



Housing Affordability: Outlook & Opportunities

- Ministers' meeting 25 November 2014



More needs to be done, particularly in Auckland

Land values, strict planning rules and industry structure are leading developers to target the top end of the market, meaning not enough lower priced new dwellings are being built.

	Auckland	Christchurch	Rest of NZ	Rental	Land supply	Developments	Other work programme
Current	<ul style="list-style-type: none"> Shortfall of 20,000 dwellings Not enough lower-priced new dwellings 	<ul style="list-style-type: none"> Dwelling shortfall eliminated by mid-2017 Not enough lower priced well located new dwellings 	<ul style="list-style-type: none"> Volume of supply broadly sufficient But not enough lower priced new dwellings 	<ul style="list-style-type: none"> Rents rising faster than inflation Increased housing stress for low income households, especially in Auckland 	<ul style="list-style-type: none"> HASHA has delivered zoned land but not supply so far On track to add much needed greenfield capacity in Auckland 	<ul style="list-style-type: none"> Several major developments of Crown land either underway or proposed (Tamaki, Hobsonville, Awatea, etc.) Establishment Unit programme (HNZC portfolio) 	<ul style="list-style-type: none"> RMA reform HomeStart Tariffs & duties lifted Development contributions improved
Outlook for affordability	<ul style="list-style-type: none"> Shortfall is forecast to persist Prices likely to continue rising faster than wages 	<ul style="list-style-type: none"> Easing price and rent growth Overall supply will recover Outlook for rentals still uncertain 	<ul style="list-style-type: none"> High prices relative to income will persist but unlikely to worsen 	<ul style="list-style-type: none"> More of the same 	<ul style="list-style-type: none"> Further land supply will not be sufficient RMA reform expected to reduce costs & risks of consenting 	<ul style="list-style-type: none"> Relatively quick wins at low risk to the Crown, but need more than planned to address Auckland shortfall 	<ul style="list-style-type: none"> Modest impact on house prices, especially small in supply constrained markets
Assessment	<ul style="list-style-type: none"> ➤ Auckland needs additional dwellings that the market is not currently forecast to supply 	<ul style="list-style-type: none"> ➤ May need increase in the supply of low priced new dwellings 	<ul style="list-style-type: none"> ➤ Patchy affordability issues but not systemic 	<ul style="list-style-type: none"> ➤ Need short-term action to address rental affordability for low income working families in Auckland 	<ul style="list-style-type: none"> ➤ Planning rules are a key barrier ➤ More land capacity needed, in Auckland in particular 	<ul style="list-style-type: none"> ➤ Larger at-scale developments needed, in Auckland in particular 	<ul style="list-style-type: none"> ➤ Industry remains not well-structured to deliver lower priced houses

Redacted - Confidentiality of advice, s 9(2)(a)

Opportunities to improve housing affordability

Enabling a greater volume of lower-priced new dwellings depends on scale and density, which Crown land can facilitate, but which also depends on reducing regulatory barriers.

Increase the volume of dwelling supply

- Use more Crown land for residential development, particularly in Auckland:
 - Use scale:
 - to attract large development partners; and
 - to enable the supply of more lower priced new dwellings.

Leverage social housing reform

- Make increasing the volume of dwelling supply a specific aim of selling state houses (for those state houses that have development potential).

Redacted - Confidentiality of advice

consistent with s9(2)(f)(iv)

Unlock planning regulation

- Facilitate greater scale and density by reforming land use regulation to promote residential development in existing urban areas.
- Accelerate residential development of Crown land by enabling special planning powers for particular developments.

Key facts

The most acute housing affordability issues are in Auckland, where Crown land also offers the greatest potential, and reducing regulatory barriers can open up development nationwide.

- There is an estimated shortfall of ~20,000 dwellings in Auckland
- The dwelling shortfall in Auckland is forecast to persist for 5+ years, notwithstanding the new sections that will be delivered in Special Housing Areas
- The housing shortfall in Christchurch is forecast to go by 2017
- Strict planning rules are a barrier to greater scale and density

More details are in the Annex at the end.

Government's housing affordability programme to date

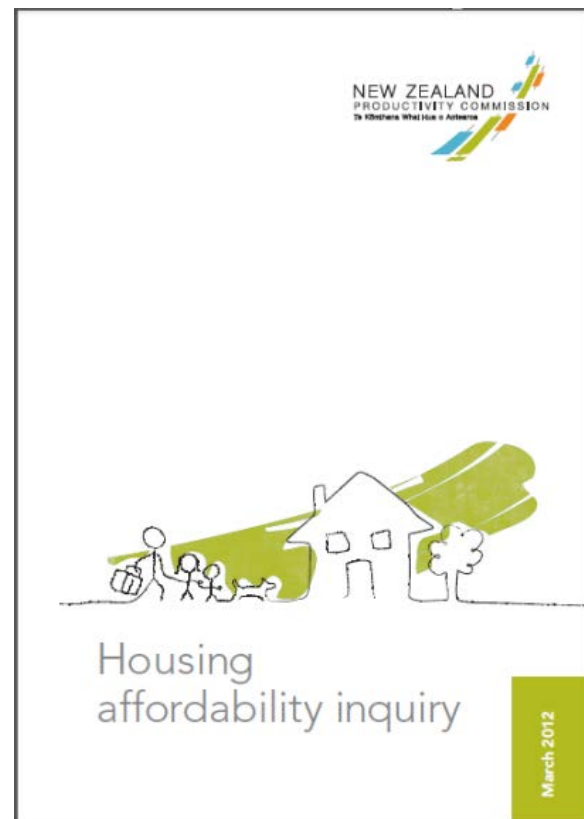


Government response to the 2012 Productivity Commission report

Cabinet agreed to work with local government to increase land supply, increase density, improve the timely provision of infrastructure, and reduce the delay and cost of the RMA.

