

Mayoral Housing Taskforce Report

Prepared for the Mayor of Auckland

June 2017



1 Executive Summary

Over the next 30 years, Auckland's population is expected to increase by up to a million people. This growth is an opportunity both for the city and New Zealand as a whole, but it comes with challenges.

Auckland has to ensure an adequate supply of housing to meet this demand or face growing housing shortages, continued soaring house prices and a fall in home ownership, growing unaffordability of rents, and increased homelessness.

Improving housing affordability and choice would make Auckland more attractive to the workers and businesses needed to make New Zealand's biggest city more productive, vibrant and wealthier in the long run. Auckland's housing supply challenge is also New Zealand's economic growth opportunity.

Things must be done differently than in the past to meet this challenge. This means building new housing at a faster pace and larger scale, providing a wider choice of affordable homes, ranging from traditional standalone homes to terraced homes and midrise apartments, and ensuring a quality built environment.

In response to this challenge, Auckland Mayor Phil Goff established a Housing Taskforce to:

- identify barriers and constraints to building more homes in Auckland at a pace and scale which meets the demand created by population growth
- identify options and make recommendations to overcome those barriers and constraints.

The primary focus of the Taskforce is on housing supply, rather than factors affecting housing demand, such as tax and immigration policy.

1.1 Housing supply is a long-standing problem

Auckland's inability to build enough homes to keep up with demand is a long-standing issue.

In the post-war boom from the 1950s to the 1970s, when New Zealand experienced high population growth from migration and people starting families, an average of over eight homes were built per year for every 1000 people. Since the 1980s, the build rate has only been around five homes a year per 1000 people.

This has contributed to house prices and rents that have risen faster than New Zealanders' incomes since the early 1990s. This is not an irreversible problem, but addressing it will require us to take a different approach to urban development.



At present, New Zealand has a fractured and dispersed building industry that is vulnerable to losing skilled workers in a downturn and struggles to build enough high-quality houses in an upturn. A new and larger-scale way of planning, funding and building different types of developments, including through cyclical peaks and dips, would make home building more efficient and housing more affordable.

1.2 Building more homes will require systemic change

The Taskforce has identified three key areas where changes are needed in order to deliver more homes in Auckland:

- Remove impediments to the construction sector **developing at scale**, including identifying investors who can **build through the dips** to lift construction in the peaks
- **Unlock the availability of land with appropriate zoning and infrastructure**, at the right price, to enable more development, faster
- Deliver **efficient and certain planning, consenting, and risk management** to reduce costs, enable innovation in construction and delivery, and create communities with high-quality built and urban form outcomes.

Within each category, the taskforce has identified a mix of 'tactical' interventions that can be done soon, without significant legislative or policy change, and 'systemic' interventions that may take longer to deliver but which have the potential to have a large

and long-term impact on housing supply outcomes. Delivering these interventions will require partnership and collaboration between Auckland Council (and its wider 'family' of organisations such as Auckland Transport and Watercare), central government, and the development sector.

An important message is that focusing on short-term interventions without addressing systemic challenges will not fully address Auckland's housing supply challenges. Tactical changes can help create the platform for deeper policy changes, but they are not a substitute for more fundamental change in a market that has not built enough homes for several decades.

1.3 Summary of key recommendations

The following three tables summarise the Taskforce's key recommendations, divided between tactical and strategic interventions. The tables represent the three key areas of change identified above, as:

- Key recommendations to build through the dips
- Key recommendations to unlock development opportunities
- Key recommendations to enable efficiency and innovation in consenting and risk management

The tactical recommendations can generally be implemented as an extension of current practices, but there are also eleven strategic recommendations that would have a larger impact but which will be more challenging to put in place.



Key recommendations to build through the dips

Recommendation	Requirements for delivery
Tactical interventions	
Establish, as soon as possible, a plan to scale up joint venture building programmes on publicly-owned land. Identify the quantity of development required and delivery mechanisms, such as partnerships between the private sector and Panuku Development Auckland or HLC (formerly Hobsonville Land Company) with appropriate sharing of risk and reward, and make this plan known in the market to provide certainty for home builders.	Auckland Council to collaborate with central government to implement
Encourage development partners that are undertaking large-scale urban redevelopment to engage with communities early in the process. Development can provide opportunities for both the existing community as well as the developer and new communities. Understanding and communicating these benefits can ensure that development proceeds more rapidly. Ensure that existing social housing tenants are re-housed in the community.	Auckland Council to invite development partners to respond
Encourage the building industry to engage with the Building and Construction Industry Training Organisation's (BCITO) skills badging trial scheme (due to start in second half of 2017), which aims to be an alternative to multi-year apprenticeships. Encourage central government to scale up this scheme rapidly after the trial if it is deemed successful and there is demand for this approach.	Auckland Council to encourage central government to adopt a 'badging' system should trialing prove successful
Optimise the points system for work visas to increase the preference for skilled construction workers relative to other occupations when there are major workforce shortages that cannot be fulfilled through local training.	Auckland Council to invite a response from central government
Strategic interventions	
Establish a credible long-term programme of housing development, including a commitment to maintain a higher baseline of overall housing delivery across boom-bust cycles. Sending a credible signal about the future pipeline of work would encourage investment in skill development and innovation. This would include: <ul style="list-style-type: none">identifying land requirements (including land that may need to be purchased in advance)planning mechanisms to enable deliveryfinancing, funding, and ownership mechanisms to ensure delivery, including potential shared equity models for landa long-term construction workforce development plan.	Auckland Council to invite central government and major landowners and developers to progress
Investigate other mechanisms to enable new tenure and ownership models that can fill gaps between social housing and market-rate housing. Identify whether and how these are feasible to implement to address affordability issues.	Auckland Council to collaborate with central government and housing sector groups

Recommendation	Requirements for delivery
Strategic interventions	
Investigate the potential for unintended consequences for residential development from new bank regulations (which are intended to manage risks for financial stability but may affect the availability and cost of finance), and identify whether there is a need for a public or private response.	Auckland Council to invite Treasury to progress a review, with input from the Reserve Bank, development and financial sectors

Key recommendations to unlock development opportunities

Recommendation	Requirements for delivery
Tactical interventions	
Implement the Housing Infrastructure Fund (Case study 4), ensuring a financial structure that can enable it to be expanded through time, enable participation of private capital, and remove the need for this funding to be secured against the Council's balance sheet. This would involve an appropriate equity underwrite and the ability to raise revenue streams, such as contributions from land owners in the areas that benefit from new infrastructure, targeted 'value capture' rates in the same areas, and service charges, all of which will also improve incentives to develop serviced land.	Auckland Council to implement Housing Infrastructure Fund following central government decision
Publish and regularly update information on the magnitude of the funding gap for the Future Urban Land Supply Strategy, including information on how this may affect timing of development, in order to enable negotiation with developers and other parties for additional funding to progress development.	Auckland Council to progress, with input from Watercare and Auckland Transport and in discussion with central government agencies and the development sector
Implement at least one infrastructure scheme that is self-funded from some combination of land owner contributions, targeted 'value capture' rates, and service charges, in order to accelerate an infrastructure project to enable housing delivery and internalise the costs of infrastructure with the party that benefits, i.e. the landowner. Capture learnings to enable this approach to be scaled up.	Auckland Council to progress in collaboration with Auckland Transport, Watercare, and/or central government
Develop an infrastructure pricing policy and structured dispute resolution process for infrastructure funding negotiations with developers to signal the direction of pricing and improve confidence in future infrastructure funding arrangements.	Auckland Council to invite a response from Auckland Transport and Watercare

Recommendation	Requirements for delivery
Tactical interventions	
Progress route protection for future transport corridors in new urban areas through Auckland Transport's Supporting Growth Programme, in order to reduce the likelihood of delays to future housing delivery that are caused by slow infrastructure planning. Capture learnings to enable this approach to be scaled up to other areas, and identify the impact of the existing designation process on the project timeframe.	Auckland Transport to progress this programme
Invite Auckland Council's Governing Body to satisfy itself that the refresh of the Auckland Plan implements National Policy Statement requirements for a Future Development Strategy outlining how urban development capacity in brownfield and greenfield areas will be provided to meet future demands.	Auckland Council to progress, in collaboration with the Ministry for the Environment and development sector
Seek to quantify the extent of land banking and understand why it is happening, and then develop a set of policy responses to address it.	Auckland Council to investigate, inviting input from the development sector
Strategic interventions	
Further develop the Housing Infrastructure Fund, expanding it through time, securing participation of new private capital, and raising new revenue streams, such as contributions from land owners in the areas that benefit from new infrastructure, targeted 'value capture' rates in the same areas, and service charges.	Auckland Council to implement in collaboration with central government and the development sector
Implement congestion pricing to manage peak demands on congested networks, which will mitigate the congestion effects of new development and hence potentially alleviate some of the funding gap for transport infrastructure. Ensure that public transport and cycling options are available as an alternative to congested routes where tolls are likely to be high.	Auckland Council to collaborate with central government to progress the work of the agreement
Broaden sources of funding for major infrastructure and support the principle of revenue sharing, including an appropriate mix of the following new sources of funding for major infrastructure: <ul style="list-style-type: none">• Devolution of some taxing power to AC (e.g. regional fuel tax as an interim measure en route to full congestion pricing);• Additional revenue from congestion pricing, if any;• Rebating GST on rates, as is done in Australia;• Allocating a share of GST on construction to councils to strengthen incentives to enable development, and• Creation of urban development authorities or special purpose vehicles to internalise major infrastructure costs for large developments. Where appropriate, create new reporting requirements for new revenue sources and ensure that other revenues are subject to traditional Auditor-General requirements to ensure confidence in new revenue tools.	Auckland Council to invite collaboration from central government

Key recommendations to enable efficiency and innovation in consenting and risk management

Recommendation	Requirements for delivery
Tactical interventions	
Implement Consenting Made Easy service models (Custom, Streamline, Qualified Partner, Premium), with attention to the recommendations of the Challenge Panel. The key actions required for improvement are: <ul style="list-style-type: none">• ensuring that applicants have a single point of contact with the ability to resolve views received from Auckland Council teams and council-controlled organisations; and• ensuring appropriate leadership and human resources capacity to drive a culture change in consenting. The Qualified Partner scheme would enable parallel consenting for developments subject to appropriate audited quality assurance.	Auckland Council to implement, seeking input and collaboration with development sector
Ensure that experienced resource consent and building consent processing staff are used effectively through the Consenting Made Easy programme.	Auckland Council to progress
Work with tertiary providers and professional institutes to identify a pipeline of suitably qualified people to work in the construction professions to ensure future consenting requirements can be met by the industry.	Auckland Council to progress, in partnership with tertiary providers and professional bodies
Regularly report on consent and development outcomes that have been identified as data gaps, i.e. building completions and elapsed timeframes for consents (in addition to statutory timeframes), and improve data on an ongoing basis.	Auckland Council to progress
Encourage the Ministry of Business, Innovation and Employment (MBIE) to publicly release its Manufactured Building Guidance to clarify requirements for the industry.	Auckland Council to invite a response from MBIE
Develop new Acceptable Solutions under the Building Code for prefabricated products and medium density housing typologies that are not well addressed by existing Acceptable Solutions, and which are important for meeting Auckland's future housing needs.	Auckland Council to invite a response from MBIE, in consultation with councils and developers
Ensure that a single Council family Code of Practice, setting technical standards for infrastructure assets for new development, is agreed and understood by consent planners, development engineers, and the development industry. Any updates are to be well communicated to the industry. Ensure the Code of Practice defines customer satisfaction outcomes, including enabling housing delivery via efficient and certain processes.	Auckland Council to work with council-controlled organisations and development sector to implement
Ensure that forthcoming national planning standards align with best practice elements of the Unitary Plan and reduce the need for further major plan changes.	Auckland Council to invite the Ministry for the Environment to progress in partnership

Recommendation	Requirements for delivery
Tactical interventions	
Improve certainty and confidence in medium- and higher-density housing for buyers, through changes to the Unit Titles Act.	Auckland Council to invite a response from MBIE
Ensure plan change processes required to progress zoning changes (e.g. shifting from Future Urban zoning to live zoning) are well resourced and proceed with speed, and that these planning resources are targeted to areas with land owner commitment to fund infrastructure (potentially including community facilities and operating costs) and proceed to build homes.	Auckland Council to investigate, seeking input and collaboration with development sector
In order to strike an appropriate balance between the benefits of urban design and the costs of achieving them, Council to work with the development community to: <ul style="list-style-type: none">• Agree the importance of good urban design• Ensure that there is a single point of approval for designs and/ or encourage the establishment of specific project design review panels for significant developments• Facilitate discussion between developers, planners, and design review panels about the value and cost implications of key amenity provisions.	Auckland Council to progress in collaboration with development sector
Strategic interventions	
Investigate building warranty and insurance schemes as part of a quality assurance process that would facilitate and expedite the building consent process and construction sector innovation in exchange for reducing the liability that councils face for buildings.	Auckland Council to invite central government to lead, with broad engagement across the sector (construction industry, insurance and banking sectors) Legislative change or other market arrangements may be needed to progress
Review the Building Code and update it to ensure that it reflects and enables ongoing innovation, especially in prefabricated products and medium density housing typologies. Medium density housing face special issues, such as managing noise through common walls, are not well addressed by existing Building Code, and are important for meeting Auckland's future housing needs. Invite central government to commit to reviewing and updating the Building Code on an ongoing basis, e.g. on a three-yearly cycle as in many European countries.	Auckland Council to invite response from MBIE, in consultation with councils and developers
Undertake a holistic review of resource management legislation, including investigating the Productivity Commission's recent planning review's recommendations more broadly.	Auckland Council to invite a response from central government



2 Setting the scene

2.1 Taskforce brief

Over the next 30 years, Auckland's population is expected to increase by up to a million people, which brings both opportunities and challenges. Auckland has to ensure an adequate supply of housing to meet this demand or face growing housing shortages, continued soaring house prices and a fall in home ownership, growing unaffordability of rents, and increased homelessness.

