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Apartment living Story

The vanishing dream of home ownership

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Just inside the fenceline ringing Auckland's sprawl, a development boom is in full cry. At Westgate, Hobsonville, Albany, Flat Bush, Papakura and Karaka, green fields are sprouting houses as fast as people arrive to fill them. The pace of building dwarfs activity in the zones earmarked on planning maps to take much of the city's population growth – the high density zones surrounding established town centres which have railway lines and/or bus routes and all the trappings of city life within easy reach.

Eight years after city leaders signed up to a "compact city" model to guide Auckland into the future, the market continues on its headstrong course. Amid this stubborn pattern of fringe development, what's going up most is house prices.

Yet the answer to unaffordable housing is to push out even further, a growing number of developers, politicians and economists are arguing.

As Housing Minister Chris Carter prepares to unveil a housing affordability bill, there's a clamour to tear down the metropolitan limits and increase the supply of land. This will ease land prices – the biggest factor in soaring house costs, or so goes the theory.

Attempts at intensification (the Americans call it "smart growth") so far have given the compact city a bad name and entrenched neighbourhood opposition. Tortuous planning hurdles, tougher building regulations, community objections and their ensuing delays push up prices and in many cases make development in the high density zones uneconomic, say developers.

Suitable sites for comprehensive urban renewal are hard to find. So they head for the wide open spaces. Now they are arguing there is not enough land left. And we all thought it was demand driving property prices up, not supply.

The Auckland Regional Council (ARC) has already eased the limits several times since 1999. Further loosening revives the spectre of endless sprawl with its costs of extending roads, water supply, schools and social facilities, added motorway congestion, air and water pollution – impacts far more costly than are reflected in the price of a brand new stucco McMansion.

With more than one in five Auckland households under "housing stress", solving the problem has been the subject of a parliamentary inquiry and risks becoming a political football. There's a risk too that the 50-year growth strategy, which hangs on rare political unity among Auckland local bodies, could unravel.

An incoming National Government would ease the supply of land and lower the regulatory barriers. It is even promising to lighten up a Building Act toughened in response to the leaky homes crisis. Labour is promising incentives for developers to include affordable housing in projects and further help for low income earners.

But property developers say none of these things will work in isolation. What's needed is a thorough debate about the direction of the city and the type of housing it needs, says McConnell Property chief executive Martin Udale. What's lacking most, he says, is leadership.



High density housing, like these townhouses, is one answer for a well-functioning city. Photo / Fiona Hawtin

"If it's not managed, change will come and by and large it will be crap."

The link between affordability and the region's 50-year growth strategy was made in two studies by economic consultancy Motu for the Centre for Housing Research and has been seized on by everyone from the Property Council and the Reserve Bank to the National Party.

Of nearly 60,000 residential consents issued between 2000 and 2005, Motu found three-quarters were outside the zones earmarked for high density housing, just a small (7 per cent) change to the pattern before the growth strategy was adopted in 1999. Most building was near the city limits, most likely driven by the availability of large sites.

Motu also concluded the urban fence had a strong inflationary affect, with land inside the boundary fetching nearly 10 times the price of rural-zoned land just outside the boundary.

With large sites fast running out, extending or abolishing the urban limits was one way to ease the crisis.

"It is inescapable that land availability is a major constraint to residential development in Auckland.

"The result of this land shortage will continue to be inflation of land values until prices meet major consumer resistance. That resistance is most likely to be exhibited by prospective residents choosing not to migrate to Auckland and by current residents choosing to migrate from Auckland. Other cities in New Zealand may attract some would-be Aucklanders. A more likely scenario is that people priced out of the Auckland market (and economy) will migrate to similar sized or larger cities in Australia that are addressing planning and affordable housing concerns."

Unsurprisingly, Motu's findings have drawn support from the likes of the Property Council: "Growth boundaries (both out and up) need to be relaxed to free up more land, thus removing artificial supply constraints that currently inflate the price of development and precipitate the practice of land-banking."

Housing affordability is already a consuming issue for low and middle income Auckland families. An estimated 55,000 households can no longer afford to buy even the most basic house. The home ownership rate has fallen from 72 per cent in 1991 to 61 per cent last year. In some suburbs it is already below 50 per cent as absentee investors take over.

A study by DTZ Research, released in March, found 21 per cent of owner-occupied households and a third of renters in Auckland are under housing stress – paying more than 30 per cent of household income in housing costs. 60 per cent of these households earn more than \$50,000. The swathe of stress covers not only modest income-earners in Manurewa, New Lynn and Massey but villa-belt professionals in Mt Eden, Mt Albert, Parnell and Newmarket. Over 33,000 owner-occupied households (12.8 per cent) pay more than 40 per cent of incomes in housing costs.

More than a third of the region's stressed households are in high-income Auckland City, reflecting the widening gulf between incomes and house prices. Auckland City Council maps comparing median household incomes with house prices across the city, submitted to the affordability inquiry, suggest that stand-alone housing is virtually out of reach for newcomers earning less than \$100,000. In areas where incomes range from \$50,000 to \$70,000, stand-alone houses are selling for \$500,000-plus. Homebuyers with a 10 per cent deposit simply cannot contemplate mortgage repayments of that scale.

