GETTING PERFORMANCE URBAN PLANNING IN PLACE

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DISCUSSION PAPER
March 19 2008

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GETTING PERFORMANCE URBAN PLANNING IN PLACE

INTRODUCTION

In discussing this issue of housing affordability within this paper, I will communicate in the “first person” for a number of reasons. Firstly, the housing stress too many urban markets are now dealing with is a “political problem” in the widest sense of the term. Secondly – while local government has a hugely important role to play, the unfortunate reality is that most people find it rather boring and planning issues even more boring. In taking this approach, it is my hope that it assists in generating greater discussion within local communities as they strive to restore housing affordability over a reasonable and realistic time frame.

It needs to be borne in mind when reading and discussing this paper – that it is the perspective of a commercial property development practitioner of some thirty years experience in New Zealand, an industry leader for the first part of the 1990’s and an international researcher and advocate on this particular issue of housing affordability these past three years (the writers bio is included within the final pages of the Annual Demographia Surveys).

There is now an abundance of academic, professional and general literature available internationally (refer Demographia and my articles Scoop New Zealand) – where it would be fair to say, that the disastrous policies of forced urban consolidation have been thoroughly discredited. This research assists enormously and works in tandem for those with a practical working knowledge and understanding of urban governance, management and development issues – provided it is well directed and focused.

There is no substitute for practical hands on experience and a successful track record in understanding the political and commercial drivers of these issues.

Without this – it is extremely difficult to gain a real perspective of the commercial and political pressures involved and in a proportionate manner and with (hopefully!) sound judgement, consider solutions more likely to succeed.

As I see it – government and local government in particular is the “necessary foundation” to enable us to improve our lives – in environmental, social and economic terms. If the foundations are weak or not performing as well as they could be – each of us as citizens has a responsibility in a representative democracy, to explore ways of strengthening these foundations.
In fact I would go so far as to say that “democracy” and particularly “local democracy” is something we should treasure and play our parts as time allows, to strengthen by participating responsibly.

In a representative democracy – the politicians are a reflection of us.

“Muddling along” and time consuming educative evolutionary change is always preferable to “crash change”, which understandably results in a backlash. In fact I much prefer the muddling along approach, as it is more sustainable long term when people are “on board” from the outset.

In “muddling along” we have made outstanding progress over just five or six generations when you consider where we have come from in just 150 years since the 1858 London’s Great Stink (and here) when the life expectancy of a baby born in the largest English cities was just 29 years. And too - the horrific “isms” of the 20th Century. We sometimes need to remind ourselves just how fortunate we are - to be living through an era of unprecedented global prosperity.

Prosperity and progress however does not just “happen”. It only happens when people work together cooperatively in finding solutions to problems.

My focus will be on New Zealand and Australia, as these are the areas I am most familiar with. In having said that – in researching this issue and discussing it with others internationally, it is amazing just how similar the problems are in all developed urban markets suffering housing stress. So the points made within this discussion paper will likely be relevant in other jurisdictions as well.

THE ERA OF POLITICAL CONVERGENCE

Some see these housing difficulties in ideological terms. I don’t.

I thought the new Prime Minister of Australia, Hon Kevin Rudd expressed it exceptionally well within his Victory Speech (text; video) of 24 November 2007, when he said –

“I will be Prime Minister for all Australians. I will make this solemn pledge to the nation. I will always govern in the national interest. And my door will always be open to men and women of goodwill who want to participate in making our country even greater in the future.”

“Friends, tomorrow the work begins. Australia’s long term challenges demand a new consensus across our country. I’m determined to use the Office of Prime Minister to forge that consensus. It is necessary for us to embrace the future as a nation united, forged with a common vision.”
“I want to put aside the old battles of the past, the old battles between business and unions, the old battles between growth and the environment, the old and tired battles between federal and the state, the old battles between public and private.”

“It is time for a new page to be written in our nations’ history. The future is too important for us not to work together to embrace the challenges of the future and to carve out our nations’ destiny.”

Kevin Rudd is a “proven political performer” of a “can do” nation.

And he and his Government will know full well, that the recent electoral success was due in large measure to the support of those suffering “mortgage stress” – as the Fitch Ratings research commissioned by the Sydney Morning Herald found - Fear of losing homes drove Labour win - Stuart Washington.

The reality is that we are very much in the “era of political convergence”. Contrary to much of the political rhetoric, with politicians and political parties struggling vainly to differentiate themselves for branding purposes – people agree on more issues than they disagree. And better still – if they are encouraged to converse, debate and educate themselves on issues where they think they differ – more often than not, a consensus can be reached surprisingly quickly.

It’s when politicians forget (to quote Australian Prime Minister Rudd) “I will govern in the national interest” and look after “special interests” instead – is when “all hell breaks loose”. The New South Wales Government of Australia – the “Mates State” has mastered the latter – as explained by Michael Duffy of the Sydney Morning Herald Tribal New South Wales and Plans that come to naught.

HOUSING AFFORDABILITY – A POLITICAL FAILURE IN THE WIDEST SENSE

The housing affordability issue is a “political failure” in the widest sense of the term.

Local Governments and particularly the larger ones, as with any bureaucracies (whether public or private) will constantly expand if left unchecked. The great C Northcote Parkinson explained this within his classic work Parkinsons Law (“work expands to fill the time available”) with great wit and perception.

The State of Queensland, Australia – which has unwisely just embarked on a process of forced Local Government amalgamation (no doubt because business told them it was a good idea – when in reality it isn’t) – will urgently need to consider getting in the appropriate “performance structures” along the lines outlined within this paper – to counter the “Parkinson’s Law problem”.

Within the private sector, there is the inbuilt discipline of the market and competitive pricing, so that this unhealthy tendency can be subdued. Not so in the public sector where this discipline does not exist. So other ways need to be found to control this problem in
the public sector, (which is considerably more difficult without these market disciplines) but with all the additional internal and external political pressures involved as well.

Because of the general public and media disinterest in local government – the elected representatives and staff quickly become “bored” with infrastructure and feel pretty much “liberated” to expand the bureaucracies and engage in activities that are more “fun”. Fire cracker displays; free (rate payer paid) concerts; meaningless conferences, meetings and seminars; so called marketing and economic development programs; complex, often conflicting and never ending regulatory processes……..the list goes on.

Big business is also a great supporter of big local government and amalgamation, as it makes it considerably easier (and cheaper) in influencing them to control urban markets and shut smaller business out and lessen the competition.

The larger the local authority – the larger the problem. With this lack of public and media scrutiny – the staff within the larger local authorities pretty much control the situation to suit themselves - with the lower ranks controlling the higher ranks – as the latter settle for the easy life, by going through the motions of administering these entities rather than exerting themselves actually managing them.

There is a world of difference between “management” and “administration”. We need to start seeing “performance based governance and management” within local government.

