

SPECIAL COMMENTARY

Minister, Get Advice From Those With Skin In The Game And You Will Get Your 100,000 Houses

Peter Cooney

Classic Group

August 2018

Finance is often stated as being an issue when in fact it is not. This is a key point where Government and developers appear to be talking past each other. In the Kiwibuild Cabinet Paper¹, part of the rationale underlying Kiwibuild is that Government can increase speed of delivery of housing through underwriting development funding by buying off the plans. The thinking is that would create capital needed by developers to get on with developments thus increasing the speed to market. In that world view the key to speed is creating funding that will allow developers to begin work.

However, financing is not the problem. We can raise as much capital as we need and we don't require Government help with that. The root of the problem with speed to market is the ever-increasing mountains and mountains of red tape and slow council decision-making or non decision-making. It is a critical point not to miss.

¹ New Zealand Government Cabinet Paper <http://www.mbie.govt.nz/info-services/kiwibuild/document-image-library/folder-pdf-library/kiwibuild-definitions-eligibility-criteria-and-the-buying-off-the-plan.pdf>

SKIN IN THE GAME

In the second of his seminal books, Nassim Taleb in *Antifragile* wrote that one of the failings of modern day systems is control and/or influence of decision-making too often is in the hands of people who have no ‘skin in the game’ – bureaucrats, academics, and ‘advisors’.² He argues those who have something to lose or win will be more focused on what works and what doesn’t. Those with skin in the game will have incentive and the necessary experience to make something happen.

As we consider what the New Zealand Government is proposing with regards to dealing with a critical housing shortage and burgeoning demand, perhaps Taleb’s observations are worthy of some attention.

I am one of the principals of the Classic Group of companies. Within that group, Classic Builders is the second largest privately-owned house builder in New Zealand. However, unlike most home builders, our group also develops land for housing through Classic Developments, so we have deep experience in both developing and building. What is significant for this discussion is that Classic Builders is positioned in the market at the mid to affordable end, so it is a market space we understand and have a great deal of experience of. Simply put, we know how affordable houses are built as we have built over 5,500 of them to date. Classic Developments has 4000 lots/units in various stages of development right now.

Few other companies in New Zealand have as much skin in the game as we do in the field of affordable housing. That means we know it is one thing to create an aspirational goal, and it is something completely different to know how to make that goal happen. Our experience and knowledge has been hard earned and honed over the years and through property cycles.

I see a lot that is wrong with the way the Government is going about its housing policy and processes to develop much needed housing, but my intention here is to offer positive advice. The first piece of advice would be for the Minister to be talking with developers if he wants to understand how 100,000 houses can be built.

² Nassim Talab *Antifragile: Things That Gain From Disorder*. Penguin Books, London. 2012. This book followed *Black Swans*.

100,000 HOMES

This paper sets out a framework I believe will be necessary to reach that goal of 100,000 houses. Can that target be achieved? Yes and no. Under the present system of bureaucratic risk aversion, tangled regulation, and inaction through pontification, such a target is so far beyond possible that it can only eventually embarrass this minister and damage the perception of his government.

Could the necessary land be acquired, developed, and 100,000 houses built? Yes, it could, but only if the Government makes significant changes to the way it operates. What the Minister needs to understand is that it is the Government that is in the way of that goal, and paradoxically it is the Government, and only the Government, that has the power to clear the way for that goal to be achieved.

To be successful the Minister must understand that leading this initiative he needs experienced people who have developed land and built houses, not policy-makers, bureaucrats and endless academic opinion. Developers and house builders have skin in the game; they put their money on the table and commit to getting something built. The Minister also has skin in the game because his political achievements and legacy will be determined by how fast houses are being built. So, developer and Minister have a visceral alignment. But between those two, developer/builder and Minister, in places like Housing New Zealand, MBIE, and in council planning and consent offices, there is no skin at risk, political or financial. There is no visceral connection to the goal and there is no imperative to change the status quo.

