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RODNEY'S RAVINGS

Housing affordability – is a solution in the wings?

EXECUTIVE SUMMARY

Housing affordability can be a complicated issue, so this Raving tries to put the pieces of the puzzle together in a simple but reasonably comprehensive fashion. It addresses four questions. Does NZ have a housing affordability problem? Does it matter? What caused the problem? And, most importantly, what are the solutions?

To provide answers to these questions this Raving draws extensively on the quality work done by Christchurch-based Hugh Pavletich (http://www.performanceurbanplanning.org/) and US-based Wendell Cox (http://www.demographia.com/dwc-sketch.htm), authors of the annual ***Demographia International Housing Affordability Survey*** (using the following link to access the 2010 edition of the survey http://www.demographia.com/dhi.pdf). Input from Owen McShane, Director of the Centre for Resource Management Studies needs acknowledging because he has also helped me understand the problem of housing affordability, the causes and the solutions (http://www.rmastudies.org.nz/). To some landowners and councils Hugh and Owen will be seen as the enemy because of their relentless campaigning for affordable residential section prices, but their tireless efforts may finally be rewarded. The Key Government has set up advisory panels to address the root causes of the affordability problem.

It is easy to blame foolhardy investors, driven by tax incentives, greedy landowners or a misguided central bank for experimenting with naively low interest rates between 1999 and 2005 for driving house and section prices to unaffordable levels. These groups have all played a part, but changing property taxation and pointing the finger at land owners or the RBNZ will not solve the underlying problem. To anyone willing to look at the issue objectively the root causes of the housing affordability problem are plain to see. They are government-imposed town planning regulations, often dubbed the "smart growth" approach, and the approach by councils to funding infrastructure that imposes huge, upfront costs on developers. The Resource Management Act (RMA) has made a significant contribution to the problem, which is why the government plans to amend it and the "smart growth" approach.

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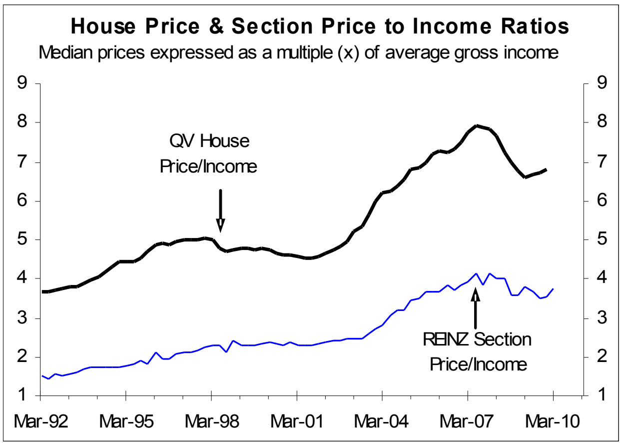
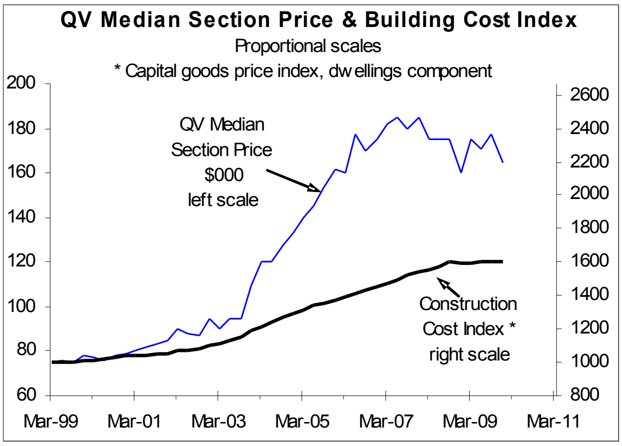
 March 2010

Does New Zealand have a housing affordability problem? Yes!!!

The left chart shows the national median existing house and section prices as multiples of the average employee's gross annual incomes (as distinct from the average household income used by many, including in the Demographia study that is quoted below). At the peak of the housing boom in 2007 the average section cost almost as much to buy in income-terms as did the average existing house with section attached in 2001. Sections are at the heart of the affordability issue because an existing house is largely just a section with a depreciating capital asset sitting on top. The right chart shows that since 1999 the national median section price has increased 120% while the official measure of dwelling construction costs increased 60%, which reinforces the role the surge in section prices between 2003 and 2007 has played in making housing unaffordable.

