



Briefing

Improving housing supply and affordability: initial high-level advice

Date:	4 December 2020	Security level:	In Confidence
Priority:	High	Report number:	BRF20/21120809

Action sought

	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Discuss options at the officials' meeting on Monday, 7 December.	7 December

Contact for discussion

Name	Position	Telephone		1 st contact
Brad Ward	Deputy Chief Executive, Place-based Policy & Programmes	04 831 6035	s 9(2)(a)	✓
Helen Potiki	Deputy Chief Executive, Housing & Urban Settings	04 832 2554		
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Other agencies consulted

We have consulted with the Treasury, Inland Revenue, and Kāinga Ora, and have informed the Department of Prime Minister and Cabinet.

Minister's office to complete

- ☐ Noted
 - ☐ Seen
 - ☐ Approved
 - ☐ Needs change
 - ☐ Not seen by Minister
 - ☐ Overtaken by events
 - ☐ Declined
 - ☐ Referred to (specify)
-

Comments

Date returned to HUD:



Briefing

Improving housing supply and affordability: initial high-level advice

For: Hon Dr Megan Woods, Minister of Housing

Date: 4 December 2020

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Purpose

1. This briefing attaches slides outlining a potential package to increase housing supply and improve affordability over the short-term, ahead of the impact of broader reforms.

Recommended actions

2. It is recommended that you:
 1. **Discuss** the potential package with officials, what options are in or out, and the nature of the advice you are expecting in February 2021. *Discuss*
 2. **Note** that we would like an indication from you now on areas you may wish to progress further, and those you do not, due to the need to prepare any associated Budget bids to be submitted by 29 January 2021.

Brad Ward
**Deputy Chief Executive, Place-based
Policy and Programmes**

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Hon Dr Megan Woods
Minister of Housing

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Background

3. In November, we provided you with a briefing outlining our plan to provide you with a work programme by early February 2021 on increasing housing supply and improving housing affordability over the short-term (from 6 months to three years) [BRF20/21110795 refers].
4. You have since asked that we provide you with a package of high-level options before Christmas. This briefing attaches slides setting out a potential package of options to increase housing supply and improve affordability over the short-term.
5. The Treasury and Inland Revenue are also developing options to influence housing demand and increase housing supply, and will be reporting separately to the Minister of Finance on this. We have worked with them in developing our attached package. Our advice indicates which of the proposed the Treasury's demand options we support at the conceptual level, but does not provide detailed analysis on specific mechanisms.

Package of options to increase supply and improve housing affordability

Objectives

6. Proposed interventions are intended to:
 - a. increase supply (across all types of housing tenures and price points);
 - b. reduce the rate of property and rental price increases;
 - c. improve outcomes for households who rent;
 - d. enable first home buyers to better compete in the market
 - e. have an initial impact in the next 12 – 18 months, particularly in terms of reducing expectations of significant future house price gains;
 - f. appropriately target the specific barriers in different priority places (e.g. apply differently in main urban centres and regional centres).

Package of high-level options

7. The proposed options:
 - a. include a mixture of supply and demand interventions, and measures intended to divert investors from existing housing to new builds (while also supporting first home buyers);
 - b. will apply to main urban centres and regional centres where house prices and rents are particularly unaffordable. It will not apply to small towns or rural communities because the issues in those areas are different and will require more targeted and bespoke interventions;
 - c. are intended to take the heat out of demand for existing properties, while diverting investment to new builds, which are essential to increasing supply. This would mean any changes to tax settings should apply differently to existing houses and new builds.

Key messages

8. **Increasing the overall supply of new build housing in the right places will have the greatest impact on affordability.** Consents are at their highest level since 1973, but due to population increase we are only building 7.5 new homes per 1000 people, compared to 13.4 homes per 1000 people in 1973. The Christchurch experience post-earthquake and rebuild demonstrated clearly how house prices and rents respond to supply, and how removing constraints on land and infrastructure can support a rapid increase in supply. More recently, in Queenstown, significant decreases in rents are a result of increased supply in the market and decreased demand, due to the impacts of Covid-19.