So the “smart growth” / forced urban consolidation idea proved very attractive to local government as a “sales aid” to lower infrastructure spending and engage in other activities.

During the early and mid stages, business and property organisations welcomed it as well – as the members with a lot to gain financially (or so they naively thought) saw it as a great opportunity to shut out the competition and engage in monopoly pricing to force rentals above market levels and create “scarcity values” for their properties.

If business and property organisations in the future wish to play a more effective role and earn respect within their communities – they must strive to act ethically by promoting open and competitive markets – clearly and coherently – so that they are seen by politicians and the public at large, to be acting in the consumers and publics’ wider interest.

Politicians and the public service would be well advised to ignore those that fail in this regard.

And the business and property organisations (including the professional ones) need to develop real (not the few current fake ones) “Codes of Ethics” – with teeth in them – that have the capacity to expel members who fail in this regard.
So the stage was set for what should have been the obvious “scarcity induced” urban property bubbles that ensured. The consequences were never considered.

It is only over the past two to three years that the business and property organisations have become increasingly concerned about the “downside” of these artificial “scarcity induced” urban property bubbles. Of particular concern are the increasing household debt loads suppressing retail spending and most importantly, shopping centre rentals.

I don’t accept for one moment that the public at large had a significant part to play in this process. In my experience, one would be lucky to find one in a hundred people with a mild interest in planning issues and possibly as few as one in a thousand with a strong interest. Talk to most people about “urban growth boundaries” or “inclusionary zoning” and watch their eyes glaze over with boredom.

This all happened – because it suited the political and business elites – with the support of what we term today as the “old media” – particularly, the daily print media. The old media saw it as helpful in turbo charging advertising revenues – but they are currently learning in California and Florida the costs in advertising revenue terms, as these housing bubbles inevitably “pop” and start deflating.

The internets’ greatest contribution is its rapidly expanding capacity to “bury” the old daily print media with quality information.

As a researcher and advocate on the other side of this issue – it never ceases to amaze me how they ever managed to get away with this nonsense of forced urban consolidation. It should have been obvious to all involved - and others – that by creating these totally unnecessary artificial land scarcities – that the stage would be set for the destructive urban property bubbles that ensured.

Still today – most economists and property professionals are woefully ignorant of the social, environmental and economic consequences of the structural aspects of starving fringe land supply and artificially inflating urban markets (the technical term for this is “disruption costs”). Most are oblivious to the significance of the relationship between incomes and property prices.

The public at large pretty much just went along with it – thinking that property inflation was wealth creation – when in reality it was simply poverty creation. A “wealth illusion” if you like - that Bank economists, property commentators and the daily print media were more than happy to reinforce. These “experts” prostituted themselves to the extent of persistently referring to property inflation as growth – and worse still - by talking in terms of the “wealth effect” of property inflation.

This is exactly the same as a doctor telling you of the curative properties of cancer.

THE GOOD – THE BAD – AND THE UGLY
To explain this simply – let’s consider three urban markets – Dallas Fort Worth, Texas, Auckland, New Zealand and Sydney, Australia. For the sake of simplicity – let’s say we are dealing with three households with $60,000 gross annual household income (local currencies – it’s the median multiples that matter) in each urban market.

Within this year’s [2008 4th Edition Demographia International Housing Affordability Survey](#) you will note that Dallas Fort Worth has a Median Multiple of 2.5; Auckland 6.9 and Sydney 8.6. This expresses how many times gross annual median household income residents of each city can expect to pay to house themselves. As households generally “trade up” at some stage from a starter to a larger home, I have illustrated a second home at 40% above the starter home price in each of the individual cities.

<table>
<thead>
<tr>
<th></th>
<th>Dallas Fort Worth</th>
<th>Auckland</th>
<th>Sydney</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income p.a</td>
<td>$60,000</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Median Multiple</td>
<td>2.5</td>
<td>6.9</td>
<td>8.6</td>
</tr>
<tr>
<td>Starter Home</td>
<td>$150,000</td>
<td>$414,000</td>
<td>$516,000</td>
</tr>
<tr>
<td>Second Home</td>
<td>$210,000</td>
<td>$579,600</td>
<td>$722,400</td>
</tr>
</tbody>
</table>

The table above clearly illustrates that households in Auckland and Sydney are being “taken to the cleaners” in comparison with their counterparts in Dallas Fort Worth. In reality – the citizens of Auckland and Sydney have been consigned to be “mortgage slaves” pretty much for the rest of their lives.

In fairness to the finance sector – it did not “create” these distorted prices (happy to naively act as “cheerleaders” through the upside of the bubbles though) – but it has been the major beneficiary as these urban housing bubbles inflated and (in what should have been foreseen) is sharing in “paying the price” (with hands out for taxpayer welfare) through the inevitable downwards adjustment.

With respect to New Zealand for example – my estimate is that New Zealand households are probably loaded up with around $NZ60 billion of excess debt – to fuel the housing bubble. By the end of 2007 they were carrying around $NZ166 billion of household debt – some $NZ19 billion more than they were 12 months earlier (Westpac Banking Corporation). No wonder we have “mortgaged stressed” households.

Interestingly too – as people have been driven out of the major urban areas to outlying towns and rural areas to access lower cost housing – they have been forced to commute further. So the oil companies have been well rewarded too.

So as a “housing consumer” within these artificially inflated housing markets – the only real decision you have to make is how you intend to apportion your “donation” – to the oil companies or the banks.

For the so called fortunate homeowners owning houses prior to the housing bubble inflating – there is a perception that this inflation was “making money” for them.
Not so.

Consider the Table above - where say you own a house in a 2.5 Median Multiple market (Dallas Fort Worth), that inflates out to 8.6 Median Multiple (say Sydney) so that your existing first home price “balloons” out from $150,000 to $516,000. You immediately think you are wealthy – but in reality you are being conned.

Most households will attempt to “trade up” (we rarely trade down) – so instead of paying $210,000 for your second home (in the 2.5 Median Multiple market), because your local urban market has inflated so much with this example – your second home will cost $722,400 instead (8.6 Median Multiple market Sydney example).

It is likely you have never thought before of the “gap” between the first and second homes of these respective markets - $60,000 ($210,000 - $150,000) in the affordable first example – but a substantial $206,400 ($722,400 - $516,000) in the severely unaffordable second example.

Just as you are attempting to “trade up” – it’s probably about this time your children will be attempting to purchase their first home in this inflated market. They could have easily arranged equity and debt financing for the above affordable starter home example at $150,000 in the 2.5 median multiple market (the DFW example) – but it is considerably trickier for them to independently equity and debt finance the $NZ414,000 or $Aust516,000 first home in the severely unaffordable 6.9 (Auckland example) and 8.6 median multiple market (the Sydney example).

