



DRAFT



Using land for housing

Draft report – summary version

The New Zealand Productivity Commission – Te Kōmihana Whai Hua o Aotearoa¹

Date: June 2015

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¹ The Commission that pursues abundance for New Zealand.

Terms of reference

PRODUCTIVITY COMMISSION INQUIRY INTO THE SUPPLY AND DEVELOPMENT CAPACITY OF LAND FOR HOUSING IN NEW ZEALAND CITIES

Issued by the Minister of Finance, the Minister of Housing, the Minister of Local Government, and the Minister for the Environment (the “referring Ministers”).

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the Productivity Commission [the Commission] undertake an inquiry to assess and identify improvements in local and regional authorities’ land use regulation, planning, and development systems. These systems should be reviewed with respect to how they deliver an adequate supply of development capacity for housing.

Context

Ensuring that rapidly growing cities can efficiently supply and use land to house people in an affordable manner has the potential to make a significant difference to New Zealand households’ living standards and support national productivity and macroeconomic stability.

The Productivity Commission’s 2012 report – *Housing affordability*, identified planning, land use regulation and the systems for supply of infrastructure as playing a critical role in managing the growth in cities. The Commission’s 2012 report, and its 2013 Local government report, highlighted variability in regulatory practices across local and regional authorities. This inquiry seeks to explore and understand the practices of local and regional authorities in more detail, with the aim of improving overall performance, given that, over the next several decades, the population in several major cities will grow significantly.

Local and regional authority planning systems aim to balance the competing social, environmental and economic impacts of development. Planning systems and land regulations include the regulatory requirements imposed by central, local, and regional government and the actions of regulators. Development systems include the institutions, plans, policies, processes and appeal rights on the use of land, including changes to its use.

Planning and development systems affect the potential uses of land with the intention of delivering social benefits to the local community. Delivering these social benefits will have a significant influence on the cost, availability and development capacity of land for new housing.

The past decade has seen a large increase in New Zealand house prices. The reasons for this increase are multi-faceted. One important factor has been the approach to land use planning and regulation.

Over time the range of objectives of local authority planning systems has increased and the environment in which they operate has become increasingly complex. The framework within which local authorities reach decisions has been subject to ongoing reform, but there remains significant autonomy for local authorities to set their own rules and make decisions on development within their area. This is consistent with the promotion of local democracy and the concept of subsidiarity. There are increased requirements to extend the planning horizon in dealing with environmental and infrastructure issues.

Decisions about the use of land are important to the community. They involve costs to some, and benefits to others. Community consultation can and should influence the outcome, but the ways and means of consulting with the community need to be carefully considered to ensure that the needs of the entire community, including the needs of future generations, are being met. Identifying leading practices and innovation in consultative processes is an important way to improve processes, performance, and outcomes across New Zealand.

Scope and aims

The Commission is requested to undertake an inquiry to examine and report, in a comparative sense, the by-laws, processes, and practices of local planning and development systems to identify leading practices that enable the timely delivery of housing of the type, location, and quality demanded by purchasers. The Commission should particularly focus on urban growth areas, including any early lessons from the Housing Accords and Special Housing Areas Act 2013, and consider successful international experiences with urban development.

Planning and development systems should be reviewed with respect to how they deliver an adequate effective supply of development capacity for housing. The inquiry should review practices of the larger urban planning and development systems, including but not limited to the authorities of the largest and/or fastest-growing urban areas, and any comparable international urban areas with valuable lessons.

The Commission would be expected to provide information on absolute and relative performance, identify leading practices, and make recommendations to improve performance with respect to: (i) policies, strategies, outcomes and processes for urban land supply, including the provision of infrastructure; (ii) funding and governance of water and transport infrastructure; (iii) governance, transparency and accountability of the planning system; (iv) the implication of leading practice for the range of laws governing local authority planning; (v) involvement and engagement with the community.

Exclusions

This inquiry is not a fundamental review of the Resource Management Act, and does not include the processing of building consents. It does not include consideration of changes to the ownership of infrastructure assets, but does include the funding and governance (including legal structure of ownership) of those assets.

Consultation

To ensure that the inquiry's findings provide practical and tangible ways to improve the performance of development and planning systems, the Commission should work closely with Local Government New Zealand, Society of Local Government Managers and the wider local government sector.

Timeframes

The Commission must publish a draft report and/or discussion document, for public comment, followed by a final report that must be presented to referring Ministers by 30 September 2015.

Referring Ministers

Hon Bill English, Minister of Finance

Hon Dr Nick Smith, Minister of Housing

Hon Paula Bennett, Minister of Local Government

Hon Amy Adams, Minister for the Environment

About the summary version

This summary version provides the key points, questions, findings and recommendations from the Productivity Commission's draft report as part of its inquiry *Using Land For Housing*.

The inquiry reviews the local planning and development systems of New Zealand's fastest-growing urban areas and identifies leading practices that are effective in making land and development capacity available to meet housing demand. Comparable overseas systems are also investigated where they provide valuable lessons for New Zealand.

The report follows the release of the issues paper in November 2014, consideration of submissions; meetings with a wide range of interested parties; study tours of Australia and the U.K, and the Commission undertaking its own research and analysis.

The draft report contains the Commission's draft findings and recommendations. It also contains a limited number of questions to which responses are invited but not required. The Commission welcomes information and comment on all issues that participants consider relevant to the inquiry's terms of reference.

To see the full version of the draft report - including information on how to make a submission – please visit our website www.productivity.govt.nz.

Key inquiry dates

Release of draft report	17 June 2015
Submissions due on the draft report	4 August
Final report to the Government	30 September

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KEY



Question



Finding



Recommendation

Overview

The Government has asked the Commission to review the local planning and development systems across New Zealand's faster-growing urban areas and identify leading practices that are effective in making enough land available to meet housing demand. Comparable overseas systems should also be investigated where they provide valuable lessons for New Zealand.

Why this inquiry is important

Housing is fundamental to our economic and social wellbeing. It plays a central role in individual and community health, family stability and social cohesion. A responsive housing market facilitates labour market mobility, allowing people to move to take up job opportunities, enhancing the productivity of the economy. Providing an adequate supply of land and development capacity for housing, and the associated improvement in housing affordability, have the potential to lift the living standards of many New Zealanders.

Strong population growth but housing supply struggling to keep pace

New Zealand's population is growing. This growth is concentrated in a handful of cities, but especially in Auckland. The number of dwellings required to house the population of these cities will grow at an even greater rate as household size becomes smaller. Housing supply in many cities has been sluggish in response to population growth and struggled to keep pace with increasing demand. This has manifested itself in the increased price of housing where housing is in short supply, and in the high proportion of disposable income spent on housing in New Zealand compared with many other OECD countries. Making sure a choice of housing types is available at different price points, to cater for a range of income levels, is critically important to the effective functioning of the housing market, the economy, and the wellbeing of New Zealanders.

The price of land is increasing, reflecting a constrained and stressed planning system

A number of factors affect the supply of housing, but one of the most important is the availability of land, both brownfields and greenfields. Land values have grown more quickly than total property values over the last 20 years, indicating that appreciating land values have been a key driver of house price inflation in New Zealand. This suggests a shortage of residential land in places where people want to live. The problem is particularly acute in Auckland, where land value accounts for as much as 60% of total property value, compared with about 40% in the rest of New Zealand.

Planning systems and land use regulations imposed by central, regional and local government affect the speed and efficiency with which land is made available for residential development, including the more intensive use of land within existing city boundaries. Decisions about the amount of land to be released, the timing of when this will happen, how it can be developed, and when it will be serviced with infrastructure, all directly impact on the price of land and, in turn, on the price of housing. Constraints on the release of land and development capacity (within and on the edge of cities) create scarcity, limit housing choice, and increase housing prices. These impacts are disproportionately felt by people on lower incomes.

Unlocking land supply a critical first step

Unlocking land for housing is a necessary first step and catalyst for productivity improvements in other parts of the housing supply pipeline. Unlocking land allows economies of scale in land assembly, land development and housing construction. Larger building firms are able to generate scale efficiency from building large numbers of houses on contiguous sites and by purchasing at a greater scale, particularly building materials. Yet the building industry in New Zealand is characterised by small firms that build just one or two houses a year. The current industry structure is a product of the environment in which it operates, which is characterised by fragmented and expensive land supply (NZPC, 2012). Importantly, without greater land supply, any construction efficiencies are likely to accrue to landowners, rather than home buyers.

Substantial benefits are on offer

A recent report considering global housing affordability issues concludes that “unlocking land supply at the right location is the most critical step in providing affordable housing” (McKinsey Global Institute, 2014, p. 7). The report estimates that unlocking land supply could reduce the annualised cost of a standard unit of housing by between 8% and 23%. Remarkably, in the world’s least affordable cities (including Auckland), unlocking land supply could help to reduce the cost of housing by between 31% and 47%. Productivity improvements in construction, by taking advantages of scale or taking an industrial approach to construction, could help to reduce the cost of housing by a further 12%–16%.

Local regulatory constraints to releasing land and development capacity for housing can impact on the functioning of the national economy. A recent research paper published by the National Bureau of Economic Research in the United States (Hsieh & Moretti, 2015) suggests that releasing adequate land and development capacity, by lifting barriers to urban growth, could raise Gross Domestic Product in the United States by as much as 9.5%. Much of the productivity gains are from workers being able to locate and work in cities that offer higher productivity and higher-wage jobs. It is difficult to think of many other policies that would yield such an improvement in a nation’s economy.

The inquiry

This inquiry investigates the effectiveness and efficiency of the planning and development system in New Zealand:

- How well does the system meet the demand for land in its most valued use, and provide infrastructure efficiently and in a way that is responsive to demand?
- Can the current system be made to work better for New Zealanders?
- Is a different institutional framework required to deal with the complexity, negative effects and coordination problems faced by our fastest growing cities?

A spectrum of possible improvements has been identified, ranging from incremental to more fundamental change.

Cities, growth and land for housing

Cities are national assets. When cities function well, they provide greater choices of employment and more opportunities for specialisation, and they have higher incomes and productivity than other areas. This is because firms located in close proximity to each other can take advantage of having access to a wider pool of skilled labour, better links to markets for both inputs and outputs, and the ability to share knowledge. However, the concentration of people and businesses in cities also creates costs, such as pressure on infrastructure and on the availability of housing. This puts a premium on good city organisation and on the ability to plan for growth.

