

COMMERCE COMMITTEE INQUIRY INTO AFFORDABLE HOUSING – SUBMISSION FROM BEACON PATHWAY LIMITED

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About Beacon

Beacon is a residential building industry research consortium aiming to drive sustainability outcomes consistent with New Zealand sustainable development requirements. Beacon is funded by industry, with matched revenue from Government research funds from the Foundation for Research, Science and Technology. There are currently five shareholding partners – Building Research, Scion, New Zealand Steel, Waitakere City Council and Fletcher Building.

Beacon's vision of:

Creating homes and neighbourhoods
that work well into the future
and don't cost the Earth

will be realised through the achievement of the following two goals:

1. To bring the vast majority (90%) of New Zealand homes to a high standard of sustainability by 2012 and;
2. Every new subdivision and any redeveloped subdivision or neighbourhood from 2008 onwards be developed with reference to a nationally recognised sustainability framework. The consortium has been established to bring about significant improvement in the sustainability of the residential built environment in NZ, by carrying out research, managing resultant Intellectual Property ("IP"), and facilitating development and increased availability of products and systems via emergent markets, through working together with like minded organisations, and by lobbying regulatory authorities.

Beacon intends to develop interventions, which meet sustainability goals in a manner that aligns with consumer lifestyle and choices, achieving home quality and comfort with appropriate affordability.

Beacon is committed to funding research and initiating projects on interventions that will enable a more sustainable residential built environment. This will assist New Zealand consumers to adopt more sustainable residential built environment outcomes, ensuring better returns (social, environment, cultural, and economic) for shareholders, stakeholders and the wider public.

Reason for Submission

Beacon recognises that housing affordability is an underpinning component of achieving the sustainable development of the built environment.

Submission

Factors which affect the affordability of housing

1. The affordability problem in New Zealand has, until relatively recently, been confined to low income households. Increased house prices combined with increased interest rates now mean that middle income households, and particularly young families, are affected by problems of affordability.
2. There is a substantial mismatch of housing supply in New Zealand. Although the number of housing stock units in New Zealand exceeds the number of New Zealand households much of the stock is not matched to demand either because:
 - It is not available – A considerable amount of residential building, especially in the sunshine and coastal belts, appear to be built as second or third homes, possibly holiday homes, and are not available on the market,
 - It is not built where demand is – Indicative of this tendency is the very high building consent applications in areas in which there is only modest population increase in absolute terms.
 - New residential dwellings are designed to increase the rate of return to builders and developers not to meet the affordability needs of lower middle income households. The greatest profits appear to be being made at the higher end of the market – so the developments being built on land released for housing tend to be targeted there, rather than at the more affordable end of the market.
 - Construction costs increases are relatively restrained in the market. The real driver of building costs for average new homes is increasing dwelling size. Part of the problem is that as a nation we are over-consuming in terms of housing – ie building houses which are too big. Housing statistics show an increasing trend in the size of houses, and despite the shrinking size of our households, most homes built are 3-4 bedrooms.
3. Because lower and middle income households who would have previously accessed home ownership are unable to do so, they are entering and staying in the rental market for longer. In general, the stock in the rental market is not well suited to those households. There are issues of quality and maintenance as well as security of tenure in the private rental market and these households are, of course, not eligible for social housing. Increased pressure on the rental market by these households generates other affordability problems. Firstly, highly demand generates pressure on rental supply and increased rental prices where localities are under-supplied. Secondly, rental prices in under-supplied markets push the most vulnerable households out of the private rental market, increase the pressure on the social housing stock, increase the Government's exposure to fiscal burden through the Accommodation Supplement, and in

some areas appears to generate overcrowding with its associated problems.

4. There are three other negative responses to affordability problems in an over-heated home ownership market: First, is risky behaviour in relation to debt loading where households effectively 'bank' on capital gains and also tend to under-maintain their homes.
5. Second, is a tendency for entry home owners to take-up houses in developments that are poorly served by public transport and amenities. Housing that appears to be lower cost because of its location actually has significant costs associated with it for both the households living in it and for the country as a whole. For households those costs are very direct in relation to transport, but there are also indirect social and economic costs associated with extended travel times. For New Zealand as a whole, the costs of disconnected neighbourhoods and the developments lie in the infrastructural provision they require (water, electricity, transport and roads) and the behaviours that they generate such as high private car use and associated greenhouse gas impacts.
6. Third, there is a desire to reduce the quality of dwellings and the requirements around them in terms of building standards in a mistaken belief that this will making housing more affordable. In fact, poorly built designed, built and performing homes are more expensive than quality, durable homes. It has already noted that the rising building costs for new build in New Zealand are driven largely by increased dwelling size. The irony is that our houses are getting bigger at the same time that our households are getting smaller. This is not a sustainable pathway. This increase in housing size also makes the cost of *operating* a home more unaffordable. Larger houses are more expensive to operate and to maintain, as well as adding large additional energy and infrastructure costs (eg water supply services where multiple bathrooms).
7. Beacon has demonstrated with its NOW Homes® that high performing homes that provide high levels of comfort and are both environmentally and financially sustainable can be built for a modest price. INSERT

Key solutions

8. In our view, there are four problems that need to be confronted if housing affordability is to be increased.
 - First, land availability is critical to controlling land prices and costs. This is not a matter of simply making available more land on greenfields sites. We have already noted the costs that arise from this approach to both households and to families. Rather it means addressing landbanking, actively pursuing land amalgamation, actively re-developing land which has been released from other uses.
 - Second, anti-competitive barriers need to be addressed, in particular the use of covenants. It is of particular concern that it appears that covenants are not being restricted to setting the design expectations in certain developments. Instead, some covenants appear to be actively excluding the provision of housing by community and public housing providers.
 - Third, affordable housing design and build needs to be actively promoted.

- Fourth, New Zealand needs to develop an intermediate housing market. This has occurred overseas where it has been recognised that the affordability problem is not going to go away and will increasingly affect those entry level middle income households that have been in the past largely able to fend for themselves. The National Housing Strategy is fatally flawed in the respect when it states that the vast majority of New Zealand households will be able to access decent housing through the current housing market. This is simply no longer the case. It could be the case if an active investment into the development of an intermediate housing market was made using the burgeoning community housing sector and households were helped in the short-term to become ultimately self-sufficient and financially autonomous in the long term.

Conclusion

The causes of the current problems within New Zealand around the provision and ongoing management of housing so that it is affordable, are complex and there is no “silver bullet” to address the issue. We need to ensure that when considering the concept of affordability consider the cost of operation and maintenance (including transport) – not just up front capital costs. These costs fall back on the nation and the individual, and any solutions need to address the whole of life affordability issues.