It makes it very difficult for both you and the children. You have probably encouraged them through their formative years to “become independent” – something they desperately want to do too – but the inflated prices the planners have created, have ensured they remain “dependent” – unnecessarily.

So in addition to the substantially larger mortgage you will require on your second home – you will likely feel obligated to “help the kids” with a mix of cash gifts and put your own mortgaged second home up as supporting collateral as well.

In reality – this should be called a “planners tax” - in case you are not paying enough tax already. Have you thought about that?

Your life savings should be pretty much depleted by this stage – so you will likely enter retirement cash strapped. But - by this stage you have become conditioned to being a “mortgage slave” and the next thing you can look forward to is a reverse mortgage in your retirement.

As these artificially inflated urban markets remain at these unsustainable levels – more and more people get snared in to this “lifetime mortgage trap”. In fact – until recently (prior to the credit crunch) the finance sector in Britain had come up with the “graveyard
mortgage” – which was never to be repaid - but simply passed on through the generations as an inheritance.

Going in to retirement as a renter is a sure fire recipe for poverty.

Going in to retirement without adequate savings and a “mortgage mountain” is a sure fire recipe for poverty as well.

The reality is that in the developed world – buying a house with a prudent mix of equity and debt should be as easy as buying a car or purchasing any other significant household item. It’s just that the house is appropriately financed over a longer term. And then to actually have enough income left over to do things and live life as well. Yes – live in dignity.

The reason why this is not possible – is because the governments at local, state and national level are starving land supply on the urban fringes - thus not currently allowing affordable housing to be built in stressed markets. It’s that simple.

Forget all about wages being “insufficient”. That is simply not true for the vast majority of people - although for a possible 5% of the population further social support is necessary to assist them in to housing. The more inflated the urban markets are – the more people will be in housing stress requiring social support.

WE MUST LEARN FROM HISTORY

After the Second World War – the American authorities (things happen when the establishment is frightened – when protecting the privileged political and business elites becomes too risky) were concerned not to repeat the mistakes after the First World War, where the returning American troops were denied the opportunities they felt they deserved, which understandably led to extremism in the union movement. They were acutely aware it was disillusioned young German troops who got the Nazi Party underway, which in turn led to the Second World War - and Russia too - with Communism of course.

The social and political consequences of denying young males the opportunities they feel entitled to – is extremely dangerous politics. Think about it.

In America following the Second World War – much of the “playtime planning” (protecting the interests of the elites) was cast aside, as governments at all levels focused on enabling affordable housing to be put in place - as Dr Barbara Kelly of Hofstra University, New York explains in her book "Levittown - Expanding the American Dream" (Google e book). As Dr Kelly tells us within this article –

“Shelter for the original veterans of Levittown consumed twenty five percent of monthly income. Their mortgages represented a commitment of from two and a half to three years income, with a single wage earner (my emphasis). A typical young couple in their middle
to late twenties with one or two small children and a single paycheck could expect to purchase a house with little or no down payment. The wife could expect to remain at home to raise the children and keep the house, while the husband earned the income. Thus the terms of the housing bills helped to ensure not only that these young people would become members of the home owning class, but that their homes would foster a traditional way of life”.

“……..with a single wage earner”. Did you know that? Why were they capable of achieving this 60 years ago – and somehow we have forgotten “how to” today?

This is something the Churches and social agencies should have pointed out to the politicians and wider public during the debate of these housing issues in Australia and New Zealand during these past few years.

Have you heard the Churches and social agencies supporting the call for $140,000 to $160,000 new starter homes on the fringes of the cities of Australia and New Zealand? Have you heard the Churches speaking clearly of the “moral obligations” of allowing affordable housing to be built? Why have the Churches apparently abrogated this “moral responsibility” to the United Nations? (Refer UN statements further on within this paper)

William Levitt (Time magazine 1950 cover story) of Levitt and Sons is considered the “father of affordable housing” and with his outstanding entrepreneurial skills – in 1947 managed to develop these 750 square foot (70 square metres) Cape Cod homes (plus an attic) on 6,000 square foot (557 square metre) lots / sections for about $US7, 000 (prices and house sizes increased slightly between 1947 and 1950). A remarkable feat - particularly when one considers the shortages of materials following the Second World War.

The Time magazine article suggests that Levitt made a profit of about $1,000 per housing unit – a 14.25% gross profit margin. He achieved this with his outstanding negotiating and organizational skills, by saving around $1,000 per house bypassing “middlemen” purchasing materials. Without these skills – this “affordable housing” would not have happened. It had been attempted many times before – all the way back through the 1930’s – as the then antiquated “horse and buggy” house building industry tried and failed to emulate the mass production of the automobile.

It took a “convergence of circumstances” in 1947 (just 60 years ago) when both the public and private sectors played their respective roles to allow it to “happen”. The great Bill Levitt led the way – soon to be copied throughout the rest of North America, Australia, New Zealand and other developed countries as well. The “democratization of prosperity” then got underway - allowing tens of millions of people to escape the socially destructive, squalid, dense and inferior tenements of the cities to allow them to live in dignity.

Interestingly – more houses were being built in the United States in 1950 than are being produced today. In 1950 the US population was 152 million – today it is double at in
excess of 300 million. So when you read US media commentators state that there has been “housing overproduction” over these past few years – simply ignore it. It’s rubbish.

The planning laws at that time dictated minimum lot sizes of 4,000 sq feet – but Levitt elected to have larger lot sizes – which allowed these houses to be easily modified and expanded over time (yes – that’s real “sustainable development” not the fake variety currently being peddled by the politically correct today). Sixty years on – there is hardly an original Levitt house – as this allowed “design diversity” and additions and modifications to be made as needs changed and incomes grew.

This is a “getting the basics in place first” approach – with a sustainable design enabling further improvements as time and greater financial resources allow.

The Annual Demographia International Housing Affordability Surveys (2008 4th Edition; 2007 3rd Edition; 2006 2nd Edition) in employing the “Median Multiple approach” (where local median house price is divided by gross annual median household income) as recommended by the World Bank and United Nations – clearly illustrates that where fringe land supply is not strangled and inflated and infrastructure is appropriately financed, housing stays affordable at or below the ceiling multiple of 3.0.

That is – the authorities allow households to easily purchase houses at or below three times their annual gross household income.

The JCHS Harvard University US Metros Median Multiple Tables from 1980 through 2006 clearly illustrate that most United States urban markets were affordable until recent times. The “problem markets” are mainly on the coasts of North America.

THE DIVERSE NORTH AMERICAN URBAN MARKETS

In reading the American media (and international media too) – one would think that the US housing market was one market – which is simply nonsense – as in reality, it is a massive diversity of individual markets. There are the unaffordable “bubble markets” through to the affordable “normal markets”.

California and Texas - for example - may as well be on different planets. Just consider the current performances of Southern California and Houston. The numbers speak for themselves. And read Joel Kotkins recent perspective on Houston.