9. Sharing development risk through tools such as underwrites and deferred settlement on land, can help ensure that enough new build supply is **inherently affordable** (through modest design and density).
10. There is also a role for **more targeted interventions** to support secure, affordable rentals for people on lower incomes, and to support first home buyers. However, these types of interventions will be less effective without also acting to increase overall supply. The lower the income of the household, the higher the cost to support them.
11. **A coherent package of tools and interventions is necessary to have a meaningful impact on housing supply and affordability.** Picking and choosing individual interventions will not have a clear impact. For example, in order to deliver more affordable homes, we may need to secure land, finance infrastructure, and share some of the development and/or sales risk with the private sector.
12. To see change at scale and pace, the Government needs to play a key role. **There is a clear need for significant additional Government spending on land, infrastructure, and housing.**¹ It requires a mix of recyclable and non-recyclable funding.² While there are some existing funding sources which can be drawn on s 9(2)(f)(iv) his will not be sufficient. We have provided your office with text on this to include in your Budget 2021 letter to the Minister of Finance in early December.
13. This does not mean the Government needs to do everything itself. Financial support can also **remove constraints for other parties (e.g. iwi and Māori groups, and private developers)** and provide opportunities to leverage their land and capital to deliver housing at greater pace and scale.
14. Even if all of the tools and interventions in the package are implemented, **we will not see a significant number of houses built immediately.** However, there will be visible progress along the way (e.g. land acquired, infrastructure completed and sod turnings). Despite the lag, these interventions are necessary to start addressing the underlying causes of housing shortages and affordability pressures. Over time, the options in the package will help to ensure an ongoing pipeline of housing supply to meet a diverse range of needs and aspirations.
15. A comprehensive package is needed to send a clear signal the Government is serious about addressing the housing shortage and taking the heat out of asset prices. We would expect to see the market respond accordingly due to **reduced expectations of significant future house price gains.**
16. **This package is not a substitute for longer-term system and regulatory reforms** to address unnecessary costs, risks and delays. Options in the package complement HUD's existing work programme which is critical to maintaining momentum. That work programme includes:
 - a. implementing existing urban development initiatives (including the Infrastructure Funding and Financing Act, the Urban Development Act, National Policy Statement on Urban Development, developing the Government Policy Statement on Housing and Urban Development, and progressing urban growth partnerships);

¹ This investment and related infrastructure will also support delivery of the additional 8000 public and transitional houses (ideally as part of mixed tenure developments).

² Some of the money will be returned to the Crown over time (e.g. where money is used to buy land that is subsequently on sold); some of the investment will generate a profit (e.g. where the Crown invests in a development on the basis of a profit share); some of the money will not be returned, and while being an expense for Vote Housing, will deliver broader wellbeing benefits and potential cost savings to other portfolios (e.g. better health through improved housing quality and addressing child poverty).

- b. being actively involved in Resource Management Act reform to enable urban areas to grow and change, improve housing affordability through enabling greater supply, and making it easier to build;
 - c. addressing infrastructure funding and financing constraints;
 - d. investigating ways to address high construction costs; and
 - e. addressing unnecessary land use constraints.
 - f. Establishing the **Progressive Home Ownership Fund**, to support 1,500 to 4,000 households into home ownership.
 - g. Delivery of **18,000 public and transitional houses** by 2024/2025.
17. **Capacity constraints in the construction sector** are re-emerging and risk constraining delivery of additional housing supply and increasing costs.³ Transformation and workforce training initiatives under the Construction Sector Accord will be important to address constraints, alongside creating a sustainable pipeline of demand for off-site manufacturing. However, additional measures may be necessary (for example potentially bringing in additional workers from overseas, similar to the Christchurch rebuild).

Consultation

18. We have consulted with the Treasury and Inland Revenue on these options, and we have informed the Department of Prime Minister and Cabinet.

Next steps

19. Following a discussion with you at the officials' meeting on Monday, 7 December, we will:
- a. provide more detailed policy work in February on the recommended package of options. This will include confirming priority places we should focus on, and specific interventions from the package that we would propose using in those places. This will include land sites for potential acquisition, and infrastructure needs for sites;
 - b. prepare any associated Budget bids to be submitted by 29 January 2021.

Annexes

- Annex A: "Improving housing supply and affordability: initial high-level advice" slide package.

³Indicative figures from MBIE indicate that border closures are not a significant contributor to current workforce constraints: in most construction sector subcategories, the number of temporary workers in New Zealand in September 2020 is similar to September 2019.