Achieving this will require us to do things differently than in the past. It means building new housing at a faster pace and larger scale, providing a wider choice of affordable homes, ranging from traditional standalone homes to terraced homes and midrise apartments, and ensuring a quality built environment.

Auckland Council and the Government have already collaborated on land supply, streamlined consenting processes, and housing affordability via the Auckland Housing Accord, which concluded in May 2017, and via the Auckland Unitary Plan, which was made partly operative in 2016 and which provides opportunities for over 420,000 new dwellings to be built.

There is now a need to identify other major impediments to meeting Aucklanders' housing needs and address them through a collaborative approach across the sector.

In response to this challenge, Auckland Mayor Phil Goff established a Housing Taskforce that includes representatives from the development and community housing sectors as well as Auckland Council representatives and observers from central government. The purpose of the Taskforce is to:

- identify barriers and constraints to building more homes in Auckland at a pace and scale which meets the demand created by population growth
- identify options and make recommendations to overcome those barriers and constraints.

A range of stakeholders from the housing sector were also invited to provide feedback to the mayor and the responses received were taken into consideration by the Taskforce.

Other influences on the housing market, such as the role of tax and migration policies in shaping housing demand, are also considered important as they establish the context for Auckland's current and future housing needs. The aim of the Taskforce was to focus on options for increasing housing supply, rather than options to manage housing demand, as Auckland Council has more 'levers' for affecting supply.

2.2 Meeting Auckland's housing needs is an opportunity for New Zealand

A lack of sufficient housing in Auckland has contributed to large increases in housing prices, especially over the last three years. Since 2015, the price of the average house of Auckland has exceeded nine times average household incomes (Figure 1), making Auckland one of the least affordable cities in the world in which to buy a home. Recent rent increases have been around five times the level of overall inflation¹.

Left unchecked, this will have large negative social and economic consequences for the country as a whole. High house prices force Aucklanders to defer the dream of home ownership and cut back on consumption and investment to pay the rent or mortgage.

Low income households bear the brunt of these costs. The average low income household now spends more than 50% of its income on housing costs, a ratio that continues to rise². One in 10 Aucklanders lives in a crowded home, with multiple adults sharing bedrooms – almost twice the national rate³. Homelessness is also on the rise⁴. However, the impacts spread across society and affect people of all incomes and occupations.

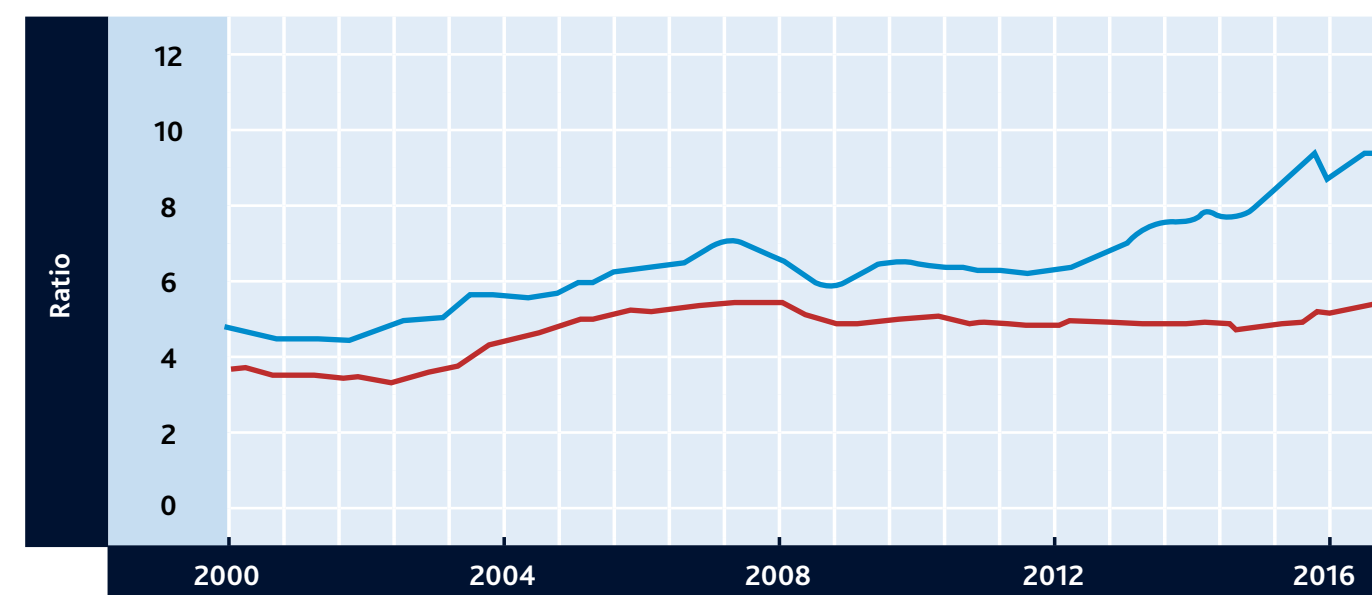


Figure 1: Auckland house price to income ratio, 2000-2016 (RBNZ Financial Stability Report, 2016)

Source: CoreLogic NZ, REINZ, Statistics New Zealand, RBNZ estimates.

Note: Price-to-income ratios are based on estimates of averages of house prices and household income.

Key:

■ Auckland ■ Rest of New Zealand

¹ Ministry of Business, Innovation and Employment. 2017. Rental Bonds Database.

Available online at <http://www.mbie.govt.nz/info-services/housing-property/sector-information-and-statistics/rental-bond-data>.

² See Figure C.14 in Ministry of Social Development. 2016. Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2015.

³ Productivity Commission. 2017. Better Urban Planning Final Report. See Figure 6.10.

⁴ For media reports, see <http://www.scoop.co.nz/stories/AK1606/S00191/aucklands-rough-sleeper-population-reaches-record-high.htm> and <http://www.stuff.co.nz/national/80719962/One-in-100-Kiwis-homeless-new-study-shows-numbers-quickly-rising>.

“Our members work hard to deliver the essential services that we all depend upon, yet many are situations of extreme hardship. They struggle with the cost of housing, the availability of decent housing, fear of losing their homes and anxiety about the future. Even those members who themselves have financial and housing security worry about their children, the people they work with, their friends, people struggling on their communities. Too many of our members are at breaking point.”
(Taskforce submitter)

Addressing Auckland's shortfall of housing will benefit the country as a whole. New Zealand needs an international city that can attract talent and enterprise and compete successfully with other cities. Auckland is best placed to fit this role due to its size, international connections, and relatively high productivity⁵.

More abundant and more affordable housing will make Auckland more attractive to firms, skilled workers, and young New Zealanders who may otherwise choose to live in Melbourne or London. A vibrant Auckland will in turn complement our other towns and cities.

2.3 Housing supply is at the heart of the problem

High house prices in Auckland are the result of high demand for housing colliding with a shortfall of new construction.

Since the early 2000s, new housing development has lagged behind population growth (Figure 2). This has been true both in

booms and busts in the migration cycle. New home construction fell faster than population growth after the global financial crisis, and has not risen to keep pace with faster population growth in the last three years.

These trends can be contrasted to outcomes prior to the early 2000s. When Auckland's population growth slowed between 1997 and 1999, the rate of new home construction held steady. When population growth increased between 2001 and 2003, new home construction also rose in response.

Demand for housing principally arises from population and employment growth leading to rising demand for owner-occupied housing and rental housing. Population growth is broader than just migration. Most of Auckland's historical and forecast population growth consists of people born in the city⁶. However, net migration tends to be more volatile, creating challenges for scaling up construction: in the last five years, New Zealand has gone from losing over 1,000 people a year overseas to gaining over 70,000 residents⁷.

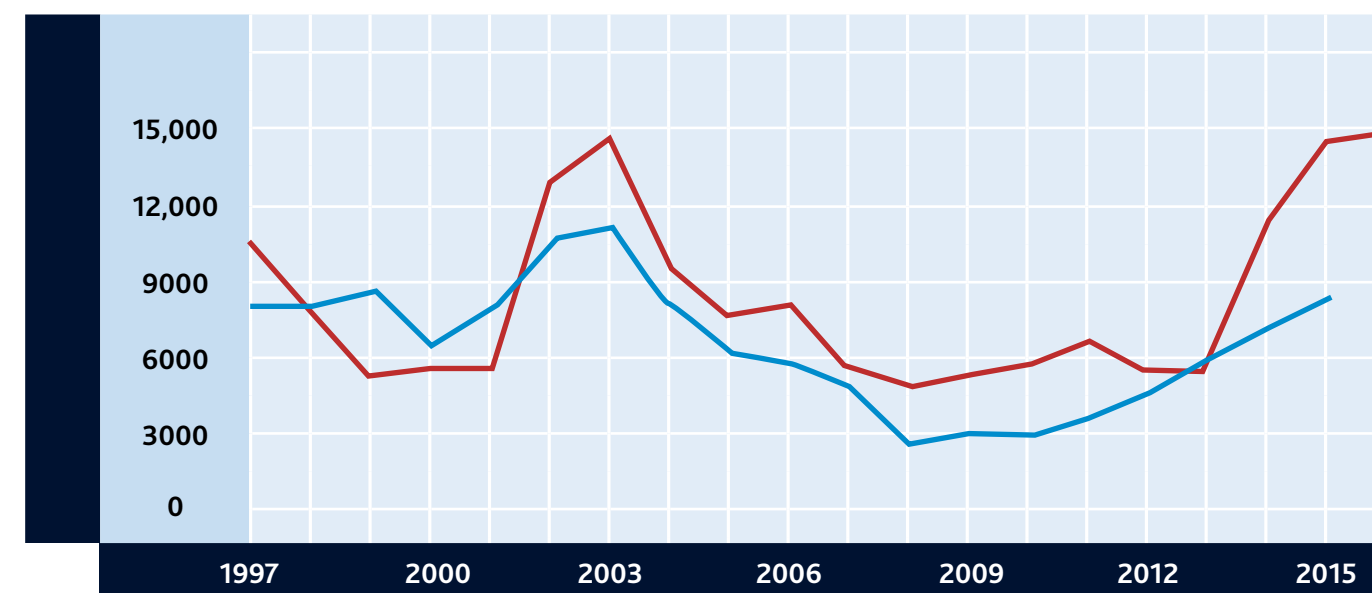


Figure 2: Estimated growth in households and dwelling completions in Auckland, 1997-2016 (Estimated from Statistics New Zealand data)

Key:

- Estimated dwelling completions (1 year lag)
- Estimated growth in households

New Zealand's tax policy settings and rules on overseas investment also contribute to high house prices, as they create incentives to pursue capital gains on investment properties⁸. This is exacerbated by a perceived lack of alternative investments other than property.

2.4 A long-term challenge

Auckland's inability to supply enough housing to keep up with demand is a long-standing but not an irreversible problem.

In the post-war boom from the 1950s to the 1970s, when New Zealand experienced high population growth from migration and people starting families, an average of over

eight homes were built per year for every 1000 people. Since the 1980s, the build rate has only been around five homes a year per 1000 people (Figure 3).

During this period, house prices and rents have risen faster than New Zealanders' incomes since the early 1990s (Figure 4).

Furthermore, residential land values have outstripped construction cost inflation. This indicates that factors other than construction costs are the primary driver of house price inflation. When development opportunities – either for traditional 'greenfield' subdivision or 'brownfield' infill and redevelopment – are in scarce supply, the value of developable land rises more rapidly⁹.

