

Hon Chris Bishop Minister of Housing



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Speech to the Real Estate Institute of New Zealand

Acknowledgements

Good morning. Can I acknowledge Jen Baird and the team from REINZ. It's good to be here with you this morning.

Introduction

This morning I'd like to talk to you about the Coalition Government's plan to fix our housing crisis and share some more details about our ambitious agenda for change.

Our government is determined to fix our housing crisis by focusing on the fundamentals. Various governments of all different colours have put housing in the too hard basket and failed to take the tough decisions required. This government is different.

We need change:

- After inflation house prices have increased by more than any other OECD country in the past 30 years. Between 2000 and 2021, inflation adjusted house prices rose 256 per cent in New Zealand.
- In the year to June 2023, 45 percent of renting households spent at least 30 percent of their post-tax income on housing. Research by the OECD shows that this is even higher for low-income households and higher in New Zealand than any other country.
- There are 23,500 families on the social housing wait list, a measure of unmet demand for people in severe housing need.
- And tomorrow, more than 2000 families will wake up living in an emergency housing motel room.

We are determined to fix housing for three reasons.

The first reason is to boost the economy.

Now, you may find yourself thinking that you are getting an announcement about residential property, when you are part of the commercial and industry property

sector, but I wanted to make this announcement to this audience today for this reason: residential property is *never* just about residential property.

Housing is fundamentally a productivity enabler, and for decades, New Zealand has suffered from a productivity disease.

As Paul Krugman so famously observed, “Productivity isn't everything, but in the long run, it's almost everything.”

Productivity growth is what drives our standard of living and our prosperity.

It will probably surprise – and I hope alarm you – to learn that our productivity is closer to places like Poland, Hungary and the Czech Republic than Australia and other western European countries.

So in other words, our productivity rates are on par with countries that endured 40 years of communism.

The last government used to talk a bit about productivity, particularly at the start of their time in office. But as they discovered, productivity growth isn't created by endless pretty government strategy documents and nice words. Good intentions aren't enough.

It will take a sustained effort across many years to really get productivity going in New Zealand. It isn't going to be easy.

But a good starting point is housing.

There is now a mountain of economic evidence that cities are engines of productivity, and the evidence shows bigger is better. 85% of New Zealanders live in cities.

On average, cities with more than a million people have productivity and wages that are one third higher than cities with fewer than 250,000 residents.

Limits on urban growth lower productivity by locking workers and businesses out of cities where they would be more productive.

Cities also encourage innovation.

If you go back through history, transformational innovation has almost always happened in cities. Think Amsterdam in the 17th century, London in the late 18th century... and San Francisco today.

You all know this more than most - cities bring people close together. They mix and mingle and share ideas. Cities increase the likelihood of chance interactions between innovators that change the world.

I'm told that the theme of this conference is “What is the future looking like for this industry: Hurdles and Challenges”.

Here is my insight: a well-functioning housing market that delivers thriving cities, growing productivity, and super-charged industry will do more to create a future that is bright for everyone in this room – as well as all other New Zealanders - than just about anything else government can do.

New Zealand can raise our productivity simply by allowing our towns and cities to grow up and out. We need bigger cities and, to facilitate that, we need more houses.

The second reason to fix housing is to help get the government books back in order.

Central government spent over \$5 billion last year alone on housing assistance in many different forms. That includes the accommodation supplement, subsidies for income-related rents for people in social housing, emergency housing grants, transitional housing, and initiatives to address homelessness.

Each new government programme has begat another government programme; and they have grown like mushrooms. The system is complicated, confusing, and often duplicative. Most importantly, it is extremely expensive.

If that \$5 billion amount stayed flat, over the 4-year budget period the New Zealand government will spend over 20 billion just on helping people to be housed.

That's 15 Transmission Gully motorways, an astonishing amount of money. Every dollar spent on subsidising rents is money that isn't spent on improving our education system, on funding the health system, and resourcing our police force.