Yet – in reading American media coverage of the current “housing bubble” and “credit crunch”, I have yet to read one comparative article with respect to the performance differences of the California and Texas housing markets. If the American economists and media generally, took the time to educate themselves on this issue – we might then start to see some accurate analysis and competent reporting.

There have been no comparative estimates of the quantum of the financial losses being experienced by the affordable and unaffordable urban markets / States with respect to
foreclosures and defaults that I’m aware of. It appears to me - for example - that the actual financial losses in Texas may be just five percent of those being experienced in California.

Better still – policy makers may start to focus on the structural problems of urban markets experiencing housing stress – instead of going down “dead end streets” in vainly attempting to re inflate the housing bubbles of problem urban markets and run welfare schemes for the benefit of the finance sector at the taxpayers’ expense.

We should not be at all surprised that the current “credit crunch” had its origins in California. This is best illustrated by reading Herb Greenberg of MarketWatch December 6 2007 article Straight Talk on the Mortgage Mess from an Insider which includes 650 generally very informative comments from people involved in the finance sector.

As the Greenberg article illustrates – it became so absurd in California that they were lending up to 11.11 times household earnings. A case is illustrated where a household on $90,000 a year secured a million dollar mortgage.

Both lenders and borrowers in California had convinced themselves that the starved fringe land supply induced housing bubble would continue forever – so income based lending was thrown out and replaced with inflated asset based lending.

The reality was that both lenders and borrowers had no alternative other than to engage in these distorted (earlier wrongly referred to as “innovative”) lending practices, if they wished to transact in these bubble markets.

The “median multiples” (median house price divided by gross annual median household income) are an excellent gauge of the degree of distorted lending required to fuel and prop up these inflated unaffordable urban markets.

And it must be emphasised that urban markets that are not at or below the “affordable” range of below the 3.0 multiple – are very susceptible to scarcity induced bubbles getting underway. And as they climb their way up through the multiples to 4.0; 5.0; 6.0; 7.0; 8.0; 9.0; 10.0 through to the Los Angeles 11.5 household earnings – the mortgage lending will reflect these multiples.

It simply must do – otherwise transactions generally could not occur.

I cover these issues within the December 20 2007 Scoop NZ -The Shift to Reality and February 11 2008 Scoop NZ - Poor Analysis: Reporting of Urban Property Bubbles articles.

And in case economists and the media generally think that the US has problems with “bubble urban markets” - they may like to consider the findings of this year Demographia Survey. Of the 227 urban markets of the six Anglo countries covered, it was found that the Median Multiple for Canada was 3.1; the United States 3.6; Republic of Ireland 4.7;
United Kingdom 5.5 and both Australia and New Zealand a staggering 6.3 times household earnings.

Based on the above Median Multiples - it is abundantly clear that the United States and Canada have minor problems in comparison with the other countries surveyed.

The great advantage Canada and the United States have, is the diversity of performance and the capacity to correct the problem markets through competition and unnecessarily disruptive demographic shifts (refer Demographia research [here](#) and [here](#)) - as people and businesses flee poorly governed bubble markets to soundly governed normal urban markets. It is considerably more difficult for the “straightjacket” (one size fits all) regulated markets in the Republic of Ireland, United Kingdom, Australia and New Zealand.

Of these four “straightjacket” countries – Ireland is the only one currently with the capacity to supply sufficient new housing stock to bring pricing back in to the “normal range” within a reasonable time. To restore housing affordability however - Ireland will need to ensure its fringe lot pricing achieves the ratios and the structural pricing as I am setting out within this discussion paper. Sorting out the endemic corruption in the planning system of that country would be a good start.

The United Kingdom is the “housing basket case” of the developed world with a current build rate of below 3 units annually / 1000 population – barely replacement. At least Australia (current build rate about 7 / 1000) and New Zealand (current build rate of about 6 / 1000) have a reasonable construction production platform to work from in addressing housing affordability.

The “build rate per thousand population” is an extremely important measure – as an accurate gauge of building activity. Talking in terms of build numbers without reference to the underlying population statistics is misleading.

HOW NORMAL HOUSING MARKETS SHOULD BEHAVE

Based on the above evidence – I am of the view that normal growing urban markets should move from a floor median multiple of 2.0 through a swing multiple of 2.5 to a ceiling multiple of 3.0 times household earnings – through the building cycle. The “swing multiple” at 2.5 is determined by the pricing levels of new starter housing of an acceptable standard (in terms of house size and quality as set by local median household incomes).

The fringes act as a supply or inflation vent – by supplying new stock at around the 2.5 multiple, so that the overall market does not exceed 3.0.

There is simply no other way of subduing urban inflation – other than letting the fringes “breath” and supply new affordable housing stock as demand requires it. We need to be extremely clear on this point.
This “oscillation” is however very large and ideally it should really move from a floor multiple of 2.3 through to a ceiling multiple of 2.7 (Dallas Fort Worth is an excellent example of this - refer Demographia Dallas Fort Worth / Sydney Comparative Study and with respect to Houston Our Young New Zealanders deserve affordable housing), provided that there is an adequate “supply cushion” to allow housing production the necessary time to increase to meet the new demand. Residential rental vacancies for example should never fall below 6% to provide this necessary “cushion”.

It is important these market oscillations are moderated – to maximize the residential sector productivity and pricing performance over the medium to long term. Should the “swings” in residential production be excessive, the whole culture of the construction industry is degraded, as the normal commercial disciplines fade and are replaced with a “make hay while the sun shines” culture.

If – due to inept regulatory interference – an industry is seen as poorly governed, erratic and excessively volatile and risky – forcing market players to produce inferior product – the good people tend to leave and contribute their talents in other fields and other regions and countries. There is nothing more demoralizing than developing and building overpriced “rubbish” for people.

The new starter housing on the urban fringes – as indicated previously – should be going in at around 2.5 Median Multiples of individual urban markets. So - if the gross annual median household income of your particular urban market is $50,000 – the fringe new starter house pricing should be in the order of $125,000 - $60,000 / $150,000 - $70,000 / $175,000……and so forth.

The wealthier the urban market – the bigger and better the quality the fringe housing will be. In fact – the quality of the built environment of individual urban markets is an expression of its underlying wealth. Or at least it should be – unless it is being degraded, by poor planning artificially inflated land prices.

By artificially inflating fringe land prices and imposing unjustifiable development levies on the fringes – it soon ripples through the rest of the urban market, distorting pricing and the hugely important “development ratios”. So - as the people of these particular urban markets are supposedly becoming wealthier, the quality of their built environment is becoming degraded over time.