Governments don't develop housing, developers do. If we clear away all the noise and policy-speak, the key question is: how fast can we get to the point where developers will be prepared to put money on the table and use their skills to get developments done and houses built? When the numbers stack up the houses will be built. When the process to get consent is shortened those houses will be built faster. And if bulldozers get onto sites sooner then financiers will be more assured about investing.

Under the current regime of planning, if I look at a piece of land in Auckland or Hamilton or Tauranga that would suit a housing development, it will take four years, if things go well, before a bulldozer can begin re-shaping the land. I have been involved in development for three decades and each year more obstacles, more constraints, and more regulations are added that all impede development progress. Paradoxically we have got to the point where burgeoning regulation designed to reduce risk is instead creating risk. We still have the

problem where officials don't want to take the risk of deciding, so they will simply ask for more information and more reports and ask for more modification of our plan. That all must stop if 100,000 houses are to be built.

Finance is often stated as being an issue when in fact it is not. This is a key point where Government and developers appear to be talking past each other. In the Kiwibuild Cabinet Paper³, part of the rationale underlying Kiwibuild is that Government can increase speed of delivery of housing through underwriting development funding by buying off the plans. The thinking is that would create capital needed by developers to get on with developments thus increasing the speed to market. In that world view the key to speed is creating funding that will allow developers to begin work.

However, financing is not the problem. We can raise as much capital as we need and we don't require Government help with that. The root of the problem with speed to market is the ever-increasing mountains and mountains of red tape and slow council decision-making or non decision-making. It is a critical point not to miss.

Financiers are keen to participate in the New Zealand housing market, but they don't want to wait four or five years to see if what they must commit to will get through the ever-increasing number of hoops. Banks too have skin in the game, but they are risk averse by regulation. If they could see a clearer and faster pathway to completion of developments that would minimise their assessment of risk due to delays, and further increase their appetite to put up money to participate in new housing developments.

So, the Government is seeking to solve a problem that is largely not there. And it won't be addressing the problem that is there – delays due to the slow grind through council processes such as plan changes, re-zoning, and boundary adjustments. I would go as far as saying that until we free up council decision-making and have a more collaborative approach, our economy cannot advance forward.

Yes, the target can be reached but only if the Minister starts talking directly with developers and then collaboratively build an arena where sensible, practical, pragmatic decision-making can take place.

The notion that relocatable housing will solve the housing shortage is a flawed concept. Once again, influencers, without skin in the game, are dreaming up solutions that we as builders and developers know cannot work. As a

³ New Zealand Government Cabinet Paper <http://www.mbie.govt.nz/info-services/kiwibuild/document-image-library/folder-pdf-library/kiwibuild-definitions-eligibility-criteria-and-the-buying-off-the-plan.pdf>

company building over 600 houses a year, we research and look at best practice around the world. If those in the industry thought such an innovation would work and large savings and benefits would result, it would already be happening. We have tried it and we have studied that sector of the market, but our research and practical financial commercial experience has led us to the conclusion that it is not viable in New Zealand at this stage. A lot of time and effort is likely to be wasted being diverted by that mirage.

There are easier and more practical solutions right in front of us that all rest on significantly higher levels of collaboration between Government, councils and developers.

I am at the point in my career where I have achieved many of the personal goals I set out to achieve. After three decades doing this work my mind turns to how my country will deal with the challenges before it both now and in the future. My companies can continue to develop land and build homes for people. We can continue to grind our way through regulation and we will prosper. But there are thousands of people who need homes that we, and other developers, just can't deliver at the speed necessary because there are government-created roadblocks. What is needed is a circuit breaker that launches our nation forward. We are a small developed nation of nearly five million people. We shouldn't have homelessness, we shouldn't have a housing affordability problem. To solve both we need to manage demand, and to do that we need more housing developments underway more quickly.

FRAMEWORK

1. Talk With Developers

The people the Minister requires are doers. They need to have spent their working lives getting things done. They will know what margins each option will result in and how the price point for the home buyer will be impacted by each decision.