Regulatory changes have played a part in driving up building costs (e.g. double glazing, increased engineering requirements) aside from the changes that inevitably followed the leaking building fiasco that is still playing out. If horror stories are your thing, click on the following link to a story on the cost of fixing leaky houses - http://www.nzherald.co.nz/politics/news/article.cfm?c_id=280&objectid=10628835&pnum=0.





The annual Demographia survey provides the benchmark for assessing housing affordability in NZ, Australia, the US, the UK, Ireland and Canada. The following is taken from the latest survey (the following link for the full survey - http://www.demographia.com/dhi.pdf)

"The *6th Annual Demographia International Housing Affordability Survey* expands coverage to 272 markets in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States. The *Demographia International Housing Affordability Survey* employs the "Median Multiple" (median house price divided by gross annual median household income) to rate housing affordability.

Demographia Housing Affordability Rating Categories

Rating	Median Multiple
Severely Unaffordable	5.1 & Over
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 or Less

Historically, the Median Multiple has been remarkably similar among the nations surveyed, with median house prices being generally 3.0 or less times median household incomes. This affordability relationship continues in many housing markets of the United States and Canada. However, the Median Multiple has escalated sharply in Australia, Ireland, New Zealand and the United Kingdom and in some markets of Canada and the United States in recent years.

Of the 272 markets surveyed, there were 103 affordable markets, 98 in the United States and 5 in Canada. This is an improvement from 87 in 2008. As before, the affordable markets include the three highest demand markets with more than 5,000,000 population in the high-income world, Atlanta, Dallas-Fort Worth and Houston. Overall, 19 major markets (more than 1,000,000 residents) in the United States were also affordable. As in the past, all of these markets were characterized by "more responsive" land use regulation, as opposed to "more prescriptive" land use regulation.

There were 62 severely unaffordable markets this year, down from 64 in 2008. The least affordable markets were concentrated in Australia (22) the United Kingdom (19) and the United States (11). Nine of the 11 US severely unaffordable markets were in California. There were 5 severely unaffordable markets in New Zealand and 5 in Canada. However, many of these severely unaffordable markets have experienced steep price declines in the last year. Among the major markets, Vancouver is the least affordable, with a Median Multiple of 9.3, followed by Sydney (9.1), Melbourne (8.0), Adelaide (7.4), London (7.1), New York (7.0) and San Francisco (7.0). As in the past, all of these markets were characterized by more prescriptive land use regulation (such as "compact city," "urban consolidation," "growth management" or "smart growth" policies), which materially increase the price of land, which makes housing unaffordable."

The five NZ markets that the latest Demographia survey rated "severely unaffordable" were Tauranga with a multiple of 6.8x (ranked 20th most unaffordable out of the 272 markets covered), Auckland at 6.7x (ranked 22nd), Christchurch at 6.1x (ranked 31st), Wellington at 5.8x (ranked 41st) and Dunedin at 5.6x (ranked 47th). The three other NZ markets covered in the study – Palmerston North-Manawatu (4.6x), Napier-Hastings (5x) and Hamilton (5x) – were all in the "seriously unaffordable" bracket (i.e. house price to median income multiples of 4.1-5x).

To put the NZ multipliers in one context, Detroit was the most affordable at 1.6x. The Detroit example can possibly be dismissed given the massive fallout that has occurred in the US car manufacturing industry, with car manufacturing being one of Detroit's claims to fame. However, the Dallas-Ft Worth (2.7x) and Houston (2.9x) markets show that strong population growth doesn't necessarily result in unaffordable or expensive housing.

The costs of unaffordable housing

An important perspective is the impact that expensive housing has on NZ's international competitiveness. The Raving titled ***"House and section prices, affordability and international competitiveness"*** looked at this issue. As I wrote in that Raving, "How can a small, export-orientated country facing huge disadvantages because it is half a world away from some of its major markets expect to be competitive when housing costs 30-43% more than in the US?!" (See http://www.sra.co.nz/pdf/LandPrices.pdf).

