disrupting the housing market

In part two of his three-part series Patrick Snedden describes how five forces work together to push up the price and availability of housing and hints at how those forces could be disrupted.

Patrick Snedden

In my last article I suggested the Auckland housing market needed disruption. This disruption must derive directly from an appeal to a value we hold dear. It must speak to us of a sense of social inclusiveness where home ownership digs down roots, grows equity and increases societal coherence. If we still want housing to be accessible and to remain the ground on which societal cohesion and durability are formed then passivity in the face of market forces simply won't do. We need to take control of the levers that drive market forces where we can.

Five of these forces are interest rates, land costs, building supplies, labour availability and specialisation and new ownership structures.

interest rates

Interest rates in NZ function under the Reserve Bank's (RBNZ) control and are largely immune from external pressure and advocacy. We have possibly the most independent Reserve Bank in the world economy. Today we have some of the lowest interest rates in living memory, facilitating the cost of borrowing but perversely playing into the hands of the already housed. They leverage off such rates to buy additional property and are prepared to pay higher prices in anticipation of endless capital growth. History tells us that simply can't and won't go on but as NZ attracts record immigration Auckland feels to be solidly a sellers' market.

So we need to consider other tools beside minimum deposits, capital adequacy limits and adjusted loan-to-value ratios (LVR) if the RBNZ is to play a valuable role in this disruption. This must be part of a wider strategy.

land costs

Take land supply for instance. The government is fast releasing surplus land for building — a good initiative — but changing virtually none of the parameters around that land. A small group of large developers is commissioned to bring the land into service quickly and they model their developments using the same indices that they have always used. The result is more of the same. Even developments earmarked for affordable housing have such a low proportion of affordable property that the options to house the many are reducing. And the capital profit on the sale of the new houses rises.

Unfortunately this analysis is not theoretical. I was involved in the creation of the Hobsonville land development as chair of the company from 2005–10. This was to create 3,000 new houses over a ten-year period. The *kaupapa* laid down by the government of the time was that 30 per cent, or 900 of these houses, were to be either state rentals (Housing Corporation) or affordable houses (less than $350,000).

Today the project extends to 4,000 houses and fewer than 400 are deemed affordable at $475,000 or less, or available for rental. In short a project designed to disrupt the market supply in favour of less well-off citizens has been co-opted to feed the investor market. Now significant ownership is in the hands of owners who don't live there. The affordability agenda has been sidelined as the project is developing in accord with market orthodoxy.

building supplies

This will happen to the new Special Housing Areas unless the rules change. But the energy for tipping the market in favour of the less well-off is not at the core of these developments. Market orthodoxy is felt most clearly in the area of building supplies. A handful of companies dominating supplies have proved to be reliable, mostly safe and profitable. The leaky building fiasco was nearly their nadir but they have recovered and business is booming.

But they have no incentive to gear their pricing to serve first home-buyers. The market is comfortably rising, the number of higher priced houses being built is proceeding unabated and new housing areas are opening up. It is business as usual — with zero incentive to change.

However unless the price of materials falls, affordable housing is beyond us. So the status quo just won't do and we need to think in a deeply disruptive manner to change future outcomes.

labour availability and specialisation

Disruption is also needed in our view of the labour market around construction. House costs are a function of the bespoke nature of our desires. We New Zealanders tend to want our own home to be our dream come true.

This biases us against too many of the same. However in 21st century Aotearoa this dream kills the capacity to house ourselves within our budgets. Our bias affects both our land requirements and our labour skills price. The more land with the house the greater the base cost; the more specialised the building function the higher the labour cost. Both costs have to change for affordability. This will mean more intensity, people living closer together, more design efficiency and less variation.

new ownership structures

Finally to enable low to middle-income earners to get a start in housing we will need new ownership structures modelled on legal partnerships. Some partnerships will allow for multiple owners within single dwellings. Other partnerships might allow for a single development with multiple dwellings. These decisions are normally the constructs of the developer. However in the right circumstances they can become a tool of the first home-owner partnership.

In my last article in this series I will discuss how the following five market disruptions will address the current social inequity around housing:

reserve Bank action

RBNZ support first home-buyers to receive preferential treatment by banks for partnership arrangements through lower LVR for approved schemes.

land supply via special housing areas

Government and local bodies adopt a fixed value for sections exclusively released for sale to 70 per cent first home owners (including Kiwi Saver re-start), 30 per cent social housing operated under a ballot system with a fixed period and cost for resource consent, site development and full house construction.

building supplies

Government and local bodies sponsor an international tender process for the building materials supply that conforms with NZ regulations. This would allow into the market at scale companies that can immediately supply at competitive prices the building requirements for the houses to be built in the Special Housing Areas.

design and build

Government and local bodies sponsor an international tender process for design and build solutions that increase housing intensity within a new set of rules applied to Special Housing Areas. The rules will allow for greater flexibility in design footprint and in mass delivery of new houses and will require less labour specialisation.