The government sought to focus on 4 areas, in the following ways—

- Land supply restrictions:
 - Housing Accords & Special Housing Areas Act 2013
- Paying for infrastructure development:
 - Development contributions reviewed and the Local Government Act amended
- Productivity in the construction sector:
 - Law Commission reviewed joint & several liability
 - Tariffs and anti-dumping duties removed
- Costs and delays in regulatory processes:
 - Amend the RMA to better support urban planning and decision-making (pending)
 - Implement the national building consent system



The government's initiatives have limitations

Even once HASHA is delivering new sections, the forecast is that Auckland's shortfall will persist. And any cost savings from other reforms are likely to be captured by developers.

HASHA / Land supply

- If land prices fall by 1% per quarter, the NZ Regional Housing Model forecasts that house prices will only be 0.2% lower after 5 years.

Reducing construction costs

- In supply constrained markets like Auckland, any cost reductions from the removal of tariffs and duties, or development contribution reform, is likely to be captured by developers rather than passed on to consumers.

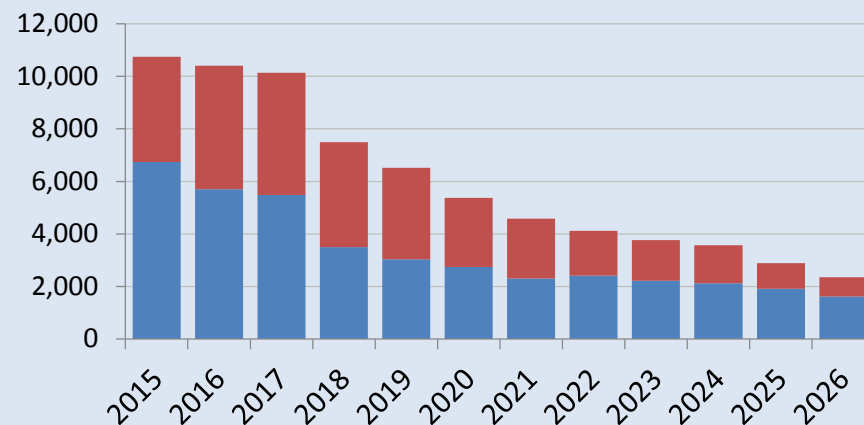
Land use regulation / RMA reform

- Reducing the costs and delays of regulation, particularly for higher density development in urban areas, will unlock extensive new capacity and promote greater investment.
- However, it seems unlikely that RMA reform alone will be sufficient to incentivise the additional \$11-13 billion of residential investment required in Auckland within 5-10 years.

Land supply in Auckland

- Despite accounting for 45% of the new sections known to be in the pipeline, the quantity of new sections and dwellings forecast from Special Housing Areas in Auckland will not be enough to overcome Auckland's shortfall.
- SHAs will add 1,360 ha of much needed new greenfield capacity in Auckland, which will eventually deliver ~13,000 dwellings, but even once this land is ready for subdivision Auckland's greenfield supply will still only be just over the minimum required.

Known number of new sections coming in Auckland 2015-2026



Source: Auckland Council: forward land and infrastructure programme

Current initiatives



The government is pursuing two major housing programmes—

Social housing reform

People:

- Client outcomes, incentives, services, waitlist
- Increasing social housing places so that supply matches demand
- Affordability: pathways to independence

Provision:

- Facilitating greater supply, including of affordable housing
- Diversity, innovation and capability
- Establishing a market and contestability

Capital:

- Releasing Crown capital
- Design of sales transactions
- Housing assistance/operating costs
- Managing the total cost to the Crown

Housing affordability

Supporting first home buyers

- KiwiSaver HomeStart deposit subsidy
- KiwiSaver first home withdrawal
- Welcome Home Loans

