



14 June 2021

Executive summary. Housing in a nutshell.

Why is housing/ rentals so expensive in Hamilton.

The reasons are twofold:

- (1) planners have pushed their own agenda, that being a “compact city” model. This has different names but generically is known as either “smart growth” or “managed growth.” The logic is that “compact city” is more productive, and also reduces urban sprawl, into valuable rural land.
- (2) There is a lack of “governance” at local authority level. “Governance” in this context is “strategic governorship and direction”. This is primarily due to changes in the Local Government Act 2002 which allowed chief executives to be the sole provider of information, that councillor are provided with.

The “compact city” model was firstly adopted in the USA in about 1990. Portland, Oregon was the first city that adopted this approach. (1) Portland now has some of the most expensive real estate in America and an “affordability” housing crisis. This is primarily because the “compact city” model does not take into consideration of the cost of housing.

The government introduced National Policy Standard- UDC (NPS -UDC) in 2016. This legislation was designed to collect “background” information on why housing was so unaffordable.

Future Proof is an organisation made up of Waikato Regional Council, HCC, Waikato and Waipa councils. Their mandate was to anticipate the demands for all types of real estate, for the next 30 years. However, the foundation document was directed towards “affordable infrastructure,” not affordable Housing.

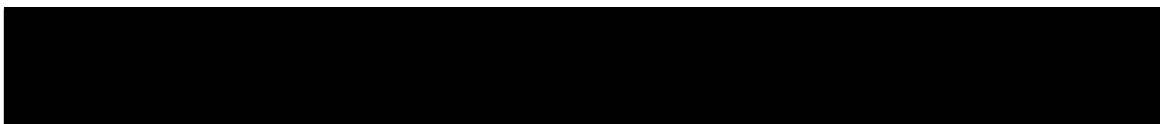
Under the LGA only councils can provide “core” infrastructure ie. sewerage, water etc.

HCC has consistently underfunded core infrastructure since 2005. This means that developers were unable to develop residential sections to meet the demand.

One of the first rules of economics; “if you limit the supply, and have demand, that prices will rise.”

HCC documents from 2007 provides an insight of what the planners were trying to achieve.

“Limit new subdivision approvals, with the objective of pushing up land prices, and give developers and section buyers an economic incentive towards more intense housing options.”



Future Proof report to the Ministry failed to take into consideration any of these items.

The government is aware of the challenges ahead. A recent report, shows that there is an infrastructure shortfall, for the Waikato and Bay of Plenty areas of over \$ 6 billion.

In Hamilton approximately 80% of future residential land with “infrastructure provided” is controlled by only six parties. They have been able to achieve monopoly profits over the last 15 years.

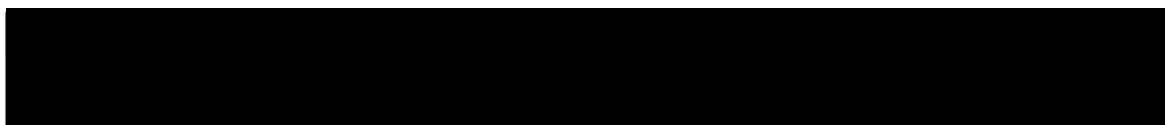
To meet their legal requirement, HCC will probably have to allow a significant amount of Greenfield land on the outskirts, to be developed.

By September / October 2021 the review of Local Government is due to be released. This will probably recommend that the 67 local authorities be reduced to 14. It will probably also recommend that local authorities lose the control of sewerage, wastewater and drinking water.

These issues are not unique to Hamilton. It is probably the same in most cities of NZ. Hence the Government review. The current structure of cities in NZ is not sustainable. Neither are the projected rates bills or debt levels.

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- (1) The Best Laid Plans. Randell O'Toole. 2016
- (2) Urban Economics. The impact of Restrictive Covenant on infill capacity 4.2020





16 December 2020

Housing in a Nutshell.