The international labour market has become more mobile, so NZ will pay a price for ranking so highly in the unaffordability stakes. It will have an impact on the inclination of Kiwis to head overseas and on NZ's ability to attract quality immigrants. Viewed from the other perspective, NZ would be a major beneficiary if it could offer more affordably housing, especially compared to Australia and the other nations covered in the Demographia surveys. The problem is made worse because in NZ all the major urban centres and most secondary urban centres are unaffordable. In the US there are more affordable than unaffordable urban centres, which provides options for people to move within the country rather than head overseas in search of affordable housing.

In the report, **The Looming Boom – Texas Through 2030**, produced by The Real Estate Centre of the Texas A&M University, it is observed that "The Lone Star State is being "discovered" by the rest of the country because of its affordable housing, lower cost of living and cost of business, greater employment opportunities and appealing lifestyle. Events and circumstances point toward a Texas-sized boom between 2005 and 2030." And that "Housing affordability may be one of the most significant growth stimulants for Texas during the first half of this century. Historically, the Texas housing market has maintained a relative balance of supply and demand despite periods of accelerated growth (the oil boom) and significant decline (the oil bust). Texas is the most housing-affordable high-growth state in the nation. So far, skyrocketing home prices common to fast-growing states like California and Florida have not occurred in Texas." (Source: http://recenter.tamu.edu/pdf/1841.pdf)

The more I do property research the more obvious it becomes that people respond to issues like housing affordability. In the 1990s Tauranga offered cheaper housing and people flocked there, resulting in a building boom (in a forthcoming pay-to-view report we will look at why Tauranga has lost its Mojo). In 2003 and 2004 Hamilton offered cheaper housing and people headed there, including some people who worked in South Auckland and decided to commute to work from North Hamilton. Part of the cost to New Zealand of having unaffordable housing will be a loss of population growth, while it will probably also impact on the quality of immigrants, which will in turn have an impact on NZ's growth potential.

Allowing house/section prices to surge, as occurred in NZ between 2002 and 2007, means future generations of home owners will be burdened with excessive debt, while a significant number already are.

Housing is central to the standard of living, so with many people having to live in less desirable housing than could be achieved if house/section prices were more affordable, it has a direct impact on the standard of living achieved by the average Kiwi.

Having unaffordable housing makes it harder for first home buyers to get into the market, which implies that a larger proportion of the population will rent for life because renting is cheaper from a cashflow perspective. Housing plays an important part in the saving process, so if there are less home owners it implies an increased future tax liability to fund superannuation. Less home ownership implies less people able to use housing equity to help fund business ventures. While forcing people into higher density housing than they would prefer, which is a by-product of unaffordable housing, has several negative implications as discussed below.

Looking at the crippling interest costs faced by new home buyers as a result of unaffordable housing puts a dimension on the problem. The latest Demographia report has the following to say on this topic: "Various measures indicate that any households spending 30 to 35 percent or more of their gross annual income on mortgage repayments are in 'mortgage stress.'" It was estimated in the Demographia survey that 57.4% of the gross median annual income of people in Sydney was required to meet the mortgage payments associated with buying the median house, with the figure being 50.7% in Melbourne. This compares with 13.4% in Dallas-Ft Worth and 16.8% in Atlanta. This assumes a 10% deposit and mortgage interest rates of 5.75%. In dollar terms, in Sydney "the monthly mortgage payment on a new median priced house would be nearly $3,000 and more than $2,500 in Melbourne. By comparison, in Dallas-Fort Worth, the monthly mortgage payment on a new median priced house would be under $800 and in Atlanta under $700." New Zealand is somewhere between these two extremes.

Government policy is at the heart of the housing affordability problem

In the introduction to the ***6th Annual Demographia International Housing Affordability Survey*** (http://www.demographia.com/dhi.pdf) Dr Tony Recsei spelt out the undesirable consequences of the pursuit of "smart growth" in Sydney (i.e. limiting Greenfield residential subdivision and trying to artificially engineer higher density living). His comments are equally relevant to New Zealand, where local governments have also taken up the mantra of "smart growth". A large part of Tony's commentary is reproduced below because it provides many useful insights.

