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Assignment 1
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Briefing

Strengthening Communities: Institutional and Legislation Reforms for Better Affordable Housing			
Date:	25 March 2025	Security level:	In Confidence
Priority:	Medium	Report number:	SDF20/23540354

Action sought		
	Action sought	Deadline
Minister of Local Government	Agree to the recommendations in this report.	25 April 2025
Minister of Housing and Urban Development		
Minister of Social Development and Employment		

Contact for discussion			
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Other agencies consulted
Kāinga Ora, Office for Disability Issues

Briefing

Strengthening Communities: Institutional and Legislation Reforms for Better Affordable Housing

For:

Minister of Local Government

Minister of Housing and Urban
Development,

Minister of Social Development and
Employment

Date: 25 March 2025

Purpose

1. Seek your agreement to recommend policy approaches to increase the provision of quality affordable housing.

Executive Summary

2. New Zealand is grappling with a housing crisis. New Zealand has some of the highest housing unaffordability rates in the world (Organisation for Economic Co-operation and Development & Barker, 2019), as well as a ballooning social housing register (Te Tūāpapa Kura Kāinga - Ministry of Housing and Urban Development, 2025) due to the financialisation of housing and over-reliance on market mechanisms for affordable housing (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).

3. Strengthening Communities (SC) aims to increase the well-being of communities and address the negative social and economic costs of unaffordable housing by empowering Local and Central Governments to increase the supply of affordable housing.
4. This briefing seeks your agreement to progress consultation and consideration of the proposed reforms as set out in the recommended actions section.

Recommended Actions

1. Reinstate the Ministry of Works
 - a) Build capacity for delivering public projects to reduce construction costs.
 - b) Expand into the residential building supplies market to increase competition and reduce costs.
2. Expand the social housing supply.
 - a) Increase funding to Kainga Ora
 - b) Reform legislation to empower local government to deliver social housing.
3. Assess the introduction of a CGT.
4. Assess the implementation of rent controls.

Background

5. This briefing concerns the availability of affordable housing in New Zealand and its negative economic and social impacts.
6. New Zealand has low levels of affordable housing relative to comparable OECD nations, as measured by various indicators.
 - a) New Zealand ranks lowest out of all OECD countries regarding expenditure on housing and maintenance as a percentage of gross adjusted disposable income. New Zealand renters are particularly suffering, with the 15th highest rent burden amongst OECD nations. (Organisation for Economic Co-operation and Development & Barker, 2019)
7. New Zealand is experiencing an increased demand for social housing, which outstrips supply.
 - a) Previous paradigm shifts away from viewing the provision of affordable housing as a responsibility of the state have led to an overreliance on market mechanisms, selling off assets, and slow construction (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).
 - b) The housing register provides the number of individuals assessed as qualifying for social housing and waiting to be matched with a social housing unit, more than quintupled between Jun 2017 and Jun 2022 to 26,664 (Te Tūāpapa Kura Kāinga - Ministry of Housing and Urban Development, 2025).
 - i. Since then, the trend in the housing register has been unpredictable but has overall decreased to 20,056.
 - ii. The median days to house applicants have also risen from 62 to 197.

Root Causes

8. Housing affordability is a complex issue that interacts with various complex systems.

Root causes of housing unaffordability in New Zealand and other advanced economies include:

- a) The historical shift away from state provision of affordable housing (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).
- b) Increasing financialisation of housing (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).
- c) Increased demand for housing throughout the 2000s due to the degranulation of the banking sector, low interest rates and a lack of a capital gains tax increased speculative investment (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).
- d) The rate of inflation in residential building supply costs in New Zealand is high relative to comparable OECD nations due to low competition (New Zealand Infrastructure Commission Te Waihang & Nunns, 2022; Commerce Commission Te Komihana Tauhokohoko, 2022).
- e) Regulations add high costs to housing. Planning mechanisms such as strict zoning controls, which limit density, urban growth boundaries and parking minimums, significantly increase land costs and contribute to housing unaffordability. Moreover, costs for complying with regulations such as resource consent systems are significant and contribute to the overall housing price (Lee et al., 2022; Organisation for Economic Co-operation and Development & Barker, 2019).

Policy Implication

9. Low levels of tenure security through an overburdening of housing costs can lead to:

- a) Worse physical and mental health outcomes.
- b) Lower quality of life.
- c) Lower educational attainment for children.
- d) Higher crime rates.
- e) Higher welfare dependency.

(Housing Foundation, 2017; Organisation for Economic Co-operation and Development & Barker, 2019; University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.)