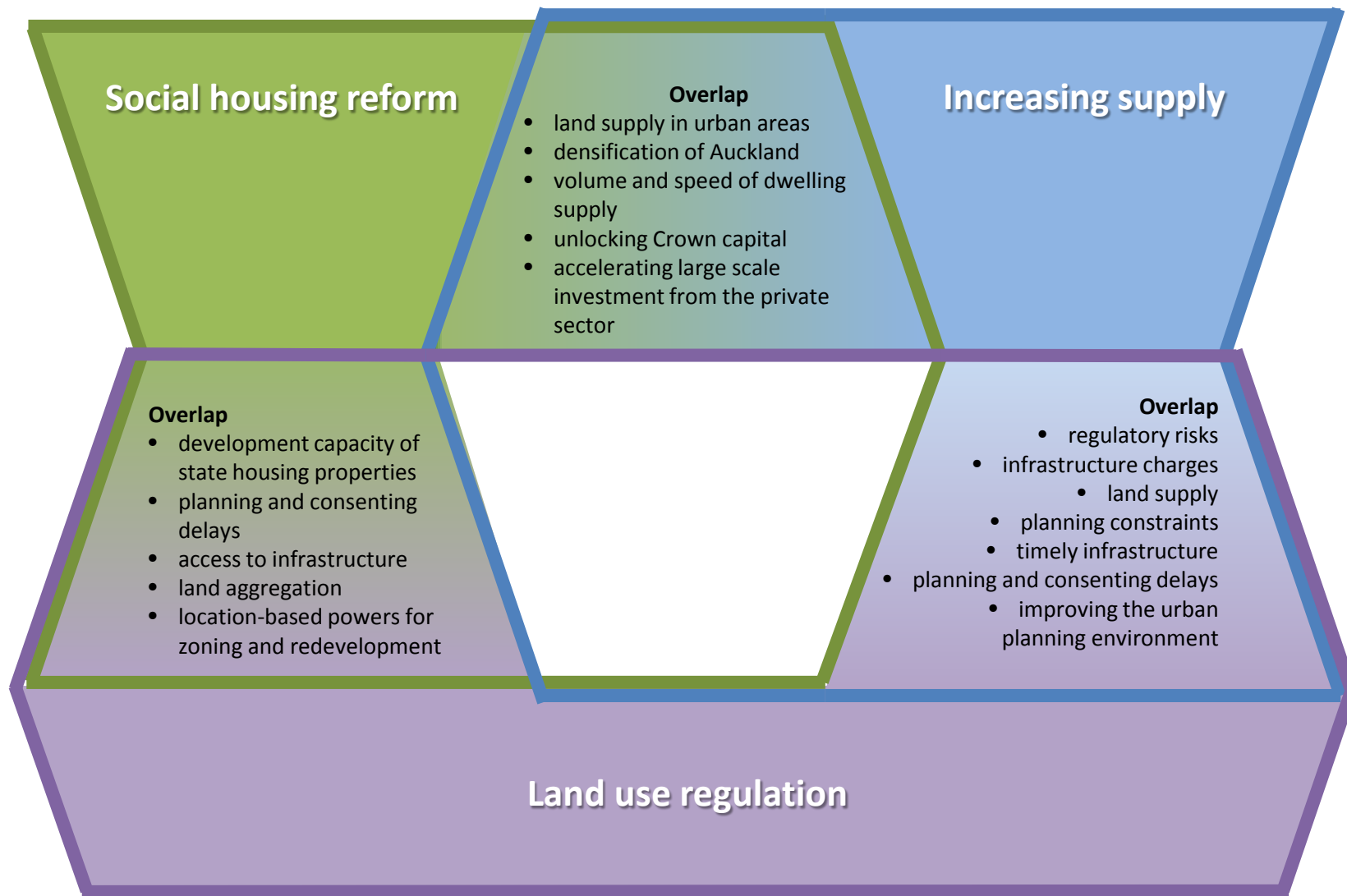
Land use regulation and RMA reform

- Reduce regulatory barriers
- Promote residential and urban development
- Implement national building consent system

Increasing supply

- Land supply: Housing Accords & Special Housing Areas Act
- Developing Crown land
- HomeStart for new builds

The government's housing priorities have significant overlaps:

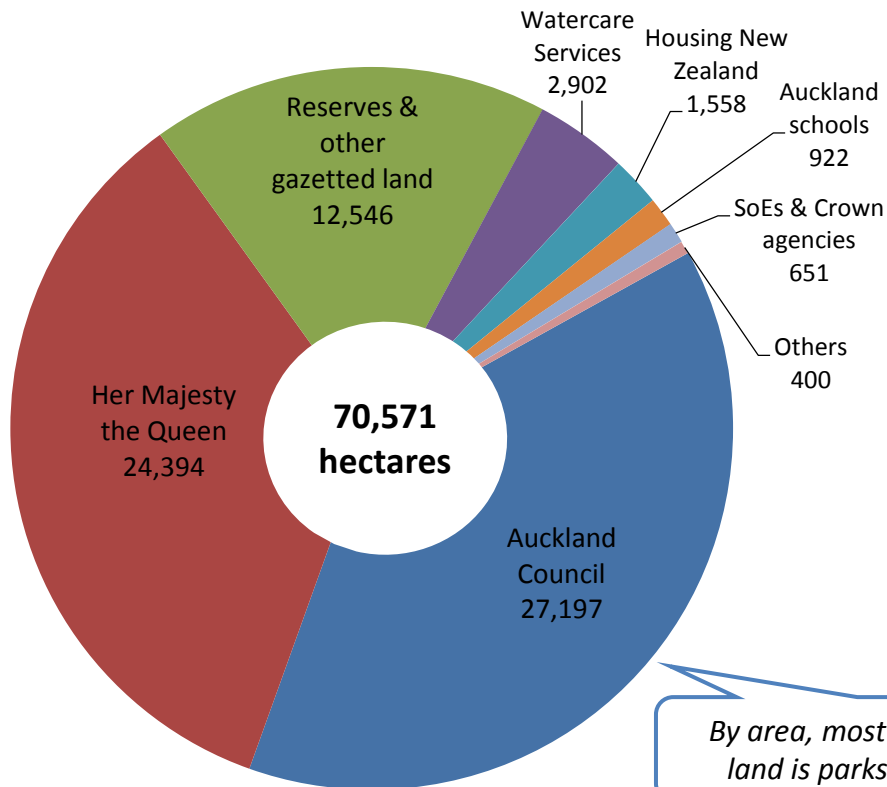


Crown land has the potential to increase dwelling supply

The Crown holds extensive land holdings in well located urban areas, both HNZC properties and others, some of which has the potential to be developed to deliver more dwellings.