The third reason to fix housing is the moral case

Something has gone very wrong when it is normalised for thousands of people to live in motels for months at a time paid for by the government. It's a get-rich-quick scheme for motel owners but awful for the families involved and of course awful for taxpayers.

Something has gone very wrong when the Supreme Award winner of the 2022 Property Awards was the Auckland City Mission building.

It's a great development and the Mission does fantastic work, but what does that say about modern-day New Zealand? We build award-winning homeless shelters – and we're proud of it?

Something has gone very wrong when home ownership is at record lows in a country that used to pride itself on being a property-owning democracy.

Something has gone very wrong when so many New Zealanders and their families look overseas in search of more affordable housing.

The simple truth is that young people today just don't have the same opportunity to get into the housing market as their parents did, or their grandparents. In just 2002, New Zealand's housing market met the widely accepted international standard of housing affordability, with the ratio of house prices and wages at 3:1. Now, house prices outstrip wages by almost 7:1.

Fundamentally this is an issue of intergenerational equity.

Housing: our agenda

To fix the house crisis, it has to be easier to build a home. Our agenda to fix housing consists of five interlocking actions.

- First, our Going for Housing Growth policy.
- Second, improvements to the rental market to make it easier to be a landlord, and easier to be a tenant.
- Third, building and construction changes to improve competition and lower building costs.
- Fourth, better social housing to better look after those who need support.
- Fifth, reform of the Resource Management Act.

Going for Housing Growth

Today I want to focus on the first of these, called Going for Housing Growth. It consists of three pillars that address the root cause of our housing crisis.

Going for Housing Growth involves freeing up land for development and removing unnecessary planning barriers, improving infrastructure funding and financing, and providing incentives for communities and councils to support growth.

Report after report and inquiry after inquiry has found that our planning system, particularly restrictions on the supply of urban land, are at the heart of our housing affordability challenge.

We are not a small country by land mass, but our planning system has made it difficult for our cities to grow. As a result, we have excessively high land prices driven by market expectations of an ongoing shortage of developable urban land to meet demand. This explains why each square metre of urban land at Auckland's fringe costs 4.2 – 4.4 times more than nearby rural land, and the zoning premium doubled between 2011 and 2021.

In February this year I said that the government was working on a series of changes to make it easier for our cities grow out and up and today I want to outline the changes that Cabinet has recently agreed to.

Our plan builds on the existing National Policy Statement on Urban Development (NPS-UD) and the Medium Density Residential Standards, both advanced by the previous government. The NPS-UD in particular is a good step forward but it needs strengthening and refining.

Our position on the MDRS is well-known. It was a well-intentioned move to liberalise urban land markets but was too much a one size fits all solution. As agreed between National and ACT in the coalition agreement, the MDRS will become optional for Councils.

Today I can announce six changes Cabinet has agreed to, under the Going for Housing Growth pillar of land supply.

1. The establishment of Housing Growth Targets for Tier 1 and 2 councils
2. New rules that make it easier for cities to expand outwards at the urban fringe
3. A strengthening of the intensification provisions in the NPS-UD
4. New rules requiring councils to enable mixed-use development in our cities
5. The abolition of minimum floor areas and balcony requirements
6. New provisions making the MDRS optional for Councils

There's quite a bit of detail in all of these changes, which have been carefully worked through by a cross-agency group involving the Ministry of Housing and Urban Development, the Ministry for the Environment, Treasury, and the Infrastructure Commission, alongside a Housing Expert Advisory Group of urban experts and economists.

1. Housing Growth Targets

The first change will be a requirement for Tier 1 and 2 Councils to meet Housing Growth Targets.

These requirements will apply to 24 city, district, and unitary Councils across New Zealand, including our largest urban centres of Auckland, Christchurch, and Wellington, as well as places like Tauranga, Hamilton and Dunedin.

These targets will require these Councils to "live-zone" feasible development capacity to provide for at least 30 years of housing demand at any one time.