Population growth in New Zealand has been strong over the last decade. The supply responsiveness of the housing market influences the degree to which an increase in housing demand leads to more housing or to higher housing prices. If the supply of housing is constrained in some way, then increased demand will tend to feed into higher housing prices, rather than an expansion in housing supply. The extent to which new housing can be constructed in response to changes in demand is determined by a number of factors, including:

- the constraints of local geography;
- land use and planning regulations that determine how much land is available for new dwellings or how intensely it can be used for housing;
- the ability to service land with infrastructure to support new housing; and
- the extent to which the construction sector can gear up and build the type of housing demanded.

These factors can act in tandem to constrain housing supply. For example, Saiz (2010) found that US cities that were naturally geographically constrained also had the strictest regulatory constraints. One explanation for this is that geographically constrained cities are likely to have higher land values, and so citizens have greater incentives to use the political process to push for regulation that protects those values.

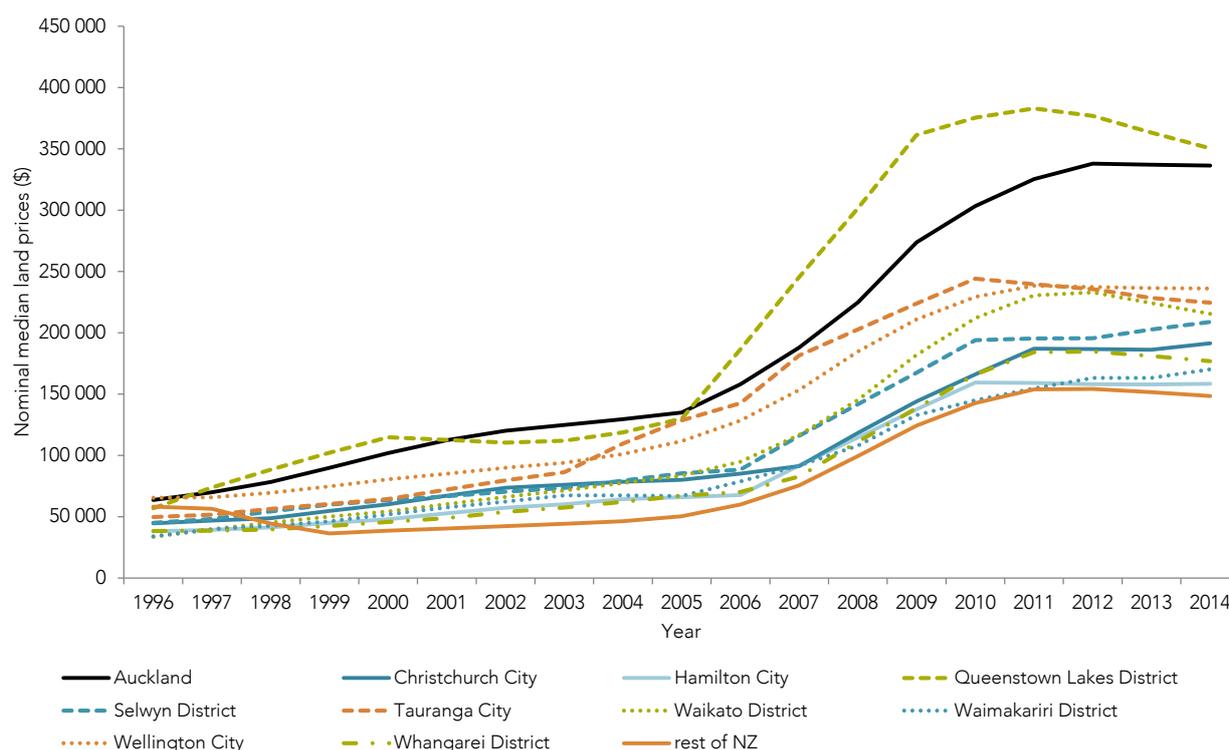
In the absence of constraints, cities will respond to population increases by making more efficient use of land, increasing density through building higher buildings and smaller dwellings in their centres.

The functioning of cities can also be enhanced by well-targeted policy interventions, such as investments in transport infrastructure. Yet the interest of the nation in having cities grow may not be reflected in local choices and planning systems. Local residents may not wish to bear the costs of growth (eg, congestion) and may act to slow or constrain the development of their cities. Existing homeowners also benefit from policies that restrict the supply of new dwellings, as they help keep the price of housing high.

The Commission has found that New Zealand cities have different density profiles. Wellington, for example, has seen significant intensification close to the city centre. In contrast, in some other cities the biggest contribution to intensification has occurred in outlying suburbs. This suggests barriers to intensification in and near the centre of these cities.

The demand for housing and the impact of local policies that constrain supply is reflected in land values in New Zealand's major cities and high-growth areas. Land values have increased significantly since the middle of the last decade (both in nominal terms and as a share of total property values) (Figure 1).

Figure 1 Nominal median land values



Source: Productivity Commission analysis of Quotable Value data.

High land prices encourage the production of larger and more expensive housing. In New Zealand, the average size of new dwellings has increased by more than 50% since 1989. More than half of the new builds in New Zealand in 2014 were valued in the upper quartile of all housing stock, driven by the price of land.

Concerns about the ability of New Zealand's planning systems to respond to the need for new housing, and about the extent of constraints placed on development, are not new. However, population growth over the past decade has highlighted the pressing nature of the problems that cities and other high-growth areas face in meeting the demand for housing. Easing unnecessary constraints and providing the development

capacity for new housing allows cities to grow. It is in the nation's interest to have its citizens able to take advantage of the greater employment and life opportunities available within vibrant and productive cities.

The planning system can work better

The planning system is complex. It is governed by three main statutes (Box 1). Each statute creates its own set of institutions, policies, processes and rules. Together they set the regulatory framework for the supply of land and development capacity required for housing.

Box 1 Regulatory framework for the planning and development system

New Zealand's planning and development system is governed by three main Acts of Parliament:

- the Resource Management Act (RMA) 1991 authorises, limits or prohibits the use of land, so as to promote "sustainable management";
- the Local Government Act (LGA) 2002 establishes processes to shape the provision of infrastructure that is needed to make land viable for housing; and
- the Land Transport Management Act (LTMA) 2003 establishes processes to shape the provision of transport infrastructure and services.

A host of other statutes also have an impact on the planning and development system, including the Building Act 2004, the Public Works Act 1981, the Reserves Act 1977, the Property Law Act 2007, the Unit Titles Act 2010, and the Local Government (Rating) Act 2002.

The Commission has examined the regulatory framework for the planning and development system and seen the need for improvements in the following thematic areas:

- systems and processes for integrating land use, transport and infrastructure;
- strategies for supplying and developing land; and
- regulation and approval processes.

Integrated planning

Effective urban planning and development systems link decisions about land use (eg, zoning) with the provision of infrastructure (eg, water) and other services, such as transport. However, New Zealand's planning system creates a complex web of legislative obligations and plans that, collectively, can make it difficult to effectively and efficiently coordinate land use, transport and infrastructure decisions.

Many of the local authorities within the scope of this inquiry have tried to overcome problems with the legislative system by developing non-statutory spatial plans. These spatial plans act as linchpins for other statutory plans and local authority strategies.

Little data is available about the relative effectiveness of New Zealand spatial plans in releasing sufficient land for residential development. However, inquiry participants identified a number of benefits from such plans. These benefits include greater intra-regional cooperation and understanding, more efficient infrastructure use and investment, and a better ability to respond to natural disasters (such as the Canterbury earthquakes) or to new policy initiatives.

Many New Zealand spatial plans (and their associated RMA plans) impose urban limits and set density or intensification targets. The permanence of the urban limits or hardness of density targets vary between individual plans. These policies need to be carefully designed and monitored, to avoid creating negative impacts on housing supply.

Spatial plans as they currently operate lack regulatory force and need to be translated into district plans and other regulatory instruments. A number of local authorities expressed frustration at the statutory consultation and analytical requirements involved in translating spatial plans into RMA regulatory plans. However, the Commission considers that these statutory requirements help to ensure that land use regulation is well-designed and that affected parties have the opportunity to be heard.

Speeding up the translation of spatial planning processes into land use regulation, without compromising analytical rigour or consultation, is likely to require the development of a new legislative avenue for larger or faster-growing cities. This could combine infrastructure strategies, longer-term transport planning and longer-term thinking about the growth of the city with the development of land use rules.

The new legislative avenue for cities should be voluntary, and so allow local authorities to choose the statutory planning mechanisms that best suit their circumstances. It should also be tightly focused on activities of high importance to the functioning of cities and the demand for land. Large numbers of objectives in spatial plans, and goals that do not bear a strong relation to the demand for land, would complicate the implementation of these plans and the development of efficient regulation.

Future plans prepared under the proposed new legislative avenue should be developed in partnership with the full set of central government agencies whose services, such as education and health, matter for the functioning of cities. To date, central government has played a limited role in developing spatial plans. Given the fiscal implications of greater central government involvement in spatial planning, both Cabinet and the relevant local authority should approve any future plans.

Finally, the new legislative planning avenue should include processes to encourage robust regulatory analysis and development, as section 32 of the RMA is designed to do. Central government could bring its regulatory expertise and capability to bear so as to properly test proposals for new land use rules and regulations in future spatial plans. Possible options include peer review by the Treasury or use of an Independent Hearings Panel to provide expert impartial review.

Strategies for supplying and developing land

Overseas jurisdictions apply a number of specific processes and techniques to ensure an adequate supply of land for housing. Yet few of the key processes identified by the Commission are used to their full potential in New Zealand.

Many New Zealand urban local authorities have goals for the supply of land to meet future residential growth, but the form and strength of these goals varies between councils. Only Auckland Council and the Western Bay of Plenty SmartGrowth partnership have quantified land supply targets.

The readiness of land matters for the efficiency of the housing supply chain. Land that is both zoned and serviced will put the most competitive pressure on land and house prices, as it is more readily available for home construction. Auckland Council and Hamilton City Council have supply targets explicitly based on zoned and serviced land. Other high-growth local authorities should express their land-supply targets in terms of zoned and serviced land and report publicly on their performance. Greater monitoring of dwelling completions and net changes in the dwelling stock would better enable local authorities to assess whether housing shortfalls were building up, and could help trigger reviews of planning controls.

Subdivision covenants are a common feature in property development in New Zealand, and include detailed restrictions on land use. Many of the covenants reviewed by the Commission appear to be unduly prescriptive. Covenants established in building schemes can reduce the supply of land for housing now and in the future, and increase the cost of building dwellings. The Commission seeks views on the merits of statutory controls on subdivision covenants. These include time limits, placing restrictions on the subject matter of covenants, providing councils with powers to override private covenants, or creating mechanisms to reduce the barriers to extinguishing covenants without unanimous consent.

