in ridding itself of this planning culture. Australia surprisingly, has made no real attempt to date to discard planning and replace it with legislation based on environmental standards.

In both countries we should not have “plans” at all, but instead, small District or City Environmental Manuals, that are able to be read and clearly understood by citizens. If they don’t pass this test – the authors should be made to re write them until they are concise and intelligible.

This in turn should make the work of our land use environmental administrators (again the word “planner” should be discarded) that much simpler. Particularly if Environmental Manuals are properly drafted, so that the majority of development applications have a reasonable chance of complying, by following a “tick the box” process. And of course, if there are difficulties in meeting reasoned and reasonable environmental standards, the usual review processes need to be in place.

## NEED FOR PROPERLY EDUCATED ENVIRONMENTAL ADMINISTRATORS

This in turn leads us on to the issue of “planners education” and as I have just explained, the word “planner” should be discarded completely, and these people simply referred to as “environmental administrators” (EAs), being a shortened version of “land use environmental administrators”. The administration of reasoned and reasonable environmental standards need not be at all complex and the training structures should reflect this.

Around some 12 months ago, the Planning Institute of Australia released an excellent and frank report, dealing with the problems within this sector. It clearly identified the low morale and high attrition rates, caused mainly by the “toxic environments” these people worked in. Whilst one senior planner correctly identified the root of the problem as being the cumbersome, unintelligible and unwieldy plans that had “spun out of control”, regrettably the report did not continue through to suggest effective solutions to these massive problems.

I have already touched on this, in that there is an urgent need to move from planning to the administration of reasoned and reasonable environmental standards. But I need to expand on this, as it relates to the employment and education of these people.

As an experienced developer, it saddens me greatly in dealing with these young people, who are the products (or more properly victims) of the tertiary educations they are put through. The “education” – such as it is - could best be described as “Malthusian utopianism” in that the world is going to hell in a hand basket, and they are charged with the responsibility of “saving” it. The developers are of course one of the major reasons why the world is going to hell – as they see it!

The experience these poor kids are put through after leaving the sanctuary of University and hitting the real world is very similar to that of younger children learning that Santa does not exist. It all comes as a bit of a shock and disappointment. And after a year or two in the “real world”, their assessments of the

former teachers could not be described as “laudatory”. In fact, I would not relay the comments made to me here.

So we should not be surprised at all by the “low morale”. No wonder so many of them leave after a few years, in an endeavour to find more constructive and congenial employment.

This need not be the case.

My own view is that young people should on leaving secondary school be employed by Local Authorities directly as “junior environmental administrators” assisting their senior staff and learning as they work alongside them, the District or City Environmental Manuals they are required to work with. As these Manuals must be by their very nature, simple and easily understood documents, any further academic work at this stage, should be followed up within the Polytechnic’s, along the lines currently required of tradespeople. The best education is when the practical and academic happen in tandem.

After a reasonable time working their way through the ranks and in having the practical experience and maturity as well, those with an interest and aptitude to follow through with policy issues should then have the opportunity for University study. And most definitely not flaky University study.

It needs to be noted at this point, that one of the major reasons why our current land use Plans are such convoluted and unintelligible documents, is because they are written by people who don’t know what they are talking about. It’s that simple. No wonder so much time is spent in the Courts interpreting or more properly, trying to make sense of them.

Local authorities themselves could assist enormously, by starting on the path of reviewing their employment requirements and setting up the appropriate structures and systems, to allow this to get underway. As these employment changes occur and plans are substituted with soundly drafted Environmental Manuals, they will find that their costs will fall significantly over a reasonable time. And just as importantly, their staff will be much happier and stay on longer, as they will not have to endure the “toxic environment” (to use the Planning Institute of Australia term) created by the convoluted and unintelligible “Malthusian Utopian” Plans they are currently required to administer.

Elected representatives will also find their lives considerably easier, as they will be spared being punished politically for ideological fantasies generated by the regulatory staff.

## GETTING HOUSING AFFORDABILITY TARGETS IN TO PLACE

So now lets go back somewhat, to the issue of ‘housing affordability’, the Demographia International Housing Affordability Survey and in how as a foundation, it can be used by local authorities and their communities, to get affordability to “international best practice” levels.

Already – one major Australian industry group has taken the initiative, in using the Demographia “median multiple” measure to assess affordability at local government level within its State, both currently and historically. Other State Divisions are likely to follow suit. This is the sort of initiative we need to see more of from industry and community groups in constructively assisting local authorities, as they work through these issues.

