GOING FOR HOUSING GROWTH

National's plan to unlock land for housing, build infrastructure, and share the benefits of growth

Going for Housing Growth

New Zealand is desperately short of houses. We are not short of land, but a broken planning and infrastructure funding system has artificially constrained housing growth, contributing to New Zealand's status as one of the least affordable housing markets in the world.

According to the OECD, over the last 20 years New Zealand has experienced faster growth in real house prices than any other developed country. As of 2020, we had the highest ratio of housing costs to disposable income.

Our housing shortage manifests in different ways; from very high prices for first home and other buyers, poor quality, increasing rents, and growing demand for social housing which has resulted in over 3,500 families living in motels and more than 400 living in their cars. The government spends nearly $4 billion each year on housing subsidies. Our housing shortage particularly affects low-income households.

Ending New Zealand's housing shortage is critical for New Zealand's future. Our collective failure to build enough houses in the past 30 years has significantly impacted almost every aspect of New Zealand society – low productivity, social inequity, financial instability, and the government's books.

National's Going for Housing Growth Plan

1. **Unlocking land for housing** – Councils in major towns and cities will be required to zone land for 30 years' worth of housing demand immediately. Councils will have more flexibility about where houses are built by being able to opt-out of the Medium Density Residential Zone law, however central government will have reserve powers to ensure councils set aside enough land to meet demand targets.

2. **Infrastructure financing tools** – The Infrastructure Funding and Financing (IFF) Act will be reformed to reduce red tape for developers to fund infrastructure. Combined with targeted rates to fund greenfield developments, this will remove the need for councils to fund greenfield infrastructure from their balance sheets. Housing growth will also become a priority for transport funding through NZTA.

3. **Housing performance incentives for councils** – A $1 billion fund for Build-for-Growth incentive payments for councils that deliver more new housing – funded by stopping existing programmes like KiwiBuild.

National's Housing Plan

Going for Housing Growth is one part of National's broader plan to end the housing crisis.

The fundamental problem with housing in New Zealand is a lack of supply across the housing continuum, from market houses and private rentals to social and community housing places.

National's Housing Plan consists of five critical elements to get more houses built across the housing continuum:

i. **Going for Housing Growth** – our plan to unlock land for housing, intensify transport corridors, build infrastructure, and support communities.

ii. **Improving the rental market** – restoring interest deductibility, taking the bright-line test back to two years, unlocking Build-to-Rent as an asset class, and sensible changes to our tenancy laws to incentivise landlords into the market.

iii. **Resource Management Act reform** – to simplify planning rules and make resource consents for houses cheaper and faster.

iv. **Building Act reform** – to simplify the rules around building houses and increase competition in the building materials market.

v. **Supercharging social housing** – backing our community housing sector to grow and provide warm and dry homes to Kiwis in need.

Labour's housing record

The Labour Government's housing policies over the last five years have been a dismal failure.

- The average house price in New Zealand in October 2017 was $668,000. Despite recent falls, it is now around $780,000. In Auckland, the average house price is $995,000. Looking at house prices relative to household median income – a standard measure of affordability – New Zealand houses are some of the most expensive in the developed world.
- The average weekly rent in New Zealand is now $560 a week, an increase of $160 per week since Labour took office.
- The social housing wait list has increased from just over 5,000 applicants when Labour took office to 24,000 today, more than a four-fold increase.
- At the end of April 2023 nearly 3,500 families were living in emergency housing (motels), including 3,500 children. The average number of consecutive weeks people stay in emergency housing is at a near-record high of 23 weeks.
- The number of people presenting to MSD and applying for social housing who say they are currently living in a car has increased four-fold since December 2017 (the same is true of people living in tents).
- After more than five years in office, Labour have delivered just 1,700 KiwiBuild homes, less than 2 per cent of their promised 100,000.