Hectares of publicly owned land in Auckland

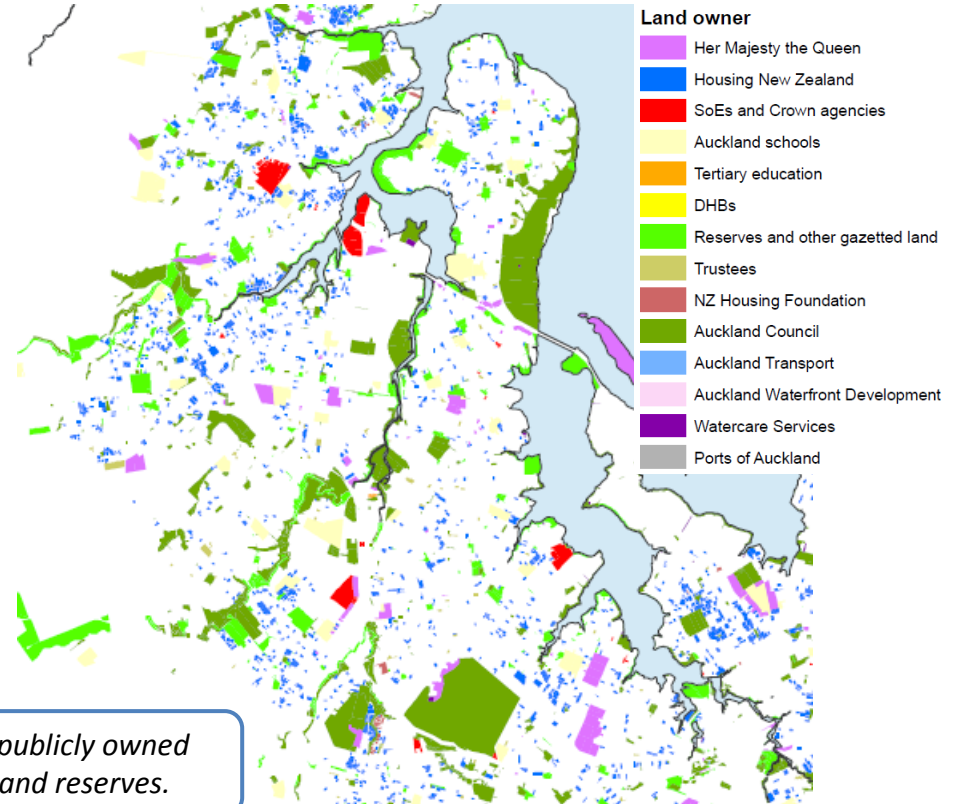
By name on the land title



By area, most publicly owned land is parks and reserves.

Map of publicly owned land in west Auckland

By name on the land title



Source: LINZ / MBIE / Auckland Council; November 2013

Current dwelling supply initiatives

The government is beginning to enable development of more Crown land, but to date most developments are relatively small scale, with Hobsonville & Tamaki being the exceptions.

- Minister Smith / existing programmes

- Underway:

- Hobsonville (North Harbour)
 - Tamaki (Glenn Innes / Point England)
 - Awatea (Christchurch)
 - Welles / Colombo (central Christchurch)
 - KiwiSaver HomeStart for new builds

Over 10 years, the 167 ha Hobsonville Point development will eventually supply 3,000 homes for 8,000 people.

- Proposed:

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- Potential to extend the “invitation to partner” model to Auckland

consistent with s 9(2)(f)(iv)

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- Minister English

- The Establishment Unit is investigating how best to sell HNZC properties, including ones with potential for residential development.

- Minister Bennett

- Imminent request for officials to identify surplus Crown land in Auckland for residential development, including for social and affordable housing.

Two key questions



To what extent do you want to develop Crown land for housing?

There is an opportunity to add increasing dwelling supply as a specific aim of the social housing reform programme. Opportunities to develop other Crown land are also likely.

	Surplus parcels of Crown land (e.g. 5-10 ha developments)	Whole suburbs using HNZC land (e.g. >50 ha developments)
Dwellings	Modest (100-300); e.g. Awatea, Weymouth	Large (1,000+); e.g. Hobsonville, Tamaki
Price impact	Negligible at market level, but able to deliver a specified number of social or lower-priced dwellings.	If undertaken across several locations, potential to arrest price growth and even lower prices at market level, especially if scale can supply lower-priced dwellings that the private sector isn't targeting.
Speed	Modest (18 months to 3+ years)	Slower (3+ years)
Additionality	Unlikely to attract much additional capital that wasn't otherwise going to be invested in residential development.	Potential to attract large off-shore developers with extensive capital and expertise that would not otherwise invest in New Zealand.
Complexity	Straight forward: arms-length development agreements able to be administered by officials.	Complex: requires dedicated vehicle and expertise to represent the Crown's interests, but opens up potential for managed risk & return.
Structure	Crown contributes the land, but defers the sale. Developers contribute all other capital required.	Wide range of possibilities depending on appetite for risk and extent of powers granted to the vehicle(s).
Commercial risk	Negotiable.	Negotiable.
Returns	Modest. 50% of any profit.	Potentially high. Equivalent development vehicles in Australia have returned millions in annual dividends to their government owners.
Constraints	Availability of suitable parcels of Crown land.	Crowding out and industry capacity constraints.
Assessment	Offers quick wins that can relieve pressure in particular neighbourhoods. But even 10-20 developments totalling 5,000 dwellings wouldn't overcome the shortfall in Auckland.	Most likely means to overcome the majority of Auckland's dwelling shortfall inside 10 years. Would require extensive work programme to scope and implement. May require bespoke legislation and a new managing entity to be established.

