



This *Cut to the Chase* summarises the Commission's draft report on using land for housing. The Commission seeks your input – particularly on the questions, draft findings and recommendations – by 4 August 2015.

The inquiry

The Government asked the Productivity Commission to look into the processes that New Zealand's fastest-growing local councils use to provide land for housing. These processes include planning, zoning and the provision of infrastructure such as roads, parks and water pipes. The Commission was also asked to identify examples of good processes from within New Zealand and overseas. In investigating these issues, the Commission focused on ten high growth areas (Whangarei, Auckland, Tauranga, Hamilton, Waikato, Wellington, Christchurch, Selwyn, Waimakariri and Queenstown Lakes) and sought evidence from a number of other countries.

The need for more land and more opportunities to develop housing

In recent years, New Zealand's population has grown at one of the fastest rates in the OECD. Most of this growth has been concentrated in cities, especially Auckland. Growing populations need more housing, yet New Zealand cities have struggled to provide enough land to meet this demand. This includes new land (eg, greenfields at the edges of cities) and opportunities to use existing city land more efficiently (eg, the ability to build denser and higher housing within a city). The shortfall of land and housing has been particularly pronounced in Auckland, leading to dramatic price rises over the past few years. But there is also a nationwide shortfall of lower-priced new housing, as high land prices have encouraged developers to build larger and more expensive dwellings. High land and house prices have negative effects on the wellbeing of New Zealanders, especially poorer households, and on the economy's performance.

The importance of cities

Cities are national assets. They provide a wide range of jobs, higher incomes, generate higher productivity and raise the prosperity of surrounding regions. Cities also offer access to amenities not available elsewhere, such as specialised health and education services. Allowing cities to grow and accommodate new residents can help improve the wellbeing not just of the people who live there, but also those elsewhere in the country.

Local and national interests are not always aligned

It is in New Zealand's interests for our cities to grow. But the costs of growth – eg, more congestion on the roads, and some costs associated with new infrastructure – are felt most acutely by existing city residents. Local residents may therefore prefer to

see cities grow at a slower rate than would be ideal from the nation's perspective, and councils can struggle with the decisions needed to enable faster growth. Barriers to growth include building height limits, restrictions on the ability to add more dwellings to existing sections, and infrastructure roll-outs that do not keep pace with demand for new housing.

Existing home owners benefit from policies that restrict the supply of new dwellings, as they help keep the prices of housing high. Home owners have a disproportionate influence in local council processes, including elections and consultation. As a result, council land use rules and policies effectively protect the interests and wealth of those who already own housing, to the detriment of those who do not.

Suggested areas for improvement

The planning system could work better

New Zealand's complex planning system can make it difficult for local councils to make effective decisions that combine zoning, infrastructure provision and transport planning issues. Many councils have tried to work around these difficulties by developing spatial plans, which seek to align the supply of land and infrastructure with long-term demographic and economic changes. The Commission considers that the planning system should give more recognition to such plans, with:

- the creation of a new, voluntary legislative avenue to expedite city planning; and
- greater central government involvement in the development and approval of these plans (eg, longer-term planning around health and education services in cities).

Most councils set goals to supply enough land to meet population growth, but many of these objectives are vague or target the wrong things (eg, land that is zoned, but not serviced). Councils should monitor and report regularly on the production of new dwellings and the delivery of infrastructure, to highlight where their land regulations are proving overly restrictive.

A key step in the supply of land for housing is rezoning. This brings new land to market (eg, by converting 'rural' land to urban use) and increases the capacity of existing urban land (eg, by increasing the number of dwellings that can be built on a section). The rezoning process takes longer to complete in high-growth areas than in other regions, largely because of legislative consultation obligations and the ability to appeal rezoning proposals. Being able to appeal rezoning proposals has costs and benefits. The Commission is seeking further evidence on the potential to reduce delays associated with consultation and appeals.

Public land could be used more efficiently

Central and local government own large amounts of land in cities, some of which could be released for housing, as is beginning to occur in Auckland and Christchurch. The Ministry of Business, Innovation and Employment should work with local councils in high-growth areas to identify surplus land that could be reused.

Under current law, the Crown does not pay rates on the land it owns. There is no justification for this exemption. Allowing councils to charge rates on government land would encourage public agencies to use it more efficiently and release excess land.