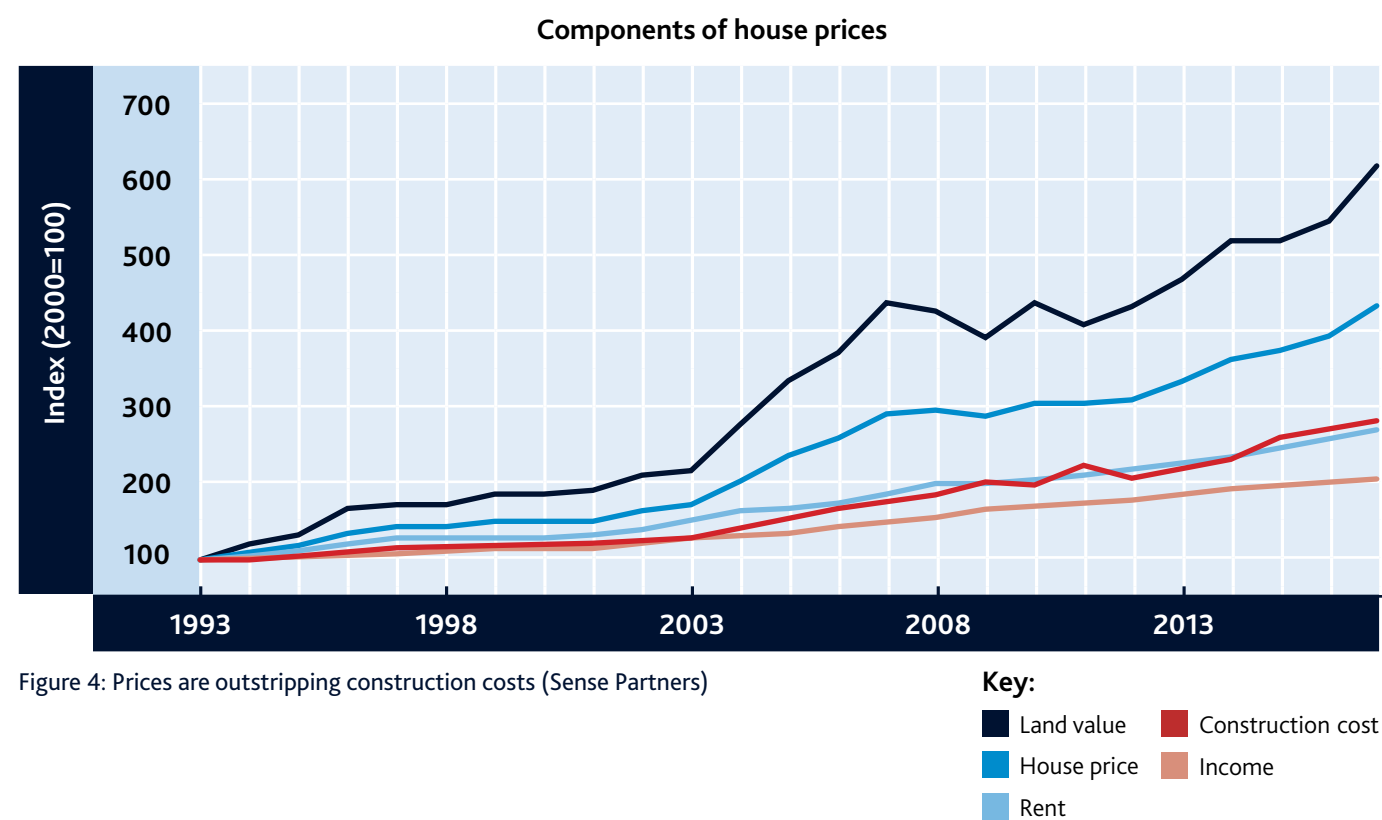
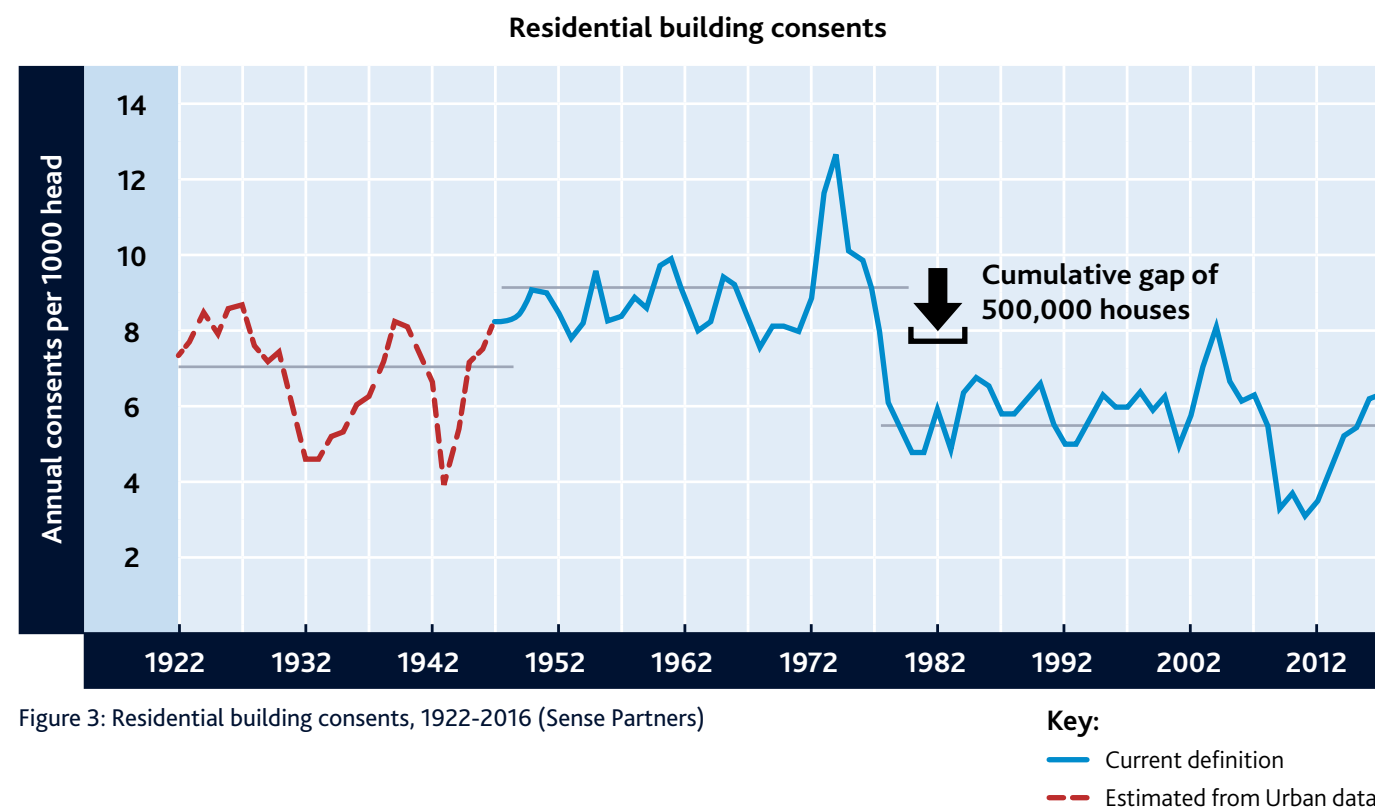
⁵ Maré, D. 2016. Urban productivity estimation with heterogeneous prices and labour. Motu Working Paper 16-21.

⁶ Statistics New Zealand's most recent (2015) population projections indicate that 63% of Auckland's expected future growth will be due to natural increase – i.e. the fact that more people are being born in the city than are dying. Auckland's relatively youthful population contributes to high growth.

⁷ Around half of this change was driven by a decrease in New Zealanders departing overseas, and half from increased arrivals to New Zealand. See Statistics New Zealand's International Travel and Migration series, available online at http://www.stats.govt.nz/browse_for_stats/population/Migration.aspx.

⁸ Coleman, A. 2017. "Housing, the 'Great Income Tax Experiment', and the intergenerational consequences of the lease". Motu Working Paper 17-09.

⁹ Further evidence is provided by analysis of 'discontinuities' in land values at zoning boundaries in Auckland. The Productivity Commission's Better Urban Planning report finds that in 2014 land immediately inside Auckland's former Metropolitan Urban Limit was valued at over nine times land immediately outside it, which indicates that development opportunities are in scarce supply in the city. Covec and MRCagney find that this difference cannot be explained by land development and infrastructure costs, which also differ across the boundary. See Covec and MRCagney. 2016. Signals of under-capacity: Price measures to guide urban planning. A report for the Ministry of Business, Innovation and Employment and Ministry for the Environment.



Increasing the pace of homebuilding and scaling up the industry can help to reverse this dynamic. Other cities have succeeded in delivering more housing in response to growing demands, leading to more affordable homes. Case study 1 discusses affordability and housing supply in US cities.

A local example is provided by Christchurch after the 2011 Canterbury Earthquake. House prices and rents initially rose rapidly as many homes were damaged or destroyed. Councils, government, and the construction

industry responded, enabling over 26,000 new homes to be consented in the five years following the earthquakes¹⁰.

As a result, housing affordability has generally improved in Christchurch for both renters and first homebuyers¹¹. This is in spite of the fact that the city has experienced a reasonable rate of population growth since the earthquake and is expected to continue growing rapidly over the next three decades¹².

Case study 1: Housing markets in US cities

US economists Edward Glaeser and Joseph Gyourko recently analysed whether or not housing markets are functioning well in large American cities. They identify three categories of cities:

- Type 1: Cities where house prices are below the minimum cost to build new housing due to economic decline (34-40% of US cities fall into this category; e.g. Detroit)
- Type 2: Cities where house prices are roughly equal to build costs, due to well-functioning housing markets and rising demand from population growth (33-51% of US cities fall into this category; e.g. Atlanta)
- Type 3: Cities where house prices are substantially above build costs as constraints on development collide with growing demand (15-26% of US cities fall into this category; e.g. San Francisco).

Rising house prices in 'Type 3' cities have in turn contributed to increased wealth inequality and limited economic opportunity for people who are not able to seek better jobs in expensive cities. The authors estimate that this may have reduced US GDP by up to two per cent due to lost productivity.

¹⁰ By comparison, Statistics New Zealand building consents data indicate that Auckland consented around 37,800 new homes over the same period.

¹¹ Ministry of Business, Innovation and Employment. 2017. *Housing Affordability In New Zealand: Results for HAM Version 1.0*.

¹² According to Statistics New Zealand subnational population estimates, the total population of Christchurch City plus the adjacent Selwyn and Waimakariri Districts has risen 8.6% since 2012, compared with a 9.3% increase in Auckland. The Canterbury region is forecast to grow faster over the 2013-2043 period than all regions except Auckland.

3 How Auckland can build more homes

3.1 The costs of building homes in Auckland

In order for Auckland to supply more homes, it must be financially viable for developers to build them, which means that sale prices must cover the costs of development. Consequently, in order to sustainably supply more housing, there must either be:

- An increase in the financial rewards from developing – which is undesirable as it means further increasing housing prices in the near term; or

- Lower barriers to development and reduction of the cost to deliver new housing.

The Taskforce gathered several case studies of development costs in Auckland to understand potential barriers and opportunities for intervention (Table 1). They show that current development economics are challenging: there are barriers at all stages, including a lack of scale economies in construction, meaning that system-wide improvements are needed instead of a search for a single 'silver bullet' solution.

Cost component	Greenfield section (500m ²)	Greenfield standalone house	Greenfield terraced house	Brownfield apartments	Greenfield social homes
Land costs	28%	17%	7%	6%	11%
Land development	30%	11%	9%	N/A	14%
Construction	N/A – section only	32%	34%	54%	61%
Council, government, and BRANZ fees	5%	3%	5%	2%	2%
Professional fees	3%	3%	6%	5%	2%
Debt finance costs	4%	4%	4%	3%	1%
Developer margin (to cover risk)	18%	17%	22%	18%	N/A – retained
GST (15% on top of other costs)	13%	13%	13%	13%	13%

Table 1: Case studies of development costs

Construction costs are the largest single cost item for all dwelling types, followed by land and land development costs. For brownfield sites, land costs tend to be higher than land development costs, as sites are already serviced, while for greenfield sites land development costs are similar in magnitude to land purchase costs. Taskforce members reported that land and construction costs can rise rapidly in boom periods, making development riskier and creating incentives to hold land rather than develop.

A range of fees and charges make up the balance of development costs. Financing costs can account for up to 4% of total costs and may be increased due to delays in obtaining planning approval. Furthermore, banks require a minimum developer margin to account for risks in development, which may rise when development is seen as riskier.

3.2 How to reduce costs and lift supply?

Action is needed in a range of areas to enable more homes to be built at a more affordable price.

The barriers to scaling up housing supply are different for different types of dwellings. Standalone houses and medium-density terraced homes and apartments are all affected by build costs, the availability of development finance, and perceived uncertainty about future demand. However, the key barrier to scaling up supply of standalone houses is the availability of serviced land, while trust and confidence among buyers and the ability to efficiently obtain consent to develop are important for medium-density housing.

The Taskforce has therefore identified three key areas where further work is needed, including collaboration between Auckland Council (and its wider 'family' of organisations such as Auckland Transport and Watercare), central government, and the development sector, in order to build more in Auckland:

- Remove impediments to the construction sector **developing at scale**, including identifying investors who can **build through the dips** to lift construction in the peaks
- **Unlock the availability of land with appropriate zoning and infrastructure**, at the right price, to enable more development, faster
- Deliver **efficient and certain planning, consenting, and risk management** to reduce costs, enable innovation in construction and delivery, and create communities with quality built and urban form outcomes.

Within each category, a mix of 'tactical' interventions that can be done soon are identified, without significant legislative or policy change, as well as 'systemic' interventions that may take longer to deliver but which have the potential to have a large and long-term impact on housing supply outcomes.

An important message is that delivering tactical interventions without addressing systemic challenges will not fully address Auckland's housing supply challenges. Tactical changes can help to buy time to enable deeper policy changes, but they are not a substitute for more fundamental change in a market that has not built enough homes for several decades.

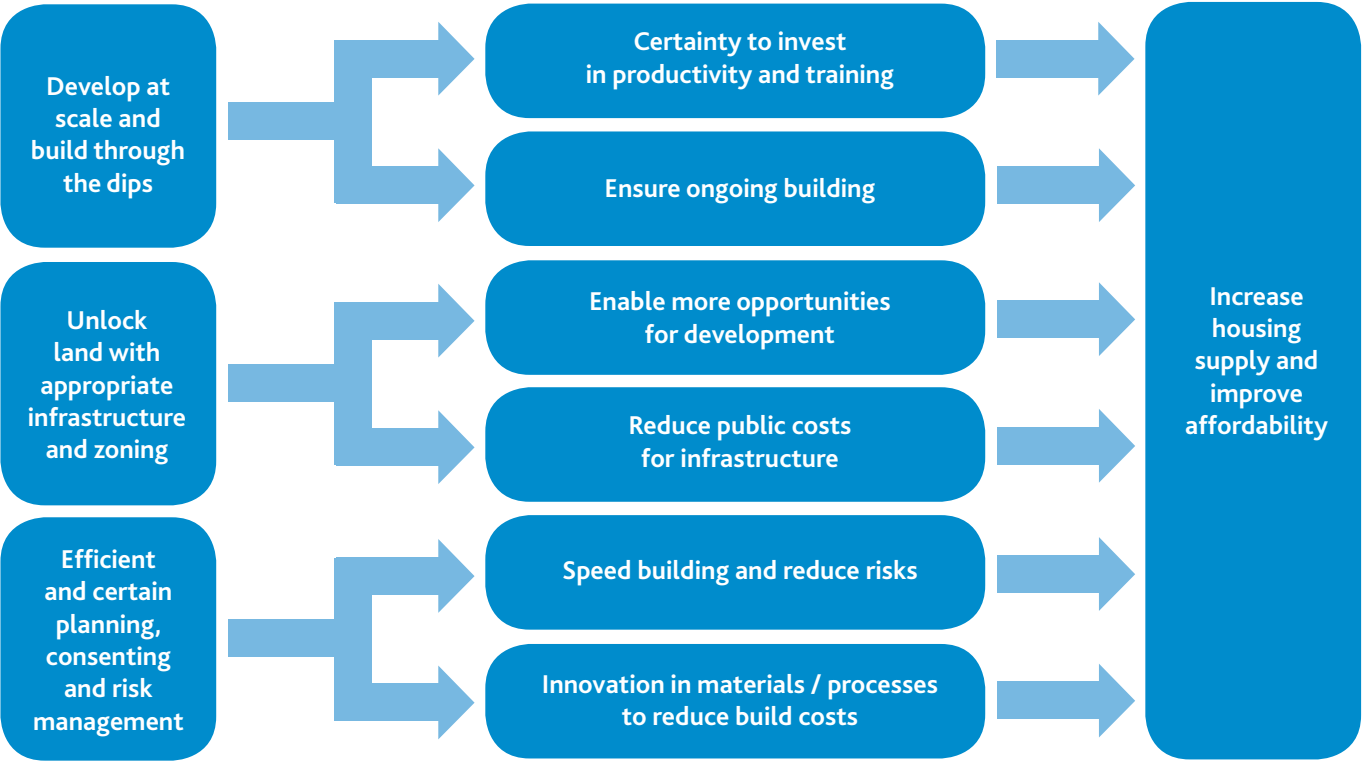


Figure 5: Diagram of key policy levers

4 Develop at scale and build through the dips

4.1 Learnings

4.1.1 The boom-and-bust cycle in construction is a barrier to long-term investment

Historically in New Zealand, housing development is sensitive to short-run changes in house prices. When the rate of house price inflation falls, dwelling consents also fall off (Figure 6).

