Housing Affordability in Post-Earthquake Christchurch

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Prior to the devastating 2010-2011 Canterbury earthquakes, the city of Christchurch was already exhibiting signs of a housing affordability crisis. The causes and symptoms were similar to those being experienced in Auckland, but the substantial damage to the housing stock caused by the earthquakes added new dimensions and impetus to the problem. Large swathes of the most affordable housing stock in the east of the city were effectively destroyed by the earthquakes. In itself this would have pushed the mean house price upwards, but compounding problems exacerbated the situation. These include the price effects of reduced supply of both rented and owned housing and increased demand from both displaced residents and an influx of rebuild workers. The need for additional temporary housing while repairs were undertaken and the associated insurance pay-outs bidding up rents with improved rental returns leading to increased interest in property investment. Land supply constraints and consenting issues inhibiting the build of new housing and political infighting and uncertainty regarding the future of parts of the city leading to a flight of development activity to peripheral locations and adjoining local authorities. Concerns that the erosion of the city council rating base combined with inadequacy of insurance cover for infrastructure will lead to large rates increases, increased development costs and reduced amenities and services in future years. These and other issuers will be elaborated on in this paper with a view to exploring the way forward for affordable housing Christchurch City.

1960's and the development of the eastern suburbs of Christchurch.

This is the house I grew up in.

It is (or maybe by now was) in Landy Street, Dallington – the heart of the post- earthquake residential "red zone" to the east of Christchurch. Many of the outer eastern suburbs of Christchurch were first developed in the 1960's. As well as Dallington, there was Shirley, Burwood, Wainoni, Bexley and Aranui, and a little later Avondale. The land was low lying, close to the Avon River and its estuary and its development largely filled in the "gap" between the city and the beachside community of New Brighton.

My home was quite typical of new houses of the time (1961) and location, being of concrete block and tile construction over an untreated rimu (native timber) frame. It was 100m2 in floor area with three bedrooms one bathroom, a combined kitchen/dinette and a lounge leading onto a verandah. Internal finishes were painted plywood and plasterboard with a formica kitchen bench top. It had no insulation of any kind and heating was via a fireplace in the lounge. There was no phone line.

The site was 607m2 in area and completely undeveloped as you can see from the photograph, i.e. no garage, pathways, fencing, landscaping or improvements of any kind. All of the latter were progressively added over time, being built by my father and the neighbours (as were the improvements on their adjoining properties) – largely on a reciprocal "working bee" basis.

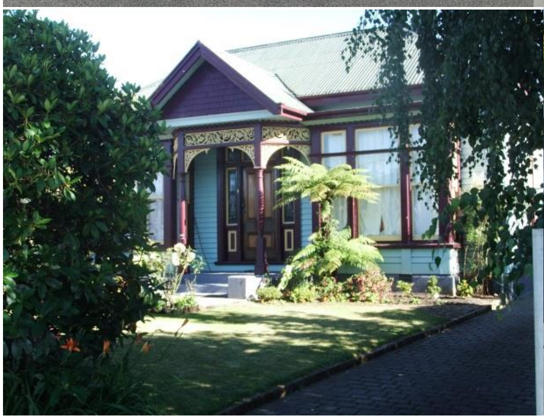
There was no landscaping of the subdivision, no parks or schools nearby and overhead wiring distributed the electricity.

This type of new home was reasonably affordable ($1600 for the land, $6400 to build the house) to a single income ($1750 was the average wage/salary in 1961) working class family with young children (my father was a carpenter) and financing was typically from the State Advances Corporation, fixed at 3% for 40 years.

Where is housing supply of this style and price available today?

Closer to the city, the older inner eastern suburbs of Richmond, Avonside, Linwood and Phillipstown were progressively redeveloped over the 60's and 70's with the Edwardian cottages and villas on typically 1000m2 sites replaced with higher density "sausage flats" or the older houses divided into rental flats for the lower end of the rental market.