We do need other industry, research and academic institutions to follow this lead, in researching land costs across urban peripheral zones, infrastructure charges of our urban areas, international methods of better financing infrastructure – and so forth – to better assist local authorities and their communities.

Local authorities need to urgently put in place “Housing Affordability Targets’ using the Demographia Median Multiple method as a guide, so that they reach “international best practice” levels within say 10 years. Put more bluntly, to unravel the mess created over the past 20 years or so, when earlier most Australian and New Zealand urban areas were affordable or near affordable. That is – when the median house price did not exceed 3 times the median household income.

Interestingly, this was one of the recommendations of the British HM Treasury Barker (Kate Barker) review of 2004, which is currently being considered by the Government of that country, under the guidance of Deputy Prime Minister John Prescott. A decision is imminent.

It should be up to each individual Local Authority and its community to research and better understand the issue itself, to explore why their housing prices are artificially high and then take steps to make the necessary changes. They will need to carefully examine land supply, infrastructure charges and financing, regulatory charges, construction costs and capacity.

State and Central Government could assist in this regard, by requiring Local Authorities to meet these phased housing affordability targets and imposing the required sanctions on these Local Authorities, that don’t meet these phased targets in any given year.

The most effective way to ensure Local Authorities meet these phased targets is by requiring them to reimburse residential property purchasers during that year, if they fail to meet them. If for example, they missed a particular years phased target by 5%, they should be required to reimburse residential property purchasers 5% of what they paid for their property during that year. There would of course need to be provisions made, where these phased targets were missed due to factors outside of the local authorities control, but these would need to be extremely carefully and tightly prescribed.

This approach would be far more effective and indeed just, as the local authority would be required to provide financial relief to those most affected, by its unsatisfactory governance performance. Local authority politicians would of course not be thanked at election time, if due to poor governance performance; these phased targets had not been met.

It would generally be easier for the Australian urban areas to meet these phased targets, than it would be for the New Zealand urban areas, as the latter has considerably higher construction costs, due to so many more years of land supply strangulation caused by poor quality local authority governance and inept Central Government regulatory interventions in the industry. Provided these housing affordability targets are phased in over a reasonable period of 10 years, the New Zealand construction industry would have time to adjust and learn from its Australian counterparts. In fact, if the New Zealanders were slow in learning, they would in reality be inviting the Australian residential production builders over to compete with them!

The New Zealand Centre for Housing Research commissioned a report “Housing Costs” in late 2004 from DTZ New Zealand, which illustrated the massive differences in pricing between New Zealand and Australia.

New Zealand politicians at all levels will be acutely aware of our slipping net migration figures over the past three years – from in excess of 40,000 – to 18,000 – to the latest at just 6,000. If Australian house pricing becomes clearly more affordable than New Zealand’s, we will most definitely see increasing migration across the Tasman. The economic risks for New Zealand are truly massive.

At this stage – Australia has taken the initial steps in addressing these issues.

As a rough guide, standard residential production costs are currently in the order of \$Aust450 per square metre in Western Australia, around \$Aust500 - \$Aust600 per square metre along the Australian eastern seaboard and about \$NZ1,000 per square metre in New Zealand. Interestingly and probably not surprisingly, Western Australian residential design is considered the most innovative.

Another useful comparison is Houston ( median multiple 2.7 ) where starter homes with land sell for around \$US800 per square metre, so that a 100 square metre home with land costs \$US80,000 – a 200 square metre one \$US160,000. It is well worth reading the Houston Association of Realtors Monthly Reports and Subdivision analysis on the web. Access by clicking Homes for Sale. Here you will find existing homes priced with land at \$US500, \$US600, \$US700 per square metre and so forth, depending on age, location and other factors. This would be similar to most other southern and central United States urban areas.

## IN CONCLUSION

The Demographia International Housing Affordability Survey 2005 (to be expanded and repeated annually) has been useful in providing us all within the countries surveyed, with an easily understood measure of our performance in the area of housing affordability. And as a foundation to be used at local level, as we work together in finding solutions, so that over a reasonable time, our housing affordability reaches international best practice levels. In other words, where it was some 20 years ago.

In no way should this unavoidable process of change, be seen as an “attack” on local government, or the many fine people who work within it for their communities. Having had a long association with local government over many years now, I have a deep respect and indeed affection for it. There are a surprising number of people within it, I consider very good friends indeed.

This process is about facing reality and in a cooperative and reasonable way, getting improvements in place for the benefit of all.

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