

In Confidence

Office of the Minister of Housing, Infrastructure and RMA Reform

Cabinet

Fixing the housing crisis

Proposal

- 1 New Zealand has among the least affordable houses in the world, the result of a persistent undersupply of houses. Unaffordable housing has far-reaching social and economic consequences – children and families living in cars and motels, declining home ownership, health problems from overcrowding, poor productivity, and lower living standards for all New Zealanders. The Government spends more than \$4 billion each year on accommodation support, which has doubled since 2017.
- 2 To fix the housing crisis, it is essential to increase housing supply. I am seeking Cabinet agreement to begin a comprehensive work programme to remove barriers to the construction of housing and local infrastructure by:
 - 2.1 Improving our planning regime to make more land available for housing, including by amending and ultimately replacing the Resource Management Act
 - 2.2 Establishing new funding and financing tools for local roads and water infrastructure
 - 2.3 Creating incentives for Councils to facilitate more housing, potentially including the Government sharing a portion of GST with Councils based on construction of new housing in a particular area
- 3 This paper does not consider the troubling and vexed issue of social and emergency housing, or changes to building and construction regulations, tenancy laws or potential new types of housing such as “Build to Rent.” Ministers, including me, will separately report to Cabinet on those issues. The focus of this paper is on a work programme to solve the underlying issues with housing in New Zealand.
- 4 Fixing the housing crisis will involve actions across Government and by different Ministers. I intend to convene a Housing Ministers Group which will meet regularly to progress initiatives in this paper and across the wider housing system.¹
- 5 I will report back to Cabinet with further details in the New Year.

¹ I intend the working group include the Ministers of Finance, Housing, RMA Reform, Infrastructure, Transport, Local Government and Building and Construction, and the Parliamentary Under-Secretary for Infrastructure and RMA Reform.

Executive Summary

- 6 Housing affordability is arguably the single most pressing economic, social and cultural problem facing this Government. Housing is an essential human need and consumes a significant share of household income. Increasing housing supply and lowering housing costs will improve the living standards of all New Zealanders. It will lift productivity and wages by allowing more workers to live and work in cities. It will allow the Government to deliver more social housing, meaning fewer families living in cars or emergency motels. It will restore the dream of home ownership for many New Zealanders, and ensure New Zealand remains a property-owning democracy.
- 7 Fixing the housing crisis requires a comprehensive reform programme that targets the underlying causes of the housing shortage:
 - 7.1 Land is made available for housing, mixed use and other development
 - 7.2 Councils can access tools to build infrastructure that is necessary for growth
 - 7.3 Councils have the right incentives to support growth in their regions
- 8 My goal is to significantly increase the amount of developable land for housing to improve housing affordability.
- 9 I propose to return to Cabinet in the first quarter of 2024 with a comprehensive plan to solve New Zealand's housing crisis.

Background

- 10 New Zealand has among the least affordable housing markets in the OECD. Between 2000 and 2021, inflation adjusted house prices in New Zealand rose 256 compared with 64 per cent in the United States and 110 per cent in Great Britain.² After-inflation house prices in New Zealand have increased by more than any other OECD country over the past 30 years. This has had significant wellbeing impacts:
 - 10.1 In 2022, 46% of renting households spent more than 30% of their disposable income on rent, up from 19% in 1988.³
 - 10.2 House prices have risen 230% since 2003, compared to 114% for median household income,⁴ which has made saving for a first home deposit increasingly difficult for many New Zealanders.
 - 10.3 Home ownership has dropped from 74% in the 1990s to 65% in 2018.⁵
 - 10.4 Rapidly rising demand for social housing, which has resulted in over 3,200 families living in motels⁶ and more than 400 living in their cars.⁷

² *New Zealand's housing crisis is worsening*, The Economist, February 2022.

³ *Household income and housing-cost statistics, year ended June 2022*, Stats NZ, and *Housing in Aotearoa 2020*, Stats NZ.