Let's unpick this a bit.

Live-zoning means to provide for housing to be enabled, in other words the land can be used for housing in a plan that is legally operative and in effect.

And feasible development capacity means housing capacity that is commercially viable for a developer to build at a profit.

How does this differ from the status quo?

Currently, the National Policy Statement on Urban Development requires councils to *plan* for 30 years of housing demand, but it only requires councils to 'live-zone' feasible development capacity to meet three years of demand at any one time.

So we will be changing the requirements to make councils live-zone thirty years of development capacity and make it available right now. In effect, this will flood the

market with opportunities for development, and over time, drive down land prices and the cost of housing.

Councils are required to prepare Housing and Business Development Capacity Assessments, known as HBAs, at least every three years. These set out projected demand for housing and business land and calculate the development capacity enabled in their plans to meet this. Right now, Councils have a lot of discretion about the inputs into these assessments.

Central government needs to have confidence that demand for housing is not being understated, or that the amount of available and feasible development capacity is not being overstated.

We will therefore be requiring councils to use the “high” demand projections in their assessments, and also strengthening the requirements and guidance for how councils’ model how much capacity is live-zoned and feasible.

We also need much greater information about how urban land markets are functioning, such as measures of urban fringe land price differentials or price-cost ratios. We will therefore set new requirements that price indicators do not deteriorate (and ideally improve) over time as a measure of how well land markets are functioning, accompanied by enforcement powers for central government.

2. New rules requiring cities to be allowed to expand outwards at the urban fringe

Some people say all you need to do to solve the housing crisis is allow more density in cities. Some people say you just need more urban expansion through greenfield growth.

The truth is that we need both.

Cities should grow both “up” and “out”. The economics of development should guide what happens, rather than planning rules. When there are abundant development opportunities, developers and ultimately house-buyers will dictate the scale pace and location of development.

The NPS-UD requires Councils to prepare Future Development Strategies at the moment, which are long-term spatial plans. These are meant to identify broad locations in which growth will be enabled, the infrastructure required to service that growth, and any constraints on development. However, practically, they haven’t delivered what was promised. There is a perception that some have tended to stifle development on the edge of our cities, rather than enable it.

So we will look to improve Future Development Strategy requirements to ensure that growth strategies are more responsive to development opportunities, and actually enable more housing in both greenfields and brownfields areas.

The government will also work towards embedding an effective “right to build” on city fringes, on the condition that the infrastructure costs of new development are

covered. In other words, where “growth pays for growth”. Councils would not be able to turn down a development on the grounds that perceived demand isn’t there, or that the infrastructure costs are too high.

In addition, councils will no longer be able to impose rural urban boundaries in their planning documents. This doesn’t mean they can’t have land zoned for rural use, but it does mean they can’t set hard regulatory boundaries that constrain growth.

Many political parties and many governments over many years have said they would do this: our government will be the one to finally deliver it.

There’s further work to be done on urban expansion and it’s obviously intimately connected to our work on infrastructure funding and financing. I’ll have more to say by the end of the year.

3. A strengthening of the intensification provisions in the NPS-UD

The third set of changes we’re going to make is to the NPS-UD requirements around where councils must enable intensification, to ensure that the capacity that is enabled is in locations where there is demand and that are well-connected to businesses, services, and transportation.

We have developed a package of liberalisation and deregulatory measures that will collectively make it easier to build housing across our cities and enhance the rights of property owners.

There are quite a few big changes here.

We will restore the NPS-UD’s baseline intensification requirements to their original position. Prior to the MDRS’ introduction, Policy 3(d) of the NPS-UD required Tier 1 councils to deregulate to enable heights and densities commensurate with levels of demand and/or accessibility to businesses and services across all of their urban areas.

This requirement was narrowed when the MDRS was introduced because the MDRS arguably made this policy redundant outside of neighbourhood, local, and town centre zones. However, in making the MDRS optional, this rationale no longer applies, and so we will return policy 3(d) back to its original scope.