"The Dream of Home Ownership: The "dream" (called by various names, such as the "Great Australian Dream" or the "American Dream") has traditionally been to own a single family home. In the future, for most, this will remain but a dream. Although only about a third of one percent of the land surface of the continent-sized country is urbanised, Australian urban areas, especially Sydney, have emerged as perhaps the most aggressive examples of high-density policies in the world. This is being effected by a two-fold strategy, called "urban consolidation" (or "smart growth").

The first part of this high-density strategy is to artificially strangle the land supply. Residential land release in Sydney has been reduced from an historic average of 10,000 lots per year to less than 2,000 (in 2007). In the face of the scarcity resulting from such a miserly allotment it is unsurprising that the land component of the price of a dwelling has increased from 30% to 70%. The result has been a cost increase of some three times what it was a mere ten years ago.

The second part of the high-density strategy requires each municipality to submit a plan that increases population density to government satisfaction; otherwise that municipality's planning powers are undemocratically taken away. This forces high-density onto communities originally designed for low densities.

The consequence of the two-part strategy is that vast numbers of young people and the underprivileged will never be able to raise a family within the security of their own home. Instead they are forced to endure tenuous rental tenancies in high-rise apartments, adding more congestion, pollution and overloaded infrastructure to cities. Welfare agencies now report that of a population of 22 million there are over 100,000 Australians homeless on any given night.

The traditional way of life is thus being slowly crushed under the bureaucratic iron heel of high-density. Single-residential communities are becoming a threatened species. Previously attractive suburbs with their flowers and foliage are being overcome by the relentless stomp of grey concrete and asphalt. Bewildered long-time residents find themselves isolated amongst the drab shadows of upward rising, smothering unit blocks.

The Need for Rational Policies: These policies result in changes that fly in the face of fairly deeply rooted wishes and desires of much of the population. They invite community opposition and have resulted in vigorous protests including marches on Parliament House in Sydney by thousands of protesters.

With the imposition of such policies onto individual communities one would imagine that it would be essential for government to indisputably demonstrate that this is for the overall greater public good. A plethora of claims about the advantages of higher densities have been made but the authorities are unable to provide evidence for any of them. In fact the available evidence shows that high-density makes things worse, not better in at least five ways.

First, Greenhouse Gases: The claim by high-density advocates that seems to trump all others is the environmental one. This says planning policies must compel higher density in order to save energy and cut down on greenhouse gas emissions.

However studies using a diversity of methods demonstrate the converse. One such study depicted on the Australian Conservation Foundation's *Consumption Atlas* accumulates per capita emissions based on household consumption of all products and services. This calculation shows that greenhouse gas emissions of those living in high-density areas are greater than for those living in low-density areas.

A second study uses overall surveys of only individual building and transport energy use. This finds that per person, apartment living uses more overall energy. A third study reveals that operational energy use per person (electricity and heating fuel) is nearly twice as much in Sydney apartments as in single-family dwellings. Consideration of elevators, clothes dryers, air-conditioners and common lighted areas such as parking garages and foyers make these findings readily explicable. What is more, the per resident energy required to construct high-rise is much more than the energy needed to build single-residential dwellings.

Second, Transport: There is not nearly enough difference in the greenhouse gas emissions of public versus private transport to counter the increased emissions of high-density dwelling. Greenhouse gas emissions per passenger kilometer on the Sydney rail network is 105 grams. The figure for the average automobile is 155 grams and much less for modern fuel-efficient vehicles that emit a mere 70 grams. Also, high-density hardly reduces per person travel intensity at all. Research shows that people squeezed into newly converted dense areas did not use public transport to any greater extent and there was little or no change in their percentage of car use.

Throughout the world, traffic congestion increases when high-density policies are imposed. Any slight increase in the proportion of people using public transport is overwhelmed by the traffic from the greater number of people squeezed into that area. People still require their automobiles for visiting relatives and friends or facilities not easily reached by public transport and for transporting items that are impractical or illegal aboard public transport such as weekend recreation equipment and the family pet.

Third, Health: The increased congestion caused by high-density policies has adverse health consequences. Vehicle exhausts contain dangerous micro-particles which increase in inefficient stopstart traffic. There is also more traffic per area and less volume available for dispersion. The World Health Organization calculates that 3 million people die from these particles every year.