Instead of a housing strategy group made up of lawyers, accountants, senior bureaucrats, architects, academics, party hacks, and a couple of people with Dame or Sir in front of their names, what is needed is a housing Czar who is

tasked to set up and drive Czars in each region.⁴ Their job is to remove obstacles and smooth the way for developers and builders to get on with building houses. Those people must know how building and development works and be proven in getting things completed. Yes, they can have advisors to assist with getting change in the bureaucratic systems but the last thing that is needed is another bureaucrat or well-meaning group deciding that another policy review is needed instead of taking the risk of getting started.

Have those Czars feedback suggested requirements through the Minister's office. It would be their job to identify roadblocks and to find ways to remove them. If that requires the Minister or multiple ministers providing directives, then that is what can happen. Give the Czars authority to make things happen.

2. Make The New Ministry Of Housing And Urban Development A Centre Of Activity Rather Than A Bureaucracy – The Home Of The Czars

A new ministry is being formed right now specifically focused on housing. It can be a blank canvas. Populate it with people with commercial development and housing experience. Find commercial operators who will be interested in driving through to the target. Make it a pointer to how government can be with speed and agility being its catchword. Shape it from the beginning and laser focus it on the 100,000-house goal. Move Kiwibuild from MBIE to the new ministry with the intent that this new initiative can take shape in an environment of new, and hopefully, more collaborative thinking rather than being trapped within a slow moving machine.

Our experience of large scale redevelopment projects illustrates the need for the Czars. We have tendered to be part of projects but pulled out because unworkable constraints were loaded upon the tenderers to the point where we knew the projects couldn't work.

The practical commercial reality of developing large scale housing projects is they must be delivered by a consortium of experienced people with detailed experience in the developing and housing sectors.

In one large Government housing project, to participate developers were required to go down a commercially non-viable pathway. Those in the government department leading this process felt they were able to do that because

⁴ A Czar is a person appointed by a government to perform specific tasks and get agreed outcomes.

they perceived they had the power over developers who wanted to win the work. The commercial operators in the room could see immediately the densities being required could not work commercially. Financially it was not going to work, and practically it was not going to work, so one week before the tender closed we pulled out – after spending \$1.8 million on the tender process we pulled out.

We had the ultimate consortium of finance, builders and developers ready to go, but we opted to pull out because government demands made it financially unworkable. We explained the problems to the key government people, but they just continued down the path they were on. The result was both major consortiums pulled out after collectively spending something like \$4 million dollars on the tender process prior to that decision to walk away. Neither we nor other tenderers got the desired outcome which was to be building those houses. The Government didn't get its houses built, and New Zealanders have made no progress toward solving the housing shortage. Millions of dollars were spent, months of work was put in, and nothing came out of it. Imagine how many houses could have been built with that wasted \$4 million alone. And now that same department is trying to get another tender round going but without consulting back with the players who pulled out. Nothing has changed, nothing has been learned. They have started with engaging architects which is never the place to start because what will likely result is another round of financially unworkable plans. They need to begin with developers who know what works and doesn't work.

My recommendation is to put experienced Czars in place who know what is commercially viable in the affordable market.

3. Create A Clear Pathway Through Directions From The Minister To Councils That Require Rapid Decisions And An Attitude Of Clearing Away Regulatory Debris

As a developer I have spent countless hours in pointless meetings where nothing is achieved at the end. As soon as one gets involved with councils one can see the practice of finding reasons not to make any decisions or try new things because the 'risks' will be too high. Since the advent of the Resource Management Act, which was formed to protect our environment and better marshal our community resources, kingdoms have been built and feudal systems of patronage have formed. The planner and the consents manager are the new Sheriffs of Nottingham that builders, who know what is good for them, must

kowtow to. Law firms have created whole staffs of Resource Management lawyers with billing based on ensuring problems are ever more complex rather than solving problems. Nassim Talab would say, in an attempt to keep ourselves safe we have inadvertently made ourselves fragile. We have embedded status quo systems that move significantly slower than entrepreneurship and innovation. We are limiting our economy through risk aversion.