This means that when house prices fall, or rise more slowly, it can exacerbate,

rather than improve, long-term housing affordability challenges. The rate of building during the booms isn't enough to catch up with the shortfall accumulated during the dips.

This reflects rational behaviour on the part of developers, who must respond to the demands and prices they face in the market. However, this pattern has a range of detrimental effects on the construction industry.

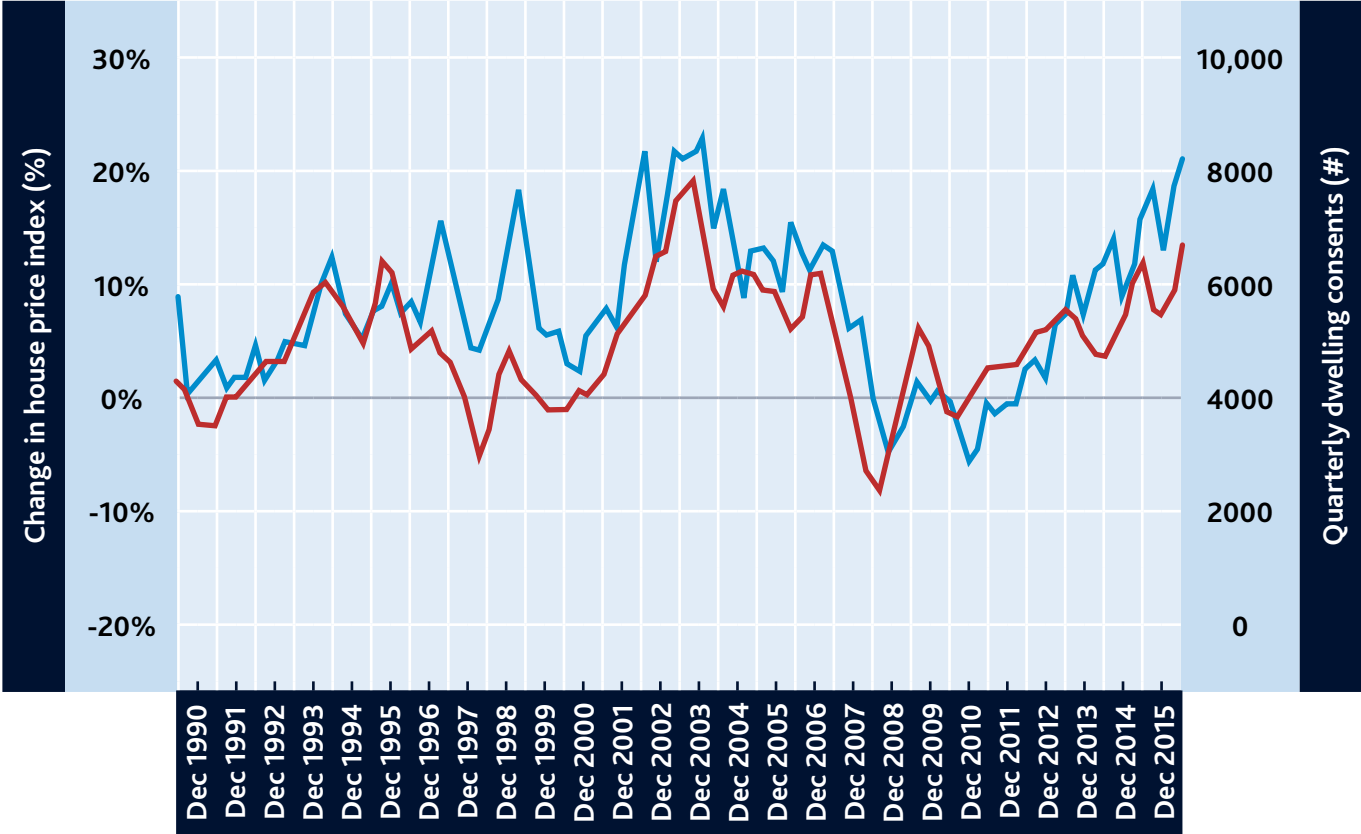


Figure 6: House prices and residential dwelling consent trends (Statistics NZ, RBNZ data)

Key:
— Change in House Price Index
— Residential dwelling consents



“ We have plans to build a prefabricated panel factory in Auckland, but we’re waiting on a big order to deliver it. What’s going to solve the problem is a long-term pipeline of demand. A programme of building 100-300 homes at any given time in Auckland would help pull this out. ”
(Taskforce submitter)

4.1.2 Long-term certainty is needed to lift construction productivity

Volatile demand for residential construction discourages builders from building scale or investing in better workforce training or new equipment and building techniques. Skills development and innovation pay off over a longer period of time, but if future demand is highly uncertain they may not pay off at all.

This contributes to a range of challenges facing the construction industry, including:

- The fragmented structure of the industry, with small firms that are unable to scale up due to varying demand
- High costs for materials and financing due to a lack of scale
- Difficulty training, recruiting, and retaining skilled staff
- Limiting incentives to invest in R&D – between 2009 and 2012, the average construction firm with 6+ employees spent only 10 to 38% as much on R&D as the average NZ firm in general¹³.

These factors have contributed to the construction industry’s relatively poor productivity performance in recent decades (Figure 7) and may serve as a barrier to innovation to reduce costs and increase the quality of housing. Consequently, reducing volatility in demand for building is also likely

to improve the productivity and financial viability of the industry.

4.1.3 Overcoming volatility creates stable careers in building

The Christchurch rebuild shows that the construction industry can scale up when needed to meet significant new demands (see Case study 2). Between 2011 and 2016 construction employment in the Canterbury region rose 91%, with the bulk of this increase occurring in residential building and construction services¹⁴.

However, volatile demand for building prevents it from being seen as a viable long-term career path. During downturns, builders migrate overseas or leave the industry, and participation in building apprenticeships drops (Figure 8). Although apprenticeships rise in the booms, they take four years to complete, meaning that skills are not available in a timely fashion. Moreover, less than 40% of building apprenticeships are completed within 6 years¹⁵.

Offering shorter ‘badge’ qualifications in specific areas of practice, such as three-month courses in cladding or framing, could partly alleviate this challenge. A more fundamental requirement is to mitigate the boom-and-bust cycle in construction and take other measures to make the industry an attractive career option for a wider pool of young workers.

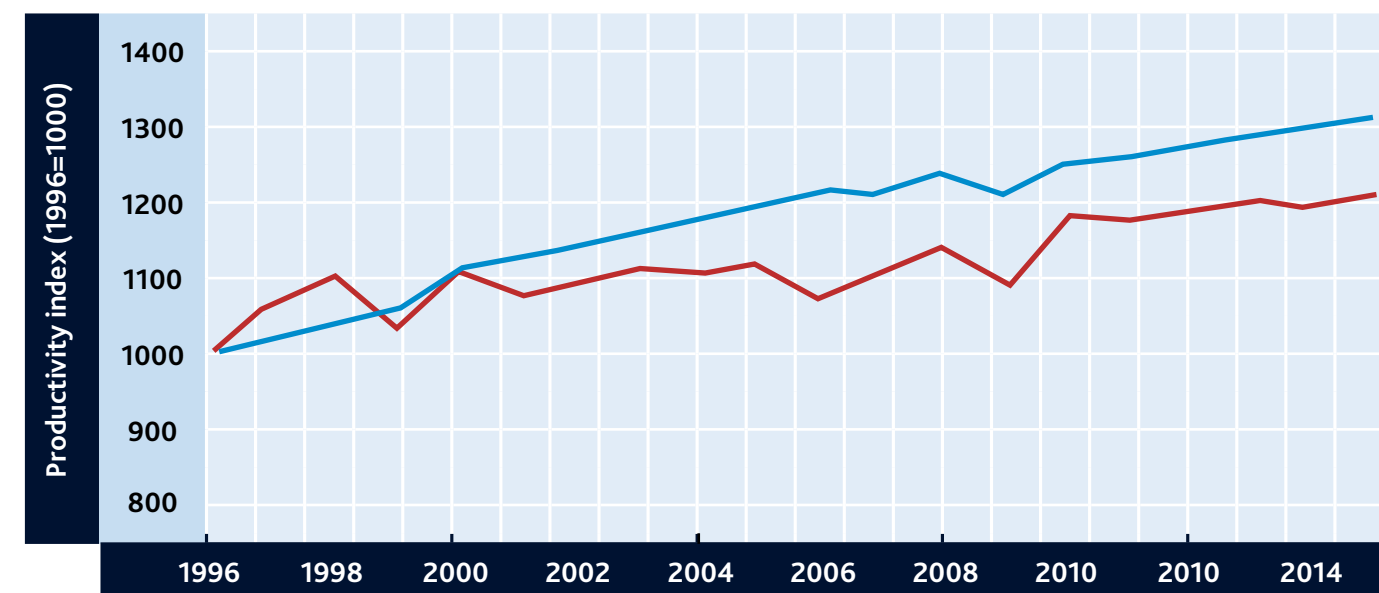


Figure 7: Labour productivity in construction (Statistics NZ)

Key:
Measured sector Construction

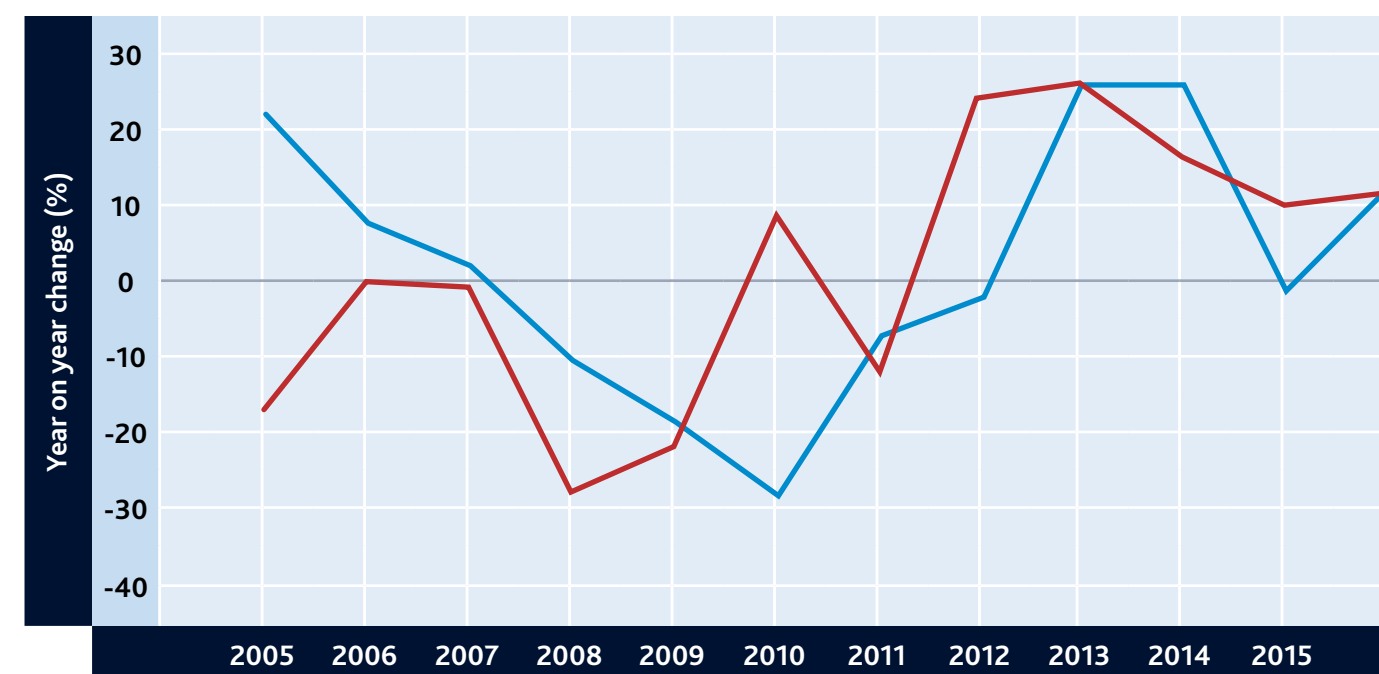


Figure 8: Boom and bust in building apprenticeships (BCITO)

Key:
Trainees Consent

¹³ Ministry of Business, Innovation and Employment. 2013. *The New Zealand Sectors Report 2013: Construction*. See figure on p.82. In 2011, the average construction firm spent only one-tenth as much on R&D as the NZ average; in 2012 this figure rose to 38%.

¹⁴ See Statistics New Zealand’s *Business Demography Statistics: Geographic units by region and industry series*. Similarly, between 2011 and 2016 construction employment in Auckland rose 35%, with most new jobs added in residential building and construction services.