We will strengthen density requirements around transit corridors. Currently the requirement to enable at least six storey development around rapid transit only applies to Auckland and Greater Wellington’s rail networks, and Auckland’s Northern Busway.

We will go further and also specify density requirements around strategic transport corridors. Councils will be responsible for determining these corridors, subject to criteria set by central government.

We will simplify the definition of rapid transit, to address alleged ambiguity in the current definition. The interminable and frankly boring debate in Wellington over whether the Johnsonville train line was “rapid transit” was time-consuming, expensive and frustrating. We will probably simply list the metropolitan train lines and busways that trigger upzoning (while future-proofing for new lines and busways that are developed).

We will clarify the definition of “walkable catchments” in the context of centre zones and rapid transit. Councils are currently required to upzone within a walkable catchment of centre zones and rapid transit, but there has been significant debate about what is “walkable”, leading to costs and inefficiencies in plan changes. We will set minimum catchment sizes councils must use, with catchment sizes based on the level of service provided by the type of centre or node. This means, for example, there would be larger catchment sizes for city and metropolitan centres than around rapid transit stops.

We will also clarify the rules around “qualifying matters”. Councils are not required to implement the intensification provisions of the NPS-UD in particular areas if a ‘qualifying matter’ – for example, risk of flooding - makes intensification inappropriate in those areas. Think of these as permitted exemptions to intensification.

However, some councils have misused these exemptions, relying on unlisted exemptions without sufficiently justifying why they actually make intensification inappropriate, and not properly undertaking any site-specific analysis.

We will therefore clarify that decision-makers must explicitly consider the process and evidentiary requirements in their decisions to use a qualifying matter to reduce density. This would ensure that decision makers must engage with the economic evidence and trade-offs that using qualifying matters entails, and test the robustness of evidence provided in reaching their decisions.

We will also require that the loss of development capacity through use of an unlisted qualifying matter (including special character) is offset by a direct and corresponding increase in development capacity elsewhere. This reflects the view that local impacts can be managed without limiting the overall supply of housing.

4. New rules for mixed use development

The fourth major change is around facilitating more mixed-use development. Mixed-use development refers to enabling different types of activities to happen in proximity to each other. The greatest cities in the world – New York, London, Paris – all have areas that contain a mix of housing, supermarkets, cafes and offices. There’s no reason why we can’t have the same here. Our cities need to look and grow the way that people actually *want* to live, and not the way a tidy-minded planner in a council cubical think people *should* live.

Mixed-use development promotes productivity and competition; supports efficient land use; makes a range of services more accessible; and creates safer, more vibrant neighbourhoods and cities.

We will issue national direction requiring Tier 1 and 2 councils to enable a baseline level of mixed-use across their urban areas. This might include, for example, allowing small-scale activities such as dairies and cafes to operate anywhere within urban areas, or activities of a greater scale if communities wish for this to occur.

On top of this, we will also require Tier 1 councils to enable small-to-mid-scale activities like cafes and restaurants, retail, metro-style supermarkets and offices in areas subject to the NPS-UD's six storey (or greater) intensification requirements.

Put together collectively, these changes will mean much more liveable, connected and functional cities.

But there is more.

5. The abolition of minimum floor area and balcony requirement

The fifth major change we are making is to abolish minimum floor area and balcony requirements.

Some councils set minimum floor area and balcony requirements which can significantly increase the cost of new apartments, and limit the supply of lower cost apartments. In some cases, this can make development uneconomic, or push the cost of housing outside of the reach of first homebuyers.

Evidence from 2015 shows that in the Auckland market, these balcony size requirements increased the costs of an apartment by \$40,000 to \$70,000 per unit, and minimum apartment sizes result in fewer low-cost dwellings being developed. These costs will have only increased over the last decade.

We will therefore remove the ability for councils to set rules or guidelines that require balconies, or floor areas to be of a minimum size.