Annex A: “Increasing housing supply and addressing affordability” slide package



Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Improving housing supply and affordability: initial high-level advice

BRF20/21120809 Annex A; 4 December 2020

In confidence

Objectives

- Increase supply (across all types of housing tenures and price points)
- Reduce the rate of property and rental price increases
- Improve outcomes for households who rent
- Enable first home buyers to better compete in the market
- Have an initial impact in the next 12 – 18 months, particularly in terms of reducing expectations of significant future house price gains
- Appropriately target the specific constraints and impediments in different priority places (e.g. there are differences between main urban centres and regional centres, and between different places)

Key messages

- **Increasing the overall supply of new build housing delivered by the market (in the right places) will have the greatest impact on affordability.** Consents are at their highest level since 1973, but due to population increase we are only building 7.5 new homes per 1000 people, compared to 13.4 homes per 1000 people in 1973.
- Sharing development risk can help ensure that enough new build supply is **inherently affordable** (through modest design and density).
- There is a need for more **targeted interventions** in some places (particularly the regions) and to help some groups of people, particularly renters on lower incomes and first home buyers, noting that these are more costly on a per household basis. However, these types of interventions will be less effective without also acting to increase overall supply.
- **A coherent package of tools and interventions is necessary to have a meaningful impact on housing supply and affordability.**
- To see change at scale and pace, the Government needs to play a key role. **There is a clear need for significant additional Government spending on land, infrastructure, and housing.**
- This does not mean the Government needs to do everything itself. Financial support can also **remove constraints for other parties (e.g. iwi and Māori groups, and private developers)** and provide opportunities to leverage their land and capital to deliver housing at greater pace and scale.
- Even if all of the tools and interventions in the package are implemented, **we will not see a significant number of houses built immediately.** However, there will be visible progress along the way.
- We would expect to see the market respond to **reduced expectations of significant future house price gains.** A comprehensive package is needed to send a clear signal that the Government is serious about addressing the housing shortage and taking the heat out of asset prices.
- **Capacity constraints in the construction sector** are re-emerging. Transformation and workforce training initiatives under the Construction Sector Accord are important, alongside creating a sustainable pipeline of demand for off-site manufacturing. However, additional measures may be necessary (for example potentially bringing in additional workers from overseas, similar to the Christchurch rebuild).

Short-term work would complement HUD's wider work programme

This proposed package is in addition to the work HUD has underway:

- Implementing existing urban development initiatives (including the **Infrastructure Funding and Financing Act**, the **Urban Development Act**, **National Policy Statement on Urban Development**, developing the **Government Policy Statement on Housing and Urban Development**, supporting applications for projects proposed to be fast-tracked through the **COVID-19 Recovery (Fast-track Consenting) Act** and progressing **urban growth partnerships**).
- Progressing **Resource Management Act reform** to enable urban areas to grow and change, improve housing affordability through enabling greater supply, and making it easier to build.
- Exploring **ways to reduce building and construction costs** with MBIE and through the Commerce Commission inquiry.
- Working across portfolios to address **remaining legislative barriers adding unnecessary costs, risks and delays to development**, with a particular focus on land use constraints, such as restrictive covenants.
- Establishing the **Progressive Home Ownership Fund**, to support 1,500 to 4,000 households into home ownership.
- Delivery of **18,000 public and transitional houses** by 2024/2025.



Summary: Package to increase housing supply and address affordability in the short-term

The following slides provide more detail on each proposed element of the package.

Increase supply

- Fund infrastructure shortfall in the existing **Large-Scale Projects** s 9(2)(f)(iv)
– you received separate advice on 3 December
- Introduce an **Infrastructure Fund**
- Fund Kāinga Ora for **strategic land purchases**
- Support **Build-to-Rent** – you will receive separate advice on 17 December
- Review and expand **KiwiBuild** settings – you will receive separate advice on 17 December
- **Refocus the Residential Development Response Fund** – you received separate advice on 17 November
- Consider the Treasury's **tax proposals** to increase supply – advice is being provided to the Minister of Finance on 7 December

Assist first home buyers to purchase new builds

- Increase the \$ amount of the First Home Grant for new properties only (not existing properties)
- Consider increasing First Home Grant price caps and KiwiBuild price caps in some places for new properties only (subject to further analysis)

Divert investment demand from existing properties to new stock

- Implement the Treasury's tax or macro-economic proposals – Detailed design will be important to guard against perverse effects which may push up rents and increase pressure on the Housing Register or dampen demand for new builds.