Britain is an excellent example of this (and Sydney too) – where because of a long history of “strangulation planning”, the quality of the housing stock is being persistently degraded. In 1920 – the size of the average new British residential unit (houses and apartments combined) was 120 square meters – and since that time it has “shrunk” to 76 square metres and is still shrinking. The tolerant British now live in housing stock of a size the East Germans fled from following reunification and Bill Levitt erected for households for $US7,000 on $US3,000 annual household incomes (one wage earner) in the United States following World War Two.
The Royal Institution of Chartered Surveyors (the lead global professional property organisation) reported some years ago that in excess of one million of these East German “slab development” units had been vacated since the Berlin Wall came down in 1989.

The British “tolerance” is remarkable and it would appear that the British business and political elites “call the shots” via organisations such as the Campaign to Protect Rural England (CPRE).

The planning system in Britain is run to suit them – and keep the “ riff raff” well away from “high society” on their country estates.

This is probably because since the days of Empire – the “ riff raff” have been well conditioned to do as they are told by the elites. More “conditioned” it would appear than the East Germans. The “colonies” (USA, Canada, Australia and New Zealand) were largely populated by those who fled this “oppression” as they were not prepared to be “put down” by the closed old European political and business elites.

**THE IMPORTANCE OF “DEVELOPMENT RATIO’S”**

“Development ratios” are extremely important. What is meant by this term is how much of the total house development goes in to firstly – the lot / section – and secondly the actual house construction. In normal urban markets on the fringes – it should be approximately 20% for the lot / section and 80% for the actual house construction.

But as fringe land supply is strangled and lots / sections are inflated from say $30,000 to stratospheric $100,000, $200,000, $300,000 and beyond - two major things happen.

Firstly – lower priced bands of the new housing market are progressively wiped out – and secondly - for those that are still being built - the lot / section component progressively moves up from 20% to 30% to 50% and 60% (roughly where Australia and New Zealand currently sit) 70% (Sydney) to 80% (parts of Britain). So less and less is going in to the actual housing construction.

Then - to “add insult to injury” the performance and pricing of the residential construction industry is seriously degraded - as land supply is cut off and the production sector is weakened, until eventually the only survivors left are the expensive and inefficient “horse and buggy” cottage builders.

Tasmania in Australia, for example, has had its production building sector wiped out and the grossly incompetently governed “Mates State” of New South Wales, Australia is well advanced in wiping out the production house building sector there. New Zealand during the mid 1980’s and mid 1990’s nearly wiped out its production sector – as builders fled to Australia.
With the recent release of a further 90,000 lots on the fringes of Melbourne – it now appears even more New Zealanders and New Zealand builders will migrate there for a better future. Other Australian States are expected to follow the lead of the State of Victoria’s responsible government.

So far – I have only covered some of the basics with respect to structural aspects of urban markets – and will cover others within the appropriate sections that follow. And I have only touched on some aspects of what we may term “comprehensive disruption costs” (in economic, social and environmental terms) of strangling fringe land supply and artificially inflating prices and creating housing bubbles.

It would take a multi-disciplinary team of researchers many months to do justice to the hugely important issue of “comprehensive disruption costs”.

SCARCITY INDUCED ASSET PRICE BUBBLES

“Asset price bubbles” always deflate at some stage – and as they do – they create economic and social havoc (and as they inflate too – it must be said). With respect to “housing bubbles” it may take increased mortgage defaults (as in the case of California), increased unemployment, demographic shifts, a drop in commodity prices, excessive household debt suppressing consumption or any number of other factors.

Urban housing bubbles are inherently unstable and one can never predict exactly when they will top and start on their destructive slide and indeed how far the slide will go. The Japanese 1990 bubble took around 16 years before it began to recover – as just one example.

The Median Multiples we have reached in too many urban markets as illustrated by the Demographia Surveys - are unprecedented.

One only has to consider the havoc that has been inflicted on the global financial system so far – since the urban property bubble first burst in California. And we have many other bubbles at various stages on the downward slide.

It would be fair to say, I think, that the finance, property and other business sectors – with policymakers - will be in no hurry to see a repeat of these urban asset bubbles – as the commercial and political costs and consequences become increasingly obvious.

It is clear to me that the “old days” of irresponsible urban governance artificially strangling land supply and creating urban asset bubbles – will simply no longer be tolerated.

It gives me no pleasure in saying this – but as a commercial property development practitioner, I could see this happening 14 years ago and worked locally in New Zealand to encourage the opening up of larger quantities of fringe land supply. However I was seen then as a “spoiler” of the inflation party – particularly by the property industry.
Some land was indeed released – but it was by no means sufficient – and not followed up on in the years that followed (local government can have difficulties being proactive and responsive – as most people know).

LESSONS LEARNT CONTROLLING MONETARY INFLATION

There is no “one right way” to do this of course – and what follows should simply be seen as a “suggestion” - to stimulate informed discussion and debate – as part of the very necessary process of working (“muddling along” if you like) towards solutions that will likely work best in individual jurisdictions.

Solutions have been found to better control monetary inflation – but as yet we have not started in to the urgently required process of exploring solutions to control urban property inflation and significantly improve local government performance.

Again we need to go back in history and consider why the New Zealand Reserve Bank of New Zealand Act 1989 was enacted – with specific reference to Clauses 8 through 13 – which deal with the primary function of the Bank and the processes required in the setting of Monetary Policy. These issues are covered within the RBNZ 1989 Paper "Our Accountability to New Zealanders".

Within this 1989 NZ Reserve Bank Paper – it clearly sets out the three different Monetary Policy systems employed in a number of countries – where firstly, it is controlled by the Government (Zambia) – secondly by the Reserve Bank itself (United States) – and thirdly, where in a transparent way, the Government sets the inflation target over a long term period and it is the responsibility of the Reserve Bank Governor to meet these performance targets.

In New Zealand - under the Policy Targets Agreement (PTA) the Reserve Bank Governor is personally required by the Government (through the office of the Finance Minister) to maintain price stability at between 0 – 3% (it had earlier been 0 – 2% prior to 1996). Should the Governor fail to meet these targets – he or she can be dismissed by the Finance Minister or Reserve Bank Board.

This was a New Zealand performance based legislative innovation at the time - that was subsequently copied by Australia, Canada and the United Kingdom. The general consensus is that it has worked very well – and has sufficient “checks and balances” in it with the necessary “transparency” and “personal accountability”.

It was borne out of the need to deal effectively with the “monetary pump priming” politicians couldn’t resist the temptation to engage in during election years. The “tightening” occurred again soon after the election – but the inflation damage was done.

But the Reserve Bank Act does not have the capacity (and nor should it) of dealing effectively with artificial and indeed unnecessary urban property market inflation and inadequate local government governance and management performance.
Reserve Banks don’t control urban land supply.

Artificial urban property inflation can and does impact on monetary policy, by firstly creating excess liquidity and activity (labour shortages being one aspect of this) in the economy as the bubble is inflating – and conversely – as these urban property market bubbles deflate – liquidity and activity (including employment) dries up.