¹⁵ Ministry of Education. 2009. *Modern Apprenticeships – Completion Analysis*. Available online at http://thehub.superu.govt.nz/sites/default/files/42132_Modern-Apprenticeships---Completion-Analysis-final_0.pdf.

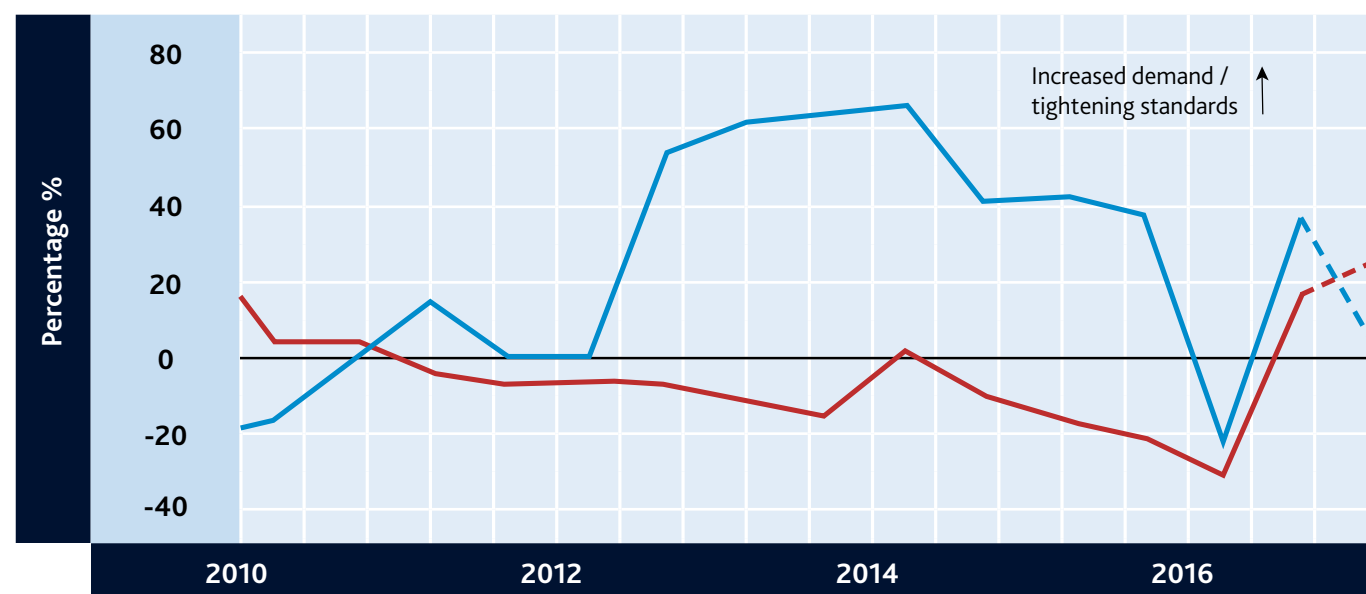
4.1.4 Residential development finance is becoming more constrained by bank regulation

Finally, the Taskforce has identified an important emerging issue, which is that bank finance for developers and buyers is likely to become more constrained due to new banking regulations. In the absence of alternative sources of finance this may create a structure barrier to home building even in a context of a shortfall.

Australian-owned banks operating in New Zealand must operate within limits set by the Australian Prudential Regulation Authority (APRA) for lending to commercial property developers, which includes

bank loans to developers of residential apartment and terrace housing projects. APRA recently issued a warning about growing risks in property development¹⁶. New Zealand banks are understood to have lent close to their limit for commercial property development¹⁷.

A November 2016 Reserve Bank (RBNZ) survey showed that commercial borrowers expected a significant tightening of lending standards in early 2017 (Figure 9). This may be heightened by a current RBNZ review of bank capital requirements¹⁸ and recent International Monetary Fund recommendations for higher bank capital requirements¹⁹.



Key:

■ Demand ■ Lending standards

Figure 9: Property development loan demand and commercial property lending standards (RBNZ)

Source: RBNZ Credit. Conditions Survey

Note: This chart shows the percentage of respondents reporting an increase in demand (a tightening in lending standards) minus the percentage reporting a decline (loosening). Individual bank responses are weighted by market share. The dotted line is the expected change six months ahead.

¹⁶ See <http://apra.gov.au/adi/Documents/CRE-feedback-letter-all-ADIs.pdf>. The relevant passage: "APRA expects that ADIs with commercial property exposures should manage not only the risk of individual loans but also consider build-ups in risk at the portfolio level... One fundamental management control to prevent a build-up in risk is an overarching sector concentration limit, as per Prudential Standard APS 221 Large exposures. Better practice would be to also have sub-limits to control concentrations in riskier segments of the portfolio, such as lending for development or land."

¹⁷ For a media report, see <https://www.newsroom.co.nz/2017/03/12/8513/aussies-torpedo-auckland-housing-plan>.

¹⁸ See <http://www.rbnz.govt.nz/research-and-publications/speeches/2017/speech-2017-03-07>.

¹⁹ For a media report, see <https://www.newsroom.co.nz/2017/05/09/26072/imf-housing-reforms>.

Case study 2: Prefabrication and parallel consenting in the Christchurch rebuild

The rebuild following the 2011 Canterbury Earthquakes provides examples of how to scale up innovative new housing delivery models. Around three-quarters of homes in the Canterbury region were damaged in the quake, creating a severe housing shortfall.

Mike Greer Homes provides an example of how builders responded to the shortfall. After the 2010 Canterbury Earthquake contracts with HNZN, Bupa, and Southern Response enabled the company to scale up its build programme. Its current aim is to add more affordable homes to the market on an ongoing basis.

To reduce costs and construction timeframes, Mike Greer Homes:

- Established Concision Panelling to supply prefabricated panels for new homes
- Imported materials directly rather than purchasing from local wholesalers
- Invested in internal process improvement and quality assurance to manage delivery and track quality and enable faster consent approval
- Employed parallel construction for new subdivisions, building roads at the same time as the pipes and site works for houses to speed up delivery.

The company estimates that prefabrication has reduced its house build timeframes from 22 weeks to 8-10 weeks. It is now prefabricating 40 to 45% of new homes, and aiming to raise this ratio to 80% through ongoing research and development. Parallel consenting can also lead to significant cost and time savings.

Case study 3: Redevelopment opportunities on Housing New Zealand land

Housing New Zealand owns 27,400 state homes in Auckland as of March 2017, making it one of the largest single accommodation providers and landowners in the city. Nationwide, the average age of HNZN homes is around 45 years, with roughly one in four homes older than 60 years. This creates significant opportunities for renovation and redevelopment to meet new demands for social, affordable, and market-rate housing.

The Auckland Unitary Plan enables Housing New Zealand land to be redeveloped to add an additional 39,000 dwellings. This creates room for all current tenants to be rehomed and tens of thousands of additional homes to be built to meet wider housing demands.

The Tāmaki Regeneration Company, a joint venture between the Crown and Auckland Council, provides an example of opportunities and constraints to redeveloping. It is responsible for redeveloping 2500 former state houses in Glen Innes, Pt England, and Panmure areas to provide 7500 new homes, including 2500 for social housing. This means transforming the area from neighbourhoods of 80m² state houses on 700m² sections to neighbourhoods consisting of townhouses and midrise apartments.

Redeveloping existing neighbourhoods means investing in up-front community engagement to obtain a 'social license to operate'. In Tāmaki, a commitment to rehouse existing state house tenants and facilitate provision of new community facilities such as early childhood education centres add complexity to the development process but are vital to ensuring community support.

4.2 Key recommendations

Table 2: Key recommendations to build through the dips

Recommendation	Requirements for delivery
Tactical interventions	
Establish, as soon as possible, a plan to scale up joint venture building programmes on publicly-owned land (see Case study 3). Identify the quantity of development required and delivery mechanisms, such as partnerships between the private sector and Panuku Development Auckland or HLC (formerly Hobsonville Land Company) with appropriate sharing of risk and reward, and make this plan known in the market to provide certainty for home builders. ²⁰	Auckland Council to collaborate with central government to implement
Encourage development partners that are undertaking large-scale urban redevelopment to engage with communities early in the process (see Case study 3). Development can provide opportunities for both the existing community as well as the developer and new communities. Understanding and communicating these benefits can ensure that development proceeds more rapidly. Ensure that existing social housing tenants are re-housed in the community.	Auckland Council to invite development partners to respond
Encourage the building industry to engage with the Building and Construction Industry Training Organisation's (BCITO) skills badging trial scheme (due to start in second half of 2017), which aims to be an alternative to multi-year apprenticeships. Encourage central government to scale up this scheme rapidly after the trial if it is deemed successful and there is demand for this approach.	Auckland Council to encourage central government to adopt a 'badging' system should trialing prove successful
Optimise the points system for work visas to increase the preference for skilled construction workers relative to other occupations when there are major workforce shortages that cannot be fulfilled through local training.	Auckland Council to invite a response from central government
Strategic interventions	
Establish a credible long-term programme of housing development, including a commitment to maintain a higher baseline of overall housing delivery across boom-bust cycles. Sending a credible signal about the future pipeline of work would encourage investment in skill development and innovation. This would include: <ul style="list-style-type: none">identifying land requirements (including land that may need to be purchased in advance)planning mechanisms to enable deliveryfinancing, funding, and ownership mechanisms to ensure delivery, including potential shared equity models for landa long-term construction workforce development plan.	Auckland Council to invite central government and major landowners and developers to progress

²⁰A challenge to scaling up redevelopment on public land is that the pace of medium-density redevelopment is limited by buyers' demand for medium-density dwellings. The Ministry of Social Development can provide a long-term rent guarantee to enable the development of social housing through long-term contracts for social housing provision. This policy is outlined in MSD's 2016 Purchasing Strategy – see the 'long-term capacity contracts' section: <https://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/housing/2016/purchasing-strategy-final.pdf>

Recommendation	Requirements for delivery
Strategic interventions	
Investigate other mechanisms to enable new tenure and ownership models that can fill gaps between social housing and market-rate housing. Identify whether and how these are feasible to implement to address affordability issues.	Auckland Council to collaborate with central government and housing sector groups
Investigate the potential for unintended consequences for residential development from new bank regulations (which are intended to manage risks for financial stability but which may affect the availability and cost of finance), and identify whether there is a need for a public or private response.	Auckland Council to invite Treasury to progress a review, with input from the Reserve Bank, development and financial sectors



5 Unlock land with appropriate zoning and infrastructure

5.1 Learnings

5.1.1 The Auckland Unitary Plan enables more homes

When appropriately zoned land is in scarce supply, new housing cannot be developed in response to demand.

The Auckland Unitary Plan opens up more opportunities for both greenfield and brownfield development. It doubles from the council's original plans, the number of commercial feasible development opportunities to meet projected population growth to 2041 (Figure 10).

New greenfield areas on the fringe of the city provide roughly one-third of capacity, while enabling more infill and redevelopment in centres and existing residential areas provides the remaining two-thirds. In addition, the Auckland Unitary Plan allows landowners to initiate private plan changes to develop outside the Rural Urban Boundary²¹.

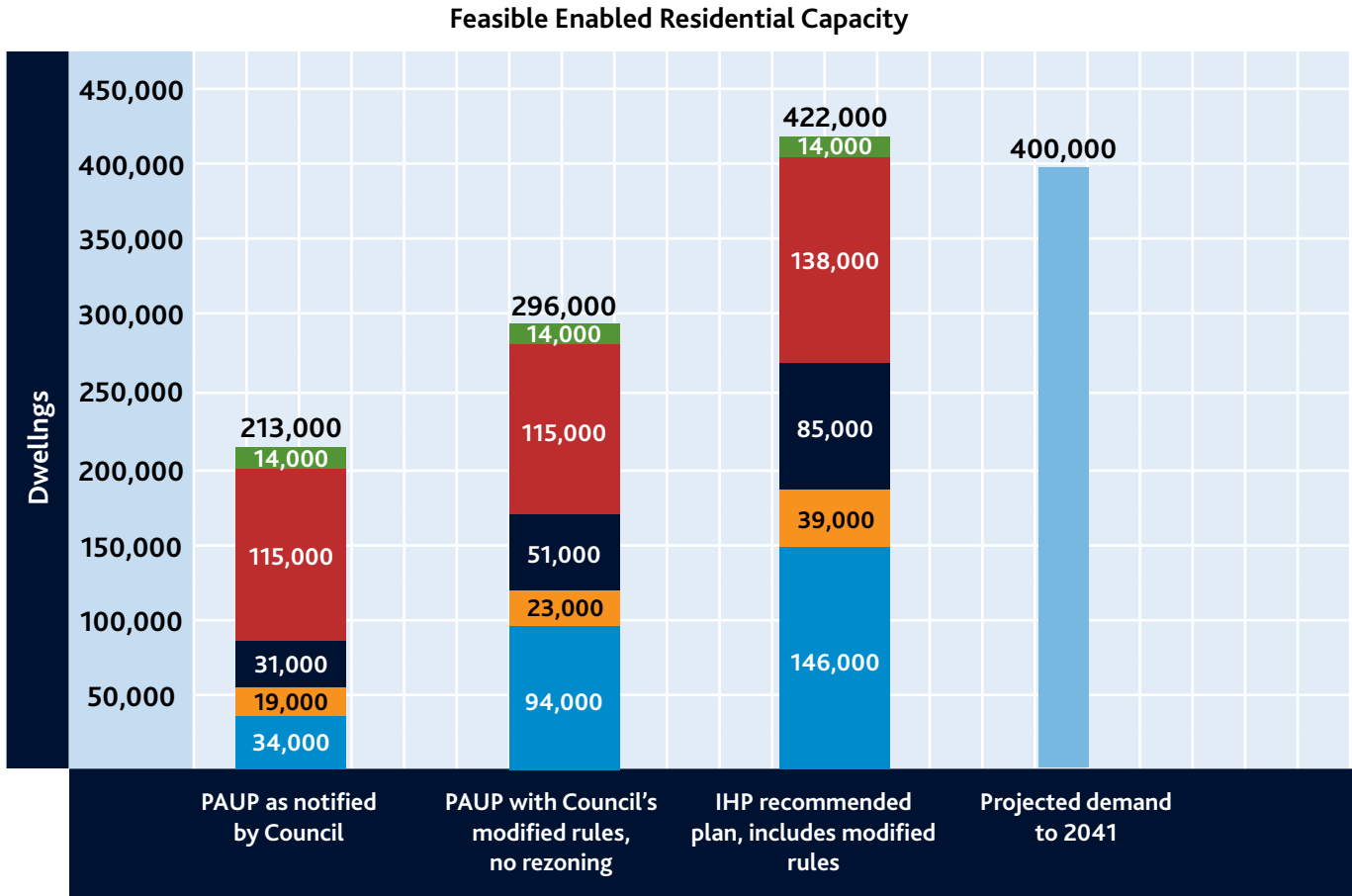
However, in order for the Auckland Unitary Plan to work as intended it must be backed by provision of infrastructure to open up new growth areas, and efficient and certain consenting processes to enable infill and redevelopment.

