

Free up the land: unravelling the unnatural housing disaster

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New Zealand house prices, even adjusted for inflation, have more than tripled over the last 30 years. The persistent trend was unmistakable even before the latest surges. Million-dollar houses were once the rare exception in Wellington, but now are almost the norm in too many suburbs. The Wellington region median house price is now perhaps 10 times median income, putting home ownership increasingly beyond the reach of an ever-larger share of those in their 20s and 30s.

Most of the talk is loosely about “house” prices but what has really skyrocketed is the price of land in and around our urban areas; whether land under existing dwellings, or potentially developable land. And this in a country with so much land that all our urban areas cover only about 1 per cent of New Zealand.

It is scandalous, perhaps especially because it is an entirely human-made disaster. Land isn't scarce, and hasn't become naturally much more scarce, even as the population has grown. Instead, central and local governments together have put tight restrictions on land use. They release land for housing only slowly and make it artificially scarce, not just in and around our bigger cities but often around quite small towns. And if there is sometimes a tendency to suggest it is “just what happens”, citing absurdly expensive (but much bigger) cities such as Melbourne, San Francisco or Vancouver, nothing about what has gone on is inevitable or “natural”.

The best way to see this is to look at the experience in the United States, where there are huge regions of the country - often including big and growing cities - where price to income ratios are consistently under 4. Little Rock, for example, is the state capital of Arkansas. It has a growing metropolitan population of just under 900,000, and a median house price of about NZ\$300,000 - little changed, after allowing for inflation, over 40 years. The US also helps illustrate why it is wrong to (as many do) blame low interest rates: not only are interest rates the same in both San Francisco and Little Rock, but US longer-term real interest rates are typically a bit lower than those in New Zealand. The same goes for tax arguments: they have much the same tax code in both the high-priced growing US cities as in (much) more affordable ones. High real house prices are a policy choice; not necessarily the desired outcome of central and local government politicians, but the inevitable outcome of the land use restrictions they choose to maintain.

Both central and local government politicians sometimes talk a good game about making housing more affordable, but neither group seems to have grasped that in almost any market aggressive competition among suppliers is what keeps prices low. People sometimes suggest there isn't enough competition among, for example, supermarkets or building products suppliers, but if we really want widely-affordable housing again in New Zealand what we need is landowners aggressively competing with each other to get their land brought into development. And that has to mean an end to local councils deciding where they think development should happen, whether within the existing footprint of a city or on its periphery. We need a presumptive right for owners

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to build, perhaps to two or three storeys, on any land (and, of course, councils need to continue to be able to charge for connecting to, for example, water and sewerage networks). It could be done now. That it isn't tells us that councils are the problem not the solution. Too many - including in Wellington - seems to think it is their role to use policy so that in future lots of people are living in townhouses and apartments, even as experience suggests that what most (but not all) New Zealanders want, for most of their lives, is a place with a backyard and garden. And they seem to fail to understand that simply allowing a bit more urban density, perhaps in response to a build-up of population pressure, hasn't been a path anywhere else to lowering house prices. Instead, such selective rezoning simply tends to underpin the price of those particular pieces of land.

Sometimes people suggest that even if this sort of approach would be viable in Hamilton or Palmerston North, it isn't in rugged Wellington. But as anyone who has ever flown into or out of Wellington knows there is a huge amount of undeveloped land in greater Wellington. And if the next best alternative use should be what determines the value of land that could be used for housing, much of the land around greater Wellington simply does not have a very high value in alternative uses (not much of it is prime dairying or horticulture land). Unimproved land around greater Wellington should really be quite cheap, although the rugged terrain would still add cost to developing it to the point of being ready to build.

Some worry about, for example, the possibility of increased emissions. But once we have a well-functioning ETS the physical footprint of cities doesn't change total emissions, just the carbon price consistent with the emissions cap. And for those who worry about traffic congestion, congestion charging is a proven tool abroad, which should be adopted in Wellington (and Auckland).

I'm not championing any one style of living. The mix between densely-packed townhouses and apartments on the one hand, and more traditional suburban homes on the other, shouldn't be determined by the biases and preferences of politicians and officials but by the preferences of individuals and families, exposed to the true economic costs of those preferences. Similarly, policymakers should respect the (changing) preferences of groups of existing landowners what development can, or cannot, occur on their land.

The behaviour of councils over many years reveals them as, in practice, the enemies of the sort of widely-affordable housing which the market would readily provide (as it does in much of the US). If councils won't free up the land, to facilitate the aggressive competition among land providers that would keep prices low, central government needs to act to take away the blocking power of local councillors.

And this need not be the work of decades. Of course, it takes time to build more houses, but the biggest single element of the housing policy failure is land prices. Once the land use rules look as though will be freed up a lot, expectations about future land prices will adjust pretty quickly, and prices will start falling. We could be the boutique capital city with widely-affordable housing. The only real obstacles are those who hold office in central and (especially) local government.

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