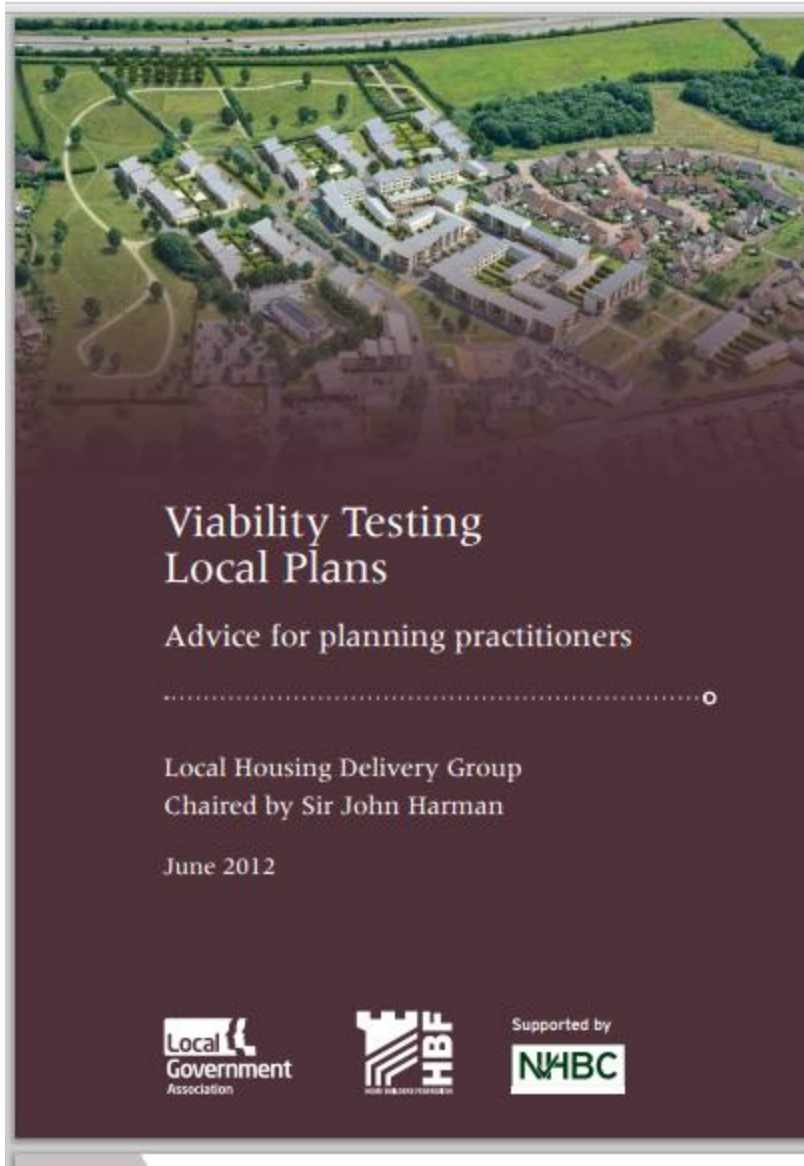




Planning and housing affordability

David Mead, Hill Young Cooper Ltd



Main
message:
planners need
to understand
development
feasibility and
urban
economics



Planning and urban economics

- Efficiency of the land / development market
- Equity – who benefits, who loses
 - Current generations
 - Future generations
 - Natural environment
 - Built environment