DTZ's Ian Mitchell says the situation means a whole raft of essential workers on middle incomes – from teachers to firefighters and police – risk being excluded from the city.

Property Council director Connal Townsend says the availability of land is "an overwhelmingly significant driver" of property price rises. "It's all very well being purist about sprawl but, if no one can afford to live there, who cares about sprawl? The fact many people can no longer afford to live in this city means worrying about sprawl is a luxury."

The Property Council has been accused of advocating unfettered urban sprawl but Townsend says

its position is more subtle. Easing the city limits would free large footprints of land for commercial and industrial uses. As for housing, easing height limits in the high density zones would make development of small parcels economic. "Verticality is what's needed."

Which might not please the neighbours but at least confronts the issue of providing affordable housing within cooee of jobs, social services, entertainment and public transport.

There is, in theory, no shortage of land within the urban limits, says the ARC, which argues soaring house prices have been driven by demand, not supply. The ARC estimates there's enough land for 16 years' residential growth within the city limits. Planned extensions to the limits will stretch capacity a further 10 years.

Also in theory, high density development should produce affordable housing. Having more units per hectare means the land cost per unit drops, along with construction costs as economies of scale kick in for extending services such as water, power and drainage.

Economist Kel Sanderson of Berl says higher density, mixed use development brings an affordability bonus: higher incomes. The types of commerce and light manufacturing which suits mixed use supports better paying jobs, says Sanderson. "Continuation of the compact city approach will lead to increasing productivity of the regional economy and increasing relative affordability of housing," he told a hearing into the Local Government Auckland Amendment Act.

When civic leaders agreed to the growth strategy, planners talked of European-style "vibrant communities where people live, work and play" – mixed use development within walking distance of town centres, public transport, parks and community facilities to reduce reliance on the car.

We've yet to see much sign of it. Most of what we've got has been piecemeal, with too many cheap and nasty apartment blocks lacking street appeal and connectivity. And leaky townhouses and condos.

Developers blame fragmented ownership, a shortage of large sites and the regulatory hurdles which add to the delays and result in lowest common denominator buildings.

This in turn has entrenched opposition. Council officials surveyed by Motu say the nimby syndrome, coupled with public perception about what is appropriate development in Auckland, is "the biggest single constraint to intensification".

Most New Zealanders continue to aspire to living in a detached house on a 600sq m section. The expectation is ingrained in our psyche, the ARC told the parliamentary inquiry. But with Auckland expected to house 2 million people within 35 years, being a successful city means smaller sections, more apartments and townhouses – just like Sydney or Melbourne or Manchester.

And tastes are changing. An ARC survey last year found 38 per cent of residents agreed a townhouse or apartment might suit them sometime in the future.

Higher densities will also make public transport work and ease traffic congestion, particularly with rising fuel costs and the need to reduce carbon emissions. It's equally arguable decent public transport is the silver bullet needed to make higher densities work. Rising rail patronage only hints at the potential; electrification, modern rolling stock and modern stations cannot come soon enough.

What to do? National is promising to streamline the Resource Management Act, reduce council delays and increase the supply of land. Its infrastructure investment plan will "go hand in hand with our efforts to confront the housing affordability crisis," leader John Key told the Auckland Contractors Federation conference in August. "Is New Zealand really going to stop building houses on the grounds that it will require investment in roads, public transport, sewerage and water systems? National will have more vision than that."

Housing Minister Carter does not rule out adjustment to the urban limits on a case by case basis. But he is adamant that unfettered sprawl is more costly when you include the costs of extending

infrastructure, schools, community facilities, added motorway congestion and pollution.

The housing affordability bill due to be unveiled next month will include incentives for developers to include an affordable housing component in subdivisions. Known as inclusionary zoning, examples are already occurring at Hobsonville and a planned subdivision of former Army base land at Papakura involving Housing NZ, developer McConnell Dowell and the Housing Foundation.

Developers who feared a compulsory quota will be relieved to learn the Government intends only to give councils the "option" of offering incentives – such as granting extra floors or reducing development levies in return for an affordable housing quota of, say, 10 per cent.

But will councils take it up? Auckland City planning manager Penny Pirrit says not charging developers for the cost of extending services raises the question of who pays. Asking existing ratepayers to fund new residential development – and amenities such as footpaths and cycleways – may not be equitable.

Carter touts other moves the Government has made to assist low income earners to borrow for a house and a planned shared equity pilot in Auckland next year.

Some economists say macro as well as micro economic measures are needed. Tax cuts are an obvious way to boost lagging incomes. High lending rates have failed to deter property speculators and a capital gains tax on investment properties would help.

While applauding the Government's effort to solve the affordability problem, the Property Council's Townsend says carrot and stick incentives are not enough. A comprehensive debate is needed, involving developers, Government, councils, the design community and residents.

"If the town centre is the future for Auckland then it has to be a place where people want to live, not a place where people are forced to live."

Says McConnell's Udale: "If we don't get a well-designed, attractive city New Zealand will fail. People, and dollars, don't have to come here and they don't have to stay here."