What other options would you like government to explore?

There are a range of other options for addressing housing affordability that officials could analyse further. Options with a likely impact in less than 2 years include—

	Description	Impact	Operational feasibility
Increase rates on undeveloped land over time	Target land bankers by progressively increasing the cost of holding undeveloped land over time, to incentivise the land owner to either develop or sell the site.	Likely to bring land into development more quickly and reduce incentives to land-bank. Impact depends on level of the tax and specific situations, but could be large in some areas.	Many more details to iron out, but could use existing rates mechanisms. Likely to be more feasible than a capital gains tax. Fiscally positive, unless offset elsewhere.
Introduce targeted inflation-adjusted mortgages (IIM)	Allows home owners to spread the real cost of repayments over the life of the mortgage (currently spread nominally). This reduces the cash costs of a mortgage in the early years, trading it off for higher nominal costs in later years.	Makes mortgages more affordable, but could increase house prices as the effect is similar to a demand subsidy.	Regulation already allows for these, but the market is not providing them. Government could work with KiwiBank to introduce them to the New Zealand market.
Fund housing infrastructure in SHAs where infrastructure is a constraint	Establish a fund to build infrastructure in the highest yielding areas (i.e. where greatest value for money can be achieved) to address accumulated infrastructure deficit.	Potentially significant. Based on rough estimates, 30% of shortlisted HASHA sites in Auckland had large infrastructure issues. To the extent that some of these can be improved by providing more funding, we could significantly expand the set of developable land.	Feasible to set up a fund that targets specific infrastructure. It would be difficult to get the governance structure and institutional settings right.
Change migration settings	Reduce the NZ Residence Programme target or direct migrants into areas with less pressure on housing markets. Net inflows (particularly unexpected inflows) have large effects on house prices, as supply severely lags demand.	Reduction on demand, depending on scale of migration reduction. Likely to particularly affect Auckland.	Administratively simple. Could reduce target for permanent residents or make points systems more difficult. Wider economic considerations may limit feasibility for major change.

Options whose impact takes more than 2 years

	Description	Impact	Operational feasibility
Establish Urban Development Agencies (UDAs)	<p>Used widely overseas as a way of facilitating large-scale development projects (esp. brownfield). They involve a partnership between central and local government and developers. UDAs undertake land aggregation, infrastructure provision and urban design, and then developers undertake the construction work. Removes barriers rather than altering incentives.</p>	<p>Could have large impact on housing supply in key areas, and could be used to focus on low-cost housing. Extent of impact would depend on powers (compulsory acquisition, zoning, etc.).</p>	<p>Would require legislation and funding, and would take at least 12 months to establish. Examples overseas could be readily followed. Likely to be fiscally positive overall.</p>
Introduce a mortgage interest levy	<p>A mortgage interest levy would be a tax on mortgage interest rates that could be lowered or raised depending on the extent to which the housing market is overheating relative to the rest of the economy. Would allow for more precise control over the housing market.</p>	<p>Could be large depending on quantum of levy. Makes mortgages less affordable, but also lowers asset prices. Would reduce the impact of the housing market on the exchange rate and tradeables sector.</p>	<p>Would take at least 9 months from the decision to proceed to the enactment of legislation. Difficult governance and organisational incentive issues to work through.</p>
Capture land value increases to fund affordable housing	<p>Various options exist for capturing the increase in land value that results from a decision to rezone land for residential housing and/or higher densities. Can be instituted at the local, regional or national level.</p>	<p>Would reduce the arbitrary gains to private landholders from decisions to re-zone. May lead to some increase in prices, but revenues could be used to fund low-cost housing.</p>	<p>Likely to require legislation. Australia, the UK, the US and Canada all employ different forms which could be emulated.</p>
Increase the use of Building Information Modelling (BIM)	<p>BIM is effectively a design management tool that models and manages information and automatically generates drawings, reports, design analysis etc. The view is that the market is currently underutilising these techniques due to the unfamiliarity and upfront cost of implementing the technology.</p>	<p>Low impact overall. Likely to significantly reduce the cost of errors/waste in the building process, but likely only to be useful for large buildings or projects.</p>	<p>Government could mandate the use of BIM for government construction contracts over a certain threshold.</p>