5.1.2 Integrated infrastructure supply and land use is now the key barrier

Auckland's future infrastructure requirements are significant. Although growth brings national benefits, it can create up-front financial liabilities for councils. A range of infrastructure services are required for development, and many of these have limited funding sources. This is exacerbated by the fact that infrastructure supply is not always linked directly with new housing supply.

Major infrastructure to service 138,000 homes in new greenfield areas will cost an estimated \$19 billion over the next three decades (Figure 11). This is in addition to expenditures to maintain or replace existing infrastructure and upgrade capacity within the existing urban area to enable redevelopment and infill²².

Auckland Council's ability to borrow to finance new transport and water infrastructure is limited by debt to revenue caps that it is fast approaching (Figure 12). Unlocking these financial constraints, either by expanding Auckland Council's balance sheet or creating new special purpose vehicles to finance infrastructure (see Case study 4) will require new sources of funding to cover debt repayments.



Key:

■ Rural Areas ■ New Urban Areas
■ Existing urban areas ■ Centres and mixed use ■ Housing NZ ■ Residential zones

Figure 10: Development capacity unlocked by the Unitary Plan (Independent Hearings Panel)

Decade	One	Two	Three
Transport	\$2.5bn	\$4.7bn	\$0.5bn
Water / wastewater	\$1.0bn	\$1.6bn	\$2.1bn
Stormwater	\$0.1bn	\$0.9bn	\$0.5bn
Open space / community	\$0.9bn	\$1.8bn	\$2.0bn
Total	\$4.5bn	\$9.0bn	\$5.1bn

Figure 11: Expected costs of bulk infrastructure for Future Urban Zone areas (Auckland Council)

²¹The 'Rural Urban Boundary' (RUB), outlined in the Auckland Unitary Plan, identifies the long-term limit to potential urban growth – the intention is that due to infrastructural constraints and costs, greenfield growth within this RUB should be delivered in a sequenced way over the next 30 years.

²²Sites within the existing urban area are already within reach of network infrastructure. However, transport networks that are very congested or water / wastewater pipes that are nearing capacity may need to be upgraded to enable growth without adverse effects.

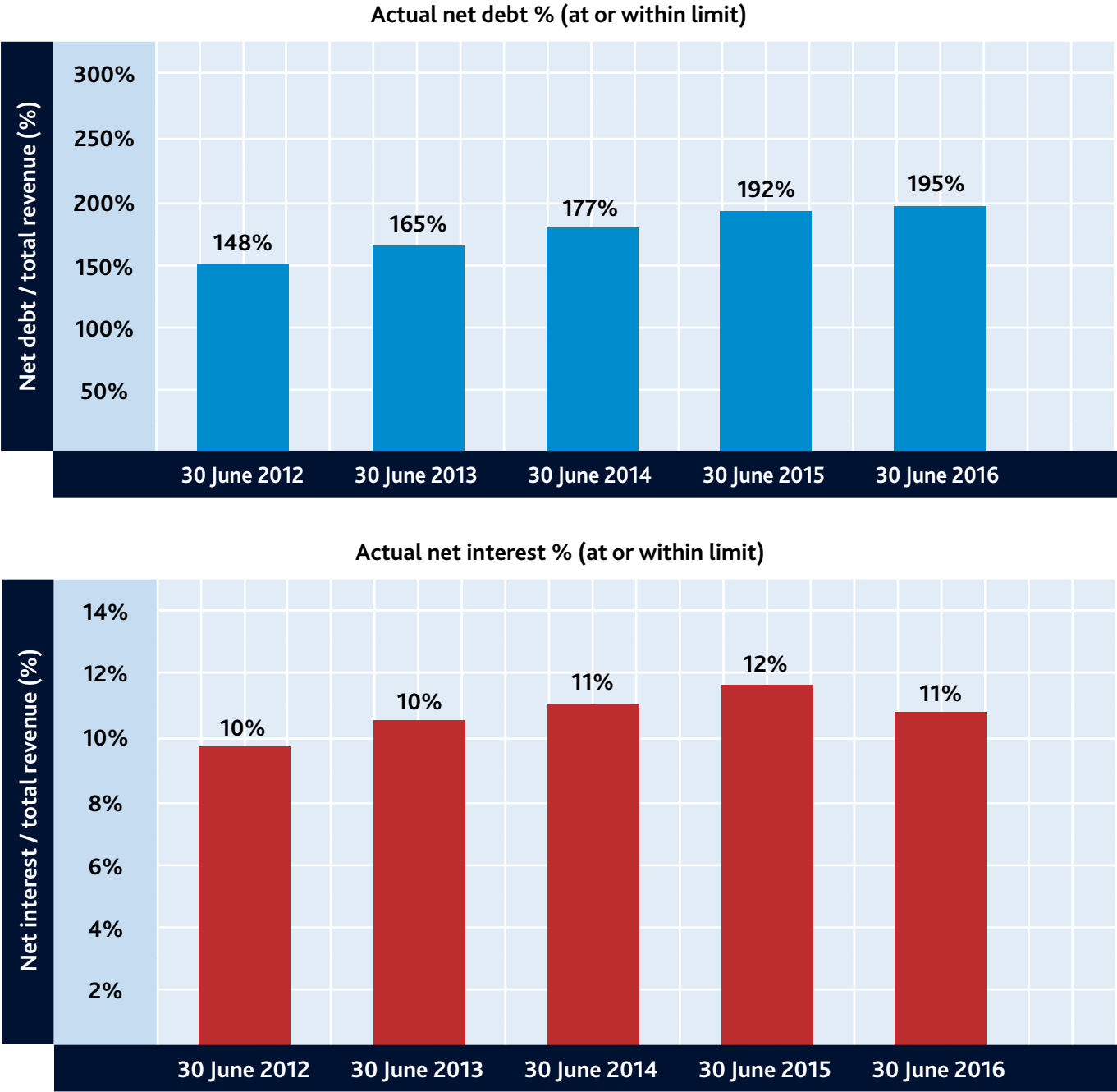


Figure 12: Auckland Council is nearing its debt ceiling

Case study 4: Implementing the Housing Infrastructure Fund

Central government announced the Housing Infrastructure Fund, a \$1 billion source of finance for new infrastructure to enable housing development, in February 2017. The aim of the Fund is to enable councils to accelerate infrastructure that they would otherwise be unable to finance, and hence accelerate housing supply.

Auckland Council was one of five councils that submitted an application to the Fund. In doing so it is investigating new methods to break the 'logjam' of council debt finance constraints, limited revenue to fund infrastructure, and slow take up of housing in areas that have been opened up for development.

To implement the Fund, Auckland Council will create a special purpose vehicle to separate new infrastructure finance from its existing balance sheet, which is under pressure (see Figure 12). For this model to function well, the new entity will require the ability to raise revenue streams from development that it unlocks, as well as an equity provider to underwrite its borrowing. In the short term, development contributions are expected to be a key revenue source, but other revenue sources such as targeted 'value capture' rates and developer contributions are also likely to play a role.

The Fund will be used to provide targeted investment in new trunk infrastructure – ie transport and the 'three waters' – to unlock housing in areas where there is already enabling zoning. A key challenge will be aligning with landowners' development intentions and ensuring appropriate incentives to deliver housing following delivery of infrastructure.

Transport infrastructure is the primary funding challenge. According to the Auckland Transport Alignment Project²³, Auckland needs to spend \$23.7 billion on transport over the next decade, against an expected \$19.8 billion from existing funding sources²⁴. This amounts to a deficit of \$400 million per annum.

Transport funding is constrained in significant part because it is difficult to recoup the full cost of new infrastructure from users. Development contributions recover some transport infrastructure costs, but it is difficult to determine which parts of the network new residents will actually use. Similarly, toll roads rarely make enough money to cover their full costs as users often have the option to take un-tolled alternative routes²⁵.

²³ The government and Auckland Council have worked together to identify an aligned strategic approach for the development of Auckland's transport system, known as the Auckland Transport Alignment Project or 'ATAP'.

²⁴ Auckland Transport Alignment Project. 2016. Recommended Strategic Approach. See paragraphs 108-112.

²⁵ The NZ Transport Agency typically uses tolling to bring forward projects that it would otherwise be unable to fund, rather than to recover the full costs of new roads. For instance, tolls on the Northern Gateway motorway in Auckland are expected to cover only around half of the project's construction cost. See <https://www.nzta.govt.nz/assets/userfiles/transport-data/Tolling.pdf>

Congestion pricing has been identified by the Auckland Transport Alignment Project as a potential opportunity to overcome this issue, as it will better manage peak transport demands and provide an automatic funding source for upgrading busy routes.

Different issues arise in the context of water and wastewater infrastructure²⁶. Watercare aims to recover all capital costs for new water/wastewater infrastructure from customers via growth charges and operating costs via water rates or metering. In addition, Watercare is able to contract with new customers to bring forward infrastructure that is not in its capital works programme.

Case study 5: Value capture to fund infrastructure projects

Recent reports by Infrastructure Australia and the National Bank of Canada investigate the potential for value capture mechanisms to fund new infrastructure. Case studies highlight the range of methods that can be used to capture value – and also reveal some challenges in turning value capture into a sustainable funding source.

Value capture has been used to part-fund several major infrastructure projects in Australia, including the Sydney Harbour Bridge and Melbourne City Loop.

The Melbourne City Loop railway tunnel completed in 1985 was part-funded through two separate rate levies, one applying across the greater Melbourne area and one targeted to CBD properties. The rate levies were announced and put in place prior to the project's start date and ultimately wound down in 1995, ten years after the project's completion.

The Hong Kong Mass Transit Railway Corporation (MTR) provides an example of a different approach to value capture. The government provides MTR with long-term leases and development rights on public land in areas that are served by new subway lines. MTR subdivides the land and leases it to private developers through a competitive bidding process. Its ability to capture a share of development profits unlocked by improved transport accessibility, makes it one of the few transit agencies that makes a financial profit from developing new transport infrastructure.

The Melbourne and Hong Kong examples illustrate the range of opportunities available to Auckland. The City Loop was part-funded by the Melbourne equivalent of targeted rates, which can be implemented in New Zealand under the Local Government (Ratings) Act. However, targeted rates must be set in advance and can draw political opposition. The MTR, by contrast, captures value directly due to the fact that it owns the land around new subway stations. Where Auckland Council or the Crown own land that may go up in value due to infrastructure improvements, this may be a relevant option.

New water infrastructure funded by developers is typically vested with Watercare, rather than held by the developer. The Taskforce noted that in cases where developer-funded water infrastructure has spare capacity that may be on-sold to subsequent developments, revenue sharing agreements between Watercare and developers may incentivise more private funding of water infrastructure.

Infrastructure funding contributions from landowners, e.g. through targeted 'value capture' rates, can be beneficial for both landowners and councils. If they fund the provision of additional infrastructure that would not have otherwise gone ahead, they can create a 'win-win' for both parties (see Case study 5).

5.1.3 Land banking exacerbates cost pressures, and it is affected by market incentives

Finally, the Taskforce considered the potential role of land banking, or holding land off the market while waiting for prices to rise.

The extent of land banking and its impact on home building is unclear. There is some

anecdotal evidence of properties being bought and held in expectation of future capital gains. This may reflect a rational commercial response to a limited supply of development opportunities, as rising demand will cause the value of developable land to increase in the future. It may also reflect developers acquiring a forward supply of land for ongoing development.

Some policies to unlock land with appropriate infrastructure and zoning may also have an indirect impact on incentives to land bank. On the one hand, opening up more opportunities for development via zoning and infrastructure supply will improve incentives to develop rather than wait, as it increases the competitive pressure faced by landowners²⁷.

On the other hand, some methods for charging for infrastructure, like levying targeted 'value capture' rates in areas that benefit from network infrastructure extensions, could also incentivise landowners to bring forward development. Similarly, basing rates on capital values may discourage some development, as developing means paying more rates relative to an unimproved site²⁸.

²⁶ Stormwater infrastructure is funded by Auckland Council. There is a policy direction to internalise stormwater costs for new developments within the site or subdivision; however, funding capacity upgrades for the existing urban area may be challenging.

²⁷ See Section 8.3 in the Productivity Commission's Better Urban Planning report.

²⁸ Research commissioned by the Productivity Commission suggests that rating based on land value may also be successful in reducing land values. See Oliver Shaw Ltd. 2016. Productivity Commission Inquiry Into Better Urban Planning – Revenue Funding Options. A report for the Productivity Commission.