Land regulations need to better match costs with benefits

All councils regulate the use of land. Examples include limits on the numbers or heights of dwellings that can be built in a particular zone. Some land use rules help make cities work better, reducing the harmful effects of development on neighbours and other residents. But many land use rules also affect the cost and supply of housing. Too often, the costs imposed by these rules exceed the likely benefits.

There are a number of causes of unnecessary regulatory costs, including poor analysis before rules are introduced, overlaps between regulatory regimes, and planning legislation that does not give priority to housing. Some of these costs can be reduced by better coordination within councils, more use of electronic planning tools and greater liberalisation and standardisation in the planning system. The place of housing and cities in the Resource Management Act should also be clarified.

The costs and risks of providing infrastructure are a constraint to growth

Providing the infrastructure needed to support new housing can be an expensive and risky undertaking for councils. Councils that install extra infrastructure ahead of housing demand may find themselves facing high borrowing and depreciation costs, without the expected income from new ratepayers. For this reason, many councils try to tightly control the supply of new infrastructure. This can limit the supply of 'shovel ready' land (which is both zoned and serviced), pushing up prices.

There is scope to make better use of existing infrastructure assets...

Infrastructure is expensive. The 10 councils that the Commission focused on own infrastructure worth \$76 billion, and spend large amounts to maintain and upgrade these assets. Better management and use of these assets, particularly where assets are not being fully used, would allow councils to create more opportunities for new housing and make better-informed decisions about when further spending is required.

...and councils could make more use of existing tools to fund new assets

Roads and water pipes are assets with long lives that successive generations use and enjoy. Debt allows the costs of the assets to be spread amongst these different generations. Although some communities have expressed concerns about council debt, most of the councils the Commission looked at had low debt levels and should not rule out additional borrowing to meet the costs of growth.

Other funding tools help ensure that the people who benefit from infrastructure meet the costs of the assets' installation and maintenance. User charges, such as volumetric water pricing and road tolling, are examples. They can help extend the life of existing assets by reducing demand. Targeted rates are another option, whereby those who directly gain from new assets (eg, homeowners on sections that were opened up thanks to a new road) repay the costs of those assets over time. Councils should make more use of these tools, and the Government should remove blockages to their use (eg, legislative bans on tolls for existing roads).

Infrastructure providers should be aligned with council growth plans

Councils manage and deliver infrastructure in different ways. Some councils have in-house infrastructure units, and others deliver infrastructure through separate Council-Controlled Organisations. Separate infrastructure entities can provide more transparency and a greater focus on delivery, but may create coordination problems. For example, the targets for new housing in Auckland's spatial plan are not reflected in the accountability documents of the council's water and transport providers.

Developable land is widely held

There is evidence of land banking in fast-growing cities, but this is a symptom of artificial constraints on growth that gives developable land scarcity value. Most land that could be subdivided in Auckland for housing is held by a large number of owners. Council policies that rate property based on its capital value rather than land value discourage owners from releasing or developing land.

Overcoming barriers to growth

New Zealand's planning system is very decentralised by international standards. The growth of cities has benefits for the whole country, but most of the decisions about the pace and direction of that growth are taken by local councils. Greater balance between local and national interests is needed in the planning system. The Commission is interested in hearing evidence on the best ways to provide this balance, such as greater national direction or stronger Ministerial intervention powers.

Auckland's housing shortfall is of serious concern. The Commission's proposed recommendations will help to close this gap. But even with these actions, more will be required to overcome the remaining barriers, such as difficulties assembling large enough land parcels for development at scale. Business as usual is clearly proving inadequate to deal with Auckland's housing shortfall.

In other countries, urban development authorities play an important role in meeting housing demand, by assembling large parcels of land (using compulsory acquisition powers where necessary), rezoning and servicing land for higher-density uses, and partnering with the private sector to bring dwellings to market. Urban development authorities also provide an opportunity to capture for the public the increase in value that occurs when land is rezoned or designated for development. The Commission sees a case for an urban development authority in New Zealand, and would welcome views about the form, role and powers that such an agency should have.

Read the full report ... and make a submission

Submissions on the draft report are invited by 4 August 2015. Government will receive the final report by the end of September.

Read the full version of the draft report and make a submission at www.productivity.govt.nz or call us on 04 903 5167.

The **New Zealand Productivity Commission** – an independent Crown entity – conducts in-depth inquiries on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.