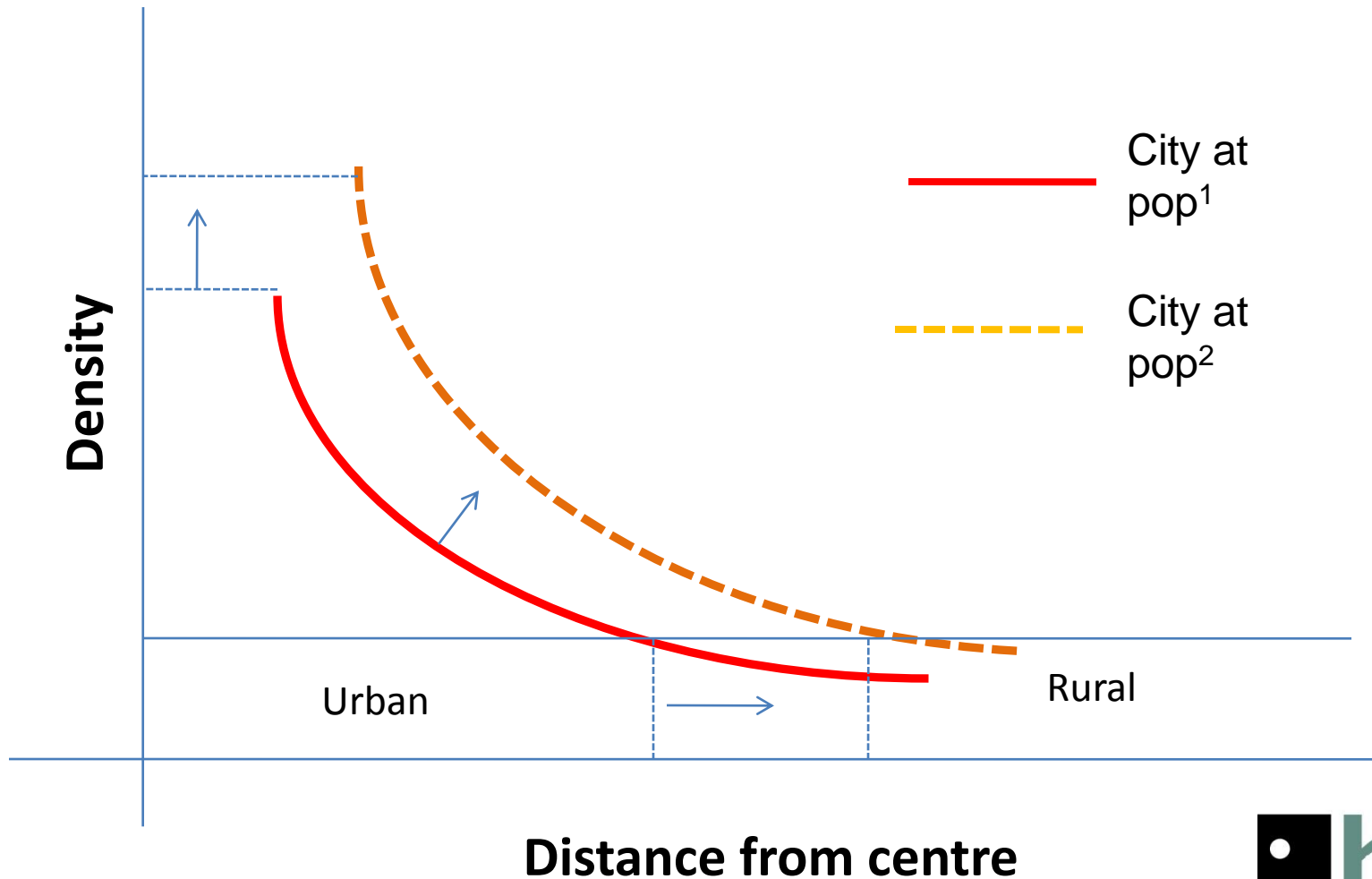
Why are house prices so high?

- Cities change:
 - Growth in population
 - Growth in incomes
 - Change in transport costs
 - Change in lifestyles
 - Changes in interest rates, availability of finance, tax systems