**Why is Housing/ Rents so unaffordable?
Will do housing cost keep rising?
Why are your rates so high?**

This report is a combination of over two years research. It is all factually based, mainly from information provided by HCC. It concentrates on Hamilton City, but the same issues probably covers all of NZ. It required over 100 Official Information Requests (OIA) together with six complaints to the Ombudsman's office (all upheld), requiring HCC to release information.

**Why housing/ rents are so expensive?
What is council involvement in Housing?**

The question of the Housing is complex. It can however be explained simply, if one understands how councils operate.

Who runs councils? Elected Representatives? The Chief Executive? The staff?

Councils are legally required to follow the Local Government Act 2002 rules (A). The critical part of that Act is referred to as "Standing Orders."

Standing Order's (B) requires the Chief Executive to prepare the "agenda" for all meetings. Elected Representatives cannot raise items outside of this agenda (except in exceptional circumstances.) All agendas items must have a staff report attached.

Elected representatives are expected to attend, up to 14 meetings per month, plus workshops. Under Standing Orders, elected representatives are provided with the staff reports 4 days in advance, (but often only the day before), meaning they have little time to understand the issues. The staff reports/ agendas are available for the public to view online prior to meetings.

Staff report, (monthly) are usually over 1000 pages long. Annual and 10 years plans usually involve over 1500 pages, in addition to the usual 1000 page monthly reports.

The way that Standing Orders is being used, means that elected representative have little time to read / understand the material provided. Staff recommendations therefore are usually adopted.

Elected representatives (usually) do not have the expertise, to challenge the advice provided.



This was highlighted in the Productivity Commission report “Local Govt Funding and Financing 2019”. It was highly critical of many council elected representative, and staff, who they considered did not possess the necessary skill to run complex organisations.

The Institute of Directors requires all staff reports to be provide 14 days prior to meetings.

What is Future Proof ? (C)

Future Proof was set up in 2007. Future Proof is an umbrella organisation made up of Waikato Regional Council, Hamilton City Council, Waikato and Waipa District Councils. It stated objective is “**concentrated housing.**”.

Waikato Regional Council sets the overall policy, ie density. HCC must follow these rules.

“Prior to 2008 residential subdivisions in Hamilton generally delivered 10 dwelling per Ha”. Future Proof vision was “50 household units per ha in the inner-city, 30 household units per ha in high density areas, and 15-18 household units” in mostly (new Greenfield) residential subdivisions. (C A)

HCC adopted these principles in the 2007- 2008 Annual Plan.

The ability to achieve “Intensification” targets, required the ability to “Restrict Development”.

Importantly, Future Proof key principle: “Affordability and Sustainable Infrastructure” **not** affordable housing. It “supports opportunity to address housing affordability” but then disregarded their own expert advice, to achieve making housing affordable. (I)

How does HCC restrict development? D)

By law, HCC is the only organisation allowed to construct “core infrastructure “(sewerage, storm water etc). By restricting the supply of infrastructure, developers are unable to create sections. By restricting this supply, some developers, were able to achieve monopoly profits, (if they were fortunate enough to own the land that HCC had provided services to.) For example, sections in 2005 cost under \$200,000. By 2020 over \$450,000. (D A)

HCC has a “Strategic Agreement” (2005) with the Waikato and Waipa Councils, that restricted land development outside HCC boundary, while at the same time restricting development within the city.

Prior to 2008 HCC policy was 60% Greenfield’s / 40% infill. This was changed in 2008 to 50% / 50%. No **detailed** research was undertaken to see the **effect** of this policy. (F)
27,000 houses could “**potentially**” be constructed in the” infill” areas. (29 years supply ie where the zoning allowed.) (G) No consideration was taken of “restricted access”, “gullies” “Restrictive Covenants” or the capacity of infrastructure.