The Crown and local authorities own large amounts of land. Information about the quantity and state of this land is patchy. However, available information suggests that significant amounts of public land may be bare, vacant or substantially unimproved and suitable for residential development.

The Government has recently announced a tender to use 430 hectares of Crown land in Auckland for housing, and has taken early steps to use public land in Christchurch to increase the supply of affordable housing. Scope may exist to use public land holdings in other high-growth cities to help offset the nationwide shortfall of lower-priced housing. The Ministry of Business, Innovation and Employment (MBIE) should work with local councils in high-growth areas to identify surplus land that could be used for housing.

The ability to promptly rezone land plays an important part in increasing land supply, by bringing new land to market (eg, by converting rural land to urban use) and increasing the development capacity of existing urban land (eg, by increasing height limits or reducing minimum lot sizes). Plan changes are the mechanism by which land is rezoned for different uses. Councils in high-growth cities take longer on average to make plan changes operative than other local authorities. Consultation obligations and appeals contribute to these longer timeframes.

The Commission considers a case exists where local authorities are given more flexibility over notification and consultation for proposed plan changes that are specific to particular sites. Such changes would help to ensure that those directly affected by a plan change (eg, current landowners in the site, and immediate neighbours) have a right to be notified and heard, while opening up opportunities for faster and more efficient rezoning processes. The Commission is interested in hearing views on how eligibility to be notified and consulted on such proposed plan changes should be defined.

Reforms to appeal avenues require careful trade-offs to be struck between the goals of speeding up rezoning processes and ensuring that they deliver quality outcomes. The Commission is interested in receiving evidence on whether greater use of independent commissioners in planning decisions would provide the level of rigour required to justify further restrictions on appeals.

Engagement with affected parties on proposed plan changes ahead of their notification, and circulation of draft plan changes for comment, are leading practices and may help reduce the incidence of appeals. This aligns with the Commission's recommendations in its *Regulatory Institutions and Practices* report that there should be a general expectation that exposure drafts of legislation will be published and consulted on ahead of the formal introduction of Bills to Parliament (NZPC, 2014). Early consultation on detailed proposals helps to clarify whether proposals are feasible and efficient, and provides an opportunity to iron out problematic provisions.

Regulation and approval processes

Land use regulations can play an important part in managing externalities and reducing transaction costs, by laying out clear requirements for the use of land and avoiding the need for multiple contractual negotiations between individuals. However, land use regulations can affect the price and supply of housing.

Most land use regulations in New Zealand are made under the RMA in District Plans. To provide an overall benefit to the community, regulations must be designed with all the relevant costs and benefits in mind. Evidence collected through this inquiry suggests that some local authority regulations are imposing high compliance and economic costs, leading to increases in the cost of development and the loss of potential housing. The costs of some particular regulations appear to outweigh any likely benefits. Problems with excessive regulatory costs stem from a number of sources. These are multiple or conflicting objectives in District Plans, inadequate analysis before rules are introduced, and poor overlaps with other regulatory frameworks. A number of recommendations are made where specific regulations do not appear justified (Box 2).

Box 2 The costs of regulation outweigh the benefits

The Commission has identified a number of regulations where the costs appear to outweigh the likely benefits. These have the effect of reducing the density of urban land use and increasing the cost of housing. It is recommended that urban territorial authorities should:

- remove District Plan balcony / private open space requirements for apartments;
- review minimum apartment size rules in their District Plans, with a view to removing them (once the MBIE has completed planned work on updating Building Code rules and guidance related to air quality, lighting, acoustics and access in multi-unit dwellings);
- remove District Plan minimum parking requirements and make more use of techniques for managing traffic demand;
- lift current building height limits where it cannot be demonstrated that the benefits outweigh the costs; and
- undertake robust cost-benefit analyses before considering the introduction of building height limits.

The inquiry Terms of Reference state that this inquiry is not a “fundamental review of the Resource Management Act”. As a result, the Commission has been reluctant to consider issues of the RMA’s purpose and focus. However, the topic of the RMA’s impact on the ability of cities to change and provide for housing was so prominent in the evidence presented to this inquiry that the Commission concluded that it needed to address the matter explicitly. In particular, there are strongly diverging views about the appropriate weighting given in the RMA to urban growth outcomes and housing relative to other outcomes. The Government should therefore introduce amendments to the RMA to clarify the role and importance of housing and urban environments.

Uncertainty about council obligations and problems coordinating between different units within councils create costs and delays for developers. Processes to improve internal council coordination (eg, one-stop shops) and greater use of electronic planning tools would help reduce these delays. The national planning system also has some scope for greater standardisation and liberalisation.

Inclusionary housing policies provide requirements or incentives for developers to provide “affordable” or lower-cost housing. They are a common feature of overseas planning systems, but are not prominent in New Zealand. Only Auckland and Queenstown have inclusionary housing policies in their current or proposed District Plans, although Special Housing Areas (SHAs) and Housing Accords provide more opportunities to introduce such policies.

Inclusionary housing policies should not be a substitute for planning system reform. If the planning system is the proximate cause of declining affordability, planning system reform should be the priority response. However, inclusionary housing policies can be seen as a “second best” option, where planning system reform fails to deliver sufficient flexibility or fast enough responses to longstanding housing deficits.

To be most successful, inclusionary housing policies should be designed with the nature of the current planning system in mind. In New Zealand’s case, this means that incentive-based (rather than mandatory) policies are more suitable. Inclusionary housing policies are also most likely to succeed where they are part of a wider suite of tools, most of which require central government support.

Getting infrastructure in place

Infrastructure is a critical part of the housing supply pipeline and a significant share of the total cost of new dwellings (Box 3). Releasing land that is not serviced with infrastructure does nothing to improve housing supply. Providing infrastructure for new housing can be an expensive and risky undertaking for councils. Councils that install new infrastructure ahead of housing demand may find themselves facing high borrowing and depreciation costs, particularly if growth occurs at a slower rate than anticipated. For this reason, many councils try to tightly control the supply of new infrastructure. This constrains the supply of “shovel-ready” land (that is both zoned and serviced) for housing.

Box 3 Infrastructure needed to support growth

Accommodating residential growth requires:

- transport – highways, local roads, footpaths and cycleways, and public transport;
- water – drinking water supply (also referred to as “potable water”), collection and treatment of wastewater, and the removal of stormwater;
- energy – electricity and natural gas transmission and distribution;
- telecommunications – fixed line, mobile coverage and internet; and
- social and community infrastructure – eg, schools, public recreation spaces and libraries.

Most types of infrastructure can be grouped into two categories: trunk infrastructure and local infrastructure. Trunk infrastructure refers to assets that serve a large number of households, such as trunk water lines or urban rail services. Local infrastructure relates to the requirements that are specific to a subdivision or dwelling, such as individual connections to trunk water.

The Commission has examined how infrastructure is planned, delivered, funded and governed across high-growth councils in New Zealand, as well as overseas, and identified areas for improvement to better manage the supply of infrastructure and keep pace with demand.

Infrastructure planning and delivery

Forecasts in the Long-Term Plans of high-growth councils point toward a growing and potentially under-funded requirement for infrastructure renewals. Effectively managing ageing assets and funding the renewal of infrastructure are likely to be major challenges for councils in the coming years.

Good information and good asset management practices enable councils to make better use of existing assets, better coordinate and schedule maintenance and replacement work, set well-informed infrastructure standards, and improve the coordination of infrastructure delivery among different providers. Such practices also allow an evidence-based approach to spatial planning. Wellington City Council’s approach to asset management is a leading practice.

The potential gains from unlocking spare capacity within existing infrastructure networks and using infrastructure more efficiently can be substantial. For example, Wellington City Council recently identified that a significant inner-city residential and commercial development could be accommodated entirely with existing infrastructure capacity. To exploit spare network capacity requires a deep understanding of existing infrastructure assets, the current and future network demand, and permissive planning rules that allow intensification to occur in areas where excess capacity exists.

Councils should make more use of user charges where this can reduce demands on infrastructure. User charges are an effective approach to managing demand and have substantial potential to reduce the operating expenditure of councils, and delay or avoid capital investments in new infrastructure. Tauranga City Council’s introduction of water meters and volumetric charges resulted in a significant reduction in demand for water. This, in turn, generated significant savings, primarily because upgrades to water collection and wastewater treatment infrastructure could be delayed. Other cities could replicate this experience.

Most types of infrastructure face few barriers to introducing user charges. Yet this is not the case for transport infrastructure. The LTMA should be amended to allow pricing on existing roads, if a business case exists to support such a move.

Staged construction techniques that lower the upfront costs and allow services to be scaled up as demand increases can help to overcome the difficulties of investing in infrastructure to support future growth. The staged construction approached that Selwyn District Council uses is a good example of this leading practice.

“Development agreements” enable developers to take responsibility for building infrastructure that a council would usually build. This shift has the potential to generate a swifter and lower cost of supply of infrastructure. The Commission is interested in hearing views about how developer agreements have worked in practice and whether any barriers exist that unnecessarily limit their use.

Infrastructure standards imposed by councils can be a source of tension between developers and councils. Decisions about imposing or changing infrastructure standards should be evidence-based and subject to robust cost-benefit analysis. Where a good case to change infrastructure standards exists, those developments already with consent should be exempt from the change or be compensated for the additional costs incurred.

Variations in infrastructure standards between different councils may create unnecessary costs for developers and infrastructure providers that work across multiple council areas. The Commission has identified a number of leading practice instruments and forums that promote consistency of standards across jurisdictions.

Council infrastructure exists alongside infrastructure that is built and maintained by private utility companies. In some cases, these other infrastructure providers are not well integrated into the broader planning and land development processes for infrastructure. The Auckland Infrastructure and Procurement Forum connects infrastructure providers, advisors, constructors and suppliers to provide for better procurement and coordination of major construction projects. Inquiry participants suggested that this approach to integration works well and could be adopted more broadly.

Paying for infrastructure

Paying for the infrastructure needed to support urban growth is a significant challenge for many high-growth councils. The costs associated with urban infrastructure appear to be rising. Many high-growth councils report that the cost of new infrastructure has a major influence on the rate of residential development. Factors underlying the increasing cost of infrastructure provision include increasing standards and a tendency for development to occur in land areas that are more costly to service.

Having effective processes in place to recover the costs of infrastructure from the parties that benefit from the investment is important. It is also important to acknowledge that these costs are not set and more efficient processes could potentially reduce them. The way that councils build infrastructure and operate existing assets can also make a material difference to costs. Any decisions about how infrastructure is paid for should be framed in the context of ongoing efforts to ensure that infrastructure is provided and managed in a disciplined, cost-effective and efficient manner.