High-density is also bad for mental health. A study of over 4 million Swedes has shown that the rates for psychosis were 70% greater for the denser areas. There was also a 16% greater risk of developing depression. In Australia, the Australian Unity Well-being Index reports that the happiest electorates have a lower population density.

Research shows that bringing up young children in apartments has adverse consequences. Keeping children quiet emphasizes activities that are sedentary. There is a lack of safe active play space outside the home - parks and other public open space offer poor security. Crawling and walking is stymied due to space problems. Children often become overweight and enter school with poorly developed social and motor skills.

Fourth, Infrastructure: Adding more people to existing infrastructure results in overload. The standard of roads, rail service, water supply and electricity visibly deteriorate from the imposition of high-density policies. High-density retrofit is hugely more expensive than laying out new infrastructure on Greenfield sites. Infrastructure costs quoted by the authorities almost always omit the cost of restoring the standard of infrastructure back to the level of service people enjoyed before high-density was imposed.

Fifth: The Cost of Housing: High-density planning increases the cost of housing, discussed in this, the *6th Annual Demographia International Housing Affordability Survey*."

Source: http://www.demographia.com/dhi.pdf

In the Demographia report proper, four case studies are used to help identify the route causes of unaffordable in Australia, with these insights directly relevant to New Zealand.

"The devastating impact of more prescriptive land use regulation (urban consolidation or compact development) policies on housing affordability can be shown by comparing four comparable metropolitan areas: severely unaffordable Sydney and Melbourne in Australia and affordable Dallas-Fort Worth and Atlanta in the United States.

In 1981, Sydney and Dallas-Fort Worth were approximately the same population. Dallas-Fort Worth has grown much faster and is now nearly 50 percent larger than Sydney. In 1981, Melbourne was larger than Atlanta. Atlanta has also grown faster and is approximately 50 percent larger than Melbourne and more than a quarter larger than Sydney. Obviously, the demand for housing was greater in the much faster growing markets of Dallas-Fort Worth and Atlanta than in Sydney and Melbourne. Yet, unlike Sydney and Melbourne, house prices did not rise relative to incomes in Dallas-Fort Worth and Atlanta, because the planning systems permitted new housing to be built on cheap land on the urban fringe.

In 1981, the Median Multiple in Dallas-Fort Worth was 3.5. By 2008, it had dropped to 2.7. Atlanta had a Median Multiple of 2.6 in 1981 and it remained 2.6 in 2008. These and other liberally regulated metropolitan areas experienced the housing boom, but not the housing bubble. By comparison, housing affordability deteriorated in Melbourne, from a Median Multiple of 2.9 in 1981 to 8.0 in 2009. Sydney, with its earlier excessive regulation, had a Median Multiple of 4.9 in 1981, but worsened to 9.1 by 2009.

Urban planning orthodoxy in Australia (very much influenced by thinking in the United Kingdom) contends that it is impossible to provide sufficient infrastructure for an expanding urban area. Yet, this has been proven wrong by the two US examples (and many others). Dallas-Fort Worth and Atlanta have grown more than the five major urban areas of Australia combined since 1981, both in urban footprint and in population (more than double the Australian rate). Sufficient new infrastructure was provided and taxes remained low by national standards in Dallas-Fort Worth and Atlanta. Moreover, the ability of fast-growing markets to provide transport infrastructure is illustrated by the fact that Dallas-Fort Worth and Atlanta have average work trip travel times less than Sydney, despite having larger populations and covering more land area than Sydney.

The explosion in Sydney and Melbourne housing prices can be traced to land price increases. For housing to be affordable, the land on which it is built must be affordable. This means that the development ratio (the price of the land ready for house construction to the total house and land package) must be kept at less than 25 percent for new housing on the urban fringe. The balance is the cost of house construction. While the development ratio has been kept within this maximum in Dallas-Fort Worth and Atlanta, rapidly escalating land prices in Sydney and Melbourne have driven the development ratio as high as 70 percent.

The extent of this increase is illustrated by Housing Industry of Australia data. Construction costs of a standardized house rose only 4 percent relative to inflation between 1973 and 2006 in the major capital cities. The price of the land for building has risen nearly 400 percent over the same period, inflation adjusted. This indicates that 98 percent of the increased cost was in the land, not construction."