One could think of these inflating urban property bubbles “turbo-charging” an economy – where a wealth creating economy is distorted in to an “inflation party” bubble economy – destroying wealth.

The Reserve Banks primary focus should be on monetary policy and it should not be in the business of “chasing” urban property market bubbles, by firstly using the extremely blunt and indirect tool of interest rates, in vainly attempting to control them or by again being distracted, in attempting to repair the damage created by these bubbles as they deflate.

The United States Federal Reserve (without the clear mandate the Reserves of Canada, United Kingdom, Australia and New Zealand have) appears to be seriously distracted from an “inflation focus” to the role of being a “welfare service” for the poorly regulated and sadly too often incompetently governed and managed finance sector.

The “securitization fiasco” should have been obvious to regulators years ago.

The consequences of these “indirect interventions” by Reserve Banks in attempting to control and tidy up after these urban property bubbles are well known – and I will refrain from attempting to discuss them within this paper.

The reality is that these unnecessary artificial urban property bubbles are destructive and of national / state significance. They can no longer be tolerated.

My view is that we should learn from the New Zealand Reserve Bank Act 1989 (and its counterparts in Australia, Canada and the United Kingdom) – to see if similar legislative structure can be set up at National level (in the case of New Zealand, Republic of Ireland, United Kingdom) and States level (in the case of Australia, Canada, the United States) to deal effectively with unnecessary artificial urban inflation.

The major objective should be to restore housing affordability over a reasonable and realistic time frame – and once that is achieved, to ensure long term that it is maintained.

GETTING LOCAL GOVERNMENT PERFORMANCE AUTHORITIES IN PLACE

What I have in mind is a “Local Government Performance Act” and the setting up of a “Local Government Performance Authority” at States / National level which reports to the Minister of Finance.
The Minister of Finance in consultation with the Ministers of Local Government and Infrastructure – would set a long term phased target to restore housing affordability at an agreed annual rate by the use of the Median Multiple measure. Urban markets with higher current Median Multiples would of course take longer to restore housing affordability.

As clearly outlined earlier – an urban market is “affordable” at or below three time’s household income (3.0 Median Multiple).

Once the phased targets are set, they should not be altered - say for a period of ten years. Only under extraordinary circumstances should this occur and I would suggest that the “temporary adjustment” be for a maximum of 12 months – with the agreement of the Finance Minister, the Local Government Performance Authority Board and its CEO.

Mirroring the Reserve Bank Act – the Finance Minister and / or the Board should have the authority to dismiss the CEO if the Phased Affordability Targets (PAT) are not met.

The suggested Local Authority Performance Authority would be required to report annually to the Finance Minister and Parliament.

For this to be successful – it is of critical importance Board members are committed to the intent and objectives of the suggested Local Government Performance Act – and if they fail in this regard (as determined by the majority of the Board members) they should be dismissed and replaced with another person clearly committed to the Acts intent.

It should be made clear within the drafting of the legislation that it is an “offence” to politically and / or commercially influence Board members of the Local Government Performance Authority.

With respect to the setting up of the initial Board (I would suggest 8 members including the CEO in the case of New Zealand) by the Government (hopefully in consultation with all other political parties) say for a term of on average five years – I would suggest that replacement appointments (on a staggered basis) be by way of a “suggested list” by the Minister of Finance to the Local Government Performance Authority Board and the remaining Board members be responsible for the decision with respect to the replacement Board member.

It is important the above process is followed – to ensure the long term “independence” of the Board – and limit the capacity of politicians “stacking” it for political reasons.

 Appropriately – Board members should be people with a proven track record of driving the process of “adding value” with a deep understanding of local government and / or urban property development who are held in high esteem and have a proven practical track record of success at the “coal face” of urban issues. And to be clear on this point – not academics, consultants and political cronies.
The Board members should come from across the country / state and see their role as assisting the CEO in dealing with local authorities within regional areas.

This “culture of governance” is extremely important – as it has been clearly shown that regulatory authorities (such as the New Zealand Audit Office with weak governance oversight) in lacking this sound governance oversight structure – lose the necessary will to maintain the required standards. It would appear that other jurisdictions have experienced the same difficulties.

The staff and consultants employed with technical skills by the Local Government Performance Authority should simply be there to assist the CEO and Board with research work and general administration.

Under no circumstances should they be allowed to deal with Local Authorities directly in attempting to influence and negotiate local planning policy issues. It can be extremely destructive and demoralizing for all involved; if young and inexperienced individuals with simply some “schooled” technical skills are let loose “telling” people what they should and should not be doing. Academics and those with specific technical skills can be commissioned by the CEO to support the staff with research work - as and if required.

The Local Government Performance Authority’s’ major role should be as a research and education entity, assisting local authorities to achieve these phased housing affordability targets in a cooperative manner. Should any particular local authority have an “attitude problem” and not make reasonable efforts to work cooperatively with this Authority and fail to meet its phased housing affordability targets – the Act would need to incorporate the appropriate provisions to deal with the problem, so that the local authorities phased housing affordability target can be “bought back on track” quickly.

The Local Government Performance Act must make it clear to local authorities that there are severe penalties should phased housing affordability targets not be met. The Authority must also have the scope to open up more land and / or restructure infrastructure financing arrangements of particular local authorities, should they fail to meet their phased housing affordability targets,

It is to be hoped (indeed expected) that local government would support the need for a structure such as this and not see it as a threat. The local government fraternity also need to understand clearly – that it was largely because they created this mess in the first place – that an Authority such as this is now required.

LOCAL GOVERNMENT MUST ACT RESPONSIBLY

In case I haven’t made myself clear and some individuals within the local government sector still think that “housing affordability doesn’t matter” – the individuals concerned would be well advised to read the United Nations - 2007 State of the World Population Report which states within its Introduction –
“Once policymakers and civil society understand and accept the demographic and social composition of urban growth (my view – stop being elitist) some basic approaches and initiatives suggest themselves. These could have a huge impact on the fate of poor people and the viability of the cities themselves. Throughout the Report the message is clear. Urban and national governments, together with civil society and supported by international organisations, can take steps that make a huge difference for the social, economic and environmental living conditions of a majority of the world’s population.”

“Three policy initiatives stand out in this connection. First, preparing for an urban future requires at a minimum, respecting the rights of the poor to the city. As Chapter 3 shows, many policymakers continue to try to prevent urban growth by discouraging rural – urban migration…….These attempts to prevent migration are futile, counter-productive and, above all, wrong – a violation of peoples rights.”

And in addition - the “confused” should read the extensive United Nations Conventions dealing with this issue.

And to be even clearer - individuals who do not respect peoples rights to the opportunity of affordable housing are acting unethically and are certainly not fit to be involved with public policy – or to be associated with the public service for that matter.