1. Unlocking land for housing

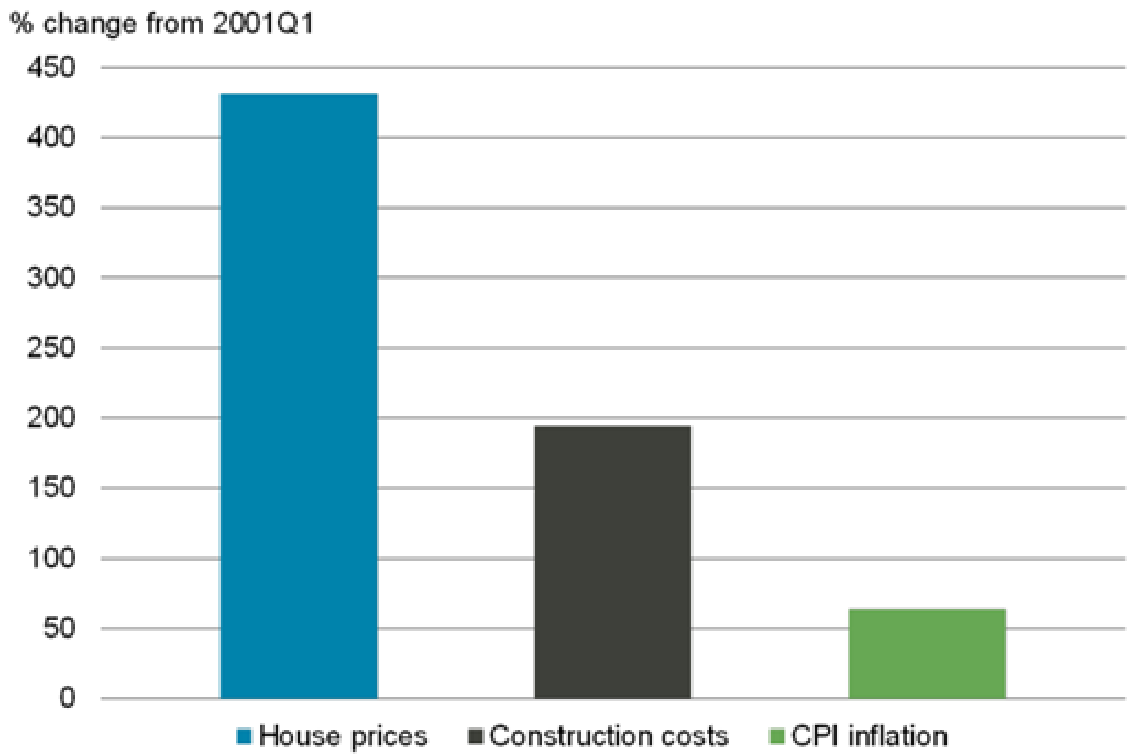
Much of New Zealand's housing shortage has been driven by planning rules that drive up the price of land and unduly restrict development.

For far too long, councils have sought to limit the ability of their cities to grow, particularly on city fringes. These artificial scarcity limits have driven up the price of land, which has flowed through to house prices.

The evidence is clear that the main driver of significant increases in house prices in New Zealand has been the price of land. Just last year Treasury, the Reserve Bank and the Ministry of Housing and Urban Development noted that declining interest rates had led to a large increase in prices because of the way New Zealand's land markets function:

> *Specifically, if land markets had been more flexible, and urban land supply had been more responsive to demand, then house prices and rents would have risen by less when interest rates fell.... The rise in prices was due to the decline in interest rates in combination with the restricted supply of urban land.*
>
> *- New Zealand Treasury*[1]

The following chart demonstrates this problem clearly, showing that the majority of house price increases have been a result of increases in the underlying price of land.



Sources: REINZ, Stats NZ

[1] New Zealand Treasury (September 2022), "Housing Affordability In NZ - The Importance Of Urban Land Supply, Interest Rates, And Tax"

A recent report from the Infrastructure Commission examined the effect of the rural-urban boundary on Auckland land prices. It found that urban boundaries add over $600,000 to the cost of sections in Auckland's fringes, and around $250,000 in Wellington.[2]

Astonishingly, a square metre of urban-zoned land in Auckland costs almost $1,300 more than a square metre of rural-zoned land. The zoning premium doubled from 2010 to 2020. These restrictions flow through to higher land prices across Auckland.

National's plan will result in abundant availability of developable land inside and at the edge of our cities for housing so that land prices are not inflated by artificial planning restrictions. At the moment, developers are incentivised to drip-feed land it into an artificially constrained market with high prices supported by planning restraints. Our plan will change the incentives facing developers and land bankers to discourage the holding back of land.