The current "general" housing affordability problem

Forces driving the housing affordability problems that New Zealand, and many other nations, now face are complex and not quickly resolved. Much recent focus has been on the restricted availability, and therefore hiked prices of land, often attributed to the intensification policies of successive local authorities. This is an important factor, but land supply is not the only issue. As can be seen from the above, there has been significant changes in what consumers, local authorities and central government are prepared to accept in new housing developments. In addition, in an environment of limited availability of, and therefore expensive land, residential developers have logically tended to focus on catering to the "middle market" where they can more easily add value and profits are greater and risks lower than catering to the low income and first home buyer.

The relatively low volume and "custom built" nature of this middle market position has also worked against economies of scale in terms of both construction processes and the regulatory environment. This leads to relatively high building, infrastructure and administrative costs per dwelling compared to some other countries.

Other factors have been women entering the workforce and banks competing to advance funds. The increased income and credit available have been absorbed into housing prices bid up by aversion to alternative investment options and the widespread belief that property investment is "as safe as houses". For most of the last 40 years in New Zealand this has turned out to be correct. But for how much longer?

I am sure other speakers today will touch on these general affordability factors as well as other issues, but my brief was to focus on the unique <u>additional</u> affordability problems in Christchurch arising from the earthquakes.

The additional specific affordability problems afflicting Christchurch

The key factor currently exacerbating housing affordability in Christchurch is that the impacts of the earthquakes were not evenly distributed across the property market.

The CBD was especially hard hit in terms of building (and social and cultural) damage, but that is a separate story, as housing provision in the central city was negligible.

While the epicentre of the February earthquake was in the expensive hill suburbs near Sumner, and extensive damage and red zoning (which prohibits rebuilding) of some of the most expensive homes in Christchurch did take place in this location, the total numbers involved were relatively small (510 properties red zoned due to risks from rock fall, cliff collapse and landslips)

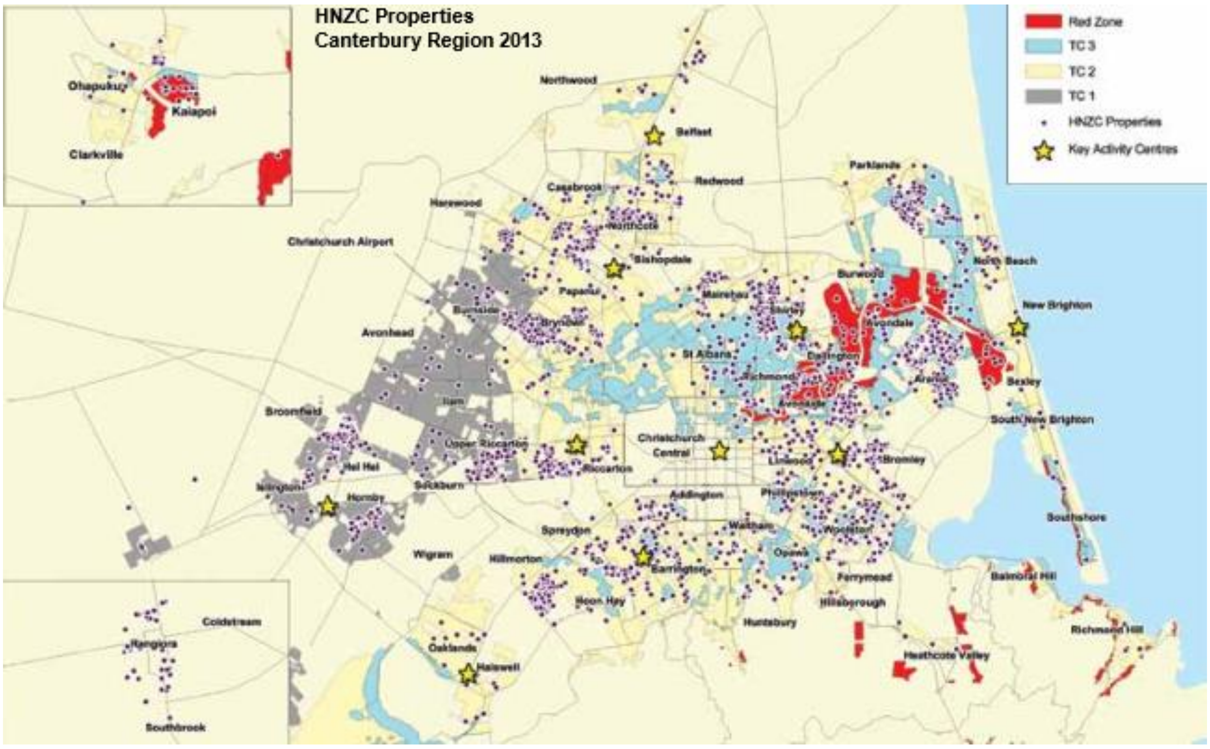
Also, it is reasonable to assume that the owners of multi-million dollar properties were in a position to relatively easily source alternative accommodation while they battled with insurance companies and rebuilt their homes or purchased existing properties elsewhere. Anecdotally, the trend for these owners has been to lifestyle blocks to the west and north of Christchurch – if not further afield. Some also already owned holiday houses elsewhere and simply de-camped for the duration.