This will increase housing supply by enabling more homes to be built at a cheaper price point and most importantly reduce the demand for inferior informal accommodation. Developers would still be able to size dwellings and choose to provide balconies as they and their customers see fit, provided they comply with national building standards.

People often complain to me about all these 'shoebox apartments', and I agree that they won't be the right housing solution for everyone. But do you know what is smaller than a shoebox apartment? A car or an emergency housing motel room.

Young people need affordable ways into the housing market. Students and young professionals often want small, low-maintenance, and affordable dwellings that are near to their jobs and transport connections. These changes – along with our recent changes to granny flat rules – enable more choice in our housing market, and that can only be a good thing.

6. New provisions making the MDRS optional for Councils

Finally, as per our coalition agreement with ACT, we will be legislating to make the MDRS optional for Councils and requiring the ratification of their use.

This is not a simple undertaking. The MDRS was passed in 2021, and councils are implementing it at the same time as NPS-UD requirements. Different councils are at different stages.

As of today, eight of the 15 councils that are required to implement the MDRS have done so (including Wellington City), with seven councils including Auckland, Hamilton City, and Christchurch City not yet having completed their plan changes. We need to move quickly to provide certainty for councils, developers, and the community.

So here is how it will work.

We will require in legislation that all councils currently required to implement the MDRS must carry out a ratification vote to determine whether they plan to retain, alter, or remove the MDRS from their urban areas. Councils will then need to notify me and the Minister for the Environment of their decision in writing.

For councils that have already completed their NPS-UD and MDRS changes, if the council chooses to alter or remove the MDRS in its ratification vote, the council must start work to progress a plan change that proposes to give effect to this. We will amend the RMA so that a variation of the Streamlined Planning Process (SPP) is mandatory for councils who vote to remove or alter the MDRS. This is a faster process than the RMA's standard plan change process and provides for central government oversight and approval of council plan changes.

When they do the plan change to remove or alter the MDRS, councils must give effect to the relevant Housing Growth Targets, intensification changes, and direction on mixed-use through the same plan change they use to remove the MDRS.

For councils that have already completed their NPS-UD and MDRS changes, and that vote to retain the MDRS, then nothing will change. I am doing further work to develop a sensible process and timeframe for implementation of the other important changes I've talked about today (the Housing Growth Targets, intensification changes and direction on mixed-use).

For Councils that are mid-way through their plan changes, the circumstances will differ for each council. Each council will still be required to vote on the use of MDRS, and it may be that we need a bespoke pathway for plan changes for each council to implement our new Housing Growth Targets, intensification changes and direction on mixed-use. We will work through that with the relevant councils in good faith.

Next steps

What I've talked about today is just the start. Today's changes deal with land use rules and will help create competitive urban land markets to deliver more housing.

But there's a lot to do on our infrastructure funding and financing system. Work is underway on that and I'll have more to say later in the year.

Long-term my objective is that the cost of infrastructure is not a bottleneck on greenfield or brownfield development. The key to achieving this is adopting better funding and financing mechanisms. We can, for example, improve the way that we price infrastructure to ensure growth is a benefit for local councils rather than a burden. Infrastructure should earn sufficient lifetime revenue from service charges to recover its whole-of-life costs, to the maximum extent possible. Existing communities should not have to subsidise the costs of growth.

There are other improvements that we're looking at as well as part of our wider RMA Reform work:

- Restrictions on development through the National Policy Statement on Highly Productive Land and the National Policy Statement on Freshwater Management.
- The often slow timeframes for getting a permit through the Wildlife Act
- Heritage rules; and
- Barriers to building on Māori land.

Conclusion

Let me conclude by saying that solving our housing crisis is one of this government's top priorities. It will mean a more productive, wealthier and better New Zealand. Today's changes opening up land for development inside and at the edge of our cities will help. But there is so much more to do. I can't wait to get on with it.

Thank you.

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