We will achieve this with three key changes:

1. Land for Housing Growth Targets

Our method for vastly improving access to land for housing development will be to create Land for Housing Growth Targets for every Tier 1 and 2 Council in New Zealand.[3]

Under the current National Policy Statement on Urban Development (NPS-UD), councils are required to forecast future demand for additional housing over the short-, medium-, and long-term, as well as the actual housing development capacity for housing in the region.

Instead of the current approach of drip-feeding new land for housing development over a period of decades, National will require Tier 1 and 2 councils to zone enough developable land (housing capacity) for housing to meet their 30-year long-term demand estimates, but make it available over the short-term, not long term.

In other words, 30 years' worth of developable housing capacity for housing growth will become available very quickly. Councils will be required to zone land where houses can actually be built, rather than "future zoned" for possible zoning changes sometime in the future.

In the case of Auckland, this will mean areas currently designated as "Future Urban" on the edge of the city are likely to become available for housing immediately.

Other Tier 1 and Tier 2 councils that have identified areas for future urban growth to meet existing long-term growth targets will be similarly required to make these areas available for growth immediately.

Ultimately though, councils will have the discretion to determine the shape of their cities – so long as enough land for housing is made available in the short-term to meet long-term growth forecasts.

National will also legislate to give central government reserve powers to rezone land where required to achieve Housing Growth Targets.

2. More flexibility in achieving housing growth

The new Medium Density Residential Zoning (MDRS) rules were a well-intentioned attempt to add to critically needed housing supply, and to liberalise planning rules. However, they have not proven fit-for-purpose in all communities, and it is clear that communities want more flexibility and discretion over where housing growth takes place.

[2] New Zealand Infrastructure Commission; Urban land prices – a progress report: Building attractive and inclusive cities.

[3] Tier 1 – Auckland, Christchurch, Wellington, Tauranga & Hamilton. Tier 2 – Whangārei, Rotorua, New Plymouth, Napier-Hastings, Palmerston North, Nelson Tasman, Queenstown, Dunedin.

National will legislate to give councils more choice and flexibility around where new housing in their communities goes, provided they zone sufficient land to achieve their Land for Housing Growth Targets.

Under National, councils will be able to either implement the MDRS rules as they currently stand or opt out and choose to increase housing growth elsewhere. Councils that choose not to implement the MDRS rules will still be subject to the Land for Housing Growth Targets, they will just have more discretion about how to get there.

Councils will be free to determine whether those additional dwellings come from further greenfield development or additional density in areas suited for that growth.

3. Additional density in transport corridors

National's strategic vision for cities is to enable more density in transit corridors with the requisite infrastructure to support growth, with more flexibility for councils to reduce intensification in suburbs without infrastructure capacity.

National supports the retention of the NPS-UD rules which requires councils to zone for six storeys in catchments proximate to rapid transit and will strengthen these rules to enable mixed-use development.

To achieve their new growth targets, National expects many councils will need to further increase density in these transport corridors above existing requirements. A National Government will consider the use of urban development authorities to support infrastructure and growth in those corridors.

4. Refocused National Policy Statement on Highly Productive Land

National strongly supports greater development of greenfields land on our city fringes, which will bring down land prices and increase the supply of affordable housing. But we also support the objective of protecting New Zealand's most agriculturally productive land from excessive development.

The Government has attempted to achieve this by issuing a National Policy Statement on Highly Productive Land (NPS-HPL), which makes it very difficult to build new houses on land identified as Land Use Capability (LUC) Class 1,2, or 3.

While National supports this approach in principle, we believe the NPS-HPL has gone too far and does not get the balance right between limiting development of productive land, and enabling our cities to grow. While protecting our most productive soils is important, Treasury has warned that the NPS-HPL could compromise housing affordability.

National will re-focus the NPS-HPL by maintaining protection of the most productive soils (LUC 1 & 2), while excluding LUC-3 category land. National supports protection of our most valuable soils, but NPS-HPL goes too far – protecting far too much land that could be better used for housing.