Reports by HCC consultants in 2008 show that there were serious concerns on Infill Capacity (especially regarding sewerage capacity and storm water.) (G)



Future Proof/ HCC adopted the following strategy: (taken from HCC Economist report)
(H)

“Limit new subdivision approvals with the objectives of pushing up land prices and giving developers and section buyers an economic incentive to drift towards more intense subdivisions housing “

“Only approved new subdivisions if they achieve medium to high density areas within them that ensures the overall subdivisions approve the desired density or densities.”

Future Proof did not consider “affordability housing” in its criteria. Its principal purpose was “affordability of infrastructure” and “compact housing”

HCC Economist (2008) stated:

“Section prices, especially in Hamilton but already in the sub region, are already uncompetitive or unaffordable. If Council limits the amount of land they approve for new subdivisions, and attempt to push up land prices, make Housing intensification, and Greenfield subdivisions more attractive to developers and section buyers, they risk stifling economic growth in the sub region.” (I)

Why did Future Proof adopt a concentrated housing strategy?

The theory is people are more “productive” if they are “concentrated.” (Covid 19 was not considered.) This is referred to as **agglomeration**. There are 2 benefits to agglomeration.

(1) increase in “productivity”. (GDP)

(2) “social.” Where there are benefits to meet, entertain ie theatres, restaurants etc.

However, the benefits of agglomeration are quickly lost, if the cost of living in an area, exceeds the increase of income. (J)

Globalisation and money supply.

Since the mid 1980’s globalisation has effected money supply. This has changed how Government, and companies work. Globalisation has allowed money to flow freely from one country to another. Money (usually flows) where interest rates are offering the best return. If countries are not able to control their money supply/ currency, it has an effect on their economy. Europe, Japan, USSR and China have all been labelled “currency manipulators” by reducing their interest rates, to reduce the attractiveness of the currency, compared to their competitors.

In the United States, the Federal Reserve controls the money supply. In the global recession, 1987, the Federal Reserve cut interest rates, to stimulate their economy, ie to make exports more competitive. However other countries took exactly the same approach. It is therefore the supply of money worldwide, that to a large extent, has been keeping all economies going from the 1980s until now. This effect has been well documented in many publications. The question has been asked (quite correctly), what happens when interest rates get to 0%.



It is the effect of this money supply that has been the driver for “asset prices,” worldwide for the last 30 years. Japan has experience low interest rates now for 30 years. In some parts of Tokyo, housing prices have dropped by 50% since 1990. (K)

Global Financial Crisis GFC (2007). As a result of the GFC, both housing and section prices (increases) either slowed or dropped. Hamilton’s average population growth has been 1.5% to 2% per annum for many years. This requires the construction of 1000/ 1200 new dwellings pa to meet demand.

However, permits for Hamilton housing, vary considerable year to year:

2007	1180
2008	530
2009	540

It was not until 2015 that permits increased to 1210pa. (L)

From 2008 HCC decided to “balance the books”. This required HCC to limit spending money on “core infrastructure”. It takes 2 to 5 years from the time that “core infrastructure” is installed, for a residential subdivision to be developed. It only became noticeable from 2013 that there was a shortage of residential sections and prices increased. But HCC did not increase spending until 2015. (M) (U)

. What is the National Policy Statement, Urban Development Capacity (NPS -UDC)? (N)

The government (both National and Labour) are concerned about housing affordability. In 2016 NPS- UDC requiring councils to provide a “benchmark” on the city.

It requires councils to look at “why” housing was so unaffordable, and the barriers to development. Some of the barriers to be considered were Infrastructure Constraints, Restrictive Covenants, and Concentrated Land Ownership. (O)

These reports were to be provided to Ministry of Business and Enterprise (MBIE).

Future Proof employed Market Economics, (ME) a firm of Economist to undertake this background research. Although legally required, ME never considered the effects of Infrastructure constraint, Restrictive Covenants or Concentrated Land Ownership in there modelling for Hamilton.