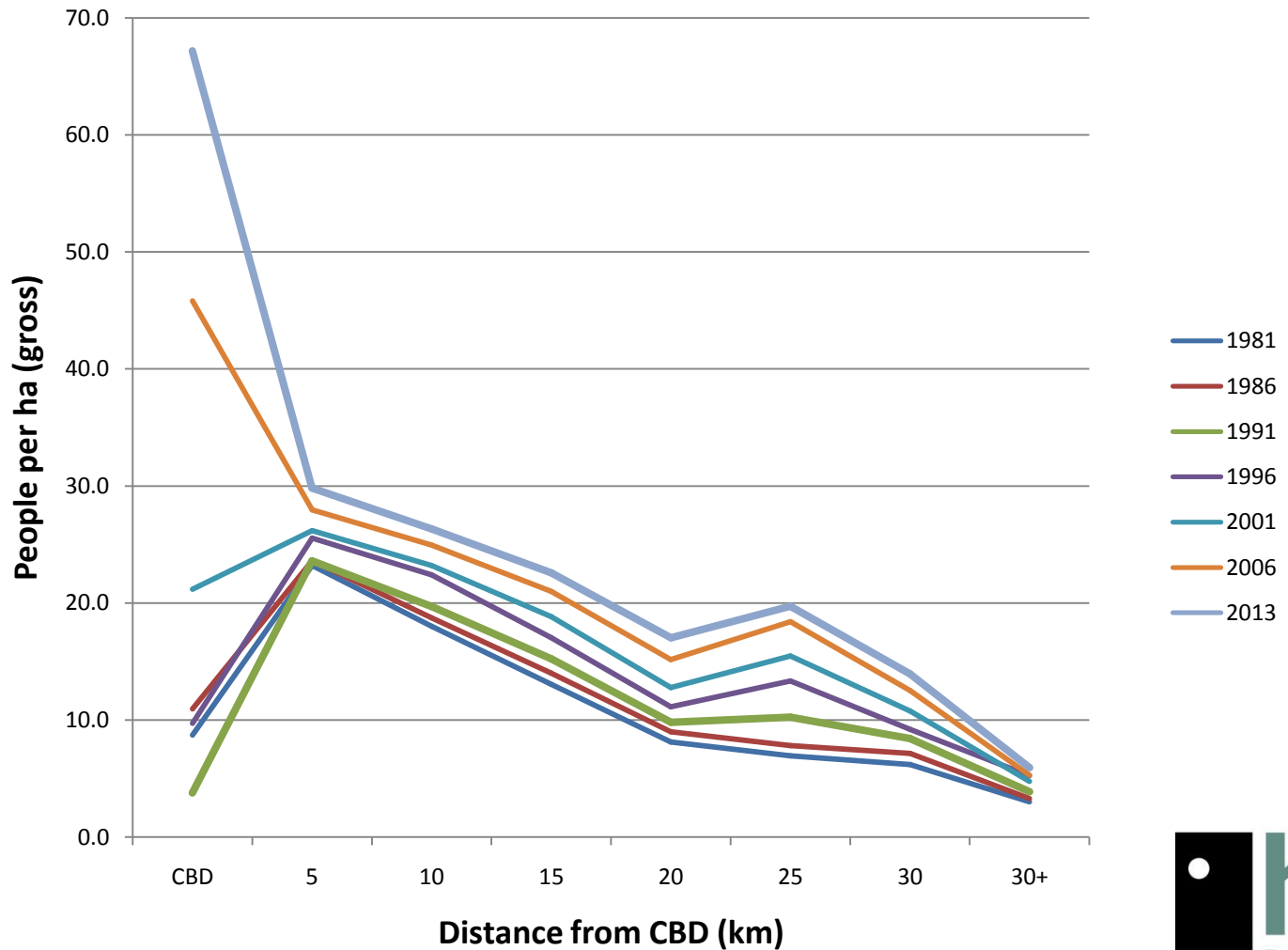
City's form / density

- City density is the release valve, e.g.:
- Population growth:
 - city up & out as pop grows - more dense overall
- Transport costs:
 - costs fall = city expands (less dense)
 - cost rise = city contracts (more dense)
- Incomes
 - Higher incomes – more space = less density
 - Lower incomes – less space = more density