Debt is an important source of finance for urban infrastructure in high-growth areas. It enables councils to deliver infrastructure when it is most needed and for infrastructure costs to be spread over the life of the asset. This means that those who benefit from the infrastructure contribute to paying for it, which promotes intergenerational equity. Recent reviews have not identified any issues or concern with the use of debt by high-growth councils. Indeed, many councils are well within prudent debt benchmarks, and arguably take a conservative approach to taking on debt. This is likely driven by community attitudes and opposition to debt, as debt is perceived as indicative of future rates increases.

Recent legislative changes have introduced a debt-servicing benchmark. Many high-growth councils are well within the benchmark. The effect of this benchmark may deter a council’s appetite to take on prudent levels of debt. The Commission recommends that the effects of the debt-servicing benchmark should be monitored over the coming years to see how it influences a council’s ability to provide infrastructure to support growth and to determine whether current benchmarks for debt-servicing ratios are appropriate for high-growth councils.

Tax increment financing (TIF) is used to raise finance for infrastructure in other countries and some inquiry participants suggested that the approach might be adopted in New Zealand. Yet TIF does not appear well suited to financing many types of growth-related infrastructure and does not fit easily with New Zealand's existing rating system. Municipal utility districts (MUDs) are another infrastructure financing approach suggested by inquiry participants. The main advantages of the approach are that it allows infrastructure to be built at the initiative of a developer, and the cost of infrastructure is recovered over a long timeframe from those that benefit. Yet creating multiple, small and fragmented resident-managed utilities through MUDs is unlikely to be efficient.

Development contributions are a particularly important source of funds for infrastructure. Despite recent changes to the LGA that sought to improve the approach to development contributions, they remain a source of tension between developers and councils. A number of leading practices have been identified to improve the implementation and administration of development contributions policy. Three of these practices are noted below.

- Adherence to the new principles introduced in the Local Government Amendment Act (2014) will promote efficient choices about the location and type of developments.
- Policies that enable flexibility when development contributions are required to be paid will make it easier for developers to finance development and improve the viability of some projects.
- Informal review mechanisms will allow an open dialogue between council and developers to improve the development contributions policy and implementation.

Councils have considerable scope to increase their use of targeted rates to recoup the upfront costs of growth-related infrastructure over a longer timeframe. This funding approach allows the cost of infrastructure to be attributed to those that benefit from the investment and be spread over the life of the asset. The LGA should be amended to make clear that developers may formally request that councils build growth-enabling infrastructure, to be repaid through targeted rates on the properties that benefit from the infrastructure connections, and obliging councils to consider such requests.

Governance of transport and water infrastructure

Supply of transport and supply of water infrastructure are critical components to the effective supply of land and development capacity for housing. The governance arrangements for these assets are quite different. For transport infrastructure, central government plays a significant role both in a planning and funding capacity. The arrangements for water infrastructure are much more devolved.

The primary concern relating to governance of transport infrastructure is the absence of any strong statement in the Government Policy Statement (GPS) on Land Transport about land supply for housing. The New Zealand Transport Agency (NZTA) rightly is focused on the three priority objectives specified in the GPS: economic growth and productivity of the network, road safety, and value for money. Directing NZTA to refocus its priorities on how transport infrastructure can better support the growth of cities could help high-growth councils to free up land supply for housing. However, shifting the priorities for land transport funding could have implications for NZTA's existing priorities.

Because councils or Council Controlled Organisations (CCOs) are the only providers of water services in New Zealand cities, they are monopoly providers in their area. As such, they are subject to a number of issues and incentives that can hinder their ability to respond to demands for water services to support urban growth. Reform of water services in other countries has centred on exploiting economies of scale and introducing commercial disciplines. This is often done in combination with reform of regulatory and institutional frameworks, so as to balance commercial with public and environmental objectives. Even so, urban water systems have "merit good" aspects and wastewater and stormwater management have "public good" aspects. Any funding arrangements need to consider these aspects.

Water management in New Zealand does not appear to have the institutional arrangements to make the changes necessary to ensure that infrastructure roll-out can adequately respond to new demand. The Commission considers that alternative funding arrangements should only be examined within the context of

greater use of network pricing for water supply and an improved governance and regulatory framework for the whole water sector.

Watercare supplies 1.4 million customers in Auckland, but many other councils may be too small to exploit economies of scale in water supply and wastewater treatment. The Commission is seeking feedback about whether taking advantage of scale economies in delivering water services could improve the capacity of councils to deliver water services more efficiently to support urban growth.

The accountability arrangements for Auckland's CCOs (Auckland Transport and Watercare) are not currently aligned with Auckland Council's objectives to increase the city's supply of dwellings. This should be addressed by adding performance measures to CCO statements of intent relating to the efficient roll-out of new infrastructure to support an increased supply of new dwellings.

Watercare imposes an Infrastructure Growth Charge (IGC) on all new developments connecting to Watercare's network. The IGC is a flat charge, which is applied across Auckland. This flat charge is likely to distort development costs, reduce transparency over how the IGC is being used, and discourage the development of dwellings with lower infrastructure costs. The IGC should be changed to better reflect local factors that materially affect the cost of installing new infrastructure.

The checks and balances that apply to development contributions can effectively be by-passed if responsibility for certain infrastructure services is delegated to a CCO. There appears not to be any clear rationale for this. The Commission is interested in receiving further information about whether the existing checks and balances that apply to Watercare are sufficient.

Shaping behaviour to release and develop land

The Commission has examined the incentives that shape the behaviours and actions of landowners, homeowners and councils in supplying and developing land for housing. How these behaviours and actions play out at the local level ultimately determine housing supply. A number of policy measures are proposed that will help incentivise the release and development of land.

Existing homeowners benefit from local regulations that restrict the supply of new dwellings, as such a restriction inflates the value of their home. Homeowners therefore have strong incentives to oppose developments that could affect the amenity and value of their home. Existing ratepayers also have strong incentives to oppose development that involves council expenditure on infrastructure that will not benefit ratepayers and that will be recovered through general rates. These incentives materialise in political action. Existing homeowners are more active politically and have a disproportionate influence on local political processes, including local body elections and consultation processes. Many of the council practices that constrain the release and development of land for housing are readily explained as councils being responsive to those who participate in local democratic processes (Box 4).

Box 4 The outcome of political processes will reflect the interests of those who participate

The dominance of homeowners in local government political processes could help explain a number of the problems identified in this report, such as:

- the existence of urban containment policies and density controls, minimum parking requirements, minimum apartments sizes, balcony requirements, and lower-than-optimal height restrictions;
- controls on the internal design and construction of buildings that exceed standards set under the Building Act;
- land use regulations that make many residential land uses "discretionary" in district plans, rather than "restricted discretionary" or "permitted";
- a reluctance to use available funding sources, resulting in the rationing of growth-enabling infrastructure; and
- the absence of facilitating growth in the number of dwellings as an objective of CCOs.

Many of the recommendations outlined in this report will ease constraints on the growth of cities. However, these recommendations will not, on their own, override the tendency for local interest groups (especially homeowners) to have a strong and constraining influence on plans. Two options may provide a counterweight to the disproportionate influence of these groups. First is the promotion of more sophisticated consultation and engagement processes that reach beyond existing property owners. Second is shifting the balance between local and national involvement in the planning and development system.

Consultation and engagement processes that seek to understand the wider community's perspective on land use regulation can help overcome these drawbacks. While some councils go to considerable lengths to garner public interest and involvement in the development of city plans, this approach is not widespread. The Commission heard that the public can find it hard to access current planning processes, with complex planning documents identified as a major barrier to engagement. Some councils in New Zealand and overseas are using innovative approaches when engaging with the community (such as neighbourhood plans in Brisbane and representative surveys in Auckland), and are having more sophisticated conversations with their communities about their cities' futures and how to accommodate growth.

A greater role by central government in the planning process can also help rebalance the disproportionate influence of local interest groups on the political and planning processes. The economic spillovers from local government land regulation, and the inadequate local representation of those who bear the costs of those decisions, means there is a case for greater government involvement in addressing those regulatory and financing failures. Compared to other countries, central government has relatively little involvement in planning matters (including a lack of national guidance). The Commission is seeking views on the merits of following potential measures:

- a National Policy Statement relating to the provision of adequate land for housing; and
- expanding existing powers in the RMA to enable Ministers to direct changes to District Plans and Regional Policy Statements that provide insufficient development capacity to meet population growth.

The Commission found evidence of land banking in many urban areas in New Zealand cities. Land banking is the acquisition and holding of either greenfield or brownfield land, in anticipation of future price increases. Land banking in the expectation of future price increases is only rational where land is scarce (because local regulations restrict the supply of land for housing). Land banking is therefore a symptom, rather than a primary cause, of land supply shortages.

The Commission has examined a number of policy settings that, at the margin, will incentivise landowners to release and develop land. Two options have potential: setting Councils' general rates based on land value, and making Crown land liable for rates.

- Council rates are a type of tax, and can influence landowners' decisions about how they use their land. A capital value rating system taxes the improvements on land, and so, at the margin, discourages owners from developing land or intensifying development on it. By contrast, a land value rating system encourages land to flow to its highest value use, including more and denser housing. The trend in recent decades has been towards city councils abandoning land value rating in favour of capital value rating. The arguments that support this shift in policy are not strong. The Commission considers setting general rates on the basis of land value, rather than capital value, has potential benefits and invites further information on this from inquiry participants.
- Core Crown land is exempt from general rates. There appears to be no principled reason for this. Rating Crown land would provide Crown agencies with the same incentives as private owners have to use land or release it to those who will develop it. The Treasury, in consultation with the Department of Internal Affairs, should investigate the possibility of removing the rating exemption on land owned by the core Crown, including on land used for health and education purposes.

The case for an urban development authority

Given current regulations, there is little evidence that the market or existing government initiatives will deliver the number of dwellings that are required in order to meet New Zealand's, and particularly

Auckland's, growing population. This report has identified a range of actions that will improve the supply of land and development capacity for housing. Even so, significant challenges remain, including:

- the magnitude of the shortfall in dwellings in Auckland is not being eroded; rather, it is continuing to grow;
- the local political economy suggests that improvements to land use regulation, and a sufficient commitment to infrastructure funding, will be difficult to realise; and
- a real problem exists in enabling development to occur at scale.

Confronting these challenges will require a focussed, determined and substantive response that moves beyond what has been done previously. This means a greater degree of publicly led development.