Source: http://www.demographia.com/dhi.pdf

There is currently a TV ad in which representatives of a building company go to Australia to check out quality waterfront homes, with this input used to design a home for the Kiwi clients. Hugh Pavletich, co-author of the Demogarphia reports, points to Texas being one of the most useful case studies for assessing how to deliver affordable housing in New Zealand. So what does Texas have to offer in terms of new house prices? As Hugh pointed out in a TV interview, Texas can deliver new housing on the urban fringes at around US$140,000 (i.e. lot prices of around $30,000 and building costs of around $110,000) or around NZ$200,00. In NZ we struggle to deliver comparable housing for less than $350,000, partly because NZ construction costs are higher but more so because NZ section prices are much higher.

Those inclined to check out what Texas has to offer in the way of new house prices can do so using the following link provided by Hugh – http://www.newhomesource.com/StateIndex/state-Texas. My own investigation of the Texas market confirmed Hugh's claims. As you would expect in the US there was a wide range of new house prices, but there are lots of building companies offering house and land packages starting at well under US$200,000 and numerous had options starting under US$150,000 (i.e. under NZ$215,00). And we are not talking about soon to be slum housing. One building firm had 11 houses available with prices "from $118,990-$156,990" and sized 108-216 m^2. The pictures below give artists impressions of what the finished houses will look like. There will no doubt be some add-on costs and artists impressions always make the houses look more desirable than they are, but even with a sceptical eye I am impressed by the much cheaper new house prices in Texas than in NZ. If Texas wasn't full of Texans I might even move there, although, these days, the affordable housing afforded by Texas means a rapidly growing proportion of the local population isn't native Texans.

Source: http://www.newhomesource.com/communitydetail/market-275/builder-379/community-28538

Housing affordability – the solutions

I understand that critical to Texas being able to deliver affordable housing, even when experiencing rapid population growth, is the ability to develop land on the fringes of the existing urban areas cheaply and quickly in response to demand. A different approach to funding infrastructure than New Zealand is part of the story, but it is mainly about the willingness to rezone more land.

The solutions proposed by Hugh Pavletich and Wendell Cox in the latest Demographia report are simple and achievable (achievable if the central government gets the right steer from the advisory panels and has the gumption to act on the recommendations). As Hugh and Wendell conclude, "The focus should be on (1) establishing sound and simple performance measures (2) appropriately financing infrastructure and (3) allowing sufficient inexpensive urban fringe on which to construct housing that is affordable." If councils and the government are willing to take on board what has been achieved in Texas and, where necessary, adapt to the NZ situation, then the mechanics of solving the housing affordability problem should be reasonably straight forward. However, this issue has a bit of the "Yes Minister" angle to it (i.e. part of the problem is the entrenched "smart growth" attitudes in the planning departments of some councils).

Hugh and Wendell go on to elaborate on the issue of "performance measures" for authorities. "The principal indicator should be: Housing affordability (the Median Multiple). The Median Multiple should be supplemented with the additional indicators, such as [My comments in parenthesis]

- Fringe urban and adjoining rural and extended true rural land price differences. [Making sure section prices aren't exorbitant relative to true land prices on the fringe of the urban limit - see below for more on this issue.]

- Housing stock per 1,000 population. [Making sure policies don't result in a unduly high number of people per house, with examples of this currently being people parking on the street so they can convert garages to living quarters to help solve the housing affordability problem.]
- Housing construction rates per 1,000 population. [Making sure new building activity keeps up with the rate required to replenish the aging housing stock.]
- Age of housing stock in decadal bands.
- Residential rental vacancy rates.
- Population growth and trends."

There is a movement afoot that could have a major impact on section prices, especially in the main urban areas where the councils have generally been advocates of "smart growth" (i.e. limiting Greenfield subdivision development on the fringe of the city). The following article is worth reading in this context - http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=10625802&pnum=0. The article looks at the advisory panels the government has appointed to look at urban limits and the Resource Management Act. One likely outcome is the freeing up of more land on the fringe of urban areas, although this may be a slow process. This will have particular relevance to the Auckland region, Christchurch City and Tauranga City, which are areas where we believe the current "smart growth" approach is particularly exacerbating section and new housing affordability.