The much bigger problem, both numerically and in terms of social and economic impact has been the situation applying to the residents of the lower income suburbs on the flat land to the east. This land was also close to the epicentre, but more importantly was subject to severe liquefaction, which due to soil conditions results during an earthquake in uneven settling of the land and consequent building damage and/or increased flood risk in already low lying areas.

Liquefaction was already a well identified risk in Christchurch prior to the earthquakes. But as it was so widespread (recorded on virtually all property titles on the eastern flat areas) it was largely ignored by purchasers, as it could not realistically be avoided. This situation has now changed, with some questioning the wisdom of ever permitting residential development on this soil type. Geotechnical analysis has now become a normal part of due diligence and the majority of new residential development is now occurring on the inherently more stable river gravels to the west of Christchurch.

What this has meant for Christchurch is that much of the most affordable housing, including owner occupied, private rental and government and local authority social housing has been permanently removed from the market (7860 houses on 630 hectares of land in the east red zoned – see map below). This can only be replaced with new housing, for the most part in a completely different location and at cost probably double the value on average of the value of the housing replaced.

In addition half the total Christchurch housing stock of 181,000 dwellings has been damaged to varying degrees. Most of the serious damage is in the east with many houses outside the red zones demolished because repair is uneconomic. Land conditions have also been re-categorised with those now labelled TC1 and TC2 (also mainly in the east) requiring expensive specialised design of the foundations.



A compounding significant problem is that many of the displaced home owners from the residential red zone (as well as other low income owners not in the red zone but with houses damaged beyond economic repair) are not in a position to service the extra debt that would be required to purchase a new house or an existing home in the more expensive western suburbs.

An actual example that has been in the news media is an 85 year old woman living in a small ownership unit in the red zone. She is required to vacate the property and has been offered the 2007 rateable value (as have all red zone owners) of $218,000 as compensation by the government (who will take over her insurance claim). But there are no properties at all available to purchase at this price, and at her age and in her circumstances banks will not grant her a mortgage to purchase a more expensive unit. Her only option (and that for many others in a similar position) appears to be renting for the rest of her life and running down her capital.

Renting in itself presents a problem as the social housing that has traditionally accommodated the disadvantaged elderly has also been damaged, destroyed or red zoned. For example, of 6127 properties in Canterbury managed by the Housing New Zealand Corporation 95% have been damaged with close to 300 to such an extent that tenants have been forced to move out. 211 HCNZ properties are in the red zone and will not be reoccupied. Christchurch City Council owned 2649 housing units in 115 complexes. All sustained damage, 327 to the extent that tenants had to move out. 635 rest home beds were also rendered unusable by the earthquakes. The Christchurch City Council, Housing New Zealand Corporation and other agencies are already struggling to relocate their existing tenants without having to also cope with an influx of new clients now forced to rent because compensation and/or insurance payments are insufficient for them to remain in the home ownership situation.

At the same time the private rental market is under extreme pressure from several other sources. These include, the influx of insurance assessors, project managers and tradespeople from all over the world moving to Christchurch to assist with the rebuild. This is at a time when the usual transient accommodation provided by hotels, motels and short term apartments has been severely curtailed by demolition of and damage to those buildings. Only 823 hotel rooms of 3826 remained available for occupation after the February earthquakes. The City Council estimate that eventually 30,000 temporary workers will be involved in the rebuild.