You can have the best law in the world – but if the attitudes are wrong – and the political and administrative management incompetent – it will fail. Unfortunately – this has been the case in New Zealand since the Town and Country Planning Act was repealed and replaced with the Resource Management Act 1991. It was recognised well prior to this that old style British “prescriptive planning” was a failure and that there was a need to replace it with enabling environmental effects based land use legislation.

Some 17 years later, New Zealand still does not have clear national environmental standards and local government and those associated with the regulatory processes, have made no real attempt to follow the intent of the environmental effects based Resource Management Act.

New Zealand would not have experienced the current “housing crisis” if the environmental effects based land use law had been administered as it was intended to be.

If followed up on – this Authority must perform in an atmosphere of cooperation and mutual respect by all involved. It should really be all about people working together exploring ways of doing things better – so that housing affordability is restored for the benefit of the wider community over the long term.

And it is extremely important the local authorities are allowed the scope to be innovative and come up with solutions and sequence initiatives that best suit their local
environments. The Authority’s major concern should be to meet its obligations to the people through the Parliament in ensuring the Phased Affordability Targets are met.

The ideal outcome of course – would be if the Local Government Performance Authority in its annual report to the Parliament said “All the local authorities achieved the phased housing affordability targets for the year – thanks to their own initiatives and cooperation with the Local Government Performance Authority. Our role has been minimal in just having to participate in this process by facilitating the sharing of information and providing forums, study tours of affordable markets and workshops allowing people to work together in exploring the best solutions to these issues.”

If this “Authority model” proves to work well with respect to local government planning and infrastructure issues – it could be expanded within a reasonable and realistic timeframe to include other areas where local government is experiencing difficulties – such as financial management and property taxes/rating. But it must be an evolutionary process and “prove itself” first though.

GETTING FOCUSED WITH SIMPLE PERFORMANCE MEASURES

In dealing in the first instance – with these issues of housing and infrastructure – the Local Government Performance Authority should be required to research and compile a series of simple measures/performance indicators with respect to every Local Authority within the State (Federal system) or Nation.

This is all very much an extension of my thinking since initiating and working with Wendell Cox in getting the Annual Demographia Surveys underway late in 2004, the New Zealand Parliament Commerce Committee Housing Affordability Inquiry, our submission (with supplementaries One and Two). Particular note must be made of Professor Shlomo Angel (with the late Steve Mayo) and his book Housing Policy Matters (refer Google e books for large excerpts), the work by the Royal Institution of Chartered Surveyors (RICS) and the book by the Washington Post journalist Joel Garreau Edge City.

It was the work by Angel and Mayo that led to the United Nations and World Banks Urban Markets Indicator Programmes in the early 1990’s - referred to earlier (here, here and here)

One of the great risks a researcher and practitioner such as the writer can run – in becoming absorbed in these urban and development issues – is to get completely overwhelmed with information and make everything unnecessarily complex. The British appear “gifted” in this regard – generating more reports than houses! So it is critically important to sieve out the “interesting” from the “essential” with respect to information – when thinking through a simple suite of indicators/measures to focus on with respect to these issues – to assisting local authorities in allowing affordable housing to be built.

After all – this is not a complex issue.
The focus must be on three essential areas – being – (a) opening up fringe land supply (b) abolishing inappropriate infrastructure charges and requiring infrastructure owners to appropriately equity and debt finance it and (c) getting a small suite of easily understood performance measures / indicators in place to assist local government in restoring housing affordability and maintaining it long term.

INFRASTRUCTURE – FINANCING IT PROPERLY

Prior to discussing indicators / measures – it is important I make myself clear on the issues of infrastructure and the appropriate financing of it.

The current inappropriate practice of “infrastructure levies” being misleadingly referred to as “developer levies” (when in reality they are – with developer and builder margins added on as well – “new home buyer levies with margins”) came about for two major reasons. Firstly – inadequate management / financial management of infrastructure by local authorities and their inability to control costs (again Parkinson’s Law) – and secondly – local authorities desire to capture as much of the “artificial scarcity values” created by the fringe land scarcities they had imposed in the first place. The Smart Growth doctrine (forced urban consolidation) was used as a convenient “sales aid” to justify this to a gullible media and wider public – propped up with the initial support of the irresponsible business and property community.

Thankfully – that “prop” has gone now.

The reality is that those who own the infrastructure should be responsible for its financing and then charge reasonable rentals, charges, rates or taxes for the use of it. There are obvious (well at least they should be – for those with even a rudimentary understanding of elementary economics) efficiency and social equity reasons why infrastructure should be financed in this way. In fact - one shouldn’t really be required to “spell it out” - but unfortunately- because of the depth of “economic illiteracy” within the local government sector and the “regulatory food chain” generally – it is sadly necessary to do so.

Urban infrastructure has a “long life” – that can be as much as one hundred, two hundred years and even more – so the financing of it should be borne by the users of it through its expected life – for reasons of “inter-generational equity”. In addition to this – as the infrastructure ages – it will likely require increasing maintenance. At the end of its “useful life” it will require replacement. When replaced – the generations that follow should be responsible for the “replacement infrastructure” long term financing.

Exactly the way other public services - such as airlines, taxis and hotels are financed – for example. None of these services resort to “splitting out” the capital and operating costs. They don’t say to you “please pay x dollars for our capital cost and y dollars for our operational cost?” when booking a hotel room for the night.
If they did – you would respond – “I’m not running a charity, sorry” – which is exactly what you are currently allowing local government to get away with.

Local Government has got away with this – so that it can mask its management inadequacies and excessive operational costs. The “capital cost levies” are essentially a “gift”.

For most new home buyers – they are generally struggling to arrange the financing to buy their own property – without having inflicted on them “gifts” to incompetently managed infrastructure providers.

When buying first homes – the long term debt financing arrangements should not exceed 20 years and at worst 30 years. As incomes increase there is considerable merit in paying back debt earlier if possible, so that by the time people are in their mid forties, they have the capacity to purchase the second home and boost their savings for retirement.

In fact – the finance sector, instead of behaving like “donkeys” (as former Australian Prime Minister Paul Keating called them) should for a change try and become “innovative” and design home mortgage products, where the repayments adjust reflecting upwards income adjustments – so that households clear the mortgage debt and reduce interest costs as quickly as possible. This puts households in a better position to purchase a second home quicker and allows more scope to bolster their savings for retirement.

So households’ debt structures should be for a substantially shorter term than much longer term infrastructure debt financing. Both should be kept separate.