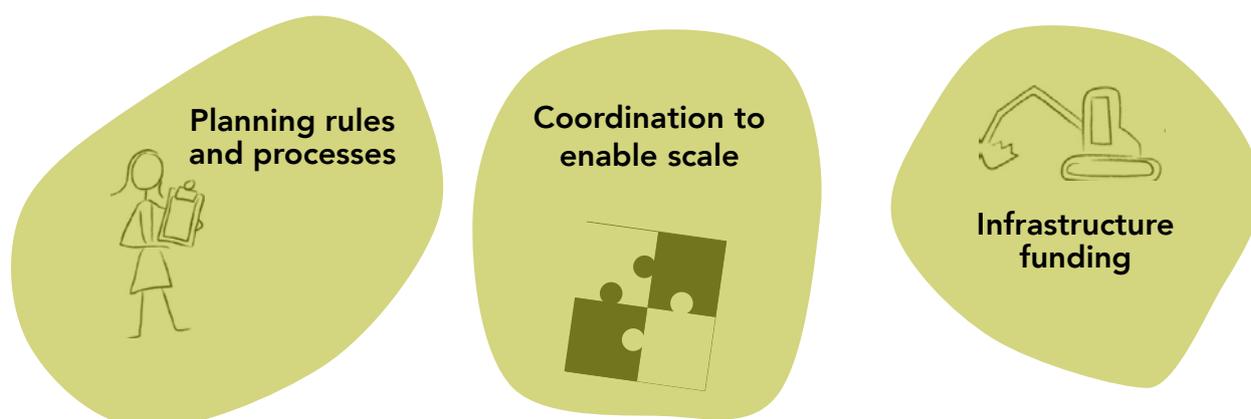
The development at Hobsonville will realise around 3 000 new dwellings, and will take more than a decade to complete. But Auckland has an existing shortfall of as many as 32 000 dwellings, and requires a further 13 000 dwellings a year to accommodate new growth. This is the equivalent of eleven more "Hobsonvilles" immediately, and a further four completed every year.

SHAs and Housing Accords seek to address one of the significant challenges identified in this report: slow and overly restrictive planning processes. However, they do not address other significant barriers to large-scale developments, including land assembly and infrastructure financing (Figure 2). The largest developments in Auckland (Hobsonville, Three Kings and Stonefields) have been able to repurpose large brownfield sites. But few such sites are left. Most greenfield landholdings are small and will not support development on the scale required to address current shortfalls.

Large-scale developments offer a number of benefits, including the ability to generate economies of scale that can drive down infrastructure and construction costs. Larger developments are also important to attract overseas developers who may be better able to innovate and operate at scale. The Commission has found major coordination failures in land assembly in New Zealand, especially in Auckland where greenfield and brownfield land holdings are very fragmented. This inhibits large-scale developments in greenfield or brownfield sites.

Figure 2 Barriers to resolving land supply problems

Barriers to resolving land supply problems



Compulsory acquisition of property by the state can be justified if it is in the public interest, and if compensation for the property taken is just. Given the significant social and economic harms caused by the current housing situation, a good case exists for compulsory acquisition powers to assist in the assembly of sites for large, masterplanned developments. However, it should be noted that compulsory acquisition powers can facilitate a negotiated sale, and often do not need to be exercised to be effective. The existence of an agency with compulsory acquisition powers can encourage land owners to develop their land or sell it to those that will.

Where public action such as rezoning increases the value of land, a good case exists for the community to capture some of the unearned value uplift that results from public action. Where councils rezone rural land for urban use, large increases in value accrue to landowners. The community should have an expectation of capturing at least some of that gain. At the same time, there is an apparent shortage of revenue, or lack of willingness to use revenue tools that are available, to fund growth-enabling infrastructure. A number of value capture mechanisms were examined such as betterment levies, negotiated contributions and land value increment taxes. But these mechanisms have had a chequered history in New Zealand and other countries, and have proved challenging to implement and difficult to sustain.

The best option to capture the value uplift that results from public action such as upzoning is for a public agency to participate in the land market. Such an agency would have the ability to acquire, hold and trade in land. This has the potential to generate significant revenue that could be used to fund growth-enabling infrastructure. An agency participating in the land market could purchase and release to developers sufficiently large sites on a scale that would enable better planned, denser developments. It might also increase the supply of land for development by private owners by reducing their expectations of future land value increases.

The Commission considers that there is a place for an urban development authority (UDA), or multiple UDAs, in New Zealand to lead and coordinate residential development at scale in both greenfield and brownfield settings. A UDA would be a suitable vehicle for the use of compulsory acquisition to amalgamate parcels of land for development and redevelopment, and for capturing the uplift in value that comes from upzoning, coordinating infrastructure provision, and catalysing development on a scale required to address the challenges identified in this report. UDAs can partner with private sector developers to remove regulatory risk and bring land and dwellings to market. They can also support the development of a residential construction sector that is able to operate on a scale that can generate efficiencies.

A UDA would require legislation to establish and give it powers, including compulsory acquisition. The Commission is interested in hearing views on the important design features of such a UDA, the risks with this approach, and how those risks can be managed.

Conclusion

Increasing the supply of land for housing is an integral component of addressing housing affordability concerns. This report outlines a range of changes to reform land use rules, planning processes and local incentives that will measurably improve that supply.

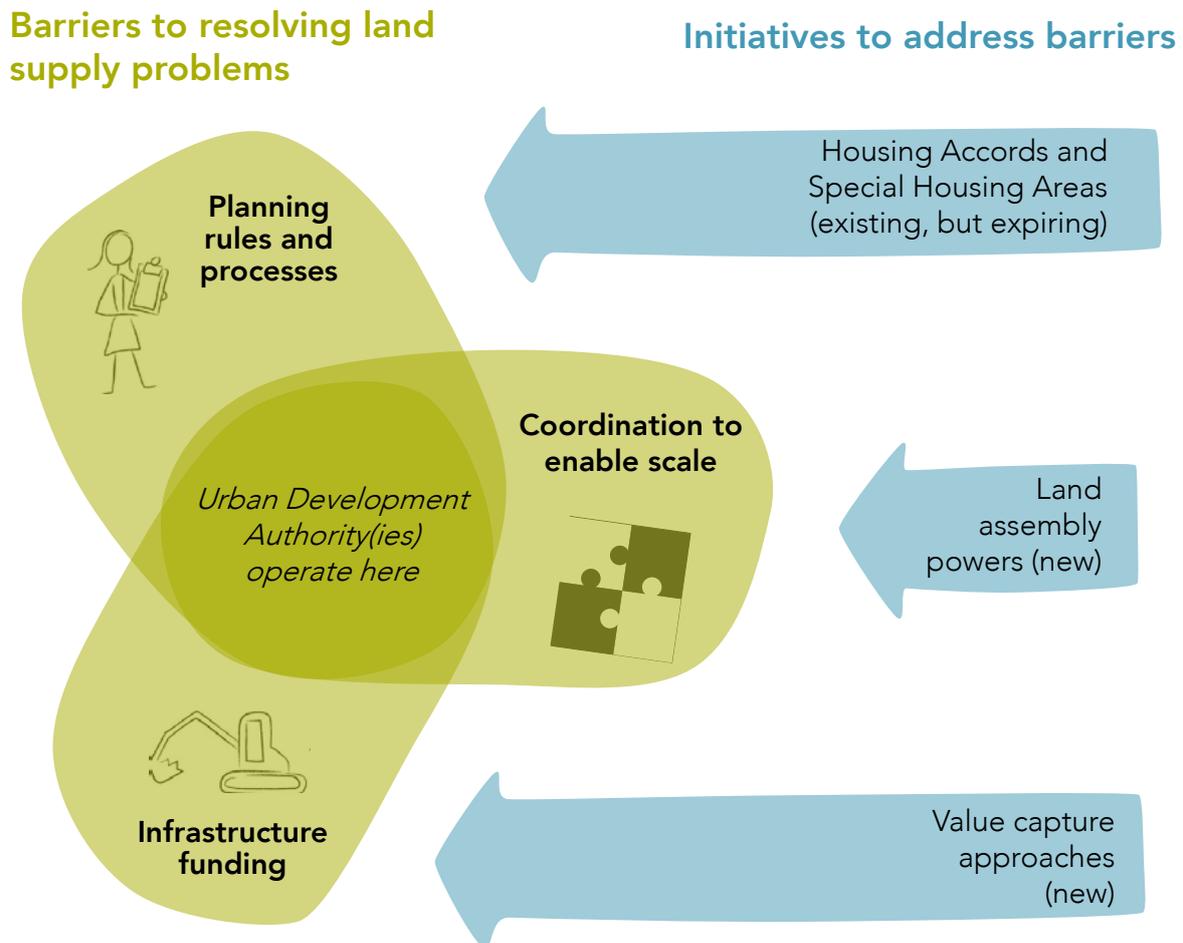
At the heart of the New Zealand's housing affordability issues is a mismatch between local and national interests. The growth of cities creates greater employment opportunities for individuals and can provide productivity gains for the nation, but the costs of growth are felt most strongly by existing residents. These residents may prefer to see cities grow at a slower rate than would be ideal for the nation. Some existing residents – especially homeowners – benefit from restrictions on the supply of new housing, as these help keep up house values. The Commission has identified a “democratic deficit”, where homeowners have a disproportionate influence in local council processes, including elections and consultation. This creates a “wedge” between local and national interests.

Resolving New Zealand's land supply and housing affordability issues requires striking a new balance in the planning system between local and national interests, and between protecting existing amenity and enabling development rights. It will also require new institutions to unlock land for large-scale developments to alleviate housing shortages and housing costs. A UDA could play an important role at the nexus of a number of barriers to land supply that this report has identified (Figure 3).

Improving the supply of land for housing is the most important component of addressing affordability concerns. It is not the only component of a comprehensive solution. This report has not considered the capacity of the building industry to respond to increased availability of land and stronger incentives to use it for dwellings, the quality of building regulation, the productivity of the construction sector or the cost of building materials. As outlined in the Commission's 2012 *Housing affordability* report, these areas also have

a material impact on housing affordability. However, unless land supply is addressed any gains in these areas are likely to accrue not to home-buyers, but to landowners.

Figure 3 How a UDA would address barriers to land supply



Councils and their elected representatives also need to lead in persuading their communities of the benefits of growth. These are difficult conversations. Facilitating growth requires communities to change, and change is hard. Some people will lose from that change. But the community as a whole, and New Zealand, will benefit from it. Growing cities provide their residents with increased amenity and substantial economic opportunities. Councils need to lead better conversations about how growth is going to be accommodated that include their whole community.

New Zealand's fastest-growing cities need to accommodate their rising populations. This means allowing them to grow out and up, and to become denser. Where councils and infrastructure providers try to tightly manage where and when that growth occurs (and where it may not occur), they contribute to escalating land costs. In turn, this encourages owners to withhold land, and forces builders to construct the most expensive dwellings on sites that are available. The resulting shortage in housing causes a range of invidious social and economic harms that hurt the wellbeing of individuals, families, communities and the nation.

