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Media Release

### Urban myths about housing affordability in Auckland

“Fletcher Building’s CEO Jonathan Ling wants Auckland Council to expand urban limits to create more housing. I bet he does. Fletchers, with its market dominance, stands to make a fortune out of building more houses. But that won’t make housing more affordable. It will however contribute to Fletcher’s excessive profit-taking, which is a big part of the problem,” said EDS Chairman Gary Taylor.

“Mr Ling cites a recent Productivity Commission report that created a new urban myth: that increasing land supply by expanding metro limits will make housing in Auckland more affordable. It will certainly increase land supply but it won’t make any real dent on cost.

“That’s because raw land value (the value of a greenfield site *before* it’s subdivided and developed) is only around 10-15% of the total value of a new house and land package. So increasing land supply is going to have a minimal impact because the other 90% of costs are relatively fixed and out of the control of the developer.

“We need to look elsewhere in order to properly understand affordability drivers.

“A planning process to obtain Resource Management Act consents to subdivide typically costs around \$30,000 - \$40,000 per site.

“Then there are financial and development contributions that are payable to council, calculated on a per lot basis. Later, the necessary infrastructure, including roads, electricity, water and wastewater has to be built, only some of which is covered by the development contributions. The additional per lot cost of infrastructure is around \$70,000.

“By the time the site has been subdivided, buildable sections created and the roads and services provided, about 40% of costs of the house and land package has been paid for.

“Now comes the most expensive bit: building - which is 60% of the total.

“This is where the Productivity Commission made light work of an area that should have been more robustly critiqued. It asserts that the labour costs of building are relatively high compared with say Australia, which is correct. But it makes only brief mention of the nature of the building supplies market in New Zealand, which is largely dominated by Fletcher Building.

“The Commission failed to adequately address the impact of Fletcher’s vertically integrated market dominance in its recommendations and to explore why building materials are 20-30% more expensive here than in Australia.

“This is where there are substantial cost reductions to be made - by having a more competitive building supplies market. So it’s ironic having Fletcher Building championing affordable housing when that company is part of the problem.

“The idea that houses can be made affordable simply by expanding or removing urban limits and increasing the supply of land is an urban myth, and it keeps being repeated as if it’s true. Land supply impacts on only a tiny bit of the cost profile.

“Housing affordability needs to be tackled on a range of fronts including the creation of a more competitive building supplies market, improving labour inputs, reducing development levies and consenting costs and tightening up on infrastructure spend,” Mr Taylor concluded.

*(Note: Gary Taylor was until recently a director of the Hobsonville Land Company)*