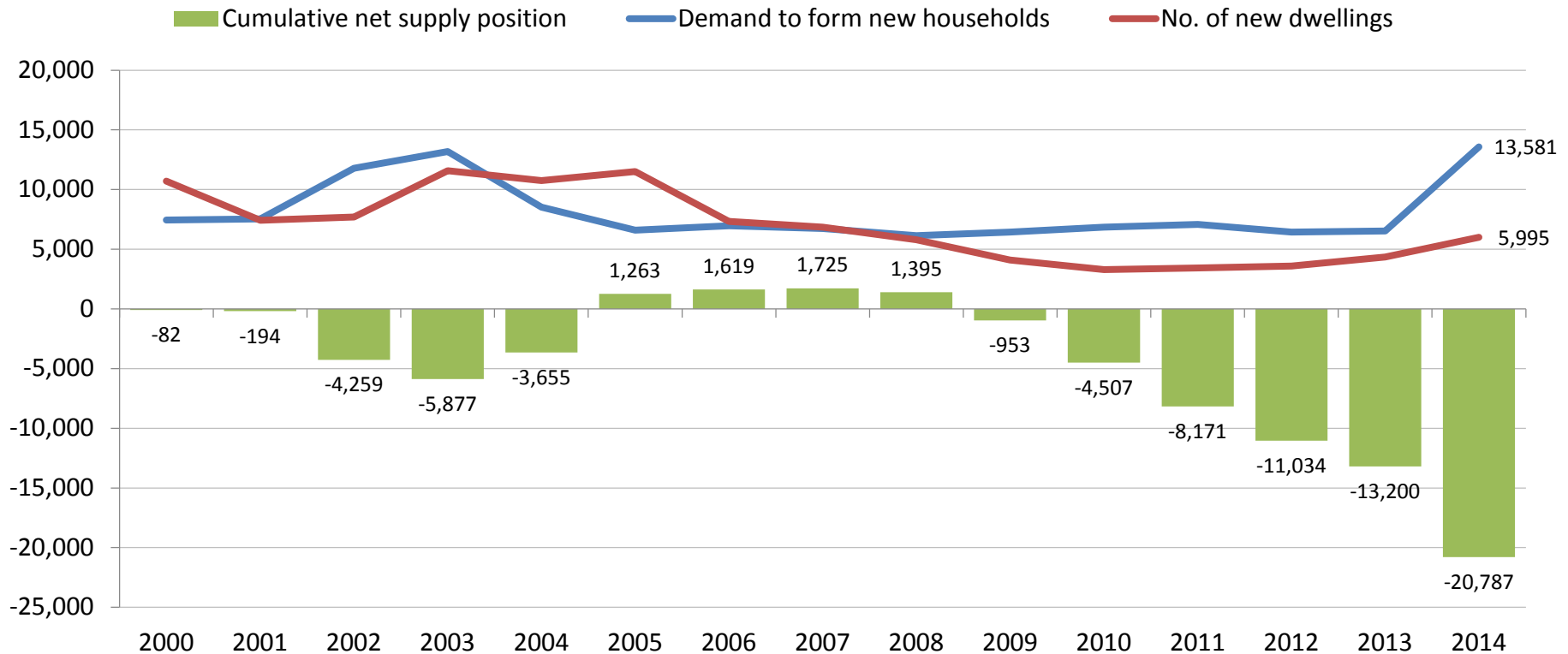
Annex

There is an estimated shortfall of ~20,000 dwellings in Auckland

Despite high growth in the number of new dwellings receiving building consent in Auckland (+33% p.a.), the estimated dwelling shortfall continues to increase.

Demand vs supply in Auckland

2000-2014; annual to June; actual population divided by expected occupancy rate vs estimated number of dwellings actually built



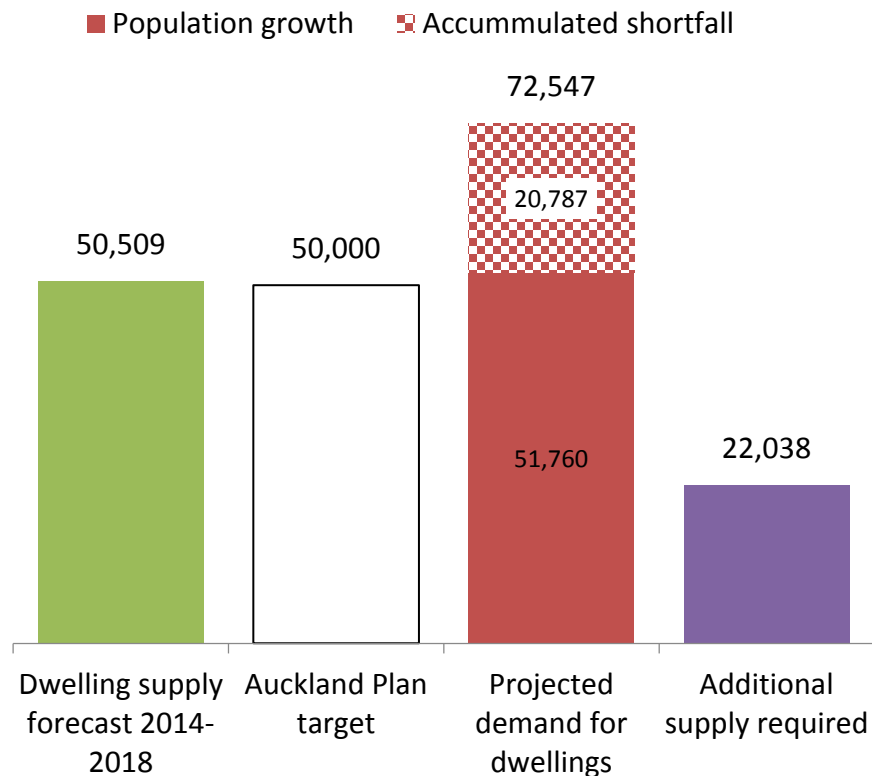
Source: Statistics New Zealand – building consent data and sub-national population figures

The dwelling shortfall in Auckland is forecast to persist for 5+ years

Although Auckland dwelling supply is forecast to keep pace with population growth over the 5 years to 2018, forecast supply of 50,000 dwellings won't reduce the accumulated shortfall.