This is a vicious cycle that must be addressed by unlocking land supply. No single or simple solution exists. A number of changes, as outlined in this report, are necessary.

Summary of questions

Chapter 3 – Integrated planning

Q3.1

Is there other evidence of the benefits or costs from New Zealand’s spatial planning processes that the Commission should be aware of?

Q3.2

How could the longer-term development and infrastructure needs of cities better align with central government’s fiscal cycle?

Q3.3

Are there other functions and activities that should be included in a new legislative planning avenue for cities?

Q3.4

What processes or mechanisms should be used to ensure that proposals for new land-use regulation in future spatial plan are subject to rigorous and independent scrutiny?

Chapter 4 – Supplying and releasing land

Q4.1

Should the public have improved access to property data such as the content of District Valuation Rolls and property sales data?

Q4.2

What are the merits of statutory controls on subdivision covenants, such as time limits, restrictions on the subject matter in them, providing councils with powers to override them, or creating mechanisms to reduce the barriers to extinguishing them without unanimous consent?

Q4.3

What impact would further narrowing eligibility to make further submissions have on plan change processes? If eligibility should be narrowed, which parties should be excluded?

Q4.4

How should eligibility for notification and consultation on site-specific proposed plan changes be defined? Would the definition used in the HASHA Act or the 2009 RMA amendments be preferable?

Q4.5

What has been the experience of using independent commissioners to make planning decisions? Do independent commissioners provide sufficient rigour and impartiality to justify further limits on appeal avenues? Would there be merit in allowing local authorities to reject recommendations from independent commissioners?

Chapter 5 – Regulations and approval processes

Q5.1

Do other land use rules impose costs above their benefits? What evidence exists of excess costs?

Q5.2

What would be the costs and benefits of nationally standardising land use rules around the provision of telecommunications, gas and electricity infrastructure across all District Plans?

Q5.3 Does introducing nationally consistent land use rules or specific types of residential development have other possible benefits that the Commission should consider? What types of land use rules should be made nationally-consistent? Why?

Q5.4 Would national direction on what residential land-use activities should be 'permitted' in RMA Plans provide net benefits? What sorts of activities should such a direction focus on?

Chapter 6 – Planning and delivering infrastructure

Q6.1

- What are the main advantages and disadvantages of development agreements?
- What, if any, barriers exist that unnecessarily limit the uptake of development agreements?

Q6.2 What approaches do councils use to match infrastructure investment to changing demand? How successful are they?

Q6.3 How effective are existing initiatives to facilitate standardisation of approaches to asset management, resource sharing, and dissemination of good practices?

Q6.4

- Is the designation process sufficiently responsive to allow major infrastructure projects that unlock new land for housing?
- Should the default duration of designations be changed?

Q6.5 Has the SmartGrowth Property Developers Forum, or similar initiatives in other regions, been effective in managing tensions between developers and councils?

Q6.6 Is there a case for greater consistency of infrastructure standards? If so, what types of infrastructure would benefit from greater consistency, and at what level (regional or central)?

Q6.7

- What approaches do Councils take to facilitate coordination with infrastructure providers?
- Would there be benefit in establishing infrastructure forums modelled on the Auckland Infrastructure and Procurement Forum in other high growth cities?

Chapter 7 – Paying for infrastructure

Q7.1 Is it correct that New Zealand's current system of rates means that a straight adoption of tax increment financing schemes used overseas is not suited as a funding tool for growth-related infrastructure?

Q7.2 Are there any barriers that are preventing developers from challenging development contributions?

Chapter 8 – Governance of transport and water infrastructure

Q8.1

What other issues, if any, relating to the governance of transport infrastructure should the Commission be aware of?

Q8.2

Are there significant scale economies in the provision of water infrastructure that could improve the efficiency of provision that are not being realised in New Zealand's high-growth cities?

Q8.3

Would greater integration and clarity within the statutory and legal frameworks for water supply, wastewater and stormwater assist councils in providing the water infrastructure necessary to support urban growth?

Q8.4

Does a case exist for introducing access, quality and price regulation for water services in New Zealand?

Q8.5

How could the governance and funding arrangements for water infrastructure be improved to encourage providers to be more responsive to demands for new connections to the water network?

Q8.6

Do the existing checks and balances that apply to Watercare provide sufficient oversight of Watercare's infrastructure growth charges? If not, what alternative measures would be most appropriate?

Q8.7

Are there other regulatory requirements that apply to councils that should be extended to include CCOs?

Chapter 9 – Shaping local behaviour

Q9.1

Do the procedural requirements of the RMA's Schedule 1 discourage local authorities from undertaking more inclusive or innovative public engagement on city planning proposals?

Q9.2

Does scope exist to introduce mechanisms such as the Brisbane neighbourhood plans into the New Zealand planning and development system? If so, how would it be implemented?

Q9.3

Would there be merit in a National Policy Statement relating to the provision of adequate land for housing? What would be the costs and benefits of such a statement?

Q9.4

Would there be merit in expanding existing powers in the RMA to enable Ministers to direct changes to District Plans and Regional Policy Statements that provide insufficient development capacity to meet population growth? What would be the costs, benefits and implications of such a move?

Q9.5

What reason is there to think that the variance around assessed land values is different to assessed capital values?

Q9.6

What are the costs and barriers for a council in transferring from a rating system based on capital value to one based on land value?

Q9.7

Is there merit in providing councils with the ability to levy special rates on vacant properties – an idle land tax?

Chapter 10 – Planning and funding our future

Q10.1

What are the important design features of an Urban Development Authority? What are the risks with this approach, and how can they be managed?

Findings and recommendations

The full set of findings and recommendations from the report are below.

Chapter 2 – Cities, growth, and land for housing

Findings

F2.1

The optimal city size from the perspective of the nation may be different from the perspective of local residents.

F2.2

Specific planning or infrastructure policies have differing effects on the ability of cities to grow and use land efficiently. Some policies may counteract or offset others. Ensuring that land use policies and transport infrastructure investments are aligned is particularly important for cities such as Auckland, where geography adds further constraints to growth.

F2.3

New Zealand's housing market is only moderately responsive to changes in prices, meaning that an increase in demand for housing will lead to a proportionately larger increase in house prices than in new house construction.

F2.4

There are longstanding concerns about the ability of New Zealand's planning systems to respond to the need for new housing, and about the extent of constraints placed on development.

F2.5

The idea that urban design can ameliorate social problems is longstanding, and continues to be promoted through initiatives such as Special Housing Areas.

F2.6

Proponents of good urban design articulate the consequent benefits well, but appear to take much less account of the costs of individual design requirements or their aggregate effects.

F2.7

The public have always shown a strong interest in planning matters. Over time, successive planning frameworks have included more formal rights for the public to be consulted and/or object to land use rules and proposals.

F2.8

Land values in major New Zealand cities and high-growth areas increased significantly in the middle of the last decade, both in nominal terms and as a share of total property values.

F2.9

High land prices encourage the production of larger and more expensive housing. In New Zealand, the average size of new dwellings has increased by more than 50% since 1989.

F2.10

New Zealand cities have differing intensification profiles. Wellington and Hamilton have seen significant intensification close to the city centre. In other cities, the biggest contribution to intensification has occurred in outlying suburbs.

F2.11 No consistently collected or comparable data is available on the stringency of land use regulation in New Zealand.

F2.12 A survey of fast-growing New Zealand councils found universally restrictive land use rules, but considerable variation in the overall stringency of land use regulation. This variation is due in large part to:

- differing levels of influence over planning by the courts, regional councils and community groups; and
- differences in the time taken to get approvals for development.

F2.13 Stringent land use regulations have a disproportionate impact on the less well-off and put pressure on public finances.

F2.14 Housing makes up a significant share of many New Zealanders' wealth. High housing prices have implications for the ability of some groups to accumulate wealth and for the distribution of wealth across the community.

F2.15 Restrictive land use regulations limit the ability of people to seek better employment opportunities in cities, are a barrier to potential productivity gains, and may create risks to macroeconomic stability.

Chapter 3 – Integrated planning

Findings

F3.1 A number of parties expressed concerns about the interaction of the three main planning Acts, and their collective impact on the ability of local authorities to coordinate land use, transport and infrastructure decisions.

F3.2 Most of the territorial authorities that are the focus of this inquiry have spatial plans, or are preparing them.

F3.3 Inquiry participants report a number of benefits from New Zealand's spatial planning processes, including greater intra-regional cooperation and understanding, more efficient infrastructure use and investment, and a better ability to respond to crises or new policy initiatives.

F3.4 Most of New Zealand's spatial plans impose, or intend to impose, urban limits. The limits vary in terms of their permanence and their ability to be adjusted in response to market developments.

F3.5 Infill and intensification targets that are set too rigidly or too far ahead of consumer preferences or market viability can reduce the supply of development capacity.

F3.6 The New South Wales Urban Feasibility Model is a leading practice tool that can be used to develop and test commercially viable brownfield land-use rules.

F3.7 A number of local authorities have goals in their spatial and RMA plans to protect high-class agricultural land from residential development.

F3.8

Tensions between the growth of cities and agricultural activities are inevitable, since many cities in New Zealand are located near land that is, or has been, used for agricultural purposes.

F3.9

The expansion of cities is not the largest threat to 'elite' or 'high-class' productive land.

F3.10

Zoning practices that require large minimum lot sizes in rural areas may not be the best way of protecting life-supporting soils and are unlikely to encourage the most efficient use of land for housing.

F3.11

Land, like any other resource, will tend to migrate towards its highest value use. Prices indicate the highest and best use of a particular section of land. In some cases, the highest value use will be residential housing; in others, it will be agriculture or horticulture.

F3.12

Duplicative statutory consultation requirements make it time-consuming and costly for local authorities to translate spatial plans into RMA regulatory plans.

F3.13

Strengthening the recognition in the RMA of plans prepared under other statutes would be unlikely to significantly speed up the translation of spatial plans into District Plans.

F3.14

Removing or relaxing RMA consultation and analytical requirements to enable faster translation of spatial plans into District Plans would increase the risk of poor-quality regulation.

F3.15

The best opportunity to integrate spatial planning and land-use regulation is to create a new, legislative avenue for larger cities. Such an avenue would allow a local authority to develop a plan that combined:

- 30-year infrastructure strategies;
- longer-term transport planning;
- longer-term thinking about the growth of the city; and
- the development of associated land-use rules.

F3.16

Large numbers of objectives in spatial plans, and goals that have no strong relation to the use of or demand for land, are likely to complicate the implementation of these plans and the development of efficient regulation.