These population flows are reflected in Department of Statistics figures which show an initial post-earthquake decline in the total Christchurch population of 13,500 now been more than offset by recent gains. However, the structure of the population has changed with a relative outflow of families with children and an inflow of people in the 20-34 age group. Of particular note is that the population of eastern Christchurch has declined by 10,000 while at the same time Selwyn has increased by 13,000 and Waimakariri 7000.

There also significant numbers of people forced to move out of their houses on a temporary basis while damage is repaired, or a decision made regarding if the house is repairable. An indication of the scale of this issue is the 17,784 houses recorded as unoccupied on the night of the census that took place in March 2013. For some “relocatees” rental costs are being met by insurance companies and they are looking for furnished accommodation while their own possessions are in storage (a market also under pressure). In these circumstance they are not very price sensitive and a new high rent sub market catering to this demand has arisen placing greater pressure on the already under supplied rental market. Overall Christchurch rents have increased 23% since 2010.

The supply of new housing has been slow to respond – again due to a combination of factors. There has been considerable debate over the years over the desirability of restricting the spread of Christchurch onto the surrounding plains. Just before the earthquakes there had been a political accord to contain the city, but after the earthquakes this had to be revisited given the effective loss of large areas of residential land to the east and the evident unwillingness and now economic impossibility of Christchurch people embracing high density living in or near the CBD. The politicking around revising this recently agreed strategy led to a hiatus in new housing development in the City Council area. This delay as well as superior geotechnical characteristics led to the leapfrogging of residential development to areas beyond the “green belt” and surrounding the dormitory towns of Rolleston, Lincoln, Rangiora and Kaiapoi. These are in the adjoining local authority areas of Selwyn and Waimakariri which have a more permissive attitude to development.

The Christchurch City council was also afflicted by a crises in its building consenting department which saw significant delays in granting consents and other unacceptable practices, eventually leading to the highly controversial revocation of its ability to issue building consents.

Other factors contributing to decreasing affordability relate to the ongoing annual cost to homeowners and also residential landlords who will ultimately pass them on to tenants. The Christchurch City Council has faced significantly increased costs post-earthquake. These include the direct costs associated with the earthquake response and recovery, inadequate insurance cover to replace assets and infrastructure and the loss of the commercial rating base due to the destruction of the CBD and a forecast very slow recovery. There is also the anticipated loss of the residential rating base and development contributions from new housing to the adjacent local authorities of Selwyn and Waimakariri, who have had a more permissive and lower cost attitude to new development as well as better soil conditions, meaning this has been the location of choice for many large scale residential developments. The Christchurch Press on 4 November 2013 reported building consents were up 24% on the previous year and receipts from development contributions were double the budgeted figures in Selwyn County. In Waimakariri a 28% increase in development contributions from the previous year was recorded and building consents were said to have tripled in number over the last three years.

All of the additional factors mentioned above have combined in a vicious circle to drive up house prices and reduce affordability as summarised below.

- Low value houses removed from market – average price and rent up
- Increased demand for remaining houses from existing owners - average price up
- Increased demand for rental properties from those now unable to own – average rent up
- Increased demand for rental properties from those displaced for repairs – average rent up
- Increased demand for rental properties from rebuild workers – average rent up
- Increased demand from investors due to higher rents – average price up
- Increased perception of value by news media reports of increased prices and rents – average prices and rents consumers willing to spend – average price up
- Increased costs of construction due to excess of demand over supply in the building industry -average prices of new houses up
- Increased compliance costs due to higher geotechnical and foundation costs - average prices of new houses up
- Erosion of rating base/development contributions of Christchurch city council by loss of CBD rates income and flight of residential development to neighbouring local authorities – average annual cost of housing up
- Increased cost/reduced coverage of insurance - average annual cost of housing up

These are in on top of the factors that were already and are continuing to reduce housing affordability more widely across New Zealand.

No easy solutions are on the horizon but some tentative initiatives have recently been introduced and it now appears this issue is firmly on the political agenda.