5.2 Key recommendations

Table 3: Key recommendations to unlock development opportunities

Recommendation	Requirements for delivery
Tactical interventions	
Implement the Housing Infrastructure Fund (Case study 4), ensuring a financial structure that can enable it to be expanded through time, enable participation of private capital, and remove the need for this funding to be secured against the Council's balance sheet. This would involve an appropriate equity underwrite and the ability to raise revenue streams, such as contributions from land owners in the areas that benefit from new infrastructure, targeted 'value capture' rates in the same areas, and service charges, all of which will also improve incentives to develop serviced land.	Auckland Council to implement Housing Infrastructure Fund following central government decision
Publish and regularly update information on the magnitude of the funding gap for the Future Urban Land Supply Strategy, including information on how this may affect timing of development, in order to enable negotiation with developers and other parties for additional funding to progress development.	Auckland Council to progress, with input from Watercare and Auckland Transport and in discussion with central government agencies and the development sector
Implement at least one infrastructure scheme that is self-funded from some combination of land owner contributions, targeted 'value capture' rates, and service charges, in order to accelerate an infrastructure project to enable housing delivery and internalise the costs of infrastructure with the party that benefits, i.e. the landowner. Capture learnings to enable this approach to be scaled up.	Auckland Council to progress in collaboration with Auckland Transport, Watercare, and/or central government
Develop an infrastructure pricing policy and structured dispute resolution process for infrastructure funding negotiations with developers to signal the direction of pricing and improve confidence in future infrastructure funding arrangements.	Auckland Council to invite a response from Auckland Transport and Watercare
Progress route protection for future transport corridors in new urban areas through Auckland Transport's Supporting Growth Programme, in order to reduce the likelihood of delays to future housing delivery that are caused by slow infrastructure planning. Capture learnings to enable this approach to be scaled up to other areas, and identify the impact of the existing designation process on the project timeframe.	Auckland Transport to progress this programme
Invite Auckland Council's Governing Body to satisfy itself that the refresh of the Auckland Plan implements National Policy Statement requirements for a Future Development Strategy outlining how urban development capacity in brownfield and greenfield areas will be provided to meet future demands.	Auckland Council to progress, in collaboration with the Ministry for the Environment and development sector
Seek to quantify the extent of land banking and understand why it is happening, and then develop a set of policy responses to address it.	Auckland Council to investigate, inviting input from the development sector

Recommendation	Requirements for delivery
Tactical interventions	
Strategic interventions	
Further develop the Housing Infrastructure Fund, expanding it through time, securing participation of new private capital, and raising new revenue streams, such as contributions from land owners in the areas that benefit from new infrastructure, targeted 'value capture' rates in the same areas, and service charges.	Auckland Council to implement in collaboration with central government and the development sector
Implement congestion pricing to manage peak demands on congested networks, which will mitigate the congestion effects of new development and hence potentially alleviate some of the funding gap for transport infrastructure. Ensure that public transport and cycling options are available as an alternative to congested routes where tolls are likely to be high.	Auckland Council to collaborate with central government to progress the work of the agreement
Broaden sources of funding for major infrastructure and support the principle of revenue sharing, including an appropriate mix of the following new sources of funding for major infrastructure: <ul style="list-style-type: none">• Devolution of some taxing power to AC (e.g. regional fuel tax as an interim measure en route to full congestion pricing);• Additional revenue from congestion pricing, if any;• Rebating GST on rates, as is done in Australia;• Allocating a share of GST on construction to councils to strengthen incentives to enable development, and• Creation of urban development authorities or special purpose vehicles to internalise major infrastructure costs for large developments. Where appropriate, create new reporting requirements for new revenue sources and ensure that other revenues are subject to traditional Auditor-General requirements to ensure confidence in new revenue tools.	Auckland Council to invite collaboration from central government

6 Efficient planning, consenting and risk management

6.1 Learnings

6.1.1 Consenting can be complex and uncertain

Complex or uncertain consenting processes can delay or derail home building.

Longer or more complicated development processes have higher odds of failure. When the length and ultimate cost of the process is unknown, development is less attractive and commercially viable for new entrants.

Resource consent requirements can be significant for both greenfield development (Figure 13) and brownfield developments. While many consents are simple and are processed efficiently, there can be significant risk around consenting timeframes, especially if there is the potential for the consent to be publicly notified.

Although 93% of consents received by Auckland Council in 2014/15 were processed

within statutory timeframes, the actual time to obtain consent can be significantly longer as it is possible to 'stop the clock' during the process²⁹. In some cases this is due to the lack of quality information provided by applicants, but in some cases it may reflect resourcing challenges on the part of Auckland Council or other delays in reaching a decision.

A second issue is that approval is often needed both from Auckland Council and the council-controlled organisations Auckland Transport and Watercare, which may have different views on what is required from a consent. The Taskforce acknowledged the need for appropriate technical input on consents but also perceived risks from the presence of multiple 'veto points' that may delay or even unravel the process. There is a need for a single point of contact within the council with the ability to deliver a certain decision after weighing up inputs from other council teams and council-controlled organisations.

“First movers are vulnerable: Higher finance costs, low proven market demand, major infrastructure costs, consultation time, uncertainty of outcomes, local resistance to change – compensated for by lower land costs... There are many decision points that you have to navigate. Even a small chance of failure at each decision leads to a large increase in the failure rate.”
(Taskforce submitter)

²⁹ Ministry for the Environment data shows that although the average number of elapsed statutory days for resource consents fell within RMA time limits, the average number of elapsed working days consistently exceeds RMA time limits. See <http://www.mfe.govt.nz/rma/rma-monitoring-and-reporting/reporting-201415/resource-consents/resource-consents-processed>

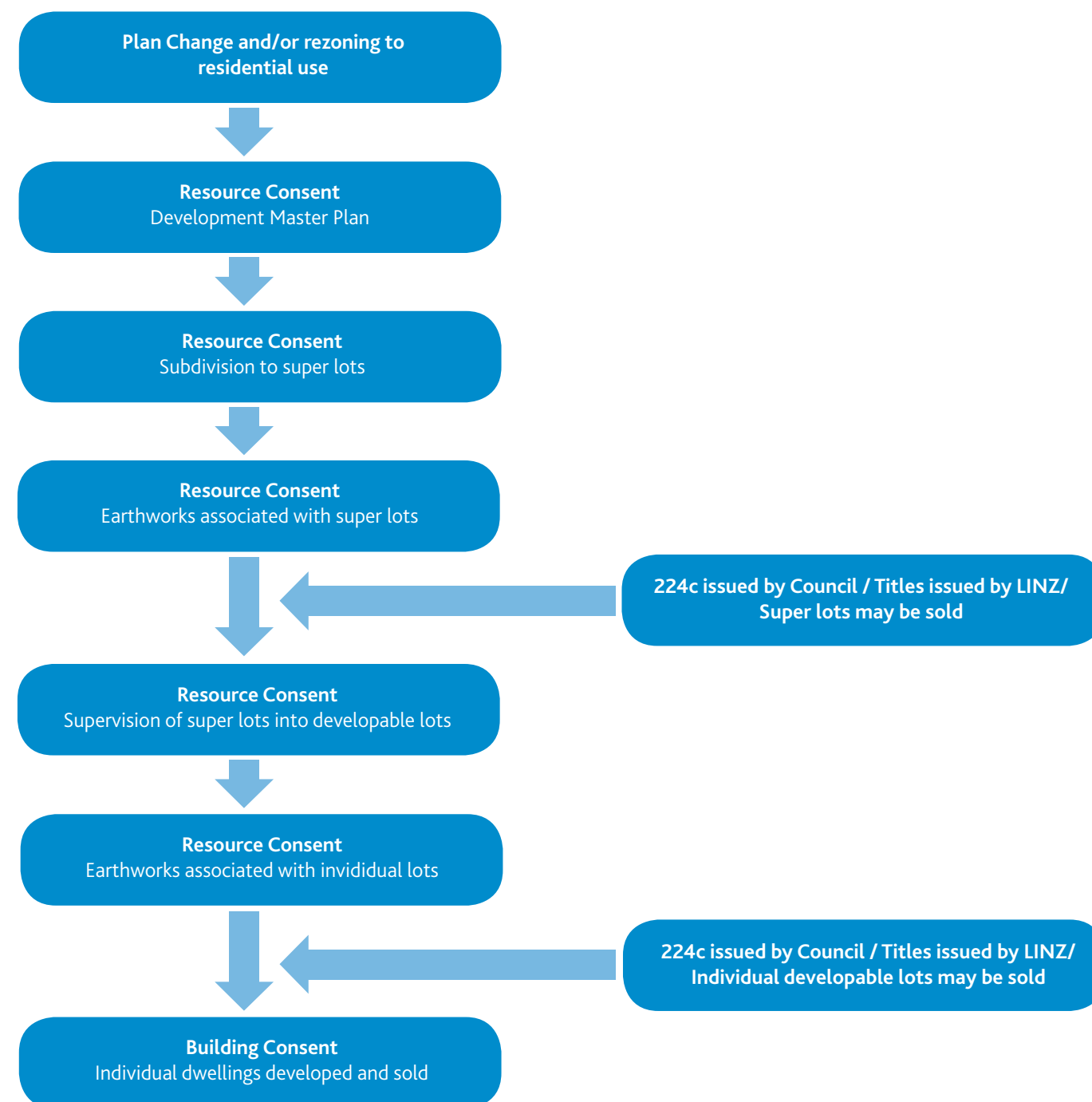


Figure 13: Consenting process for a greenfield subdivision (Grimes and Mitchell, 2015)

Note that smaller developments may combine a number of steps into one and may develop individual lots (rather than super lots) and seek subdivision and earthwork consents within the same resource consent.

A section 224(c) certificate is a final approval from the council that all conditions of the subdivision consent have been complied with then the 224(c) certificates are signed. The developer then lodges this certificate with Land Information New Zealand (LINZ) to allow separate titles for the newly created lots to be issued.

³⁰ See: Page, I. and Norman, D. 2014. "Prefabrication and standardisation potential in building." BRANZ Study Report 312.

6.1.2 Consenting Made Easy can speed development

Auckland Council's Consenting Made Easy project has the potential to unlock more development. The project's stated objective is to provide an easy, efficient experience for customers. It is currently being piloted and will be implemented as business as usual over the next year. It includes four 'streams' for consents:

- **Premium:** Case manager manages resource and building consent process and engagement with Auckland Council and council-controlled organisations.
- **Custom:** Medium and small consents processed online with a dedicated contact point.
- **Streamlined:** Small, straightforward residential and commercial consents, with online applications and goal of a decision within 10 working days.
- **Qualified Partner:** Based on agreements with developers to undertake quality assurance practices for standard products in exchange for faster consent decisions.

To enable faster consenting, it is already delivering new systems, including an online consent application platform, a dedicated team to deliver consents, and service level agreements across the council family organisations to standardise processes and reduce potential for unexpected hold-ups. Leadership, organisational culture, and appropriate resourcing are seen as a key requirement for delivering Consenting Made Easy.

6.1.3 Building consents can limit innovation

Building consent processes and slow updates to the Building Code are constraining innovation and uptake of new building products and systems.

Along with certainty about future demand, this is an important constraint to increasing the use of prefabricated building components to reduce build costs and timeframes. BRANZ estimates that building using prefabricated panels could reduce construction costs by 15%. Construction costs make up between one-third and two-thirds of the cost of a new home, meaning that this is a significant saving on total costs. Building using prefabricated panels can reduce the time to build a house from 22 weeks to 8-10 weeks based on a case study from Christchurch³⁰.

Councils tend to be conservative about approving products and systems that are not recognised in the Building Code. In effect, the Building Code's Acceptable Solutions can become the only acceptable solutions, unless proven otherwise. This is exacerbated by the fact that the Building Code is now 30 years old and is not updated on a regular basis.

While there are valid reasons for this conservatism, the need to seek approval on a case-by-case basis appears to discourage investment in new methods or materials. A related issue is that each individual council must certify new building materials before approving them for use, which makes it more difficult to scale up prefabrication to meet housing demands in multiple cities.

This barrier can be partly overcome through more efficient consenting processes, but fully addressing it may require broader changes to the Building Code and treatment of liability for building products.

6.1.4 Joint and several liability causes councils to be conservative

New Zealand currently uses a system of joint and several liability for building. Under this system, any party that is responsible for an outcome can be required to pay up to the full amount of damages, which means that some parties may bear liability that exceeds the harm that they caused.

In practice, councils hold ultimate liability for defective building products that they approve, as they are often the 'last person standing'

with deep pockets. For instance, Auckland Council and its predecessors have spent over \$605 million on weather tightness liability claims, with the potential for additional claims. Councils facing these potential claims are understandably reluctant to approve new materials and building techniques without significant testing and assurance, which can be challenging in busy times.

Transferring liability away from councils could enable more innovation, reduce costs for both councils and builders, and improve the certainty of consenting processes (see Case study 6). An alternative to the current approach would be to use warranty and insurance schemes, backed by appropriate quality assurance by builders and insurers, to address liability issues.

Case study 6: Building warranty and insurance schemes in the United Kingdom and Australia

A 2015 report commissioned by BRANZ recommends strengthening requirements to participate in building warranty schemes to better balance liability and improve confidence in building quality. It provides several international examples of successful building warranty and insurance schemes.

In the United Kingdom, the National House-Building Council insures around 80% of all new builds. The Council undertakes its own inspections at various stages of the build including foundations, drainage, close-in, pre-plaster and pre-handover. Under this system, the builder is responsible for fixing defects in the first two years of the 10-year warranty, while the Council is responsible for years three to ten.

New South Wales established the NSW Self Insurance Corporation in 2010 as the sole home warranty insurer in the state. It outsources premium collection and policy wording to two private companies and holds a central fund into which premiums are deposited and from which claims are paid. Home warranty insurance needs to be provided

by all builders before receiving any money from a home owner under a residential building contract and before starting any work. The system also covers spec-builds, owner-builders, and developers.

In Queensland, building insurance is provided by the Queensland Building and Construction Commission, a government agency, with private insurers assisting with premium collection and policy wording. Around 70% of the value of policies are re-insured with the private sector, limiting the state's exposure. All building work valued at more than \$3300 is covered under this system.

The Commission evaluates the suitability of a contractor for both licensing and insurance as a single-step process. The complexity of the process for getting licensed and insured varies depending on the amount of building work being done each year. The licensing process evaluates the contractor's technical capability, financial viability, business management capability, and experience.