F3.17

The timely and adequate provision of social services (such as education and health) matters for the growth of cities. Central government is responsible for planning for and funding these services. However, it has played a limited role in developing New Zealand's current spatial plans.

F3.18

One significant challenge in moving to an integrated planning avenue for larger urban centres is reconciling a city's longer-term development and infrastructure needs with much shorter central government planning and fiscal cycles.

F3.19

Central government could bring its regulatory expertise and capability to bear so as to properly test proposals for new land-use rules and regulations in future spatial plans. Possible options include peer review by the Treasury or the establishment of an Independent Hearings Panel.

Recommendations

R3.1

Urban local authorities that wish to set design infill/intensification targets should ensure that their District Plans provide sufficient commercially viable development capacity.

R3.2

The Ministry for the Environment should explore the potential to develop an Urban Feasibility Model that New Zealand local authorities can use.

R3.3

High-growth territorial authorities should review their zoning rules for rural land, to ensure they provide the right balance of promoting efficient use of land for housing and minimising reverse sensitivity risks.

R3.4

Large land price differentials between different types of zones, such as those observed in Auckland, should be a trigger for local authorities to review the adequacy of their land supplies and zoning decisions.

R3.5

A new legislative avenue should be designed to focus spatial plans on activities that:

- are of high importance to the functioning of cities and the provision of development capacity for housing (eg, land supply, infrastructure provision, transport services);
- relate closely to the use of land or space and the management of negative externalities; and
- are most efficiently dealt with at a local level and through local authorities.

R3.6

The new planning avenue should be voluntary to allow local authorities to choose the statutory planning mechanisms that best suit their circumstances.

R3.7

Future plans prepared under the new legislative avenue should be developed in partnership with the full set of central government actors whose services matter for the functioning of cities. Given the fiscal implications of greater central government involvement in spatial planning, both Cabinet and the relevant local authority should approve such plans.

R3.8

The new legislative planning avenue should include processes to encourage robust regulatory analysis and development, as section 32 of the Resource Management Act is designed to do.

Chapter 4 – Supplying and releasing land

Findings

F4.1

Many urban local authorities have goals for the supply of land to meet future residential growth, although the form and strength of the supply goals vary between councils.

F4.2

Only Auckland Council and the SmartGrowth partnership have quantified land supply targets.

F4.3

Local authorities provide only limited public reporting on their performance against their land supply targets.

F4.4

The readiness of land matters for the efficiency of the housing supply chain. Large amounts of un-zoned land may put little competitive pressure on land and house prices, because of the time it takes to rezone land for residential use. Zoned and serviced land will provide more pressure, as this types of land can be developed more quickly.

F4.5

A need exists for better and more regular data on dwelling production, especially housing additions and demolitions. Existing information provided through building consents is of poor quality.

F4.6

Covenants established in new subdivisions (building schemes) are increasingly common and impose ever more detailed restrictions on purchasers.

F4.7

Covenants established in building schemes can reduce the supply of land for housing now and in the future, and increase the cost of constructing dwellings.

F4.8

With the exception of Auckland and Christchurch, there does not seem to have been a stocktake of public land holdings in high-growth cities to identify land that could be released for residential development.

F4.9

Opportunities may exist to use Crown and local authority land holdings in other cities to help offset the nationwide shortfall of lower-priced housing.

F4.10

High-growth councils take longer, on average, than other local authorities to make plan changes operative. Consultation obligations and appeals are significant drivers of longer timeframes for plan changes.

F4.11

Reforms that limit the ability of directly affected parties to make further submissions on proposed plan changes would be undesirable.

F4.12

Giving local authorities greater flexibility over notifying site-specific plan change proposals could create opportunities for faster rezoning processes, while protecting the ability of those directly affected to be heard.

F4.13

Both engagement with affected parties on proposed plan changes ahead of their notification and circulation of draft plan changes for comment are leading practices that may help to reduce the incidence of appeals.

Recommendations

R4.1

High-growth local authorities should express their land supply targets in terms of zoned and serviced land and report publicly on their performance.

R4.2 Local authorities should monitor and report on dwelling completions and net changes in the dwelling stock, relative to expected and actual population and household growth.

R4.3 The Ministry of Business, Innovation and Employment, Statistics New Zealand and territorial local authorities should work together to improve the quality of official statistics available from the building consent form as a priority.

R4.4 The Ministry of Business, Innovation and Employment, in conjunction with relevant local authorities, should inventory public land holdings in all high-growth cities to identify sites that could be used for housing.

R4.5 Local authorities should set policies for the publishing of and consulting on draft plan reviews or plan changes of interest to the wider community ahead of notification, unless compelling reasons exist for not doing so.

R4.6 The Ministry of Business, Innovation and Employment and the Ministry for the Environment should, once the work of the Auckland and Christchurch Independent Hearings Panels (IHPs) is complete, evaluate the IHP processes, with a view to deciding whether IHPs should become a permanent feature of the planning system.

Chapter 5 – Regulations and approval processes

Findings

F5.1 Balcony or private open space requirements for apartments create costs that appear to outweigh any likely benefits.

F5.2 Controls on apartment sizes were introduced in New Zealand in part because of concerns about the adequacy of ventilation, natural light and internal noise insulation. These concerns are best dealt with through targeted regulation and through amendments to the Building Code.

F5.3 Minimum parking requirements create land use inefficiencies and higher construction costs, contributing to increased housing costs. In addition, they represent an effective subsidy to car users, encouraging excessive use.

F5.4 Building height limits contribute to housing shortages and higher house prices, and force cities to move outwards, increasing transport costs for some members of the community. They weigh against objectives of increasing urban density and using city land more efficiently. Although building height limits can play a role in managing local externalities from development, they also create costs that are felt across a city.

F5.5 Multiple and conflicting objectives in RMA plans reduce the ability of those plans to provide sufficient land and development capacity.

F5.6 Inadequate underpinning analysis for District Plan rules and provisions is a key source of unnecessary regulatory costs for developers.

F5.7

District Plan provisions which impose controls on the internal design and construction of building that are more stringent than standards set under the Building Act may be unlawful.

F5.8

Auckland Council's commissioning of detailed benefit-cost studies for particular land use rules is a good example of the depth and rigour of analysis that should accompany the introduction of new rules.

F5.9

Strongly diverging views exist about the appropriate weighting given in the RMA to urban growth outcomes and housing relative to other outcomes.

F5.10

Arrangements to bring all parts of council with a potential impact on a development project together and provide a "one-stop shop" for developers can help reduce transaction costs and unnecessary delays.

F5.11

Opportunities exist in New Zealand to reduce costs and delays by making greater use of electronic planning tools.

F5.12

The Commission is not convinced that the benefits of nationally consistent land use rules for specific types of residential development outweigh the costs.

F5.13

Little information is available on the proportion of land-use activities that are "permitted" under existing District Plans. However, the experience of the Queenstown Lakes District Plan review suggests that scope exists for further liberalisation of residential land-use requirements in current RMA Plans.

F5.14

Inclusionary housing policies are sometimes characterised as compensation for the negative impacts on the poor of the planning system. If the planning system is the proximate cause of declining affordability, planning system reform should be the priority response.

F5.15

Even with reform, some planning systems may continue to impose a degree of restriction on the supply of housing or struggle to resolve longstanding supply deficits quickly. Inclusionary housing policies may therefore be a "second best" response to housing affordability issues in these areas.

F5.16

Inclusionary housing policies that require negotiations between councils and developers, or high degrees of discretion on the part of local authorities, are likely to create uncertainty and delays.

F5.17

Incentive-based inclusionary housing policies are more likely to fit with New Zealand's zone-based planning system and (relatively) strong property rights.

F5.18

Local authority policies on inclusionary housing are likely to struggle without a range of other supporting policies, most of which require support from central government.

Recommendations

R5.1

Urban territorial authorities should remove District Plan balcony / private open space requirements for apartments.

R5.2

Once the Ministry of Business, Innovation and Employment has completed planned work on updating Building Code rules and guidance related to air quality, lighting, acoustics and access in multi-unit dwellings, local authorities should review minimum apartment size rules in their District Plans, with a view to removing them.

R5.3

Urban territorial authorities should remove District Plan minimum parking requirements, and make more use of traffic demand management techniques.

R5.4

Local authorities should undertake robust cost-benefit analyses before considering the introduction of building height limits, and should lift current limits where it cannot be demonstrated that the benefits outweigh the costs.

R5.5

Local authorities should review District Plan controls on the design and construction of buildings or dwellings that exceed standards set under the Building Act, with a view to removing them.

R5.6

The Government should introduce amendments to the RMA to clarify the role and importance of housing and urban environments.

R5.7

In reviewing their District Plans, local authorities should move more residential land-use activities into “permitted” or “restricted discretionary” status.

Chapter 6 – Planning and delivering infrastructure

Findings

F6.1

Infrastructure costs account for a significant share of the cost of new dwellings. Costs are location-specific and consist primarily of on-site infrastructure construction costs, development contributions and connection fees for private utilities.

F6.2

Most inquiry participants suggested that higher-density urban developments are less costly to service with infrastructure, particularly when existing infrastructure assets have not yet reached capacity. International research examining the relationship between urban form and infrastructure costs generally supports this proposition.

F6.3

Councils are required to undertake a relatively rigorous infrastructure planning processes – a reflection of the fact that councils are asset-intensive organisations.

F6.4

Councils tightly control the supply of infrastructure to support urban growth. This is a prudent approach from the perspective of managing costs and risks. However, it can constrain the supply of land for housing. In turn, this can contribute to higher land prices by reducing competition among developers and reinforcing expectations among investors of a scarce supply of land for housing.

F6.5

Development agreements enable developers to take responsibility for building major infrastructure. This shift has the potential to generate a swifter supply of infrastructure at a lower cost.

F6.6

Innovative approaches to infrastructure construction that lower upfront costs and allow services to be scaled up as demand increases can help to overcome the difficulties of investing in infrastructure to support future growth. The staged construction approached used by Selwyn District Council is a good example of this leading practice.

F6.7

Improving the supply of infrastructure for housing is not just about rolling out new infrastructure. Effective use of existing assets is also an important part of the equation.

F6.8

Councils can unlock land supply by enabling growth in areas where there is spare capacity within existing infrastructure networks. This leading practice requires councils to establish a good understanding of existing infrastructure capacity along with appropriate planning rules that allow intensification to occur in areas where capacity exists.

F6.9

Forecasts in the Long-Term Plans of high-growth councils point toward a growing and potentially under-funded requirement for infrastructure renewals. Effectively managing ageing assets and funding the renewal of infrastructure are likely to be major challenges for councils in the coming years.