Interestingly, one member of the Urban Advisory Panel, Dr Arthur Grimes, co-authored a report by Motu (http://www.motu.org.nz/) that looked at the role the Metropolitan Urban Limit has played in driving up land prices and making housing unaffordable in Auckland. We understand that the findings/recommendations of the Urban Advisory Panel are due for release by Environment Minister Dr Nick Smith in early April. This report/release will hopefully signal the start of the solution to NZ's costly housing affordability problem.

On another related front, "Deputy Prime Minister and Infrastructure Minister Bill English has indicated that a bond bank could be established to assist regional and local governments finance infrastructure, which would remove barriers to housing construction." (Source: http://www.demographia.com/dhi.pdf)

More examples of the cost of the "smart growth" approach

The latest Demographia survey gives some insights about the speed of response in Texas versus Australia, with NZ having more like Australian or sloth-like response times. Tauranga is a classic example of this, with the major development in the Papamoa East area seeming to take decades to come to the market, with torturous debate about how to achieve higher density housing greatly delaying the process and pushing up holding costs for land owners. The following is the relevant quote from Demographia:

"The True Housing Crisis: Lack of Affordable Land: As has been noted above, the extraordinary increase in land costs has been the principal driver of higher house prices. The National Housing Council *State of Supply Report* indicates that Australia's plan-driven (more prescriptive regulation) urban development at the micro-scale level takes from 6.25 to 14.5 years for residential land to be designated for development to the completion of the first houses. By comparison, the same process could take as little as one year on the fringe of urban areas with demand-driven processes (more responsive regulation), in the United States. Further, before prescriptive regulation policies (urban consolidation) were adopted in Australia, the process tended to take from 1 to 1.5 years in what was then a demand-driven process. The long process in a plan-driven market provides land sellers and buyers with reliable information on where development will occur and, as a result, tends to significantly raise the price of land. This virtually eliminates any supply of affordable land and makes housing affordability an unrealizable goal."

Source: http://www.demographia.com/dhi.pdf

In an example of the damaging impact of "smart growth", I recently heard that a developer in the North Shore has decided to delay bringing to market a subdivision that already has resource consent because he wants to wait until the section market tightens more so he can achieve the desired prices. In the North Shore and elsewhere in NZ, the "smart growth" approach has played into the hands of a small group of landowners who were smart enough to corner the land market before prices were driven sky-high because councils have rationed the rezoning of land on the fringe of the urban limits.

The following quotes from the latest Demographia report provide some further background to the housing affordability issue and the role rezoning land on the urban fringes can play in getting down section/housing prices.

“In 1991, New Zealand replaced its British style more prescriptive Town and Country Planning Act with the Resource Management Act. The intent of the new act was to establish a demand-driven regulatory framework, subject to reasonable environmental and building standards. The Resource Management Act is widely assessed as having failed to achieve its objectives, due to implementation failures at virtually all levels of government. Environment Minister Dr. Nick Smith noted that the Act “has not lived up to its full promise” and that a “significant tune up” is necessary.

It is likely that New Zealand would not have experienced a housing bubble if the Resource Management Act had been administered as intended. Since 1991, housing affordability has declined substantially in New Zealand. Recently, the government‟s “2025 Taskforce” identified the “biggest obstacle” as “land.” In particular, the Taskforce found that “Council zoning restrictions and arbitrary, urban limits‟ prevent the release of sufficient land to lower the overall price of housing.” The report went on to note that land just inside Auckland’s urban growth boundary (where development is permitted) is “about 10 times” the price of otherwise identical land outside (where development is not permitted). Even this “across the boundary” or “across the road” factor understates the difference.

Hugh Pavletich notes that a true comparison can be obtained only by looking at somewhat more distant land (such as 3 miles or 5 kilometers away), which does not exhibit “urban echo values,” the added value of the expectation that the land might eventually be included within the urban growth boundary. This difference can be far more substantial than the 10 times indicated in the New Zealand research. Tim Leunig of the London School of Economics estimates that the granting of planning permission in southeast England can raise the value of land up to 500 times.”

Source: http://www.demographia.com/dhi.pdf