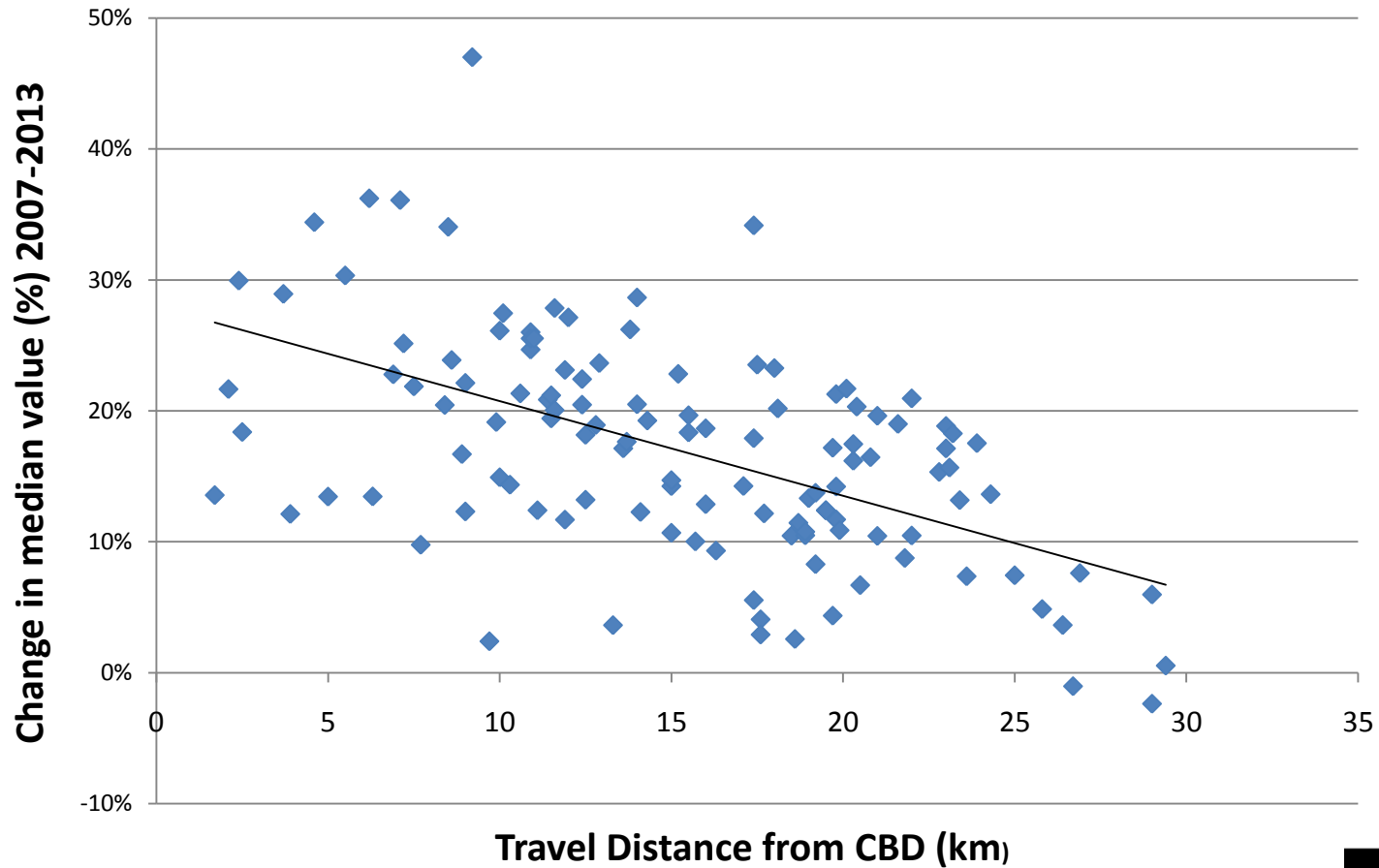
City's density and size change



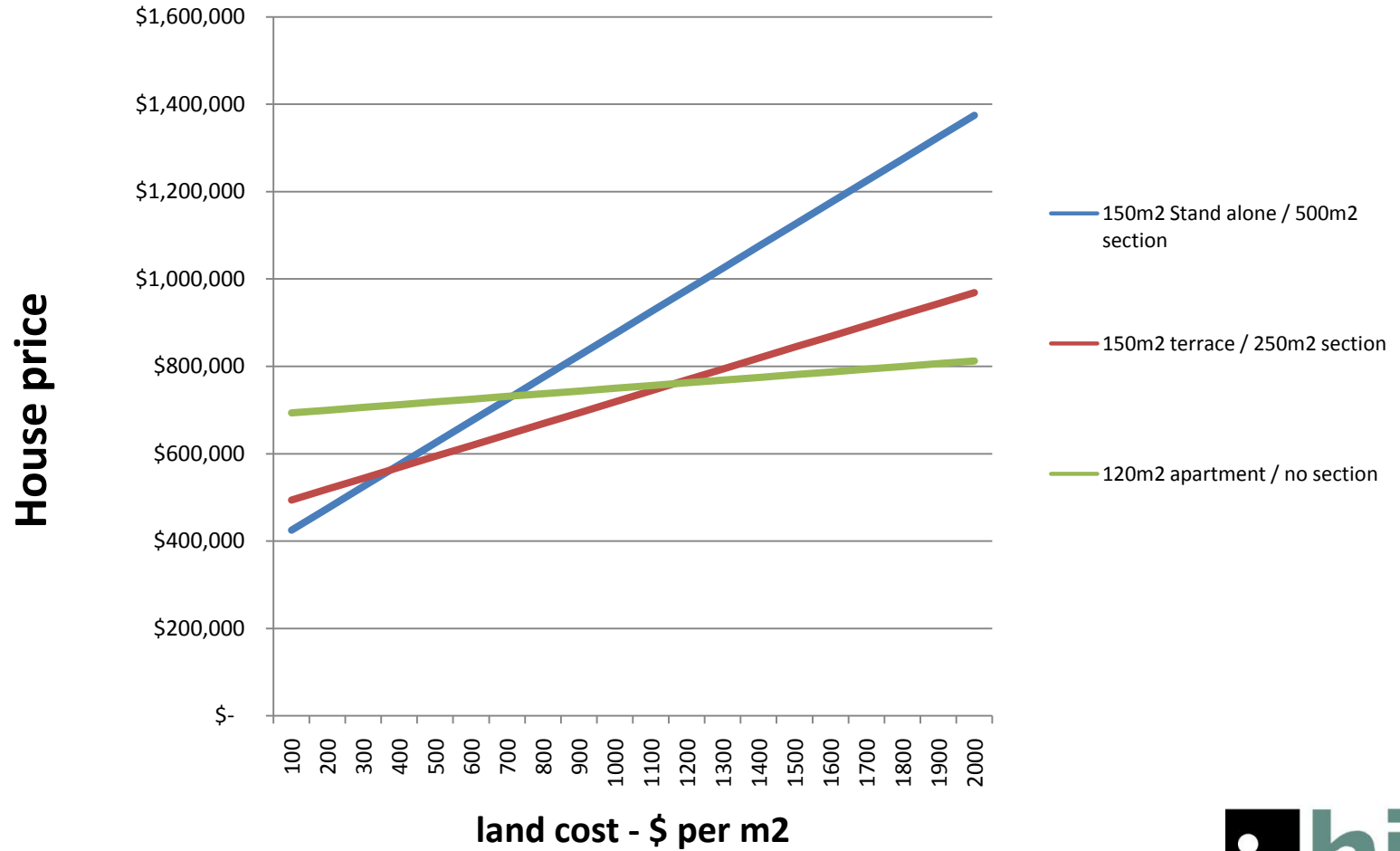
Auckland's density



Change in AK house prices



Urban intensification



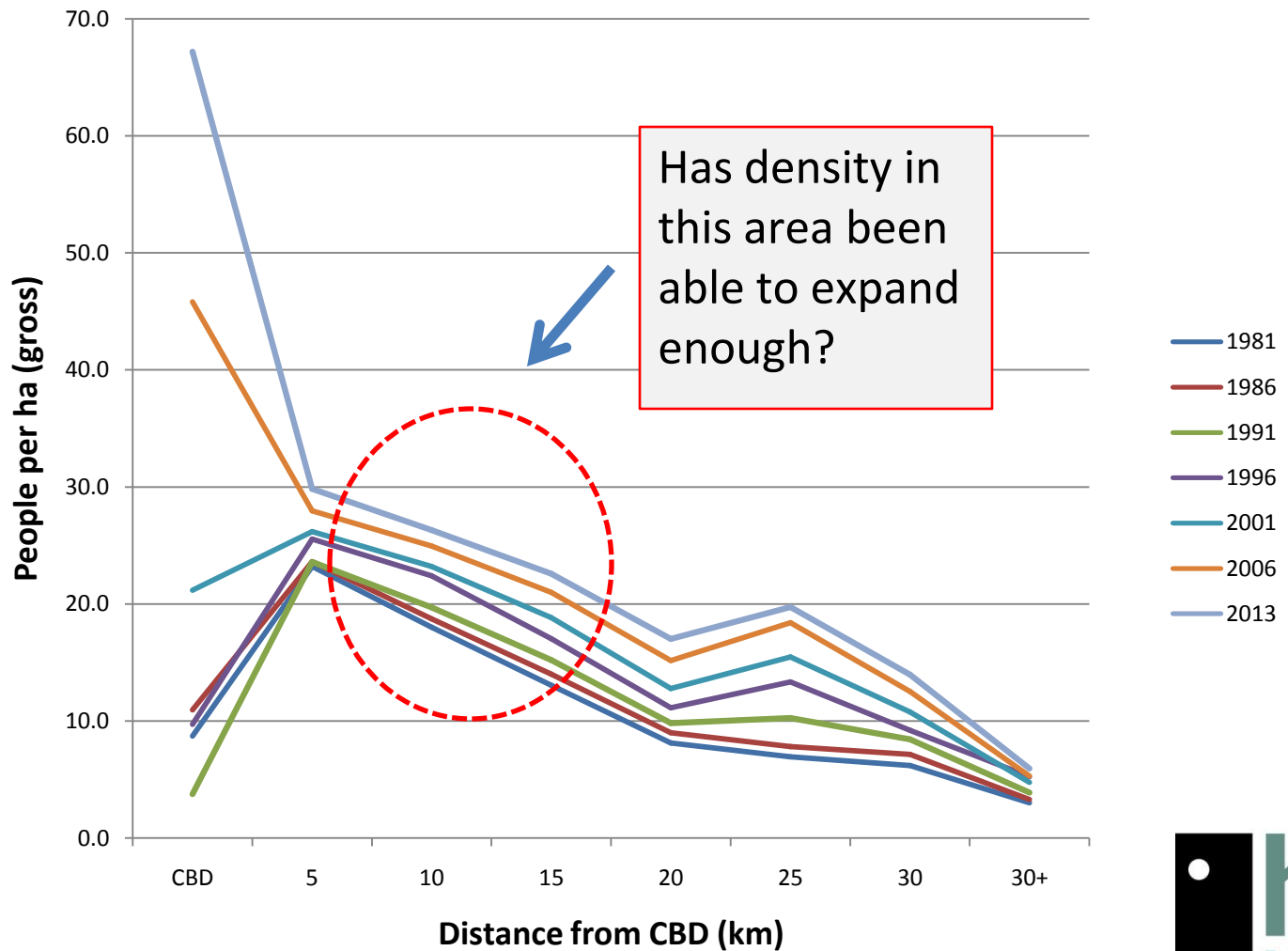
Housing and Planning

- Planning can have the effect of limiting the rate at which cities grow and change:
- Limits on supply reflect adverse impacts (externalities)
 - Landscapes
 - Amenity/heritage
 - Infrastructure.
- Limits can also arise from perverse behaviour:
 - NIMBYs
 - Land banking
 - Competitors.
- Changing policy settings also takes time

Housing and Planning

- Reduction in (real) adverse impacts benefits society as a whole:
 - cleaner environment
 - more stability in the land market
 - better quality development
- But planning cannot limit demand for housing
 - as populations grow and incomes rise,
 - demand rises, therefore fuelling house prices
 - if housing supply cannot expand fast enough **in the right place.**

Auckland's density



Affordability and Planning

- Landowners benefit from increased values from the more limited development land that is released and from overall enhanced environment.
- The poor in effect, pay for the wider benefits society enjoys from its planning policies that have the effect of slowing the release of land and pushing up land prices
- Planning can use some of the uplift it creates to fund affordable homes to help off-set some of these effects.