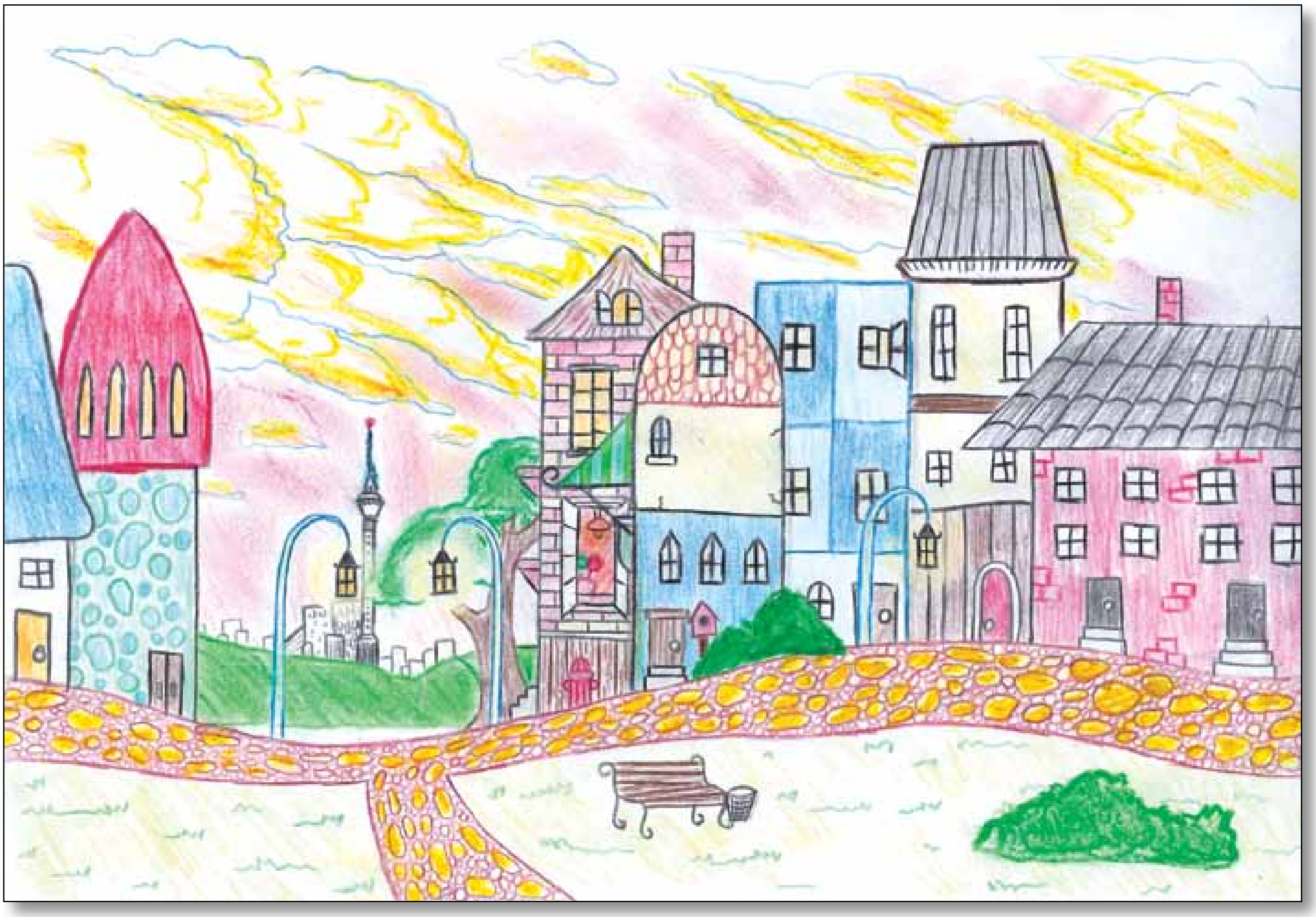

Illustration by Jordan Riddell aged 13 Christchurch

new forms of ownership

The disruption required in this market is expressed in one word "partnership". To have any show of getting equity in housing we will need to form different partnerships. These could be non-family in their nature. They will need RBNZ preferential support for their structure in order to succeed in getting low to middle-income earners into house ownership. ■

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