F6.10

Effective asset management can enable councils to make better use of existing assets, facilitate optimal decisions about the location of growth, set well-informed infrastructure standards, and improve the coordination of infrastructure delivery among different providers.

F6.11

Wellington City Council's approach to asset management is a leading practice. Benefits of the approach include enabling the council to make more effective use of existing infrastructure, better coordination and timing of maintenance and replacement work, and the ability to take an evidence-based approach to spatial planning.

F6.12

User charges are an effective approach to demand management that can enable councils to make better use of existing assets. This can contribute to an improved supply of land if it increases the number of dwellings that existing infrastructure assets can support. Also, it has potential to reduce the operating expenditure of councils and to delay or avoid capital investments in new infrastructure.

F6.13

A number of good practices enable consistency in council infrastructure standards set by councils. These include the widespread use of the *New Zealand Standard Land Development and Sub-Division Infrastructure* and varying approaches to regional consistency.

Recommendations

R6.1

When councils refer to the supply of land for housing, they should be clear about the readiness of land for building (eg, un-zoned but planned-for future zoning; zoned; zoned and serviced; zoned, serviced and consented).

R6.2 Councils should identify areas where there is existing infrastructure capacity and ensure that planning rules do not prevent intensification from occurring in these areas.

R6.3 Councils should prioritise the development of up-to-date asset management information systems. This should be supported by recruiting and developing staff with the skills and expertise needed to make effective use of these systems, and ensuring that the information from asset management systems is integrated into decision-making processes.

R6.4 Councils should pursue opportunities to make more efficient use of existing infrastructure assets including through greater use of user charges where this can reduce demands on infrastructure.

R6.5 Government should adopt the Local Government Infrastructure Advisory Group's recommendation to amend the Land Transport Management Act to allow pricing on existing roads where there is a business case that enables effective network optimisation.

R6.6 Councils' asset management systems should feed into decision making about optimal infrastructure standards. The data used to inform standard-setting should be shared openly with the development community.

R6.7 If councils determine that a good case to change infrastructure standards exists, then developments that already have consent should be exempt from the change. Alternatively, developers should be compensated for any additional costs incurred as a result of the change.

Chapter 7 – Paying for infrastructure

Findings

F7.1 Debt is an important source of finance for urban infrastructure in high-growth areas. It enables councils to deliver infrastructure when it is most needed and for infrastructure costs to be spread over the life of the asset. This means that those who benefit from the infrastructure contribute to paying for it.

F7.2 Recent assessments have not identified serious concerns regarding local authorities' use of debt.

F7.3 Tauranga City Council provides an opportunity for the development community to review proposed development contributions, and will consider feedback on areas for improvement. Inquiry participants have identified this approach as a leading practice.

F7.4 Considerable scope exists for councils to increase their use of targeted rates in order to recoup the costs of growth-enabling infrastructure over a longer timeframe.

Recommendations

R7.1

Evaluation of the financial prudence and reporting regulations should monitor how the regulations affect councils' ability to provide infrastructure to support growth and review whether 15% is the most appropriate debt-servicing ratio for high-growth councils.

R7.2

Councils should include information in their development contributions policy about the relationship between dwelling floor area and the cost of providing infrastructure services. If smaller dwellings impose lower costs on the infrastructure network, this should be reflected in lower charges.

R7.3

The Local Government Act should be amended to make clear that developers may formally request that councils construct growth-enabling infrastructure, to be repaid through targeted rates on the properties that benefit from the infrastructure connections, and obliging Councils to consider such requests.

Chapter 8 – Governance of transport and water infrastructure

Findings

F8.1

The Government Policy Statement on Land Transport includes relatively weak reference to land supply for housing. A stronger focus on how transport infrastructure can support land supply for housing would change NZTA's investment priorities and might help to free up land supply in high-growth cities. However, shifting the priorities for land transport funding could have implications for existing priorities.

F8.2

The three waters have been identified as a relatively poor performing infrastructure class. In comparison with other jurisdictions, management of water assets in New Zealand is very fragmented. Strengthening commercial disciplines would provide greater imperative for weaknesses in the water sector's regulatory and institutional framework to be addressed, and may entail economic regulation of water services.

F8.3

The primary accountability documents for Watercare and Auckland Transport (the Statement of Intent) do not give effect to the objectives in the Auckland Plan to increase the city's supply of new dwellings.

Recommendations

R8.1

Auckland Transport and Watercare should amend their SOIs so that they are aligned with the Auckland Plan and its target for new dwellings. The SOIs should include performance measures relating to the efficient rollout of new infrastructure to support an increased supply of new dwellings.

R8.2

Auckland Transport and Watercare should include performance measures in their SOIs that encourage greater coordination between CCOs and with Auckland Council, building on Auckland Council's current review of CCOs.

R8.3

Watercare should change their approach to calculating infrastructure growth charges to better reflect the underlying economic costs of supply in different locations and for different types of dwelling.

R8.4

The requirement to consider development agreements that applies to councils should also apply to CCOs.

Chapter 9 – Shaping local behaviour

Findings

F9.1

Groups that have high home ownership rates have higher rates of participation in local government elections.

F9.2

Restricted housing supply will tend to inflate the value of existing homes.

F9.3

Existing homeowners have an incentive to be risk-averse in opposing developments that could affect the amenity and value of their home.

F9.4

Existing homeowners have an incentive to oppose development that involves council expenditure on infrastructure that does not benefit them but will be recovered through general rates.

F9.5

Cities that are subject to geographic constraints to development (eg, near to a large body of water) show less supply responsiveness to housing demand, both because of the geographic constraints and because these constraints encourage higher land prices, strengthening the incentive for existing owners to support anti-development regulations. This is particularly true in larger and faster-growing cities.

F9.6

The influence of homeowners in local government elections and consultation processes promotes local regulatory and investment decisions that have the effect of reducing housing supply.

F9.7

Tools such as statistically robust and representative surveys can help to offset the tendency of planning engagement processes to be skewed towards particular segments of the community.

F9.8

Local land regulation can have consequences of national importance. If a faster release of land is to be achieved, the balance between local and national involvement in the planning and development system may need to shift.

F9.9

High-growth councils tend to see accommodating population growth or new housing development as a net cost. The construction of new dwellings increases a council's ability to fund expenditure from rating those properties over time, but overall the direct financial incentives on councils to accommodate growth are weak.

F9.10

Evidence so far from the UK's New Homes Bonus Scheme does not support introducing central government payments to councils for new dwelling construction.

F9.11

Auckland has a large number of owners of bare land suitable for subdivision and the construction of dwellings. No evidence exists that a small number of owners have a dominant position in the Auckland market.

F9.12 Land banking is occurring in many urban areas of New Zealand. Land banking need not require a dominant market position, only that the expected increases in land value are greater than the holding costs of land.

F9.13 Land banking is a symptom, rather than a primary cause, of land supply constraints. In New Zealand those constraints are the result of local regulatory and investment decisions.

F9.14 The holding costs of land, including rates and financing, are low relative to Auckland's current rapidly inflating land values.

F9.15 The use of capital value rating systems makes it marginally less expensive to carry undeveloped and underdeveloped land. The use of land value rating systems would encourage land flowing to its highest value uses, including more and denser housing.

F9.16 Rating based on land valuation appears to be a better proxy for ability to pay than rating based on capital valuation.

F9.17 Central government rates rebates, local government rates-postponement schemes and private reverse-equity loans provide mechanisms to assist asset rich but cash poor ratepayers to pay rates.

F9.18 The distributional effects of a systematic incorrect valuation of land on the rating burden may be greater under a capital value rating system than a land value rating system.

F9.19 Because the benefits of desirable council services (such as parks) are capitalised into land value, owners of undeveloped land also benefit from these services. As a result, land value rating provides a better match for benefits received than capital value rating.

F9.20 A good case appears to exist for setting general rates on the basis of land value rather than capital value, to encourage the development and efficient use of land. Arguments used to prefer capital value rating are not strong.

F9.21 The rating exemption on core Crown land does not appear to have a principled justification.

F9.22 Removing the rating exemption on land owned by the core Crown would encourage the government to undertake more active monitoring and management of its land holdings, and to release un-needed land suitable for residential development.

Recommendations

R9.1 The Treasury, in consultation with the Department of Internal Affairs, should investigate removing the rating exemption on land owned by the core Crown, including on land used for health and education purposes.

Chapter 10 – Planning and funding our future

Findings

F10.1

Large-scale developments offer a number of benefits, including the ability to generate economies of scale that can drive down infrastructure and construction costs. Larger developments are also important to attract overseas developers who may be better able to innovate and operate at scale.

F10.2

There is a coordination failure preventing many large residential developments. Amalgamating land is a challenge in both greenfield and brownfield sites, particularly in Auckland.

F10.3

Compulsory acquisition powers can facilitate a negotiated sale, and often do not need to be exercised to be effective.

F10.4

There are a range of compulsory acquisition approaches used by authorities around the world to assemble greenfield and brownfield land for development.

F10.5

The existence of an agency with compulsory acquisition powers can encourage landowners to develop their land or to sell it to those who will.

F10.6

Any proposal for compulsory acquisition of Māori land would face sensitive Treaty issues. Any regime to compulsorily acquire land for housing developments needs to recognise both the associated risks and positive partnership opportunities.

F10.7

Circumstances exist in which the economic and societal harms that result from a housing shortage should be considered sufficient to justify the compulsory acquisition of land for the construction of housing.

F10.8

Urban development authorities can play an important role in de-risking development and bringing land to market.

F10.9

No territorial authority within the scope of this inquiry currently has an urban development agency in place. However, the Auckland and Wellington City Councils are actively considering establishing such agencies.

F10.10

It is justifiable for the public to capture some of the increase in private land value that is created by public actions.

F10.11

No reasonable argument exists for capturing increases in property values resulting from infrastructure builds that developers are required to fund through contributions, as the uplift is not “unearned”.

F10.12

A good case exists for the public to capture unearned land value increases that result from public action. But land value increment taxes and betterment levies have proved difficult to sustain in other countries.

F10.13

An Urban Development Authority may be able to capture some portion of unearned land value increases through participation in the land market.

Recommendations

R10.1

The Treasury should investigate the possibility of providing an exemption from the foreign investment screening regime for developers purchasing land, providing the land is developed into housing and resold within an acceptable timeframe.

R10.2

There is a place for a UDA to lead and coordinate residential development at scale in both greenfield and brownfield settings, working in partnership with private sector developers. Legislation would be required to establish and give powers (such as compulsory acquisition) to one or more UDCs in New Zealand.