Increase housing supply

- Fund the existing **Large-Scale Projects**. You received a separate briefing on 3 December 2020 advising the scale of funding required is up to s 9(2)(f)(iv) he LSPs are expected to deliver a combined number of 36,000 new houses over 20 years.
- Introduce a targeted **Infrastructure Fund**. We have identified a small number of key projects (via Urban Growth partnerships and spatial plans) in or near main urban areas ready to be delivered if the necessary infrastructure was funded. As well as these projects, this infrastructure fund could pay for strategic infrastructure in other priority places in main urban areas, in both cases in exchange for councils or developers increasing the pace at which they deliver, the scale of development, and/or proportion of affordable houses delivered. This new fund could be a grant or a low or no interest loan – more analysis is needed on the design and how to best leverage outcomes.
- Funding for **strategic land purchases, including by Kāinga Ora**. Land purchase opportunities are being considered in key areas and we can provide further advice on opportunities in priority places in February. Kāinga Ora has limited funding it can use for land acquisition now, whereas this would provide an opportunity to be more strategic and provide for more scale and flexibility regarding the build tenure (e.g. build to rent). A condition of the funding would be the land is developed at pace and delivers housing at scale, and with a mix of housing types and price points.
- **Land for Housing's mandate** could be made more flexible to allow for a broader range of affordable housing options to be delivered (e.g. allowing build to rent, rather than being limited to KiwiBuild and public housing only).
- Support **Build-to-Rent** – to divert investment away from speculation on existing homes, provide tenants with increased tenure stability and certainty on rent levels, and start to divert the ever increasing spend on Accommodation Supplement over time. There may be opportunities to reduce upfront costs, s 9(2)(f)(iv)

Increase housing supply (continued)

- Increase **KiwiBuild scale and pace of delivery** – s 9(2)(f)(iv)
- Refocus the **Residential Development Response Fund** – to support the delivery of affordable housing. A separate briefing was provided to you on 17 November 2020. s 9(2)(f)(iv)
- Consider the **Treasury's tax proposals** to increase supply. The Treasury is providing advice to the Minister of Finance which includes options to increase supply via tax s 9(2)(f)(iv)

Assist first home buyers

- Increase the **\$ amount** of the First Home Grant for **new builds only** - to stimulate demand for new builds, particularly in regional centres, where development economics mean few modest new builds are happening (this would be most effective alongside greater use of KiwiBuild underwrites in regional centres).
- Consider increasing First Home Grant price caps s 9(2)(f)(iv) in some places for **new builds only** (subject to further analysis).
- In some places such as Dunedin, there are limited numbers of existing properties under the price cap. However, we **do not recommend increasing the price caps for existing properties**, as this would inflate prices further, and only provide temporary relief for first home buyers. In these places, a supply response is needed (eg stimulating first home buyer demand for new builds via a higher grant/KiwiBuild).
- We do not recommend increasing the **income caps** for First Home Grants as this would primarily assist households who are already close to being able to buy and may result in prices being bid up higher.

Diverting investors from existing housing to new builds


- The most effective way to do this would be through the **Treasury's tax or macro-economic proposals**. They are preparing a range of options, of which we consider the most worthwhile to be:
 - Introducing a deemed rate of return on non owner-occupied houses – it would ensure tax would be payable even if no profit is made on renting out a property. This could put a downward pressure on house prices but may put an upward pressure on rents.
 - Prohibiting interest-only mortgages for non owner-occupied houses – 50% of investors currently have interest only mortgages on their rental properties and we suspect this shows they are predominantly investing for capital gains.
 - Disallowing interest deductions for rental properties – this would mean landlords with larger mortgages would face a higher effective tax rate.
- Detailed design will be important to guard against perverse effects which may push up rents and increase pressure on the Housing Register or dampen demand for new builds – we recommend these measures only apply to existing houses so that we do not see a fall in construction of new properties.
- The Treasury has been considering other tax options too, for example introducing a stamp duty, or extending the period of the brightline test.

Other measures considered

- **Rent control or rent freezes**

- Recent research indicates significant rent increases are not widespread - 9% of renters are paying more rent than in early May.
- The strongest factor influencing rents is the level of supply relative to demand.
- International experience shows long-term rent controls impact the supply of rentals and incentives to invest in the quality of their properties. While rent control may lead to more homes being owner-occupied it could affect landlords' willingness to build new supply for rental.
- In an environment of constrained supply, rent controls have been shown to lead to discrimination by landlords on factors other than price, or could encourage tenants and landlords to make/accept illegal additional payments. Once in place, rent controls are difficult to remove as the removal leads to a price correction, which is greater the longer controls are in place.
- We consider other options addressed in this package would be more effective in addressing the key drivers of rental increases, namely supply, and without creating unintended consequences.

Other measures considered

-  s 9(2)(f)(iv)
- 
- Provide a **mechanism for would-be-investors to join up to invest in new properties**. “Clubs” already exist, joining would-be-investors up to co-invest in a range of assets, including property. We would support this investment demand going to new builds rather than existing housing as this supports new supply and maintains construction sector jobs. It is not clear whether Government support is needed to achieve this, particularly if the measures in the package are implemented.

-  s 9(2)(f)(iv)
- 