2. Infrastructure financing tools

Delivering infrastructure like roads, pipes, and power lines is critical to the delivery of new houses. But with many councils already up against their debt limits, the provision of infrastructure is too often a barrier to new housing development.

Under the current model, councils either need to wait for a hand-out from central government (through programmes like the Infrastructure Acceleration Fund), or significantly increase rates on current ratepayers.

Attempts to develop new funding and financing mechanisms (IFF) have fallen flat, with too much red tape and bureaucracy meaning councils are reluctant to make use of them.

National will fix our infrastructure funding system to ensure infrastructure is no longer a barrier to the delivery of new housing:

1. Reform of the Infrastructure Funding and Financing (IFF) Act

National will refresh and reform infrastructure funding tools for councils at their debt limits. The process for getting a project approved under the Infrastructure Funding and Financing Act will be standardised, with protracted negotiations replaced by a standard-form agreement. Where the current process involves multiple agencies performing different roles, National will shift the entire project approval process of IFF to Crown Infrastructure Partners.

2. New rules for infrastructure funding in greenfield developments

National will require councils to declare that infrastructure for new greenfield development will be funded from rates and levies applied to the new development, instead of being subsidised by other communities. The prospect of subsidised infrastructure encourages developers to 'land bank' instead of delivering new houses. Councils will have the choice of financing this infrastructure on their own balance sheet or through refreshed financing tools, like IFF.

3. New tools for central government

New roads and public transport projects are vital to unlocking land for housing growth, but the funding system remains stuck in the past.

In other countries, value capture tools allow the beneficiaries of central government investment in public goods like roads and public transport to be levied to help pay for those projects. Otherwise, costs are socialised and gains privatised.

National will develop value capture tools for New Zealand, meaning new state highways facilitating housing growth could be partly financed by levies on land unlocked by the road. The same could be true of major new public transport projects in urban centres.

National will also make the facilitation of housing growth an explicit goal of the Government Policy Statement on Land Transport, and one of the funding criteria in the National Land Transport Plan. These changes will ensure government investment in new roads and public transport is prioritised in growth areas, unlocking vastly more housing.

3. Housing performance incentives for councils

National will introduce Build-for-Growth – performance-based funding for councils that go for housing growth.

Councils have historically borne the financial burden of housing growth but haven't shared in its benefits.

National's infrastructure funding reforms will take the pressure off councils who are required to fund infrastructure for new housing, which frustrates existing ratepayers. However, National wants to change the calculus away from hostility to housing, to encourage councils to embrace growth.

National will make sure local communities share in the benefits of housing growth by paying councils based on their performance in actually getting houses built in their local territorial area.

How Build-for-Growth will work

Councils will be required to publish their last five years of new residential building consents.
From 1 July 2024, any extra house built in a Tier 1 and 2 Council above the long-term average for the Council will entitle the Council to performance funding from National's Build-for-Growth fund.

In the near term, funding for Build-for-Growth will be fixed – so councils will be competing against each other to become eligible for more financial support. This controls any fiscal exposure to taxpayers, while offering certainty to councils about any available funding.

While new land supply targets are important, Build-for-Growth will additionally encourage councils to improve their consenting processes – ensuring developments and approved faster and cheaper.

How Build-for-Growth will be funded

To support Build-for-Growth, National will close KiwiBuild (now called the Buying off the Plan programme) and the Affordable Housing Fund, end Kāinga Ora's land acquisition programme, and remove any remaining funding from the Housing Acceleration Fund.

Labour's broken housing policies have done nothing to end the housing crisis. National will re-prioritise funding from those broken policies to reward councils for achieving their housing targets.

Councils will be eligible for $25,000 for every dwelling they consent above average of new consents in the previous five years. In the case of Auckland, this means the Council would have been eligible for a payment of $152 million last year. Other councils that did not exceed their five-year average, like Tauranga, would not have been eligible for a payment.

National will allocate all remaining funds from the programmes below to Build-for-Growth incentives, which is expected to total around $1 billion. Additional future funding may become available if councils over-achieve their growth targets and those funds are exhausted.

Existing Programme	Savings ($M)
Affordable Housing Fund	235
Buying off the Plan	272
Kāinga Ora Land Programme	219
Housing Acceleration Fund	410
Total	**1,134**