Auckland 5 year demand vs supply forecast

2014-2018 inclusive; demand: household growth projections; supply: MBIE / BRANZ forecast



- The ~\$30B forecast to be invested in Auckland housing over the next 5 years will not be enough for supply to match accumulated demand.
- To eliminate the shortfall:
 - additional capital required: \$11 - \$13 billion
 - additional land required: > 700 hectares
- 10 year forecast:
 - Auckland residential construction is forecast to decline slightly in 2018 and 2019.
 - Auckland household growth is forecast to continue growing at > 10,000 per year.
 - Therefore, demand is forecast to exceed supply in Auckland for at least the next decade.

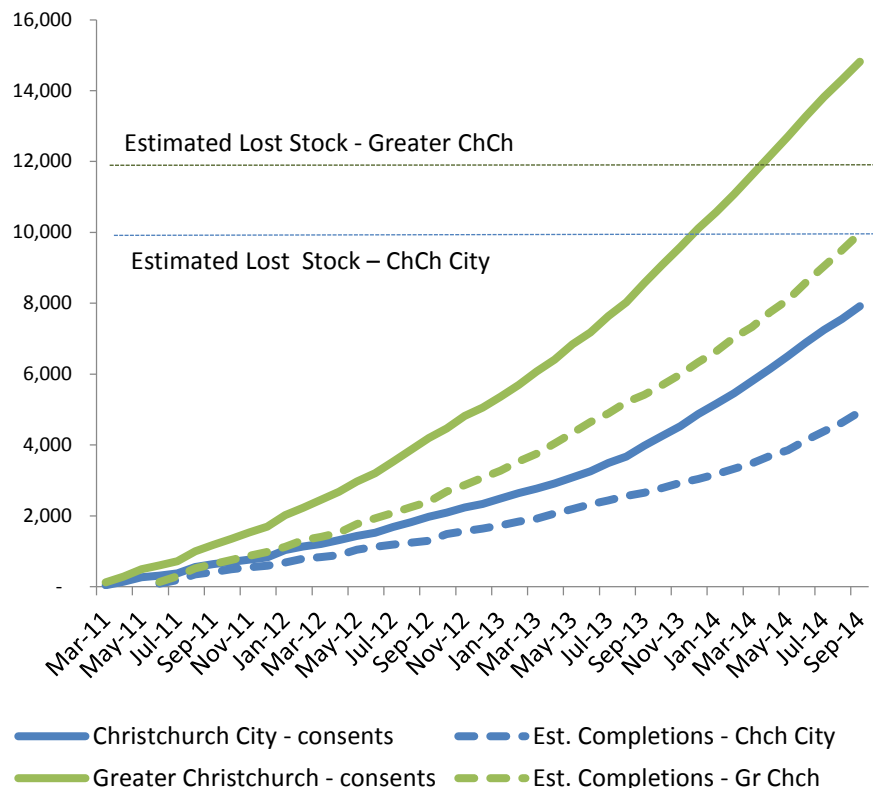
Source: Construction Pipeline Report, MBIE Oct 2014 (supply); Statistics NZ: sub-national household growth projections, 2006 base (demand)

The housing shortfall in Christchurch is forecast to go by 2017

More new dwellings have already been consented than were lost in the earthquake. By mid-2017, once these dwellings have been built, no housing shortfall is forecast.

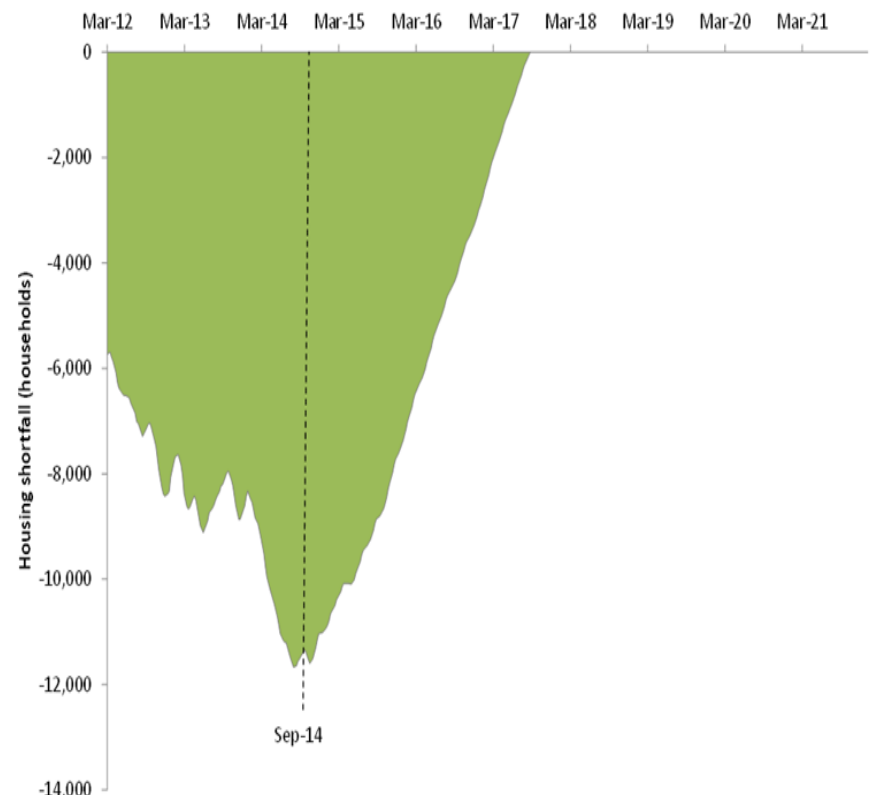
Consented & completed dwellings in greater Christchurch