For the Minister to be successful in his ambition for housing he must align with others who have skin in the game of housing. He must seek his counsel from those who have the same ambition and he must set up initiatives to strong-arm everyone else in this chain of decision-making to align with his vision. That is leadership. Having the vision is one thing, driving through to results is where the real work is done, and it needs doers to make it happen.

4. Clear Away Contradictory Policy

In one Tauranga development we are involved in, an upgrade of a state highway was an essential component of opening the new development of 3,000 houses. It is badly needed affordable housing and it was ready to go. However, a review all state highway projects had the effect of instantly stopping progress.

The impact of slowing down the delivery of much needed housing is just one aspect however. Putting developments on hold has the knock on effect on employment as the myriad of people who earn their living from development and building will soon be without the means to earn a living. Everyone from drivers of earthmoving equipment to surveyors and architects, to roadbuilders, engineers, and house builders including all of the trades, will have no work once the land supply runs out in 2019. Without new homes new furniture purchases will slow as will carpet and drape buying, landscaping, and all other spending that is involved in setting up a new home. The impacts of slowing development reach throughout the entire community.

What is needed is alignment of goals across portfolios with the core goals the Government needs to achieve. Does the transport review take precedence or does creating 100,000 new houses have priority?

5. Always Have An Eye On Ensuring Those With Skin In The Game Are Embedded In Decision-Making

What this framework requires is strong leadership and vigilance that can identify a tendency to return to ‘conventional wisdom’. There will always be 40 reasons ‘why not’. A strong Minister can be the immovable object that says, ‘do it anyway’.

6. Drive The Vision Rather Than Wait For Others To Put It Together

As it stands, when a change is required, developers or builders must apply for a plan change or put forward an innovation that then must go through a process that assesses the innovation against current plans. Land most often must be re-zoned before a development can be contemplated. Therefore, changes and innovations must be pushed through against disinterested council staff who largely see their job as pushing back against developer requests. It requires a lot of time, energy, money, and focus by developers when they would prefer to be spending their time developing rather than creating the direction for councils.

So, in effect councils abrogate their role of shaping urban areas and rely on developers and builders to take the time to push through changes. What is required is a new attitude that has government looking ahead and driving innovation. Councils should be becoming future focused and creating the opportunities for developers and builders to bring forward innovations that can quickly be acted upon. Instead of a culture of resistance, a culture of innovation at government level would allow housing to move forward. What often happens is developers get encouragement from one section of a council but then hit roadblocks when they get to consent officers. Change can only happen at local government level if pressure is applied from central government. Central government led by the Minister must set a framework which local government can follow. It should be identifying roadblocks and then acting to remove them so developers are not tied up in grinding through RMA applications for changes that have implications beyond the development they are working on.

In bureaucratic theory, James Q Wilson sets out how bureaucrats work under a system of core tasks.⁵ Those core tasks determine their entire focus because it is what they are measured against and promoted on achieving. It is not for the bureaucrat to think laterally about the implications of changing policy or political vision just as they will not consider how their task could be modified to align with a new political direction. If ministers want to achieve change they

⁵ James Q Wilson *Bureaucracy: What Government Agencies Do and Why They Do It*. Perseus Books, New York. 1989.

must specifically and formally change the core tasks of bureaucrats who will happily alter direction if, and only if, their core tasks are officially changed.

7. Direct To Deal With Risk Aversion

Bureaucrats will openly acknowledge that they are risk averse and do not set out to change the world. They are there to do an allocated task and nothing else. The last thing a bureaucrat can risk is to do something that could lead to his or her minister being embarrassed politically. The answer is to take no risks. However, the paradox is that often the layers of measures put in place to avoid risk can themselves create risk for their minister. Added layers of protection add time and cost to all projects. The slow pace of getting to grips with the housing shortage can to some extent be seen to be caused by risk aversion. Only the Minister can direct people within government to innovate and be less risk averse.

If the Government does not create an environment of collaboration with councils and developers that is focused on viable outcomes, then housing unaffordability will be here to stay for the foreseeable future to the detriment of our economy and the quality of life of New Zealanders.