10. An increase in physical and mental health problems due to poor-quality and unaffordable housing can increase the burden on the healthcare systems and incur additional costs, as well as reduce the productivity of the workforce. Housing affordability must be addressed to break the cycle of poverty for households and increase the economy's overall productivity. (Housing Foundation, 2017; Organisation for Economic Co-operation and Development & Barker, 2019; University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.)

11. Increased housing unaffordability can lead to increased urban sprawl as development moves to cheaper land, worsening traffic congestion and increasing emissions (Organisation for Economic Co-operation and Development & Barker, 2019).

Option analysis

Current Failures

12. An overreliance on market-driven mechanisms means the provision of social housing has dwindled (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).
13. The lack of a capital gains tax incentivises speculative investment into the housing sector, increasing overall prices (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).
14. High construction costs due to low competition in the construction and construction materials sector also significantly contribute to costs (Commerce Commission Te Komihana Tauhokohoko, 2022).
15. The cultural desire for home ownership encourages taking on large amounts of debt. It has discouraged policymakers from "popping the (housing) bubble" (University of Auckland Public Policy Institute, Te Whare Marea Tātari Kaupapa et al., n.d.).

Potential options & critique

16. Various policies can be implemented or reformed to address the unaffordability crisis:

a) Resource Management System Reform

1. Reform of the resource management system is needed to ensure long-term affordability. The current resource management system has severely restricted development capacity through restrictive zoning policies (Greenaway-McGrevy, 2024). However, reform of the resource management system would require careful consideration of trade-offs with environmental protection. Moreover, implementation of new resource management plans would take a long time, meaning effects on housing unaffordability would not provide immediate relief. Whilst not applicable to providing immediate relief to communities, in the long term, reform of the resource management system should be progressed.

b) Social Housing Expansion

1. Increasing the provision of social housing is preferred due to providing short-term and stable relief to those struggling the most. Expansion of the social housing state can be done through:
 1. Allocating ring-fenced funding to Kāinga Ora to speed up the rollout of social housing.
 2. Reform legislation to empower Local governments to provide social housing to local communities (Reid, 2022)

c) Reinstating the Ministry of Works

1. Re-establishing the Ministry of Works would realise economies of scale, institutional capacity, and skills and help lower construction costs for all public construction projects, including social housing (Brand, 2023).

d) Curbing speculative investment through the implementation of a CGT

1. Establishing a CGT is seen as an essential policy for reducing the overall housing pricing in the long term by disincentivising speculative investment in the housing market. However, implementing this policy would require a high degree of political capital.

e) State lending mortgages

1. The provision of public low-interest/deposit loans could lead to increased risks for both lenders and borrowers, primarily due to already inflated house prices; this policy is therefore not preferred in addressing affordable housing even though it would decrease mortgage costs.

f) Rent controls

1. Rent controls can be an immediate solution to address housing unaffordability. However, rent controls can have unintended consequences, such as discouraging increased rental supply (Stacy et al., 2024), and therefore, the applicability and design of rent control schemes must first be investigated.

g) Increasing competition in the building supplies market

1. Increasing competition in the residential building supplies market could address high inflation in construction costs (Commerce Commission, 2022), indirectly supporting affordability by reducing input prices.

Recommendations

17. Reinstate the Ministry of Works

- a) Investigate and establish the Ministry.
- b) Launch pilot projects with Kāinga Ora to build capacity.
- c) Expand into the residential building supplies market.

18. Expand the social housing supply.

- a) Allocate ring-fenced capital funding for Kāinga Ora to speed out the rollout of social housing.
- b) Reform the LGA (by reintroducing the wellbeing purpose statement) and SHRA (by allowing local councils to be CHPs) to empower local government to deliver social housing.

19. Assess the introduction of CGT.

- a) Task IRD and Treasury with modelling
- b) Engage in select committee processes to ensure public support.
- c) Consider the application of CGT only for multiple property owners to avoid impact on families.

20. Assess rent control options.

- a) Task MHUD to assess the applicability of the rent control model in NZ
- b) Trial in severely unaffordable areas such as Queenstown
- c) Progress wider rollout.

Key next steps

21. Quantify the costs of not addressing housing unaffordability.
22. Seek approval of cabinet for proposed reforms.
23. Establish a government-wide working group to lead assessment, aid implementation and design of proposed policies, and manage complexities due to interaction between various policies.
24. Investigate affordability and progress work on implementation of high political cost policies such as CGT and engage in public consultation to increase public buy-in.
25. Coordinate increased funding for Kāinga Ora with the Treasury.
26. Monitor and evaluate improvements in affordability and wellbeing outcomes.

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