Monthly from February 2011; Christchurch, Waimakariri & Selwyn



Forecast housing shortfall in greater Christchurch

Monthly from March 2012; Christchurch, Waimakariri & Selwyn



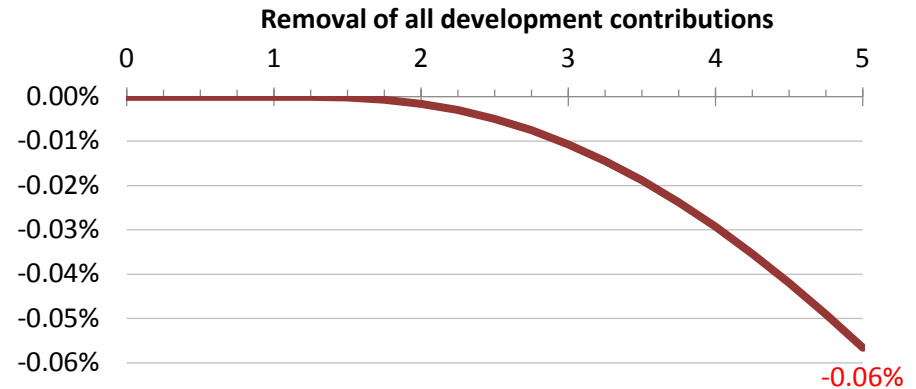
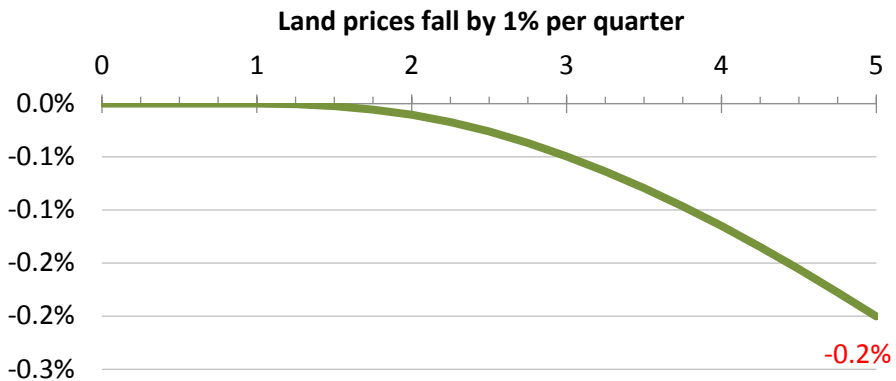
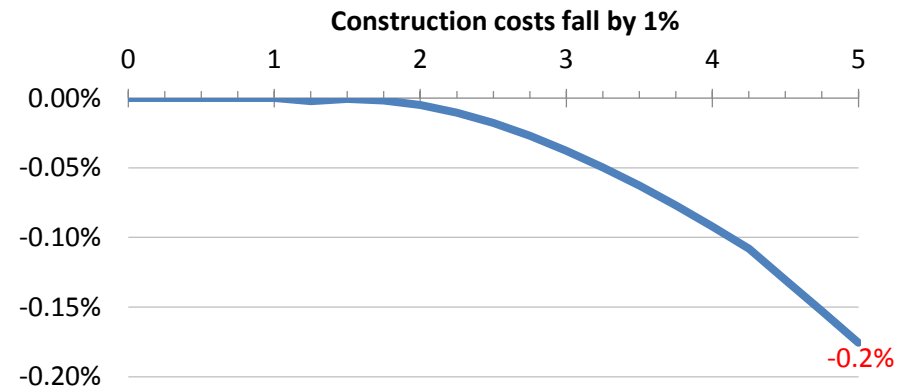
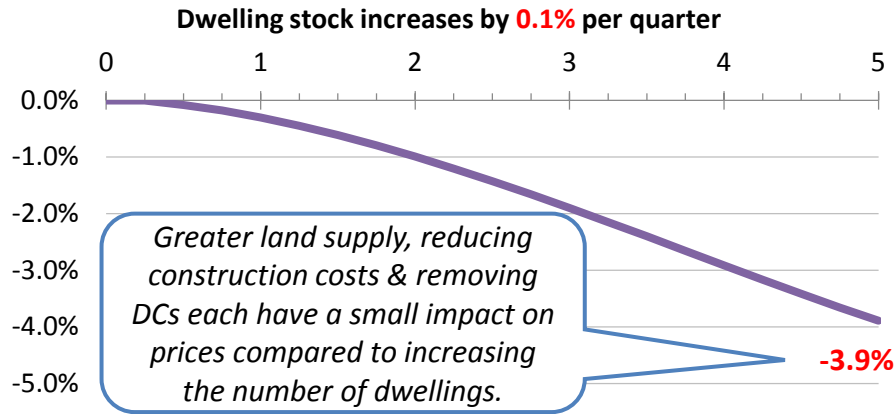
Source: Statistics NZ: building consent data (consented dwellings); MBIE estimates (completed dwellings and housing shortfall)

Building more dwellings has a significant effect on house prices

Modelling suggests that increasing the number of dwellings is the most effective means of lowering prices.

Projected change in house prices of 4 variables

Auckland; quarterly over 5 years; New Zealand Regional Housing Model



Source: Motu / MBIE