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Why are Australians Richer than Us?

Australian GDP per capita is now A\$47,181. That's about 40% higher than New Zealand's A\$33,682, at present market exchange rates. Even Tasmanians, their "Clean and Green" poor cousins, at only \$35,253, are richer than New Zealanders. Western Australians, are the richest at \$58,688, which makes them about 75% better off than New Zealanders.

Why are Australians so much better off?

We are fed many excuses – but most don't stack up.

However, there is much to learn from the marked difference in the way our two countries responded to recent reports on housing affordability. For ten years, private analysts in America, Canada, the UK, Ireland, Australia and New Zealand, have been blaming unaffordable housing on over-regulated land supply. Last month, CHRANZ, one of our own government agencies, finally released a report which clearly laid the blame for Auckland's inflated land prices on its Regional Growth Strategy, the Metropolitan Urban Limit (MUL), and widespread excessive compliance costs for consents.

The first of three annual *Demographia* surveys, which showed Australian and New Zealand housing markets to be among the most unaffordable in the world, was first published in January 2005.

The major Australian newspapers immediately featured front-page stories outlining the severity of the problem and demanding action to release land supplies, and continue to do so. The Urban Development Institute of Australia, the Property Council of Australia and its Residential Development Council, the Housing Industry Association, and the Institute of Public Affairs all acknowledged the problem and promoted increased land supply.

The Federal and State Governments soon prepared bills forcing councils to release large areas of land for residential development. They are still squabbling about the specific cures, but have all recognized the problem and the cause.

New Zealand responded by shoving its head firmly into the sand. The early *Demographia* findings were given no major media space or air-time at all. The third survey, published earlier this year, generated more attention because many commentators were making the connection between inflated land prices, high interest rates, the high dollar and its impact on our exporters.

NZ property organizations have remained remarkably quiet.

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The recent CHRANZ report confirms our seriously unaffordable housing and recommends freeing up the land supply and reducing compliance costs.

No one wants to know. Unlike the Australians, our “experts” avoid the issue and recommend solutions remarkable only for their foolishness, as follows:

Stop Drinking Coffee.

When Germaine Greer visited NZ in 1991, she described us as a nation of humbugs. (She had been charged with using obscene language when she said "bullshit".) It seems she was right.

When a Government Agency confirms young people are priced out of the housing market our Government-owned and chartered TV One news programme declares that young Aucklanders spend too much money on their coffee and so have only themselves to blame.

If I was a bright young Aucklander, trying to buy a house, such nonsense would be the last straw. I'd be out of here, heading west, with Greer's words printed on a “Goodbye New Zealand” T-shirt.

I am sure young people still drink coffee in Houston, and the forty other affordable housing markets of North America.

It's those Immigrants.

Immigration is a hot favourite with the ignorant.

But how come these immigrants have not forced up the price of cars, washing machines, and flat screen TVs? Simple. We increase the supply.

Cheap Money.

How does anyone say this with a straight face? First they blame the banks for lending cheap money. Then they complain that our interest rates are “the highest in the developed world” and, by driving the Kiwi dollar through the roof, are destroying our export sector.

We Need a Capital Gains Tax.

There is no capital gains tax on housing in America, and mortgage interest is tax-deductible. Many of their markets are severely unaffordable – like Auckland. But many are affordable – like Houston. The difference is the unaffordable markets have MULs and savage constraints on land supply.

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Auckland's Huge Size and Rapid Growth is the Problem.

Auckland is a middling-sized city with slow growth. Houston is five times as big and growing much faster. But Houston's affordability index is only three, which means a household on an income of \$50,000 can buy a house for \$150,000 – and keep buying coffee.

Force Developers to Build Affordable Housing.

If we force developers to build say 15% of their housing at a 20% discount, then the rest of the houses must be sold at a higher price to fund the subsidy. This further inflates prices for the middle class. Following the dictum of “buy the worst house on the street”, buyers snap up the “affordable houses” and soon on-sell them at the “neighbourhood” value. So the regulators then pass a law saying the owner cannot keep any capital gain. So the owners don't make any improvements. It's all been tried – and abandoned – in the US.

Only a politician could dream up such a silly idea. But then, the Minister has looked to the UK for guidance on housing policy. That's like asking President Mugabe for advice on monetary policy.

Shared Equity Schemes.

Shared equity schemes foster the belief that all housing markets continue to increase in value for ever. This is hardly the time to foster such a belief. When the bubble bursts will the Government demand its share of the equity losses?

We Need “Lots” of Special Schemes.

These special schemes only help the few who win the lottery. The great merit of the post-war housing schemes was that capitalised family benefits provided deposits, and State Advances loans provided cheap finance, for virtually any New Zealand family. Allowing families to capitalize their *Working for Families* payments would have a wide impact and would transfer spending into saving and improve the national accounts. Such programmes have some real leverage. But first you have to lift the MULs, reform the RMA, ban “development levies” and provide infrastructure loans to reduce all these up-front costs to consumers.

Then we may not need any “special” schemes at all.

Housing Speculators are to Blame.

Given that we have a strangled land supply, the speculators provide a valuable service to the growing rental market. Address the root cause – not the symptom.

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Landbankers are to Blame

Housing Minister Carter blames land-bankers for sitting on land until prices go through the roof. He should sell up his three residential properties – they are in prime locations and should realize plenty – and buy some bare land. If he enquires about the costs of development and chances of success, he, too, will sit on the land until the regulators are brought to heel.

More Intensification

Auckland is already three times as dense as most North American cities of comparable size and age. We have been building town-houses and infill-housing since the sixties when the codes were written to enable them. Our high wind and earthquake loads make building above two stories very expensive and further overload our infrastructure which was designed for low density. Furthermore, another round of intensification will begin to run up against our Heritage zones and leafy suburbs, and be strongly resisted. (See the *Save our Suburbs* campaigns in Sydney and Melbourne.)

Emigration – A real solution?

There is a strong negative correlation between the number of land-use planners per thousand (The planning burden) and the number of houses built per thousand. (The build rate)

Maybe we should export all our Smart Growth land-use planners to Australia, and keep only the genuine Resource Managers.

That might drag Australia's incomes back down to our level.

The Last Word

Now we've dealt with housing, let's follow Australia's example and have a sensible chat about nuclear power.

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