⁴ Change in Housing Affordability Indicators, HUD.

⁵ Census Data from *Housing in Aotearoa 2020*, Stats NZ.

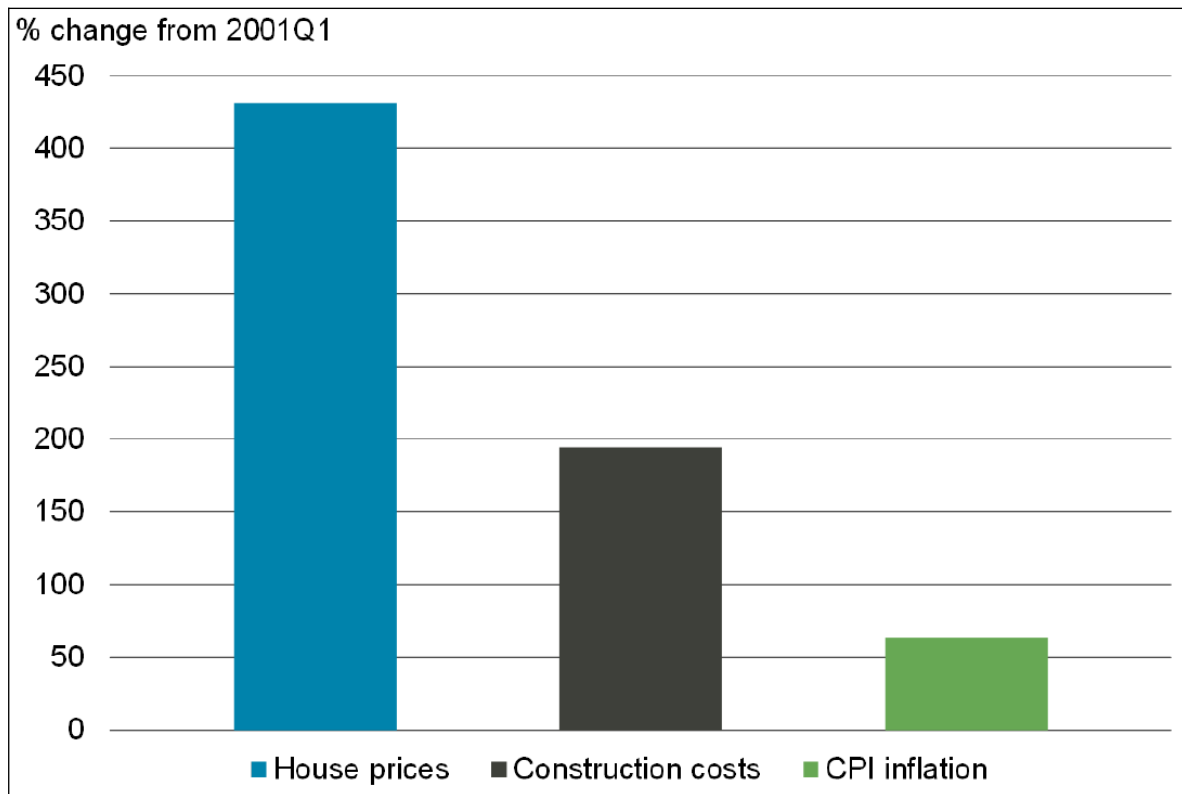
⁶ Emergency Housing, includes some other, similar accommodation. *Monthly Housing Update October 2023*, MSD.

⁷ Applicants for Housing Register living in cars at time of application, as of June 2023, data provided by MSD.

Analysis

11 Houses are expensive in most of New Zealand because land is expensive. Planning and infrastructure funding and financing arrangements make it difficult for Councils to free up land for development. Persistent undersupply of serviced urban land results in urban productivity and amenity benefits being capitalised in land values, pushing up house prices.