6.2 Key recommendations

Table 4: Key recommendations to enable efficiency and innovation in consenting and risk management

Recommendation	Requirements for delivery
Tactical interventions	
Implement Consenting Made Easy service models (Custom, Streamline, Qualified Partner, Premium), with attention to the recommendations of the Challenge Panel. The key actions required for improvement are: <ul style="list-style-type: none">ensuring that applicants have a single point of contact with the ability to resolve views received from Auckland Council teams and council-controlled organisations; andensuring appropriate leadership and human resources capacity to drive a culture change in consenting. The Qualified Partner scheme would enable parallel consenting for developments subject to appropriate audited quality assurance.	Auckland Council to implement, seeking input and collaboration with development sector
Ensure that experienced resource consent and building consent processing staff are used effectively through the Consenting Made Easy programme.	Auckland Council to progress
Work with tertiary providers and professional institutes to identify a pipeline of suitably qualified people to work in the construction professions to ensure future consenting requirements can be met by the industry.	Auckland Council to progress, in partnership with tertiary providers and professional bodies
Regularly report on consent and development outcomes that have been identified as data gaps, i.e. building completions and elapsed timeframes for consents (in addition to statutory timeframes), and improve data on an ongoing basis.	Auckland Council to progress
Encourage the Ministry of Business, Innovation and Employment (MBIE) to publicly release its Manufactured Building Guidance to clarify requirements for the industry.	Auckland Council to invite a response from MBIE
Develop new Acceptable Solutions under the Building Code for prefabricated products and medium density housing typologies that are not well addressed by existing Acceptable Solutions, and which are important for meeting Auckland's future housing needs.	Auckland Council to invite a response from MBIE, in consultation with councils and developers
Ensure that a single Council family Code of Practice, setting technical standards for infrastructure assets for new development, is agreed and understood by consent planners, development engineers, and the development industry. Any updates are to be well communicated to the industry. Ensure the Code of Practice defines customer satisfaction outcomes, including enabling housing delivery via efficient and certain processes.	Auckland Council to work with council-controlled organisations and development sector to implement
Ensure that forthcoming national planning standards align with best practice elements of the Auckland Unitary Plan and reduce the need for further major plan changes.	Auckland Council to invite the Ministry for the Environment to progress in partnership

Recommendation	Requirements for delivery
Tactical interventions	
Improve certainty and confidence in medium- and higher-density housing for buyers, through changes to the Unit Titles Act.	Auckland Council to invite a response from MBIE
Ensure plan change processes required to progress zoning changes (e.g. shifting from Future Urban zoning to live zoning) are well resourced and proceed with speed, and that these planning resources are targeted to areas with land owner commitment to fund infrastructure (potentially including community facilities and operating costs) and proceed to build homes.	Auckland Council to investigate, seeking input and collaboration with development sector
In order to strike an appropriate balance between the benefits of urban design and the costs of achieving them, Council to work with the development community to: <ul style="list-style-type: none">Agree the importance of good urban designEnsure that there is a single point of approval for designs and/or encourage the establishment of specific project design review panels for significant developmentsFacilitate discussion between developers, planners, and design review panels about the value and cost implications of key amenity provisions. Auckland Council to progress in collaboration with development sector	Auckland Council to progress in collaboration with development sector
Strategic interventions	
Investigate building warranty and insurance schemes as part of a quality assurance process that would facilitate and expedite the building consent process and construction sector innovation in exchange for reducing the liability that councils face for buildings.	Auckland Council to invite central government to lead, with broad engagement across the sector (construction industry, insurance and banking sectors) Legislative change or other market arrangements may be needed to progress
Review the Building Code and update it to ensure that it reflects and enables ongoing innovation, especially in prefabricated products and medium density housing typologies. Medium density housing face special issues, such as managing noise through common walls, are not well addressed by existing Building Code, and are important for meeting Auckland's future housing needs. Invite central government to commit to reviewing and updating the Building Code on an ongoing basis, e.g. on a three-yearly cycle as in many European countries.	Auckland Council to invite response from MBIE, in consultation with councils and developers
Undertake a holistic review of resource management legislation, including investigating the Productivity Commission's recent planning review's recommendations more broadly.	Auckland Council to invite response from central government



7 Next steps

The recommendations outlined in this report will require a concerted effort by Auckland Council, central government, and many industry players over the coming months and years if they are to make an impact on the barriers and problems identified by the Taskforce to delivering a more sustainable and robust house building outcome for Auckland.

A range of activities and programmes will need to be pursued in order to begin to address some of the practical as well as more systemic problems that have been identified.

Figure 14 sets out an indicative timeline for progressing Taskforce recommendations towards implementation. It identifies indicative timeframes for:

- Investigating recommendations and designing policy responses
- Trialling recommendations to boost development and refine policies
- Scaling up and/or implementing recommendations to achieve consistent housing development at scale.

The indicative implementation programme illustrated in Figure 14 will require further refinement following deliberations between Auckland Council, central government and private sector partners. Once a programme is finalised, the council should report quarterly on progress.



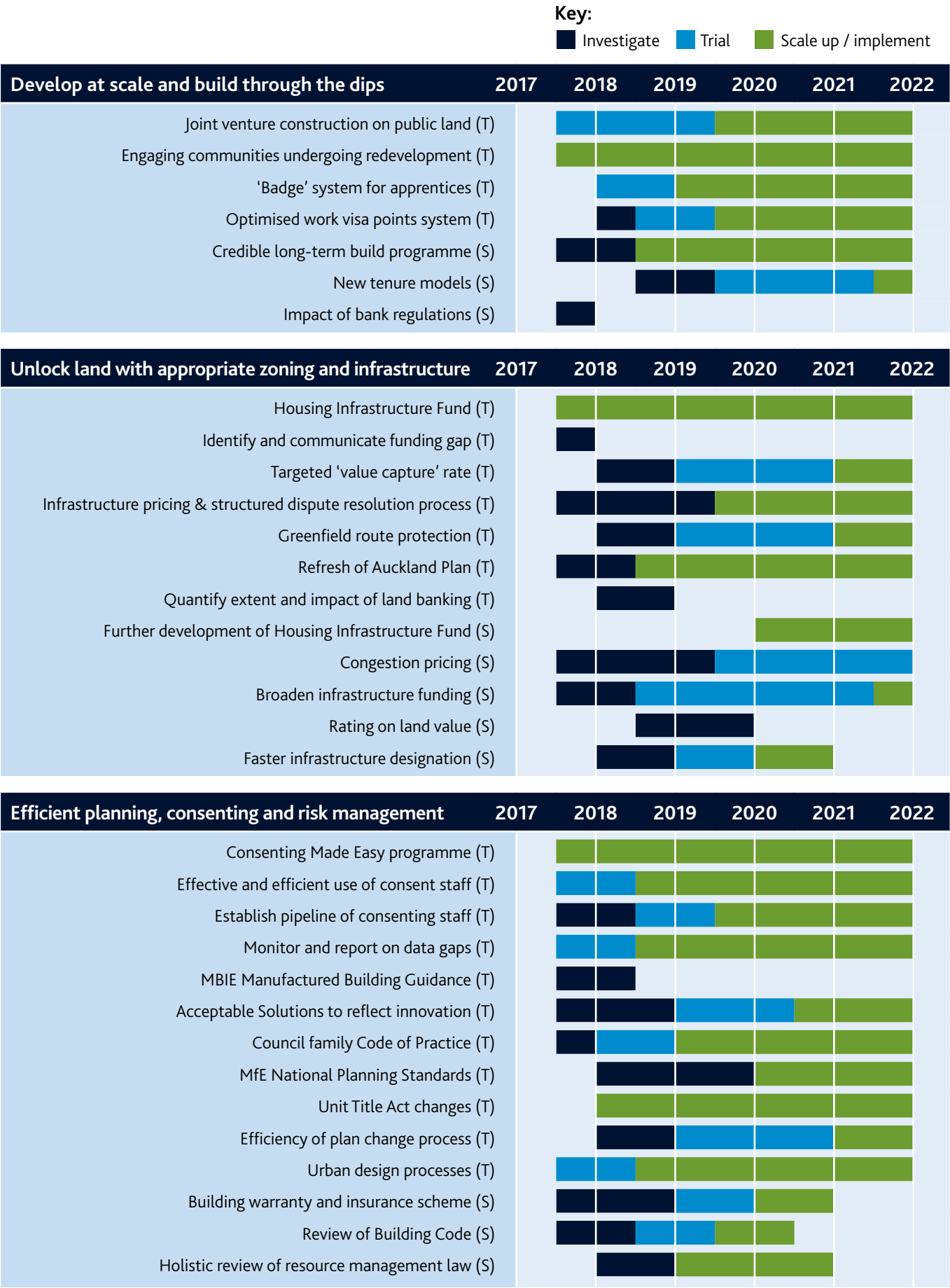


Figure 14: Indicative implementation programme

8 Acknowledgments

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Taskforce member organisations	
<ul style="list-style-type: none">Mayor of AucklandAuckland CouncilBank of New ZealandFletcher BuildingNZ Housing FoundationNZ Institute of ArchitectsOckham ResidentialRegistered Master Builders AssociationSapere Research GroupSense PartnersStevenson GroupTodd PropertyWillis, Bond & Co.	Active government observers <ul style="list-style-type: none">Ministry for the EnvironmentMinistry of Business, Innovation and EmploymentNZ Transport AgencyTreasury
Taskforce guest speakers and participants	
<ul style="list-style-type: none">Auckland CouncilAuckland TransportBuilding and Construction Industry Training Organisation (BCITO)Bank of New Zealand (BNZ)Greenstone GroupInfrastructure New ZealandMA Development Enterprises (MADE)Matrix HomesMike Greer Homes	<ul style="list-style-type: none">Ministry for the EnvironmentNZ Green Building CouncilOckham ResidentialPanuku Development AucklandPrefabNZProductivity CommissionTamaki Regeneration CompanyTodd PropertyValocity
Invited stakeholder feedback received by Taskforce	
<ul style="list-style-type: none">ASB BankBarfoot & ThompsonBuilding Research Association of NZ (BRANZ)Cabra Developments LtdLeonie FreemanHarcourtsHugh Green GroupIndependent Māori Statutory BoardInfrastructure New ZealandNakhle Group	<ul style="list-style-type: none">NZ Green Building CouncilOyster Capital LtdPanuku Development AucklandPrefabNZProductivity CommissionReal Estate Institute of NZ (REINZ)NZ Public Service AssociationReserve BankWaipareira Trust

9 References

9.1 Notes to figures and case studies

Figures:

Figure 1: Figure 3.2 in Reserve Bank of New Zealand. 2016. Financial Stability Report for November 2016. Available online at <http://www.rbnz.govt.nz/financial-stability/financial-stability-report/fsr-november-2016>.

Figure 2: Created using Statistics NZ data on new dwelling consents and subnational population estimates. Assumes 2.7 to 2.8 people per dwelling (based on Census data), and a dwelling completion rate of around 85% one year of building consent lodgement based on a comparison of Census dwelling counts and dwelling consents over the 2001-2013 period.

Figure 3: Residentail Building Consents 1922-2016. Provided by Shamubeel Eaquad, Sense Partners.

Figure 4: Prices are outstripping construction costs. Provided by Shamubeel Eaquad, Sense Partners.

Figure 5: Diagram of key policy levers.

Figure 6: House prices and residential dwelling consent trends (Statistics NZ, RBNZ data).

Figure 7: Labour productivity in construction. Sourced from Statistics NZ's Industry Productivity Statistics.

Figure 8: Boom and bust in building apprenticeships. Data provided by Warwick Quinn, Building and Construction Industry Training Organisation.

Figure 9: Property development loan demand and commercial property lending standards. Figure 3.5 in Reserve Bank of New Zealand. 2016. Financial Stability Report for November 2016.

Figure 10: Development capacity unlocked by the Unitary Plan. In the Auckland Unitary Plan Independent Hearings Panel. 2016. Report to Auckland Council: Overview of recommendations on the proposed Auckland Unitary Plan.

Figure 11: Expected costs of bulk infrastructure for Future Urban Zone areas. Sourced from Section G in Auckland Council's Annual Report 2015/16, Volume 3: Financial Statements.

Figure 12: Auckland Council is nearing its debt ceiling. Table 3 in Auckland Council. 2015. Future Urban Land Supply Strategy. Figures for transport costs have been updated with more recent information supplied by Auckland Transport.

Figure 13: Consenting process for a greenfield subdivision. Sourced from a diagram in Grimes, A. and Mitchell, I. 2015. Impacts of planning rules, regulations, uncertainty and delay on residential property development. Motu Working Paper 15-02.

Figure 14: Indicative Implementation Programme

Case studies:

Case study 1: This case study is drawn from Glaeser, E. and Gyourko, J. 2017. The Economic Implications of Housing Supply. Zell/Lurie Working Paper, 802.

Case study 2: This case study was presented by Mike Greer of Mike Greer Homes. Statistics on housing damage from the earthquake were sourced from a 2016 Reserve Bank of New Zealand report: <http://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Bulletins/2016/2016feb79-3.pdf>.

Case study 3: For a summary of Housing New Zealand's current stock, see <http://www.hnzc.co.nz/publications/housing-statistics/>. Data on the potential for new supply on Housing New Zealand land in Auckland is drawn from the Independent Hearings Panel report on the Auckland Unitary Plan and presented in Figure 2.

Case study 4: This case study was presented by Auckland Transport and Auckland Council.

Case study 5: The Sydney and Melbourne case studies were sourced from Infrastructure Australia. 2016. Capturing Value: Advice on making value capture work in Australia. The Hong Kong case study was sourced from National Bank of Canada. 2014. Land value capture as a source of funding for public transport for Greater Montreal.

Case study 6: This case study was sourced from Appendix B in Registered Master Builders Association and the Construction Strategy Group. 2015. The impact of regulation on housing affordability. A report funded by the BRANZ Building Research Levy.

Tables:

Table 1: Case studies of development costs

Table 2: Key recommendations to build through the dips

Table 3: Key recommendations to unlock development opportunities

Table 4: Key recommendations to enable efficiency and innovation in consenting and risk management