SEVEN SIMPLE PERFORMANCE MEASURES FOR LOCAL GOVERNMENT

I don’t see a need for any more than seven indicator / performance measures (these were outlined within the 9 December 2007 Scoop NZ - Open Letter to New Zealand Housing Minister) – being –

+ KEY INDICATOR - MEDIAN MULTIPLE

The “median multiple” (median house price divided by gross annual median household earnings) as employed by the United Nations, World Bank, Demographia and many others is considered “the best” (well….at least it is the “most adequate”…..there is no perfect one) as it mutes the wilder swings of “averages”. Note that Demographia states the median multiple, house price and income, so that the information is “transparent” and relevant across countries and international borders. Mortgage costs as a proportion of income are too open to manipulation and unnecessary confusion and mask the critically important structural issues. The housing affordability index exercises were deliberately misleading and the reputable media should never have published them. Quite rightly - Alun Breward an economist with the Victorian State Government, Australia, savagely attacked them (being a former “union economist” where he had obviously refined the art

+ SUPPLEMENTARY INDICATOR ONE –  
POPULATION – POPULATION GROWTH RATES AND TRENDS

+ SUPPLEMENTARY INDICATOR TWO  
RAW URBAN / TRUE RURAL LAND PRICE DIFFERENCES

This is the major issue that needs to be dealt with – and any differences in the pricing of both needs to be closely monitored. It is not uncommon for “true rural values” to be $1,000 to $30,000 per hectare and as soon as “a line is moved on a map” and they are zoned “urban” in strangled markets, for the prices per hectare to jump immediately to $1, $2, and $3 million or beyond (which local authorities – milk for all its worth extracting “developer levies”).

It’s not the developer or builder who ultimately “pays the price” for these unnecessarily inflated land prices – but the new home owner paying “fake values” for grossly inflated sections / lots.

There is no way these artificially inflated lot prices can be justified – on social, economic and environmental grounds – and they must be eliminated as soon as possible.

When assessing “true rural” values – it is best in my view that the prices of rural land at least five kilometres out from an urban fringe boundary be taken in to account – so as to avoid the artificial “urban echo values”. By this I mean rural land that is close to an unaffordable urban market, which has currently “future urban zoning” pricing built in to it.

This measure can be expressed as “true rural / fringe urban” – say for example as “$30,000 true rural / $2 million fringe urban”. Infrastructure charges must be included in the latter figure – to ensure valid comparisons with other areas.

The focus must be to ensure that the latter figure is bought closer to the former as soon as possible – by opening up fringe land supply. And most importantly, to ensure it remains “opened up” so that these scarcity driven artificial values cannot creep back in.

Some may think this will “open up the floodgates” – but in reality this will not and cannot happen. In the New Zealand context I explain this within the article Scoop: New Zealand Lifestyle Block Mythology. Driving people 20 or 30 kilometres out of the city to live, is not “saving land” of course – unless you are a political advocate for the oil companies, keen to encourage unnecessary vehicle use.

+ SUPPLEMENTARY INDICATOR THREE  
TOTAL HOUSING STOCK / USUALLY OCCUPIED HOUSING STOCK / PER 1000 POPULATION
This could be expressed for example by 380 / 360 per thousand population as the case may be. The measure is in common usage in Western Europe and employed by the leading international professional property organisation, the Royal Institution of Chartered Surveyors (RICS). The Institution however does not “break out” the occupied from the total stock – which I see as extremely important – as it is critical to have a “clear picture” of both sectors.

It is very important to break these figures out – so that one can in particular get a sound gauge (when related to incomes) of the degree of housing stress. The wealthier we become – the more houses we require and “people per house” should fall as well. For example – while Australia’s population grew by 12% during the 1990’s – through this period its housing stock grew in excess of 21% - as its household occupancy dropped from 2.7 to 2.6 per household (refer Australian Bureau of Statistics for further information).

With respect to occupied stock - it is simple to convert household density in to occupied stock per thousand population. 2.6 is 385 / 1000; 2.7 is 370 / 1000; 2.8 is 357 / 1000 and so forth.

It is important to illustrate both the total and occupied residential stock, so that the second homes, holiday homes etc are clearly identified as well.

++ SUPPLEMENTARY INDICATOR FOUR
ANNUAL BUILD RATES PER 1000 POPULATION

It is often one reads in the media “More house built this year than ten years ago” – but the figures are meaningless – if they are not related to the population base. This “loose talk” can lead to absurd statements that the “cause” of the current housing problems in the United States is because of recent “over-production”.

When the population base is factored in – you will note in reading the 1950’s Time magazine article on Bill Levitt - and the US Census for permitted new private dwelling construction per annum from 1959 to 2007 (here) it is clear the build rate per 1000 population through the recent “bubble” topped out at around 7 and has now fallen to an extremely low level of 4 in the United States.

The United States “build rates per 1000 population” had been much higher in earlier periods – and significantly more stable than through this latest bubble – exacerbated by in the main, the hugely distorted coastal markets.

In contrast – the growing and stable (isn’t it interesting how interventionist planning creates massive instability) urban markets have maintained respectable housing production levels.

++ SUPPLEMENTARY INDICATOR FIVE
AGE OF HOUSING STOCK IN DECADAL BANDS

This measure is extremely important in firstly assessing the quality of the current residential housing stock and secondly, in providing a “platform” in assessing replacement housing requirements going forward. In “forecasting” future occupied housing needs, one starts off with the likely replacements required, then population growth and the likely occupancy levels going forward.

+ SUPPLEMENTARY INDICATOR SIX
RESIDENTIAL RENTAL VACANCY RATES

Within normal affordable urban markets the residential (both apartments and stand alone housing) should not fall below 6%. If it does – rental scarcities set in driving rental rates higher and the quality of the residential rental stock deteriorates, as there is not sufficient competition of new stock competing with the existing stock.

CONCLUSION

Within this discussion paper I have attempted to illustrate as clearly as possible, the key political and commercial drivers that created this unnecessary housing stress, how normal affordable urban markets perform and sketched out a “suggested solution” in working to restore housing affordability.

There is no “one right way” to solve this massive problem of artificial urban property inflation – but for most jurisdictions it would appear to me that this solution, or variations to it, may be the most workable and politically feasible. Another way to solve it of course would be to follow the “Houston model” with no zoning – but the reality is that Houston is the only major urban market within the Anglo world without zoning – at this stage.

The costs of unresponsive planning – in social, environmental and economic terms – with the destructive bubbles they have created – can no longer be tolerated.

The focus must now be on “performance” – with the appropriate legislation, political structures and performance standards put in place – to solve this problem over a realistic and reasonable time frame.

As the Prime Minister of Australia, Hon Kevin Rudd said in his Victory Speech “The future is too important for us not to work together……..”

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Further background reading –

Demographia
Scoop NZ articles - Hugh Pavletich
NZCPR Guest article "Restoring the Housing Opportunity" - Hugh Pavletich
Google Search and Google News - Hugh Pavletich
"Our young New Zealanders deserve affordable housing" - Hugh Pavletich

Words – 11,504 approximately