Figure 1: House price growth vs construction cost growth, 2001 to 2022 (Source: Treasury)



12 For example, each square metre of land inside Auckland’s Rural Urban Boundary costs 4.2 – 4.4 times more than land immediately outside it.⁸ This zoning premium doubled between 2011 and 2021. We see similar results for other Tier 1 cities (excluding Christchurch) and Queenstown. These differentials are the product of artificial supply constraints due to restricted zoning in plans, delays and uncertainty due to resource consents, and infrastructure. It is these constraints that I seek to eliminate through this work programme.

13 According to Treasury, declining interest rates have led to large increases in house prices because of the way New Zealand’s land markets work:⁹

“[I]f land markets had been more flexible, and urban land supply had been more responsive to demand, then house prices and rents would have risen by less when interest rates fell.... The rise in prices was due to the decline in interest rates in combination with the restricted supply of urban land.”

⁸ *Urban land prices – a progress report*, Infrastructure Commission, April 2023, and unpublished Rural Urban Boundary differential calculated by HUD and the Housing Technical Working Group, 2023.

⁹ Treasury (2022), “Housing affordability in Aotearoa New Zealand,” Speech, 9 September.

- 14 My goal is to flood urban housing markets for Tier 1 and 2 Councils with land for development. Abundant zoned and serviced land within and at the edge of our cities for housing will moderate land prices and increase competition among land-owners to stop land banking. As the scale of development opportunities increase, developers will have the confidence to build up their capacity.
- 15 Experience in the aftermath of the Canterbury earthquakes shows how increased housing supply can improve housing affordability.¹⁰ Rental affordability improved 8% in Christchurch between March 2011 and June 2020 compared to 1% nationally. House prices grew by 42%, versus 88% nationally. However, these gains have since moderated as relatively affordable housing in Christchurch attracted people in from other areas.

The economic benefits of more housing

- 16 More affordable housing through increased supply will deliver far-reaching benefits. Limits on urban growth lock workers out of cities where they are more productive. On average, cities with more than a million people have productivity and wages that are one third higher than cities with fewer than 250,000 residents. Cities tend to become more innovative as they grow. On one estimate, doubling a city's population lifts productivity by 15%.¹¹ Cities are essentially large labour markets, which boost productivity through deeper specialisation. This programme will lift productivity, wages and ultimately national income by unleashing urban growth.
- 17 Housing affects the broader macroeconomic environment. Inelastic housing supply is associated with more numerous and longer bubbles, larger price increases, and greater risk of price corrections in economic downturns. A key driver for housing market outcomes over the past twenty years is the global decline in interest rates.¹² In well-functioning housing markets, the lower cost of debt leads to more housing construction. In markets where housing supply is constrained including New Zealand, lower interest rates raise house prices instead.
- 18 Fixing the housing crisis will not only improve economic stability, it will reduce pressure on the Government's books. Housing supply restrictions drive public spending by increasing rents and forcing more people to depend on financial support from the Government. Overcrowded houses cause health problems, adding to fiscal pressures. The Government now spends more than \$4 billion on accommodation support, double the amount spent in 2017. The Government currently spends around \$1 million per day on the Emergency Housing Special Needs Grant which pays for people to live in motels.¹³
- 19 Elevated migration rates are currently putting pressure on housing and local infrastructure. By removing artificial constraints on land and housing, New Zealand will be well-placed to sustain higher levels of housing construction and infrastructure investment and avoid the risk of rapidly rising house prices and rents with population increases.

¹⁰ *Housing lessons from the Canterbury rebuild*, Sense Partners, November 2021.

¹¹ Bettencourt, Luis et. al. (2007), "Growth, innovation, scaling, and the pace of life in cities," *Proc. Natl. Acad. Sci.* 104(17) pp. 7301-7306, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1852329/>

¹² "New Zealand's estimated real rate declined by 3.8 percentage points between the March quarter of 2000 to the March quarter of 2023." *Long-run trends in New Zealand's real neutral interest rate*, Treasury August 2023.