Future Proof/ ME argued with MBIE that housing should be more “expensive” to be more “affordable”. Their assumption was that wages would increase faster than house prices. This argument was rejected by MBIE. They instructed Future Proof, to advise councillors, that they were potentially breaking the law. Future Proof never informed councillors of MBIE position, and (in an internal emails) staff stated: *ignore our lack of compliance*”. (P)



The reason for this is now plain to see. Future Proof already had an agenda. “Concentrated Housing “throughout Hamilton.

As a result of this noncompliance to NPS - UDC the Government introduced the NPS – UD.

National Policy Statement on Urban Development (NPS – UD) 2020. (Q)

This required councils to address” in detail” the shortfall in information previously provided.

Future Proof has now employed ME Consultants to prepare a report titled: “sub regional Housing Study. Demand Preferences and Supply Matters (Oct 2020). (R) This report has not been peer-reviewed and I believe is “fundamentally flawed”. The housing choices that participants were asked to make, were all new, (being apartments, terraced house’s , duplexes and units, with only one standalone house on a lifestyle block.) The results of this survey showed however that the majority of people would prefer a standalone home, on its own section, as opposed to apartment living. The survey noted that the choices being “offered” is divorced from what “may actually” be on offer for sale in Hamilton.” (Page 35.) It also noted that the benefit of Agglomeration for Hamilton ,were questionable. The distances to travel in Hamilton are quite short compared to Auckland, so there were fewer benefits.

By July 2021, HCC will be required to address Housing affordability (barriers to development, and some District Plan details.) They will also be required to provide the construction cost of housing in more detail which can be challenged. Still more details are required in 2022 and to comply with NPS-UD fully by 2024 to standardise District Plan in an e format. (Q)

Will house prices keep rising? Economics shows, “if there is demand, and a supply shortage, prices will rise.” Over the last 15 years, due to Future Proofs policy of “Concentrated Housing” there has been a lack of “core infrastructure” spending, resulting in a shortage of Greenfield land. (This has resulted in “infill development” being the predominant form of dwelling since 2017.) This is the main reason for the increased in housing prices. It costs significantly more to build, a high-rise apartment (\$5000m2) than a low rise dwelling (timber framing home) (\$2000m2). (S) **It has been the increase cost of land, that is and has been the main driver of costs.** This has been identified by Government hence the NPS – UD.

What effect will this have on Hamilton Ratepayers.

We have identified that HCC has lost over \$60 million of ratepayers money in the last 20 years, predominantly in the V8’s but also in real estate investments. In addition, Council has cost ratepayers \$40 million in interest “rate swaps” over the last three years. This is the amount they could have “saved” if they had not gambled on the “derivatives” market.

HCC have also predicted (2019 LTP) of a “potential” loss of \$90 million in “interest rate swaps” by 2021. (T)



The cost of Infrastructure in Hamilton City.

The Elected representatives in 2008 voted to develop Rotokauri in preference to the Peacocks. Staff report from 2008 showed that the decision was made on the basis that the infrastructure cost for Rotokauri were \$150m and Peacocks \$165m. By 2019, staff reports estimate \$618m for Rotokauri and \$790m for Peacocks (less Transit subsidy). (V)

Information obtained under OIA (with the Ombudsman assistance) show the HCC has consistently underfund infrastructure as far back as 2005 (\$35m.) In 2019/20 the cost (\$152m). (U)

The costs to refit existing infrastructure within the city will be significant.

The future costs for Hamilton ratepayer will mean rate increases of over 100% within the next 10 years if HCC continues on the same path.

This has already been signalled in the 2019 10 year LTP, with the anticipated increase of about 80% .

The NPS -UD will require HCC to allow the development of “greenfield” land on its outskirts.

Will the Government take control of the city growth under new legislation?

Clearly the current function and workings of HCC need to be questioned.

Regards


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- (D A) HCC Economist Chris Simpson. Mean House prices over the Decades 2014
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- (I) Development Economics report 2011
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