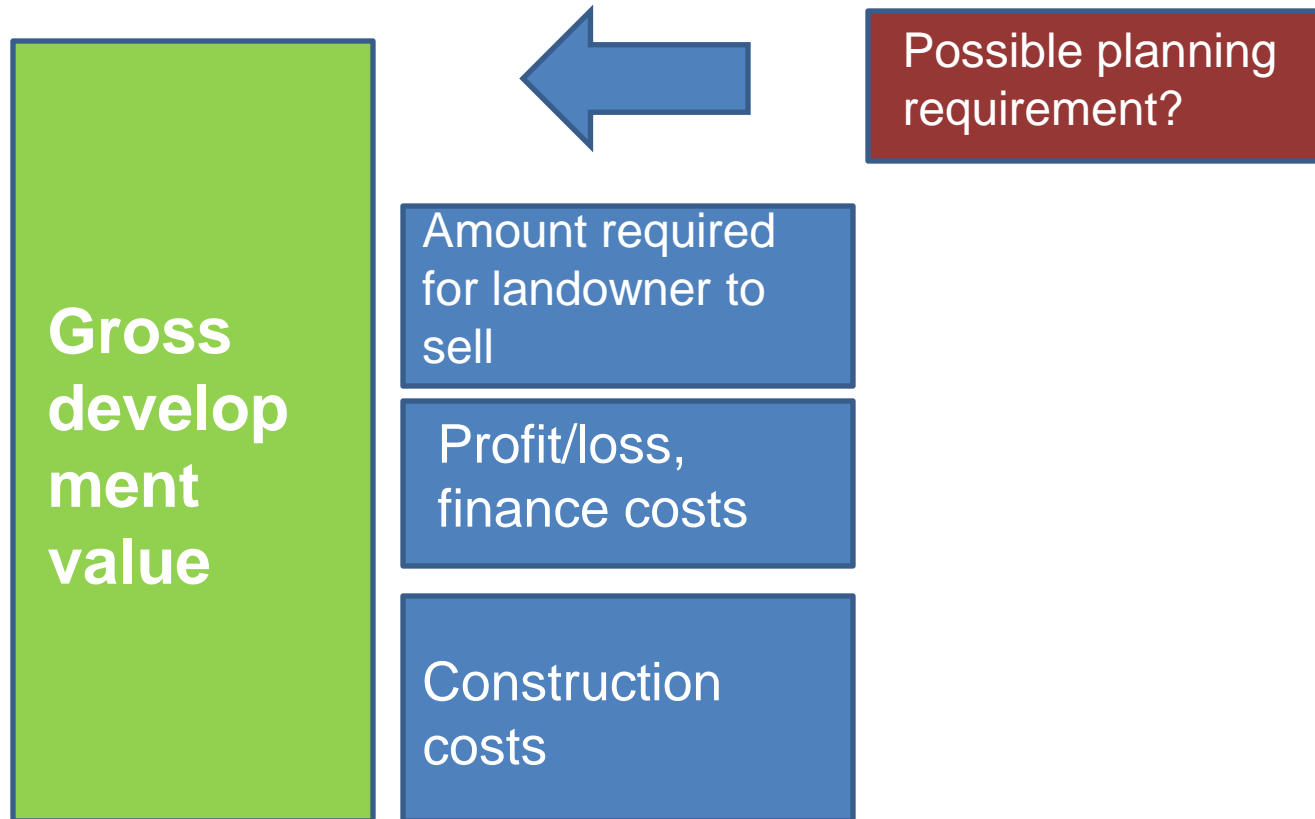
Housing and planning

- But...
- When does value uplift occur: day-to-day development or when policy settings are changed (rezoning)?
- How much of a contribution from uplift is reasonable?
- If contribution is too high, development might not occur, so no ability to secure part of uplift and less housing overall

Feasibility testing

- Feasibility testing helps to understand these issues.
- Residual land value analysis key tool
 - Development value, less development costs (including mitigation, planning requirement) = residual land value
 - Is that residual land value above current market value / alternative use value?

Feasibility testing



Made up Example

| | 10 Houses (10@ 500k each) | 10 houses with one affordable (9 @ 500k and 1 @ 350k) |
|--|---------------------------|---|
| Net development revenue | \$5,000,000 | \$ 4,850,000 |
| Construction costs | \$2,600,000 | \$2,600,000 |
| Developer contributions | \$500,000 | \$500,000 |
| Finance | \$310,000 | \$310,000 |
| Developer's profit | \$750,000 | \$750,000 |
| Total costs | \$4,160,000 | \$4,160,000 |
| Residual Land value (Revenue –less costs) | \$840,000 | \$690,000 |

Real Example

**Inclusionary Zoning and Greenfield
Residential Development: A
Feasibility Study**

**Report prepared for Auckland
Council, June 2013**

**Prepared on behalf of Auckland
UniServices Limited by:**

Professor Laurence Murphy

Dr Michael Rehm

Viability testing

| Submarket | Business Model | Inclusionary Zoning Policy Requirement (% Affordable) | | | | | | | | | | |
|---------------|----------------|---|----|-----|-----|-----|------------|-----|-----|-----|------------|-----|
| | | None | 5% | 10% | 15% | 20% | 25% | 30% | 35% | 40% | 45% | 50% |
| Papakura | Sections | Not Viable | | | | | | | | | | |
| | Houses | Viable | | | | | Not Viable | | | | | |
| Upper Harbour | Sections | Viable | | | | | | | | | Not Viable | |
| | Houses | Viable | | | | | Not Viable | | | | | |

Development Margin = 20%

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| | Houses | V | Not Viable | | | | | | | | | |

Development Margin = 30%



Planning and land values

However, what is the market value of land?

- In theory any planning constraint should be passed back to the landowner and thus adjust land prices as they become extra development costs
- Observed relationships are somewhat different, depending on the market context, how the policy is constructed and when it is applied.

Planning and land values

Affordable housing requirement:

- Works best:
 - When mandatory requirement
 - Upfront requirement when land is rezoned from rural to urban, change of use
 - In higher value areas
- For brownfields:
 - Flexibility over contribution, based on size of uplift
 - Bonus-based to help get over the line?