¹³ Public Housing Quarterly Report for September 2023, HUD.

IN CONFIDENCE

20 Successful reform of housing will be experienced as a wave of prosperity, as the value capitalised in house and land prices shifts 'above ground' and effectively lifts disposable incomes as housing becomes more affordable.

Policy framework

21 Fixing the housing crisis will require a comprehensive reform programme, including fundamental changes to planning and infrastructure funding and financing.

Councils should free up land for development

22 As noted above, the most important factors driving housing unaffordability are restrictions on land for housing.

23 The Government has already committed to requiring Tier 1 and 2 Councils to make 30 years-worth of land for housing available immediately, as well as making the Medium Density Residential Zoning (MDRS) rules optional and requiring Councils using MDRS to ratify their use. Councils are at various stages of implementing MDRS rules.

24 I intend to report back to Cabinet in the first quarter of 2024 on how to make the MDRS rules optional for Councils, how Councils should make land available, and other policy settings needed to create competitive urban land markets.

Removing unnecessary planning barriers

25 The National Policy Statement on Urban Development (NPS-UD) contains requirements to enable density in and around transport corridors where demand for housing is high.

26 I expect Councils to initially upzone in areas where there is spare infrastructure capacity or where the additional cost of infrastructure capacity for Councils is low. This will likely include existing transport corridors, areas close to employment nodes or other significant amenities, and areas where demand for housing is strong.

27 I intend to report back to Cabinet next year on options to improve and refine the NPS-UD, including options for mixed-use zoning.

28 Over the longer term, reforms of the resource management system based on property rights will simplify the system and help Councils meet 30 Year Growth Targets through long term spatial planning and supported by credible pathways to fund and finance infrastructure. Separate papers will be sent to Cabinet on resource management reforms. I will work closely with Parliamentary Under-Secretary Simon Court on this issue, as well as the Minister for Regional Development.

Providing new funding and financing tools

29 Councils need new tools to fund infrastructure. Local roads and water infrastructure compete with other Council services for funding. For Councils at or near their debt limit, new infrastructure is funded from working capital, putting upwards pressure on water charges or rates and forcing Councils to depend on hand-outs from the central government through programmes like the Infrastructure Acceleration Fund.

IN CONFIDENCE

- 30 Pricing should play a greater role in infrastructure funding. Growth bottlenecks have emerged precisely where prices do not reflect costs. Infrastructure should earn sufficient lifetime revenue from service charges to recover its whole-of-life costs. Where charges are credibly signalled in advance, they will be reflected in urban land prices by lowering the price a developer is prepared to pay for land. Infrastructure charges also provide the revenue streams that are necessary to access infrastructure finance. Revenue sufficiency is the key principle that growth should pay for growth and provides confidence that infrastructure will be available when and where it is needed.
- 31 The Minister of Local Government is already working on reforms around water infrastructure and I intend to work closely with him on this issue.
- 32 I intend to start a programme of work around rules for greenfield infrastructure, to ensure that the financial impacts of enabling growth are well understood and development is directed into areas where development is economically feasible.
- 33 I also intend to work with the Minister of Transport to ensure transport funding settings, including through the Government Policy Statement on Transport, facilitate more new housing. I will direct officials to explore new funding tools for transport projects to ensure appropriate contributions from those who benefit (sometimes called “value capture”). These changes will ensure government investment is prioritised in growth areas to unlock vastly more housing.

Encouraging Councils to support housing growth

- 34 Communities are more likely to support housing growth if they share in its benefits. Under existing funding rules, water and roads infrastructure in developments may be partly funded by existing ratepayers. This acts as a disincentive for Councils to approve new subdivisions. I intend to report back on options to improve Council incentives for growth, including potentially sharing a portion of the GST from developments with Councils.
- 35 Another way to support Council incentives for growth is by making infrastructure more affordable. Land protection can dramatically lower infrastructure costs by purchasing options to buy land years before developments begin. For example, a recent study by the Infrastructure Commission found:¹⁴
- 35.1 Land for the North-South Opaheke Arterial in Auckland would cost \$78 million if purchased today, but would cost an estimated \$1 billion if purchased immediately before the start of the development.
- 35.2 Without land protection for education infrastructure, more than half of the schools needed to support urban growth would not be financially viable.
- 36 In Australia, land protection saved an estimated AU\$10.8 billion for seven transport projects.¹⁵
- 37 Land protection was once common in New Zealand but has declined in recent decades. Under the Resource Management Act (RMA), land protection uses designations which

¹⁴ Infrastructure Commission (2023), “Protecting land for Infrastructure: How to make good decisions when we aren’t certain about the future,” April.

¹⁵ Infrastructure Australia (2017), “Corridor Protection: Planning and investing for the long term,” July.

IN CONFIDENCE

require specific details about project design, timing, need and effects. In most cases, this information is unavailable years before a development occurs.

38 I intend to direct officials to investigate land protection options to lower infrastructure costs.

Proposed work programme

39 I intend to progress the following workstreams over the next three years:

Free up land for development

39.1 Require Councils to make 30 years-worth of land available for development

39.2 Make MDRS rules optional for Councils

39.3 Consider other policy settings to create competitive urban land markets

Remove unnecessary planning barriers

39.4 Establish a fast-track consenting regime

39.5 Provide clear direction to local government around land supply (e.g. MDRS, NPS-UD)

39.6 Amend and ultimately replace the RMA

Provide new funding and financing tools

39.7 Explore new funding tools for infrastructure including value capture

39.8 Ensure transport funding settings facilitate housing

Encourage Councils to support housing growth

39.9 Investigate options to improve Council incentives for growth, including potentially sharing a portion of GST from developments

39.10 Investigate land protection options to lower infrastructure costs.

40 To support this work programme, I intend to establish a Ministerial working group comprising Ministers of Finance, Infrastructure, RMA Reform, Transport, Local Government and Housing.

Financial Implications

41 There are no immediate financial implications from the proposals in this paper. Future proposals to Cabinet will have financial implications.

Legislative Implications

42 There are no legislative implications from the proposals in this paper.

Regulatory Impact Statement

43 There are no regulatory impacts with this paper.

Climate Implications of Policy Assessment

44 There are no CIPA-relevant implications from the proposals in this paper.

Population Implications

45 There are no direct population implications with this paper. This comprehensive work programme will unlock a substantial improvement in living standards for all New Zealanders.

Human Rights

46 There are no direct implications for the New Zealand Bill of Rights Act or the Human Rights Act from the decisions in this paper.

Use of External Resources

47 The comprehensive programme of work set out in this paper may require use of external resources.

Consultation

48 The Treasury, the Ministry of Urban Housing and Development, and the Infrastructure Commission have been consulted.

Communications

49 The purpose of this paper is to seek agreement to the high-level direction of the governments housing programme. Announcements will be made as decisions are made around key work programmes.

Proactive Release

50 We intend to proactively release the paper, subject to redactions as appropriate and consistent with the Official Information Act 1982.

Recommendations

51 **Note** that housing is central to the social and economic issues facing this country.

52 **Agree** that the Minister of Housing begin a comprehensive programme of work to advance RMA reforms and the Going for Housing Growth package that will:

52.1 Improve our planning regime to make more land available for housing, including by amending and ultimately replacing the Resource Management Act

52.2 Establish new funding and financing tools for local roads and water infrastructure

IN CONFIDENCE

- 52.3 Create incentives for Councils to facilitate more housing, including by central government potentially sharing a portion of GST with Councils based on construction of new housing in a particular area
- 53 **Invite** the Minister of Housing to report back to Cabinet by March 2024 with further detail on the comprehensive programme of work
- 54 **Note** the Minister for Housing will convene a Ministerial working group across relevant portfolios.

Hon Chris Bishop

Minister of Housing